



CATSA

ANNUAL REPORT 2018

Canada



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OVERALL PASSENGER
SATISFACTION WAS

86%

FOR 2017/18

112
CHECKPOINTS

89

DESIGNATED
AIRPORTS
ACROSS
CANADA

274

STANDARD
SCREENING
LINES

7,700

SCREENING
OFFICERS
ACROSS
CANADA

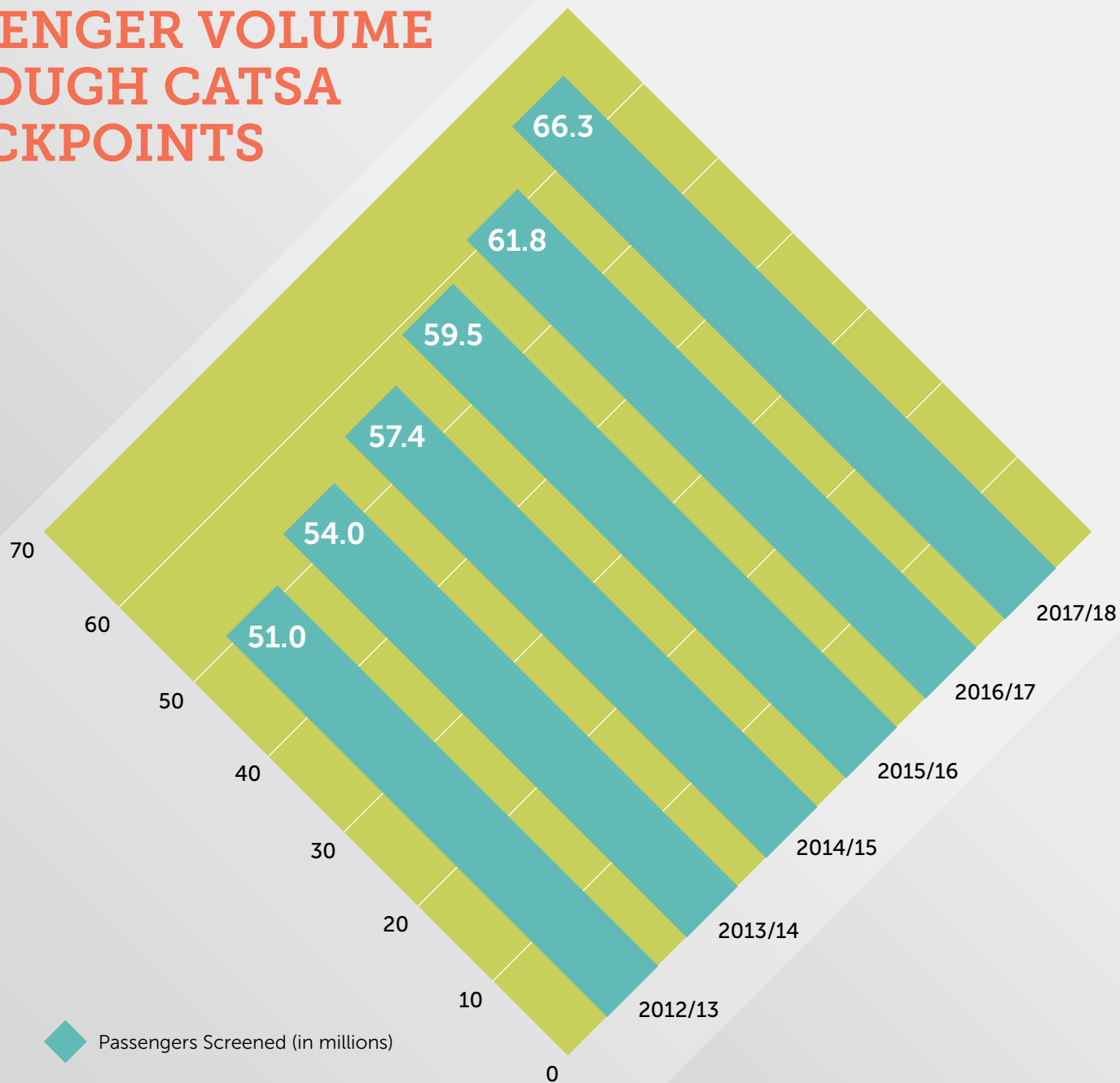
41

CATSA PLUS
SCREENING
LINES

66.3

MILLION
PASSENGERS
SCREENED IN
2017/18

PASSENGER VOLUME THROUGH CATSA CHECKPOINTS



◆ Passengers Screened (in millions)

CONTENTS

- 6 Corporate Profile
- 8 CATSA In-Depth
- 9 Core Responsibilities for CATSA
- 10 Mandated Activities
- 11 Message from our Chairperson
- 13 Message from our President and CEO
- 15 Annual Highlights
- 16 Operating Environment
- 21 Risk Environment
- 28 Reporting on Results
- 53 Looking Ahead
- 56 Corporate Governance
- 62 Disclosure
- 66 Management's Discussion and Analysis
- 81 Financial Statements
- 139 Glossary





CORPORATE PROFILE



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.

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



CORE RESPONSIBILITIES FOR CATSA

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

Core Responsibilities replace elements of the Program Alignment Architecture (PAA), previously displayed in this report, and will also be reflected in the Treasury Board of Canada Secretariat (TBS) InfoBase starting in fiscal year 2018/19.

As CATSA's mandate is very specific, the organization has one Core Responsibility that is outlined below, as submitted to the Government of Canada on June 30, 2017.

Canadian Air Transport Security Authority

Core Responsibility

Security Screening at Designated Airports

The Canadian Air Transport Security Authority is mandated to deliver effective, efficient and consistent screening that is in the interest of the travelling public at designated airports, by way of Pre-Board Screening, Hold Baggage Screening, Non-Passenger Screening, and Restricted Area Identity Card programs.



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, 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 screen passengers and their belongings to prevent them from carrying prohibited items beyond the screening checkpoint.

Hold Baggage Screening (HBS)

Screening officers use specialized screening 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 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 Transport Canada (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.

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 CHAIRPERSON



Marguerite Nadeau
Chairperson

As I approach the completion of my first full year as the Chair of the Board, I am pleased to share that I have already had the privilege of liaising with many of CATSA's stakeholders and partners across the country. I participated in conferences held by the Canadian Airports Council and the National Airlines Council of Canada, and – along with my fellow board members – I have met with representatives from various airports and airlines. It is critical to develop and maintain these relationships, as the successful execution of CATSA's mandate requires full cooperation among those who are an integral part of Canada's aviation system.

The federal government is, of course, the key shareholder in CATSA's success. In 2017/18, the Board continued to oversee CATSA work closely with Transport Canada to secure long-term, stable and operationally sustainable funding to meet CATSA's current and ongoing challenges. Increasing passenger volumes and changes within the aviation industry present funding pressures of which we must be ever mindful. We have also been working with Transport Canada and Finance Canada as they conduct a review of CATSA's governance model. We look forward to the government's decision on this important issue.

Internally, the Board continued to provide strategic oversight of CATSA's operations over the past year, which included initiatives such as the ongoing deployment of CATSA Plus lines and checkpoints at Canada's four busiest airports, the continuation and expansion of the supplementary-screening trials, and the Hold Baggage Screening recapitalization. Efforts made in these areas continue to earn positive feedback from CATSA's partners in the airport community.

I am particularly proud of CATSA's dedication and commitment to enhancing the passenger experience. While exemplary customer service has always been an important part of CATSA's operations, it took on a renewed focus this year, as evidenced by the implementation of CATSA's enhanced Customer Service Commitment, and an increase in direct interaction with passengers via CATSA's social media platforms.

I was also involved in the government's decision to renew the appointment of Michael Saunders as President and CEO while the search for a permanent appointee continues. Mr. Saunders has served CATSA well thus far, and I am certain that he will continue to steer the organization toward success in the coming year.

I was also directly involved in the recruitment process for new Board members, and I would like to take this opportunity to welcome new directors Taleeb Noormohamed, Gilles Lalonde, Sharon Duggan and Jean-Philippe Brunet. I look forward to working with them in 2018/19.

I wish to thank outgoing directors Jean-Marc Dufour and Dora Koop for their valuable contributions to the organization. Of course, thanks are also due to outgoing Vice-Chair Peter Wallis, who led the Board prior to my appointment. Mr. Wallis's long and distinguished career in the airline industry, the public service, and the Canadian legal system made him an excellent resource to the Board during his tenure.

On behalf of the Board, I also want to thank CATSA's staff, screening officers, screening contractors and management for their efforts over the past year. We are honoured to be embarking on another year together in pursuit of CATSA's mission.



MESSAGE FROM OUR PRESIDENT AND CEO



Michael Saunders
President and CEO

This year, CATSA continued to exceed performance targets and strengthen relationships with stakeholders, while working to position ourselves for even greater success in the future.

We received incremental funding for 2017/18, which allowed us to meet our wait time service level target of 85/15 – on average, 85% of all passengers waiting 15 minutes or less to be screened at Class I airports on an annual basis – and I'm proud to say that we exceeded that target. The government's latest budget has provided us with one-year incremental funding to maintain our wait time service level target, as well as to continue with our enhanced Non-Passenger Screening program and support the introduction of U.S. Pre-clearance operations at Quebec City Jean Lesage International Airport and Billy Bishop Toronto City Airport.

While this is good news, passenger numbers continue to rise. In 2017/18, CATSA screened more than 66 million passengers, and by 2021/22, that number is expected to reach over 78 million, making the 85/15 target more difficult and costly to achieve each year. As such, we continue to work with our partners at Transport Canada to secure sustainable and operationally effective long-term funding.

One way of achieving more appropriate and timely funding is through a Government of Canada initiated review of our governance model. In the past year, we worked closely with government and stakeholders – particularly Transport Canada – to evaluate the various governance options being considered for our organization. CATSA will continue to support Transport Canada in this endeavour, and provide information and advice, as required.

CATSA Plus continued to play an important role in our operations this year, with the deployment of additional CATSA Plus lines. There are now 41 active CATSA Plus lines installed in Montreal-Trudeau International Airport, Toronto Pearson International Airport, Calgary International Airport and Vancouver International Airport.

Ensuring a positive customer experience has always been important to CATSA, but it took on a heightened focus in 2017/18 as we implemented an enhanced Customer Service Commitment to passengers. The Commitment focuses on ensuring customer-service excellence at all points of contact with travellers.

We have also been actively involved in a variety of community outreach activities to help raise awareness of screening options available to those with special needs or unique requirements with regard to the screening process.

I am pleased to share with you that these efforts are paying off. According to our passenger intercept surveys from 2017/18, we exceeded our target of 85% overall passenger satisfaction this year. We will endeavor to continue this trend in the next year, and beyond.

This past year was my first full year as President and CEO and it has certainly been a rewarding one. I continue to be proud of the incredible efforts of our employees, screening contractors and screening officers as they support the process of screening of almost 200,000 passengers per day through Canada's designated airports. I look forward to another year of guiding them as they continue this ever-important task.

A handwritten signature in black ink, appearing to be 'D. ...', written in a cursive style.

ANNUAL HIGHLIGHTS

- CATSA implemented an enhanced Customer Service Commitment to passengers, which focuses on ensuring **customer-service excellence at all points of contact** with travellers.
- In 2017/18, CATSA exceeded its wait time service level target and delivered a wait time service level where, on average, **approximately 88% of all passengers waited 15 minutes or less** to be screened at Class I airports on an annual basis.
- 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 2017/18, the Government of Canada launched a review of CATSA's governance model, in an effort to achieve a more **sustainable and predictable funding model** for the organization. Throughout 2017/18, CATSA worked closely with the government and stakeholders to evaluate the various governance options being considered. CATSA continues to support Transport Canada in this endeavour.
- In collaboration with the airport authorities, CATSA **continued to deploy the CATSA Plus concept** at Montreal-Trudeau International Airport, Toronto Pearson International Airport, Calgary International Airport and Vancouver International Airport.
- CATSA **completed the Checkpoint Convergence project**, which aimed to achieve **greater consistency in the screening process**. The completion of this project resulted in the national standardization of layouts, equipment, procedures for achieving additional (random) screening targets and an improved passenger experience.
- The HBS Recapitalization Program continues **on track and on budget** for completion in 2020.
- CATSA **continued to work collaboratively** and build on its relationships with key national and international stakeholders through a number of initiatives, including the World Economic Forum, Innovation Task Force and SMART Security.
- CATSA provided advice and training on screening to a number of federal departments, as well as international partners, demonstrating CATSA's **innovative training expertise**.
- In its continued efforts to enhance the customer experience, CATSA **participated in a variety of outreach initiatives**, including engaging with Indigenous Elders and participating in events targeted towards assisting travellers with autism.
- CATSA takes passenger complaints very seriously. Despite continuous increases in passenger volumes, the number of complaints CATSA received is relatively small, averaging about **one complaint per 50,000** screened passengers.
- Over **\$1.2 million worth of lost items were found** at various checkpoints, and returned to passengers prior to their flights.



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*; *Financial Administration Act*; *Aeronautics Act*; *Canadian Aviation Security Regulations, 2012*; and *Screening Security Measures*.

Regulatory Environment

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



CATSA is affected by regulatory changes made by major international partners, such as the United States (U.S.) 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 Transportation Security Administration (TSA) in the U.S. In addition, as a member of the International Civil Aviation Organization (ICAO), Canada has an obligation to comply with ICAO aviation security standards. When changes are sought by other jurisdictions or ICAO, TC endeavors to accommodate such changes, while minimizing the impacts on passengers and industry.

In its continued efforts to align Canada with other international partners, CATSA worked alongside TC to update the restrictions associated with small knives, and amend the prohibited items list for flights within Canada and to international (non-U.S.) destinations. These changes provide increased flexibility for the travelling public, while allowing screening officers to focus their analysis on greater threats. Knives of any length remain non-permitted at PBS for flights to the U.S.

Likewise, in response to regulatory direction from TC, CATSA implemented enhanced screening measures for large electronics, and implemented new restrictions on inorganic powders and granular materials with a volume of 350mL or more. CATSA has also developed and implemented several key procedural changes, including updated screening procedures for passengers with casts, prosthetics and those who are travelling with live animals. These changes were made without significant impact to the travelling public.

Throughout the fiscal year, CATSA also worked closely with the Canadian Transportation Agency (CTA) to provide feedback on their regulatory renewal project. An impact assessment of the changes proposed by the CTA was conducted across the organization, and indicated that CATSA is aligned with the direction that the CTA is taking. Information sessions were provided to the CTA staff to inform them on how CATSA currently facilitates access through our checkpoints for all individuals, including those with special needs.

Industry Partners

CATSA operates in a highly integrated environment, with several different entities assigned to specific security responsibilities, including other government entities, 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; not only to ensure the effective and efficient screening of passengers and their belongings, but also aid their continuous movement through the system as 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. Therefore, CATSA is committed to continue strengthening and building collaborative relationships with industry partners.

This was exemplified by the continued deployment of CATSA Plus lines at Montreal-Trudeau International Airport, Toronto Pearson International Airport, Calgary International Airport and Vancouver International Airport in 2017/18.



CATSA also leverages its relationships with the international community, proactively sharing information and discussing plans for future innovations. As a result, CATSA continued to enhance its reputation among key stakeholders. For example, CATSA participated in a variety of conferences over the course of 2017/18, including the Global Aviation Security Symposium (AVSEC 2017) and the Airports Council International – North America (ACI-NA) conference. Participating in these conferences allowed CATSA to continue expanding its understanding of aviation security, passenger facilitation, and the ever-changing world of technology.

Labour Relations

CATSA outsources its services to screening contractors, who rely on a unionized workforce to deliver screening services. CATSA has certain responsibilities with regards to screening officers' work, such as developing Standard Operating Procedures (SOPs), training and certification. However, given the nature of the third-party service delivery model, CATSA has no direct role in labour relations, but rather monitors the labour climate very closely, and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions.

Collective bargaining agreements with expiry dates are presently being renegotiated. CATSA works closely with screening contractors to maintain labour stability throughout these collective bargaining cycles, which is key to CATSA's successful operations.

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 last Special Examination began in 2013/14 and the OAG presented its final report to CATSA in June 2015. The OAG recognized significant improvements since the previous Special Examination that occurred 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.

As indicated in last year's Annual Report, CATSA implemented action plans to address each of the recommendations stemming from the OAG's Special Examination. The one action plan that remains to be completed is the implementation of CATSA's new Learning Management System (LMS). The CATSA LMS is a web-based system used to schedule, track, deliver and report on screening officer training and certification. It manages the National Training and Certification Program curriculum, course calendar, test results, and course evaluations. The LMS

is designed to track individual screening officer progress, recording testing scores and course completions. Work on the development and implementation of the new system began in January 2016, and is now in the final stages, with the final data migration and system launch planned for the second half of 2018/19. The full OAG Special Examination report can be found by following [this link](#).

Office of the Commissioner of Official Languages – Audit Report

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

As reported in our 2017 Annual Report, 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.

To address the recommendations, CATSA developed fifteen action plans and continues to work closely with the OCOL to advance the delivery of bilingual services to the travelling public. To date, 11 action plans have been completed, while the remaining four are expected to be addressed in 2018/19.

The Interim Commissioner has commended CATSA's commitment to meeting language obligations to the travelling public.



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 serves 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 CATSA'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 (SMC) and reported to the Board of Directors (BoD). 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

The BoD's key functions 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

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 those that could impede the organization's ability to achieve its strategic objectives. The following is a summary of key corporate risks listed by risk category.

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 continually works to 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 screening 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 are conducted.

Capacity Risk

Level of long-term funding to deliver core mandate

CATSA continues to face a variety of external challenges 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 a long-term, sustainable and operationally effective funding strategy to address this risk. Budget 2018 provided CATSA with incremental funding to maintain a wait time service level where, on average, 85% of all passengers wait 15 minutes or less to be screened, at Class I airports on an annual basis.



Level of corporate capacity to deliver core mandate and provide corporate support services

While CATSA's streamlined corporate structure has made the organization leaner, the organization may have limited depth of resources to support its core mandate including the provision of corporate support services.

To address this risk, the organization monitors current vacancy levels in order to prioritize staffing actions and may use fixed-term resources to alleviate workload pressures in corporate support services.

Service Delivery through Third-Party Risk

Legal or Illegal Labour Disruptions

CATSA outsources its services to screening contractors, who rely on a unionized screening officer workforce to perform screening operations. 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. The majority of the collective bargaining agreements between screening contractors and unions have expired on March 31, 2018, and the collective bargaining renewal process is underway. There is a risk that legal or illegal labour disruptions may occur 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 and keeps TC apprised of developments. In the event of a legal or illegal labour disruption, CATSA has prepared labour contingency plans with operational, legal and communications components.

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 are corrected and addressed during each review process.

Human Resources Risk

Employee recruitment

CATSA endeavours to recruit the best talent available, however, there is a risk that the organization may experience challenges in recruiting key or specialized talent. This may be due to labour market conditions for talent or due to CATSA's overall corporate Human Resources strategies.

To address this risk, the organization has implemented a number of initiatives to ensure competitive total compensation packages and has expanded its recruitment strategies to include specialized advertising for unique or key talent.

Employee retention and healthy workplace

CATSA strives to maintain an engaged, high performing workforce. There is a risk that CATSA's corporate strategies may impede the organization's ability to retain talent in key and specialized positions and to maintain a healthy workplace.

To address this risk, the organization is focusing on initiatives to retain talent and improve employee engagement. CATSA has implemented 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. In addition, the organization has implemented a number of improvements to employee compensation.

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

The current President and CEO has been appointed by an order in council for a period of one year or until a new President and CEO is appointed. There is a risk that, in such circumstances, the organization may face challenges in pursuing new longer term strategies and strategic 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 President and CEO.



REPORTING ON RESULTS



CATSA realized a number of notable accomplishments that have improved its operations in 2017/18.

These initiatives will allow CATSA to continue responding to evolving threats, realize further efficiencies and improve the passenger experience. The following sections present an overview of CATSA's progress, achievements, and performance of its mandated activities.¹

While specifics vary from one program to another, 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.

¹ 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

The implementation of the Customer Service Commitment was a priority for CATSA in 2017/18. For instance, PBS checkpoint procedures were reviewed and revised in order to align with the Commitment.

To assist screening officers with the implementation, CATSA has integrated the Customer Service Commitment into training activities through the Screening Officer Foundations (SOF) course, a Recurrent Learning Program (RLP) module, and has made the Commitment the focus of the RLP annual In-Service Exercise. The Commitment was also highlighted in the summer Operations Briefing delivered to all screening officers. These activities have been supported by the development and distribution of visual communication products at the checkpoint, including pins for screening officers and floor decals with the slogan “Your Security 1st”. Screening officers were engaged throughout the process to assist in the development of the Commitment and new slogan.

Lastly, Commitment stanchion signs were trialed at all Class I airports in November 2017 and larger lollipop signs were trialed in February 2018. Results were captured through the Passenger Intercept Surveys, which were also updated to allow tracking of performance against the Commitments.

KEY ACCOMPLISHMENTS

- With the support of additional government appropriations received in the previous fiscal year, CATSA exceeded its wait time service level target and delivered a wait time service level where, on average, approximately 88% of all passengers waited 15 minutes or less to be screened at Class I airports on an annual basis.
- These additional appropriations allowed CATSA to continue delivering on its core mandate of protecting the public through effective and efficient screening of air travellers, their baggage and personal belongings.
- CATSA deployed an additional 28 CATSA Plus lines at Montreal-Trudeau International Airport, Toronto Pearson International Airport, Calgary International Airport and Vancouver International Airport.
- 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 has integrated the Customer Service Commitment into various training activities to ensure that all screening officers can strive to provide exemplary customer service.



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;
- Providing 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.

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 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-Trudeau International Airport, Toronto Pearson International Airport, Calgary International Airport and Vancouver International Airport.

CATSA's existing PBS 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, 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.

CATSA Plus deployments continue to progress as planned. In 2017/18, there were 28 CATSA Plus lines deployed in Montreal, Toronto, Calgary and Vancouver, bringing the total to 41. Most of the installations required, in parallel, the construction of a remote screening room to facilitate centralized X-ray processing. Operating in a live airport environment, the CATSA Plus deployment projects were set with very tight timelines in order to complete construction prior to peak travel periods.

In August 2016, CATSA began a trial implementation at the domestic/international checkpoint at the Montreal-Trudeau International Airport. Over the course of 2017/18, a total of eight lines were deployed at the checkpoint, all within a live airport environment under very tight timelines. CATSA is continuing to work towards completing the deployment during the 2018/2019 fiscal year.

Following the introduction of the CATSA Plus concept at Toronto Pearson International Airport in March 2017, CATSA installed a total of 10 lines during the 2017/18 fiscal year. In January 2018, CATSA met with the Greater Toronto Airports Authority (GTAA) to discuss the deployment of the remaining lines planned for Toronto. CATSA and the GTAA will continue to work together on the Terminal 1 international and domestic checkpoints, while also exploring options for the Terminal 3 transborder checkpoint.

At Vancouver International Airport, a total of nine lines were installed at the domestic/international, Link and Domestic Terminal Building (DTBS) checkpoints in 2017/18. Going forward, CATSA will continue focus on the deployment of additional CATSA Plus lines at the In-Transit to Pre-Clearance (ITPC) and international checkpoints.

Lastly, one additional CATSA Plus line was installed at Calgary International Airport at the ITPC checkpoint in July 2017. There are no additional CATSA Plus deployments planned for Calgary at this time.



WHAT PASSENGERS ARE SAYING:

Shout out to the awesome CATSA employees and airline staff @FlyYYC that did their best to get everyone through screening quickly. #yyc



Very efficient new screening at @TorontoPearson



**CATSA'S CUSTOMER COMMITMENT
ENGAGEMENT DE L'ACSTA ENVERS
LA CLIENTÈLE**

1 WE WILL ACKNOWLEDGE YOU UPON ARRIVAL | NOUS VOUS SALUERONS DÈS VOTRE ARRIVÉE

2 WE WILL ASSIST YOU THROUGHOUT THE SCREENING PROCESS | NOUS VOUS AIDERONS PENDANT TOUT LE PROCESSUS DE CONTRÔLE

3 WE WILL BE COURTEOUS AND PROFESSIONAL | NOUS SERONS COURTOIS ET PROFESSIONNELS

Canada

POSITIVE FEEDBACK

// At the Montréal Trudeau Airport on July 1, I had excellent bilingual assistance from Christopher and Jean-Villier with my oversize baggage. These two agents projected an openness and respect that reflects very favourably on the CATSA. Their pleasantness and easy going attitude helped to reduce the stress involved in travel. In this regard they are indispensable assets for CATSA. In addition, they went beyond the call of duty in providing me with advice and assistance. //

Other airports have also initiated discussions with CATSA regarding the deployment of CATSA Plus lines. The airport authorities are aware of the current funding shortfall for the program, however, they are in the planning stages for terminal renovation projects. These airports would like to ensure any terminal building modifications made will enable CATSA Plus lines to be deployed in the future should funding be made available. If additional capital funding for the program is not secured CATSA will consider deploying Manual Split Lanes (MSLs).

Although measurement and evaluation are ongoing, initial indications are that CATSA Plus lines improve both passenger experience, security effectiveness, and screening capacity. The new screening concept has been embraced by the travelling public, airport authorities, and screening officers alike.

Passenger Facilitation, Passenger Assistance and Community Engagement

As part of the enhanced Customer Service Commitment, CATSA continues to strive towards providing the best customer service possible to passengers, from the beginning of the screening process to the end. CATSA endeavours to treat all persons with care, courtesy and respect as part of a positive and secure air travel experience.

Travellers with Autism

In 2017/18, CATSA participated in two initiatives to help make travel more accessible for families and individuals living with autism.

The first initiative was an Autism Aviators Familiarization Event, which took place on May 7, 2017, at the Halifax International Airport. CATSA participated in the Halifax airport authority mock travel day, where participants were given the opportunity to experience the different processes at an airport first hand, including check-in, security screening and waiting in departures. This was a unique program specifically designed for families living with autism, aimed at helping ease the stress of flying.

Similarly, CATSA also actively participated in the "I CAN Fly" program at the Vancouver International Airport (YVR). In November 2017, the Vancouver Airport Authority, with the support of Air Transat, CATSA and G4S (screening contractor for the Pacific region), hosted the annual event, which aims to make travel more accessible for families living with autism. The program includes an annual accessibility tour, a travel resource toolkit, a step-by-step video series, and the YVR Autism Access Sticker, which provides an expedited airport process through the YVR FasTrack lanes. CATSA and G4S managers were also present at Air Transat's check-in counters, where they met families and participants and delivered a brief description of what to expect at PBS.



WHAT PASSENGERS ARE SAYING:

@catsa_gc a special thanks to all CATSA members....your job is thankless but necessary...

.....

@catsa_gc lovely staff at screening at YYJ just now. Friendly, engaging, helps immensely in taking some of the stress out of travel. Cheers!

Engagement with Indigenous Elders

CATSA is engaging with Indigenous Elders to look at enhancing and improving our procedures with respect to screening of sacred and spiritual items. These engagements will enable CATSA to better understand the unique needs of Indigenous travellers. The first round of consultations in this multi-year initiative occurred in March 2018.

Lost and Found

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

In 2017/18, CATSA reunited over 1,900 passengers with their items that were lost or left behind at the checkpoint. Examples of items include laptops, phones, jewelry and wallets. In one particular circumstance, CATSA was able to assist a passenger who had their wheelchair accidentally removed from the checkpoint by another passenger. Utilizing CCTV footage, CATSA was able to return the wheelchair to the passenger so that they were able to continue on their travels.



A second situation allowed CATSA to assist a passenger who had misplaced their passport and boarding pass. CCTV footage allowed CATSA to locate the passport and boarding pass, and return it to the passenger prior to their flight.

PUBLIC ENGAGEMENT

CATSA continues to ensure the travelling public is well informed as it relates to CATSA's mandate, screening procedures 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 to better prepare passengers for screening;
- Utilizing the "Breeze Through Security" mobile app, where travellers can find information to make it easier to get through airport screening checkpoints;
- Security screening awareness campaigns specific to travellers from various regions of the country, and during busy travel periods; and
- Providing information to various community groups and advocacy associations.



PBS Wait Time Service Levels

To ensure that CATSA's screening resources are assigned in an efficient and consistent manner in order to provide optimal service to passengers, while maintaining a high level of security for air travellers, the organization uses the PBS Wait Time Service Level (WTSL)². This tool is key in the planning and allocation of CATSA's operational resources.

With no Government mandated service level, CATSA always aims to deliver a WTSL that is commensurate to the federal budget received on a given year. In 2017/18, CATSA received another one-year supplemental funding from the Government of Canada, and delivered a wait time service level where, on average, approximately 88% of all passengers waited 15 minutes or less to be screened at Class I airports on an annual basis. Over and above that, when looking at the distribution of screened passengers for that fiscal year, on average, 95% of all passengers waited 20 minutes or less to be screened at Class 1 airports on an annual basis.

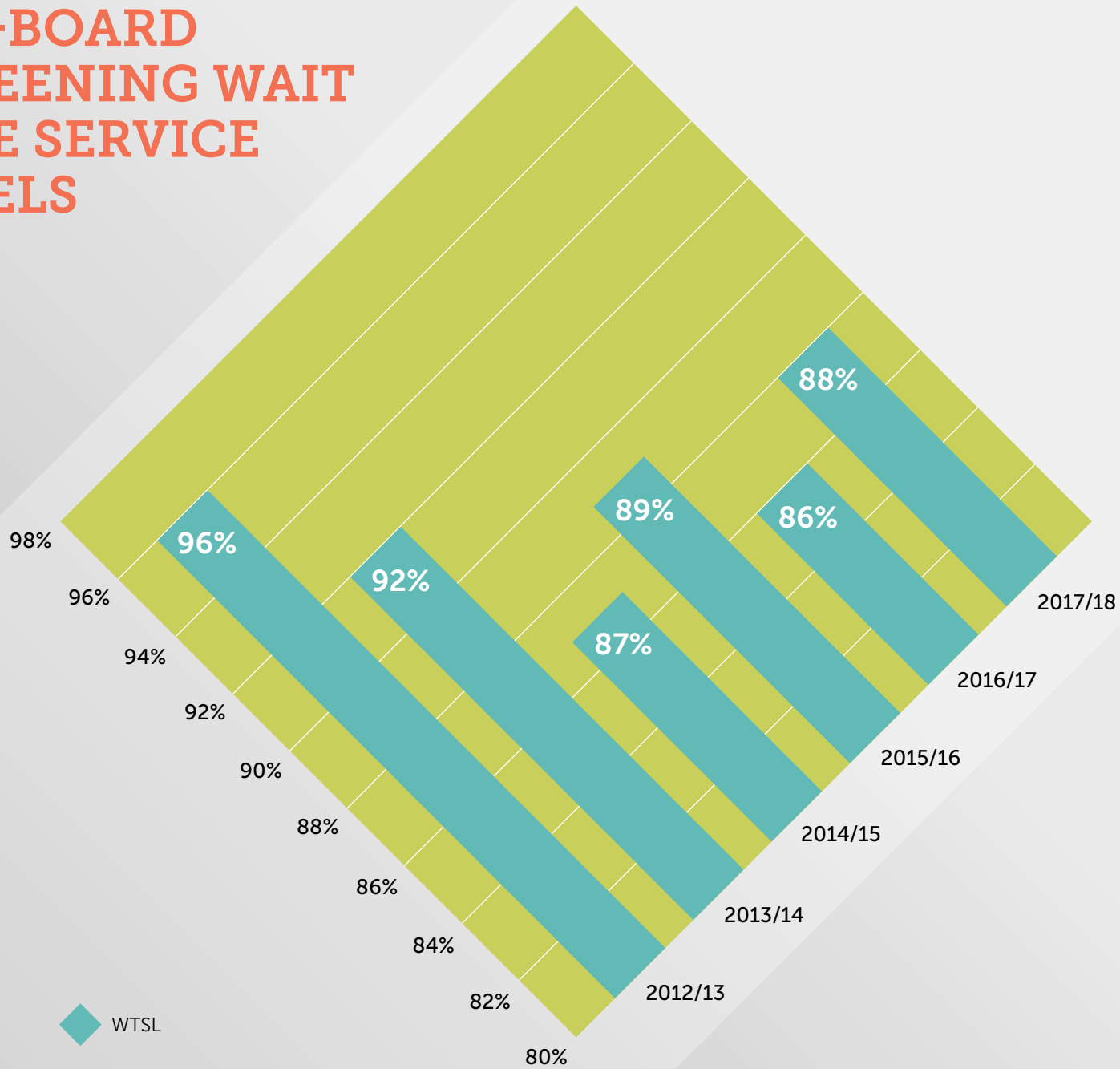
However, it is important to remember that this performance is reflective of an average of the WTSL at all Class I airports across the country. In 2017/18, passengers may have been faced with longer wait times in certain instances. For example, longer wait times will occur during peak periods, when checkpoints experience very high traffic volumes. These periods can differ

significantly between checkpoints and even within the same checkpoint (i.e. different time periods). These deviations in service levels are mainly attributable to variables such as expected passenger volumes vs. actual volumes, flight schedules, weather related incidents, downstream processing limitations, checkpoint capacity, changing traffic patterns over time, and scheduling flexibility. Nonetheless, CATSA continues to strive to offer the best possible experience for passengers that present themselves at CATSA checkpoints across Canada by working collaboratively with industry partners such as airports and air carriers.

Additionally, 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 2017/18, 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. In addition, throughout 2017/18, the organization leveraged these tools and information in support of the Government of Canada's ongoing review of CATSA's governance model.

² 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.

PRE-BOARD SCREENING WAIT TIME SERVICE LEVELS





WHAT PASSENGERS ARE SAYING:

This morning @catsa_gc @YWGairport was the best, I don't know what you did but keep it up!

.....

@yvrairport always such a pleasure to start my travel here and your @catsa_gc team is the nicest in Canada I swear. #bestinNA #weloveyvr #yvr #travel #canada

Trusted Travellers

In January 2013, TC and the 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.

In 2017/18, the Trusted Traveller line concept was further expanded in order to better harmonize with the equivalent TSA program in the U.S. CATSA continues to collaborate with TC to explore further enhancements to the HTT program as well as the Trusted Traveller Program at domestic and international checkpoints.

Trials and Innovations

On an annual basis, CATSA undertakes a series of initiatives and trials to drive innovation, security effectiveness and efficiency in security screening.

Full Body Scanner

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 travellers, and improve security effectiveness. Currently, FBS units are used as a secondary screening tool at PBS checkpoints.

The U.S. and the Netherlands have introduced 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 trials at both the Toronto City Centre Airport and Toronto Pearson International Airport using the FBS as the primary screening tool in lieu of the Walk Through Metal Detector (WTMD) and assessing various configurations and screening processes. The results of these trials indicated that this screening concept demonstrated significant security effectiveness benefits.

As a result of these benefits, CATSA has launched an additional FBS Primary Trial to test the concept on CATSA Plus lines as well as functionality using multiple alarm resolution stations. These trials will allow for the assessment of benefits versus the operational impacts.

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

Boarding Pass Security System, eGates, and Sensors

Several enhancements were made to the Boarding Pass Security System (BPSS) in 2017/18. For example, a trial utilizing a new configuration, including eGates and tracking sensors, was introduced at Edmonton International Airport in September 2017. Although there were many positive outcomes that highlighted the collaborative efforts between CATSA and its vendors, it was discovered that the data generated by the tracking sensors was not sufficiently accurate to serve as a viable long term replacement for traditional BPSS handheld barcode scanners and podiums.

CATSA will leverage the lessons learned from this trial to focus on ways to improve operational efficiencies, while continuing to monitor the evolution of this technology.

CATSA Assist

In an attempt to help screening officers navigate their way through complex screening procedures and the vast diversity of items passengers bring through the checkpoint, CATSA has trialed an innovative solution called CATSA Assist at the Ottawa International Airport's domestic and international screening checkpoint. CATSA Assist is a database that brings actionable information to the screening officers, at point of need, on the screening line. In its trial form, CATSA Assist is a database that contains information about a number of different items, and their status as permitted or non-permitted at the various screening environments such as PBS, NPS and HBS.

The first phase of the CATSA Assist trial has seen great success, with over 40,000 searches in the first six months. The searches performed have given CATSA further insight into the challenges screening officers face in terms of making decisions on specific items, which allows for the development of targeted communication materials and ongoing training opportunities. As the database is located on the internal CATSA network, all searches can be reviewed centrally to enhance the item database with new entries, as required.



POSITIVE FEEDBACK

// I was caught in the snow and horrible traffic coming to Pearson. I was late leaving a meeting and it was critical that I make it back to London on my 6 p.m. flight. A woman noticed that I was running desperately late and she helped me with my belongings and helped send me on my way. She was very cheerful and could not have been nicer! I only wish that I had thought to look at her nametag so I could refer to her by name. I have been flying on average twice a month for the last 15 years, and this is one of the top five acts of random kindness that I have encountered in all of my experience of being a frequent traveller. //



Screening Process Consistency Enhancements

CATSA launched multiple initiatives in 2016/17 in support of both the enhanced passenger experience and ease of operations management. 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 in 2016/17 and changes implemented throughout 2017/18, generating customer service benefits while also making the screening process as it relates to random screening easier to manage.

Supplementary Screening Lines Trials

In September 2014, CATSA and the GTAA entered into a supplemental screening agreement to trial cost recovery at PBS with the shared objective of improving passenger wait times. This initiative began on October 5, 2014, and allowed the GTAA to purchase incremental capacity beyond what is available at any given time (i.e. limited to the purchase of available, unfunded screening capacity).

CATSA has entered into a one-year extension with GTAA each year since the initial trial, and the current contract has been extended until March 31, 2019.

In June 2017, CATSA entered into a supplemental screening trial agreement with the Vancouver International Airport Authority (YVRAA), which was set to expire on March 31, 2018. The term was recently extended for a three month period, and will expire on June 30, 2018.



HOLD BAGGAGE SCREENING

In 2017/18, 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 46 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 2018, of the 46 projects, 22 are now operational and 24 projects are currently in progress. 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 2017/18. 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 2018 provided CATSA with additional funding which will allow the organization to maintain its enhanced NPS program for 2018/19. CATSA continues to work closely with TC to secure a long-term funding solution for NPS.





RESTRICTED AREA IDENTITY CARD

CATSA and airport authorities continue to work together collaboratively to maintain the effective, efficient and consistent operation of the Restricted Area Identity 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.

Following consultation with airport authorities in 2016/17, CATSA is focusing on further developing the RAIC system in order to ensure that it meets the requirements of a constantly evolving operational and technological environment.

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 recruitment, retention and engagement

CATSA faces the same recruitment challenges as other employers in Canada, and actively seeks to understand the issues that might affect employee attraction, retention 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 enhance the working climate.

Employee working groups were formed to explore the themes emerging from the survey. 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. Policy changes pertaining to these recommendations came into effect April 1, 2017.

CATSA conducted another biennial employee survey for fiscal year 2017/18. The results of this survey were presented to CATSA's Senior Management and its Board of Directors in May and June 2018, respectively. As CATSA senior management is committed to an ongoing dialogue with employees, a plan to address the findings from the new survey will be developed in the summer of 2018, and an update will be provided in next year's Annual Report.

Business Continuity Planning

In 2017/18, along with the annual update of its Strategic Emergency Management and Business Continuity Plans (BCP), CATSA enhanced its resiliency and response capability with the addition of an All Hazards Response Plan. CATSA developed an Emergency and Safety Guide outlining emergency procedures for all staff to follow during emergencies affecting its ability to provide mandated services from its HQ located in Ottawa. Along with the addition of the All Hazards Response Plan and Emergency and Safety Guide, training was provided to CATSA Headquarter Staff at all levels of the organization to ensure familiarity and understanding of emergency procedures and processes.

CATSA conducted a national emergency management exercise to test its ability to respond to an aviation security incident that may affect its ability to provide mandated services.

CATSA's Strategic Emergency Management and Business Continuity Plans were the focus of an internal audit this year to provide reasonable assurance the program is in alignment with Treasury Board Secretariat's Operational Security Standard – Business Continuity Planning. While it was recognized that CATSA's BCP program is operating effectively, there are opportunities to improve some processes and procedures currently in place. As such, in the next 12 months, CATSA will be making improvements to areas of the BCP that involve business impact analysis, business continuity plans and arrangements, and program maintenance and readiness.

OTHER MANDATE-RELATED ACTIVITIES

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 7,700 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 continues to develop timely, relevant and specialized training to support ten certification programs. These materials constantly evolve to meet the demands of the changing threat landscape, new procedures and screening technology upgrades and trials.

On November 1, 2017, CATSA deployed the first phase of the National X-ray exam at all Class I airports. The program was designed to assess the screening officers' ability to meet CATSA's operational standard for X-ray threat detection. Implementation of the National X-ray Exam in Class II and III airports will occur in future phases.

Training screening officers in CATSA Plus has continued to be a major priority this year. For example, over 1,800 screening officers completed the CATSA Plus Orientation Module, which is the prerequisite for all additional CATSA Plus training (such as passenger facilitation, remote X-ray, and bag search).

Additionally, in 2017/18, CATSA updated various training modules for screening personnel to provide a continued emphasis on enhancing the passenger experience through an exemplary commitment to customer service.

CATSA reviews all 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 2017/18, CATSA continued to engage in a number of collaborative initiatives with domestic and international stakeholders, focused on a variety of topics. Board members and senior management continued to build on relationships with key stakeholders through productive high level meetings, facility tours, conferences and forums.

For example, CATSA hosted several information sharing sessions with the International Air Transport Association (IATA), Airports Council International (ACI), the TSA and the New Zealand Aviation Security Service (AVSEC), among others. These sessions were leveraged to gain knowledge, which assisted in developing concepts of operations and making decisions regarding CATSA Plus and other key projects.

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. More recently in 2017/18, the Government of Canada launched a governance model review of CATSA in an effort to achieve a more sustainable and predictable funding model for the organization. CATSA worked closely with the government and stakeholders such as the Air Transport Association of Canada (ATAC), National Airlines Council of Canada (NACC), Canadian Airports Council (CAC) and CEOs of Class I airports to evaluate the various governance options being considered. CATSA continues to support Transport Canada in this endeavour.

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 2018/19 as CATSA moves forward with the evolution of important projects and initiatives.



POSITIVE FEEDBACK



// I am a Customer Service Agent for WestJet at the Ottawa Airport and on January 30, 2017 I was assisting a family through the security checkpoint in order to get to the gates. This was a family traveling with the “Make a Wish” program and returning home from their special trip to Ottawa. Our “Make a Wish” youth was an immobile guest in a wheelchair and Marlon, one of your screening officers, had to perform a physical search. Our guest became upset as I don’t think he fully understood why he had to be touched and why Marlon had to inspect him. What really impressed me was throughout the entire search, Marlon was amazing with our guest! He talked with him and explained each step of the search process and reassured him; he took the extra time needed to do his job in a unique situation and I was so impressed with how he handled it. //

Smart Security

The International Air Transport Association (IATA) and Airports Council International (ACI) co-sponsor the global Smart Security initiative which is led by the Smart Security Management Group (SSMG).

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 will continue to be influential in 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.

CATSA is also an active participant in the World Economic Forum, a working group that brings together public and private sector leaders to rethink the global policy framework. Air traffic volumes are expected to nearly double in the next 15 years, and this growth is expected to test infrastructure and security controls. Working in partnership with other members of the forum, CATSA works towards improving passenger processing through airports, while leveraging technology such as mobile devices and biometrics to address any challenges that arise.

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	2015/16	2016/17	2017/18	Comments
Screening officer attrition levels	20.0%	14.7%	18.7%	18.0%	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.
<p>Definition: The percentage of screening officers at the eight busiest airports who voluntarily resigned, died, or retired.</p>					
PBS optimal throughput	N/A*	159	166	180	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	2015/16	2016/17	2017/18	Comments
Security screening compliance	98.0%	95.3%	95.3%	95.4%	Overall, a positive trend in security screening compliance is observed with results for 2018/19 consistent with 2017/18. CATSA will continue to work with screening contractors to achieve sustained continuous improvement in the year ahead.

Definition: The evaluation by Performance Officers of Screening Officer performance according to SOPs and regulations related to Class I airport PBS screening equipment (ETD, HHMD, WTMD and X-ray) and screening techniques (physical search of persons and bags).

Note: This excludes criteria related to OLA and BPSS compliance.

National Training and Certification Program (NTCP) success rate	90.0%	89.1%	87.7%	87.7%	The NTCP success rate comprises results from SOF, EDX and CT training courses. Overall, the NTCP success rate remained consistent with the previous year (FY 16/17). SOF and EDX training results remained above target with SOF showing no change from the previous year at 91.2% and EDX seeing an increase of 2.1%, from 95.9% to 98% . CT pass rates remained stable at 76.2% compared to 76.7% last year. Training volume remained consistent at 2123 total training attempts compared to 2173 in the previous year.
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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	2015/16	2016/17	2017/18	Comments
Confidence in security screening	75.0%	75.3%	77.5%	80.0%	Confidence in CATSA security screening continued to increase in 2017/18, surpassing the target of 75% for the third consecutive year.
<p>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.</p>					
Satisfaction with overall screening experience	85.0%	82.9%	85.1%	86.0%	Overall satisfaction with security screening also increased in 2017/18, surpassing the target of 85% for the second consecutive year.
<p>Definition: The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.</p>					
Customer Satisfaction Index	85.0%	81.1%	83.4%	84.3%	All elements of Customer Satisfaction Index have improved since 2015/16. Satisfaction with speed of processing has improved the most (2.5% since 2015/16).

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



Customer Service and Enhancing the Passenger Experience

Meeting expectations with passenger wait time service levels

In 2017/18, CATSA screened 66.3 million passengers at all designated airports across Canada. In 2018/19, passenger volume is anticipated to grow to 70.1 million passengers in airports across Canada, and by 2021/22, it is expected to reach over 78 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 passenger wait times.



Budget 2018 included \$240.6M in funding for CATSA for 2018/19. This additional funding will allow CATSA to strive for a wait time service level target where, on average, 85% of all passengers are waiting 15 minutes or less to be screened at Class I airports on an annual basis. It will also ensure that CATSA maintains its enhanced NPS program for the fiscal year and supports the introduction of U.S. Pre-clearance operations at Quebec City Jean Lesage International Airport and Billy Bishop Toronto City Airport.

Throughout the fiscal year, CATSA will continue to work with TC to develop a long-term strategy to address funding pressures and the associated impacts on air security screening programs.

CATSA Plus Deployments

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 enhancing security effectiveness.

The successful deployment of 41 CATSA Plus screening lines at the four busiest airports in Canada has allowed CATSA and airport authorities a unique opportunity to collaborate on a mutual goal of improving the passenger experience and providing excellent customer service.

CATSA's current capital reference levels will allow the organization to continue the deployment of a limited number of CATSA Plus lines in the coming years.

Cost Recovery

In 2014, with TC's support, CATSA entered into a Supplemental Screening Trial Agreement with the GTAA, which allowed the GTAA to purchase additional screening services in the form of supplemental screening lines. The trial was recently extended to March 31, 2019.

In addition, with TC's support, in June 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. This term was recently extended, and will now end on June 30, 2018.

Both agreements are consistent with the intent of Bill C-49, the Transportation Modernization Act, which received Royal Assent on May 23, 2018. Bill C-49 is expected to allow CATSA to enter into cost-recovery agreements for the delivery of screening services that are in line with CATSA's current mandate, at designated and non-designated airports.

CATSA is continuing to work with Transport Canada to assess the full impact of Bill C-49, and will consult with the airport authorities who express an interest in purchasing additional screening services once the details have been finalized.

Governance Review

At the beginning of 2017/18, the Government of Canada launched a governance model review of CATSA in an effort to achieve a more sustainable and predictable funding model for the organization. Throughout 2017/18, CATSA worked closely with government and stakeholders – particularly Transport Canada – to evaluate the various governance options being considered. CATSA continues to support Transport Canada in this endeavour.



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;
- ✓ 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;
- ✓ 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, 2018, CATSA'S BOARD OF DIRECTORS INCLUDED:

- Marguerite Nadeau,
Chairperson
- Paul Benoit
- Jean-Philippe Brunet
- Melissa Coulson
- Sharon Duggan
- Patricia Kennedy
- Gilles Lalonde
- Taleeb Noormohamed
- William Restall
- Allan Rowe
- Raf Souccar



Read Board members' biographies [here](#).

In 2017/18, the Board of Directors continued to oversee CATSA's strategic direction through the monitoring of the operational and financial performance of the organization and alignment with the operating and financial plans as outlined in CATSA's 2017/18 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 11, 2017, CATSA hosted its Annual Public Meeting. During the meeting, CATSA's Chairperson, Marguerite Nadeau, thanked Vice-Chairperson Peter Wallis for his contributions to CATSA and the Board while acting as Chairperson. She also highlighted some of CATSA's milestones for 2017, such as the launch of CATSA Plus at Montreal-Trudeau Airport, followed by the deployment of a full CATSA Plus checkpoint at Calgary International Airport. Other important initiatives overseen by the Board included the continued delivery of enhanced non-passenger screening to meet international obligations and CATSA's large-scale, multi-year HBS recapitalization program.

Michael Saunders, CATSA's President and CEO, underlined the fact that, in 2016/17 CATSA saw its highest-ever passenger volumes. That said, with the hard work and commitment of CATSA employees and screening staff, CATSA was, once again, successful in meeting a wait time service level target where, on average, 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis. Innovations such as CATSA Plus, CATSA's new high-performance concept for screening lines, also contributed to the achievement of this target.

Mr. Saunders also noted that, in 2017, CATSA earned an all-time high customer-satisfaction level of 86% in the third quarter of 2016/2017. That focus on the passenger experience is reflected in CATSA's new Customer Service Commitment to Passengers.

Mr. Saunders talked about some of CATSA's challenges such as ongoing changes to our screening processes and regulations in response to evolving threats, and to maintain harmony of services with our international partners. The President and CEO also spoke to CATSA's lack of sustainable long-term funding for which the organization continues to explore potential solutions with TC.

A video of the meeting, including the Chairperson and CEO speeches, was posted on CATSA's website. Click [here](#) to view a video from the meeting. The public was invited to send questions and comments by email.

Board Remuneration and Meeting Attendance

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



Board and committee attendance is based on the number of meetings attended out of the total number of meetings that occurred while the director was a member of the Board and/or committee. In 2017/18, the Board committees met a total of 15 times and the Board in its entirety met a total of 11 times.

Board Member	Total Remuneration	Board Meetings	Committee Meetings
Nadeau, Marguerite (Chairperson) <i>*Appointed 2017-09-13</i>	\$23,248	7/7	8/8
Benoit, Paul	\$16,320	10/11	8/8
Brunet, Jean-Philippe <i>*Appointed 2018-02-21</i>	\$582	2/3	–
Coulson, Melissa ²	\$17,880	11/11	11/11
Dufour, Jean-Marc <i>*Term Ended 2018-02-20</i>	\$15,564	9/9	6/6
Duggan, Sharon <i>*Appointed 2018-02-21</i>	\$3,117	3/3	–
Kennedy, Patricia	\$17,880	11/11	11/11
Koop, Dora <i>*Term Ended 2018-02-20</i>	\$12,639	9/9	8/8
Lalonde, Gilles <i>*Appointed 2018-02-21</i>	\$582	2/3	–
Noormohamed, Taleeb <i>*Appointed 2018-02-21</i>	\$582	2/3	–
Restall, William ³	\$19,050	11/11	8/8
Rowe, Allan	\$16,515	11/11	11/11
Souccar, Raf	\$15,150	11/11	8/8
Wallis, Peter ¹ <i>*Term Ended 2018-02-20</i>	\$21,219	9/9	10/10

Total remuneration (annual retainer and per diems) paid to directors and the Chairperson was \$180,328 in 2017/18, compared to \$173,363 in 2016/17.

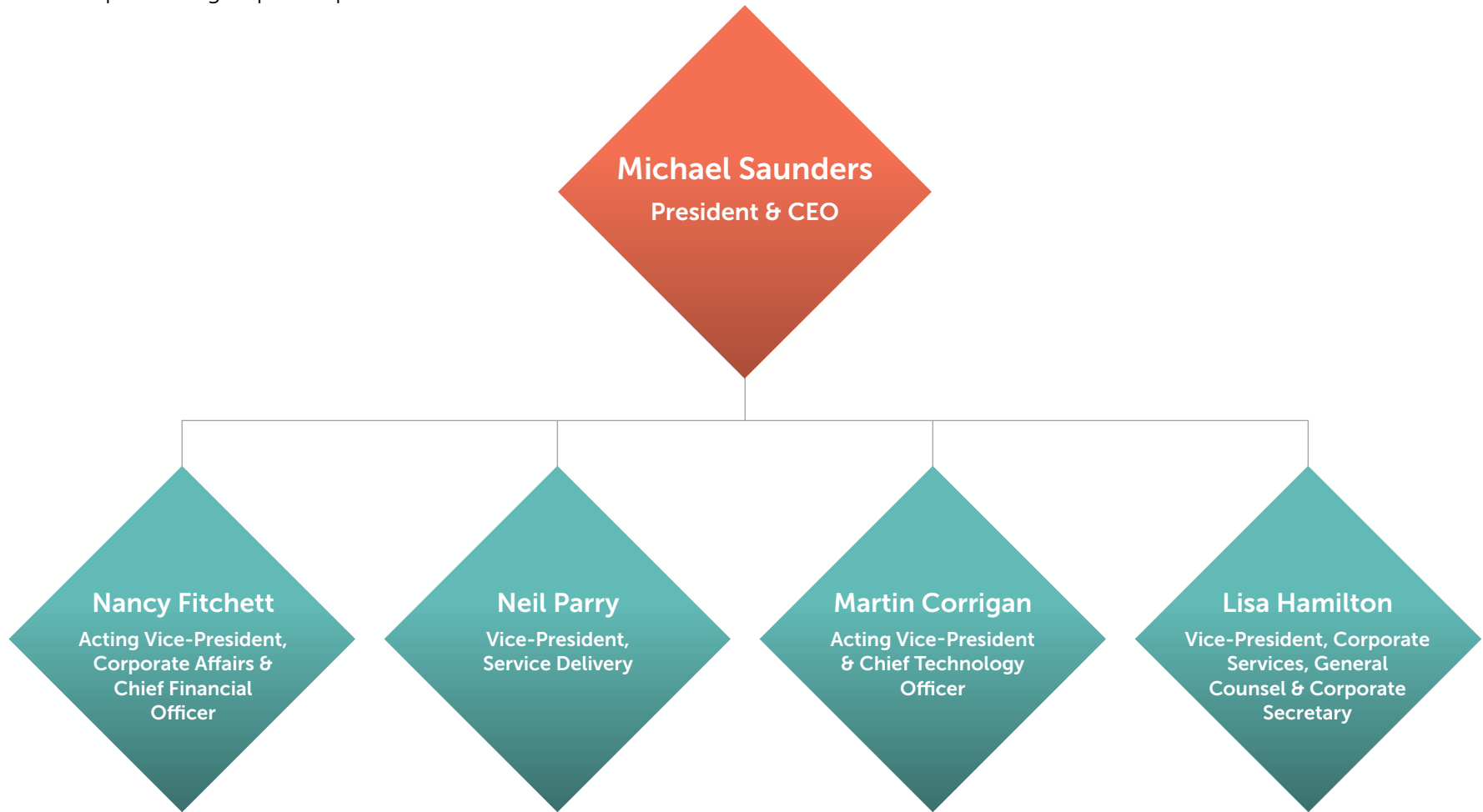
¹ Chairperson of the Strategy Committee & Acting Chairperson of the Board beginning October 4, 2016, ending September 12, 2017.

² Participated as evaluator for Internal Audit Request for Proposal (RFP).

³ Participated in recruitment process for Vice-President, Corporate Services, General Counsel & Corporate Secretary.

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.



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. CATSA's performance against the requirement to provide bilingual service at all bilingual designated airports improved slightly this year, with a national average compliance rate of 95.6% in 2017/18, compared to 95.1% in 2016/2017.

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 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. And to confirm those obligations are met, CATSA performs regular observations at the checkpoints.



At the regional level, several initiatives have been put in place in an effort to improve CATSA's provision of bilingual service at all designated bilingual airports.

In CATSA's Central region, administrative office staff have been assisting with passenger facilitation and have been monitoring screening officers "active offer" compliance. In addition, other staff members have been made available to help monitor and coach screening officers at various checkpoints at the Toronto Pearson International Airport.

In CATSA's Central and Prairies region, Garda (CATSA's Screening Contractor for these regions) has created an online *Official Languages Act* video on their internal website, which enables screening officers to view and familiarize themselves with basic phrases. Launching this training allows employees to practice on their own, or take initiative and start learning the skills prior to attending formal training.

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

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 over 66 million passengers during the time covered by the report, and received 35 complaints.

To address the recommendations, CATSA developed an action plan and continues to work closely with the OCOL 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 remains committed to promoting a bilingual work environment. CATSA employees across the country were reminded that promoting an inclusive bilingual culture in the workplace is a team effort.

Report on Access to Information Act and Privacy Act Requests

CATSA strives to incorporate the legislative obligations under the *Privacy Act* and the 10 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, 2017 to March 31, 2018, CATSA received 30 requests under the *Access to Information Act*. When added to the three outstanding requests from the previous year, CATSA was responsible for 33 files in 2017/18. Compared to the previous year, the amount of pages processed decreased by 2740 pages, representing a reduction of 31%.

In addition to these requests, CATSA received 64 informal *Access to Information Act* requests that were previously released. Compared to the previous year, the amount of informal requests processed went up by eight, representing an increase of 14%.

Also, CATSA received 14 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 12 requests under the *Privacy Act*, of which 11 were completed within the fiscal year.



Over the course of the reporting period, ATIP related training was delivered to 154 participants in 15 training sessions of which seven training sessions were conducted in the Regions (Montreal, Toronto, Calgary and Vancouver). 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, the Diversity and Inclusion Network has been created and a three-year employment equity plan has been developed. CATSA will be finalizing an inclusion and diversity framework in 2018/19.

Environmental Impact Assessment Act

CATSA has not engaged in any projects over the current reporting year that have, 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 2017/18, CATSA did not receive any allegations or disclosures of wrongdoing or inquiries relating to the PSDPA.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended March 31, 2018



Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2018. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2018, 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 6, 2018, 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 increased from 3.0% in 2016 to an estimated 3.6% in 2017. It is expected to increase to 3.8% in 2018 and then slow down to 3.6% in 2019 and 3.4% in 2020. In Canada, the economy grew by 1.4% in 2016, and is projected to grow by 3.0% in 2017, 2.0% in 2018, 2.1% in 2019 and 1.8% in 2020.¹

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 6.2% in 2018 compared to 2017, and is expected to grow in each of the next 5 years.²

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 Airport Screening Services Agreements (ASSAs) that expire on March 31, 2022. This puts further pressure on CATSA's budget for screening hours.

Foreign Exchange

As expected, the Canadian dollar rebounded slightly during 2017/18, with an average U.S.-Canada exchange rate of 1.28³, compared to an average exchange rate of 1.31³ in 2016/17. Based on recent economic forecasts, CATSA expects the exchange rate to remain relatively stable, with a chance of continued improvement over the course of the next year.

¹ Bank of Canada, *Monetary Policy Report*, January 2018 for year 2016, and Bank of Canada, *Monetary Policy Report*, April 2018 for years 2017, 2018, 2019 and 2020.

² SNC Lavalin Inc., *February 2018 Air Passenger Traffic Forecasts for CATSA Designated Airports*.

³ Bank of Canada, *Daily Exchange Rates Lookup*.

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 weakening of the Canadian dollar could result in the cost of U.S. denominated transactions exceeding budgeted amounts. CATSA has a hedging strategy in place to help mitigate its foreign exchange risk and minimize the impact of fluctuations in the 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. Consequently, CATSA's financial plan is prepared in accordance with the resources it is assigned by the Government of Canada and as approved by Parliament.

CATSA continues to face a variety of challenges relating to increases in screening contractor billing rates and rising passenger volumes. Consequently, without additional funding, passengers may wait longer to be screened. CATSA's target is to achieve, on average, a wait time service level where 85% of all passengers are waiting 15 minutes or less to be screened at Class I airports, on an annual basis. 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 three years, CATSA has received one-year incremental funding from the Government of Canada to address these funding pressures, pending a long-term funding solution. More specifically, CATSA received incremental funding of \$176.1M in 2017/18 in order to maintain its annual national average wait time service level target and to continue to deliver its enhanced NPS program.

Budget 2018 included \$240.6M in incremental funding for CATSA for 2018/19. This funding should ensure that CATSA maintains its screening operations at its current wait time service level, as well as its current enhanced NPS program. The incremental funding also allows for the introduction of U.S. Pre-clearance operations at Quebec City Jean Lesage International Airport and Billy Bishop Toronto City Airport.

CATSA continues to work with TC to develop a long-term strategy to address funding pressures and the associated impacts on air security screening programs.

Compliance with Directives

In December 2014, CATSA was issued a directive (PC 2014-1382) pursuant to section 89 of the *Financial Administration Act* (FAA) to align with Budget 2013 direction on public sector pension reform. The pension reform included a provision for adjusting the employer/employee current service cost sharing ratio to 50:50 by December 31, 2017.

In July 2015, CATSA received notification that an exemption was available to pension plans that could demonstrate either unfairness to pension plan members, or recruitment and retention challenges, as a result of implementing the pension reform. Following this notification, CATSA began working with its external pension actuary to draft a business case for an exemption on the basis that the pension reform would be unfair to plan members. It is CATSA's view that its business case demonstrates that the closing of the defined benefit pension plan in 2013 would result in an unfair cost sharing burden on employees, and that the cost sharing ratio should be calculated as if the plan were open to new members.

CATSA submitted the final version of its business case to TC in May 2017, with the understanding that it would be approved by the December 31, 2017 deadline. In December 2017, TC advised that the business case would not be approved by the deadline due to processing delays. TC continues to work with Treasury Board of Canada Secretariat to obtain the necessary approvals. It is unknown at this time when it will be received.

As of January 1, 2018, CATSA aligned its employee contribution rates with the objectives identified in the business case that is pending approval.

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 2017/18 compared to 2016/17.

Key Financial Highlights – Statement of Comprehensive Income (Loss)

(Thousands of Canadian dollars)	2017/18	2016/17	\$ Variance	% Variance
Expenses¹				
Screening services and other related costs	\$ 542,662	\$ 505,776	\$ 36,886	7.3%
Equipment operating and maintenance	38,995	41,643	(2,648)	(6.4%)
Program support and corporate services	84,423	81,329	3,094	3.8%
Depreciation and amortization	58,948	52,951	5,997	11.3%
Total expenses	725,028	681,699	43,329	6.4%
Other expenses (income)	2,297	4,095	(1,798)	(43.9%)
Financial performance before revenue and government funding	727,325	685,794	41,531	6.1%
Revenue	15,669	7,368	8,301	112.7%
Government funding				
Parliamentary appropriations for operating expenses	645,498	616,371	29,127	4.7%
Amortization of deferred government funding related to capital expenditures	60,525	56,786	3,739	6.6%
Total government funding	706,023	673,157	32,866	4.9%
Financial performance	\$ (5,633)	\$ (5,269)	\$ (364)	(6.9%)
Other comprehensive income (loss)	(11,633)	21,528	(33,161)	(154.0%)
Total comprehensive income (loss)	\$ (17,266)	\$ 16,259	\$ (33,525)	(206.2%)

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, 2018.

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 80.3% of total expenses (excluding depreciation and amortization) in fiscal year 2017/18. These expenses consist of payments to screening contractors for the delivery of services performed by screening officers, as well as for screening officer training and recurrent learning requirements. Key variables impacting these costs include the number of screening hours purchased and billing rates.

The number of screening hours purchased is mainly driven by passenger volume. New or modified security regulations arising from evolving threats and security incidents, or alignment with other jurisdictions can also drive screening hours. Regulatory changes often result in changes to CATSA's screening procedures.

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 \$36.9M (7.3%) in 2017/18. This is primarily due to an increase in screening hours purchased of approximately \$19.1M and annual screening contractor billing rate increases of approximately \$16.2M.

The increase in screening hours purchased is mainly attributable to additional screening requirements to support higher passenger volumes, changes in operational needs at certain airports, and the implementation of the enhanced security measures that came into effect on July 19, 2017. The increase in screening hours purchased is also attributable to additional supplemental screening hours relating to the GTAA and Vancouver International Airport Authority (YVRAA) trial agreements, as well as additional screening requirements to support the enhanced NPS program, as the construction of permanent vehicle search facilities has been completed at certain airports. These increases are partially offset by the NPS Aircraft Exemption that came into effect July 18, 2017.

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 providers for new technology deployed at airports across Canada.

Equipment operating and maintenance costs decreased by \$2.6M (6.4%) in 2017/18. The decrease is primarily attributable to lower spare parts and maintenance costs resulting from the replacement of legacy EDS equipment with new equipment that is under standard warranty as part of the capital life-cycle plan. The decrease is also the result of lower training requirements for equipment maintenance providers to support the ongoing deployment of new EDS equipment.

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 costs increased by \$3.1M (3.8%) in 2017/18. The increase extends across various administrative costs including professional services in support of corporate initiatives (e.g. CATSA's governance review), rent and facilities costs resulting from property tax credits received in 2016 and the reversal in the prior year of a commodity tax accrual.

The increase is also due to increased compensation and benefits associated with a higher number of average staffed positions in 2017/18. These increases were partially offset by lower defined benefit pension contributions in 2017/18, resulting from a \$1.8M pension solvency deficit amortization payment made in 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 increased by \$6.0M (11.3%) in 2017/18. The increase is mainly attributable to new deployments of CATSA Plus, as well as HBS equipment deployments as part of the HBS life-cycle management program. The increase is partially offset by older HBS and NPS equipment becoming fully depreciated.

Other Expenses (income)

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

Other expenses (income) decreased by \$1.8M (43.9%) in 2017/18. The decrease is primarily due to the impairment of property and equipment, recorded in the prior year, relating to screening equipment that no longer met TC's standards.

Revenue

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

Revenue increased by \$8.3M (112.7%) in 2017/18. The increase is mainly attributable to a greater number of supplemental screening hours to support the GTAA and YVRAA trial agreements.

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 \$29.1M (4.7%) in 2017/18. The increase is primarily due to increased spending for screening services and other related costs, as well as program support and corporate services, partially offset by higher revenue and lower spending on 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 \$3.7M (6.6%) in 2017/18. The increase resulted from increased depreciation and amortization, partially offset by a decrease in impairment of property and equipment.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of the net actuarial gains (losses) associated with CATSA's defined benefit plans. The 2017/18 net loss of \$11.6M is primarily due to a remeasurement loss of \$14.4M on the defined benefit liability arising primarily from losses on the revision of financial assumptions (mainly discount rate and rate of compensation increase). This was partially offset by a remeasurement gain of \$2.7M resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions, and experience adjustments.

In 2016/17, the net gain of \$21.5M was primarily due to a remeasurement gain of \$11.9M resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. The net gain also included 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.

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

Liquidity and Capital Resources

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

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

Liquidity and Capital Resources			
(Thousands of Canadian dollars)	March 31, 2018	March 31, 2017	\$ Variance
Cash	\$ 9,929	\$ 36,267	\$ (26,338)
Trade and other receivables	136,506	96,739	39,767
Trade and other payables	(142,217)	(132,071)	(10,146)
Construction holdbacks	(4,338)	(935)	(3,403)

Cash decreased by \$26.3M 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 \$39.8M primarily due to an increase in parliamentary appropriations receivable and an increase in consumption taxes receivables. Trade and other payables increased by \$10.1M as a result of a higher number of invoices for capital purchases and screening contractors in trade payables at year-end compared to the prior year. Construction holdbacks increased by \$3.4M primarily due to the progress made on the HBS Recapitalization Program, specifically for projects at Montreal-Trudeau International Airport, Calgary International Airport and Vancouver International Airport.

A portion of the increase in trade and other payables for capital purchases relates to a \$6.2M accrual recorded as a result of an airport authority excise tax audit. During the year, CATSA received notification from an airport authority that it had been assessed by the Canada Revenue Agency for failing to charge HST to CATSA on funding agreements relating to integration projects and maintenance agreements. CATSA, in conjunction with the airport authority, has filed a notice of objection, but in the interim, CATSA is required to remit the assessed amount to the airport authority. CATSA is entitled to \$4.1M of tax rebates on the accrued amount, which has been included in recoverable taxes receivable. Given that CATSA has similar agreements with other airport authorities, CATSA has disclosed a contingent liability in the notes to the financial statements, as there is a risk that CATSA could be required to pay other assessments in the event that the notice of objection is not successful.

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 71.3% of total assets as at March 31, 2018. In 2017/18, capital expenditures totalled \$76.4M. 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)					
		2017/18		2016/17	\$ Variance
EDS	\$	73,502	\$	100,547	\$ (27,045)
Non-EDS ¹		2,921		7,274	(4,353)
Total capital expenditures	\$	76,423	\$	107,821	\$ (31,398)

¹ Non-EDS capital expenditures exclude a non-cash capital addition of \$Nil (\$9 in 2016/17) related to leasehold improvements.

EDS

- Ongoing deployment of the three-level HBS system with Computed Tomography technology at certain airports in support of the HBS Recapitalization Program;
- Deployment of CATSA Plus checkpoints at Montreal-Trudeau International Airport, Toronto Pearson International Airport, Vancouver International Airport and Calgary International Airport;
- Replacement of trace equipment as part of the life-cycle management program; and
- Purchase and deployment of liquid explosive detection equipment in support of the NPS-Vehicle permanent solution.

Non-EDS

- Purchase and deployment of network and system infrastructure at vehicle access points in support of the NPS-Vehicle permanent solution;
- Life-cycle management of CATSA's Learning Management System used primarily for training and recurrent learning of CATSA's screening procedures by screening officers; and
- Commencement of a version upgrade for the screening officer identification, time tracking, and reporting system.

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, 2018		March 31, 2017		\$ Variance
Employee benefits asset	\$	5,030	\$	19,042	\$ (14,012)
Employee benefits liability		(28,402)		(24,292)	(4,110)
Net employee benefits liability	\$	(23,372)	\$	(5,250)	\$ (18,122)

As at March 31, 2018, 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 decrease in the asset of \$14.0M is primarily due to a remeasurement loss on CATSA's RPP and SRP of \$9.9M, and non-cash current benefit costs exceeding CATSA contributions by \$4.1M for these plans. The increase in the liability of \$4.1M is due to non-cash current benefit costs exceeding CATSA contributions by \$2.4M, and a remeasurement loss of \$1.7M on CATSA's ODBP.

Financial Performance Against Corporate Plan

CATSA's *2017/18 – 2021/22 Corporate Plan* has not been tabled for approval in Parliament at the time of publishing. Until it is tabled in Parliament and made publicly available, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *Summary of the 2017/18 – 2021/22 Corporate Plan*.

Parliamentary Appropriations Used

Operating Expenditures

CATSA's operations are funded primarily by parliamentary appropriations from the Government of Canada. The table below serves to reconcile financial performance reported under IFRS and operating appropriations used on a near-cash accrual basis:

Reconciliation of Financial Performance to Operating Appropriations Used

(Thousands of Canadian dollars)	2017/18	2016/17	\$ Variance
Financial performance before revenue and government funding	\$ 727,325	\$ 685,794	\$ 41,531
Revenue	(15,669)	(7,368)	(8,301)
Financial performance before government funding	711,656	678,426	33,230
Non-cash expenses			
Depreciation and amortization	(58,948)	(52,951)	(5,997)
Employee benefits expense ¹	(6,489)	(5,833)	(656)
Write-off of property and equipment and intangible assets	(1,097)	(1,271)	174
Loss on disposal of property and equipment	(518)	(657)	139
Non-cash gain on foreign exchange recognized in financial performance	(140)	–	(140)
Spare parts expense funded from capital ²	(57)	(44)	(13)
Non-cash vendor credits	792	–	792
Deferred lease incentives recognized in financial performance ³	246	304	(58)
Change in fair value of financial instruments at fair value through profit and loss	53	331	(278)
Impairment of property and equipment	–	(1,934)	1,934
Parliamentary appropriations for operating expenses	\$ 645,498	\$ 616,371	\$ 29,127
Other items affecting funding			
Net change in prepaids and inventories ⁴	809	(446)	1,255
Total operating appropriations used	\$ 646,307	\$ 615,925	\$ 30,382

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.

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)		2017/18		2016/17	\$ Variance
EDS	\$	73,502	\$	100,547	\$ (27,045)
Non-EDS		2,921		7,274	(4,353)
Total capital asset acquisitions	\$	76,423	\$	107,821	\$ (31,398)
Non-cash additions resulting from vendor credits		(792)		–	(792)
Non-cash loss on foreign exchange related to capital acquisitions		20		–	20
Proceeds on disposal of property and equipment		(59)		(12)	(47)
Total capital appropriations used	\$	75,592	\$	107,809	\$ (32,217)



FINANCIAL STATEMENTS

Canadian Air Transport Security Authority

Year ended March 31, 2018



Management's Responsibility Statement

Year ended March 31, 2018

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

Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act*, executed in accordance with prescribed regulations within parliamentary authorities, and properly recorded to maintain accountability of government funds. 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



Nancy Fitchett, CPA, CA

Acting Vice-President, Corporate Affairs and Chief Financial Officer

June 6, 2018



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 31 March 2018, 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 31 March 2018, 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

6 June 2018
Ottawa, Canada

Statement of Financial Position


(In thousands of Canadian dollars)

	As at March 31	
	2018	2017
Assets		
Current assets		
Cash	\$ 9,929	\$ 36,267
Trade and other receivables (note 4)	136,506	96,739
Inventories (note 5)	16,401	15,729
Prepaid expenses	3,133	2,996
Derivative financial assets (note 13)	360	274
	166,329	152,005
Non-current assets		
Property and equipment (note 6)	416,438	400,908
Intangible assets (note 7)	8,665	8,451
Employee benefits asset (note 10)	5,030	19,042
Derivative financial assets (note 13)	24	57
	430,157	428,458
Total assets	\$ 596,486	\$ 580,463
Liabilities and Equity		
Current liabilities		
Trade and other payables (note 13)	\$ 142,217	\$ 132,071
Deferred government funding related to operating expenses (note 9)	19,534	18,725
	161,751	150,796
Non-current liabilities		
Construction holdbacks (note 13)	4,338	935
Deferred lease incentives	442	688
Deferred government funding related to capital expenditures (note 9)	424,026	408,959
Employee benefits liability (note 10)	28,402	24,292
	457,208	434,874
Equity		
Accumulated deficit	(22,473)	(5,207)
Total liabilities and equity	\$ 596,486	\$ 580,463

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 6, 2018:


Marguerite Nadeau
 Chairperson


Michael Saunders
 President and Chief Executive Officer

Statement of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

	Years ended March 31	
	2018	2017
Expenses		
Pre-Board Screening	\$ 396,410	\$ 363,014
Hold Baggage Screening	148,748	144,595
Non-Passenger Screening	133,402	130,792
Restricted Area Identity Card Program	3,234	3,060
Corporate services	43,234	40,238
Total expenses (note 11)	725,028	681,699
Other expenses (income)		
Write-off of property and equipment and intangible assets	1,097	1,271
Loss on disposal of property and equipment	518	657
Foreign exchange loss	479	551
Finance cost	256	13
Net gain on fair value of derivative financial instruments	(53)	(331)
Impairment of property and equipment (note 6)	–	1,934
Total other expenses (income)	2,297	4,095
Financial performance before revenue and government funding	727,325	685,794
Revenue		
Supplemental screening services	13,924	6,825
Miscellaneous income	852	1
Finance income	638	482
Rental income	255	60
Total revenue	15,669	7,368
Government funding		
Parliamentary appropriations for operating expenses (note 9)	645,498	616,371
Amortization of deferred government funding related to capital expenditures (note 9)	60,525	56,786
Total government funding	706,023	673,157
Financial performance	\$ (5,633)	\$ (5,269)
Other comprehensive income (loss)		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 10)	(11,633)	21,528
Total comprehensive income (loss)	\$ (17,266)	\$ 16,259

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, 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)

	Accumulated deficit
Balance, March 31, 2017	\$ (5,207)
Financial performance	(5,633)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 10)	(11,633)
Balance, March 31, 2018	\$ (22,473)

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

Statement of Cash Flows

(In thousands of Canadian dollars)

	Years ended March 31	
	2018	2017
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (5,633)	\$ (5,269)
Items not involving cash		
Depreciation of property and equipment (note 6 and 11)	57,803	51,504
Increase in net employee benefits liability	6,489	5,833
Amortization of intangible assets (note 7 and 11)	1,145	1,447
Write-off of property and equipment and intangible assets	1,097	1,271
Loss on disposal of property and equipment	518	657
Amortization of deferred government funding related to capital expenditures (note 9)	(60,525)	(56,786)
Other non-cash transactions (note 17)	(735)	44
Deferred lease incentives recognized in financial performance (note 17)	(246)	(304)
Change in fair value of financial instruments at fair value through profit and loss	(53)	(331)
Impairment of property and equipment (note 6)	–	1,934
Net change in working capital balances (note 17)	(41,563)	11,670
	(41,703)	11,670
Investing activities		
Parliamentary appropriations received for capital funding	77,409	106,872
Purchase of property and equipment	(60,697)	(90,298)
Purchase of intangible assets	(1,359)	(3,206)
Proceeds on disposal of property and equipment	12	2
	15,365	13,370
(Decrease) increase in cash	(26,338)	25,040
Cash, beginning of year	36,267	11,227
Cash, end of year	\$ 9,929	\$ 36,267

Supplementary cash flow information (note 17)

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

1. Authority, mandate and programs

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

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

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

1. PBS – the screening of passengers, their carry-on baggage and their personal belongings;
2. HBS – the screening of checked baggage;
3. NPS – the random screening of non-passengers and their belongings, 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

In addition to its mandated activities, CATSA has an agreement with Transport Canada (TC) to conduct screening of cargo at select 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 TC, CATSA entered into a Supplemental Screening Services trial agreement with the Greater Toronto Airports Authority (GTAA) for the provision of supplemental screening services effective October 5, 2014, and extended annually thereafter. CATSA also entered into a similar agreement with the Vancouver International Airport Authority (YVRAA) effective June 26, 2017. The YVRAA trial agreement has been extended to June 30, 2018, while the GTAA trial agreement has been extended to March 31, 2019.

In December 2014, CATSA was issued a directive (PC 2014-1382) pursuant to section 89 of the FAA to align with Budget 2013 direction on public sector pension reform. The pension reform included a provision for adjusting the employer/employee current service cost sharing ratio to 50:50 by December 31, 2017.

In July 2015, CATSA received notification that an exemption was available to pension plans that could demonstrate either unfairness to pension plan members, or recruitment and retention challenges, as a result of implementing the pension reform. Following this notification, CATSA began working with its external pension actuary to draft a business case for an exemption on the basis that the pension reform would be unfair to plan members. It is CATSA's view that its business case demonstrates that closing of the defined benefit pension plan in 2013 would result in an unfair cost sharing burden on employees, and that the cost sharing ratio should be calculated as if the plan were open to new members.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

CATSA submitted the final version of its business case to TC in May 2017, with the understanding that it would be approved by the December 31, 2017 deadline. In December 2017, TC advised that the business case would not be approved by the deadline due to processing delays. TC continues to work with Treasury Board of Canada Secretariat to obtain the necessary approvals. It is unknown at this time when it will be received.

As of January 1, 2018, CATSA aligned its employee contribution rates with the objectives identified in the business case that is pending approval.

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

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

2. Basis of preparation

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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, 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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

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

Key estimates used for property and equipment include the determination of their useful lives and the valuation of work-in-progress. The key estimate used for intangible assets includes the determination of their useful lives. In determining the expected useful lives of these assets, CATSA takes into account past experience, industry trends and internally-specific factors, such as changing technologies and expectations for the in-service period of the assets. Changes to estimates of useful life would affect future depreciation or amortization expenses and future carrying values of assets. In determining the 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(j) 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. 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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

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

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

- note 3(k) 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, 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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 annually.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(e) Assets held for sale

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

(f) Intangible assets

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

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

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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

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

(g) Impairment

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

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

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(h) 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.

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

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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

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

(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). CATSA derecognizes a derivative financial instrument upon settlement of the instrument.

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(j) 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(iv) Short-term employee benefits

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

(k) Provisions and contingencies

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

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

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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.

(I) 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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.

(m) Government funding

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

Appropriations related to 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(n) 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.

(o) Finance cost

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

(p) Foreign currency translation

Transactions in foreign currency are translated using exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation, 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.

(q) Future accounting changes

As at March 31, 2018, the following applicable new accounting standards have been issued by the IASB, but are not yet effective. CATSA has assessed the impact of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* on its financial statements. CATSA continues to assess the impact of IFRS 16 *Leases* on its financial statements and will monitor this standard for developments until the time of adoption.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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 is effective for annual periods beginning on or after January 1, 2018, on a retrospective basis, with earlier application permitted. There will be no impact to financial performance, total comprehensive income (loss), or accumulated deficit upon adoption. However, expanded note disclosure will be required relating specifically to the use of estimates and judgements.

(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 is effective for annual periods beginning on or after January 1, 2018, on a retrospective basis. There will be no impact to financial performance, total comprehensive income (loss), or accumulated deficit upon adoption of IFRS 9. However, expanded note disclosure will be required relating specifically to the expected credit loss model.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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. IFRS 16 is expected to have a significant impact on CATSA's financial statements.

CATSA's assessment of IFRS 16 is ongoing. CATSA has identified 16 contracts within the scope of IFRS 16, which have a total undiscounted contract value of \$29,205, as disclosed in note 14(b). CATSA continues to assess the financial statement impact and new disclosure requirements.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

4. Trade and other receivables

Trade and other receivables are comprised of:

	March 31, 2018	March 31, 2017
Parliamentary appropriations	\$ 121,399	\$ 83,734
GST and HST recoverable	10,435	8,574
PST recoverable	2,306	2,512
Supplemental screening services	2,267	1,791
Other	99	128
	\$ 136,506	\$ 96,739

Credit terms on trade receivables are 30 days. As at March 31, 2018, and March 31, 2017, there were no amounts included in trade and other receivables that were past due.

5. Inventories

Inventories are comprised of:

	March 31, 2018	March 31, 2017
Spare parts	\$ 13,879	\$ 13,299
Uniforms	1,779	1,348
RAIC	743	1,082
	\$ 16,401	\$ 15,729

During the year, inventories totalling \$5,241 (2017 – \$5,969) were charged to expenses. This includes \$346 (2017 – \$260) resulting from a write-down of inventories. It also includes an amount of \$70 (2017 – \$251) resulting from the reversal of previous write-downs. The reversal of previous write-downs was the result of the expected use of spare parts previously written down of \$64 (2017 – \$183), as well as an increase in the replacement cost of certain spare parts of \$6 (2017 – \$68).

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2018

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, 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
Balance, March 31, 2017	\$ 125,283	\$ 747,167	\$ 20,345	\$ 5,329	\$ 27,203	\$ 30	\$ 9,929	\$ 69,472	\$ 1,004,758
Additions	15,810	19,055	1,196	59	680	–	87	38,177	75,064
Disposals	(1,133)	(95,365)	(974)	–	(441)	–	–	–	(97,913)
Write-offs	(524)	(981)	(1,240)	(1,403)	(2,609)	–	(25)	(123)	(6,905)
Reclassifications	5,434	19,927	527	454	2,081	–	11	(28,434)	–
Balance, March 31, 2018	\$ 144,870	\$ 689,803	\$ 19,854	\$ 4,439	\$ 26,914	\$ 30	\$ 10,002	\$ 79,092	\$ 975,004
Accumulated depreciation									
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
Balance, March 31, 2017	\$ 77,884	\$ 484,912	\$ 10,825	\$ 3,724	\$ 17,873	\$ 30	\$ 8,602	\$ –	\$ 603,850
Depreciation	11,370	40,492	1,649	637	3,285	–	370	–	57,803
Disposals	(1,130)	(94,791)	(974)	–	(441)	–	–	–	(97,336)
Write-offs	(360)	(871)	(484)	(1,402)	(2,609)	–	(25)	–	(5,751)
Balance, March 31, 2018	\$ 87,764	\$ 429,742	\$ 11,016	\$ 2,959	\$ 18,108	\$ 30	\$ 8,947	\$ –	\$ 558,566
Carrying amounts									
As at March 31, 2017	\$ 47,399	\$ 262,255	\$ 9,520	\$ 1,605	\$ 9,330	\$ –	\$ 1,327	\$ 69,472	\$ 400,908
As at March 31, 2018	\$ 57,106	\$ 260,061	\$ 8,838	\$ 1,480	\$ 8,806	\$ –	\$ 1,055	\$ 79,092	\$ 416,438

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

During the year, CATSA acquired \$75,064 (2017 – \$104,624) of property and equipment.

In 2011/12, CATSA began a ten year Recapitalization Program related to the conversion of its HBS systems at select 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.

As at March 31, 2018, the estimated useful life of certain computer equipment used to support NPS was revised from five years to 10 years to better reflect the anticipated life-cycle management of the assets. The change in accounting estimate will be accounted for on a prospective basis starting April 1, 2018, and will decrease the 2018/19 depreciation expense by \$480. This decrease will be completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. From 2019/20 to 2027/28, the depreciation expense and amortization of deferred government funding related to capital expenditures is expected to increase by as much as \$319 or decrease by as much as \$479 each year, totalling \$480 by 2027/28.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

No amounts were recognized during the current year for impairment losses. During the previous year, CATSA recognized impairment losses of \$1,934 related to screening equipment that was no longer able to contribute to the fulfillment of CATSA's mandate.

There were no amounts recorded related to reversal of impairment losses for the years ended March 31, 2018, or March 31, 2017.

During the year, CATSA recorded \$1,154 (2017 – \$1,254) related to the write-off of property and equipment. These write-offs mainly represent NPS equipment that has been removed from service as new equipment was deployed.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
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
Balance, March 31, 2017	\$ 4,111	\$ 19,655	\$ 2,333	\$ 26,099
Additions	451	–	908	1,359
Write-offs	(68)	–	–	(68)
Balance, March 31, 2018	\$ 4,494	\$ 19,655	\$ 3,241	\$ 27,390
Accumulated amortization				
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
Balance, March 31, 2017	\$ 3,119	\$ 14,529	\$ –	\$ 17,648
Amortization	287	858	–	1,145
Write-offs	(68)	–	–	(68)
Balance, March 31, 2018	\$ 3,338	\$ 15,387	\$ –	\$ 18,725
Carrying amounts				
As at March 31, 2017	\$ 992	\$ 5,126	\$ 2,333	\$ 8,451
As at March 31, 2018	\$ 1,156	\$ 4,268	\$ 3,241	\$ 8,665

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

As at March 31, 2018, intangible assets include an HBS Centralized Equipment Networking asset with acquisition costs of \$4,295 and remaining amortization period of eight years.

During the year, no amounts were expensed relating to the write-off of intangible assets. During the previous year, development costs of \$61 related to internally developed and externally acquired software no longer providing future economic benefit were written-off.

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

8. Provisions and contingencies

(a) Provisions

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. By nature, these amounts are subject to many uncertainties and the outcome of 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, 2018, or March 31, 2017.

(b) Contingencies

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(i) Claims and legal proceedings

During the year, CATSA received notification from an airport authority that it had been assessed by the Canada Revenue Agency for failing to charge HST to CATSA on funding agreements related to integration projects and maintenance agreements. With the cooperation of the airport authority, CATSA has filed a notice of objection and, although CATSA is of the view that it is more likely than not that the notice of objection will be successful, it is premature to provide an assessment at this stage. As CATSA will be required to remit the assessed amounts to the airport authority during the objection period, CATSA has included an amount of \$6,200 in trade and other payables on the Statement of Financial Position. This amount has been partially offset by \$4,146 included in trade and other receivables related to recoverable taxes. Included in property and equipment is \$1,700 representing the non-recoverable portion of the assessment that relates to existing assets.

Should the objection prove to be successful, CATSA will be able to recover all amounts remitted related to this assessment.

CATSA has similar funding agreements with other airport authorities that could result in an assessment by tax authorities. While CATSA judges that the likelihood of economic outflow related to these other funding agreements to be not probable, there is a risk that CATSA could be required to pay other assessments in the event that these other airport authorities are audited and the Canada Revenue Agency upholds its position. The maximum undiscounted cash flow that could be required to settle this contingent liability is estimated to be \$17,140, offset by estimated recoverable taxes of \$8,580 for a net amount of \$8,560. These amounts have not been recorded in the financial statements.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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 2018/19 and 2028/29 (2017 – 2017/18 and 2027/28) is estimated to be \$3,695 (2017 – \$2,744).

9. Deferred government funding

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

	March 31, 2018	March 31, 2017
Deferred government funding related to operating expenses		
Balance, beginning of year	\$ 18,725	\$ 19,171
Operating expenses funded through parliamentary appropriations	646,307	615,925
Parliamentary appropriations recognized as government funding for operating expenses	(645,498)	(616,371)
Balance, end of year	\$ 19,534	\$ 18,725
Deferred government funding related to capital expenditures		
Balance, beginning of year	\$ 408,959	\$ 357,936
Capital expenditures funded through parliamentary appropriations	75,592	107,809
Amortization of deferred government funding related to capital expenditures	(60,525)	(56,786)
Balance, end of year	\$ 424,026	\$ 408,959
Total deferred government funding, end of year	\$ 443,560	\$ 427,684

For additional information on government funding, see note 12.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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* (Canada) 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 full-time and part-time indeterminate 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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 up to December 31, 2020. In order to extend this approval period, CATSA must submit a new waiver request.

(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:

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2018

	RPP		SRP		ODBP	
	2018	2017	2018	2017	2018	2017
Fair value of plan assets						
Balance, beginning of year	\$ 183,250	\$ 161,231	\$ 6,420	\$ 5,919	\$ –	\$ –
<i>Included in financial performance</i>						
Interest income	6,906	6,283	241	224	–	–
Administration costs	(250)	(250)	(15)	(15)	–	–
<i>Included in other comprehensive income (loss)</i>						
Remeasurement gain						
Return on assets excluding interest income	2,694	11,562	31	334	–	–
<i>Other</i>						
CATSA contributions	4,010	6,408	26	19	205	193
Plan participant contributions	3,368	3,143	26	19	–	–
Benefit payments and transfers	(4,002)	(5,127)	(90)	(80)	(205)	(193)
Balance, end of year	\$ 195,976	\$ 183,250	\$ 6,639	\$ 6,420	\$ –	\$ –
Present value of defined benefit liabilities						
Balance, beginning of year	\$ 166,630	\$ 158,356	\$ 3,998	\$ 4,370	\$ 24,292	\$ 25,369
<i>Included in financial performance</i>						
Current service cost	8,197	9,021	69	114	1,646	2,017
Interest expense	6,579	6,352	152	168	969	1,023
<i>Included in other comprehensive income (loss)</i>						
Remeasurement (gains) losses						
Actuarial gains arising from changes in demographic assumptions	(192)	(2,187)	–	(2)	–	(47)
Actuarial losses arising from changes in financial assumptions	13,666	–	622	–	1,700	391
Actuarial (gains) losses arising from experience adjustments	(1,616)	(2,928)	178	(591)	–	(4,268)
<i>Other</i>						
Plan participant contributions	3,368	3,143	26	19	–	–
Benefit payments and transfers	(4,002)	(5,127)	(90)	(80)	(205)	(193)
Balance, end of year	\$ 192,630	\$ 166,630	\$ 4,955	\$ 3,998	\$ 28,402	\$ 24,292
Net employee benefits asset (liability)	\$ 3,346	\$ 16,620	\$ 1,684	\$ 2,422	\$ (28,402)	\$ (24,292)

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

	March 31, 2018	March 31, 2017
Employee benefits asset, end of year		
RPP	\$ 3,346	\$ 16,620
SRP	1,684	2,422
	5,030	19,042
Employee benefits liability, end of year		
ODBP	(28,402)	(24,292)
	(28,402)	(24,292)
Employee benefits – net liability, end of year	\$ (23,372)	\$ (5,250)

(d) Employee benefits costs

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

	RPP		SRP		ODBP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Defined benefit cost (income) recognized in financial performance								
Current service cost	\$ 8,197	\$ 9,021	\$ 69	\$ 114	\$ 1,646	\$ 2,017	\$ 9,912	\$ 11,152
Administration costs	250	250	15	15	–	–	265	265
Interest cost on defined benefit obligation	6,579	6,352	152	168	969	1,023	7,700	7,543
Interest income on plan assets	(6,906)	(6,283)	(241)	(224)	–	–	(7,147)	(6,507)
Defined benefit cost (income)	\$ 8,120	\$ 9,340	\$ (5)	\$ 73	\$ 2,615	\$ 3,040	\$ 10,730	\$ 12,453
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	\$ 2,694	\$ 11,562	\$ 31	\$ 334	\$ –	\$ –	\$ 2,725	\$ 11,896
Actuarial (losses) gains	(11,858)	5,115	(800)	593	(1,700)	3,924	(14,358)	9,632
Remeasurement of defined benefit plans	\$ (9,164)	\$ 16,677	\$ (769)	\$ 927	\$ (1,700)	\$ 3,924	\$ (11,633)	\$ 21,528

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(e) Composition of plan assets

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

	March 31, 2018	March 31, 2017
<i>Investment funds</i>		
Equity securities		
Canadian equity funds	\$ 29,820	\$ 54,006
U.S. equity fund	1,353	1,368
International equity funds	80,195	54,094
Debt securities		
Canadian bond fund	68,623	61,726
Real estate	9,993	6,572
Other	9,690	8,818
<i>Canada Revenue Agency refundable tax account</i>	2,941	2,862
<i>Cash and cash equivalents</i>	–	224
Total plan assets, end of year	\$ 202,615	\$ 189,670

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 modelling study is performed, which analyzes the timing and magnitude of future cash outflows of the defined benefit component of the RPP. It suggests an optimal investment structure to maximize investment returns while minimizing risk associated with the fluctuation of the benefit obligation due to variations in interest rates. As the obligation has similar characteristics to debt securities, the de-risking of the funded position is achieved via investments in debt securities while other types of investments are selected to increase the returns of the plan.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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	
	2018	2017	2018	2017	2018	2017
<i>Present value of defined benefit liability</i>						
Discount rate	3.50%	3.75%	3.50%	3.75%	3.50%	3.75%
Long-term rate of compensation increase						
Following year	5.50%	3.75%	5.50%	3.75%	5.50%	3.75%
Thereafter	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
<i>Benefit costs</i>						
Discount rate	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%
<i>Assumed medical cost trend rates</i>						
Initial medical cost trend rate					6.25%	6.50%
Ultimate medical cost trend rate					4.50%	4.50%
Year ultimate reached					2025	2025

¹ Canadian Pensioners' Mortality Improvement Scale B

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2018, while holding all other assumptions constant:

	Change	Impact on defined benefit liabilities
Increase in discount rate	1%	\$ (45,461)
Decrease in discount rate	1%	62,354
Increase in long-term rate of compensation increase	1%	15,415
Decrease in long-term rate of compensation increase	1%	(13,318)
Increase in inflation	1%	36,367
Decrease in inflation	1%	(28,884)
Increase in life expectancy	1 year	6,128
Decrease in life expectancy	1 year	(6,147)
Increase in assumed medical cost trend rate	1%	7,840
Decrease in assumed medical cost trend rate	1%	(5,762)

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

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(g) Future expected contributions

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

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

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

	Most recent actuarial valuation for funding purposes	Next required actuarial valuation for funding purposes
RPP	December 31, 2016	December 31, 2017
SRP	December 31, 2016	December 31, 2017
ODBP	N/A	N/A

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

CATSA estimates that cash payments to be made to its funded defined benefit pension plans for the year ending March 31, 2019, will total \$7,246, and consist of CATSA contributions of \$3,884 and plan participant contributions of \$3,362.

Cash payments to be made to the unfunded ODBP for the year ended March 31, 2019, 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, 2019, will total \$216.

As at March 31, 2018, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 23.3 years (2017 – 23.3 years), 19.0 years (2017 – 18.9 years) and 24.3 years (2017 – 24.4 years), respectively.

(h) Employee costs

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

	2018	2017
Employee costs (excluding post-employment and termination benefits)	\$ 49,211	\$ 47,134
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	10,730	12,453
Defined contribution pension plan	478	349
Termination benefits	343	196
Total employee costs (note 11)	\$ 60,762	\$ 60,132

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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:

	2018	2017
Screening services and other related costs		
Payments to screening contractors	\$ 534,553	\$ 497,269
Uniforms and other screening costs	5,768	6,217
Trace and consumables	2,341	2,290
	542,662	505,776
Equipment operating and maintenance		
Equipment maintenance and spare parts	37,629	39,141
RAIC	954	1,074
Training and certification	412	1,428
	38,995	41,643
Program support and corporate services		
Employee costs	60,762	60,132
Professional services and other business related costs	6,597	5,711
Operating leases	6,407	5,873
Office and computer expenses	4,808	5,232
Other administrative costs	4,463	3,479
Communications and public awareness	1,386	902
	84,423	81,329
Depreciation and amortization		
Depreciation of property and equipment	57,803	51,504
Amortization of intangible assets	1,145	1,447
	58,948	52,951
	\$ 725,028	\$ 681,699

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

12. Government funding

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

	2018	2017
Main estimates	\$ 584,584	\$ 624,006
Supplementary estimates	176,100	142,272
Capital reprofile – approved	(1,217)	(6,805)
Total voted parliamentary appropriations	759,467	759,473
Capital reprofile to future years – in progress ¹	(36,038)	(33,671)
Unused portion of parliamentary appropriations	(1,530)	(2,068)
Total parliamentary appropriations used	\$ 721,899	\$ 723,734

¹ The capital reprofile in progress as at March 31, 2017, was approved during the year ended March 31, 2018.

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

	2018	2017
Parliamentary appropriations used to fund operating expenses (note 9)	\$ 646,307	\$ 615,925
Parliamentary appropriations used to fund capital expenditures (note 9)	75,592	107,809
Total parliamentary appropriations used	\$ 721,899	\$ 723,734

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, and trade and other payables approximate their carrying amount due to the current nature of these instruments.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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, 2018		March 31, 2017	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets ¹	\$ 384	\$ 384	\$ 331	\$ 331
Financial instruments measured at amortized cost				
Construction holdbacks ²	\$ 4,338	\$ 4,338	\$ 935	\$ 935

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 of Canada bond rates with similar terms and characteristics.

There were no transfers between levels during the years ended March 31, 2018, or March 31, 2017.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

Financial risk factors

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

(a) Market risk

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

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

		USD		CAD
March 31, 2018	\$	5,193	\$	6,699
March 31, 2017		2,805		3,732

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 \$335 (2017 – \$187).

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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, 2018
Trade and Other Payables	\$ 115,817	\$ 26,400	\$ –	\$ 142,217
Construction Holdbacks	–	–	4,338	4,338
	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

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2017.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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, 2018, and March 31, 2017, 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 airport authorities. 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, 2018, and March 31, 2017, no allowance for doubtful accounts was required.

CATSA did not have any receivables that were past due as at March 31, 2018, and March 31, 2017.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

(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.

	March 31, 2018		March 31, 2017	
	Notional	Fair Value	Notional	Fair Value
Foreign exchange forward contracts ¹	\$ 42,018	\$ 42,402	\$ 29,648	\$ 29,979

¹ The foreign exchange forward contracts' rates are between 1.2646 and 1.3102 for foreign exchange forward contracts in USD and the maturity dates are between April 6, 2018 and May 6, 2019.

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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

	March 31, 2018	March 31, 2017
Operating Capital	\$ 2,228,761	\$ 2,819,072
Total	\$ 2,350,910	\$ 2,958,165

(b) Lease arrangements

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

	March 31, 2018	March 31, 2017
No later than 1 year	\$ 6,945	\$ 7,035
Later than 1 year and no later than 5 years	22,260	21,970
Later than 5 years	–	4,660
Total	\$ 29,205	\$ 33,665

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 terms of this lease 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 beyond November 30, 2027.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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.

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

	2018	2017
Income	\$ 706,023	\$ 673,157
Expenses	15,864	15,841

Income from related parties represents parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses presented above for the year ended March 31, 2018, include \$14,867 (2017 – \$15,075) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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, 2018	March 31, 2017
Receivable from related parties	\$ 131,933	\$ 92,426
Payable to related parties	(1,134)	(1,189)
Net receivable from related parties	\$ 130,799	\$ 91,237

At year-end, amounts receivable from related parties consist primarily of \$121,399 (2017 – \$83,734) due from the Government of Canada for parliamentary appropriations used during the year and not received at year-end, and \$10,435 (2017 – \$8,574) due from the Canada Revenue Agency for recoverable taxes paid on expenses.

(b) Key management personnel

As at March 31, 2018, key management personnel of CATSA are composed of the 11 (2017 – nine) Board members and the five (2017 – 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:

	2018	2017
Salaries, other short-term employee benefits and termination benefits	\$ 1,806	\$ 1,529
Post-employment benefits	308	336
	\$ 2,114	\$ 1,865

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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, 2018, or March 31, 2017.

(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.

16. Capital management

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

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

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

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2018, or March 31, 2017.

CATSA is not subject to externally imposed capital requirements.

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

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:

	2018	2017
Increase in trade and other receivables	\$ (41,584)	\$ (7,763)
(Increase) decrease in inventories	(672)	598
Increase in prepaid expenses	(137)	(152)
Increase in trade and other payables	21	20,144
Decrease in current portion of provisions	–	(711)
Increase (decrease) in deferred government funding related to operating expenses	809	(446)
	\$ (41,563)	\$ 11,670

The change in trade and other receivables excludes an amount of \$1,817 (2017 – \$937) in relation to government funding for capital expenditures, as the amount relates to investing activities.

During the year, CATSA had non-cash adjustments relating to the write-down of inventory of \$346 (2017 – \$260), and the reversal of previous write-downs of \$70 (2017 – \$251).

The change in trade and other payables excludes an amount of \$10,125 (2017 – \$13,571) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

Interest income received and recognized during the year totalled \$638 (2017 – \$482).

Interest expense paid and expensed during the year totalled \$256 (2017 – \$13).

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2018

The change in net employee benefits liability excludes an amount of \$11,633 (2017 – \$21,528) in relation to the remeasurement of defined benefit plans for the year presented in other comprehensive income (loss), as the amount relates to a non-cash remeasurement.

During the year, CATSA had deferred lease incentives recognized in financial performance of \$246 (2017 – \$304).

Other non-cash transactions

During the year, other non-cash transactions included non-cash vendor credits of \$792 (2017 – \$Nil), offset by non-cash transfers of spare parts from property and equipment to inventory of \$57 (2017 – \$44).

During the year, CATSA received non-cash proceeds of \$47 (2017 – \$10) in relation to the disposal of property and equipment, in the form of credit notes from a supplier.

During the year, CATSA had non-cash adjustments on currency hedged property and equipment purchases of \$20 (2017 – \$Nil).

During the year, CATSA had non-cash additions in relation to deferred lease incentives of \$Nil (2017 – \$9).



GLOSSARY



■ 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 Regulations, 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 Regulations, 2012*. These airports have one or more of the following characteristics:

- annual passenger traffic in excess of 200,000 people;
- a medium threat/risk potential;
- primary airport of provincial/territorial capital; or
- 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 Regulations, 2012*. 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 U.S.

■ 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, travelling RAIC holders and members of the Canadian Armed Forces and U.S. Armed Forces.

For more information, please visit our website:

www.catsa.gc.ca

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