



2023 ANNUAL REPORT



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89

designated airports
(81 active)

213

standard
screening lines

115

pre-board screening
checkpoints

84

CATSA Plus
screening lines

CATSA at a Glance

125

hold-baggage
screening
checkpoints

448

CATSA employees



57.6M

passengers screened

103

non-passenger
screening checkpoints
(73 terminal and 30 vehicle)

8,586

active screening officers

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, achieved through:

Our service: We use innovative technology and an agile approach to maintain the highest level of security and provide the best possible passenger experience. We deliver value to Canadians with an optimal use of our resources.

Our people: We attract, cultivate and support a diverse and engaged workforce.

Our partnerships: We work collaboratively with our partners toward common goals and interests.





Core Responsibility and Activities

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. CATSA has one Core Responsibility.

Security Screening at Designated Airports

CATSA is mandated to deliver effective, efficient and consistent screening at designated airports. CATSA fulfils this responsibility by way of its mandated activities.

Land Acknowledgement

CATSA respectfully acknowledges that it conducts its security screening operations on the unceded territory of a number of Indigenous Peoples all over the country. CATSA's headquarters is located on unceded traditional territory of the Anishnaabeg Algonquin Nation.

Mandated Activities

CATSA delivers the mandate of security screening at 89 designated airports across the country through a third-party screening contractor model. Playing a pivotal role in Canada's civil aviation system, CATSA is responsible for the delivery of the following four mandated activities:

Pre-board Screening (PBS)

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

Non-passenger Screening (NPS)

The screening of non-passengers such as flight personnel, ground crew and service providers, and their belongings (including vehicles and their contents) entering restricted areas at the highest-risk airports.

Restricted Area Identity Card (RAIC)

The management of the system that uses iris and fingerprint biometric identifiers to allow authorized 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.

Cost Recovery and Other Designated Airports

The *Transportation Modernization Act* introduced authorities allowing CATSA to provide supplemental screening services to both designated and non-designated airports, subject to the approval of Transport Canada, so long as the provision of these services remains cost neutral. Based on this authority, CATSA has previously provided additional screening services to airports through supplemental screening agreements and will continue to work with interested stakeholders.

In light of the COVID-19 pandemic, no such services were provided from April 1, 2020, until June 24, 2022, when CATSA resumed screening services at the Muskoka Airport. The services were in place for the summer travel season until September 6, 2022.

Cargo

CATSA has an agreement with Transport Canada to screen cargo at small 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 personnel.

MESSAGE FROM THE

Chairperson

First, let me express that it is an honour to join the Canadian Air Transport Security Authority (CATSA) as Chairperson of the Board of Directors as the organization undertakes its third decade of operations. Since its inception in 2002, CATSA's mandate has been to provide the highest level of security to the travelling public and our goal has always been to deliver the screening services of air travellers and their baggage as effectively and efficiently as possible.

The 2023 Annual Report speaks to the heart of CATSA: always rising to the challenge with its mandate firmly in the line of sight. The past year was one of the most difficult the aviation industry has faced in some time. It saw passengers return to the skies in numbers far beyond any global or domestic aviation industry projections. This surge in passenger volumes, on the heels of the lifting of COVID-19 travel restrictions, alongside tight labour market conditions, resulted in increased wait times for security screening at some airports across the country in the lead up to summer 2022.



Over the course of the last year, under the leadership of my predecessor, Ms. Marguerite Nadeau, the Board of Directors actively worked with senior management on staffing challenges and wait-time-service-levels in preparation of, and during, the peak summer travel period. Through collaboration with all its air transportation partners, CATSA staff, screening contractors and screening officers worked tirelessly to effectively respond to these service delivery challenges. A key component of CATSA's response was to quickly mobilize efforts with screening contractors to recruit, train and deploy thousands of screening officers to meet operational demands – efforts that continued throughout 2022 and into 2023. Between April and August 2022 alone, CATSA accelerated the hiring and training of over 1,800 screening personnel. Through these intensive efforts, we were able to reduce wait times for travellers early on in the summer season and normalize them for the remainder of the year.

This past year, CATSA continued to put a strong focus on diversity, equity and inclusion. These are values that CATSA upholds, both within the organization and in the way we deliver our service to travellers. We have been proud to partner with an Indigenous organization to develop and deploy training and learning to all screening officers, management and CATSA employees. And we actively consulted with individuals with reduced mobility for training modules that have just been launched for screening officers across the country. CATSA also developed its first Accessibility Plan that outlines the policies, programs, practices and services that will be implemented in support of a barrier-free workplace and security screening experience.

In addition, to support the federal government's strategy to combat climate change, CATSA has worked towards the adoption of the Task Force on Climate-Related Financial Disclosures Standards and the reporting of climate-related financial risks.

The Board of Directors continued to provide ongoing oversight on CATSA's risks. One such area of risk is an increase in cyber-security threats faced by organizations worldwide. In recognition of this, the Board of Directors and members of the management team took part in a cyber-security exercise to ensure readiness at all levels and in all areas of CATSA.

As we look ahead to 2023 and beyond, the Board of Directors and CATSA management are fully committed to working with all partners across the aviation industry to increase communication and collaboration in order to offer the highest levels of security screening, while providing the best possible passenger service and experience. We will continue to ensure that our services are respectful of diversity and that our staff is reflective of the Canadian population. The additional funding that CATSA received from the Government

of Canada allows us to focus on longer-term planning and I am confident that the entire team at CATSA has a strong foundation of knowledge, expertise and experience to work from and build on to successfully deliver its mandate.

On behalf of the Board of Directors, I would like to thank CATSA's outgoing President and CEO, Michael Saunders, for his years of service. CATSA greatly benefitted from his strong leadership, skills and dedication and we wish him well in his retirement. I also wish a warm welcome to CATSA's new President and CEO, Nada Semaan. Her leadership, extensive experience and knowledge will undoubtedly help achieve the organization's objectives. The Board of Directors and I look forward to working alongside Ms. Semaan to ensure that CATSA is well positioned for the future and continues to successfully fulfill its mandate.

Finally, I would like to extend my gratitude to the entire CATSA team, all screening officers and the screening contractors – all of whom demonstrated true and unwavering dedication, resilience and professionalism throughout 2022 – and to the members of the Board of Directors for their ongoing dedication to aviation security and to the continuous improvement of services to the travelling public. As the new Chair, I look forward to working closely with the Board of Directors and senior management, Transport Canada officials and all our other partners in the years to come. Working together, I know we can effectively navigate future challenges by building on the experiences, lessons and successes gained over the years.



Thao Pham
Chairperson

MESSAGE FROM THE

President and Chief Executive Officer

It is with great pride that I present the 2023 annual report, my first as President and CEO at the Canadian Air Transport Security Authority (CATSA). As I step into my new role, I would like to express my sincere thanks to my predecessor Michael Saunders. His commitment and contributions to CATSA and aviation security in Canada have been exceptional, and I consider it an honour to carry on leading this important organization. I also want to thank and acknowledge the senior management team, as well as the members of the Board of Directors who have worked tirelessly guiding the organization's success this past year. I also recognize all CATSA employees who continuously demonstrate their value through an immeasurable pride in their work and a sheer determination to get the job done.

Finally, thank you to the front-line screening workforce and our screening contractor



partners for their resolve, dedication and commitment to continuously improve the passenger experience. In the last year, more than 57.6 million passengers were screened at CATSA checkpoints, representing an increase of 134.7% from the previous year. And while wait time service levels did temporarily surge at some key airports during peak times in the spring and summer, on average, 88.6% of passengers at Class 1 airports waited less than 15 minutes to be screened this past year. These are results for which we can all be proud.

Over the last year, the air travel industry faced significant challenges as traveller demand peaked to near pre-pandemic levels within a short period amid challenging labour market conditions. This surge affected passenger wait times for security screening at some key airports across the country requiring CATSA to accelerate its recovery plans.

Critical response measures were quickly initiated, including work with screening contractors on the expansion of staffing efforts and an increase in training supports. CATSA also implemented the use of pre-certified screening officers to perform non-screening tasks at pre-board screening checkpoints. The success of this approach has resulted in a continuation of these efforts for the foreseeable future. I am immensely proud of the strong collaborative effort put forth and the level of dedication shown by our employees and partners during this challenging time.

Though the last year greatly focused on aviation recovery, our commitment to reducing accessibility barriers for air travellers as well as for CATSA employees remained at the forefront of our priorities. In December 2022, CATSA published its Accessibility Plan outlining critical action items set out over the next three years. While this inaugural plan is just a step in our journey, we are proud of the positive direction in which we are headed.

CATSA also took meaningful steps to advance its work towards reconciliation by launching Reconciliation Starts with Me, an Indigenous Cultural Awareness Learning Program. The two-part program, delivered to screening contractors, screening officers and CATSA employees, shared critical insight into the history of Indigenous Peoples with a goal of increasing awareness and understanding. The learning provided important context, and complemented procedural changes for the screening of sacred and spiritual items. These changes will help provide a more inclusive and positive screening experience for Indigenous travellers.

As we look ahead, CATSA's priority remains focused on providing the highest level of security screening while improving the passenger experience. The 3-year funding commitment from the Government of Canada will empower CATSA to engage in more strategic, long-term planning. We are committed to advancing the priorities of the federal government by exploring innovative solutions that drive operational efficiencies and effectiveness, including investing in systems that will enhance our technological infrastructure. I look forward to working productively with Transport Canada, screening contractors, airport authorities and air carriers. We are all committed to achieving service excellence and I am confident that with the support and engagement of our federal partners and industry stakeholders, we will be successful.



Nada Semaan
President and Chief Executive Officer



Operating Environment

Passenger Traffic and Screening Operations

As the civil aviation industry began to recover in 2022, CATSA responded as swiftly as possible to the volatile operating landscape and protracted industry recovery, adjusting operations where suitable while remaining focused on the organization's security mandate.

In 2022/23, CATSA screened 57.6 million passengers, representing an increase of 134.7% compared to 2021/22, and 84.8% of the 2018/19 pre-pandemic traffic. The organization began preparing for this rebound in passenger traffic in spring 2021. Despite these ongoing efforts, the organization experienced some operational challenges during the early parts of the recovery period due primarily to the challenging labour market conditions being experienced by many front-line service industries as well as the rapid increase in traffic in spring and summer 2022.

CATSA intensified its efforts and collaboration with its screening contractors, regional offices, Transport Canada and other industry partners to address the operational pressures and delays experienced at certain checkpoints across the country.

A Post-Pandemic Civil Aviation Landscape

The sharp decline in passenger traffic and the subsequent volatile and unpredictable economic recovery has been challenging for all industry partners and stakeholders. Passenger volumes reached a historic low in April 2020, when screened traffic saw a reduction of over 97% compared to April 2019.

CATSA responded by adjusting operations and proactively engaging with its screening contractors to retain 75% of the pre-pandemic screening officer workforce. The process to acquire security screening clearances and train new recruits can take several months to complete and industry recovery would not have been possible in summer 2022 without the retention of 75% of the pre-pandemic personnel. This retention strategy also prevented much higher layoffs, thereby mitigating more severe and long-term impacts to operations and aviation stakeholders.

Furthermore, in early spring 2021, CATSA directed its screening contractors to recall laid off screening officers and hiring new screening officers in anticipation of rebounding passenger traffic and peak travel seasons. As with many front-line services across many industries, some screening officers chose not to return. Recruitment efforts continued in anticipation of a December 2021 growth in travel, within the confines of ongoing travel and public health restrictions.

In spring and summer 2022, Canada and other parts of the world experienced a significant and unprecedented demand in both domestic and international passenger traffic. More specifically, the consequential speed at which passenger traffic increased, had a significant effect on passenger wait times at certain airports, notably various checkpoints at Toronto Pearson, Vancouver and Montreal Trudeau international airports.



In response to the elevated wait-time service levels and to improve the passenger experience, CATSA's screening contractors accelerated their existing staffing efforts by hiring and training more than 1,800 screening officers between April and August 2022 and an additional 500 screening officers were hired by December 2022 in anticipation of projected holiday forecasts provided by air carriers. As staffing was accelerated, CATSA provided regular updates to Transport Canada and key stakeholders to support the civil aviation industry efforts. Overall, these substantial efforts included improvements to how training was delivered to recruits, as well as the implementation of more streamlined and focused on-the-job training without compromising the rigour of the existing program. CATSA also continued to implement modifications to screening officer training throughout the spring and summer 2022, by suspending non-essential training, assessing opportunities to reduce in-person training, and respecting public health guidance.

The rapid initial recovery also highlighted that certain parts of the organization require increased resilience. For example, the organization's training capacity which was already stretched, was further exposed by the need to accelerate the onboarding of thousands of new screening officers in a shorter than expected time-frame. The challenge of onboarding thousands of new screening personnel was further compounded by the high level of screening officer attrition experienced throughout the latter half of 2022. In order to address these internal pressures, CATSA secured additional training space and redeployed employees to support the existing training staff to meet the expected demands for summer 2023. Although these short-term solutions were successful, the organization will be assessing longer-term solutions for increasing its training capacity and accelerating the onboarding of new screening officers in the future.

STAKEHOLDER TESTIMONIAL

AIRPORT AUTHORITY

Anne Marcotte Montreal-Trudeau International Airport (YUL)

CATSA is a key partner for YUL Montreal-Trudeau International Airport. The quick recovery of air traffic in 2022 required everyone's collaboration and CATSA's management and employees have definitely met the challenge.

Without any doubt, trust and transparency were the key elements that allowed us to jointly address the challenges facing our airport industry. We were able to establish a frank dialogue, which enabled us to mitigate the impact of the staffing shortage and to identify solutions that were implemented quickly, even in real time. It was certainly not all smooth sailing, but the agility, proactivity and creativity allowed both YUL and CATSA teams to face the daily challenges of providing adequate service to passengers. Our respective teams have already begun to plan for the upcoming summer season. With the excellent results we saw during the past holiday season, we are confidently looking to the future with the measures proposed and the ones put in place.

In addition to staffing efforts, CATSA further supported the recovery by collaborating with government and industry partners, including collaborative efforts as part of the Airports Recovery Operations Committee and the COVID-19 Recovery Working Group. This essential collaboration has been critical to the recovery of civil aviation, and conducive to CATSA's strategy for reducing wait times at security screening checkpoints. To further support collaboration, CATSA increased and enhanced existing information sharing efforts with key stakeholders, including Transport Canada, to ensure the Government of Canada was well aware of challenges, as well as improvements, in the organization's operations.

Furthermore, in response to the disruptions in the labour market throughout 2022/23, CATSA has been working closely with its screening contractors to ensure that screening officer attrition and backfill recruitment are being addressed expeditiously.

Supporting Industry Partners



CATSA operates in an integrated, complex and evolving environment with different entities assigned to specific security responsibilities, including governmental partners, airport authorities, airlines, law enforcement agencies and international screening partners. Various 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 efficient and secure movement of people and goods.



This integration requires a high degree of coordination and engagement between CATSA and its industry partners, not only to ensure the effective and efficient screening of passengers and their belongings, but also to facilitate their continuous movement through the security screening process. CATSA will continue to work in close collaboration with its third-party screening contractors, stakeholders, Transport Canada, other government departments, and international partners.

As passenger traffic began to increase significantly in spring 2022, a number of airports experienced longer wait times at certain checkpoints due to various factors. Significant volatility of passenger forecasts along with the consolidation of peaks at screening checkpoints made aligning screening capacity with demand very challenging.

CATSA leveraged its strong relationships with industry partners and its screening contractors by sharing operational data, obtaining updated carrier and airport scheduling and forecasting data, and providing detailed operational plans with key stakeholders. In addition to hiring more screening personnel, CATSA deployed additional screening equipment at several airports to support the operational needs related to the increase in passenger volumes. As well, CATSA increased the frequency of its information sharing with key stakeholders, including Transport Canada, to ensure the Government of Canada and key stakeholders were kept fully abreast of challenges and improvements at screening checkpoints. The pandemic and the recovery highlighted the importance as well as the benefits of stakeholders sharing timely and accurate information impacting our respective operations.

Legislative and Regulatory Framework

Responsibility for civil aviation security in Canada is shared among several federal departments and agencies, as well as airlines and airport authorities. CATSA, as the civil aviation security screening authority for Canada, is regulated by Transport Canada.

CATSA operates in a highly regulated and integrated environment. The organization 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 Administration Act* (FAA), Part X; the *Aeronautics Act*; and the *Canadian Aviation Security Regulations*, 2012.



As the regulator, Transport Canada is also responsible for developing civil aviation security screening measures which govern the technologies and procedures that CATSA may employ in carrying out its mandate. Technologies are typically based on standards adopted by international partners including the United States Transportation Security Administration and the European Civil Aviation Conference.

In addition, Transport Canada regularly monitors changes introduced by international partners, such as the International Civil Aviation Organization (ICAO), and assesses the impact of future regulations on Canada's aviation security system. This permits CATSA's screening operations to remain adaptable to the evolving aviation landscape.

To stay ahead of emerging matters that impact civil aviation, CATSA actively engages with domestic and international partners and is focused on maintaining agile operations in order to respond efficiently to evolving responsibilities. The organization's Standard Operating Procedures, including the training program for screening officers, are regularly updated to ensure CATSA stays ahead of the changing aviation environment.

Impact of International Standards on CATSA Operations

In 2020, ICAO adopted a 100% screening standard for non-passengers whereby all non-passengers are required to be screened before entering secure areas of airports for all international flights. CATSA conducted a trial of 100% NPS procedures at Vancouver International Airport and Calgary International Airport to assess feasibility, effectiveness, and other operational

impacts and considerations. The data from the trials was used to evaluate impacts on screening resources, performance and airport operations. The findings from the NPS trials were shared with Transport Canada to inform future policy decisions.

With successful trials of 100% NPS now completed, CATSA will focus on planning the implementation of those procedures, expected to begin sometime in 2023/24. It is important to note that Transport Canada is responsible for determining and regulating procedures for this initiative, including the allocation of federal funding. Moreover, the implementation of 100% NPS will require the hiring and training of additional screening officers as well as the purchase of additional screening equipment. As required, CATSA will work with airport authorities to find solutions for checkpoints that may need more space.

Ongoing Harmonization – United States Transportation Security Administration

As part of the “*Beyond the Border Action Plan*”, Canada and the United States 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. In 2022, CATSA worked with Transport Canada to assess the impact of potential regulatory and screening procedural changes to further harmonize screening procedures with the United States.

Governance Model

In 2019, the Government of Canada enacted the *Security Screening Services Commercialization Act* (SSSCA), which enables the commercialization of Canadian aviation security screening services. The SSSCA also provides for the Governor in Council designation of a corporate body under the *Canada Not-for-profit Corporations Act* as the designated screening authority to assume legislated responsibility for security screening services at Canada’s designated airports.

Formal negotiations with stakeholders related to the sale of CATSA’s assets and liabilities were put on hold in March 2020, as interested parties responded to the pandemic. The timeline for negotiations and the potential sale remains undetermined.

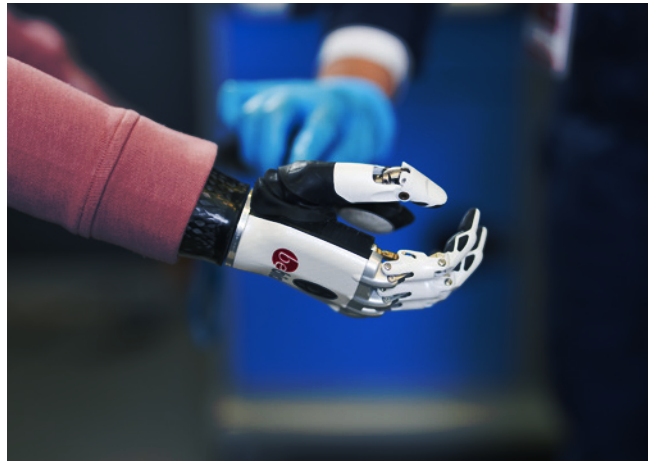


Supporting Government of Canada Priorities

As a federal Crown corporation, CATSA is fully committed to supporting the federal government's social, economic, and environmental priorities, as set out in the Speech from the Throne, the government's budget plans, the mandate letter from the Prime Minister to the Minister of Transport, and the letter of expectation from the Minister of Transport to the Chairperson of CATSA's Board of Directors.

Ensuring Accessibility for all Canadians

The *Accessible Canada Act* came into force in 2019. Since then, the Canadian Transportation Agency (CTA) published regulations that uphold higher standards for accessibility in the transportation sector. CATSA has been working with the CTA to ensure the organization's compliance with new regulations under the *Accessible Canada Act*. These regulations will guide efforts to further strengthen the delivery of accessible services to the travelling public. In addition, CATSA has also been addressing other regulatory requirements which are focused on its employees and workplace but are governed by Employment and Social Development Canada (ESDC). For example, CATSA is providing training to employees on the importance of creating an accessible workplace, conducting reviews of the physical workspace, and regular reviews of the organization's internal policies and procedures. CATSA has consolidated the CTA and ESDC reporting into one Accessibility Plan and will do the same for future progress reports.



CATSA published its first Accessibility Plan in December 2022, which describes the current state of the organization’s implementation of policies, programs, practices and services related to accessibility, and provides an overview of the plan for implementing new action items. Prior to publication, CATSA conducted an open consultation with the public and reached out to organizations representing the interests of persons with disabilities in addition to consulting its own workforce as well as the screening officer workforce.

In addition to the development of the Accessibility Plan, CATSA has created a cross-functional working group to measure progress on accessibility action items and federal regulatory requirements. This work complements the organization’s ongoing efforts towards identifying, limiting and removing inherent barriers for passengers, non-passengers, screening officers and CATSA personnel with disabilities.

The Office of the Auditor General released the *Accessible Transportation for Persons with Disabilities* report in March 2023. The report focused on whether or not CATSA identified and removed existing barriers, and worked towards preventing transportation barriers for persons with disabilities.

The Office of the Auditor General’s Accessible Transportation for Persons with Disabilities report (2023), focused on whether or not CATSA identified and removed existing barriers, and worked towards preventing transportation barriers for persons with disabilities. This report can be accessed publicly. Three recommendations for improvement were provided:

- Meeting website accessibility standards;
- Timeliness for accessibility training and further consultations with persons with disabilities related to that training; and
- Developing and implementing a strategy to better analyze complaint data.

CATSA has developed an action plan to address each recommendation and remains committed to continuing its work towards removing barriers within the transportation system. The activities outlined in the action plan have already been initiated or completed, and the action plan should be completed in its entirety in 2024. Specifically, CATSA is taking action to:

- Update its website and ensure, on an ongoing basis, that all content fully meets web accessibility standards;
- Monitor and update training content, consult on teaching methods, and train CATSA managers and decision-makers on disability awareness in a timely-manner; and
- Improve the analysis of complaint data as it relates to barriers experienced by persons with disabilities.



Indigenous Relations and Reconciliation

CATSA is fully committed to reconciliation with Indigenous peoples. The organization has engaged with Indigenous Elders to learn more about how aviation security screening can affect sacred and spiritual items. CATSA undertook this initiative within the larger context of reconciliation, responding 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.



This engagement informed necessary changes to CATSA's screening procedures for sacred items, and resulted in learning on Indigenous cultural awareness for screening officers, supervisors and CATSA personnel. This review and learning enhances the screening service offered to Indigenous travellers by teaching screening officers about the importance of sacred items and by establishing special procedures as we continue to endeavor to screen these items respectfully.

In addition, the organization hosted a transformative territorial acknowledgments session in June 2022; the discussions from this session positions CATSA to better understand the traditional Indigenous

STAKEHOLDER TESTIMONIAL

ACCESSIBILITY

Leandre Casselman Spinal Cord Injury Canada

It was a very rewarding and insightful experience working with CATSA on their new training material. As an individual with a physical disability, it was gratifying to have an impact on contributing to CATSA employees and screening contractors developing a better understanding of how to interact with the disability community in the performance of their security and screening duties. I am confident that the outcome will be improved safety for air travellers and at the same time having travellers with physical disabilities receiving respectful and professional treatment consistently when travelling by air in Canada.

territories in which the 89 designated airports are located. The organization will continue to explore initiatives and engagements aimed at increasing the representation of Indigenous peoples in our workforce and to ensure sacred and spiritual items are treated respectfully during the screening process.

Culture of Diversity, Equality and Inclusion

CATSA is committed to promoting a strong and dedicated culture of diversity, equality and inclusion both in the organization's security screening operations, and also among its workforce. CATSA has undertaken a variety of initiatives to improve and promote these values, including the implementation of Gender-based Analysis Plus, meeting requirements under the *Official Languages Act*, and continuing meaningful consultations with Indigenous leaders.

CATSA prioritizes efforts to ensure that screening technologies and procedures respect Canada's diverse population, to the extent that the regulatory framework will allow. It is paramount to the organization that all travellers are screened in an inclusive and respectful manner, which includes seeking input on screening processes from a broad array of stakeholders. Working together with important partners allows CATSA to fully embrace diversity, equality and inclusion and incorporate these important tenets into the organization's values and practices.

As an example of the collaboration that fuels CATSA's diversity, equality and inclusion principles, in fall 2022, the organization continued to consult with disability advocacy groups to inform and improve screening officer training. Representatives from these organizations participated in a video shoot to speak about their lived experiences; these videos will be incorporated into updated training and online learning modules. CATSA is committed to ongoing engagement with associations and groups representing the interests of passengers in order to ensure that the screening process is as inclusive as possible, to the extent that the regulatory framework will allow.



Associated with the efforts to procure new full body scanners (FBS), CATSA is assessing a new algorithm to enable both gender-neutral screening. In March 2023, CATSA started a trial of this algorithm at Calgary International Airport. Subject to trial results and Transport Canada approval, all remaining FBS units will be upgraded to utilize a gender-neutral algorithm.

As part of CATSA's commitment to ensuring its workforce reflects the unique diversity of Canada, the organization continues to be focused on employment equity measures to recruit and retain a dedicated and diverse workforce. It is a critical element of the organization's human resources strategy

to foster inclusive and respectful behaviours throughout the workplace by ensuring that policies, processes and practices are in place to meet the needs of its employees and to promote inclusivity and equality.

CATSA's Diversity and Inclusion Network (DIN) is a transparent forum that assists the organization in integrating diversity and inclusion values and practices into all existing and future corporate processes, through the overarching Diversity and Inclusion Framework. CATSA works with the DIN to identify potential barriers to employment equity, provide employees with career management sessions and toolkits, and introduce a variety of diversity and inclusion initiatives and training sessions. The DIN engages with employees throughout the year, highlighting various cultural and religious events, as well as offers tools to promote a diverse and inclusive culture in the workplace.

Gender-based Analysis Plus

CATSA incorporates GBA Plus principles into its decision-making processes, employment and recruitment practices, and operational screening procedures. Progress on CATSA's efforts towards creating a barrier-free, inclusive, and sensitive environment will be measured against the organization's GBA Plus Action Plan that was completed in December 2022. CATSA developed action items in collaboration with all of its branches, and with the support of the DIN, in order to honour and support the diversity of both its workforce and of the travelling public. For example, CATSA formalized a process to ensure all major projects are reviewed from a GBA Plus perspective. This enables project managers to prevent, identify, and remove barriers to airport security screening for both travellers as well as for screening officers, non-passengers and CATSA employees.



Climate-related Disclosures

In support of the Government of Canada's objectives outlined in Budget 2021, CATSA is preparing to adopt the Task Force on Climate-Related Financial Disclosures (TCFD).

In early 2022/23, a TCFD adoption roadmap was developed, which details key activities and milestones. CATSA also developed a Climate Disclosure Policy and undertook the organization's first Climate-risk and Opportunity Assessment. Lastly, a greenhouse gas emissions inventory was created, which includes CATSA's known emission sources and a related data gap analysis. Ultimately, CATSA continues to work towards including TCFD compliant disclosures in its 2025 Annual Report.

Official Languages and *Official Languages Act* Requirements

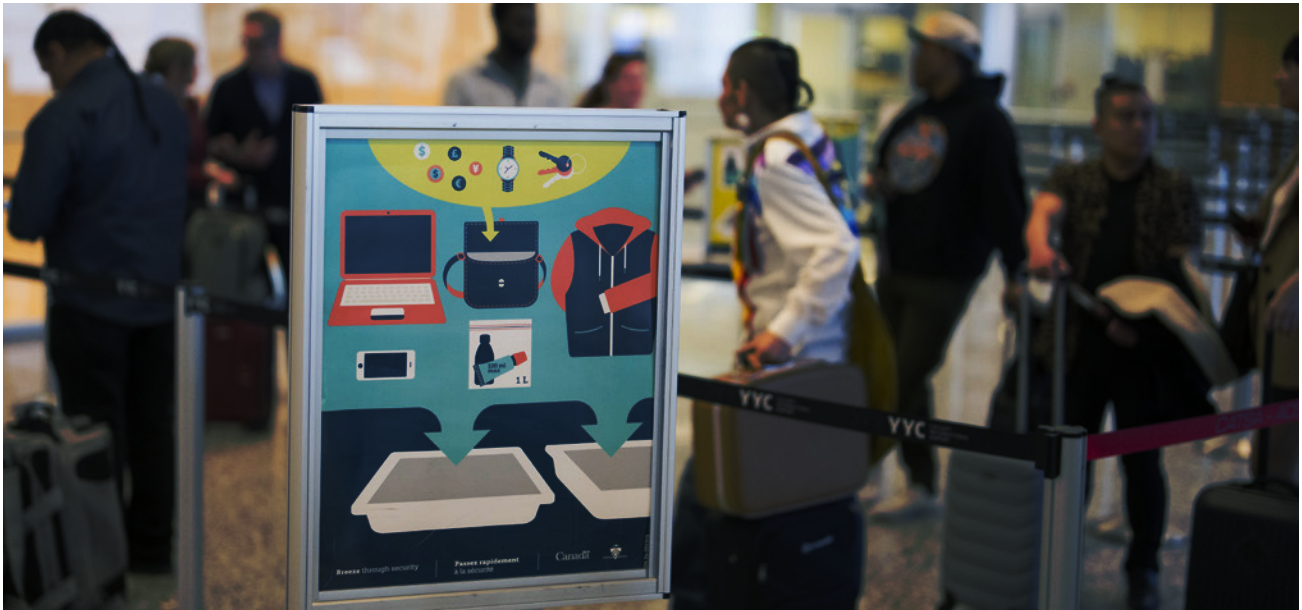
Under Part IV of the *Official Languages Act*, CATSA is required to provide screening services to the travelling public in both official languages at airports with one million or more passengers, and at airports where there is a significant demand for services in the minority language.

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 and continues to remind its employees that promoting an inclusive, bilingual culture in the workplace is a team effort. To ensure a collaborative approach to official languages, CATSA's Official Languages Champion chairs the Advisory Committee on Official Languages, comprised of employees representing all branches and regions, with the goal of providing representative advice and support to the organization's official languages secretariat.

In order to guide CATSA's compliance with its official languages obligations and its continued commitment to development on matters related to official languages, the organization maintains an Official Languages Plan, most recently updated at the end of 2022/23 to reflect the most current landscape.

Furthermore, CATSA was selected by the Office of the Commissioner of Official Languages (OCOL) to participate in an Official Languages Maturity Model (OLMM) initiative which began in the fall of 2021. The OLMM is a tool for assessing and improving organizational processes with respect to official languages obligations. The OLMM and the associated progress plan were developed in close collaboration with the OCOL and will help CATSA mature some of its official languages practices, from its hiring and leadership initiatives, to the services to the public.



Open and Transparent Government

The Government of Canada has committed to a high standard of openness and transparency. This begins with timely compliance with obligations under the *Access to Information Act*, the *Privacy Act*, and related Treasury Board of Canada directives.

In order to maintain transparency and openness with the broader public, CATSA discloses its wait times and passenger traffic volumes, and publishes critical bulletins, information materials and periodic reports online. In 2022/23, CATSA continued to enhance its data sharing with government and industry partners to support economic recovery and strengthen data transparency.

CATSA also conducts quarterly passenger surveys and hosts a website with mechanisms for enquiries and feedback, and participates in active consultations to engage industry representatives and other stakeholders. These activities enable CATSA to enhance its positive impact on and contribution to the aviation industry, and expand the opportunities for passengers to provide meaningful input.

CATSA holds annual Public Meetings and its Corporate Plan Summaries and Annual Reports are tabled in Parliament, and published on the organization's website. CATSA also provides responses to enquiries and requests for information from Parliament, the Auditor General of Canada and other government authorities.

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. CATSA is subject to the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of these two Acts.



Annual Highlights

Screening Officer Staffing and Training

In an effort to address passenger wait times at certain airports in Canada, CATSA accelerated the hiring and training of over 1,800 screening personnel, between April and August 2022, and an additional 500 screening officers by December 2022. As such, CATSA had sufficient resources for the busy Holiday travel season and the organization was successful in maintaining reasonable screening wait times.

Verified Traveller Program

CATSA conducted phased trials at PBS domestic checkpoints at Vancouver International Airport and Toronto Pearson International Airport, with modified screening procedures at specific traveller lines. The results of the trials helped inform the policy decisions and the program announcement by the Minister of Transportation in May, 2023, for the creation of a Verified Traveller Program. Modifications to Transport Canada's regulatory framework will be required. A verified traveller program better positions CATSA to further improve the passenger experience moving forward.

Airport Screening Services Agreements (ASSAs)

As part of CATSA's preparation for the ASSA request for proposals, the organization established a working group to identify strategic areas of improvement in the development of the new agreements with screening contractors. These areas included a focus on official languages, diversity, equality and inclusion, customer service, as well as incorporating lessons learned from the screening officer staffing efforts in spring and summer 2022.

Indigenous Cultural Awareness

CATSA successfully launched an Indigenous Cultural Awareness Learning Program, which consists of online and in-person learning for screening officer personnel and CATSA employees. The learning program provides screening officers with greater understanding and context when screening Indigenous people and their sacred, spiritual and cultural belongings and instruction on respectful and sensitive security screening practices to follow.

Maintenance Service Provider Contract

CATSA awarded a contract to KPrime to assume the maintenance responsibilities from NAV Canada for most of CATSA's fleet of screening equipment. The transition between KPrime and NAV Canada has begun. KPrime is expected to assume all maintenance activities by late 2023/24. To ensure a seamless transition, CATSA extended the NAV Canada contract to March 31, 2024 and will continue to work with both companies to transition all maintenance responsibilities at the remaining locations.

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AIRPORT AUTHORITY

Jessica Lipton Fort McMurray International Airport (YMM)

CATSA supported Fort McMurray Airport Authority staff in launching the Restricted Area Identity Card Enrollment System (RAICES) at YMM in 2022. CATSA team members were extremely helpful and available. They were happy to show our team how to navigate the changes in order to use the system as efficiently as possible. The update to the process has enabled our Pass Office to deliver RAIC services promptly and effectively. We are grateful for CATSA's support on this front.

RAIC Upgrade

By September 2022, 72 new RAIC units were installed across 32 designated airports. The new system has improved airport authorities' RAIC enrolment times, from an average of 20 minutes to 10 minutes.

Implementation of a Flexible Workplace

In 2022, CATSA adopted a flexible workplace model following a comprehensive review. The implementation of this model encourages a positive and productive working experience, preserving CATSA's culture by providing flexibility while ensuring operational and business needs are met.

Boarding Pass Security System (BPSS)

In December 2022, CATSA deployed BPSS at the John C. Munro Hamilton International Airport and the Abbotsford International Airport. CATSA now has more visibility into operational metrics, such as traffic and wait times at these two fast-growing airports.

Leveraging Artificial Intelligence

CATSA continued exploring the use of artificial intelligence to supplement NPS-V screening oversight and to improve the identification of specific objects in X-ray images for analysis purposes. The organization also leveraged machine learning to predict the number of passengers expected hourly at PBS checkpoints at Class 1 airports. The ability to understand anticipated traffic at PBS checkpoints allows CATSA to be better prepared and mitigate occurrences of longer wait times where possible. CATSA also explored the use of artificial intelligence to predict screening equipment outages. Findings will be incorporated in the technical requirements when purchasing new screening equipment.

Ongoing bio-security enhancements

CATSA conducted trials of bin disinfection technology, using an ultraviolet-C (UV-C) system. After the success of the UV-C trials, the organization initiated the purchase of UV-C units for the bin return system of CATSA Plus lines, in order to seamlessly disinfect the surfaces of bins. The installation of the systems and the training of screening officers is expected to be completed in 2023/24.



Reporting on Results

Pre-board Screening

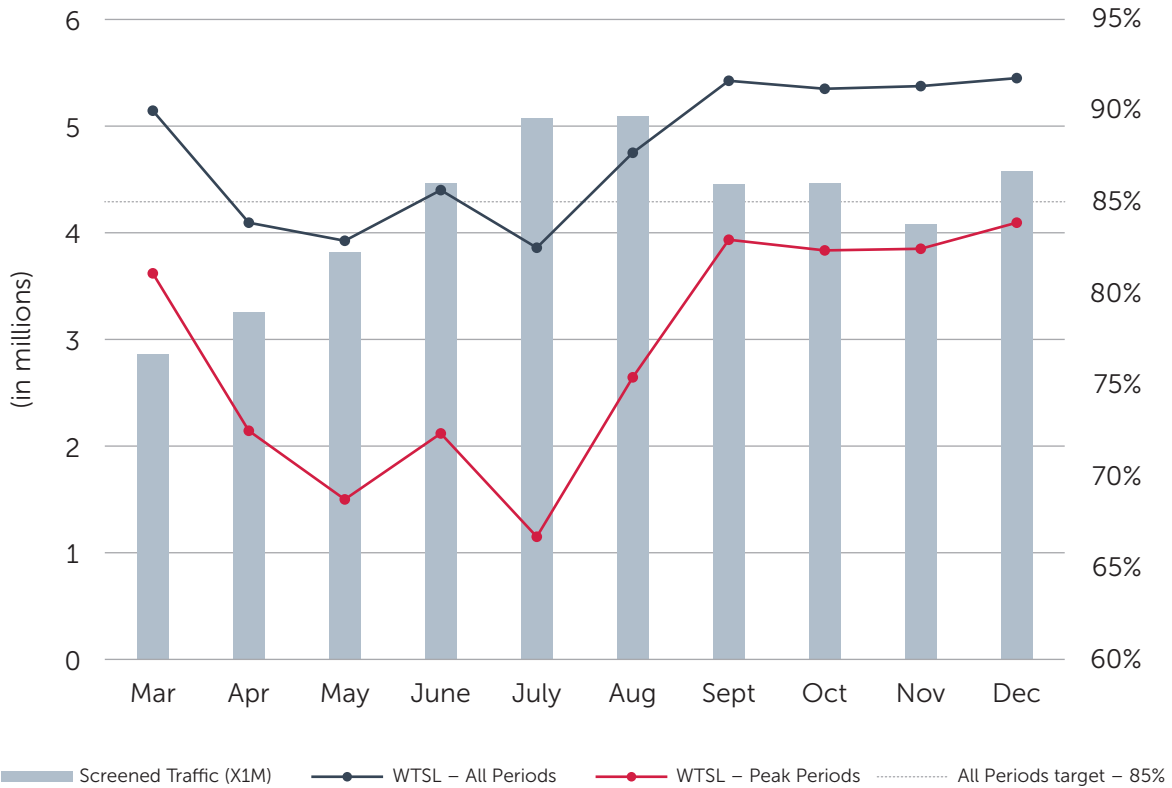
PBS Wait-Time Service Levels

CATSA screened an estimated 57.6 million passengers in 2022/23, which represents a 134.7% increase from 2021/22 traffic, and 84.8% of the 2018/19 pre-pandemic traffic. CATSA operations have continued to adapt to the dynamic domestic and international travel patterns.

In 2022/23, CATSA delivered an annual wait time service level (WTSL) where, on average 88.6% of passengers waited less than 15 minutes to be screened at Class 1 airports. Longer wait times will occur during peak periods, when checkpoints experience higher traffic.

The following graph of 2022 traffic and WTSL demonstrates that as passenger volumes steadily increased, there was a significant negative impact to wait time service levels during parts of spring/summer 2022, especially during peak periods. However, wait times began normalizing as newly hired screening officers were onboarded. In fact, CATSA had fully recovered and was performing above its funded wait time service level within a few months. CATSA has maintained its hiring efforts and has continued to collaborate with industry partners in order to be prepared for what is expected to be a busy summer 2023 travel period.

Screened Traffic and Wait Time Service Levels (All Periods and Peak Periods) – 2022



Note: Peak periods are considered times when checkpoints experience high traffic volumes; these periods can differ significantly between checkpoints and within the same checkpoint over time, given changes to variables such as flight schedules. Calculating automated WTSL for peak periods includes a methodology that identifies periods per day in which traffic volumes are well above average.

PBS Innovations and Recapitalization Lifecycle Management Project

CATSA relies on a variety of technological components at PBS checkpoints to ensure the safety and security of air travellers. These critical components must be maintained and replaced in accordance with CATSA’s lifecycle management practices to ensure a high level of effectiveness in security screening and to stay abreast of changing trends in screening technology.

CT X-ray at PBS

CATSA’s multi-year lifecycle management program will include the replacement of PBS X-ray technology with CT X-rays at Class 1 and Class 2 airports, and will replace all single-view X-ray machines with multi-view versions at all Class 3 airports.

As such, the organization completed a CT X-ray trial at the Ottawa International Airport from July to October 2022. The trial allowed CATSA to collect key data points on the operation of this technology, which were incorporated into the technical requirements for the upcoming procurement. CATSA initiated the procurement process in late 2022/23 and anticipates awarding a contract by mid-2023/24, with the deployment of CT X-rays starting by the end of 2023/24.

Subject to Transport Canada regulatory changes to allow certain items to remain in carry-on bags, like large electronics and permitted liquids, aerosols and gels (LAGs), the deployment of the PBS CT X-rays, in addition to providing better detection capabilities, will significantly enhance the passenger experience by reducing the divesting requirements.

Furthermore, this ensures that CATSA is using the most effective technology at security screening checkpoints across the country and permits the organization to better align with the latest screening standards from key partners like the Transportation Security Administration in the United States. As CATSA carries out its PBS lifecycle management plan, the organization will capitalize on technology advancements to heighten security effectiveness, building on past successes like CATSA Plus.

Full Body Scanner (FBS) Lifecycle Management

CATSA has continued with its multi-year project of procuring new FBS equipment to replace the current fleet of FBS units as part of the organization's lifecycle management plan. Used in combination with walk-through metal detectors, the FBS Primary screening process enables an



efficient flow of passengers through even the busiest checkpoints. CATSA will be initiating the replacement of its current fleet of FBS units with a newer model that has a smaller footprint than the current model. This will provide CATSA with flexibility to fit more units at security screening checkpoints that face space constraints. As well, the organization will be deploying the new units with the latest detection algorithm available, which include improvements designed to reduce false alarms.

By late 2022/23, CATSA accepted delivery of 16 new FBS units. Vancouver International Airport and Calgary International Airport received the first units. CATSA plans to continue to replace FBS units with the new FBS model at additional airports in 2023/24.

CATSA Plus

CATSA Plus security screening lines enable a more effective security screening process and improved passenger experience, as compared to standard PBS screening lines. There are now 84 CATSA Plus lines deployed across 7 of the Class 1 airports; more than 60% of the travelling public is now being screened using CATSA Plus technology. As well, CATSA continues to work with airport authorities to identify opportunities to deploy additional CATSA Plus lines, with some deployments expected to occur in 2023/24.



Non-passenger Screening

In support of changes made to the NPS-Vehicle (NPS-V) Traffic Management System, CATSA developed a training simulator to facilitate more effective training. In addition, the use of advanced analytics has allowed CATSA to better understand the impacts of procedural changes being considered for both PBS and NPS. Specifically, CATSA has been exploring the use of artificial intelligence to supplement NPS-V oversight to identify vehicles, recognize human activity, and detect anomalies. If successful, this initiative would allow CATSA to enhance its procedural oversight capabilities.

Restricted Area Identity Card Program

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.



CATSA completed the design and development of the next generation RAIC Enrolment System (ES). Deployment of the RAIC ES project was completed in fall 2022; the final RAIC units were installed in September, following delays due to the pandemic. A total of 72 enrolment stations were installed at airports. The new RAIC ES is more robust and reliable than the legacy system. Since the fall of 2020, there has not been any system downtime compared to temporary service interruptions of approximately one hour on average per month with the legacy system.

Airport Screening Services Agreements

In 2022/23, CATSA began engaging with Transport Canada, the regulator, on how lessons learned from the spring and summer 2022 could be effectively incorporated into the future service agreements in order to make security screening more resilient to major disruptions to the civil aviation industry. Importantly, lessons learned from the operational recovery efforts of spring and summer 2022 have been prioritized for consideration in the new ASSAs.

CATSA also created an internal working group that undertook an exercise to further identify areas of strategic contract improvements, which would be integrated into the future ASSAs. The working group identified some of the following areas for improvement:



- Streamline the management structure, including national standardization of front line supervision of screening services;
- Incorporate methods to optimize resource tracking;
- Incorporate lessons learned on how to accelerate staffing and mitigate the impacts of attrition;
- Identify other opportunities to further strengthen training; and
- Advance support of Government priorities such as official languages, accessibility and diversity and inclusion to improve the security screening experience for travellers and front line personnel.

Continued Optimization of Screening Equipment and Procedures

CATSA has continued its longstanding efforts to improve the performance of its security screening equipment. For example, CATSA is leveraging artificial intelligence to review and detect specific objects in X-ray images, which has allowed the organization to better understand the composition of these images at PBS checkpoints. As well, CATSA has leveraged machine learning to predict the number of passengers expected on an hourly basis at PBS checkpoints at Class 1 airports. In the future, CATSA will explore how to best operationalize this model such that forecasts are updated autonomously on an on-going basis.



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AIRPORT AUTHORITY

Deborah Flint President and CEO - Greater Toronto Airports Authority (YYZ)

Our focus is always on improving the passenger experience and providing our customers with a travel experience they can be excited about. The trusted traveller program trial provided a new approach to screening. It allowed passengers to keep their large electronics in their carry-on baggage, making for a faster overall screening experience. Trusted traveller is a perfect example of how this collaboration with CATSA can result in excellent outcomes for the passenger. We see initiatives like these as key steps toward transforming Toronto Pearson into the airport of the future.

Flexible Workplace Model

As part of the phased implementation of the flexible workplace model, the organization undertook a project to consolidate its headquarters workspace to ensure value for money, and optimization of CATSA's physical space. This project enables modifications that encourage a positive and productive technology experience and accommodate ergonomic needs and well-being. This includes creating multiple collaboration spaces, additional meeting rooms, and an online booking system that permits employees to easily reserve office and collaboration space. In addition to modernizing the headquarters workspace, preliminary work has begun to upgrade regional boardrooms and training facilities. The organization will conduct an assessment of its model in 2023/24 to ensure it continues to meet its business needs.

Training and Certification

CATSA began delivering new training on how screening officers can assist passengers with disabilities with safely lifting and retrieving their belongings at checkpoints. In addition, screening officers also began receiving the new Indigenous Cultural Awareness Learning Program, which provides them with greater understanding and context when screening Indigenous people and their belongings and further instruction on respectful and sensitive practices to follow when screening sacred cultural items. These examples of updated training have been integrated into the learning programs for all new screening officers, and as part of the return-to-work activities for returning officers. Additionally, to align with the future Airport Screening Services Agreements (ASSAs), CATSA will be redesigning the initial training program for screening officers and auxiliary programs to ensure that newly certified personnel and supervisors continue to be fully supported.





Looking Ahead

CATSA will continue to work collaboratively with Transport Canada, airport authorities, airlines, screening contractors and other industry partners to provide effective and efficient security screening services while being a critical partner in the recovery of the civil aviation industry, without compromising security effectiveness.

Civil Aviation Industry Recovery: Summer 2023 and Beyond

The organization will continue to increase screening officer capacity. As seen across many labour markets, there are challenges in hiring new screening officers while simultaneously facing the resurgent demand in air travel. Screening contractors will continue to respond to these pressures by recruiting new screening officers.

Collaboration with industry partners

As part of CATSA's strategy in managing an anticipated high volume of travellers in summer 2023, the organization will apply key lessons learned from spring and summer 2022. One such lesson learned was the value of the heightened information sharing in a timely manner by all industry and government partners; the elevated level of cooperation and information sharing enabled

both industry and government partners to more effectively address issues as they arose. CATSA is already well positioned for summer 2023, as it has been participating in real-time data sharing with Transport Canada, airport authorities and carriers prior to the COVID-19 pandemic.

In addition, CATSA and its screening contractors are executing a multi-faceted operational plan to minimize any wait time delays at security screening checkpoints. CATSA has extensively collaborated with Transport Canada in order to continue accelerating the delivery of training to new recruits. As well, the organization is closely engaging with industry partners to ensure staffing efforts are aligned with summer flight schedules and passenger volumes.

Expediting hiring and training

Carrying the experience of spring and summer 2022 forward, CATSA began planning for summer 2023 operations in early fall 2022; this included an assessment of screening officer headcount requirements to meet projected passenger traffic, and the development of recruitment and training plans to facilitate the achievement of those targets. In addition to working with screening contractors to stabilize the front line workforce and manage attrition, CATSA will continue to seek opportunities to further accelerate onboarding of new recruits.

Another important lesson learned from spring and summer 2022 was the greater reliance on pre-certified training officers to supplement the existing compliment of screening officers. The use of pre-certified screening officers will continue in 2023/24, as it provides a solid pipeline of recruits. Pre-certified screening officers can perform non-screening tasks at PBS checkpoints outside of the sterile area. Allowing screening contractors to use pre-certified screening officers in this way helps mitigate the risk to service standards, while also lessening attrition risks as the pre-certified screening officers wait for the completion of their Transportation Security Clearance.

Supporting Government Priorities and Future Projects

CATSA will continue to monitor developments in emerging technologies and undertake evaluations and trials to further strengthen security screening operations. Future key projects to support government priorities as covered in the latest Minister Expectation letter to the Chair, include:

- **Improved Service Delivery:** Learning from the global COVID-19 pandemic, CATSA will further explore improvements to security screening operations to ensure that passengers are screened at service levels comparable to other leading jurisdictions, with a view to improving passenger throughput particularly during peak periods. The following initiatives will support the Government of Canada's priority to improve service delivery:
 - **Strengthening Wait Time Service Levels (WTSL):** CATSA will prepare for the implementation of improved WTSL, including during peak periods, in line with approved funding from the Government of Canada. While CATSA expects to be able to implement this initiative at most Class 1 airports using the current checkpoint screening capacity, some checkpoints will require additional screening lines. CATSA will need to work with airport authorities to find solutions to accommodate more screening lines.

- **Air Travel Right-Touch and a Verified Traveller Program:** CATSA will continue to collaborate with Transport Canada on an Air Right-Touch solution, an initiative aimed at improving the verification of traveller identification at all security checkpoints. As well, the organization is participating in a government-led working group to develop a new risk-based Verified Traveller program. The results of the trials helped inform the policy decisions and the program announcement by the Minister of Transportation in May, 2023. Going forward, CATSA will work closely with Transport Canada on the regulatory changes needed to support the implementation of the program.
- **Computed Tomography (CT) X-rays at PBS:** CATSA will initiate the full replacement of the current PBS X-rays with CT X-rays in 2023/24. Subject to regulatory change by Transport Canada, the new CT X-ray equipment will help reduce the need for passengers to divest items such as large electronics into the bins, thereby advancing CATSA's objective to enhance and streamline the customer experience for passengers. It is anticipated that it will take multiple years to replace the existing X-rays at all Class 1 airports.
- **FBS Lifecycle Management and FBS Primary:** CATSA aims to expand the deployment of new FBS Primary units by 2027/28 at select airports.
- **Airport Screening Services Agreements (ASSAs) and a new Maintenance Service Provider Contract:** The new ASSAs will be effective in April 2024, and will integrate lessons learned from summer 2022. This is an opportunity to seek improvements and greater accountability in the delivery of screening services while maintaining a cost-effective service. The new screening agreements will advance Government's priorities, including those concerning official languages, diversity and inclusion, and accessibility. In addition, the organization will continue to work with the existing screening equipment maintenance service provider and the newly awarded provider to maintain a smooth transition.
- **Better Accountability and Integration with Other Air Sector Operators:** With support from Transport Canada, CATSA will continue to actively engage airport authorities and other key stakeholders to find efficiencies that facilitate a seamless passenger experience.
- CATSA is continuously looking for ways to improve and update its practices, policies and procedures to meet the challenges of today while anticipating the needs of tomorrow. The organization will also work closely with Transport Canada to advance the implementation of digital solutions and technologies, and to explore the use of innovative solutions, including pilot projects in selected airports.
- **Aviation Recovery Operations Committee (AROC):** CATSA will continue to actively participate in the Transport Canada-led AROC other national working groups in order support the ongoing economic recovery of civil aviation and to effectively address industry-wide bottlenecks and challenges.

- **Screening that respects Canada’s diversity and inclusion values:** CATSA will expand efforts to promote multiculturalism and care for religious objects and beliefs, and respect for the screening of Indigenous sacred and ceremonial objects. CATSA will continue to prioritize reinforcing inclusive and respectful values throughout the workplace, leveraging the Diversity and Inclusion Network to integrate diversity and inclusion values and practices into all corporate processes. This work includes progress on the organization’s Gender-based Analysis Plus Action Plan, including introducing more gender-neutral and respectful alarm resolution procedures. Following the development of CATSA’s first Accessibility Action Plan, the organization will measure progress on action items and regulatory requirements. In addition, CATSA will continue to address the findings from the Office of the Auditor General report on accessible transportation.

Other Future Projects

- **Hold Baggage Screening Equipment Lifecycle Management:** As part of its ten-year HBS recapitalization program that was completed in 2021, some of the HBS CT X-rays that were initially deployed are now more than ten years old. CATSA intends to initiate the replacement of this equipment in the coming years. Like the HBS recapitalization program, the replacement of the current HBS CT X-rays will take several years to complete. In 2023/24, CATSA will evaluate new HBS models in advance of issuing a request for proposals from equipment manufactures.
- **100% Non-passenger Screening:** Transport Canada has requested that CATSA begin planning for the possible implementation of 100% non-passenger screening (NPS) at checkpoints across Canada. The findings from CATSA’s trials were shared with Transport Canada to help inform future policy decision. In addition to the hiring and training of additional screening officers to meet this new requirement, CATSA will also need to procure additional screening equipment, such as explosive trace detectors, and deploy additional screening lines at some airports. With regards to NPS-V, research in the area of artificial intelligence-guided oversight is expected to continue in 2023/24. CATSA plans to finalize a prototype of this technology at one NPS-V checkpoint to assess its viability.



Risk Profile

Enterprise risk management enables strategic decision-making and supports resource allocation within CATSA, thereby allowing the organization to make informed decisions at the corporate and operational levels.

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

Mandated Services Risk

Detection capabilities and maintaining care and control of screening checkpoints

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. This may result in substantial consequences to the civil aviation system.

Risk Mitigation and Controls:

CATSA has established programs, processes, procedures and systems to ensure compliance with Transport Canada’s regulations. CATSA only deploys screening technologies that meet detection standards and screening procedures that fall within the security screening measures established by Transport Canada. The organization monitors the effectiveness of 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.

Service Delivery through Third Party Risk

Legal and Illegal labour disruption

Given CATSA’s third party service provider model, there is a risk that the organization 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.

Dependence on outsourced screening services, equipment maintenance services or major suppliers

In the event that a contractor may no longer be 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.

Risk Mitigation and Controls:

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. CATSA also continually monitors for any potential impacts related to vulnerabilities to the organization’s supply chain, industry consolidation of key vendors or key contractors, or for transition risk related to the new maintenance service provider contract.

Capacity Risk

CATSA staff capacity

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.

Risk Mitigation and Controls:

CATSA monitors employee satisfaction through regular surveys and closely monitors vacancy levels, attrition, and turnover rates.

Traveller and 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 conducts regular passenger surveys in order to respond to the needs of the travellers across the country, and has ongoing proactive engagement with Transport Canada and stakeholders. These mechanisms help the organization to ensure that it maintains public trust and confidence as it conducts its mandated activities. At the Class 1 airports, CATSA has developed preparedness plans, which document operational readiness in anticipation of the busier travel periods such as spring break and the summer and winter holiday seasons. CATSA continues to work with industry partners and Transport Canada to find solutions to industry-wide challenges.

Human Resources 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 the organization 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, Succession Plan,

respectful workplace program, leadership excellence program and the flexible workplace model. 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 information resulting in a loss of public confidence and potential damage to the organization's reputation.

Risk Mitigation and Controls:

CATSA's IT Security Program implements tools, controls, policies, processes, and security practices to protect its IT infrastructure, systems and digital assets. As part of the program, the organization remains abreast of emerging threats by conducting daily reviews of security system alerts, by monitoring newscasts and bulletins on security breaches and threats, and by collaborating with other federal partners through the Canadian Centre for Cyber Security.



Corporate Performance

Table 1: Results for the Implementation of CATSA’s Mandate

The following table identifies key performance indicators (KPIs), which correspond to the organization’s performance in the management of its mandated operations. These KPIs are reported to the Senior Management Committee and the Board of Directors on a quarterly basis for oversight and management of the organization’s 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	2020/21	2021/22	2022/23	Comments
Wait Time Service Level (WTSL)	85.0%	98.2%	91.6%	88.6%	On average, 88.6% of passengers waited less than 15 minutes to be screened in 2022/23, which is above the annual target of 85%. In the previous two fiscal years, CATSA exceeded the WTSL due in part to the exceptionally low passenger volumes caused by the COVID-19 pandemic and the related public health restrictions. Prior to the pandemic (2019/20), CATSA achieved a WTSL performance of 92%, while screening 67.9 million passengers in 2018/2019.
		7.0M	25.1M	57.6M	

Definition: WTSL is the percentage of passengers, on average, who waited less than 15 minutes to be screened at Class 1 airports, on an annual basis.

Consistency

Performance measure	Target	2020/21	2021/22	2022/23	Comments
Security Screening Procedures	96.0%	96.2%	94.8%	95.1%	Overall, CATSA's result improved over the prior year. CATSA continues to work with Screening Contractors to maintain a high level of performance.

Definition: The evaluation by performance officers of screening officer performance according to Standard Operating Procedures and regulations related to Canada's eight busiest airports.

In the Public Interest

Overall Experience	85.0%	90.7%	89.4%	85.9%	CATSA concluded its year with an average Overall Experience of 85.9%, which is just above the target of 85%.
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Definition: Overall experience is the measure of passenger perception with their overall screening experience, based on passenger intercept surveys conducted at Class 1 airports.

Table 2: Results for CATSA's Corporate Objectives

The following table identifies CATSA's key performance indicators and key statistics, which correspond to the organization's performance in the pursuit of its main corporate objectives.

A. SERVICE EXCELLENCE

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

Performance measure	Comments
Effectiveness	Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.
Screening Efficiency	See Table 1 - Efficiency
Passenger Experience	See Table 1 – In the Public Interest

Performance measure	Target	2022/23	Comments
Availability of Screening Equipment	99.63%	99.70%	Screening equipment availability exceeded the target in 2022/23.

Definition: The percentage availability for all major screening technology platforms at Class 1 airports calculated as the overall average of: average by platform, by month of [(Available time – Unscheduled outages) / Available time].

B. DIVERSE AND ENGAGED WORKFORCE

Inclusive and Diverse Environment

Performance measure	Target	2022/23	Comments
Turnover distribution by designated groups	Women: 45.8%	Women: 59.5%	This performance measure monitors whether members of designated groups left CATSA at rates disproportionate to their overall workforce representation at the start of each fiscal year. CATSA strives to maintain and increase representation, not decrease representation of these demographic groups. As compared to previous year, turnover distribution decreased in three of the four designated groups, with the exception of Women. CATSA's Employment Equity Plan continues to work towards strategies to attract and retain employees of designated groups. Growth and career opportunities have been identified to assist in decreasing overall turnover.
	Indigenous peoples: 2.0%	Indigenous peoples: 0%	
	Members of visible minorities: 21.7%	Members of visible minorities: 13.2%	
	Persons with disabilities: 1.8%	Persons with disabilities: 2.7%	

Definition: The distribution of members of a designated group (women, Indigenous peoples, members of visible minorities, and persons with disabilities) among indeterminate and fixed term employees who left voluntarily, excluding students.

Workforce demographics	Women: 48.2%	Women: 45%	As compared to the previous year, there was increase in three out of the four designated groups, with the exception of Women. There was an overall increase in women representation; however, an increased headcount and a higher turnover of this designated group, resulted in a slight decrease in representation. CATSA will continue its efforts in 2023 to further reduce the underrepresentation of the applicable designated groups. CATSA's Employment Equity Plan details strategies for awareness and to promote and retain employees of designated groups. Data is collected on a voluntary basis from CATSA employees. The current participation rate is 100%.
	Indigenous peoples: 4.0%	Indigenous peoples: 2.3%	
	Members of visible minorities: 21.3%	Members of visible minorities: 23.4%	
	Persons with disabilities: 9.1%	Persons with disabilities: 2.7%	

Definition: Representation rates of a designated group (women, Indigenous peoples, members of visible minorities, and persons with disabilities) among indeterminate and fixed term employees, with the exclusion of employees on long-term disability and students.

Effective use of both Official Languages in CATSA workplaces	75.0%	66.5%	CATSA has seen a decrease of 4.0% of employees who meet the language requirement of their position over the last year. The decrease can be explained by enhancements to our second language assessments.
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Definition: The percentage of fixed-term and indeterminate employees that meet the language requirements in positions designated as bilingual.

Employee Engagement and Support

Employee Satisfaction	Stable or upward trend	86%	Nearly 9 in 10 (86%) employees who completed the most recent touchpoint survey in 2022 indicated they are satisfied with their job, which is stable with the previous survey results.
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Definition: Through employee surveys, CATSA employees have the opportunity to provide comments and feedback, share ideas and ask questions of senior management.

Absenteeism	12 days/employee	9.5	The absenteeism rate is better than target, which can be explained by the flexible workplace model, which provides employees with more options to balance appointments and caring for family members with work requirements.
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Definition: Average number of work days missed due to illness by indeterminate employees during the year. Illness includes days taken on short-term disability but does not include long-term disability.

Performance measure	Target	2022/23	Comments
Annual Attrition Rate	8.0%	7.9%	In light of the current labour market, CATSA's attrition rate is stable and trending within target.

Definition: The percentage of employees who left the organization voluntarily.

Transformative Leadership

Performance measure	Target	Comments
Active support of creative approaches to continuous improvement, innovation and collaboration	N/A	<ul style="list-style-type: none"> In 2022, CATSA completed its transition to a flexible workplace model for headquarters employees. The implementation of this new model encourages a positive and productive working experience, preserving CATSA's culture by providing flexibility while ensuring operational and business needs are fully met. CATSA became a key member of a government-led working group to develop a Canadian Verified Traveller program, which could enable CATSA to find further efficiencies in screening travellers – improving overall wait times in the long run. Other examples are provided throughout the report.

C. EFFECTIVE PARTNERSHIPS

Industry and Government Collaboration

Establishment and maintenance of relationships between CATSA, industry, and the Government of Canada, to advance interests	N/A	<ul style="list-style-type: none"> Between April and December 2022, CATSA accelerated the hiring and training of over 2,300 screening personnel. In collaboration with the Office of the Commissioner of Official Languages, CATSA has continued its participation in the Official Languages Maturity Model (OLMM) initiative. The OLMM will enable CATSA to mature some of its official languages practices, from its hiring and leadership initiatives, which aligns with federal efforts to strengthen access to services in both official languages. CATSA identified areas of strategic contract improvements, which will be integrated into the future ASSAs. Lessons learned from the operational recovery efforts of spring-summer 2022 have been prioritized for consideration. Other examples are provided throughout the report.
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Community Relations

Information, Outreach, Collaboration and Cooperation	N/A	<ul style="list-style-type: none"> CATSA launched an Indigenous Cultural Awareness Learning Program for screening personnel and CATSA employees. The program provides context for screening Indigenous people and their belongings, and instruction on respectful security screening practices to follow. During the development of the new Accessibility Plan, CATSA engaged the broader public and accessibility advocates to ensure that security screening checkpoints at all designated airports can become more accessible for all passengers. CATSA officials travelled to the United States to observe new screening procedures at airports such as Boston Logan International Airport. These in-person visits enabled CATSA to further harmonize screening procedures and foster stronger working relationships with its foreign screening counterparts. Other examples are provided throughout the report.
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Corporate Governance

CATSA is an agent Crown corporation with a Board of Directors appointed by the Governor in Council on the recommendation of the Minister of Transport.

Board of Directors

CATSA is governed by an eleven-member Board of Directors. Two of the Directors are nominated by the airline industry and two by the airport industry. All Directors are independent of CATSA management. The Board of Directors and its committees generally meet on a quarterly basis, and as required to effectively oversee the corporation's business.

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

- Establishing CATSA's strategic direction through its annual corporate plan and safeguarding the resources of the Corporation by approving annual reports, and capital and operating budgets;
- Approving CATSA's corporate plan for recommendation to the Minister;
- Ensuring the fulfillment of the corporation's mandate;
- Monitoring corporate performance;

- Ensuring the principal risks of CATSA’s business are identified and that appropriate systems to manage these risks have been implemented;
- Approving the President and Chief Executive Officer’s (CEO) objectives for the year and evaluating his/her performance;
- Drafting, amending or repealing corporate by-laws; and
- Reviewing and approving management’s succession plan for senior management.

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. Board members are also reimbursed for expenses related to travel, accommodation and meals while performing their duties. These expenses are posted quarterly online.

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 2022/23, the Board committees met a total of 15 times and the Board in its entirety met a total of 10 times.

Committees of the Board of Directors

The *Audit Committee* assists the Board in fulfilling its oversight responsibilities with respect to financial reporting, financial risk management, climate disclosure, cybersecurity, internal controls, internal and external audits and budgets. All directors are members of this committee.

The *Governance, Human Resources and Pension Committee* (GHRP) assists the Board in fulfilling its oversight responsibilities with respect to governance matters including areas such as human resources and compensation, management succession plans, policies and processes relating to employee business conduct and ethical behaviour, annual objectives for the President and CEO, management and administration of the employee pension plan(s) and any other matter assigned to it by the Board. All directors are members of this committee.

The *Transaction Committee* assists the Board with respect to the potential sale or disposition of CATSA’s assets and liabilities to the designated screening authority, as required. This Committee was constituted on September 10, 2019. This committee is on hold as the federal government is not currently in discussions for the potential transfer of CATSA to a private not-for-profit entity.

The current configuration of CATSA’s Board of Directors include members whose terms have expired but remain on the Board in good standing.

As of March 31, 2023, CATSA’s Board of Directors included:

Board Members	Total Remuneration (2022/23)	Appointment Date	Mandate Expiry Date	Board Meetings	Committee Meetings
Current Members					
Thao Pham, Chairperson	\$1,212	2023/03/13	2028/03/12	1	1
Melissa Coulson, Chairperson *	\$17,749	Original: 2014/01/30 Reappointment: 2018/02/21 Reappointment amended: 2022/12/16	2023/02/21	8	12
Patricia Anne Kennedy <i>Appointed as a nominee of the Air Transport Association of Canada</i>	\$18,660	Original: 2015/03/26 Reappointment: 2018/06/25	2021/06/24	9	12
Sharon Duggan *	\$18,855	2018/02/21	2022/02/21	10	15
Jean-Philippe Brunet *	\$14,955	2018/02/21	2022/02/21	8	10
Gilles Lalonde	\$16,125	Original: 2018/02/21 Reappointment: 2021/05/21	2025/05/21	10	12
Diane Trenn <i>Appointed as a nominee of the Canadian Airports Council</i>	\$18,660	Original: 2018/06/14 Reappointment: 2022/10/28	2026/10/28	10	12
Penny Westman *	\$17,880	2019/03/22	2023/03/22	9	14
Rosemary Capparelli <i>Appointed as a nominee of the National Airlines Council of Canada</i>	\$7,570	2022/10/28	2026/10/28	5	6
Jennifer Sullivan <i>Appointed as a nominee of the Canadian Airports Council</i>	\$7,375	2022/10/28	2026/10/28	4	5
Former Board Members					
Marguerite Nadeau, Chairperson	\$10,740	2017/09/13	2022/09/13	4	4
William Restall <i>Appointed as a nominee of the Canadian Airports Council</i>	\$6,625	Original: 2014/09/29 Reappointment: 2018/06/14	2021/06/14 Resigned on 2022/10/28 Replaced by Jennifer Sullivan	4	4
Allan Rowe¹ <i>Appointed as a nominee of the National Airlines Council of Canada</i>	\$0	Original: 2012/05/03 Reappointment: 2018/03/13	2021/03/12 Resigned on 2022/10/28 Replaced by Rosemary Capparelli	0	0

Per the Financial Administration Act, any Director (other than the Chairperson) whose term has expired, may continue in office until a successor is appointed.

* Members of the Transaction Committee.

Board of Directors Strategic Retreat

In June 2022, the Board of Directors invited industry stakeholders and Transport Canada to strategize and discuss how the dynamic aviation landscape will impact the next five-year planning period and priorities. In addition, the Board of Directors discussed overall progress on key metrics and targets for front line operations.

CATSA Senior Management Team

Until April 3, 2021, CATSA was led by President and Chief Executive Officer, Michael Saunders. On April 3, 2023, CATSA welcomed a new President and CEO. Nada Semaan was appointed for a 5-year term by Order in Council.

In 2022/23, the President and CEO was supported by a senior management team, including:

Neil Parry	Senior Vice-President, Operations
Nancy Fitchett	Vice-President, Corporate Affairs and Chief Financial Officer
Martin Corrigan	Vice-President, Technology and Chief Technology Officer
Lisa Hamilton	Vice-President, Corporate Services, General Counsel and Corporate Secretary

Martin Corrigan retired from CATSA on April 3, 2023. Denis Perron (Senior Director, Screening Technology) was named acting Vice-President, Technology and Chief Technology Officer.

CATSA's Executive Compensation Structure

Maintaining a competitive total compensation package is key to CATSA's ability to attract and retain a diverse and qualified workforce. As such, the organization's total compensation program consists of a base salary as well as performance incentives, group benefits and pension plan.

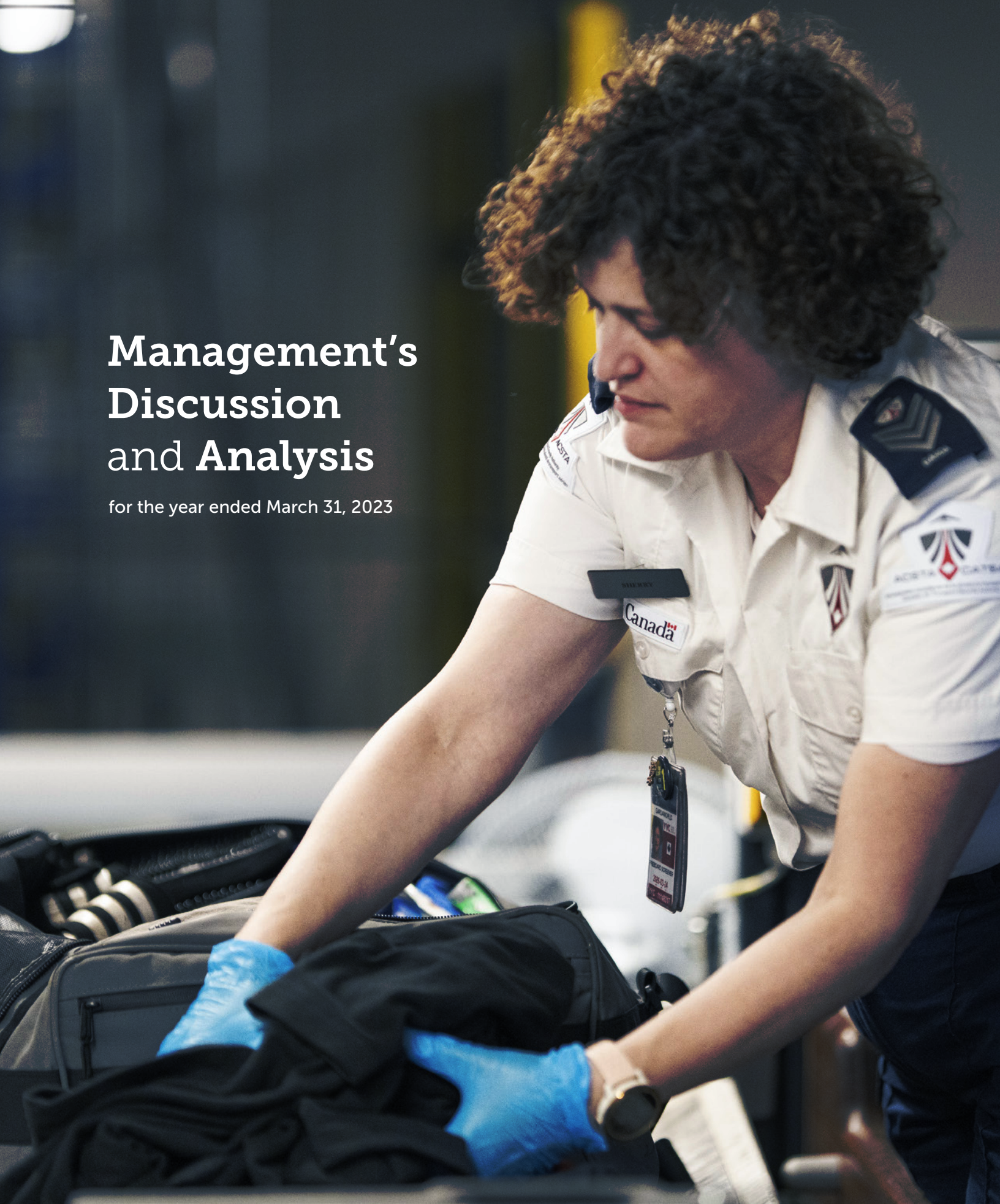
CATSA's Board of Directors, through the Governance, Human Resources and Pension Committee, reviews the compensation package regularly to ensure that it is reasonable and is competitive with similar public sector organizations.

Pursuant to subsection 20(2) of the *Canadian Air Transport Security Authority Act*, the rate of any remuneration paid to the President and CEO is fixed by the Governor in Council by Order in Council (2021-0190), wherein the base salary is within the range of \$244,800 - \$287,900 per annum.

In 2022/23, the base salary range for Vice-Presidents was \$186,797 to \$280,249. CATSA's Vice-Presidents also receive incentive pay in the range of 0 – 30%, depending on their performance.

Management's Discussion and Analysis

for the year ended March 31, 2023



Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2023. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2023, 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 15, 2023, 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 incremental funding from the Government of Canada to supplement its base funding level in order to carry out its mandate. In May 2022, CATSA was granted \$329.7M of incremental funding for 2022/23, in addition to its base funding of \$567.5M, for a total funding envelope of \$897.2M. This funding allowed CATSA to deliver on its mandated activities.

Budget 2023 included incremental funding of \$1,746 million (net) over three years to continue to protect the public by securing critical elements of the air transportation system. This funding also supports the introduction of 100% Non-Passenger Screening (NPS) and improvements to wait time service levels beginning in 2024/25.

INDUSTRY RECOVERY

In 2022/23, CATSA screened 57.6 million passengers, representing an increase of 134.7% compared to 2021/22. CATSA began preparing for this rebound in passenger traffic in spring 2021. Despite these efforts, the organization experienced some operational challenges during the early parts of the recovery period due primarily to the challenging labour market conditions being experienced by many front-line service industries as well as the sudden and rapid increase in traffic in spring and summer 2022. CATSA continues to work closely with its screening contractors, Transport Canada and external stakeholders to support the aviation industry's recovery.

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 2022/23 compared to 2021/22.

KEY FINANCIAL HIGHLIGHTS – STATEMENT OF COMPREHENSIVE INCOME (LOSS)				
(Thousands of Canadian dollars)	2022/23	2021/22	\$ Variance	% Variance
Expenses¹				
Screening services and other related costs	\$ 713,571	\$ 548,646	\$ 164,925	30.1%
Equipment operating and maintenance	42,511	39,923	2,588	6.5%
Program support and corporate services	94,478	86,184	8,294	9.6%
Depreciation and amortization	44,294	80,662	(36,368)	(45.1%)
Total expenses	894,854	755,415	139,439	18.5%
Other (income) expenses	(1,021)	2,230	(3,251)	(145.8%)
Financial performance before revenue and government funding	893,833	757,645	136,188	18.0%
Revenue	2,456	268	2,188	816.4%
Government funding				
Parliamentary appropriations for operating expenses	848,001	677,463	170,538	25.2%
Amortization of deferred government funding related to capital expenditures	40,415	78,986	(38,571)	(48.8%)
Parliamentary appropriations for lease payments	3,435	3,876	(441)	(11.4%)
Total government funding	891,851	760,325	131,526	17.3%
Financial performance	\$ 474	\$ 2,948	\$ (2,474)	(83.9%)
Other comprehensive (loss) income	(3,119)	21,320	(24,439)	(114.6%)
Total comprehensive income (loss)	\$ (2,645)	\$ 24,268	\$ (26,913)	(110.9%)

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, 2023.

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 (as disclosed in note 13 of CATSA's audited annual financial statements) represent the most significant expenditures for CATSA at approximately 81.6% of total expenses (excluding depreciation and amortization) in 2022/23. 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, 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 increased by \$164.9M (30.1%) in 2022/23. The increase is primarily attributable to increased passenger volumes, which resulted in the purchase of additional screening hours totaling \$141.3M, partially offset by the purchase of fewer hours associated with temperature screening totaling \$16.0M. The increase is also attributable to annual screening contractor billing rate increases totaling \$14.7M, and increased spending on screening officer training and related initiatives to support the recovery of the aviation industry of \$24.9M.

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 increased by \$2.6M (6.5%) in 2022/23. The increase is mainly attributable to higher maintenance and spare parts costs for EDS equipment, driven by additional maintenance costs to support equipment after expiration of warranties, as well as CATSA's transition to a new maintenance service provider.

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 \$8.3M (9.6%) in 2022/23. The increase is mainly attributable to higher employee-related costs of \$5.7M, and higher costs in support of corporate priorities totaling \$4.7M. The increases were partially offset by lower costs associated with CATSA's defined benefit pension plan totaling \$2.1M.

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 decreased by \$36.4M (45.1%) in 2022/23. The decrease is primarily attributable to the change in the estimated useful lives of some of CATSA's screening equipment and its associated network software assets from 10 years to 15 years, as of April 1, 2022.

Other (Income) Expenses

Other (income) expenses 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 (income) expenses increased by \$3.3M (145.8%) in 2022/23. The increase in other income is primarily due to net gains on the fair value of derivative financial instruments.

Revenue

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

Revenue increased by \$2.2M (816.4%) in 2022/23. The increase is attributable to higher finance income earned on cash balances.

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.

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 increased by \$170.5M (25.2%) in 2022/23. The increase is primarily attributable to increased spending for screening services and other related 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 decreased by \$38.6M (48.8%) in 2022/23. The decrease is primarily attributable to reduced depreciation and amortization expenses, as discussed above.

Parliamentary appropriations for lease payments

CATSA's lease payments are typically made in the same month that the appropriations are received, therefore there is no deferred funding associated with these appropriations.

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

Other Comprehensive (Loss) Income

Other comprehensive (loss) income consists of the net actuarial losses (gains) associated with CATSA's defined benefit plans.

In 2022/23, the net loss of \$3.1M is primarily attributable to an actuarial loss of \$21.6M resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions. The loss is also due to experience adjustments of \$4.1M. This was partially offset by a net gain of \$22.5M related to changes in financial and demographic assumptions.

In 2021/22, the net gain of \$21.3M was attributable to an actuarial gain of \$24.8M related to changes in financial assumptions and experience adjustments, partially offset by a remeasurement loss of \$3.5M 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 Treasury Board of Canada Secretariat (TBS) directives.

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

LIQUIDITY AND CAPITAL RESOURCES			
(Thousands of Canadian dollars)	March 31, 2023	March 31, 2022	\$ Variance
Cash	\$ 13,785	\$ 7,581	\$ 6,204
Trade and other receivables	129,477	100,670	28,807
Trade and other payables	(141,890)	(106,748)	(35,142)
Current holdbacks	(1,818)	(1,637)	(181)
Current provisions	–	(200)	200
Current lease liabilities	(1,777)	(3,129)	1,352
Non-current lease liabilities	(12,708)	(14,107)	1,399

Cash increased by \$6.2M primarily due to the timing of disbursements to suppliers for goods and services. Trade and other receivables increased by \$28.8M attributable to an increase in parliamentary appropriations receivable. Trade and other payables increased by \$35.1M as a result of the timing of disbursements associated with obligations outstanding with suppliers. Current lease liabilities decreased by \$1.4M primarily due to reduced leased space at corporate headquarters and lease incentives. Non-current lease liabilities decreased by \$1.4M primarily due to regional lease agreements approaching the end of their lease terms.

CAPITAL EXPENDITURES

CATSA's capital plan is comprised of Explosives Detection System (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 (refer to the Statement of Financial Position) represent 64.7% of total assets as at March 31, 2023. The section below provides a breakdown of the capital expenditures for EDS, non-EDS and lease payments.

CAPITAL EXPENDITURES				
(Thousands of Canadian dollars)	2022/23	2021/22	\$ Variance	
EDS	\$ 10,746	\$ 4,968	\$	5,778
Non-EDS	2,408	1,287		1,121
Lease payments	3,435	3,876		(441)
Total capital expenditures	\$ 16,589	\$ 10,131	\$	6,458

An overview of the key capital projects undertaken over the course of the fiscal year is as follows:

EDS

- Life cycle management of Full Body Scanners at PBS;
- Expansion of HBS systems at Montreal-Trudeau International Airport and Region of Waterloo International Airport; and
- Ongoing deployment of CATSA Plus in select Class 1 airports.

Non-EDS

- Leasehold improvements to support modernization of CATSA's headquarters office space and the expansion of regional space to support screening officer training capacity; and
- Life cycle management of CATSA's IT network infrastructure.

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, 2023	March 31, 2022	\$ Variance	
Employee benefits asset	\$ 52,104	\$ 56,950	\$ (4,846)	
Employee benefits liability	(16,544)	(19,107)	2,563	
Net employee benefits asset	\$ 35,560	\$ 37,843	\$ (2,283)	

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, and 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.

As at March 31, 2023, the employee benefits asset represents the net position of CATSA's RPP and SRP. The employee benefits liability consists of the present value of the defined benefit liability of the ODBP.

The decrease in the employee benefits asset is primarily attributable to a remeasurement loss of \$21.6M resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions. The decrease is also due to a remeasurement loss of \$4.3M on the defined benefit obligation of the RPP and SRP resulting from experience adjustments. The decrease is partially offset by a net remeasurement gain of \$18.7M on the defined benefit obligation of the RPP and SRP arising from changes to financial assumptions. The decrease is also partially offset by required contributions made by CATSA exceeding the non-cash defined benefit costs (based on IAS 19) by \$2.3M for these plans.

The decrease in the employee benefits liability is primarily attributable to a remeasurement gain of \$4.0M on the defined benefit obligation of the ODBP arising from changes to financial and demographic assumptions and experience adjustments. This is partially offset by non-cash defined benefit costs (based on IAS 19) exceeding CATSA required contributions by \$1.5M for the ODBP.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's operations are funded by parliamentary appropriations from the Government of Canada and are reflected in CATSA's *Summary of the 2022/23 to 2026/27 Corporate Plan*. Actual operating and capital appropriations used are lower than the amounts reflected in the Corporate Plan.

PARLIAMENTARY APPROPRIATIONS USED

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 International Financial Reporting Standards (IFRS) and operating appropriations used:

RECONCILIATION OF FINANCIAL PERFORMANCE TO OPERATING APPROPRIATIONS USED			
(Thousands of Canadian dollars)	2022/23	2021/22	\$ Variance
Financial performance before revenue and government funding	\$ 893,833	\$ 757,645	\$ 136,188
Revenue	(2,456)	(268)	(2,188)
Financial performance before government funding	891,377	757,377	134,000
Non-cash items			
Depreciation and amortization	(44,294)	(80,662)	36,368
Non-cash finance costs related to leases	(265)	(194)	(71)
Write-off of property and equipment and intangible assets	(38)	(196)	158
Change in fair value of financial instruments at fair value through profit and loss	(28)	1,237	(1,265)
Loss on disposal of property and equipment	(3)	–	(3)
Employee benefits expense ¹	836	2,052	(1,216)
Impairment of property and equipment	390	(1,940)	2,330
Non-cash gain (loss) on foreign exchange recognized in financial performance	26	(211)	237
Appropriations used for operating expenses	\$ 848,001	\$ 677,463	\$ 170,538
Other items affecting funding			
Net change in prepaids and inventories ²	1,012	(2,838)	3,850
Total operating appropriations used	\$ 849,013	\$ 674,625	\$ 174,388

¹ Employee benefits expense is 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 Prepaids and inventories funded through operating appropriations are expensed as the benefit is derived from the asset by CATSA. They are funded by 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 2022/23, presented by major expenditure category. The table also provides a comparison between operating appropriations used in 2022/23 and the operating budget as reported in CATSA's *Summary of the 2022/23 to 2026/27 Corporate Plan*.

OPERATING APPROPRIATIONS USED COMPARED TO CORPORATE PLAN

(Thousands of Canadian dollars)	IFRS 2022/23	Non-cash Adjustments	Operating Approp. Used 2022/23	Corporate Plan Budget 2022/23	\$ Variance	% Variance
Screening services and other related costs	\$ 713,571	\$ (3)	\$ 713,568	\$ 720,054	\$ (6,486)	(0.9%)
Equipment operating and maintenance	42,511	(414)	42,097	43,015	(918)	(2.1%)
Program support and corporate services	94,478	1,292	95,770	95,945	(175)	(0.2%)
Depreciation and amortization	44,294	(44,294)	–	–	–	–
Other expenses	(1,021)	1,055	34	–	34	–
Revenue	(2,456)	–	(2,456)	–	(2,456)	–
Total	\$ 891,377	\$ (42,364)	\$ 849,013	\$ 859,014	\$ (10,001)	(1.2%)

Operating appropriations used were \$10.0M (1.2%) lower than the Corporate Plan budget. The variance is primarily due to the purchase of fewer screening hours than planned, partially offset by the costs of programs supporting industry recovery efforts and training requirements for new screening officers.

CAPITAL EXPENDITURES

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

RECONCILIATION OF CAPITAL EXPENDITURES TO CAPITAL APPROPRIATIONS USED

(Thousands of Canadian dollars)	2022/23	2021/22	\$ Variance
EDS	\$ 10,746	\$ 4,968	\$ 5,778
Non-EDS	2,408	1,287	1,121
Lease payments	3,435	3,876	(441)
Total capital expenditures	\$ 16,589	\$ 10,131	\$ 6,458
Non-cash adjustment on foreign exchange related to capital expenditures	(138)	4	(142)
Total capital appropriations used	\$ 16,451	\$ 10,135	\$ 6,316

The table below provides a comparison between capital appropriations used in 2022/23, the capital budget as reported in CATSA's *Summary of the 2022/23 to 2026/27 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 2022/23	Corporate Plan Budget 2022/23	Capital Reprofile in Progress	Revised Corporate Plan Budget 2022/23	\$ Variance	% Variance	
EDS							
PBS	\$ 4,596	\$ 23,415	\$ (16,101)	\$ 7,314	\$ (2,718)	(37.2%)	
HBS	6,150	27,083	(22,104)	4,979	1,171	23.5%	
NPS	–	4,006	(3,982)	24	(24)	(100.0%)	
Total EDS	\$ 10,746	\$ 54,504	\$ (42,187)	\$ 12,317	\$ (1,571)	(12.8%)	
Non-EDS	5,843	9,171	(2,599)	6,572	(729)	(11.1%)	
Total capital asset acquisitions¹	\$ 16,589	\$ 63,675	\$ (44,786)	\$ 18,889	\$ (2,300)	(12.2%)	
Non-cash adjustment on foreign exchange related to capital expenditures	(138)	–	–	–	(138)	–	
Total	\$ 16,451	\$ 63,675	\$ (44,786)	\$ 18,889	\$ (2,438)	(12.9%)	

¹ CATSA's *Summary of the 2022/23 to 2026/27 Corporate Plan* budget includes \$3,413 of lease payments in appropriations for Non-EDS.

Capital appropriations used were \$2.4M (12.9%) lower than the corporate plan budget. CATSA will work with Finance Canada to obtain approval for the capital re-profile of \$44.8M. After taking into consideration the re-profile request, CATSA lapsed \$2.4M due to under-spending across various capital projects.

Financial Statements

for the year ended March 31, 2023



Management’s Responsibility Statement

Year ended March 31, 2023

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.

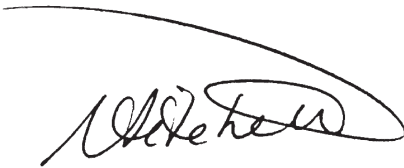
Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport 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.



Nada Semaan
President and Chief Executive Officer



Nancy Fitchett, CPA, CA
*Vice-President, Corporate Affairs
and Chief Financial Officer*

June 15, 2023



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 2023, 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 2023, 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.



Mimma Venema, CPA, CA, CGA
Principal
for the Auditor General of Canada

Ottawa, Canada
15 June 2023

Statement of Financial Position

(In thousands of Canadian dollars)

	As at March 31	
	2023	2022
Assets		
Current assets		
Cash	\$ 13,785	\$ 7,581
Trade and other receivables (note 4)	129,477	100,670
Inventories (note 5)	11,419	11,406
Prepays	7,834	6,835
Derivative financial assets (note 15)	22	34
	162,537	126,526
Non-current assets		
Property and equipment (note 6)	367,255	392,726
Intangible assets (note 7)	12,832	14,745
Right-of-use assets (note 8)	13,581	16,569
Employee benefits asset (note 9)	52,104	56,950
Derivative financial assets (note 15)	–	6
	445,772	480,996
Total assets	\$ 608,309	\$ 607,522
Liabilities and Equity		
Current liabilities		
Trade and other payables (note 15)	\$ 141,890	\$ 106,748
Holdbacks (note 15)	1,818	1,637
Provisions (note 10)	–	200
Lease liabilities (note 11)	1,777	3,129
Deferred government funding related to operating expenses (note 12)	19,253	18,241
	164,738	129,955
Non-current liabilities		
Lease liabilities (note 11)	12,708	14,107
Deferred government funding related to capital expenditures (note 12)	379,180	406,579
Employee benefits liability (note 9)	16,544	19,107
Derivative financial liabilities (note 15)	10	–
	408,442	439,793
Equity		
Accumulated surplus	35,129	37,774
Total liabilities and equity	\$ 608,309	\$ 607,522

Contingencies (note 10) and contractual commitments (note 16).

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

Approved by the Board and authorized for issue on June 15, 2023:



Thao Pham
Chairperson



Nada Semaan
President and Chief Executive Officer

Statement of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

	Years ended March 31	
	2023	2022
Expenses		
Pre-Board Screening	\$ 543,038	\$ 391,517
Hold Baggage Screening	151,511	161,558
Non-Passenger Screening	143,081	149,831
Restricted Area Identity Card Program	4,595	3,598
Corporate services	52,629	48,911
Total expenses (note 13)	894,854	755,415
Other (income) expenses		
Finance costs	271	203
Write-off of property and equipment and intangible assets	38	196
Net loss (gain) on fair value of derivative financial instruments	28	(1,237)
Loss on disposal of property and equipment	3	–
Foreign exchange (gain) loss	(971)	1,128
Impairment of property and equipment (note 6)	(390)	1,940
Total other (income) expenses	(1,021)	2,230
Financial performance before revenue and government funding	893,833	757,645
Revenue		
Finance income	2,354	266
Screening services - other	70	–
Miscellaneous income	32	2
Total revenue	2,456	268
Government funding		
Parliamentary appropriations for operating expenses (note 12)	848,001	677,463
Amortization of deferred government funding related to capital expenditures (note 12)	40,415	78,986
Parliamentary appropriations for lease payments (note 14)	3,435	3,876
Total government funding	891,851	760,325
Financial performance	\$ 474	\$ 2,948
Other comprehensive (loss) income		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)	(3,119)	21,320
Total comprehensive income (loss)	\$ (2,645)	\$ 24,268

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

Statement of Changes in Equity

(In thousands of Canadian dollars)

	Accumulated surplus	
Balance, March 31, 2021	\$	13,506
Financial performance		2,948
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		21,320
Balance, March 31, 2022	\$	37,774

	Accumulated surplus	
Balance, March 31, 2022	\$	37,774
Financial performance		474
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(3,119)
Balance, March 31, 2023	\$	35,129

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

Statement of Cash Flows

(In thousands of Canadian dollars)

	Years ended March 31	
	2023	2022
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ 474	\$ 2,948
Items not involving cash		
Depreciation and amortization (note 13)	44,294	80,662
Write-off of property and equipment and intangible assets	38	196
Change in fair value of financial instruments at fair value through profit and loss	28	(1,237)
Other non-cash transactions	23	1,515
Loss on disposal of property and equipment	3	–
Amortization of deferred government funding related to capital expenditures (note 12)	(40,415)	(78,986)
Change in net employee benefits asset/liability	(836)	(2,052)
Impairment of property and equipment (note 6)	(390)	1,940
Net change in working capital balances (note 19)	3,371	24,497
	6,590	29,483
Investing activities		
Parliamentary appropriations received for capital funding	12,500	16,217
Purchase of property and equipment	(9,467)	(47,997)
Purchase of intangible assets	(249)	(526)
	2,784	(32,306)
Financing activities		
Lease principal payments	(3,170)	(3,682)
	(3,170)	(3,682)
Increase (decrease) in cash	6,204	(6,505)
Cash, beginning of year	7,581	14,086
Cash, end of year	\$ 13,785	\$ 7,581

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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 His 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 for prohibited items such as explosives, prior to being loaded onto an aircraft;
- 3. NPS** – the screening of non-passengers such as flight personnel, ground crew and airport employees, and their belongings (including vehicles and their contents) entering restricted areas 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. The final authority that determines access to the restricted areas of an airport is the airport authority.

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 previous years, CATSA provided screening services on a cost recovery basis to certain designated and non-designated airports. In light of the COVID-19 pandemic, no such services were provided from April 1, 2020 until June 24, 2022, when CATSA resumed screening services with Muskoka Airport. The agreement was in place until September 6, 2022.

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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. 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

- 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 and other screening services at designated and non-designated airports, respectively. 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 these screening services. Consequently, CATSA has determined that the promise in the contract, which is the provision of screening services for the contract period, constitutes one performance obligation.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(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 to 15 years
HBS equipment	10 to 15 years
NPS equipment	10 to 15 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(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 15 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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).

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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 a straight-line basis over the lease term.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(i) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial assets include cash and receivables related to supplemental and other 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(ii) Derivative financial instruments

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

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

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

(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;
- administration costs; and
- remeasurements.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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 exclude the costs of managing plan assets, as those costs are 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(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 and other screening services

CATSA's revenue from contracts with customers is for supplemental and other screening services at designated and non-designated airports, respectively, on a cost recovery basis. A contract for these screening services exists when collection of consideration is probable, the contract has commercial substance, the rights to 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 these 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 these 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 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(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.

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

Appropriations used for lease payments are recognized in financial performance in the period in which lease payments are made.

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.

(p) Reclassification of comparative information

Beginning March 31, 2023, CATSA changed the presentation of contractual commitments in note 16. Contractual commitments were previously classified as operating or capital and will now be presented by nature of the contractual agreement in order to present more useful information. The reclassification of comparative figures was to conform to the presentation adopted for the current year.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of:

	March 31, 2023	March 31, 2022
Parliamentary appropriations (note 17)	\$ 120,464	\$ 91,760
GST and HST recoverable	7,396	6,937
PST recoverable	1,617	1,973
	\$ 129,477	\$ 100,670

5. INVENTORIES

Inventories are comprised of:

	March 31, 2023	March 31, 2022
Spare parts	\$ 9,822	\$ 9,733
RAIC	780	854
Uniforms	817	819
	\$ 11,419	\$ 11,406

During the year, inventories totalling \$4,218 (2022 – \$5,350) were charged to expenses.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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, 2021	\$ 160,467	\$ 662,284	\$ 20,919	\$ 5,336	\$ 31,045	\$ 129	\$ 10,113	\$ 18,642	\$ 908,935
Additions	400	1,016	–	226	118	–	–	4,017	5,777
Disposals	(2,394)	(5,630)	–	–	–	–	–	–	(8,024)
Write-offs	(616)	(736)	(200)	(1,736)	(2,092)	–	–	(54)	(5,434)
Impairments	–	–	–	–	(1,582)	–	–	(358)	(1,940)
Reclassifications	4,992	1,077	3	163	1,443	–	–	(7,704)	(26)
Balance, March 31, 2022	\$ 162,849	\$ 658,011	\$ 20,722	\$ 3,989	\$ 28,932	\$ 129	\$ 10,113	\$ 14,543	\$ 899,288
Balance, March 31, 2022	\$ 162,849	\$ 658,011	\$ 20,722	\$ 3,989	\$ 28,932	\$ 129	\$ 10,113	\$ 14,543	\$ 899,288
Additions	709	2,714	–	194	437	–	803	8,048	12,905
Disposals	(5,745)	(5,134)	–	(95)	(1,494)	(11)	(2,937)	–	(15,416)
Write-offs	(1,318)	(280)	–	(756)	(485)	–	–	(7)	(2,846)
Impairments	–	–	–	–	292	–	–	98	390
Reclassifications	6,699	3,574	–	–	511	–	30	(10,814)	–
Balance, March 31, 2023	\$ 163,194	\$ 658,885	\$ 20,722	\$ 3,332	\$ 28,193	\$ 118	\$ 8,009	\$ 11,868	\$ 894,321
Accumulated depreciation									
Balance, March 31, 2021	\$ 109,590	\$ 289,287	\$ 15,012	\$ 4,206	\$ 18,051	\$ 72	\$ 9,148	\$ –	\$ 445,366
Depreciation	8,971	59,943	1,115	383	3,649	23	379	–	74,463
Disposals	(2,394)	(5,630)	–	–	–	–	–	–	(8,024)
Write-offs	(555)	(706)	(154)	(1,736)	(2,092)	–	–	–	(5,243)
Balance, March 31, 2022	\$ 115,612	\$ 342,894	\$ 15,973	\$ 2,853	\$ 19,608	\$ 95	\$ 9,527	\$ –	\$ 506,562
Balance, March 31, 2022	\$ 115,612	\$ 342,894	\$ 15,973	\$ 2,853	\$ 19,608	\$ 95	\$ 9,527	\$ –	\$ 506,562
Depreciation	5,027	29,399	590	356	2,966	24	363	–	38,725
Disposals	(5,745)	(5,134)	–	(95)	(1,491)	(11)	(2,937)	–	(15,413)
Write-offs	(1,300)	(258)	–	(756)	(494)	–	–	–	(2,808)
Balance, March 31, 2023	\$ 113,594	\$ 366,901	\$ 16,563	\$ 2,358	\$ 20,589	\$ 108	\$ 6,953	\$ –	\$ 527,066
Carrying amounts									
As at March 31, 2022	\$ 47,237	\$ 315,117	\$ 4,749	\$ 1,136	\$ 9,324	\$ 34	\$ 586	\$ 14,543	\$ 392,726
As at March 31, 2023	\$ 49,600	\$ 291,984	\$ 4,159	\$ 974	\$ 7,604	\$ 10	\$ 1,056	\$ 11,868	\$ 367,255

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

As at March 31, 2022, the estimated useful life of some screening equipment and its associated centralized network software assets, was revised from 10 years to 15 years, to better reflect the anticipated lifecycles. The change in accounting estimate was accounted for on a prospective basis starting April 1, 2022, and decreased the current year depreciation by \$34,714. This decrease is completely offset by a decrease in the amortization of deferred government funding related to capital expenditures.

During the year, CATSA recognized an impairment reversal on property and equipment relating to components of temperature screening equipment that will be redeployed as computer equipment. The recoverable amount was deemed to be \$390 (2022 - \$Nil) which represents the equipment's value in use to CATSA. The net book value of the assets was adjusted and an impairment reversal was recorded. An impairment loss relating to temperature screening equipment of \$1,940 was recorded in the prior year.

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(In thousands of Canadian dollars)

Year ended March 31, 2023

7. INTANGIBLE ASSETS

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2021	\$ 11,154	\$ 20,844	\$ 73	\$ 32,071
Additions	439	39	–	478
Write-offs	(776)	(395)	–	(1,171)
Reclassifications	26	73	(73)	26
Balance, March 31, 2022	\$ 10,843	\$ 20,561	\$ –	\$ 31,404
Balance, March 31, 2022	\$ 10,843	\$ 20,561	\$ –	\$ 31,404
Additions	18	231	–	249
Write-offs	(323)	(350)	–	(673)
Balance, March 31, 2023	\$ 10,538	\$ 20,442	\$ –	\$ 30,980
Accumulated amortization				
Balance, March 31, 2021	\$ 5,268	\$ 9,969	\$ –	\$ 15,237
Amortization	1,028	1,560	–	2,588
Write-offs	(771)	(395)	–	(1,166)
Balance, March 31, 2022	\$ 5,525	\$ 11,134	\$ –	\$ 16,659
Balance, March 31, 2022	\$ 5,525	\$ 11,134	\$ –	\$ 16,659
Amortization	787	1,375	–	2,162
Write-offs	(323)	(350)	–	(673)
Balance, March 31, 2023	\$ 5,989	\$ 12,159	\$ –	\$ 18,148
Carrying amounts				
As at March 31, 2022	\$ 5,318	\$ 9,427	\$ –	\$ 14,745
As at March 31, 2023	\$ 4,549	\$ 8,283	\$ –	\$ 12,832

There were no research and development costs expensed for the years ended March 31, 2023, or 2022.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

8. RIGHT-OF-USE ASSETS

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

	Office space	Data centres	Total
Balance, March 31, 2021	\$ 8,566	\$ 1,371	\$ 9,937
Additions	10,292	–	10,292
Decreases	(49)	–	(49)
Depreciation	(3,343)	(268)	(3,611)
Balance, March 31, 2022	\$ 15,466	\$ 1,103	\$ 16,569
Balance, March 31, 2022	\$ 15,466	\$ 1,103	\$ 16,569
Additions	511	–	511
Decreases	(92)	–	(92)
Depreciation	(3,197)	(210)	(3,407)
Balance, March 31, 2023	\$ 12,688	\$ 893	\$ 13,581

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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Year ended March 31, 2023

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 on or after July 1, 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.

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(In thousands of Canadian dollars)

Year ended March 31, 2023

(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	
	2023	2022	2023	2022	2023	2022
Fair value of plan assets						
Balance, beginning of year	\$ 260,092	\$ 245,640	\$ 8,199	\$ 7,710	\$ –	\$ –
<i>Included in financial performance</i>						
Interest income	10,500	8,746	327	270	–	–
Administration costs	(375)	(375)	(15)	(15)	–	–
<i>Included in other comprehensive (loss) income</i>						
Remeasurement (losses) gains						
Return on assets excluding interest income	(21,211)	(3,721)	(344)	239	–	–
<i>Other</i>						
CATSA contributions	6,185	9,862	50	58	215	188
Plan participant contributions	3,153	3,483	49	58	–	–
Benefit payments and transfers	(3,523)	(3,543)	(135)	(121)	(215)	(188)
Balance, end of year	\$ 254,821	\$ 260,092	\$ 8,131	\$ 8,199	\$ –	\$ –
Present value of defined benefit liabilities						
Balance, beginning of year	\$ 206,492	\$ 213,582	\$ 4,849	\$ 5,243	\$ 19,107	\$ 20,054
<i>Included in financial performance</i>						
Current service cost	5,589	6,904	54	81	897	1,022
Interest expense	8,522	7,756	195	186	794	733
<i>Included in other comprehensive (loss) income</i>						
Remeasurement (gains) losses						
Actuarial gains arising from changes in demographic assumptions	–	–	–	–	(896)	–
Actuarial (gains) losses arising from changes in financial assumptions	(19,195)	(21,219)	510	(421)	(2,949)	(2,516)
Actuarial losses (gains) arising from experience adjustments	3,349	(471)	939	(177)	(194)	2
<i>Other</i>						
Plan participant contributions	3,153	3,483	49	58	–	–
Benefit payments and transfers	(3,523)	(3,543)	(135)	(121)	(215)	(188)
Balance, end of year	\$ 204,387	\$ 206,492	\$ 6,461	\$ 4,849	\$ 16,544	\$ 19,107
Net employee benefits asset (liability)	\$ 50,434	\$ 53,600	\$ 1,670	\$ 3,350	\$ (16,544)	\$ (19,107)

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

	March 31, 2023	March 31, 2022
Employee benefits asset, end of year		
RPP	\$ 50,434	\$ 53,600
SRP	1,670	3,350
	52,104	56,950
Employee benefits liability, end of year		
ODBP	(16,544)	(19,107)
	(16,544)	(19,107)
Employee benefits – net asset, end of year	\$ 35,560	\$ 37,843

(d) Employee benefits costs

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

	March 31							
	RPP		SRP		ODBP		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Defined benefit cost (income) recognized in financial performance								
Current service cost	\$ 5,589	\$ 6,904	\$ 54	\$ 81	\$ 897	\$ 1,022	\$ 6,540	\$ 8,007
Administration costs	375	375	15	15	–	–	390	390
Interest cost on defined benefit obligation	8,522	7,756	195	186	794	733	9,511	8,675
Interest income on plan assets	(10,500)	(8,746)	(327)	(270)	–	–	(10,827)	(9,016)
	\$ 3,986	\$ 6,289	\$ (63)	\$ 12	\$ 1,691	\$ 1,755	\$ 5,614	\$ 8,056
Remeasurement of defined benefit plans recognized in other comprehensive (loss) income								
Return on plan assets excluding interest income	\$ (21,211)	\$ (3,721)	\$ (344)	\$ 239	\$ –	\$ –	\$ (21,555)	\$ (3,482)
Actuarial gains (losses)	15,846	21,690	(1,449)	598	4,039	2,514	18,436	24,802
	\$ (5,365)	\$ 17,969	\$ (1,793)	\$ 837	\$ 4,039	\$ 2,514	\$ (3,119)	\$ 21,320

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

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(e) Composition of plan assets

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

	RPP		SRP		Total	
	2023	2022	2023	2022	2023	2022
Investment funds						
Equity securities						
Canadian equity funds	\$ 36,997	\$ 37,774	\$ 1,550	\$ 1,744	\$ 38,547	\$ 39,518
U.S. equity fund	–	–	1,443	1,576	1,443	1,576
International equity funds	98,757	100,000	1,607	1,491	100,364	101,491
Debt securities						
Canadian bond fund	85,572	90,674	–	–	85,572	90,674
Real estate	32,555	31,644	–	–	32,555	31,644
Canada Revenue Agency (CRA) refundable tax account	–	–	3,531	3,388	3,531	3,388
Cash and cash equivalents¹	940	–	–	–	940	–
Total plan assets, end of year	\$ 254,821	\$ 260,092	\$ 8,131	\$ 8,199	\$ 262,952	\$ 268,291

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

The fair value of all equity, debt, and real estate 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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(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	
	2023	2022	2023	2022	2023	2022
Present value of defined benefit liability						
Discount rate	4.90%	4.00%	4.90%	4.00%	4.90%	4.00%
Rate of compensation increase (April 1)						
2022	N/A	3.25%	N/A	3.25%	N/A	3.25%
2023	6.50%	3.25%	6.50%	3.25%	6.50%	3.25%
2024	5.50%	3.25%	5.50%	3.25%	5.50%	3.25%
2025 and beyond	4.00%	3.25%	4.00%	3.25%	4.00%	3.25%
Inflation						
2022	N/A	2.00%	N/A	2.00%	N/A	2.00%
2023	3.70%	2.00%	3.70%	2.00%	3.70%	2.00%
2024	2.20%	2.00%	2.20%	2.00%	2.20%	2.00%
2025 and beyond	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
Benefit costs						
Discount rate	4.00%	3.50%	4.00%	3.50%	4.00%	3.50%
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Assumed medical cost trend rates						
Initial medical cost trend rate					5.09%	5.14%
Ultimate medical cost trend rate					3.92%	3.92%
Year ultimate reached					2040	2040

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

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2023, while holding all other assumptions constant:

	Change	Increase (decrease) in the defined benefit liabilities
Increase in discount rate	1%	\$ (36,797)
Decrease in discount rate	1%	48,064
Increase in long-term rate of compensation increase	1%	12,459
Decrease in long-term rate of compensation increase	1%	(10,942)
Increase in inflation	1%	31,477
Decrease in inflation	1%	(25,746)
Increase in life expectancy	1 year	5,053
Decrease in life expectancy	1 year	(4,893)
Increase in assumed medical cost trend rate	1%	2,263
Decrease in assumed medical cost trend rate	1%	(1,763)

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, as some of the assumptions may be correlated.

(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, 2021	December 31, 2022
SRP	December 31, 2021	December 31, 2022
ODBP	N/A	N/A

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

CATSA estimates that cash payments to be made to its funded defined benefit pension plans for the year ending March 31, 2024, will total \$7,528, and consist of CATSA contributions of \$4,442 and plan participant contributions of \$3,086.

Cash payments to be made to the unfunded ODBP for the year ending March 31, 2024, 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, 2024, will total \$331.

As at March 31, 2023, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 18.3 years (2022 – 19.6 years), 17.4 years (2022 – 16.4 years) and 18.4 years (2022 – 20.4 years), respectively.

(h) Employee costs

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

	March 31, 2023	March 31, 2022
Employee costs (excluding post-employment and termination benefits)	\$ 60,923	\$ 55,037
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	5,614	8,056
Defined contribution pension plan	987	879
Termination benefits	232	206
Total employee costs (note 13)	\$ 67,756	\$ 64,178

10. PROVISIONS AND CONTINGENCIES

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. As at March 31, 2023, claims, audits and legal proceedings are not expected, individually or in the aggregate, to have a material adverse effect on the financial statements.

(a) Provisions

During the year ended March 31, 2023, amounts assessed in prior periods by Transport Canada were paid.

(b) Contingencies – 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 2023/24 and 2036/37 (2022 – 2022/23 and 2036/37) is estimated to be \$3,081 (2022 – \$3,391).

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

11. LEASE LIABILITIES

CATSA has leases 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, 2023	March 31, 2022
Balance, beginning of year	\$ 17,236	\$ 10,674
Additions	511	10,430
Decreases	(92)	(49)
Lease payments	(3,435)	(4,014)
Finance costs	265	194
Foreign exchange revaluation	–	1
Balance, end of year	\$ 14,485	\$ 17,236
Balance, end of year		
Current	\$ 1,777	\$ 3,129
Non-current	12,708	14,107

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

	March 31, 2023	March 31, 2022
Variable lease payments	\$ 2,449	\$ 2,148
Low value leases	55	58
Short-term leases	25	–
Other lease costs (note 13)	\$ 2,529	\$ 2,206

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

For the year ended March 31, 2023, CATSA recognized a total cash outflow for leases of \$5,964 (2022 – \$6,220).

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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

	March 31, 2023	March 31, 2022
No later than 1 year	\$ 4,840	\$ 5,931
Later than 1 year and no later than 5 years	14,221	13,852
Later than 5 years	982	3,387
	\$ 20,043	\$ 23,170

12. DEFERRED GOVERNMENT FUNDING

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

	March 31, 2023	March 31, 2022
Deferred government funding related to operating expenses		
Balance, beginning of year	\$ 18,241	\$ 21,079
Parliamentary appropriations used to fund operating expenses (note 14)	849,013	674,625
Parliamentary appropriations for operating expenses recognized in financial performance	(848,001)	(677,463)
Balance, end of year	\$ 19,253	\$ 18,241
Deferred government funding related to capital expenditures		
Balance, beginning of year	\$ 406,579	\$ 479,306
Parliamentary appropriations used to fund capital expenditures (note 14)	13,016	6,259
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(40,415)	(78,986)
Balance, end of year	\$ 379,180	\$ 406,579
Total deferred government funding, end of year	\$ 398,433	\$ 424,820

For additional information on government funding, see note 14.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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, 2023	March 31, 2022
Screening services and other related costs		
Payments to screening contractors	\$ 693,700	\$ 528,801
Uniforms and other screening costs	11,777	10,439
Trace and consumables	8,094	9,406
	713,571	548,646
Equipment operating and maintenance		
Equipment maintenance and spare parts	41,097	38,714
RAIC	1,108	663
Training and certification	306	546
	42,511	39,923
Program support and corporate services		
Employee costs (note 9)	67,756	64,178
Professional services and other business related costs ¹	8,615	5,707
Office and computer expenses	8,071	6,964
Other administrative costs ²	6,556	6,256
Other lease costs (note 11)	2,529	2,206
Communications and public awareness	951	873
	94,478	86,184
Depreciation and amortization		
Depreciation of property and equipment (note 6)	38,725	74,463
Depreciation of right-of-use assets (note 8)	3,407	3,611
Amortization of intangible assets (note 7)	2,162	2,588
	44,294	80,662
	\$ 894,854	\$ 755,415

¹ Other business related costs include travel expenses, conference fees, membership and association fees, and meeting expenses.

² Other administrative costs include insurance, network and telephone expenses, and facilities maintenance.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

14. GOVERNMENT FUNDING

Parliamentary appropriations were as follows for the years ended:

	March 31, 2023	March 31, 2022
Main estimates	\$ 567,486	\$ 567,829
Supplementary estimates	355,203	291,711
Total voted appropriations	922,689	859,540
Capital reprofile to future year-in progress ¹	(44,786)	(25,468)
Unused portion of parliamentary appropriations	(12,439)	(149,312)
Total parliamentary appropriations used	\$ 865,464	\$ 684,760

¹ The capital reprofile in progress for the year ended March 31, 2022, was approved during the year ended March 31, 2023.

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

	March 31, 2023	March 31, 2022
Parliamentary appropriations used to fund operating expenses (note 12)	\$ 849,013	\$ 674,625
Parliamentary appropriations used to fund capital expenditures (note 12)	13,016	6,259
Parliamentary appropriations for lease payments	3,435	3,876
Total parliamentary appropriations used	\$ 865,464	\$ 684,760

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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 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, 2023		March 31, 2022	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets ¹	\$ 22	\$ 22	\$ 40	\$ 40
Derivative financial liabilities ¹	10	10	–	–

¹ The fair value is based on a discounted cash flow model based on observable inputs.

There were no transfers between levels during the years ended March 31, 2023, or 2022.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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, 2023	\$ 311	\$ 420
March 31, 2022	1,542	1,929

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 \$21 (2022 – \$96).

(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.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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, 2023
Trade and other payables	\$ 118,600	\$ 23,290	\$ –	\$ 141,890
Holdbacks	163	1,655	–	1,818
Derivative financial liabilities	–	–	10	10
	Less than 3 months	3 months to 1 year	Greater than 1 year	Total at March 31, 2022
Trade and other payables	\$ 92,124	\$ 14,624	\$ –	\$ 106,748
Holdbacks	58	1,579	–	1,637

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2022.

(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, screening services receivables and foreign exchange forward contracts. The maximum exposure to credit risk of CATSA at March 31, 2023, and 2022, was the carrying value of these assets.

(i) Screening services – supplemental and other

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.

CATSA had no supplemental or other screening services receivables at March 31, 2023, and 2022.

(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, 2023		March 31, 2022	
	Notional	Fair Value	Notional	Fair Value
Foreign exchange forward contracts ¹	\$ 22,560	\$ 22,572	\$ 17,901	\$ 17,941

¹ As at March 31, 2023, the foreign exchange forward contracts' rates are between 1.2452 and 1.3591 for foreign exchange forward contracts in USD and the maturity dates are between April 6, 2023 and April 10, 2024.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

16. CONTRACTUAL COMMITMENTS

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

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

	March 31, 2023	March 31, 2022 ¹
Payments to screening contractors	\$ 997,438	\$ 1,661,567
Equipment maintenance and spare parts	159,197	90,832
Employee costs	18,764	26,896
Property and equipment, and intangible assets	18,777	5,814
Uniforms and other screening costs	7,341	18,432
Other	19,342	18,420
	\$ 1,220,859	\$ 1,821,961

¹ The reclassification of comparative figures was to conform to the presentation adopted for the current year. For additional information see note 3(p).

17. RELATED PARTY TRANSACTIONS

CATSA had the following significant 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 \$891,851 (2022 – \$760,325), 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 \$120,464 (2022 – \$91,760), are included in trade and other receivables on the Statement of Financial Position.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

(b) Key management personnel

As at March 31, 2023, key management personnel of CATSA are composed of 10 (2022 – 10) Board members and five (2022 – 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, 2023	March 31, 2022
Salaries, other short-term employee benefits and termination benefits	\$ 1,817	\$ 1,674
Post-employment benefits	238	293
	\$ 2,055	\$ 1,967

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, 2023, or 2022.

(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, 2023, or 2022.

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, and current lease liabilities.

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2023, or March 31, 2022.

CATSA is not subject to externally imposed capital requirements.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2023

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, 2023	March 31, 2022
(Increase) decrease in trade and other receivables	\$ (28,291)	\$ 7,901
(Increase) decrease in inventories	(36)	1,147
(Increase) decrease in prepaids	(999)	177
Increase in trade and other payables	31,875	18,140
Decrease in provisions	(200)	–
Increase (decrease) in holdbacks	10	(30)
Increase (decrease) in deferred government funding related to operating expenses	1,012	(2,838)
	\$ 3,371	\$ 24,497

The change in trade and other receivables excludes an amount of \$516 (2022 – \$9,958) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in inventories excludes an amount of \$23 (2022 – \$1,514) 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 trade and other payables excludes an amount of \$3,267 (2022 – \$21,583) 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 \$171 (2022 – \$20,685) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

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.

Negotiations are on hold. The timeline for negotiations and the potential sale remains undetermined.

For more information, please visit our website:

www.catsa.gc.ca

Alternative formats such as braille, large print, and audio of the 2023 Annual Report can be made available upon request.

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