CATSA

annual report 2017

Canada

CATSA ACSTA

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61.8 MILLION PASSENGERS SCREENED IN 2016/17

89 DESIGNATED AIRPORTS ACROSS CANADA

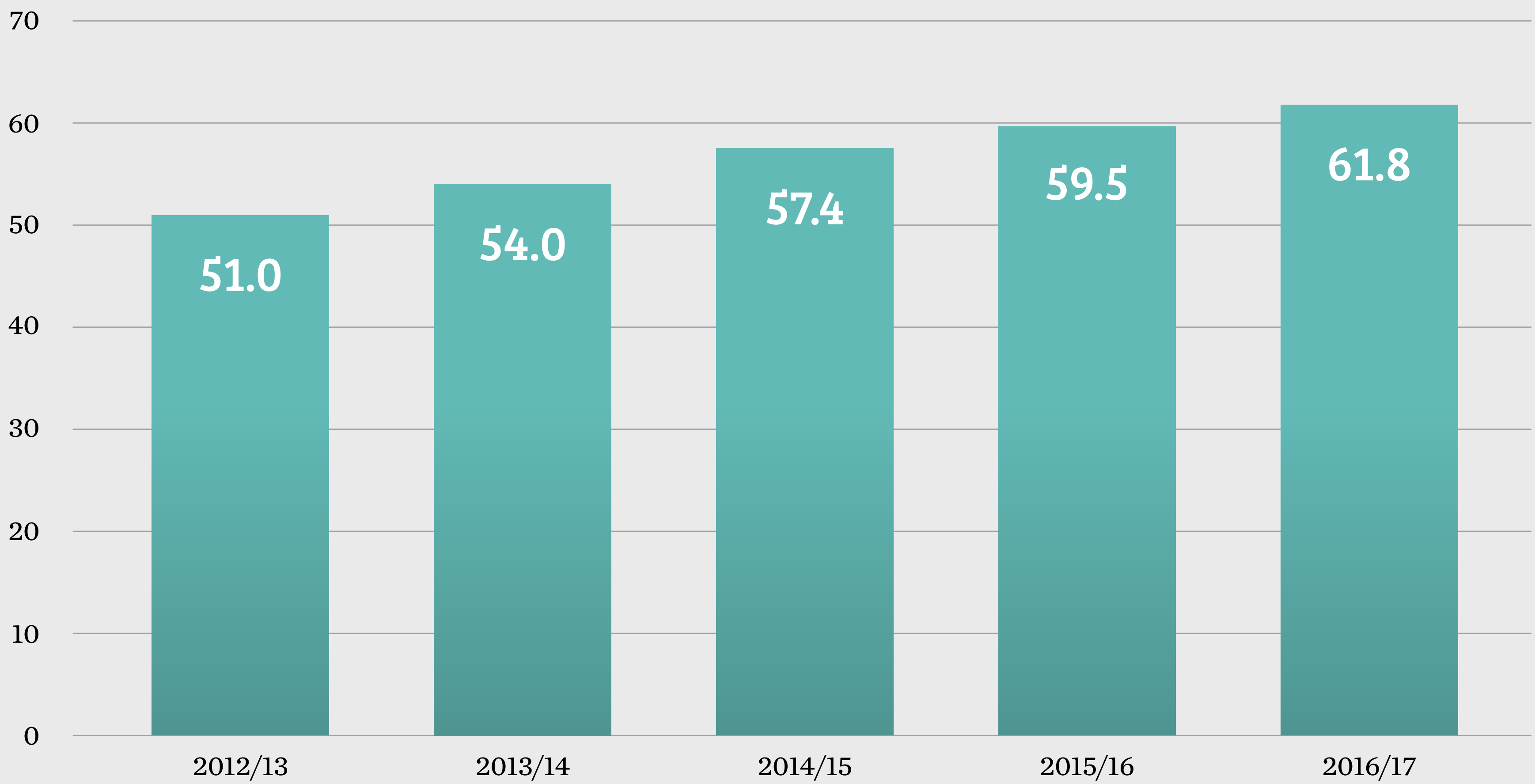
MORE THAN **6000** SCREENING OFFICERS ACROSS CANADA

111 CHECKPOINTS

321 SCREENING LINES

OVERALL PASSENGER SATISFACTION REACHED AN ALL-TIME HIGH OF **86%** IN THE THIRD QUARTER OF 2016/17

PASSENGER VOLUME THROUGH CATSA CHECKPOINTS



Passengers Screened (in millions)

contents

CORPORATE PROFILE

Established on April 1, 2002, the Canadian Air Transport Security Authority (CATSA) is an agent Crown corporation fully funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. Supported by its screening contractors and their screening officer workforce, CATSA screened over

61.8 MILLION PASSENGERS AND THEIR BELONGINGS IN 2016/17.

MISSION

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

VISION

CATSA's vision is to excel in air transportation security, which is achieved through our service, our people and our partnerships.

Our service: We provide the best possible passenger experience and deliver value to Canadians with an optimal use of our resources.

Our people: We are engaged, committed and succeed through teamwork.

Our partnerships: We work in collaboration with partners to generate mutual benefits and improvements.

CATSA IN-DEPTH

PROGRAM ALIGNMENT ARCHITECTURE

CATSA's Program Alignment Architecture (PAA) reflects the organization's mandated activities. The PAA, which adheres to the Treasury Board of Canada Secretariat's Policy of Management, Resources and Results Structures, ensures the continued alignment of mandated activities with the priorities of the Government of Canada. It is aligned with the Government of Canada's Strategic Outcome of "Security and Opportunity," and Transport Canada's (TC) Strategic Outcome of "A Safe and Secure Transportation System." CATSA's PAA is presented in the illustration on the next page.[1]

[1] Please note that CATSA refers to Internal Services as Corporate Services.

Government of Canada
Objective: Security and Opportunity

Transport Canada
Strategic Outcome: A Safe and Secure Transportation System

Transport Canada
Program Activity: Aviation Security

CATSA
Strategic Outcome: Screening programs at designated Canadian airports protect the travelling public

Program Activity	**Program Activity**	**Program Activity**	**Program Activity**
Pre-Board Screening	Hold Baggage Screening	Non-Passenger Screening	Restricted Area Identity Card

Internal Services

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 air transportation system, CATSA is responsible for the delivery of the following four mandated activities:

Pre-Board Screening (PBS)

At airport checkpoints across the country, CATSA's screening officers conduct security screening of passengers and their belongings prior to their entry into the secure area of an air terminal building.

Screening officers use a variety of screening technologies and procedures to examine passengers and their belongings to prevent them from carrying prohibited items beyond the screening point.

Hold Baggage Screening (HBS)

Screening officers use specialized equipment to screen passengers' checked baggage (or hold baggage) to prevent the boarding of prohibited items such as explosives.

Non-Passenger Screening (NPS)

At restricted-area access points across the country, non-passengers are randomly selected for screening by CATSA's screening officers. Non-passengers include flight and cabin crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers, vendors, and other airport service staff. Since 2014, CATSA has enhanced the program to include the screening of vehicles entering restricted areas of the aerodrome at select airports.

Restricted Area Identity Card (RAIC)

The RAIC system, created by CATSA in partnership with TC and airport authorities, uses iris and fingerprint biometric identifiers to allow non-passengers to access restricted areas of airports. The final authority that determines access to the restricted areas of the airport is the airport authority itself.

In addition, CATSA has an agreement with TC to conduct screening of cargo at smaller airports, where capacity exists. Each of these mandated activities is carried out effectively, efficiently, consistently, and in the public interest, as required by the *Canadian Air Transport Security Authority Act (CATSA Act)*.

MESSAGE FROM OUR VICE-CHAIRPERSON

PETER WALLIS
VICE-CHAIRPERSON

2016/17 was certainly an eventful year for CATSA and the Board of Directors. With constantly increasing air passenger growth and rising security pressures, we've introduced industry-leading innovations to our screening technologies and processes, including CATSA Plus, to strengthen and streamline the effectiveness and efficiency of our operations. We've also worked closely with aviation stakeholders and experts, all the while experiencing the natural evolution of the membership of our Board of Directors.

I am honoured to serve as Vice-Chairperson of the Board, after the departure in October 2016 of CATSA's former Chairperson, Lloyd McCoomb. On behalf of my fellow Board members, I'd like to thank Lloyd for his valued leadership and his many contributions to CATSA over his four-year term. He brought with him decades of experience in Canada's aviation industry, and provided highly respected counsel and immeasurable industry expertise. Thank you, Lloyd. We wish you the best as you embark on the next chapter of your adventure.

As in previous years, the Board of Directors and CATSA's senior management team worked closely to ensure solid corporate governance and dynamic oversight, which we recognize as being key to the success of our organization.

We continue to collaborate with Transport Canada to develop an operationally effective funding strategy to address ongoing inflationary pressures, passenger growth and airport expansion issues in both the long and short-term.

The Board also engaged with important stakeholder groups to provide information relating to CATSA's operations and initiatives and to seek constructive feedback on CATSA's vision for the future of pre-board screening, including CATSA Plus, a passenger-focused screening concept that brings together the latest innovations in aviation security screening to achieve a high level of security effectiveness, and an enhanced traveller experience. These productive meetings will help shape CATSA's strategic direction as we safeguard the security of tens of millions of passengers each year.

On behalf of my fellow Board members, I would like to offer my sincere gratitude to CATSA's employees, screening officers, screening contractors and senior management for their efforts over the past year, and congratulate them on their many successes upon which we'll build and move forward in 2017/18.

I'd also like to acknowledge our government and industry partners with whom we have worked closely toward a mutual goal of enhancing aviation security, while ensuring high levels of service delivery. We value these strong alliances with airport authorities, airlines, industry associations and Transport Canada that allow us to continue to positively contribute to the security of the aviation industry, and the enhancement of the passenger experience.

Finally, I commend the members of the Board for their ongoing efforts and their dedication to ensuring CATSA's mandate is carried out efficiently, effectively and in the public interest. I look forward to working with all of you as we forge ahead, undertaking important work to ensure we achieve the highest possible level of aviation security.

MESSAGE FROM OUR PRESIDENT AND CEO

MICHAEL SAUNDERS
PRESIDENT & CEO

It has been a year of admirable accomplishments for CATSA, all of which would not have been possible without the strong, decisive leadership of our former President and Chief Executive Officer, Angus Watt. Through successful achievements, and more challenging endeavours, Angus provided a clear vision that has guided CATSA to its current position as an innovative, world-leading national aviation security organization. On behalf of the Board of Directors, CATSA's senior management and our hard-working employees across the country, I'd like to extend our sincere gratitude for his years of service to Canada, including his time as CATSA's President and CEO. Thank you, Angus.

CATSA has experienced much innovation and achievement over the last year. We've succeeded on many fronts including the execution of the full CATSA Plus model at the new terminal at the Calgary International Airport. This concept employs high-performance, leading edge infrastructure that transforms front-line screening operations, offering flexibility, modularity and scalability while meeting the current and future needs of the ever-evolving aviation industry. Trial lanes at Montreal-Trudeau Airport and Toronto Pearson International Airport, in addition to the full CATSA Plus concept at the Calgary International Airport, have proven to enhance the customer experience. In the coming year, CATSA Plus will be deployed at select checkpoints at three of Canada's busiest airports (Vancouver International Airport, Toronto Pearson International Airport and Montreal-Trudeau International Airport) based on space availability.

Over the last few years, the Canadian aviation industry has seen steady increases in passenger growth resulting in more volume at security checkpoints. In 2016/17, CATSA screened nearly 62 million people at designated airports across Canada while maintaining a service level wait time of 86% of passengers screened in 15 minutes or less while maintaining and surpassing screening standards. Throughout this year, senior leadership worked collaboratively with Transport Canada to develop a strategy addressing CATSA's funding pressures and associated impacts on wait time service levels for passengers. As we look to the year ahead, CATSA will strive to maintain smooth and efficient operations as we continue to protect the travelling public by screening air passengers and their belongings.

2016/17 was also a productive year for CATSA in terms of its relationship with third party screening contractors. As original Airport Screening Services Agreements were set to expire on March 31, 2017, CATSA conducted a thorough analysis of renewal options. Based on the operational success of the current service delivery model, CATSA renewed ASSA contracts for five-year terms.

As we look forward to 2017/18, we're confident that we will continue to meet the expectations of the travelling public with initiatives aimed at enhancing their experience as they pass through security checkpoints at designated airports across Canada.

I look forward to continuing to work with CATSA's exemplary employees, screening officers, screening contractors and stakeholders in the coming year.

ANNUAL HIGHLIGHTS

CATSA is able to screen an average of approximately **166 passengers per hour per line**.[2]

CATSA delivered a wait time service level where approximately 86% of passengers were screened, on average, in **fifteen minutes or less** at Canada's eight busiest airports.

Despite significant growth in passenger volumes, CATSA has **maintained wait time service levels** while offering the highest levels of security to the travelling public.

In collaboration with the Calgary International Airport, CATSA deployed the **full CATSA Plus concept** in the new international terminal in October 2016.

CATSA also **worked closely** with the Montreal-Trudeau International Airport to introduce one CATSA Plus line to pilot the concept at the airport in August 2016.

As a result of close **collaboration between CATSA and TC**, Budget 2017 provided CATSA with funding to maintain a national average passenger wait time target of screening 85% of passengers in 15 minutes or less at Canada's busiest airports in 2017/18.

CATSA has **introduced a number of efficiencies** with tools such as the Wait Time Impact Model and the Screening Checkpoint Optimization Tool. These tools allow CATSA to make use of its high quality, real time data on passenger arrivals at the checkpoint to plan resources strategically, and measure and optimize actual deployment tactically.

The Hold Baggage Screening (HBS) Recapitalization Program continues **on track and on budget** for completion in 2020.

CATSA **continued to work collaboratively** and build on its relationship with key national and international stakeholders through a number of initiatives, including discussions on the deployment of CATSA Plus.

CATSA provided advice and training on screening to a number of federal departments, as well as international partners, demonstrating CATSA's **innovative training expertise**.

CATSA takes passenger complaints very seriously. Despite continuous increases in passenger volumes, the number of complaints CATSA receives is relatively small, averaging about **one complaint per 50,000** screened passengers.

[2] This estimation is based on optimal circumstances and calculation methodologies similar to CATSA's international partners.

OPERATING ENVIRONMENT

LEGISLATIVE FRAMEWORK

CATSA was established on April 1, 2002 as an agent Crown corporation pursuant to the *CATSA Act*. CATSA is fully funded by parliamentary appropriations and is accountable to Parliament through the Minister of Transport.

In Canada, the federal government is responsible for the security of the aviation sector, with TC serving as the lead department for Canada's aviation security program. As CATSA's regulator, TC is responsible for developing, administering and overseeing aviation security policies, legislation, programs and procedures.

CATSA is subject to domestic legislation and regulations in the way that it conducts its business and screening activities. These acts and regulations include: the *CATSA Act*; the *Financial Administration Act*; the *Aeronautics Act*; *Canadian Aviation Security Regulations*; and *Screening Security Measures*.

REGULATORY ENVIRONMENT

CATSA is also affected by changes made by major international partners, such as the United States and the European Union, in terms of the level of security screening provided and screening equipment used. In particular, CATSA's regulatory

environment is largely influenced by the U.S. Transportation Security Administration (TSA). When changes are sought by other jurisdictions or the International Civil Aviation Organization (ICAO), TC endeavors to accommodate such changes, while minimizing the impacts on passengers and industry. Furthermore, as a member of ICAO, Canada has an obligation to comply with ICAO aviation security standards.

TC is responsible for monitoring regulatory changes of its international partners, and assessing the impact that any possible future regulations could have on Canada's aviation security system, including CATSA's screening mandate.

ATTENTION TO PASSENGERS' NEEDS – TRANSGENDER SCREENING

In 2016/17, CATSA established guidelines and procedures for screening transgender individuals and implemented training courses related to the new policy. CATSA modified its same-sex screening policy to allow passengers to request screening by an officer of another sex, and introduced the notion of "split searches" as an option for passengers, where opposite sex screening officers each conduct part of the physical search.

INDUSTRY PARTNERS

CATSA operates in a highly integrated environment, with several different entities assigned to specific security responsibilities, including airport authorities, air carriers and law enforcement agencies. 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 optimal movement of people and goods.

This integration requires a high degree of communication and coordination between CATSA and its partners; to not only ensure the effective and efficient screening of passengers and their belongings, but also aid continuous movement through the system. Delays at one airport can have ripple effects across the system. CATSA recognizes that strong relationships with partners are critical to the overall positive performance of aviation security activities and to the day-to-day success of delivering its mandate. CATSA is committed to continuing to strengthen and build collaborative relationships with industry partners.

LABOUR RELATIONS

CATSA outsources its services to screening contractors, who rely on a unionized screening officer workforce perform screening operations. CATSA has certain responsibilities with regard to screening officers' work, such as developing Standard Operating Procedures (SOPs) and certifying screening officers. However, given the nature of the third-party

service delivery model, CATSA has no direct role in labour relations and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions.

Collective bargaining agreements with expiry dates in 2015 and 2016 were successfully renewed for multi-year terms. CATSA worked closely with screening contractors to maintain labour stability throughout these collective bargaining cycles.

OFFICE OF THE AUDITOR GENERAL OF CANADA (OAG) SPECIAL EXAMINATION RESULTS

Under the *Financial Administration Act*, CATSA is subject to a special examination at least once every ten years. This examination is used to determine whether CATSA's systems and practices provide the organization with reasonable assurance that: its assets are safeguarded and controlled; its financial, human and physical resources are managed economically and efficiently; and that its operations are carried out effectively.

The Special Examination began in 2013/14 and the OAG presented its final report to CATSA in June 2015. The OAG recognized significant improvement since the last Special Examination in 2006. It concluded that CATSA provides reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

CATSA agreed with the OAG's seven recommendations, and took steps to immediately address each recommendation. All recommendations contained in the OAG Special Examination Report, with the exception of one, were fully realized as of March 31, 2017. The action plan for the one remaining recommendation is expected to be completed by June 2017. The full report can be found by following *this link*.

OFFICE OF THE COMMISSIONER OF OFFICIAL LANGUAGES PRELIMINARY AUDIT REPORT

CATSA is dedicated to working in both official languages in designated bilingual airports and in its administrative offices.

In 2015/16, CATSA worked in collaboration with the Office of the Commissioner of Official Languages (OCOL) which conducted an audit of its services to the travelling public at screening checkpoints at Canada's eight busiest airports. The OCOL's report, containing fifteen recommendations, was released in March 2017. The Interim Commissioner commended CATSA's commitment to meeting language obligations to the travelling public. It is important to note that CATSA screened nearly 60 million passengers during the time covered by the report, and received 32 complaints.

To address the recommendations, CATSA developed an action plan and will work closely with the OCOL over the next 18 to 24 months to continue to advance the delivery of bilingual services to the travelling public, while protecting the public through effective and efficient screening of air travellers, their carry-on baggage and their personal belongings.

RISK ENVIRONMENT

CATSA's ability to respond to a changing operating environment is critical to the organization's success.

Risk management at CATSA is a formalized, systematic approach to determine the best course of action during times of uncertainty by identifying, assessing, evaluating, acting on and communicating risk throughout the organization. This approach contributes to risk-informed decision-making, which enables CATSA to effectively manage uncertainties and capitalize on opportunities.

CATSA's risk management program is focused on risks that may impede the organization's ability to meet the following objectives:

I. To deliver mandated activities in an effective, efficient and consistent manner, while safeguarding the interests of the travelling public; and

II. To provide services or programs in support of its mandated activities.

CATSA's mandate is not that of an intelligence gathering organization; rather, it relies upon directives from TC in order to respond to threat and risk information identified by intelligence agencies. The organization's mandated security screening programs provide a web of security that helps to reduce aviation security risks across the system.

RISK GOVERNANCE

CATSA has established a comprehensive risk management framework that identifies corporate risks associated with CATSA's environment and operating activities. CATSA conducts an annual corporate risk profiling exercise whereby corporate risks are identified and assessed against established criteria after taking into account CASTA's existing controls to mitigate them. CATSA's corporate risks are then actively monitored and re-assessed on a quarterly basis by the Senior Management Committee and reported to the Board of Directors. This process is flexible as it enables the organization to include new and emerging risk information for consideration and assessment and enables senior management to analyze emerging and forward-looking risk trends.

Board of Directors (BoD)

The BoD's key function and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, it ensures that management identifies, monitors and manages CATSA's corporate risks. It is responsible for providing clear direction of risk attitude, and approving the risk management policy as well as the corporate risk profile.

Senior Management Committee (SMC)

The SMC is responsible for assessing CATSA's key risks, evaluating corporate risks as per CATSA's risk attitude and ensuring appropriate controls and mitigation strategies are in place and implemented to effectively manage these risks. The role includes supporting risk awareness and communicating risks throughout the organization.

RISKS AND UNCERTAINTIES

CATSA's key risks are a snapshot of those risks that could impede the organization's ability to achieve its strategic objectives. The following is a summary of CASTA's key corporate risks.

Mandated Services Risk

Detection capability

Aviation security is CATSA's top priority. CATSA is mandated to provide screening in accordance with the security regulations, measures and directives set by TC. There is a risk that CATSA may not detect all high risk threat items, which may result in substantial consequences to the civil aviation system.

To address this risk, CATSA works to continually review, test and improve the effectiveness of its operational processes and procedures, and also maintains a capital program to support the replacement and upgrading of equipment.

Threat and risk information

The continuously evolving threat environment and aviation security trends may challenge CATSA's ability to act on emerging threats and risks. There is a risk that CATSA may not be able to respond to threat and risk information in a timely manner or may not exercise adequate due diligence when information is received.

To address this risk, CATSA conducts continuous monitoring and analysis of threat and risk information from external sources and disseminates this information to the appropriate decision makers. Detailed integrated response strategies include ensuring business continuity and emergency response plans are in place to respond to this threat and risk information. To strengthen the resilience of these plans, they are periodically tested and exercises conducted.

Capacity Risk

Core mandate

CATSA continues to face a variety of external challenges and pressures such as increases in screening contractor billing rates and rising passenger volumes. As a result, its ability to purchase screening hours may decline over the coming years based on its approved funding levels. Consequently, passengers may wait longer to be screened without additional funding.

CATSA has been working with TC to develop an operationally effective long term funding strategy to address this risk. Budget 2017 provided CATSA with incremental funding to maintain a wait time service level of 85% of passengers screened in 15 minutes or less.

Provision of corporate support services

Since 2015, CATSA has had a reduced workforce to provide corporate support services; however, the demand for these services has remained constant or has increased on occasion. While the organization will always provide corporate services to ensure its mandatory requirements are met, there is a risk that the current corporate structure may be inadequate to support the delivery of the current support services workload.

To address this risk, a Corporate Rebalancing Exercise identified temporary resources to alleviate workload pressures in corporate support services in 2017/18.

Service Delivery through Third-Party Risk

Illegal labour disruptions

CATSA outsources its services to screening contractors, who rely on a unionized screening workforce to deliver screening services. There is a risk that illegal labour disruptions may occur at some airports as a result of union activity or the collective bargaining process.

To address this risk, CATSA continually monitors labour issues between screening contractors and the unions representing screening officers. In the event of an illegal labour disruption, CATSA has prepared labour contingency plans with operational, legal and communications components. However, CATSA's ability to directly influence the return to normal service is limited.

Service delivery model - outsourcing

Given CATSA's service delivery model, the organization relies on screening contractors for delivering a critical and mandated service for Canadians. There is a risk that if a screening contractor is unable to provide screening services as contracted, CATSA's service delivery may be negatively impacted.

To address this risk, CATSA continually monitors screening contractor performance and has developed a screening contractor relationship management framework, which promotes a systematic and collaborative relationship between CATSA and the screening contractors.

Reputational Risk

Through various communication channels, stakeholders have raised concerns about CATSA's operations on a variety of issues such as inconsistency of screening, longer wait-times and have questioned whether CATSA's delivery of mandated services provides value for money. There is a risk that this may damage CATSA's reputation.

To address this risk, CATSA continues to improve the passenger experience by responding to customer complaints in a timely manner and promoting a customer service-oriented culture. CATSA regularly liaises with industry stakeholders and has implemented a variety of communication strategies such as conducting passenger intercept surveys and the expanded use of social media to engage its multiple stakeholder groups.

Management Systems/Control Systems Risk

Management of sensitive, secret or personal information

CATSA produces, collects and maintains a multitude of sensitive, secret and personal documentation and information. There is a risk that sensitive, secret or personal information in both physical and/or electronic formats may be lost or disclosed inappropriately.

To address this risk, CATSA has a variety of physical security and information technology security controls in place and conducts privacy impact assessments for all new or modified programs and activities that involve the use of personal information. CATSA has also established privacy policies and procedures to safeguard the organization against this risk.

Organizational preparedness for emergencies

An integrated business continuity and emergency management plan is essential to ensure continuity of operations and recovery from major incidents or emergencies. There is a risk that CATSA's business continuity and emergency response plans may not be fully integrated, tested and understood in order to effectively respond to and recover from emergencies and maintain operational readiness.

To address this risk, the plan is regularly updated and various components of the plan are tested on an annual basis. Any identified gaps will be corrected and addressed during upcoming review processes.

Human Resources Risk

Employee recruitment, retention and engagement

CATSA strives to maintain an engaged, high performing workforce. CATSA is facing challenges in recruiting and retaining talent in key and specialized positions and in maintaining a healthy workplace.

To address this risk, the organization is focusing on initiatives to retain talent and improve employee engagement. CATSA is currently implementing improvements to its human resources practices and policies arising from the recommendations of three working groups established to address employee concerns around flexible work environment, the culture of recognition and an inclusive and diverse work environment.

Information Technology (IT) Risk

Cyber Attacks on IT Infrastructure

Government departments, agencies and Crown corporations are constantly exposed to a variety of cyber threats to their IT infrastructure. There is a risk that cyber threats and/or attacks may negatively impact CATSA's IT infrastructure and/or compromise organizationally sensitive information resulting in a loss of public confidence and potential damage to CATSA's reputation.

To address this risk, the organization has a variety of devices, systems, processes and procedures to safeguard the organization's IT infrastructure.

Governance Risk

Period of Interim Senior Leadership

Since the term for CATSA's Chairperson expired in October 2016 and the CEO's term expired in January 2017, the organization is now being led by the Vice-Chairperson and an interim CEO. There is a risk that CATSA may face challenges in pursuing longer term strategies and objectives during this period of interim senior leadership.

To address this risk, CATSA is actively engaged with government to support the process to appoint a new Chairperson and CEO.

REPORTING ON RESULTS

CATSA realized a number of notable accomplishments and changes that have improved its operations in 2016/17.

These initiatives will allow CATSA to continue responding to evolving threats, realize further efficiencies and improve the passenger experience. The following section presents an overview of CATSA's progress, achievements, and performance of its mandated activities. Please note this section provides an overview of notable achievements.[3]

While specifics vary from program to program, CATSA assesses performance as follows:

Effectiveness:
The degree to which a program achieves its desired outcome.

Efficiency:
The extent to which a program's resources are maximized.

Consistency:
The degree to which a program's applicable statutory, regulatory, SOPs, operational policies and contractual/staffing requirements are met.

In the Interest of the Travelling Public:
The extent to which a program is conducted in the interest of the travelling public.

[3] Due to their sensitive nature, results from PBS, HBS and NPS tests and data related to PBS security breaches are not included.

PRE-BOARD SCREENING

ENHANCING THE CUSTOMER EXPERIENCE WITH CATSA PLUS

CATSA's success has been built in large part on a culture of continuous innovation and exemplary customer service. Constantly seeking to improve the performance of its screening operations, CATSA has invested significant efforts and resources over time to increase efficiency while maintaining security effectiveness, with an emphasis on ensuring an enhanced customer experience. An example of this is the introduction of the CATSA Plus screening model in Montreal, Calgary and Toronto.

CATSA's existing pre-board screening equipment has remained largely unchanged since the organization's inception in 2002. The CATSA Plus screening concept replaces this equipment with modern, higher-performance security screening technologies designed to maintain security, enhance efficiency and improve the customer experience. The concept is also customizable to adapt to different airport environments depending on the checkpoint size, space and passenger volumes.

KEY ACCOMPLISHMENTS

- In 2016/17, CATSA received additional one-time short-term funding of $29M from the Government of Canada. With this additional funding, CATSA delivered a wait time service level where approximately 86% of passengers were screened in 15 minutes or less on average at Canada's eight busiest airports.
- In addition to maintaining service levels, the investment supported airport economic development, as well as the implementation of TC's One Stop Security (OSS) initiative, which allows passengers from certain countries to connect through Canadian airports without having to be rescreened.
- CATSA used the Wait Time Impact Model to support TC in developing a strategy to address funding pressures and associated impacts on wait time service levels.
- CATSA worked in partnership with Calgary International Airport on the checkpoint design for their International Facilities Project. The new Calgary International Terminal opened in October 2016 and now showcases the CATSA Plus screening concept.

In August 2016, CATSA began a trial implementation of one full CATSA Plus line at the domestic checkpoint at the Montreal-Trudeau International Airport. This pilot provided CATSA with the opportunity to demonstrate this new screening concept and coincided with several major events that were held in Montreal in September, including Montreal Aviation Security Week, the Airports Council International-World Conference, and the International Civil Aviation Organization General Assembly. In addition, the new international terminal at Calgary International Airport opened on October 31, 2016 and marked CATSA's first opportunity to demonstrate the full CATSA Plus concept in a brand new checkpoint. By replacing standard screening lines with upgraded, high performance equipment, passenger flow has been greatly improved, resulting in an enhanced customer experience. Based on a recent survey conducted by CATSA at the Montreal and Calgary airports, 61% of passengers responded that their experience through a CATSA Plus line was better than the last time they went through security screening (through a standard screening line).

CATSA also introduced the CATSA Plus concept at Toronto Pearson International Airport in March 2017, with plans to install additional lines over the course of 2017/18.

The deployment of the CATSA Plus screening concept presents a unique opportunity for CATSA and airport authorities to collaborate on a mutual goal of enhancing the passenger experience. CATSA has designed this screening concept to be flexible, modular and scalable such that it can be tailored, to the extent possible, to the unique requirements of each checkpoint. CATSA's current capital reference levels will allow the organization to start the deployment of CATSA Plus at select Class I airports based on space availability.

"I fully support the CATSA Plus program as it provides Canadians with improved screening services and a better traveling experience. I applaud CATSA for being innovative while maintaining and upholding Canada's stringent aviation security standards."
– The Honourable Marc Garneau, PC, MP, CC, CD, FCASI, Minister of Transport

Benefits of CATSA Plus lines

The benefits of a full CATSA Plus line, which can be installed at large checkpoints with adequate space, include:

- Substantial improvement in X-ray processing capabilities through centralized image processing and motorized conveyors;
- Self-service features and minimal interactions with screening officers for passengers that do not generate an alarm during the screening process;
- Provide more time to divest for those who need it, while providing a bypass for those who do not, through parallel divesting;
- Increased security effectiveness with bin tracking and separation of items requiring search;
- Better utilization of resources through automation of some aspects of the screening process, such as automatically diverting bins requiring further screening to the reject lane and returning empty bins to the front of the line; and
- Enhanced customer service through partnerships with airports on checkpoint aesthetics and queue design enhancements.

The Calgary International Airport recently built a new terminal, the International Facilities Project, which opened in October 2016.

As part of the new facility, CATSA worked in collaboration with the airport to integrate the full CATSA Plus screening concept in the brand new, large and spacious checkpoint. Standard screening lines were replaced with six higher-performance full CATSA Plus lines, the organization's first opportunity to demonstrate the full CATSA Plus concept on multiple lines at a single location. Since implementation, the airport has experienced an increase in passenger flow and improvement in customer experience, while security effectiveness has been enhanced.

THROUGHPUT – MORE EFFICIENT SCREENING FOR AN ENHANCED PASSENGER EXPERIENCE

Between 2010 and 2012, CATSA made a series of process improvements – coupled with amendments made by TC to the regulatory framework, including changes to the Prohibited Items List – that resulted in a 30% increase in throughput. CATSA's throughput levels have continued to increase since then. Currently, based on calculation methodologies similar to our international partners, CATSA is able to screen approximately 166 passengers per hour per line. This increase has resulted in greater processing capacity, and an enhanced passenger experience.

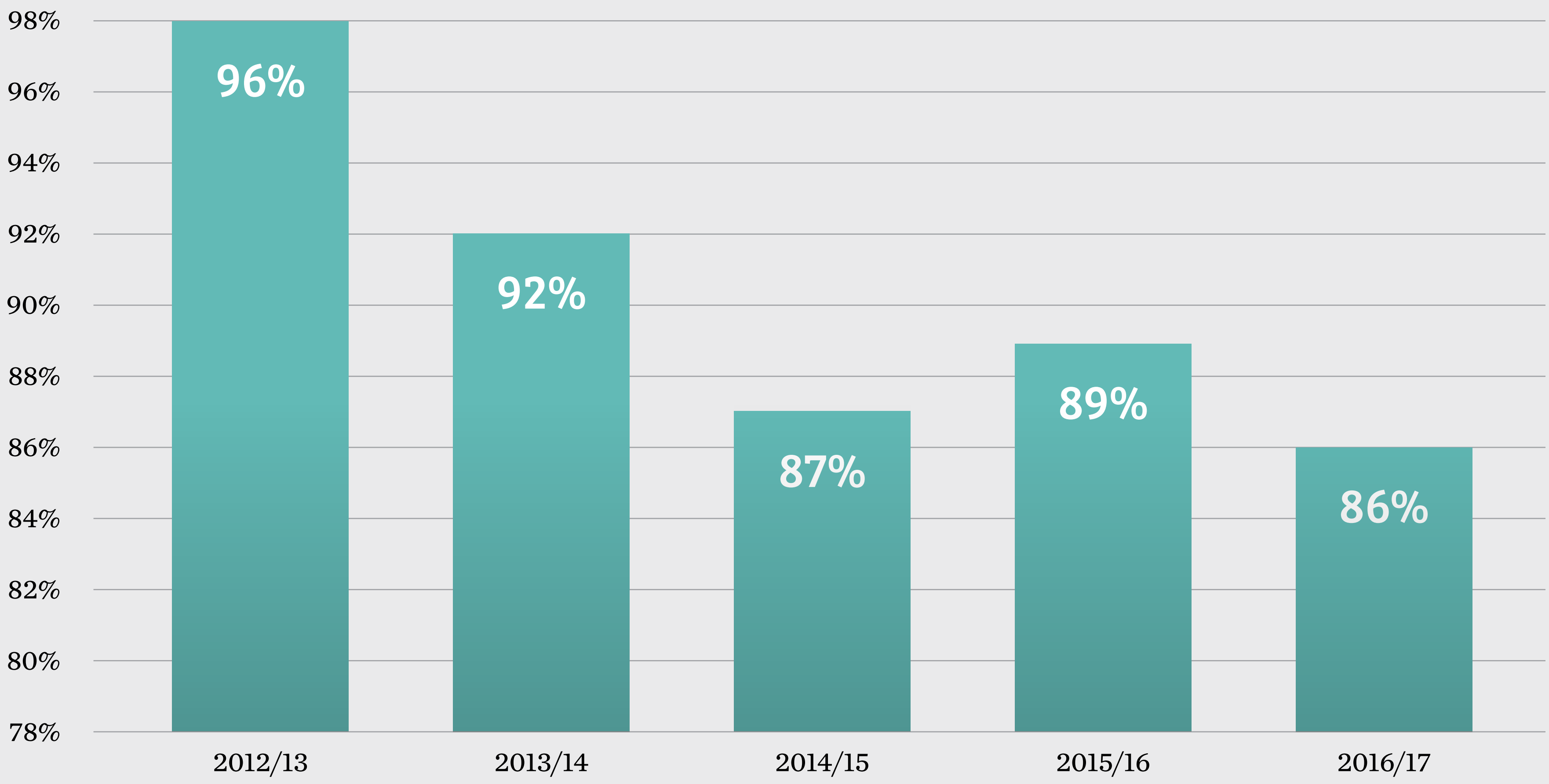
CATSA uses the Pre-Board Screening (PBS) Wait Time Service Level (WTSL)[4] as an important planning tool to ensure that our screening resources are allocated in an efficient and consistent manner to provide optimal service to passengers, while maintaining a high level of security for air travelers at Canada's eight busiest airports. Over the past few years, CATSA has experienced steady growth in passenger volume and screening contractor billing rates, resulting in a decline of the PBS WTSL. In 2015/16, CATSA received supplemental funding for a target WTSL of 85% of passengers screened within 15 minutes, however the organization achieved a service level of 89% of passengers screened within 15 minutes[5]. In 2016/17, CATSA received further one-year short-term supplemental funding and met the WTSL target of 85% of passengers screened in 15 minutes.

CATSA employs an evidence-based approach in combination with high-quality real-time data to estimate and project the cost of various service levels over time, and in turn provide reliable and accurate forecasts to the Government of Canada. In 2016/17, CATSA further expanded capabilities in modelling and simulation, which resulted in improved forecasting accuracy. CATSA also leveraged its rich data set to build PBS simulation models for checkpoints with CATSA Plus, allowing the organization to determine optimal layout, space and staffing configurations. CATSA used the Wait Time Impact Model to support TC in developing a strategy to address funding pressures and associated impacts on wait time service levels.

[4] CATSA's PBS Wait Time Service Level is measured as the percentage of passengers who waited less than a specified number of minutes to be screened at Canada's eight busiest airports.

[5] A higher-than-forecasted service level was achieved in 2015/16 due to a reallocation of screening hours from NPS to PBS as airports were delayed in the completion of permanent NPS-Vehicle structures.

PRE-BOARD SCREENING WAIT TIME SERVICE LEVELS



HARMONIZED TRUSTED TRAVELLER (HTT)

In January 2013, TC and the United States TSA agreed to harmonize PBS procedures for Trusted Travellers at transborder checkpoints as part of *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan*.

Harmonization introduces new screening procedures that provide tangible benefits to select passengers travelling to the U.S. who have undergone background screening and are deemed ‘low risk’. This includes a different screening process that takes into account their low-risk status. These passengers, for example, are not required to remove clothing such as coats, hats, belts, or shoes, and are able to keep permitted liquids in carry-on luggage. These new procedures further promote risk-based screening.

As part of the HTT requirements at transborder checkpoints, a new randomizer application was developed by CATSA and runs on an Android tablet. The randomizer selects certain Trusted Travellers, at random, to undergo an additional layer of security screening.

In 2015/16, the HTT randomizer tablet was trialed with success at Toronto Pearson International Airport’s transborder checkpoint with positive feedback from regional CATSA employees.

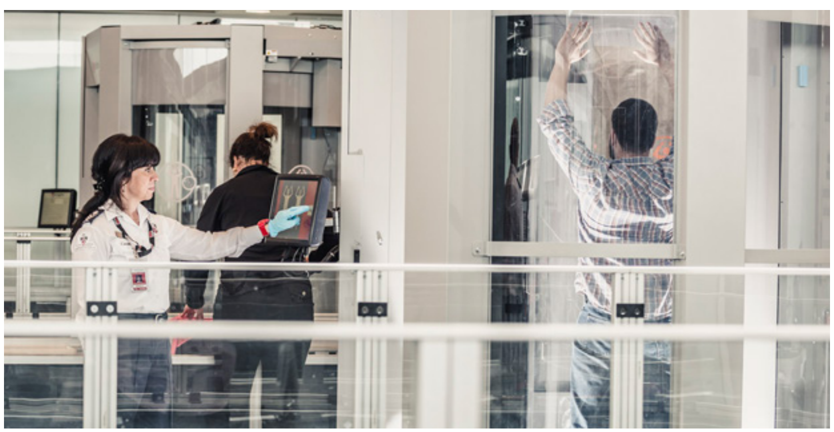
Additionally, in 2016/17, the Trusted Traveller line concept was expanded and changes were made to better harmonize with the equivalent TSA program in the United States.

FULL BODY SCANNER (FBS)

Approved by Health Canada, Full Body Scanner (FBS) units use low-level radio-frequency to detect both metallic and non-metallic objects on a person. These machines are an effective additional layer of security for air travelers, and improve security effectiveness. Currently, FBS units are used as a secondary screening tool at CATSA pre-board screening checkpoints.

The United States and the Netherlands have implemented FBS units as a primary screening tool and a number of other countries are also considering moving in this direction.

In 2015/16, based on TC direction, CATSA conducted a trial at the Toronto City Centre Airport using the FBS as the primary screening tool in lieu of the Walk Through Metal Detector (WTMD). Based on the results from this trial at a low passenger volume airport, and upon recommendation by TC, CATSA conducted a similar trial at Canada's busiest airport, Toronto Pearson International Airport, where passenger volumes are much higher. The twelve-week trial began in October 2016, and preliminary results indicate that this screening concept demonstrated security effectiveness benefits.



CATSA continues to work with TC on exploring options to enhance security screening effectiveness through the use of FBS units.

SCREENING PROCESS CONSISTENCY ENHANCEMENTS

CATSA launched multiple initiatives in 2016/17 in support of both the enhanced passenger experience and ease of management of operations. These initiatives aimed to provide greater national consistency relating to screening processes. Given the many continuous improvement initiatives and trials of new technologies and processes, variations in the services provided at PBS checkpoints are inevitable. In recognition of this, CATSA created a project called Checkpoint Convergence to standardize to the greatest extent possible. Assessments of checkpoints at Canada's eight busiest airports were conducted and changes will be implemented in 2017/18. It's anticipated that these changes will generate customer service benefits while also making the process easier to manage.

GREATER TORONTO AIRPORT AUTHORITY SUPPLEMENTARY SCREENING LINES TRIAL

In fall 2014, CATSA and the Greater Toronto Airports Authority (GTAA) entered into a Supplemental Screening Trial Agreement that enabled the GTAA to purchase additional screening services in the form of supplemental screening lines. These lines were staffed by four screening officers, over a four-hour period, during time periods and at locations that were jointly determined by CATSA and the GTAA.

To date, results indicate that the trial achieved reductions in passenger wait times and mitigated the effects of decreased funding at the times and locations, where supplemental screening lines were deployed.

PASSENGER FACILITATION AND PASSENGER ASSISTANCE

Customer Service Commitment to Passengers

CATSA is committed to providing the best customer service possible to passengers from the beginning of the screening process to the end, treating all persons with care, courtesy and respect as part of a positive and secure air travel experience. As a testament to this commitment, CATSA earned an all-time high customer satisfaction level of 86% in the third quarter of 2016/17.

WHAT PASSENGERS ARE SAYING :

National
Cool. Just found out you can find security line wait times for Canadian airports. @catsa_gc

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Vancouver
Much thanks to #YVR @catsa_gc staff for keeping it efficient & cheerful tonight.

In 2016/17, as a result of an evaluation of customer service conducted by internal audit, CATSA developed a new and innovative "Customer Service Commitment to Passengers". This new commitment will be incorporated into all programs and products going forward, and this includes examining CATSA's Performance Measurement Framework to develop a customer service metric. In accordance with this new initiative, screening officers are required to participate in any customer service training courses provided through and funded by the airport authority.

The development and implementation of this new initiative exemplifies CATSA's commitment to enhancing the passenger experience.

Assisting travellers with special needs

CATSA recognizes that travel can be challenging for passengers with special needs. Last year, following consultation with the Amputee Coalition of Canada and other partners, CATSA launched a new online guide to proactively provide information and travel tips to passengers with special needs. The guide includes information that will help passengers prepare for air travel, including what to expect at a security checkpoint, specific reference material for medical devices, and information tailored to particular special needs.

WHAT PASSENGERS ARE SAYING :

Penticton
T'was the perfect start to the holiday. All fears of flying completely dispelled @catsa_gc and thank you to the lovely staff at YYF airport

----

Calgary
@FlyYYC @AirCanada @catsa_gc @CanBorder You're all amazing!! Thank you so much for YYC Navigators supporting our children and families!!!

Helping children with autism through security

CATSA proudly participated in three events aimed at helping children with autism familiarize themselves with the airport experience: Canucks for Autism at Vancouver International Airport; Children First at Montreal-Trudeau; and the Navigators Program at Calgary International Airport. Individuals with Autism Spectrum Disorder can be anxious in new or unfamiliar situations and often have difficulty communicating. These events give hundreds of children with autism and their families the opportunity to experience the airport environment and become aware of the various processes involved in air travel – from curb to gate – so that flying is not only an option for these families but also a pleasant experience.

Intercepted items for a good cause

CATSA, third-party screening contractors and airport authorities are proud to have agreements with several charitable organizations across the country.

In Montreal, thousands of intercepted items are donated each month to Maison Victor-Gadbois, a palliative care home for cancer patients. The items are then offered to the public in exchange for donations at displays set up at malls and festivals, raising over $50,000 annually for this very worthy cause.

In Winnipeg, the items are donated to Habitat for Humanity, an organization that builds affordable housing and promotes homeownership. The items are then sold at their ReStore. The revenues from these sales cover the organization's administrative costs, thereby enabling all personal and corporate donations to go directly to the construction of affordable homes. CATSA donated thousands of items that generated over $22,000.

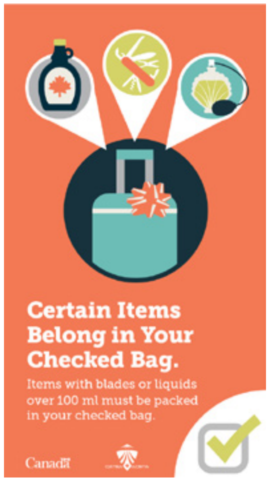
Lost items at checkpoints reunited with passengers

As the only security screening authority that possesses Boarding Pass Security System coupled with networked X-ray systems and Closed Circuit Television (CCTV), CATSA leverages technologies that were originally designed for security screening purposes to provide benefits to passengers and assist them in locating items that are lost or left behind at the checkpoint. In 2016/17, CATSA reunited over 1900 items that were lost or left behind at the checkpoint with passengers.

Public engagement

CATSA continues to ensure the travelling public is well-informed as it relates to CATSA's mandate and associated regulations. These efforts include:

- Communicating security screening tips prior to peak travel during the holidays on social media, the CATSA website and specialty media focused on passengers with special needs;
- Launching the "Breeze through security" mobile app, where travellers can find information to make it easier to get through airport security screening;
- Security screening awareness campaigns on radio stations specific to travellers of various cultural and linguistic backgrounds and from various regions of the country, and during busy travel periods;



- Providing information to various community groups and advocacy associations; and
- Sharing tips with screening officers through articles in CATSA's quarterly newsletters on how to provide exemplary customer service to transgender passengers and passengers with disabilities.

ACCOLADES

Every year, the Montreal-Trudeau International Airport celebrates the excellence of their airport community with their Recognition Program. In 2016/17, CATSA was nominated by Aéroports de Montreal in the Process Improvement/Innovation category. This specific award recognizes a person or organization that has implemented tangible improvements to an airport process that have had a positive impact on passengers. CATSA was also nominated for Best Collaboration among airport partners for the One Stop Security project. CATSA placed first in both categories, a testament to the hard work and dedication of the teams who worked on important projects that led to this recognition.

WHAT PASSENGERS ARE SAYING :

Toronto-Pearson
@catsa_gc @Transport_gc my mom flew out of @TorontoPearson yesterday, happy to say that the T3 screeners were great helping her out. #YYZ

Fredericton
Love our #Fredericton @catsa_gc team! They do a great job & passengers say they're among the friendliest in Canada!

HOLD BAGGAGE SCREENING

In 2016/17, CATSA continued its commitment to the ten-year HBS Recapitalization Program. The program began in 2011, and will see CATSA upgrade its systems across Canada, migrating from a five-level screening process to a three-level process. As part of the program, CATSA upgraded its HBS systems with state-of-the-art technologies, supporting the joint Canada-U.S. *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness* Action Plan to facilitate transborder travel.

The program will eliminate the need for duplicate screening and facilitate travel for passengers departing from Canada and transiting through U.S. airports. Thirty-two airports and 45 projects are included in the program.

As CATSA heads into the second half of this large-scale project, close oversight and sound project management practices have ensured the program is on track to be completed in 2020. CATSA continues to work in collaboration with all stakeholders to ensure that the deployment schedule corresponds to resource availability to meet the present and future needs of each airport.

As of March 2017, of the 45 projects, 17 have been completed and 12 are currently underway. CATSA is confident that the program will continue to proceed as planned.

NON-PASSENGER SCREENING

Consistent with ICAO standards and obligations, CATSA is required by TC to screen non-passengers accessing restricted areas of airports. These people include CATSA personnel, screening officers, flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees. Non-passengers and passengers are screened using the same equipment. Bags, tools and other items carried by non-passengers may also be checked with X-ray and explosives-detection equipment.

Since 2013, CATSA has made significant enhancements to its non-passenger screening (NPS) activities to acknowledge more stringent TC requirements stemming from its international obligations. Enhancements include a screening program for vehicles entering restricted areas of the aerodrome at select airports, which began in 2014, and continued in 2016/17. In addition, the Traffic Management System (TMS) was introduced in 2016 to manage the vehicle screening process and controls traffic flow through the vehicle checkpoints. The TMS system manages the vehicle screening process and controls traffic flow through the NPS vehicle checkpoints.

The introduction of new technologies and more robust procedures have resulted in enhanced coverage and an increase in the number of non-passengers screened.

Budget 2017 provided CATSA with additional funding which will allow the organization to maintain its enhanced NPS program for 2017/18. CATSA continues to work closely with TC to secure a long-term funding solution for NPS.

RESTRICTED AREA IDENTIFICATION CARD

CATSA and airport authorities continue to work together collaboratively to maintain the effective, efficient and consistent operation of the Restricted Area Identification Card (RAIC) program.

When it became fully operational in 2007, the RAIC program, created by CATSA in partnership with TC and airport authorities, was the world's first dual biometric (iris and fingerprint) airport identification system for non-passengers accessing restricted areas. In recent years, CATSA invested in improving the efficiency of the RAIC enrolment system, deployed new handheld biometric readers and added three airports to the RAIC system.

In 2016/17, CATSA initiated a consultation process with airport authorities on the future of the RAIC system to ensure the program will continue to meet the requirements of the operating environment as technology evolves and requirements change.

CATSA will continue to collaborate with airport authorities to deliver and maintain an effective, efficient, and reliable biometric credential management system across the country.

CORPORATE SERVICES

EMPLOYEE MORALE AND ENGAGEMENT

In 2015/16, CATSA conducted a survey to better understand employees' perspectives on CATSA's corporate culture and to identify practical and concrete opportunities to retain top performers and encourage employee development.

To address the survey findings, three working groups were formed, each consisting of volunteer employees from across the organization and headed by a mentor Vice-President. These working groups were:

- Flexible Work Environment;
- Culture of Recognition; and
- Inclusive and Diverse Work Environment.

After several months of work, the working groups made a number of recommendations to CATSA senior management, and after extensive review and discussion, nearly all were approved in whole or in part. In addition, CATSA senior management made decisions on other related corporate policies. Policy changes pertaining to these recommendations came into effect April 1, 2017. CATSA senior management is committed to a continuing dialogue with employees to ensure an inclusive, efficient and productive work environment with an attractive corporate culture that encourages development and rewards performance.

BUSINESS CONTINUITY PLANNING

In 2016/17, CATSA completed the annual update of its Strategic Emergency Management and Business Continuity Plans, and continues to develop response plans to enhance its resiliency. CATSA conducted two emergency management exercises to gauge the overall response and readiness of the organization to situations that may affect its ability to provide mandated services. CATSA worked closely with its screening contractors this year to assess their business continuity plans, and continues to ensure their plans are closely aligned with CATSA's to provide mutual support during an incident.

CATSA conducted Physical Site Survey Inspections (PSSI) of all Class I airports to ensure screening contractors are:

- Ensuring consistent safeguarding of the organization's assets and information in accordance with the Government of Canada Policy on Government Security;
- Ensuring physical office space at Class I airports meets baseline physical security requirements in accordance with the Government of Canada Operational Security Standard on Physical Security; and
- Ensuring that the storage, destruction, transport and transmittal of sensitive information or assets are in accordance with the Government of Canada Policy on Government Security.

Upon completion of the PSSIs, CATSA provided recommendations to our screening contractors where necessary, and will follow-up to ensure compliance is achieved.

NETWORK BANDWIDTH OPTIMIZATION

CATSA undertook a multi-year, three-phase Network Bandwidth Optimization initiative that ran from May 2014 to December 2016, and focused on both cost savings and quality improvement. CATSA has benefitted greatly from the project, with improved network connectivity at all regional sites, allowing for more efficient use of CCTV, Learning Management System (LMS), Service Monitoring and Recording Tool (SMART) and Restricted Area Identity Card (RAIC) online applications, among others.

OTHER MANDATE-RELATED ACTIVITIES

AIRPORT SCREENING SERVICES AGREEMENTS

CATSA provides screening services through private screening contractors under a third-party business model. These contractors are responsible for employing screening personnel and performing screening operations at designated airports.

In 2016/17, leveraging lessons learned from previous negotiations and experience with the existing contracts, CATSA undertook a detailed review of its Airport Screening Services Agreements (ASSAs) with third party contractors. CATSA conducted a full evaluation of each contractor's performance over the first five-year term and concluded that they delivered on their commitments and met CATSA's expectations. This positive assessment is a testament to the good work of screening officers who perform their important tasks with dedication and professionalism every day.

In October 2016, CATSA announced the renewal of all four of its ASSAs for a period of five years. The new ASSAs generated cost savings for CATSA, which has been re-invested in front-line screening contractor personnel positions. CATSA is proud to work with the more than 6,000 screening officers at all designated airports, with the shared goal of protecting air travellers through effective and efficient screening of passengers and their baggage.

> "The renewed agreements allow us to continue to build on past successes and continue to work with our screening contractors and industry partners to realize continuous improvements in the security services we offer to the travelling public."
> *- Angus Watt, former President and CEO of CATSA*

TRAINING

Ensuring that screening officers are appropriately trained for the situations they will encounter at checkpoints is an important element in CATSA's ability to deliver on its mandate. To this end, CATSA works with screening contractors throughout the year on a number of training programs for over 6,000 screening officers as well as other certified screening personnel, including front-line supervisors and training representatives.

Through the development of e-learning modules, recurrent learning modules, in-service exercises, instructor-led training, refresher exercises, skills assessment exercises, and exams, CATSA develops timely, relevant and specialized training to support ten certification programs. In addition to certification courses, CATSA develops training for new procedures and technologies, upgrades, trials and pilot projects. For example, in 2016/17, screening personnel received training development for CATSA Plus. The training was tailored to each deployment location, taking into account the unique realities of each airport but still offering consistent, effective and efficient training.

As part of the ASSAs, CATSA will introduce mandatory training programs for all screening contractor front line management. This training covers topics including operations management, coaching and conflict resolution, and was previously only available at Canada's eight busiest airports on an optional basis.

Additionally, in 2016/17, CATSA updated various training modules for screening personnel to provide an emphasis on enhancing the passenger experience through an exemplary commitment to customer service.

CATSA reviews existing training materials periodically to ensure that screening officers are well equipped to deal with the challenges of the environment they are working in and that the training they undertake is current and applicable.

STAKEHOLDER RELATIONSHIPS

Over the course of 2016/17, CATSA engaged in a number of collaborative initiatives with domestic and international stakeholders, focused on a variety of topics, including the deployment of CATSA Plus and securing a long term funding strategy in order for CATSA to effectively carry out its mandate. Board members and senior management continued to build on relationships with key stakeholders through productive high level meetings, facility tours, conferences and forums, including the International Forum on Security Screening in Aviation and the International Air Transportation Association Smart Security Management Group.

Over the years, CATSA has responded to multiple requests from federal and international partners, sharing expertise in screening officer training and implementation of aviation security screening requirements, demonstrating CATSA's advanced training expertise.

CATSA recognizes the importance of collaboration, and continues to leverage relationships with all stakeholders, proactively sharing information and discussing plans for future innovations. This cooperative approach will continue into 2017/18 as CATSA moves forward with the evolution of important projects and initiatives.

SMART SECURITY

As a member of the International Air Transport Association (IATA) and Airports Council International (ACI)'s Smart Security initiative, CATSA has been and will continue to be influential when it comes to the future of screening.

CATSA is a leader in the IATA and ACI Smart Security Management Group (SSMG). The SSMG consists of 15 global industry and government leaders in aviation security and steers the Smart Security initiative. With a key role in the governance of the SSMG, CATSA is able to contribute to setting a course for passenger screening in the future. Both CATSA and TC are members of the SSMG.

The Smart Security initiative is aimed at developing a passenger screening process that strengthens security, increases operational efficiency and improves the passenger experience through the introduction of risk-based security concepts, advanced screening technologies and process innovations. In partnership with industry and government partners, Smart Security leads research, tests and pilots implementations of innovative screening solutions to accelerate the adoption of successful concepts at airports around the world.

POSITIVE FEEDBACK:

Winnipeg

I want to thank an amazing employee you have at Winnipeg Airport. Her name is Marie. This lovely lady is a ray of light to all the travellers and especially to me! She greets you with the most amazing smile and happiness in her voice. She welcomes you and makes your day spectacular. Marie has helped me tremendously as I am a frequent flyer. Most recently, I was travelling with a broken foot and she met me, hugged and helped me get through security and waved goodbye! I always hope to see her on shift when I travel. She gives spectacular customer service. Such a blessing and amazing employee.

Montreal

A group of four travellers with limited mobility required assistance to get to their departure gate in time to catch the flight. Antonio was extremely helpful. We would like to recognize him for his kindness, understanding, and generosity of his time. He went over and above the normal service level that one could expect. Thank you Antonio for the special assistance that you gave to us. In the service industry where people are more inclined to file complaints, good deeds and compassion are appreciated and noted.

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*	*2014/15*	*2015/16*	*2016/17*	*Comments*
Screening officer attrition levels	**20.0%**	**13.8%**	**14.7%**	**18.7%**	Screening officer attrition is comprised mostly of resignations due to misalignment between job functions and screening officer career development and screening officer candidates unable to meet the minimum standards.
Definition: The percentage of screening officers at the eight busiest airports who voluntarily resigned, died, or retired. Adjustments were made to the calculation in 2014/15 to better reflect screening officer attrition at a national level. The new calculation only applies to 2014/15 figures and forward therefore, year over year comparisons should be viewed in this context.					
PBS optimal throughput	**N/A***	**155**	**159**	**166**	CATSA drove efficiencies in the screening process, which resulted in an increase in PBS optimal throughput.
Definition: The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints. *CATSA does not have a target for optimal throughput as it constitutes a benchmark, which reflects what CATSA is capable of achieving under optimal circumstances when the demand is sufficient.					

Consistency					
Performance measure	*Target*	*2014/15*	*2015/16*	*2016/17*	*Comments*
Security screening compliance	**98.0%**	**93.8%**	**95.3%**	**95.3%**	Overall, a positive trend in security screening compliance is observed with results for 2016/17 consistent with 2015/16. CATSA will continue to work with screening contractors to achieve sustained continuous improvement in the year ahead.
Definition: The results of evaluation by CATSA performance officers of screening officer procedural compliance to security screening SOPs at the eight busiest airports, including passenger and carry-on security.					
National Training and Certification Program (NTCP) success rate	**90.0%**	**90.6%**	**89.1%**	**87.7%**	The NTCP success rate comprises results from SOF, EDX and Computer Technology CT training courses. SOF and EDX training results improved by 2.1% versus FY 15/16. However, this increase was counteracted by a decrease in CT pass rates (-10.5%), leading to a drop of 1.4% in the overall NTCP metric.
Definition: The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts). This performance measure combines results for Screening Officer Foundations (SOF), the PBS initial certification program that all screeners must have and maintain, as well as explosive detection x-ray (EDX) and computer tomography (CT) which are additional certifications related to HBS that only a fraction of screeners obtain based on operational requirements.					

In the Public Interest					
Performance measure	*Target*	*2014/15*	*2015/16*	*2016/17*	*Comments*
Confidence in security screening	**75.0%**	**74.1%**	**75.3%**	**77.5%**	Confidence in CATSA security screening continued to increase in 2016/17, surpassing the target of 75% for the second consecutive year.
Definition: The percentage of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.					
Satisfaction with overall screening experience	**85.0%**	**81.6%**	**82.9%**	**85.1%**	Overall satisfaction with security screening also surpassed the target of 85% in 2016/17.
Definition: The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.					
Customer Satisfaction Index	**85.0%**	**80.1%**	**81.1%**	**83.4%**	All elements of Customer Satisfaction Index have improved since 2014/15. Satisfaction with speed of processing has improved the most (4.4% since 2014/15).
Definition: The Customer Satisfaction Index is a measure of satisfaction with the following key customer service criteria: speed of being processed, courtesy and respect, professionalism, and help provided by screening officers. Results are based on quarterly survey data collected from the eight busiest airports in Canada.					

LOOKING AHEAD

ENHANCING THE PASSENGER EXPERIENCE

Meeting expectations with passenger wait time service levels

In 2016/17, CATSA screened nearly 62 million passengers at designated airports across Canada. In 2017/18, passenger volume is anticipated to grow to 63.7 million passengers in airports across Canada, and by 2021/22, it is expected to reach nearly 69 million. In order to meet the expectations of Canadian air travellers, as well as the airport and airline industries, and to ensure a positive experience for passengers, CATSA used a Wait Time Impact Model to support TC in developing a strategy addressing CATSA's long term funding pressures and associated impacts on wait time service levels.

Given steadily increasing passenger growth across Canada, maintaining a consistent service level is important for CATSA to ensure an efficient process at security checkpoints, and that the integrity of the screening process is sustained. A consistent service level will not only benefit the travelling public, it will also have a positive effect on the Canadian aviation industry, which has long been concerned about increasing passenger wait times.

At the same time, airports around the world have increasingly been competing for the same international travellers and positioning themselves as global transport and service hubs. The continued service level target will allow CATSA to maintain an internationally competitive service standard, which will contribute to the overall industry goal of creating world-class facilities and global travel hubs in Canada.

While Budget 2010 provided ongoing funding for CATSA, it did not provide for increases in passenger volume or screening contractor billing rates and therefore, CATSA's ability to purchase screening hours has declined. This decline in purchasing power has an impact on wait time performance. In order to maintain steady wait time service levels, each of the past three federal budgets, including Budget 2017, have provided CATSA with supplementary one-year funding to enable the organization to strive for a service level target of 85% of passengers screened in 15 minutes or less at Canada's busiest airports.

In 2017/18, CATSA will be working with TC on an operationally effective long-term funding strategy to address wait time pressures.

CATSA Plus

The often changing and evolving nature of aviation security requires CATSA to strive for success through continuous innovation, adaptation and a commitment to customer service excellence. CATSA Plus is an example of all three of these pillars coming together to form a unique concept to enhance the customer experience while maintaining, and eventually enhancing, security effectiveness at airports across Canada.

CATSA has designed the CATSA Plus screening concept to be a flexible, modular and scalable such that it can be tailored, to the extent possible, to the unique requirements of each checkpoint. CATSA's current capital reference levels will allow CATSA to start the deployment of CATSA Plus at select Class I airports based on space availability.

Enhanced Non-Passenger Screening

Budget 2014 provided three-year funding for CATSA's enhanced NPS program to meet TC requirements. With that funding expiring on March 31, 2017, CATSA worked with TC to secure funding for future years. Budget 2017 provided CATSA with one year of funding to continue the enhanced NPS program. As a result, CATSA will be able to meet the ICAO standard and to ensure Canada meets international obligations in 2017/18.

CATSA will continue to work with TC and other stakeholders to build on the successes achieved over the past three years, and to develop a strategy to support the enhanced NPS program over the long term.

Cost Recovery

In October 2014, with TC's support, CATSA entered into a Supplemental Screening Trial Agreement with the Greater Toronto Airports Authority (GTAA), which allowed the GTAA to purchase additional screening services in the form of supplemental screening lines staffed with four screening officers using available, unfunded screening capacity. The trial was recently extended to March 31, 2018.

In addition, with TC's support, in May 2017, the Vancouver International Airport Authority was granted the ability to purchase supplemental PBS screening hours from CATSA in order to reduce the wait time impact of anticipated higher passenger volumes for 2017/18. Similar to the GTAA trial, this agreement is consistent with the intent of Bill C-49, the *Transportation Modernization Act*, tabled by the Minister of Transport on May 16, 2017, which establishes a permanent framework for cost-recovery arrangements. CATSA is currently working with the Airport Authority in finalizing the agreement.

On July 28, 2015, the Government of Canada announced new regulations to allow airports that do not have access to security screening services from CATSA to obtain them on a cost recovery basis. TC has assessed various mechanisms to allow small non-designated airports to obtain screening services from CATSA on a cost-recovery basis and has determined that the administrative designation is the most efficient and flexible approach to implement this pilot project. CATSA continues to work with TC and interested airports in creating a feasible solution.

CORPORATE GOVERNANCE

CATSA is accountable to Parliament through the Minister of Transport and is governed by an 11-member 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 has a number of ongoing responsibilities, including the following:

- Drafting, amending or repealing corporate by-laws (*Financial Administration Act*, s.114);
- Approving CATSA's Corporate Plan for recommendation to the Minister;
- Monitoring corporate performance;
- Approving the President and CEO's objectives for the year and evaluating his/her Performance (*CATSA Act* s.17);
- 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 the corporation's strategic direction through its annual corporate plan, and for safeguarding the resources of the corporation by approving annual reports, capital and operating budgets, and major new project proposals.

AS OF MARCH 31, 2017, CATSA'S BOARD OF DIRECTORS INCLUDED:

- Peter Wallis, Vice-Chairperson
- Paul Benoit
- Melissa Coulson
- Jean-Marc Dufour
- Patricia Kennedy
- Dora Koop
- William Restall
- Allan Rowe
- Raf Souccar
- Vacancy
- Vacancy

Read Board members' biographies *here*.

In 2016/17, the Board of Directors continued to oversee CATSA's strategic direction through the monitoring of the operational and financial performance of the organization and compliance with CATSA's Corporate Plan as well as the corporation's quarterly financial information. The Board of Directors provided direction to CATSA's Senior Management concerning key risks faced by the organization and maintained an active role in monitoring CATSA's corporate governance practices. The Board of Directors also oversaw key program initiatives to promote efficient and effective passenger screening. Three standing committees assist the Board in discharging its responsibilities: the *Audit Committee*, the *Governance, Human Resources and Pension Committee* and the *Strategy Committee*.

ANNUAL PUBLIC MEETING

On December 19, 2016, CATSA hosted its Annual Public Meeting. During the meeting, CATSA's Vice-Chairperson, Peter Wallis, thanked outgoing Chairperson Lloyd McCoomb for his contributions to CATSA and the Board. He also highlighted some of CATSA's milestones for 2016, such as the advent of CATSA Plus and the renewal of the *Airport Screening Services Agreements* with CATSA's screening contractors for a period of five years. Click here to view a video from the meeting.

Angus Watt, CATSA's former President and Chief Executive Officer, discussed the successes of the previous year, which included enhancements to non-passenger screening, progress on the hold-baggage screening equipment recapitalization and improvements to the Trusted Traveller program.

A video of the meeting, including the Vice-Chairperson and CEO speeches, was posted on CATSA's website. The public was invited to send questions and comments by email.

BOARD REMUNERATION

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*. They are reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals while performing their duties. These expenses are posted quarterly on CATSA's website.

Board Member	Board Retainer	Per Diems	Total Renumeration
Lloyd McCoomb (Chairperson) **Term Ended 2016-10-04*	$ 5,483	$ 8,190	$ 13,673
Peter Wallis (Vice-Chairperson)	$ 8,100	$ 15,765	$ 23,865
Paul Benoit	$ 5,400	$ 12,480	$ 17,880
Melissa Coulson	$ 5,400	$ 8,970	$ 14,375
Jean-Marc Dufour	$ 5,400	$ 11,115	$ 16,515
Patricia Kennedy	$ 5,400	$ 12,675	$ 18,075
Dora Koop	$ 5,400	$ 10,725	$ 16,125
William Restall	$ 5,400	$ 14,820	$ 20,220
Allan Rowe	$ 5,400	$ 11,895	$ 17,295
Raf Souccar	$ 5,400	$ 9,945	$ 15,345
Vacancy	-	-	-
Vacancy	-	-	-

Total remuneration (annual retainer and per diems) paid to directors and the Chairperson was $173,363 in 2016/17 compared to $176,852 in 2015/16.

BOARD AND COMMITTEES ATTENDANCE

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.

Board Member	Board Meetings	Committee Meetings		
		Governance, Human Resources and Pension (GHRP)	*Audit*	*Strategy*
Lloyd McCoomb (Chairperson)[1]	4/4	2/2	3/3	2/2
Peter Wallis (Vice-Chairperson)[4]	9/9	3/3	7/7	4/4
Paul Benoit[5 & 6]	8/9	4/4	2/3	4/4
Melissa Coulson[5]	9/9	3/3	7/7	1/1
Jean-Marc Dufour[5]	9/9	4/4	3/3	2/2
Patricia Kennedy[5]	9/9	3/3	7/7	4/4
Dora Koop[2 & 5]	9/9	4/4	7/7	1/1
William Restall[2 & 5]	9/9	4/4	3/3	4/4
Allan Rowe[3 & 5]	9/9	2/2	7/7	4/4
Raf Souccar[5]	9/9	4/4	3/3	4/4
Vacancy	-	-	-	-
Vacancy	-	-	-	-

1 Ex-officio member of all Board Committees (Term expired on October 3, 2016)

2 Chairperson of the Governance, Human Resources & Pension Committee (Bill Restall replaced Dora Koop as Chair of the GHRP Committee on August 1, 2016)

3 Chairperson of the Audit Committee

4 Chairperson of the Strategy Committee & Ex-officio member of all Board Committees beginning October 4, 2016

5 Director prepared and attended supplemental Board/Committee meeting or teleconference related to work beyond their permanent committee membership roles. Attendance could be as an observer

6 Board member was unable to attend quarterly conference call, and subsequent Board call, on August 23, 2016

CATSA MANAGEMENT TEAM

Currently, CATSA is led by the President and CEO, Michael Saunders, on an interim basis until a permanent appointment is made by the Government of Canada. Michael Saunders is supported by a senior management team of four Vice-Presidents, each representing a specific portfolio.

Michael Saunders, President & CEO

- **Andie Andreou**
  Vice-President & Chief Financial Officer
- **Neil Parry**
  Vice-President, Service Delivery
- **Martin Corrigan**
  Acting Vice-President & Chief Technology Officer
- **John Stroud**
  Vice-President, Corporate Services & Corporate Secretary

For more information on CATSA's Senior Management team, including profiles, please visit the *Executive Team* section of CATSA's website.

DISCLOSURE

REPORT ON CATSA'S *OFFICIAL LANGUAGES ACT* REQUIREMENTS

CATSA strives to offer the best possible experience to the hundreds of thousands of passengers screened every day at its checkpoints. Serving them in the official language of their choice is not only viewed as an obligation under the *Official Languages Act* but as a key component of providing excellent customer service. As such, CATSA is dedicated to working in both official languages in designated bilingual airports and in its administrative offices.

The commitment to offer bilingual services at screening checkpoints is reflected in all facets of CATSA's service delivery model – from contracting to training to performance measurement. Screening contractors must have sufficient bilingual personnel on duty to provide service of equal quality in English and French. In training, screening officers learn about the *Official Languages Act*, active offer of service and the obligation to serve passengers in the official language of their choice throughout their screening process. They are also informed of the consequences should they fail to comply with these requirements. To confirm those obligations are met, CATSA performs regular observations at the checkpoints.

In an effort to continuously improve, CATSA surveys passengers across the country quarterly 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.

In 2015/16, CATSA worked in collaboration with the Office of the Commissioner of Official Languages (OCOL) which conducted an audit of its services to the travelling public at screening checkpoints at Canada's eight busiest airports. The OCOL's report containing fifteen recommendations was released in March 2017. The Interim Commissioner commended CATSA's commitment to meeting language obligations to the travelling public. It is important to note that CATSA screened nearly 60 million passengers during the time covered by the report, and received 32 complaints.

To address the recommendations, CATSA developed an action plan and will work closely with the OCOL over the next 18 to 24 months to continue to advance the delivery of bilingual services to the travelling public, while protecting the public through effective and efficient screening of air travellers, their carry-on baggage and their personal belongings.

CATSA also remains committed to promoting a bilingual work environment. As in previous years, various activities were held at CATSA in 2016/17 to mark *Les Rendez-vous de la Francophonie*, *Journée internationale de la Francophonie* and *Linguistic Duality Day*. CATSA employees across the country were reminded that promoting an inclusive bilingual culture in the workplace is a team effort. They were encouraged to celebrate the French language and culture through various initiatives including engagement activities and cultural enrichment.

REPORT ON *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 of the system 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*.

From April 1, 2016 to March 31, 2017, CATSA received 45 requests under the *Access to Information Act*. When added to the seven outstanding requests from the previous year, CATSA was responsible for 52 files in 2016/17. Compared to the previous year, the amount of pages processed increased by 6,467 pages representing an increase of 274%.

In addition to these requests, CATSA received 56 informal *Access to Information Act* requests that were previously released.

Also, CATSA received 10 consultations under the *Access to Information Act* from other federal departments (regarding information about CATSA that appeared in records they were reviewing).

For the same reporting period, CATSA received 10 requests under the *Privacy Act*, all of which were completed within the fiscal year.

Over the course of the reporting period, ATIP related training was delivered to 69 participants in 11 training sessions. Ad hoc training on a variety of subjects was also provided as needed to individuals throughout the organization.

Employment Equity Act and Canadian Multiculturalism Act

CATSA produces and submits an annual report on its fulfillment of the *Employment Equity Act* and the *Canadian Multiculturalism Act*. To guide CATSA in the identification and elimination of barriers to equal employment and to continue to foster an inclusive and diverse culture, CATSA updated its three-year employment equity plan and will develop an inclusion and diversity framework in 2017/18.

Environmental Impact Assessment Act

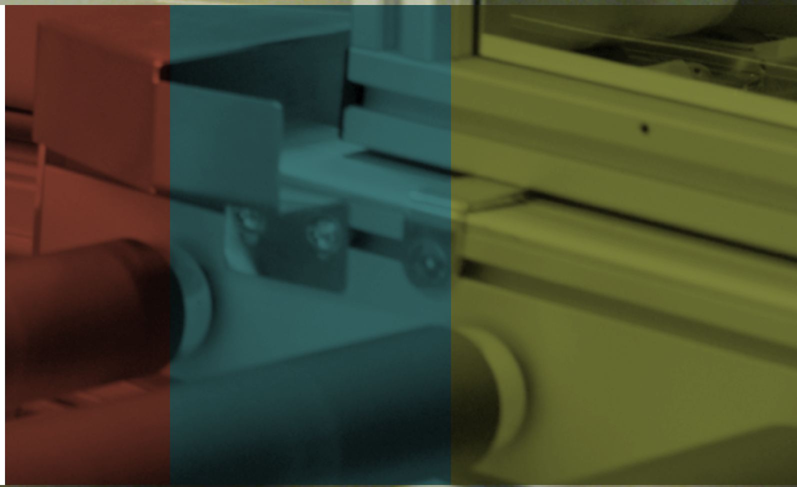
CATSA has not engaged in any projects over the current reporting year that has, or may have had an environmental impact, as per the *Environmental Impact Assessment Act*.

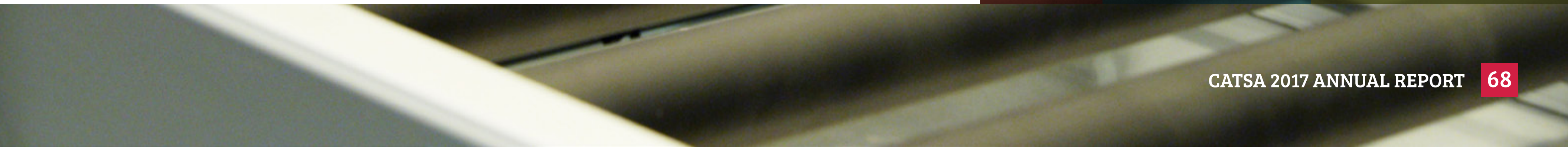
Public Servants Disclosure Protection Act

CATSA is subject to the *Public Servants Disclosure Protection Act* (PSDPA), which is part of the Government of Canada's ongoing commitment to developing and sustaining a culture of integrity throughout the federal public service. CATSA strives to foster a work environment where individual rights are respected and where personal integrity is uncompromised.

CATSA reports annually to the Office of the Chief Human Resources Officer on the activities respecting disclosures made under the PSDPA within the organization as well as any awareness activities undertaken during the year to inform employees about the PSDPA and the mechanisms available to them for disclosures of wrongdoing. In 2016/17, CATSA did not receive any allegations of wrongdoing, inquiries or disclosures under the PSDPA.

MANAGEMENT'S DISCUSSION AND ANALYSIS





Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2017. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2017, 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 8, 2017, 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.

ECONOMIC ENVIRONMENT

Events and developments occurring in the economic environment greatly influence CATSA's operations.

Economic Outlook

Global economic growth decreased from 3.3%[1] in 2015 to an estimated 2.9% in 2016. It is expected to increase to 3.3% in 2017, 3.4% in 2018 and 3.5% in 2019. In Canada, the economy grew by 1.4% in 2016, and is projected to grow by 2.6% in 2017, 1.9% in 2018 and 1.8% in 2019[2].

Passenger Growth And Screening Contractor Billing Rates

Economic growth generally leads to increased passenger travel. Recent projections indicate that the number of enplaned passengers at Canadian airports will increase by 4.1% in 2017 compared to 2016, and is expected to grow in each of the next 5 years.[3]

Passenger traffic forecasts are based on average annual growth across Canada. However, growth does not occur uniformly at all airports. Changes in passenger traffic occur largely on a regional and site-specific basis and without much warning, often as a result of changes in flight schedules or the introduction of new services by air carriers. For CATSA, a change in passenger traffic can often lead to a higher or sudden demand for screening hours and increased operating expenditures. To support any changes in passenger volumes that may occur, CATSA closely examines its purchases of screening hours among airports. CATSA also works closely with its industry partners on the impact of operational factors, such as flight schedules, available space and passenger arrival patterns, to help manage potential issues related to large influxes of passengers.

In addition to passenger growth, screening contractor billing rates will continue to increase annually over the remaining term of the current ASSAs that expire on March 31, 2022. This puts further pressure on CATSA's budget for screening hours.

Foreign Exchange

The Canadian dollar has exhibited some stability compared to the U.S. currency in 2016/17 versus the previous year. The average U.S.-Canada exchange rate was 1.31 [4], despite the more significant volatility in rates experienced in 2015/16. However, economic forecasts project a weakening of the Canadian dollar into the second half of 2017, with a rebound to occur in late 2017 and continuing into 2018.

CATSA is exposed to foreign exchange risk, as it plans to purchase a significant amount of equipment and services denominated in U.S. dollars in the coming years. A further weakening of the Canadian dollar could result in the cost of U.S. denominated transactions exceeding budgeted amounts.

[1] Bank of Canada, *Monetary Policy Report*, January 2017.
[2] Bank of Canada, *Monetary Policy Report*, April 2017.
[3] SNC Lavalin Inc., *January 2017 Air Passenger Traffic Forecasts for CATSA Designated Airports*.
[4] Bank of Canada, *Monthly Average Exchange Rates: 10-Year Lookup*.

During the year, CATSA implemented a hedging strategy to help mitigate its foreign exchange risk and minimize the impact of fluctuations in the U.S.-Canada exchange rate on its funding. CATSA will continue to monitor the fluctuations of the U.S.-Canada exchange rate and apply its hedging strategy accordingly.

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. As a consequence, CATSA's financial plan is prepared in accordance with the resources it is assigned by the Government of Canada and as approved by Parliament.

CATSA's ongoing operating funding levels do not accommodate annual increases in screening contractor billing rates. As a consequence, CATSA's purchasing power for screening hours continues to decline. In addition, CATSA's ongoing funding is not adjusted for passenger growth. Without additional funding, CATSA will be unable to maintain comparable service levels year-over-year. CATSA's target is to achieve a wait time service level of 85% of passengers screened within 15 minutes at Canada's eight busiest airports. CATSA has been working with TC over the past several years in order to obtain long-term funding to address its financial pressures.

Over the last two years, CATSA has received one-year incremental funding from the Government of Canada to achieve its targeted wait time service level, pending a long-term funding solution. More specifically, CATSA received incremental funding of $26.8M in 2015/16 and $29.0M in 2016/17. The funding provided in 2016/17 also enabled the implementation of One Stop Security and screening requirements associated with airport economic development plans. The One Stop Security initiative was announced by the Government of Canada on February 29, 2016 to make connections from European and U.S. flights through Canada simpler and faster. The Government of Canada provided CATSA with additional funding of $44.2M for PBS, which will allow CATSA to continue delivering a service level where 85% of passengers are screened in 15 minutes or less for 2017/18.

Furthermore, through Budget 2014, CATSA was granted three-year incremental funding, for the period from 2014/15 to 2016/17, to deliver the enhanced NPS program in order to meet TC's requirements. Budget 2017 provided one-year incremental funding of $131.9M for CATSA to continue the delivery of the enhanced NPS program for 2017/18.

CATSA continues to work with TC to develop long-term funding strategies for unfunded passenger growth and annual screening contractor billing rate increases, as well as for the enhanced NPS program.

COST RECOVERY

In addition to providing interim funding for PBS and NPS, pending long-term funding solutions, the Government of Canada is exploring possibilities for providing screening services on a cost recovery basis.

In October 2014, with TC's support, CATSA entered into a Supplemental Screening Trial Agreement with the Greater Toronto Airports Authority (GTAA), which allowed the GTAA to purchase additional screening services on a cost recovery basis. This agreement has been extended on a yearly basis and currently expires on March 31, 2018.

In May 2017, with the support of TC, CATSA proceeded with the development of a cost-recovery agreement for supplemental screening services with the Vancouver Airport Authority. This cost-recovery trial is similar in nature to the agreement with GTAA.

Furthermore, in July 2015, the Government of Canada announced new regulations that made it possible for airports that do not currently have access to screening services from CATSA to obtain such services on a cost recovery basis. CATSA continues to work with TC and interested airports in creating a feasible solution.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining a system of internal control over financial reporting. An integral part of this responsibility is CATSA's internal control 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 TBS's *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 monitors progress of management's action plans.

ANALYSIS OF FINANCIAL RESULTS

Statement of Comprehensive Income (Loss)

The following section provides information on key variances within the Statement of Comprehensive Income (Loss) for 2016/17 compared to 2015/16.

Key Financial Highlights - Statement of Comprehensive Income (Loss)

(Thousands of Canadian dollars)	*2016/17*	*2015/16*	*$ Variance*	*% Variance*
Expenses[1]				
Screening services and other related costs	$ **505,776**	$ 442,348	$ 63,428	14.3%
Equipment operating and maintenance	**41,643**	42,790	(1,147)	(2.7%)
Program support and corporate services	**81,329**	81,834	(505)	(0.6%)
Depreciation and amortization	**52,951**	54,084	(1,133)	(2.1%)
Total expenses	**681,699**	**621,056**	**60,643**	**9.8%**
Other expenses	**4,095**	**3,114**	**981**	**31.5%**
Financial performance before revenue and government funding	**685,794**	**624,170**	**61,624**	**9.9%**
Revenue	**7,368**	**4,741**	**2,627**	**55.4%**
Government funding				
Parliamentary appropriations for operating expenses	**616,371**	556,407	59,964	10.8%
Amortization of deferred government funding related to capital expenditures	**56,786**	55,504	1,282	2.3%
Total government funding	**673,157**	**611,911**	**61,246**	**10.0%**
Financial performance	**$ (5,269)**	**$ (7,518)**	**$ 2,249**	**29.9%**
Other comprehensive income (loss)	**21,528**	**(5,060)**	**26,588**	**525.5%**
Total comprehensive income (loss)	**$ 16,259**	**$ (12,578)**	**$ 28,837**	**229.3%**

[1] The Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 11 of the audited annual financial statements for the year ended March 31, 2017.

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 are the most significant expenditures for CATSA, representing approximately 79.1% of total expenses (excluding depreciation and amortization) in fiscal year 2016/17. 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 driven by passenger volume, as well as new or modified security regulations arising from evolving threats and security incidents. Regulation changes often result in changes to CATSA's screening procedures and requirements.

Billing rates are based on an all-inclusive rate paid to screening contractors as set forth under the terms of CATSA's ASSAs. 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 $63.4M (14.3%) in 2016/17. This is primarily due to an increase in screening hours purchased for a total incremental cost of approximately $45.7M. The additional screening hours purchased are primarily attributable to an increase in the vehicle screening coverage to 100% presence at Canada's highest risk airports, as part of the enhanced NPS program. The increase is also attributable to additional screening activity at PBS resulting from changes in operational requirements at certain airports, rising passenger volumes and the GTAA trial.

The increase in screening services and other related costs is also due to annual contractual billing rate increases, for a total incremental cost of approximately $12.2M. The remaining variance is mostly related to increases in the performance program for screening contractors and uniforms and other related costs.

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 purchased, and costs associated with training and certification of equipment maintenance technologists for new technology deployed at airports across Canada.

Equipment operating and maintenance costs decreased by $1.1M (2.7%) in 2016/17. The decrease is primarily due to savings of $5.3M resulting from the termination of funding agreements for conveyor maintenance and support services at Canada's eight busiest airports, which took effect October 1, 2015. The reduction is also due to lower write-downs of spare parts inventory for a total amount of $1.2M. The decreases are partially offset by additional costs of $5.4M mainly associated with maintaining EDS equipment that is no longer under warranty or approaching the end of its useful life, and with supporting various initiatives, including PBS checkpoint reconfigurations and the movement of EDS equipment to meet operational requirements.

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, leased space at corporate headquarters and in the regions, professional services, and office and computer expenses.

Program support and corporate services were comparable to the prior year.

Depreciation and Amortization

Depreciation of property and equipment and amortization of intangible assets are recognized on a straight-line basis over the estimated useful lives of the assets.

Depreciation and amortization decreased by $1.1M (2.1%) in 2016/17. The decrease is primarily due to HBS equipment becoming fully depreciated in the current year. This equipment is being replaced in support of the multi-year, HBS life-cycle management program. The decrease is also due to changes in estimated useful life being applied to equipment impacted by the HBS life-cycle management program. The decrease is partially offset by the deployment of new HBS and NPS equipment.

Other Expenses

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

Other expenses increased by $1.0M (31.5%) in 2016/17. The increase is primarily due to an impairment of property and equipment in the current year related to screening equipment that no longer meets TC's standards and to the write-off of property and equipment that has been removed from service as new equipment is deployed. This was partially offset by lower foreign exchange losses related to transactions denominated in U.S. dollars as the exchange rate stabilized during the current year, as well as a gain on the fair value of derivative financial instruments.

Revenue

Revenue consists of supplemental screening services, finance income earned on cash balances, rental income, and miscellaneous income.

Revenue increased by $2.6M (55.4%) in 2016/17. The majority of the increase relates to revenue generated from the purchase of a greater number of supplemental screening hours by the GTAA.

Government Funding

CATSA is funded by appropriations from the federal Consolidated Revenue Fund for both operating and capital expenditures.

Parliamentary Appropriations for Operating Expenses

Operating expenditures are funded on a near-cash accrual basis. Certain expenditures, including employee benefits, deferred lease incentives, 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 $60.0M (10.8%) in 2016/17. The increase is primarily due to higher spending on screening services and other related costs, as previously discussed. The increase is partially offset by higher revenue and lower equipment operating and maintenance costs, as previously discussed.

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 $1.3M (2.3%) in 2016/17. The increase resulted from higher impairment charges and write-offs, partially offset by lower depreciation and amortization.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of the net actuarial gains (losses) associated with CATSA's defined benefit plans. The 2016/17 net gain of $21.5M is primarily due to a remeasurement gain of $11.9M resulting from a higher return on plan assets than the rate used in CATSA's assumptions. The net gain also includes a remeasurement gain of $9.6M on the defined benefit liability arising primarily from gains on the revision of demographic assumptions (mainly retirement) and experience adjustments since March 31, 2016.

In 2015/16, the net loss of $5.1M was due to a remeasurement loss of $11.8M resulting from a lower return on plan assets than the rate used in CATSA's assumptions. This loss was partially offset by a remeasurement gain of $6.7M on the defined benefit liability arising from the net impact of a 50 basis point decrease in the long-term rate of salary increases, and a 25 basis point decrease in the discount rate during the year ended March 31, 2016.

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 for the year ended March 31, 2017, the organization considered its short-term funding requirements in accordance with TBS's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*.

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

Liquidity and Capital Resources

(Thousands of Canadian dollars)	*March 31, 2017*	*March 31, 2016*	*$ Variance*
Cash	**$ 36,267**	$ 11,227	$ 25,040
Trade and other receivables	**96,739**	88,039	8,700
Trade and other payables	**(132,071)**	(98,356)	(33,715)
Current portion of provisions	**-**	(711)	711
Construction holdbacks	**(935)**	(199)	(736)

Cash increased by $25.0M primarily due to the timing of funds received from the Government of Canada. This was partially offset by the timing of disbursements to suppliers for goods and services. Trade and other receivables increased by $8.7M primarily due to an increase in parliamentary appropriations receivable, partially offset by a decrease in consumption taxes receivables. Trade and other payables increased by $33.7M as a result of a higher number of outstanding invoices for capital purchases and screening contractors compared to the prior year.

Capital Expenditures

CATSA's capital plan is comprised of EDS and non-EDS capital expenditures.

EDS capital expenditures consist of the acquisition of screening equipment for PBS, HBS and NPS, as well as associated installation and integration costs. Non-EDS capital expenditures consist primarily of the acquisition of equipment and systems to support screening operations, the RAIC program, and CATSA's network infrastructure and corporate management systems.

Property and equipment and intangible assets represent 70.5% of total assets as at March 31, 2017. In 2016/17, capital expenditures totalled $107.8M. The section below provides a breakdown of the capital expenditures for EDS and non-EDS, as well as an overview of the major capital projects undertaken over the course of the fiscal year.

Capital Expenditures

(Thousands of Canadian dollars)		*2016/17*		*2015/16*		*$ Variance*
EDS	$	**100,547**	$	89,551	$	10,996
Non-EDS[1]		**7,274**		9,365		(2,091)
Total capital expenditures	$	**107,821**	$	98,916	$	8,905

[1] Non-EDS capital expenditures exclude a non-cash capital addition of $9 during 2016/17 ($464 in 2015/16) related to leasehold improvements.

EDS

- Ongoing deployment of the three-level HBS system with Computed Tomography technology at Canada's busiest airports in support of the HBS Recapitalization Program;
- Deployment of additional PBS lanes and a full CATSA Plus checkpoint at the Calgary International Airport; and
- Replacement of trace and x-ray equipment as part of the life-cycle management program.

Non-EDS

- Purchase and deployment of network and system infrastructure at vehicle access points in support of the enhanced NPS program; and
- Commencement of the life-cycle management of CATSA's Learning Management System used primarily for training and recurrent learning of CATSA's screening procedures by screening officers.

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 is a defined benefit plan and supplements the RPP. 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, 2017*		*March 31, 2016*		*$ Variance*
Employee benefits asset	$	**19,042**	$	4,424	$	14,618
Employee benefits liability		**(24,292)**		(25,369)		1,077
Net employee benefits liability	$	**(5,250)**	$	(20,945)	$	15,695

As at March 31, 2017, the employee benefits asset represents the net funding position of CATSA's RPP and SRP. The employee benefits liability consists of the present value of the defined benefit liability of the ODBP.

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 10 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The increase in the asset of $14.6M is due primarily due to a remeasurement gain on CATSA's RPP and SRP of $17.6M, partially offset by non-cash current benefit costs exceeding CATSA contributions by $3.0M for these plans. The decrease in the liability of $1.1M is due a remeasurement gain of $3.9M, partially offset by non-cash current benefit costs exceeding CATSA contributions by $2.8M on CATSA's ODBP.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. The amount of parliamentary appropriations used is reported on a near-cash accrual basis of accounting.

Operating Expenditures

The table below serves to reconcile operating expenses reported under IFRS and operating appropriations used:

Reconciliation of Financial Performance to Operating Appropriations Used

(Thousands of Canadian dollars)	*2016/17*	*2015/16*	*$ Variance*
Financial performance before revenue and government funding	**$ 685,794**	$ 624,170	$ 61,624
Revenue	**(7,368)**	(4,741)	(2,627)
Financial performance before government funding	**678,426**	619,429	58,997
Non-cash expenses			
Depreciation and amortization	**(52,951)**	(54,084)	1,133
Employee benefits expense[1]	**(5,833)**	(7,796)	1,963
Impairment of property and equipment	**(1,934)**	(292)	(1,642)
Write-off of property and equipment and intangible assets	**(1,271)**	(564)	(707)
Loss on disposal of property and equipment	**(657)**	(526)	(131)
Spare parts expense funded from capital[2]	**(44)**	(39)	(5)
Change in fair value of financial instruments designated at fair value through profit and loss	**331**	-	331
Deferred lease incentives recognized in financial performance[3]	**304**	279	25
Parliamentary appropriations for operating expenses	**$ 616,371**	$ 556,407	$ 59,964
Other items affecting funding			
Net change in prepaids and inventories[4]	**(446)**	(1,674)	1,228
Total operating appropriations used	**$ 615,925**	**$ 554,733**	**$ 61,192**

[1] Employee benefits are accounted for in the Statement of Comprehensive Income (Loss) 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 from capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

[3] Deferred lease incentives are non-cash accounting adjustments to record the benefit derived from favourable lease terms, including significantly reduced rent, free common area costs and leasehold improvements provided at no cost. Rental costs are funded by appropriations when paid, creating a reconciling item.

[4] Prepaids 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 following table provides a comparison between operating appropriations used in 2016/17 and the operating budget as reported in CATSA's *Summary of the 2016/17 – 2020/21 Corporate Plan*:

Operating Appropriations Used Compared to Corporate Plan

(Thousands of Canadian dollars)	*2016/17*	*Non-cash Adjustments*	*Operating Approp. Used 2016/17*	*Corporate Plan Budget 2016/17*	*$ Variance*	*% Variance*
Operating expenses						
Screening services and other related costs	$ 505,776	$ 299	$ 506,075	$ 496,527	$ 9,548	1.9%
Equipment operating and maintenance	41,643	(828)	40,815	39,994	821	2.1%
Program support and corporate services	81,329	(5,490)	75,839	80,922	(5,083)	(6.3%)
Depreciation and amortization	52,951	(52,951)	-	-	-	-
Other expenses	4,095	(3,531)	564	-	564	-
Revenue	(7,368)	-	(7,368)	-	(7,368)	-
Total	**$ 678,426**	**$ (62,501)**	**$ 615,925**	**$ 617,443**	**$ (1,518)**	**(0.2%)**

Screening Services and Other Related Costs

Screening services and other related costs were $9.5M (1.9%) higher than the Corporate Plan budget. The variance is due in part to the purchase of a greater number of screening hours, totaling $6.0M, to support the GTAA cost recovery trial. The variance is also due to the purchase of additional PBS and HBS screening hours amounting to $12.9M to meet the needs of rising passenger volumes and other operational requirements. In order to offset this increase, and to deliver its mandate in the most efficient and effective manner, CATSA redistributed $7.4M of its screening hours budget across the programs. This enabled CATSA to achieve the targeted wait time service level despite rising passenger volumes, manage increased operational requirements and successfully transition to a full vehicle screening solution as part of the enhanced NPS program.

Equipment Operating and Maintenance

Equipment operating and maintenance costs were $0.8M (2.1%) higher than the Corporate Plan budget. The variance is mainly due to higher equipment maintenance costs associated with a delay in the replacement of legacy EDS equipment, an increase in spare part purchases for EDS equipment, and additional costs associated with the deployment of a new X-ray platform at certain airports.

Program Support and Corporate Services

Program support and corporate services costs were $5.1M (6.3%) lower than the Corporate Plan budget. The variance is mainly due to lower employee costs of $2.4M resulting from lower pension-related payments required for the year, and fewer staffed positions due to hiring delays. Lastly, the variance is also due to lower facilities-related costs at headquarters, and reduced professional services requirements as CATSA continues to apply fiscal prudence to spending throughout the organization.

Other Expenses

Other expenses were $0.6M higher than the Corporate Plan budget. The variance consists mainly of foreign exchange loss. The Corporate Plan budget does not include foreign exchange losses, as the foreign exchange impact is factored directly into the program activity expenses. The Corporate Plan budget is developed using management's best estimate of foreign exchange rates that will be applicable to forecasted purchases denominated in foreign currencies.

Revenue

Revenue was $7.4M higher than the Corporate Plan budget. The variance consists mainly of revenue in the amount of $6.8M generated from the purchase of supplemental screening services by the GTAA. CATSA has renewed the trial agreement with the GTAA annually on a one-year term since its inception based upon obtaining support from TC. However, given that the scope of the GTAA trial agreement was uncertain for the ensuing fiscal year at the time of developing the Corporate Plan, it was not considered in the planning period. Since this project operates on a cost-recovery basis, the exclusion of this revenue and related expenses has no net impact on parliamentary appropriations.

Capital Expenditures

The table below serves to reconcile capital asset acquisitions reported under IFRS and capital appropriations used:

Reconciliation of Capital Acquisitions to Capital Appropriations Used

(Thousands of Canadian dollars)	*2016/17*	*2015/16*	*$ Variance*
EDS	$ 100,547	$ 89,551	$ 10,996
Non-EDS	7,274	9,365	(2,091)
Total capital asset acquisitions	$ 107,821	$ 98,916	$ 8,905
Proceeds on disposal of property and equipment	(12)	(44)	32
Total capital appropriations used	$ 107,809	$ 98,872	$ 8,937

The following table provides a comparison between capital appropriations used in 2016/17 and the capital budget as reported in CATSA's *Summary of the 2016/17 – 2020/21 Corporate Plan*:

Capital Appropriations Used Compared to Corporate Plan

(Thousands of Canadian dollars)	*Appropriations Used 2016/17*	*Corporate Plan Budget 2016/17*	*Capital Re-profile Approved*	*Capital Re-profile Pending Approval*	*Revised Capital Budget 2016/17*	*$ Variance*	*% Variance*
EDS							
PBS equipment and integration	$ **16,805**	$ 18,602	$ -	$ (4,409)	$ 14,193	$ 2,612	18.4%
HBS equipment and integration	**82,089**	123,298	(11,415)	(26,373)	85,510	(3,421)	(4.0%)
NPS equipment and integration	**1,653**	3,911	-	(2,279)	1,632	21	1.3%
Total EDS	$ **100,547**	$ 145,811	$ (11,415)	$ (33,061)	$ 101,335	$ (788)	(0.8%)
Non-EDS	**7,274**	7,634	-	(610)	7,024	250	3.6%
Total capital asset acquisitions	$ **107,821**	$ 153,445	$ (11,415)	$ (33,671)	$ 108,359	$ (538)	(0.5%)
Proceeds on disposal of property and equipment	**(12)**	-	-	-	-	(12)	-
Total	$ **107,809**	$ 153,445	$ (11,415)	$ (33,671)	$ 108,359	$ (550)	(0.5%)

Parliamentary appropriations used for capital expenditures in 2016/17 totalled $107.8M compared to the *Summary of the 2016/17 – 2020/21 Corporate Plan* budget of $153.4M. CATSA's total capital re-profile amounts to $45.1M. In early 2017, CATSA received approval from the Government of Canada for its early capital re-profile submission of $11.4M. CATSA will work with TC to obtain approval for the additional capital re-profile of $33.7M. After taking into consideration the capital re-profiles, CATSA lapsed $0.6M due to under-spending across various EDS capital projects.

The total capital re-profile of $45.1M is mainly due to the following project delays:

- HBS integration projects ($37.3M) – The purchase of equipment and integration work have been postponed to align with revised airport project plans. As the large-scale, multi-year HBS Recapitalization Program continues to advance, CATSA must adapt to the work plans and resource availability of the affected airports. Consequently, ongoing changes to the capital plan can be expected as airport projects may shift from one year to another based on factors beyond CATSA's control.
- CATSA Plus National Deployment ($3.7M) – The purchase and installation of equipment was postponed to 2017/18 to align with the availability of the equipment from the supplier.
- NPS Vehicle ($2.5M) – The purchase of equipment for the NPS vehicle program has been delayed to 2017/18 to align with the completion of the permanent vehicle structure for certain airports.

FINANCIAL STATEMENTS

Canadian Air Transport Security Authority

Year ended March 31, 2017

MANAGEMENT'S RESPONSIBILITY STATEMENT

Year ended March 31, 2017

The financial statements contained in this annual report have been prepared by management in accordance with 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. 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 page.

Michael Saunders
President and Chief Executive Officer

Andie Andreou, CPA, CA
Vice-President and Chief Financial Officer

June 8, 2017

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Air Transport Security Authority, which comprise the statement of financial position as at March 31, 2017, and the statement of comprehensive income (loss), statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Air Transport Security Authority as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Canadian Air Transport Security Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with 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*.

Etienne Matte, CPA, CA
Principal
for the Auditor General of Canada

June 8, 2017
Ottawa, Canada

STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian dollars)

		As at March 31		
		2017		*2016*
Assets				
Current assets				
Cash	$	36,267	$	11,227
Trade and other receivables (note 4)		96,739		88,039
Inventories (note 5)		15,729		16,327
Prepaid expenses		2,996		2,844
Derivative financial instruments (note 13)		274		-
		152,005		118,437
Non-current assets				
Property and equipment (note 6)		400,908		351,645
Intangible assets (note 7)		8,451		6,753
Employee benefits (note 10)		19,042		4,424
Derivative financial instruments (note 13)		57		-
		428,458		362,822
Total assets	$	580,463	$	481,259
Liabilities and Equity				
Current liabilities				
Trade and other payables (note 13)	$	132,071	$	98,356
Provisions (note 8)		-		711
Deferred government funding related to operating expenses (note 9)		18,725		19,171
		150,796		118,238
Non-current liabilities				
Construction holdbacks (note 13)		935		199
Deferred lease incentives		688		983
Deferred government funding related to capital expenditures (note 9)		408,959		357,936
Employee benefits (note 10)		24,292		25,369
		434,874		384,487
Equity				
Accumulated deficit		(5,207)		(21,466)
Total liabilities and equity	$	580,463	$	481,259

Contingencies (note 8) and contractual arrangements (note 14)
The accompanying notes are an integral part of these financial statements.

Approved by the Board and authorized for issue on June 8, 2017:

Peter Wallis
Vice-Chairperson

Michael Saunders
President and Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In thousands of Canadian dollars)

	Years ended March 31 2017	2016
Expenses		
Pre-Board Screening	$ 363,014	$ 338,924
Hold Baggage Screening	144,595	145,896
Non-Passenger Screening	130,792	88,727
Restricted Area Identity Card Program	3,060	2,986
Corporate services	40,238	44,523
Total expenses (note 11)	681,699	621,056
Other expenses (income)		
Impairment of property and equipment (note 6)	1,934	292
Write-off of property and equipment and intangible assets	1,271	564
Loss on disposal of property and equipment	657	526
Foreign exchange loss	551	1,693
Finance cost	13	39
Net gain on fair value of derivative financial instruments	(331)	-
Total other expenses	4,095	3,114
Financial performance before revenue and government funding	685,794	624,170
Revenue		
Supplemental screening services	6,825	4,105
Finance income	482	453
Rental income	60	-
Miscellaneous income	1	183
Total revenue	7,368	4,741
Government funding		
Parliamentary appropriations for operating expenses (note 9)	616,371	556,407
Amortization of deferred government funding related to capital expenditures (note 9)	56,786	55,504
Total government funding	673,157	611,911
Financial performance	$ (5,269)	$ (7,518)
Other comprehensive income (loss)		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 10)	21,528	(5,060)
Total comprehensive income (loss)	$ 16,259	$ (12,578)

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

STATEMENT OF CHANGES IN EQUITY

(In thousands of Canadian dollars)

		Accumulated deficit
Balance, March 31, 2015	$	(8,888)
Financial performance		(7,518)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 10)		(5,060)
Balance, March 31, 2016	$	(21,466)

		Accumulated deficit
Balance, March 31, 2016	$	(21,466)
Financial performance		(5,269)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 10)		21,528
Balance, March 31, 2017	$	(5,207)

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

STATEMENT OF CASH FLOWS

(In thousands of Canadian dollars)

	Years ended March 31	
	2017	*2016*
Cash flows provided by (used in)		
Operating activities		
Financial performance	$ (5,269)	$ (7,518)
Items not involving cash		
Depreciation of property and equipment (note 6 and 11)	51,504	52,636
Increase in net employee benefits liability (note 17)	5,833	6,295
Impairment of property and equipment (note 6)	1,934	292
Amortization of intangible assets (note 7 and 11)	1,447	1,448
Write-off of property and equipment and intangible assets	1,271	564
Loss on disposal of property and equipment	657	526
Other non-cash transactions (note 17)	44	39
Amortization of deferred government funding related to capital expenditures (note 9)	(56,786)	(55,504)
Change in fair value of financial instruments designated at fair value through profit and loss (note 13)	(331)	-
Deferred lease incentives recognized in financial performance (note 17)	(304)	(279)
Net change in working capital balances (note 17)	11,670	(3,566)
	11,670	(5,067)
Investing activities		
Parliamentary appropriations received for capital funding	106,872	101,800
Purchase of property and equipment	(90,298)	(87,963)
Purchase of intangible assets	(3,206)	(5,525)
Proceeds on disposal of property and equipment	2	1
	13,370	8,313
Increase in cash	25,040	3,246
Cash, beginning of year	11,227	7,981
Cash, end of year	$ 36,267	$ 11,227

Supplementary cash flow information (note 17)

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

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)
Year ended March 31, 2017

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* 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 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 personal belongings;
2. HBS – the screening of checked baggage;
3. NPS – the random screening of non-passengers accessing restricted areas including the screening of vehicles entering restricted areas of the aerodrome at the highest risk airports; and
4. RAIC Program – the administration of access control to airport restricted areas through biometric identifiers.

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

With the support of Transport Canada, CATSA entered into a trial agreement with Greater Toronto Airports Authority (GTAA) for the provision of supplemental screening services effective October 5, 2014. The trial agreement has been extended to March 31, 2018.

In December 2014, CATSA was issued a directive (PC 2014-1382), pursuant to Section 89 of the *Financial Administration Act*, to implement pension plan reforms. These reforms are intended to ensure that CATSA's pension plans provide a 50:50 current service cost-sharing ratio between the employee and employer for pension contributions to be phased in for all members by December 31, 2017. CATSA meets the requirements of this directive for its defined contribution pension plan. In accordance with guidance issued by Treasury Board of Canada Secretariat in July 2015, CATSA is seeking an exemption to the 50:50 cost sharing ratio for its closed defined benefit pension plans on the basis that compliance with the directive would be unfair to existing plan members. CATSA will continue to report on the status of this directive in its Corporate Plan until the directive is fully implemented.

CATSA's Travel, Hospitality, Conference and Event Expenditures Policy is in compliance with directive PC 2015-1114 pursuant to Section 89 of the *Financial Administration Act*, 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. Effective April 1, 2016, CATSA became 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.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)
Year ended March 31, 2017

2. Basis of preparation

The financial statements have been prepared in accordance with IFRS as 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, except as noted below with regards to Employee benefits, and 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.

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

- note 3(d), note 3(e), 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 valuation 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(i) and note 10 – 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. For the year ended March 31, 2017, CATSA has adopted a new approach for estimating the discount rate used to calculate its defined benefit liability. This change, which was made pursuant to the revision of the guidance included in the Canadian Institute of Actuaries Education Note issued in September 2011, reflects the significant changes in the Canadian bond market environment in recent years, particularly with regards to high-quality long-term bonds. The Education Note is expected to be officially updated in 2017. The adoption of the new approach had no impact on the discount rate used or the financial statements as at and for the year ended March 31, 2017.

In determining the assumptions, CATSA takes into account past experience, current market conditions and rates, and the expertise of its actuaries. Changes to these assumptions would affect its employee benefit 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 10.

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

- note 3(e) 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(e). Changes to management's judgments would affect the carrying amount of its intangible assets as well as future amortization.

- note 3(j) and note 8 – 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, the existence of the claim amount, 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.

(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 valuation 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 parts 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.

(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	5 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 on an annual basis.

(e) 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 three to 10 years.

(f) 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.

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.

(g) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Expenses incurred under operating leases are recognized in financial performance on a straight-line basis over the term of the lease.

(h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial assets include cash, receivables related to supplemental screening services and sub-lease receivables. 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 loans and receivables. 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.

Non-derivative financial liabilities include trade and other payables and construction holdbacks. Non-derivative financial liabilities are recognized initially on the trade date at which CATSA becomes a party to the contractual provisions of the instrument. CATSA derecognizes a non-derivative financial liability when its contractual obligations are discharged, cancelled or expired.

CATSA classifies non-derivative liabilities into the category of financial liabilities measured at amortized cost. 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.

(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 (Loss).

The fair values of derivative financial instruments are presented in the Statement of Financial Position; the positive fair values are reported as a derivative financial asset 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.

(i) Employee benefits

(i) Post-employment benefit plans – defined benefit

The employee benefits asset and liability presented in the Statement of Financial Position represents 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; and
- remeasurements.

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, excluding the costs of managing plan assets, are included in service costs. The cost of managing plan assets is 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 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.

(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.

(j) 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.

(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.

(k) Revenue

(i) Supplemental screening services

Supplemental screening services revenue is recognized in financial performance as the screening services are provided, CATSA has no remaining obligations, and when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to CATSA. Revenue is measured at the fair value of consideration received or receivable.

(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.

(iii) Rental income

Rental income relates to the sub-leasing of office space at headquarters and is recognized on a straight-line basis over the term of the sub-lease.

(l) 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 expenses of 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.

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

(m) *Deferred lease incentives*

Lease incentives represent a period of significantly reduced rent, a rent-free period of common area costs as well as allowances for leasehold improvements related to leased premises. The aggregate benefit of incentives is deferred and recognized as a reduction of rental expense over the term of the lease on a straight-line basis.

(n) *Finance cost*

Finance cost is comprised primarily of interest expense and is recognized in financial performance in the year it is incurred.

(o) *Foreign currency translation*

Foreign currency transactions 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, using the exchange rates at the end of the reporting period, of monetary assets and liabilities denominated in foreign currencies 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.

(p) Adoption of new and revised International Financial Reporting Standards

The following amendments and annual improvements, issued by the International Accounting Standards Board (IASB) and approved by the AcSB, were adopted by CATSA effective April 1, 2016. The adoption of these amendments and annual improvements did not have an impact on the financial statements as at and for the year ended March 31, 2017.

(i) Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

IAS 16 and IAS 38 were amended to clarify when the use of a revenue-based amortization method is acceptable. These amendments were effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

(ii) *Annual Improvements to IFRSs: 2012-2014 Cycle*

The *Annual Improvements to IFRSs: 2012-2014 Cycle* were issued in September 2014. These improvements include a number of amendments to various IFRSs, including changes to non-current assets held for sale, financial instruments disclosure, employee benefits, and interim financial reporting, and were effective for annual reporting periods beginning on or after January 1, 2016, on a retrospective basis.

(iii) Amendments to IAS 1 Disclosure Initiative

IAS 1 was amended to clarify, rather than significantly change, existing IAS 1 requirements relating to materiality, order of notes, subtotals, accounting policies, and disaggregation. These amendments were effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

(q) Future accounting changes

As at the date of these financial statements, the following applicable new accounting standards have been issued by the IASB, but are not yet effective. CATSA is currently assessing the potential impact on its financial statements, and will continue to monitor these standards for developments until the time of adoption.

(i) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and a number of other revenue-related interpretations. The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard will become effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 was issued in July 2014 and is considered the final version, replacing earlier versions of IFRS 9, and completes the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. This standard will become effective for annual periods beginning on or after January 1, 2018, on a retrospective basis.

(iii) IFRS 16 *Leases*

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*. This standard will become effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted in the period when IFRS 15 is adopted.

CATSA does not expect any significant changes to its financial statements as a result of the adoption and implementation of IFRS 15 and IFRS 9. While the assessment of IFRS 16 is in its early stages, CATSA expects the impact on its financial statements will be significant.

(In thousands of Canadian dollars)

4. Trade and other receivables

Trade and other receivables are comprised of:

		March 31, 2017		*March 31, 2016*
Parliamentary appropriations	$	83,734	$	69,605
GST and HST recoverable		8,574		14,821
PST recoverable		2,512		1,742
Supplemental screening services		1,791		1,867
Other		128		4
	$	96,739	$	88,039

As at March 31, 2017, there were no amounts included in trade and other receivables that were past due.

As at March 31, 2016, trade and other receivables included amounts that were past due. CATSA did not recognize an allowance for doubtful accounts for these receivables because there had not been a significant change in credit quality and the amounts were still considered recoverable.

The age of trade and other receivables, excluding amounts related to parliamentary appropriations and recoverable taxes, that are past due, but not impaired, are:

		March 31, 2017		*March 31, 2016*
31 - 60 days	$	-	$	981
	$	-	$	981

(In thousands of Canadian dollars)

5. Inventories

Inventories are comprised of:

		March 31, 2017		*March 31, 2016*
Spare parts	$	13,299	$	14,128
Uniforms		1,348		1,049
RAIC		1,082		1,150
	$	15,729	$	16,327

During the year, inventories totalling $5,969 (2016 – $5,934) were charged to expenses. This includes $260 (2016 – $1,508) resulting from a write-down of inventories. It also includes an amount of $251 (2016 – $44) related to a reversal of previous write-downs, which resulted from an increase in the replacement cost of certain spare parts of $68 (2016 – $44) and a change related to the expected use of some spare parts previously identified as obsolete of $183 (2016 – $Nil).

(In thousands of Canadian dollars)

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 improve-ments	Work-in-progress	Total
Cost									
Balance, March 31, 2015	$ 124,747	$ 656,986	$ 9,548	$ 4,387	$ 25,811	$ 95	$ 10,221	$ 112,217	$ 944,012
Additions	42	27,265	1,135	566	2,604	-	545	61,697	93,854
Disposals	(3,280)	(72,070)	(400)	(10)	(128)	-	(350)	(34)	(76,272)
Write-offs	(545)	(5,931)	(16)	(748)	(4,758)	(11)	(927)	(25)	(12,961)
Impairments	(158)	(94)	-	-	(855)	-	-	-	(1,107)
Reclassifications	(3,725)	72,730	6,215	1,199	591	-	-	(77,010)	-
Balance, March 31, 2016	$ 117,081	$ 678,886	$ 16,482	$ 5,394	$ 23,265	$ 84	$ 9,489	$ 96,845	$ 947,526
Balance, March 31, 2016	$ 117,081	$ 678,886	$ 16,482	$ 5,394	$ 23,265	$ 84	$ 9,489	$ 96,845	$ 947,526
Additions	10,528	30,446	181	166	2,121	-	494	60,688	104,624
Disposals	(2,106)	(35,211)	(58)	-	(108)	-	-	(42)	(37,525)
Write-offs	(2,565)	(1,497)	-	(266)	(3,497)	(54)	(54)	-	(7,933)
Impairments	-	-	-	-	-	-	-	(1,934)	(1,934)
Reclassifications	2,345	74,543	3,740	35	5,422	-	-	(86,085)	-
Balance, March 31, 2017	$ 125,283	$ 747,167	$ 20,345	$ 5,329	$ 27,203	$ 30	$ 9,929	$ 69,472	$ 1,004,758
Accumulated depreciation									
Balance, March 31, 2015	$ 70,966	$ 523,774	$ 3,659	$ 3,582	$ 21,150	$ 95	$ 9,002	$ -	$ 632,228
Depreciation	8,995	39,571	1,462	633	1,456	-	519	-	52,636
Disposals	(2,897)	(71,985)	(293)	(10)	(128)	-	(350)	-	(75,663)
Write-offs	(513)	(5,877)	(16)	(748)	(4,420)	(11)	(920)	-	(12,505)
Impairments	(99)	(43)	-	-	(673)	-	-	-	(815)
Reclassifications	(2,831)	-	2,831	-	-	-	-	-	-
Balance, March 31, 2016	$ 73,621	$ 485,440	$ 7,643	$ 3,457	$ 17,385	$ 84	$ 8,251	$ -	$ 595,881
Balance, March 31, 2016	$ 73,621	$ 485,440	$ 7,643	$ 3,457	$ 17,385	$ 84	$ 8,251	$ -	$ 595,881
Depreciation	9,493	36,510	1,783	533	2,779	-	406	-	51,504
Disposals	(1,851)	(34,841)	(59)	-	(105)	-	-	-	(36,856)
Write-offs	(2,022)	(1,427)	538	(266)	(3,393)	(54)	(55)	-	(6,679)
Reclassifications	(1,357)	(770)	920	-	1,207	-	-	-	-
Balance, March 31, 2017	$ 77,884	$ 484,912	$ 10,825	$ 3,724	$ 17,873	$ 30	$ 8,602	$ -	$ 603,850
Carrying amounts									
As at March 31, 2016	$ 43,460	$ 193,446	$ 8,839	$ 1,937	$ 5,880	$ -	$ 1,238	$ 96,845	$ 351,645
As at March 31, 2017	$ 47,399	$ 262,255	$ 9,520	$ 1,605	$ 9,330	$ -	$ 1,327	$ 69,472	$ 400,908

During the year, CATSA acquired $104,624 (2016 – $93,854) of property and equipment.

In 2011/12, CATSA began a ten year Recapitalization Program related to the conversion of its HBS systems at all major airports in Canada. As a result, the useful lives of certain HBS equipment are anticipated to be different from their original estimate. The useful lives may be reduced for assets that will be disposed of as a result of the conversion or, alternatively, may be extended for assets that will continue to be used subsequent to the conversion. Other than indicated below, the exact remaining useful lives of these assets are not known at this time. This is due to a number of factors, such as the need for further detailed planning and negotiations with airport authorities, which could result in changes in the timing and scope of the conversions. As the uncertainties around these factors become known, CATSA will review the remaining useful lives of the affected assets, and any changes in estimates will be accounted for on a prospective basis.

During the year, the estimated useful lives of certain HBS assets related to the Recapitalization Program noted above, as well as other PBS and NPS equipment, were adjusted to reflect their expected decommissioning dates. The change in accounting estimate was accounted for on a prospective basis and increased the current year depreciation expense by $464. The increase in depreciation expense was completely offset by an increase in the amortization of deferred government funding related to capital expenditures. From 2017/18 to 2027/28, the depreciation expense and amortization of deferred government funding related to capital expenditures are expected to increase by as much as $874 or decrease by as much as $1,672 each year.

During the year, CATSA recognized impairment losses of $1,934 on equipment that no longer met Transport Canada standards for screening equipment. The assets can no longer contribute to the fulfillment of CATSA's mandate. As a result, the assets were considered to be fully impaired and the remaining net book value was recorded as an impairment loss. The recoverable amount is deemed to be $Nil, which represents the equipment's value in use to CATSA, as all future cash flows associated with the equipment are estimated to be $Nil.

During the previous year, CATSA recorded impairment losses related to property and equipment of $292. The impairment losses recorded related primarily to computer and screening equipment. Due to technical advancements and the in-sourcing of CATSA's Boarding Pass Security System, these assets are no longer contributing to the fulfillment of CATSA's mandate. As a result, the assets were considered to be fully impaired and the remaining net book value was recorded as an impairment loss.

There were no amounts recorded related to reversal of impairment losses for the years ended March 31, 2017 and 2016.

During the year, CATSA recorded $1,254 (2016 – $456) related to the write-off of property and equipment. These write-offs mainly represent equipment that has been retired from service as new equipment was deployed.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)
Year ended March 31, 2017

7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	*Internally developed software*	*Under development*	*Total*
Cost				
Balance, March 31, 2015	$ 3,807	$ 18,840	$ -	$ 22,647
Additions	537	4,574	414	5,525
Write-offs	(173)	(3,831)	-	(4,004)
Balance, March 31, 2016	$ 4,171	$ 19,583	$ 414	$ 24,168
Balance, March 31, 2016	$ 4,171	$ 19,583	$ 414	$ 24,168
Additions	329	919	1,958	3,206
Write-offs	(389)	(886)	-	(1,275)
Reclassifications	-	39	(39)	-
Balance, March 31, 2017	$ 4,111	$ 19,655	$ 2,333	$ 26,099
Accumulated amortization				
Balance, March 31, 2015	$ 3,000	$ 16,863	$ -	$ 19,863
Amortization	439	1,009	-	1,448
Write-offs	(173)	(3,723)	-	(3,896)
Balance, March 31, 2016	$ 3,266	$ 14,149	$ -	$ 17,415
Balance, March 31, 2016	$ 3,266	$ 14,149	$ -	$ 17,415
Amortization	221	1,226	-	1,447
Write-offs	(368)	(846)	-	(1,214)
Balance, March 31, 2017	$ 3,119	$ 14,529	$ -	$ 17,648
Carrying amounts				
As at March 31, 2016	$ 905	$ 5,434	$ 414	$ 6,753
As at March 31, 2017	$ 992	$ 5,126	$ 2,333	$ 8,451

As at March 31, 2017, intangible assets include an HBS Centralized Equipment Networking asset with acquisition costs of $4,295, and remaining amortization period of nine years.

During the year, management determined that certain development costs related to internally developed and externally acquired software no longer provided future economic benefit. As a result, intangible assets totalling $61 (2016 – $108) were expensed in the Statement of Comprehensive Income (Loss).

As at March 31, 2016, the estimated useful life of software with an original useful life of three years was revised to five years to better reflect the anticipated life-cycle management of these assets. The change in accounting estimate has been accounted for on a prospective basis starting April 1, 2016, and decreased the 2016/17 depreciation expense by $591. This decrease was completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. In 2017/18 to 2020/21, the depreciation expense and amortization of deferred funding related to capital expenditures is expected to increase by as much as $336 or decrease by as much as $118 each year.

During the current and prior year, no research and development costs were expensed.

(In thousands of Canadian dollars)

8. Provisions and contingencies

(a) Provisions

A reconciliation of provisions is as follows:

		March 31, 2017		March 31, 2016
Balance, beginning of the year	$	711	$	335
Provisions made in the year		18		711
Amounts used		(281)		(90)
Provisions released in the year		(448)		(245)
Balance, end of the year	$	-	$	711

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 individual matters is not always predictable. Provisions are determined by taking into account internal analysis, consultations with external subject matter experts, and all available information at the time of financial statement preparation.

There were no provisions recorded as at March 31, 2017.

The provisions recorded as at March 31, 2016, consisted primarily of amounts relating to licensing agreements and commodity taxes. Provisions were classified as current and the expected future cash flows were not discounted, as the timing of cash outflows associated with these claims was expected to be within 12 months.

(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, 2017, there was one significant legal claim outstanding against CATSA for which no provision was recorded. CATSA was named as a defendant with the Attorney General of Canada in a legal action claiming damages for $75,183 plus costs and disbursements, and interest. In CATSA's judgement, it is not probable that there will be an outflow of economic resources required to settle this claim. Accordingly, no provision for losses has been recognized in the current year in relation to this matter.

This claim was settled subsequent to year end. See note 18 for more information.

(ii) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of EDS 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 2017/18 and 2027/28 (2016 – 2016/17 and 2026/27) is estimated to be $2,744 (2016 – $1,315). There is no agreement for potential reimbursements against the contingent liabilities.

(In thousands of Canadian dollars)

9. Deferred government funding

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

		March 31, 2017		March 31, 2016
Deferred government funding related to operating expenses				
Balance, beginning of year	$	19,171	$	20,845
Operating expenses funded through parliamentary appropriations		615,925		554,733
Parliamentary appropriations recognized as government funding for operating expenses		(616,371)		(556,407)
Balance, end of the year	$	18,725	$	19,171
Deferred government funding related to capital expenditures				
Balance, beginning of year	$	357,936	$	314,568
Capital expenditures funded through parliamentary appropriations		107,809		98,872
Amortization of deferred government funding related to capital expenditures		(56,786)		(55,504)
Balance, end of the year	$	408,959	$	357,936
Total deferred government funding, end of year	$	427,684	$	377,107

For additional information on government funding, see note 12.

10. 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 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* and is funded by a retirement compensation arrangement regulated by the Canada Revenue Agency; 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 employees are eligible for the ODBP.

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 Canada Revenue Agency for a three-year period ending December 31, 2017. CATSA must apply for the exemption every three years.

(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:

(In thousands of Canadian dollars)

	RPP		*SRP*		*ODBP*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*
Fair value of plan assets						
Balance, beginning of year	$ 161,231	$ 162,194	$ 5,919	$ 5,903	$ -	$ -
Included in financial performance						
Interest income	6,283	6,739	224	239	-	-
Administration costs	(250)	(310)	(15)	(15)	-	-
Included in other comprehensive income (loss)						
Remeasurement gain (loss)						
Return on assets excluding interest income	11,562	(11,502)	334	(304)	-	-
Other						
CATSA contributions	6,408	6,867	19	320	193	184
Plan participant contributions	3,143	3,013	19	21	-	-
Benefit payments and transfers	(5,127)	(5,770)	(80)	(245)	(193)	(184)
Balance, end of year	$ 183,250	$ 161,231	$ 6,420	$ 5,919	$ -	$ -
Present value of defined benefit liabilities						
Balance, beginning of year	$ 158,356	$ 151,609	$ 4,370	$ 4,333	$ 25,369	$ 21,745
Included in financial performance						
Current service cost	9,021	10,630	114	151	2,017	1,843
Interest expense	6,352	6,577	168	178	1,023	940
Included in other comprehensive income (loss)						
Remeasurement (gain) loss						
Actuarial gains arising from changes in demographic assumptions	(2,187)	(548)	(2)	(10)	(47)	(463)
Actuarial (gains) losses arising from changes in financial assumptions	-	(3,784)	-	(128)	391	1,488
Actuarial (gains) losses arising from experience adjustments	(2,928)	(3,371)	(591)	70	(4,268)	-
Other						
Plan participant contributions	3,143	3,013	19	21	-	-
Benefit payments and transfers	(5,127)	(5,770)	(80)	(245)	(193)	(184)
Balance, end of year	$ 166,630	$ 158,356	$ 3,998	$ 4,370	$ 24,292	$ 25,369
Net employee benefits asset (liability)	$ 16,620	$ 2,875	$ 2,422	$ 1,549	$ (24,292)	$ (25,369)

(In thousands of Canadian dollars)

		March 31, 2017		March 31, 2016
Employee benefits asset, end of year				
RPP	$	16,620	$	2,875
SRP		2,422		1,549
		19,042		4,424
Employee benefits liability, end of year				
ODBP		(24,292)		(25,369)
		(24,292)		(25,369)
Employee benefits - net liability, end of year	$	(5,250)	$	(20,945)

(d) *Employee benefits costs*

The elements of employee benefits costs for the years ended March 31 are as follows:

	RPP		*SRP*		*ODBP*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Defined benefit cost recognized in financial performance								
Current service cost	$ 9,021	$ 10,630	$ 114	$ 151	$ 2,017	$ 1,843	$ 11,152	$ 12,624
Administration costs	250	310	15	15	-	-	265	325
Interest cost on defined benefit obligation	6,352	6,577	168	178	1,023	940	7,543	7,695
Interest income on plan assets	(6,283)	(6,739)	(224)	(239)	-	-	(6,507)	(6,978)
Defined benefit cost	$ 9,340	$ 10,778	$ 73	$ 105	$ 3,040	$ 2,783	$ 12,453	$ 13,666
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 11,562	$ (11,502)	$ 334	$ (304)	$ -	$ -	$ 11,896	$ (11,806)
Actuarial gains (losses)	5,115	7,703	593	68	3,924	(1,025)	9,632	6,746
Remeasurement of defined benefit plans	$ 16,677	$ (3,799)	$ 927	$ (236)	$ 3,924	$ (1,025)	$ 21,528	$ (5,060)

Defined benefit cost is recognized in employee costs in note 11, and allocated among the program expenses in the Statement of Comprehensive Income (Loss).

(In thousands of Canadian dollars)

(e) *Composition of plan assets*

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

		March 31, 2017		March 31, 2016
Investment funds				
Equity securities				
Canadian equity fund	$	54,006	$	48,106
U.S. equity fund		1,368		1,256
International equity fund		54,094		45,685
Debt securities				
Canadian bond fund		61,726		55,035
Real estate		6,572		6,320
Other		8,818		7,398
Canada Revenue Agency refundable tax account		2,862		2,783
Cash and cash equivalents		224		567
Total plan assets, end of year	$	189,670	$	167,150

The fair value of all equity, debt, real estate and other securities is determined based on quoted market prices in active markets. The assets held by the Canada Revenue Agency 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 Canada Revenue Agency.

On a regular basis, an asset-liability matching 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.

(In thousands of Canadian dollars)

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.

(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*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*
Present value of defined benefit liability						
Discount rate	3.75 %	3.75 %	3.75 %	3.75 %	3.75 %	3.75 %
Long-term rate of compensation increase	3.75 %	3.75 %	3.75 %	3.75 %	3.75 %	3.75 %
Inflation	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Mortality table	CPM-B[1]	CPM-B	CPM-B	CPM-B	CPM-B	CPM-B
Benefit costs						
Discount rate	3.75 %	4.00 %	3.75 %	4.00 %	3.75 %	4.00 %
Inflation	2.00 %	2.25 %	2.00 %	2.25 %	2.00 %	2.25 %
Assumed medical cost trend rates						
Initial medical cost trend rate					6.50 %	6.20 %
Ultimate medical cost trend rate					4.50 %	4.30 %
Year ultimate reached					2025	2029

[1] Canadian Pensioners' Mortality Improvement Scale B

(In thousands of Canadian dollars)

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2017, while holding all other assumptions constant:

	Change	*Impact on defined benefit liabilities*
Increase in discount rate	1%	$ (39,135)
Decrease in discount rate	1%	53,711
Increase in long-term rate of compensation increase	1%	12,315
Decrease in long-term rate of compensation increase	1%	(10,698)
Increase in inflation	1%	29,274
Decrease in inflation	1%	(23,366)
Increase in life expectancy	1 year	5,089
Decrease in life expectancy	1 year	(4,902)
Increase in assumed medical cost trend rate	1%	6,392
Decrease in assumed medical cost trend rate	1%	(4,734)

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.

(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.

(In thousands of Canadian dollars)

There is no current legislative or regulatory requirement to file a funding valuation for CATSA's SRP or ODBP. However, CATSA's internal policy requires that a funding valuation for the SRP 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, 2015	December 31, 2016
SRP	December 31, 2015	December 31, 2016
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, 2018, will total $7,076, and consist of CATSA contributions of $3,839 and plan participant contributions of $3,237.

Cash payments to be made to the unfunded ODBP for the year ended March 31, 2018, 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, 2018, will total $205.

With the phasing in of a revised current service cost-sharing arrangement, in response to the December 2014 pension directive as described in note 1, employee contributions are expected to increase and employer contributions are expected to decrease in the coming years.

(In thousands of Canadian dollars)

As at March 31, 2017, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 23.3 years (2016 – 23.1 years), 18.9 years (2016 – 20.8 years) and 24.4 years (2016 – 25.3 years), respectively.

(h) *Employee costs*

The following table provides a breakdown of employee costs for the years ended March 31:

	2017	*2016*
Employee costs (excluding post-employment and termination benefits)	$ 47,134	$ 44,933
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	12,453	13,666
Defined contribution pension plan	349	151
Termination benefits	196	1,098
Total employee costs (note 11)	$ 60,132	$ 59,848

(In thousands of Canadian dollars)

11. Expenses

The Statement of Comprehensive Income (Loss) presents operating expenses by program activity. The following table presents operating expenses by major expense type for the years ended March 31:

		2017		*2016*
Screening services and other related costs				
Payments to screening contractors	$	497,269	$	435,247
Uniforms and other screening costs		6,217		4,786
Trace and consumables		2,290		2,315
		505,776		442,348
Equipment operating and maintenance				
Equipment maintenance and spare parts		39,141		41,448
Training and certification		1,428		603
RAIC		1,074		739
		41,643		42,790
Program support and corporate services				
Employee costs		60,132		59,848
Operating leases		5,873		6,358
Professional services and other business related costs		5,711		5,323
Office and computer expenses		5,232		4,607
Other administrative costs		3,479		4,808
Communications and public awareness		902		890
		81,329		81,834
Depreciation and amortization				
Depreciation of property and equipment		51,504		52,636
Amortization of intangible assets		1,447		1,448
		52,951		54,084
	$	681,699	$	621,056

Other business related costs include travel expenses, conference fees, membership and association fees, and meeting expenses. Other administrative costs include insurance, network and telephone expenses, and facilities maintenance.

(In thousands of Canadian dollars)

12. Government funding

Parliamentary appropriations were as follows for the years ended March 31:

		2017		*2016*
Main estimates	$	624,006	$	678,420
Supplementary estimates		142,272		26,800
Strategic Operating Review adjustment		-		(12,624)
Capital re-profile from previous years - approved		4,610		30,124
Corporate Plan budget		770,888		722,720
Capital re-profile to future years - approved		(11,415)		(23,610)
Capital re-profile to future years - in progress[1]		(33,671)		(41,518)
Unused portion of parliamentary appropriations		(2,068)		(3,987)
Total parliamentary appropriations used	$	723,734	$	653,605

[1] The capital re-profile in progress as at March 31, 2016, was approved during the year ended March 31, 2017.

Parliamentary appropriations used to fund operating expenses and capital expenditures were as follows for the years ended March 31:

		2017		*2016*
Parliamentary appropriations used to fund operating expenses (note 9)	$	615,925	$	554,733
Parliamentary appropriations used to fund capital expenditures (note 9)		107,809		98,872
Total parliamentary appropriations used	$	723,734	$	653,605

13. Fair values and risks arising from financial instruments

Fair values of financial instruments and fair value hierarchy

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

(In thousands of Canadian dollars)

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 as at March 31 are as follows:

	March 31, 2017		*March 31, 2016*	
	Carrying Amount	*Fair Value (Level 2)*	*Carrying Amount*	*Fair Value (Level 2)*
Financial instruments measured at fair value				
Derivative financial asset instruments[1]	$ 331	$ 331	$ -	$ -
Financial instruments measured at amortized cost				
Construction holdbacks[2]	$ 935	$ 935	$ 199	$ 199

[1] The fair value is based on a discounted cash flow model based on observable inputs.
[2] The fair value is determined using expected future cash flows, discounted using published Government bond rates with similar terms and characteristics.

There were no transfers between levels during the years ended March 31, 2017 or March 31, 2016.

(In thousands of Canadian dollars)

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 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 during the year ended March 31, 2017 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 USD and their CAD equivalent:

		USD		*CAD*
March 31, 2017	$	2,805	$	3,732
March 31, 2016		2,497		3,243

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 $187 (2016 – $162).

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)
Year ended March 31, 2017

(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.

The carrying value of trade and other payables and construction holdbacks 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, 2017*
Trade and Other Payables	$ 103,114	$ 28,957	$ -	$ 132,071
Construction Holdbacks	-	-	935	935
	Less than 3 months	*3 months to 1 year*	*Greater than 1 year*	*Total at March 31, 2016*
Trade and Other Payables	$ 75,985	$ 22,371	$ -	$ 98,356
Construction Holdbacks	-	-	199	199

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2016.

(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 an allowance for doubtful accounts that reflects the estimated impairment of receivables.

CATSA is exposed to credit risk through its cash, supplemental screening services receivables and foreign exchange forward contracts. The maximum exposure to credit risk of CATSA at March 31, 2017 and 2016 was the carrying value of these assets.

(i) Supplemental screening services

CATSA's supplemental screening services receivables are derived from the provision of services to an airport authority. CATSA does not believe that it is exposed to an unusual or significant level of credit risk. These receivables are monitored by CATSA in order to assess collectability on a regular basis and an allowance for doubtful accounts will be recognized if there is evidence of impairment. As at March 31, 2017 and 2016, no allowance for doubtful accounts was required.

CATSA does not have any receivables that were past due as at March 31, 2017. As at March 31, 2016, CATSA had receivables that were past due but not considered to be impaired. See note 4 for further information.

(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 negotiated with counterparties holding credit ratings equivalent to or better than that of the major Canadian banks. To this end, the Corporation has two counterparties meeting this criterion with which it places all its currency hedging business.

(In thousands of Canadian dollars)

	March 31, 2017		*March 31, 2016*	
	Notional	*Fair Value*	*Notional*	*Fair Value*
Foreign exchange forward contracts[1]	$ 29,648	$ 29,979	$ -	$ -

[1] The foreign exchange forward contracts' rates are between 1.3075 and 1.3126 for foreign exchange forward contracts in USD and the maturity dates are between May 4, 2017 and May 4, 2018.

14. Contractual arrangements

(a) Non-lease 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, 2017	*March 31, 2016*
Operating	$ 2,819,072	$ 636,006
Capital	139,093	156,913
Total	$ 2,958,165	$ 792,919

On October 18, 2016, CATSA announced the renewal of its airport screening service agreements for the five-year period from April 1, 2017 to March 31, 2022. The renewal of these service agreements has added approximately $2,600,000 to CATSA's contractual arrangements.

(In thousands of Canadian dollars)

(b) *Lease arrangements*

CATSA is committed under non-cancellable operating leases for the rental of office space and equipment. The following table provides the pre-tax minimum lease payments under the terms of these leases:

		March 31, 2017		*March 31, 2016*
No later than 1 year	$	7,035	$	6,524
Later than 1 year and no later than 5 years		21,970		22,229
Later than 5 years		4,660		7,724
Total	$	33,665	$	36,477

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters. The current lease term expires on November 30, 2022. The renewal terms include lease incentives and an option to extend the lease for an additional five years beyond November 30, 2022, based on the prevailing market rate at that time and subject to the same terms and conditions. There is no further right to extend after November 30, 2027.

15. Related party transactions

CATSA had the following 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.

(In thousands of Canadian dollars)

The following table summarizes CATSA's transactions with related parties for the years ended March 31:

		2017		*2016*
Income	$	673,157	$	611,911
Expenses		15,841		13,866

Income from these related parties represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses presented above for the year ended March 31, 2017, include $15,075 (2016 – $12,491) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

The following related party balances are included in trade and other receivables and trade and other payables on the Statement of Financial Position:

		March 31, 2017		*March 31, 2016*
Receivable from related parties	$	92,426	$	84,426
Payable to related parties		(1,189)		(603)
Net receivable from related parties	$	91,237	$	83,823

At year-end, amounts receivable from related parties consist primarily of $83,734 (2016 – $69,605) due from the Government of Canada for parliamentary appropriations used during the year and not received at year-end, and $8,574 (2016 – $14,821) due from the Canada Revenue Agency for recoverable taxes paid on expenses.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)
Year ended March 31, 2017

(b) Key management personnel

As at March 31, 2017, key management personnel of CATSA are composed of the nine (2016 – ten) Board members and the five (2016 – 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:

		2017		*2016*
Salaries, other short-term employee benefits and termination benefits	$	1,529	$	1,524
Post-employment benefits		336		380
	$	1,865	$	1,904

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, 2017, or March 31, 2016.

(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 10. There were no other transactions during the year.

(In thousands of Canadian dollars)

16. Capital management

As a federal Crown corporation, CATSA is subject to the *Financial Administration Act* 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. For the year ended March 31, 2017, CATSA managed its capital in accordance with the TBS's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, in that appropriated funds are drawn from the Consolidated Revenue Fund for the purpose of meeting short-term funding requirements.

Capital is comprised of the following:

		March 31, 2017		*March 31, 2016*
Cash	$	36,267	$	11,227
Trade and other receivables		96,739		88,039
Trade and other payables		(132,071)		(98,356)
Current portion of provisions		-		(711)
Construction holdbacks		(935)		(199)
	$	-	$	-

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2017, or March 31, 2016.

CATSA is not subject to externally imposed capital requirements.

(In thousands of Canadian dollars)

17. 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:

	2017	2016
(Increase) decrease in trade and other receivables	$ (7,763)	$ 3,330
Decrease in inventories	598	1,653
(Increase) decrease in prepaid expenses	(152)	21
Increase (decrease) in trade and other payables	20,144	(7,272)
(Decrease) increase in current portion of provisions	(711)	376
Decrease in deferred government funding related to operating expenses	(446)	(1,674)
	$ 11,670	$ (3,566)

Interest income received and recognized during the year totalled $482 (2016 – $453).

Interest expense paid and expensed during the year totalled $13 (2016 – $39).

The change in trade and other receivables excludes an amount of $937 (2016 – $2,928) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of $13,571 (2016 – $5,185) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

The change in net employee benefits liability excludes an amount of $21,528 (2016 – $5,060) in relation to the remeasurement of defined benefit plans for the year presented in other comprehensive income or loss, as the amount relates to a non-cash remeasurement.

During the year, CATSA received non-cash proceeds of $10 (2016 – $43) related to the disposal of property and equipment, in the form of credit notes from a supplier.

During the year, non-cash transfers of spare parts from property and equipment to inventory totalled $44 (2016 – $39).

During the year, CATSA had non-cash additions to deferred lease incentives of $9 (2016 – $464).

18. Subsequent event

In April 2017, all parties involved in the contingent liability disclosed in note 8(b)(i) agreed to dismiss the action. As per the terms of the agreement, no monetary compensation will be provided by CATSA.

GLOSSARY

ASSA

Airport Screening Services Agreement: the contractual agreement that governs CATSA's airport screening services with a designated screening contractor.

BPSS

Boarding Pass Security System: A system that automates the boarding pass validation process by scanning, analyzing and validating the informational content of boarding pass bar codes.

Canada's eight busiest airports

In alphabetical order: Calgary International, Edmonton International, Halifax (Stanfield International), Montreal (Montreal-Trudeau International), Ottawa (Macdonald-Cartier International), Toronto (Toronto Pearson International), Vancouver International, and Winnipeg (James Armstrong Richardson International).

Canada's 28 major airports

Includes the "busiest airports" above, as well as the following airports (in alphabetical order): Charlottetown, Fredericton International, Gander International, Iqaluit, Kelowna, London International, Greater Moncton International, Prince George, Quebec City (Jean Lesage International), Regina International, Saint John, St. John's International, Saskatoon (John G. Diefenbaker International), Sudbury, Thunder Bay International, Toronto City (Billy Bishop), Victoria International, Whitehorse International, Windsor International, and Yellowknife.

Class I Airports

Refers to the airports listed under Schedule 1 of the Canadian Aviation Security Regulation, 2012. These airports have an annual passenger traffic in excess of 1 million people, or have a high threat/risk potential.

Class II Airports

Refers to the airports listed under Schedule 2 of the Canadian Aviation Security Regulation, 2012. These airports have one or more of the following characteristics:

- annual passenger traffic in excess of 200,000 people;
- has a medium threat/risk potential;
- is the primary airport of provincial/territorial capital; or
- is a transit stop for international flights bound for Class I or II airports

Class III Airports

Refers to the airports listed under Schedule 3 of the Canadian Aviation Security Regulation, 2012 (CASR). These airports have scheduled commercial operations, but with a lower traffic volume and lower level of risk than the other classes of airports.

Global Entry

Global Entry is a U.S. Customs and Border Protection Trusted Traveller program that provides expedited clearance for pre-approved, low-risk travellers upon arrival in the United States.

HTT

Harmonized Trusted Traveller: a program that introduces new screening procedures to provide passengers with tangible benefits and further promotes risk-based screening. In addition, the program scope has expanded to include new Trusted Traveller groups (i.e., Global Entry, US and CA military, and air crew). The expanded program currently only applies to U.S. bound travel. The new steps were facilitated by the Beyond the Border Action Plan — an agreement signed between Canada and the U.S. in 2011 aimed at harmonizing the benefits to pre-approved, low-risk travellers on both sides of the border.

HBS

Hold Baggage Screening: the screening of checked baggage using explosives detection equipment.

ICAO

International Civil Aviation Organization: Canada is a member of this organization, which brings together states and key industry organizations to determine areas of strategic priority, develops policies and standards, coordinates global monitoring, analysis and reporting initiatives, and delivers targeted assistance and capacity building.

IFRS

International Financial Reporting Standards

NPS

Non-Passenger Screening: the random screening of non-passengers accessing restricted areas including the screening of vehicles entering restricted areas of the aerodrome at the highest risk airports.

Non-passengers can include flight crews, refuellers, caterers, aircraft groomers, maintenance and construction personnel, baggage handlers, vendors, and concession staff.

PBS

Pre-Board Screening: the screening of passengers, their belongings and carry-on baggage.

RAIC

Restricted Area Identity Card: an identification card with iris and fingerprint biometric components used by non-passengers to access the sterile and restricted areas of Canada's major airports.

SOPs

Standard Operating Procedures: instructions to Screening Officers on how to perform screening in accordance with Transport Canada's Security Screening Measures.

TC

Transport Canada

Trusted Travellers

Trusted Travellers — go through background checks to ensure they are low-risk passengers. Nexus card holders already have the option to utilize Trusted Traveller lines, but the federal government and CATSA have expanded the definition of Trusted Travellers to include not only Nexus holders but also Global Entry members, uniformed air crews and members of the Canadian Armed Forces and U.S. Armed Forces.

For more information, please visit our website:

www.catsa.gc.ca

Contact us:

Canadian Air Transport Security Authority (CATSA)
99 Bank Street, 13th Floor
Ottawa, ON K1P6B9
Phone: 1-888-294-2202
Fax: 613-990-1295
Email: correspondence@catsa-acsta.gc.ca

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