CATSA ANNUAL REPORT 2013

Canada

CATSA ACSTA

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CONTENTS

CATSA AT A GLANCE

MORE THAN **51 MILLION PASSENGERS** SCREENED IN 2012

MORE THAN **5,400 SCREENING OFFICERS** ACROSS CANADA

106 CHECKPOINTS

311 SCREENING LANES

89 AIRPORTS ACROSS CANADA

Airport at a Glance

MONTRÉAL–PIERRE ELLIOTT TRUDEAU INTERNATIONAL AIRPORT

EVERY YEAR, CATSA'S ANNUAL REPORT FEATURES PHOTOGRAPHS FROM ONE OF CANADA'S DESIGNATED AIRPORTS. THIS YEAR, THE FOCUS IS ON THE MONTRÉAL–PIERRE ELLIOTT TRUDEAU INTERNATIONAL AIRPORT.

Located on the Island of Montreal, 20 km from Montreal's downtown core, the airport is one of two managed and operated by *Aéroports de Montréal*, a not-for-profit corporation.

Montréal-Trudeau is the busiest airport in the province of Quebec, the third busiest airport in Canada by passenger traffic and fourth busiest by aircraft movements, with 13.8 million passengers and 230,341 aircraft movements in 2012.

Already recognized as a world leader in self-service check-in, Montréal-Trudeau Airport recently became the first airport in North America to introduce self-service baggage drop-off, meaning passengers can now go through the entire check-in process without staff assistance. Another initiative taken in the past year was the implementation of a strategy to manage wait lines at United States (U.S.) customs to improve service and fluidity. In addition, recently installed screens in the U.S. transit corridor inform passengers whether they must wait for their luggage or proceed towards U.S. customs. In the next year, the airport plans to implement systems that measure and display wait times at different points along the passenger route in the air terminal.

CORPORATE PROFILE

ESTABLISHED ON APRIL 1, 2002, THE CANADIAN AIR TRANSPORT SECURITY AUTHORITY (CATSA) IS A CROWN CORPORATION FULLY FUNDED BY PARLIAMENTARY APPROPRIATIONS AND ACCOUNTABLE TO PARLIAMENT THROUGH THE MINISTER OF TRANSPORT, INFRASTRUCTURE AND COMMUNITIES.

With a mission to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada, CATSA is governed by a Board of Directors with operations directed by a senior management team.

CATSA's vision is to excel as a world leader in air transport security, which is achieved through our service, our people, and our partnerships.

- *Our service:* We provide the best possible passenger experience and deliver value to Canadians with an optimal use of our resources.
- *Our people:* We are engaged, committed and succeed through teamwork.
- *Our partnerships:* We work in collaboration with partners to generate mutual benefits and improvements.

CATSA IS RESPONSIBLE FOR SECURITY SCREENING AT 89 DESIGNATED AIRPORTS ACROSS THE COUNTRY THROUGH A THIRD-PARTY SCREENING CONTRACTOR MODEL. PLAYING A KEY ROLE IN CANADA'S AIR TRANSPORTATION SYSTEM, CATSA DELIVERS THE FOLLOWING FOUR MANDATED RESPONSIBILITIES:

Pre-Board Screening (PBS)

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

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

Non-Passenger Screening (NPS)

CATSA's screening officers conduct, on a random basis, screenings of non-passengers accessing restricted areas at major airports. Non-passengers include flight and cabin crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers, vendors and other airport service staff.

Hold Baggage Screening (HBS)

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

Restricted Area Identity Card (RAIC)

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

In addition to its mandated activities, CATSA has a "good neighbour" agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources. In 2012/13, this program was expanded to include 42 additional airports, for a total of 49 airports.

Each of these activities is carried out effectively, efficiently, consistently and in the public interest, as required by the *CATSA Act*.

MESSAGE FROM OUR CHAIR

I am honoured to join the Canadian Air Transport Security Authority as it embarks on its second decade of operation. Over the past 10 years, CATSA has created a solid foundation, ensuring the security of the travelling public and others who work in the airport community. It has also demonstrated a firm commitment to work with partners in industry to continuously improve the aviation security system for all passengers.

Throughout the past year, CATSA has worked diligently to push the boundaries of efficiency and effectiveness, testing more enhancements to screening procedures and technology. Thank you to all those in airports who have partnered with us in these efforts. We could not have made the strides we have without this ongoing support.

Collaboration is firmly rooted in CATSA's vision. Expanding partnerships and strategic alliances is key to improving and better managing air security and must play a critical role in CATSA's future efforts.

CATSA will continue to work with stakeholders and partners to improve its screening effectiveness, invest in innovation, enhance its service delivery and training programs, and expand on its collaborative approach to screening. I am confident these efforts will have a positive and lasting impact on aviation security in Canada.

Thank you to the members of the Board for their invaluable counsel and ongoing dedication to aviation security. Thank you also to the entire CATSA team, screening officers and screening contractors across Canada for their continued dedication and professionalism.

Lloyd A. McCoomb, PhD, P.Eng., ICD.D
Chair

MESSAGE FROM OUR PRESIDENT AND CEO

Every day more than 150,000 people pass through our security checkpoints across the country. Our first priority is to ensure that passengers are secure. It's the job we've been given by the federal government and we work closely with our screening contractors to achieve it.

But we know that we earn our success one passenger at a time. While we are proud of our record of the past ten years, we also believe in the need for continuous improvement. We can never take success for granted.

Since new contracts for airport screening services came into effect in 2011, we've seen many positive changes. Contractors were required to find service delivery improvements in a number of areas and I'm pleased to say they are meeting those goals. We're now better able to provide security screening that combines a high level of effectiveness with improved service to passengers. We've also achieved a more efficient use of resources.

Improving the effectiveness and efficiency of pre-board screening has been an important priority for CATSA in recent years. Building on the success of our security screening process improvements plan implemented in 2010/11, we launched a second phase of the plan this past year that not only looks to new technology but also the human elements of screening and how the performance of screening officers can be optimized.

We have also continued with our 10-year recapitalization of our hold baggage screening systems, working closely with airports to develop an approach that fits into their own plans and priorities. In 2012/13 our aim for the renewal of our baggage systems continues to be a seamless transition for both the travelling public and daily airport operations.

WHILE WE ARE PROUD OF OUR RECORD OF THE PAST TEN YEARS, WE ALSO BELIEVE IN THE NEED FOR CONTINUOUS IMPROVEMENT.

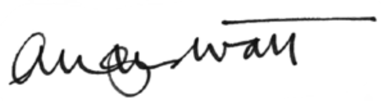
WE CAN NEVER TAKE SUCCESS FOR GRANTED.

This year we've enjoyed great success in working with our partners in industry. We've signed agreements with most of the major Canadian airports to share data from our Boarding Pass Security System — information that can help Canadian air carriers and airports improve their own security, customer service and operational planning capabilities.

We've also developed a Screening Checkpoint Optimization Tool that has improved how we manage our pre-board screening resources. By combining information from different sources, our screening contractors can forecast service requirements more accurately and develop better schedules. This translates to better anticipation and deployment of our resources in conjunction with changing traffic demand at the checkpoint.

In the year ahead, we'll be placing a strong emphasis on better understanding the expectations and needs of our passengers. We'll also continue to focus on helping passengers to be well prepared for security before they arrive at the checkpoint. These efforts have the potential to allow screening officers to better concentrate on core screening activities and on passengers who need extra assistance.

Carrying out our mission requires the contribution and hard work of many dedicated people. Thank you to the members of the Board and all CATSA employees for their professionalism and dedication. Thank you also to all of our partners in the aviation and travel communities for their ongoing support. And above all, thank you to screening officers across the country; theirs is not always an easy job, but they do it well.



Angus Watt
President and CEO

CATSA LEADERSHIP

CATSA IS LED BY A SENIOR MANAGEMENT COMMITTEE, HEADED BY A PRESIDENT AND CEO. THE SENIOR MANAGEMENT COMMITTEE INCLUDES FIVE VICE-PRESIDENTS, EACH REPRESENTING A SPECIFIC PORTFOLIO. CATSA IS A RESULTS-FOCUSED ORGANIZATION, AND THE EXECUTIVE TEAM ENSURES ORGANIZATIONAL SUCCESS THROUGH THE STRATEGIC MONITORING OF KEY PERFORMANCE INDICATORS, AS PUBLISHED IN THE ANNUAL REPORT AND CORPORATE PLAN SUMMARY. IN BUDGET 2012, THE CATSA ACT WAS AMENDED SUCH THAT ALL FUTURE CEOs WOULD BE APPOINTED BY THE GOVERNOR IN COUNCIL.

Senior Management

ANGUS WATT, PRESIDENT & CEO

YVES DUGUAY SENIOR VICE-PRESIDENT, OPERATIONS AND CUSTOMER EXPERIENCE	**MARIO MALOUIN** VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER	**MIKE SAUNDERS** VICE-PRESIDENT AND CHIEF TECHNOLOGY OFFICER	**JOHN STROUD** VICE-PRESIDENT, HUMAN RESOURCES AND CORPORATE AFFAIRS	**LISE PATRY** VICE-PRESIDENT, LEGAL AND CORPORATE SECRETARY

The senior management structure is as of March 31, 2013[1].

1 Effective March 29, 2013, Senior Vice-President, Operations and Customer Experience, Yves Duguay stepped down from his role. Neil Parry, previously Senior Director, Program Delivery, assumed responsibility as Vice-President Service Delivery on April 1, 2013.

SENIOR MANAGEMENT

LEFT TO RIGHT:

John Stroud	– Vice-President, Human Resources and Corporate Affairs
Mario Malouin	– Vice-President and Chief Financial Officer
Yves Duguay	– Senior Vice-President, Operations and Customer Experience
Angus Watt	– President and Chief Executive Officer
Lise Patry	– Vice-President, Legal and Corporate Secretary
Mike Saunders	– Vice-President and Chief Technology Officer

MANAGEMENT BIOGRAPHIES
CAN BE SEEN HERE.

ANNUAL HIGHLIGHTS

Improving Our Operations

IN 2012/13, CATSA REALIZED A NUMBER OF NOTABLE ACCOMPLISHMENTS AND CHANGES THAT HAVE IMPROVED ITS OPERATIONS. MANY OF THESE INITIATIVES WILL ALLOW CATSA TO CONTINUE TO RESPOND TO EVOLVING THREATS, REALIZE FURTHER EFFICIENCIES AND IMPROVE THE PASSENGER EXPERIENCE.

Implementation of Airport Screening Services Agreements (ASSAs)

On November 1, 2011, CATSA's new ASSAs came into force and the transition to the new agreements continued into 2012/13. Overall, CATSA and its screening contractors achieved tremendous results during the first year. Working together, CATSA and the screening contractors were able to increase productivity, introduce new management models, develop and implement an action plan for performance improvement, maintain high levels of passenger satisfaction, and reduce the cost per passenger screened.

With the establishment of new long-term agreements, CATSA has implemented a new governance framework that encourages screening contractors to align with and support CATSA's strategic direction, priorities and performance targets. The framework also provides a forum for sharing feedback, best practices and concerns that has not only aided the transition, but has also built a stronger foundation for the long-term success of CATSA's mandated activities and its working relationships with the screening contractors.

Over the lifetime of these contracts, as the relationship with its screening contactors continues to evolve, CATSA will remain committed to maximizing the benefits of the ASSAs. CATSA will do so by continuing to work closely with its screening contractors to encourage and enhance operational excellence, measure and manage its operational performance, encourage and promote efficient scheduling of screening hours, and continue to build collaborative and constructive relationships.

Screening Checkpoint Optimization Tool (SCOT)

Following the transition to new ASSAs, CATSA set out to use resources more efficiently, particularly for PBS operations. To this end, a national, automated solution for major airports in Canada was developed.

SCOT is a new management system that helps CATSA and screening contractors more efficiently manage staffing and resources at airport security checkpoints. More specifically, it allows for more accurate scheduling and for security lanes to open and close as traffic fluctuates. It also helps identify areas of efficiency and non-efficiency.

Although implementation is still underway, CATSA and its partners have already begun working collaboratively with this innovative new tool. Thus far, it is showing significant promise in planning service delivery and expanding CATSA's partnerships with screening contractors.

NEW TRUSTED TRAVELLER ENTRANCES AND SEPARATE SCREENING QUEUES HAVE BEEN ADDED, PROVIDING MORE NEXUS CARDHOLDERS WITH QUICKER AND EASIER ACCESS TO THE SCREENING AREA AT SELECT MID-SIZED CANADIAN AIRPORTS.

New Trusted Traveller Entrances at Select Mid-Sized Airports

New Trusted Traveller entrances and separate screening queues have been added in the past year, providing NEXUS cardholders with quicker and easier access to the screening area at select mid-sized Canadian airports. In a special event held in August 2012 in Toronto, the Honourable Steven Fletcher, Minister of State (Transport) announced these new separate screening queues at Billy Bishop Toronto City, St. John's, Moncton, Quebec City and Kelowna airports. Victoria will be added once terminal renovations are complete.

Initially available at select domestic and international security checkpoints at Canada's eight largest airports, the program was expanded in February 2012 to include flights to the United States. The addition of Trusted Traveller entrances at the five mid-sized Canadian airports comes as part of the government's ongoing efforts to support the *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan,* making security screening faster and more convenient for passengers.

CATSA Screening Air Cargo at More Locations

CATSA has made significant progress since it first conducted an Air Cargo Screening Pilot Project in 2008 with Transport Canada and Air Canada. The trial determined that CATSA could conduct screening of small parcel air cargo during off-peak hours without negatively impacting existing operational capacity. Thus, CATSA entered into an agreement with Transport Canada to begin screening air cargo at seven small airports earlier this year.

Based on the success of the initial deployment, CATSA and Transport Canada were approached by industry and asked to expand the number of airports where CATSA conducts cargo screening. As of March 2013, CATSA is conducting air cargo screening at 49 airports across Canada.

Evolving Technology

AS AVIATION TECHNOLOGY CONTINUES TO EVOLVE, AND INTERNATIONAL STANDARDS CHANGE, IT IS IMPORTANT FOR CATSA TO ENSURE THAT IT REMAINS COMPATIBLE WITH OUR INTERNATIONAL PARTNERS AND EMPLOYS THE BEST INDUSTRY PRACTICES AND STANDARDS. AS A RESULT, CATSA CONTINUOUSLY INVESTS IN NEW TOOLS AND TECHNOLOGIES TO IMPROVE EFFECTIVENESS, EFFICIENCY, AND CONSISTENCY OF OPERATIONS. HIGHLIGHTS IN TECHNOLOGY FOR 2012/13 INCLUDE:

Hold Baggage Screening (HBS) System Recapitalization

In 2012/13, CATSA continued to move forward with the life-cycle management of its HBS system, which will see CATSA replacing its existing equipment with more advanced, internationally compatible technology. This initiative will continue over 10 years, with initial deployment focusing on Canadian airports with U.S. pre-clearance facilities. Such efforts are in support of the joint Canada-U.S. declaration *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness*.

For passengers heading to the U.S. to connect to other destinations, the new technology will eliminate the need for duplicate baggage screening. In the past, passengers flying from Canadian airports had their bags screened twice — once when they departed, and again at the connecting U.S. airport. Now, once the technology is installed, connecting through U.S. cities will be easier. There will be less of a chance that bags will miss connecting flights and passengers will be able to book tighter connections.

CATSA continues to work closely with all concerned stakeholders to ensure that, as these system upgrades are installed, there are no disruptions to daily airport operations, passengers, or security.

Full Body Scanner (FBS) Automated Target Recognition (ATR) Deployment

When the FBS technology was deployed in 2010, CATSA made a commitment to the Office of the Privacy Commissioner (OPC) to explore options that would reduce privacy concerns associated with the new technology. CATSA has met this commitment with the implementation of ATR software for its FBS machines at major Canadian airports as announced by the Honourable Steven Fletcher, Minister of State (Transport), on April 16, 2013. The new ATR software will enhance passenger privacy at airports, while continuing to ensure the safety and security of Canadian air travellers.

ATR software eliminates the requirement for a screening officer to view a passenger's detailed image by automatically analyzing the raw data of a passenger's scan and generating alarm boxes for anomalies and displaying the area(s) of concern on the front and back of a generic human-like figure on a monitor located at the FBS unit. To continue to ensure that every passenger's privacy is fully respected, the scanner does not collect personal information from the passenger it screens nor is the image correlated in any way with the name of the passenger or any other identifying information.

The new full body scanner software is just as secure as the software it replaces. The ATR technology is in line with international standards for security screening. Other countries including the United States and the Netherlands are also using this technology. It should be noted that, as in the past, passengers subjected to secondary searches will continue to have the option of choosing between the FBS or a physical search of the person.

Full body scanners at Canadian airports do not pose a risk to human health and safety. Health Canada has assessed the technical information on these devices and concluded that the radio frequency energy emitted by the device is well within Canada's guidelines for safe human exposure.

THE NEW ATR SOFTWARE WILL ENHANCE PASSENGER PRIVACY AT AIRPORTS, WHILE CONTINUING TO ENSURE THE SAFETY AND SECURITY OF CANADIAN AIR TRAVELLERS.

Service Monitoring and Recording Tool (SMART)

SMART is used to manage incidents, passenger inquiries, claims and complaints, operational oversight and compliance data, as well as for equipment maintenance and for performing mobile data collection. As the repository for all of this critical information, SMART is the principal data source for assessing effectiveness, efficiency and consistency of operations, ensuring compliance with CATSA's Standard Operating Procedures (SOPs) and supporting operational decision-making, and continuous improvement.

Expanding Collaboration

CATSA STRIVES TO BUILD AND MAINTAIN COLLABORATIVE RELATIONSHIPS WITH NOT ONLY ITS PARTNERS AND STAKEHOLDERS IN THE AVIATION INDUSTRY DOMESTICALLY, BUT ALSO WITH ITS INTERNATIONAL COUNTERPARTS. IN 2012/13, CATSA WORKED CLOSELY WITH ITS PARTNERS TO IDENTIFY AREAS OF FURTHER COLLABORATION IN ORDER TO BETTER LEVERAGE INFORMATION AND TO ADVANCE SHARED SECURITY OBJECTIVES. HIGHLIGHTS OF THESE EFFORTS INCLUDE:

In Support of International Partnerships

CATSA was pleased to co-host the 2012 International Forum for Security Screening in Aviation (IFSSA) with the *Direction générale de l'aviation civile* (DGAC) of France. The theme of the conference, which was held in Paris, France in November 2012, was *The Balance between Security, Costs and Quality of Service*. The conference, which brings together top executives in aviation security from around the world, was an excellent opportunity for the seven participating countries to address a number of important topics and discuss challenges that are faced by organizations responsible for aviation security screening around the world.

THIS PAST YEAR, **SMART** WAS SELECTED AS AN HONOUREE FOR **THE GOVERNMENT TECHNOLOGY EXHIBITION AND CONFERENCE** (GTEC) **2012 DISTINCTION AWARDS PROGRAM**, WHICH RECOGNIZES PROJECTS AND INDIVIDUALS WHO HAVE DEMONSTRATED LEADERSHIP AND EXCELLENCE IN THE INNOVATIVE MANAGEMENT AND APPLICATION OF INFORMATION AND INFORMATION TECHNOLOGIES IN THE PUBLIC SECTOR.

This event provided CATSA with an opportunity to exchange ideas and best practices with its international partners in areas such as screening procedures, training, equipment, sustainability and the passenger experience. The sessions highlighted the importance of close collaboration among security partners and the benefits of information sharing. CATSA is committed to working with these partners in order to continue developing a better air travel experience for passengers travelling through Canada's airports while fulfilling its security mandate.

www.travel.gc.ca

In November 2012, the Government of Canada launched a new travel website, www.travel.gc.ca, Canada's official "one-stop shop" for international travel information. This website presents a single source for Canadians to easily and efficiently find the information they need to travel or live abroad safely and to make informed travel decisions. CATSA contributes to this website by providing information that can help make security screening faster and easier for passengers, including what Canadians can pack in their carry-on and checked baggage.

In addition to the website a new mobile application, *Travel Smart*, is also available, allowing Canadians anywhere in the world to access Government of Canada information and services on international travel.

Partnering with Industry

In 2012/13, CATSA established the Airport Collaboration Dashboard with each of the largest airports in order to foster an improved partnership. This dashboard is used by CATSA's senior management on a quarterly basis to provide a clear, nation-wide and current view of the relationships between CATSA and the country's major airports.


NEXUS

REPORTING ON RESULTS

Summary of Performance

CATSA'S PROGRAM ALIGNMENT ARCHITECTURE (PAA) AND STRATEGIC OUTCOME, AS DEMONSTRATED IN THE ILLUSTRATION BELOW, REFLECTS THE ORGANIZATION'S MANDATED ACTIVITIES. THE PAA, WHICH ADHERES TO THE TREASURY BOARD OF CANADA SECRETARIAT'S (TBS) **POLICY ON MANAGEMENT, RESOURCES AND RESULTS STRUCTURES**, ALSO ENSURES THE CONTINUED ALIGNMENT OF MANDATED ACTIVITIES WITH THE PRIORITIES OF THE GOVERNMENT OF CANADA.

CATSA STRATEGIC OUTCOME

SCREENING PROGRAMS AT DESIGNATED CANADIAN AIRPORTS
PROTECT THE TRAVELLING PUBLIC

Program Activity:
PRE-BOARD SCREENING

Program Activity:
HOLD-BAGGAGE SCREENING

Program Activity:
NON-PASSENGER SCREENING

Program Activity:
RESTRICTED AREA IDENTITY CARD

INTERNAL SERVICES

WHILE SPECIFICS VARY FROM PROGRAM TO PROGRAM, CATSA ASSESSES PERFORMANCE AS FOLLOWS:

- **EFFECTIVENESS:** THE DEGREE TO WHICH A PROGRAM ACHIEVES ITS DESIRED OUTCOME.
- **EFFICIENCY:** THE EXTENT TO WHICH A PROGRAM'S RESOURCES ARE MAXIMIZED.
- **CONSISTENCY:** THE DEGREE TO WHICH A PROGRAM'S APPLICABLE STATUTORY, REGULATORY, **STANDARD OPERATING PROCEDURES**, OPERATIONAL POLICIES AND CONTRACTUAL/STAFFING REQUIREMENTS ARE MET.
- **IN THE INTEREST OF THE TRAVELLING PUBLIC:** THE EXTENT TO WHICH A PROGRAM IS CONDUCTED IN THE INTEREST OF THE TRAVELLING PUBLIC.

The following section presents highlights of CATSA's progress, achievements and performance in 2012/13 against its mandated activities. Please note this section does not include all operational initiatives for 2012/13.

Due to their sensitive nature, results from PBS, HBS and NPS tests are not included.

PBS

Key Results

CATSA's PBS activities for 2012/13 included maintaining optimal passenger throughput levels and continuing to introduce the concept of passenger facilitation at the screening checkpoint. Several operational trials for the evaluation of new processes, technologies and tools were developed and introduced to enhance screening operations. CATSA also developed and implemented a performance improvement action plan for PBS. Improvement initiatives included screening officer competency session trial; a Threat Image Protection System (TIPS) trial which increased projection rates and assessed TIPS decision times; and a review of CATSA's training program for screening officers, Screening Officer Foundations (SOF).

CATSA remains committed to continuously improving PBS performance and will continue to work with screening contractors at both a tactical and strategic level.

PBS results

PBS – Effectiveness

Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.

PBS – Efficiency

Performance measure	Target	2010/11 results	2011/12 results	2012/13 results	Comments
Screening officer attrition levels	20.0%	15.0%	13.9%	9.4%	Screening officer attrition levels have continued to improve over the last several years and remain below target.
Definition: For each quarter, the percentage of screening officers at the eight busiest airports who voluntarily resigned, or who died or retired.					
PBS throughput	120	124	140	148	In 2012/13, PBS throughput was above target and has continued to increase as a result of the implementation of screening process improvements.
Definition: The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints during busy periods.					

PBS – Consistency

Performance measure	Target	2010/11 results	2011/12 results	2012/13 results	Comments
Security screening compliance	98.0%	99.1%	97.4%	94.3%	CATSA launched an updated Quality Assurance Program for the oversight of screening contractor performance in late 2011/12. This led to the total number of non-compliant observations during the year being measured against a smaller pool of criteria, which resulted in a slightly lower compliance rate. As screening contractors continue to implement their Quality Assurance Programs, CATSA anticipates that compliance rates will improve.
Definition: The results of evaluation by CATSA Performance Officers of screening officer procedural compliance to security screening SOPs at the eight busiest airports, including passenger and carry-on security.					
National Training and Certification Program success rate	90.0%	N/A	87.2%	91.0%	Performance in the National Training Certification Program remained strong in 2012/13, exceeding the 90% target rate.
Definition: The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts). This performance measure combines results for all PBS and HBS related training courses.					

PBS results (continued)

PBS – In the Public Interest

Performance measure	Target	2010/11 results	2011/12 results	2012/13 results	Comments
Confidence in security screening	75.0%	68.0%	71.0%	71.9%	Passenger confidence in security screening increased in 2012/13, trending towards the target rate. The key driver of high confidence relates to a sense that the screening procedures in place are effective.
Definition: The percentage of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.					
Satisfaction with overall screening experience	85.0%	80.0%	82.3%	82.6%	CATSA continues to improve the overall passenger satisfaction with the screening experience, with a slight improvement over the 2011/12 year.
Definition: The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.					
Customer Satisfaction Index	85.0%	N/A	80.5%	80.9%	Customer Satisfaction Index performance remained consistent throughout 2012/13, with a slight improvement over 2011/12.
Definition: The Customer Satisfaction Index is a measure of satisfaction with the following key customer service criteria: speed of being processed, courtesy and respect, professionalism, and help provided by screening officers. Results are based on quarterly survey data collected from the eight busiest airports in Canada.					
Passenger complaints closed in <30 days	90.0%	80.3%	79.8%	79.8%	High-profile events, such as labour disruptions, have contributed to increases in the number of passenger complaints received by CATSA.
Definition: The percentage of passenger complaints received each quarter at the eight busiest airports that are closed within 30 calendar days of being received.					

HBS

Key Results

During the past fiscal year, CATSA continued its HBS recapitalization program, which remains on target and on budget. Preventive and corrective maintenance activities were also performed to ensure the continued operation of HBS equipment through maintenance services contracts with NAV Canada and equipment manufacturers. Lastly, testing was conducted to confirm that new equipment met the standing offer technical requirements and to accept new software and hardware upgrades proposed by vendors.

HBS results

HBS – Effectiveness

Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.

HBS – Efficiency

Performance measure	Target	2010/11 results	2011/12 results	2012/13 results	Comments
Screening officer attrition levels	20.0%	15.0%	13.9%	9.4%	Screening officer attrition levels have continued to improve over the last several years and remain below target.

Definition: For each quarter, the percentage of screening officers at the eight busiest airports who voluntarily resigned, or who died or retired.

HBS – Consistency

Performance measure	Target	2010/11 results	2011/12 results	2012/13 results	Comments
National Training and Certification Program success rate	80.0%	N/A	93.1%	91.0%	Performance in the National Training Certification Program remained strong in 2012/13, exceeding the 90% target rate.

Definition: The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts). This performance measure combines results for all PBS and HBS related training courses.

HBS – In the Public Interest

Performance measure	Target	2010/11 results	2011/12 results	2012/13 results	Comments
Confidence in security screening	75.0%	68.0%	71.0%	71.9%	Confidence in security screening increased in 2012/13. The key driver of high confidence relates to a sense that the screening procedures in place are effective.

Definition: The percentage of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.

NPS

Key Results

CATSA continued minimizing the risk of non-passengers bringing prohibited items into restricted areas. These efforts include the redeployment of screening officers from PBS checkpoints to NPS checkpoints during off-peak times, where possible, to optimize resources and improve NPS coverage.

RAIC

Key Results

In 2012/13, CATSA completed a competitive process for new iris readers that will be deployed in 2013/14. In addition, a strategy and requirements were defined for CATSA's RAIC Mobile Biometric Reader project. Furthermore, CATSA continued to work with airport authorities on the management of the RAIC system, which has led to function enhancements and improved system reliability.

Internal Services

Key Results

Corporate services expenditures continued to be controlled and CATSA minimized growth of internal services. CATSA also updated its Total Compensation Strategy for employees to more closely reflect what is offered in the federal public service, including changes to both benefits and pensions for eligible employees. Implementation of these changes for new and existing employees will begin during the 2013/14 fiscal year.

TOMORROW'S CHALLENGES

IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF SCREENING OPERATIONS HAS BEEN AN IMPORTANT PRIORITY FOR CATSA IN RECENT YEARS. AS A RESULT, CATSA HAS BEEN ABLE TO LOWER THE COST OF SCREENING WITHOUT IMPACTING THE LEVEL OF SECURITY AND IS NOW CAPABLE OF SCREENING MORE PASSENGERS PER LANE PER HOUR, AT PEAK TIMES, AT CANADA'S BUSIEST AIRPORTS.

With its new ASSAs, CATSA is also now able to better plan, schedule and monitor resource deployment to match traffic demand.

CATSA continues to invest in its screening technology and equipment, particularly as it deploys its new HBS system at airports across Canada in support of the *Beyond the Border Action Plan: A Shared Vision for Perimeter Security and Economic Competitiveness*.

Overall, while continuing to meet its security mandate, CATSA has significantly improved its operations and is committed to continue doing so in the future to keep delivering value for air travellers in Canada. CATSA and Transport Canada are working together to assess and alleviate the impact of increases in contractor billing rates and rising passenger volumes.

In recent years, ICAO has been strongly advocating for strengthened screening of workers entering airport restricted areas. CATSA will work with Transport Canada, airports, and airlines on options to meet this challenge through innovative change and risk-based approaches.

CORPORATE GOVERNANCE

CATSA IS ACCOUNTABLE TO PARLIAMENT THROUGH THE MINISTER OF TRANSPORT, INFRASTRUCTURE AND COMMUNITIES, AND IS GOVERNED BY AN 11-MEMBER BOARD OF DIRECTORS, APPOINTED BY THE GOVERNOR IN COUNCIL. TWO OF THE DIRECTORS ARE NOMINATED BY THE AIRLINE INDUSTRY AND TWO FROM THE AIRPORT INDUSTRY.

As of March 31, 2013, CATSA's Board of Directors included:

- Lloyd McCoomb, Chairperson
- Michael D. Campbell
- William Deluce
- Jean-Marc Dufour
- John Kaldeway
- Dora Koop
- Gene McLean
- H. Glenn Rainbird
- Donald K. Robinson
- Allan Rowe
- Peter Wallis

Read Board members' biographies here.

Lloyd McCoomb was appointed to the Board of Directors for a four-year term on October 4, 2012, replacing D. Ian Glen as Chairperson following the end of his term on June 4, 2012. The Board of Directors designated H. Glenn Rainbird as Vice-Chairperson in the absence of a Chairperson.

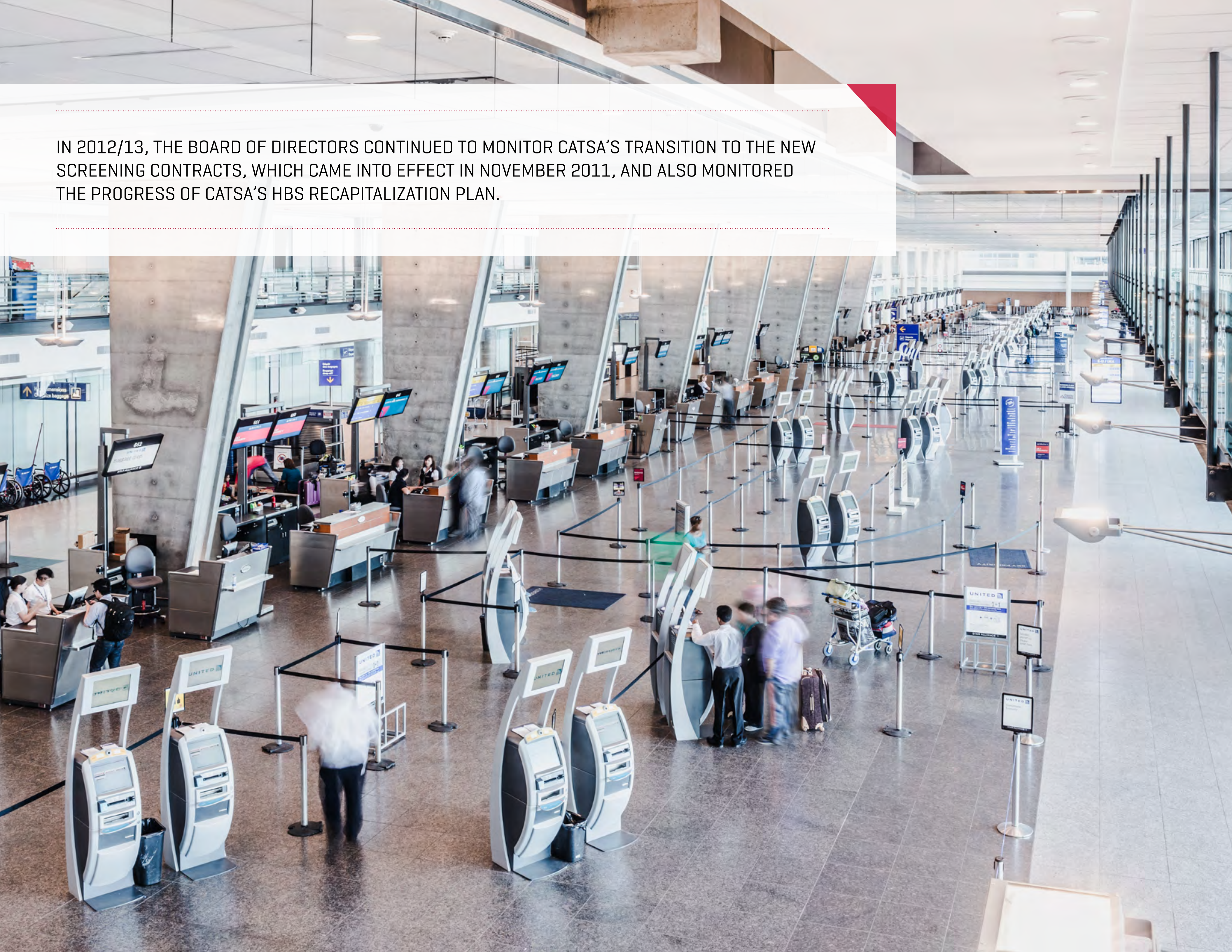
Allan Rowe was appointed as Director on May 3, 2012 in the place of Director Denis Jacob and Peter Wallis was appointed as Director on October 4, 2012 in the place of M.H. (Mike) Shaikh.

Subsequent to the end of the 2012/13 year, a new member, Joanne Whittle, was appointed to the Board of Directors. Ms. Whittle has been appointed for a three-year term starting April 25, 2013, replacing H. Glenn Rainbird.

The Board of Directors has a number of responsibilities, including the following mandatory obligations:

- drafting, amending or repealing corporate by-laws (*Financial Administration Act*, s.114);
- approving CATSA's strategic direction;
- monitoring corporate performance;
- approving the President and CEO's objectives for the year and evaluating his/her performance (*CATSA Act* s.17);
- ensuring the principal risks of CATSA's business are identified and that appropriate systems to manage these risks have been implemented; and
- reviewing and approving management's succession plan for senior management.

IN 2012/13, THE BOARD OF DIRECTORS CONTINUED TO MONITOR CATSA'S TRANSITION TO THE NEW SCREENING CONTRACTS, WHICH CAME INTO EFFECT IN NOVEMBER 2011, AND ALSO MONITORED THE PROGRESS OF CATSA'S HBS RECAPITALIZATION PLAN.



The Board of Directors oversaw management's implementation of initiatives undertaken by CATSA in response to the Government of Canada's Economic Action Plan 2012 Spending Review and approved CATSA's Corporate Plan and quarterly financial information.

Oversight and advice to management is also provided on the corporate performance dashboard as well as the enhancement of CATSA's corporate governance practices.

In addition, significant activities of the Board included:

- oversight of CATSA's human resource initiatives;
- oversight of CATSA's current pension plans, including significant review of investment strategies and funding;
- advising management on designing a new pension plan for new employees to ensure longer term viability; and
- monitoring potential risks associated with the screening contractors' labour situations across the country.

Four standing committees assist the Board in discharging its responsibilities: the Audit Committee, the Corporate Governance and Human Resources Committee, the Strategy Committee and the Pension Committee.

The committees are governed by Board-approved terms of reference and are independent from management. In addition to participating as members of CATSA's Board of Directors, every Director serves on at least two committees.

Board Remuneration, Expenses, and Meeting Attendance

Directors and the Chairperson are paid an annual retainer and per diem set by the Governor in Council and pursuant to the *Financial Administration Act*. They are reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals while performing their duties. These expenses are posted quarterly on CATSA's website.

Board Member	Board Retainer (A)	Per Diems (B)	Total Remuneration (A+B)
Lloyd A. McCoomb (Chair)[1]	$ 5,317	$ 13,230	$ 18,547
D. Ian Glen (former Chair)*	$ 1,869	$ 5,670	$ 7,539
Michael D. Campbell[2]	$ 5,400	$ 18,915	$ 24,315
William S. Deluce	$ 5,400	$ 13,260	$ 18,660
Jean-Marc Dufour	$ 5,400	$ 15,795	$ 21,195
Allan Rowe[3]	$ 4,922	$ 14,235	$ 19,157
Peter Wallis	$ 2,658	$ 7,800	$ 10,458
John Kaldeway	$ 5,400	$ 14,430	$ 19,830
Dora Koop[4]	$ 5,400	$ 16,575	$ 21,975
Gene McLean	$ 5,400	$ 11,700	$ 17,100
H. Glenn Rainbird[5]	$ 9,575	$ 35,130	$ 44,705
Donald K. Robinson	$ 5,400	$ 12,090	$ 17,490
Denis Jacob**	$ 498	$ 390	$ 888
Mike Shaikh***	$ 2,430	$ 7,215	$ 9,645
TOTALS	**$ 65,069**	**$ 186,435**	**$ 251,504**

Total remuneration (annual retainer and per diems) paid to directors and the Chairperson was $251,504 in 2012/13 compared to $272,550 in 2011/12.

Board and Committees Attendance

Board Member	Board Meetings	Committees[6]				
		Corporate Governance and Human Resources	Audit	Pension	Strategy	Joint CGHR – Pension[7]
Lloyd A. McCoomb[1]	4/8	2/4	3/7	2/4	2/4	2/2
D. Ian Glen*	1/8					
Michael D. Campbell[2]	7/8			4/4	4/4	2/2
William S. Deluce	7/8	4/4			4/4	2/2
Jean-Marc Dufour	8/8	4/4		4/4	1/4	2/2
Allan Rowe[3]	7/8		7/7	1/4+	4/4	1/2
John Kaldeway	8/8		6/7		4/4	1/2
Dora Koop[4]	8/8	4/4	7/7		1/4	2/2
Gene McLean	7/8	4/4		3/4	1/4	2/2
H. Glenn Rainbird[5]	8/8	3/4	4/7	4/4	4/4	2/2
Donald K. Robinson	6/8	3/4	6/7			2/2
Peter Wallis	5/8		4/7	2/4		2/2
Denis Jacob**	1/8					
Mike Shaikh***	3/8		3/7	2/4	1/4	

1 Ex-officio member of all Board Committees
2 Chairperson of the Pension Committee
3 Chairperson of the Audit Committee
4 Chairperson of the Corporate Governance and Human Resources Committee
5 Chairperson of the Strategy Committee and Vice-Chairperson of the Board of Directors. Replaced former Chairperson after the end of his term on June 4, 2012 until appointment of new Chairperson in October 2012
6 Board and committee attendance is based on the number of meetings attended out of the total number of meetings that occurred while the director was a member of the Board and/or committee
7 In 2012, the Corporate Governance and Human Resources Committee and the Pension Committee met jointly twice to address the Total Compensation Review

* Term ended on June 4, 2012
** Term ended on May 3, 2012
*** On leave of absence from December 2011 to June 2012. Term ended on October 12, 2012. Chairperson of the Audit Committee until October 2012.
+ Observer

Red: Indicates the Board member was appointed in 2012.

Report on CATSA's **Official Languages Act** Requirements

CATSA is committed to its obligations under the *Official Languages Act* and is dedicated to creating and sustaining an environment respectful of both official languages — in bilingual airports and its administrative offices.

In partnership with its screening contractors, CATSA offers services in both languages to travellers in bilingual airports. Through its screening contracts, standard operating procedures and training on official languages for screening personnel, CATSA reinforces its legislative obligations such as the need to provide the option of bilingual services to travellers.

CATSA regularly assesses its frontline official languages performance. Through daily monitoring and a performance oversight program, CATSA personnel monitors compliance with official languages procedures and contractual obligations. CATSA offers an incentive to screening contractors to ensure official languages requirements are met. It also conducts passenger surveys and monitors complaints to build reliable and effective performance measures and drive continuous improvement.

In 2012/13, employees across the country were surveyed on the use of both official languages in the workplace. Results show that 85% of employees are comfortable using their preferred language in meetings. Best practices of other organizations were reviewed as well. CATSA also held various activities to highlight *Les Rendez-vous de la Francophonie* and the *Journée internationale de la Francophonie*. This annual initiative involves employees from all regions and creates awareness of French linguistic and cultural communities.

CATSA IS COMMITTED TO ITS OBLIGATIONS UNDER THE **OFFICIAL LANGUAGES ACT** AND IS DEDICATED TO CREATING AND SUSTAINING AN ENVIRONMENT RESPECTFUL OF BOTH OFFICIAL LANGUAGES — IN BILINGUAL AIRPORTS AND ITS ADMINISTRATIVE OFFICES.

CATSA and the Privacy Act

The Office of the Privacy Commissioner (OPC) conducted an audit during 2011 of CATSA's personal information management practices and some screening technologies. The audit — containing 12 recommendations — was tabled in Parliament on November 17, 2011. In response, CATSA has implemented eight of 12 OPC recommendations, including instituting an ongoing training and awareness program. In addition, the organization continues to work diligently to finalize implementation of the four remaining recommendations.

CATSA respects the legislative obligations under the *Privacy Act* and the 10 principles of the *Canadian Standards Association Model Code* for assessing fair information handling practices. CATSA strives to apply these principles into every program, activity or system that it develops.

To assist CATSA's programs in meeting these requirements, the organization is working towards the establishment of a formal privacy management framework. This framework establishes CATSA's structures, policies, systems and procedures to distribute privacy responsibilities, coordinate privacy work, manage privacy risks and ensure compliance with the Act.

Report on Access to Information and Privacy Act Requests

CATSA is subject to the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of these two Acts. From April 1, 2012 to March 31, 2013, CATSA received 22 requests under the *Access to Information Act*. When added to the eight outstanding requests from the previous year, CATSA processed 30 requests. Of these, 28 were completed within the fiscal year and two were carried forward to 2013/14. In addition, from April 1, 2012 to March 31, 2013, CATSA received

17 consultations under the *Access to Information Act* from other federal departments. All 17 requests were completed within the fiscal year.

For the same reporting period, CATSA received nine requested under the *Privacy Act* and all were completed within the fiscal year.

Employment Equity and Multiculturalism

CATSA's senior management committee has committed to identifying and eliminating barriers to equal employment. Policies and programs are implemented where possible to make reasonable accommodations for employees and to ensure the workforce is inclusive.

CATSA produces and submits an annual report on its fulfillment of the *Employment Equity Act*, as well as an annual report on its fulfillment of the *Canadian Multiculturalism Act*.

GLOSSARY

ASSA

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

BPSS

Boarding Pass Security System: a stand-alone technology that scans boarding passes to validate barcodes, which ensures that boarding passes are not fraudulent and that they have not been tampered with.

CANADA'S EIGHT BUSIEST AIRPORTS

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

CANADA'S 28 MAJOR AIRPORTS

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

CBSA

Canada Border Services Agency

EDS

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

FBS

Full Body Scanner: a scanning technology that detects the presence of possible threat objects on passengers.

HBS

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

ICAO

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

NEXUS PROGRAM

NEXUS: Background check security program allowing pre-approved, low-risk travellers to enjoy an expedited security screening process through a designated queue and screening lane.

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 sterile and restricted areas of Canada's major airports.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OUTLINES CATSA'S FINANCIAL RESULTS AND OPERATIONAL CHANGES FOR THE YEAR ENDED MARCH 31, 2013. THIS MD&A SHOULD BE READ IN CONJUNCTION WITH CATSA'S AUDITED ANNUAL FINANCIAL STATEMENTS AND RELATED NOTES FOR THE YEAR ENDED MARCH 31, 2013, WHICH HAVE BEEN PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS). THE INFORMATION IN THIS REPORT IS EXPRESSED IN CANADIAN DOLLARS AND IS CURRENT TO JUNE 14, 2013, UNLESS OTHERWISE STATED.

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

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

Part 1 – Corporate Overview

Mandate and Mission

CATSA is a Crown corporation mandated to provide effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport. CATSA is also responsible for ensuring consistency in the delivery of screening across Canada and for air transport security functions that the Minister of Transport, Infrastructure and Communities may assign to it, subject to any terms and conditions that the Minister may establish. In carrying out its responsibilities, CATSA must do so in the public interest, having due regard to the interest of the travelling public. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada.

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

- PBS: the screening of passengers, their carry-on baggage and their personal belongings;
- HBS: the screening of checked baggage;
- NPS: the screening of non-passengers on a random basis; and
- RAIC Program: the administration of access control to airport restricted areas through biometric identifiers.

In addition to its mandated activities, CATSA has an agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources. In 2012/13, this program was expanded to include 42 additional airports, for a total of 49 airports.

Legislative Framework

CATSA was established as a Crown corporation pursuant to the *CATSA Act* on April 1, 2002. CATSA is fully funded by parliamentary appropriations from the federal Consolidated Revenue Fund and remains accountable to Parliament through the Minister of Transport, Infrastructure and Communities.

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. As CATSA's regulator, Transport Canada is responsible for developing, administering and overseeing aviation security policies, legislation, programs and procedures.

AS CATSA'S REGULATOR, TRANSPORT CANADA IS RESPONSIBLE FOR DEVELOPING, ADMINISTERING AND OVERSEEING AVIATION SECURITY POLICIES, LEGISLATION, PROGRAMS AND PROCEDURES.

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

Industry Partners

CATSA operates in a highly integrated environment, with several different entities assigned to specific security responsibilities, including airport authorities, air carriers and law enforcement agencies. Activities, such as the scheduling of flights, passenger check-in, screening of passengers and their baggage, baggage handling, loading of checked baggage, and boarding of aircraft, must operate seamlessly to ensure optimal movement of people and goods.

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

Part 2 – Operating Environment

CATSA'S OPERATIONS ARE GREATLY INFLUENCED BY EVENTS AND DEVELOPMENTS OCCURRING BOTH DOMESTICALLY AND INTERNATIONALLY. TO SUCCESSFULLY EXECUTE ITS MANDATE, CATSA MUST CONTINUALLY ASSESS ITS OPERATING ENVIRONMENT. A KEY COMPONENT OF THIS ASSESSMENT IS ENSURING SUFFICIENT RESOURCES ARE AVAILABLE TO DELIVER THE ORGANIZATION'S MANDATE.

OVER THE PAST FEW YEARS, CATSA HAS INTRODUCED SEVERAL INITIATIVES THAT HAVE INCREASED THE EFFICIENCY OF ITS OPERATIONS, PARTICULARLY AT PBS. AS A RESULT OF THESE EFFICIENCIES, CATSA HAS BEEN ABLE TO LOWER THE COSTS OF PASSENGER SCREENING WITHOUT IMPACTING THE LEVEL OF SECURITY.

Government Funding

In Budget 2013, the Government of Canada confirmed its commitment to returning to balanced budgets by 2015/16, which will be done by continuing to restrain the growth of direct program spending.

Over the past few years, CATSA has introduced several initiatives that have increased the efficiency of its operations, particularly at PBS. As a result of these efficiencies, CATSA has been able to lower the costs of passenger screening without impacting the level of security. By implementing recommendations contained in the 2009 Strategic Review and CATSA Review 2010, CATSA has realized annual savings of $41.0 million.

In the Government of Canada's Economic Action Plan 2012 Spending Review, CATSA made several proposals that amounted to $59.7 million in annual operating savings by 2014/15. Of these proposals, CATSA received approval to proceed with annual planned savings of $32.1 million, of which $19.4 million were realized in 2012/13. The remaining $27.6 million in proposed savings has been put on hold pending further consideration.

CATSA's operating funding profile may not fully accommodate increases in screening contractors' billing rate, and may not accommodate passenger growth. While CATSA will continue to meet its mandate of screening passengers, there may be financial pressure for the organization in the future to accommodate increases in screening contractors' billing rates and passenger growth. To address this risk, CATSA continues to work with Transport Canada.

Service Delivery

Service Delivery Model

CATSA uses a third-party service delivery model whereby it does not directly employ screening officers, but rather, appoints third-party screening contractors to perform its mandated activities.

In 2011/12, CATSA's new ASSAs came into effect and the transition to the new agreements continued into 2012/13. Overall, the ASSAs and four-region model have generated positive results during the first year of the agreements. Working together, CATSA and the screening contractors were able to increase productivity, maintain a high level of passenger satisfaction and reduce the cost per passenger screened.

CATSA remains committed to maximizing the benefits of the ASSAs and will continue to work collaboratively with its screening contractors to build on the progress made over the past year, as well as continue to promote operational excellence in the future.

Labour Relations

The majority of collective bargaining agreements for screening officers expired on March 31, 2012. In 2012/13, new agreements between screening contractors and the unions representing screening officers were signed for most of the screening workforce across Canada.

CATSA has certain responsibilities with regard to screening officers' work, such as developing standard operating procedures and certifying screening officers. However, the organization has no direct role in labour relations and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions.

Security Threat Environment

Since CATSA's inception following the terrorist attacks of 9/11, the international aviation industry has faced several attempts to undermine the integrity of the aviation system. In the face of these ongoing and evolving threats, aviation security remains of great importance for Canada. CATSA actively works with Transport Canada to ensure that it keeps pace with new threats, evolving technologies and improved international security standards.

The seriousness of threats to Canada's civil aviation system is such that CATSA has been required in the past, and may be required in the future, to respond instantly to unforeseen challenges. Unanticipated threats and resulting regulatory changes can have a significant impact on operational and financial resources. As a result, it is important that CATSA has the ability to respond to new requirements or exceptional events.

Regulatory Environment

CATSA is affected by regulatory changes implemented by Transport Canada as well as by major international partners, such as the U.S. and the European Union. When regulatory changes are implemented by other countries, Transport Canada seeks to work with its counterparts to minimize the disruption to passengers flying internationally. Furthermore, as a member of ICAO, Canada has an obligation to comply with ICAO aviation security standards.

Transport Canada is responsible for monitoring regulatory changes of its international partners to assess the operational and financial impact that any possible future regulatory changes could have on Canada's aviation security system, including CATSA's screening mandate. ICAO recently adopted a new non-passenger screening standard and CATSA will work with Transport Canada, airports and air carriers on options for meeting the standard.

Part 3 – Economic Environment

EVENTS AND DEVELOPMENTS OCCURRING IN THE ECONOMIC ENVIRONMENT CAN GREATLY INFLUENCE CATSA'S OPERATIONS.

Economic Outlook

Global economic growth fell from 3.9% in 2011 to an estimated 3.0% in 2012. Global economic activity is expected to grow modestly in 2013 before strengthening in 2014 and 2015. In 2013, the global economy is projected to continue to grow modestly at a rate of 2.9%, before picking up to 3.5% in 2014. In Canada, following a weak second half of 2012, growth is projected to regain some momentum through 2013, reaching full capacity in mid-2015. The economy is expected to grow by 1.5% in 2013, 2.8% in 2014 and 2.7% in 2015.[1]

Passenger Growth and Cost of Inflation

In addition to the above economic outlook, Transport Canada statistics show that passenger traffic at Canadian airports increased by 4.0% in 2012 compared to 2011, and is expected to grow in each of the next five years.

Passenger traffic forecasts are based on average annual growth across Canada. However, growth does not occur uniformly at all airports. Changes in passenger traffic occur largely on a regional and site-specific basis and without much warning, often as a result of changes in flight schedules and/or the introduction of new services by air carriers. For CATSA, a change in passenger traffic can often lead to a higher and/or sudden demand for screening hours and increased operating expenditures.

In addition to passenger growth, screening contractor billing rates are currently expected to increase annually, as set forth in the ASSAs.

1 Bank of Canada, *Monetary Policy Report*, April 2013.

Part 4 – Capability to Deliver

CATSA'S ABILITY TO DELIVER MANDATED ACTIVITIES IS CONTINGENT UPON BOTH ITS FRONT-LINE OPERATIONS AND ITS INTERNAL SERVICES THAT SUPPORT THOSE OPERATIONS.

Critical Screening Elements

Two critical elements in the delivery of CATSA's mandate are screening officers and the screening technology deployed.

Screening Workforce

The screening officer workforce plays a key role in identifying threats to aviation security. In recognition of this, significant resources are dedicated to strengthening the screening workforce.

In 2012/13, as part of its ongoing efforts to improve security, CATSA focused on developing and deploying initiatives designed to strengthen the effectiveness of its operations. CATSA also conducted a review of its training program for screening officers, which led to the development of supplementary training material.

TWO CRITICAL ELEMENTS IN THE DELIVERY OF CATSA'S MANDATE ARE SCREENING OFFICERS AND THE SCREENING TECHNOLOGY DEPLOYED.

In addition, CATSA focused on continuing to improve passenger facilitation by its screening officers. Major initiatives implemented to further this objective include:

- a comprehensive customer-focused review of CATSA's screening operating procedures, which resulted in a number of improvements for special needs passengers, travelling families and the screening of infants; and
- continued review and refinement of screening officer training with greater emphasis on customer service concepts.

Screening Technology

To carry out its mandated screening activities, CATSA must have reliable and sophisticated screening technology that can identify threats to the aviation system. In support of this, CATSA has started to replace its HBS equipment that is reaching the end of its useful life with equipment that has greater and more enhanced screening capabilities.

Under Transport Canada's direction, CATSA formulated an accelerated HBS deployment plan for airports with U.S.-bound flights in support of the *Beyond the Border Action Plan*. The deployment plan will see 100% of checked baggage originating from Canadian airports with U.S. pre-clearance facilities screened with the new technology by 2015. This initiative facilitates shorter connection times by eliminating the need for U.S. transportation security authorities to re-screen connecting baggage originating from these Canadian airports.

In 2012/13, CATSA continued with the deployment of the new HBS system at certain other airports (without U.S. pre-clearance), while working with various stakeholders to make refinements to its deployment plan. CATSA also initiated the purchase of new trace explosive detection equipment. Over the coming years, CATSA will replace its existing trace equipment with more advanced technology at PBS and HBS checkpoints as the existing equipment reaches the end of its useful life.

In Support of Business

To implement its business strategies, CATSA requires robust internal systems and flexible internal resources to support all aspects of its critical screening activities.

Human Capital

In 2012/13, CATSA's approved full-time equivalency headcount of 513 was reduced to 458. CATSA also streamlined internal processes to maximize the use of existing resources, with minimal impact to operational activities.

In addition, CATSA completed a review of its Total Compensation Strategy to ensure that:

- its total compensation plan is competitive to attract, retain and motivate employees; and
- its registered pension plan is better aligned with the federal public service and remains sustainable for the future.

Following the review, a number of changes were made to the organization's employee benefits, including the closing of the existing defined benefit pension plans to new entrants effective July 1, 2013. After that date, new hires will be enrolled in a defined contribution pension plan.

CATSA STREAMLINED INTERNAL PROCESSES TO MAXIMIZE THE USE OF EXISTING RESOURCES, WITH MINIMAL IMPACT TO OPERATIONAL ACTIVITIES.

Strategic Emergency Management and Business Continuity Plans

CATSA's *Strategic Emergency Management Plan* and *Business Continuity Plan* represent a holistic approach to responding to and recovering from critical incidents, serious business disruption or system failure. The *Strategic Emergency Management Plan* outlines CATSA's specific responses to a variety of threats and incidents. The *Business Continuity Plan* specifies critical services, establishes requirements for minimum functions and contains a comprehensive strategy that includes supplier performance, infrastructure restart and information recovery considerations.

In 2012/13, CATSA conducted exercises and drills to test various elements of the plans to address specific labour disruption and aviation security risks. These comprehensive exercises involved participants from all business units within CATSA, screening contractors and various stakeholders including Transport Canada, airport authorities and local law enforcement. CATSA continues to develop and refine its plans with a primary focus on enhancing integration in the regions.

Part 5 – Managing Risk

CATSA'S ABILITY TO RESPOND TO THE CHANGING OPERATING ENVIRONMENT IS CRITICAL TO THE ORGANIZATION'S SUCCESS. RISK MANAGEMENT AT CATSA IS A FORMALIZED, SYSTEMATIC APPROACH TO DETERMINE THE BEST COURSE OF ACTION DURING TIMES OF UNCERTAINTY BY IDENTIFYING, ASSESSING, UNDERSTANDING, ACTING ON AND COMMUNICATING RISK THROUGHOUT THE ORGANIZATION. THIS APPROACH CONTRIBUTES TO RISK-INFORMED DECISION-MAKING, WHICH ENABLES CATSA TO EFFECTIVELY MANAGE ITS UNCERTAINTY AND CAPITALIZE ON OPPORTUNITIES.

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

- deliver mandated screening in an effective, efficient and consistent manner while safeguarding the interests of the travelling public; and
- provide services or programs in support of its mandated activities.

CATSA's mandate is not that of an intelligence gathering organization; rather, it relies upon information provided by Transport Canada and intelligence agencies to prevent, detect and respond to threats and risks. The organization's mandated programs provide a layer of security that assists in reducing aviation security risk across the system.

Risk Management

CATSA has established a risk management framework to identify the key risks associated with its business and operating activities. The framework also evaluates the probability and potential impact of risk occurrence and defines mitigation measures to avoid or reduce risk. The framework is linked to the organization's annual planning process to ensure that higher-risk program areas and activities receive special consideration, particularly with respect to priority setting and resource allocation.

The Board of Directors and the Senior Management Committee share the responsibility for risk management. Each plays an integral role in the risk management process at CATSA.

Board of Directors

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

Senior Management Committee

The Senior Management Committee is responsible for assessing CATSA's key risks, and ensuring that appropriate controls and mitigation strategies are carried out to effectively manage these risks. The role includes supporting risk awareness and communicating risks throughout the organization.

Risks and Uncertainties

CATSA IS EXPOSED TO A VARIETY OF RISKS WITHIN THE CONTEXT OF ITS OPERATING ENVIRONMENT. THE FOLLOWING IS A SUMMARY OF CATSA'S KEY CORPORATE RISKS.

Mandated Services Risk

Detection Capability

CATSA is mandated to provide screening in accordance with the security regulations, measures and directives set by Transport Canada. There is a risk that CATSA may not detect all prohibited items, which may result in substantial consequences to the civil aviation system.

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

Threat and Risk Information

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

To address this risk, CATSA conducts continuous monitoring and analysis of threat and risk information from external sources and disseminates this information to the appropriate decision makers. Detailed integrated response strategies are in place to respond to this threat and risk information based on CATSA's standard operating procedures.

Capacity Risk

CATSA's operating funding profile may not fully accommodate increases in screening contractors' billing rate, and may not accommodate passenger growth. While CATSA will continue to meet its mandate of screening passengers, there may be financial pressure for the organization in the future to accommodate increases in screening contractors' billing rates and passenger growth. To address this risk, CATSA continues to work with Transport Canada.

Service Delivery through Third-Party Risk

Illegal and/or Legal Labour Disruptions

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

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

Service Delivery Model

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

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

Reputational Risk

Stakeholders have raised concerns about CATSA's operations on a variety of issues and have questioned whether CATSA's mandated services provide value for money. There is a risk that this may damage CATSA's reputation.

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

Management Systems/Control Systems Risk

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

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

Part 6 – Internal Controls

MANAGEMENT IS RESPONSIBLE FOR ESTABLISHING AND MAINTAINING A SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING. AN INTEGRAL PART OF THIS RESPONSIBILITY IS CATSA'S INTERNAL CONTROL CERTIFICATION PROGRAM, WHICH INVOLVES AN ANNUAL ASSESSMENT OF THE DESIGN AND EFFECTIVENESS OF KEY INTERNAL CONTROLS OVER FINANCIAL REPORTING. THE PROGRAM IS BASED ON THE COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION FRAMEWORK, AND TBS'S **CERTIFICATION AND INTERNAL CONTROL REGIME FOR CROWN CORPORATIONS**.

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

Part 7 – Analysis of Financial Results

Operating Expenses

The following section provides information on key variances within the Statement of Comprehensive Income for 2012/13 compared to 2011/12.

Key Financial Highlights — Statement of Comprehensive Income				
(Millions of dollars)	2012/13	2011/12	$ Variance	% Variance
Expenses[1]:				
Screening services and other related costs	$ 347.8	$ 355.8	$ (8.0)	(2%)
Direct administrative costs and corporate services	81.3	85.3	(4.0)	(5%)
Depreciation and amortization	73.1	86.5	(13.4)	(15%)
Equipment operating and maintenance	43.7	44.8	(1.1)	(2%)
Total expenses	**$ 545.9**	**$ 572.4**	**$ (26.5)**	**(5%)**
Total other expenses (income)	(1.7)	8.3	(10.0)	(120%)
Financial performance before government funding	**$ 544.2**	**$ 580.7**	**$ (36.5)**	**(6%)**
Government funding:				
Parliamentary appropriations for operating expenses	475.9	488.5	(12.6)	(3%)
Amortization of deferred government funding related to capital expenditures	74.0	95.9	(21.9)	(23%)
Total government funding	**$ 549.9**	**$ 584.4**	**$ (34.5)**	**(6%)**
Financial performance	$ 5.7	$ 3.7	$ 2.0	54%
Other comprehensive income (loss)	$ 3.3	$ (31.7)	$ 35.0	110%
Total comprehensive income (loss)	**$ 9.0**	**$ (28.0)**	**$ 37.0**	**(132%)**

1 The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense category as disclosed in note 13 of the audited annual financial statements for the year ended March 31, 2013.

Screening Services and Other Related Costs

Screening services and other related costs consist of payments to screening contractors, uniforms and other screening related costs, and trace and consumables. Payments to screening contractors are the most significant expenditure for CATSA, representing 72.4% of total operating expenses (excluding depreciation and amortization). These expenses consist of payments to third-party screening contractors for services performed by screening officers. The key variables impacting these costs include the number of screening hours purchased and billing rates.

Passenger growth and airport expansions can impact the number of screening hours purchased. In addition, evolving threats and security incidents can result in new security regulations, which can lead to changes in the number of screening hours required. Billing rates are based on an all-inclusive rate paid to screening contractors as set forth under the terms of the ASSAs. The ASSAs also include a performance plan that remunerates screening contractors for contractual compliance and achievement of specified performance targets.

Screening services and other related costs decreased by $8.0 million in 2012/13, resulting primarily from a decrease in payments to screening contractors. This decrease was due to a reduction in screening hours purchased, partially offset by higher average billing rates and performance plan payments.

Screening hours purchased decreased in 2012/13, reflecting the full-year impact of operational efficiencies identified in the 2009 Strategic Review and CATSA Review 2010. The decrease was also due to more effective resource scheduling, resulting from the implementation of the current ASSAs and the use of screening optimization tools. These operational efficiencies enabled CATSA to deliver screening services with fewer resources. Performance plan costs increased in 2012/13 due to the redesign of the

PAYMENTS TO SCREENING CONTRACTORS ARE THE MOST SIGNIFICANT EXPENDITURE FOR CATSA, REPRESENTING 72.4% OF TOTAL OPERATING EXPENSES (EXCLUDING DEPRECIATION AND AMORTIZATION).

performance plan under the current ASSAs. The current ASSA model is designed to be outcome-based and performance-driven, creating greater accountabilities with a focus on results.

Average billing rates increased in 2012/13 due to annual contractual increases as set forth in the ASSAs.

Direct Administrative Costs and Corporate Services

Direct administrative costs and corporate services represent the costs to support the delivery of CATSA's mandated programs and its corporate infrastructure. These costs consist mainly of employee costs, professional services, office and computer expenses, and rent and facilities costs.

Direct administrative costs and corporate services decreased by $4.0 million in 2012/13. The decrease was due to lower employee costs resulting from a reduction in the average number of staffed positions, and a decrease in professional services and communications costs. The decrease was partially offset by higher current benefit costs associated with CATSA's defined benefit pension plans. The higher current benefit costs are attributable to a change in the methodology used to establish the discount rate for the accounting valuation at the end of the prior fiscal year, which impacts current year costs.

Depreciation and Amortization

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

Depreciation and amortization decreased by $13.4 million in 2012/13. This decrease was primarily due to an extension of the estimated useful life of certain EDS equipment from seven to 10 years on March 31, 2012. The decrease was partially offset by a reduction of the estimated useful life of certain HBS equipment during 2012/13. These units will be replaced at certain airports in support of the multi-year, HBS life-cycle management program discussed above.

Equipment Operating and Maintenance

Equipment operating and maintenance represents the costs to perform regular maintenance on equipment and conveyor systems. In addition, spare parts are purchased and warehoused to ensure that the equipment can be serviced in a timely manner. CATSA is also responsible for overseeing the training and certification of maintenance technicians.

Costs incurred in 2012/13 were comparable to those incurred in 2011/12.

Total Other Expenses (Income)

Total other expenses (income) consists of impairment loss on equipment held for sale, loss on property and equipment, write-down of intangible assets, reversal of decommissioning liabilities, gain on settlement of decommissioning liabilities, foreign exchange loss, finance cost and finance income.

Total other income was $1.7 million in 2012/13 compared to total other expenses of $8.3 million in 2011/12. The variance of $10.0 million is primarily due to a one-time impairment loss of $5.1 million on equipment held for sale in 2011/12 and a $3.0 million loss resulting from the conclusion of the NPS Vehicle Search Checkpoint pilot project at Vancouver International Airport the same year. In addition, in 2012/13, a reversal of the decommissioning liabilities provision was recognized due to a revision of management estimates. This resulted from new information that led management to conclude that it is no longer probable that costs will be incurred for the removal of hazardous materials from EDS equipment.

Government Funding

CATSA is funded by appropriations for both operating and capital expenditures from the federal Consolidated Revenue Fund and draws funds according to short-term spending needs.

Operating expenditures are funded on a near-cash accrual basis. Certain expenses, including employee benefits and deferred lease incentives, are funded when they result in a cash outflow, as opposed to when the expense is recognized under IFRS.

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

Parliamentary appropriations for operating expenses decreased by $12.6 million in 2012/13. The decrease resulted from reduced operating expenditures (excluding depreciation and amortization), as discussed above.

Amortization of deferred government funding related to capital expenditures decreased by $21.9 million in 2012/13. The decrease resulted from a reduction in depreciation and amortization, as well as the impairment loss on equipment held for sale and the loss on the conclusion of the NPS pilot project in 2011/12.

The following table provides a reconciliation between operating expenses recorded in the Statement of Comprehensive Income and operating appropriations used.

Reconciliation of Total Expenses to Operating Appropriations Used

(Millions of dollars)	2012/13	2011/12	$ Variance
Total expenses	$ 545.9	$ 572.4	$ (26.5)
Finance income and net foreign exchange gain/loss	(0.4)	(0.5)	0.1
Non-cash operating expenses:			
Depreciation and amortization	(73.1)	(86.5)	13.4
Employee benefits expense[1]	3.6	3.2	0.4
Deferred lease incentives expense[2]	0.2	–	0.2
Spare parts transferred from capital[3]	(0.3)	(0.1)	(0.2)
Parliamentary appropriations for operating expenses	$ 475.9	$ 488.5	$ (12.6)
Other items affecting funding:			
Net change in prepaids and inventories[4]	(2.6)	(2.1)	(0.5)
Total operating appropriations used	$ 473.3	$ 486.4	$ (13.1)

1 Employee benefits are accounted for in the Statement of Comprehensive Income in accordance with IFRS. 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. The amount of funding to be drawn down is determined by a solvency and going concern valuation performed by CATSA's actuary in accordance with the *Pension Benefits Standard Act*. The drawdown of funding for employee benefits is not necessarily equal to the expense for accounting purposes under IFRS, creating a reconciling item.

2 Deferred lease incentives expense is a non-cash accounting 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 when paid, creating a reconciling item.

3 Spare parts transferred from capital represent items that were funded from capital appropriations in prior years but were expensed during the current year, creating a reconciling item.

4 Prepaids and inventories are expensed as the benefit is derived from the asset. They are funded by appropriations when purchased, creating a reconciling item.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of the net actuarial gain (loss) associated with CATSA's three defined benefit plans. The variance in other comprehensive income (loss) compared to the prior year is explained in the Employee Benefits section.

Liquidity and Capital Resources

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

Liquidity and Capital Resources

(Millions of dollars)	March 31, 2013	March 31, 2012	$ Variance
Cash	$ 9.1	$ 5.9	$ 3.2
Trade and other receivables	$ 60.6	$ 77.5	$ (16.9)
Trade and other payables	$ 69.7	$ 81.2	$ (11.5)
Provisions (current)	$ –	$ 2.2	$ (2.2)

Cash as at March 31, 2013 remained comparable to the prior year. Trade and other receivables decreased by $16.9 million in 2012/13 as a result of less parliamentary appropriations being owed to CATSA at year-end. Trade and other payables decreased by $11.5 million in 2012/13 as a result of fewer outstanding screening contractor invoices at year-end. Provisions were released during 2012/13 due to a settlement during the year.

Capital Expenditures

Property and equipment and intangible assets represent 75.2% of total assets as at March 31, 2013. In 2012/13, capital expenditures totalled $39.3 million, consisting of EDS and non-EDS assets as summarized in the table below:

Reconciliation of Capital Acquisitions to Capital Appropriations Used

(Millions of dollars)	2012/13	2011/12	$ Variance
EDS	$ 34.9	$ 19.3	$ 15.6
Non-EDS	4.4	6.5	(2.1)
Total capital asset acquisitions	**$ 39.3**	**$ 25.8**	**$ 13.5**
Proceeds on disposal of property and equipment and equipment held for sale	(0.9)	(2.6)	1.7
Total capital appropriations used	**$ 38.4**	**$ 23.2**	**$ 15.2**

EDS capital expenditures included costs associated with the following projects:

- deployment of a new HBS system at one of Canada's eight busiest airports, and the initiation of a number of new HBS deployments at other airports;
- on-going replacement of single-view x-ray equipment with multi-view technology at PBS and HBS checkpoints;
- life-cycle management of EDS trace equipment; and
- deployment of the automated target recognition software for Full Body Scanners.

Non-EDS capital expenditures included costs associated with the following projects:

- installation of the BPSS at certain airports;
- replacement of Closed-Circuit Television System cameras at various airports; and
- enhancements to CATSA's corporate management systems.

Employee Benefits

CATSA maintains two funded defined benefit pension plans to provide retirement benefits to its employees, consisting of a registered pension plan and a supplementary retirement plan. CATSA also sponsors an unfunded post-employment benefits plan, which includes life insurance and eligible health and dental benefits.

Employee Benefits

(Millions of dollars)	March 31, 2013	March 31, 2012	$ Variance
Employee benefits asset	$ 0.6	$ 0.2	$ 0.4
Employee benefits liability	$ 17.8	$ 24.3	$ (6.5)

As at March 31, 2013, the employee benefits asset represents the excess of cumulative funding contributions over cumulative employee benefits cost for CATSA's supplementary retirement plan. The employee benefits liability represents the excess of cumulative employee benefits cost over cumulative contributions for CATSA's registered pension plan and the unfunded post-employment benefits plan.

CATSA's independent actuary determines each plan's net position as at March 31 of each year. The net position fluctuates from year to year due to a combination of variables, including the inflation rate, number of employees, discount rate, average rate of salary increases, expected average remaining service lifetime of active employees and contributions. Note 12 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The net variance in the employee benefits asset and liability is primarily due to greater investment returns than expected and employer contributions exceeding the benefit cost for the two funded defined benefit pension plans. This is partially offset by the cost of the post-employment benefits plan for which benefits accumulate without being funded.

Part 8 – Financial Performance Against Corporate Plan

THE FOLLOWING SECTION PROVIDES INFORMATION ON KEY VARIANCES IN CATSA'S PARLIAMENTARY APPROPRIATIONS USED IN 2012/13 COMPARED TO THE APPROVED 2012/13 CORPORATE PLAN BUDGET.

Operating Expenditures

Operating Appropriations Used Compared to Corporate Plan

(Millions of dollars)	Actual 2012/13	Corporate Plan Budget 2012/13	$ Variance	% Variance
Operating expenses:				
Screening services and other related costs	**$ 347.8**	$ 343.1	$ 4.7	1%
Direct administrative costs and corporate services	**81.3**	81.0	0.3	0%
Equipment operating and maintenance	**43.7**	43.8	(0.1)	0%
Other adjustments[1]	**0.5**	–	0.5	100%
Total operating appropriations used	**$ 473.3**	**$ 467.9**	**$ 5.4**	**1%**

1 Other adjustments include finance income and net foreign exchange gain/loss, net change in prepaids and inventories and non-cash operating expenses (excluding depreciation and amortization).

Total operating appropriations used in 2012/13 totalled $473.3 million compared to the Corporate Plan budget of $467.9 million.

During the year, CATSA reallocated funds from the capital budget to the operating budget to fund the purchase of screening hours. As a result, actual expenditures related to screening services and other related costs exceeded the Corporate Plan budget.

Capital Expenditures

Capital Appropriations Used Compared to Corporate Plan

(Millions of dollars)	Actual 2012/13	Corporate Plan Budget 2012/13	Approved Capital Re-profile	Revised Capital Budget 2012/13	$ Variance	% Variance
EDS						
PBS equipment and integration	$ 5.7	$ 7.7	$ (2.8)	$ 4.9	$ 0.8	16%
HBS equipment and integration	29.2	76.1	(25.2)	50.9	(21.7)	(43%)
Total EDS	**$ 34.9**	**$ 83.8**	**$ (28.0)**	**$ 55.8**	**$ (20.9)**	**(37%)**
Non-EDS	4.4	5.3	–	5.3	(0.9)	(17%)
Total capital asset acquisitions	**$ 39.3**	**$ 89.1**	**$ (28.0)**	**$ 61.1**	**$ (21.8)**	**(36%)**
Proceeds on disposal of property and equipment and equipment held for sale	(0.9)	–	–	–	(0.9)	(100%)
Total capital appropriations used	**$ 38.4**	**$ 89.1**	**$ (28.0)**	**$ 61.1**	**$ (22.7)**	**(37%)**

Total capital appropriations used in 2012/13 totalled $38.4 million compared to the Corporate Plan budget of $89.1 million. During the year, CATSA received approval to re-profile $28.0 million of capital funds from 2012/13 to 2013/14. The capital re-profile was mainly due to changes in requirements from airport authorities on a number of HBS projects, resulting in delays.

EDS

EDS capital expenditures were lower than planned primarily due to:

- additional delays in a number of HBS projects;
- lower costs associated with the deployment of the new HBS system at certain airports due to reduced requirements, and favourable pricing for computed tomography equipment; and
- favourable pricing for trace equipment resulting from a competitive bidding process.

Non-EDS

Non-EDS capital expenditures were comparable to planned expenditures in 2012/13.

Proceeds on Disposal

Proceeds on the disposal of EDS equipment of $0.9 million were received in the form of credit notes from a supplier. The credit notes were applied against capital purchases for the fiscal year, resulting in a corresponding reduction in CATSA's capital appropriations used.

Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Year ended March 31, 2013

MANAGEMENT'S RESPONSIBILITY STATEMENT

Year ended March 31, 2013

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

Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act*, executed in accordance with prescribed regulations within parliamentary authorities, and properly recorded to maintain accountability of government funds. CATSA 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 fulfils its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of CATSA. The Audit Committee meets regularly with management, Internal Audit and with the Office of the Auditor General of Canada (OAG). The OAG has full and unrestricted access to the Audit Committee to discuss their findings. The Board of Directors, upon recommendation of the Audit Committee, reviews and approves the financial statements.

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

Angus Watt
President and Chief Executive Officer

Mario Malouin, CPA, CA, MA
Vice-President and Chief Financial Officer

June 14, 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Air Transport Security Authority, which comprise the statement of financial position as at March 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Air Transport Security Authority as at March 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Further, in my opinion, the transactions of the Canadian Air Transport Security Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Air Transport Security Authority Act* and regulations and the by-laws of the Canadian Air Transport Security Authority.

Maurice Laplante, CA
Assistant Auditor General
for the Auditor General of Canada

June 14, 2013
Ottawa, Canada

STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian dollars)

	March 31, 2013	March 31, 2012
ASSETS		
Current assets		
Cash	**$ 9,076**	$ 5,907
Trade and other receivables (note 5)	**60,645**	77,489
Inventories (note 6)	**17,765**	18,935
Prepaid expenses	**2,677**	4,165
Equipment held for sale (note 8)	**–**	540
	90,163	107,036
Non-current assets		
Employee benefits (note 12)	**611**	207
Property and equipment (note 7)	**266,325**	298,162
Intangible assets (note 9)	**8,198**	11,889
	275,134	310,258
	$ 365,297	**$ 417,294**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**$ 69,721**	$ 81,228
Provisions (note 10)	**–**	2,203
Deferred government funding related to operating expenses (note 11)	**20,442**	23,100
	90,163	106,531
Non-current liabilities		
Provisions (note 10)	**–**	2,304
Deferred lease incentives	**1,286**	1,481
Deferred government funding related to capital expenditures (note 11)	**274,523**	310,120
Employee benefits (note 12)	**17,797**	24,307
	293,606	338,212
Equity		
Accumulated deficit	**(18,472)**	(27,449)
	$ 365,297	**$ 417,294**

Commitments (note 15) and contingent liabilities (note 19)

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

Approved by the Board and authorized for issue on June 14, 2013

Lloyd A. McCoomb, PhD, P.Eng., ICD.D
Chairperson

Angus Watt
President and Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

	Years ended March 31, 2013	2012
Expenses		
Pre-Board Screening	$ **328,448**	$ 344,431
Hold Baggage Screening	**143,176**	153,788
Corporate services	**52,712**	53,188
Non-Passenger Screening	**17,670**	15,972
Restricted Area Identity Card Program	**3,955**	5,002
Total expenses (note 13)	**545,961**	572,381
Other expenses (income)		
Loss on property and equipment	**618**	3,070
Foreign exchange loss	**57**	115
Finance cost	**30**	62
Write-down of intangible assets (note 9)	**7**	631
Reversal of decommissioning liabilities (note 10)	**(1,876)**	–
Finance income	**(484)**	(570)
Gain on settlement of decommissioning liabilities (note 10)	**(6)**	(76)
Impairment loss on equipment held for sale (note 8)	–	5,092
Total other expenses (income)	**(1,654)**	8,324
Financial performance before government funding	**544,307**	**580,705**
Government funding		
Parliamentary appropriations for operating expenses (note 11)	**475,945**	488,471
Amortization of deferred government funding related to capital expenditures (note 11)	**73,995**	95,929
Total government funding	**549,940**	584,400
Financial performance	**5,633**	**3,695**
Other comprehensive income (loss)		
Net actuarial gain (loss) on defined benefit plans (note 12)	**3,344**	(31,657)
Total comprehensive income (loss)	**$ 8,977**	**$ (27,962)**

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

STATEMENT OF CHANGES IN EQUITY

(In thousands of Canadian dollars)

		Retained earnings (accumulated deficit)
Balance, April 1, 2011	$	513
Financial performance		3,695
Other comprehensive loss		
Net actuarial loss on defined benefit plans (note 12)		(31,657)
Balance, March 31, 2012	**$**	**(27,449)**
Balance, April 1, 2012	**$**	**(27,449)**
Financial performance		**5,633**
Other comprehensive income		
Net actuarial gain on defined benefit plans (note 12)		**3,344**
Balance, March 31, 2013	**$**	**(18,472)**

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

STATEMENT OF CASH FLOWS

(In thousands of Canadian dollars)

	Years ended March 31,			
		2013		2012
Cash flows provided by (used in)				
Operating activities				
Financial performance	**$**	**5,633**	$	3,695
Items not involving cash				
Depreciation of property and equipment (note 13)		**67,436**		81,619
Amortization of intangible assets (note 13)		**5,684**		4,924
Loss on property and equipment		**618**		3,070
Unwinding of discount on decommissioning liabilities (note 10)		**30**		50
Write-down of intangible assets (note 9)		**7**		631
Amortization of deferred government funding related to capital expenditures (note 11)		**(73,995)**		(95,929)
Net increase in employee benefits (note 18)		**(3,570)**		(3,236)
Reversal of decommissioning liabilities (note 10)		**(1,876)**		–
Decrease in deferred lease incentives		**(195)**		(16)
Gain on settlement of decommissioning liabilities (note 10)		**(6)**		(76)
Impairment loss on equipment held for sale (note 8)		**–**		5,092
Net change in non-cash working capital balances (note 18)		**4,058**		(5,647)
		3,824		(5,823)
Investing activities				
Parliamentary appropriations received for capital funding		**39,137**		31,327
Purchase of property and equipment		**(38,005)**		(22,882)
Purchase of intangible assets		**(1,787)**		(4,050)
		(655)		4,395
Increase (decrease) in cash		**3,169**		(1,428)
Cash, beginning of year		**5,907**		7,335
Cash, end of year	**$**	**9,076**	**$**	**5,907**

Supplementary cash flow information (note 18)

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

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

1. Authority, mandate and programs

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

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

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

1. PBS – the screening of passengers, their carry-on baggage and their personal belongings;
2. HBS – the screening of checked baggage;
3. NPS – the screening of non-passengers on a random basis; and
4. RAIC Program – the administration of access control to airport restricted areas through biometric identifiers.

In addition to its mandated activities, CATSA has an agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources. CATSA is not subject to income tax under the provisions of the *Income Tax Act* (Canada). CATSA is subject to the *Excise Tax Act* (Canada), which includes the federal Goods and Services Tax (GST) and Harmonized Sales Tax (HST). CATSA is also subject to all provincial sales taxes (PST) applied by the provinces and territories in which it operates.

2. Basis of preparation

The financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

3. Summary of significant accounting policies

(a) Basis of measurement

These financial statements were prepared under the historical cost convention except for the employee benefits which are recognized as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(b) Use of estimates and judgments

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year are:

- note 3(d)(f)(g), note 7 and note 9 – Property and equipment and intangible assets

  Key estimates used for property and equipment and intangible assets include the useful lives of assets and valuation of work-in-progress.

- note 3(e) and note 8 – Equipment held for sale

  The key estimate used for equipment held for sale is the fair value of the asset less costs to sell.

- note 3(k)(i) and note 10(b) – Decommissioning liabilities

  Key estimates used for recording decommissioning liabilities include the rate of inflation, the expected years to settlement and market risk premiums for unforeseeable circumstances.

- note 3(j) and note 12 – Employee benefits

  Key estimates used for employee benefits include expected rates of return, discount rates, inflation and the long-term rate of compensation increase.

Underlying assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements are:

- note 3(f) and note 9 – Intangible assets

  Judgments are required in determining when internally generated intangible assets enter the development phase.

- note 3(k), note 10 and note 19 – Provisions and contingent liabilities

  Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability of an outflow of future economic benefits.

3. Summary of significant accounting policies (continued)

(c) Inventories

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

(d) Property and equipment

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

(i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress, which is recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition and installation of the assets, including integration costs related to the installation of the assets at the airports to ensure they are in a condition necessary for their intended use. Costs also include decommissioning costs associated with the disposal of certain screening equipment, if it is probable that an outflow of economic benefits will be required (note 3(k)(i)).

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

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

Gains and losses on disposal of an item of property and equipment are determined by comparing proceeds with the carrying amount and are recognized in financial performance.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(d) Property and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

Asset class	Useful life
PBS equipment	3-10 years
HBS equipment	7-10 years
NPS equipment	7-10 years
RAIC equipment	3-7 years
Computers, integrated software and electronic equipment	3 years
Office furniture and equipment	5 years

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

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date.

(e) Equipment held for sale

Equipment held for sale consists of screening equipment for which its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Equipment held for sale is measured at the lower of carrying value and fair value less costs to sell. Prior to the initial classification of the equipment as held for sale, the carrying amount of the assets are measured in accordance with 3(d)(i),(ii) and (iii) as noted. An impairment loss upon initial and subsequent write-down of the asset is recognized in financial performance.

Depreciation is not recorded while an asset is classified as held for sale.

(f) Intangible assets

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

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

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

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

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

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

(g) Impairment

At the end of each reporting period, CATSA reviews its property and equipment and intangible assets to determine whether there is any indication of impairment.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash inflows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. CATSA does not generate cash inflows from the use of its assets, as its operations are funded by Government appropriations on a break-even basis. Therefore, value in use will always be zero. Furthermore, there is no active market for most of CATSA's major assets due to their specialized nature. As a result, fair value less costs to sell cannot be reliably estimated.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(g) Impairment (continued)

As the recoverable amount of an asset cannot be determined, the estimated useful lives of assets are reviewed at the end of each reporting period when an indication of impairment is observed. Any changes in estimated useful lives are recorded on a prospective basis.

(h) Leases

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

(i) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets are comprised of cash. Trade and other receivables are not classified as non-derivative financial assets because they are not contractual rights but rather created as a result of statutory requirements imposed by federal and provincial governments.

CATSA classifies non-derivative financial assets into the category of loans and receivables. These financial assets are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities are comprised of trade and other payables. Non-derivative financial liabilities are recognized initially on the trade date at which CATSA becomes a party to the contractual provisions of the instrument.

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

CATSA classifies non-derivative liabilities into the category of financial liabilities measured at amortized cost. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(j) Employee benefits

(i) Post-employment benefit plans

CATSA maintains two funded defined benefit pension plans to provide retirement benefits to its employees. These include a registered pension plan and a supplementary retirement plan. CATSA also sponsors an unfunded post-employment benefits plan, the Other Defined Benefits Plan, which includes life insurance and eligible health and dental benefits. Pension 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 pension plans, with CATSA providing the balance of funding, as required, based on actuarial valuations, with payments being made monthly. Effective July 1, 2013, the defined benefit pension plans will be closed to new entrants and new hires will be enrolled in a defined contribution pension plan.

CATSA's net position in respect of the three defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The future benefit is then discounted to determine its present value. To the extent applicable, the fair value of any plan assets and any unrecognized past service costs are deducted from the present value of the future benefit. The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of CATSA's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to CATSA, the recognized asset is limited to the total of any unrecognized past service costs and the present value of the economic benefits in the form of any future refunds from the plans or reductions in future contributions to the plans. In order to calculate the present value of the economic benefits, consideration is given to minimum funding requirements that apply to any plan. An economic benefit is available to CATSA if it is realizable during the life of the plan or on settlement of the plan liabilities.

When past service costs arise from plan improvements, the portion of the increased benefit related to past service is recognized in financial performance on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in financial performance for the year.

CATSA recognizes all actuarial gains and losses from post-employment benefits plans in other comprehensive income. Expenses related to post-employment benefits plans are recognized as employee costs in determining financial performance.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(j) Employee benefits (continued)

(i) Post-employment benefit plans (continued)

CATSA recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

(ii) Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. CATSA recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

(iii) Short-term employee benefits

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

(k) Provisions

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

3. Summary of significant accounting policies (continued)

(k) Provisions (continued)

(i) Decommissioning liabilities

To the extent that it is probable that an outflow of economic benefits will be required, CATSA recognizes a provision for future decommissioning liabilities associated with the cost of disposing certain screening equipment in an environmentally responsible manner, and the cost to restore leased premises to an agreed upon standard at the end of the lease. In the year of acquisition of the screening equipment or upon signing of the facilities lease, the decommissioning liability is calculated based on an estimate of the discounted future cash outflows. The decommissioning liability is capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

The decommissioning liability is reviewed each reporting period to consider changes in the probability that an outflow of economic benefits will be required, the estimated outflow of resources required to settle the obligation, changes in the current market-based discount rate (which includes changes in the time value of money and the risks specific to the liability) and increases that reflect the passage of time. The effect of a change in estimate is recognized prospectively.

The unwinding of the discount is recognized as a finance cost, while changes resulting from the timing or amount of the initial estimate of future cash flows or market-based discount rate are recognized in the related decommissioning liability and carrying amount of the related asset.

(ii) Disputed claims

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

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(k) Provisions (continued)

(iii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by CATSA from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, CATSA recognizes any impairment loss on the assets associated with that contract.

(l) Government funding

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Parliamentary appropriations are accounted for as Government of Canada grants and are recognized in financial performance on a systematic basis over the periods in which CATSA recognizes as expenses the related costs for which the grants are intended to compensate. Parliamentary appropriations are not recognized in financial performance until there is reasonable assurance that CATSA will comply with the conditions attached to them and that the grants will be received.

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

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

Unused parliamentary appropriations at year-end are lapsed.

(m) Deferred lease incentives

Lease incentives represent a rent-free period of common area costs as well as a period of significantly reduced rent related to leased premises. The lease incentives are deferred and recognized as part of operating lease expenses in financial performance on a straight-line basis over the term of the lease, which expires on November 30, 2017.

(n) Finance income

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

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(o) Finance cost

Finance cost is comprised primarily of the unwinding of the discount on the provision for decommissioning liabilities and is recognized in financial performance in the year it is incurred.

(p) Foreign currency translation

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

(q) Future accounting changes

Certain new accounting standards and amendments have been published which are not required to be adopted for the current reporting period. As at the date of these financial statements, the following applicable standards and amendments have been issued but are not yet effective:

- *IAS 1, Presentation of Financial Statements*, was amended to require items in other comprehensive income (loss) to be classified by nature, and grouped into those that will not be subsequently reclassified to financial performance, and those that will be subsequently reclassified to financial performance when specific conditions are met. None of the components of CATSA's other comprehensive income (loss) will be reclassified to financial performance and, accordingly, the only impact is the identification of the net actuarial gain (loss) on defined benefit plans as an item that will not be subsequently reclassified to financial performance. The amendment is effective for annual periods beginning on or after July 1, 2012, and CATSA intends to adopt the amendment effective April 1, 2013;
- *IAS 19, Employee Benefits*, was amended to eliminate the option to defer the recognition of actuarial gains and losses, modify the presentation of changes in defined benefit obligations and plan assets in the Statement of Comprehensive Income, require net interest to be calculated by using a high quality corporate bond yield, as well as to improve disclosure about the risks arising from defined benefit plans.

  The amendment that is expected to have the most significant impact on CATSA's financial statements is the use of the high quality corporate bond yield (discount rate) to calculate the income on the plan assets, as opposed to the expected long-term rate of return under the existing standard. The expected long-term rate of return on plan assets assumption will no longer be used for defined benefit plan measurement purposes.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

3. Summary of significant accounting policies (continued)

(q) Future accounting changes (continued)

The expected impact of the amendment is as follows:

Statement of Comprehensive Income For the year ended March 31, 2013	As currently reported	Effects of IAS 19 amendment	Adjusted balance
Employee benefits cost:			
PBS	4,791	585	5,376
HBS	1,423	173	1,596
NPS	297	36	333
RAIC	95	11	106
Corporate Services	5,093	622	5,715
Financial performance	5,633	(1,427)	4,206
Other comprehensive income	3,344	1,427	4,771
Total comprehensive income	8,977	–	8,977

There is no expected impact on the Statement of Financial Position. The amendment is effective for annual periods beginning on or after January 1, 2013, and CATSA intends to adopt the amendment effective April 1, 2013;

- *IAS 32, Financial Instruments Presentation*, was amended to provide further guidance to the criteria for offsetting financial assets and financial liabilities and presenting the net amount in the Statement of Financial Position. Upon adoption of the standard, there is no expected change in presentation of CATSA's offsetting assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014, and CATSA intends to adopt the amendment effective April 1, 2014;
- *IFRS 7, Financial Instruments Disclosures*, was amended to include specific disclosure requirements for financial assets and financial liabilities that are offset and presented on a net basis in the Statement of Financial Position. The amendment will result in enhanced disclosure of the offsetting assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2013, and CATSA intends to adopt the amendment effective April 1, 2013;

3. Summary of significant accounting policies (continued)

(q) Future accounting changes (continued)

- *IFRS 9, Financial Instruments*, was issued to deal with classification and measurement requirements for financial assets and financial liabilities. With respect to financial assets, initial measurement will be at fair value, and for financial assets not classified at fair value through profit or loss, certain transaction costs will be included. Subsequent measurement of financial assets will be at amortized cost or fair value. With respect to financial liabilities, the requirements under this standard are mostly unchanged from *IAS 39, Financial Instruments: Recognition and Measurement*, which *IFRS 9* will replace. The impact of the adoption of the standard has not yet been determined. The standard is effective for annual periods beginning on or after January 1, 2015, and CATSA intends to adopt the standard effective April 1, 2015; and
- *IFRS 13, Fair Value Measurement*, was issued to provide a single source for guidance on measuring and disclosing fair values, clarify the definition of fair value and how it is determined, and mandate disclosures over fair value measurements. Upon adoption of the standard, the fair value basis of assets and liabilities are not expected to be affected. The standard's requirements may also enhance fair value disclosures. The standard is effective for annual periods beginning on or after January 1, 2013, and CATSA intends to adopt the standard effective April 1, 2013.

4. Financial instruments

As part of its operations, CATSA enters into transactions with financial risks exposure such as market and liquidity risks.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CATSA's key market risk relates to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from trade and other payables denominated in a currency other than the Canadian dollar, 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.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

4. Financial instruments (continued)

(a) Market risk (continued)

The following table provides the trade and other payables denominated in the United States dollar (USD) and the Canadian dollar (CAD) equivalent.

	USD	CAD
March 31, 2013	**$ 4,251**	**$ 4,403**
March 31, 2012	4,217	4,206

Assuming all other variables remain constant, a five percent depreciation or appreciation of the USD against the CAD would result in an increase/decrease in financial performance of $216 (2012 – $210).

(b) 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 for operations and anticipated investing activities. The liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada.

Trade and other payables and the current portion of provisions represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of these financial liabilities.

	Less than 3 months	3 to less than 6 months	6 months to 1 year	**Total**
March 31, 2013	**$ 68,554**	**$ 760**	**$ 407**	**$ 69,721**
March 31, 2012	80,332	676	2,423	**83,431**

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

5. Trade and other receivables

Trade and other receivables are comprised of:

	March 31, 2013		March 31, 2012	
Parliamentary appropriations	$	45,685	$	59,569
GST and HST recoverable		13,329		16,648
PST recoverable		1,496		1,188
Other		135		84
	$	60,645	$	77,489

6. Inventories

Inventories are comprised of:

	March 31, 2013		March 31, 2012	
Spare parts	$	16,881	$	17,533
Uniforms		587		1,062
RAIC		297		340
	$	17,765	$	18,935

During the year, inventories totalling $4,898 (2012 – $6,251) were charged to expenses. This includes $63 (2012 – $2,293) resulting from a write-down of inventories and an amount of $875 (2012 – Nil) resulting from the reversal of previous write-downs due to an increase in the replacement cost of certain spare parts and a change related to the expected use of some spare parts previously identified as obsolete.

NOTES TO FINANCIAL STATEMENTS (In thousands of Canadian dollars) Year ended March 31, 2013

7. Property and equipment

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equipment	Leasehold improvements	Work-in-progress	**Total**
Cost									
Balance, April 1, 2011	$ 133,113	$ 644,499	$ 9,608	$ 8,644	$ 25,894	$ 729	$ 12,246	$ 35,010	**$ 869,743**
Additions	2,431	10,109	–	60	883	–	99	8,196	**21,778**
Disposals	(7,628)	(4,556)	(106)	(910)	(258)	–	–	(808)	**(14,266)**
Write-offs	(4,838)	(8,936)	(4,199)	(1,423)	(3,109)	(92)	(298)	(83)	**(22,978)**
Assets held for sale	(7,205)	–	–	–	–	–	–	–	**(7,205)**
Reclassifications	11,189	17,244	122	140	1,953	–	722	(31,915)	**(545)**
Revisions in decommissioning liabilities	75	29	4	–	–	–	10	1	**119**
Balance, March 31, 2012	**$ 127,137**	**$ 658,389**	**$ 5,429**	**$ 6,511**	**$ 25,363**	**$ 637**	**$ 12,779**	**$ 10,401**	**$ 846,646**
Balance, April 1, 2012	**$ 127,137**	**$ 658,389**	**$ 5,429**	**$ 6,511**	**$ 25,363**	**$ 637**	**$ 12,779**	**$ 10,401**	**$ 846,646**
Additions	**5,437**	**4,577**	–	**543**	**1,318**	–	**422**	**25,204**	**37,501**
Disposals	**(4,307)**	**(5,413)**	**(134)**	**(11)**	**(872)**	**(202)**	–	**(17)**	**(10,956)**
Write-offs	**(6,583)**	**(1,413)**	**(83)**	**(1,490)**	**(2,691)**	–	**(2,753)**	**(61)**	**(15,074)**
Reclassifications	**1,414**	**639**	–	–	**998**	–	–	**(3,051)**	–
Revisions in decommissioning liabilities	**(891)**	**(537)**	**(45)**	–	–	–	**(212)**	**(29)**	**(1,714)**
Balance, March 31, 2013	**$ 122,207**	**$ 656,242**	**$ 5,167**	**$ 5,553**	**$ 24,116**	**$ 435**	**$ 10,236**	**$ 32,447**	**$ 856,403**
Accumulated depreciation									
Balance, April 1, 2011	$ 59,822	$ 412,761	$ 2,293	$ 4,551	$ 11,558	$ 511	$ 8,258	$ –	**$ 499,754**
Depreciation	13,722	56,305	1,143	1,566	7,058	129	1,696	–	**81,619**
Disposals	(7,453)	(4,570)	(107)	(909)	(258)	–	–	–	**(13,297)**
Write-offs	(4,240)	(7,943)	(1,022)	(1,323)	(3,108)	(83)	(298)	–	**(18,017)**
Assets held for sale	(1,573)	–	–	–	–	–	–	–	**(1,573)**
Revisions in decommissioning liabilities	(2)	–	–	–	–	–	–	–	**(2)**
Balance, March 31, 2012	**$ 60,276**	**$ 456,553**	**$ 2,307**	**$ 3,885**	**$ 15,250**	**$ 557**	**$ 9,656**	**$ –**	**$ 548,484**
Balance, April 1, 2012	**$ 60,276**	**$ 456,553**	**$ 2,307**	**$ 3,885**	**$ 15,250**	**$ 557**	**$ 9,656**	**$ –**	**$ 548,484**
Depreciation	**8,778**	**48,750**	**396**	**959**	**6,712**	**80**	**1,761**	–	**67,436**
Disposals	**(4,153)**	**(5,216)**	**(134)**	**(8)**	**(720)**	**(202)**	–	–	**(10,433)**
Write-offs	**(6,528)**	**(878)**	**(83)**	**(1,450)**	**(2,679)**	–	**(2,753)**	–	**(14,371)**
Reclassifications	**(8)**	**176**	–	–	**45**	–	–	–	**213**
Revisions in decommissioning liabilities	**(452)**	**(590)**	**(18)**	–	–	–	**(191)**	–	**(1,251)**
Balance, March 31, 2013	**$ 57,913**	**$ 498,795**	**$ 2,468**	**$ 3,386**	**$ 18,608**	**$ 435**	**$ 8,473**	**$ –**	**$ 590,078**
Carrying amounts									
At March 31, 2012	$ 66,861	$ 201,836	$ 3,122	$ 2,626	$ 10,113	$ 80	$ 3,123	$ 10,401	**$ 298,162**
At March 31, 2013	**$ 64,294**	**$ 157,447**	**$ 2,699**	**$ 2,167**	**$ 5,508**	**$ –**	**$ 1,763**	**$ 32,447**	**$ 266,325**

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

7. Property and equipment (continued)

In 2012/13, CATSA acquired $37,501 (2012 – $21,778) of property and equipment which includes an amount of $11 (2012 – $35) related to decommissioning liabilities.

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

In 2012/13, the estimated useful lives of certain HBS assets related to the recapitalization plan noted above were adjusted to reflect their expected decommissioning dates. The change in accounting estimate was accounted for on a prospective basis and increased the 2012/13 depreciation expense by $7,862. The increase in depreciation expense was completely offset by an increase in the amortization of deferred government funding related to capital expenditures. In 2013/14 to 2024/25, the depreciation expense and amortization of deferred government funding related to capital are expected to decrease by a total of $7,862.

As at March 31, 2012, the estimated useful life of certain screening equipment was revised from seven to ten years in order to better reflect the anticipated life-cycle management of these assets. The change in accounting estimate was accounted for on a prospective basis starting April 1, 2012, and decreased the 2012/13 depreciation expense by $13,388. This decrease was completely offset by a decrease in the amortization of deferred government funding related to capital. In 2013/14 to 2021/22, the depreciation expense and amortization of deferred government funding related to capital is expected to increase by a total of $13,388.

As at March 31, 2013, CATSA has commitments related to the purchase of screening equipment and other capital projects totalling $76,822 (2012 – $48,497).

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

8. Equipment held for sale

A reconciliation of equipment held for sale is as follows:

	March 31, 2013	March 31, 2012
Balance, beginning of year	**$ 540**	$ –
Reclassification from property and equipment	**–**	540
Disposals	**540**	–
Balance, end of year	**$ –**	**$ 540**

In 2011/12, management approved a plan to dispose of nine mobile screening vehicles. As of March 31, 2012, CATSA had no further opportunity to use these assets in the future. Upon initial classification of the asset as held for sale, an impairment loss of $5,092 was recorded in financial performance for the year ended March 31, 2012. In 2012/13, the sale of vehicles was completed and ownership was transferred to a third-party.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

9. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	**Total**
Cost				
Balance, April 1, 2011	$ 4,484	$ 17,309	$ 3,346	**$ 25,139**
Additions	418	2,914	718	**4,050**
Write-offs	(340)	(3,184)	(631)	**(4,155)**
Reclassifications	615	2,641	(2,711)	**545**
Balance, March 31, 2012	**$ 5,177**	**$ 19,680**	**$ 722**	**$ 25,579**
Balance, April 1, 2012	**$ 5,177**	**$ 19,680**	**$ 722**	**$ 25,579**
Additions	**231**	**1,319**	**237**	**1,787**
Write-offs	**(1,598)**	**(2,063)**	**–**	**(3,661)**
Reclassifications	**475**	**183**	**(658)**	**–**
Balance, March 31, 2013	**$ 4,285**	**$ 19,119**	**$ 301**	**$ 23,705**
Accumulated amortization				
Balance, April 1, 2011	$ 3,731	$ 8,559	$ –	**$ 12,290**
Amortization	722	4,202	–	**4,924**
Write-offs	(340)	(3,184)	–	**(3,524)**
Reclassifications	–	–	–	**–**
Balance, March 31, 2012	**$ 4,113**	**$ 9,577**	**$ –**	**$ 13,690**
Balance, April 1, 2012	**$ 4,113**	**$ 9,577**	**$ –**	**$ 13,690**
Amortization	**818**	**4,866**	**–**	**5,684**
Write-offs	**(1,598)**	**(2,056)**	**–**	**(3,654)**
Reclassifications	**(213)**	**–**	**–**	**(213)**
Balance, March 31, 2013	**$ 3,120**	**$ 12,387**	**$ –**	**$ 15,507**
Carrying amounts				
At March 31, 2012	$ 1,064	$ 10,103	$ 722	**$ 11,889**
At March 31, 2013	**$ 1,165**	**$ 6,732**	**$ 301**	**$ 8,198**

As at March 31, 2013, CATSA has commitments related to the purchase of computer software licences and other software development projects totalling $135 (2012 – $1,413).

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

9. Intangible assets (continued)

During the year, management determined that certain development costs related to internally generated software no longer provided future economic benefit. As a result, intangible assets totalling $7 (2012 – $631) were expensed in the Statement of Comprehensive Income.

During the year, research and development costs of $31 (2012 – $578) were expensed.

10. Provisions

Provisions are comprised of:

	March 31, 2013	March 31, 2012
Disputed claims	**$ –**	$ 2,203
Decommissioning liabilities	–	2,304
	–	4,507
Less current portion	–	(2,203)
Non-current portion	**$ –**	**$ 2,304**

(a) Disputed claims

Management accrues provisions for disputed claims as a result of CATSA receiving claims from various parties requesting monetary compensation. The provision recorded as at March 31, 2012 was established by management taking into account legal assessments, information presently available and other recourse. The amount was classified as current and the expected future cash flows were not discounted, as the timing of the cash outflows associated with the disputed claims could not be reasonably determined.

A reconciliation of the provision for disputed claims is as follows:

	March 31, 2013	March 31,2012
Balance, beginning of year	**$ 2,203**	$ 18
Additional provision made in the year	–	2,203
Amounts incurred	**(1,391)**	–
Provision released in the year	**(812)**	(18)
Balance, end of year	**$ –**	**$ 2,203**

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

10. Provisions (continued)

(b) Decommissioning liabilities

In 2012/13, CATSA determined that an outflow of economic resources related to costs associated with lease agreements and the removal of hazardous materials from Explosives Detection System equipment is no longer probable. Accordingly, the provision for decommissioning liabilities was reversed and no provision was recorded as at March 31, 2013. The effect was a decrease to the decommissioning liabilities provision of $2,323, a decrease to the cost of property and equipment of $1,698, a decrease to the accumulated depreciation of property and equipment of $1,251 and a gain on the reversal of decommissioning liabilities of $1,876. In 2013/14 to 2023/24, depreciation and finance costs are expected to decrease by $447 and $209, respectively.

Relative to the provision for decommissioning liabilities at March 31, 2012, the undiscounted amount of the estimated future cash flows required to settle the decommissioning liabilities was $2,543. The liability for the expected cash flows was discounted using a credit-adjusted risk-free rate of 1.88%.

A reconciliation of the decommissioning liability is as follows:

	March 31, 2013	March 31, 2012
Balance, beginning of year	**$ 2,304**	$ 2,174
Revisions in estimates	**(16)**	121
Reversal of provision	**(2,323)**	–
Settlements due to property and equipment disposed of during the year	**(6)**	(76)
Unwinding of discount	**30**	50
Additional provision due to property and equipment acquired during the year	**11**	35
Balance, end of year	**$ –**	**$ 2,304**

(c) Onerous contracts

No onerous contracts have been identified as at March 31, 2013 and March 31, 2012.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

11. Deferred government funding

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

	March 31, 2013	March 31, 2012
Deferred government funding related to operating expenses		
Balance, beginning of year	**$ 23,100**	$ 25,140
Parliamentary appropriations used to finance operating expenses	**473,287**	486,431
Parliamentary appropriations recognized as government funding for operating expenses	**(475,945)**	(488,471)
Balance, end of year	**20,442**	**23,100**
Deferred government funding related to capital expenditures		
Balance, beginning of year	**$ 310,120**	$ 382,911
Parliamentary appropriations used to finance capital expenditures	**38,398**	23,138
Amortization of deferred government funding related to capital expenditures	**(73,995)**	(95,929)
Balance, end of year	**274,523**	**310,120**
Total deferred government funding, end of year	**$ 294,965**	**$ 333,220**

12. Employee benefits

CATSA has three defined benefit plans which include the registered pension plan (RPP), the supplementary retirement plan (SRP) and the Other Defined Benefits Plan (ODBP).

(a) Employee benefits assets and obligations

The following provides a reconciliation between the defined benefit plans' assets, the defined benefit plans' obligations and the surplus (deficit) status of the defined benefit plans to the amounts recorded in the Statement of Financial Position.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

12. Employee benefits (continued)

(a) Employee benefits assets and obligations (continued)

	RPP		SRP		ODBP	
	2013	2012	**2013**	2012	**2013**	2012
Fair value of plan assets						
Balance, beginning of year	**$ 73,636**	$ 64,806	**$ 3,815**	$ 3,304	**$ –**	$ –
Expected return on assets	**4,668**	4,476	**119**	113	**–**	–
Actuarial gains (losses)	**3,218**	(4,174)	**87**	(167)	**–**	–
CATSA contributions	**14,679**	8,264	**465**	607	**125**	118
Plan participants' contributions	**2,370**	2,445	**1**	4	**–**	–
Benefit payments and transfers	**(4,381)**	(2,181)	**(62)**	(46)	**(125)**	(118)
Balance, end of year	**$ 94,190**	**$ 73,636**	**$ 4,425**	**$ 3,815**	**$ –**	**$ –**
Present value of defined benefit obligation						
Balance, beginning of year	**$ 85,671**	$ 53,936	**$ 3,608**	$ 2,370	**$ 12,272**	$ 7,483
Plan participants' contributions	**2,370**	2,445	**1**	4	**–**	–
Current service cost	**9,463**	4,855	**192**	143	**1,685**	1,079
Interest cost	**4,350**	3,605	**170**	150	**626**	510
Benefit payments and transfers	**(4,381)**	(2,181)	**(62)**	(46)	**(125)**	(118)
Actuarial losses (gains)	**56**	23,011	**(95)**	987	**–**	3,318
Balance, end of year	**$ 97,529**	**$ 85,671**	**$ 3,814**	**$ 3,608**	**$ 14,458**	**$ 12,272**
Funded status – surplus (deficit)	**$ (3,339)**	**$ (12,035)**	**$ 611**	**$ 207**	**$ (14,458)**	**$ (12,272)**

	March 31, 2013	March 31, 2012
Employee benefits asset, end of year		
SRP	**$ 611**	$ 207
Employee benefits liability, end of year		
RPP	**(3,339)**	(12,035)
ODPB	**(14,458)**	(12,272)
	(17,797)	(24,307)
Employee benefits – net liability, end of year	**$ (17,186)**	**$ (24,100)**

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

12. Employee benefits (continued)

(b) Employee benefits costs

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

	RPP		SRP		ODBP	
	2013	2012	**2013**	2012	**2013**	2012
Net benefit cost recognized						
Current service cost	**$ 9,463**	$ 4,855	**$ 192**	$ 143	**$ 1,685**	$ 1,079
Interest cost	**4,350**	3,605	**170**	150	**626**	510
Expected return on plan assets	**(4,668)**	(4,476)	**(119)**	(113)	**–**	–
Net benefit cost	**$ 9,145**	**$ 3,984**	**$ 243**	**$ 180**	**$ 2,311**	**$ 1,589**
Actuarial gains and losses recognized in other comprehensive income						
Cumulative amount, beginning of year	**$ 29,912**	$ 2,727	**$ 1,430**	$ 276	**$ 4,763**	$ 1,445
Recognized during the year	**(3,162)**	27,185	**(182)**	1,154	**–**	3,318
Cumulative amount, end of year	**$ 26,750**	**$ 29,912**	**$ 1,248**	**$ 1,430**	**$ 4,763**	**$ 4,763**

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

For the year ended March 31, 2013, the actual return on plan assets was $8,092 (2012 – $248).

CATSA estimates that cash payments to its post-employment benefit plans for the year ending March 31, 2014 will total $9,956.

(In thousands of Canadian dollars)

12. Employee benefits (continued)

(c) Allocation of plan assets

Based on the fair value at March 31, plan assets of funded plans are allocated as follows:

	March 31, 2013	March 31, 2012
Equity securities	**64%**	64%
Debt securities	**34%**	33%
Canada Revenue Agency refundable tax account	**2%**	2%
Other	**0%**	1%

(d) Actuarial assumptions

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

	RPP		**SRP**		**ODBP**	
	2013	2012	**2013**	2012	**2013**	2012
Expected return on plan assets	**6.00%**	6.50%	**3.00%**	3.25%	**N/A**	N/A
Discount rate for benefit cost	**4.50%**	6.00%	**4.50%**	6.00%	**4.50%**	6.00%
Discount rate for present value of defined benefit obligation	**4.50%**	4.50%	**4.50%**	4.50%	**4.50%**	4.50%
Inflation for benefit cost	**2.25%**	2.25%	**2.25%**	2.25%	**2.25%**	2.25%
Inflation for present value of defined benefit obligation	**2.25%**	2.25%	**2.25%**	2.25%	**2.25%**	2.25%
Long-term rate of compensation	**4.25%**	4.25%	**4.25%**	4.25%	**4.25%**	4.25%

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The assessment of the expected returns is based on historical return trends and analysts' predictions on the market for the asset in the next twelve months.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

12. Employee benefits (continued)

(e) Assumed health care cost trend rates

The significant assumed health care cost trend rates used to determine CATSA's obligations are as follows:

	March 31, 2013	March 31, 2012
Initial health care cost trend rate	**7.20%**	7.60%
Ultimate health care cost trend rate	**4.60%**	4.60%
Year ultimate rate reached	**2021**	2021

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:

	2013		2012	
	Increase	**Decrease**	Increase	Decrease
Total cost of service and interest	**$ 662**	**$ (477)**	$ 446	$ (321)
Present value of defined benefit obligation	**$ 3,670**	**$ (2,691)**	$ 3,100	$ (2,273)

(f) Historical information

The developments of CATSA's defined benefit plans are summarized as follows:

RPP:

	March 31, 2013	March 31, 2012	March 31, 2011	April 1, 2010
Fair value of plan assets	**$ 94,190**	$ 73,636	$ 64,806	$ 48,152
Defined benefit obligation	**97,529**	85,671	53,936	42,868
Funded status – surplus (deficit)	**$ (3,329)**	**$ (12,035)**	**$ 10,870**	**$ 5,284**
Experience adjustments on plan assets	**$ 3,218**	$ (4,174)	$ 527	N/A
Experience adjustments on plan liabilities	**$ 56**	$ 23,011	$ 3,254	N/A

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

12. Employee benefits (continued)

(f) Historical information (continued)

SRP:

		March 31, 2013		March 31, 2012		March 31, 2011		April 1, 2010
Fair value of plan assets	**$**	**4,425**	$	3,815	$	3,304	$	2,098
Defined benefit obligation		**3,814**		3,608		2,370		2,022
Funded status – surplus (deficit)	**$**	**611**	**$**	**207**	**$**	**934**	**$**	**76**
Experience adjustments on plan assets	**$**	**87**	$	(167)	$	(138)		N/A
Experience adjustments on plan liabilities	**$**	**(95)**	$	987	$	138		N/A

ODBP:

		March 31, 2013		March 31, 2012		March 31, 2011		April 1,2010
Fair value of plan assets	**$**	**–**	$	–	$	–	$	–
Defined benefit obligation		**14,458**		12,272		7,483		5,188
Funded status – surplus (deficit)	**$**	**(14,458)**	**$**	**(12,272)**	**$**	**(7,483)**	**$**	**(5,188)**
Experience adjustments on plan assets		**N/A**		N/A		N/A		N/A
Experience adjustments on plan liabilities	**$**	**–**	$	3,318	$	1,445		N/A

(g) Termination benefits

During the year, CATSA recorded termination benefits totalling $2,628 (2012 – $4,301).

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

13. Expenses

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

	2013	2012
Screening services and other related costs		
Payments to screening contractors	$ **342,142**	$ 348,884
Uniforms and other related costs	**3,862**	4,974
Trace and consumables	**1,799**	1,884
	347,803	355,742
Direct administrative costs and corporate services		
Employee costs	**57,793**	59,187
Operating leases	**6,509**	6,721
Other administrative costs	**6,410**	6,351
Professional services and other business related costs	**5,192**	6,929
Office and computer expenses	**4,363**	4,195
Communications and public awareness	**1,077**	1,871
	81,344	85,254
Depreciation and amortization		
Depreciation of property and equipment	**67,436**	81,619
Amortization of intangible assets	**5,684**	4,924
	73,120	86,543
Equipment operating and maintenance		
Equipment maintenance and spare parts	**42,331**	43,249
RAIC	**812**	773
Training and certification	**551**	820
	43,694	44,842
	$ 545,961	**$ 572,381**

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

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

14. Government funding

Parliamentary appropriations approved were as follows:

	March 31, 2013	March 31, 2012
Parliamentary appropriations approved	**$ 557,001**	$ 519,224
Re-profiled parliamentary appropriations to 2013/14	**(28,005)**	–
Unused portion of parliamentary appropriations	**(17,311)**	(9,655)
Total parliamentary appropriations used	**$ 511,685**	**$ 509,569**

Parliamentary appropriations used by CATSA during the year were as follows:

	March 31, 2013	March 31, 2012
Parliamentary appropriations used to finance operating expenses (note 11)	**$ 473,287**	$ 486,431
Parliamentary appropriations used to finance capital expenditures (note 11)	**38,398**	23,138
Total parliamentary appropriations used	**$ 511,685**	**$ 509,569**

15. Commitments

(a) Operating leases

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

	March 31, 2013	March 31, 2012
Less than 1 year	**$ 7,087**	$ 10,634
1 year to less than 5 years	**20,115**	20,739
5 years or more	**1,923**	3,923

(In thousands of Canadian dollars)

15. Commitments (continued)

(a) Operating leases (continued)

CATSA's most significant operating lease is the lease for office space at headquarters. The lease expires on November 30, 2017 and contains an option to renew for five additional years, subject to the same terms and conditions as the original lease. There is no further right to extend after the expiry of the extension term and the future rent will be based on the prevailing market rate at that time.

(b) Contractual obligations

Contractual obligations include various contracts for equipment purchases, screening services and equipment maintenance. These contractual obligations are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion.

The following table provides the minimum commitments under these contractual obligations.

	March 31, 2013	March 31, 2012
Less than 1 year	**$ 517,862**	$ 500,055
1 year to less than 5 years	**1,288,360**	1,654,648
5 years or more	**16,782**	26,235

16. Related party transactions

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

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

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

Income from these related parties amounted to $549,940 (2012 – $584,400), which represent parliamentary appropriations for operating expenses used and parliamentary appropriations for capital expenditures amortized. Expenses for these related parties amounted to $11,461 (2012 – $11,919), which include $10,112 (2012 – $10,165) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

16. Related party transactions (continued)

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

At year-end, amounts receivable from related parties were $59,073 (2012 – $76,301). These include $13,329 (2012 – $16,648) due from the Canada Revenue Agency for recoverable taxes paid on expenses and $45,685 (2012 – $59,569) due from the Government of Canada for parliamentary appropriations used during the year and not received at year-end. At year-end, amounts payable to related parties were $303 (2012 – $441), and outstanding commitments with related parties were $383 (2012 – $1,944).

(b) Key management personnel

As at March 31, 2013, key management personnel of CATSA are composed of eleven (2012 – eleven) Board members and the six (2012 – seven) members of the senior management team.

The compensation of Board members and other members of key management is as follows for the years ended March 31:

	2013	2012
Salaries, other short-term employee benefits and termination benefits	**$ 2,597**	$ 2,487
Post-employment benefits	**430**	264
	$ 3,027	**$ 2,751**

Other than the above compensation, there were no other significant related party transactions involving key management personnel and their close family members in 2013 or 2012.

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

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's three defined benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 12. There were no other transactions during the year.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

17. Capital management

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

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

Capital is comprised of the following:

	March 31, 2013	March 31, 2012
Cash	**$ 9,076**	$ 5,907
Trade and other receivables	**60,645**	77,489
Trade and other payables	**(69,721)**	(81,228)
Current portion of provisions	**–**	(2,203)
	$ –	**$ (35)**

CATSA's objectives, policies, and processes for managing capital have not changed during the years ended March 31, 2013 or March 31, 2012. CATSA is not subject to externally imposed capital requirements.

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

The following table presents the net change in non-cash working capital balances for the years ended March 31.

	2013	2012
Decrease (increase) in trade and other receivables	**$ 16,105**	$ (14,953)
Decrease in inventories	**1,439**	3,055
Decrease (increase) in prepaid expenses	**1,488**	(810)
Increase (decrease) in trade and other payables	**(10,113)**	6,916
Increase (decrease) in current portion of provisions	**(2,203)**	2,185
Decrease in current portion of deferred government contributions related to operating expenses	**(2,658)**	(2,040)
	$ 4,058	**$ (5,647)**

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

18. Net change in non-cash working capital balances and supplementary cash flow information (continued)

Interest income received and recognized during the year totalled $483 (2012 – $559).

Interest expense paid and expensed during the year totalled Nil (2012 – $12).

The change in trade and other receivables excludes an amount of $739 (2012 – $8,189) in relation to government funding related to capital.

The change in inventories excludes an amount of $269 (2012 – $205) in relation to a transfer of spare parts from capital assets to inventory, as the amount relates to a non-cash transaction.

The change in trade and other payables excludes an amount of $1,394 (2012 – $3,794) in relation to the acquisition of property and equipment and intangible assets.

The change in employee benefits excludes an amount of $3,344 in relation to net actuarial gain for the year (2012 – $31,657 loss) recorded in other comprehensive income.

During the year, CATSA received non-cash proceeds of $879 (2012 – $2,636) related to the disposal of property and equipment, in the form of credit notes from a supplier.

19. Contingent liabilities

(a) Disputed claims

In 2012/13, CATSA was named as a defendant with the Attorney General of Canada in a legal action claiming damages for $75,183. CATSA is unable to provide an estimate of liability or damages as it is at the early stages of the process. Accordingly, no provision for losses has been recognized in the current year in relation to this matter. CATSA is unable to estimate when this claim will be resolved.

In 2011/12, CATSA and one of its former officers were named as defendants with one other defendant in a legal action claiming damages in the amount of $1,680 against CATSA and damages in the amount of $2,180 against the former officer. Management is of the opinion that there is a defense to the claim. Accordingly, no provision for losses has been recognized in the current or prior year in relation to this matter. CATSA is unable to estimate when this claim will be resolved. CATSA has insurance which could reimburse a portion of the total amount claimed.

NOTES TO FINANCIAL STATEMENTS

(In thousands of Canadian dollars)

Year ended March 31, 2013

19. Contingent liabilities (continued)

(a) Disputed claims (continued)

In 2010/11, CATSA was named as a defendant with the Attorney General of Canada in a legal action claiming damages. Although no amount has been included within the statement of claim, based on correspondence from the claimant, the claim could be for $7,000. Management is of the opinion that there is a defense against the claim. Accordingly, no provision for losses has been recognized in the current or prior year in relation to this matter. CATSA is unable to estimate when this claim will be resolved. CATSA has notified its insurers and the possibility of reimbursement cannot be determined at this time.

(b) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of hazardous materials from certain EDS equipment, as well as with lease agreements. Since it is not probable that an outflow of economic resources will be required to settle these legal obligations, no provision has been recorded in the financial statements. Should the probabilities change in the future, the maximum undiscounted cash flow required to settle these liabilities between 2013/14 and 2023/24 is estimated to be $1,646. There is no agreement for potential reimbursements against the contingent liabilities.