

ANNUAL REPORT 2021



Canada



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CATSA AT A GLANCE



89

designated airports

221

standard screening lines



7.0

million passengers screened¹



122

Pre-Board Screening checkpoints

78

CATSA Plus screening lines



448

CATSA employees



5,747

active screening personnel



¹ Passenger levels in 2020/21 reduced significantly as a result of the COVID-19 pandemic.

CORPORATE PROFILE

Established on April 1, 2002, the Canadian Air Transport Security Authority (CATSA) is an agent Crown corporation funded by parliamentary appropriations, and accountable to Parliament through the Minister of Transport.

MISSION

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

VISION

CATSA's vision is to be a recognized global leader in aviation security screening, and we will achieve this vision through:

OUR SERVICE

We provide the best possible passenger experience and maintain the highest level of security while delivering value to Canadians with an optimal use of our resources.

OUR PEOPLE

We are proactively engaged and committed to leading by example.

OUR PARTNERSHIPS

We work in collaboration with our partners toward common goals and interests.



CORE RESPONSIBILITY

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

As CATSA's mandate is very specific, the organization has one Core Responsibility.

SECURITY SCREENING AT DESIGNATED AIRPORTS

CATSA is mandated to deliver effective, efficient and consistent screening that is in the interest of the travelling public at designated airports. CATSA fulfils this responsibility by way of Pre-Board Screening, Hold Baggage Screening, Non-Passenger Screening, and Restricted Area Identity Card programs.

MANDATED ACTIVITIES

CATSA delivers the mandate of security screening at eighty-nine designated airports across the country through a third-party screening contractor model. Playing a key role in Canada's air transportation system, CATSA is responsible for the delivery of the following four mandated activities:



Pre-Board Screening (PBS)

The screening of passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building.



Hold Baggage Screening (HBS)

The screening of passengers' checked (or hold) baggage for prohibited items such as explosives, prior to it being loaded onto an aircraft.



Non-Passenger Screening (NPS)

The random screening of non-passengers and their belongings, including vehicles, entering restricted areas of the aerodrome at the highest risk airports. These non-passengers include CATSA personnel, screening officers, flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees.



Restricted Area Identity Card (RAIC)

The system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports. The final authority that determines access to the restricted areas of an airport is the airport authority.



Cargo

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

Cost Recovery

The *Transportation Modernization Act* introduced authorities allowing CATSA to provide supplemental screening services, so long as the provision of these services remains cost neutral. CATSA may provide services on a cost-recovery basis to both designated and non-designated airports with Transport Canada approval.



MESSAGE

from CATSA's Chairperson

This is my second Annual Report message that leads with the pandemic's impact on CATSA and that's certainly something I didn't anticipate at this time last year. What is less surprising is that CATSA has responded with decisiveness and resolve, continuing to secure critical elements of the air transportation system in difficult circumstances.

The theme of this year's Annual Report summarizes why and how we have succeeded: We are "Stronger Together."

This pandemic has revealed the importance of collaboration and partnership. With careful and often innovative collaboration, and with the support of our partners, CATSA rapidly implemented new measures to address the effects of COVID-19 on our operations. In so doing, we ensured that we never faltered in fulfilling CATSA's mandate.

Some of these changes, such as the implementation of temperature screening at our checkpoints, were visible to the travelling public. Some were not. But none were made in a vacuum. CATSA's response to the pandemic required close consideration and collaboration with a broad range of stakeholders. The Board of Directors was pleased to be able to facilitate these efforts whenever possible.

The Board itself has continued to work together, virtually, to oversee CATSA's activities. Along with the COVID-19 measures, CATSA implemented multiple major projects in the past year that will position the organization for future success.

For example, CATSA completed its hold-baggage screening recapitalization program. This was a major, long-term undertaking that required coordination with airports and other partners across the country. It is a great achievement that all involved should be proud of.

In February 2019, as part of the federal budget, the Government of Canada announced that CATSA's assets and liabilities would be sold to a private, not-for-profit entity. The government subsequently passed legislation to make this happen. A significant amount of work had been done toward this transition, but the process has been disrupted by the pandemic. The Board stands ready to continue supporting the negotiating parties – the Government of Canada and the interim corporate entity, referred to as the designated screening authority – as and when required.

In these times of unexpected change, one area of particular focus for the Board was overseeing how the effects of the pandemic were impacting CATSA's workforce. Through the results of internal surveys, we were pleased to see that CATSA's senior management was able to gauge what was working well for employees and quickly address any areas of challenge – from ergonomic assessments to resources for mental health and wellbeing. The most recent survey, conducted in January 2021, showed that 93% of employees who completed the survey were satisfied with their job at CATSA. That is an exceptionally encouraging number and a sign that CATSA's workforce has been well supported over the past year.

I wish to thank my fellow Board members for embracing the collaborative spirit in our switch to virtual work, and for once again bringing their breadth of experience to bear on CATSA's behalf this year.

My thanks also go to CATSA's staff, senior management and the front-line screening workforce. In terms of adaptability and resilience, they have provided an excellent example for everyone to follow. The Board was more than impressed by the speed at which they collectively developed and deployed new procedures and practices for the safety of all those travelling through and working in Canadian airports.

I look forward to continuing my work with the Board in guiding CATSA through this time, and through the further challenges and changes ahead. One of our greatest lessons from the past year is that although we cannot be together, we can still achieve great things by working together wherever we may be.

Marguerite Nadeau
Chairperson



MESSAGE

from President and Chief
Executive Officer

This past year has been one of challenge and dedication – the challenge of continuing to meet our mandate in extraordinary circumstances and the dedication of those who have continued to go to work at airports and other CATSA sites to ensure the continuation of our frontline operations. This includes regional employees working in Canada's eight Class 1 airports, those providing support services at our headquarters in Ottawa, and others testing, servicing, trialing and deploying systems and technologies in airports across the country.

It has also been a year of innovation borne of necessity, whether it was finding solutions to unexpected issues or planning for a more permanent shift to a new way of working.

As with countless organizations, CATSA's response to the pandemic included requiring the majority of its employees to transition quickly to full-time telework. This was a huge transformation, accomplished in a very short time period. Although at the outset we did not expect this to persist as long, I can say that we were prepared for crisis and for a shift toward telework thanks to previous technology infrastructure projects and other activities we had undertaken to ensure employees were set up

for success. As a result, we were well-positioned to support our regions in ensuring essential travellers could continue their journeys and the air travel industry could rely on CATSA as a solid and steadfast partner.

Airports are very different environments today and CATSA has worked closely with our aviation partners to implement new measures and processes in response to COVID-19. Chief among those has been the introduction of temperature screening at our passenger and non-passenger screening checkpoints located at the largest airports in Canada. This was a huge undertaking implemented in a short time frame, and we are proud of the achievement – especially given our additional efforts to deploy many new procedures, ensure supplies of personal protective equipment and adopt more rigorous cleaning processes in order to safeguard our screening officers, our staff and the people we screen.

Our quarterly Passenger Intercept Survey results show that passengers who are still departing from airports in Canada appreciate the work we are doing. Difficult times and unfamiliar processes make good customer service more important than ever, and I'm pleased to be able to say that it is being provided.

Once we adjusted to this new operating environment, work on a range of longstanding projects was able to continue.

We are developing new training on Indigenous cultural awareness and on screening Indigenous sacred items. This is a project I feel passionate about, as do the many employees who are a part of this important effort. Improving our understanding of the Indigenous experience will improve CATSA's operations to the benefit of Indigenous peoples, and in turn make us a better organization for all of the people we serve.

We completed the 10-year hold-baggage screening recapitalization project, upgrading our hold-baggage systems to eliminate the need for duplicate screening and to facilitate travel for passengers departing from Canada and transiting through United States airports. This will yield benefits well into CATSA's future.

Deployments of our CATSA Plus screening lines have also continued. Ottawa MacDonald-Cartier International Airport has now joined the list of airports with these high-performance screening lines installed.

Other deployments were completed this year at Toronto Pearson International Airport and Vancouver International Airport, and more are planned at Montreal Trudeau International Airport.

These achievements were made possible through close collaboration with our partners across the aviation sector. CATSA is stronger because of these enduring working relationships.

Our closest and greatest partnerships are with our screening contractors. I wish to thank them, their staff and the whole screening officer workforce for their dedication and their adaptability.

I also wish to thank CATSA's Board of Directors for their support this year. We were most fortunate to have their collective expertise, experience and guidance in this time of uncertainty.

My biggest thanks go to CATSA's staff for their agility, hard work and perseverance. I was also impressed by the creativity and ingenuity so many brought to bear. COVID-19 has been a challenge unlike any we have seen, and so it is fitting that the solutions our people found were extraordinary as well.

I trust that this ingenuity will shine through as you read this Annual Report. In these pages you will find the details of what has defined our year – challenges, dedication and solutions, with a focus on what keeps us together.

Michael Saunders
President and Chief Executive
Officer (CEO)

OPERATING ENVIRONMENT

LEGISLATIVE AND REGULATORY FRAMEWORK

Responsibility for civil aviation security in Canada is shared among several federal government departments and agencies, as well as air carriers and airport operators. Transport Canada is designated as Canada's national civil aviation security authority. CATSA, as the civil aviation security screening authority for Canada, is regulated by Transport Canada.

CATSA is subject to domestic legislation and regulations in the way that it conducts its business and screening activities. These acts and regulations include, but are not limited to, the *CATSA Act*; the *Financial Administrations Act (FAA), Part X*; the *Aeronautics Act*; and the *Canadian Aviation Security Regulations, 2012*.

This legislative and regulatory framework is the foundation upon which CATSA develops its Standard Operating Procedures (SOPs) as well as the training program that guides screening officers in the performance of their duties.

CHANGE IN GOVERNANCE FRAMEWORK

The *Budget Implementation Act 2019* introduced the *Security Screening Services Commercialization Act*, which provides for the potential transfer of CATSA's responsibilities and its assets and liabilities to an independent, not-for-profit entity referred herein as the designated screening authority (DSA). The transfer of responsibilities from CATSA to the DSA, and provisions related to the sale or disposition of CATSA's assets and liabilities are subject to the negotiations. These negotiations have been placed on hold to allow both parties to focus on responding to the impacts of the COVID-19 pandemic on Canada's civil aviation industry.

CATSA will continue to deliver aviation security screening services while supporting the seamless transfer of responsibility if and when required.

INDUSTRY PARTNERS

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

This integration requires a high degree of communication and coordination between CATSA and its partners, not only to ensure the effective and efficient screening of passengers and their belongings, but also to aid their continuous movement through the security screening process as delays at one airport can have ripple effects across the system.

CATSA recognizes that strong relationships with partners are critical to the overall positive performance of aviation security activities and to the day-to-day success of delivering its mandate. Therefore, CATSA is committed to strengthening and building collaborative relationships with industry partners.



The Government of Canada

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

Over the past year, CATSA has continued to collaborate with Transport Canada on key files, such as the implementation of the full body scanner (FBS) as the primary security screening tool for passengers at PBS, Trusted Traveller program enhancements, and the addition of new United States Customs and Border Protection Preclearance sites. The organization will continue to collaborate with Transport Canada and support the Government of Canada's efforts towards the recovery of the aviation industry.

Transportation 2030: A Strategic Plan for the Future of Canada's Transportation System

The Government of Canada has developed a vision and long-term plan to build a national transportation system that supports "economic growth, job creation and Canada's middle class." This plan, *Transportation 2030*, sets out five broad themes, three of which have implications for CATSA and its role in ensuring safe and efficient air passenger travel.

The three themes are:

- 1 *The Traveller*—providing greater choice, better service, lower costs and enhanced rights;
- 2 *Safer Transportation*—harmonizing global standards, consulting with industry, and contributing to enhanced safety and security; and
- 3 *Green and Innovative Transportation*—embracing new technologies, supporting innovation, and focusing on trade corridors and shared ways of moving goods and people.





Transparency and Open Government

The Prime Minister's mandate letter to the President of the Treasury Board set out the Government of Canada's commitment to "set a higher bar for openness and transparency," with the goal of "shining more light on government to ensure it remains focused on the people it serves." Emphasizing the importance of the government making its information "open by default," the government has directed and encouraged all federal departments and agencies to adopt practices of openness and transparency. This begins with consistent and timely compliance with obligations under the *Access to Information Act*, the *Privacy Act*, and related Treasury Board of Canada directives.

CATSA proactively maintains a comprehensive information and awareness program, both with the public and with the Government of Canada. In order to maintain transparency and openness with the public, CATSA shares its wait times and publishes critical bulletins, information materials and periodic reports on CATSA policies, procedures and evolving issues. CATSA also conducts quarterly traveller surveys, hosts a website with mechanisms for enquiries and feedback, and participates in active consultations in an effort to engage with industry representatives, passengers and other stakeholders in a meaningful way. This allows CATSA to enhance its positive impact in the aviation industry, and the passenger experience.

In order to remain accountable and maintain transparency with the Government of Canada, CATSA holds Annual Public Meetings, and its Corporate Plan Summaries and Annual Reports are tabled in Parliament. CATSA also provides responses to enquiries and requests for information from Parliament, the Auditor General of Canada and other government authorities.

The Aviation Industry

Discussions at the International Civil Aviation Organization (ICAO) have focused on the future of NPS, which has potentially significant impacts for CATSA. The ICAO recently adopted a 100% screening standard for non-passengers for all international flights. Transport Canada is currently assessing how this requirement could be implemented in Canada and consulting with industry representatives on this subject in 2021/22.

In June 2020, the Canadian Transportation Agency (CTA) published new regulations to ensure that all stakeholders in the transportation sector uphold standards for accessibility. In the context of CATSA's mandate, this means ensuring that the accessibility needs of passengers are met throughout the security screening process. CATSA is currently focused on implementing recurring training for screening officers to ensure the provision of safe, sensitive, and effective security screening of persons with disabilities and/or any other impairments.

TSA Harmonization

As part of the "Beyond the Border Action Plan", Canada and the United States have signed a Memorandum of Understanding aimed at achieving harmonization in screening procedures at airports with United States Customs and Border Protection Preclearance. Continued harmonization will ensure that both country's screening operations provide a comparable level of security, as well as a common passenger experience.

Over the past year, harmonization activities have slowed down due to the COVID-19 pandemic, though the organization aims to renew its focus on harmonization going forward.

LABOUR RELATIONS

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

Collective bargaining agreements for all Class 1 airports have expiry dates in 2021 and 2022. CATSA works closely with screening contractors to maintain labour stability throughout these collective bargaining cycles, which is key to CATSA's successful operations.

OFFICIAL LANGUAGES REQUIREMENTS

CATSA is committed to meeting its obligations under the *Official Languages Act (OLA)*. CATSA has updated its three year Official Languages Plan, which demonstrates the organization's commitment to:

- Enhancing the vitality of the English and French linguistic minority communities in Canada and supporting and assisting their development; and
- Fostering the full recognition and use of both English and French in Canadian society.

OFFICIAL LANGUAGES MATURITY MODEL INITIATIVE

CATSA was selected by Office of the Commissioner of Official Languages to participate in an Official Languages Maturity Model (OLMM) initiative, now scheduled to begin in the fall of 2021. The OLMM is a tool for assessing and improving organizational processes with respect to official languages obligations. It is expected that feedback from this initiative will further contribute to CATSA's Official Languages Plan over the course of the three-year period.

The OLMM is designed around three areas of activity:

Governance and strategic direction

Service delivery and communications to the public; and

People management

These three areas encompass all of CATSA's business, from its own hiring and leadership practices, to the services it provides at airports across the country.

PASSENGER VOLUMES AND SCREENING OPERATIONS

The COVID-19 pandemic has had a significant impact on air passenger traffic in Canada. Passenger volumes reached a historic low in April 2020, when CATSA screened over 97% fewer passengers compared to April 2019. Passenger traffic remains at historic lows and is expected to continue this way for the duration of the pandemic.

Low traffic volumes, as well as the need for physical distancing, precipitated necessary adjustments to CATSA's operations. By April 2020, CATSA had temporarily closed 43% of PBS checkpoints, with similar reductions in the HBS and NPS programs. As the situation stabilized and screening procedures were adapted, CATSA began to re-open some checkpoints and by January 2021, 76% of PBS checkpoints were operational, with similar returns among the HBS and NPS programs.

The significant decline in passenger volumes forced many Class 2 and 3 airports to close their doors, leading to a suspension of CATSA operations. Of the eighty designated airports with active screening operations at the onset of the COVID-19 pandemic, twenty-six airports became inactive and thus did not require screening operations in April 2020. By March 2021, some airports' operations had resumed activities, though CATSA was not conducting screening operations at fifteen inactive airports across the country.



ANNUAL HIGHLIGHTS

1

COVID-19 Response

In response to the COVID-19 pandemic, CATSA swiftly implemented increased biosecurity measures and modified security screening lines to reduce close-proximity without impacts to security effectiveness. These measures include enhanced sanitization procedures and new sanitizing technologies at all PBS checkpoints across Canada, personal protective equipment (PPE) for all of the organization's airport personnel, including CATSA staff, and screening officers. Additionally, CATSA deployed acrylic barriers at several positions at checkpoints at the four busiest Class 1 airports to provide an added layer of separation between people. The organization continues to monitor guidance from public health officials in order to ensure the safety of all passengers, non-passengers, screening officers and the CATSA workforce.

2

Temperature Screening

In response to the COVID-19 pandemic, as directed by the Government of Canada, CATSA implemented temperature screening of passengers and non-passengers at seventy-five PBS and NPS checkpoints.

3

Work from Home

While CATSA moved 60% of its workforce to full-time telework, front-line personnel continue to enable all of CATSA's operations at its headquarters and in its regional offices.

4

HBS Recapitalization

All new HBS systems are active, and the HBS recapitalization program, a 10-year, \$600-million project, is within the prescribed timeline and budget.

5

Together, Apart

CATSA hosted its first virtual corporate retreat. Many members of CATSA's workforce worked together to plan and deliver a retreat that was dynamic, engaging and helped all of the organization's personnel feel connected while apart.

6

CATSA Goes Live

CATSA's media team held Facebook Live events in both official languages in early December at the Ottawa MacDonald-Cartier International Airport to share key messages about preparing for changes to security screening due to COVID-19. This was a virtual adaptation of CATSA's traditional media tour during what is typically the busy holiday travel season. This provided the organization with an opportunity to share essential tips for those embarking on essential travel during that period.

7

Informing the Future

CATSA has deployed several analytical models to help the organization prepare for industry recovery, and has enhanced data sharing with key stakeholders.

8

Data Centre Relocation

The Data Centre Relocation project remains within project parameters, with approximately 40% completed to date.

9

CATSA Plus

CATSA continued to deploy CATSA Plus lines, with deployments in Ottawa Macdonald-Cartier International Airport, Toronto Pearson International Airport, and Vancouver International Airport.

10

FBS at Primary

CATSA continued with the relocation of FBS to a primary screening position at all Class 1 airports.

REPORTING ON RESULTS

PRE-BOARD SCREENING



PBS Wait-Time Service Levels

In 2020/21, CATSA delivered a wait-time service level (WTS�) where, on average, approximately 98.2% of all passengers waited fifteen minutes or less to be screened at Class 1 airports on an annual basis. This is above CATSA's funded WTS�, where an average of 85% of passengers are screened in fifteen minutes or less.

It is important to remember that this performance reflects an average of the WTS� at all Class 1 airports across the country, and that wait times for passengers may vary in specific situations. For example, longer wait times will occur during peak periods, when checkpoints experience higher traffic volumes, or as a result of the implementation of new safety measures at security screening checkpoints in response to the COVID-19 pandemic.

CATSA continues to strive to offer the best possible experience to passengers at screening checkpoints across Canada, while maintaining security effectiveness. The organization works collaboratively with industry partners such as airports and air carriers in order to limit the impact of external variables on screening operations and wait times.

CATSA Plus

CATSA Plus security screening lines enable a more streamlined, efficient and effective security screening process, as compared to standard PBS screening lines. The benefits of CATSA Plus lines are numerous, and include higher passenger throughput, parallel divesting stations, motorized rollers, bin tracking and diverters, which all contribute to creating a more seamless security screening experience for travelers. There are now seventy-eight CATSA Plus lines deployed across the country, including five new lines at the Ottawa MacDonald-Cartier International Airport, four at Toronto Pearson International Airport, and one at Vancouver International Airport.

CATSA Plus systems receive continuous enhancements in order to ensure maximum efficacy and to help screening officers ensure the security of the aviation system. A software upgrade to equip CATSA Plus systems with a number of new features, including the ability to set minimum review times for every image, is currently being trialed at several airports.



Full Body Scanner as a Primary Screening Tool

CATSA has undertaken a security enhancement initiative to use full body scanners (FBS) as a primary passenger screening tool (FBS Primary). The project focuses on relocating existing FBS machines into primary positions at PBS checkpoints. Used in combination with walk-through metal detectors, the FBS Primary screening process enables a continual flow of passengers through even the busiest checkpoints.

The FBS Primary initiative contributes to Canada's goal of continued harmonization with our international counterparts, including the United States TSA.

The deployment of this initiative in 2020/21 involved moving FBS units at Transborder and Domestic/International checkpoints into the primary screening position at all Class 1 airports as well as Québec City International Airport.



Boarding Pass Security System

CATSA's Boarding Pass Security System (BPSS) enables electronic scanning of boarding passes at PBS checkpoints to ensure their validity and to detect fraudulent or duplicate passes. In addition to these security effectiveness benefits, BPSS is used to calculate wait times and has also enhanced security incident resolution and checkpoint performance monitoring.

BPSS has become an instrumental tool for strategic decision-making and the daily management of CATSA's operations across Canada.

Cost Recovery and Other Designated Airports

The *Transportation Modernization Act* introduced authorities allowing CATSA to provide supplemental screening services, so long as the provision of these services remains cost neutral. Based on this authority, CATSA has provided additional screening services to airports through supplemental screening agreements.

CATSA did not provide supplemental screening in 2020/21 due to reduced passenger volumes resulting from the COVID-19 pandemic.



PBS Enhancement and Recapitalization Lifecycle Management Project

In addition to the expertise of the screening workforce, CATSA relies on many different types of technological elements at PBS checkpoints in order to ensure the safety and security of passengers travelling through the Canadian aviation system. These critical technological components must be maintained and replaced in accordance with CATSA's lifecycle management practices.

CATSA continued to evaluate its current fleet of PBS equipment against many criteria, including end-of-life, obsolescence, government mandated initiatives, major technological advancements, funding and regulatory requirements. The recapitalization of this equipment is expected to lead to better detection capabilities, lower false alarm rates, a reduction in divesting requirements over time, and the reduction of close-proximity contact between screening officers, passengers, and non-passengers when possible. The PBS recapitalization lifecycle management project will also lead to more harmonization with CATSA's counterparts, including the United States TSA.

CATSA will continue to closely monitor the development and maturity of the new technology to determine when to initiate the replacement of its current fleet of X-rays, Full Body Scanners, and Explosive Trace Detection equipment.



HOLD-BAGGAGE SCREENING



The 10-year HBS Recapitalization Program started in 2011/12 with the objective to migrate from a five-level process to a more streamlined three-level process, while maintaining international equivalency, and resolving issues with baggage connecting to the United States at facilities with United States Customs and Border Protection Preclearance.

This program was a significant undertaking for both CATSA and airport authorities. This year, despite challenges posed by the COVID-19 pandemic, all new systems are active at airports across Canada.

NPS ensures the security of sterile areas of the airport through the screening of CATSA personnel, screening officers, flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees, as well as the belongings of these individuals.

NPS-Vehicle Permanent Deployment

To date, permanent NPS-Vehicle (NPS-V) screening facilities are in operation at fifteen airports across Canada.

NON-PASSENGER SCREENING



RESTRICTED AREA IDENTITY CARD



CATSA's RAIC program allows airport authorities to maintain care and control of the restricted areas of airports. This system employs biometric scanners to identify those authorized to enter restricted areas, and enables the implementation of random screening at NPS checkpoints.

RAIC Enrolment System

CATSA completed the design and development of the next generation RAIC Enrolment System. Although COVID-19 slowed national deployment due to travel restrictions, deployment was successfully completed at Winnipeg, St. John's, Windsor, and Thunder Bay airports.

PBS Innovations

The majority of CATSA's innovation efforts this fiscal year were focused on adapting our screening operations to the COVID-19 pandemic environment and protecting the health and safety of our passengers and front-line personnel.

This year, CATSA replaced controller units on walk-through metal detectors at PBS lines at all Class 1, Class 2, and open Class 3 checkpoints. The new controllers are better able to determine object size, which can reduce false alarm rates significantly. A reduction in false alarm rates decreases the need for secondary screening (i.e. physical searches), and reduces the need for close-proximity interactions between passengers and screening officers.



CATSA'S RESPONSE TO THE COVID-19 PANDEMIC



CATSA is actively contributing to the Government of Canada's response to the COVID-19 pandemic, to ensure the health and safety of passengers, non-passengers, screening officers and CATSA employees.

The organization has conducted Risk Assessments in each of its workplaces to identify any risks associated with the transmission of COVID-19 in the workplace as well as identify mitigation controls to reduce or eliminate the identified risks. Health and safety measures were also developed in alignment with guidance from the Public Health Agency of Canada and requirements from Transport Canada. CATSA has implemented critical biosecurity measures including enhanced sanitization at checkpoints, physical enhancements to checkpoints, revised screening procedures, physical distancing measures, personal protection equipment (PPE) for screening officers and CATSA staff, as well as other measures to anticipate and mitigate the risks posed by COVID-19. COVID-19 awareness training was also provided to employees who were required to attend a screening checkpoint.

CATSA was able to seamlessly transition many employees to remote work thanks to prior investments in IT infrastructure from both a foundational and remote working solutions perspective, adding network capacity, as well as the procurement of additional laptops just prior to the pandemic.

Personal Protective Equipment

Screening officers are required to wear a face mask and gloves at all times. Screening officers must also wear a face shield, in addition to a face mask, in certain situations.

CATSA has also provided training on proper PPE procedures, with particular attention devoted to reinforcing the importance of proper hand washing and sanitization.

Interacting with the Travelling Public

In response to the COVID-19 pandemic, CATSA has taken steps to minimize close-proximity interactions with passengers as much as possible during the screening process. For example, passengers are now asked to scan their own boarding passes and they have more opportunities to divest items if they alarm at the walk-through metal detector.

Screening officers position themselves to maintain a two-metre physical distance from passengers, and markers are placed on the ground to remind passengers to do the same. In instances where two-metre physical distancing is not operationally feasible, CATSA introduced new safety procedures² to help minimize any risk of viral transmission.

² See "Safety Measures Implemented at Screening Checkpoints" for more information on the safety procedures implemented to help protect passengers, non-passengers, and screening officers.

Physical adjustments have been made as well, such as staggering the opening of screening lines and positioning additional tables and stanchions to maintain a two-metre distance throughout the checkpoint where possible.

CATSA's health and safety measures are structured around providing layers of protection and we will continue to work with our screening contractors and vendors in an effort to support screening officers in the delivery of screening services, while prioritizing health and safety for all. The organization will continue to monitor and adhere to the recommendations of public health officials, while implementing adjustments as required.

CATSA is committed to supporting its personnel as the air-travel industry recovers. The health and safety of all CATSA personnel, screening officers, passengers, and non-passengers has been, and will remain one of the organization's priorities as the effects of the pandemic continue to be felt throughout all aspects of the aviation system.

Safety Measures Implemented at Screening Checkpoints

In addition to the increased frequency of sanitization at security screening checkpoints, CATSA implemented critical physical safety measures to help limit the spread of COVID-19 throughout the Canadian aviation system, and amongst the screening workforce, passengers and the public at large.

One of the mechanisms employed by CATSA is the introduction of acrylic barriers. These barriers limit close-proximity contact between screening officers and the travelling public. CATSA deployed acrylic barriers at several positions at the PBS checkpoints, as well as at the non-passenger screening checkpoints and HBS checkpoints at the four largest Class 1 airports, with plans to deploy barriers to additional airports.

CATSA also explored some technology solutions to enhance the current cleaning of trays used at Pre-Board checkpoints.

Tray Cleaning and Disinfection Trial

CATSA is currently trialing a machine at Vancouver International Airport that cleans trays and then coats them with antibacterial and disinfectant products, approved by Health Canada, that claims to provide continuous microbial protection against COVID-19 and other viruses and pathogens for up to seventy-two hours.

Ultraviolet Germicidal Irradiation (UV-C) Systems Trial

CATSA has evaluated the use of UV-C systems to disinfect trays on CATSA Plus lines using short-wavelength ultraviolet light to kill or inactivate micro-organisms, including bacteria and viruses. The systems can be installed on the tray return system and do not require additional staffing to operate and would disinfect the tray after every use. CATSA is awaiting Health Canada approval to proceed with airport trials.



Temperature Screening

As part of a multi-layered framework of measures deployed by the Government of Canada to stem the spread of COVID-19, Transport Canada directed that CATSA conduct temperature screening of all passengers and non-passengers entering restricted areas of certain airports.

Working closely with Transport Canada, CATSA was responsible for developing a temperature screening program for passengers and non-passengers which included the procurement of thermal cameras and handheld infrared thermometers under very tight timelines.

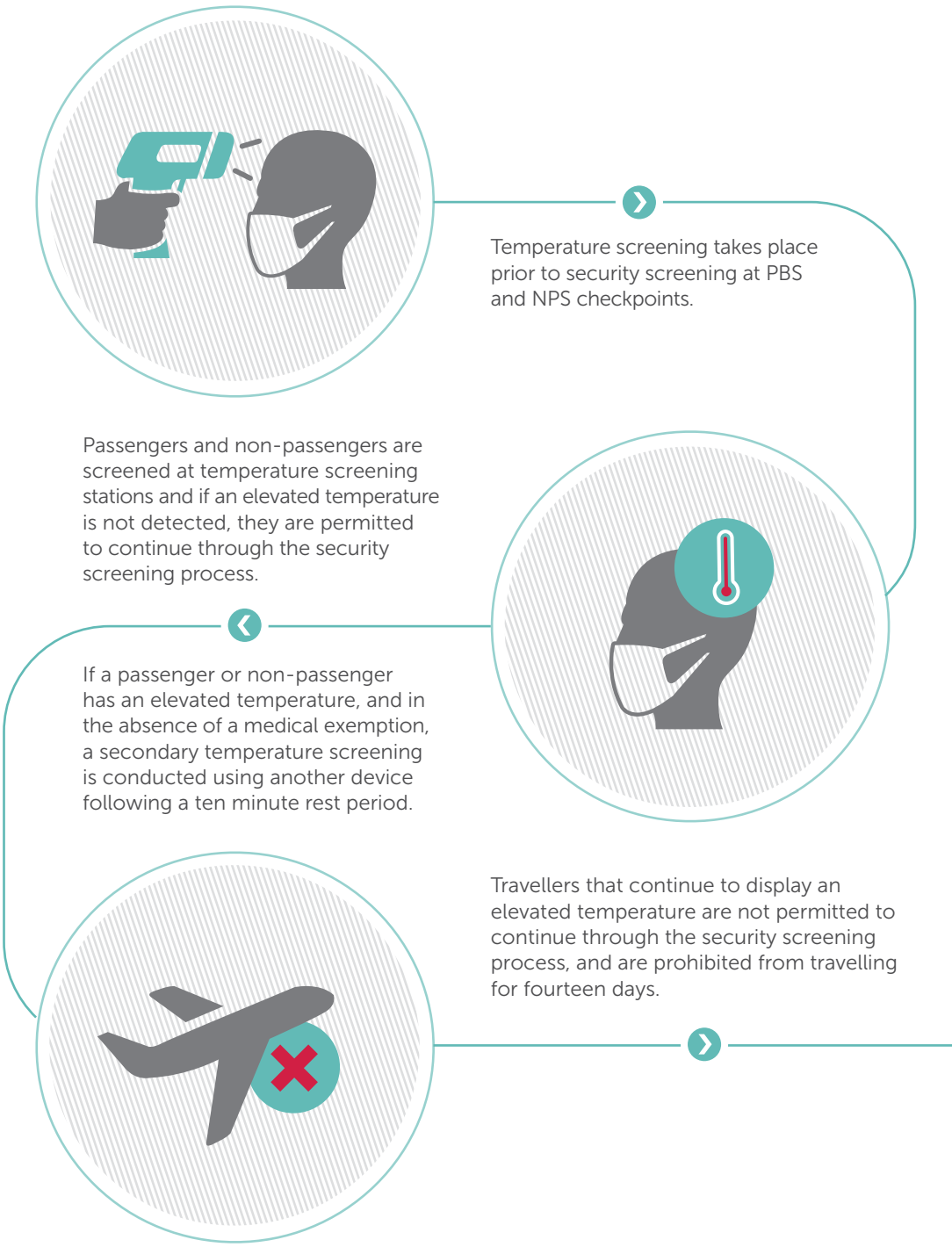
- STEP 01

This was completed by **July 31, 2020.**
- The first phase consisted of the deployment of temperature screening stations at CATSA checkpoints at Canada’s four busiest airports: Montréal-Trudeau International Airport, Toronto Pearson International Airport, Calgary International Airport and Vancouver International Airport.
- STEP 02

This was completed by **September 30, 2020.**
- The second phase was the deployment of temperature screening stations at Canada’s next eleven busiest airports: St. John’s, Halifax, Québec City, Ottawa, Toronto (Billy Bishop), Winnipeg, Regina, Saskatoon, Edmonton, Kelowna and Victoria airports.

The deployment of temperature screening was a large effort spanning across the organization. Despite the various COVID-19 restrictions in each province, CATSA employees came together virtually and at airports, to install the equipment and train the screening officers.

How It Works



Facts and Figures

Since its implementation, **no complaints** were received in relation to temperature screening.

[90%]
of passengers felt comfortable with the temperature screening process.

[2/3]
Slightly more than two thirds of passengers indicated increased confidence in the safety of air travel as a result of temperature screening.

Working Virtually

Many years prior to the pandemic, CATSA developed a telework policy that permitted employees to work from home on a regular or ad hoc basis, based on management approval. This policy allowed for a certain amount of flexibility in a pre-pandemic working environment, and helped employees achieve a more sustainable work-life balance.

Since March 2020, the majority of CATSA’s headquarters workforce has shifted to full-time telework as a result of the COVID-19 pandemic. Though the concept is not novel to the organization, the pandemic presented a significant change to CATSA’s telework model, and presented new and evolving challenges on many fronts.

CATSA’s Regional Workforce

The majority of CATSA’s regional employees continued to carry out their duties at designated airports throughout the COVID-19 pandemic. They responded swiftly to a rapidly changing environment by implementing health and safety measures including physical distancing and the use of PPE. Additionally, CATSA regional employees continued to demonstrate tremendous dedication and resilience as the air transportation environment remained fluid as a result of various impacts of the COVID-19 pandemic.



Training and Certification

CATSA implemented immediate modifications to screening officer training during the COVID-19 pandemic, suspending the delivery of non-essential training while looking for ways to deliver training that would reduce the need for in-person contact, minimize travel and respect physical distancing protocols.

These methods included:



Further, CATSA created training programs to explain the new screening and PPE requirements for all screening officers, supervisors and CATSA regional staff. This training has been integrated into initial training for all new screening officers, and as part of the return-to-work activities for returning screening officers.

CATSA also developed instructor-led training and accompanying training kits to support the rollout of the new temperature screening mandate.

In support of changes made to the NPS-V Traffic Management System, CATSA has developed an in-house training simulator, thereby allowing a greater number of people to be trained simultaneously on individual workstations in a classroom environment, rather than gathering around a single monitor at the checkpoint.

DEPLOYMENT OF ANALYTICAL MODELS

This year, CATSA continued to build upon and leverage advanced analytics to derive insights from data, support decision-making and solve business problems. In light of significantly reduced passenger traffic as a result of the COVID-19 pandemic, CATSA has monitored developments and trends in the aviation industry in order to update its traffic projections on a regular basis.

In order to better understand and illustrate operational impacts of the new ICAO standards for NPS, CATSA has developed simulation

models representing existing NPS checkpoints of different sizes at both Toronto Pearson International Airport and Vancouver International Airport. These models, based on actual checkpoint dimensions, use equipment data, process time data, and observations to estimate throughput capabilities and identify bottlenecks of possible deployment scenarios. The models allow CATSA to gain a deeper understanding of the expected performance of various solutions, and were instrumental in obtaining regulatory and stakeholder support to proceed with operational trials.

CATSA also developed simulation models to better understand the operational impacts of modified PBS procedures, including physical distancing requirements, as a result of the COVID-19 pandemic. In addition to allowing CATSA to determine expected efficiency reductions at CATSA Plus lines, the simulation models allow the organization to determine where to allocate resources to maximize impact as passenger traffic recovers.

This year, CATSA undertook the challenging task of adapting its comprehensive Wait-Time Impact Model to account for significant reductions in traffic,

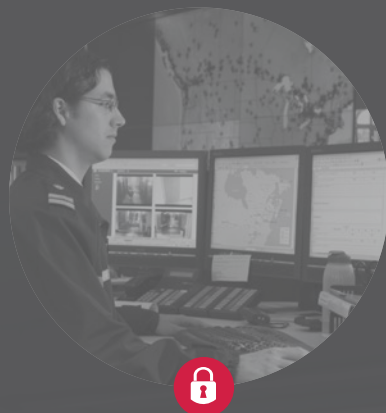
changes to processing rates brought on by physical distancing requirements, modified shift compositions and modified traffic patterns. The revised model was used to estimate the amount of screening hours required to achieve defined WTSls at applicable airports. The Wait-Time Impact Model helps CATSA to meet its operational objectives, and is an extremely valuable planning tool for the organization.

ENHANCED TRUSTED TRAVELLER INITIATIVE

In 2019/20, CATSA and Transport Canada collaborated to develop and conduct a trial to gain further insight into the benefits of risk-based screening at Trusted Traveller lines – an approach that would be more in line with the screening approach of the TSA’s Pre-Check program.

A multi-phased trial was launched on September 30, 2019 at Vancouver International Airport. The trial expands the rules of the existing Trusted Traveller program to permit large electronics in bags and assesses different equipment and procedural changes under the revised risk-based process. Data collected during this trial will permit CATSA and Transport Canada to determine whether this concept could be a viable replacement or enhancement to the existing Trusted Traveller program.





CYBERSECURITY

Cybersecurity continues to be a priority for CATSA. With the ever-changing cybersecurity landscape, and with the increased telework, the organization is staying abreast of emerging trends and readying itself for the future by investing in new technologies and enhancing current cybersecurity capabilities.

CATSA continues to focus on cybersecurity as threat vectors continue to change. The organization conducts monthly software patching and updates to workstations and laptops to address potential vulnerabilities at the system level, while the publication of training materials for CATSA employees on emerging threats helps to educate the workforce on the cybersecurity landscape.

Data Centre Relocation

In July 2019, Shared Services Canada advised CATSA of the upcoming closure of one of its data centres. In response, CATSA is relocating existing infrastructure to its other data centres in Toronto and Vancouver.

› The project is scheduled for completion in 2022.

CATSA IN THE COMMUNITY

CATSA is committed to being a valuable and contributing member of the communities it serves. As such, the organization prioritizes civic engagement and outreach. CATSA's community includes the travelling public, airport authorities, screening contractors and the organization's own work force.

Engagement with Indigenous Elders

CATSA has embarked on a multi-year engagement strategy with an advisory group of Indigenous Elders. This engagement is informing changes to screening procedures for sacred items and will also lead to Indigenous cultural awareness training for screening contractor personnel and CATSA staff.

This training responds to the Truth and Reconciliation Commission's Call to Action 57, which calls upon the Government of Canada to educate public servants on the history and experiences of Indigenous Peoples. Fostering an awareness of Indigenous culture will enable CATSA to provide a more inclusive and positive screening experience for Indigenous travellers.

In December 2019, CATSA awarded a contract to First People's Group to develop and deliver this training. The onset of the COVID-19 pandemic delayed this work and required a shift in approach to account for the possibility that training originally planned for in-person delivery would have to be delivered virtually.

CATSA is continuing to work with First People's Group to finalize the training content and launch the program, and will continue engaging with Elders to seek their feedback and input as the training is developed and delivered.

Communicating with Stakeholders

At the beginning of the COVID-19 pandemic, CATSA made numerous changes at screening checkpoints while working closely with screening contractors. These changes serve to anticipate and mitigate the risk to everyone's health and safety.

In order to keep stakeholders (including airport authorities and screening contractors) apprised of procedural and operational changes, CATSA has created and distributed fact sheets, question-and-answer documents, and other operational communications content. These communiqués provide an outline of the organization's COVID-19 pandemic response including measures implemented at screening checkpoints.

Supporting Screening Officers

Initiatives implemented to support screening officers during lower passenger volumes, restricted movements, as well as returns to work after extended absences, include:

- Developing refresher training to keep skills current;
- Providing CATSA trainers with video equipment to individually film short training videos to support national consistency;
- Changing on-the-job training requirements to ensure that screening officers' X-ray image analysis competency was built and maintained; and
- Providing accommodations to the return-to-work procedures that allow screening officers to return in an operational capacity more quickly.





CATSA CONNECTS

A WALK ACROSS CANADA

Early in 2021, the Finance and Corporate Affairs branch banded together for a creative fitness challenge. Upwards of twenty participants came together and pledged to walk from CATSA's Ottawa headquarters to one of its designated airports, Gander International Airport; a total distance of 2,478 kilometres.

In addition to encouraging everyone to move and get some fresh winter air, CATSA's virtual cross-country walking group took the opportunity to help support some of those most affected by the COVID-19 pandemic by making donations to several organizations. These organizations included local food banks in Ottawa and Gander, local Ottawa shelters, Cystic Fibrosis Canada, Big Sky Ranch Animal Sanctuary and the Ottawa branch of the Canadian Mental Health Association.

By then end of the four-week challenge, the group had surpassed its distance goal, and had walked, run or cycled a total 3,160 kilometres! Even though they all walked separate from their colleagues, there was a definite sense of collaboration, connection and community amongst participants.



"This challenge was a great motivator to get outside for some fresh air, even on the coldest days. Knowing we were working towards a common goal of walking to Gander inspired me to walk and move more often than I normally would have."

– Sue Jalbert, Senior Advisor,
Program Coordination, Finance
and Corporate Affairs Branch

COFFEE WITH THE CEO

In late 2012, CATSA began to host a monthly coffee event with the CEO at its headquarters in Ottawa. The event is a chance for colleagues to mingle with their peers, enjoy a cup of coffee and some delicious homemade treats courtesy of CATSA's very own Josée Cusson, and get a good glimpse of what CATSA's culture has to offer.

The shift to the telework environment has not stopped Coffee with the CEO. The beginning of 2021 marked the first virtual event, and employees from CATSA's headquarters and across all regions took the opportunity to catch up with each other and with CATSA's President and CEO, Michael Saunders.

Though attendees definitely miss Josée's delectable treats, every event invitation is accompanied by a recipe so that those famous treats can be made at home. Virtual Coffee with the CEO is definitely one of the sweetest ways to stay connected while we stay apart.



BRINGING HOLIDAY CHEER HOME

CATSA knows how to celebrate the holidays in style! Every year, on the 24th of December, the organization's headquarters hosts a wonderful holiday celebration, complete with games, treats and gifts from Santa Claus himself! Employees and their families join in on the festivities. This year, CATSA's headquarters location was closed as a result of the pandemic, but that didn't stop the organization's personnel from continuing to spread holiday cheer from home.

One of the four branches brought the cheer home with organized virtual holiday décor, recipe-sharing initiatives, gingerbread making and a virtual trivia tournament.

Employees also took the opportunity to share in the spirit of giving, as they organized a charitable event aimed at purchasing gifts for families and children in need, as well as for residents of a long-term care residence.

Not even a global pandemic could stop CATSA's employees from celebrating the holidays with open hearts, even if it was from their home offices.



LOOKING AHEAD

CATSA recognizes that its workforce is its greatest strength and most valuable resource. Going forward, the organization will continue to provide support to its personnel as they navigate the impacts of the COVID-19 pandemic.

CATSA is working towards defining the future of the workplace and will rely heavily on its workforce to do so. Sharing different perspectives and maintaining a diverse, respectful and healthy workplace will continue to be a priority for the organization. CATSA's community will work together to continue to create an inclusive, respectful workplace.

CATSA AND OUR PARTNERS

As the civil aviation industry embarks on the route to recovery following the COVID-19 pandemic, CATSA will continue to prioritize the health and safety of passengers and non-passengers, screening personnel and its employees while delivering effective security screening at airports across the country. CATSA will continue to base its safety measures on the latest public health knowledge as it becomes available.

Working Towards Recovery

The impacts of the COVID-19 pandemic are widespread across the entirety of the aviation industry. Airlines, airport authorities and their employees, government stakeholders, international partners, screening contractors, screening officers and the travelling public have all felt its effects through the civil aviation system. Going forward, CATSA is committed to working with all of its partners across industry to help support recovery.

Screening Contractors

CATSA developed strategies, in partnership with its screening contractors, to maintain a reserve workforce of skilled and certified screening officers to support industry-wide recovery efforts. These strategies will help CATSA and the screening workforce contribute to the industry recovery with a continued commitment to aviation security.

Public Reporting and Stakeholder Collaboration

CATSA is one of many organizations interested in the recovery of the aviation industry. Given the heightened interest in air traffic since the start of the COVID-19 pandemic, CATSA began publishing daily screened traffic data on its public website. Doing so supports industry pandemic operations and recovery efforts by allowing stakeholders to quickly access and extract data, and perform analysis to identify passenger traffic changes and trends.

CATSA will continue information sharing with its key stakeholders across government and industry in order to support the recovery of the civil aviation industry.

CHANGE IN GOVERNANCE

As outlined earlier in this Annual Report, the *Security Screening Commercialization Act* enables CATSA's transition to an independent, not-for-profit entity (the designated screening authority). The timing of the potential transfer to the designated screening authority is subject to negotiations, in which CATSA plays a supporting role. As a result of the COVID-19 pandemic, negotiations were placed on hold in March 2020. CATSA will continue to fulfill its core mandate of providing security screening services until such time as the transfer of responsibility from CATSA to the designated screening authority comes into effect.

Future Projects

In the coming year, CATSA's focus will shift towards implementing new technologies and biosecurity measures at security screening checkpoints for the purpose of increasing screening efficacy, bolstering the organization's current oversight program and ensuring the health and safety of screening officers and the travelling public. The organization will continue to prioritize the security of the civil aviation system while also ensuring that it employs technologies and procedures that increase public confidence.



RISK PROFILE

Risk management is embedded into strategic decision-making and resource allocation within CATSA, thereby allowing the organization to make informed decisions at the corporate and operational levels. Risk management allows an organization to be more innovative and adaptable in its approach to operations and meeting strategic objectives. This is particularly true in a sector that is as fluid as civil aviation.

CATSA’s risk attitude and risk culture allow the organization to accept certain levels of risk, enabling CATSA and its workforce to respond to the changing environment in creative ways.

CATSA's Risk Profile

| Mandated Services Risk | Service Delivery Through Third Party Risk |
|---|--|
| <div><div>➤</div><div>Detection capabilities and maintaining care and control of screening checkpoints</div><div>Due to the evolving, unpredictable nature of the aviation security threat environment, there is a risk that CATSA may not have the technology, threat and risk information, processes or human factor capability to detect all high risk threat items or new and emerging threats, and prevent screening circumventions at operating screening checkpoints.</div><div>This may result in substantial consequences to the civil aviation system.</div></div> <div><div>➤</div><div>Risk Mitigation and Controls:</div><div>CATSA monitors the effectiveness of all its operational programs on a continuous basis through the use of testing, oversight programs and performance measurement. The organization also ensures that it remains apprised of Transport Canada regulations, and any aviation security equivalency requirements stemming from its national and international counterparts.</div></div> | <div><div>➤</div><div>Legal and Illegal labour disruption</div><div>Given CATSA’s third party service provider model, there is a risk that CATSA may have limited influence to prevent a legal labour disruption event, or to maintain service levels during an illegal labour disruption event initiated by the unionized screening officer workforce. Labour disruptions of this nature may result in longer wait times, increased passenger complaints and harm to CATSA’s reputation with its stakeholders.</div></div> <div><div>➤</div><div>Dependence on outsourced screening services, equipment maintenance services or major suppliers</div><div>Due to a contractor no longer being able or willing to provide the agreed upon contracted services or goods, there is a risk that CATSA’s dependence on outsourced screening services, equipment maintenance services, or major suppliers may result in negative service delivery impacts.</div></div> <div><div>➤</div><div>Risk Mitigation and Controls:</div><div>CATSA conducts continuous monitoring of labour market conditions in all of its regions in order to identify potential labour disruption events. The organization also has existing policies and procedures related to procurement and contracting that provide it with recourse should a contractor or service provider become unable to provide the agreed-upon services.</div></div> |

| Capacity Risk | Compliance Risk |
|--|---|
| <div><div>➤</div><div>CATSA staff capacity</div><div>There is a risk that CATSA’s current staff capacity, in certain areas, may be inadequate to sustain workloads and to support a healthy work environment resulting in employee dissatisfaction and a decrease in corporate performance over time.</div></div> <div><div>➤</div><div>Level of government funding</div><div>Due to the ongoing impacts of the COVID-19 pandemic and the Government of Canada Budget process, there is a risk that the organization may not receive adequate levels of government funding to maintain operations and to effectively support the recovery and stabilization of the air transportation sector.</div></div> <div><div>➤</div><div>Risk Mitigation and Controls:</div><div>CATSA monitors employee satisfaction through regular touchpoint surveys and closely monitors vacancy levels, attrition, and turnover rates. As for ensuring adequate levels of government funding, CATSA works closely with the Government of Canada to ensure that it has the necessary resources to perform its mandated responsibilities.</div></div> | <div><div>➤</div><div>Compliance with the <i>Financial Administration Act</i></div><div>There is a risk that through the failure of internal controls, CATSA inadvertently make inappropriate financial commitments for goods and services, resulting in non-compliance with the <i>Financial Administration Act</i>.</div></div> <div><div>➤</div><div>Risk Mitigation and Controls:</div><div>CATSA has a comprehensive framework in place to ensure that the organization remains compliant with all legislative requirements.</div></div> |



Sujoy Chatterjee,
Privacy Advisor, Legal
and Corporate Services



“For the first time in my career, I experienced a hiring and onboarding process that was entirely virtual and remote. Despite all of the restrictions, (...) the onboarding process has been a pleasant one that has been helped by friendly and welcoming colleagues.

From my first day, I felt that there was an appreciation that I was someone new to the organization and that I was missing out on the office meet and greet that would have happened otherwise. Recognizing this, individuals at CATSA made the extra step of introducing themselves and welcoming me to the team virtually. It was so thoughtful to see a simple one pager with some names and a personalized message from each.

My feeling is that CATSA knows what tools I need to be successful in my role. This is not just material support, but an attitude from my colleagues where they are open and encourage questions about the new environment I am in. While it is challenging to not be in the same room as my team members while thinking through an issue, we really are doing the best we can to connect.”

Stakeholder Relations Risk

➤ Reputational risk

There is a risk that CATSA may encounter events that the organization is not able to effectively manage, which may cause damage to its reputation with its stakeholders, resulting in loss of public trust in CATSA and/or confidence in air transportation security.

➤ Risk Mitigation and Controls:

CATSA maintains a website to provide the public with important information related to its performance, and conducts regular passenger surveys in order to respond to the needs of the travellers across the country. These mechanisms help the organization to ensure that it maintains public trust and confidence as it conducts its mandated activities.

Human Resources (HR) Risk

➤ Employee recruitment and retention

Due to labour market conditions for talent, or due to CATSA's overall corporate human resources strategies, there is a risk that CATSA may experience challenges in regards to recruitment and retention, resulting in a potential loss of corporate memory or a decrease in overall corporate performance.

➤ Risk Mitigation and Controls:

CATSA's human resources policies, frameworks and programs allow the organization to ensure that current and potential employees have all the tools and resources required to promote overall employee satisfaction, such as the Performance Management Program, talent management program, respectful workplace program, and leadership excellence program. CATSA also promotes enrolment in professional development training programs, hosts a social committee, and conducts employee surveys on a regular basis.

IT Risk

➤ Cyber Attacks on IT Infrastructure

Due to the evolving nature of the cyber threat environment, there is a risk that cyber threats and/or attacks may negatively impact CATSA's information technology infrastructure and/or compromise organizationally sensitive or secret information resulting in a loss of public confidence and potential damage to CATSA's reputation.

➤ Risk Mitigation and Controls:

CATSA implements many devices and systems in order to secure its systems and digital assets, including, but not limited to intrusion detection and prevention systems, firewalls, and filtering. The organization also utilizes external information resources to remain apprised of the ever-evolving cyber threat landscape. These resources allow CATSA to better protect its systems and networks from cyber threats.

CORPORATE SERVICES

HEALTHY WORKPLACE, ENGAGED EMPLOYEES,
AND PROACTIVE LEADERSHIP

The COVID-19 pandemic has had a significant impact not only on operations, but also on CATSA's personnel. Telework has shifted from specific work arrangements for various groups or individuals to the status quo for many employees across the organization, and may remain so for the foreseeable future. As a result, CATSA's human resources and facilities management teams are developing a post-pandemic telework strategy.

There are many advantages to telework, including improved work-life balance, higher levels of employee satisfaction,

access to a larger prospective talent pool, and a general reduction in greenhouse gas emissions associated with CATSA's workforce as a result of fewer daily commuters. Nevertheless, telework also presents a unique set of challenges including the need for new ways to foster in-person collaboration and a positive and cohesive corporate culture.

CATSA will continue to provide employees with tools and resources in order to address the mental health impacts of the COVID-19 pandemic. In addition, in an effort to

support CATSA's leaders in learning about how to effectively manage remote teams, a learning needs assessment survey was conducted to ensure relevant learning and information is provided going forward.

In addition to helping to support those employees that continue with full-time telework, CATSA is committed to support its front-line staff, all of which were instrumental in the organization's continued success and ability to sustain operations throughout the course of the pandemic.

CATSA's front-line workforce demonstrated resilience and dedication to CATSA's mandate in the face of great uncertainty as a result of the COVID-19 pandemic.

Diversity, Inclusion and Employment Equity

In order to promote the importance of diversity, inclusion and employment equity, CATSA has developed a comprehensive Diversity and Inclusion Framework. The purpose of the framework is to enable CATSA and its employees to integrate diversity and inclusion values and practices into existing corporate processes. The framework also enables the tracking and measurement of CATSA's performance against its objectives in relation to diversity, inclusion and employment equity.

Vision and Goals

CATSA is committed to fostering and reinforcing inclusive and respectful behaviours in the workplace by ensuring policies, processes and practices are in place to meet the diverse needs of its employees and to celebrate diversity.

CATSA works towards identifying perceived barriers to diversity and inclusion within the organization and addressing those challenges in partnership with its employees and CATSA's employee-run Diversity and Inclusion Network.

CATSA aims to attract and retain diverse and talented personnel, and to foster inclusive collaboration by recognizing the different dimensions of diversity (global, organizational, external and internal), which drive the ways in which the organization processes and responds to information.

Values

CATSA will value diversity and inclusion by:

Celebrating the diverse experiences and cultures within its workforce

Promoting inclusive practices

Identifying perceived barriers and addressing those challenges

Providing respect and professionalism training to all of its employees

CATSA will value a corporate culture in which:

People are treated with respect, dignity and fairness

Employee participation is encouraged

The work environment is free of harassment and discrimination

Self-awareness and personal accountability are expected



RECRUITMENT AND RETENTION

CATSA faces the same recruitment challenges as other employers in Canada, such as virtual recruitment and onboarding, and actively seeks to understand the issues that might affect employee attraction, retention and engagement.

CATSA has adapted its onboarding and training strategies to the new virtual work environment, allowing new employees joining CATSA from outside of the organization to integrate seamlessly.

CORPORATE PERFORMANCE

| Effectiveness | | | | | |
|---|--------|---------|---------|---------|---|
| Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document. | | | | | |
| Efficiency | | | | | |
| Performance measure | Target | 2018/19 | 2019/20 | 2020/21 | <div><div></div><div>Definition: The percentage of screening officers at CATSA airports who were terminated, retired, died or voluntarily resigned.</div></div> <div>Note: As of FY 2020/21 the National Screening Officer attrition rate is being reported, as opposed to the average of the eight busiest airports in previous years. The results for the previous years have been updated accordingly.</div> |
| Screening officer attrition levels | 20.0% | 19.6% | 20.2% | 6.1% | |
| Comments | | | | | |
| Screening Officer attrition is comprised mostly of resignations due to Screening Officers seeking other career advancement opportunities and candidates unable to meet the minimum standards. | | | | | |
| The attrition rate was lower than usual in 2020/21 due to workforce adjustments as a result of the COVID-19 pandemic and the diminished need for recruiting efforts that followed. Note that the attrition rate does not factor in temporary layoffs. | | | | | |
| PBS optimal throughput | N/A* | 197 | 217 | 102 | <div><div></div><div>Definition: The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints.</div></div> <div>*CATSA does not have a target for optimal throughput as it constitutes a benchmark, which reflects what CATSA is capable of achieving under optimal circumstances when the demand is sufficient.</div> |
| Comments | | | | | |
| Low traffic volumes due to the COVID-19 pandemic and the need to keep screening lines open at times, even when there was no traffic, resulted in extremely low throughput results. | | | | | |


Note: As of FY 2020/21 the National Screening Officer attrition rate is being reported, as opposed to the average of the eight busiest airports in previous years. The results for the previous years have been updated accordingly.


*CATSA does not have a target for optimal throughput as it constitutes a benchmark, which reflects what CATSA is capable of achieving under optimal circumstances when the demand is sufficient.



Rupesh Belwalkar,
Advisor, Technology

“My introduction to CATSA was ‘normal’. I visited HQ, and worked at CATSA's test facility with the rest of my team members. However, two weeks into my onboarding, we all were asked to work from home. That is when the challenge began, as I was still brand new to all the technology, processes, people and CATSA culture. It was hard at the beginning but we all rose to the challenge together, as a unified CATSA workforce.”

| Consistency | | | | |  |
|---|--------|---------|---------|---------|---|
| Performance measure | Target | 2018/19 | 2019/20 | 2020/21 | |
| Security screening compliance | 98.0% | 95.3% | 95.3% | 96.2 % | <p>Definition: The evaluation by Performance Officers of screening officer performance according to SOPs and regulations related to Class 1 airport PBS screening equipment (explosive trace detection (ETD), hand-held metal detector (HHMD), walk-through metal detector (WTMD) and X-Ray) and screening techniques (physical search of persons and bags).</p> <p>Note: This excludes criteria related to Official Languages Act and BPSS compliance.</p> |
| Comments | | | | | |
| Overall, CATSA achieved security screening compliance results in 2020/21 that are consistent with results from the past two years. CATSA continues to work with Screening Contractors to maintain a high level of performance. | | | | | |
| National Training and Certification Program (NTCP) success rate | 90.0% | 86.4% | 85.0% | 77.4% | <p>Definition: The percentage of all successful attempts at screening officer training courses (number of successful attempts/number of total attempts). This performance measure combines results for Screening Officer Foundations (SOF), the PBS initial certification program that all screeners must have and maintain, as well as explosive detection X-ray (EDX) and Computed Tomography (CT) which are additional certifications related to HBS that only a fraction of screening officers obtain based on operational requirements.</p> |
| Comments | | | | | |
| The NTCP success rate comprises results from SOF, EDX and CT training courses. There has been a significant decline in training volumes since the start of the COVID-19 pandemic in March 2020, which has had a significant impact on the metric associated with the NTCP Success Rate. Training volumes decreased significantly to 181 total training attempts compared to 2,165 in the previous year. | | | | | |

| In the Public Interest | | | | |  |
|--|--------|---------|---------|---------|---|
| Performance measure | Target | 2018/19 | 2019/20 | 2020/21 | |
| Confidence in security screening | 75.0% | 83.3% | 83.7% | 88.4% | <p>Definition: The percentage of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.</p> <p>Note: CATSA did not conduct passenger surveys in the first quarter of 2020/21 as a result of the COVID-19 pandemic.</p> |
| Comments | | | | | |
| After staying consistent for two years, confidence in CATSA security screening improved by 4.7% in 2020/21, maintaining above target performance for the fifth consecutive year. | | | | | |
| Satisfaction with overall screening experience | 85.0% | 87.3% | 87.0% | 90.7% | <p>Definition: The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports. Calculated from results of completed surveys at select busiest airports. Satisfaction is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.</p> <p>Note: CATSA did not conduct passenger surveys in the first quarter of 2020/21 as a result of the COVID-19 pandemic.</p> |
| Comments | | | | | |
| Overall satisfaction with security screening remained above target (85%) and is 3.7% higher than last year’s performance. | | | | | |
| Customer Satisfaction Index | 85.0% | 88.3% | 88.5% | 92.1% | <p>Definition: The Customer Satisfaction Index is a measure of satisfaction with the following key customer service criteria: courtesy and respect, professionalism, and help provided by screening officers. Results are based on quarterly survey data collected from the eight busiest airports in Canada.</p> <p>Note: CATSA did not conduct passenger surveys in the first quarter of 2020/21 as a result of the COVID-19 pandemic.</p> |
| Comments | | | | | |
| Customer Satisfaction Index score remained consistently high in 2020/21. The combined annual score is 3.6% higher than last year. | | | | | |

CORPORATE GOVERNANCE

CATSA is accountable to Parliament through the Minister of Transport and is governed by an eleven-member Board of Directors appointed by the Governor in Council. Two of the Directors are nominated by the airline industry and two from the airport industry.

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

- Drafting, amending or repealing corporate by-laws;
- Monitoring corporate performance;
- Approving the President and CEO's objectives for the year and evaluating his/her performance;
- Ensuring the principal risks of CATSA's business are identified and that appropriate systems to manage these risks have been implemented;
- Reviewing and approving the succession plan for senior management;
- Ensuring the fulfillment of the corporation's mandate; and
- Establishing the corporation's strategic direction through its annual corporate plan, and safeguarding the resources of the corporation by approving capital and operating budgets, and major new project proposals.

As of March 31, 2021, CATSA's Board of Directors included:



In 2020/21, the Board continued to oversee CATSA's strategic direction through the monitoring of the operational and financial performance of the organization, the organization's alignment with operating and financial plans as outlined in CATSA's Corporate Plan, as well as the corporation's quarterly financial information.

The Board of Directors provided direction to CATSA's senior management concerning key risks faced by the organization, and maintained an active role in monitoring CATSA's corporate governance practices.

The Board also oversaw key program initiatives to promote efficient and effective passenger screening. Two standing committees assist the Board in discharging its responsibilities: the Audit Committee and the Governance, Human Resources and Pension Committee. An additional sub-committee of the

Board, the Transaction Committee, was established in 2019 in order to assist CATSA with respect to the proposed sale or disposition of the CATSA's assets and liabilities to the designated screening authority as contemplated in the Security Screening Services Commercialization Act.

A significant amount of work has been undertaken towards this initiative, but has been placed on hold as a result of the COVID-19 pandemic.

The Board provided oversight of CATSA's major initiatives this year, including the organization's pandemic response. The Board also oversaw a range of major projects in the past year, including the final stages of the HBS recapitalization program. This was a major, long-term undertaking that required coordination with airports and other partners across the country.

Annual Public Meeting

CATSA publicly reported on its activities for the purposes of its Annual Public Meeting on April 19, 2021. CATSA's Chairperson, Marguerite Nadeau, noted that the organization has benefited from the stability of a Board of Directors that is unchanged since last year's meeting. Board stability has been especially beneficial during the pandemic. In these times of unexpected change, one area of particular focus for the Board was monitoring the effects of the pandemic on CATSA's workforce. Through reporting from internal surveys, the Board noted that CATSA's senior management was able to assess the needs of employees and quickly address any challenges – from ergonomic assessments to resources for mental health and wellbeing. The Board has continued to provide oversight of CATSA's ongoing work, with quarterly meetings and Committee work being conducted remotely.



Kelsey Brown,
Senior Advisor,
Accounting Operations

“My first few weeks were filled with lots of onboarding meetings getting to know the different teams and understanding their roles. The support of my team was fabulous. In my initial meetings, it was clear that I was joining a culture that values employee support. I was provided with all the tools I needed to perform my duties, and I received an ergonomic assessment within two weeks. Most importantly, I knew that I could reach out if I had questions, without any hesitation.”

Board Remuneration and Meeting Attendance

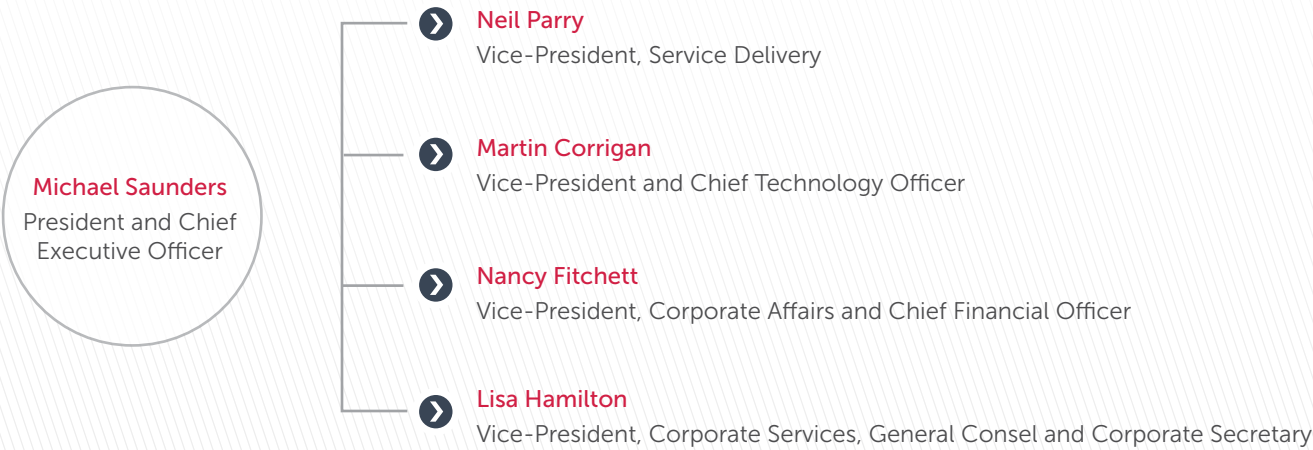
Directors and the Chairperson are paid an annual retainer and per diem set by the Governor in Council and pursuant to the *Financial Administration Act*. The retainer for the Chairperson is \$10,800; for Directors, it is \$5,400. The Chairperson is paid a per diem rate of \$420 and Directors are paid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

Board and committee attendance is based on the number of meetings attended out of the total number of meetings that occurred while the director was a member of the Board and/or committee. In 2020/21, the Board committees met a total of 13 times and the Board in its entirety met a total of 9 times. All meetings from June 2020 to March 2021 were held virtually.

| Board Member | Total Remuneration | Board Meetings | Committee Meetings |
|---|--------------------|----------------|--------------------|
| Nadeau, Marguerite (Chairperson) | \$22,350 | 9/9 | 13/13 |
| Brunet, Jean-Philippe | \$13,980 | 9/9 | 8/8 |
| Coulson, Melissa | \$14,760 | 9/9 | 13/13 |
| Duggan, Sharon | \$15,735 | 9/9 | 13/13 |
| Kennedy, Patricia | \$15,735 | 9/9 | 12/12 |
| Lalonde, Gilles | \$13,590 | 9/9 | 7/7 |
| Noormohamed, Taleeb | \$14,565 | 9/9 | 13/13 |
| Restall, William | \$14,175 | 9/9 | 9/9 |
| Rowe, Allan | \$13,395 | 9/9 | 7/7 |
| Trenn, Diane | \$14,175 | 9/9 | 7/7 |
| Westman, Penny | \$15,150 | 9/9 | 8/8 |
| Total remuneration paid to directors and the Chairperson was \$167,610 in 2020/21, compared to \$189,636 in 2019/20 | | | |

CATSA Management Team

CATSA is led by President and CEO Michael Saunders. The CEO is supported by a senior management team, as shown below:



DISCLOSURE

Report of CATSA's Official Languages Act Requirement

Under Part IV of the *Official Languages Act*, CATSA is required to provide screening services to the travelling public in both official languages at airports with one million or more passengers, and at airports where there is a significant demand for services in the minority language.

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

CATSA remains committed to promoting a bilingual work environment. CATSA continues to remind its employees nation-wide that promoting an inclusive, bilingual culture in the workplace is a team effort.

Report of Access to Information Act and Privacy Act Requests

CATSA strives to incorporate the legislative obligations under the *Privacy Act* and the ten principles of the Canadian Standards Association Model Code into every program and activity that it develops. The organization is subject to the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of these two Acts.

Accessible Canada Act

The *Accessible Canada Act* came into force in 2019. CATSA continues to work with the CTA to ensure that CATSA is prepared to meet the requirements once the associated regulations come into effect. During this process, it has become clear that CATSA is well positioned to meet the future regulations, and in fact has set a positive example for delivery of accessible services to the public.

CATSA is now following the regulatory process for reporting requirements and accessibility plans, which is coordinated between the CTA and Employment and Social Development Canada. These regulations are expected to be published in 2021, with come-into-force a year beyond that.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended March 31, 2021



Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2021. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The information in this report is expressed in thousands of Canadian dollars and is current to June 24, 2021, unless otherwise stated.

Forward-looking statements

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

Materiality

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

GOVERNMENT FUNDING

CATSA, as an agent Crown corporation, is funded by parliamentary appropriations and accountable to the Parliament of Canada through the Minister of Transport. Consequently, CATSA's financial plan is prepared in accordance with the resources it is assigned by the Government of Canada and as approved by Parliament.

Over the past several years, CATSA has received one-year incremental funding from the Government of Canada to supplement its base funding level in order to address increases in screening contractor billing rates and rising passenger volumes, as well as to deliver CATSA's Non-Passenger Screening program. In 2020/21, CATSA was granted incremental funding of \$309.4M, which allowed CATSA to continue to deliver its mandate.

CATSA developed its 2020/21 funding request prior to the COVID-19 pandemic. The pandemic has had a significant impact on CATSA's operating environment, as discussed below, and has delayed some capital projects at airports. As a result, \$218.0M of the funding granted to CATSA for operating and capital expenditures in 2020/21 was unused and returned to the Government of Canada.

Budget 2021 granted CATSA \$277.7M of incremental funding for 2021/22, in addition to its base funding of \$567.8M, for a total funding envelope of \$845.5M. This funding will allow CATSA to continue to deliver its mandated activities, and respond as the COVID-19 pandemic evolves.

COVID-19 PANDEMIC

As a result of the COVID-19 pandemic, there has been a drastic reduction in passenger volumes at Canadian airports. Statistics from CATSA's Boarding Pass Security System indicated that screened traffic across Canada decreased by 89.2% in fiscal year 2020/21, compared to fiscal year 2019/20. This has significantly impacted CATSA's screening operations and screening equipment, as some screening lines have temporarily closed.

Given the impact on screening operations, CATSA entered into temporary arrangements with its third party screening contractors. While these arrangements include a reduction of screening hours purchased that does not fully reflect the decline in passenger volumes, they maintain the certified screening officer workforce at a level deemed appropriate to contain costs and allow CATSA the flexibility to respond as the situation evolves.

In June 2020, Transport Canada (TC) announced that CATSA would commence temperature screening of passengers, as well as employees and personnel that enter or work in restricted areas of airports. CATSA met TC's timeline to implement temperature screening at the four busiest Canadian airports by the end of July, and an additional 11 airports by the end of September. Parliamentary appropriations totaling \$35.9M were used for operating and capital expenditures (\$33.2M and \$2.7M, respectively) relating to the temperature screening program in 2020/21.

CATSA also implemented increased biosecurity measures, including enhanced sanitization procedures at checkpoints and personal protective equipment for the organization's airport personnel, including CATSA staff and screening officers. Additionally, CATSA deployed acrylic barriers at several positions at checkpoints at many of Canada's largest airports.

In prior years, CATSA had provided screening services on a cost recovery basis to the Greater Toronto Airports Authority (GTAA) and Muskoka Airport Authority. In light of the COVID-19 pandemic, no services were provided during the year ended March 31, 2021.

The extent of the impact on future results cannot be estimated as the situation continues to evolve. As the aviation industry embarks on the route to recovery, CATSA will continue to support recovery, including temperature screening and other biosecurity measures.

FOREIGN EXCHANGE

The Canadian dollar closed with a yearly Canada-U.S. exchange rate average of 0.76¹, compared to an average exchange rate of 0.75¹ in 2019/20.

CATSA is exposed to foreign exchange risk, as it purchases a significant amount of equipment and services denominated in U.S. dollars. A weakening of the Canadian dollar could result in the cost of U.S. denominated transactions exceeding budgeted amounts. CATSA has a hedging strategy in place to help mitigate its foreign exchange risk and minimize the impact of fluctuations in the Canada-U.S. exchange rate. CATSA will continue to monitor the fluctuations of the Canada-U.S. exchange rate and apply its hedging strategy accordingly.

¹ Bank of Canada, *Daily Exchange Rates Lookup*.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining a system of internal controls over financial reporting. An integral part of this responsibility is CATSA's internal controls certification program, which involves a periodic assessment of the design and effectiveness of key internal controls over financial reporting. The program is based on the Committee of Sponsoring Organizations of the Treadway Commission framework, and Treasury Board of Canada Secretariat's (TBS) *Certification and Internal Control Regime for Crown Corporations*.

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

ANALYSIS OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

The following section provides information on key variances within the Statement of Comprehensive Income (Loss) for 2020/21 compared to 2019/20.

| Key Financial Highlights – Statement of Comprehensive Income (Loss) | | | | |
|---|-------------------|-------------------|------------------|----------------|
| (Thousands of Canadian dollars) | 2020/21 | 2019/20 | \$ Variance | % Variance |
| Expenses¹ | | | | |
| Screening services and other related costs | \$ 500,988 | \$ 626,446 | \$ (125,458) | (20.0%) |
| Equipment operating and maintenance | 39,215 | 44,345 | (5,130) | (11.6%) |
| Program support and corporate services | 88,650 | 88,144 | 506 | 0.6% |
| Depreciation and amortization | 76,126 | 71,861 | 4,265 | 5.9% |
| Total expenses | 704,979 | 830,796 | (125,817) | (15.1%) |
| Other expenses (income) | 3,251 | 2,850 | 401 | 14.1% |
| Financial performance before revenue and government funding | 708,230 | 833,646 | (125,416) | (15.0%) |
| Revenue | 718 | 8,721 | (8,003) | (91.8%) |
| Government funding | | | | |
| Parliamentary appropriations for operating expenses | 626,410 | 742,138 | (115,728) | (15.6%) |
| Amortization of deferred government funding related to capital expenditures | 73,208 | 70,864 | 2,344 | 3.3% |
| Parliamentary appropriations for lease payments | 3,973 | 3,936 | 37 | 0.9% |
| Total government funding | 703,591 | 816,938 | (113,347) | (13.9%) |
| Financial performance | \$ (3,921) | \$ (7,987) | \$ 4,066 | 50.9% |
| Other comprehensive income | 41,329 | 7,724 | 33,605 | 435.1% |
| Total comprehensive income (loss) | \$ 37,408 | \$ (263) | \$ 37,671 | N/M |

¹ The Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 13 of the audited annual financial statements for the year ended March 31, 2021.

N/M = not meaningful

Screening Services and Other Related Costs

Screening services and other related costs consist of payments to screening contractors, uniforms and other screening-related costs, and trace and consumables.

Payments to screening contractors are the most significant expenditures for CATSA, representing approximately 77.2% of total expenses (excluding depreciation and amortization) in fiscal year 2020/21. These expenses consist of payments to screening contractors for the delivery of services performed by screening officers, as well as for screening officer training and recurrent learning requirements. Key variables impacting these costs include the number of screening hours purchased and billing rates.

The number of screening hours purchased is mainly driven by passenger volumes and traffic patterns. New directives to CATSA, such as the performance of temperature screening, or new or modified security regulations arising from evolving threats and security incidents or alignment with other jurisdictions, can also drive screening hours.

Billing rates are based on all-inclusive rates paid to screening contractors as set forth under the terms of CATSA's Airport Screening Services Agreements. These agreements also include a performance program that remunerates screening contractors for contractual compliance and achievement of specified performance targets.

Screening services and other related costs decreased by \$125.5M (20.0%) in 2020/21, mainly due to the impact of the COVID-19 pandemic. The variance is primarily attributable to the purchase of fewer screening hours totaling \$166.8M, partially offset by the purchase of hours associated with temperature screening totaling \$28.8M. This net decrease in screening hours purchased was partially offset by screening contractor billing rate increases of \$16.2M, and additional costs totaling \$6.7M associated with increased sanitization at the checkpoints, the purchase of personal protective equipment, and the deployment of acrylic barriers.

Equipment Operating and Maintenance

Equipment operating and maintenance consist of costs associated with maintenance and support services for CATSA's equipment and systems, including the usage and warehousing of Explosives Detection System (EDS) spare parts. It also includes the cost of biometric security cards and costs associated with the training and certification of CATSA's equipment maintenance service provider for new technology deployed at airports across Canada.

Equipment operating and maintenance costs decreased by \$5.1M (11.6%) in 2020/21. The decrease is mainly attributable to lower maintenance and spare parts costs for EDS equipment totaling \$6.4M due primarily to reduced usage as some screening lines have been temporarily closed, and as legacy EDS units were replaced with new equipment under warranty. The decrease is also attributable to reduced training activity for CATSA's equipment maintenance service provider totaling \$1.8M. These decreases are partially offset by a net write-down of inventories of \$3.6M for spare parts relating to equipment retired as part of the HBS recapitalization program.

Program Support and Corporate Services

Program support and corporate services represent the costs to support the delivery of CATSA's mandated activities and its corporate infrastructure. These costs consist mainly of employee salaries and benefits, lease related costs at corporate headquarters and in the regions that are not capitalized under IFRS 16, office and computer costs, and professional services.

Program support and corporate services costs increased by \$0.5M (0.6%) in 2020/21. The increase is primarily attributable to the purchase of war risk insurance, for which the Government of Canada had provided an indemnification in prior years, partially offset by decreases in travel costs associated with travel restrictions, and office and computer related costs.

Depreciation and Amortization

Depreciation of property and equipment, as well as amortization of intangible assets, is recognized on a straight-line basis over the estimated useful lives of the assets. Depreciation of right-of-use assets is recognized on a straight-line basis over the related lease term.

Depreciation and amortization increased by \$4.3M (5.9%) in 2020/21. The increase is primarily attributable to depreciation relating to new HBS equipment deployments as part of the HBS recapitalization program of \$9.7M, as well as new non-EDS assets of \$2.2M. This increase was partially offset by a decrease of \$7.9M related to assets becoming fully depreciated or retired during the year.

Other Expenses (Income)

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

Other expenses (income) increased by \$0.4M (14.1%) in 2020/21. The increase is primarily attributable to net losses on the fair value of derivative financial instruments, partially offset by net gains on the disposal of property and equipment.

Revenue

Revenue consists mainly of supplemental screening services and finance income earned on cash balances.

Revenue decreased by \$8.0M (91.8%) in 2020/21. The decrease is primarily attributable to CATSA not providing supplemental screening services, in light of the COVID-19 pandemic.

Government Funding

CATSA is funded by appropriations from the federal Consolidated Revenue Fund for operating and capital expenditures. Payments for CATSA's leases that are capitalized under IFRS 16 are funded through capital appropriations, as opposed to operating expenditures.

Parliamentary Appropriations for Operating Expenses

Operating expenditures are funded on a near-cash accrual basis. Certain expenditures, including employee benefits, inventories and prepaid expenses, are funded when a cash outflow is required, as opposed to when the expense is recognized under IFRS.

Parliamentary appropriations for operating expenses decreased by \$115.7M (15.6%) in 2020/21. The decrease is primarily attributable to decreased spending for screening services and other related costs, and equipment operating and maintenance costs, as discussed above.

Amortization of Deferred Government Funding Related to Capital Expenditures

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

Amortization of deferred government funding related to capital expenditures increased by \$2.3M (3.3%) in 2020/21. The increase resulted from increased depreciation and amortization, partially offset by lower expenses related to the disposal of property and equipment, as previously discussed.

Parliamentary appropriations for lease payments

CATSA’s lease payments are typically made in the same month that appropriations are received, therefore there is no deferred funding related to these appropriations.

Parliamentary appropriations for lease payments are comparable to the prior year.

Other Comprehensive Income

Other comprehensive income consists of the net actuarial gains associated with CATSA’s defined benefit plans. The 2020/21 net gain of \$41.3M is primarily attributable to an actuarial gain of \$34.8M resulting from a higher actual rate of return on plan assets than the rate used in CATSA’s assumptions. The net gain is also due to an actuarial gain of \$11.4M related to changes in demographic assumptions and experience adjustments, partially offset by a remeasurement loss of \$4.9M related to changes in financial assumptions.

In 2019/20, the net gain of \$7.7M was primarily attributable to an actuarial gain of \$28.3M related to changes in financial assumptions and experience adjustments, partially offset by a remeasurement loss of \$20.6M resulting from a lower actual rate of return on plan assets than the rate used in CATSA’s assumptions.

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

| Liquidity and Capital Resources | | | |
|--|----------------|----------------|-------------|
| (Thousands of Canadian dollars) | March 31, 2021 | March 31, 2020 | \$ Variance |
| Cash | \$ 14,086 | \$ 18,492 | \$ (4,406) |
| Trade and other receivables | 118,529 | 142,313 | (23,784) |
| Trade and other payables | (110,191) | (140,718) | 30,527 |
| Current portion of holdbacks | (22,352) | (16,367) | (5,985) |
| Current portion of provisions | (200) | – | (200) |
| Current portion of lease liabilities | (3,667) | (3,548) | (119) |
| Non-current portion of holdbacks | – | (5,410) | 5,410 |
| Non-current portion of lease liabilities | (7,007) | (19,379) | 12,372 |

Cash decreased by \$4.4M primarily due to the timing of disbursements to suppliers for goods and services. Trade and other receivables decreased by \$23.8M primarily attributable to a decrease in parliamentary appropriations receivable. Trade and other payables decreased by \$30.5M as a result of the timing of disbursements associated with obligations outstanding with suppliers. Current holdbacks increased by \$6.0M while non-current holdbacks decreased by \$5.4M due to the substantial completion in 2020/21 of CATSA’s HBS recapitalization program. Non-current lease liabilities decreased by \$12.4M due to CATSA’s reassessment of the lease term for one of its contracts totaling \$8.6M and to ongoing lease payments.

CAPITAL EXPENDITURES

CATSA's capital plan is comprised of EDS and non-EDS expenditures and a portion of lease payments.

EDS capital expenditures consist of the acquisition of screening equipment for PBS, HBS and NPS and the associated installation and integration costs. Non-EDS capital expenditures consist of the acquisition of equipment and systems to support screening operations, the RAIC program, and CATSA's network infrastructure and corporate management systems. Lease payments relate to leases capitalized under IFRS 16.

Property and equipment, intangible assets and right-of-use assets represent 72.3% of total assets as at March 31, 2021. The section below provides a breakdown of the capital expenditures for EDS, non-EDS and lease payments, as well as an overview of the major capital projects undertaken over the course of the fiscal year.

| Capital Expenditures | | | |
|-----------------------------------|------------------|-------------------|--------------------|
| (Thousands of Canadian dollars) | 2020/21 | 2019/20 | \$ Variance |
| EDS | \$ 42,522 | \$ 91,829 | \$ (49,307) |
| Non-EDS | 11,182 | 8,310 | 2,872 |
| Lease payments | 3,973 | 3,936 | 37 |
| Total capital expenditures | \$ 57,677 | \$ 104,075 | \$ (46,398) |

EDS

- Deployment of the three-level HBS system with computed tomography technology at several airports in support of the HBS recapitalization program; and
- Life cycle management of EDS Trace equipment and upgrade of walk-through metal detectors.

Non-EDS

- Relocation of CATSA's Data Centre, in response to the impending closure of Shared Service Canada's Macdonald Cartier Data Centre (MCDC);
- Equipment to perform Temperature Screening at airports; and
- Deployment of the new Restricted Access Identity Card enrollment system as part of CATSA's life-cycle management program.

Lease payments

- On-going lease payments for leases capitalized under IFRS 16.

EMPLOYEE BENEFITS

CATSA maintains two funded pension plans to provide retirement benefits to its employees. The first is a registered pension plan (RPP), which includes two components: a defined benefit component for employees hired before July 1, 2013, and a defined contribution component for employees hired on or after July 1, 2013. The second is a supplementary retirement plan (SRP), which supplements the defined benefit component of the RPP for benefits limited by the *Income Tax Act* (Canada). CATSA also sponsors an unfunded post-employment benefits plan, the other defined benefits plan (ODBP), which includes life insurance and eligible health and dental benefits. The employee benefits financial position is summarized below:

| Employee Benefits | | | |
|--|------------------|--------------------|------------------|
| (Thousands of Canadian dollars) | March 31, 2021 | March 31, 2020 | \$ Variance |
| Employee benefits asset | \$ 34,525 | \$ 1,482 | \$ 33,043 |
| Employee benefits liability | (20,054) | (26,436) | 6,382 |
| Net employee benefits asset (liability) | \$ 14,471 | \$ (24,954) | \$ 39,425 |

CATSA's independent actuary determines each plan's net position as at March 31 of each year. The net position fluctuates annually due to a combination of variables, including the discount rate, inflation rate, number of plan members and their demographics, expected average rate of salary increases, expected average remaining service lifetime of active employees, returns on plan assets and contributions. Note 9 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The employee benefits liability as at March 31, 2020, was comprised of CATSA's RPP and ODBP, which were both in a net liability position. As at March 31, 2021, the RPP has moved to a net asset position. The SRP was in a net asset position for both years.

The increase in the net financial position of employee benefits is primarily attributable to a remeasurement gain on CATSA's RPP and SRP assets of \$34.8M resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. The increase is also due to a net remeasurement gain of \$11.4M on the defined benefit obligation of the three plans arising from changes to demographic assumptions and experience adjustments. The increase is partially offset by a net remeasurement loss of \$4.9M on the defined benefit obligation of the three plans arising from changes to financial assumptions.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. CATSA's funding, as reflected in the *Summary of the 2020/21 to 2021/22 Corporate Plan*, was developed prior to the COVID-19 pandemic. Actual operating and capital appropriations used are thus lower than the amounts reflected in the Corporate Plan.

Appropriations used are reported on a near-cash accrual basis of accounting.

OPERATING EXPENDITURES

The table below serves to reconcile financial performance before government funding reported under IFRS and operating appropriations used:

| Reconciliation of Financial Performance to Operating Appropriations Used | | | |
|---|-------------------|-------------------|---------------------|
| (Thousands of Canadian dollars) | 2020/21 | 2019/20 | \$ Variance |
| Financial performance before revenue and government funding | \$ 708,230 | \$ 833,646 | \$ (125,416) |
| Revenue | (718) | (8,721) | 8,003 |
| Financial performance before government funding | 707,512 | 824,925 | (117,413) |
| Non-cash expenses | | | |
| Depreciation and amortization | (76,126) | (71,861) | (4,265) |
| Change in fair value of financial instruments at fair value through profit and loss | (2,123) | 389 | (2,512) |
| Employee benefits expense ¹ | (1,904) | (7,899) | 5,995 |
| Write-off of property and equipment and intangible assets | (840) | (795) | (45) |
| Non-cash finance costs related to leases | (348) | (492) | 144 |
| Impairment of property and equipment | (177) | (597) | 420 |
| Spare parts expense funded from capital ² | (9) | (55) | 46 |
| Non-cash gain (loss) on foreign exchange recognized in financial performance | 355 | (72) | 427 |
| Gain (loss) on disposal of property and equipment | 70 | (1,405) | 1,475 |
| Appropriations used for operating expenses | \$ 626,410 | \$ 742,138 | \$ (115,728) |
| Other items affecting funding | | | |
| Net change in prepaids and inventories ³ | 1,659 | 862 | 797 |
| Total operating appropriations used | \$ 628,069 | \$ 743,000 | \$ (114,931) |

¹ Employee benefits are accounted for in the Statement of Comprehensive Income (Loss) in accordance with IFRS. The reconciling item above represents the difference between cash payments for employee benefits and the accounting expense under IFRS.

² Spare parts expense funded from capital represents items that were funded through capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

³ Prepaids funded through operating appropriations and inventories are expensed as the benefit is derived from the asset by CATSA. They are funded through appropriations when purchased, creating a reconciling item.

The table below provides a reconciliation between financial performance before government funding reported under IFRS and operating appropriations used in 2020/21, presented by major expenditure category. The table also provides a comparison between operating appropriations used in 2020/21 and the operating budget as reported in CATSA's *Summary of the 2020/21 to 2021/22 Corporate Plan*:

| Operating Appropriations Used Compared to Corporate Plan | | | | | | |
|--|-------------------|----------------------|--------------------------------|-------------------------------|---------------------|----------------|
| (Thousands of Canadian dollars) | IFRS 2020/21 | Non-cash Adjustments | Operating Approp. Used 2020/21 | Corporate Plan Budget 2020/21 | \$ Variance | % Variance |
| Screening services and other related costs | \$ 500,988 | \$ 104 | \$ 501,092 | \$ 665,079 | \$ (163,987) | (24.7%) |
| Equipment operating and maintenance | 39,215 | (1,607) | 37,608 | 43,976 | (6,368) | (14.5%) |
| Program support and corporate services ¹ | 88,650 | 1,515 | 90,165 | 95,518 | (5,353) | (5.6%) |
| Depreciation and amortization | 76,126 | (76,126) | – | – | – | – |
| Other expenses | 3,251 | (3,329) | (78) | – | (78) | – |
| Revenue | (718) | – | (718) | – | (718) | – |
| Total | \$ 707,512 | \$ (79,443) | \$ 628,069 | \$ 804,573 | \$ (176,504) | (21.9%) |

¹ CATSA was granted an additional \$4,150 as part of Supplementary Estimates B (reprofile from 2019/20), included above, that is not reflected in the *Summary of the 2020/21 to 2021/22 Corporate Plan* due to timing of approval. The *Summary of the 2020/21 to 2021/22 Corporate Plan* reflects \$91,368 for Program support and corporate services for a total amount of \$800,423.

Operating appropriations used were \$176.5M (21.9%) lower than the Corporate Plan budget, mainly as a result of the COVID-19 pandemic. The Analysis of Financial Results section above discusses in detail the impact of COVID-19 on financial performance.

CAPITAL EXPENDITURES

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

| Reconciliation of Capital Acquisitions to Capital Appropriations Used | | | |
|---|------------------|-------------------|--------------------|
| (Thousands of Canadian dollars) | 2020/21 | 2019/20 | \$ Variance |
| EDS | \$ 42,522 | \$ 91,829 | \$ (49,307) |
| Non-EDS | 11,182 | 8,310 | 2,872 |
| Lease payments | 3,973 | 3,936 | 37 |
| Total capital expenditures | \$ 57,677 | \$ 104,075 | \$ (46,398) |
| Proceeds on disposal of property and equipment ¹ | (99) | (111) | 12 |
| Non-cash adjustment on foreign exchange related to capital expenditures | 115 | (102) | 217 |
| Total capital appropriations used | \$ 57,693 | \$ 103,862 | \$ (46,169) |

¹ Proceeds on disposal of property and equipment include non-cash proceeds received in the form of credit notes from suppliers.

The table below provides a comparison between capital appropriations used in 2020/21, the capital budget as reported in CATSA's *Summary of the 2020/21 to 2021/22 Corporate Plan*, and adjustments resulting from the capital reprofile in progress:

Capital Appropriations Used Compared to Corporate Plan

| (Thousands of Canadian dollars) | Capital Approp. Used 2020/21 | Corporate Plan Budget 2020/21 | Capital Reprofile in Progress | Adjusted Corporate Plan Budget 2020/21 | \$ Variance | % Variance |
|--|---------------------------------------|-------------------------------------|-------------------------------------|---|--------------------|----------------|
| EDS | | | | | | |
| PBS | \$ 10,498 | \$ 25,134 | \$ (5,258) | \$ 19,876 | \$ (9,378) | (47.2%) |
| HBS | 31,846 | 72,851 | (7,835) | 65,016 | (33,170) | (51.0%) |
| NPS | 265 | 61 | – | 61 | 204 | 334.4% |
| Total EDS | \$ 42,609 | \$ 98,046 | \$ (13,093) | \$ 84,953 | \$ (42,344) | (49.8%) |
| Non-EDS | 15,068 | 15,110 | (908) | 14,202 | 866 | 6.1% |
| Total capital asset acquisitions¹ | \$ 57,677 | \$ 113,156 | \$ (14,001) | \$ 99,155 | \$ (41,478) | (41.8%) |
| Non-cash adjustment on foreign exchange related to capital expenditures | 115 | – | – | – | 115 | – |
| Proceeds on disposal of property and equipment | (99) | – | – | – | (99) | – |
| Total | \$ 57,693 | \$ 113,156 | \$ (14,001) | \$ 99,155 | \$ (41,462) | (41.8%) |

¹ CATSA's Corporate Plan budget does not distinctively identify capital spending for lease payments. Lease payments of \$3,973 are included in appropriations used for EDS-PBS (\$87) and Non-EDS (\$3,886).

Total capital appropriations used were \$41.5M (41.8%) lower than the adjusted Corporate Plan budget, primarily due to the substantial completion in 2020/21 of CATSA's HBS recapitalization program and the release of project savings.

The COVID-19 pandemic also resulted in additional capital expenditures of \$4.4M for temperature screening equipment and the deployment of acrylic barriers at checkpoints at many of Canada's largest airports.

Financial Statements of CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Year ended March 31, 2021



MANAGEMENT'S RESPONSIBILITY STATEMENT

Year ended March 31, 2021

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

Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act*, executed in accordance with prescribed regulations within parliamentary authorities, and properly recorded to maintain accountability of government funds. The Canadian Air Transport Security Authority's (CATSA's) Internal Auditor has the responsibility for assessing its network of risk management, control and governance processes.

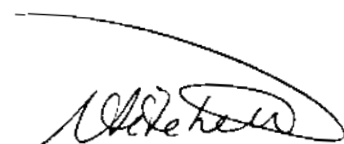
The Board of Directors is responsible for overseeing our business and activities. In particular, the Board provides oversight to ensure that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee, which is composed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

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



Michael Saunders

President and Chief Executive Officer



Nancy Fitchett, CPA, CA

Vice-President, Corporate Affairs
and Chief Financial Officer

June 24, 2021



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Canadian Air Transport Security Authority (CATSA), which comprise the statement of financial position as at 31 March 2021, and the statement of comprehensive income (loss), statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CATSA as at 31 March 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of CATSA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing CATSA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate CATSA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing CATSA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CATSA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on CATSA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause CATSA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Canadian Air Transport Security Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canadian Air Transport Security Authority Act* and regulations, the by-laws of the Canadian Air Transport Security Authority, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

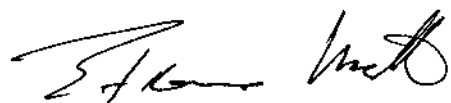
In our opinion, the transactions of the Canadian Air Transport Security Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Canadian Air Transport Security Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canadian Air Transport Security Authority to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



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

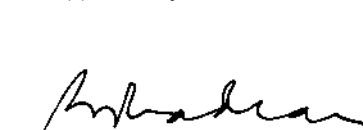
Ottawa, Canada
24 June 2021

CANADIAN AIR TRANSPORT SECURITY AUTHORITY Statement of Financial Position

(In thousands of Canadian dollars)

| | As at March 31 | |
|---|-------------------|-------------------|
| | 2021 | 2020 |
| Assets | | |
| Current assets | | |
| Cash | \$ 14,086 | \$ 18,492 |
| Trade and other receivables (note 4) | 118,529 | 142,313 |
| Inventories (note 5) | 14,067 | 16,025 |
| Prepays | 7,012 | 4,496 |
| Derivative financial assets (note 15) | – | 926 |
| | 153,694 | 182,252 |
| Non-current assets | | |
| Property and equipment (note 6) | 463,569 | 483,196 |
| Intangible assets (note 7) | 16,834 | 17,029 |
| Right-of-use assets (note 8) | 9,937 | 22,211 |
| Employee benefits asset (note 9) | 34,525 | 1,482 |
| | 524,865 | 523,918 |
| Total assets | \$ 678,559 | \$ 706,170 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Trade and other payables (note 15) | \$ 110,191 | \$ 140,718 |
| Holdbacks (note 15) | 22,352 | 16,367 |
| Provisions (note 10) | 200 | – |
| Lease liabilities (note 11) | 3,667 | 3,548 |
| Deferred government funding related to operating expenses (note 12) | 21,079 | 19,420 |
| Derivative financial liabilities (note 15) | 1,127 | – |
| | 158,616 | 180,053 |
| Non-current liabilities | | |
| Holdbacks (note 15) | – | 5,410 |
| Lease liabilities (note 11) | 7,007 | 19,379 |
| Deferred government funding related to capital expenditures (note 12) | 479,306 | 498,794 |
| Derivative financial liabilities (note 15) | 70 | – |
| Employee benefits liability (note 9) | 20,054 | 26,436 |
| | 506,437 | 550,019 |
| Equity | | |
| Accumulated surplus (deficit) | 13,506 | (23,902) |
| Total liabilities and equity | \$ 678,559 | \$ 706,170 |

Contingencies (note 10) and contractual arrangements (note 16)
The accompanying notes are an integral part of these financial statements.
Approved by the Board and authorized for issue on June 24, 2021:



Marguerite Nadeau
Chairperson



Michael Saunders
President and Chief Executive Officer

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Statement of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

| | Years ended March 31 | |
|---|----------------------|------------|
| | 2021 | 2020 |
| Expenses | | |
| Pre-Board Screening | \$ 351,143 | \$ 463,057 |
| Hold Baggage Screening | 151,750 | 171,796 |
| Non-Passenger Screening | 148,688 | 144,859 |
| Restricted Area Identity Card Program | 2,957 | 3,238 |
| Corporate services | 50,441 | 47,846 |
| Total expenses (note 13) | 704,979 | 830,796 |
| Other expenses (income) | | |
| Net loss (gain) on fair value of derivative financial instruments | 2,123 | (389) |
| Write-off of property and equipment and intangible assets | 840 | 795 |
| Finance costs | 354 | 531 |
| Impairment of property and equipment (note 6) | 177 | 597 |
| Foreign exchange gain | (173) | (89) |
| (Gain) loss on disposal of property and equipment | (70) | 1,405 |
| Total other expenses (income) | 3,251 | 2,850 |
| Financial performance before revenue and government funding | 708,230 | 833,646 |
| Revenue | | |
| Finance income | 718 | 1,215 |
| Screening services - supplemental | – | 7,415 |
| Screening services - other | – | 87 |
| Miscellaneous income | – | 4 |
| Total revenue | 718 | 8,721 |
| Government funding | | |
| Parliamentary appropriations for operating expenses (note 12) | 626,410 | 742,138 |
| Amortization of deferred government funding related to capital expenditures (note 12) | 73,208 | 70,864 |
| Parliamentary appropriations for lease payments (note 14) | 3,973 | 3,936 |
| Total government funding | 703,591 | 816,938 |
| Financial performance | \$ (3,921) | \$ (7,987) |
| Other comprehensive income | | |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 9) | 41,329 | 7,724 |
| Total comprehensive income (loss) | \$ 37,408 | \$ (263) |

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Statement of Changes in Equity

(In thousands of Canadian dollars)

| | Accumulated surplus (deficit) |
|---|-------------------------------|
| Balance, March 31, 2019 | \$ (23,639) |
| Financial performance | (7,987) |
| Item that will not be reclassified to financial performance | |
| Remeasurement of defined benefit plans (note 9) | 7,724 |
| Balance, March 31, 2020 | \$ (23,902) |
| | |
| | Accumulated surplus (deficit) |
| Balance, March 31, 2020 | \$ (23,902) |
| Financial performance | (3,921) |
| Item that will not be reclassified to financial performance | |
| Remeasurement of defined benefit plans (note 9) | 41,329 |
| Balance, March 31, 2021 | \$ 13,506 |

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Statement of Cash Flows

(In thousands of Canadian dollars)

| | Years ended March 31 | |
|---|----------------------|------------|
| | 2021 | 2020 |
| Cash flows provided by (used in) | | |
| Operating activities | | |
| Financial performance | \$ (3,921) | \$ (7,987) |
| Items not involving cash | | |
| Depreciation and amortization (note 13) | 76,126 | 71,861 |
| Other non-cash transactions | 3,603 | 62 |
| Change in fair value of financial instruments at fair value through profit and loss | 2,123 | (389) |
| Change in net employee benefits asset/liability | 1,904 | 7,899 |
| Write-off of property and equipment and intangible assets | 840 | 795 |
| Impairment of property and equipment (note 6) | 177 | 597 |
| Amortization of deferred government funding related to capital expenditures (note 12) | (73,208) | (70,864) |
| (Gain) loss on disposal of property and equipment | (70) | 1,405 |
| Net change in working capital balances (note 19) | 16,627 | (23,341) |
| | 24,201 | (19,962) |
| Investing activities | | |
| Parliamentary appropriations received for capital funding | 41,627 | 137,479 |
| Purchase of property and equipment | (64,273) | (92,428) |
| Purchase of intangible assets | (2,336) | (7,161) |
| Proceeds on disposal of property and equipment | – | 1 |
| | (24,982) | 37,891 |
| Financing activities | | |
| Lease principal payments | (3,625) | (3,444) |
| | (3,625) | (3,444) |
| (Decrease) increase in cash | (4,406) | 14,485 |
| Cash, beginning of year | 18,492 | 4,007 |
| Cash, end of year | \$ 14,086 | \$ 18,492 |

Interest expense paid and interest income received approximate finance costs and finance income, respectively, in the Statement of Comprehensive Income (Loss).

Supplementary cash flow information (note 19)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2021

1. Authority, mandate and programs

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

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

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

- 1. PBS** – the screening of passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building;
- 2. HBS** – the screening of passengers' checked (or hold) baggage prior to being loaded onto an aircraft;
- 3. NPS** – the random screening of non-passengers and their belongings, including vehicles, entering restricted areas of the aerodrome at the highest risk airports; and
- 4. RAIC Program** – the system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports.

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

In June 2020, TC announced that CATSA would be conducting temperature screening of passengers, as well as employees and personnel that enter or work in restricted areas of airports. CATSA met TC's timeline to implement temperature screening at the four busiest Canadian airports by the end of July, and an additional 11 airports by the end of September.

In previous years, CATSA provided PBS supplemental screening services on a cost recovery basis, primarily to the Greater Toronto Airports Authority (GTAA). CATSA also entered into a cost recovery agreement with the Muskoka Airport Authority to provide screening services on a seasonal basis. In light of the COVID-19 pandemic, no services were provided during the year ended March 31, 2021.

CATSA is in compliance with Order in Council P.C. 2019-783, a directive issued pursuant to Section 89 of the FAA, which outlines certain principles with regards to CATSA's pension plans.

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2021

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

2. Basis of preparation

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

3. Summary of significant accounting policies

(a) Basis of measurement

These financial statements were prepared under the historical cost convention, except as required or permitted by IFRS and as indicated within this note. Historical cost is generally based on the fair value of the consideration given up in exchange for goods and services at the transaction date.

(b) Use of estimates and judgments

The preparation of these financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions based on existing knowledge that affect the reported amounts and disclosures in the financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions.

In making estimates and using assumptions, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and assumptions have been applied in a manner consistent with prior periods. There are no known commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates in the financial statements.

Estimates and underlying assumptions are regularly reviewed by management and changes in those estimates are recognized prospectively in the period of change, if the change affects that period only; or the period of the change and future periods, if the change affects both.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2021

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

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

Key estimates used for property and equipment include the determination of their useful lives and the valuation of work-in-progress. The key estimate used for intangible assets includes the determination of their useful lives. In determining the expected useful lives of these assets, CATSA takes into account past experience, industry trends and internally-specific factors, such as changing technologies and expectations for the in-service period of the assets. Changes to estimates of useful life would affect future depreciation or amortization expenses and future carrying values of assets. In determining the value of work-in-progress, CATSA takes into account estimates provided by internal and external experts with respect to the stage of completion of an equipment integration project. Changes to the stage of completion would affect trade and other payables and the values of assets.

- note 3(h), note 8 and note 11 – Right-of-use assets and lease liabilities

Key estimates used for right-of-use assets and lease liabilities include the determination of an appropriate incremental borrowing rate to discount the lease payments, when the interest rate implicit in the lease is not readily determinable. As CATSA does not have borrowing authority and, in practice, does not have readily observable approved or granted borrowing rates from a financial institution, CATSA's approach to determining its incremental borrowing rate is based on the Bank of Canada zero-coupon bond rate, CATSA's entity-specific credit spread, and the lease-specific spread. CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings. The rate used to discount CATSA's lease payments is also based on the identified lease term.

- note 3(j) and note 9 – Employee benefits

Key estimates used for employee benefits include the discount rate, mortality rate, inflation rate, long-term rate of compensation increase and assumed medical cost trend rates. In determining the assumptions, CATSA takes into account past experience, the expertise of its actuaries, and current market conditions and rates, which have been subjected to increased volatility due to COVID-19. Changes to these assumptions would affect its employee benefits asset and liability, as well as financial performance and other comprehensive income or loss. A sensitivity analysis of changes in primary assumptions is presented in note 9.

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

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

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2021

- note 3(h), note 8 and note 11 – Right-of-use assets and lease liabilities

Judgments are required in determining whether it is reasonably certain that an extension or termination option will be exercised for contracts that contain a lease. In making this assessment, management considers a number of factors, including the nature of CATSA's work, proximity of other locations, lease extensions exercised in the past, market conditions, recent leasehold improvements and contract specific termination clauses.

Judgments are required in determining whether variable lease payments are in-substance fixed. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. Such payments are included in the measurement of the lease liability. In determining whether variable lease payments are in-substance fixed, CATSA reviews lease contracts to assess the nature of the payments, specifically identifying if payments are subject to adjustments based on actual costs incurred, or payments are based on services that are variable in nature.

- note 3(k) and note 10 – Provisions and contingencies

Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability of an outflow of future economic benefits. In determining when to record a provision, management makes assumptions about the amount and likelihood of outflows and their timing. Factors affecting these assumptions include the nature of the provision, opinions and views of legal counsel and other advisors, experience in similar circumstances, and any decision of management as to how CATSA intends to handle the obligation. Changes to these assumptions would affect the recording of the provision and financial performance.

- note 3(l) – Revenue

The measurement and recognition of revenue requires the use of estimates and judgment in identifying whether a contract exists, identifying performance obligations, the allocation of the transaction price and the method used to measure progress in satisfying the performance obligation and thus determining the timing of revenue recognition.

In determining whether a contract with a customer exists for the purposes of recognizing revenue, CATSA determines whether certain criteria are met, including whether it is more likely than not that the consideration will be collected from the customer. In making this assessment at contract inception, CATSA considers a number of factors, which may include results from customer credit checks, the customer's credit history, and CATSA's ability to limit losses by ceasing to provide services in the case of non-payment.

The nature of CATSA's promise in its contracts with the airport authorities is to provide supplemental screening of passengers. This screening includes a number of different activities, none of which individually provides a benefit to the airport authority. All activities are inputs into the combined output of the supplemental screening service. Consequently, CATSA has determined that the promise in the contract, which is the provision of supplemental screening services for the contract period, constitutes one performance obligation.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2021

The consideration for screening services is variable in nature and requires two key judgments to determine when to recognize revenue:

- (i) the method used to measure progress in satisfying the single performance obligation, and
- (ii) the measurement and allocation of any variable consideration.

Given that the services, when provided, are on an ongoing basis and are substantially the same, CATSA has determined a time-based measure of progress best depicts the transfer of services to the customer. Further, since the variable consideration is compensating CATSA for its efforts in providing the services, the variable consideration is allocated to increments of time and recognized as the service is delivered to the customers over time.

(c) Inventories

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

(d) Property and equipment

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

- (i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress, which is recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition and installation of the assets, including integration costs related to the installation of the assets at the airports to ensure they are in a condition necessary for their intended use. These costs include conveyor systems, platforms and other structures required to connect screening equipment to existing airport infrastructures.

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

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

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

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Year ended March 31, 2021

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Depreciation methods, estimated useful lives and residual values are reviewed at least annually.

(e) Assets held for sale

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

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(f) Intangible assets

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

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

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

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

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

(g) Impairment

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

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

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Property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment, and are considered to be impaired if they are no longer able to contribute to CATSA's mandate. When the assets continue to contribute to the fulfillment of CATSA's mandate, the estimated useful lives of that property and equipment and intangible assets are reviewed and adjustments to amortization/depreciation are recorded on a prospective basis, if necessary.

(h) Leases

At the inception of a contract, CATSA assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If a lease is identified, CATSA recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost based on the following:

- amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently measured at cost less accumulated depreciation. The carrying amount of the right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, if any.

The right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the underlying asset. The lease term includes periods covered by an option to extend if CATSA is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, CATSA's incremental borrowing rate, as identified above in note 3(b).

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The lease payments included in the measurement of the lease liability are comprised of the following, where applicable:

- fixed payments (including in-substance fixed payments, if any), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees;
- exercise price of a purchase option if it is reasonably certain that CATSA will exercise that; and
- payments of penalties for terminating the lease, if the lease term reflects CATSA exercising an option to terminate the lease.

CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings.

Variable lease payments that do not depend on an index or rate, and are not in-substance fixed, are not included in the measurement of the lease liability and, subsequently, the right-of-use asset. These payments are recognized as an expense in the period in which they occur.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured whenever:

- there is a change in the lease term, including a change in the assessment of whether an extension option will be exercised, in which case the lease liability is remeasured by discounting the revised lease payments on the basis of the revised lease term using a revised discount rate;
- the payments change due to changes in an index or rate, or a change in expected payments under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Based on the nature and use of CATSA's right-of-use assets, CATSA has two classes of underlying assets: office space and data centres. CATSA accounts for lease components and any non-lease components as a single lease component for its office space asset class. For its data centre asset class, CATSA separates non-lease components from lease components and accounts for them separately.

CATSA does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value. The lease payments associated with these leases are recognized as an expense on straight-line basis over the lease term.

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(i) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial assets include cash and receivables related to supplemental screening services. The remaining receivables are not classified as non-derivative financial assets because they are not contractual rights but, rather, created as a result of statutory requirements of the federal and provincial governments.

CATSA classifies non-derivative financial assets into the category of financial assets measured at amortized cost. These financial assets are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method. Measurement is based on CATSA's business model for managing financial assets and the contractual terms of the cash flows (financial assets are held with the intent of collecting contractual cash flows and the contractual cash flows of the financial asset represent solely payments of principal and interest). If CATSA's business model were to change, its classification would be reassessed.

At each reporting date, CATSA assesses, on a forward-looking basis, the expected credit losses on any financial assets measured at amortized cost. For trade receivables, CATSA applies the simplified approach required by IFRS 9, *Financial Instruments*, which requires lifetime expected losses to be recognized from the initial recognition of the receivables. CATSA has not recorded a credit loss provision on cash because of the high credit quality of the financial institutions in which CATSA holds such instruments.

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

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

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

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

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(ii) Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts entered into by CATSA for the purpose of managing its exposure to foreign currency risk. CATSA does not apply hedge accounting to its derivative financial instruments.

Derivative financial instruments are classified at fair value through profit and loss. These derivative financial instruments are initially recognized at fair value at the date at which CATSA enters into the derivative contracts. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The resulting change in fair value is recognized in financial performance on the Statement of Comprehensive Income (Loss). CATSA derecognizes a derivative financial instrument upon settlement of the instrument.

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

(j) Employee benefits

(i) Post-employment benefit plans – defined benefit

The employee benefits asset and liability presented in the Statement of Financial Position represent the actual surplus or deficit of each of CATSA's defined benefit pension plans and its other defined benefits plan. The surplus or deficit is determined by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The future benefit is then discounted to determine its present value, using a discount rate established at the end of the reporting period. The obligation is recognized over the period of employee service determined actuarially using the projected unit credit method. To the extent applicable, the fair value of any plan assets is deducted from the present value of the future benefit obligation. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined benefit costs are categorized as follows:

- service costs;
- net interest on the net defined benefit asset or liability; and
- remeasurements.

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Service costs are determined separately for each plan using the projected unit credit method, with actuarial valuations for accounting purposes being carried out at the end of each annual reporting period. Current service cost is recognized as employee costs in determining financial performance. Employee contributions are recorded as a reduction to service cost in the period in which the related service is rendered. Past service cost is recognized as an employee cost in financial performance in the period of plan amendment or when the related restructuring costs or termination benefits are recognized, whichever is earlier. Administration costs paid from the plan assets during the period, excluding the costs of managing plan assets, are included in service costs. The cost of managing plan assets is recorded against the actual return on plan assets.

Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligation to the net defined benefit asset or liability, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. The discount rate is determined by reference to the yield, at the beginning of the period, on high quality corporate and provincial bonds that:

- a) have an overall duration equal to the respective duration of the defined benefit obligations; and
- b) are denominated in the same currency in which the benefits are expected to be paid.

Net interest is recognized as employee costs in determining financial performance.

Remeasurement of defined benefit plans consists of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of changes in the asset ceiling (if applicable). When a funded plan gives rise to a net pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Those future economic benefits are available under the terms of CATSA's defined benefit pension plans, which allow CATSA to take contribution holidays when certain funding thresholds are met.

Remeasurement of defined benefit plans is recognized in other comprehensive income or loss and is included immediately in accumulated surplus (deficit) without reclassification to financial performance in a subsequent period.

(ii) Post-employment benefit plan – defined contribution

Employer contributions to the defined contribution pension plan are recognized as an employee cost in financial performance when employees have rendered service entitling them to the contributions.

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(In thousands of Canadian dollars)

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(iii) Termination benefits

Termination benefits result from either CATSA's decision to terminate employment or an employee's decision to accept the entity's offer of benefits in exchange for termination of employment. CATSA recognizes termination benefits at the earliest of when the entity can no longer withdraw the offer of those benefits or when restructuring costs are accrued if termination benefits are part of a restructuring plan. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

(iv) Short-term employee benefits

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

(k) Provisions and contingencies

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

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

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

(i) Disputed claims

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

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(ii) Decommissioning costs

CATSA has future obligations associated with the disposal of certain screening equipment in an environmentally responsible manner, and the restoration of leased premises to an agreed upon standard at the end of the lease. To the extent that it is probable that these obligations will result in an outflow of economic benefits, CATSA recognizes a provision for decommissioning liabilities, and the costs are capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

(I) Revenue

(i) Supplemental screening services

CATSA's revenue from contracts with customers is for supplemental screening services at airports on a cost recovery basis. A contract for supplemental screening services exists when collection of consideration is probable, the contract has commercial substance, the rights to supplemental screening services and payment terms are identifiable, and the contract is approved and all parties are committed to their obligations. The contracts may have varying stated terms, but are cancellable at any time by either party, subject to a notice period. Payments for services are due within 30 days of invoicing.

Revenue from supplemental screening services is recognized in financial performance as the customer obtains control of the service, which occurs over time as the screening services are provided. A time-based measure is used to measure the progress of transferring services to the customer.

Revenue is measured at the transaction price, which is the amount that CATSA expects to be entitled to in exchange for the supplemental screening services. The transaction price is based on screening services provided by CATSA and rates specified in the contract and excludes taxes collected on behalf of third parties. Since the supplemental screening service is a single performance obligation, no other allocation is required.

(ii) Finance income

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

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Notes to the Financial Statements

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(m) Government funding

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

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

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

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

(n) Finance cost

Finance cost, which is comprised primarily of interest expense associated with CATSA's lease liabilities, is recognized in financial performance in the period in which it is incurred.

(o) Foreign currency translation

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

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Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2021

4. Trade and other receivables

Trade and other receivables are comprised of:

| | March 31, 2021 | March 31, 2020 |
|--|-------------------|-------------------|
| Parliamentary appropriations (note 17) | \$ 110,788 | \$ 132,862 |
| GST and HST recoverable | 5,329 | 5,143 |
| PST recoverable | 2,072 | 2,397 |
| Other | 340 | – |
| Screening services – supplemental | – | 1,911 |
| | \$ 118,529 | \$ 142,313 |

Credit terms on trade receivables are 30 days. As at March 31, 2021, and March 31, 2020, there were no amounts included in trade and other receivables that were past due. CATSA has historically collected all of its trade receivables in full. For more information on CATSA's credit risk, refer to note 15(c).

5. Inventories

Inventories are comprised of:

| | March 31, 2021 | March 31, 2020 |
|-------------|------------------|------------------|
| Spare parts | \$ 11,575 | \$ 13,956 |
| RAIC | 1,502 | 1,183 |
| Uniforms | 990 | 886 |
| | \$ 14,067 | \$ 16,025 |

During the year, inventories totalling \$6,672 (2020 – \$6,385) were charged to expenses. This includes \$3,603 (2020 – \$Nil) resulting from a net write-down of inventories for spare parts relating to equipment retired as part of the HBS recapitalization program.

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6. Property and equipment

A reconciliation of property and equipment is as follows:

| | PBS equipment | HBS equipment | NPS equipment | RAIC equipment | Computers, integrated software and electronic equipment | Office furniture and equipment | Leasehold improvements | Work-in- progress | Total |
|---------------------------------|------------------|------------------|------------------|-------------------|---|--------------------------------------|---------------------------|----------------------|-------------|
| Cost | | | | | | | | | |
| Balance, March 31, 2019 | \$ 159,376 | \$ 719,505 | \$ 18,391 | \$ 4,475 | \$ 28,234 | \$ 129 | \$ 10,613 | \$ 95,956 | \$1,036,679 |
| Additions | 3,589 | 56,594 | – | 370 | 1,964 | – | 165 | 33,472 | 96,154 |
| Disposals | (2,584) | (133,350) | (187) | – | (1,813) | – | – | – | (137,934) |
| Write-offs | (431) | (3,055) | – | (189) | (1,901) | – | (864) | (31) | (6,471) |
| Impairments | – | – | – | – | (214) | – | – | (383) | (597) |
| Reclassifications | (3,542) | 72,391 | 2,653 | 27 | 2,436 | – | – | (73,965) | – |
| Balance, March 31, 2020 | \$ 156,408 | \$ 712,085 | \$ 20,857 | \$ 4,683 | \$ 28,706 | \$ 129 | \$ 9,914 | \$ 55,049 | \$ 987,831 |
| Balance, March 31, 2020 | \$ 156,408 | \$ 712,085 | \$ 20,857 | \$ 4,683 | \$ 28,706 | \$ 129 | \$ 9,914 | \$ 55,049 | \$ 987,831 |
| Additions | 3,680 | 31,915 | 265 | 502 | 6,446 | – | 258 | 8,583 | 51,649 |
| Disposals | (298) | (121,645) | – | – | (663) | – | – | – | (122,606) |
| Write-offs | (3,177) | (127) | (203) | (16) | (4,115) | – | (124) | – | (7,762) |
| Impairments | – | – | – | – | (177) | – | – | – | (177) |
| Reclassifications | 3,854 | 40,056 | – | 167 | 848 | – | 65 | (44,990) | – |
| Balance, March 31, 2021 | \$ 160,467 | \$ 662,284 | \$ 20,919 | \$ 5,336 | \$ 31,045 | \$ 129 | \$ 10,113 | \$ 18,642 | \$ 908,935 |
| Accumulated depreciation | | | | | | | | | |
| Balance, March 31, 2019 | \$ 97,357 | \$ 440,136 | \$ 10,898 | \$ 3,407 | \$ 19,945 | \$ 24 | \$ 9,388 | \$ – | \$ 581,155 |
| Depreciation | 12,908 | 47,690 | 1,650 | 551 | 2,890 | 24 | 349 | – | 66,062 |
| Disposals | (2,531) | (131,887) | (187) | – | (1,813) | – | – | – | (136,418) |
| Write-offs | (334) | (2,946) | – | (189) | (1,831) | – | (864) | – | (6,164) |
| Reclassifications | (4,210) | 2,542 | 1,668 | – | – | – | – | – | – |
| Balance, March 31, 2020 | \$ 103,190 | \$ 355,535 | \$ 14,029 | \$ 3,769 | \$ 19,191 | \$ 48 | \$ 8,873 | \$ – | \$ 504,635 |
| Balance, March 31, 2020 | \$ 103,190 | \$ 355,535 | \$ 14,029 | \$ 3,769 | \$ 19,191 | \$ 48 | \$ 8,873 | \$ – | \$ 504,635 |
| Depreciation | 9,817 | 54,704 | 1,186 | 453 | 3,638 | 24 | 399 | – | 70,221 |
| Disposals | (298) | (121,616) | – | – | (663) | – | – | – | (122,577) |
| Write-offs | (3,119) | 664 | (203) | (16) | (4,115) | – | (124) | – | (6,913) |
| Balance, March 31, 2021 | \$ 109,590 | \$ 289,287 | \$ 15,012 | \$ 4,206 | \$ 18,051 | \$ 72 | \$ 9,148 | \$ – | \$ 445,366 |
| Carrying amounts | | | | | | | | | |
| As at March 31, 2020 | \$ 53,218 | \$ 356,550 | \$ 6,828 | \$ 914 | \$ 9,515 | \$ 81 | \$ 1,041 | \$ 55,049 | \$ 483,196 |
| As at March 31, 2021 | \$ 50,877 | \$ 372,997 | \$ 5,907 | \$ 1,130 | \$ 12,994 | \$ 57 | \$ 965 | \$ 18,642 | \$ 463,569 |

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During the year, CATSA recognized \$177 (2020 – \$597) relating to screening equipment that was no longer able to contribute to the fulfilment of CATSA's mandate. The assets were considered fully impaired and the remaining net book value was recorded as an impairment loss. The recoverable amount was deemed to be \$Nil, which represents the equipment's value in use to CATSA, as all future cash flows associated with the equipment were estimated to be \$Nil.

Additions to computers, integrated software, and electronic equipment as at March 31, 2021 include \$2,699 (March 31, 2020 – \$Nil) related to equipment for temperature screening of passengers and non-passengers at Canada's 15 busiest airports. The estimated useful life of this equipment is three years.

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7. Intangible assets

A reconciliation of intangible assets is as follows:

| | Externally acquired software | Internally developed software | Under development | Total |
|---------------------------------|------------------------------------|-------------------------------------|----------------------|-----------|
| Cost | | | | |
| Balance, March 31, 2019 | \$ 9,120 | \$ 20,208 | \$ 4,577 | \$ 33,905 |
| Additions | 1,616 | 203 | 2,166 | 3,985 |
| Write-offs | (171) | (4,444) | – | (4,615) |
| Reclassifications | 1,062 | 952 | (2,014) | – |
| Balance, March 31, 2020 | \$ 11,627 | \$ 16,919 | \$ 4,729 | \$ 33,275 |
| Balance, March 31, 2020 | \$ 11,627 | \$ 16,919 | \$ 4,729 | \$ 33,275 |
| Additions | 39 | 1,943 | 73 | 2,055 |
| Write-offs | (512) | (2,747) | – | (3,259) |
| Reclassifications | – | 4,729 | (4,729) | – |
| Balance, March 31, 2021 | \$ 11,154 | \$ 20,844 | \$ 73 | \$ 32,071 |
| Accumulated amortization | | | | |
| Balance, March 31, 2019 | \$ 4,005 | \$ 14,185 | \$ – | \$ 18,190 |
| Amortization | 888 | 1,240 | – | 2,128 |
| Write-offs | (171) | (3,901) | – | (4,072) |
| Balance, March 31, 2020 | \$ 4,722 | \$ 11,524 | \$ – | \$ 16,246 |
| Balance, March 31, 2020 | \$ 4,722 | \$ 11,524 | \$ – | \$ 16,246 |
| Amortization | 1,058 | 1,192 | – | 2,250 |
| Write-offs | (512) | (2,747) | – | (3,259) |
| Balance, March 31, 2021 | \$ 5,268 | \$ 9,969 | \$ – | \$ 15,237 |
| Carrying amounts | | | | |
| As at March 31, 2020 | \$ 6,905 | \$ 5,395 | \$ 4,729 | \$ 17,029 |
| As at March 31, 2021 | \$ 5,886 | \$ 10,875 | \$ 73 | \$ 16,834 |

During the year, CATSA recorded \$Nil (2020 – \$543) relating to the write-off of intangible assets.

There were no research and development costs expensed for the years ended March 31, 2021, or 2020.

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(In thousands of Canadian dollars)
Year ended March 31, 2021

8. Right-of-use assets

A reconciliation of right-of-use assets is as follows:

| | Office space | Data centres | Total |
|-------------------------|--------------|--------------|-----------|
| Balance, April 1, 2019 | \$ 23,741 | \$ 1,733 | \$ 25,474 |
| Additions | 291 | 117 | 408 |
| Depreciation | (3,459) | (212) | (3,671) |
| Balance, March 31, 2020 | \$ 20,573 | \$ 1,638 | \$ 22,211 |
| Balance, March 31, 2020 | \$ 20,573 | \$ 1,638 | \$ 22,211 |
| Additions | 5 | – | 5 |
| Depreciation | (3,388) | (267) | (3,655) |
| Decreases | (8,624) | – | (8,624) |
| Balance, March 31, 2021 | \$ 8,566 | \$ 1,371 | \$ 9,937 |

During the year ended March 31, 2021, CATSA reassessed the lease term for one of its contracts, resulting in a decrease in right-of-use assets.

9. Employee benefits

(a) Post-employment benefit plans overview

CATSA maintains three post-employment benefit plans:

- A registered pension plan (RPP), which is registered with the Office of the Superintendent of Financial Institutions and with the Canada Revenue Agency (CRA) and contains both a defined benefit and a defined contribution component;
- A supplementary retirement plan (SRP), which supplements the defined benefit component of the RPP for benefits limited by the *Income Tax Act* (Canada) and is funded by a retirement compensation arrangement regulated by the CRA; and
- An other defined benefits plan (ODBP), which includes life insurance and eligible health and dental benefits.

CATSA's defined benefit pension plans consist of the defined benefit component of the RPP and the SRP. Pension benefits are based on the average of the best five consecutive years of pensionable salary and are indexed to the rate of inflation. CATSA's defined contribution pension plan consists of the defined contribution component of the RPP. All full-time and part-time indeterminate employees are eligible for the ODBP.

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The defined benefit pension plans' funds are held in external trusts that are legally separate from CATSA. Benefits are paid directly from the trusts. Both employer and employee contributions to the defined benefit pension plans are made in accordance with the provisions of the plans. In addition, contributions are determined by actuarial valuations in accordance with applicable legislation. Effective July 1, 2013, the defined benefit pension plans are closed to new employees.

CATSA maintains a defined contribution pension plan for employees hired after June 30, 2013. Enrollment in this plan is mandatory for full-time indeterminate employees, as well as part-time indeterminate employees working an average of more than 20 hours per week. Under this plan, CATSA and its employees are required to contribute a specified percentage of salaries to fund the benefits, with optional contributions for employees matched at various levels by the employer based on years of service. CATSA's financial obligation is limited to matching employee contributions, as outlined in the provisions of the plan.

The Board of Directors is responsible for the oversight of the post-employment benefit plans, including review of investment strategies and funding, review and approval of documents and reports required by law, and setting the policies of the plans. The Governance, Human Resources and Pension Committee, a committee of the Board, assists the Board in discharging its responsibilities. This Committee is responsible for overseeing the management and administration of the plans.

(b) Post-employment benefit plans' risks

The defined benefit plans expose CATSA to actuarial risks such as inflation risk, interest rate risk, investment risk, longevity risk, medical claim rates risk and salary risk. In addition, the closed nature of the defined benefit pension plans will create a rise in future service costs as the plan members age. Current cost sharing provisions also increased employee contributions to a level beyond what is permitted by the *Income Tax Regulations*. CATSA obtained a waiver to exceed permitted limits from the CRA up to December 31, 2023. In order to extend this period, CATSA must submit a new waiver request.

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(c) Employee benefits assets and liabilities

The following provides a reconciliation between the defined benefit plans' assets, the defined benefit plans' liabilities and the surplus or deficit status of the defined benefit plans, to the net employee benefits asset or liability presented in the Statement of Financial Position for the years ended:

| | March 31 | | | | | |
|--|------------|------------|----------|----------|-------------|-------------|
| | RPP | | SRP | | ODBP | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Fair value of plan assets | | | | | | |
| Balance, beginning of year | \$ 196,769 | \$ 207,254 | \$ 6,515 | \$ 6,842 | \$ – | \$ – |
| <i>Included in financial performance</i> | | | | | | |
| Interest income | 7,496 | 7,264 | 243 | 239 | – | – |
| Administration costs | (375) | (300) | (15) | (15) | – | – |
| <i>Included in other comprehensive income (loss)</i> | | | | | | |
| Remeasurement gains (losses) | | | | | | |
| Return on assets excluding interest income | 33,855 | (20,083) | 954 | (541) | – | – |
| <i>Other</i> | | | | | | |
| CATSA contributions | 7,885 | 3,938 | 62 | 50 | 185 | 162 |
| Plan participant contributions | 3,366 | 3,264 | 62 | 50 | – | – |
| Benefit payments and transfers | (3,356) | (4,568) | (111) | (110) | (185) | (162) |
| Balance, end of year | \$ 245,640 | \$ 196,769 | \$ 7,710 | \$ 6,515 | \$ – | \$ – |
| Present value of defined benefit liabilities | | | | | | |
| Balance, beginning of year | \$ 202,596 | \$ 203,323 | \$ 5,033 | \$ 5,045 | \$ 20,609 | \$ 30,507 |
| <i>Included in financial performance</i> | | | | | | |
| Current service cost | 7,336 | 8,546 | 76 | 97 | 1,070 | 1,870 |
| Interest expense | 7,905 | 7,416 | 190 | 179 | 808 | 1,129 |
| <i>Included in other comprehensive income (loss)</i> | | | | | | |
| Remeasurement (gains) losses | | | | | | |
| Actuarial (gains) losses arising from changes in demographic assumptions | (8,535) | – | 103 | – | (1,304) | – |
| Actuarial losses (gains) arising from changes in financial assumptions | 5,760 | (10,060) | 65 | (235) | (946) | (12,052) |
| Actuarial (gains) losses arising from experience adjustments | (1,490) | (5,325) | (175) | 7 | 2 | (683) |
| <i>Other</i> | | | | | | |
| Plan participant contributions | 3,366 | 3,264 | 62 | 50 | – | – |
| Benefit payments and transfers | (3,356) | (4,568) | (111) | (110) | (185) | (162) |
| Balance, end of year | \$ 213,582 | \$ 202,596 | \$ 5,243 | \$ 5,033 | \$ 20,054 | \$ 20,609 |
| Net employee benefits asset (liability) | \$ 32,058 | \$ (5,827) | \$ 2,467 | \$ 1,482 | \$ (20,054) | \$ (20,609) |

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| | March 31, 2021 | March 31, 2020 |
|--|----------------|----------------|
| Employee benefits asset, end of year | | |
| RPP | \$ 32,058 | \$ – |
| SRP | 2,467 | 1,482 |
| | 34,525 | 1,482 |
| Employee benefits liability, end of year | | |
| RPP | – | (5,827) |
| ODBP | (20,054) | (20,609) |
| | (20,054) | (26,436) |
| Employee benefits – net asset (liability), end of year | \$ 14,471 | \$ (24,954) |

(d) Employee benefits costs

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

| | March 31 | | | | | | | |
|---|-----------|-------------|--------|----------|----------|-----------|-----------|-------------|
| | RPP | | SRP | | ODBP | | Total | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Defined benefit cost recognized in financial performance | | | | | | | | |
| Current service cost | \$ 7,336 | \$ 8,546 | \$ 76 | \$ 97 | \$ 1,070 | \$ 1,870 | \$ 8,482 | \$ 10,513 |
| Administration costs | 375 | 300 | 15 | 15 | – | – | 390 | 315 |
| Interest cost on defined benefit obligation | 7,905 | 7,416 | 190 | 179 | 808 | 1,129 | 8,903 | 8,724 |
| Interest income on plan assets | (7,496) | (7,264) | (243) | (239) | – | – | (7,739) | (7,503) |
| Defined benefit cost | \$ 8,120 | \$ 8,998 | \$ 38 | \$ 52 | \$ 1,878 | \$ 2,999 | \$ 10,036 | \$ 12,049 |
| Remeasurement of defined benefit plans recognized in other comprehensive income (loss) | | | | | | | | |
| Return on plan assets excluding interest income | \$ 33,855 | \$ (20,083) | \$ 954 | \$ (541) | \$ – | \$ – | \$ 34,809 | \$ (20,624) |
| Actuarial gains | 4,265 | 15,385 | 7 | 228 | 2,248 | 12,735 | 6,520 | 28,348 |
| Remeasurement of defined benefit plans | \$ 38,120 | \$ (4,698) | \$ 961 | \$ (313) | \$ 2,248 | \$ 12,735 | \$ 41,329 | \$ 7,724 |

Defined benefit cost is recognized in employee costs in note 13, and allocated among the program expenses in the Statement of Comprehensive Income (Loss).

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(e) Composition of plan assets

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

| | RPP | | SRP | | Total | |
|---|------------|------------|----------|----------|------------|------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| <i>Investment funds</i> | | | | | | |
| Equity securities | | | | | | |
| Canadian equity funds | \$ 36,920 | \$ 29,628 | \$ 1,435 | \$ 979 | \$ 38,355 | \$ 30,607 |
| U.S. equity fund | – | – | 1,553 | 1,253 | 1,553 | 1,253 |
| International equity funds | 99,740 | 76,929 | 1,468 | 1,136 | 101,208 | 78,065 |
| Debt securities | | | | | | |
| Canadian bond fund | 86,332 | 67,825 | – | – | 86,332 | 67,825 |
| Real estate | 22,860 | 22,136 | – | – | 22,860 | 22,136 |
| <i>Canada Revenue Agency (CRA) refundable tax account</i> | – | – | 3,254 | 3,147 | 3,254 | 3,147 |
| <i>Cash and cash equivalents¹</i> | (212) | 251 | – | – | (212) | 251 |
| Total plan assets, end of year | \$ 245,640 | \$ 196,769 | \$ 7,710 | \$ 6,515 | \$ 253,350 | \$ 203,284 |

¹ Cash and cash equivalents consist of in-transit deposits and disbursements

The fair value of all equity, debt, real estate and other securities is determined based on quoted market prices in active markets. The assets held by the CRA in the refundable tax account are held in a non-interest bearing account. The fair value is based on the amounts transferred into the refundable tax account held by the CRA.

On a regular basis, an asset-liability modelling study is performed, which analyzes the timing and magnitude of future cash outflows of the defined benefit component of the RPP. It suggests an optimal investment structure to maximize investment returns while minimizing risk associated with the fluctuation of the benefit obligation due to variations in interest rates. As the obligation has similar characteristics to debt securities, the de-risking of the funded position is achieved via investments in debt securities while other types of investments are selected to increase the returns of the plan. Given the characteristics of the defined benefit component of the RPP, the optimal investment structure was to have 35% of plan assets invested in debt securities that have similar characteristics to the obligation. This reduces the risk associated with the volatility of the funded position while not impairing future investment returns.

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(f) Actuarial assumptions and sensitivity analysis

The actuarial assumptions used to determine the present value of the obligations are management's best estimates. They are established based on market expectations at the end of the reporting period, for the period over which the obligations are to be settled. The significant weighted average assumptions used to determine CATSA's liabilities are as follows:

| | RPP | | SRP | | ODBP | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| <i>Present value of defined benefit liability</i> | | | | | | |
| Discount rate | 3.50% | 3.75% | 3.50% | 3.75% | 3.50% | 3.75% |
| Long-term rate of compensation increase | 3.25% | 3.75% | 3.25% | 3.75% | 3.25% | 3.75% |
| Inflation | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Mortality table ¹ | CPM2014 Publ | CPM2014 Publ | CPM2014 Publ | CPM2014 Publ | CPM2014 Publ | CPM2014 Publ |
| <i>Benefit costs</i> | | | | | | |
| Discount rate | 3.75% | 3.50% | 3.75% | 3.50% | 3.75% | 3.50% |
| Inflation | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| <i>Assumed medical cost trend rates</i> | | | | | | |
| Initial medical cost trend rate | | | | | 5.19% | 5.26% |
| Ultimate medical cost trend rate | | | | | 3.93% | 3.93% |
| Year ultimate reached | | | | | 2040 | 2040 |

¹ Canadian Pensioners' Mortality 2014 - Public Sector, projected with improvement scale CPM-B

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2021, while holding all other assumptions constant:

| | Change | Impact on defined benefit liabilities |
|---|--------|---------------------------------------|
| Increase in discount rate | 1% | \$ (43,604) |
| Decrease in discount rate | 1% | 58,574 |
| Increase in long-term rate of compensation increase | 1% | 15,518 |
| Decrease in long-term rate of compensation increase | 1% | (13,571) |
| Increase in inflation | 1% | 37,646 |
| Decrease in inflation | 1% | (30,206) |
| Increase in life expectancy | 1 year | 6,338 |
| Decrease in life expectancy | 1 year | (5,944) |
| Increase in assumed medical cost trend rate | 1% | 3,384 |
| Decrease in assumed medical cost trend rate | 1% | (2,546) |

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

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(g) Future expected contributions

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

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

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

| | Most recent actuarial valuation for funding purposes | Next required actuarial valuation for funding purposes |
|------|---|---|
| RPP | December 31, 2019 | December 31, 2020 |
| SRP | December 31, 2019 | December 31, 2020 |
| ODBP | N/A | N/A |

CATSA estimates that cash payments to be made to its funded defined benefit pension plans for the year ending March 31, 2022, will total \$13,070, and consist of CATSA contributions of \$9,685 and plan participant contributions of \$3,385.

Cash payments to be made to the unfunded ODBP for the year ending March 31, 2022, will be equal to the benefits paid to plan participants. CATSA estimates that cash payments to be made to the ODBP for the year ending March 31, 2022, will total \$272.

As at March 31, 2021, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 20.9 years (2020 – 20.8 years), 18.1 years (2020 – 18.2 years) and 21.2 years (2020 – 21.6 years), respectively.

(h) Employee costs

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

| | March 31, 2021 | March 31, 2020 |
|---|----------------|----------------|
| Employee costs (excluding post-employment and termination benefits) | \$ 55,466 | \$ 53,095 |
| Post-employment benefits | | |
| Defined benefit pension plans and other defined benefits plan | 10,036 | 12,049 |
| Defined contribution pension plan | 783 | 685 |
| Termination benefits | 11 | 73 |
| Total employee costs (note 13) | \$ 66,296 | \$ 65,902 |

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(In thousands of Canadian dollars)

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10. Provisions and contingencies**(a) Provisions**

A reconciliation of provisions is as follows:

| | | |
|---------------------------------------|----|-------|
| Balance, March 31, 2020 | \$ | – |
| Provisions recognized during the year | | 300 |
| Provisions reversed during the year | | (100) |
| Balance, March 31, 2021 | \$ | 200 |

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. By nature, these amounts are subject to many uncertainties and the outcome of the individual matters is not always predictable. The provisions were determined by taking into account internal analysis, consultations with external subject matter experts, and all available information at the time of financial statement preparation.

The provisions as at March 31, 2021 relate to amounts assessed by TC. The provisions are classified as current and the expected future cash flows were not discounted, as the timing of associated cash outflows is expected to be within 12 months.

(b) Contingencies

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

(i) Claims and legal proceedings

In 2018, CATSA received notification from an airport authority that it had been assessed by the CRA for failing to charge HST to CATSA on funding agreements related to integration projects and maintenance agreements. With the cooperation of the airport authority, CATSA formally disputed the CRA's assessments. In March 2021, CATSA received formal notification that the objections were successful. As at March 31, 2021, amounts outstanding relate to interest and penalties of \$305, which has been included in trade and other receivables with a corresponding amount included in finance income.

(ii) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of Explosives Detection Systems equipment from airports across Canada, some of which contain hazardous materials, as well as the restoration of facilities contractually required under lease agreements. Since it is not probable that an outflow of economic resources will be required to settle these legal obligations, no provision has been recorded in the financial statements. Should the probabilities change in the future, the maximum undiscounted cash flow required to settle these liabilities between 2021/22 and 2030/31 (2020 – 2020/21 and 2029/30) is estimated to be \$3,754 (2020 – \$3,775).

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11. Lease liabilities

CATSA has leases that are for office space and data centres. CATSA has included extension options in the measurement of its lease liabilities when it is reasonably certain to exercise the extension option.

A reconciliation of lease liabilities is as follows:

| | March 31, 2021 | March 31, 2020 |
|------------------------------|----------------|----------------|
| Balance, beginning of year | \$ 22,927 | \$ 25,956 |
| Additions | 5 | 408 |
| Lease payments (note 14) | (3,973) | (3,936) |
| Finance costs | 348 | 492 |
| Foreign exchange revaluation | (9) | 7 |
| Decreases | (8,624) | – |
| Balance, end of year | \$ 10,674 | \$ 22,927 |
| Balance, end of year | | |
| Current | \$ 3,667 | \$ 3,548 |
| Non-current | 7,007 | 19,379 |

During the year ended March 31, 2021, CATSA reassessed the lease term for one of its contracts, resulting in a decrease in lease liabilities.

CATSA recognized the following expenses not included in the measurement of the lease liabilities for the years ended:

| | March 31, 2021 | March 31, 2020 |
|-------------------------|----------------|----------------|
| Variable lease payments | \$ 2,659 | \$ 2,645 |
| Short-term leases | 64 | 20 |
| Low value leases | 57 | 86 |
| | \$ 2,780 | \$ 2,751 |

Variable lease payments include operating costs, property taxes, insurance, and other service-related costs.

For the year ended March 31, 2021, CATSA recognized a total cash outflow for leases of \$6,753 (2020 – \$6,687).

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The following table presents the undiscounted cash flows for contractual lease obligations:

| | March 31, 2021 | March 31, 2020 |
|---|----------------|----------------|
| No later than 1 year | \$ 7,262 | \$ 7,170 |
| Later than 1 year and no later than 5 years | 5,368 | 11,651 |
| Later than 5 years | 213 | 343 |
| Total | \$ 12,843 | \$ 19,164 |

12. Deferred government funding

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

| | March 31, 2021 | March 31, 2020 |
|---|----------------|----------------|
| Deferred government funding related to operating expenses | | |
| Balance, beginning of year | \$ 19,420 | \$ 18,558 |
| Parliamentary appropriations used to fund operating expenses (note 14) | 628,069 | 743,000 |
| Parliamentary appropriations for operating expenses recognized in financial performance | (626,410) | (742,138) |
| Balance, end of year | \$ 21,079 | \$ 19,420 |
| Deferred government funding related to capital expenditures | | |
| Balance, beginning of year | \$ 498,794 | \$ 469,732 |
| Parliamentary appropriations used to fund capital expenditures (note 14) | 53,720 | 99,926 |
| Amortization of deferred government funding related to capital expenditures recognized in financial performance | (73,208) | (70,864) |
| Balance, end of year | \$ 479,306 | \$ 498,794 |
| Total deferred government funding, end of year | \$ 500,385 | \$ 518,214 |

For additional information on government funding, see note 14.

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13. Expenses

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

| | March 31, 2021 | March 31, 2020 |
|--|----------------|----------------|
| Screening services and other related costs | | |
| Payments to screening contractors | \$ 485,644 | \$ 616,281 |
| Uniforms and other screening costs | 8,674 | 6,602 |
| Trace and consumables | 6,670 | 3,563 |
| | 500,988 | 626,446 |
| Equipment operating and maintenance | | |
| Equipment maintenance and spare parts | 38,695 | 41,487 |
| RAIC | 503 | 1,011 |
| Training and certification | 17 | 1,847 |
| | 39,215 | 44,345 |
| Program support and corporate services | | |
| Employee costs (note 9) | 66,296 | 65,902 |
| Other administrative costs | 6,939 | 3,287 |
| Office and computer expenses | 6,568 | 8,131 |
| Professional services and other business related costs | 5,122 | 7,143 |
| Other lease costs (note 11) | 2,780 | 2,751 |
| Communications and public awareness | 945 | 930 |
| | 88,650 | 88,144 |
| Depreciation and amortization | | |
| Depreciation of property and equipment (note 6) | 70,221 | 66,062 |
| Depreciation of right-of-use assets (note 8) | 3,655 | 3,671 |
| Amortization of intangible assets (note 7) | 2,250 | 2,128 |
| | 76,126 | 71,861 |
| | \$ 704,979 | \$ 830,796 |

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

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Included in the previous table are costs directly associated with the impact of COVID-19 for the year ended March 31, 2021. The following table summarizes CATSA's significant COVID-19 transactions, and the allocation of these amounts in the Statement of Comprehensive Income (Loss):

| | PBS | HBS | NPS | Total |
|-------------------------------------|-----------|-----------|-----------|------------|
| Payments to Screening Contractors | | | | |
| Temporary arrangements ¹ | \$ 89,891 | \$ 19,909 | \$ 20,028 | \$ 129,828 |
| Temperature screening ² | 14,119 | – | 17,299 | 31,418 |

¹ Payments to screening contractors under temporary arrangements to maintain the certified screening officer workforce at levels deemed appropriate for CATSA to respond as the pandemic situation evolves. These amounts have been allocated in the Statement of Comprehensive Income (Loss) based on the historical distribution of payments to screening contractors.

² Payments to screening contractors to conduct temperature screening of passengers and non-passengers at Canada's 15 busiest airports. These amounts have been based on the number of screening stations open and screening officers scheduled to operate them.

14. Government funding

Parliamentary appropriations were as follows for the years ended:

| | March 31, 2021 | March 31, 2020 |
|---|----------------|----------------|
| Main estimates | \$ 562,700 | \$ 875,160 |
| Supplementary estimates | 355,029 | 23,111 |
| Total voted appropriations | 917,729 | 898,271 |
| Capital reprofile to future year - in progress ¹ | (14,001) | (41,479) |
| Operating reprofile to future year - in progress ¹ | – | (7,750) |
| Unused portion of parliamentary appropriations | (217,966) | (2,180) |
| Total parliamentary appropriations used | \$ 685,762 | \$ 846,862 |

¹ The capital and operating reprofiles in progress for the year ended March 31, 2020, were approved during the year ended March 31, 2021.

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

| | March 31, 2021 | March 31, 2020 |
|--|----------------|----------------|
| Parliamentary appropriations used to fund operating expenses (note 12) | \$ 628,069 | \$ 743,000 |
| Parliamentary appropriations used to fund capital expenditures (note 12) | 53,720 | 99,926 |
| Parliamentary appropriations for lease payments (note 11) | 3,973 | 3,936 |
| Total parliamentary appropriations used | \$ 685,762 | \$ 846,862 |

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15. Fair values and risks arising from financial instruments

FAIR VALUES OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY

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

Financial instruments recorded at fair value on the Statement of Financial Position use a hierarchy to categorize the inputs to valuation techniques used to measure them. The fair value hierarchy gives the highest priority to quoted prices and the lowest priority to unobservable inputs as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The carrying amounts and corresponding fair values using the fair value hierarchy of CATSA's remaining financial assets and liabilities are as follows:

| | March 31, 2021 | | March 31, 2020 | |
|--|-----------------|----------------------|-----------------|----------------------|
| | Carrying Amount | Fair Value (Level 2) | Carrying Amount | Fair Value (Level 2) |
| Financial instruments measured at fair value | | | | |
| Derivative financial assets ¹ | \$ – | \$ – | \$ 926 | \$ 926 |
| Derivative financial liabilities ¹ | 1,197 | 1,197 | – | – |
| Financial instruments measured at amortized cost | | | | |
| Non-current holdbacks ² | \$ – | \$ – | \$ 5,410 | \$ 5,410 |

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

There were no transfers between levels during the years ended March 31, 2021, or 2020.

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FINANCIAL RISK FACTORS

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

(a) Market risk

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

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

| | USD | | CAD | |
|----------------|-----|-------|-----|-------|
| March 31, 2021 | \$ | 3,582 | \$ | 4,499 |
| March 31, 2020 | | 5,015 | | 7,052 |

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase or decrease in financial performance of \$225 (2020 – \$353).

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. Liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada. CATSA manages its liquidity risk by preparing and monitoring forecasts of cash flows for anticipated operating and investing activities. Also, the Board of Directors reviews and approves CATSA's operating and capital budgets.

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The carrying value of trade and other payables, holdbacks and derivative financial liabilities represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of these financial liabilities:

| | Less than 3 months | 3 months to 1 year | Greater than 1 year | Total at March 31, 2021 |
|----------------------------------|-----------------------|-----------------------|------------------------|----------------------------|
| Trade and other payables | \$ 92,664 | \$ 17,527 | \$ – | \$ 110,191 |
| Holdbacks | 12,116 | 10,236 | – | 22,352 |
| Derivative financial liabilities | 423 | 704 | 70 | 1,197 |
| | Less than 3 months | 3 months to 1 year | Greater than 1 year | Total at March 31, 2020 |
| Trade and other payables | \$ 123,417 | \$ 17,301 | \$ – | \$ 140,718 |
| Holdbacks | 11,887 | 4,480 | 5,410 | 21,777 |

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2020.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to CATSA. As a means of mitigating risk of financial loss from defaults, CATSA has adopted a practice of only extending credit to creditworthy counterparties. CATSA's exposure and the creditworthiness of its counterparties are continuously monitored. As required, CATSA establishes a credit loss provision that reflects the estimated lifetime credit loss of receivables.

CATSA is exposed to credit risk through its cash, supplemental screening services receivables and foreign exchange forward contracts. The maximum exposure to credit risk of CATSA at March 31, 2021, and 2020, was the carrying value of these assets.

(i) Screening services – supplemental

Prior to extending credit to a new customer, CATSA performs a formal credit review to determine a customer's credit-worthiness and the appropriate terms. An external credit-scoring agency is used to perform this assessment. In addition, CATSA performs credit reviews at regular intervals or if triggered by information that a customer's financial or corporate circumstances have changed.

As at March 31, 2021, CATSA had no supplemental screening services receivables.

(ii) Foreign exchange forward contracts

CATSA's policy on currency risk requires that all significant foreign exchange forward contracts used to economically hedge a foreign currency exposure are entered into with counterparties holding credit ratings equivalent to or better than that of the major Canadian banks.

| | March 31, 2021 | | March 31, 2020 | |
|---|----------------|------------|----------------|------------|
| | Notional | Fair Value | Notional | Fair Value |
| Foreign exchange forward contracts ¹ | \$ 20,408 | \$ 19,211 | \$ 12,459 | \$ 13,385 |

¹ As at March 31, 2021, the foreign exchange forward contracts' rates are between 1.2731 and 1.398 for foreign exchange forward contracts in USD and the maturity dates are between April 8, 2021 and April 2, 2022.

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16. Contractual arrangements

In the normal course of operations, CATSA enters into contractual arrangements for the supply of goods and services. These contractual arrangements are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion. The most significant arrangements relate to contracts signed with screening contractors for the provision of screening services, as well as with vendors for screening equipment and related maintenance.

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

| | March 31, 2021 | March 31, 2020 |
|-----------|----------------|----------------|
| Operating | \$ 2,283,534 | \$ 1,015,479 |
| Capital | 10,688 | 53,803 |
| Total | \$ 2,294,222 | \$ 1,069,282 |

During the year, CATSA's Airport Screening Services Agreements (ASSAs) with its third party screening contractors were extended for two years, expiring March 31, 2024. The renewal of these service agreements has added \$1,400,792 to CATSA's contractual arrangements.

17. Related party transactions

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

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

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

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Government funding of \$703,591 (2020 – \$816,938), as recognized in the Statement of Comprehensive Income (Loss), includes parliamentary appropriations for operating expenses, parliamentary appropriations for lease payments, and amortization of deferred government funding related to capital expenditures. Parliamentary appropriations receivable of \$110,788 (2020 – \$132,862), are included in trade and other receivables on the Statement of Financial Position.

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(b) Key management personnel

As at March 31, 2021, key management personnel of CATSA are composed of the 11 (2020 – 11) Board members and the five (2020 – five) members of the senior management team.

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

| | March 31, 2021 | March 31, 2020 |
|---|----------------|----------------|
| Salaries, other short-term employee benefits and termination benefits | \$ 1,730 | \$ 1,645 |
| Post-employment benefits | 282 | 343 |
| | \$ 2,012 | \$ 1,988 |

Other than the above compensation, there were no other related party transactions involving key management personnel and their close family members for the years ended March 31, 2021, or 2020.

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

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 9. There were no other transactions during the years ended March 31, 2021, or 2020.

18. Capital management

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

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

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

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2021, or March 31, 2020.

CATSA is not subject to externally imposed capital requirements.

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(In thousands of Canadian dollars)
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19. Net change in working capital balances and supplementary cash flow information

The following table presents the net change in working capital balances for the years ended:

| | March 31, 2021 | March 31, 2020 |
|---|----------------|----------------|
| Decrease (increase) in trade and other receivables | \$ 35,877 | \$ (34,376) |
| Increase in inventories | (1,645) | (720) |
| Increase in prepaids | (3,617) | (142) |
| (Decrease) increase in trade and other payables | (15,877) | 11,035 |
| Increase in provisions | 200 | – |
| Increase in holdbacks | 30 | – |
| Increase in deferred government funding related to operating expenses | 1,659 | 862 |
| | \$ 16,627 | \$ (23,341) |

The change in trade and other receivables excludes an amount of \$12,093 (2020 – \$37,553) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in inventories excludes an amount of \$3,603 (2020 – \$Nil) resulting from net write-downs of inventories. The amount is included as part of other non-cash transactions on the Statement of Cash Flows.

The change in prepaids excludes an amount of \$1,101 (2020 – \$1,101) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of \$14,650 (2020 – \$36) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

The change in holdbacks excludes an amount of \$545 (2020 – \$1,577) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

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20. Security Screening Services Commercialization Act

As part of Budget 2019, the Government of Canada announced its intention to introduce legislation to enable the creation of an independent, not-for-profit entity, established by industry, which would assume the responsibility for aviation screening at Canada's airports. The *Security Screening Services Commercialization Act* (SSSCA) received Royal Assent in June 2019. The SSSCA allows for the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

These developments have not changed CATSA's mandate and CATSA intends to continue to realize its assets and discharge its liabilities in the normal course of business.

In light of the impacts of COVID-19 on the aviation industry, no further developments have occurred regarding the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

21. Impact of COVID-19

As a result of the COVID-19 pandemic, there has been a drastic reduction in passenger volumes at Canadian airports. CATSA has experienced significant impacts on its screening operations and screening equipment as some screening lines have temporarily closed.

Given the impact on screening operations, CATSA has entered into temporary arrangements with its third party screening contractors. While these arrangements include a reduction in screening hours purchased that does not fully reflect the decline in passenger volumes, they maintain the certified screening officer workforce at a level that was deemed appropriate to contain costs and allow CATSA the flexibility to respond as the situation evolves.

As the aviation industry embarks on the route to recovery, CATSA will continue to support recovery, including temperature screening and other biosecurity measures.

For more information,
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