

STEPPING FORWARD

Annual Report 2010

For more information, visit our Web site at:

www.catsa.gc.ca (full version)
or m.catsa.gc.ca (mobile version)

Contact us at:

Canadian Air Transport Security Authority
99 Bank Street, 13th Floor
Ottawa, Ontario K1P 6B9

Phone 1 (888) 294-2202

Fax (613) 990-1295

E-mail correspondence@catsa-acsta.gc.ca

This publication is printed and bound in Canada

Catalogue No. CC401-2010E-PDF

ISBN 978-1-100-15599-9





EYAD
Canada

TABLE OF CONTENTS



| | |
|--|----|
| Who We Are | 04 |
| What We Do | 06 |
| Message from our Chair | 08 |
| Message from our President and CEO | 10 |
| CATSA at a Glance | 12 |
| 2010 Highlights | 14 |
| Security Screening—Then and Now— 10 Things That Changed | 16 |
| Our Team | 18 |
| Our Board of Directors | 24 |
| Our Senior Management Team | 26 |
| Summary of Performance | 32 |
| Looking Ahead | 38 |
| Management Discussion and Analysis | 40 |
| Audited Financial Statements | 59 |
| Reporting on Results | 83 |
| Corporate Governance | 87 |
| Glossary | 93 |

Screening Officers Polena, Jefferson, Rameeta and Jason

WHO WE ARE

VALUES FAIRNESS LOYALTY ACCOUNTABILITY INTEGRITY RESPECT

CATSA was created to protect Canadians. We are a team that is committed to delivering on our responsibilities and achieving our mission. Through our eight years of operation, we have strived for the continuous improvement of aviation security screening in Canada. In 2009/10, the introduction of new technology has been an ongoing theme. We have seen some remarkable performances by our people—results earned through dedication, teamwork and partnership.

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 be a world leader in air transportation security through commitment to its mission and through operational and corporate excellence.

The Canadian Air Transport Security Authority (CATSA) is a Canadian Crown corporation created in April 2002 to conduct aviation security screening. From our national leadership to the Screening Officers at airport checkpoints, CATSA's people are focused on delivering screening services that are:

EFFECTIVE

For CATSA, achieving security is the primary objective. Above all else, our screening technologies, their operators and the procedures they employ must detect potential threat items to aviation security and ensure that they are not brought onto an aircraft.

EFFICIENT

Being efficient means finding the most cost-effective ways to deliver the best service. Efficiency is a major consideration in the structure of our organization, investments in new technology and evolution of screening procedures.

CONSISTENT

From the beginning, CATSA has worked to ensure that security screening is at the same level across Canada. This doesn't mean that screening will be performed identically everywhere and at all times—local conditions and variations in the threat environment are taken into account.

IN THE PUBLIC INTEREST

While security is the first priority, CATSA also aims to meet the travelling public's expectations in terms of service by providing the most secure screening experience possible.¹

Governance and Partnerships

CATSA is governed by a Board of Directors with expertise in governance, public administration, private enterprise, aviation, transportation and security. Our President and Chief Executive Officer and senior management team direct CATSA's day-to-day operations, including the CATSA workforce in Ottawa and our regional service delivery groups.

CATSA works in close partnership with Transport Canada, aviation industry partners, and Screening Contractors at Canada's 89 designated airports. Our Screening Officers are the public face of CATSA and their performance is critical to our mission. Together, we foster an organizational culture that strongly values cost control, individual effort, teamwork at all levels and a commitment to continuous improvement.



¹ The scope of security in the "public interest" was specifically defined for reporting on results. As part of the development of the organization's Program Activity Architecture, CATSA will look to clarify the scope of this legislative outcome in the future.

WHAT WE DO

Air transport security is a challenging field. Success requires organizations and people who can work together to respond quickly and adapt to a continuously evolving environment. Passenger and baggage screening have been CATSA's main activities since its inception. How we carry out these tasks is always changing and improving.

CATSA protects the public by screening all air travellers and their baggage. Our goal is to provide a professional, effective and consistent level of security service across the country, at or above the standards set by Transport Canada.

CATSA's mandated activities fall into four major air security areas. These functions are carried out at designated airports across Canada:

Pre-Board Screening

The most public and visible of CATSA's mandated activities is Pre-Board Screening (PBS). At airport checkpoints across the country, about 6,790 Screening Officers carry out security screening of over 48 million passengers and their belongings every year. Passengers are screened before they enter the secure area of an airport terminal. Screening Officers use a variety of screening technologies and procedures to examine passengers and their belongings, making sure that they are not carrying potentially dangerous items, such as knives, firearms, incendiary devices and explosives. No objects or materials that are on Transport Canada's prohibited items list are allowed on board an aircraft, to eliminate the possibility that they could be used to cause harm.

Full Body Scanners were introduced in 2009/10 in response to emerging threat assessment information. Investments in new leading-edge technology and training of our screening workforce, combined with continuously improving our operational procedures, ensure that CATSA's PBS remains compatible with our international partners in aviation security.

Hold-Baggage Screening

In addition to screening passengers and their carry-on baggage, Screening Officers use specialized explosives detection equipment to screen over 62 million pieces of passengers' checked baggage each year. Hold-Baggage Screening (HBS) is a vital layer of security protecting the travelling public. CATSA purchases and integrates the equipment into the airport's baggage handling system, oversees equipment operation and maintenance, and manages Screening Officer training on the detection equipment.

Non-Passenger Screening

Passengers are not the only people CATSA screens. Since November 2002, Screening Officers also conduct Non-Passenger Screening (NPS) of individuals accessing restricted areas at Canada's 28 major airports, providing an additional layer of security. Non-passengers include flight and cabin crews, airline customer

service personnel, caterers, maintenance personnel, baggage handlers, vendors and concession and other airport service staff. Each year, CATSA conducts the screening, on a random basis, of about 715,000 non-passengers, pursuant to Transport Canada's direction.

Restricted Area Identity Card

The Restricted Area Identity Card (RAIC) Program is the world's first dual biometric (iris and fingerprint) airport identification program for non-passengers accessing restricted areas of air terminal buildings. The identity cards include a built-in computer chip with a microprocessor and memory to store biometric data of fingerprint and iris templates. The RAIC Program includes the cards, fingerprint and iris readers installed in airport terminals and a network infrastructure linking airports to a secure central database.

Fully operational since January 31, 2007, the RAIC Program covers Canada's 28 major airports.

This year, the life-cycle replacement of the system infrastructure, verification of the security credential databases and full development of the RAIC application have been completed.

ACRONYM KEY

Here is a list of some of CATSA's most commonly used acronyms. Introduced and defined on this page, these short-form terms represent CATSA's four major activities. You will find them used throughout this report.

PBS – Pre-Board Screening

HBS – Hold-Baggage Screening

NPS – Non-Passenger Screening

RAIC – Restricted Area Identity Card

Other keys will be included when new terms are introduced. A full glossary is located at the end of the report.



AIRPORT AT A GLANCE VANCOUVER INTERNATIONAL AIRPORT

Each year, CATSA's Annual Report features photographs from one of Canada's 89 designated airports. In this Olympic year, our photography team visited Vancouver International Airport a few days after the opening ceremony of the 2010 Olympic Winter Games.

Vancouver International Airport—or YVR as it is commonly known—is Canada's second busiest airport, after Toronto's Lester B. Pearson International Airport. In 2008, YVR welcomed 17.9 million people, facilitated more than 278,000 take-offs and landings, and handled 211,300 tons of cargo. Growing from a single-runway airport that first broke ground in 1930, the airport has been undergoing almost continuous expansion ever since.

Vancouver International Airport was proud to be the Official Airport of the Vancouver 2010 Olympic and Paralympic Winter Games—the first-ever official airport supplier in Olympic Games history. The airport has made major capital investments since 2004, helping to ensure that YVR—in partnership with CATSA—had the capacity to serve the record-breaking number of travellers transiting the airport during the Games, especially the peak departure day which saw about 37,000 passengers leave YVR.

We thank the entire staff at Vancouver International Airport for making CATSA's photography team welcome during their busiest season ever.

MESSAGE FROM OUR CHAIR

Across the globe, air security continues to be a key priority for many countries including Canada. Security threats do not exist within the confines of borders or among select nations.

Here in Canada, CATSA's ongoing efforts to maintain the security of the travelling public remain progressive. As Chair of the Board of Directors of CATSA, my role—and that of the Board—is to oversee and support these efforts, whether they are:

- unique in nature, like the 2010 Vancouver Olympic and Paralympic Winter Games;
- continuous through planning and preparation, such as the testing of new technologies and the development of new approaches to screening; or
- responsive to incidents, such as measures undertaken following a terrorist attempt onboard a U.S. aircraft on December 25.

This past year has been both a challenging and rewarding one for all of us. For example, the recent Budget announcement of long-term funding for CATSA is greatly appreciated by the organization. The Government of Canada has shown it is committed to strengthening Canada's aviation security program through a sustainable approach that builds on the foundation CATSA has established over the last eight years. In the months and years to come, this new funding will allow the organization to maintain current core operating activities, invest in the newest, most cost-effective and proven screening technology, and align itself more closely with the practices and technologies used by international counterparts.

The journey to achieve this funding was certainly not an easy one, requiring a substantial amount of cross-functional teamwork and the full and active engagement of the Minister of Transport, Infrastructure and Communities, the Honourable John Baird, and the Minister of State, the Honourable Rob Merrifield, as the sponsors of CATSA's proposal. I thank the Ministers for their efforts and their support of CATSA.

Also of note in 2009/10, CATSA was one of several federal organizations that took part in a Strategic Review process. Through this Review, the federal government assesses its direct spending to ensure programs are managed effectively and efficiently. The measures proposed as a result of the Strategic Review will allow CATSA to spend resources more efficiently and deploy resources where there is a greater need, with no compromise to aviation security.

CATSA also held its inaugural Annual Public Meeting. I was pleased to take part in this event, along with CATSA's President and Chief Executive Officer (CEO), Kevin McGarr. It provided us with an opportunity to explain CATSA's mandate and how it is fulfilled, report on the organization's performance over the last fiscal year, and present an update on current initiatives and plans. I look forward to participating in this important event again in December 2010.

“Among our efforts, one of the most important will be the continuation of the strong relationships we have built with CATSA’s regulator, Transport Canada, and the federal ministers with whom we work on a regular basis.”

All Board members were fully engaged in various aspects of our governance duties in 2009/10, with each Director serving on at least two of the Board’s four committees. Collectively, we are committed to offering oversight on both direction and performance that ultimately contributes to the organization’s success. I believe we have delivered on this commitment in 2009/10.

Each year typically brings changes to the Board membership and this year is no exception. As we bid farewell to Ron Patmore, we would like to express our thanks to him for his exceptional commitment and dedication. In turn, we welcome our newest member, William Deluce, who brings extensive aviation expertise to our Board having founded, managed and served in senior positions at scheduled and charter air service companies in North America and Africa.

This past year has been an extremely busy and productive one for everyone at CATSA. The year to come will be equally challenging, and I and my Board colleagues look forward to assisting the organization as it tackles change on many levels. Among our efforts, one of the most important will be the continuation of the strong relationships we have built with CATSA’s regulator, Transport Canada, and the federal ministers with whom we work on a regular basis. Much has been accomplished—especially over the last year—due to mutual respect and cooperation.

On behalf of the Board, I would like to thank Kevin McGarr, all CATSA employees, and the Screening Officers and Screening Contractors working across Canada for their continued dedication to the security of the Canadian people and for the professional efforts they made in the wake of December 25 and during the 2010 Olympic and Paralympic Winter Games. I might add that the Games provided CATSA with a rare opportunity to showcase the best in Canadian aviation screening to the world. Visitors travelling to and from Canada and across Canada by air during this time experienced the highest levels of security screening no matter where in the country they were travelling.

Looking back at the year as a whole, the Board is proud of what has been accomplished and look forward to the year ahead.



D. Ian Glen, Q.C.
Chair



MESSAGE FROM OUR PRESIDENT AND CEO

Communities, countries and continents have never been more connected thanks to expansions and improvements in both air travel and technology. At CATSA, we are cognizant of the important role we play in ensuring the security of air travellers so that these vital social and economic connections are maintained. And we look to technology to assist us in carrying out our mandate, whether in the airport environment or through our internal management systems.

Within this global realm, it is all too easy for air travellers to lose sight of the very real and present threats inherent to aviation security right at their own door. That was the reality we faced on December 25, 2009 when a passenger on a trans-Atlantic flight en route to Detroit attempted to ignite and explode a bomb.

Amid this very challenging environment, CATSA's response was immediate. Our heightened security meant Canadians travelling by air in this country continued to be well protected. In the days and weeks that followed, changing regulations continued to place a high demand on our people and our processes. It was definitely not an easy time but it did present us with an opportunity to advance on our commitment to continuous improvement. We can now look back, learn from these events, and find new ways—alongside of our partners—of getting better at what we do.

Much of what we have accomplished in 2009/10 will serve us well as we move in that direction. It has been a year of testing, piloting and implementing new technologies and processes that ensure we maintain operational compatibility with our international counterparts while staying one step ahead of threats to aviation security.

One of the highlights of the past year has been the opening of CATSA's new testing facility in Ottawa. We now have the ability to conduct extensive research and tests on new

technologies and checkpoint configurations at our own site, as well as to carry out related training, so that full evaluations and preparations for these options are undertaken prior to their deployment to Canadian airports.

Among the first technologies we worked with in our new facility was full body scanning. After a successful pilot in Kelowna in 2008, we carried out fine-tuning and training at our new site, allowing us to quickly and effectively respond to the accelerated purchase and deployment of the scanners to airports across the country in response to the events of December 25, 2009.

Other technological advances—such as multiview X-rays, new explosive vapour detection equipment and the connectivity achieved with pre-board screening equipment among our eight busiest airports—are providing the means for CATSA to respond quickly and effectively to new and emerging threats.

Technology has also played a role in improving internal efficiencies and communication within CATSA. Advances in systems and software that support our management and communications functions have been set in place and, over time, have the ability to significantly impact our performance. This is especially important given that we are moving to a regional service delivery model that brings the people responsible for service delivery closer to front-line operations and improves CATSA's flexibility to respond to local needs.

“It has been a year of testing, piloting and implementing new technologies and processes that ensure we maintain operational compatibility with our international counterparts while staying one step ahead of threats to aviation security.”

Another noted accomplishment that I am proud of was our response to the needs surrounding air transportation security at the 2010 Vancouver Olympic and Paralympic Winter Games. The lead-up to this monumental event was years in the making, with preparations and planning that involved many of our employees, Screening Contractors, Screening Officers and stakeholders in the aviation industry. It was truly a team effort on all fronts.

A large part of the credit for this achievement goes to those on the front lines—the screening personnel. Between the incredible support they demonstrated during and after December 25, and the outstanding efforts made during the Winter Games, I am extremely proud of this fine team. The last quarter of 2009/10 proved to be an exceptionally demanding one for many of these men and women, and they showed that they are more than capable of meeting extraordinary circumstances with efforts in kind.

I would like to thank all screening personnel and CATSA employees—including the senior management team—for their dedication and hard work, not only during this exceptional period but throughout 2009/10. Your efforts make an important contribution to our country and to the security of all Canadians.

As I look forward to the upcoming year, I believe we are ready for change—particularly in the way we conduct our business through our processes and relationships. The announcement

of long-term funding for CATSA in Budget 2010 means that we are in a better position to meet this challenge, while further strengthening the security of Canadians. This includes embarking on a new Request for Proposal (RFP) process to establish a stronger, more productive business relationship with our Screening Contractors.

These are the tools and resources we need to embrace and manage change. As you read through this year’s annual report, you will note how these measures complement our ongoing efforts on every level—from our focus on performance measurement through to our move toward regional growth. We have set the stage for transformation and I look forward to working diligently alongside everyone at CATSA to achieve great things in the year to come.



Kevin McGarr, M.S.M., MBA
President and Chief Executive Officer



CATSA AT A GLANCE

62,000,000

PIECES OF BAGGAGE SCREENED

48,000,000

PASSENGERS SCREENED

6,790

SCREENING OFFICERS ACROSS CANADA

1,789

SCREENING OFFICERS RECERTIFIED

1,565

DESIGNATED NEWLY HIRED SCREENING OFFICERS TRAINED AND CERTIFIED

530

EMPLOYEES ACROSS CANADA

104

CHECKPOINTS

296

SCREENING LANES

89

DESIGNATED AIRPORTS ACROSS CANADA

800,000,000

DOLLARS WORTH OF SCREENING EQUIPMENT



Canada's Airports

CATSA has responsibilities at 89 designated airports across the country. Canada's eight busiest airports are designated as Class I airports, handling more than a million passengers a year. Another 20 of Canada's airports are designated as Class II, generally handling more than 200,000 passengers annually. Together, the Class I and Class II airports are referred to as Canada's 28 major airports. They are listed below as two groups in alphabetical order.

Canada's eight busiest airports: Calgary, Edmonton, Halifax, Montreal (Pierre Elliott Trudeau International), Ottawa, Toronto (Lester B. Pearson International), Vancouver and Winnipeg

Canada's other major airports: Charlottetown, Fredericton, Gander, Iqaluit, Kelowna, London, Moncton, Prince George, Quebec City, Regina, Saint John, St. John's, Saskatoon, Sudbury, Toronto (City Centre), Thunder Bay, Victoria, Whitehorse, Windsor and Yellowknife.



CATSA'S FIRST ANNUAL PUBLIC MEETING

CATSA held its first Annual Public Meeting (APM) at Toronto's Pearson International Airport on November 30, 2009. The theme of the meeting was "Balancing First-class Security and Excellent Customer Service."

D. Ian Glen, Chair of the CATSA Board of Directors, provided a historical overview of the organization and explained CATSA's unique governance structure. Mr. Glen also spoke about the evolution of CATSA moving in very short order from establishing operations to maintaining and improving our operations.

Kevin McGarr, President and CEO, followed with a discussion on CATSA's three intermediate outcomes: customer-focused security, strengthened capacity, recognized expertise. Mr. McGarr also spoke about CATSA's important role in the Vancouver 2010 Olympic and Paralympic Winter Games.

The APM provided an opportunity for CATSA to engage our stakeholders and the public in an open and transparent way, in keeping with the directions for Crown corporations established by the Treasury Board Secretariat.

2010 HIGHLIGHTS

For CATSA, the past year has been filled with challenges met by success. Our investments in new screening technology, improved management and governance, and training of our screening workforce have paid off. Working closely with our security partners, we were able to respond quickly and effectively when Holiday-peak air travel coincided with an elevated threat level on December 25.

New technology emerged as a major focus for CATSA in 2009/10. Several technology trials and evaluations were conducted over the course of the year at locations across the country. In addition, we ran pilot projects to test and evaluate a number of screening procedures. On the management side, technology was also an important theme with a number of new systems and upgrades rolling out across the organization to improve internal controls.

Here are some of CATSA's highlights from 2009/10:

Full Body Scanners Arrive in Canada

This new scanning technology has been a major newsmaker in recent months and will become a common fixture at select checkpoints. Screening Officers have begun to receive training on operating the new scanners. By March 31, 2010, about 330 Screening Officers had completed the Full Body Scanner training. Early feedback received on the Full Body Scanners is positive and indicates that the technology is well received. CATSA will continue to monitor air travellers' comments on the Full Body Scanners. See *"Full Body Scanners Arrive at Canada's Airports"* on page 15.

Next Generation X-ray Machines

Used for screening carry-on baggage and other items, the new systems have been tested and are being deployed to Canadian airports. See *"Multiview—the Next Generation of X-ray Technology"* on page 20.

Vancouver 2010 Winter Olympic and Paralympic Games

CATSA worked with other partners to ensure security for the duration of the Games by re-deploying Screening Officers and CATSA employees from other parts of the country. In addition, CATSA made investments in mobile screening equipment to provide additional capacity. See *"Taking on the Vancouver 2010 Challenge"* on page 22.

New Transportable Screening Capacity

Significant investments were made in purchasing Mobile Screening Vehicles and Portable Screening Units to support security operations at the Vancouver 2010 Olympic and Paralympic Winter Games. See *"CATSA Goes Mobile"* and *"CATSA at Sea"* on pages 22 and 23.

CATSA's New Testing Facility Opens

CATSA opened a new testing facility in Ottawa in October 2009. The facility will support technology testing, systems improvement and training development, and provide CATSA with the capacity for more active engagement with our national and international security partners. See *"New Testing Facility a Major Step Forward"* on page 34.

CEO / CFO Certification Project

CATSA embarked on a comprehensive CEO / CFO certification project bringing improved consistency to the organization's financial

accounting controls and quality management practices. See *"Managing for Value, Efficiency and Accountability"* on pages 30 and 31.

CATSA's First Annual Public Meeting

CATSA hosted its inaugural Annual Public Meeting on November 30, 2009. The theme for the meeting was "Balancing First-class Security and Excellent Customer Service." See *"CATSA's First Annual Public Meeting"* on page 13.

Strategic Review Completed

An in-depth Strategic Review of the funding, relevance and performance of CATSA's programs examined value for money and results for the public. Resulting recommendations for streamlining operations, realigning activities and enhancing cost effectiveness will be implemented over the coming years. See *"Managing for Value, Efficiency and Accountability"* on pages 30 and 31.

Management Systems Upgrades

A number of initiatives to improve management systems and technology were concluded in 2009/10 while others are still in progress. A key project is the enhancement of our Corporate Management System, now underway. See *"Systems and Software—Upgrading for Continuous Improvement"* on page 30.

Testing Pre-Board Screening Options

From August to December 2009, CATSA carried out a pilot project with our partners at Regina International Airport. The aim of the project was to test and compare different security checkpoint configurations and procedures in the airport's pre-board screening area. This project should help identify new strategies to increase the efficiency and effectiveness of CATSA's security screening operations.

Assessing Boarding Pass Security Systems

A trial completed with our partners at Montreal's Trudeau International Airport in August 2009 contributed to the evaluation of several boarding pass scanning systems. The trial results helped identify the best-performing and most reliable scanners and demonstrated that these systems are both effective and efficient.

Testing an Explosive Trace Detector

From April 2009 to February 2010, a trial conducted with partners at Toronto's Pearson International Airport tested the Sentinel II trace detector. Evaluation of the trial results will assess the impact of the portal on screening efficiency and customer service.

Canada's First Vehicle Search Checkpoint

Construction is now underway at Vancouver International Airport (YVR) on a vehicle search checkpoint outside the air terminal building. Construction work will be completed in 2011, and CATSA will then launch a vehicle search pilot project at YVR.



FULL BODY SCANNERS ARRIVE AT CANADA'S AIRPORTS

A terrorist attempt that occurred over Canadian territory on a December 25, 2009 flight from Amsterdam to Detroit triggered additional security measures and challenged the capacity of air transport security organizations around the world. At Canada's airports, there were stricter baggage rules and additional searches, which made moving through checkpoints for flights bound for the U.S. more difficult.

On January 5, 2010, the Government of Canada announced that it would be accelerating plans for investing in Full Body Scanners (FBS) to enhance security at Canadian airports. As reported in the 2009 Annual Report, the FBS technology was successfully tested by CATSA at Kelowna Airport in 2008/09. Installation of the scanners began later of this January, with the first unit going into service at Toronto's Pearson International Airport at the U.S. departures checkpoint.

The FBS reveals objects, including weapons and explosives, which may be concealed under clothing. To protect privacy, the Screening Officer viewing the images is working in a remote area where they cannot see the individual being scanned. In addition, passengers will have a choice between a full body scan and a physical search. CATSA has worked with the Office of the Privacy Commissioner to ensure that privacy considerations are taken into account at all times when the technology is being used to conduct screening.

As the Office of the Privacy Commissioner indicates in its letter in response to the Privacy Impact Assessment completed in anticipation of the deployment of the FBS technology, "We visited the test site in Kelowna in October 2008, and have had numerous meetings and discussions with CATSA officials since, in order to ensure the privacy risks of this technology are minimized for Canadians." In a news release dated January 2010, the Commissioner mentions that "Even so, in acknowledging the sensitivity of the technology, CATSA agreed to use the devices in ways that our Office feels would minimize the intrusion to privacy."

SECURITY SCREENING – THEN AND NOW – 10 THINGS THAT CHANGED

| | Pre-CATSA – 2002 | Today – 2010 |
|---|--|--|
| Accountability | Rested with individual airlines for their passengers. | Accountability to Parliament through the Minister of Transport, Infrastructure and Communities. |
| Consistency of Pre-Board Screening (PBS) | Inconsistent screening contracts with different Screening Contractors. | <p>Initiated enhanced contracts.</p> <p>Established <i>Standard Operating Procedures</i> at all 89 designated airports.</p> <p>Anticipated competitive request for proposal process to award screening contracts.</p> <p>Implemented Oversight Program for Screening Contractor performance.</p> <p>National training programs achieve consistent service.</p> |
| Hold-Baggage Screening (HBS) | Limited screening in place. | <p>Screening 100% of checked baggage.</p> <p>New HBS equipment and technologies being tested and evaluated.</p> <p>Optimized use of equipment through system re-engineering.</p> |
| Security Measures for Non-Passengers and Airport Restricted Areas | Non-passengers not screened but possess Restricted Area Pass. | <p>Enhanced RAIC with biometric technology.</p> <p>715,000 non-passengers screened annually.</p> <p>Constructing first vehicle search checkpoint.</p> |
| Explosives Detection Systems Technology | No national system in place. | <p>Explosives detection equipment deployed at all designated airports.</p> <p>Explosives vapour detection equipment added.</p> <p>Multiview X-ray and Full Body Scanner deployment in progress.</p> |

| | Pre-CATSA – 2002 | Today – 2010 |
|---|--|--|
| Training Screening Officers | Single course with limited hours of training | Enhanced and additional training for Screening Officers: training centres, computer-based and on-the-job training and distance learning tools. New programs and tools ensure adequate expertise for consistent screening. |
| Conditions of Employment for Screening Officers | Generally low-paying jobs with high turnover rates. | Improved training, higher rates of pay and possibilities for career development. National Shift Briefing Program engages and motivates Screening Officers. Continued implementation of a wage and benefit harmonization across Canada. |
| System Oversight | Security incidents and surrendered items managed locally. | Security Operations Centre is the central incident and emergency management site (24/7). Information sharing between HQ and airports is improved. Deployed enhanced multi-camera CCTV system. |
| Awareness and Customer Service | Limited public awareness | Training, bilingual greetings, news articles, and consultative approach with partners improve customer service. High rates of passenger satisfaction. Communications strategy aims to proactively reduce prohibited items collected at checkpoints. Oversight staff monitors and oversees Screening Contractor performance. |
| Partnerships | Security screening coordination was done on an individual airport basis. | Raising national and international profile through collaboration with stakeholders. Working with partners to minimize impact of unplanned events on operations. Strengthened relationship with regulator. |

OUR TEAM

At CATSA, we are always striving to find the right balance between new technology and human factors. This year, there has been a focus on deploying new screening technologies, but this has been balanced by new and ongoing investments in our people. We need to have both to continuously enhance our ability to deliver on our mandate.

CATSA offers challenging, meaningful careers. Our screening workforce and employees' work contributes directly to the security of air travellers. Together with our airport and security partners, we are professionals dedicated to keeping our skies safe.

As an organization, CATSA strives to build a workplace culture that will enable us to attain our vision: "to be a world leader in air transportation security through commitment to its mission and through operational and corporate excellence." The importance of engaging our screening workforce and all employees in reaching toward our vision is expressed in the set of values we have embraced: **fairness, loyalty, accountability, integrity** and **respect**. These values, known by the acronym FLAIR, serve as the basis for CATSA's approach to conducting business. Together, they outline the expectations for how all employees will interact with one another and with those outside the organization.

The New Face of CATSA

There were many changes and challenges for CATSA in 2009/10, reflecting our organization's growth, the evolution of our regional service delivery model, and the introduction of new technology both for screening services and management purposes. The location of work changed for some positions, and some of our staff and screening workforce embraced the once-in-a-lifetime opportunity to play a part in the Vancouver 2010 Olympic and Paralympic Winter Games.

CATSA welcomed an additional 146 employees this year, primarily related to our transition to a regionalized service delivery model that is bringing CATSA's service delivery teams closer to our front lines. The Regional Service Centres currently being established will enable a higher level of oversight and enhance the service delivery to ensure a better screening system.

This new structure is associated with a realignment of management responsibilities. To ensure that workload is distributed evenly across the organization and that duplication of work is minimized or eliminated, CATSA reviewed and revised the functional roles, accountabilities and reporting relationships assigned to Headquarters and the regions. This work allows CATSA to allocate our resources in line with our activities, at both the regional and national levels.

Connecting with Employees

At CATSA, we are striving for excellence in the workplace by emphasizing teamwork, continuous improvement and operational excellence. We will continue to attract, motivate and retain a diverse and talented workforce by connecting our people to what matters most—people, purpose and resources. We need to work as a team in order to clearly communicate every employee's purpose and added value to the organization as well as invest in their future with the necessary training and tools in order for them to work efficiently and effectively.

Communication is a key factor in building an engaged and cohesive workforce. Destination—CATSA's Intranet site—is an essential tool for daily communication between senior management and employees. From fostering a clear understanding of corporate strategy, to informing people about lunch-time charitable events, Destination helps to build a sense of community and common purpose.

CATSA employees come together face-to-face twice a year for employee retreats. These gatherings provide a formal venue for ensuring that staff is well-informed on corporate initiatives and issues. The retreats also present opportunities for teambuilding, strengthening professional relationships among staff in different branches, and recognizing excellence.

On June 15, 2009, CATSA's employee retreat focused on the theme "Flight to the Future" and included our annual awards ceremony. Tribute was paid to Mr. Jacques Duchesneau, who stepped down from the position of President and Chief Executive Officer of CATSA in 2008. The fall retreat, held on October 15, 2009, looked forward to the Vancouver 2010 Olympic and Paralympic Winter Games. The Commissioner of Official Languages discussed the provision of services in both of Canada's official languages during the Games. The afternoon's special guest speaker was Todd Nicholson, a sledge hockey player and Paralympic athlete. One of the important topics that Mr. Nicholson discussed was how to better sensitize the screening workforce to the needs of air travellers with disabilities.

CATSA's Pride and Recognition Program

The Pride and Recognition Program recognizes exceptional behaviours and contributions made at both the individual and team levels that are reflective of CATSA's underlying values. The intent of our Pride and Recognition Program is to bolster corporate pride, productivity, and employee innovation through the reward and recognition of valued behaviours by employees. Rewards may be bestowed upon CATSA employees monthly, quarterly, annually, or immediately following any exceptional act or behaviour displayed by CATSA employees.

CATSA Academy

CATSA fosters a learning environment that benefits not only individual employees but the organization as a whole. Life-long learning is intricately tied to our commitment to the pursuit of excellence, innovation and continuous improvement. Learning plays a vital role in the effective management of CATSA's resources and meeting our organizational goals. This is why the CATSA Academy was created in April 2007. The Academy promotes a culture of continuous learning and directly supports employees by providing a variety of learning opportunities and tools.



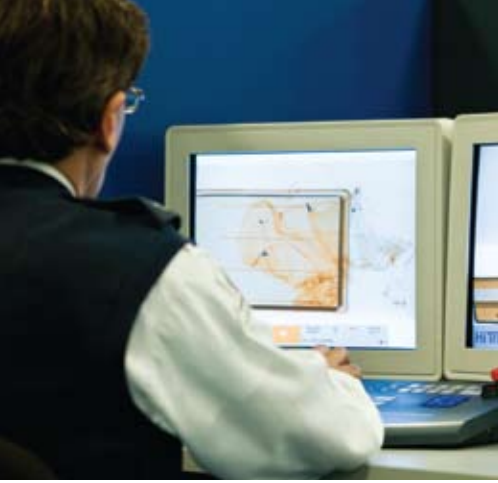
EMPLOYEE OF THE YEAR – AND THE AWARD GOES TO...

CATSA is pleased to announce that Jim Doucette, General Manager 2010 Olympics, Operations Branch, has been named the CEO Employee of the Year for 2009/2010.

Jim joined CATSA in November 2002. He has been considered the heart and soul of one of the most high profile projects that CATSA has ever undertaken. From day one it is through his knowledge, commitment and enthusiasm that all departments, both internal and external, were able to come together and ensure that CATSA effectively delivered its part in the 2010 Olympics Aviation Security Plan. He worked tirelessly, spending a lot of the time on the road, answering dozens of phone calls daily, and providing countless briefings and updates to stakeholders. He accepted multiple changes to the security plan, making the necessary adjustments time and time again. He did this all with grace and a great sense of humour. He is a great asset to the organization and is a great example of how to get things done.

Jim received the CEO Monthly Award in January 2010.

Congratulations Jim, and thank you for your hard work and dedication!



MULTIVIEW – THE NEXT GENERATION OF X-RAY TECHNOLOGY

The Hi-Scan 6040 aTiX X-ray machine (aTiX for short) is one of the next generation of “multiview” X-ray technology for PBS. The machine’s multiview system literally adds an entirely new dimension to X-ray screening.

The main difference in the physical appearance of the equipment is the additional monitor displaying the second X-ray image. But there are many other enhancements, including higher resolution and an automated threat-detection system.

The added features and higher resolution allow the Screening Officer operator to see upright items more clearly, so they can more easily interpret and recognize the items on screen.

Already in use in the U.S. and U.K., CATSA began introducing the new multiview technology at Canada’s eight busiest airports in 2009/10. Starting with a pilot project at Vancouver International Airport in June 2009, the machines have now been deployed at PBS checkpoints in Vancouver, Montreal’s Pierre Elliott Trudeau International, Toronto’s Lester B. Pearson International, Edmonton and Halifax. Further deployment of multiview machines is anticipated in 2010/11.

Investing in multiview technology is yielding benefits for both improved effectiveness and better efficiency, helping CATSA provide high-quality service to passengers while we stay in step with our international security partners.

Leadership Development Program

In the spirit of continuous improvement and as our organization continues to grow in size and complexity, CATSA recognizes the importance of providing leadership training to our entire management team. Better leadership facilitates achieving results in a demanding environment. In response to this need, the CATSA Academy has initiated a new Leadership Development Program. Delivery of the first module, Performance Coaching and Feedback, took place in fall 2009.

Understanding Employees

CATSA’s human resources policies are developed with a view to attracting and retaining the best people, while ensuring that we deliver on our mandate. All policies are reviewed on a regular basis and as needed in response to particular circumstances. For example, last year a Reserve Force Leave Policy was developed to support Canadian Forces Reservists working for CATSA allowing them to take part in operations in Canada or abroad or to participate in reserve force training.

In 2009/10, CATSA created new human resources policies such as self-funded leave, telework and job-sharing. CATSA recognizes that alternative work arrangements such as these can be beneficial for both CATSA and employees. By providing the opportunity to telework, job-share or participate in a self-funded leave plan, CATSA is helping

employees achieve a better balance between their work and personal lives while continuing to contribute to CATSA’s mission, vision and strategic objectives.

CATSA in the Community

At CATSA, our employees’ commitment to public service extends well beyond our mandate. In addition to our successful organization-wide participation in the annual United Way/Centraide campaign, CATSA employees took part in a surprising array of charitable endeavours, both in Ottawa and the regions. As these highlights from 2009/10 illustrate, our people are generous with their time and talents as well as their money.

20-20 Campaign for the Ottawa Hospital Foundation

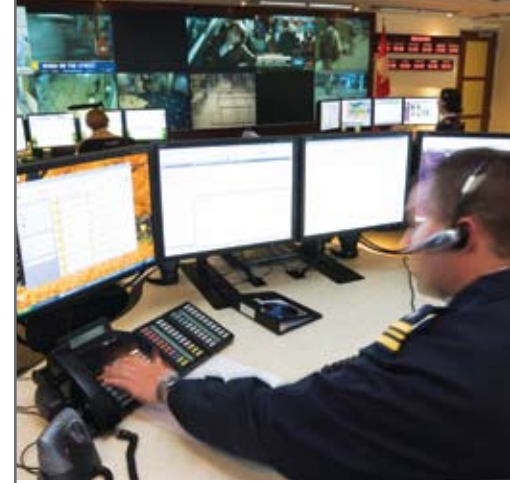
The Ottawa Hospital Foundation’s 20-20 Campaign aimed to raise money to fund the expansion of the Cancer Centre. Through pledges, a silent auction, and branch challenges, CATSA’s Ottawa staff surpassed its fundraising goal in just four weeks during the spring of 2009. CATSA’s fundraising effort was augmented by a federal government contribution of \$2.30 for every dollar raised. These funds, donated in memory of Rebecca Howe, a CATSA employee who inspired her colleagues through her own journey with cancer, have helped equip a Chemotherapy Treatment Bay in the new Cancer Centre.

Ottawa Dragon Boat Race

The 16th Annual Ottawa Dragon Boat Race Festival—North America's largest—was held at Mooney's Bay Park on Saturday, June 20, 2009. Arni Ahronson, manager of Learning Services, registered a mixed team of CATSA employees in the race. Team "CATSApult" didn't paddle its way into the finals but had a great time helping to raise funds for local charities.

CATSA Hockey Team

A friendly rivalry has turned into a fun way to raise funds for good causes at home and abroad. On Saturday, November 14, 2009, CATSA and NAV CANADA faced off in a two-game hockey match, raising funds for the United Way Campaign. In the first game, team CATSA—displaying extreme skill and strength—won by a score of 7-2. NAV CANADA came back to win the second game 3-2. A rematch was held on Sunday, January 18, when the lucky teams took to the ice at the Ottawa Senator's home base, Scotiabank Place. It was a hard-fought game, but in the end CATSA prevailed with a 3-1 victory. Proceeds from the game were donated to the Haiti Earthquake Relief Effort on behalf of Haitian-born Sacha Delbeau—an IT contractor who was named CATSA's player of the game.



SPRINGING INTO ACTION

CATSA's capacity to react quickly when faced with a threat has evolved over the past several years.

When a plot to destroy trans-Atlantic aircraft using liquid explosives was foiled in August 2006, the organization reacted quickly—rapidly adjusting procedures, increasing capacity on the front lines and communicating new regulations to the public.

On December 25, 2009, in the middle of the Holiday season and just one month before the kickoff to one of CATSA's most exciting and high-profile assignments—the Vancouver 2010 Olympic and Paralympic Winter Games—an attempted terrorist attack over Canadian airspace once again tested CATSA's ability to react in an emergency.

Although the timing of this event could have made effective management of the incident extremely challenging, CATSA was well-positioned to respond. With the Winter Games plan so thorough and well-calculated, CATSA was able to take an all-hands-on-deck approach to manage operations and communications in the days and weeks after December 25. Faced with changing regulations, understandably puzzled travellers, and international implications, CATSA rose to the challenge, conveying the right messages to the public, exercising its strong security partnerships, and putting in extra effort at the airports. Even after 32 of the Headquarters staff and 233 Screening Officers were sent out West for the Games, the incident's management was well in hand.

Now entering in its ninth year of operations, CATSA is no longer a young organization, but a maturing one. Its history and experience in an unpredictable industry have led to growth in terms of capacity but also quality of planning and execution.

CATSA is always ready for the next challenge.



The Right Honourable Stephen Harper, Prime Minister of Canada, at a Fixed-base Operation set up at the Calgary International Airport for the Vancouver 2010 Olympic and Paralympic Winter Games. Also present (from left to right): Transport Canada Inspector Paulette McDonogh, Point Leader Shawn, Screening Officers Mirjana, Constantin and David, Calgary Police Services Sergeant Warren Hagerman and Winter Games Duty Manager Kamal. Photo courtesy of the Office of the Prime Minister.

Taking on the Vancouver 2010 Challenge

The Vancouver 2010 Olympic and Paralympic Winter Games brought the world to Canada—and most of it came by air. Hosting the Olympic Games is a massive undertaking for any country, city, or airport. But with challenges also come opportunities.

A key part of the planning to manage the high volume of air passengers involved building an alliance that included CATSA, Vancouver International Airport (see *Airport at a Glance, page 2*), the Vancouver Organizing Committee (VANOC), the RCMP, U.S. and Canadian customs, transportation companies, and local hotels and retailers. All the partners streamlined and expanded their operations to handle the large number of travellers.

For CATSA, the Winter Olympic and Paralympic Winter Games presented an opportunity to step up plans for improving the organization's capacity. The investments made in new Portable Screening Units (PSU) and Mobile Screening Vehicles (MSV) will provide benefits across the country for years to come, and will be a valuable resource for future large-scale events hosted in Canada.

CATSA also sent a Winter Games team to British Columbia—one made up of Screening Officers and employees from Ottawa

Headquarters. A total of 233 CATSA Screening Officers from across the country travelled to British Columbia to help provide additional screening services. The largest contingent, with 32 Screening Officers, came from Toronto's Lester B. Pearson International Airport.

About 37,000 travellers departed from YVR on March 1 alone—almost 50 percent more than the previous record of passengers being handled on a single day. All the planning paid off. There were line-ups, it was crowded, but passenger wait times were only a little above normal and most flights departed on schedule.

Congratulations to everyone who contributed to air transport security at the Games, especially for the big win in the Olympic Departure Day event—YVR's busiest day in history.

CATSA Goes Mobile

Expanding our capacity is one of the intermediate outcomes CATSA is striving to achieve. Thinking ahead, CATSA came up with solutions that would both provide much-needed additional screening capacity at the Vancouver 2010 Winter Games and fit with future plans to expand PBS services.



CATSA's Portable Screening Units (PSU): a part of the Vancouver Harbour landscape during the 2010 Winter Games.

After investigating the options for adding transportable screening capacity, CATSA determined that a mix of PSUs and MSVs would best suit Canada's current and future requirements. In total, CATSA purchased nine European-made MSVs and ten PSUs that were manufactured in Moncton, New Brunswick.

The new PSUs look a bit like shipping containers, but once expanded they have the capacity to provide an additional lane for screening checked and carry-on baggage. During the Winter Games, the PSUs were set up to provide security screening at small airports and water aerodromes in and around Vancouver.

The MSVs are mobile, self-contained buses, designed and outfitted specifically to accommodate air transport screening services. Although their time at the Games was spent mostly at fixed locations, they can easily be driven anywhere they are needed, making them a very flexible asset. During the Winter Games, six of the MSVs were deployed in the Vancouver area while the other three were sent to Calgary.

CATSA at Sea

Anything was possible at the Vancouver 2010 Olympic and Paralympic Winter Games: transportable screening points in large containers, mobile screening points in buses and floating checkpoints on barges.

In order to provide screening capacity not only on land but also at sea, CATSA teamed up with Tymac Launch Service Ltd., a marine transportation company servicing the Vancouver region, to make what is possibly the world's first floating checkpoint a reality. Two barges outfitted with Portable Screening Units were anchored at the aerodrome docks of Nanaimo Harbour and Vancouver Harbour.

Like their counterparts positioned on land, PSUs positioned on barges spent the duration of the Games at their assigned locations to accommodate the need for security screening at temporarily designated sites at the 2010 Olympic and Paralympic Winter Games.

ACRONYM KEY

HBS – Hold-Baggage Screening

MSV – Mobile Screening Vehicle

PBS – Pre-Board Screening

PSU – Portable Screening Unit

YVR – Vancouver International Airport

OUR BOARD OF DIRECTORS



D. Ian Glen, Q.C. – Chair

Residence: Ottawa, ON

Director since: June 4, 2007

CATSA Committees: Audit Committee; Corporate Governance and Human Resources Committee; Strategy Committee; and Pension Committee



William Deluce – Director

Residence: Toronto, ON

Director since: January 14, 2010

CATSA Committees: Corporate Governance and Human Resources Committee and Audit Committee

Industry Nominee of: Air Transport Association of Canada (ATAC)



Michael D. Campbell – Director

Residence: Charlottetown, PEI

Director since: May 11, 2007

CATSA Committees: Audit Committee and Strategy Committee

Industry Nominee of: Canadian Airports Council (CAC)



Dora Koop, ICD.D – Director

Residence: Westmount, QC

Director since: November 1, 2007

CATSA Committees: Corporate Governance and Human Resources Committee and Strategy Committee



Gene McLean – Director

Residence: Toronto, ON

Director since: October 12, 2007

CATSA Committees: Corporate Governance and Human Resources Committee and Pension Committee



H. Glenn Rainbird, O.C. – Director

Residence: Carrying Place, ON

Director since: January 26, 2007

CATSA Committees: Strategy Committee and Chair of Pension Committee



Gaetane C. Hains – Director

Residence: Anjou, QC

Director since: August 1, 2007

CATSA Committees: Corporate Governance and Human Resources Committee and Pension Committee



Denis Jacob, ICD.D – Director

Residence: Lorraine, QC

Director since: January 26, 2007

CATSA Committees: Audit Committee and Chair of Strategy Committee

Industry Nominee of: National Airlines Council of Canada (NACC)



John Kaldeway, ICD.D – Director

Residence: Brampton, ON

Director since: February 12, 2007

CATSA Committees: Strategy Committee and Chair of Audit Committee

Industry Nominee of: Canadian Airports Council (CAC)



Donald K. Robinson, Q.C. – Director

Residence: Oakville, ON

Director since: May 11, 2007

CATSA Committees: Strategy Committee and Chair of Corporate Governance and Human Resources Committee



Mike H. Shaikh, FCA – Director

Residence: Calgary, AB

Director since: April 11, 2008

CATSA Committees: Audit Committee and Pension Committee

Visit the *Board of Directors* section under *About Us* on our Web site, www.catsa.gc.ca, for detailed biographies.

OUR SENIOR MANAGEMENT TEAM

Senior Management

Appointed by CATSA's Board of Directors, the organization's President and CEO is supported by a senior management team. Our senior management structure (as of March 31, 2010) is illustrated here:





Kevin McGarr

President and Chief Executive Officer (CEO)

With CATSA since: January 2003

In current position since:
November 2008

Prior work experience: investigation of organized crime activities, Montreal Urban Community Police Service; and detection and prevention of corporate and financial malfeasance, professional services firm

Education: Master's degree in Business Administration / International Aviation Program, John Molson School of Business of Concordia University; and Director's Education Program, Institute of Corporate Directors

Appointment: appointed to the position of President and Chief Executive Officer by CATSA's Board of Directors on November 5, 2008. Served as interim President and Chief Executive Officer prior to his appointment



Renée Légaré

Senior Vice-President, People

With CATSA since: June 2002

In current position since: March 2009

Current responsibilities and accomplishments: development of the Human Resources framework; development and implementation of the pension and benefits plans; oversight of the development of training and certification program for Screening Officers and implementation of wage and benefit harmonization plan for the screening workforce

Prior work experience: Economist, Human Resources Development Canada; and Program Evaluation Branch and Marine Policy Directorate, Transport Canada

Education: Master's degree in Industrial Relations, Université du Québec en Outaouais; degree in Economics, Université de Sherbrooke; and Director's Education Program, Institute of Corporate Directors



Yves Duguay

Senior Vice-President, Operations

With CATSA since: September 2007

In current position since: March 2009

Current responsibilities and accomplishments: pre-board passenger, non-passenger and hold-baggage screening operations at Canada's 89 designated airports; oversight and management of CATSA's screening contracts and personnel; and launched a strategy to develop a culture of operational excellence for screening operations

Prior work experience: Security professional, Royal Canadian Mounted Police and Air Canada

Education: Certificate in Management and Informatics, Université de Montréal; Certificate in Aviation Safety and Security, George Washington University; and Director's Education Program, Institute of Corporate Directors, EMBA Program, McGill University.



John Stroud

Vice-President, Strategy and Communications

With CATSA since: April 2002

In current position since: December 2007

Current responsibilities and accomplishments: development and implementation of the organization's corporate strategy, Performance Measurement Program, business planning and reporting, risk management and communications

Prior work experience: Transport Canada; Policy Advisor, Human Resources Development Canada; and Law Clerk, Ontario Court of Appeals

Education: Bachelor of Arts in Political Science, University of Toronto; Master's degree in Philosophy, Oxford University; and Bachelor of Law and Master's of Public Administration, University of Victoria

Mike Saunders

Vice-President and Chief Technology Officer

With CATSA since: July 2008

In current position since: July 2008

Current responsibilities and accomplishments: deployment and maintenance of a complex network of security screening equipment that supports consistent and efficient nationwide security screening operations at Canada's 89 designated airports and corporate information management and technology requirements

Prior work experience: Royal Canadian Mounted Police

Education: Bachelor's Degree in Professional Studies, Business Administration and Human Resources Management, Barry University, Miami, Florida





Mario Malouin

Vice-President and Chief Financial Officer

With CATSA since: July 2006

In current position since: January 2009

Current responsibilities and accomplishments: management of the financial risks of the organization, financial planning and financial reporting to senior management, the Board of Directors and Parliament

Prior work experience: Principal, Office of the Auditor General

Education: Bachelor's degree in Business Administration, Université Laval and member of the Order of Chartered Accountants of Quebec and Ontario; Certificate in Risk Management, Université de Mons, Belgium; and currently completing a Master of Arts in War Studies, Royal Military College of Canada



Lise Patry

General Counsel and Corporate Secretary

With CATSA since: December 2002

In current position since: February 2008

Current responsibilities and accomplishments: responsible for legal services and Corporate Secretary functions; assumed responsibility for the Procurement and Contracting function; in collaboration with the Chief Financial Officer, completed a governance review of the Procurement and Contracting function; updated the Contracting Policy; established a system to manage the Board of Director's governance agenda and led the transition to paperless Board of Directors' meetings

Prior work experience: Information Systems Consultant, Andersen Consulting (now Accenture); intellectual property and technology licensing lawyer, Gowlings LLP; and Chief commercial legal counsel for Global Supply Management, JDS Uniphase Corporation

Education: Chemical engineering degree, University of Ottawa; Common Law Program, McGill University; Aviation Security Manager Program, ICAO; and Directors' Education Program, Institute of Corporate Directors

Visit the *Executive Team* section under *About Us* on our Web site, www.catsa.gc.ca, for detailed biographies.



SYSTEMS AND SOFTWARE – UPGRADING FOR CONTINUOUS IMPROVEMENT

CATSA's commitment to operational excellence and continuous improvement applies throughout our organization. Advances in the systems that support our management might not have the same high profile as the new screening technologies that directly support our mission, but the improvements we are making on the management side have a significant impact on our performance.

Our Corporate Management System (CMS) Program, launched in 2009/10, is enhancing our existing Enterprise Resource Planning tool so that our systems will be more streamlined and cross-functional to maximize their efficiency and effectiveness. Building on a review of our internal processes, the initial phase of the CMS Program focuses on Human Resources, Finance and Operations.

Efficiency was also a major driver for CATSA's recent upgrade to Microsoft® (MS) Office 2007 and the Office Communications Server (OCS). Between mid-November and mid-December 2009, all CATSA workstations and laptops at Headquarters and in the regions were upgraded to the common platform. In addition to MS Office suite, the new install included two new tools for CATSA users: MS Presence (supporting employee contact and scheduling) and Corporate Instant Messaging. The central OCS supports these functions and provides video conferencing capabilities.

Optimizing our management and communications systems dovetails with enhancements to CATSA's regional service delivery model: while senior service delivery personnel are moving closer to our front lines, improvements to systems and software are bringing us all closer together.

Managing for Value, Efficiency and Accountability

Even with much accomplished during our first eight years of operation, CATSA is a relatively new Crown corporation. CATSA has grown significantly since our establishment, and our organizational model and management practices have evolved along with the screening technologies and operational procedures we employ. A number of initiatives aimed at improving CATSA management practices were carried out in 2009/10, contributing to the enhancement of our performance-based culture through continuous improvement.

Strategic Review

In 2009/10, CATSA conducted a Strategic Review that identified a number of opportunities aimed at improving operational efficiency. The results of the Review have reinforced the ongoing work on our service delivery model and informed the development of our five-year Corporate Plan for 2010/11–2014/15. Our focus will remain on continuing to ensure that our core programs are delivered in a manner that is effective, efficient, consistent, and in the public interest, while we prepare to implement the cost savings identified through the Strategic Review.

CEO/CFO Certification Project

CEOs and CFOs of Canada's public companies have been required to certify financial statements since 2004. Certification is essentially a statement that all financial information "fairly presents" the company's financial condition, results of operations and cash flows, and does not contain any untrue statement or omissions that are misleading. CATSA's Board of Directors requested that senior management initiate a project to prepare for CEO/CFO certification at CATSA. Carried out almost exclusively by internal working groups, the main objective of this initiative was to ensure that CATSA has appropriate and sufficient internal controls in all of our key business processes. Based on the principles of continuous improvement and quality management, the CEO/CFO Certification Project has improved our finance-related processes, laid a strong foundation for future certifications, and enhanced CATSA's financial transparency and accountability.

Screening Contractor Qualification Program

CATSA provides screening services in partnership with third-party Screening Contractors who directly employ the Screening Officers. As CATSA prepares to enter into renewed long-term partnerships with Screening Contractors, steps were taken to enhance the effectiveness and efficiency of service delivery by preparing a request for proposals (RFP) process to award new screening contracts. Under the new process, before any organization can be eligible to bid on an RFP for screening services it must first satisfy the requirements of CATSA's Screening Contractor Qualification Program. Successful qualification lists the service provider in a directory of organizations eligible to participate in RFPs for screening services at designated Canadian airports.

Security Management Framework

The implementation of the CATSA Security Management Framework (CSMF) was a key undertaking by CATSA's Quality Management Office in 2009/10. The objective of the CSMF is to establish the minimum requirements for the policies, processes, procedures, people and partnerships necessary for

CATSA to fulfill its mandate. CATSA's adherence to the CSMF Guidelines will enable the organization to demonstrate accountability. Once fully integrated, the CSMF will be an overarching tool that will guide decision-making, while ensuring CATSA's air transport security programs are adequately managed.

Project Management Office

CATSA's Project Management Office (PMO) was established to assist business owners and project managers, and ensure that projects are managed consistently across the organization. The PMO provides expert support through all phases of a project, from initiation, through planning and delivery, to closure. Lessons-learned exercises contribute to the ongoing development of best practices for project management. Having an in-house centre of excellence for project management helps CATSA to ensure that our projects align with our business objectives, that risks are identified and effectively managed, and that all projects achieve or exceed their goals.



CATSA'S NEW WEB SITE – MEETING PASSENGERS' NEEDS

People who travel by air—especially those who fly regularly—tend to be very “connected” and are often early-adopters of the latest communications technology. Responding to the needs and preferences of the travelling public, CATSA redesigned and upgraded its Web site this year, with a focus on making it easier for people to prepare for air travel.

The new site features improved access to information for passengers, better search capabilities, multimedia content (including video clips), and a mobile version of the site. Travellers with mobile devices can now consult the Pack Smart list, watch videos and access the latest information from CATSA while they're on the go.

From any Internet connection, passengers can now easily find what they need—including specific information and tips for personal or business travellers, seniors and those with special needs. For example, the new “Prep & Fly” feature lets users create a personalized to-do list which can be printed or e-mailed.

The new site is another step forward in our ongoing commitment to provide effective and efficient screening services. CATSA's new site was launched in December 2009. Visit the site at: www.catsa.gc.ca (full version) or m.catsa.gc.ca (mobile version).

SUMMARY OF PERFORMANCE

In 2009/10, CATSA improved its Performance Measurement Program. Such improvements include the development of a new Corporate Performance Measurement Framework (CPMF), shown on the following page. This new framework is a result of the knowledge gained through a third-party report on performance-based management at CATSA and our experience during the Strategic Review exercise in the summer and fall of 2009.

For each of our four mandated activities, specific criteria are defined to determine how to measure our security screening performance in terms of being effective, efficient, consistent, and in the public interest, as required by the CATSA Act. From there, one or more Key Performance Indicators are identified or developed to satisfy the requirements of each of the criteria. Data is then collected and analyzed, performance baselines and targets are set, and results are measured and evaluated.



| | Pre-Board Screening (PBS) | Hold-Baggage Screening (HBS) | Non-Passenger Screening (NPS) | Restricted Area Identity Card (RAIC) |
|-------------------------------|--|---|--|---|
| Effective | The degree to which PBS is preventing prohibited items, as defined by Transport Canada, from being brought into the sterile or restricted area of an airport or on board an aircraft. | The degree to which HBS is preventing checked baggage containing explosives from being loaded on to an aircraft. | Among those non-passengers and vehicles selected for screening, the degree to which NPS is preventing prohibited items, as defined by TC, from being brought into the restricted area of an airport. | The degree to which RAIC is verifying, through biometric means, the identity of non-passengers attempting to access restricted areas at Canada's 28 major airports, and confirming the credential is associated with a valid Transportation Security Clearance. |
| Efficient | The extent to which PBS resources are maximized to screen 100% of passengers and carry-on items for prohibited items. | The extent to which HBS resources are maximized to screen 100% of checked baggage for explosive materials. | The extent to which NPS resources are maximized to screen non-passengers—selected at random—their belongings, and vehicles (as applicable) for prohibited items. | The extent to which RAIC resources are maximized to develop and maintain a national credential management system. |
| Consistent | The degree to which PBS is meeting applicable statutory, regulatory, <i>Standard Operating Procedures</i> (SOPs), operational policy, and contractual/staffing requirements at designated airports across Canada. | The degree to which HBS is performed according to applicable statutory, regulatory, SOPs, operational policy, and contractual/staffing requirements at designated airports across Canada. | The degree to which NPS is meeting applicable statutory, regulatory, SOPs, operational policy, and contractual/staffing requirements at Canada's 28 major airports. | The degree to which RAIC is meeting applicable statutory, regulatory, SOPs, and operational policy requirements at Canada's 28 major airports. |
| In the Public Interest | As PBS is a government function, the extent to which PBS contributes to passengers at designated airports feeling secure and enjoying a reasonably pleasant travel experience that meets expectations: for example, departing on time, not being treated courteously, not standing in lines for long periods, not having their carry-on items stolen or damaged. | As HBS is a government function, the extent to which HBS contributes to passengers at designated airports enjoying a reasonably pleasant travel experience that meets expectations: for example, departing on time, not having their checked baggage lost, stolen or damaged. | As NPS is a government function, the extent to which NPS contributes to air transportation security and meets the needs of stakeholders at Canada's 28 major airports. | As RAIC is a government function, the extent to which RAIC contributes to air transportation security and meets the needs of stakeholders at Canada's 28 major airports. |

**NEW TESTING FACILITY
A MAJOR STEP FORWARD**

CATSA opened a new testing facility in October 2009. The culmination of five years of planning and extensive effort, the Ottawa facility is a resource that will provide value throughout our organization, increase efficiency in several key areas, and enhance CATSA's ability to engage with domestic and international security partners.

Before the facility opened, CATSA was using airports and shared warehouse space to pilot, test and evaluate new equipment and procedures. Now these activities can be carried out in our new test facility featuring three PBS lanes and a HBS area. The RAIC Program also has its own dedicated testing space. The new facility significantly enhances CATSA's ability to evaluate new leading-edge technology and to help us maintain international security equivalency.

Replicating busy airport screening lines within the facility allows CATSA's Technology Branch to conduct extensive research and tests on new technology. The results allow CATSA to make informed purchasing decisions and plans for deploying new technology to Canadian airports. Other branches at CATSA partner with the Technology Branch to use the facility for exploring new approaches and testing new procedures (Operations Branch), and developing and refining training materials and programs (People Branch).

For example, the test facility played a key role in enabling CATSA to deploy the new Full Body Scanner (FBS) systems in a matter of weeks after the government's program acceleration announcement in January. The first group of Screening Officers from Toronto's Lester B. Pearson International Airport to be FBS-certified came to Ottawa's test facility to learn about the FBS technology and procedures in a simulated airport PBS line.

Having a central facility in Ottawa will allow CATSA to pursue all of these activities more effectively and with a higher level of efficiency, supporting CATSA's commitment to operational excellence and continuous improvement. Most importantly, the facility will help CATSA ensure that Canada maintains a high level of leading-edge security in response to the evolving threat environment.

CATSA is also looking ahead to opportunities the facility will provide for partnering with other stakeholders, such as RCMP, Canada Border Services Agency and the U.S. Transportation Security Agency (TSA). The facility gives CATSA the capacity to take more of a leadership role in these partnerships, enhancing the recognition of our expertise in air transport security.

Measures and results associated with PBS and HBS effectiveness are of a sensitive nature and therefore cannot be disclosed for security reasons.

RAIC and NPS KPIs for effectiveness, efficiency, and consistency are currently in development. Data collection is expected to start and preliminary results to be available by the end of the 2010/11 fiscal year.

As RAIC and NPS do not have a direct impact on passengers, CATSA is not developing KPIs to measure "In the Public Interest" for these two programs.



PRE-BOARD SCREENING

| PBS – Effectiveness | | | | | | | |
|--|--------|-----------------|-------|-------|-------|--------|---|
| Given the sensitivity of this measure and its associated results, they cannot be included in a public document such as the Annual Report. | | | | | | | |
| PBS – Efficiency | | | | | | | |
| Performance measure | Target | 2009/10 Results | | | | | Comments |
| | | Q1 | Q2 | Q3 | Q4 | Annual | |
| Screening Officer Attrition Levels | 4.9% | 4.1% | 4.9% | 6.2% | 6.5% | 23.5% | <p>Annual attrition levels have progressively decreased since 2007/08, from 30.0% to 23.5%.</p> <p>Higher attrition rates continue to persist at Calgary International Airport and Edmonton International Airport, with 73.0% and 55.0% attrition respectively in 2009/10. Toronto's Lester B. Pearson International Airport and Ottawa International Airport have the lowest annual attrition rate at 9.0% and 13.0% respectively.</p> |
| <i>Definition:</i> For each quarter, the % of Screening Officers at the eight busiest airports who were terminated, laid off, resigned, died, retired or were transferred. | | | | | | | |
| PBS Throughput | 120 | N/A | N/A | 91 | 91 | 91* | <p>Low result mainly due to changes to airline policies regarding checked baggage, introduction of new technology, consistent presence of Oversight Officers and enhanced screening measures. A project team has been assigned to review options to improve throughput going forward.</p> <p>*Annual value based on Q3 and Q4 only as no data is available for Q1 and Q2.</p> |
| <i>Definition:</i> The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints during busy periods. | | | | | | | |
| PBS – Consistency | | | | | | | |
| Performance measure | Target | 2009/10 Results | | | | | Comments |
| | | Q1 | Q2 | Q3 | Q4 | Annual | |
| Security Screening | 95.0% | 97.0% | 98.7% | 99.1% | 99.3% | 98.5% | All airports performing above target. Consistent improvement over all quarters. In line with continuous improvement, target raised to 98.0% for 2010/11. |
| <i>Definition:</i> The results of evaluation by Oversight Officers of Screening Officer procedural compliance to security screening SOPs at the eight busiest airports, including passenger security (Walk-Through Metal Detector, Hand-Held Metal Detector, physical search of person) and carry-on security (X-ray, physical search of baggage, Explosives Detection Trace). | | | | | | | |
| Screening Officer Re-certification | 90.0% | 85.2% | 85.2% | 86.9% | 87.9% | 86.3% | The Q4 increase can be attributed, in part, to the introduction of the Recurrent Learning and Recertification Program introduced in December 2008. |
| <i>Definition:</i> The % of Screening Officers at the eight busiest airports who pass PBS recertification tests and achieve all nine endorsements. Note: Failing just one endorsement counts as a recertification failure. | | | | | | | |

| PBS – In the Public Interest | | | | | | | |
|---|--------|-----------------|-------|-------|-------|--------|--|
| Performance measure | Target | 2009/10 Results | | | | | Comments |
| | | Q1 | Q2 | Q3 | Q4 | Annual | |
| High Confidence in Security Screening – Passenger Survey | 75.0% | N/A | N/A | 74.0% | 72.0% | 73.0%* | <p>Despite the events of December 25, 2009, passenger confidence in security remains relatively strong.</p> <p>Note: The survey results represent a subset of the busiest airports.</p> <p>* Annual value based on Q3 and Q4 only as no data is available for Q1 and Q2.</p> |
| <p><i>Definition:</i> The % 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 – Passenger Survey | 85.0% | N/A | N/A | 83.0% | 82.0% | 82.5%* | <p>Likewise, despite the events of December 25, 2009, passenger feedback remains relatively strong and near target.</p> <p>Note: The survey results represent a subset of the busiest airports.</p> <p>* Annual value based on Q3 and Q4 only as no data is available for Q1 and Q2.</p> |
| <p><i>Definition:</i> The % of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports. Calculated from results of completed surveys at select busiest airports.</p> | | | | | | | |
| Customer Service | 95.0% | 94.0% | 96.6% | 97.5% | 97.9% | 97.0% | Results above target since Q2. Consistent improvement over all quarters, realized through targeted corrective actions. In line with continuous improvement, target raised to 98.0% for 2010/11. |
| <p><i>Definition:</i> Results of evaluation by Oversight Officers of Screening Officer procedural compliance to customer service-related SOPs at the eight busiest airports, including professionalism (SO appearance and conduct) and communication (bilingual active offer and interaction with passengers)</p> | | | | | | | |
| Passenger Complaints Closed in <30 Days | 90.0% | N/A | 83.0% | 84.2% | 87.9% | 83.6% | <p>A total of 1,520 complaints were received this year, of which 1,270 were closed within 30 days.</p> <p>On a monthly basis, the percentage of complaints closed within 30 days fluctuated within the 75.0% to 91.0% range throughout the year. A key challenge for the Client Satisfaction Team this year was the surge of complaints received in Q4 related to the emergency security measures implemented in late December 2009.</p> |
| <p><i>Definition:</i> The % of passenger complaints received each quarter at the eight busiest airports that are closed within 30 calendar days of being received.</p> | | | | | | | |

HOLD-BAGGAGE SCREENING

| HBS – Effectiveness | | | | | | | |
|--|--------|-----------------|-------|-------|-------|--------|--|
| Given the sensitivity of this measure and its associated results, they cannot be included in a public document such as the Annual Report. | | | | | | | |
| HBS – Efficiency | | | | | | | |
| Performance measure | Target | 2009/10 Results | | | | | Comments |
| | | Q1 | Q2 | Q3 | Q4 | Annual | |
| Screening Officer Attrition Levels | 4.9% | 4.1% | 4.9% | 6.2% | 6.5% | 23.5% | Annual attrition levels have progressively decreased since 2007/08, from 30.0% to 23.5%. Higher attrition rates continue to persist at YYC and YEG, with 73.0% and 55.0% attrition respectively in 2009/10. YYZ and YOW have the lowest annual attrition rate at 9.0% and 13.0% respectively. |
| <i>Definition:</i> For each quarter, the % of Screening Officers at the eight busiest airports who were terminated, laid off, resigned, died, retired or were transferred. | | | | | | | |
| HBS – Consistency | | | | | | | |
| Performance measure | Target | 2009/10 Results | | | | | Comments |
| | | Q1 | Q2 | Q3 | Q4 | Annual | |
| Screening Officer Re-certification | 90.0% | 95.0% | 91.5% | 95.6% | 97.1% | 94.8% | HBS recertification rates remained above the target for the entire reporting period. |
| <i>Definition:</i> The % of Screening Officers at the eight busiest airports who pass HBS recertification tests and achieve all three endorsements (as applicable) for explosives detection X-ray and computed tomography X-ray equipment. Note: Failing just one of the endorsements counts as a recertification failure. | | | | | | | |
| HBS – In the Public Interest | | | | | | | |
| Performance measure | Target | 2009/10 Results | | | | | Comments |
| | | Q1 | Q2 | Q3 | Q4 | Annual | |
| High Confidence in Security Screening | 75.0% | N/A | N/A | 74.0% | 72.0% | 73.0%* | Despite the events of December 25, 2009, passenger confidence in security remains relatively strong. Note: The survey results represent a subset of the busiest airports. * Annual value based on Q3 and Q4 only as no data is available for Q1 and Q2. |
| <i>Definition:</i> The % 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. | | | | | | | |

LOOKING AHEAD

Over the past year, CATSA has worked with Transport Canada to address the highest risks to aviation security. We have done so by investing in new technology and new detection capabilities, by introducing enhancements to our operations, and by beginning the roll-out of these technologies and enhancements at some of Canada's busiest airports.

Going forward, 2010/11 promises to be an important transitional year for CATSA. We will continue building on the achievements of 2009/10—particularly our investments in new technology, improvements in our management practices and modifications to our service delivery model. Long-term funding, as announced in the 2010 Budget, will be a key factor in shaping CATSA's coming years.

With new funding, CATSA is in a better position to meet the challenge of maintaining a comparable level of capacity to that of 2009/10 and fulfill today's screening requirements in the coming year. By continuing to invest in proven technology and training of the screening workforce to complement and optimize the new screening technology acquired, Canada will stay on track to compatibility with its partners around the world.

At the same time, CATSA will proactively take a number of steps to improve its efficiency, beyond what is already identified in the Strategic Review. In particular, we will concentrate on realizing potential efficiencies through the optimization of equipment and processes. This could include:

- the reconfiguration of PBS checkpoints;
- investing in new tools, such as the Boarding Pass Security System, to monitor wait times and throughput data, and the Secure Identification and Time Tracking System, that will enable CATSA to improve scheduling; and
- working with Transport Canada on risk-based amendments to regulations which would facilitate increased passenger throughput, without diminishing the security value.

CATSA will work on applying the human factor aspect associated to Screening Officer activities to improve the workplace environment and working conditions of the screening workforce.

CATSA will also prepare to enter into a new long-term strategic partnership with Screening Contractors, requiring them to make investments that enhance the stability of the current service delivery model and achieve optimal management capabilities, competencies, and systems.

Taken together, these initiatives will help CATSA ensure that our screening programs are delivered effectively, efficiently, consistently and in the public interest.



MANAGEMENT DISCUSSION AND ANALYSIS

PART 1 – CORPORATE OVERVIEW

Business Overview

CATSA is a Crown corporation established in 2002 as part of the Government of Canada’s response to the attacks of 9/11. CATSA was created to deliver security screening services at 89 designated airports across Canada in an efficient, effective and consistent manner that is in the public interest. To achieve this, CATSA is mandated to conduct screening services in the following four areas:

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold-Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the screening of non-passengers (i.e. airport employees, flight crews, etc.) on a random basis, pursuant to Transport Canada’s direction; and
- Restricted Area Identity Card (RAIC): the administration of access control to airport restricted areas through biometric identifiers.

CATSA’s key priorities include maintaining its current level of services in the face of evolving threats by continuously improving its screening effectiveness and efficiency through the deployment of proven screening technologies. In addition, CATSA has created a culture of operational excellence with a focus on the training and development of Screening Officer competencies.

With over 530 employees who support the operations of over 6,790 Screening Officers, CATSA screens over 48 million passengers, 62 million pieces of baggage and 715,000 non-passengers every year.

Legislative Framework

CATSA was established as a Crown corporation pursuant to the *Canadian Air Transport Security Authority Act (CATSA Act)*. It is funded through federal appropriations and reports to Parliament through the Minister of Transport, Infrastructure and Communities (Transport Canada).

In Canada, the federal government is responsible for the security of the aviation sector, with Transport Canada serving as the lead department for Canada’s aviation security program. Transport Canada acts as CATSA’s regulator responsible for developing, administering and overseeing aviation security policies, legislation, programs and procedures, pursuant to standards established by the International Civil Aviation Organization (ICAO).

CATSA is subject to domestic legislation, regulations and procedures in the way that it conducts business and screening. These Acts and Regulations include: the *CATSA Act*; the *Financial Administration Act*; the *Aeronautics Act*; the *CATSA Aerodrome Designation Regulations*, as well as the *Security Screening Order* and other standard operating procedures.

PART 2 – OPERATING ENVIRONMENT

As the civil aviation security screening authority responsible for the provision of security screening across Canada, CATSA’s operations are greatly affected by events and trends occurring domestically and internationally. In order to successfully execute its mandate

and carry out its operations diligently, CATSA must assess the adequacy of its resources to address the strategic issues that it faces. To accomplish this, CATSA must identify its key corporate risks, the anticipated internal and external trends that could impact its operations and take appropriate actions to ensure that it can continue to carry out its mandated activities.

To successfully carry out its security screening programs, CATSA works closely with Transport Canada, other government organizations, law enforcement authorities and the aviation industry. In addition to its daily screening activities, CATSA is called upon to assist its national security partners during other high-profile events.

CATSA recognizes the importance of maintaining constant and effective communication with its partners and stakeholders in order to minimize the potential impact of operational changes resulting from unplanned events and sudden regulatory amendments.

Security Threat Environment

While Canada has done much to prevent unlawful interference with civil aviation following the attacks of 9/11, terrorists and other would-be attackers have demonstrated an ability to adapt to existing security measures. This was evidenced by the attempted attack on December 25, 2009, where an individual attempted to detonate an improvised explosive device (IED) on board an aircraft in Canadian airspace destined for Detroit.

In response to this incident, Transport Canada introduced enhanced security requirements on all flights to the United States. CATSA was required to adapt quickly and sustain additional pressures in order to meet these new screening measures. Additional focus was placed

on staffing and training of Screening Officers to carry out these new measures. In addition, CATSA established strategic partnerships with the Canadian Border Services Agency, the Royal Canadian Mounted Police and local law enforcement agencies, to alleviate the pressure caused by these measures.

As the events of December 25, 2009 demonstrate, evolving security threats demand innovative and flexible screening procedures, creating the need for, and subsequently the production of, new technologies with enhanced detection capabilities. Accordingly, CATSA must continually seek to improve existing screening measures by implementing appropriate controls, including appropriate screening methods and technologies, to effectively mitigate these risks.

Economic Environment

Economic significance of the Canadian air transportation industry

The air transportation industry includes airlines, airports, Screening Contractors, as well as various elements of the aviation manufacturing, and travel & tourism industries. The Canadian economy relies heavily on the air transportation industry as a result of the significant number of jobs and economic activity it generates on an annual basis. An attack or serious threat to civil aviation would affect not only the aviation sector but thousands of Canadian businesses that rely on timely, secure and efficient air travel.

Impact of economic recession on the Canadian air transportation industry

As was the case of most other sectors, the global economic downturn had a direct impact on the aviation sector in 2009, which experienced a 5.6% decrease in passenger traffic over the prior year.

Although the economic downturn contributed to a decline for 2009, passenger traffic has started to show improvements as the global economy begins to recover. Transport Canada statistics show that, despite the decline in passenger traffic for 2009, the number of passengers has increased by nearly 14% over the past 5 years. In addition, the globalization and integration of Canada's economy with other markets around the world is expected to increase the number of domestic and international travellers in future years. Many airport authorities have already signalled their intentions of expanding their facilities to accommodate the anticipated passenger growth in years to come.

Government funding

CATSA requires sufficient operating and capital funding in order to finance its operations and fulfill its legislated mandate. Budget 2009 committed \$355.8M in addition to CATSA's ongoing annual reference level of \$234.4M. The non-recurrent funding allowed CATSA to maintain existing standards of service for 2009/10, and to begin to make preliminary investments in technology and operating methods.

CATSA's total parliamentary appropriations used for operating and capital expenditures for the period of 2002/03 to 2009/10 are summarized below:

Parliamentary Appropriations Used

(Millions of dollars)

| | Five-Year Total 2002/03-2006/07 | 2007/08 | 2008/09 | 2009/10 | TOTAL |
|--------------|------------------------------------|-----------------|-----------------|-----------------|-------------------|
| Operating | \$ 1,310.6 | \$ 389.3 | \$ 378.3 | \$ 472.3 | \$ 2,550.5 |
| Capital | 643.4 | 47.7 | 48.6 | 115.9 | 855.6 |
| Total | \$ 1,954.0 | \$ 437.0 | \$ 426.9 | \$ 588.2 | \$ 3,406.1 |

As a result of Budget 2010, the Government of Canada set CATSA's reference level for the 2010/11 fiscal year at \$585.9M. This funding will allow CATSA to manage strategic issues and maintain a level of capacity comparable to that of 2009/10.

Service Delivery Model

CATSA's service delivery model of using third-party Screening Contractors provides a screening workforce that is unique in the world of aviation security. The use of third-party Screening Contractors was initially chosen due to, amongst other things, cost considerations and the existing contracts between airlines and Screening Contractors.

One of the most important challenges CATSA currently faces is the state of its third-party service delivery model. While the current model has been consistently ranked as the preferred option, a 2008 independent review noted the fragility of the current service delivery model, given the financial difficulties experienced by certain Screening Contractors. The report also made recommendations concerning contingency options in the case of disruption to the model, including the transition to a direct employment model at one or more designated airports, which would be costly.

Opportunities exist to enhance the current third-party Screening Contractor model with respect to service quality, Screening Officer professionalism, management capabilities and business systems. CATSA needs its Screening Contractors, a strategic partner, to invest in better management capabilities and business systems to create a systemic change focused on maximizing the efficiency and effectiveness of the Screening Contractor model. Accordingly, CATSA will conduct a competitive Request for Proposals (RFP) aimed at strengthening its relationship with its strategic partners, while ensuring the screening services being provided are effective, efficient and in the public's interest.

Strategic Review

In 2009/10, CATSA completed an in-depth value for money Strategic Review of the funding, relevance and performance of all of its programs. CATSA explored ways in which it can streamline its operations, realign its activities and enhance its cost effectiveness while still maintaining efficiency and fulfilling its mandate.

The recommendations of this Strategic Review were submitted to the Treasury Board of Canada Secretariat (TBS) for approval in the fall of 2009 and subsequently announced in Budget 2010.

Regulatory Developments

International Financial Reporting Standards

In December 2009, the Public Sector Accounting Board released an amendment to the *Introduction to Public Sector Accounting Standards* which clarifies the source of generally accepted accounting principles for government organizations like CATSA. Classified as an "Other Government Organization", CATSA was required to reassess whether International Financial Reporting Standards (IFRS) are the most appropriate basis of accounting for the organization or whether the Public Sector Accounting Handbook should be adopted. After conducting a thorough review which assessed the needs of the users of CATSA's financial statements, management concluded that IFRS is the most appropriate basis of accounting for the organization. The decision to continue the transition to IFRS was approved by CATSA's Board of Directors. CATSA will report under IFRS for its fiscal year ending March 31, 2012, including comparative figures for 2011.

CATSA's transition plan consists of three phases: scoping, development and implementation. The development phase was completed during the first half of 2009 and included the preparation of detailed assessments outlining the potential impact of the transition to IFRS on accounting policies, financial reporting, business processes, information systems, internal controls and training requirements. During the year, CATSA provided training and information sessions to key employees throughout the organization and to the Board of Directors. The implementation phase of the transition plan commenced in the second half of 2009 and will continue through 2010. This phase includes the implementation of changes required to apply the new standards.

Management continues to evaluate the impact of transitioning to IFRS on the organization. It is anticipated that the areas that will have the biggest impact on CATSA's accounting policies and financial reporting are employee benefits, property and equipment, and provisions (particularly decommissioning liabilities). Management also recognizes that additional disclosure will be required under IFRS. No significant changes to information technology and data systems have been identified to date as a result of the IFRS conversion.

The International Accounting Standards Board has several projects underway, some of which will affect standards relevant to CATSA. Management will continue to monitor all proposed and continuing projects, giving consideration to any changes expected to impact CATSA.

Special Examination

Section 138 of the *Financial Administration Act* requires that a Special Examination be carried out at least once every ten years and at any additional times that the Governor in Council, the Minister of Transport, Infrastructure and Communities, the Board of Directors or the Auditor General of Canada may require. It provides an independent opinion on whether there is reasonable assurance that CATSA has systems and practices in place to ensure that: assets are safeguarded and controlled; financial, human, and physical resources are managed economically and efficiently; and operations are carried out effectively. The most recent Special Examination report was issued by the Office of the Auditor General in 2006. CATSA expects to undergo a second Special Examination in two years.

Substantive review

As announced by the Minister of Transport, Infrastructure and Communities on February 25, 2010, and confirmed in Budget 2010, CATSA will undergo a review of its spending, efficiency and structure to ensure that CATSA is fulfilling its mandate effectively. This review will include significant stakeholder participation and will examine the effectiveness of CATSA's resources as well as its governance model.

PART 3 – CAPABILITY TO DELIVER

Critical Screening Activities

A cornerstone of contemporary aviation security is the screening of passengers, their baggage and personal belongings to detect the presence of prohibited items that may be brought onto aircraft and/or into restricted airport areas. Elements which are critical to the delivery of CATSA's mandate include the screening workforce and the capital deployment plan.

Screening workforce

CATSA must have robust screening procedures in order to screen 100% of passengers and their baggage at air terminal buildings. Screening operations need to meet the regulatory requirements and the needs of key stakeholders such as passengers, airport authorities and air carriers.

Screening Officers play a key role in identifying threats to aviation security by screening passengers prior to entering an aircraft, screening non-passengers at checkpoints within air terminal buildings and making key risk assessment decisions when operating HBS equipment. In recognition of this, significant resources are dedicated

to strengthening the screening workforce. Key accomplishments in 2009/10 include:

- the implementation of the Recurrent Learning and Recertification Program at all airports to help Screening Officers ensure their skills are up-to-date and consistent performance is maintained across the country; and
- the expansion of the Oversight Enhancement Program through the hiring of additional Oversight Officers at the eight busiest airports.

Capital deployment plan

In order to carry out its mandated screening activities, CATSA must have reliable and sophisticated equipment to scan for prohibited items. A capital program is in place to support the systematic, risk-based replacement and upgrading of equipment with new and more effective and efficient technologies.

In Support of Business

To implement its business strategies, CATSA requires robust internal resources which support all aspects of its critical screening activities.

Human capital

CATSA's success is heavily dependent on the performance of its people. CATSA continually invests in its human capital by providing them with the necessary training and tools to work effectively and efficiently. This effort helps CATSA retain employees and improve job satisfaction.

During 2009/10, CATSA hired an additional 146 employees to support operational growth and new activities, including 32 additional Oversight Officers at the eight busiest airports.

Corporate management systems and practices

CATSA continuously reviews and reassesses its internal policies and practices to improve the efficiency with which it processes information. These reviews also increase the quality of reporting and the effectiveness of communications with external stakeholders.

Business continuity plan

In the event of a serious business disruption or system failure at Headquarters or at an airport, CATSA has a comprehensive Business Continuity Plan (BCP) in place that is regularly updated by management and reviewed by the Board of Directors. The BCP outlines critical services, establishes minimum service levels, and contains a comprehensive strategy that includes command and control, supplier performance, infrastructure restart and information recovery considerations.

The BCP also incorporates a pandemic plan, invoked in 2009/10 during the H1N1 outbreak, which addresses the following areas:

- Awareness
- Prevention
- Information management (health and safety at work)
- Contingency
- Internal CATSA plan

The BCP covers all branches and includes contingency plans from its service providers as well as airport authorities. In November 2009, Public Safety Canada examined CATSA's BCP and was satisfied with the organization's level of readiness.

In 2009/10, CATSA also updated its Business Impact Analysis and commissioned a third-party assessment of its Information Technology Disaster Recovery Plan. In preparation for the Vancouver 2010 Winter Olympic and Paralympic Games, CATSA participated in several emergency planning exercises with its partners.

PART 4 – MANAGING RISK

Enterprise Risk Management Process

Risk management is a formalized, systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk. In managing risk and enabling risk-informed decision making, organizations can take calculated risks that are designed to capitalize on opportunities.

CATSA's risk management program serves to identify risk that could impede its ability to meet the following organizational objectives:

- i. deliver mandated activities effectively, efficiently, consistently and in the public interest; and
- ii. develop enabling/supporting programs that allow for the delivery of sound corporate services.

Risk can reside within all levels and functions of an organization. For example, risk can be associated with financial activities, human resource management, reputation, equipment and technology, and project management, among others.

CATSA's enterprise risk management process considers its role within a larger aviation security system. CATSA is not an intelligence organization; it participates in, rather than leads risk assessments pertaining to the aviation security system. Information from such risk assessments provides context for CATSA's operating environment. Responses to specific threats or high risk plots identified by intelligence agencies are typically mandated by Transport Canada and acted upon by CATSA. For example, new screening procedures were implemented by CATSA following two major events involving the aviation sector:

- the December 25, 2009 attempted bombing of a Detroit-bound aircraft in Canadian airspace; and
- the August 2006 plot to place liquid explosives on North America-bound flights, including a number of flights to Canada.

In essence, CATSA's mandated programs (PBS, HBS, NPS and RAIC) serve to reduce the risk associated with known security threats by screening passengers, non-passengers and their belongings to ensure that prohibited items do not enter secure areas within airports.

Risks and Uncertainties

CATSA is exposed to a variety of risks and uncertainties within the air transportation security environment. If these risks and uncertainties are inadequately mitigated, they could impair CATSA's ability to fulfill its mandate.

Operational risks

In preparing its 2010 Corporate Risk Profile, the Senior Management Committee identified the following four operational risks which they deemed to be significant to CATSA:

i. Detection capability

CATSA is mandated to screen passengers, non-passengers and their belongings to ensure that prohibited items do not enter secure areas within airports. This is accomplished by detecting and intercepting all forms of prohibited items as defined by its regulator, Transport Canada. An inability to detect all prohibited items would result in non-compliance and could present a threat to civil aviation.

In response to this risk, CATSA has focused on controlling human factors as well as improving the underlying screening processes and technology. This includes:

- acquisition and deployment of new technologies to assist in the accurate and timely detection of prohibited items;
- deployment of enhanced oversight at screening checkpoints to monitor and ensure compliance with Transport Canada's regulations and CATSA's *Standard Operating Procedures* (SOPs); and
- improved training for Screening Officers and better communications regarding the performance of Screening Contractors and Screening Officers.

ii. *Service Delivery Model – renewal of screening contracts*

Looking forward, CATSA will commence a transition from current screening contracts to new screening contracts. An ineffective and/or inefficient transition to new screening contracts could result in labour disruption at one or more airports.

In response to this risk, CATSA is:

- placing a focus on labour relations during the RFP process;
- communicating consistently with Screening Officers and Screening Contractors;
- developing a dedicated transition team;
- ensuring Screening Contractors have "essential service agreements" in place prior to the expiry of collective agreements; and
- ensuring good planning and sufficient time is allocated for the transition period once contracts are awarded and communicated.

iii. *Airport expansions*

Parliamentary appropriations announced in Budget 2010 did not provide funding to accommodate requests for new PBS lanes, or expanded operations in HBS or NPS.

In response to this risk, CATSA is seeking to maximize passenger throughput using existing resources and facilities. CATSA will continue with the checkpoint configuration project that includes optimizing the configuration of equipment and space, increasing the effectiveness and efficiency of the screening process and reviewing SOPs to increase passenger flow and throughput.

iv. *Resources for additional screening activities in response to major events*

New unfunded mandated activities (i.e., new initiatives, high profile events or new government priorities) may pose additional challenges for CATSA as the organization may lack the capacity to respond (financial or human capital). For example, the failed attack on December 25, 2009 confirmed that events outside of CATSA's control can lead to new regulatory requirements with intensive labour requirements.

In response to this risk, CATSA is working on contingency plans, including ensuring a means of accessing contingency funding to accommodate such events. CATSA is also seeking to maximize its resourcing by enhancing its project management capabilities and improving its ability to establish priorities.

Funding risk

The funding received under Budget 2010 will allow CATSA to manage its strategic objectives and maintain the 2009/10 level of capacity for 2010/11 and 2011/12. However, reduced funding in future years, compounded by projected passenger growth and increased costs, could have a very significant impact on passenger wait times.

Foreign exchange risk

CATSA is exposed to foreign exchange risk as a result of purchasing a significant amount of goods and services from vendors in the United States. A significant fluctuation in foreign exchange rates impacts capital and operating budgets as planned expenditures are determined using estimated rates. Accordingly, fluctuation in rates can result in the cost of foreign denominated transactions being significantly different from what was initially budgeted.

Risk and Governance

Responsibility for risk management is shared between the Board of Directors, the Audit Committee and the Senior Management Committee. Each group plays an integral role in supporting CATSA with its risk mitigation strategies.

Board of Directors

The Board's key functions and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, the Board ensures that management identifies, monitors and manages CATSA's corporate risks. The Board also ensures that management keeps it apprised of any changes to the Corporate Risk Profile, through periodic briefings.

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to financial reporting, performance measurement, continuous disclosure practices, risk management, internal controls, the audit process and other oversight responsibilities. For risk management, the Audit Committee is responsible for overseeing management's controls and practices by:

- overseeing the standard of integrity, which includes:
 - i. reviewing and overseeing CATSA's compliance with all required laws and regulations;
 - ii. reviewing unusual transactions and other matters such as related party transactions and the auditor's assessment of the risk of fraud; and
 - iii. reviewing expenses of the President and CEO and the members of the Board.
- overseeing financial reporting and continuous disclosure practices, which includes:
 - i. assessing the appropriateness of management's application of accounting principles and practices, as well as accounting judgments and estimates;
 - ii. reviewing the annual financial statements and accompanying notes and the Management Discussion and Analysis.

- overseeing management control practices, which includes:
 - i. reviewing any internal and external changes identified by management that may affect the achievement of CATSA's strategic plan;
 - ii. ensuring that management has a methodology to identify and assess the risks that CATSA faces;
 - iii. discussing the results of risk assessments with management and internal/external auditors; and
 - iv. ensuring that management has put in place controls and actions to mitigate key risks where possible.
- overseeing the work of internal and external auditors, including approving the internal audit scope and plans, understanding the external auditing plan, and reviewing any significant findings and recommendations of the auditors.

Senior Management Committee

The Senior Management Committee is responsible for identifying and monitoring CATSA's key risks, providing clear direction on risk tolerance levels, and ensuring that appropriate controls and mitigation strategies are carried out to manage key risks. This role includes supporting a positive risk culture and communicating risks throughout the organization.

President and Chief Executive Officer

The President and CEO has overall accountability for ensuring risk is assessed and managed on a corporate-wide basis.

PART 5 – INTERNAL CONTROLS

CATSA is committed to strong corporate governance and accountability. Management is currently implementing a CEO/CFO certification process which recognizes the importance of enhancing CATSA's internal controls over financial reporting, disclosure controls and procedures. Using the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission, the certification process includes identifying, documenting, and assessing the design and effectiveness of key internal controls.

CATSA's Board of Directors, through the Audit Committee, receives regular updates on management's work with respect to enhancing internal controls. It also monitors the progress of remediation plans created for all opportunities for improvement.

In the upcoming year, CATSA will continue to evolve its CEO/CFO certification process with the objective of implementing an annual certification of internal controls consistent with evolving best practices in financial statement reporting and governance.

PART 6 – ANALYSIS OF FINANCIAL RESULTS

The following table provides the key financial highlights for 2009/10, including comparative balances for 2008/09:

Key Financial Highlights

(Millions of dollars)

| | 2009/10 | 2008/09 | % Change |
|--|-----------------|-----------------|---------------|
| Operating expenditures | | | |
| Payments to Screening Contractors | \$ 336.3 | \$ 268.5 | 25% |
| Amortization | 107.5 | 100.7 | 7% |
| Direct administrative costs and corporate services | 81.4 | 65.1 | 25% |
| Equipment maintenance, spare parts and warehousing costs | 41.2 | 33.5 | 23% |
| Uniforms, other screening related costs and consumables | 8.0 | 6.5 | 23% |
| Training and certification | 1.5 | 1.1 | 36% |
| Restricted Area Identity Cards | 1.0 | 0.8 | 25% |
| Total operating expenditures | \$ 576.9 | \$ 476.2 | 21% |
| Total other income (expenses) | 3.2 | 0.3 | 966% |
| Net results of operations before government funding | \$ 573.7 | \$ 475.9 | 21% |
| Government funding | | | |
| Parliamentary appropriations for operating expenses | \$ 472.3 | \$ 378.3 | |
| Amortization of deferred capital funding | 108.1 | 98.2 | |
| Total government funding | \$ 580.4 | \$ 476.5 | 22% |
| Net results of operations and comprehensive income | \$ 6.7 | \$ 0.6 | 1,017% |
| Total assets | \$ 568.1 | \$ 511.2 | 11% |
| Total liabilities | \$ 543.7 | \$ 493.4 | 10% |

Operating Expenditures

Payments to Screening Contractors

Payments to Screening Contractors consist of the salaries and benefits of Screening Officers and a fixed and variable component for Screening Contractors to cover overhead costs and performance pay. Costs relating to leased facilities at the airports and the training and certification of Screening Officers are also included in this expense category starting in fiscal 2009/10.

Payments to Screening Contractors increased by approximately \$67.8M in 2009/10 as a result of increased screening hours and a higher average hourly billing rate.

The growth in screening hours is due to:

- increased security requirements imposed by Transport Canada on all flights to the United States in response to the failed terrorist attack on December 25, 2009;
- the provision of screening services at the Vancouver 2010 Winter Olympic and Paralympic Games;
- the deployment of additional PBS lanes associated with airport expansions; and
- the increased presence at non-passenger checkpoints within air terminal buildings.

The increase in the average hourly billing rate is due to:

- the renegotiation of collective bargaining agreements between the Screening Officers' unions and the Screening Contractors engaged by CATSA for certain airports; and
- annual increases in Screening Officer wages and benefits.

Amortization

CATSA capitalizes the cost of acquiring and installing its screening equipment, RAIC equipment, computers and software, office furniture and equipment, leasehold improvements and intangible assets. The cost of these assets is amortized and recognized as an expense on a straight-line basis over the estimated useful lives of the assets.

Amortization increased by approximately \$6.8M in correlation with the increased capital expenditure in 2009/10.

Direct administrative costs and corporate services

Support services and systems are critical to the efficient and effective delivery of CATSA's mandate and involve its corporate infrastructure. Direct administrative costs and corporate services include: employee costs, professional services, non-capital computer-related expenses, office supplies, travel expenses, communication and public awareness campaign costs, insurance, rent, and network and telephone expenses.

Direct administrative costs and corporate services increased by approximately \$16.3M in 2009/10 due to:

- increased employee costs as a result of a higher headcount compared to 2008/09, in support of program growth and new screening activities;
- increased travel costs relating to the screening services provided for the Vancouver 2010 Winter Olympic and Paralympic Games;
- increased rent and facilities related costs as a result of leasing additional office space at Headquarters and in the regions; and
- increased office and computer expenses to accommodate the growth in operations.

Equipment maintenance, spare parts and warehousing costs

CATSA is responsible for the operation and maintenance of screening equipment deployed at the 89 designated airports. In order to service this equipment, spare parts are purchased in anticipation of equipment requiring repairs and replacement parts. It is critical that inventories be available to ensure that equipment can be returned to service in a timely manner so as to minimize service delays and disruptions to airport operations.

Equipment maintenance, spare parts and warehousing costs increased by approximately \$7.7M in 2009/10 as a result of deploying:

- 152 additional PBS X-ray Multiview units;
- 17 Full Body Scanners subsequent to the failed terrorist attack on December 25, 2009; and
- additional HBS equipment associated with airport expansion projects.

Uniforms, other screening related costs and consumables

CATSA is responsible for providing uniforms to ensure that Screening Officers are clearly identifiable by the public. CATSA also supplies consumable goods required by Screening Officers to perform screening activities, including gloves and swabs.

Uniforms, other screening related costs and consumables increased by approximately \$1.5M in 2009/10 as a result of:

- additional uniforms being required due to the increased number of Screening Officers; and
- the increased use of trace and consumables associated with the Vancouver 2010 Winter Olympic and Paralympic Games, additional safety measures put in place during the H1N1 outbreak, and the implementation of the enhanced security measures imposed by Transport Canada in response to the failed terrorist attack on December 25, 2009.

Training and certification

Training and certification consists of training costs for equipment maintenance technicians required to support CATSA's Explosives Detection System (EDS) equipment deployed at the designated airports. The costs vary as a result of turnover, training requirements for new equipment and technologies, and responses to evolving threats.

Training and certification costs increased by approximately \$400k in 2009/10 as a result of deploying new PBS X-ray Multiview equipment and Full Body Scanners at airports across the country.

Restricted Area Identity Cards

CATSA is responsible for the operation and maintenance of the RAIC equipment and systems deployed at Canada's 28 major airports across Canada. An inventory of RAIC cards is maintained at Headquarters and expensed when distributed to airports where RAIC systems have been installed.

RAIC expenses were comparable to the prior year.

Other Income (Expenses)

Other income (expenses) consists of interest earned on cash deposits, gains on asset disposals, and foreign exchange gains or losses.

Other income (expenses) increased by approximately \$2.9M in 2009/10 mainly due to a foreign exchange gain being recognized as a result of the Canadian dollar strengthening compared to the United States dollar.

Government Funding

CATSA is funded by appropriations from the federal Consolidated Revenue Fund, and draws down on funding according to short-term spending needs. Government funding consists of parliamentary appropriations for operating expenses and the amortization of deferred capital funding. Parliamentary appropriations for operating expenses

are equal to operating expenses incurred. Parliamentary appropriations for capital expenditures are recorded as deferred capital funding and amortized on the same basis and over the same periods as the related property and equipment and intangible assets.

Total government funding increased by approximately \$103.9M in 2009/10 due primarily to the increases in operating expenditures described above and an increase in the amortization of deferred capital funding.

The table below provides a reconciliation between operating appropriations used and operating expenses recorded in the Statement of Operations, Comprehensive Income and Retained Earnings.

| Operating funding | <i>(Millions of dollars)</i> |
|--|------------------------------|
| Total expenses | \$ 576.9 |
| Amortization | (107.5) |
| Interest and foreign exchange gain | (2.3) |
| Net change in prepaids and inventory ¹ | (0.7) |
| Accretion expense on asset retirement obligation | (0.1) |
| Other reconciling items – pension and deferred lease inducement ² | 6.0 |
| Total | \$ 472.3 |

The table below provides a reconciliation between capital appropriations used and property and equipment and intangible assets acquired during the year.

| Capital funding | <i>(Millions of dollars)</i> |
|---|------------------------------|
| Total property and equipment and intangible assets acquisitions | \$ 116.8 |
| Proceeds on disposal of property and equipment | (0.7) |
| Deposit on property and equipment | (0.2) |
| Total | \$ 115.9 |

Total Assets

CATSA's assets are comprised of cash, accounts receivable relating to government appropriations and recoverable sales taxes, inventory, prepaid expenses, employee future benefits asset, property and equipment, and intangible assets.

Total assets increased by approximately \$56.9M in 2009/10 as a result of the following:

- accounts receivable increased by approximately \$43.1M due to a higher amount of parliamentary appropriations and recoverable sales taxes being owed by the Government of Canada as at March 31, 2010;

¹ Inventory and prepaids are funded by appropriations on a cash basis when purchased.

² Employee future benefits (pension and post-retirement benefits) are accounted for in the Statement of Operations, Comprehensive Income and Retained Earnings based on the projected benefits method in accordance with GAAP. Based on the TBS's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, CATSA is permitted to draw funds from the Consolidated Revenue Fund based on its short-term needs. This creates a reconciling item as the drawdown of funding for employee future benefits is not necessarily equal to the expense for accounting purposes under GAAP. The amount of funding to be drawn down is determined by a solvency and going concern valuation performed by CATSA's actuaries in accordance with the *Pension Benefits Standards Act*.

Deferred lease inducement expense is a non-cash expense to record the benefit derived from favourable lease terms, including significantly reduced rent and free common area costs. Rental costs are funded by appropriations on a cash basis, creating a reconciling item.

- the employee future benefits asset increased by approximately \$8.8M as a result of an increased funding surplus within the pension plans, increased employer/employee contributions made during the year and an unamortized net actuarial gain being realized in the current year compared to a significant loss in the prior year; and
- property, equipment and intangible assets increased by approximately \$4.6M, reflecting increased capital expenditures which were partially offset by annual amortization.
- Mobile Screening Vehicles to create capacity for mobile screening; and
- upgraded passenger trace units to support the Vancouver 2010 Winter Olympic and Paralympic Games, enhanced NPS screening activities and enhanced security measures imposed by Transport Canada in response to the failed terrorist attack on December 25, 2009.

Capital expenditures also include the acquisition of RAIC and NPS equipment and non-EDS capital expenditures in support of ongoing operations.

Property and equipment and intangible assets

Capital assets represent CATSA's most significant assets comprising approximately 74% of total assets as at March 31, 2010. In 2009/10, capital expenditures totalled \$116.8M and included the acquisition of both EDS equipment and non-EDS equipment:

| Capital acquisitions | <i>(Millions of dollars)</i> |
|-----------------------------|------------------------------|
| EDS | \$ 96.8 |
| Non-EDS | 20.0 |
| Total | \$ 116.8 |

In 2009/10, EDS capital expenditures included the following acquisitions of PBS and HBS equipment:

- PBS X-ray Multiview units to increase the EDS detection capability at PBS checkpoints;
- Full Body Scanners to enhance screening of passengers at PBS checkpoints to support the enhanced security measures imposed by Transport Canada in response to the failed terrorist attack on December 25, 2009;
- equipment and integration costs relating to the airport expansion projects at the Calgary, Toronto City Centre, Winnipeg and Vancouver airports;
- HBS upgrades to maintain the operational efficiency of the HBS conveyor system;
- Portable Screening Units in support of the Vancouver 2010 Winter Olympic and Paralympic Games;

Total Liabilities

CATSA's liabilities are comprised of accounts payable and accrued liabilities, deferred lease inducement, employee future benefits obligation, asset retirement obligations and deferred capital funding.

Total liabilities increased by approximately \$50.3M in 2009/10 as a result of the following:

- accounts payable and accrued liabilities have increased by approximately \$46.1M due to increased amounts owing to Screening Contractors and suppliers for capital acquisitions and equipment maintenance services. The increase in accounts payable and accrued liabilities over the prior year reflects the timing of receiving invoices in proximity to year end; and
- deferred capital funding increased by approximately \$7.8M as a result of the increase in capital expenditures for the current year.

These increases were partially offset by a decrease in the asset retirement obligations as a result of revising the underlying estimates used in determining the future obligations.

PART 7 – FINANCIAL PERFORMANCE AGAINST PLAN

Operating Expenditures

The following table compares actual operating expenditures for 2009/10 to planned expenditures by major expenditure category.³

Operating Plan by Major Expenditure Category

(Millions of dollars)

| | Actual 2009/10 | Corporate Plan 2009/10 | Variance |
|--|-------------------|---------------------------|------------------|
| Payments to Screening Contractors | \$ 336.3 | \$ 317.6 | \$ 18.7 |
| Direct administrative costs and corporate service | 81.4 | 104.1 | (22.7) |
| Equipment maintenance, spare parts and warehousing costs | 41.2 | 46.4 | (5.2) |
| Uniforms, other screening related costs and consumables | 8.0 | 10.4 | (2.4) |
| Training and certification | 1.5 | 9.6 | (8.1) |
| Restricted Area Identity Cards | 1.0 | – | 1.0 |
| Total operating expenditures | \$ 469.4 | \$ 488.1 | \$ (18.7) |

Payments to Screening Contractors

Payments to Screening Contractors in 2009/10 were higher than planned mainly due to:

- the introduction of enhanced screening measures imposed by Transport Canada in response to the attempted terrorist attack on December 25, 2009; and
- increased NPS coverage within air terminal buildings at the eight busiest airports.

These additional requirements were partially offset by lower than anticipated screening requirements for the Vancouver 2010 Winter Olympic and Paralympic Games. In addition, the average billing rate charged by Screening Contractors was lower than planned.

Direct administrative costs and corporate services

Direct administrative costs and corporate services expenditures in 2009/10 were lower than planned mainly due to the following expenditures being less than anticipated:

- employee costs as a result of delays in the hiring plan;
- professional services as a result of increased reliance on internal resources;
- travel costs associated with the capital deployment plan; and
- rent, facilities, network and telephony costs due to the negotiation of lease incentives and less than anticipated growth in operational requirements.

³ The comparison of current year cash expenditures to planned expenditures does not include certain adjustments required under GAAP (i.e., amortization and accretion expense).

Equipment maintenance, spare parts and warehousing costs

Equipment maintenance, spare parts and warehousing costs in 2009/10 were lower than planned mainly due to the following:

- delays in the deployment of certain capital projects including the construction of a vehicle search checkpoint at the Vancouver airport; and
- the cost of maintenance services provided by U.S. vendors was lower than planned due to the strengthening of the Canadian dollar.

Uniforms, other screening related costs and consumables

Uniforms, other screening related costs and consumables expenditures in 2009/10 were lower than planned mainly due to lower than anticipated:

- travel costs related to the Screening Officers; and
- uniform usage costs for Screening Officers.

Training and certification

Training and certification expenditures in 2009/10 were lower than planned due to actual training costs for Screening Officers being recorded in Payments to Screening Contractors.

Training and certification costs for maintenance technicians were comparable with plan.

Restricted Area Identity Cards

RAIC expenditures were higher than planned due to the annual consumption of existing RAIC inventory which was not included in the annual budget.

Capital Expenditures

The following table compares actual capital expenditures for 2009/10 to planned expenditures by major expenditure category.

Capital Plan by Major Expenditure Category

(Millions of dollars)

| | Actual 2009/10 | Corporate Plan 2009/10 | Variance |
|-------------------------------------|-------------------|---------------------------|------------------|
| Screening operations: | | | |
| EDS equipment | \$ 89.0 | \$ 99.2 | \$ (10.2) |
| NPS and RAIC: | | | |
| NPS equipment | \$ 4.4 | \$ 4.4 | \$ – |
| RAIC | 3.4 | 4.6 | (1.2) |
| Total NPS equipment and RAIC | \$ 7.8 | \$ 9.0 | \$ (1.2) |
| Total screening operations | \$ 96.8 | \$ 108.2 | \$ (11.4) |
| Non-EDS equipment | 20.0 | 14.0 | 6.0 |
| Total capital expenditures | \$ 116.8 | \$ 122.2 | \$ (5.4) |

EDS equipment

In 2009/10, approximately \$13M of funding was reclassified from EDS to the non-EDS capital budget in relation to the Boarding Pass Security System (BPSS), Closed-Circuit Television System (CCTV) and equipment networking projects.

After considering the funding reclassification, EDS capital expenditures were higher than planned due to the additional expenditures on Full Body Scanners and trace equipment related to the introduction of enhanced security requirements by Transport Canada in response to the events of December 25, 2009.

The cost of these additional requirements was partly offset by savings generated by favourable foreign exchange rates, redeploying EDS equipment on hand for airport expansions and other projects, favourable pricing for equipment and lower than expected costs for the Calgary and Vancouver airport expansion projects.

Furthermore, due to unforeseen delays in airport expansion projects which were beyond CATSA's control, funding in the amount of \$9.2M has been re-profiled to 2010/11 in relation to the following projects:

- \$7.5M for the Vancouver Link expansion project;
- \$0.9M for the Goose Bay expansion project; and
- \$0.8M for the Winnipeg integration project.

NPS and RAIC equipment

NPS capital expenditures were higher than planned as a result of an increased presence at NPS checkpoints within air terminal buildings. The increased presence required unanticipated expenditure for additional NPS equipment and integration costs.

The capital expenditures for RAIC were lower than planned due to a delay in the development of the RAIC application. Additional cost savings were realized as a result of using existing equipment to meet operational requirements.

A delay in the construction of a vehicle search checkpoint at the Vancouver airport also contributed to additional savings in 2009/10.

Non-EDS equipment

After considering the funding reclassification from EDS to the non-EDS capital budget, non-EDS capital expenditures were lower than planned as a result of deferring the implementation of the Corporate Management System (CMS) project to 2010/11. The CMS project was deferred so that the funding could be applied to the cost of acquiring the Full Body Scanners as part of the enhanced security measures imposed by Transport Canada during the year. Additional cost savings were also realized as a result of lower than anticipated renovation costs at various airports.

PART 8 – FUTURE OUTLOOK

CATSA's funding

As announced by the Minister of Transport, Infrastructure and Communities on February 25, 2010, and confirmed in Budget 2010, CATSA obtained long-term funding from the Government of Canada.

The 2010/11 Budget includes recurrent capital funding of \$59M for years 2010/11 to 2015/16. In addition, \$9.2M of capital funds were re-profiled from 2009/10 to 2010/11, partly as a result of delays in airport expansions beyond CATSA's control.

CATSA's deployment plan for 2010/11 includes the continued deployment of EDS equipment including PBS X-ray Multiview equipment, additional Full Body Scanners at transborder checkpoints, and the replacement of trace equipment with the next generation of technology. In addition, a vehicle search checkpoint will be constructed at the Vancouver airport.

CATSA's new ongoing reference level of funding on a cash basis, can be summarized as follows:

(Millions of dollars)

| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|----------|----------|----------|----------|----------|
| \$ 585.9 | \$ 573.5 | \$ 570.3 | \$ 528.3 | \$ 528.3 |

The new reference level of funding will allow CATSA to maintain current levels of capacity as well as baseline services for 2010/11 and 2011/12. CATSA will address irregular and seasonal peaks deviating from baseline operations with current resources and existing inventories.

Should forecasted passenger growth continue as projected, CATSA expects to have to return to the Government of Canada to seek additional funding for 2013/14 and beyond, to address the significant reduction in capacity and any resulting impact on passenger wait times.

In response to this challenge, CATSA is proactively implementing steps to improve its operating efficiency. Over the next five years, CATSA will concentrate on identifying potential efficiencies through the optimization of equipment and processes, including:

- the reconfiguration of PBS checkpoints aimed at optimizing throughput efficiency;
- investing in new operating tools such as the BPSS used to monitor wait times and throughput data, and the Secure Identification and Time Tracking system, that will enable CATSA to improve scheduling; and
- working with Transport Canada on risk-based amendments to existing regulations which would increase passenger throughput, without diminishing security standards.

Strategic Review

The Strategic Review conducted in 2009/10 included a systematic assessment of all the organization's spending and programs to allow CATSA to be more efficient without compromising security or negatively impacting passenger flow. Looking ahead, CATSA will pursue efficiencies and improvements in its service delivery model, operations and training to realize cost savings of \$12.0M in 2011/2012 and \$15.2M in subsequent years.

Service delivery model

The competitive RFP process that will be conducted for PBS, HBS and NPS activities will award new long-term screening contracts. The new screening contracts will provide Screening Contractors with both the economic incentive and sufficient time to achieve optimal management capabilities, competencies, and systems. This will allow CATSA to focus its resources on improving overall screening consistency, effectiveness and efficiency. In addition, a newly defined contractual relationship, with enhanced service delivery expectations and management capabilities, will allow CATSA to hold its future Screening Contractors more accountable to ensure optimal results are being achieved on a consistent basis.



MANAGEMENT'S RESPONSIBILITY STATEMENT

Year ended March 31, 2010, with comparative figures for 2009

The financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The integrity and objectivity of the data in these financial statements are management's responsibility. It is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. Management has made estimates and assumptions in the following areas: employee future benefits, the useful lives of property and equipment, intangible assets, the valuation of inventory, the percentage of completion of work in progress, accrued liabilities, the assessment of contingent liabilities, and asset retirement obligations. 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, the assets are safeguarded, and that transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act* and are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. CATSA has an internal audit department whose functions include reviewing internal controls and their application on an ongoing basis.

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 of the Board, which is composed of Directors who are not employees of CATSA. The Audit Committee meets regularly with management, Internal Audit and the Office of the Auditor General of Canada. The Office of the Auditor General of Canada 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 her opinion on the financial statements. Her report is presented on the following page.

Kevin McGarr, M.S.M., MBA

President and Chief Executive Officer

Mario Malouin, CA

Vice-President and Chief Financial Officer

May 28, 2010



AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Canadian Air Transport Security Authority as at March 31, 2010 and the statements of operations, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the 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 and the by-laws of the Authority.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 28, 2010

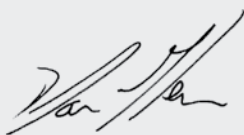
BALANCE SHEET

March 31, 2010, with comparative figures for 2009
(Thousands of dollars)

| | 2010 | 2009 |
|--|-------------------|------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 3,512 | \$ 2,049 |
| Accounts receivable (note 5) | 112,588 | 69,539 |
| Inventory (note 6) | 19,695 | 20,433 |
| Prepaid expenses | 3,537 | 3,770 |
| | 139,332 | 95,791 |
| Employee future benefits (note 9) | 11,468 | 2,685 |
| Property and equipment and intangible assets (note 7) | | |
| Property and equipment | 405,921 | 405,295 |
| Intangible assets | 11,369 | 7,394 |
| | 417,290 | 412,689 |
| | \$ 568,090 | \$ 511,165 |
| LIABILITIES AND EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities (note 8) | \$ 116,100 | \$ 70,030 |
| Deferred lease inducement | 730 | - |
| Employee future benefits (note 9) | 4,759 | 4,243 |
| Asset retirement obligations (note 10) | 7,112 | 11,994 |
| Deferred capital funding (note 11) | 414,983 | 407,181 |
| | 543,684 | 493,448 |
| Equity | | |
| Retained earnings | 24,406 | 17,717 |
| | \$ 568,090 | \$ 511,165 |

Commitments (note 14) and contingent liabilities (note 18)

Approved by the Board of Directors



D. Ian Glen, Q.C.
Chair

Approved by management



Kevin McGarr, M.S.M., MBA
President and Chief Executive Officer

The accompanying notes form an integral part of the financial statements.



STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Year ended March 31, 2010, with comparative figures for 2009
(Thousands of dollars)

| | 2010 | 2009 |
|---|------------------|------------------|
| Expenses | | |
| Pre-Board Screening and Hold-Baggage Screening | \$ 499,697 | \$ 417,933 |
| Corporate services | 49,820 | 41,428 |
| Non-Passenger Screening | 24,753 | 12,340 |
| Restricted Area Identity Card Program | 2,616 | 4,469 |
| Total expenses (note 12) | <u>576,886</u> | <u>476,170</u> |
| Other income (expenses) | | |
| Foreign exchange gain (loss) | 2,113 | (405) |
| Gain (loss) on disposal of property and equipment and intangible assets | 846 | (191) |
| Interest income | 198 | 924 |
| Net results of operations before government funding | <u>573,729</u> | <u>475,842</u> |
| Government funding | | |
| Parliamentary appropriations for operating expenses (note 4) | 472,303 | 378,295 |
| Amortization of deferred capital funding (note 11) | 108,115 | 98,177 |
| Total government funding | <u>580,418</u> | <u>476,472</u> |
| Net results of operations and comprehensive income for the year | <u>6,689</u> | <u>630</u> |
| Retained earnings, beginning of year | <u>17,717</u> | <u>17,087</u> |
| Retained earnings, end of year | <u>\$ 24,406</u> | <u>\$ 17,717</u> |

The accompanying notes form an integral part of the financial statements.



STATEMENT OF CASH FLOWS

Year ended March 31, 2010, with comparative figures for 2009
(Thousands of dollars)

| | 2010 | 2009 |
|---|-----------------|-----------------|
| CASH FLOWS PROVIDED BY (USED IN) | | |
| Operating activities | | |
| Net results of operations for the year | \$ 6,689 | \$ 630 |
| Items not involving cash: | | |
| Amortization of property and equipment (note 12) | 105,267 | 98,862 |
| Amortization of intangible assets (note 12) | 2,168 | 1,869 |
| Decrease (increase) in employee future benefits | (8,267) | 260 |
| Increase in deferred lease inducement | 730 | – |
| Accretion on asset retirement obligations (note 10) | 81 | 464 |
| Amortization of deferred capital funding | (108,115) | (98,177) |
| Net (gain) loss on disposal of property and equipment and intangible assets | (846) | 191 |
| Net change in non-cash working capital balances (note 17) | 5,633 | 11,194 |
| | 3,340 | 15,293 |
| Financing activities | | |
| Parliamentary appropriations for capital funding | 92,683 | 32,298 |
| | 92,683 | 32,298 |
| Investing activities | | |
| Purchase of property and equipment and intangible assets | (94,611) | (47,101) |
| Proceeds on disposal of property and equipment | 51 | – |
| | (94,560) | (47,101) |
| Increase in cash | 1,463 | 490 |
| Cash, beginning of year | 2,049 | 1,559 |
| Cash, end of year | \$ 3,512 | \$ 2,049 |

Supplementary cash flow information (note 17)

The accompanying notes form an integral part of the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

1. Authority, mandate, and programs

The Canadian Air Transport Security Authority (CATSA) was established under the *Canadian Air Transport Security Authority Act* (the *CATSA Act*), which came into force on April 1, 2002. CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of Her Majesty in right of Canada.

CATSA's mandate is to deliver effective and efficient screening of:

- persons who access aircraft or restricted areas through screening points and their personal belongings;
- property in their possession or control; and
- baggage that they give to an air carrier for transport.

CATSA is also responsible for ensuring consistency in the delivery of screening activities in the public interest and has four mandated activities:

1. Pre-Board Screening – the screening of passengers, their carry-on baggage and their personal belongings;
2. Hold-Baggage Screening – the screening of checked baggage;
3. Non-Passenger Screening – the screening of non-passengers on a random basis, pursuant to Transport Canada's direction; and
4. Restricted Area Identity Cards – the administration of access control to airport restricted areas through biometric identifiers.

Responsibilities relating to Non-Passenger Screening at Canada's busiest airports and Restricted Area Identity Cards for major Canadian airports were assigned to CATSA on November 5, 2002, pursuant to sub-section 6(2) of the *CATSA Act*, which allows the Minister of Transport, Infrastructure and Communities to assign other air transport security functions to CATSA.

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), the federal Goods and Services Tax (GST), and all sales taxes applied by the provinces and territories in which it operates.

2. Significant accounting policies

CATSA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

(a) Measurement uncertainty

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of funding and expenses during the reporting period. Significant items subject to such estimates and assumptions include employee future benefits, the useful lives of property and equipment, intangible assets, the valuation of inventory, the percentage of completion of work in progress, accrued liabilities, the assessment of contingent liabilities, and asset retirement obligations. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

2. Significant accounting policies (continued)

(b) Inventory

Inventory consists primarily of spare parts acquired for equipment maintenance and Restricted Area Identity Cards. Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost and net realizable value is defined as replacement cost.

(c) Property and equipment

Property and equipment consist of screening equipment, Restricted Area Identity Card equipment, computers, integrated software and electronic equipment, office furniture and equipment, leasehold improvements, and work in progress. Property and equipment are recorded at cost less accumulated amortization, except for work in progress, which is recorded at cost but not amortized until the asset is put into service.

Amortization is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below:

| | |
|---|------------|
| Pre-Board Screening equipment | 3-10 years |
| Hold-Baggage Screening equipment | 7 years |
| Non-Passenger Screening equipment | 7 years |
| Restricted Area Identity Card equipment | 3-7 years |
| Computers, integrated software and electronic equipment | 3 years |
| Office furniture and equipment | 5 years |

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

(d) Intangible assets

Intangible assets are non-monetary assets without physical substance. CATSA's intangible assets consist of separately acquired and internally developed computer software. Costs that are directly associated with the acquisition or internal development of identifiable software which will, in management's best estimate, provide a future economic benefit to CATSA are recognized as intangible assets.

Amortization for intangible assets is calculated using the straight-line method and is applied over their estimated useful lives of 3-5 years.

(e) Asset retirement obligations

Asset retirement obligations are recognized at fair value in the period in which CATSA incurs a legal obligation associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, development and/or use of the asset. In the year of acquisition, the fair value of the asset retirement obligation is determined by an estimate of the future cash flows which are discounted using a credit-adjusted risk-free rate. The asset retirement cost is capitalized as part of the asset's carrying amount.

Asset retirement obligations are reviewed annually to consider changes resulting from the passage of time and revisions to either the timing or the amount of the initial estimate of undiscounted cash flows. The effect of a change in estimate is recognized prospectively.



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

2. Significant accounting policies (continued)

Changes resulting from the passage of time are recognized as an accretion expense and are charged to operating expenses, while changes resulting from the timing or the amount of the initial estimate of undiscounted cash flows are recognized in the related asset retirement costs and are capitalized as part of the carrying amount of property and equipment.

The asset retirement cost that is capitalized as part of the carrying amount of property and equipment is amortized over the related asset's estimated useful life.

(f) Employee future benefits

CATSA maintains two defined benefit pension plans ("pension plans"), a registered pension plan (RPP) and a supplementary retirement plan (SRP), to provide retirement benefits to its employees. CATSA also provides other post-retirement and post-employment benefits ("other benefits plan") for employees including post-retirement health care, dental care, and life insurance.

The cost of the pension and other benefits plans earned by employees is actuarially determined using the projected benefit method, prorated on service using assumptions which, except for the benefit obligation discount rate, represent management's best estimate of future events affecting the return of the plans. These assumptions are of a long-term nature, which is consistent with the long-term nature of employee future benefits. For the purpose of calculating the expected return on the assets of the pension plans and other benefits plan, assets have been taken at fair value. In accordance with GAAP, the measurement date selected by management is December 31, with a suitable adjustment for cash contributions remitted by CATSA into the pension plans between the measurement date and the fiscal year end.

The net benefit cost (gain) incurred in the period consists of the actuarially determined pension benefits for the current year's service, imputed interest on projected pension obligations net of expected return on pension plan assets and the amortization of a portion of the actuarial gains or losses over the average remaining service period of active employees expected to receive benefits under the plan.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the expected average remaining service period to full eligibility of active employees, from the date of amendments. This period has been determined to be 19 years (2009–19 years) for the RPP, 14 years (2009–14 years) for the SRP and 12 years (2009–12 years) for the other benefits plan.

CATSA's independent actuaries determine the plans' accrued benefit obligation and fair value of assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the RPP for funding purposes was as at December 31, 2008, and the next required valuation, to be completed in 2010, will be as at December 31, 2009. The most recent valuation of the SRP for funding purposes was as at December 31, 2008, and the next required valuation is as at December 31, 2011. However, the next planned valuation will be as at December 31, 2009.

Actuarial gains (losses) arise from the difference between the actual results of the plans for a period and the expected results of the plans for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

2. Significant accounting policies (continued)

service period of active employees. The expected average remaining service period of the active employees for 2010 has been determined to be 13 years (2009–13 years) for the RPP, 9 years (2009–9 years) for the SRP and 17 years (2009–17 years) for the other benefits plan.

The cumulative difference between the employee benefit cost and funding contributions is reflected in the balance sheet as an employee future benefits asset or liability.

(g) Parliamentary appropriations

CATSA's main source of funding is appropriations received from the Government of Canada.

Parliamentary appropriations used for operating expenses are recorded in the Statement of Operations, Comprehensive Income and Retained Earnings in the fiscal year in which the related expenses are incurred.

Parliamentary appropriations used to acquire property and equipment and intangible assets are recorded as deferred capital funding and amortized on the same basis and over the same periods as the related asset. The amortization of the deferred capital funding is recorded in the Statement of Operations, Comprehensive Income and Retained Earnings. Upon disposal of funded depreciable assets, CATSA recognizes in the Statement of Operations, Comprehensive Income and Retained Earnings any remaining deferred capital funding related to the specific asset.

Parliamentary appropriations not used during the year are returned to the Government of Canada.

(h) Interest income

Interest income is derived from bank balances and is recognized as it is earned.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or the obligation incurred. All exchange gains and losses are included in determining net results of operations and comprehensive income for the year.

(j) Comprehensive income

Comprehensive income consists of net results of operations for the year and other comprehensive income. CATSA had no other comprehensive income during the year. Therefore, comprehensive income is equal to net results of operations for the year.

(k) Financial instruments

Financial instruments are measured at fair value on initial recognition. Subsequent to initial recognition, they are accounted for based on their classification. CATSA accounts for all of its financial instruments using settlement date accounting.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

2. Significant accounting policies (continued)

CATSA's financial assets and liabilities are classified and measured as follows:

| Financial Instrument | Classification | Measurement |
|--|-------------------|--|
| Cash | Held for trading | Held for trading financial assets are measured at fair value at the balance sheet date. Fair value fluctuations include interest earned. |
| Accounts payable and accrued liabilities | Other liabilities | Other liabilities are recorded at fair value with subsequent measurement at amortized cost using the effective interest rate method. |

Accounts receivable are not classified as a financial asset because they are not contractual rights but rather are created as a result of statutory requirements imposed by federal and provincial governments.

(l) *Deferred lease inducement*

Deferred lease inducement represents a rent-free period of common area costs as well as a period of significantly reduced rent related to leased premises. Amortization is recognized on a straight-line basis over the term of the lease, which expires November 30, 2017.

(m) *Adoption of new accounting standards*

(i) *Goodwill and Intangible Assets, CICA Handbook Section 3064*

On April 1, 2009, CATSA adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This new standard provides guidance for the identification, recognition and measurement of externally acquired or internally developed intangible assets and requires separate disclosure thereon (note 7). The implementation of this standard has not resulted in any changes to the recognition or measurement of intangible assets.

As a result of adopting Section 3064, CATSA reclassified \$11,369 (2009–\$7,394) from computers, integrated software and electronic equipment to intangible assets (note 7).

(ii) *Financial Instruments – Disclosures, CICA Handbook Section 3862*

In June 2009, the CICA amended CICA Handbook Section 3862, Financial Instruments – Disclosures. The purpose of the amendments is to improve disclosures on fair value measurements and liquidity risk related to financial instruments. As the amendments only address disclosure requirements, the operating results and financial position of CATSA have not been impacted in the current year.

As a result of adopting Section 3862, CATSA enhanced its liquidity risk disclosures with the inclusion of a maturity analysis for financial liabilities (note 13).



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

3. Future accounting changes

International Financial Reporting Standards

In December 2009, the Public Sector Accounting Board approved an amendment to the *Introduction to Public Sector Accounting Standards* which provides clarification on the appropriate source of GAAP to be used by government organizations. As an "Other Government Organization", management has elected to adopt International Financial Reporting Standards (IFRS) beginning with the year ending March 31, 2012, and will present its 2011 comparative figures in compliance with IFRS.

CATSA continues to evaluate the impact of these new standards on the recognition, measurement, presentation, and disclosure of financial statement items.

As a result of work completed to the reporting date, management anticipates that property and equipment and intangible assets, employee future benefits and asset retirement obligations will be the areas of the financial statements most significantly affected as a result of measurement differences under IFRS.

The International Accounting Standards Board has several projects underway, some of which will have an impact on standards that are relevant to CATSA. In particular, management is monitoring the progress of projects on financial instruments, employee future benefits and leases that may result in revised standards being issued before 2011. Any revisions made to these standards may cause management to revisit its assessment of transitional impacts.

4. Parliamentary appropriations

Parliamentary appropriations approved and amounts used by CATSA during the year are as follows:

| | 2010 | 2009 |
|--|-------------------|------------|
| Parliamentary appropriations approved | \$ 615,941 | \$ 428,348 |
| Unused portion of parliamentary appropriations (operating) | (18,761) | (18) |
| Unused portion of parliamentary appropriations (capital) | (8,960) | (1,432) |
| Total parliamentary appropriations used | \$ 588,220 | \$ 426,898 |
| Appropriations were used as follows: | | |
| Operating funding | \$ 472,303 | \$ 378,295 |
| Capital funding (note 11) | 115,917 | 48,603 |
| Parliamentary appropriations used | \$ 588,220 | \$ 426,898 |



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

5. Accounts receivable

Accounts receivable are comprised of:

| | 2010 | 2009 |
|------------------------------------|-------------------|-----------|
| Parliamentary appropriations | \$ 103,219 | \$ 62,292 |
| Goods and Services Tax recoverable | 7,720 | 5,910 |
| Provincial Sales Tax recoverable | 1,578 | 998 |
| Other | 71 | 339 |
| | \$ 112,588 | \$ 69,539 |

6. Inventory

CATSA's inventory is comprised of:

| | 2010 | 2009 |
|--------------------------------|------------------|-----------|
| Spare parts | \$ 17,710 | \$ 16,918 |
| Restricted Area Identity Cards | 1,904 | 2,855 |
| Uniforms | 81 | 660 |
| | \$ 19,695 | \$ 20,433 |

During the year, inventory totalling \$4,352 (2009–\$3,672) were charged to expenses. This includes an amount of \$812 (2009–\$32) resulting from a write-down of inventory to net realizable value.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

7. Property and equipment and intangible assets

| | Cost | Accumulated amortization | Net book value 2010 | Net book value 2009 |
|---|-------------------|-----------------------------|------------------------|------------------------|
| Property and equipment: | | | | |
| Pre-Board Screening equipment | \$ 96,491 | \$ 51,809 | \$ 44,682 | \$ 14,313 |
| Hold-Baggage Screening equipment | 624,060 | 357,237 | 266,823 | 330,302 |
| Non-Passenger Screening equipment | 3,904 | 1,398 | 2,506 | 678 |
| Restricted Area Identity | | | | |
| Card equipment | 19,020 | 16,198 | 2,822 | 2,727 |
| Computers, integrated software and electronic equipment | 18,617 | 13,895 | 4,722 | 4,715 |
| Office furniture and equipment | 3,674 | 3,289 | 385 | 546 |
| Leasehold improvements | 13,591 | 7,997 | 5,594 | 4,397 |
| Work in progress | 78,387 | – | 78,387 | 47,617 |
| Total property and equipment | \$ 857,744 | \$ 451,823 | \$ 405,921 | \$ 405,295 |
| Intangible assets: | | | | |
| Externally acquired software | \$ 6,405 | \$ 4,741 | \$ 1,664 | \$ 1,959 |
| Internally developed software | 7,033 | 4,595 | 2,438 | 979 |
| Work in progress | 7,267 | – | 7,267 | 4,456 |
| Total intangible assets | \$ 20,705 | \$ 9,336 | \$ 11,369 | \$ 7,394 |
| Total property and equipment and intangible assets | \$ 878,449 | \$ 461,159 | \$ 417,290 | \$ 412,689 |

The cost and accumulated amortization of property and equipment as at March 31, 2009 amounted to \$774,198 and \$368,903, respectively, while the cost and accumulated amortization of intangible assets amounted to \$14,837 and \$7,443, respectively.

During the year, CATSA acquired \$110,970 (2009–\$45,345) of property and equipment, and \$5,868 (2009–\$2,809) of intangible assets. The aggregate amount of intangible assets subject to amortization and acquired during the year amounted to \$796 (2009–\$960). The aggregate amount of intangible assets subject to amortization and developed internally during the year amounted to \$5,072 (2009–\$1,849).

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

| | 2010 | 2009 |
|--|-------------------|-----------|
| Capital acquisitions and equipment maintenance | \$ 66,610 | \$ 40,509 |
| Screening Contractors | 35,823 | 19,164 |
| Restricted Area Identity Card Program | 2,024 | 1,017 |
| Other | 11,643 | 9,340 |
| | \$ 116,100 | \$ 70,030 |

9. Employee future benefits

CATSA maintains two defined benefit pension plans ("pension plans"), a registered pension plan (RPP) and a supplementary retirement plan (SRP), to provide retirement benefits to its employees. CATSA also provides other post-retirement and post-employment benefits ("other benefits plan"). Pension plan benefits are based on the average of the best five consecutive years of pensionable salary and are indexed to the rate of inflation. Employees are required to contribute a percentage of their pensionable salary to the plan, with CATSA providing the balance of funding as required, based on actuarial valuations, with payments to the fund being made monthly.

| | Pension plans | | Other benefits plan | |
|--|------------------|-----------|---------------------|------|
| | 2010 | 2009 | 2010 | 2009 |
| Change in fair value of plan assets | | | | |
| Fair value of plan assets | | | | |
| at beginning of year | \$ 30,173 | \$ 28,604 | \$ - | \$ - |
| CATSA contributions | 9,762 | 5,928 | 32 | 29 |
| Plan participants' contributions | 1,702 | 1,350 | - | - |
| Benefit payments and transfers | (103) | (572) | (32) | (29) |
| Actual return on plan assets | 4,700 | (5,137) | - | - |
| Fair value of plan assets at year end | \$ 46,234 | \$ 30,173 | \$ - | \$ - |

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

9. Employee future benefits (continued)

| | Pension plans | | Other benefits plan | |
|---|------------------|------------------|---------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Change in accrued benefit obligation | | | | |
| Accrued benefit obligation | | | | |
| at beginning of year | \$ 25,860 | \$ 31,441 | \$ 2,960 | \$ 4,457 |
| Plan participants' contributions | 1,702 | 1,350 | – | – |
| Current service cost | 1,843 | 3,689 | 336 | 607 |
| Interest cost | 2,201 | 1,991 | 246 | 278 |
| Benefit payments and transfers | (103) | (572) | (32) | (29) |
| Actuarial loss (gain) | 7,215 | (12,039) | 837 | (2,353) |
| Accrued benefit obligation at year end | \$ 38,718 | \$ 25,860 | \$ 4,347 | \$ 2,960 |

Since CATSA made contributions to the pension plans between the measurement date and the fiscal year end date, an adjustment must be made for such contributions in the reconciliation of the funded status of the plans.

| | Pension plans | | Other benefits plan | |
|--|------------------|-----------------|---------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Reconciliation of funded position | | | | |
| Plan surplus (deficit) | \$ 7,516 | \$ 4,313 | \$ (4,347) | \$ (2,960) |
| Contribution adjustment during the year | 3,040 | 2,060 | – | – |
| Unamortized past service cost | 503 | 546 | 176 | 212 |
| Unamortized net actuarial loss (gain) | 409 | (4,234) | (588) | (1,495) |
| Accrued benefit asset (liability) at year end | \$ 11,468 | \$ 2,685 | \$ (4,759) | \$ (4,243) |

The total accrued benefit asset for the SRP at year end was \$739 (2009–\$659). The total accrued benefit asset for the RPP at year end was \$10,729 (2009–\$2,026).

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

9. Employee future benefits (continued)

The accrued benefit obligation and fair value of assets at year end are shown below in respect of plans that are either unfunded or not fully funded:

| | Pension plans | | Other benefits plan | |
|--------------------------------|---------------|-------------|---------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Accrued benefit obligation | \$ – | \$ – | \$ 4,347 | \$ 2,960 |
| Fair value of plan assets | – | – | – | – |
| Funded status – deficit | \$ – | \$ – | \$ 4,347 | \$ 2,960 |

Based on the fair value as at December 31, 2009, plan assets consist of:

| Asset category | 2010 | 2009 |
|--|-------------------|-------------|
| | Equity securities | 64% |
| Debt securities | 34% | 33% |
| Canada Revenue Agency refundable tax account | 2% | 3% |
| | 100% | 100% |

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

| | Pension plans | | Other benefits plan | |
|---|-----------------|-------------------|---------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net employee benefit cost incurred in the period | | | | |
| Current service cost | \$ 1,843 | \$ 3,689 | \$ 336 | \$ 607 |
| Interest cost | 2,201 | 1,991 | 246 | 278 |
| Actuarial loss (gain) | 7,215 | (12,039) | 837 | (2,353) |
| Actual return on plan assets | (4,700) | 5,137 | – | – |
| Net benefit cost (gain) incurred in the period | \$ 6,559 | \$ (1,222) | \$ 1,419 | \$ (1,468) |

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

9. Employee future benefits (continued)

| | Pension plans | | Other benefits plan | |
|--|-----------------|-----------------|---------------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net benefit cost recognized in the period | | | | |
| Current service cost | \$ 1,843 | \$ 3,689 | \$ 336 | \$ 607 |
| Interest cost | 2,201 | 1,991 | 246 | 278 |
| Expected return on plan assets | (2,018) | (1,788) | – | – |
| Amortization of past service cost | 43 | 43 | 36 | 36 |
| Amortization of net actuarial loss (gain) | (111) | – | (71) | 26 |
| Net benefit cost recognized in the period | \$ 1,958 | \$ 3,935 | \$ 547 | \$ 947 |

Total cash payments for employee future benefits for 2010, consisting of cash contributed by CATSA to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefits plan, was \$10,773 (2009–\$4,621). Included in the total cash payments in 2010 was \$6,300 (2009–\$1,500) in additional contributions to the RPP in relation to a plan deficit identified as a result of the 2008 funding valuation.

The significant weighted-average assumptions used to determine CATSA's obligations are as follows:

| | Pension plans | | Other benefits plan | |
|--|---------------|-------|---------------------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Expected rate of return on plan assets | | | | |
| for benefit cost | 5.65% | 5.60% | N/A | N/A |
| Discount rate for benefit cost | 7.50% | 5.50% | 7.50% | 5.50% |
| Discount rate for accrued benefit obligation | 6.75% | 7.50% | 6.75% | 7.50% |
| Inflation for benefit cost | 2.50% | 2.50% | 2.50% | 2.50% |
| Inflation for accrued benefit obligation | 2.25% | 2.50% | 2.25% | 2.50% |
| Long-term rate of compensation increase (including inflation and promotion) | 4.25% | 4.25% | 4.25% | 4.25% |

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

9. Employee future benefits (continued)

Assumed health care cost trend rates

| | 2010 | 2009 |
|--------------------------------------|--------------|-------|
| Initial health care cost trend rate | 8.38% | 8.76% |
| Ultimate health care cost trend rate | 5.00% | 5.00% |
| Year ultimate rate reached | 2019 | 2018 |

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for the year ended March 31, 2010:

| | Increase | Decrease |
|------------------------------------|----------|----------|
| Total cost of service and interest | \$ 125 | \$ (95) |
| Accrued benefit obligation | 836 | (633) |

10. Asset retirement obligations

CATSA has identified asset retirement obligations associated with certain screening equipment and lease agreements. These obligations are expected to be settled between 2010 and 2017.

The undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is \$7,880 (2009–\$13,246). The liability for the expected cash flows has been discounted using a credit-adjusted risk-free rate of between 2.47% to 4.46% (2009–2.47% to 4.46%).

Other assumptions used by management to determine the carrying value of the asset retirement obligations are: the rate of inflation over the expected years to settlement, market risk premiums for unforeseeable circumstances, and the applicable discount rate.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

10. Asset retirement obligations (continued)

A reconciliation of the asset retirement obligation liability is as follows:

| | 2010 | 2009 |
|---|------------------|-----------|
| Balance, beginning of year | \$ 11,994 | \$ 5,548 |
| Revision in estimated cash flows | (5,671) | 5,457 |
| Liabilities incurred | 950 | 578 |
| Asset retirements | (242) | (53) |
| Accretion on asset retirement obligations | 81 | 464 |
| Balance, end of year | \$ 7,112 | \$ 11,994 |

11. Deferred capital funding

A reconciliation of the deferred capital funding is as follows:

| | 2010 | 2009 |
|--|-------------------|------------|
| Deferred capital funding, beginning of year | \$ 407,181 | \$ 456,755 |
| Parliamentary appropriations to finance the acquisition of property and equipment and intangible assets | 115,917 | 48,603 |
| Amortization of deferred capital funding | (108,115) | (98,177) |
| Deferred capital funding, end of year | \$ 414,983 | \$ 407,181 |



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

12. Expenses

CATSA conducts its operations using a functional organizational structure. The Statement of Operations, Comprehensive Income and Retained Earnings presents operating expenses by mandated activity. The following table presents operating expenses by major expense type:

| | 2010 | 2009 |
|---|-------------------|------------|
| Payments to Screening Contractors | \$ 336,260 | \$ 268,500 |
| Amortization of property and equipment | 105,267 | 98,862 |
| Employee costs | 46,998 | 39,047 |
| Equipment maintenance | 38,363 | 30,432 |
| Other administrative costs | 30,578 | 23,693 |
| Uniforms and other screening related costs | 5,584 | 4,234 |
| Communications and public awareness | 3,776 | 1,859 |
| Equipment spare parts and warehousing costs | 2,822 | 3,020 |
| Screening supplies and consumable goods | 2,487 | 2,287 |
| Amortization of intangible assets | 2,168 | 1,869 |
| Training and certification | 1,551 | 1,102 |
| Restricted Area Identity Cards | 951 | 801 |
| Accretion on asset retirement obligations | 81 | 464 |
| | \$ 576,886 | \$ 476,170 |

Other administrative costs include travel expenses, non-capital computer related expenses, office supplies, professional services, insurance, rent, network and telephone costs.



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

13. Financial instruments

Fair value

CATSA's financial instruments consist of cash, accounts payable and accrued liabilities. Due to the short-term nature and the time left to maturity, the carrying values of the accounts payable and accrued liabilities approximate their fair value. All of the financial instruments arose in the normal course of CATSA's operations. CATSA is not involved in hedging activities, it does not have any off-balance sheet transactions and it does not own other instruments that may be settled by the delivery of non-financial assets.

Financial instrument risk

(i) Market Risk

Market risk is the risk that the fair market value or future cash flows of a financial instrument will fluctuate because of changes in market price. CATSA's key market risk relates to foreign exchange risk. Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from accounts payable and accrued liabilities denominated in a currency other than the Canadian dollar (CAD), which is the functional currency of CATSA. Although management monitors exposure to fluctuations in foreign exchange rates, it does not employ external hedging strategies to offset the impact of these fluctuations.

At March 31, 2010, accounts payable and accrued liabilities include balances denominated in the United States dollar (USD) totalling \$18,831 (CAD\$19,124) (2009—USD \$12,412, CAD \$15,641).

Assuming all other variables remain constant, a 5% (2009—2%) depreciation or appreciation of the USD against the CAD would result in an increase/decrease in net earnings of \$956 (2009—\$782). The change in sensitivity factor reflects historical volatilities and market expectations regarding the future volatility of the Canadian and United States currencies.

(ii) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. CATSA manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

13. Financial instruments (continued)

The reported financial liabilities below represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of financial liabilities as at March 31, 2010:

| | Less than 3 months | 3 to 6 months | 6 months to 1 year | Total |
|--|-----------------------|------------------|-----------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 114,299 | \$ 164 | \$ 1,637 | \$ 116,100 |

14. Commitments

Operating leases

CATSA is committed under operating leases for the rental of equipment and office space. Minimum annual lease payments under the terms of these leases are as follows:

| Year ending March 31 | |
|-----------------------------|------------------|
| 2011 | \$ 10,023 |
| 2012 | 9,716 |
| 2013 | 7,322 |
| 2014 | 3,946 |
| 2015 | 3,678 |
| 2016 and thereafter | 9,729 |
| | \$ 44,414 |

Other contractual obligations

CATSA is committed under various contracts for equipment purchases, screening services and equipment maintenance, subject to authorized appropriations:

| Year ending March 31 | |
|-----------------------------|-------------------|
| 2011 | \$ 462,321 |
| 2012 | 12,596 |
| 2013 | 9,088 |
| 2014 | 2,400 |
| 2015 | — |
| 2016 and thereafter | — |
| | \$ 486,405 |



NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

15. Related party transactions

CATSA is related in terms of common ownership to other Government of Canada departments, agencies and Crown corporations such as Public Works and Government Services Canada, the Translation Bureau, and Transport Canada. CATSA enters into transactions with these entities in the normal course of operations and pursuant to authority given in the *CATSA Act*. At March 31, 2010, CATSA owed related parties \$1,782 (2009–\$305). This amount, which is included in accounts payable and accrued liabilities, is non-interest bearing, unsecured, due and payable at year end.

16. Capital management

CATSA relies upon capital and operating appropriations from Parliament to support its financial obligations and strategic requirements. The funds are drawn from the federal Consolidated Revenue Fund. As a Crown corporation, CATSA is subject to the *Financial Administration Act* which, in general, restricts it from borrowing money.

CATSA's primary objective in managing capital is to provide sufficient liquidity to support its financial obligations and its operating and strategic plans. This is accomplished in accordance with the Treasury Board Secretariat's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations* in that appropriated funds are drawn in order to meet short-term funding needs.

CATSA defines and computes its capital as:

| | 2010 | 2009 |
|--|------------------|----------|
| Cash | \$ 3,512 | \$ 2,049 |
| Accounts receivable | 112,588 | 69,539 |
| Accounts payable and accrued liabilities | (116,100) | (70,030) |
| | \$ – | \$ 1,558 |

CATSA's objectives, policies, and processes for managing capital are unchanged since March 31, 2009. CATSA is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2010
(Thousands of dollars)

17. Net change in non-cash working capital balances and supplementary cash flow information

| | 2010 | 2009 |
|---|--------------------|-----------|
| Decrease (increase) in accounts receivable | \$ (19,815) | \$ 29,217 |
| Decrease (increase) in inventory | 738 | (2,804) |
| Increase in prepaid expenses | (5) | (1,038) |
| Increase (decrease) in accounts payable and accrued liabilities | 24,715 | (14,181) |
| | \$ 5,633 | \$ 11,194 |

Interest income received and recognized for the year ended March 31, 2010 amounts to \$198 (2009–\$924).

Accounts receivable excludes parliamentary appropriations receivable of \$39,538 (2009–\$16,305) for capital funding.

Accounts payable and accrued liabilities excludes an amount of \$55,069 (2009–\$33,714) relating to the acquisition of property and equipment and intangible assets.

Non-cash investing activities include non-cash proceeds of \$643 relating to the disposal of property and equipment, in the form of credit notes from a supplier. In addition, a prepaid deposit of \$238 was used in the current year relating to the acquisition of property and equipment.

18. Contingent liabilities

In the normal course of its operations, CATSA receives claims requesting monetary compensation from various parties. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense is recorded in CATSA's financial statements. As at March 31, 2010, \$30 was recorded as contingent liabilities (2009–\$2,604).

19. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2010.

REPORTING ON RESULTS

The improvement of performance measurement was identified as a priority for CATSA in our 2008/09 Annual Report. For 2009/10, the format of our Reporting on Results has changed to reflect the progress made in this area. CATSA now reports on its activities and initiatives, and performance is measured in relationship to the degree to which it can deliver effective, efficient and consistent screening that is in the public interest.

Since 2007/08, CATSA has shaped its activities and priorities around the following three five-year intermediate outcomes to enable it to better meet its legislative outcomes under the *CATSA Act*:

- customer-focused security
- strengthened capacity; and
- recognized expertise.

Every initiative that we undertake has the purpose of contributing to the achievement of one or more of these intermediate outcomes.

The remainder of this section will report on CATSA's progress over the past year in reaching its three intermediate outcomes, listed above, in the form of realized activities and initiatives undertaken or completed in 2009/10 in support of its four legislative outcomes.

Note that this list is not exhaustive.¹

With the additional funding received in Budget 2009, we were able to initiate a response to new and emerging threats, and enhance or supplement current systems by beginning to make appropriate investments in screening technologies and procedures. These investments made for the first year of CATSA's five-year strategic plan are outlined in the *Summary of the 2009/10 – 2013/14 Corporate Plan, Capital and Operating Budgets*.

During 2009/10, CATSA undertook many risk-based activities and initiatives:

- Supported growth and expansion at airports;
- Continued to optimize utilization of equipment through system re-engineering;
- Managed the life cycle of equipment;
- Enhanced system oversight at Canadian airports;
- Continued proactive and integrated communications;
- Introduced new layers of security at PBS;
- Provided screening equipment and personnel at the 2010 Winter Olympic and Paralympic Games in Vancouver; and
- Initiated new security programs to address new threats and close security gaps such as Passenger Behaviour Observation, Critical Restricted Areas and Fixed-Base Operations.

¹ In previous annual reports, CATSA reported against 23 strategic initiatives, each of which was categorized under one of the three intermediate outcomes. In order to report more clearly and concisely, the strategic initiatives have been removed. CATSA now reports on activities and initiatives and how they relate to each of the four legislative outcomes – effective, efficient and consistent screening that is in the public interest.

CUSTOMER-FOCUSED SECURITY CATSA needs the people, processes, equipment and experience to ensure that its approach to its business and security screening programs remains customer focused, that is, perceived as effective and valuable to the travelling public.

Progress

Effective Purchased and deployed nine Mobile Screening Vehicles (MSV) to achieve capacity for mobile screening.

Efficient Began a PBS checkpoint configuration project to develop a solution to better provide screening services that are effective, efficient, consistent, and in the public interest.

Consistent Deployed a web-based, touch-screen format of the *Standard Operating Procedures (SOPs)* to ensure that these are understood and applied in a consistent manner by Screening Officers.

In the Public Interest Developed and began implementing a communications strategy to increase passenger throughput and improve passenger security. This includes:

- customer-service support (public inquiries);
 - consistent signage at airports;
 - Web updates; and
 - passenger education campaigns.
-

STRENGTHENED CAPACITY CATSA must build and maintain a talented, engaged, and flexible workforce to meet the needs of a changing environment, and must ensure that people, technology processes and programs contribute to strengthening its capacity to meet the mandate.

Progress

Effective Deployed new and advanced equipment compatible with the equipment used by our international partners to increase effectiveness and address new and evolving threats and provided Screening Officer training and oversight programs to ensure optimization of that new equipment:

- Full Body Scanners (FBS);
- replacement of single-view X-rays with multiview X-ray technology;
- new explosives vapour detection equipment; and
- purchase and deployment of MSVs for use at the Vancouver 2010 Olympic and Paralympic Winter Games.

Enhanced the Non-Passenger Screening (NPS) Program through increased coverage at NPS checkpoints, and began construction of a vehicle search checkpoint at Vancouver International Airport.

Began to develop a program for Passenger Behaviour Observation (PBO), a new layer of screening.

Efficient Networked PBS equipment in the eight busiest airports to measure the equipment's performance and collect additional operational data to support the re-engineering and optimization of equipment.

Consistent Hired additional Oversight Officers to monitor and oversee the screening workforce and Screening Contractor performance to ensure that high standards are met and maintained in terms of consistent performance and customer service.

Developed and implemented a Recurrent Learning and Recertification Program and X-ray Tutor Professional Edition software to ensure that Screening Officers perform in a consistent way.

In the Public Interest CATSA piloted procedures to enhance boarding pass security and began the development of a trial project to support future national implementation of a program to verify passenger identification at pre-board screening checkpoints.

Supported PBS and HBS expansion projects to accommodate the growth in passenger volume across Canada, by deploying additional screening equipment and staff at new screening checkpoints or lanes.

RECOGNIZED EXPERTISE CATSA needs to be recognized as being an expert in its mandated activity—air transport security screening. In order to do so, CATSA must develop performance measuring and reporting capacity, sound business processes and practices, and effective relationships.

Progress

Effective Provided equipment and certified screening workforce for temporary sites at the Vancouver 2010 Olympic and Paralympic Winter Games.

Efficient Acquired testing facility space to evaluate new equipment and screening methodologies, thus improving screening efficiency and effectiveness.

Consistent Implemented training and development programs and tools—such as the National Screening Officer Pre-Qualification Program—to ensure that Screening Officers acquire the necessary expertise to screen in a consistent manner.

In the Public Interest Undertook various projects to refine management systems and frameworks in order to ensure that we are achieving “value for money” for our operations. These projects include:

- development of a Performance Management Program and Performance Measurements Plans;
- development of a Corporate Management System (CMS);
- completion of a software upgrade for the Secure Identification and Time Tracking system; and
- development of Chief Executive Officer / Chief Financial Officer certification guidelines.

ACRONYM KEY

CMS – Corporate Management System

FBS – Full Body Scanners

MSV – Mobile Screening Vehicle

PBO – Passenger Behaviour Observation

PMO – Project Management Office

SOPs – Standard Operating Procedures

CORPORATE GOVERNANCE

2009/10 was a busy year with opportunities for CATSA to step forward. Under the oversight of its Board of Directors and senior management team, CATSA has advanced beyond its foundation years to focus on further developing its technologies, operations and screening workforce to align more closely with its international partners. Over the coming years, CATSA will continue to work in collaboration with Transport Canada, airlines and airport authorities across Canada to improve air transport security operations.

CATSA is accountable to Parliament through the Minister of Transport, Infrastructure and Communities and governed by an 11-member Board of Directors who are appointed by the Governor in Council. Of the 11 directors, two are nominees of the airline industry and two are nominees of the airport industry. All directors are independent of management. The Board has the balanced mix of skills and experience needed for its stewardship role.

In 2009/10, the Governor in Council appointed Mr. William Deluce to the Board of Directors as the Air Transport Association of Canada nominee for a period of three years.

The Board of Directors is responsible for overseeing the management of CATSA's business, activities and its affairs including the following areas:

- Hiring the President and CEO
- Approving the CEO's objectives for the year and evaluating the CEO's performance
- On recommendation of the President and CEO, appointing the other officers of the Authority
- Approving the Annual Report
- Approving the Corporate Plan
- Ensuring that the principal risks of CATSA's business have been identified and that appropriate systems to manage these risks have been implemented
- Approving CATSA's contracting policies
- Approving CATSA's *Code of Conduct and Ethical Behaviour for Directors* and the *Employee Code of Ethics and Conduct*

- Ensuring that an appropriate governance framework exists for the management of CATSA's pension plans.

Throughout 2009/10, the Board finalized its work on implementing measures issued by the Treasury Board Secretariat in its report *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians* which resulted in six amendments to the *Financial Administration Act* (FAA) through the *Budget Implementation Act, 2009*. CATSA now satisfies the requirements of all measures for which it has authority to act.

One of the new legislative requirements stemming from the FAA amendments discussed above was the requirement to hold an Annual Public Meeting. CATSA's inaugural annual public meeting was held in Toronto on November 20, 2009.

The Board also continued to increase its focus on strategic matters by working with management in the development of a corporate performance dashboard and supporting them through the government's Strategic Review of CATSA's programs.

The Board continues to upgrade CATSA's corporate governance practices through annual reviews of bylaws, policies, Board and Committee guidelines, Committee terms of reference and by remaining informed on governance best practices that impact the management of Crown corporations.

Some other areas in which the Board has been proactive are as follows:

- i) A Board portal was implemented allowing for the transition to paperless Board and Committee meetings.
- ii) An annual Board assessment process has been implemented.
- iii) Three new Board guidelines were implemented to promote consistency in the areas of Director compensation, Director conference attendance and Director professional development.
- iv) The Board annually reviews the Travel and Hospitality Policy for Board of Directors and proactively discloses travel and hospitality expenses of all directors on the CATSA Web site.
- v) Every year, directors affirm that they have complied with the *Code of Conduct and Ethical Behaviour for Directors*. This Code is also reviewed by the Board annually and made publicly available on CATSA's Web site.

The Director, Internal Audit, reports directly to the Audit Committee, thus reinforcing the independence of this function.

The Auditor General of Canada is our external auditor. Representatives from the office of the Auditor General attend each Audit Committee meeting.

Our Board discharges many of its responsibilities through four standing committees. The committees are independent of management. Each Director serves on at least two committees.

The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to financial reporting, continuous disclosure practices, risk management, internal controls, the audit process and other oversight responsibilities.

The Corporate Governance and Human Resources Committee assists the Board in fulfilling its oversight responsibilities with respect to governance issues including areas such as: human resources and compensation, management succession plans, oversight of policies and processes relating to employee business conduct and ethical behaviour, recommendations and evaluation of annual objectives for the President and CEO and any other matter assigned to it by the Board.

The Strategy Committee assists the Board in fulfilling its oversight responsibilities of matters relating to or affecting CATSA's strategic direction in accordance with its legislated mandate and provides oversight and advice to management in the development and implementation of all strategic initiatives, including the development of its performance management framework.

The Pension Committee assists the Board in its oversight responsibilities with respect to the management and administration of the employee pension plans.

Biographies of our Board members can be found in the *Our Board of Directors* section of this report.

Board Remuneration, Expenses, and Meeting Attendance

Directors and the Chair are paid an annual retainer and per diem, which are set by the Governor in Council pursuant to the *FAA*. They are also reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals while performing their duties which are posted quarterly on CATSA's Web site.

| Board member | Board Retainer (A) | Per Diems (B) | Total Remuneration (A+B) |
|--------------------------------|-----------------------|-------------------|-----------------------------|
| D. Ian Glen (Chair) | \$ 10,800 | \$ 43,050 | \$ 53,850 |
| Michael D. Campbell | \$ 5,400 | \$ 13,455 | \$ 18,855 |
| William Deluce** | \$ 1,155 | \$ 2,730 | \$ 3,885 |
| Gaetane C. Hains | \$ 5,400 | \$ 10,140 | \$ 15,540 |
| Denis Jacob ¹ | \$ 5,400 | \$ 17,355 | \$ 22,755 |
| John Kaldeway ² | \$ 5,400 | \$ 20,865 | \$ 26,265 |
| Dora Koop | \$ 5,400 | \$ 14,235 | \$ 19,635 |
| Gene McLean ⁵ | \$ 5,400 | \$ 13,845 | \$ 19,245 |
| Ron Patmore* ³ | \$ 4,245 | \$ 9,750 | \$ 13,995 |
| H. Glenn Rainbird ⁴ | \$ 5,400 | \$ 14,040 | \$ 19,440 |
| Donald K. Robinson | \$ 5,400 | \$ 11,700 | \$ 17,100 |
| Mike Shaikh | \$ 5,400 | \$ 15,405 | \$ 20,805 |
| TOTALS | \$ 64,800 | \$ 186,570 | \$ 251,370 |

* Mr. Patmore's last meeting was on December 29, 2009.

** Mr. Deluce's term began on January 14, 2010

¹ Chair of Strategy Committee and assisted management on Strategic Review

² Chair of Audit Committee and assisted management on Strategic Review

³ Chair of Corporate Governance and Human Resources Committee

⁴ Chair of Pension Committee

⁵ Represented CATSA Board at AVSEC Conference in South Africa

Total remuneration (annual retainer and per diems) paid to all Directors and the Chair was \$251,370 in 2009/10 compared to \$200,147 in 2008/09.

Board and Committees Attendance

| Board Member | Board Meetings ¹ | Committees ¹ | | | |
|---------------------------------|-----------------------------|--|-------|---------|----------|
| | | Corporate Governance and Human Resources | Audit | Pension | Strategy |
| D. Ian Glen ² | 7/8 | 5/5 | 5/5 | 4/4 | 8/8 |
| Michael D. Campbell | 7/8 | | 5/5 | 3/4 | 1/8 |
| William Deluce ⁸ | 2/8 | 1/5 | 1/5 | | |
| Gaetane C. Hains | 8/8 | 5/5 | | 4/4 | |
| Denis Jacob ⁶ | 8/8 | | 5/5 | | 8/8 |
| John Kaldeway ³ | 7/8 | | 5/5 | | 8/8 |
| Dora Koop | 8/8 | 1/5 | 4/5 | | 8/8 |
| Gene McLean | 8/8 | 5/5 | | 1/4 | 6/8 |
| Ron Patmore ⁷ | 7/8 | 5/5 | | | 7/8 |
| H. Glenn Rainbird ⁵ | 8/8 | 5/5 | | 4/4 | 7/8 |
| Donald K. Robinson ⁴ | 7/8 | 4/5 | | 2/4 | |
| Mike Shaikh | 7/8 | | 5/5 | 4/4 | |

¹ Board and Committee meeting 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

² Member of all Board Committees

³ Chair of the Audit Committee

⁴ Chair of the Corporate Governance and Human Resources Committee

⁵ Chair of the Pension Committee

⁶ Chair of the Strategy Committee

⁷ Former Director and Chair of the Corporate Governance and Human Resources Committee

⁸ New Board member

RED: indicates the individual became a new member of Board and/or Committee as of January 2010

**ECO-FRIENDLY
DISPOSAL
OF SURPLUS
MATERIEL**

As stated under the *CATSA Act*, CATSA, as a Crown corporation, has the responsibility to dispose of equipment that has reached the end of its useful life. Since most of our equipment is specialized and has limited use in other industries, disposal is often the only option left for material identified as surplus. In some cases, the environmentally friendly and safe disposal of equipment—through a third-party service provider or agencies certified in the disposal of hazardous materials—may result in costs incurred by CATSA. An asset retirement obligation has been recorded to address this expense as in prior years.

To ensure that surplus materiel potentially harmful to the environment is disposed of in accordance with environmental laws and regulations—such as the *Workplace Hazardous Material Information System* and *Occupational Health and Safety Act*—we developed a policy on disposal of surplus assets and associated guidelines to outline the disposal process and plan to properly dispose of hazardous material. The policy and guidelines are under review and approval and will be in effect in 2010/11.

**REPORT ON
OFFICIAL
LANGUAGES ACT
REQUIREMENTS**

Through our partnership with Screening Contractors, CATSA is responsible for ensuring that bilingual services are provided at screening checkpoints at the airports it has linguistic obligations. In accordance with the *Official Languages Act*, CATSA provides communications and services to the public in both official languages at airports serving one million or more passengers annually and at airports where demand for services in a minority language is at least five percent of overall demand.

CATSA has several programs which include specific elements to help it meet its official languages requirements:

- Operations Performance Oversight Program: Oversight Officers monitor screening operations to ensure compliance with *Standard Operating Procedures (SOPs)* and regulations. Service in both official languages is one of the elements being monitored.
- Shift Briefing Program: Screening Officer briefings include regular reminders of our official languages obligations and the need to follow SOPs to ensure passengers are served in the official language of their choice.
- Performance Payment Program: Established for Screening Contractors, this program includes criteria for meeting official languages requirements.

Respecting the spirit of the *Official Languages Act* was an important consideration in CATSA's preparations for the Vancouver 2010 Olympic and Paralympic Winter Games. CATSA worked very closely with its Screening Contractors to ensure that it had sufficient bilingual personnel at major airports and at all temporary screening sites for this international event, thus exceeding our ongoing official languages requirements. CATSA developed a special incentive program for Screening Contractors, in effect during the organization's 2010 Winter Games operations, that included official languages criteria. In addition, a new refresher e-learning module was added to ensure that Screening Officers working at the 2010 Winter Games, and at all eight busiest airports, can provide services in both official languages.

In addition to taking part in the Office of the Commissioner of Official Languages' Vancouver 2010 awareness campaign, CATSA worked with our partners at Air Canada, airport authorities and the Canada Border Services Agency to share plans and best practices.

CATSA is proud of its accomplishments on official languages and continues to promote the use of official languages in our work environment and at airports across the country.

**REPORT ON ACCESS
TO INFORMATION
AND PRIVACY ACT
REQUESTS**

CATSA is subject to both the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of this legislation.

From April 1, 2009, to March 31, 2010, CATSA received 102 new requests under the *Access to Information Act*. When added to the 12 requests outstanding from the previous fiscal year, CATSA was responsible for processing a total of 114 requests.

Of these requests, 86 were completed within the fiscal year and 28 were carried forward to 2010/11. In addition, CATSA received 17 *Access to Information Act* consultation requests from other federal departments, all of which were completed within the fiscal year.

For the same reporting period, CATSA received one new request under the *Privacy Act*. The request was completed and none was carried forward into the next fiscal year.

**EMPLOYMENT
EQUITY**

CATSA's senior management has made a commitment to identify and eliminate barriers where they might exist. Where possible, positive policies and programs have been put in place to make reasonable accommodations for its employees.

CATSA has developed a comprehensive employment equity plan to minimize the gaps of under representation of designated groups. It holds bilateral consultations between management and employee representatives pertaining to the organization's employment equity at least once a year. In addition, CATSA produces and submits an employment equity report (qualitative and quantitative) to the Department of Human Resources and Skills Development Canada on June 1 of every calendar year. In addition, CATSA's Champion of Multiculturalism and Diversity, Renée Légaré, Senior Vice-President, People, delivered two speeches, one at the Women in Leadership Summit on September 30, 2009 and the other at the NQI Excellence Summit on October 22, 2009, where she articulated CATSA's culture of inclusion. Ms. Légaré's principal message was how at CATSA we encourage a diverse workforce because we live in a diverse country and believe that the travelling public ought to be able to see itself in the faces of our screening workforce.

CATSA's senior management continues to instill a corporate culture that welcomes and strongly values employee diversity. The organization promotes a principle of fairness where differences are respected and strives to make a positive work environment. CATSA, as a unique federal Crown corporation, recognizes the changing diversity of the Canadian workforce and has championed the notion of inclusiveness and diversity. As such, it recognizes that inclusiveness fosters interaction, communication, knowledge-sharing and mutual respect.



GLOSSARY

BPSS Boarding Pass Security System: a stand-alone technology that scans boarding passes to validate the information embedded in the barcode

Canada's eight busiest airports In alphabetical order: Calgary, Edmonton, Halifax, Montreal (Pierre Elliott Trudeau International), Ottawa, Toronto (Lester B. Pearson International), Vancouver and Winnipeg

Canada's 28 major airports Includes the "busiest airports" above, as well as (in alphabetical order): Charlottetown, Fredericton, Gander, Iqaluit, Kelowna, London, Moncton, Prince George, Quebec City, Regina, Saint John, St. John's, Saskatoon, Sudbury, Toronto (City Centre), Thunder Bay, Victoria, Whitehorse, Windsor and Yellowknife

CIDC Call and Incident Data Collection system

CSMF CATSA Security Management Framework: the framework establishes the minimum requirements for the policies, processes, procedures, people and partnerships necessary for CATSA to fulfill its mandate

EDS Explosives Detection System: the specialized equipment used to screen passengers' checked baggage

FBS Full Body Scanner: new voluntary scanning technology that detects the presence of threat objects on passengers

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

MSV Mobile Screening Vehicle: to be used for screening passengers and their belongings at Fixed-Base Operations

- NPS** Non-Passenger Screening: the screening of non-passengers accessing restricted areas of 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 restricted areas of Canada's major airports

- SITT** Secure Identification and Time Tracking: an enterprise IT system installed at airports, and used to both validate the eligibility of Screening Officers to perform functions at checkpoints as well as to provide attendance tracking of screening personnel using biometric-based electronic time cards

- SOPs** *Standard Operating Procedures*: developed by CATSA to instruct screening personnel on carrying out security screening that meets the intent of regulated measures as well as other related requirements established by CATSA

Strategic Review A Strategic Review is the review of 100% of all direct program spending and the operating costs of a department's or an agency's major statutory programs on a cyclical basis, with a view to better manage spending, modernize and simplify internal operations, and to achieve better results for Canadians