



IMPROVING THE EXPERIENCE

Annual Report 2009

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Cover: John, Screening Officer and Sandy, passenger travelling to Paris





Gates / Portes



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and Oversight Officer Leslie*

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Canada's eight busiest airports

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

Canada's 28 major airports

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

EDS

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

HBS

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

NPS

Non-Passenger Screening: the screening of non-passengers accessing restricted areas of airports. Non-passengers can include flight crews, refuellers, caterers, aircraft groomers, maintenance and construction personnel, baggage handlers, vendors and concession staff

PBS

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

RAIC

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

SOPs

Standard Operating Procedures: developed by CATSA to instruct screening personnel to carry out security screening to meet the intent of regulated measures as well as other related requirements established by CATSA

TIPS

Threat Image Projection System: a Screening Officer training program that automatically projects images of fictional threat items onto X-Ray images of real scanned baggage

CATSA AT A **GLANCE**

62,000,000

PIECES OF BAGGAGE SCREENED

48,000,000

PASSENGERS SCREENED

6,000

SCREENING OFFICERS ACROSS CANADA

2,364

SCREENING OFFICERS RE-CERTIFIED

1,026

NEWLY HIRED SCREENING OFFICERS TRAINED AND CERTIFIED

392

EMPLOYEES ACROSS CANADA

97

CHECKPOINTS

89

AIRPORTS ACROSS CANADA

85

PERCENT OF CATSA'S BUDGET GOES
TOWARD SCREENING OPERATIONS



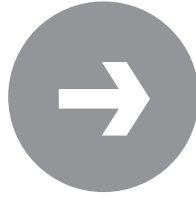
AIRPORT AT A GLANCE TORONTO'S LESTER B. PEARSON INTERNATIONAL AIRPORT

Each year, the CATSA Annual Report features photographs from one of Canada's 89 designated airports.

This year's photographs highlight CATSA and our partners at Toronto Pearson International Airport. This includes Screening Officers, travellers, the airport authority, airlines, government agencies, and other security organizations.

As Canada's busiest airport and the major gateway to some of Canada's premier tourist destinations, Toronto's Pearson International Airport handles close to 30 million passengers flying annually between Canada's business capital and hundreds of international and domestic destinations, meeting the growing demand for multicultural and multilingual security services.

We thank the entire staff at Pearson International Airport for their cooperation during the Annual Report photo shoot.



MESSAGE FROM OUR CHAIR

Confidence is a word used often at CATSA because it lies at the foundation of what we do. It is the trust that we must continually earn and maintain on the part of the travelling public. It is also the belief we hold in our own abilities to operate effectively, efficiently and in the best interests of all Canadians. And it is the faith that we place in our partners and they place in CATSA that enables us to work together to achieve excellence in the field of air transportation security.

As a board, we work diligently to ensure that the travelling public can have confidence in CATSA. Working alongside management, we have secured additional funding from the federal government that will make great inroads toward addressing CATSA's longer-term sustainability. It has taken a great deal of effort on both our parts throughout the year but is well worth it, as this funding will allow CATSA to fulfill its mandate now and prepare for the future.

The hiring process for the position of President and CEO was completed during this past year and we are most fortunate that Kevin McGarr, who had been acting in the capacity of Interim President and CEO, has been successful in securing this vital role on a permanent basis. On behalf of the Board, I congratulate Kevin and reiterate our faith in his leadership abilities as CATSA matures and faces new challenges. The air transportation security field is evolving, with technology and processes moving forward at breakneck speed. At the same time, CATSA's commitment to providing excellence in service to the travelling public is unwavering. CATSA's challenge is to continue on the path to global leadership in these areas.

At the board level, we have been running at full capacity all year and, as such believe we have become more effective in our role as stewards of the organization. One benefit is that it has allowed for the consideration of some restructuring and growth in terms of our existing board committees and we are now in a position to move forward with two new additions – a strategy committee and a pension and benefits committee. I look forward to an added value to CATSA anticipated from this initiative.



I would also like to take this opportunity to introduce a new member of our board, Mike Shaikh of Calgary, Alberta. He brings to us his considerable experience in the area of finance and in governance as a result of his involvement with numerous boards for organizations from the private, public and not-for-profit sectors.

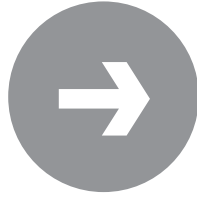
I would be remiss, at this point, if I did not take this opportunity on behalf of the Board to thank CATSA's very hard-working and capable staff, the Screening Officers and Contractors – who are the front line ambassadors of air transportation security in Canada – and our many other partners. I extend our thanks to the Federal Government for its additional funding and to Transport Canada for their assistance and support in securing these much needed funds. As Mr. McGarr's message indicates, these funds will provide more ways to meet the new and existing challenges that will inevitably be faced by CATSA over the coming year.

We commit ourselves to continue to work with the Government to secure longer term sustainable funding for the effective operations of CATSA under its newly expanded mandate.

This brings me back to the idea of confidence. My board colleagues and I are confident of the organization's future success in all of these endeavours.

D. Ian Glen, Q.C.
Chair





MESSAGE FROM OUR PRESIDENT AND CEO

I always look forward to the Annual Report as it allows us the time to take stock and reflect on both our accomplishments and challenges over the past year. I'm pleased to say that it has been a good year for CATSA.

We have continued our efforts to engage the federal government on the issue of CATSA's long-term sustainability. Budget 2009 has provided us with the opportunity to improve air transport security through an investment that will increase our presence at Canada's airports, expand our oversight activities and offer better air traveller support.

Specifically, additional funding allows CATSA to meet the screening requirements needed at designated airports to support the 2010 Olympic and Paralympic Winter Games, acquire new state-of-the-art screening equipment, open additional screening lanes in five of Canada's busiest airports and begin non-passenger screening and vehicle search in Critical Restricted Areas at two of the major airports.

It is an opportunity to take what we've built over the last seven years and make it better. With these initiatives, we are moving forward. Nevertheless, the implementation of CATSA's five-year strategy is dependent on longer term funding, and we will build upon the foundations that Budget 2009 has provided us.



You can be certain that from this point on, everything we do, everything we create and every system we use will be designed and implemented around operational excellence. Yet, in all that we do, the spirit of teamwork drives us forward to be our very best. When you meet Screening Officers at any one of Canada's 89 designated airports, you have the assurance of knowing that they are not acting alone. Screening Officers, part of the front line guardians of air transportation security in this country, along with every one of us at CATSA, take that responsibility seriously.

On a personal note, this year has been a great opportunity for me as I have transitioned from Interim President and CEO to assuming this important role on a permanent basis. I could not take on these responsibilities without the exceptional support I receive and the ongoing efforts being made by all of CATSA's employees and the Board of Directors, along with our partners in government, the air industry, law enforcement and – of course – the exceptional men and women who provide Canada's screening services each and every day. The Canadian public can rest assured that we are all working together to ensure that our air transportation system is second-to-none when it comes to their safety and security.

I am pleased to present CATSA's Annual Report for the 2008/09 fiscal year.

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





MISSION

To protect the public by securing critical elements of the air transportation system as assigned by the Government.

VISION

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

WHO WE ARE

In its seven years of operations, CATSA has been enhancing aviation security screening for Canadians, working with Transport Canada and its industry partners.

Organization and Mandate

The Canadian Air Transport Security Authority (CATSA) was created on April 1, 2002 as a Crown corporation with a mandate to conduct screening effectively, efficiently, consistently and in the public interest. CATSA is funded through federal parliamentary appropriations and reports to Parliament through the Minister of Transport, Infrastructure and Communities. A Board of Directors governs CATSA and brings valuable business and industry experience, and perspective to the organization. Our President and Chief Executive Officer and senior management team manage day-to-day operations, including the CATSA workforce and the provision of contracted security screening services at Canadian airports.

CATSA shares responsibility for civil aviation security with several federal government departments and agencies, air carriers and airport operators. Transport Canada is Canada's designated national civil aviation security regulator, and regulates pursuant to standards established by the International Civil Aviation Organization (ICAO).

CATSA's vision will be attained by:

- contributing to a highly secure air transportation system;
- being cost-effective;
- striving for excellence;
- networking with partners;
- establishing clear accountabilities;
- being innovative;
- fostering ethics and values; and
- continuously improving through the implementation of best practices.

Values

At CATSA, we have embraced a set of values – **fairness, loyalty, accountability, integrity and respect** – that serves as the basis for the organization's approach to conducting business. These values, known by the acronym FLAIR, set out expectations as to how all CATSA employees interact with one another and with those outside the organization.



WHAT WE DO

CATSA plays a key role in securing Canada's air transportation system, by carrying out the following mandated responsibilities at 89 designated airports across Canada:

Pre-board Screening (PBS)

The most public and visible of CATSA's security programs is PBS, where some 6,000 Screening Officers carry out the security screening of over 48 million passengers and their belongings each year. The screening of passengers takes place prior to their entry into the secure zone of an airport terminal. Screening Officers examine passengers and their belongings to ensure that items, such as knives, firearms, incendiary devices and explosives, that are on Transport Canada's prohibited items list, are not brought onboard an aircraft, thereby eliminating the potential for hostile use onboard.

Hold Baggage Screening (HBS)

In addition to screening passengers and their carry-on baggage, Screening Officers use specialized explosives detection equipment to screen over 62 million pieces of passengers' checked baggage each year. This is another vital layer of security to protect the travelling public. CATSA purchases and integrates the equipment into the airport's baggage handling system, and oversees equipment operation and maintenance.

Non-passenger Screening (NPS)

In November 2002, NPS was added to CATSA's responsibilities. Each year, CATSA conducts, on a random basis, 600,000 security screenings of non-passengers accessing restricted areas at Canada's 28 major airports, in order to provide an additional, effective layer of security. Non-passengers include flight and cabin crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers, vendors and concession and other airport service staff.

Restricted Area Identity Card (RAIC)

In November 2002, the RAIC program was also added to CATSA's responsibilities. Fully operational since January 31, 2007, the RAIC is the world's first dual biometric (iris and fingerprint) airport identification program for non-passengers accessing restricted areas of air terminal buildings in Canada's 28 major airports. The RAIC has a built-in computer chip with a microprocessor and memory to store biometric data of fingerprint and iris templates. The RAIC program includes the card, fingerprint and iris readers installed in airport terminals, and a network infrastructure linking the 28 airports to a secure central database.

The initial phase of RAIC deployment focused on areas within air terminal buildings. A second phase to address other areas within the airport's security perimeter, including vehicle gates and employee access points, will begin in the upcoming fiscal year.

OUR **OPERATING** ENVIRONMENT



As a government Crown corporation, with a statutory responsibility for aviation security screening nationwide, CATSA's operations are greatly affected by events and trends occurring domestically and internationally.

In order to successfully execute its mandate and carry out its operations diligently, CATSA must assess the adequacy of its resources to address the strategic issues that it faces. To do this CATSA must identify the internal and external trends that could impact its ability to deliver its mandate and take appropriate actions to ensure continuation of its mandated activities.

To successfully carry out its security screening programs, CATSA works closely with its regulator, Transport Canada, other government organizations, law enforcement authorities, airport authorities and airlines.

CATSA not only provides a critical service for the protection of air travellers, it must also consider its impact on the economic viability of the aviation industry – including airlines and airports, as well as the travel and tourism industries.

Under the *CATSA Act*, CATSA has the authority to deliver its security screening programs in any one of four ways: the Direct Employment Model, the Screening Contractor Model, the Aerodrome Direct Model (contracting to an airport), and the Aerodrome Subcontract Model (contract to an airport, which in turn contracts to a screening contractor). Since its creation in 2002, CATSA has opted for the Screening Contractor Model in the 89 designated airports across Canada.

In advance of the expiry of current third-party contracts on March 31, 2009, CATSA's senior management proposed to the Board of Directors that a review of these service delivery options be undertaken. An independent, third-party study was carried out to re-assess the service delivery model options, and it was concluded that the screening contractor model continues to be the preferred option for CATSA.

In 2010, CATSA is planning to initiate a competitive process for Screening Contractors to replace the existing contracts.





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

.....
CATSA is pleased to announce that Jamal Hdoud, Learning and Performance Advisor, People Branch, has been named the CEO Employee of the Year for 2008/09.

Jamal joined CATSA in December 2006. His creativity and commitment to making sure Screening Officers succeed in their training are unwavering. He has the ability to motivate, inspire and encourage his peers to excel. Jamal is very adaptable and spends a great deal of time working with and responding to his colleagues, and to his team's overall objectives, goals and vision. He is a true team player, a great motivator and represents the values of the Learning and Development team very well.

Jamal received the CEO Monthly Award in May 2008.

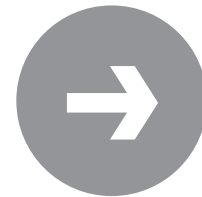
Congratulations Jamal, and thank you for your hard work and dedication!

OUR PEOPLE

At CATSA, we offer employees a challenging, meaningful career where their work contributes directly to the security of air travellers. Together with our airport and security partners, we are the professionals that contribute to making our skies safe.



Screening Officer Sonia



Connecting with Employees

CATSA endeavours to have the best people in place, to provide conditions where staff can do their best work and create a climate that is conducive to optimal performance and job satisfaction. CATSA fosters a learning environment that benefits not only individuals but the organization as a whole. This is vital to effectively manage CATSA's resources and to meet organizational goals.

CATSA has been diligent in ensuring that its staff is updated on corporate initiatives and issues. Two employee retreats are held each year to keep staff informed. As well as daily information provided through Destination – CATSA's intranet site – senior management engages in face-to-face communication with employees. This translates into a clear understanding of corporate strategy throughout the organization.

CATSA's Pride and Recognition Program

The Pride and Recognition Program bolsters pride, productivity, and innovation of employees. The program recognizes the contribution that CATSA staff makes in protecting the public, through the excellence of the work they perform and the positive results they achieve. The CEO Monthly Award and the Employee of the Year Award are an important part of this program. The Pride and Recognition Program also includes service, and team and individual awards in various categories.

CATSA Academy

Continuous learning is the key to success and innovation at CATSA and this is why we are committed to developing a culture of continuous learning in the workplace. It is for this very reason that the CATSA Academy was created in April 2007 to support employees by providing learning opportunities and tools to promote this culture of continuous learning.

The CATSA Academy offers employees opportunities to pursue professional development courses outside of the office, in-house group courses offered at the office, second language training and lunch and learn information sessions. Reimbursement for post-secondary education, second language training taken outside of working hours, and professional membership/association fees is also provided. In addition to these continuous learning opportunities, some highlights for 2008/09 include the development of the Oversight Officer Orientation and Training Program, the ongoing delivery of the Certificate in Management of Aviation Security (offered through the John Molson School of Business at Concordia University) and the deployment of CPR/First Aid to CATSA employees.

Concordia Program – Certificate in Management of Aviation Security

This program provides courses on aviation security as well as global security, management skills, organizational behaviour and interpersonal communications. This program is delivered online to ensure program accessibility to our employees working across Canada. The first cohort graduated in June 2008 and the second cohort is expected to graduate in April 2010.

Oversight Officer Orientation & Training Program

Effective oversight of CATSA operations is critical to enhance compliance to security policies, procedures and regulations. This is the primary role of CATSA's Oversight Officers, as well as to play a major role in improving overall performance to achieve excellence in security screening, and to identify trends and areas for improvement. They are an integral part of our team with specialized skills needed to spot opportunities for enhancements and recommend solutions to ensure operations continue to run smoothly at the screening checkpoints. The program is designed to equip CATSA Oversight Officers with the necessary knowledge and skills to conduct oversight of CATSA's operations including Pre-board, Hold Baggage and Non-Passenger Screening services. Participants who successfully complete all the modules and pass the assessment qualify as a CATSA Oversight Officer.

SUPPORTING CANADA'S ARMED FORCES

With recent changes in legislation related to Reserve Force Leave, and several reservists working at CATSA, the organization recognized the benefit in developing a policy that would support our Canadian troops.

A Reserve Force Leave Policy was developed. This policy provides reservists with a 93% top-up between their military pay and their CATSA salary while on-duty with the Canadian Armed Forces, and grants reservists time to participate in annual training and deployments where required by the Canadian Forces.

Mike Roach, General Manager of the Project Management Office at CATSA, is a Lieutenant-Colonel in the Army Reserve. Mike volunteered for and was selected for service in Afghanistan, with NATO ISAF Headquarters, and was Chief of Key Leader Engagements in the Information (Influence) Operations domain. Focusing on counter-insurgency principles and training, Mike was responsible for the development and execution of an Afghanistan-wide campaign involving troops from many participating nations and partners, providing security contributing to the goal of developing effective governance in Afghanistan.

"The military training, skills, competence and expertise developed in the Canadian Forces is of direct benefit to CATSA," says Mike. "Focusing on the mission to be accomplished, working as a team, recognizing threats and risks – this is what we do at CATSA, as well as the military."

Owen Andrusiak, Manager, Operational Procedures at CATSA and a commissioned officer, posted every summer to CFB Trenton as a tow pilot and glider instructor in support of the Air Cadet Training Program, agrees, "Many of the skills that I develop in the military, including leadership, organizational skills, discipline, and exposure to well-established safety management systems, are very much transferable to the job I do at CATSA."

In recognition of CATSA's policy, the organization was presented with an Award of Excellence for Best Practices in Employer Support: Industry (Large Organization) Ontario by the Canadian Forces Liaison Council (Provincial Awards).

CPR/First Aid & Defibrillator Training

Sickness and accidents can occur in the workplace; whether it is heart failure, choking or minor injury. These situations can be life-threatening and require swift, effective responses. Knowing what to do can save a life. In the spring of 2008, 23 CATSA employees located at headquarters were trained and certified in CPR/first aid and defibrillation. Throughout the course of the year, 76 regional employees (including Regional Managers, Operations Managers, Oversight Officers and Learning and Performance Advisors) at seven of the busiest airports were also certified in CPR/first aid training.

CATSA in the Community

At CATSA, our employees take their commitment to the public seriously. At the office and in the community, they are generous with both their time and money. Here are some examples of CATSA's involvement in charitable activities in 2008/09:

- In support of the annual United Way/Centraide Ottawa, CATSA organized various activities in the fall of 2008 and raised its largest donation to date
- Charity Golf Invitational: A group of CATSA employees organized charity golf tournament in honour of one its employees who was severely injured in a car accident. The kindness and generosity of family, friends and CATSA colleagues participating in the golf tournament was overwhelming
- During the holiday season, as part of the Ottawa Food Bank's Drive Away Hunger campaign, CATSA employees raised money and donated food to contribute to the fight against community hunger



SEEKING PARTNERSHIP – STRENGTHENING SECURITY – INTERNATIONAL FORUM FOR SECURITY SCREENING IN AVIATION (IFSSA)

On March 25-27, 2009, representatives from the aviation and security sectors across the world met at the Delta Hotel in Montreal, Quebec to attend the 2009 IFSSA conference. Participants came from Argentina, Australia, Canada, Dubai, Hong Kong, Israel, Japan, Mexico, New Zealand, South Africa Switzerland and the United States. The International Air Transport Association (IATA) was also represented.

This international forum is an effort to bring together top executives of aviation security organizations from around the world, for the purpose of sharing ideas and focusing on aviation security screening best practices. The purpose of the conference was to allow participants to leave with a greater understanding of how different countries deal with specific issues. The knowledge and expertise shared can be leveraged to improve the overall aviation security screening system.

This year's conference, organized by CATSA, had participants from several countries contributing to discussions on topics such as security at special events (2010 Winter Games and 2010 World Cup of Soccer), aviation security networked system, infiltration tests, performance measurement and privacy implication of security.

Thank you to all participants for making IFSSA 2009 a great success.



REPORTING ON RESULTS

Introduction

In 2008/09 CATSA set three medium-term strategic outcomes:

- Customer-focused security
- Capacity
- Recognized expertise

In the following sections we explain how CATSA delivered these outcomes, and how it measured its progress.

At the most basic level, CATSA developed a number of short-term strategic initiatives to advance each of the three strategic outcomes. Detailed tables set out what each initiative was, what we planned to do, and what results were actually achieved.

However, it is not enough to simply do what we planned to do. Steps must be taken to ensure that CATSA is heading in the right direction – that is, towards the legislative requirement to carry out screening that is effective, efficient, consistent and in the public interest. CATSA established measures to quantitatively assess whether each of these requirements is being met, and is now reporting against those measures.

On the following page, this story is told with a “Logic Model” This diagram outlines how CATSA’s resources, are applied to our mandated activities, to deliver screening of passengers, baggage, non-passengers, as well as the RAIC system. It goes on to identify what short term strategic initiatives were undertaken, how those initiatives align with the three strategic outcomes and then how those outcomes relate to the legislative requirements.

While there has been some progress in terms of performance measurement, improvement in this area is a priority for 2009/10.



CATSA's Mission: To protect the public by securing critical elements of the air transportation system as assigned by the government

Our resources in 2008/09 (inputs)

\$427M for 2008/09 • 392 FTEs • 6,000 Screening Officers (SOs) • 2500+ pieces of screening equipment

What we do (mandated activities)

PBS

HBS

NPS

RAIC

What we deliver (outputs)

Screened passengers and carry-on items using highly-trained SOs and equipment

Screened checked baggage using highly-trained SOs and Explosives Detection Systems (EDS)

Screened non-passengers (selected at random) and their belongings using highly-trained SOs and equipment

Dual-biometric access control technology for non-passengers at the 28 major airports

↓ Develop strategic direction and apply continuous improvement to optimize outputs

Our results

Strategic initiatives (short-term)

- Enhance PBS efficiency
- Integrated and proactive communications
- Increasing outreach to public and stakeholders
- Enhance security screening and technology at PBS and HBS
- Screening Officer as a career
- Strengthening responses to inquiries, complaints, and incidents

- Improving compliance and performance monitoring
- Targeting resources to risk
- Strengthening the Screening Officer workforce
- Strengthening screening consistency
- Life-cycle sustainability
- Building and strengthening capacity to meet the mandate
- Improve working conditions of screening personnel
- Review screening delivery model
- Secure long-term, sustainable funding and reference levels
- Enhanced planning, execution, and measurement
- Enhancements to governance practices
- Enhanced infrastructure

- Leverage screening expertise
- Strengthen relationship with shareholder
- Demonstrate continued leadership within the governance community
- Enhancing business processes and financial systems
- Leverage equipment expertise

Strategic outcomes (medium-term)

→ Customer-focused security

→ Capacity

→ Recognized expertise

Our long-term results (legislative outcomes)

Efficient screening • Effective screening • Consistent screening • Screening in the public interest



Results of strategic initiative activities

Strategic Outcomes

To achieve its mandate, CATSA established the following three five-year strategic outcomes in its 2007/08-2011/12 Corporate Plan:

1. Customer-Focused Security
2. Strengthened Capacity
3. Recognized Expertise

The activities that CATSA carried out over the past year in support of these outcomes are described in the following section:

Completed:

Activities that were completed as planned

Partially Completed:

Activities that were not completed as planned; slippage in terms of time to completion, and/or budget variances

Ongoing:

Activities that are multi-year



Strategic Outcome – Customer-Focused Security

In realizing this strategic outcome, CATSA needs the people, processes, equipment and experience to ensure that the organization’s approach to its business and security screening programs remains customer focused, that is, perceived as effective and valuable to the travelling public.

Enhance PBS efficiency **Plan:** To draft new SOPs to identify potential solutions for increased efficiency of Physical Search of the Person (PSOP)

Status: Completed

Results: A new draft of SOPs was developed identifying a potential solution for increased efficiencies. These are expected to come into effect in the fall of 2009

.....
Plan: To conduct research on the placement of Walk-Through Metal Detector (WTMD) at screening checkpoints

Status: Completed

Results: Conducted research as a part of throughput and queuing study performed in July 2008 which compared efficiency of different configurations. Additional analysis required before final determination

.....
Plan: To begin drafting policy on Closed-Circuit Television (CCTV) collection, retention and disclosure by end of Q4 of 2008/09

Status: Completed

Results: Policy on CCTV was being drafted as of March 2009 and is expected to be completed by the end of Q1 of 2009/10

.....
Plan: To draft a Privacy Impact Assessment (PIA) by the end of Q4 for review by the Office of the Privacy Commissioner

Status: Completed

Results: A final PIA was drafted in Q4 of the 2008/09 fiscal year

**Integrated
and proactive
communication**

Plan: To conduct survey to assess demand for service in both official languages at the 71 airports with annual passenger traffic volumes of under 1 million (i.e. non-major airports)

Status: Completed

Results: A survey was conducted at the 71 airports and results will be used to update the list of airports where CATSA has a legislative obligation to provide services in both official languages

.....

Plan: To undertake a baseline research project at Toronto's Pearson International Airport to determine segments of the travelling population where CATSA needs to focus its communications efforts

Status: Completed

Results: An extensive baseline research project took place at Toronto's Pearson Airport in July and August 2008.

The results from these research processes have made CATSA better able to identify types of travellers and segment them into specific categories, thus permitting more direct messaging to each specific target groups.

.....

Plan: To undertake a web audit to redesign CATSA's website to be more relevant to passengers

Status: Ongoing

Results: Currently undertaking a web audit with recommendations on how to redesign the website to become a more effective tool for passengers to find the information they are seeking.

**Increase
outreach
to public and
stakeholders**

Plan: To lead and participate in International Forum for Security Screening in Aviation (IFSSA) in March 2009

Status: Completed

Results: In March 2009, CATSA organized the 2009 IFSSA conference in Montreal. Participants from several countries contributed to discussions on various aviation security topics.



Enhance security screening and technology at PBS and HBS

Plan: To upgrade PBS and HBS for increased detection capability, including liquids, aerosols and gels (LAGs) detection and expanded passenger explosives detection by:

- undertaking trials and planning for new technologies as well as replacement technologies for PBS and HBS
- exploring efficiencies at PBS and HBS through the use of new technologies

Status: Partially Completed

Results: Sufficient funding in 2008/09 was not available to support all required upgrades. However, the following activities were completed:

- Completed pilot project at the Kelowna International Airport for Whole Body Imaging technology between June 2008 and January 2009
- Trial was conducted at Toronto's Pearson airport to evaluate the use of two types of explosive vapour detectors (EVP) – from February to March 2009
- Two units of the new CT technology were deployed as part of an advanced HBS at the Quebec City Jean Lesage International Airport in June 2008
- Installed CTX networking equipment at Vancouver and Toronto airports
- Installed two CTX 9000 units at Vancouver's domestic terminal to provide additional screening support
- Completed design for level 5 return conveyors
- CTX bag positioning pilot project was completed on March 23 in Halifax. Planning of additional deployments at select major airports is underway. Other bag positioning devices will also be tested in 2009/10.
- Installed 12 Bin Return Systems for PBS across Canada
- Boarding Pass Security System (BPSS) was developed in 2008/09, with a pilot launched on April 20, 2009 in Montreal

Screening Officer as a career

Plan: To launch a national shift briefing to improve communication, and provide information to Screening Officers at all airports regarding current security and other issues by the end of 2008/09

Status: Completed

Results: As of March 31, 2009, 100% of Screening Officers were receiving shift briefings

Strengthening response to inquiries, complaints, and incidents

Plan: To increase hours of the Security Operations Centre (SOC)

Status: Completed

Results: Two additional employees were hired, making the SOC staffed 24/7

Strategic Outcome – Strengthened Capacity

CATSA must build and maintain a talented, engaged, and agile workforce to meet its evolving requirements and ensure that the people, processes and programs contribute to strengthening its corporate capacity.

Improving compliance and performance monitoring **Plan:** To deploy 60 oversight officers by the end of 2008/09 to enhance compliance to security policies, procedures and regulations

Status: Completed

Results: The deployment of 60 oversight officers was complete at the end of 2008/09

Targeting resources to risk **Plan:** To utilize portable screening capacity for other mandated activities after the 2010 Olympic and Paralympics Games

Status: Ongoing

Results: The planning committee for CATSA's role during the 2010 Winter Games period established that after the Games, Portable Screening Units will be used for CATSA's other mandated activities

Strengthening the Screening Officer workforce **Plan:** To initiate trials of enhanced software to enable the reactivation of TIPS and begin deployment at PBS and HBS checkpoints

Status: Completed

Results:

- Completed enhanced software pilot to enable the reactivation of TIPS in December 2008
- Commenced deployment of the improved software and the reactivation of TIPS at all PBS and HBS checkpoints that use X-rays

.....
Plan: To launch a pilot project to replace X-ray Tutor (XRT) Standard Edition with the Professional Edition by end of 2008/09

Status: Completed

Results: The XRT Standard Edition was replaced with the Professional Edition at eight airports during the initial launch in 2008/09.
.....

Plan: To develop recurrent learning and recertification program by the end of 2008/09

Status: Completed

Results: The program was developed, and piloted in Halifax, Winnipeg, Quebec City and Edmonton
.....

Plan: To develop the National Screening Officer Pre-Qualification Program by the end of 2008/09

Status: Completed

Results: The program was developed to improve the quality of candidates for Screening Officer training, as well as to reduce attrition rates. It is being piloted for both Screening Officer and Point Leader candidates
.....

Plan: To develop and fully implement a Certification Program for new Point Leaders by the end of 2008/09

Status: Partially Completed

Results: The program is being developed and piloted. The program provides Point Leaders with enhanced training in key skill areas and certification.
.....

Plan: To create and conduct a trial for a learning and development program for Oversight Officers

Status: Completed

Results: The program for Oversight Officers was created and a trial was conducted in Vancouver.

**Strengthening
screening
consistency**

Plan: To develop and launch orientation and training programs for Oversight Officers. Deliver sessions at nine airports across the country to a total of 60 Oversight Officers.

Review and update CATSA Operating Procedures (COPs) for all 28 major airports

Status: Ongoing

Results: The Oversight Officer training program was developed and is being delivered to 60 Oversight Officers at the eight busiest airports.

Life-cycle sustainability

Plan: To complete all required replacement of aging PBS and HBS equipment that are reaching the end of their expected useful life

Status: Partially Completed

Results: Sufficient funding was not available in 2008/09 to support all required replacements. However, the following activities were completed:

- Update of all Walk-Through Metal Detectors
 - Upgrade of VDS software
 - CTX 9000 upgraded to CTX 9400 at Toronto's Pearson International Airport
-

Plan: To renew contracts for maintenance services as needed

Status: Completed

Results:

- A new maintenance contract was established for the Reveal CT-80
 - Meetings are held regularly with General Electric, L3 and NAV Canada to discuss maintenance issues
-

Plan: To respond to the Office of the Auditor General's (OAG) special examination recommendation on disposal of equipment that is potentially harmful to the environment

Status: Ongoing

Results: A policy and guidelines covering the disposal of surplus assets was developed. This policy also addresses the disposal of components potentially harmful to the environment

Building and strengthening capacity to meet the mandate

Plan: To complete negotiation of contract extensions with Screening Contractors

Status: Completed

Results:

- Completed negotiations with the four major Screening Contractors in October 2008, extending the contracts for a two-year period
 - The remaining small contractors were approved in February 2009 for a two-year period
-

Plan: To begin consultation with Screening Contractors to finalize staffing strategy for the 2010 Vancouver Olympics and Paralympics

Status: Completed

Results: Consultations commenced in November 2008 to finalize a staffing strategy to accommodate the need for additional Screening Officers during the 2010 Games in Vancouver

.....

Plan: To develop a budget estimating total costs for the 2010 Vancouver Olympics and Paralympics

Status: Completed

Results: Developed a budget estimating total costs for the Games as part of CATSA's funding proposal to the Government of Canada

Plan: To acquire 10 Portable Screening Units (PSU) and additional space for 2010 Olympics and Paralympics

Status: Completed

Results:

- The contract for 10 PSUs to be used for the Games was awarded in October 2008. The design for the prototype was approved, and testing of the prototype PSU was completed in February 2009
 - The production of the units is scheduled to commence in April 2009 with final delivery in October 2009
 - Additional space was leased inside the Vancouver terminal according to PSU requirement
-

Improve working conditions of screening personnel

Plan: To gather suggestions from Screening Contractors on operational improvements

Status: Ongoing

Results:

- Consulted with external experts and conducted a cross-country review
 - Various strategies are being implemented to achieve improved working conditions, including an integrated approach to address stability within the Screening Officer workforce
-

Review screening delivery model

Plan: To review cost-effectiveness of current screening delivery model by the end of 2008/09

Status: Completed

Results: In December 2008, CATSA commissioned a third-party re-assessment of the service delivery model options. Based on this review, it was concluded that the screening contractor model continues to be the preferred option for CATSA

Secure long-term, sustainable funding and reference levels

Plan: To secure sustainable funding in collaboration with Transport Canada through 2009 Federal Budget announcement

Status: Partially Completed

Results:

- In conjunction with TC, CATSA helped prepare a request to the Government of Canada to secure sustainable funding for the planning period from 2009-2014, and beyond
 - In the 2009 Budget, CATSA was allocated \$356M for 2009/10 in addition to its permanent, ongoing funding of \$234M
 - For 2010/11 and beyond, CATSA's funding returns to \$234M, with no capital funds
-

**Enhanced
planning,
execution, and
measurement**

Plan: To set priorities for performance measurement and identify branch resources for performance measurement activities

Status: Completed

Results:

- Senior Management conducted a formal quarterly review of operational performance at Passenger Incident Review Committee (PIRC) and Security Incident Review Committee (SIRC) meetings
 - An Operations Action Committee was formed to review operation performance on a frequent basis to address action items identified in the PIRC/SIRC Committees and to create ongoing and future action plans and initiatives
-

Plan: To further develop and implement performance measurement plans for each branch

Status: Partially Completed

Results:

- A formal performance measurement plan for the Technology Branch was developed and implemented
 - Reports on key performance indicators are provided quarterly
-

Plan: To carry out a review of the Performance Based Measurement Plan to ensure the framework is meeting the needs of the organization

Status: Completed

Results: A Program Evaluation of the Performance Measurement Program was conducted in the last quarter of 2008/09. A draft report with a set of recommendations was produced.

.....

Plan: To develop a set of Key Performance Indicators for CATSA's legislative outcomes (effectiveness, efficiency, consistency and in the public interest)

Status: Completed

Results: Key Performance Indicators have been developed, and are presented in the Corporate Performance section of this Annual Report



**Enhancements
to governance
practices**

Plan: To maximize the effectiveness of the Board of Directors and, in turn, that of the corporation through:

- adopting governance best practices,
- improving compliance with statutory requirements; and
- supporting Special Examination recommendations

Status: Ongoing

Results:

- The Board of Directors developed and implemented an annual evaluation process
 - The Competencies Matrix for Directors was updated for use as a tool to provide guidance regarding new appointments
 - CATSA's Board of Directors continued to proactively disclose its travel and hospitality expenses on the CATSA website
-

**Enhanced
infrastructure**

Plan: To implement full network monitoring to permit assessment of performance equipment, including

- Networking of Walk-Through Metal Detectors (WTMD) at the eight busiest airports via a Wide Area Network to CATSA Headquarters
- Proof of concept for networking PBS and X-ray
- Development and implementation of a Material Management Information System (MMIS)

Status: Partially Completed

Results: Insufficient funding was available in 2008/09 to support full implementation. However, the following activities were completed:

- Networking of Walk-Through Metal Detectors at the eight busiest airports via a Wide Area Network to CATSA Headquarters is underway
 - Proof of concept for networking PBS and X-ray is in progress
 - A MMIS incorporating Key Performance Indicators has been developed and implemented
-

Plan: To migrate the existing Learning Management System (LMS)/Learning Content Management System (LCMS) to a new system that provides improved client interface, program support, data integrity and performance monitoring. Complete Phase 1 by end of 2008/09

Status: Completed

Results: Phase 1 of LMS/LCMS migration completed

.....

Plan: To fund airport expansions already approved and for which funding has been identified

Status: Partially Completed

Results: Airport expansions in Montreal and Quebec City were completed on schedule in 2008/09. A significant portion of the Calgary and Winnipeg airport expansions was completed in 2008/09, with the remaining portion to be concluded in 2009/10-2010/11

.....

Plan: To award a Managed Network Services Contract to provide effective network connectivity to the 89 designated airports

Status: Completed

Results: A Managed Network Services Contract was in place effective June 2008.

Plan: To provide secure equipment for HQ and regional offices to ensure baseline compliance with the Government Security Policy

Status: Ongoing

Results: Ongoing installation of secure equipment at CATSA HQ and regional offices, including secure Local Area Network (LAN), and biometric memory sticks



Strategic Outcome – Recognized Expertise

CATSA has developed considerable expertise within its mandated areas of activity, and in several areas serves as an international benchmark. For example, RAIC, won domestic recognition from the Canadian Information Productivity Awards for exceptional innovation.

CATSA's expertise has been recognized among domestic stakeholders and international partners, as evidenced at the Canadian Aviation Security Conference, inter-agency meetings, and the International Forum on Security Screening in Aviation (IFSSA).

In achieving recognized expertise, CATSA will solidify and maintain confidence with the government, its shareholder and regulator, as well as stakeholders, and the travelling public.

Leverage screening expertise

Plan: To work with the Canadian Association of Chiefs of Police to set up "Project Griffin" at Canadian Airports

The project was inspired by an initiative in United Kingdom, with an aim to provide aviation security-specific training to the airport community with the overall objective of increasing our eyes and ears on the front line

Status: Ongoing

Results:

- Inter-agency stakeholder meetings are underway and will set out the participants and guidelines for the committee. Efforts will proceed under the auspices of the Canadian Association of Chiefs of Police - Aviation Security Committee.

Strengthen relationship with shareholder

Plan: To further develop relationship with Transport Canada through collaboration in developing funding request and screening initiatives

Status: Completed

Results:

- CATSA supported Transport Canada's cargo screening pilot initiative in October – November 2008, in the form of screening, and contribution to the development of SOPs
- CATSA Senior Management and employees worked in close cooperation with Transport Canada on the development of the 2008/09 funding request to the Government of Canada
- The Chair of the Board continues to work in close coordination with the offices of the Minister of Transport, Infrastructure and Communities, and the Minister of State, Transport

**Demonstrate
continued
leadership within
the governance
community**

Plan: To continue benchmarking against other Crown corporations in the areas of operational, financial, and information management and acquire additional knowledge of best practices

Status: Ongoing

Results: CATSA continues to participate in a forum of discussion with corporate secretaries from other Crown corporations

**Enhancing
business
processes
and financial
systems**

Plan: To conduct internal audits over the year, including, but not exclusive to, the following areas:

- CATSA's communications function;
- Large Screening Contractors; and
- Business Continuity Plan

Status: Completed

Results:

- Communications function: approved by Audit Committee June 17, 2008
 - Large Screening Contractors: approved by Audit Committee October 2, 2008
 - Business Continuity Plan: was presented to the Board December 10, 2008
-

Plan: To develop and deploy revised Performance Payment Program (PPP) to the four major Screening Contractors

Status: Completed

Results: Revised PPP was developed and deployed to the four major Screening Contractors in Q2

.....

Plan: To develop Chief Executive Officer/Chief Financial Officer certification guidelines in correspondence with Section 34 Verification procedures of the *Finacial Administration Act*.

Status: Ongoing

Results: CEO/CFO certification guidelines are currently being developed

.....

Plan: To expand the Secure Identification and Time Tracking (SITT) to the eight busiest airports

Status: Completed

Results: Deployed SITT system to all 28 major airports

**Leverage
equipment
expertise**

Plan: To support Transport Canada's cargo screening pilot initiative

Status: Completed

Results: CATSA participated in the pilot taking place from October – November 2008

Corporate performance

For CATSA, measuring performance begins with establishing the objectives of security screening. To determine performance against those objectives requires CATSA to identify key performance indicators, determine baselines and targets, and collect, analyze, and evaluate measurable data. CATSA's security screening objectives are taken from the four legislative outcomes in the *CATSA Act*: effective, efficient, consistent, and in the public interest. The following definitions come from *Flight Plan: Managing the Risks in Aviation Security – Report of the Advisory Panel*.

Effective means “attaining the given objective(s). For CATSA, achieving security is the primary objective...”

Efficient means “the relationship of the level of resources applied to activities, outputs, and results. It can be expressed in quantitative or qualitative terms, and addresses for example, value for money concerns.”

Consistent means “security (screening) should be at the same level across Canada. It need not be performed identically in every location because of differing local conditions and variations in the threat environment.”

In the Public Interest refers primarily “to enjoy a reasonably pleasant travel experience that meets expectations, such as departing on time, being treated courteously, not standing in lines for long periods, not losing one’s luggage, etc.”

CATSA's key performance indicators and results for 2008/09 are shown in the tables that follow. All of the indicators track results from one or more of Canada's eight busiest airports, which handle almost 85% of all passenger traffic across the country.

CATSA is constantly reviewing its performance indicators to ensure that it is collecting the right data and to identify opportunities to develop new indicators to improve its performance reports. This ongoing process along with the results of a third-party evaluation of its performance measurement framework means that CATSA's performance measurement program will continue to evolve.

Note: Other important indications of CATSA's screening effectiveness come from the results of Transport Canada and CATSA tests of the PBS and HBS systems and from PBS security breach data that CATSA collects. These results and data are reviewed by CATSA's senior management as part of the regular operational performance analysis process. However, because the results of these tests and data collection efforts are classified Secret, they cannot be included in a public document such as the Annual Report.



X-RAY TUTOR (XRT) PROFESSIONAL

X-ray Tutor (XRT) is a learning program designed to enhance Screening Officers' ability to detect threat items. The computer software displays X-ray images of baggage with various threat items inside, which the user is prompted to identify and locate.

In November 2008, CATSA began upgrading the current XRT Standard Edition software with the XRT Professional Edition at eight airports (Toronto, Edmonton, Kitchener, Quebec City, Halifax, Ottawa, Vancouver and Winnipeg). This training tool upgrade is a big part of continuous improvement as a Screening Officer, and offers the following enhancements:

- three times the number of images in the library;
- improved image quality; and
- enhanced library of image allowing users to perform three times as many sessions to complete each training level.

CATSA plans to have all airport training stations upgraded to XRT Professional by the second quarter of 2009/10.

Screening in the public interest

Key performance indicator	Target	2008/09 Results					Comments
		Q1	Q2	Q3	Q4	Annual	
<p>Customer satisfaction</p> <p><i>Definition:</i> The percentage of airline passengers who express satisfaction with the PBS process.</p>	90%	N/A	92%	N/A	N/A	92%	<p>Target exceeded.</p> <p>Results obtained from an on-site survey (completed in July 2008) of air travellers at Toronto's Pearson International airport.</p> <p>While the questions for this survey differed slightly from past years, the result is in-line with previous satisfaction survey results, which were in the range of 91-94% (see CATSA's 2005, 2006 and 2007 Annual Reports).</p> <p>In 2009/10, along with continuing to track air travellers' overall satisfaction with security screening, CATSA will explore measuring and tracking additional indicators in this area.</p>
<p>PBS wait times at the eight busiest airports</p> <p><i>Definition:</i> The elapsed time between when a passenger enters a line-up at a PBS checkpoint and starts the screening process.</p>	< 8 min. 90% of the time	N/A	< 8 min. 97% of the time	N/A	N/A	< 8 min. 97% of the time ¹	<p>Target exceeded.</p> <p>The Q2 result is the average from PBS checkpoints at the four largest airports—Toronto Pearson International, Montreal Pierre Elliott Trudeau, Calgary International, and Vancouver International. The survey was conducted during July/August 2008.</p> <p>For 2009/10, CATSA is exploring the use of an automated system to track wait times at PBS at the eight busiest airports. A pilot project of this new technology will start in Q1 of 2009 at Montreal Pierre Elliott Trudeau airport.</p>

¹ The annualized number for PBS wait time at the eight busiest airports is based only on data collected in one collection period, i.e. Q2 of 2008/09

Consistent screening

Key performance indicator	Target	2008/09 Results					Comments
		Q1	Q2	Q3	Q4	Annual	
<p>Screening equipment availability</p> <p><i>Definition:</i> The percentage of operational availability (20 operational hours per day less scheduled maintenance downtime) of major screening equipment at the eight busiest airports, reported quarterly.</p>	99.62%	99.56%	99.40%	99.38%	99.46%	99.47%	Although slightly below target, equipment availability over the course of the year has been very stable with overall variance of 0.18%. Throughout the year equipment availability of over 99% is a significant achievement.
<p>Screening equipment contingency activations</p> <p><i>Definition:</i> Total number of HBS and PBS contingency activations caused by CATSA equipment at the eight busiest airports, reported quarterly.</p>	73 per quarter	43	72	46	62	223	Contingency activations over the course of the year have been somewhat variable, but below target. Contingency activations vary, depending on the type and location of equipment in part due to the variance of the availability of back-up equipment at different airports.

Efficient screening

Key performance indicator	Target	2008/09 Results					Comments
		Q1	Q2	Q3	Q4	Annual	
Basic Certification Success Rates <i>Definition:</i> Percentage of Screening Officers, at the eight busiest airports, who successfully complete Foundations Levels 1 and 2 certification.	80%	70%	87%	86%	94%	84%	Results trend upwards and exceed the target in all quarters except Q1. The below target results in Q1 are due, in part, to the large number of courses in this period that possibly impacted on the quality of candidates that were selected for training.



Consistent screening

Key performance indicator	Target	2008/09 Results					Comments
		Q1	Q2	Q3	Q4	Annual	
<p>X-Ray Tutor (XRT) performance</p> <p><i>Definition:</i> The percentage of Screening Officers who, at the eight busiest airports, have reached a level of expertise (Level 4 or above) on XRT Standard Edition.</p>	80%	56%	68%	72%	78%	71%	Upward trend over the year as technical issues were resolved. As sites transitioned to the new XRT Professional Edition they were excluded from these figures as current measures do not apply.
<p>Screening Officer attrition rates – average of the eight busiest airports</p> <p><i>Definition:</i> Percentage calculated by dividing the total number of Screening Officers and Point Leaders, who resigned or were terminated during the quarter, by the number of Screening Officers and Point Leaders at the start of the quarter.</p>	20% annual-ized	7.8%	7.6%	6.3%	5.4%	26.4%	There has been a steady decrease in overall attrition at the three largest airports (Toronto, Vancouver and Montreal). Possible factors contributing to this include a cooler job market as a result of the economic situation, development of a culture of excellence in the work environment, and screening hour reduction leading to hiring freezes.



EMPOWERING SCREENING OFFICERS TO SERVE AIR TRAVELLERS BETTER

Being alert and vigilant is a critical part of Screening Officer's daily job. To make this easier and to help ensure that Screening Officers have the perspective they need to carry out their responsibilities effectively, CATSA has launched a new national Shift Briefing Program.

This Program provides Screening Officers with new and relevant information on evolving threats, new concealment techniques; and details of incidents at Canadian airports. As well as highlighting customer service best practices, shift briefings improve operational consistency by linking Screening Officers from coast to coast. By early December 2008, Screening Officers at all 89 airports were receiving shift briefings.

With continuous feedback and suggestions from the front lines, CATSA HQ is able to ensure that the briefings remain relevant, informative and interesting for Screening Officers. Communication and education are the keys to success.

LOOKING AHEAD

The end of 2008/09 marked seven years of CATSA operations. CATSA is a growing and maturing organization.

Over the past year, CATSA took steps to respond to pressing strategic issues as evolving risks and threats, passenger growth, the demand to have screening methods and technology compatible with those of international counterparts, and the renewal of contracts with Screening Contractors. In close cooperation with our Screening Contractors, CATSA made great progress in the ongoing development of a culture of excellence for Screening Officers.

Given the funding allocated to CATSA for 2009/10 in the 2009 Federal Budget, CATSA will continue to address the highest risks by investing in new screening equipment and detection capabilities, introducing several operational enhancements, and beginning the rollout of the new screening initiatives at some of the eight busiest airports, including Behaviour Pattern Recognition (BPR), screening at Fixed-Base Operations (FBO), and establishment of the Critical Restricted Area (CRA). These measures will, for 2009/10, put Canada on track to future equivalency with international partners.

Strategic Planning – Charting our Course

Consistent with last year's corporate strategy, CATSA will continue to work toward the following three strategic outcomes: customer-focused security, capacity, and recognized expertise; these projects will remain as priorities in CATSA's risk-based strategic plan.



Customer-focused Security

CATSA's strategy is developed to ensure that security is maintained and enhanced, and also that customer service continues to be a top priority. In order to ensure these outcomes, CATSA employs risk-based screening methods, by proactively putting in place new measures to simplify and streamline the screening process, and by engaging the travelling public through an interactive and proactive communications strategy. The implementation of this improved concept of operations will enhance security and facilitate improved customer-focused security.

Capacity

CATSA's strategy in relation to capacity focuses on meeting international equivalency, maintaining properly functioning equipment, planning for airport development and providing efficient, effective screening. In addition to deploying new technologies across Canada, oversight at airports will continue to be a priority, with a view to efficiently strengthening CATSA's capacity to secure air travel.

Recognized Expertise

CATSA has worked hard to develop considerable expertise within its mandated areas of activity, and continues to work at being recognized for its security screening expertise. By achieving recognized expertise, CATSA will solidify and maintain confidence from the government, its shareholder and regulator, as well as stakeholders, and the travelling public.

We will continue to work with our government partners to secure long-term, sustainable funding, which will allow us to undertake projects and initiatives that will contribute to achieving our three strategic outcomes. In the meantime, maintaining and enhancing security remains our highest priority.



THINKING "OUTSIDE THE BIN"

Janis Jardine, a Screening Officer Point Leader at Victoria International Airport, noticed that many children become visibly upset before entering the screening process. Not only must they let go of the hand of the grown-up they are travelling with, but also have to place any toy or other precious possession they are carrying in a plastic bin.

Janis thought something could be done about that, so she purchased some brightly coloured stickers and placed them on a few bins that would be reserved for children. The stickers draw the children's focus away from that fear of letting go of their possessions and placing it into a plastic bin. Now, children are eager to let their teddy bear or dolly take a ride along with some fun stickers through the X-ray machine, and then see it come out safe and sound at the other end.

Customer satisfaction is clearly a top priority for Janis. By using her creativity and initiative, she has made the security screening process more enjoyable for children and parents, and has made the Screening Officer's job a little easier on the front lines. A job well done!

**MILLIMETRE WAVE TECHNOLOGY TRIAL –
KELOWNA INTERNATIONAL AIRPORT
JUNE 2008 – JANUARY 2009**

Between June 23, 2008 and January 18, 2009, CATSA, the Kelowna International Airport, Transport Canada and L3 a technology vendor company, worked collaboratively to test a new body-imaging technology called millimetre wave imaging. Used in conjunction with current pre-board X-ray and trace screening equipment, this new technology provides CATSA and Screening Officers with an additional security screening tool.

Participation by the travelling public was on a purely voluntary basis.

During the trial, CATSA collected data and evaluated the efficiency, improved security, and passenger convenience resulting from the reduced requirement for complete physical pat-downs. Key findings of the report resulting from this trial indicate that the technology is a significant improvement on the level of security being offered by the current technology. A survey of passengers who participated in the trial found that 95% of passengers prefer the millimetre wave over a physical pat-down.

When passengers are required to undergo additional screening measures, they will always have the option to choose between a physical pat-down or passing through the millimetre wave portal.

CATSA worked with the Office of the Privacy Commissioner (OPC) to ensure that privacy considerations were taken into account in the implementation of the trial. For any future deployment of millimetre wave technology, CATSA will ensure that privacy concerns continue to be addressed.

**COUNTDOWN TO THE VANCOUVER 2010 OLYMPIC
AND PARALYMPIC GAMES**

CATSA continues to work with Transport Canada and other government partners to prepare for heightened security screening requirements during the 2010 Vancouver Winter Olympic and Paralympic Games.

In addition to providing supplementary screening services to meet the high passenger volumes projected for the Games, CATSA will provide screening services for floatplane operations and helipads using new Portable Screening Units (PSUs). CATSA awarded a contract for the PSUs, the design for the prototype was approved, and the prototype was constructed.

The Winter Olympic and Paralympic Games is a very high-profile event with the potential to demonstrate to the world how prepared Canada is to host thousands of visitors from around the world on the international stage. CATSA's involvement is both a result of its expertise, and an opportunity to advance this expertise and reputation among its national security partners.

NEW TECHNOLOGY FOR A MORE EFFECTIVE LAGs SCREENING

CATSA, the Greater Toronto Airport Authority, Transport Canada, and two technology vendor companies, worked collaboratively to trial hand-held explosive detectors to screen liquids, aerosols, and gels at pre-board screening lanes at Toronto's Pearson International Airport Terminal 3 between February 11 and March 25, 2009. The trial was the first application of this technology for aviation security in Canada and will provide an opportunity for CATSA to gather information and data on the units' effectiveness, reliability, throughput, operational performance and alarm rates.

Similar testing in the United States is ongoing. Participation by passengers in the trial was voluntary during the six weeks of the pilot project.



CORPORATE GOVERNANCE

The Board of Directors has the responsibility for the overall stewardship of CATSA and is accountable to Parliament through the Minister of Transport, Infrastructure and Communities for ensuring that the activities of the organization are aligned with its statutory mandate and reports to the Minister of State for day to day matters.

The Board has eleven director positions, including the Chairperson, appointed by the Governor in Council on the recommendation of the Minister of Transport, Infrastructure and Communities. There are four positions for industry representatives; two must be nominated by representatives of the airline industry and two must be nominated by representatives of airport operators. All directors are independent of management. None is a CATSA employee or a public servant. The Board has a balanced mix of skills and experience needed for its stewardship role.

The framework of CATSA's governance includes the *Canadian Air Transport Security Authority Act* and the *Financial Administration Act*, Part X. CATSA is also subject to other laws, such as the *Access to Information Act*, the *Privacy Act* and the *Official Languages Act*.

Throughout 2008/09, the Board continued its work on implementing the measures issued by the Treasury Board of Canada Secretariat in its report *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians*. CATSA now meets almost all measures for which it has authority to act. The Board has begun planning the organization's first annual public meeting. This meeting is anticipated to take place in the fall of 2010. A Board assessment process has been implemented and the first Board assessment completed. The Board continued to upgrade CATSA's governance practices. The Board of Directors' Role and Responsibilities as well as the Committees' Terms of Reference are updated annually, or when required, by changes in laws, regulations, policies, guidelines or recommended best practices that impact the management of Crown corporations. The Board proactively discloses travel and hospitality expenses of all directors on the CATSA website. Every year, directors affirm that they have complied with the *Code of Conduct and Ethical Behaviour for Directors*. This Code is publicly available on the website. The Director, Internal Audit, reports directly to the Audit Committee, thus reinforcing the independence of this function.

The Auditor General of Canada is our external auditor. Representatives from the office of the Auditor General attend each Audit Committee meeting. The Board of Directors is responsible for the management of the business, activities and other affairs of the organization. As part of the overall stewardship responsibilities the Board:

- Is responsible for the hiring of the President and CEO, approving the CEO's objectives for the year and for evaluating his/her performance;
- Contributes and approves the strategic direction included in the corporate plan and priorities of the organization;
- Ensures that the principal risks of CATSA's business have been identified and that appropriate systems to manage these risks have been implemented;
- Reviews and approves management's succession plan for senior management.

The Board discharges many of its responsibilities through four standing committees: the Audit Committee, the Corporate Governance and Human Resources Committee, the Strategy Committee and the Pension and Benefits Committee. The Strategy Committee and the Pension and Benefits Committee were formed in 2008/09. The committees are independent from management. Each Director serves on at least two committees.

Committee	Number of meetings	Membership as of March 31, 2009	Recurring Activities and Highlights
Audit Committee	4	Chair: John Kaldeway Michael D. Campbell Denis Jacob Dora Koop Mike Shaikh D. Ian Glen	<ul style="list-style-type: none"> • Reviewed delegation of authorities • Oversaw internal audit plan and reports • Received external audit plan and report • Reviewed annual audited financial statements and annual report • Reviewed capital and operating budgets as contained in CATSA's Corporate Plan • Reviewed quarterly financial information • Approved Policy on Travel for employees and Policy on Hospitality Events and Business Meetings for employees • Reviewed progress report on Corporate Management Systems and Practices Improvement Plan • Reviewed progress report on CEO/CFO Certification Process • Reviewed major accounting policies including alternatives and potential key management estimates and judgments • Reviewed development and implementation of an Action Plan for International Financial Reporting Standards (IFRS) by CATSA



Committee	Number of meetings	Membership as of March 31, 2009	Recurring Activities and Highlights
Corporate Governance and Human Resources	5	Chair: Ron Patmore Gaetane C. Hains Gene McLean H. Glen Rainbird Donald K. Robinson D. Ian Glen	<ul style="list-style-type: none"> • Recommended a standing committee to deal with governance issues related to CATSA's two pension plans • Reviewed and recommended to the Board the President and CEO's objectives • Assessed the performance of the President and CEO • Reviewed senior management succession plan • Reviewed with management and recommended to the Board for approval, a new organizational structure • Reviewed and supported management's proposal for a total compensation philosophy • Recommended a new standing committee to deal with strategic matters and terms of reference for the new committees
Strategy Committee	1	Chair: Denis Jacob D. Ian Glen John Kaldeway Dora Koop Gene McLean Ron Patmore Glenn Rainbird	<ul style="list-style-type: none"> • On five separate occasions during 2008/09 an <i>ad hoc</i> committee comprised of five directors had been formed to work with management on key strategic issues. The Chair of this committee was Mr. Denis Jacob. The work generated by the <i>ad hoc</i> committee led to the creation of the Strategy Committee and terms of reference were later approved • Discussed with management, a new Technology Steering Committee and reviewed a list of trials, pilot projects and equipment upgrades currently underway • Discussed with management, Screening Contractors performance and risks • Reviewed the Corporate Plan and proposal to government for long-term funding
Pension and Benefits Committee	1	Chair: Glenn Rainbird Michael Campbell D. Ian Glen Gaetane Hains Donald Robinson Mike Shaikh	<ul style="list-style-type: none"> • Approved terms of reference • Reviewed the current pension plans characteristics and the governance framework



The Board Reports on Corporate Governance

The Role of the Board of Directors –
Translating public policy into efficient
and ethical operations

CATSA's Board of Directors

As of March 31, 2009, CATSA's Board
of Directors was comprised of the following
eleven members:

- D. Ian Glen, Q.C., *Chair*
- Michael D. Campbell, *Director*
- Gaetane C. Hains, *Director*
- Denis Jacob, *Director*
- John Kaldeway, *Director*
- Dora Koop, *Director*
- Gene McLean, *Director*
- Ron Patmore, *Director*
- H. Glenn Rainbird, O.C., *Director*
- Donald K. Robinson, Q.C., *Director*
- Mike H. Shaikh, FCA, *Director*

D. Ian Glen, Q.C.

Chair

Mr. Glen holds a bachelor of arts from the University of Guelph, and a bachelor of laws from Queen's University. He was called to the Bar of Ontario in 1973 and was appointed Queen's Counsel in 1986. He began his legal career in private practice in Huntsville, Ontario and subsequently worked for the Department of Justice from 1975 until 1987, when he was appointed Assistant Deputy Solicitor General, responsible for Police and Security in the Department of the Solicitor General. Mr. Glen went on to serve in a number of senior management positions in the federal government, including Associate Deputy Minister of the Department of Citizenship and Immigration, Deputy Secretary to the Cabinet (Operations), Deputy Minister of Environment Canada, and Chief, Communications Security Establishment. Prior to retiring from the Public Service in 2006, he was the chairperson of the National Parole Board. Mr. Glen has been appointed CATSA Chair for a term of five years.

Michael D. Campbell

Director

Mr. Campbell was involved in airport management in Atlantic Canada for thirty-six years including positions at Goose Bay, Labrador and Moncton, N.B. He served as Airport Manager at Saint John, New Brunswick from 1978 to 1982. From 1982 to 2007, he was CEO at Charlottetown Airport and was involved in the construction of the new terminal and the successful privatization of the airport to an important community resource in the development of tourism and business growth. Mr. Campbell has a Bachelor of Science from Saint Dunstan's University and is an accredited airport executive. He is also a graduate of Transport Canada's Transportation Management Course. Mr. Campbell continues to be involved in the business community through various committees and boards including the Charlottetown Harbour Authority and Rotary International. Mr. Campbell has been appointed to CATSA's Board of Directors as a representative of the Canadian Airports Council (CAC).



Gaetane C. Hains

Director

Ms. Hains is currently a full-time lecturer in Human Resources Management at HEC-Montréal. Prior to this, she was Vice-President, Human Resources for Proxima Systems Ltd. Over the course of her career, Ms. Hains has held a number of key positions in the Human Resources departments of MetroNet Communications, Les Modes Shirmax Ltée, Communauté urbaine de Montréal, VIA Rail Canada, Montreal Trust, Gaz Métropolitain and Michelin Tire. She has also served on the Board of Directors of several organizations. Ms. Hains holds a master's degree in business administration from the Université du Québec à Montréal and a bachelor of science degree from the Université de Montréal.



Denis Jacob

Director

Mr. Jacob graduated from l'Université du Québec à Montréal in administration and accounting and is currently working as a consultant. He began his career with the helicopter fleet division of Hydro-Québec, and has since worked for Quebecair and Expair International as Financial Analyst and Aviation Consultant. In 1989, Mr. Jacob began working for Air Transat, heading the finance, sales and marketing divisions. He then became President and Chief Executive Officer of the airline. From 2002 to 2003, he was Senior Vice-President, Airline Division at Transat A.T. Inc. Mr. Jacob has been appointed to CATSA's Board of Directors as a representative of the Air Transport Association of Canada (ATAC) for a period of two years.



John Kaldeway

Director

Mr. Kaldeway served from 2004 to 2007 as President and Chief Executive Officer of the Greater Toronto Airports Authority (GTAA), where he was responsible for managing Toronto Pearson International Airport. From 1974 to 1996, Mr. Kaldeway held several positions of increasing responsibility with Transport Canada. He was Director, Airport Operations of Lester B. Pearson International Airport from 1991 to 1996, and upon the 1996 transfer of the airport from Transport Canada to the GTAA, he joined the GTAA as Director of Operations, and later became Vice-President, Operations and Maintenance. Mr. Kaldeway has been appointed to CATSA's Board of Directors as a representative of the Canadian Airports Council (CAC).



Dora Koop

Director

Ms. Koop holds a law degree from the University of Alberta and a master of business administration from McGill University. Ms. Koop is currently the Director of Business Solutions at the McGill International Executive Institute in Montreal, Manager of the Global Advanced Leadership Program, and consults on management and governance issues. Previously, she held senior level positions in several companies and organizations, such as FONOROLA Inc. and the federal government. Ms. Koop is a current board member of the Mennonite Central Committee Canada, an International Relief Organization. She has served on the Executive Committee of the Institute of Corporate Directors, Quebec Chapter, and for a number of years was a member of the YMCA Nominating Committee for the Women of Distinction Awards. She has been appointed to CATSA's Board of Directors for a period of four years.



Gene McLean

Director

Mr. McLean is Executive Security Advisor and Principal of McLean Security Advisory and Associates Inc. Mr. McLean served as Vice-President and Chief Security Officer at TELUS where he was involved in the setting of national security policy and procedures. He was also Director of Security for the Canadian Bankers Association and served with the RCMP for 25 years. Mr. McLean sits on the Program Education Advisory Board for the British Columbia Institute of Technology, Forensics Faculty, and the Advisory Committee with Concordia University College of Alberta. In addition, he is a member of the Overseas Security Advisory Council. Mr. McLean is also a director at The Society for the Policing of Cyberspace (POLCYB) and is on the Board of AFI-International, a crisis management and response group. He has completed the academic requirement for the Governance Essentials Program for Directors through the Telfer School of Management. Recently, Mr. McLean received the Canadian Security "Director of the Year" award. In May 2009, he was appointed as President, Canadian Society for Industrial Security. In October 2007, he was appointed to CATSA's Board of Directors for a period of three years.



Ron Patmore

Director

Mr. Patmore is retired from Skyservice Airlines Inc. where he held the position of Managing Director/President. Additionally, he was Director of other Skyservice companies. Mr. Patmore entered the airline industry in 1973 with Nordair in Montreal. He held various management positions in purchasing, supply and operations, moving to Vice-President Marketing and Sales and then Vice-President Ontario Region until 1987. Mr. Patmore founded and became President and CEO of Ontario Express. In 1993 and 1994, he was involved in planning and implementing the start up of Skyservice Airlines in cooperation with the Skyservice Group, and managed it until his retirement in 2002. He has served on various boards and committees including the Hamilton and District Chamber of Commerce, the Ontario Chamber of Commerce, Crime Stoppers, Outward Bound and the *ad hoc* committee for the development of the Hamilton Airport. Mr. Patmore has been appointed to CATSA's Board of Directors as a representative of the Air Transport Association of Canada (ATAC).



H. Glenn Rainbird, O.C.

Director

A business executive for more than thirty years, Mr. Rainbird has considerable governance experience. He has served on boards of directors in the private, public and volunteer sectors and has held chair duties at board and committee levels. His career included senior executive responsibilities with Imperial Oil and Nortel Networks. In 2001, he completed his business career as President and CEO of TRILabs, a research consortium in information and communications technology. Mr. Rainbird served on the Board of Directors of the Edmonton Regional Airports Authority for seven years and was the Authority's Chair in 2002/03. In addition to currently serving a three-year term on the CATSA Board of Directors, he serves as Chair of Veridian Corporation, an electric power distributor, and is a member of the Advisory Council to the Chief of Staff of Canada's Air Force. Mr. Rainbird holds a master of business administration and a bachelor of science in civil engineering from Queen's University. He was appointed an Officer of The Order of Canada in 2003.



Donald K. Robinson, Q.C.

Director

Mr. Robinson is a retired lawyer who was called to the Bar in New Brunswick in 1964 and in Ontario in 1966. He was appointed Queen's Counsel in 1979. In addition to being a partner in his law firm, he has held corporate positions as a director, vice-president, secretary and general counsel with several international corporations. He has also served as chair and president of the executive committees of numerous organizations including the Canadian Association of Police Boards, the Ontario Association of Police Boards, and the Halton Regional Police Services Board. Mr. Robinson has been a member of the Law Society of New Brunswick, the Law Society of Upper Canada, the York County Law Association, the Canadian Council on International Law and the Canadian Bar Association where he served on both the Provincial and National councils. He has been appointed to the Board for three years.



Mike H. Shaikh FCA

Director

Mr. Shaikh is a Chartered Accountant in Calgary. He is a director of various private, public and not-for-profit organizations. He is currently a board member for Education Matters, a Calgary Public School Board Trust, a board member of the Canadian Association of Police Boards, and an Honourary Investment Counsellor for the Government of Pakistan. He is Vice-Chair of the Calgary Police Commission and Director of the Alberta Law Enforcement Response Team. He has been appointed to the Board of Governors of the Chartered Accountants' Education Foundation. He has served as a Senator for the University of Calgary and as a board member for Alberta Securities Commission and the Calgary Parking Authority.

Board Remuneration, Expenses, and Meeting Attendance

Directors and the Chair are paid an annual retainer and per diem, which are set by the Governor in Council pursuant to the *Financial Administration Act*. They are also reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals while performing their duties.

Board member	Board Retainer (A)	Per Diems (B)	Total Remuneration (A+B)	Travel and Related Expenses
D. Ian Glen (Chair)	\$ 10,800	\$ 44,100	\$ 54,900	\$ -
Michael D. Campbell	\$ 5,400	\$ 8,775	\$ 14,175	\$ 15,383
Gaetane C. Hains	\$ 5,400	\$ 6,435	\$ 11,835	\$ 2,588
Denis Jacob	\$ 5,400	\$ 18,915	\$ 24,315	\$ 11,422
John Kaldeway	\$ 5,400	\$ 13,650	\$ 19,050	\$ 10,373
Dora Koop	\$ 5,400	\$ 5,265	\$ 10,665	\$ 3,246
Gene McLean	\$ 5,400	\$ 7,020	\$ 12,420	\$ 7,599
Ron Patmore	\$ 5,400	\$ 7,215	\$ 12,615	\$ 9,214
H. Glenn Rainbird	\$ 5,400	\$ 10,140	\$ 15,540	\$ 5,494
Donald K. Robinson	\$ 5,400	\$ 6,435	\$ 11,835	\$ 3,991
Mike Shaikh ^a	\$ 5,192	\$ 7,605	\$ 12,797	\$ 17,640
TOTALS	\$ 64,592	\$ 135,555	\$ 200,147	\$ 86,952

^a Mr. Shaikh's term began in April 2008

Total remuneration (annual retainer and per diems) paid to all Directors and the Chair was \$200,147 in 2008/09 compared to \$197,123 in 2007/08. Total Board travel and related expenses in 2008/09 were \$86,952 compared to \$132,168 in 2007/08. Travel and related expenses encompass Board and committee meetings, as well as attending external conferences and continuing education courses.

Board and Committees Attendance

Board Member	Board Meetings ¹	Committees ¹				
		Corporate Governance and Human Resources	Audit	Pension and Benefits	Strategy	<i>Ad Hoc</i>
D. Ian Glen ²	11/11	5/5	4/4	1/1	1/1	4/5
Michal D. Campbell	11/11	1/1	4/4			
Gaetane C. Hains	8/11	5/5		1/1		
Denis Jacob ⁶	11/11		4/4		1/1	5/5
John Kaldeway ³	8/11	5/5	4/4		1/1	4/5
Dora Koop	8/11	1/1	3/4		0/1	5/5
Gene McLean	10/11		3/4		1/1	
Ron Patmore ⁴	9/11	5/5			0/1	
H. Glenn Rainbird ⁵	11/11	5/5		1/1	1/1	4/5
Donald K. Robinson	8/11	5/5				
Mike Shaikh	10/11	1/1	4/4	1/1		

¹ Board and Committee meeting attendance are based on the number of meetings attended out of the total number of meetings that occurred while the Director was a member of the Board and/or Committee.

² Member of all Board Committees

³ Chair of the Audit Committee

⁴ Chair of the Corporate Governance and Human Resources Committee

⁵ Chair of the Pension and Benefits Committee

⁶ Chair of the Strategy Committee





Senior Management

Appointed by CATSA's Board of Directors, the organization's President and CEO is supported by a senior management team.

Our senior management structure (as of March 31, 2009) is illustrated below:





Kevin McGarr

President and Chief Executive Officer (CEO)

Mr. McGarr holds a Master's Degree in Business Administration in the International Aviation Program at the John Molson School of Business of Concordia University. He has completed his Director's Education Program with the Institute of Corporate Directors. Prior to joining CATSA, Mr. McGarr enjoyed a 26 year career with the Montreal Urban Community Police Service, where he distinguished himself in the investigation of organized crime activities. In recognition of his efforts to combat organized crime, the Governor General awarded Mr. McGarr the Meritorious Service Medal in 1997. From 1996 to 2002, after completing his career in law enforcement, Mr. McGarr worked with a professional services firm, providing services for the detection and prevention of corporate and financial malfeasance.

Mr. McGarr joined CATSA in January 2003 as the Director responsible for the development and implementation of a secure identification program enhanced by biometric technologies along with the development of a non-passenger security screening program to enhance airport access controls. In 2004, he was promoted to Vice-President, Risk and Quality and later became the Vice-President and Chief Technology Officer. In 2006, Mr. McGarr was promoted to Executive Vice-President and Chief Operating Officer where he oversaw the development and implementation of the Authority's corporate strategy.

On November 5, 2008 CATSA's Board of Directors announced the appointment of Mr. McGarr to the position of President and Chief Executive Officer (CEO). Prior to his appointment, which was effective September 15, 2008, Mr. McGarr had served as interim President and Chief Executive Officer.



Renée Légaré

Senior Vice-President, People

Ms. Légaré has been with CATSA since its inception in June 2002. She has held increasingly senior positions, most recently joining CATSA's senior management team in April 2006 as Vice-President, People, and from May 2008 to February 2009 she was Interim Executive Vice-President and Chief Operating Officer, overseeing CATSA's entire operations.

During her career at CATSA, Ms. Légaré developed the Human Resources framework which permitted CATSA to recruit over 300 talented employees. She was also involved in the development and implementation of the pension and benefits plans for CATSA employees. Ms. Légaré oversaw the development of various programs within CATSA including the Mentoring Program, the Pride and Recognition Program, the Performance Management Program as well as CATSA's training and certification program for over 6,000 Screening Officers across the country.

Ms. Légaré began her career at Human Resources Development Canada in 1989 as an Economist in the Strategic Policy Directorate. In 1997, she joined Transport Canada's Program Evaluation Branch and then held a variety of positions within the Marine Policy Directorate.

Ms. Légaré earned her Master's degree in Industrial Relations from Université du Québec en Outaouais and an Honours degree in Economics from Université de Sherbrooke. Ms. Légaré has recently completed her Director's Education Program with the Institute of Corporate Directors and is also currently studying to receive her Ph.D. in Industrial Relations.



Yves Duguay

Senior Vice-President, Operations

Mr. Duguay has been with CATSA since September 2007. He is accountable for all passengers, non-passenger and hold baggage screening operations at Canada's 89 designated airports. He is also responsible for the oversight and management of CATSA's screening contracts and personnel. He has recently launched a strategy to develop a culture of operational excellence for screening operations.

Prior to assuming his role at CATSA, Mr. Duguay began his career as a security professional with the Royal Canadian Mounted Police. Subsequently Mr. Duguay joined Air Canada in 2000, to assist in the merger between Air Canada and Canadian Airlines. He steered Air Canada's security department through the tragic incident of 9/11. Under his leadership, security was transformed into a security management system that promoted security as one of Air Canada's core corporate values.

Mr. Duguay has earned a certificate in Management and Informatics from the Université de Montréal and in Aviation Safety and Security from George Washington University. He is presently completing the Director's Education Program with the Institute of Corporate Directors. Mr Duguay has recently been accepted into the McGill EMBA program.

John Stroud

Vice-President, Strategy and Communications

In this role which he has held since December 2007, Mr. Stroud is responsible for the development and implementation of the organization's corporate strategy, performance measurement program, business planning and reporting, risk management and communications.

Prior to joining CATSA in April 2002, Mr. Stroud was involved in the conception and development of CATSA at Transport Canada. He began his public service career in 2000 with the Department of Human Resources Development Canada as a policy analyst. From 1997 – 1998 he served as a Law Clerk for the Ontario Court of Appeals.

John Stroud holds a Bachelor of Arts in Political Science from the University of Toronto, a Master's degree in Philosophy from Oxford University, and a Bachelor of Law as well as a Master's of Public Administration, both from the University of Victoria.

Mike Saunders

Vice-President and Chief Technology Officer

Mr. Saunders is accountable for ensuring the deployment and maintenance of a complex network of security screening equipment that supports a consistent and efficient nation-wide security screening operations at Canada's 89 designated airports. He is also responsible for the organization's information management and technology requirements.

Mr. Saunders joined CATSA in July 2008. Prior to assuming his role at CATSA, Mr. Saunders served for 28 years with the Royal Canadian Mounted Police in various roles. Most recently, he was the Chief Information Officer, responsible for virtually all aspects of information management and information technology, as well as oversight of the systems crucial to the protection of Canadian citizens. He also worked in a number of senior roles including International operations, commercial crime, drug investigations, National Security and Executive Services.

Mike Saunders holds a Bachelor's Degree in Professional Studies, Business Administration and Human Resources Management from Barry University, Miami, Florida.



Mario Malouin

Vice-President and Chief Financial Officer

Mr. Malouin is the corporate officer primarily responsible for managing the financial risks of the organization, financial planning and financial reporting to senior management, the Board of Directors and Parliament.

Mr. Malouin joined the organization as the Director, Internal Audit in 2006 and subsequently became CATSA's Corporate Secretary in February 2007. He was appointed to the position of Vice-President and Chief Financial Officer in January 2009. Prior to joining CATSA, Mr. Malouin worked as a Principal with the Office of the Auditor General.

Mr. Malouin is a graduate of the Business Administration program at the Université Laval and became a Chartered Accountant in 1992. Mr. Malouin holds a certificate in Risk Management from the Université de Mons (Belgium) and is currently completing a Masters of Arts in War Studies at the Royal Military College of Canada. Mr. Malouin also teaches at the Université du Québec en Outaouais in the graduate diploma program for candidates in the Chartered Accountant program.



Lise Patry

General Counsel and Corporate Secretary

Ms. Patry joined CATSA in December 2002. Prior to being appointed in her current role, Ms. Patry worked in a number of capacities within the organization, including Vice-President and Chief Technology Officer from September 2006 to February 2008.

Ms. Patry graduated magna cum laude with a chemical engineering degree from the University of Ottawa (1988) and is a graduate of McGill University's Common Law program (1994).

Ms. Patry started her career as an information systems consultant for Andersen Consulting (now Accenture). For several years she worked as an intellectual property and technology licensing lawyer at Gowlings LLP, following which she worked as a chief commercial legal counsel to the global supply management team of JDS Uniphase Corporation, a global fibre optics manufacturing company. Ms. Patry is a 2005 graduate of ICAO's Aviation Security Manager Program and a 2007 graduate of the Institute of Corporate Directors' Directors Education Program.

Report on Official Languages Act Requirements

CATSA is committed to creating and sustaining an environment that is respectful of our linguistic obligations under the *Official Languages Act*.

CATSA's Senior Management Committee believes that respecting the language rights of the public and the employees is part of sound business management. Serving passengers in the language of their choice constitutes the very heart of good customer service. We are committed to continuously enhancing our service delivery and putting greater effort in improving service to the public in both official languages.

Through our partnership with Screening Contractors, CATSA is responsible for ensuring that bilingual services are provided at screening checkpoints at the airports where we have linguistic obligations. In accordance with the *Official Languages Act*, CATSA provides communications and services to the public in both official languages at airports with 1 million or more passengers and at airports where demand for services in a minority language is at least 5% of overall demand.

In 2008, CATSA met its legislative obligation to develop and carry out an assessment of the demand for services in both official languages at our screening checkpoints. The survey results will ensure CATSA's continued compliance in providing services to passengers in both official languages.

Also, through the new shift briefing program given each week, Screening Officers are now reminded on a regular basis of the obligation to provide active offer and to serve passengers in the official language of their choice throughout the screening process.

Again this year, CATSA was a proud supporter of, and participated in, *Les Rendez-vous de la Francophonie 2009*. During the festivities, CATSA promoted the advancement of French minority communities by proposing various initiatives to employees to participate in activities to celebrate everywhere in the country the dynamism and vitality of the French Canadian presence.

As we get ready for the 2010 Olympic and Paralympic Winter Games, CATSA's working group is ensuring that official languages obligations are part of planning and decision making process in the preparation for security screening operations at designated airports.

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

Report on Access to Information and Privacy Act Requests

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

From April 1, 2008 to March 31, 2009, CATSA received 39 new requests under the *Access to Information Act*. When added to the one request outstanding from the previous fiscal year, CATSA was responsible for processing a total of 40 requests.

Of these requests, 29 were completed within the fiscal year and 11 were carried forward to 2009/10. In addition, CATSA received six *Access to Information Act* consultation requests from other federal departments, all of which were completed within the fiscal year.

For the same reporting period, CATSA received five new requests under the *Privacy Act*. All of these requests were completed and none were carried forward into the next fiscal year.

Employment Equity

CATSA is aware of the requirements under the *Employment Equity Act* and is dedicated to building a skilled and diverse workforce, reflective of Canadian society. We are committed to creating and maintaining a positive environment where individual differences are valued and respected. We believe that everyone should have the right and the opportunity to reach their full potential in a safe and inclusive environment, free of barriers and prejudice.

To help us achieve this goal, CATSA organized cultural dinners (Vietnamese New Year and Persian Night), and informed our employees on various cultural and religious days and on diversity issues through our intranet site. In addition CATSA provided diversity training, produced various communication products such as pamphlets and bookmarks, created a diversity section on our intranet site, and dedicated an employee retreat to the theme of diversity. The objective

of these measures was to increase our employees' knowledge regarding the importance of endorsing diversity and to raise awareness about the value of fostering inclusion here at CATSA.

CATSA's Employment Equity Plan was extended for one year in 2008/09 following a review conducted by the Diversity Council and will be updated in early 2009/10 following the completion of a new workforce analysis based on the 2006 Census Data.

CATSA also wants to ensure that its business practices are inclusive for the air travelling public. CATSA hosted a number of Canada's Paralympians in preparation for the Vancouver Paralympic Games 2010. Using the Paralympic Games as a starting point, CATSA reviewed the screening process to find out first hand what kinds of challenges the Paralympians faced and determined how we can improve the process for persons with disabilities in general.



MANAGEMENT DISCUSSION AND ANALYSIS

Part 1 – Corporate Overview

A. CATSA Background

CATSA is responsible for the delivery of effective and efficient screening of persons and their belongings prior to gaining access to aircraft or restricted areas of airports. To achieve this, CATSA conducts the following four mandated activities:

- Pre-Board Screening (PBS) – the screening of passengers, their carry-on baggage and their personal belongings;
- Hold Baggage Screening (HBS) – the screening of checked baggage;
- Non-Passenger Screening (NPS) – the screening of non-passengers; and
- Restricted Area Identity Cards (RAIC) – the administration of access control to airport restricted areas through biometric identifiers.

As CATSA moves into its eighth year of operations, its focus is on the training and development of Screening Officers, continuing to undertake initiatives to thwart threats against the aviation system, and the management and deployment of equipment.

CATSA continues to deliver services using a Screening Contractor model. In late 2008, an independent third-party review confirmed that the Screening Contractor model continues to be the most efficient and effective means of delivering aviation security screening services.

B. The Threat Environment

Domestic intelligence reports confirm that terrorism remains a threat to the safety and security of Canadians. Furthermore, both domestic and international intelligence reports and events confirm that civil aviation remains a favoured target of terrorist attacks globally. The most significant terrorist threat to Canadian aviation remains attacks against large commercial passenger aircraft.

Vulnerabilities in Canada's aviation security systems have been well documented in several prominent reports, including the 2006 Report of the *Canadian Air Transport Security Authority Act Review Advisory Panel*, as well as reports and observations of several parliamentary committees.

C. Economic Environment

As the 2008/09 fiscal year ends, the world is experiencing its first global recession in a generation. The liquidity crisis that erupted in September 2008 with the collapse of a few US investment banks has spread to businesses and consumers worldwide. This has resulted in economic uncertainty, rising unemployment and a drop in disposable income.

The global economic downturn has, consequently, had a negative impact on the aviation industry. Transport Canada estimates that Canadian passenger traffic will decrease by 5.5% in 2009 compared to 2008. In the four subsequent years, however, Transport Canada estimates that passenger traffic will increase by 1.3% to 6.2% annually, as the economy commences its recovery. In anticipation, many airports intend to continue with their planned expansions. To support those expansions, CATSA will continue to deploy new screening equipment and provide increased staffing measures at new screening points and lanes.

D. International Financial Reporting Standards (IFRS)

In March 2009, the Canadian Accounting Standards Board issued an exposure draft, "Adopting IFRS in Canada, II" referencing the Public Sector Accounting Board's (PSAB) project to clarify the source of generally accepted accounting principles (GAAP) for government controlled organizations such as CATSA. Under alternatives being contemplated (although subject to change) by the PSAB, CATSA would have the option to self-select either the CICA's Public Sector Accounting Handbook or International Financial Reporting Standards (IFRS) as its basis of accounting for fiscal years beginning on or after January 1, 2011. CATSA intends to report under IFRS for its fiscal year ending March 31, 2012 and will include comparative figures for 2011.

CATSA's transition plan consists of three phases: scoping, development and implementation. The scoping phase was completed during fiscal 2008/09 and included the establishment of a formal project governance structure. This governance structure includes a steering committee consisting of senior level management from finance, human resources, technology and operations.

A multi-disciplinary IFRS team was established and is supported by an independent national accounting firm that provides technical interpretations and other assistance as required. During the scoping phase, high-level impact assessments examining the major differences between Canadian GAAP and IFRS were prepared.

The development phase will be completed early in fiscal 2009/10 and includes the preparation of detailed assessments outlining the potential impact of the transition to IFRS on accounting policies, financial reporting, business processes, information systems and internal controls. During the development phase, CATSA provided training to key employees and will continue providing training throughout the transition. Regular updates on the status of the transition plan are provided to the Audit Committee of the Board of Directors.

The implementation phase of the transition plan will commence during the second quarter of 2009/10 and will continue through fiscal 2010/11. This phase will include the implementation of changes required to apply the new standards. Throughout the process, CATSA will continue to monitor all proposed and continuing projects of the International Accounting Standards Board to assess the impact of the changes on the organization.

E. Legislative Framework

CATSA was established as a Crown corporation pursuant to the *Canadian Air Transport Security Authority Act (CATSA Act)*. It is subject to other Federal Acts and Regulations, including: the *Financial Administration Act*, the *Aeronautics Act*, and the *CATSA Aerodrome Designation Regulations*.

Part 2 – Mission, Vision and Strategy

A. Mission

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

B. Vision

CATSA's vision is to be a world leader in air transportation security through a commitment to its mission and through operational and corporate excellence.

C. Strategy

To continue to make Canada's air transportation system more secure, CATSA pursues a strategy to ensure that it evolves as an aviation security authority – one that deploys its resources and aligns its actions strategically so that it can continuously improve in fulfilling its mission. CATSA has focused on three strategic outcomes to meet its statutory obligations under the *CATSA Act* – customer-focused security, capacity and recognized expertise. Every initiative that CATSA undertakes contributes to the achievement of one or more of these strategic outcomes.

CATSA also recognizes the importance of forging strong relationships with key domestic stakeholders, such as Screening Contractors, airport authorities, air carriers, passengers, police forces and other government institutions.

Part 3 – Capability to Deliver

A. Risks

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

CATSA recognizes that it has a role to play within the broader aviation security system. However, CATSA is not an intelligence organization. It participates in, rather than leads, risk assessments pertaining to the Aviation Security system. Information from such risk assessments impacts the way CATSA conducts its operations and implements its strategy. Responses to specific threats identified by intelligence agencies are typically mandated by Transport Canada and acted upon by CATSA.

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

The Board of Directors ensures that management identifies, monitors and manages CATSA's corporate risks. The Board also ensures that management keeps it apprised of any changes to the Corporate Risk Profile, through periodic briefings.

The Audit Committee of the Board is responsible for overseeing management's controls and practices with respect to risk management by:

- reviewing any internal and external changes identified by management that may affect the achievement of CATSA's strategic plan;
- ensuring that management has a methodology to identify and assess the risks that CATSA faces;
- discussing the results of risk assessments with management and internal auditors;

- ensuring that management has put in place controls and actions to mitigate key risks where possible; and
- reviewing the Corporate Plan, Management Discussion and Analysis, Annual Report, financial statements, and systems of controls.

The President and Chief Executive Officer has overall accountability for ensuring risk is assessed and managed on a corporate-wide basis. The Senior Management Committee is responsible for identifying and monitoring CATSA's key risks; providing clear direction on risk tolerance levels; and ensuring that appropriate controls and mitigation strategies are carried out for managing risks. This role includes supporting a positive risk culture and communicating risks throughout the organization.

In 2008/09, the Senior Management Committee identified the following key risks which may impact CATSA's ability to carry out its mandate:

Threat and risk information is untimely or inaccurate

CATSA works closely with other security agencies to share knowledge and establish procedures that ensure timely and accurate communications in the event of an attack. Furthermore, CATSA continuously reviews and improves internal practices to disseminate information to front line Screening Officers.

Insufficient funds to maintain operational standards

CATSA may not be able to respond to evolving or new threats given the uncertainty of funding for years beyond 2009/10. CATSA intends to work with Transport Canada and return to the Government of Canada to seek additional long-term funding for 2010/11 and beyond.

Screening Officer labour disruption

When dealing with Screening Officer labour unions during collective bargaining, there is an inherent risk of strike action which may result in a Screening Officer walk-out. To mitigate this risk of labour disruption, CATSA works closely with its Screening Contractors and develops programs that improve job satisfaction. Sustainable long-term funding would enable CATSA to enter into long-term contracts with its Screening Contractors. Such agreements would require that Screening Contractors make significant investments that would enhance the stability of the third-party service delivery model.

Inability to acquire screening equipment and related expertise

CATSA may be unable to procure equipment in the marketplace due to a limited number of suppliers with the appropriate expertise. There are a limited number of vendors who are capable of supplying CATSA with Transport Canada approved screening equipment. In addition, CATSA must obtain regulatory approval prior to selecting a new equipment supplier. To mitigate this risk, a memorandum of understanding was recently signed with Transport Canada, giving CATSA increased flexibility over its selection of screening equipment suppliers. Furthermore, CATSA continues to dedicate an increased amount of internal resources to maintaining and supporting its equipment in an effort to build the technical knowledge of in-house expertise.

B. Critical Screening Activities

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

Screening Officer Workforce

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

Screening Officers play a key role in identifying threats to aviation security by screening passengers prior to entering aircraft, screening non-passengers at checkpoints within the airport terminal buildings and making key risk assessment decisions when operating hold baggage screening equipment. In recognition of this, significant resources are dedicated to strengthening the Screening Officer workforce. Key accomplishments in 2008/09 and planned initiatives for 2009/10 include:

- the recent signing of two-year contract renewals with all Screening Contractors to secure the Screening Officer workforce;
- several human resource projects in progress that will improve the stability of CATSA's Screening Officer workforce;
- the investment in programs and training to strengthen the skills of Screening Officers; and
- the development of new programs to monitor compliance with security standards and to monitor Screening Officer performance.

Capital Deployment Plan

In order to carry out its mandated screening activities, CATSA must have reliable and sophisticated equipment to scan for prohibited items. A capital program is in place to support the systematic, risk-based replacement and upgrading of equipment with new and more effective and efficient technologies. As equipment installations are completed, an ongoing capital program to support life-cycle management is implemented. CATSA continues to make certain that its equipment keeps pace with evolving threats, while ensuring that the measures it undertakes and technologies it implements are consistent with those of its key international partners.

The majority of CATSA's fiscal 2008/09 capital budget was dedicated to the acquisition and deployment of EDS equipment. EDS consists of equipment required for the screening of passengers and their baggage to detect the presence of explosives that may be brought onto aircraft and/or into restricted airport areas.

The remaining capital budget for 2008/09 was allocated to RAIC and non-EDS equipment. RAIC is the system that validates the identity and transport security clearances of persons accessing restricted areas using biometric identifiers. Non-EDS equipment consists of the development of internal programs which strengthen the skills of Screening Officers, as well as investments made to improve CATSA's corporate management systems.

C. In Support of Business Strategies

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

Human Capital

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

Corporate Management Systems and Practices

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

Business Continuity Plan

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

D. Funding

CATSA requires sufficient operating and capital funding in order to finance the above success factors, which directly impact its ability to carry out its mandate. The ongoing funding reference level is \$234.4M per year. However, for most years since CATSA's creation, this amount has fallen well below its annual requirements for the provision of mandatory passenger and baggage screening services. To address this, additional appropriations beyond the reference level have brought CATSA's total funding in recent years to levels exceeding \$425.0M per year.

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

Parliamentary Appropriations

(Millions of dollars)

	Five-Year Total 2002/03-2006/07	2007/08	2008/09	2009/10	Total
Operating	\$ 1,310.6	\$ 389.3	\$ 377.9	\$ 493.7	\$ 2,571.5
Capital	643.4	47.7	50.0	131.4	872.5
Total	\$ 1,954.0	\$ 437.0	\$ 427.9	\$ 625.1	\$ 3,444.0

Funding will revert to \$234.4M with \$0 capital funding in 2010/11 and beyond. CATSA intends to return to the Government of Canada in the fall of 2009 to seek additional long-term funding for 2010/11 and subsequent years.

Part 4 – Financial Results

CATSA's operating expenses by major expenditure category for 2008/09 and the prior fiscal year are summarized as follows:

Operating Expenses by Major Category

<i>(Millions of dollars)</i>	2008/09	2007/08
Payments to Screening		
Contractors and air security related policing programs	\$ 260.6	\$ 288.5
Equipment maintenance, spare parts and warehousing costs	33.5	29.7
Uniforms, other screening related costs and consumables	8.9	7.3
Training and certification	7.9	7.9
Restricted Area Identity Cards	0.8	0.4
Direct administrative costs and corporate services	64.0	58.2
Amortization	100.7	94.0
Total	\$ 476.4	\$ 486.0

In the interest of security and pursuant to Section 32 of the *CATSA Act*, information relating to air security related policing programs is not made public. To achieve this, the funding of policing programs is combined with payments to Screening Contractors for hold baggage screening activities.

A. Analysis of the Statement of Operations

CATSA carries out its mandated screening responsibilities at 89 domestic airports. These activities are carried out by approximately 6,000 Screening Officers who screen some 48 million passengers every year.

The vast majority of CATSA's operating costs consist of payments to Screening Contractors. Other significant costs include maintenance of EDS equipment and related spare parts, uniforms, training and certification, and corporate costs.

Payments to Screening Contractors and Air Security Related Policing Programs

Payments to Screening Contractors include the salaries and benefits of Screening Officers, as well as a fixed and variable component for Screening Contractor costs. The two key drivers impacting the salary and benefit expenses of Screening Officers are the hourly billing rates and the number of screening hours. Hourly billing rates are determined by collective agreements between the Screening Officers' unions and the major Screening Contractors engaged by CATSA. Screening hours are a function of passenger traffic and airport expansions.

Payments to Screening Contractors and air security related policing programs decreased to \$260.6M in 2008/09 from \$288.5M in 2007/08, a decrease of \$27.9M, due primarily to the transfer of policing programs from CATSA to the RCMP and Transport Canada, effective April 1, 2008. This decrease was offset, in part, by increases in payments to Screening Contractors.

The overall increase in payments to Screening Contractors was attributed to several factors. The primary reason was an increase in screening hours resulting from the deployment of additional PBS lanes associated with airport expansions. In addition, there was an increase in the average hourly billing rate for Screening Officers, resulting from recent collective agreements between the Screening Officers' unions and the major Screening Contractors. Lastly, fixed fees paid to Screening Contractors were higher this year as a result of newly negotiated agreements with the Screening Contractors, which help them cover their administrative costs associated with service delivery to CATSA.

Equipment Maintenance, Spare Parts and Warehousing Costs

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

Equipment maintenance, spare parts and warehousing costs increased to \$33.5M in 2008/09 from \$29.7M in 2007/08, an increase of \$3.8M, for several reasons. Equipment testing and evaluation costs increased as this responsibility was transferred from Transport Canada to CATSA in 2008/09. As well, conveyor maintenance costs increased mainly due to additional equipment deployed as part of the completion of the Vancouver and Québec City airport expansions during the year. Finally, the hourly billing rates for two of CATSA's largest equipment maintenance vendors increased during the current year. This impact was even greater as a result of unfavourable foreign exchange rates in 2008/09 compared to 2007/08.

Uniforms, Other Screening Related Costs and Consumables

CATSA is responsible for providing uniforms to ensure that Screening Officers are clearly identified by the public. CATSA also supplies all of the consumable goods required for Screening Officers to perform their screening activities, such as gloves and swabs. Other screening related costs consist of leased facilities at the airports.

Uniforms, other screening related costs and consumables increased to \$8.9M in 2008/09 from \$7.3M in 2007/08, an increase of \$1.6M, due to an increase in the cost per square foot of leased space, as well as new space requirements at airports for training rooms, Oversight Officers and general office use.

Training and Certification

Although Screening Officers are not CATSA employees, CATSA is responsible for their training and certification. Training and certification costs vary as a result of turnover, training requirements for new equipment and technologies, and responses to evolving threats.

Training and certification costs in 2008/09 remained consistent with the prior year. Although increased training was required for the deployment of new equipment in 2008/09, measures were taken to reduce Screening Officer training costs to accommodate the increased Screening Officer wage and benefit costs. As a result, planned training was modified and CATSA focussed only on delivering essential training of Screening Officers.

RAIC

CATSA is responsible for the operation and maintenance of the RAIC equipment and systems deployed at Canada's 28 major airports. An inventory of RAIC cards is maintained at headquarters and at the airports where a RAIC system has been installed.

RAIC cards expenses increased to \$0.8M in 2008/09 from \$0.4M in 2007/08, an increase of \$0.4M, due primarily to increased usage of RAIC cards resulting from the overall growth in head count at CATSA in 2008/09 compared to 2007/08 as well as a higher number of Screening Officers at airports.

Direct Administrative Costs and Corporate Services

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

Direct administrative costs and corporate services increased to \$64.0M in 2008/09 from \$58.2M in 2007/08, an increase of \$5.8M, due primarily to an increase in employee costs. The majority of the increase in employee costs in 2008/09 was the result of the deployment of Oversight Officers at airports. This increased oversight enhances CATSA's presence at airports and furthers its ability to monitor Screening Officer and Screening Contractor compliance and performance. Employee costs also increased as a result of the overall growth in head count at CATSA in 2008/09, as compared to 2007/08.

Amortization

Amortization costs increased to \$100.7M in 2008/09 from \$94.0M in 2007/08, an increase of \$6.7M, mainly due to several new HBS integration projects and related equipment being placed in service during the current year. In addition, asset retirement costs capitalized in 2008/09 were significant, due in part to new equipment purchases during the year, as well as revised estimates of the future cash flows required to retire assets containing hazardous materials. The increase in asset retirement costs capitalized during 2008/09 corresponds to the increased asset retirement obligation compared to the prior year.

B. Capital Management

In order to carry out planned business activities in accordance with its operational plans, CATSA draws down on funding from the federal Consolidated Revenue Fund according to short-term spending needs. CATSA's primary objective in managing capital is to provide sufficient liquidity to meet its financial obligations in accordance with the Treasury Board Secretariat's *Drawdown Policy for Crown Corporation Funding*.

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

<i>(Millions of dollars)</i>	Operating funding
Total expenses	\$ 476.4
Amortization of capital assets	(100.7)
Accretion expense on asset retirement obligation	(0.5)
Interest and other revenue	(0.5)
Net change in prepaids and inventory	3.8
Net loss on disposal of property and equipment	(0.2)
Government funding – operating	\$ 378.3

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

The table below provides a reconciliation between capital appropriations received and property and equipment acquisitions.

<i>(Millions of dollars)</i>	Capital funding
Total capital acquisitions	\$ 54.7
Additions to capitalized asset retirement obligations	(6.0)
Proceeds on disposal of property and equipment	(0.1)
Government funding – capital	\$ 48.6

Asset retirement obligations are anticipated costs that will be incurred when disposing of certain CATSA assets, such as those containing hazardous material. Asset retirement obligations are funded by appropriations in the year that the cost to dispose of the underlying assets is expected to be incurred.

C. Property and Equipment

Critical factors that impact CATSA's capital deployment of property and equipment include:

Capital Replacement/Upgrades

CATSA's objective is to ensure that life-cycle management maximizes equipment longevity and efficiency for both passenger and baggage screening.

Increased Traffic Capacity

As passenger traffic increases and airport expansions are undertaken, CATSA is responsible for the deployment of equipment and related installation costs to meet the requirements of new screening lanes created in response to this growth.

New Standards

As new threats emerge, more advanced screening technologies need to be developed. CATSA must also invest in new technologies to ensure interoperability with international partners.

System Re-engineering and Optimization

CATSA must take advantage of opportunities to optimize utilization of equipment through system re-engineering.

Security Initiatives

CATSA must respond to evolving threats, external reports, such as the Office of the Auditor General of Canada Special Examination and the Five-year Review of the *CATSA Act*, as well as events such as the 2010 Olympic and Paralympic games. These responses include investment in EDS equipment and have resulted in the development of the Closed-Circuit Television System, the Boarding Security Pass Security System and deployment of mobile screening equipment.

As a result of these critical factors, CATSA continues to update and improve its Capital Deployment Plan. For the 2008/09 fiscal year, capital expenditures are summarized as follows:

<i>(Millions of dollars)</i>	Capital acquisitions
EDS	\$ 39.6
Non-EDS	9.0
	\$ 48.6

In 2008/09, major EDS capital acquisitions included:

- equipment and integration costs to complete the Vancouver and Québec City airport expansions, as well as the Winnipeg and Calgary airport expansions which are still in progress;
- HBS upgrades to ensure compliance with new security standards;
- investment in equipment in preparation for the 2010 Winter Olympic and Paralympic games; and
- deployment of Closed-Circuit Television System equipment to improve monitoring of screening operations.

In addition, major non-EDS capital acquisitions included:

- investment in the Learning Management System for training of Screening Officers;
- investment in the Secure Identification and Time Tracking system to improve the oversight of Screening Contractor operations; and
- computer hardware upgrades at corporate headquarters and regional support centres.

D. Deferred Capital Funding

Capital funding appropriations are recorded as a liability on CATSA's balance sheet (deferred capital funding) and are amortized on the same basis and over the same periods as the related property and equipment. The deferred capital funding balance increases by the amount of capital funding spent during the year, less the amount of annual amortization of capital assets (excluding amounts related to asset retirement obligations).

Upon disposition of depreciable property and equipment, CATSA recognizes into income all remaining deferred capital funding related to the asset.

Part 5 – Future Outlook

For fiscal 2009/10, Budget 2009 committed an additional \$355.8M for operating and capital expenditures over and above the ongoing annual reference level of \$234.4M, but did not provide additional new resources beyond 2009/10. In addition, \$35.0M of capital funds were re-profiled from 2008/09 to 2009/10, partly as a result of delays in airport expansions beyond CATSA's control. Given the uncertainty of funding for years 2010/11 onwards, for fiscal 2009/10, CATSA's approach for delivering mandated activities will be to:

- deliver existing passenger and baggage screening services without compromising security;
- address key vulnerabilities and align security measures with risks; and
- ensure domestic and international airport interoperability by initiating a limited number of new security measures and technologies, and implementing selected specific, discrete phases of work that can be completed fully within the 2009/10 fiscal year.

The additional \$355.8M of funding was provided with the intent of strengthening the security of Canadian civil aviation transportation. These additional funds will be used to:

- implement new security initiatives;
- invest in internationally compatible screening equipment;
- expand Screening Officer training for emerging technologies; and
- accommodate long-term growth in passenger volume, airport expansions, replacement and upgrading of equipment, wage settlement of screeners and inflation.

As CATSA moves beyond 2009/10, it must continue to respond to several pressing strategic issues, such as evolving security risks and threats, as well as increases in passenger growth. In addition, CATSA must ensure that its screening methods and technology are compatible with those of its international counterparts. Lastly, CATSA must replace existing agreements with Screening Contractors through a competitive process.

The primary challenge that CATSA faces in responding to these strategic issues beyond 2009/10 is the continued uncertainty of its funding levels. Given that funding will revert to \$234.4M with \$0 capital funding in 2010/11 and beyond, CATSA will begin to address the highest risk areas over the next year, but with limitations, until adequate funding is approved for future years.

In 2009/10, CATSA will work with Transport Canada to secure long-term funding from the Government of Canada which will allow it to sustain the new security programs and initiatives beginning in 2009/10 and beyond.

MANAGEMENT'S RESPONSIBILITY STATEMENT

For the year ended March 31, 2009

The financial statements contained in this Annual Report have been prepared by Management in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The integrity and objectivity of the data in these financial statements are Management's responsibility. It is necessary for Management to make assumptions and estimates based on information available as at the date of the financial statements. Management has made estimates and assumptions in the following areas: employee future benefits, the useful lives of property and equipment, the valuation of inventory, the percentage of completion of work in progress, accrued liabilities, the assessment of contingent liabilities, and asset retirement obligations. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, the assets are safeguarded, and that transactions are in accordance with the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act* and are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. CATSA has an internal audit department whose functions include reviewing internal controls and their application on an ongoing basis.

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

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



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



Mario Malouin, CA
Vice-President and Chief Financial Officer

May 29, 2009



AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Canadian Air Transport Security Authority as at March 31, 2009 and the statements of operations, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 29, 2009

BALANCE SHEET

As at March 31
(Thousands of dollars)

	2009	2008
ASSETS		
Current		
Cash	\$ 2,049	\$ 1,559
Accounts receivable (note 6)	69,539	82,451
Inventory (note 7)	20,433	17,629
Prepaid expenses	3,770	2,732
	95,791	104,371
Employee future benefits (note 10)	2,685	2,027
Property and equipment (note 8)	412,689	459,026
	\$ 511,165	\$ 565,424
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 9)	\$ 70,030	\$ 82,709
Employee future benefits (note 10)	4,243	3,325
Asset retirement obligations (note 11)	11,994	5,548
Deferred capital funding (note 12)	407,181	456,755
	493,448	548,337
Equity		
Retained Earnings	17,717	17,087
	\$ 511,165	\$ 565,424

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

Approved by the Board of Directors



John Kaldeway
Chair of the Audit Committee

Approved by Management



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

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

STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

For the year ended March 31

(Thousands of dollars)

	2009	2008
Expenses		
Pre-Board Screening, Hold Baggage Screening and air security related policing programs	\$ 418,124	\$ 428,626
Corporate services	41,428	38,050
Non-Passenger Screening	12,340	13,295
Restricted Area Identity Card program	4,469	6,053
Total Expenses (note 13)	476,361	486,024
Revenues		
Interest revenue	924	2,624
Foreign exchange gain (loss)	(405)	623
Net results of operations before government funding	475,842	482,777
Government funding		
Parliamentary appropriations for operating expenses (note 5)	378,295	389,274
Amortization of deferred capital funding (note 12)	98,177	93,360
Total Government funding	476,472	482,634
Net results of operations and comprehensive income for the year	630	(143)
Retained Earnings at beginning of year	17,087	17,230
Retained Earnings at year end	\$ 17,717	\$ 17,087

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

STATEMENT OF CASH FLOWS

For the year ended March 31

(Thousands of dollars)

	2009	2008
CASH FLOWS FROM (USED IN)		
Operating activities		
Net results of operations for the year	\$ 630	\$ (143)
Items not affecting cash:		
Amortization of property and equipment (note 8)	100,731	93,970
Accretion expense (note 11)	464	246
Amortization of deferred capital funding (note 12)	(98,177)	(93,360)
Change in employee future benefits	260	(1,248)
Net Loss on disposal of property and equipment	191	22
Net change in non-cash working capital balances (note 18)	11,194	(4,075)
	15,293	(4,588)
Financing activities		
Parliamentary appropriations for capital funding	32,298	72,944
	32,298	72,944
Investing activities		
Acquisition of property and equipment	(47,101)	(71,900)
	(47,101)	(71,900)
Net cash increase (decrease)	490	(3,544)
Cash, beginning of year	1,559	5,103
Cash, year end	\$ 2,049	\$ 1,559

Supplementary cash flow information (note 18)

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

1. Authority, mandate, and programs

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

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

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

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

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

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

Effective April 1, 2008, CATSA is no longer responsible for the Canadian Air Carrier Protective Program and the Airport Policing Contribution Program, which were transferred to the Royal Canadian Mounted Police and Transport Canada, respectively.

CATSA is not subject to income tax under the provisions of the *Income Tax Act* (Canada). CATSA is subject to the *Excise Tax Act* (Canada), the federal *Goods and Services Tax Act* (GST), and all sales taxes applied by the provinces and territories in which it operates.

2. Significant accounting policies

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

(a) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions based on information available as at the date of the financial statements. The estimates that Management has made relate to the assumptions underlying employee future benefits, useful lives of property and equipment, valuation of inventory, percentage of completion of work in progress, accrued liabilities, assessment of contingent liabilities, and asset retirement obligations. Actual results could differ from these estimates.

(b) Inventory

The inventory consists primarily of spare parts acquired for equipment maintenance and Restricted Area Identity Cards. Inventory is valued at the lower of cost and net realizable value. Inventory cost is determined using weighted average cost, and net realizable value is determined by using replacement cost, which approximates net realizable value.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

2. Significant accounting policies (continued)

(c) Property and equipment

When CATSA was created, property and equipment transferred from Transport Canada were recorded at their depreciated cost at the date of transfer. Property and equipment acquired after that date are recorded at cost, which includes shipping and installation costs.

Amortization is calculated on a straight-line basis over the estimated useful life of the equipment as follows:

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

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

Any amount included in work in progress is transferred to the appropriate category when the equipment is completed and put into use. The equipment is then amortized on a straight-line basis over the estimated useful life as stated above.

(d) Asset retirement obligations

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

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

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

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

(e) Employee future benefits

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

2. Significant accounting policies (continued)

Management considers that the assumptions used to determine the accrued benefit obligation and the net benefit cost of pension benefits and other pension benefits, except for the benefit obligation discount rate, are of a long-term nature, which is consistent with the long-term nature of employee future benefits.

The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on service which incorporates salary escalation, retirement ages of employees and trends in health care and dental costs.

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

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

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

CATSA's independent actuaries determine the accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the RPP for funding purposes was as of December 31, 2007, and the next required valuation, to be completed in 2009, will be as of December 31, 2008. The most recent actuarial valuation of the SRP for funding purposes was as of December 31, 2007, and the next required valuation is as of December 31, 2010. However, the next planned valuation will be as of December 31, 2008.

Actuarial gains (losses) arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees. The expected average remaining service period of the active employees for 2009 has been determined to be 13 years (2008 – 13 years) for the RPP, 9 years (2008 – 9 years) for the SRP and 17 years (2008 – 17 years) for the other benefits plan.

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

(f) Parliamentary appropriations

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

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

2. Significant accounting policies (continued)

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

(g) Interest revenue

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

(h) Translation of foreign currencies

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

(i) Security considerations

In the interest of security at airports in Canada and pursuant to Section 32 of the *CATSA Act*, information relating to air security related policing programs is not made public. To achieve this, the Statement of Operations, Comprehensive Income and Retained Earnings combines the expenses relating to Pre-Board Screening, Hold Baggage Screening and air security related policing programs.

(j) Comprehensive income

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

(k) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is determined based on their classification as described in the following chart. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and CATSA's designation of such instruments. Settlement date accounting is used.

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

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

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3. Adoption of new accounting standards

CATSA has adopted the following recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook:

a) Section 3862 – Financial Instruments – Disclosures applies to fiscal years beginning on or after October 1, 2007. This section requires entities to provide disclosure of quantitative and qualitative information that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, as well as Management's objectives, policies and procedures for managing such risks. Refer to note 14, "Financial instruments".

b) Section 3863 – Financial Instruments – Presentation applies to fiscal years beginning on or after October 1, 2007. This section establishes standards for presentation of financial instruments and non-financial derivatives. It carries forward the same presentation standards for financial instruments that were included in Section 3861 "Financial Instruments – Disclosure and Presentation". Refer to note 2(k), "Significant accounting policies – Financial instruments".

c) Section 3031 – Inventories was issued in June 2007 and replaces Section 3030 "Inventories" effective for fiscal years beginning on or after January 1, 2008. The new section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibiting the use of the last in, first out method (LIFO) and requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories. The changes noted above do not significantly impact the current year's financial statements and analysis. Refer to note 7, "Inventory".

d) Section 1535 – Capital Disclosures applies to fiscal years beginning on or after October 1, 2007. This section establishes standards for disclosing information about an entity's capital and how it is managed. It requires disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. Refer to note 17, "Capital management".

4. Future accounting changes

International Financial Reporting Standards

In March 2009, the Canadian Accounting Standards Board issued an exposure draft, "Adopting IFRS in Canada, II" referencing the Public Sector Accounting Board's (PSAB) project to clarify the source of generally accepted accounting principles for government-controlled organizations such as CATSA. Under alternatives being contemplated (subject to change) by the PSAB, CATSA would have the option to self-select either the CICA's Public Sector Accounting Handbook or International Financial Reporting Standards (IFRS) as its basis of accounting for fiscal years beginning on or after January 1, 2011. CATSA intends to report under IFRS for its fiscal year ending March 31, 2012 and will include comparative figures for 2011.

CATSA has developed and implemented a changeover plan to review the impact of the transition to IFRS on accounting policies, financial reporting, business processes, information technology systems, internal controls, and training requirements. A preliminary assessment has been completed and a detailed review has been undertaken. The impact of the transition to IFRS on CATSA's financial statements has not yet been determined.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

5. Parliamentary appropriations

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

	2009	2008
Parliamentary appropriations approved	\$ 428,348	\$ 452,954
Unused portion of Parliamentary appropriation (operating)	(18)	(11,126)
Unused portion of Parliamentary appropriation (capital)	(1,432)	(4,875)
Total Parliamentary appropriations used	\$ 426,898	\$ 436,953

Appropriations were used as follows:

Operating funding	\$ 378,295	\$ 389,274
Capital funding (note 12)	48,603	47,679
Parliamentary appropriations used	\$ 426,898	\$ 436,953

6. Accounts receivable

Accounts receivable are comprised of:

	2009	2008
Parliamentary appropriations	\$ 62,292	\$ 74,211
Goods and Services Tax recoverable	6,213	7,222
Provincial Sales Tax recoverable	1,034	1,018
	\$ 69,539	\$ 82,451

7. Inventory

CATSA's inventories are comprised of:

	2009	2008
Spare parts	\$ 16,918	\$ 14,334
Restricted Area Identity Cards	2,855	3,295
Uniforms	660	—
	\$ 20,433	\$ 17,629

In 2009, a total of \$3,672 (2008 – \$4,715) of inventories was charged to operating expenses. This includes an amount of \$32 (2008 – \$851) resulting from a write-down of inventories.

No reversal of previous write-downs was recognized as a reduction of expenses in 2008 or 2009. None of the inventories are pledged as securities for liabilities.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

8. Property and equipment

	Cost	Accumulated amortization	Net book value 2009	Net book value 2008
Pre-Board Screening equipment	\$ 63,812	\$ 49,499	\$ 14,313	\$ 15,542
Hold Baggage Screening equipment	611,181	280,796	330,385	329,473
Non-Passenger Screening equipment	1,792	1,114	678	908
Restricted Area Identity Card equipment	18,517	15,757	2,760	5,039
Computers, software and electronic equipment	26,758	19,221	7,537	7,220
Office furniture and equipment	3,674	3,128	546	814
Leasehold improvements	11,227	6,830	4,397	5,072
Work in progress	52,073	–	52,073	94,958
	\$ 789,034	\$ 376,345	\$ 412,689	\$ 459,026

The current year amortization is \$100,731 (2008 – \$93,970).

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

	2009	2008
Capital acquisitions, equipment maintenance and air security related policing programs	\$ 40,509	\$ 42,185
Screening Contractors	19,164	22,950
Restricted Area Identity Card program	1,017	3,783
Other	9,340	13,791
	\$ 70,030	\$ 82,709

Included in accounts payable is \$33,714 (2008 – \$32,212) related to the acquisition of property and equipment.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

10. Employee future benefits

CATSA maintains two defined benefit pension plans, RPP and SRP (pension benefit plans), to provide retirement benefits to its employees. CATSA also provides other post-retirement and post-employment benefits (other benefits plan). 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 plan, with CATSA providing the balance of funding as required, based on actuarial valuations, with payments to the fund being made monthly.

	Pension benefit plans		Other benefits plan	
	2009	2008	2009	2008
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	\$ 28,604	\$ 23,960	\$ -	\$ -
CATSA contributions	5,928	3,948	29	27
Plan participants' contributions	1,350	1,238	-	-
Benefit payment and transfers	(572)	(552)	(29)	(27)
Actual return on plan assets	(5,137)	10	-	-
Fair value of plan assets at year end	\$ 30,173	\$ 28,604	\$ -	\$ -
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	\$ 31,441	\$ 27,395	\$ 4,457	\$ 3,665
Plan participants' contributions	1,350	1,238	-	-
Current service cost	3,689	3,503	607	609
Interest cost	1,991	1,563	278	224
Benefit payment and transfers	(572)	(552)	(29)	(27)
Actuarial gain	(12,039)	(1,706)	(2,353)	(14)
Accrued benefit obligation at year end	\$ 25,860	\$ 31,441	\$ 2,960	\$ 4,457

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

Reconciliation with funded position

Plan surplus (deficit)	\$ 4,313	\$ (2,837)	\$ (2,960)	\$ (4,457)
Contribution adjustment during the year	2,060	3,396	-	-
Unamortized past service cost	546	588	212	248
Unamortized net actuarial loss (gain)	(4,234)	880	(1,495)	884
Accrued benefit asset (liability) at year end	\$ 2,685	\$ 2,027	\$ (4,243)	\$ (3,325)

The total accrued benefit asset for the SRP at year end was \$659 (2008 – \$904). The total accrued benefit asset for the RPP at year end was \$2,026 (2008 – \$1,123). The total accrued benefit liability for the other benefit plan at year end was \$4,243 (2008 – \$3,325).

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

10. Employee future benefits (continued)

The accrued benefit obligation and fair value of assets at year end are the following amounts (in respect of plans that are either unfunded or not fully funded):

	Pension benefit plans		Other benefits plan	
	2009	2008	2009	2008
Accrued benefit obligation	\$ -	\$ 30,009	\$ 2,960	\$ 4,457
Fair value of plan assets	-	26,764	-	-
Funded status – deficit	\$ -	\$ (3,245)	\$ (2,960)	\$ (4,457)

Based on fair value at December 31, 2008, plan assets consist of:

Asset category	2009	2008
Equity securities	64%	64%
Debt securities	33%	33%
CRA refundable tax account	3%	3%
	100%	100%

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

	Pension benefit plans		Other benefits plan	
	2009	2008	2009	2008
Net employee benefit cost incurred in the period				
Current service cost	\$ 3,689	\$ 3,503	\$ 607	\$ 609
Interest cost	1,991	1,563	278	224
Actuarial gain	(12,039)	(1,706)	(2,353)	(14)
Actual return on plan assets	5,137	(10)	-	-
Net benefit (gain) cost incurred in the period	\$ (1,222)	\$ 3,350	\$ (1,468)	\$ 819
Net benefit cost recognized in the period				
Current service cost	\$ 3,689	\$ 3,503	\$ 607	\$ 609
Interest cost	1,991	1,563	278	224
Expected return on plan assets	(1,788)	(1,464)	-	-
Amortization of past service cost	43	43	36	36
Amortization of net actuarial loss	-	19	26	33
Net benefit cost recognized in the period	\$ 3,935	\$ 3,664	\$ 947	\$ 902

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

10. Employee future benefits (continued)

Total cash payments for employee future benefits for 2009, consisting of cash contributed by CATSA to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefits plan, was \$4,621 (2008 – \$5,814). Included in the total cash payments in 2009 was \$1,500 (2008 – \$2,620) in additional contributions to the RPP in relation to a plan deficit identified as a result of the 2007 funding valuation.

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

	Pension benefit plans		Other benefits plan	
	2009	2008	2009	2008
Expected rate of return on plan assets for benefit cost	5.60%	5.56%	N/A	N/A
Discount rate for benefit cost	5.50%	5.30%	5.50%	5.25%
Discount rate for accrued benefit obligation	7.50%	5.50%	7.50%	5.50%
Inflation	2.50%	2.50%	2.50%	2.50%
Long-term rate of compensation increase (including inflation and promotion)	4.25%	4.25%	4.25%	4.25%

Assumed health care cost trend rates

	2009	2008
Initial health care cost trend rate	8.76%	8.98%
Ultimate health care cost trend rate	5.00%	4.87%
Year ultimate rate reached	2018	2017

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

	Increase	Decrease
Total cost of service and interest	\$ 195	\$ (155)
Accrued benefit obligation	525	(399)

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

11. Asset retirement obligations

CATSA has identified asset retirement obligations associated with certain screening equipment and lease agreements. These obligations are expected to be settled between 2010 and 2016.

The accretion expense is included in operating expenses. The undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is \$13,246 (2008 – \$6,590). The liability for the expected cash flows has been discounted using a credit-adjusted risk-free rate of 2.47% (2008 – 4.46%).

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

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

	2009	2008
Balance, beginning of year	\$ 5,548	\$ 5,130
Revision in estimated cash flows	5,457	–
Liabilities incurred	525	172
Accretion expense	464	246
Balance, end of year	\$ 11,994	\$ 5,548

12. Deferred capital funding

Parliamentary appropriations for property and equipment are recorded as deferred capital funding and amortized on the same basis and over the same periods as the related property and equipment.

	2009	2008
Deferred capital funding, beginning of year	\$ 456,755	\$ 502,436
Parliamentary appropriations to finance the acquisition of property and equipment	48,603	47,679
Amortization of deferred capital funding	(98,177)	(93,360)
Deferred capital funding, end of year	\$ 407,181	\$ 456,755

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

13. Operating expenses by type

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

	2009	2008
Payments to Screening Contractors and air security related policing programs	\$ 260,640	\$ 288,493
Amortization	100,731	93,970
Employee costs	39,047	33,890
Equipment maintenance	30,432	25,274
Other administrative costs	22,402	21,404
Training and certification	7,844	7,960
Uniforms and other screening related costs	6,643	5,617
Equipment spare parts and warehousing costs	3,020	4,488
Screening supplies and consumable goods	2,287	1,656
Communications and public awareness	1,859	2,628
Restricted Area Identity Cards	801	376
Accretion on asset retirement obligations	464	246
Net loss on disposal of equipment	191	22
	\$ 476,361	\$ 486,024

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

14. Financial instruments

Fair value

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

Financial instrument risk

CATSA's financial instruments are subject to market risk. Market risk is the risk that the fair market value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CATSA's market risk comprises two types of risks: currency risk and interest rate risk. CATSA is exposed to market risk on its accounts payable and accrued liabilities denominated in US dollars, and on its defined benefit pension plans.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

14. Financial instruments (continued)

(i) Currency risk

CATSA's accounts payable and accrued liabilities are exposed to foreign exchange risk as some of its transactions are denominated in US dollars. CATSA does not hedge its exposure to fluctuations in the value of the US dollar. The accounts payable and accrued liabilities balance includes an amount of \$12,412 US (\$15,641 CDN) (2008 – \$7,001 US, \$7,196 CDN). Net results of operations and comprehensive income includes a net exchange loss of \$405 (2008 – net exchange gain of \$623).

The effect of a 2% increase or decrease in the US dollar exchange rate at March 31, 2009, all other variables held constant, would have decreased or increased the net results of operations and comprehensive income by \$248, respectively.

A sensitivity of two per cent has been selected, as this is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement of the Canadian and US dollar.

(ii) Interest rate risk

CATSA is subject to interest rate risk relating to its defined benefit pension plans (see note 10).

15. Commitments

Operating leases

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

Year ending March 31	
2010	\$ 4,699
2011	4,696
2012	5,530
2013	5,487
2014 and thereafter	22,479
	<hr/>
	\$ 42,891

Other contractual obligations

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

Year ending March 31	
2010	\$ 385,079
2011	391,714
2012	14,344
2013	13,799
2014 and thereafter	561
	<hr/>
	\$ 805,497

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

16. Related party transactions

CATSA is related in terms of common ownership to other Government of Canada departments, agencies and Crown corporations such as Public Works and Government Services Canada, the Translation Bureau, and Transport Canada. CATSA enters into transactions with these entities in the normal course of operations and pursuant to authority given in the *CATSA Act*. At March 31, 2009, CATSA owed related parties \$305 (2008 – \$3,619). This amount, which is included in accounts payable and accrued liabilities, is non-interest bearing, unsecured and due and payable at year end.

17. Capital management

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

CATSA's primary objective in managing capital is to provide sufficient liquidity to support its financial obligations and its operating and strategic plans. This is done while respecting the Treasury Board Secretariat's *Drawdown Policy for Crown Corporation Funding* and drawing down appropriated funds in order to meet short-term funding needs.

CATSA defines and computes its capital as:

	2009	2008
Cash	\$ 2,049	\$ 1,559
Accounts receivable	69,539	82,451
Accounts payable and accrued liabilities	(70,030)	(82,709)
	\$ 1,558	\$ 1,301

CATSA's objectives, policies, and processes for managing capital are unchanged since March 31, 2008. CATSA is not subject to externally imposed capital requirements.

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

	2009	2008
Accounts receivable	\$ 29,217	\$ 21,347
Inventory	(2,804)	(1,016)
Prepaid expenses	(1,038)	284
Account payable and accrued liabilities	(14,181)	(24,690)
	\$ 11,194	\$ (4,075)

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Thousands of dollars)

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

Interest revenue received and recognized for the year ended March 31, 2009 amount to \$924 (2008 – \$2,624).

Accounts receivable exclude parliamentary appropriations receivable of \$16,305 (2008 – nil) for capital funding.

Accounts payable and accrued liabilities exclude an amount of \$33,714 (2008 – \$32,212) relating to the acquisition of property and equipment.

19. Contingent liabilities

In the normal course of its operations, CATSA receives claims requesting monetary compensation from various parties. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense is recorded in CATSA's financial statements.

20. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2009.