



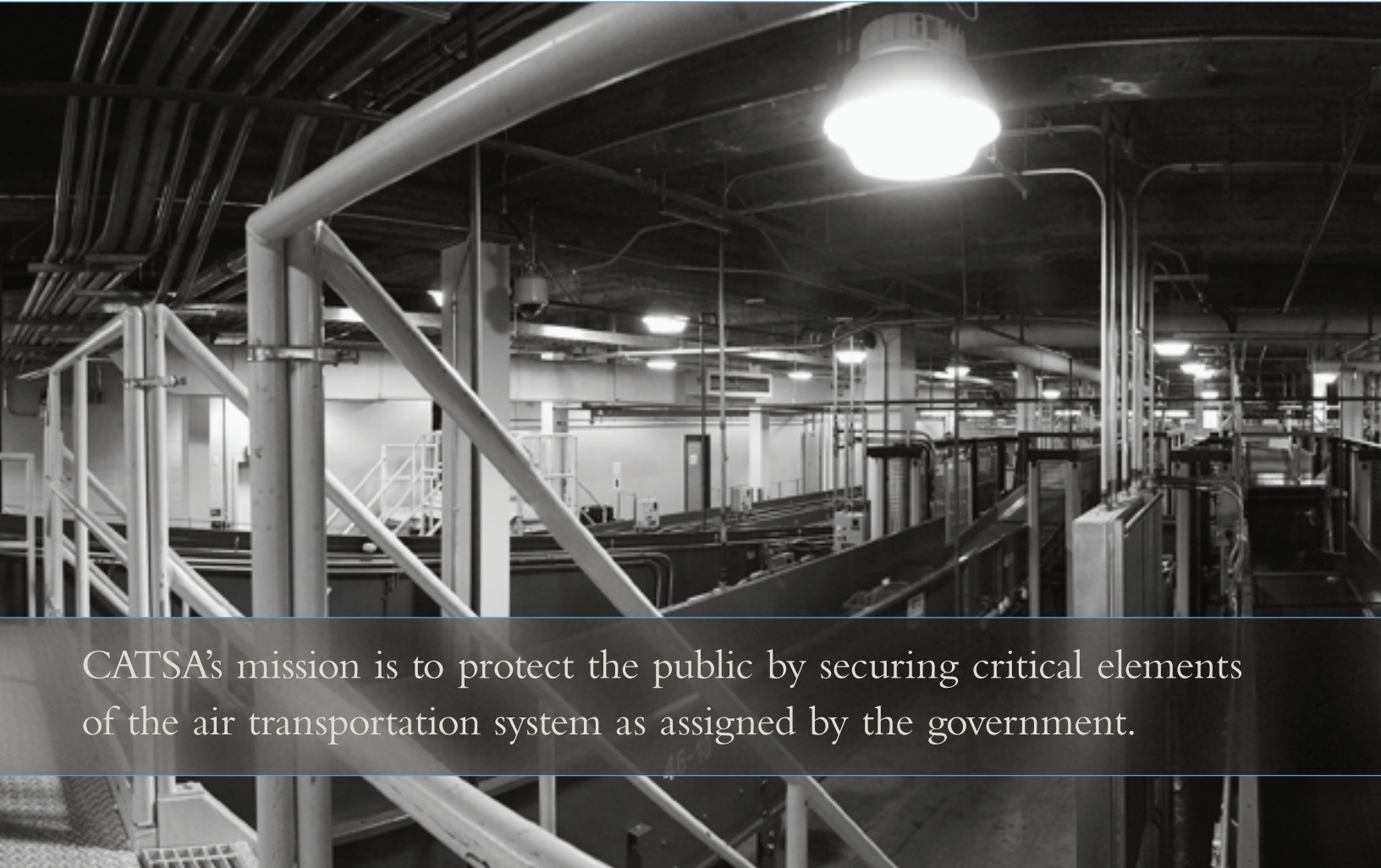
## MEASURING FOR RESULTS



Canadian Air Transport  
Security Authority

Administration canadienne  
de la sûreté du transport aérien

Canada



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

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CATSA dedicates this publication to the memory of Michael Weeks, CATSA's General Manager of Screening Contracts, who passed away in 2005 following a brief and brave battle with cancer. Mike's professionalism, sense of humour and positive approach to work and life will be missed not only by friends and colleagues at CATSA, but by those throughout the Canadian aviation industry.



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# GLOSSARY



**Canada's 8 busiest airports** - Calgary, Edmonton, Halifax, Montreal (Pierre Elliott Trudeau), Ottawa, Toronto (Pearson), Vancouver, Winnipeg

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

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

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

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

**RAIC** - Restricted Area Identification Card: an identification card issued to all employees authorized to enter the restricted areas of Canada's major airports

**SeMS** - Security Management System: a systematic approach to setting annual security targets, clarifying security roles and responsibilities in an organization, assessing and managing risks, developing contingency plans, conducting audits, and measuring and evaluating performance on an ongoing basis

# CATSA by the Numbers



- 39 million** Passengers screened
- 60 million** Pieces of luggage screened
- 700,000** Security screenings of employees at airports
- 4,400** Screening officers trained and contracted
- 6,000** Pieces of operational equipment
- 650,000** Prohibited items intercepted
- 2.5 %** Percentage increase in passenger volumes since 2004/05
- 94%** Satisfaction rate of passengers
- 89** Airports covered nationwide



G513

CAUTION ATTENTION  
RADIATION HAZARD  
DO NOT OPEN  
DOOR  
UNLESS  
STOPPED  
DO NOT  
REPAIR  
OR  
MAINTAIN  
UNTIL  
STOPPED



# MESSAGE FROM THE CHAIRMAN



As I reflect back on my first year as CATSA's Chair, there are two points which come immediately to mind.

The first is that my integration into CATSA was made much easier by the able assistance provided by the Board of Directors. I am fortunate to have become the Chair of a dynamic Board whose members bring significant expertise and commitment to the table at each of our meetings. This has made my task as a new Chair a less daunting one and for this, I wish to thank the members of the Board. I would also like to thank Darrel G. Smith and Murray Sigler, who left the Board in 2005, for their significant contribution. A very large thank you goes to my predecessor Brian Flemming who served as first Chair of CATSA and ably led the Authority through its start-up phase.

The second point is that my initial year at CATSA has proven to be a very busy one for the Authority. CATSA is undergoing a five-year legislative review of the *CATSA Act*. This review is of critical importance to CATSA as it will look at our role and the future of air travel security. The Office of the Auditor General of Canada is also conducting a Special Examination of CATSA under the *Financial Administration Act* which will examine the

Authority's systems and practices and report back to the Board. Both of these initiatives have necessitated a large amount of additional work on the part of CATSA employees. On behalf of the Board of Directors, I would like to thank employees for their hard work in supporting the Five-Year Review and the Special Examination in addition to an already demanding workload.

There is no doubt that the Five-Year Review will provide much food for thought on CATSA's strategic direction going forward. At its strategic retreat last September, the Board of Directors reflected upon the continuing evolution of CATSA as we move from "deployment" to ongoing operations. The Board set the following strategic objectives for CATSA: operational flexibility to allow CATSA to target resources to threat; financial flexibility in order to plan, establish and maintain our security systems; access to actionable information in order to respond to emerging threats and to guide innovation; and building strong partnerships to ensure the open communication and the reciprocity required to facilitate a common security agenda. In line with the theme of this year's Annual Report, measuring for results will allow us to be accountable and to chart our progress towards achieving our objectives.

The nature of the threat environment has changed since CATSA was established and we must continue to adapt to counter the ever-changing threat. To do otherwise would be to ignore the fact that history has taught us: those who fail to adapt cannot succeed. We know that we cannot afford to become complacent on the strength of our first four successful years. While we must continue to provide effective screening services everyday, we must also align operations in response to the evolving threat landscape.

While we cannot foresee what the future may bring, we remain firmly committed to working with Transport Canada, other government stakeholders and aviation and security partners to continue to fulfill our important mandate and critical role in securing the air transportation system.

A handwritten signature in black ink that reads "M. Baril". The signature is written in a cursive, slightly slanted style.

General (Ret'd) Maurice Baril, CMM, MSM, CD  
Chair

# Message from the President and CEO



*I am pleased to present “Measuring for Results”, CATSA’s Fourth Annual Report.*

I submit this report on a decisively positive note – CATSA has succeeded in making aviation a harder target for terrorists and has flourished into a credible, accountable and expert security authority. Our employees and frontline screening officers are at the heart of this success – they continue to demonstrate a strong commitment to helping CATSA achieve our objectives, as well as a notable dedication to excellence in security.

## ASSESSING

Terrorists today are sophisticated, flexible, adaptive, resourceful, dedicated and highly lethal. We, in Canada, are certainly not immune to terrorism and the civil aviation industry remains a potential target for terrorists. This is the reality that CATSA must face on a daily basis.

The nature of the terrorist threat today also makes it essential for CATSA to think and act creatively and to embrace innovation and new ideas. Above all else, we must be an agile and resilient security authority – one that is capable of not only detecting and deterring terrorism, but also of responding effectively and efficiently in the event of an attack and recovering quickly afterwards.

## GUARDING

This past year, we succeeded in adding new layers of security to the system, as well as strengthening existing ones. One of our biggest achievements to date is in the area of hold baggage screening. As of January 1, 2006, CATSA achieved 100% screening of checked luggage for explosives in all 89 designated airports across Canada. The state-of-the-art explosives detection systems CATSA deployed represent a half-billion dollar investment by the government that was delivered ahead of schedule and under budget. Canada now exceeds the International Civil Aviation Organization’s standard regarding the screening of checked baggage.

Another major achievement for CATSA is the progress we have made implementing the Restricted Area Identification Card which utilizes leading-edge biometric technology to confirm the identity of the cardholder. To date, 30,000 airport workers at nine of Canada’s major airports are enrolled in the program. Once enrolment is complete, 120,000 airport workers will be registered at all major airports.

Screening officers are a critical and essential link in the security chain and are responsible for helping to protect the travelling public. Thus, in the past year, we have enhanced CATSA’s screening officer training program through the deployment of two advanced computer-based modules, X-Ray Tutor and Threat Image Projection System to motivate, build confidence and perfect screening skills so that we can keep raising performance standards and continually adapt to the ever-changing threat environment.

## INTERVENING

Over the past year, CATSA employees and our frontline screening officers demonstrated their professionalism, initiative, and skills by actively responding to incidents at screening checkpoints at airports across Canada. Our Security Communications Centre at CATSA's headquarters also plays an important and active coordination and management role in the incident response process across the country.

We have also improved our ability to react and respond to security incidents through the deployment of closed-circuit television cameras to PBS checkpoints at Canada's busiest airports. We now conduct our own exercises at screening checkpoints to ensure we have the right procedures in place to respond effectively and appropriately to incidents and events of all kinds.

## LEARNING

"Measuring for Results" is a pertinent theme for this year's report, especially as we continue to focus more on assessing and improving our performance. The results of our performance provide us with the necessary feedback to ensure we are appropriately organized and equipped for the future.

CATSA has adopted the Balanced Scorecard approach and Business Intelligence system to manage and measure corporate performance and to achieve strategic objectives. Another key component of CATSA's strategy is quality management, which is why we are also implementing a Security Management System. CATSA's SeMS is similar to safety management systems used in other fields, but is designed specifically to meet CATSA's unique security requirements.

## EVOLVING

Heading into our fifth year of operation, there is still much work to be done. CATSA's senior executive team, along with our Board of Directors, is seeking increased operational and financial flexibility in order to ensure we are able to continue to evolve into a credible and accountable security authority. We are also looking at ways to work more closely with intelligence and law enforcement communities and to build cooperative bridges with our other security partners.

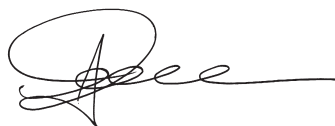
We will continue to strengthen relationships with screening officers and service providers through such initiatives as the cross-country "Sharing CATSA's Vision" tour and follow-up communication program and action plan. When I reflect back on the tour, I recall meeting many remarkable people who had one thing in common: pride in the important role they play in securing Canada's air transportation system.

## MOVING FORWARD

This is a critical time in CATSA's short history. In the fall of 2005, two major statutory reviews began. First, the Minister of Transport named a Five-Year Review panel to assess the *CATSA Act* and to advise the Minister of Transport on a number of issues relating to CATSA's future operations and requirements. Second, the Office of the Auditor General is conducting a Special Examination, as per the *Financial Administration Act*, to provide an independent and objective opinion on whether our operations and activities have been carried out efficiently and effectively.

The Five-Year Review gives CATSA and our partners in the aviation security community a unique opportunity to influence how the aviation security system in Canada can be improved. The Special Examination, too, will help us to focus our efforts and resources where they are most needed with the goal of improving our operations and enhancing security. CATSA welcomes both of these reviews.

Yes, we have been very busy, and yes, we have accomplished a lot – thanks in part to collaborative relationships with Transport Canada and our partners: airlines, airports, service providers and both domestic and international security organizations. In conclusion, I would also like to extend my thanks and gratitude to the Board of Directors, CATSA employees, our service providers, the travelling public and especially CATSA screening officers for their efforts in helping CATSA to continue to strive toward achieving its vision of becoming a world leader in aviation security. Together, there is nothing we cannot achieve.



Jacques Duchesneau, C.M.  
President and Chief Executive Officer

# Who We Are

CATSA is a Crown corporation created in April 2002 to allow the Government of Canada to assume a more direct role in Canada's aviation security, most notably in the area of screening passengers and their belongings. Every year, CATSA screens more than 39 million passengers travelling on aircraft departing from Canada's major airports and that number continues to grow.

## MISSION:

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

## VISION:

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

To continue to make Canada's air transportation system more secure, CATSA pursues a strategy to ensure that it evolves as an aviation security authority – one that deploys its resources and aligns its actions strategically so that it can continuously improve in fulfilling its mission. With this objective in mind, CATSA's strategy is focused on four priority areas that will allow the authority to be proactive in implementing effective, flexible responses to emerging threats:

- Operational flexibility;
- Financial flexibility;
- Access to actionable information; and
- Working effectively with our partners.

## SECURITY PROGRAMS

CATSA's mandated activities are divided into six programs:

### 1. Screening Passengers and their Carry-on Baggage

CATSA is responsible for pre-board screening at 89 designated airports. In the screening process, passengers and their carry-on baggage are inspected to ensure that prohibited items, such as knives, firearms, incendiary devices, explosives, or any other threat items are not carried onto an airplane.

### 2. Screening Checked Baggage

CATSA is responsible for screening checked baggage at designated airports and does so through the use of state-

## PARTNERS IN SECURITY: CATSA, SERVICE PROVIDERS, AIRPORTS AND AIRLINES

CATSA employs a third-party screening contractor model to provide effective (both in terms of cost and security), efficient, and consistent screening of passengers and baggage at designated airports across Canada.



Through this public-private partnership model, CATSA is able to focus its resources on providing effective oversight, contract management, training, communication, and quality assurance functions to maximize the Government of Canada's financial investment and ensure the continued security and integrity of the screening

process. "CATSA could not deliver its important programs without the full cooperation of airports, airlines and our service providers who all play important roles in securing the travelling public," according to Mark Duncan, CATSA's Executive Vice-President and Chief Operating Officer.

CATSA's operations managers allow us to be in constant contact with the frontlines, which facilitates the efficient allocation of screening officers, awareness of and timely response to incidents, as well as comprehensive performance analysis and reporting. These measures establish clear lines of accountability between screening providers and CATSA to ensure the highest level of security and customer service to Canadians.

of-the-art explosives detection system equipment. This responsibility includes the purchase, integration and certification of equipment while also overseeing its operation and maintenance.

### 3. Screening Non-Passengers Accessing Restricted Areas at Airports

Screening of non-passengers at restricted-area access points and/or inside restricted areas occurs randomly on a 24 hour/7 day basis at Canada's major airports. A non-



“Ensuring Canada’s aviation system remains one of the most secure in the world is a priority for the Government of Canada. I’m proud to report that Canada has met, and indeed exceeded, the international standard set by ICAO to address the risk associated with explosives in checked baggage.” **The Honourable Lawrence Cannon**, Minister of

Transport, Infrastructure and Communities on CATSA’s full deployment of HBS equipment across the country, on budget and ahead of schedule

passenger is any individual whose workplace is an airport, who visits an airport to provide a service or deliver goods, or who passes through an airport and requires access to the designated restricted areas. This includes flight crews, caterers, maintenance personnel, and baggage handlers.

#### **4. Enhancing the Airport Pass System for Restricted Areas**

All non-passengers who need access to restricted areas at the airport are presently required to carry a Restricted Area Pass. CATSA is working with Transport Canada and major airports to replace this pass with a Restricted Area Identification Card (RAIC). The addition of biometrics and a centralized databank will allow for the positive identification of the cardholder, and allow CATSA to establish the validity of credentials.

#### **5. Administering the Canadian Air Carrier Protective Program**

CATSA provides funding to the Royal Canadian Mounted Police (RCMP) to place specially trained police officers onboard selected Canadian commercial aircraft. CATSA also conducts periodic evaluations of the program to ensure that it meets intended goals.

#### **6. Administering Airport Policing Funding Agreements**

Certain airports are responsible, under Transport Canada regulations, for providing aviation-related policing at airports. In order to offset a portion of related costs, CATSA provides funding to these airports.



# A Year in Review

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“I enjoy the interaction with the public, the job is much more than the conventional 9-5 grind and I have the opportunity to interact with people of all walks of life as they travel around Canada and the world. We have a great opportunity to learn different facets of the security system and contribute to keeping the travelling public safe and secure.” **Greg Derkach**, Formerly CEO of Hospitals and Medical Districts Northern Communities

Currently Garda of Canada Employee, 2 years, Edmonton International Airport

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## PROTECTING CANADIANS CONTINUES TO BE OUR TOP PRIORITY

In CATSA's first Annual Report in 2003, we introduced ourselves to Canadians as a new Government of Canada authority bringing together some of the most knowledgeable people in air transport security under one roof to ensure that the events of September 11th could not occur in this country. CATSA's second Annual Report, "Working Together," highlighted the importance of the larger public security community to which we belong and the importance of working together to achieve the collective goal of protecting Canadians. Last year in "Anticipating the Unexpected," we elaborated on the steps CATSA was taking to build a more resilient organization that could not only manage, but anticipate, the unexpected. This year's theme, "Measuring for Results" acknowledges CATSA's move toward becoming a mature organization, one that is accountable for meeting its goals and that will continue to merit the confidence of Canadians. We've achieved some important milestones this year that bring real improvements to air transport security.

We completed the deployment, installation and commissioning of explosives detection equipment at all 89 airports for domestic and international flights. In doing so, CATSA exceeded the International Civil Aviation Organization's requirement to screen internationally-bound baggage. Canada can be proud of this accomplishment, and Canadians can be

confident that every piece of luggage that is loaded onto an aircraft departing any one of its 89 designated airports has been screened and is cleared.



We also kept our commitment to enhance security for airport workers. By the end of March 2006, we had completed the delivery of the necessary equipment to begin transitioning from current access cards for airport workers to a new, enhanced biometric card that will validate the identity of the worker and ensure that the person has authority to enter the restricted area. Airports are now proceeding with the enrolment of personnel, airline crews and airport tenants.

We made significant investments in training the screening officers that represent CATSA every day and assumed full responsibility for their training, testing and certification. Prior to this year, we had contracted out most of this responsibility. Now that we conduct our own in-house training, we introduced new tools, such as X-Ray Tutor and the Threat Image Projection System to help screening officers enhance their detection capabilities and their knowledge of potential threats. CATSA

## SHARING CATSA'S VISION



There are over 4,400 screening officers across Canada who report to 13 different service providers. They are on the frontlines and are CATSA's first point of contact with the public. In light of the leading role screening officers play in CATSA's security mandate, our senior executive team undertook a communications exercise to build understanding and acceptance of our mission and values on the frontlines and to reinforce their responsibilities in ensuring air security in Canada. "Sharing CATSA's Vision" was also intended to communicate to screening officers the importance of their role as our frontline representatives and to instill pride in their work.

In late August and early September 2005, CATSA's President & CEO and members of the senior executive team travelled to airports across the country to meet face to face with screening officers. Each session included a presentation followed by a 'Q&A' period that provided screening officers with the opportunity to ask questions and share their concerns directly with senior management in an open and transparent manner. Each session produced valuable insights regarding operations, training, working conditions, the growing problem of unruly passengers, and communications. In all, the sessions brought CATSA's senior executives face to face with nearly 1,200 screening officers.

Following the tour, CATSA developed a website for screening officers and also implemented a National Continuous Consultation Program to revisit these airports and ensure that appropriate follow-up is taken.



"The National Continuous Consultation Program is giving screening officers and point

leaders a chance to discuss openly the issues they identified during the Sharing CATSA's Vision tour, as well as the solutions needed to address them. I think this kind of follow-up program helps building a culture of continuous improvement and leads to better security."

Judy Darling, Senior Advisor & Special Projects

Learning & Performance

personnel met these challenges with determination and professionalism. Our training program is one that many countries want to emulate and we are proud of this important milestone.

As part of Sharing CATSA's Vision, our President & CEO and members of the senior executive team travelled to airports across the country to meet with screening officers and their employers and hear firsthand about their experiences, concerns and suggestions for making the system better. The feedback received from this initiative was very positive and resulted in the creation of additional communication tools and better access to the latest information. We will continue to meet with screening officers to ensure they remain engaged and committed to the important mission of protecting Canadians.

## CONTINUOUS IMPROVEMENT

Through its continuous improvement philosophy, CATSA has introduced a number of enhancements, including significantly revised contractual terms; improved financial and accounting processes; increased oversight and a focus on frontline communications; investments in technology and automation to analyze and optimize operations; incorporating best practices and lessons learned into existing security programs and business processes; and quality assurance initiatives.

## IMPROVED PERFORMANCE AND ACCOUNTABILITY

CATSA has taken the initiative to make sure that Canadians are getting value for money. During the course of 2005/06, we further enhanced our Performance Payment Program to better measure and evaluate the screening consistency, cost effectiveness, business practices and customer service of screening providers. CATSA also developed an accreditation program aimed at ensuring that all potential screening contractors meet basic requirements before being considered as a potential service provider. We believe these two programs will strengthen accountability and assist CATSA in getting the most value for money with the best providers in the industry by requiring these service providers to maintain their accreditation.

We recognized that continuous improvement and monitoring are important management functions. In 2005/06, we established and implemented an Emergency Preparedness framework that supports the National Security Policy and complements the Federal Emergency Preparedness mandate. In six short months, CATSA conducted and/or participated in over 130 simulated breach exercises nationwide. We contributed to and were active members of the Government of Canada's interdepartmental initiative on emergency preparedness. CATSA firmly believes that "practice makes perfect" and will continue to conduct exercises at airports and at our headquarters to ensure any crisis can be managed effectively and CATSA recovers quickly.

As we move into our next five years, we will be developing a SeMS that will be the central focus for CATSA processes, procedures and contingency and management plans. We firmly

believe that an effective SeMS will lead to greater regulatory flexibility and thus enable CATSA to respond more efficiently to emerging situations. We will continue to pursue this with our regulator, Transport Canada to aim for regulations that are flexible, adaptable and responsive.

## MATCHING RESOURCES TO STRATEGIC PRIORITIES

As CATSA becomes a more established security authority, we must look at our own internal measuring and reporting systems to ensure clear accountability. During the past year, CATSA has introduced a corporate strategy map, balanced scorecard methodology and Business Intelligence system to keep us focused and oriented. We are proud to report that CATSA was a finalist in the Technology in Government (GTEC) Distinction award category for Enhancing Government Operations as a result of our Business Intelligence system.

## WORKING WITH PARTNERS

Security is everyone's business. It is with this in mind that CATSA expends resources and time to enhance our partnerships. In the United States, the *9-11 Commission Report* concluded that communications breakdown was a significant factor in the failure to intercept the terrorists. CATSA has learned from this report and has pursued opportunities to exchange information and enhance partnerships, both nationally and internationally. As indicated in previous annual reports, CATSA was the founding organization of the International Forum for Security Screening in Aviation Conference. Over the past three years, these conferences have been hosted in Canada, South Africa and Israel. We look forward to continuing to expand these important relationships. International partnerships are important but national coordination and communications are critical to ensuring Canada's credibility on the international scene. For this reason, CATSA has been instrumental in initiating interdepartmental and intergovernmental meetings to discuss issues of common interest such as challenges associated with uncovering and reacting to security threats and information sharing. CATSA co-hosted the first Canadian conference of industry, government and industry representatives to discuss ways to improve aviation security. It is through opportunities such as these and proactive disclosure of information with our international partners that we will stay a step ahead of the terrorists.



# Then and Now: CATSA's first 4 years

	2002	2006
<b>Consistency of Services</b>	Different screening contracts with different screening providers.	Initiated enhanced security screening services contracts. CATSA introduced standard operating procedures and operational plans for all 89 airports.
<b>Integrated Security</b>	Security incidents and surrendered items managed locally. Security functions delivered to meet regulations at individual airports.	CATSA has created a Security Communications Centre (SCC) to capture and analyze all incidents on a national basis. The SCC was created to improve coordination of information between headquarters and airports, enhance service delivery and act as a 'command centre' in the event of an emergency. Security delivery and incident management carried out on a national basis with a focus on continuous improvement.
<b>Accountability</b>	Rested with individual airlines for their passengers.	CATSA accountable to Parliament through the Minister of Transport.
<b>Screening Checked Baggage</b>	Limited screening in place.	Screening of 100% of checked baggage, implemented one year ahead of commitment made in Budget 2001 and exceeding ICAO requirements, using world-class techniques and technology.
<b>Explosives Detection Systems</b>	No national system in place.	Explosives detection equipment has been deployed at all 89 designated airports.
<b>Security Measures for Airport Restricted Areas</b>	Non-passengers not screened, but possessed Restricted Area Pass.	Approximately 700,000 non-passengers are screened annually. CATSA is in the process of implementing the enhanced RAIC based on biometrics technology.
<b>Training Screening Officers</b>	Single course with limited hours of training.	Introduced enhanced training for screening officers at all airports using training centres, computer-based training, on-the-job training and distance learning tools. Tripled the number of hours of training provided to screening officers.
<b>Conditions of Employment for Screening Officers</b>	Generally low-paying jobs with high turnover rates.	CATSA introduced standards to meet quality objectives, including improved training, higher rates of pay and possibilities for career development.
<b>Awareness and Customer Service</b>	Limited public awareness.	Enhanced customer service through training, bilingual greetings, news articles, and consultative approach with partners and the airport community. In a recent survey, 91-95% of passengers were very satisfied with the screening process, the level of professionalism of screening officers and the time it took to be screened.
<b>Partnerships</b>	Security screening coordination was done on an individual airport basis.	As a security organization, CATSA has raised its national profile with the Air Transportation Association of Canada, the Canadian Airports Council and other stakeholders. At the international level, CATSA has initiated the International Forum for Security Screening in Aviation that brings together international partners in the aviation security industry to share ideas and focus on aviation security screening best practices through understanding and cooperation.



# CATSA Performance

On January 1, 2006, CATSA marked an important milestone in the pursuit of a more secure aviation system for Canadians. Attaining 100% HBS at 89 airports across Canada in just over three years was no simple task. In that time, 105 HBS systems were installed of which more than 40 are fully automated, over 4,000 test bags were developed and 7,000 tests were completed involving more than 20,000 person hours. This impressive accomplishment does not eliminate the reality that there still remains much to do to ensure the ongoing security of Canadians.

CATSA must be strategic in devising and implementing operational measures that successfully address emerging security threats. We must also work closely with Transport Canada, other government organizations and external stakeholders in fostering positive solutions to new threats. In short, we must become an enduring, adaptable and authoritative security leader.

To achieve this strategic direction, CATSA is focusing on four strategic priorities:

- Operational flexibility;
- Financial flexibility;
- Access to actionable information; and
- Working effectively with our partners.

In 2004/05, CATSA adopted a balanced scorecard to align its activities with the above strategic priorities. The aim in implementing the balanced scorecard is to translate vision into corporate objectives, measures, targets and initiatives with a view to improving transparency and accountability. Each objective falls into one of eight different balanced scorecard perspectives: customer, operational flexibility, people, partnerships, actionable information, financial, financial flexibility and shareholder/governance. Below are explanations of the customer, operational flexibility, people, partnerships and actionable information perspectives, while the Management Discussion and Analysis and financial tables elaborate on the financial and financial flexibility perspectives. As CATSA continues to develop its scorecard, our performance measurement will evolve to a more mature state.



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“The Balanced Scorecard approach to performance management presents a tremendous

opportunity for all employees to not only buy in to CATSA’s strategy, but also make tangible contributions to furthering the authority’s strategic priorities. We’re now implementing cascading scorecards - from the Vice President level, through management, right down to the working level - so that individual employees, through their annual performance agreements, can specify how their work applies to and supports CATSA’s strategic objectives.”

Neil Parry, Manager, Strategy

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“There are two reasons for measuring our results: to improve our performance, and to account for our achievements. The first we do every day at CATSA, and the second we are doing through our annual reports, audits, and, especially this year, the Five-Year Review.”

Tara Rajan, Policy Advisor, Strategy

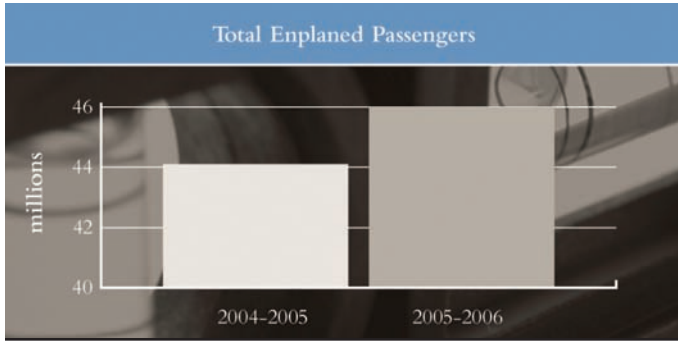
## CUSTOMER

Security is our number one priority and we want to ensure that air travel is secure and that the travelling public has confidence in the air transportation system. Our goal is to create a customer-oriented culture dedicated to high standards and consistent service. As part of striving for continuous improvement, we are always looking for innovative ways to improve the quality of service we give passengers and stakeholders. Security is always our top priority, but we want to ensure minimal disruptions to our customers.



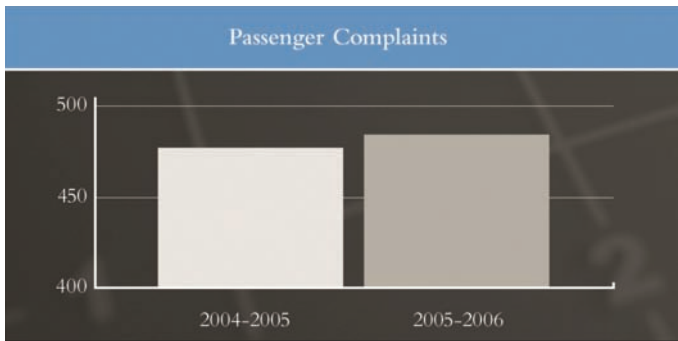
CUSTOMER SATISFACTION SURVEY	2005	2006
Overall experience with the security screening	94% satisfied	93% satisfied
Being treated fairly by the screening officer	95% satisfied	94% satisfied
Level of professionalism of screening officers	91% satisfied	93% satisfied
Level of courtesy and respect with which officer treat you	90% satisfied	92% satisfied
Overall level of confidence in the systems in place to ensure air transportation security	88% confident	94% confident

Results are based on an independent survey by Decima Research Inc. of 2,929 passengers at 16 airports across Canada between March 8 and 17, 2006.



The total number of enplaned revenue passengers at Canada's top 30 airports in 2005/06 is estimated at 46 million. Whereas the total number of passengers screened for the same period is estimated at 39 million.

The number of screened passengers represents the number of passengers going through the PBS process at an airport. The relationship between the number of enplaned passengers and the number of screened passengers is not one-to-one. The number of enplaned passengers includes connecting passengers who typically do not go through the screening process at the connecting airport. Therefore, there can be a significant difference between these two numbers.



Complaints related to PBS procedures and the conduct of the screening officers accounted for 50% of the complaints. CATSA investigates all complaints and ensures that appropriate follow-up actions by itself and by the service provider are taken.



Survey results from 2005 and 2006 indicate a significant increase in public confidence in the air transportation security system.

## HUB OF THE NORTH

Rosalie was an instructor in Newfoundland before coming to Yellowknife. "A Point Leader wears many hats," she says. "I train, evaluate, mentor, supervise the overall security project and do lots of customer service. I think my former experience as an instructor helps me deal with the public, keep the stress levels down and keep the team working well together. Learning Japanese is a good example of that." She heaps praise on CATSA for the equipment it has provided and especially the training for screening officers. "We have good equipment to do our jobs now and great people using it. The level of training is so much higher now than when I started."



Rosalie Smith, Point Leader, Aeroguard Group

Every year, 14,000 to 15,000 tourists, mostly Japanese, converge on Yellowknife between October and March to gaze at the aurora borealis. "We've developed a special relationship with our Japanese visitors," she continues. She's referring to the fact that screening officers have learned a few key phrases of Japanese and that one officer is now fluent in a variety of airport-style vocabulary and phrases. "It doesn't hurt to sound more professional," says Rosalie.

OBJECTIVE	MEASURES	RESULTS 2004/05	RESULTS 2005/06	VARIANCE FROM 2004/05
Optimize Screening	PBS hours	5,792,270	5,334,158	7.9% decrease
	Total screening hours <sup>1</sup>	6,905,859	6,910,075	0.6% increase
	National cost per passenger at PBS	\$2.71	\$2.57	5.1% reduction
	Number of non-threat intercepted items	678,293	650,994	4% reduction
	Number of security incidents	2,147	2,996	39.5% increase <sup>2</sup>
	Wait times: Average queuing times at eight busiest airports	Aug. '04 2:38 minutes, Feb. '05 3:40 minutes	Aug. '05 2:52 minutes, Feb. '06 4:07 minutes	-
	Throughput: Average passenger throughput per half hour during peak periods at eight busiest airports	Aug. '04: 60 Feb. '05: 53	Aug. '05: 63 Feb. '05: 58	-
	Number of complaints	482	477	1% decrease
	Number of passenger claims	33 <sup>3</sup>	151	-

<sup>1</sup> Increase in total screening hours was the result of the full implementation of HBS, which was largely offset by a significant decrease in the number of PBS hours in 2005/06.

<sup>2</sup> The increase in security incidents in 2005/06 can be attributed to the use of a more reliable reporting system. A security incident is defined as any situation with police involvement (e.g. unruly passenger, discovery of prohibited weapon or contraband in checked baggage).

<sup>3</sup> Results not available for first two quarters of 2004/05, when responsibility for the collection of such data rested with screening providers.

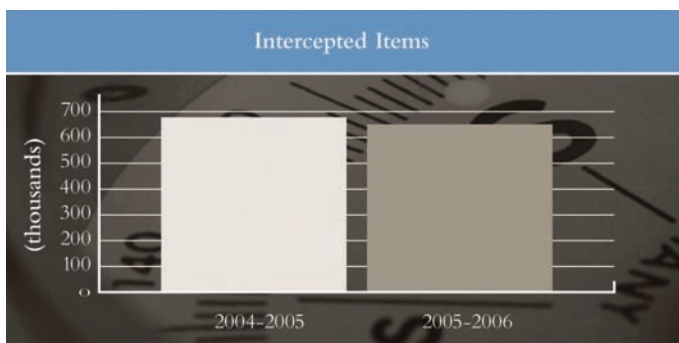
## OPERATIONAL FLEXIBILITY

To help achieve operational flexibility, CATSA's senior executive team has continuously reiterated – whether in Parliamentary committee testimony, meetings with Transport Canada, or in speeches to stakeholders and domestic and international security organizations – the need to adopt a risk-based approach to aviation security. In his speech at the inaugural Canadian Aviation Security Conference in March 2006, Kip Hawley, the new head of the U.S. Transportation Security Administration, echoed many of the same risk-based concepts put forward by CATSA's President & CEO:

- resources are limited and must be prioritized
- there is a need for multiple security layers because people and machines make mistakes
- the threat has shifted and we need to stay ahead of terrorists by introducing unpredictability into our security systems



CATSA has taken steps toward realizing a risk-based approach through developing a risk profile, implementing a SeMS and working with Transport Canada on performance-based regulations. CATSA will continue to work with Transport Canada and our security partners to achieve operational flexibility through the sound application of risk-based analysis.



Periodic changes to the list of prohibited items, which is developed by Transport Canada, can have an impact on the number of intercepted items. Due to the new requirement to surrender cigarette lighters on U.S.-bound flights, the number of items intercepted increased by 33% when comparing fourth quarter results of 2004/05 with 2005/06. However this increase was only 1% when lighters were factored out.

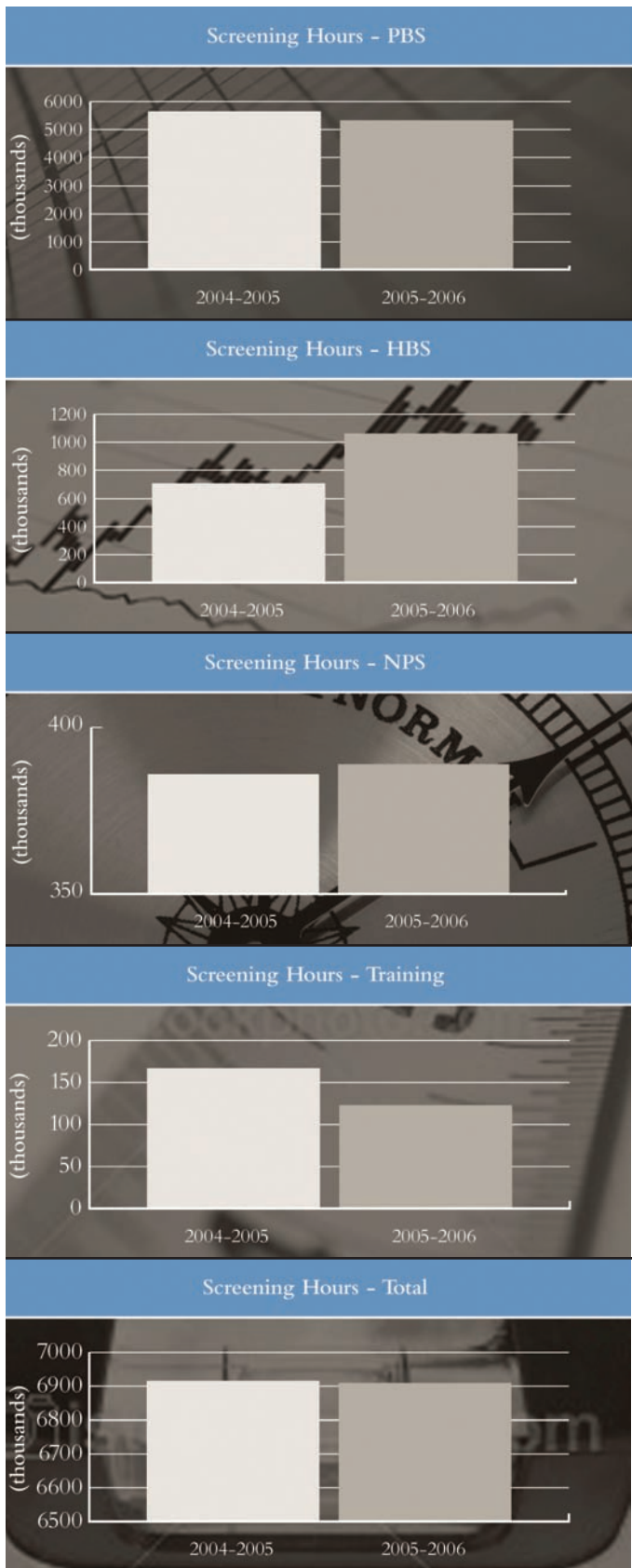
## PREPARING FOR EMERGENCIES

Emergency preparedness is defined as the discipline that ensures that an organization is ready to respond to an emergency in a coordinated, timely, and effective manner to prevent the loss of life, and minimize injury and property damage. In 2005, CATSA identified areas for further improvement with regards to emergency preparedness and business continuity. A number of initiatives have been undertaken to ensure CATSA remains resilient in the event of an emergency, such as an emergency preparedness and business continuity framework, a crisis communications framework, infrastructure and organizational contingencies, procedures for handling emergencies, and a system for tracking actions and events during an emergency or exercise. These improvements are tested through regular exercises to validate their effectiveness and identify areas for improvement, as well as to prepare CATSA staff for emergencies.



**CATSA** **ALSA**  
The South African Civil Aviation Authority  
Department of Transport and Public Works





In 2005/06, CATSA implemented ways to optimize PBS operations in an effort to contain significant operating pressures resulting from growing passenger volumes. HBS and NPS hours increased as both of these programs reached higher levels of operational activity.



## REDUCING DELAYS AT SCREENING CHECKPOINTS

Screening officers at the Deer Lake Regional Airport in Newfoundland and Labrador process over 100,000 people and their personal belongings a year. With that many people passing through, you can imagine that screening officers have no shortage of potentially dangerous items to watch out for.

And so, in addition to keeping potentially dangerous threat objects off the aircraft, CATSA is also conducting an ongoing public awareness campaign to let travellers know what they can and can't bring with them. Robert Gosse, CATSA's regional manager for Atlantic Canada says education is key: the more aware the public is about what is and is not permitted, the quicker the screening process can go. "We've installed specialized equipment, which allows Deer Lake to screen 100% of the passengers and baggage before they get on a plane," says Gosse. "But a lot of it comes down to education."

"Open liquids and homemade wines and beers are a big problem because we've got to verify the contents of any liquid on a plane so that people can't bring on acids or flammable liquids. We have detailed procedures in place to handle any situation and we conduct tests of our security systems once every couple of weeks to make sure everything and everyone is working up to standards."

A list of packing tips is available on the CATSA website [www.catsa.gc.ca](http://www.catsa.gc.ca).

## Security Management System (SeMS)

CATSA's integrated management framework was developed in consideration of an overall SeMS which recognizes the distinctiveness of its role as Canada's air transport security authority, while enabling it to remain accountable in the manner of a corporation.

Some components of CATSA's SeMS include:

- security roles and responsibilities;
- processes and systems for ensuring compliance with regulatory requirements;
- utilization of risk management;
- performance measurement tools; and
- audits, which are conducted in keeping with CATSA continuous improvement philosophy.

CATSA has begun implementing the SeMS, which better positions CATSA to measure and report on how security issues are being managed. In the coming years, consistent with the commitment to continuous improvement, CATSA has a process to ensure that the SeMS remains current.

### EVALUATING CATSA'S SECURITY PROGRAMS

CATSA has already undertaken formative evaluations on PBS and Airport Policing Contribution Program and the Authority is taking action to address recommendations from both evaluations. In the future, additional evaluations will be conducted to provide CATSA with comprehensive analyses of its programs and recommendations to assist the organization to continuously improve the effectiveness of these programs.



### ECONOMIC PRESSURES IN ALBERTA, BRITISH COLUMBIA AND THE NORTH

Economic pressures can have a real impact on CATSA's ability to provide a consistent level of service at pre-board screening.

With an unemployment rate of only 3.5% in early 2006 (source: Statistics Canada), Alberta's white-hot economy caused screening officer staff shortages in several Western airports, including Calgary, Edmonton, Yellowknife, Dawson Creek, Fort St. John, and Fort McMurray, which resulted in long queues and increased wait times. The shortages are largely due to an abundance of well-paying jobs, especially in Alberta, which has made both recruiting and retaining screening officers a challenge for CATSA's service providers.

CATSA has responded by working with our service provider to develop an aggressive hiring campaign for both Edmonton and Calgary. CATSA is also working closely with Transport Canada to manage administrative delays in the certification process for new screening officers.



“Completing the deployment of explosives detection systems to all 89 airports by January 1, 2006 was a huge accomplishment for CATSA, in particular for all members of the equipment implementation and maintenance group and our engineering support firm. We couldn’t have achieved this milestone without their tremendous efforts and the cooperation and assistance of airport authorities, airlines, equipment manufacturers, and Transport Canada.”

**Martin Corrigan**, Director, Project Management and Technology

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## PEOPLE

Since CATSA's creation in 2002, the Government of Canada has entrusted the Authority with a mandate and responsibilities that require highly trained and knowledgeable people from throughout the security field. Attracting and selecting the right people for the job, with the skills and values wanted by CATSA, is no easy task. In addition, it is equally important to ensure that employees and CATSA screening officers have the opportunities to develop the competencies for their current and future positions.

CATSA strives to maintain a workforce built on ethics, entrepreneurship and performance. This means seeking out and developing employees who share CATSA's values, who focus on results and who are encouraged to suggest new and better practices to achieve optimal results. We believe that by adhering to these high standards, CATSA will continue to attract highly motivated people, with a customer service attitude and with a mission to deliver to Canadians the most effective security screening programs possible.



“The training we receive is very thorough. We know what to look for and how to handle any potential threats. It was all new to me when I started and I’ve really enjoyed the training, and I’ve always felt confident on the job because of it.” **Tanya Baker**, Screening Officer, Shannahan’s

Investigation & Security Ltd., Deer Lake Regional Airport, Newfoundland and Labrador



## Training that Counts

CATSA had the privilege of working closely with Jackie Pflug to develop a sensitive and compelling training module about her experience and survival of a terrorist event that happened over 20 years ago. Jackie was a hostage on EgyptAir 648 – a flight that was hijacked while en route from Athens to Cairo and forced to land in Malta on November 23, 1985.

It’s a touching and inspirational interview. She describes her experience as a hostage involved in a deadly event – she had been shot, thrown out of the aircraft and left for dead on the tarmac. She speaks of her recovery from the injuries she sustained during the ordeal, and the challenges she faced in its aftermath. The module will be used to remind screening

officers and the air transportation industry that terrorist events affect real people. As stated by CATSA’s President & CEO Jacques Duchesneau in the introductory remarks of the module, “This is a story that reminds us that we have a responsibility to make air security our number one priority. It reminds us of how our work saves lives every day.”

CATSA is bringing Jackie’s story to every screening officer in Canada through its National Training Program. The module will be offered as part of initial and ongoing training programs. It has been piloted to a number of screening officers already, with astonishing feedback.



## SCREENING OFFICERS:

OBJECTIVE	MEASURE	RESULTS 2004/05	RESULTS 2005/06
Attract, select and retain highly competent, security-cleared personnel	Turnover rate (Screening Officers at eight busiest airports)	12.5%	12.2%
	Screening Officers certified	1066 (met demand)	790 (met demand)
	Advanced training taken by Screening Officers <sup>1</sup>	2041 (met demand)	1444 (met demand)

<sup>1</sup> The same officer may have taken one or more advanced courses covering different subject areas

## CATSA EMPLOYEES:

OBJECTIVE	MEASURE <sup>1</sup>
Attract, select and retain highly competent, security-cleared personnel	Since CATSA began tracking employee turnover in 2005/06, the rate has been 8%
Encourage ethical, performance-based entrepreneurial behaviour	All managers of the Corporation have undertaken a 360° evaluation. CATSA holds frequent “leadership” meetings and meets with all employees at least twice a year. A Pride and Recognition Program is now in its second year of operation
Promote and leverage cross-functional knowledge	CATSA has had several interchange agreements with Transport Canada and other organizations. CATSA employees are also encouraged to seek assignments and an “operations” training program is available to headquarters employees

<sup>1</sup> The results for these objectives are measured qualitatively by looking at the completion of initiatives.



### PRIDE AND RECOGNITION PROGRAM: EMPLOYEE OF THE YEAR

CATSA is pleased to announce Dave Smith, General Manager, Operations Coordinator, as winner of the CEO Employee of the Year Award for 2005-2006.

Dave became CATSA's General Manager of Screening Operations in 2003 after serving 26 years with the RCMP and 15 years as an inspector with Transport Canada, including nine years as Chief Inspector.

Dave was nominated twice for Employee of the Month Award, first in April 2005 and again in February 2006, for his tremendous leadership and problem-solving abilities. When Dave is presented with a challenge, he takes the mission on without hesitation, assembles a team of colleagues to tackle the problem and then follows up by assessing the results.

**Congratulations Dave...we're very proud of you!**

### PARTNERSHIPS

We recognize the importance of forging strong relationships with key domestic stakeholders, such as service providers, airports, airlines, passengers, police, other government departments and agencies, and the general public. These relationships are vital to CATSA's ability to maintain consistent, effective, and efficient service delivery and to respond to customer service needs.



“We are improving aviation security across Canada with the continued deployment of the RAIC system

with its biometric components. Getting the RAIC system in place requires site surveys, equipment installation and integration, training and testing, followed by mass enrolment. We work very closely with each airport operator at the local level to ensure a seamless transition from the current Restricted Area Pass system to the RAIC.”

**Rob Durward**, Director, Technical Programs

In addition to industry partners, as a security authority we understand that security organizations cannot operate in isolation from one another. The *9-11 Commission Report* that investigated the terrorist attacks against the United States sent a strong message to security organizations in that country as well as across the world that cooperation is key to fighting terrorism. CATSA's leading partners in carrying out its mandate are Transport Canada, the RCMP and other government agencies, airports, airlines and screening providers, with whom CATSA has been able to achieve measurable progress through various interagency working groups and technical committees. CATSA also continues to build solid working relationships with its international partners to enable the sharing of information and encourage research into emerging issues.



OBJECTIVE	MEASURE	RESULTS 2004/05	RESULTS 2005/06
Partner with industry in program development and delivery	HBS go-live status (percentage of projects completed)	67%	100%
	Equipment reliability	99%	99%
Quality management principles	Number of incident management exercises achieved as per performance standards (eight busiest airports)	6	68

## ACTIONABLE INFORMATION

Reliable, actionable information is essential to managing security programs in a manner appropriate to the current and emerging threats to air travel. From CATSA's perspective, an integrated approach to security is about establishing networks with security organizations and industry stakeholders to ensure

that relevant threat information is made actionable in a timely manner. By taking advantage of domestic and international expertise, we can develop solutions to make security integral in the environment in which we operate and remain vigilant to any emerging threats.

## CANADIAN AVIATION SECURITY CONFERENCE – MARCH 29-30, 2006



The 2006 Canadian Aviation Security Conference was the result of the efforts of five partner organizations: CATSA, Transport Canada, Canadian Airports Council, Air Transport Association of Canada, and the Canadian Advanced Technology Alliance (CATA). The conference brought together over 260 providers, users and suppliers of the aviation security system, together with senior policy-makers and regulators, to explore the needs of the various users, to look at interoperability issues, and to discuss the evolving risk of future and potential new dangers to the system.

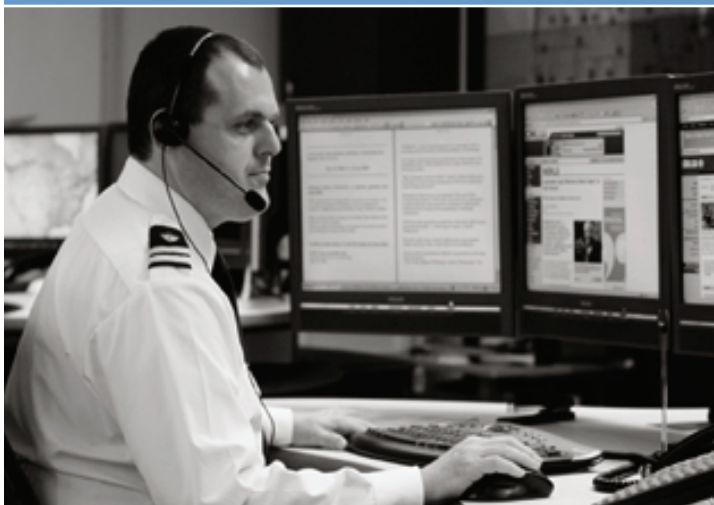


“As part of the team that helped put together the inaugural Canadian Aviation Security Conference, I was struck by the tremendous synergy and spontaneous sharing of information that occurred among such a diverse crowd of people representing government, airports, airlines, security agencies, universities, think

tanks, and equipment manufacturers.”

Tom Hodge, Director, Innovation

## SECURE INFORMATION SYSTEMS



As a security authority with a national mandate, CATSA’s effectiveness depends in large part on its ability to maintain constant communications between headquarters and the frontlines. In the fall of 2005, CATSA added another layer of security to its operations by moving our mission-critical systems to a secure, offsite location.



OBJECTIVE	RESULTS <sup>1</sup>
Drive innovation in security and customer service	Successfully launched the International Forum for Security Screening in Aviation to support the national exchange of information
	Successfully launched a scholarship program to facilitate innovation and knowledge in areas of study closely tied to CATSA's strategic priorities
	Sponsored leading peer-reviewed research on emerging issues
Understand emerging security threats	Moved mission critical systems to a secure, offsite location
	Improved our ability to react and respond to security incidents through the deployment of closed-circuit television cameras to PBS checkpoints at selected airports which are linked to CATSA's Security Communications Centre
	Acquiring new technology to gather data from open sources to improve analysis of emerging threats and trends

<sup>1</sup> The results for these objectives are measured qualitatively by looking at the completion of initiatives.



“Moving our systems to an offsite location was a successful evolutionary step in the maturity of CATSA’s technical environment. The seamless transition was made to a more secure environment, providing CATSA’s network systems and data an increased level of security and protection.”

**Jo-Anne Stadnyk**, General Manager, Information Systems and Technology



“The comprehensiveness of the new training component, coupled with the seamless integration of the on-the-job training and certification process has resulted in the delivery of a more efficient and consistent National Training and Certification Program. Better training means a higher level of screening officer performance at the checkpoint.”

**Lois Pollock**, Manager, Program Delivery



TRACKING  
DES DÉPLACER LES  
MACHINES

# Looking Ahead

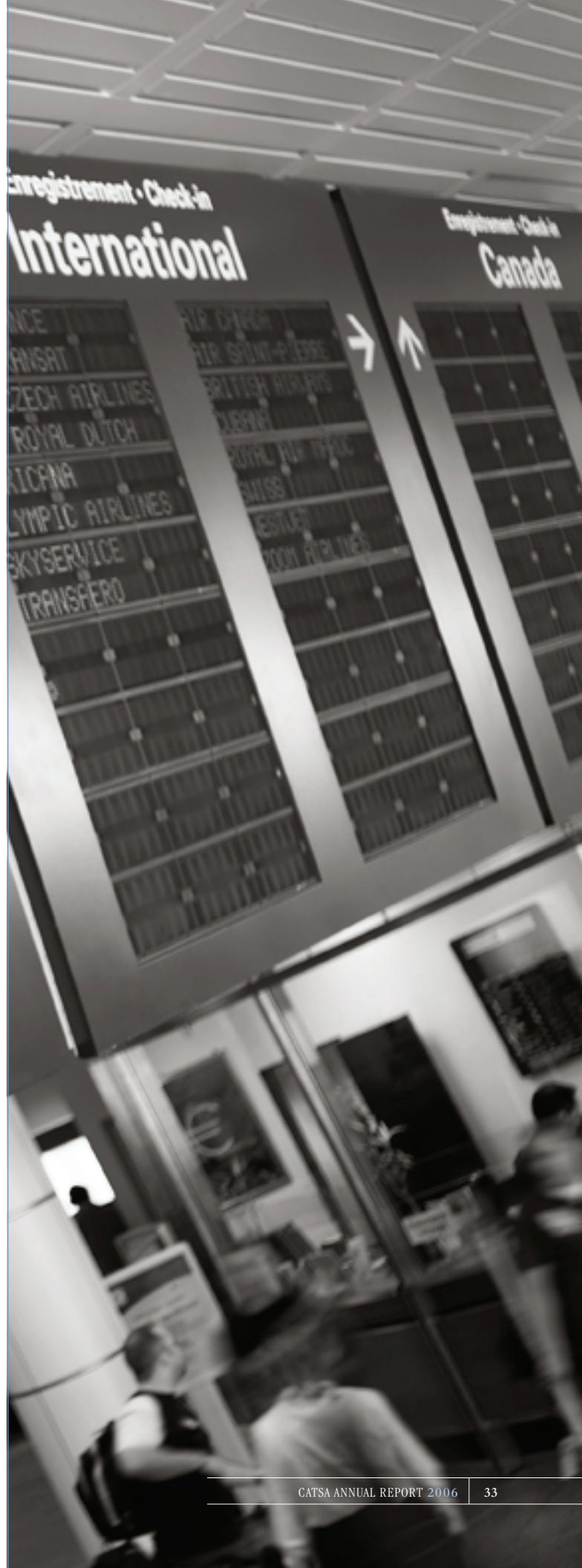
CATSA is proud of its accomplishments, but our mission is never over. We must now look to the future and what needs to be done to continue to maintain one of the best aviation security systems in the world. We must consider what the airport of the future will look like and what CATSA can and must do to evolve with the changing landscape of aviation.

To respond to the changing security environment, CATSA will continue to support initiatives that promote operational flexibility, that target resources to risk and that identify and close security gaps. Greater operational flexibility will be achieved through such initiatives as promoting a performance-based regulatory framework, furthering the development of SeMS and continuing the enrolment of RAIC in Canada's largest airports. CATSA will also continue conducting evaluations, quality assessments and simulated breach exercises to ensure that continuous improvement remains an ongoing objective.

In its first four years, CATSA has managed to build a reliable, consistent and national air transport screening operation. However, our ongoing need to deter and prevent an attack will require CATSA to be predictive rather than reactive. We will continue to work with our government partners to secure long-term, sustainable funding that will allow us the financial flexibility to plan for the future. We will uphold the trust of Canadians by ensuring the efficient management of those public funds through openness, accountability and transparency. We look forward to cooperating with the Office of the Auditor General and the Five-Year Review panel to ensure the provision of all necessary information on which to base their recommendations on CATSA's future.

We will enhance our domestic and international relationships to expand our circle of knowledge and expertise through better access to actionable information. We will work cooperatively with all security partners, in government and in industry, to provide Canadians with a secure air transportation system in which they can have confidence.

CATSA will continue to strive to be a world leader in aviation security.



# Corporate Governance and Management



Board of Directors (left to right): Ronald K. Clark, Clément Joly, Lecia Stewart, Maurice Baril, Ron Patmore, Mary Martin, Josée Goulet, Steve J. Baker (absent: Anil Wirasekara)

As a Crown corporation, CATSA reports to Parliament through the Minister of Transport. CATSA is governed by an effective and dedicated Board of Directors that brings valuable business and aviation industry experience and perspective to the interpretation and execution of CATSA's critical mandate.

CATSA's Board is comprised of a maximum of 11 directors, including the chairperson, appointed by the Governor in Council on the recommendation of the Minister of Transport. Of these directors, two must be nominees proposed by airport operators and two must be nominees proposed by the airline industry. There are currently two vacancies on the Board. The Board has responsibility for the overall stewardship of the authority and is accountable to Parliament through the Minister of Transport.

## MEETING CATSA'S CORPORATE REPORTING OBLIGATIONS

The Board must also ensure full and fair reporting of its stewardship of CATSA to Parliament and stakeholders on a timely basis through the Corporate Plan and Annual Report. In 2005/06, the Board conducted a thorough review and approval of CATSA's 2006/07 Corporate Plan and Operating and Capital Budgets, which were submitted to the Minister on February 3, 2006, as per the statutory deadline. The Board also reviewed and approved CATSA's 2005 Annual Report, entitled "Anticipating the Unexpected", which was tabled in Parliament on September 21, 2005.

The Board provides strategic direction, financial oversight, corporate oversight and good governance. CATSA's Board has a duty to protect the long-term interests of the corporation, safeguard its assets and practice due diligence in its decision-making. To execute its responsibilities, the Board currently has four standing committees: an Audit Committee; a Human Resources Committee, a Corporate Governance and Nominating Committee, and, as of December 2005, a Strategy Committee. In addition, the Board establishes ad hoc committees periodically to manage issues of short duration that do not fall into the purview of any of the standing committees.

Over the past year, the Board has continued to evolve and strengthen. The Board has implemented modern governance practices and activities that many other organizations are only now introducing, and has taken strategic actions that have successfully led the authority through the start-up phase. In terms of public sector governance best practices, CATSA's Board of Directors and governance structure meets or exceeds many of the recommendations outlined in the Treasury Board of Canada Secretariat's "Review of the Governance Framework for Canada's Crown Corporations - Meeting the Expectations of Canadians", which was tabled in Parliament in February 2005.

## ACCOUNTABILITY TO THE GOVERNMENT OF CANADA

CATSA's Board already incorporates a number of key accountability features, including:

- the Board, and not the Governor in Council, appoints the Authority's President & CEO and reviews his performance on a yearly basis
- the Board actively participates in Chair and Director selection process
- the President & CEO is not a Board member, thus reinforcing the Board's independent decision-making capacity and providing true oversight and accountability to government
- requirements that Audit Committee members be financially literate, and that training be made available for all Directors in financial literacy and governance. All CATSA directors have attended or are scheduled to attend the Governance Training sponsored by the Government of Canada.

In addition to ensuring good governance practices and processes, the primary focus of the Board and its committees over this period has been on developing and communicating CATSA's four strategic priorities; CATSA's participation in the Five-Year Review; and the Special Examination by the Office of the Auditor General.

## KEY BOARD ACCOMPLISHMENTS



CATSA's Board already incorporates a number of key accountability features, including:

- Strategic direction: reaffirmed CATSA's mandate and helped define CATSA's four strategic priorities
- Met with the Minister of Transport to discuss aviation security priorities and issues of mutual concern and interest
- Stakeholder relations:
  - met with representatives of airport authorities and screening providers at selected airports
  - met with the Boards of the Air Transport Association of Canada and the Canadian Airports Council to share CATSA's strategy and commitment to work closely with airports and airlines to provide the best security to the travelling public while ensuring the air transportation industry remains strong and viable
  - participated in aviation security conferences, including the Chair's speech on CATSA and its role in aviation security at the Airports Council International – North America Annual Conference and Exhibition in Toronto
  - Represented CATSA at conferences and stakeholder meetings, such as the inaugural Canadian Aviation Security Conference in Ottawa and the third International Forum for Security Screening in Aviation, held in Israel.

### **Strategy Committee**

The newest of the Board committees was created in December 2005. It works jointly with the senior executive team to oversee CATSA's participation in the Five-Year Review of the CATSA Act. This work involves reviewing position papers, meeting with members of the Five-Year Review panel, and reporting to the Board. The Strategy Committee also considers management proposals and provides advice to the Board on CATSA's future directions and mandate, and keeps abreast of new and emerging threats, as well as trends, technologies and techniques within aviation security that might have an impact on the Authority's operations.

### **Audit Committee**

The Board includes an effective and rigorous Audit Committee composed of committed and financially literate directors. The committee meets regularly to provide ongoing financial oversight and review functions with respect to the Authority's financial management and to ensure that ethical practices and financial controls are in place. These controls include ensuring oversight of corporate records, systems, and management practices. In addition to its quarterly review of financial results, this committee has been focusing its attention on monitoring CATSA's involvement in the Auditor General's Special Examination, including the development of the audit criteria and approval of the audit plan. The Audit Committee will review the draft report upon completion of the Special Examination.

### **Human Resources Committee**

The function of the Human Resources Committee is to continuously review CATSA's human resources policies, including its compensation and benefits plans, and performance and evaluation programs. The committee has also developed a Succession Plan in concert with senior management, monitored employment equity compliance and provided oversight and direction on Occupational Health and Safety. An outcome in 2005 of the committee's work with management on a long-term labour strategy and headquarters' staffing levels was the approval of a new Policy on Workforce Adjustment. The Human Resources Committee also reviewed, jointly with the Audit Committee, a report on the performance of CATSA's pension plans.

### **Corporate Governance and Nominating Committee**

The Corporate Governance and Nominating Committee was created with a view to developing and implementing systems to ensure good Board governance. Some of the committee's key responsibilities are establishing, maintaining, and evaluating the processes and practices for performance management of the President & CEO, ensuring proper administration and compliance of the Conflict of Interest Code for Board members, making recommendations to the Board on roles of the Board and management, reviewing policies and procedures of the Authority with respect to Ethics and Values and ensuring compliance with government policy on Board nominations and appointments. In addition to ongoing committee work, the Corporate Governance and Nominating Committee set out guidelines for the rotation of committee membership. The committee also began preliminary work on the development of Board member evaluations (peer, self, and Board), as well as reviewed the 'whistleblower' policy and director's liability.

## **RELEVANT AND EFFECTIVE – CATSA'S BOARD OF DIRECTORS**

Members of CATSA's Board of Directors must demonstrate a number of key competencies and qualities relating to leadership, knowledge and experience. CATSA's Board members are experienced and active in industries and organizations that are of direct importance to CATSA. With backgrounds in airlines, airports, other modes of transport, national defence and security, law and financial management, the Board provides indispensable perspectives on aviation security policy and practices in Canada. In addition, CATSA's directors must comply with a rigorous Conflict of Interest Code, which reflects current governance standards and practices.

Due in large measure to the commitment and dedication of the Board, CATSA is a solid, credible partner in Canadian air transport security and is well-positioned to achieve its vision to be a world leader in air transportation security through operational and corporate excellence.

The current Chair, General (ret'd) Maurice Baril, and Director Ron Patmore, were appointed to the Board by the Governor in Council in May and November 2005, respectively.



**General (ret'd)  
Maurice Baril, CMM, MSM, CD**  
Chair  
Former Chief of Defence Staff of the  
Canadian Forces



**Mary Martin, Director**  
Retired, formerly Vice-President,  
Canadian Auto Workers, Airline  
Division



**Steve J. Baker, Director**  
President and CEO, London  
International Airport  
Nominated by the Canadian Airports  
Council



**Ron Patmore, Director**  
Director, Skyservice Airlines Inc.  
Nominated by the Air Transport  
Association of Canada



**Ronald K. Clark, Director**  
Retired, formerly Vice-President of  
Corporate Safety and Environment,  
Air Canada  
Nominated by the Air Transport  
Association of Canada



**Lecia Stewart**  
Director  
Principal, Lecia Stewart, Inc.  
Formerly, President  
Vancouver Skytrain



**Josée Goulet, P.Eng., MBA**  
Director  
Corporate Director



**Anil Wirasekara, Director**  
Executive Vice-President and CFO  
MacDonald Dettwiler



**Clément Joly, FCA**  
Director  
Partner, Raymond Chabot Grant  
Thornton

## DEPARTURES

CATSA extends heartfelt thanks and best wishes to two directors—Murray Sigler and Darrel Smith—who departed CATSA's Board of Directors in 2005.



Murray Sigler was appointed first President & CEO of Winnipeg Airport Authority Inc. in 1996 and the President & Chief Executive Officer of the Calgary Chamber of Commerce until August 2005. Previously, he had served as President & COO of Canadian Airlines. Mr. Sigler was nominated

by the Canadian Airports Council and appointed to the CATSA Board on June 21, 2002. Mr. Sigler resigned in September 2005 to assume the post of Managing Director of the Alberta United Kingdom Office in London. CATSA wishes to thank Murray for his many contributions over his more than three years as a member of the Board of Directors, particularly for his service as interim vice-chair between September 2004 and March 2005, and for his excellence and dedication as Chair of the Audit Committee from 2002 to August 2005.



Darrel Smith, of North Vancouver, B.C., held a variety of positions at Transport Canada over 13 years, including Superintendent of Civil Aviation Planning and Regional Controller of Civil Aviation. He has also served in senior positions in the airline industry. Mr. Smith was nominated by the Air Transport

Association of Canada and appointed to CATSA's Board on June 21, 2002. Mr. Smith's term as Director was completed in November 2005. CATSA wishes to thank Darrel for his unwavering commitment and invaluable contributions to the Board during the organization's critical start-up phase.

## BOARD REMUNERATION, EXPENSES, AND MEETING ATTENDANCE

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



Board member	Board Retainer (A)	Per Diems (B)	Total remuneration (A) + (B)	Travel and related expenses
Maurice Baril (Chair)	\$ 9,450*	\$ 16,800	\$ 26,250	\$ 11,771
Steve Baker	\$ 5,400	\$ 13,650	\$ 19,050	\$ 11,987
Ronald Clark	\$ 5,400	\$ 17,745	\$ 23,145	\$ 23,820
Josée Goulet	\$ 5,400	\$ 7,605	\$ 13,005	\$ 9,909
Clément Joly	\$ 5,400	\$ 21,060	\$ 26,460	\$ 36,348
Mary Martin	\$ 5,400	\$ 7,800	\$ 13,200	\$ 15,198
Ron Patmore <sup>a</sup>	\$ 1,937	\$ 5,070	\$ 7,007	\$ 8,398
Murray Sigler <sup>b</sup>	\$ 2,700	\$ 9,165	\$ 11,865	\$ 8,768
Darrel Smith <sup>c</sup>	\$ 3,492	\$ 10,530	\$ 14,022	\$ 15,699
Lecia Stewart	\$ 5,400	\$ 21,060	\$ 26,460	\$ 19,205
Anil Wirasekara	\$ 5,400	\$ 10,140	\$ 15,540	\$ 6,958
<b>Totals</b>	<b>\$ 55,379</b>	<b>\$ 140,625</b>	<b>\$ 196,004</b>	<b>\$ 168,061</b>

\* Pro-rated amount based on May 19, 2005 appointment date

<sup>a</sup> Ron Patmore's term began in November 2005

<sup>b</sup> Murray Sigler resigned in September 2005

<sup>c</sup> Darrel Smith's term ended in November 2005

Total remuneration (annual retainer and per diems) paid to all Directors and the Chair was \$196,004, compared with \$237,298 in 2004/05. Total Board travel and related expenses in 2005/06 were \$168,061, compared with \$159,671 in 2004/05. Travel and related expenses encompass Board and committee meetings, as well as attending external conferences and continuing education courses.



## Board and Committee Attendance

Committee Member	Board Meetings	Board Committees <sup>1</sup>			
		Strategy	Audit	Human Resources	Corporate Governance
Maurice Baril <sup>2</sup>	10/12	3/5	5/6	3/6	6/7
Steve Baker	10/12	4/5		3/3	
Ronald Clark	12/12	5/5	6/6		7/7
Josée Goulet <sup>3</sup>	10/12	5/5		1/2	
Clément Joly <sup>4</sup>	12/12		6/6		7/7
Mary Martin <sup>5</sup>	11/12			4/6	2/2
Ron Patmore	4/4		2/2	2/2	
Murray Sigler	6/6		3/3		3/3
Darrel Smith	6/7			3/3	2/4
Lecia Stewart <sup>5</sup>	10/12	5/5	2/3	4/6	2/4
Anil Wirasekara <sup>6</sup>	8/12		5/6		2/2

<sup>1</sup> Board 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 that committee. Some committees' membership rosters changed during the year, resulting in some variations in the figures.

<sup>2</sup> Ex-officio member of all Board committees

<sup>3</sup> Chair of the Strategy Committee

<sup>4</sup> Chair of the Corporate Governance Committee

<sup>5</sup> Co-Chair of the Human Resources Committee

<sup>6</sup> Chair of the Audit Committee

The two Board vacancies during the year coupled with the addition of one new Director and the establishment of the new Strategy Committee required several changes to committee make-up, which, as noted in the committee attendance tables, accounts for certain fluctuations in attendance numbers as Directors took on new responsibilities.

## SENIOR EXECUTIVE TEAM

CATSA's senior management, under the leadership of President and Chief Executive Officer Jacques Duchesneau, is responsible for the day-to-day operations of CATSA. Senior management takes a hands-on approach to managing the Corporation's affairs, holding weekly senior management committee meetings, scheduling ad hoc meetings as required for specific issues, and attending daily briefings to receive the latest threat information and status updates from frontline screening and equipment operations.

As CATSA moved out of the start-up phase, our senior management began to focus on measuring for results. In 2005, senior management adopted the Balanced Scorecard approach to managing corporate performance in order to achieve five key outcomes—supporting the National Security Policy (security effectiveness); establishing consistent levels of service; earning customer confidence and satisfaction in security; securing sustainable and flexible funding; and managing economically and efficiently public funds for maximum security impact (efficiency).



Driven by the energy and vision of Jacques Duchesneau, CATSA's senior management will remain focused into the future on continuing to make aviation a 'hard target' for terrorists. Given the magnitude of the security risks that Canada's air transport system faces CATSA cannot afford to be found lacking in responsiveness or merely reactive. As a security authority, CATSA is committed to seeking out ways to continuously enhance and optimize the manner by which it meets its mandate. Not to do more, but to do better. Doing otherwise would be irresponsible. CATSA will also continue to anticipate and manage the unexpected, which will be accomplished in large part through fostering new and existing partnerships with stakeholders, government departments, domestic and international security organizations, and the academic community to ensure CATSA has the most up-to-date threat and best practices information and in turn provides its information back to the security community.



Senior Executive Team (left to right): Ian MacKay - Vice President, Law & Strategy; Jacques Grilli - Vice President, Operations; Mark Duncan - Executive Vice President & Chief Operating Officer; Jacques Duchesneau - President & Chief Executive Officer; Renée Légaré - Vice President, People; Kevin McGarr - Vice President & Chief Technology Officer; Mike McLaughlin - Vice President and Chief Financial Officer.

## SENIOR MANAGEMENT WELCOMES NEW MEMBER TO THE SENIOR EXECUTIVE TEAM



CATSA wishes to congratulate Renée Légaré, who begins the 2006/07 fiscal year as CATSA's new Vice-President, People. "As an organization, we have moved from start-up to steady-state screening authority," says Ms. Légaré. "CATSA will now need to turn its attention to the development of its people, both employees and its contracted screening officers."

Ms. Légaré joined CATSA in June 2002 as Acting Senior Manager, Human Resources. Since May 2003, she has occupied the positions of Director, Office of the President and Director, Corporate Services and, more recently, was appointed Acting Vice-President, Risk and Quality, in September 2005. Ms. Légaré has a Master's degree in Industrial Relations from Université du Québec en Outaouais and an Honours degree in Economics from Université de Sherbrooke.

## SENIOR EXECUTIVE COMPENSATION

All executives, with the exception of the President and CEO (whose salary and benefits are set by the Governor in Council), are paid within salary ranges and compensation set by corporate policy and approved by the Board of Directors. All executives are also eligible to receive variable performance pay, which is a percentage of base salary. In 2005/06, the salary range for CATSA's senior executives was set at \$214,300 - \$143,500.

## ORGANIZATIONAL ALIGNMENT

In the third quarter of 2005/06, senior management initiated a review of CATSA's organizational structure. The Review included an Employee Survey and the creation of a horizontal working group mandated to assess work pressures and alignment. On March 29, 2006 senior management was pleased to officially release CATSA's new organizational structure resulting from the review. The 2006 re-alignment was an important exercise for our organization, as we move from deploying resources, and turn our focus to measuring for results and demonstrating success. It will help ensure that our financial and human resources are allocated in accordance with the organization's strategic priorities. These organizational adjustments will take us from where we currently are to where we would like to be.

## Realignment Objectives

- Optimize organizational efficiency by eliminating activities that are no longer required and duplication of effort
- Allocate resources consistent with CATSA's strategic objectives and priorities
- Address resource limitations
- Address budget constraints for next year
- Clarify/modify functional accountabilities and responsibilities
- Ensure proper integration/connections

Key changes resulting from the realignment include the creation of a "People" branch that will focus on talent development and management and a "Technology" branch which includes a project management office primarily staffed with CATSA's equipment project experts now that the explosives detection systems deployment is winding down. Through the realignment CATSA reduced the number of management positions and increased the number of staff positions, with a total full-time equivalent count of 228. The realignment became effective April 1, 2006.

## REPORT ON ACCESS TO INFORMATION AND PRIVACY ACT REQUESTS

CATSA is subject to, and respects the spirit and requirements of, both the *Access to Information Act* and the *Privacy Act*. From April 1, 2005 to March 31, 2006, CATSA received 47 new requests under the *Access to Information Act*, plus 10 requests which were pending from the previous fiscal year, for a total of 57. Forty-nine requests were processed, while eight have been carried forward into the next fiscal year. In addition, CATSA received 14 *Access to Information Act* consultation requests from other federal departments (two of which were outstanding from the previous fiscal year); all 14 requests were completed.

For the same reporting period, CATSA received five new requests under the *Privacy Act*, plus three which were carried forward from the previous fiscal year, for a total of eight. Of the eight privacy information requests, seven were completed and one was carried forward into the next fiscal year.

CATSA also conducted Privacy Impact Assessments, in conjunction with the Privacy Commissioner, on its RAIC program and deployment of closed-circuit television cameras at PBS points. The purpose of the Privacy Impact Assessments is to ensure that CATSA's operations comply with privacy legislation.

## REPORT ON OFFICIAL LANGUAGES ACT REQUIREMENTS

As a Crown corporation, CATSA is subject to the *Official Languages Act* and committed to maintaining Canada's rich bilingual heritage. Through our screening contractors, we are responsible for providing bilingual services at screening checkpoints where it has linguistic obligations. CATSA is dedicated to promoting and advancing official languages, and continues to make enhancements on this front.

### OFFICIAL LANGUAGES ON THE FRONTLINES

Through its Standard Operating Procedures and training module on Official Languages, CATSA continues to reinforce the need to meet its obligations under the Act, specifically with respect to providing "Active Offer of bilingual services" to passengers at airports where there is a linguistic obligation.

CATSA commissioned an evaluation of its Official Languages program in March 2006 through a "Passenger Intercept Survey" of 2,929 passengers. The interviews were conducted at 16 airports across Canada and Official Languages was one of the major components being evaluated. When asked if they were served in the Official Language of their choice, almost all (96%) agree that they were helped in their preferred language.

In the fall of 2005, CATSA's President & CEO met with over 1,200 screening officers across Canada to share CATSA's vision. Part of its vision is to not only provide quality service in both official languages but also to contribute to preserving Canada's two official languages which was a very important component of the CEO's speech to screening officers. His messages indicating that official languages are a priority for CATSA, and that screening officers play an integral role in ensuring that passengers receive service in the official language of their choice was also reiterated in a video that was produced and distributed to over 4,400 screening officers across Canada. A pocket calendar that included a section on official languages and provided "frequently used phrases" was also provided. Through this initiative, CATSA promoted linguistic duality in all airports across Canada.



CATSA's senior management is also dedicated to ensuring an organization that makes certain the right of employees to work in either official language is respected. Senior management fosters a work environment that is conducive to the effective use of both French and English and sets an example by conducting their weekly meetings in both official languages. CATSA ensures that English-speaking and French-speaking Canadians have equal opportunities to obtain appointment and advancement within the organization. CATSA is committed to communicating with stakeholders and the general public in both official languages and endeavours to provide documents and materials in both French and English.

## CATSA IN THE COMMUNITY

CATSA employees take their commitment to the public seriously. When it comes to community service, CATSA employees are generous with their money and time. In 2005/06, CATSA employees made some extraordinary contributions in support of five different charities, including the United Way, Ottawa Regional Cancer Foundation, Victims of Violence, Christmas Wish Cloud and Habitat for Humanity. In the case of Habitat for Humanity, CATSA employees donated funds to support the construction of houses in Zambia, southern Africa.

Here is a sample of how CATSA employees share their time in their community:

- |                            |  |
|----------------------------|--|
| <b>Steve Baal</b>          | Treasurer for a summer camp and his church                                       |
| <b>Lucie Menard-Baxter</b> | Canvasser for the Heart & Stroke Foundation                                      |
| <b>Richard Palmer</b>      | Volunteer Chair of the Rideau Tennis Club  |
| <b>James Crawford</b>      | Coach, Burlington Organized Minor Baseball Association                           |
| <b>François Cormier</b>    | Mentor of aspiring cartoonists and artists                                       |
| <b>Christian Ouimet</b>    | Election Monitor for the Palestinian elections                                   |
| <b>Rob Durward</b>         | Coach, soccer and baseball   |
| <b>Louise Graham</b>       | Media Relations Director for charity hockey tournament for young cancer patients |
| <b>Tom Hodge</b>           | Soccer and basketball Coach  |
| <b>Renée Fairweather</b>   | Peer Support to breast cancer patients   |
| <b>Kevin DeGaut</b>        | House Builder for Habitat for Humanity projects in Africa                        |
| <b>Pierluc St-Jacques</b>  | Event Organizer for United Way   |
| <b>Caroline Sauvé</b>      | Election Monitor for the Haitian elections                                       |

# Management Discussion and Analysis

## OVERVIEW

CATSA's Management Discussion and Analysis provides management's perspective on the corporation's performance in 2005/06 and an outlook for 2006/07. It is presented in five sections.

### 1. Vision and Strategy

This section provides a brief history of CATSA and highlights the vision that drives the corporate strategies.

### 2. Operations

CATSA has six mandates to deliver. This section describes the mandates and the financial performance to those mandates.

### 3. Corporate Measures

To administer the mandates there is a need for corporate support activities. This section describes the building of those support mechanisms and the measures being taken to ensure they are operating efficiently.

### 4. Finance

This section describes how CATSA receives and uses money. It provides a variance analysis from prior years.

### 5. Risk and Governance

There are in place governance mechanisms to oversee the expenditures of CATSA. This section describes how risks are identified and work their way through the governance processes to being implemented. It identifies some of the key challenges facing the corporation in the next fiscal year.

All numbers are expressed in \$,000.

## VISION AND STRATEGY

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

Created on April 1, 2002, CATSA delivers six mandates, four of which appear in the *CASA Act* and two that were later assigned by the Minister. CATSA started by taking over PBS responsibilities in 89 airports across Canada. This meant assuming contracts that were in place between security service providers and the airlines. It meant providing security for the travelling public on a consistent basis across Canada,

with emphasis on security and not economic considerations. It meant building from scratch in a very short time frame, a significant Crown corporation.

In establishing CATSA, the Government also set out the role of Transport Canada as the regulator of screening activities. CATSA had to develop and implement operating procedures that met the needs expressed in the regulations. As well, CATSA needed to work with Transport Canada to develop HBS procedures and regulations as this was an important new layer of security.

The time lines were short and the pressure to deliver was high. The air transportation system needed assurances immediately that security was in place in order to attract, retain and protect the flying public. As well, the International Civil Aviation Organization (ICAO) set an international deadline of December 31, 2005 for the implementation of 100% HBS for international flights. The challenge was clear, the means of achieving it were not.

In September 2005, CATSA adopted four strategic priorities to achieve its mandate: operational flexibility, financial flexibility, actionable information and partnerships. Each of these is an important concept and building blocks for achieving the vision.

Operational flexibility is geared to looking at the risks and responding to them. In a very prescriptive regulatory framework there is a possibility that we are gearing to fight the last battle rather than recognizing the needs of the next one. By continuously revising what we do, and how we do it, we can respond quickly to emerging threats and make ourselves less predictable.

Financial flexibility is aimed at providing a more stable funding formula, as well as looking at services that could be provided on a cost-recovery basis. CATSA's funding through appropriations is cumbersome in that it does not allow for carry-forward of funds that are unspent and does not allow for cost recovery for enhanced services. As well, CATSA does not have a readily accessible contingency fund for dealing with immediate or emerging threats.

In order to fulfill its mandate, CATSA must have information in a timely fashion concerning security threats. CATSA receives information from Transport Canada and has built strong information sharing relationships with other government

agencies. However, the information must be reviewed and analyzed to provide actionable information to our frontline operations. In turn, the information from our front line operations is critical to understanding and responding to threats.

CATSA cannot act alone and hence must invest in partnerships. These include Transport Canada and other federal agencies, service providers from the private sector, the airports and the air carriers and international partners engaged in similar activities. By investing in these partnerships we strengthen the security that surrounds our airports. This partnership strategy is critical to achieving the vision of security leadership.

## OPERATIONS

CATSA has operated with a minimum number of people, relying on contracted services for the delivery of its mandate. Creating the vision, operating procedures and establishing outcome measures is the function of Headquarters. Managing the contract arrangements and applying measures to ensure accountability and transparency is an important part of what we do. Of the 236 contracts CATSA managed during the year, there was an expenditure control problem with one contract. This did not result in any loss of value or overspending of appropriations but did lead to the introduction of an enhanced control procedure to ensure that contract limitations are not exceeded without proper authority.

In delivering the screening activities, CATSA contracts with service providers for screening officers. The service providers are responsible for managing the operations at the airports pursuant to CATSA's Standard Operating Procedures. CATSA provides the training and certifications necessary for the screening officers to do their work. In addition, CATSA provides the equipment, uniforms and supplies used in the screening operations. CATSA has an oversight role to ensure that the screening operations are carried out consistently, efficiently and effectively. Payments to screening service providers are by far the single largest operating expense. Table 1 shows the amount of payments to service providers for screening services since CATSA was formed. As can be seen, cost pressures continue as these costs rise to meet service demands. In fiscal 2006, CATSA spent \$174 million on screening services. The increased cost in fiscal 2006 is due to the implementation of the HBS program.

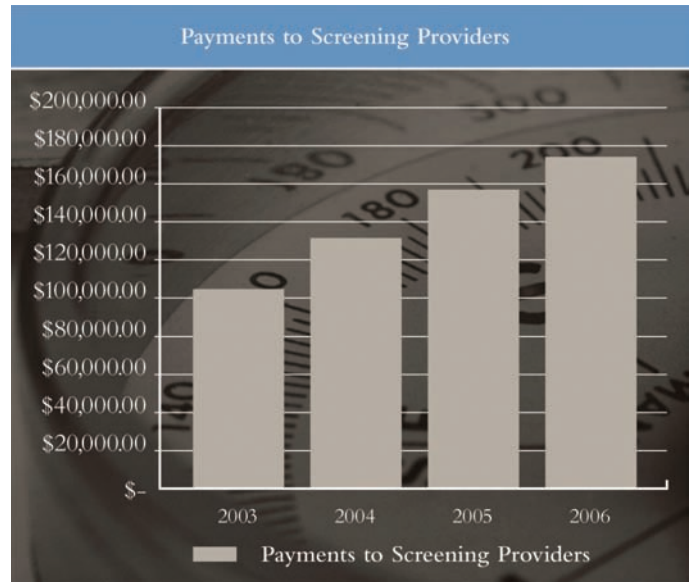


Table 1

## Training and Certification

When CATSA was formed it was evident that a priority task was to upgrade the skill base of the Screening Officers. CATSA undertook to develop a comprehensive training and certification program to achieve this end. Over the past four years, the training program that CATSA developed to improve the efficiency and effectiveness of screening officers has become a global standard. The costs to date are summarized in Table 2.

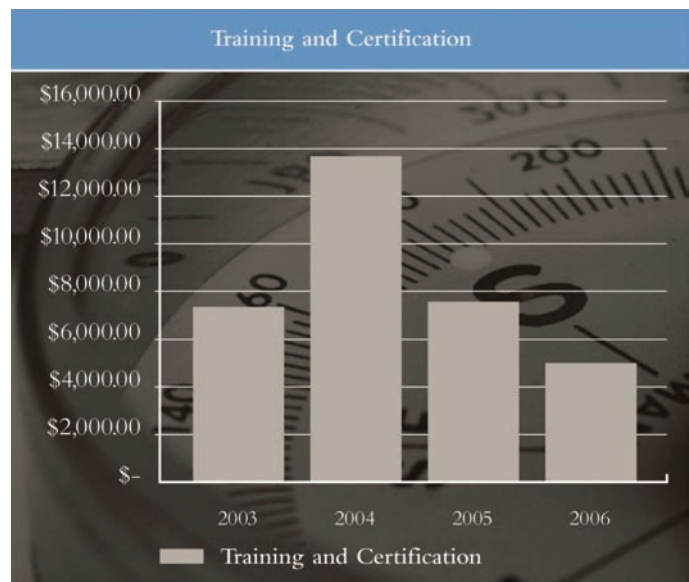


Table 2

### Screening Oversight

CATSA is continually reviewing, assessing and improving its public-private screening services delivery model. One of these improvements has been to steadily increase the oversight by CATSA. This has provided valuable information on the conduct of screening operations and has put CATSA in a position to better manage the costs through scheduling, design of screening points and ensuring changes to operating procedures are communicated effectively. Table 3 shows the growth in oversight activity related to screening activities.

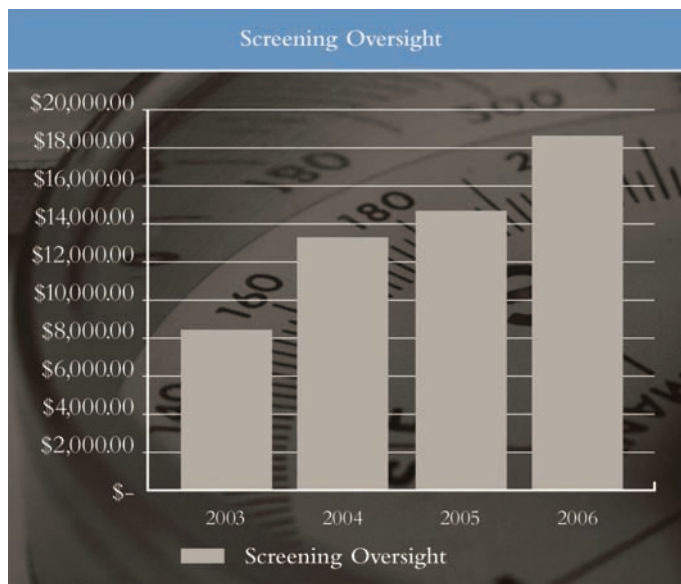


Table 3

A significant part of CATSA oversight is to provide a rapid incident management facility. CATSA has installed cameras at PBS points to monitor the security measures in place. This has provided CATSA with immediate information on incidents and has helped resolve incidents quickly. Through CATSA's Security Communications Centre (SCC), incidents can be monitored and tracked. If necessary, CATSA can centrally direct the management and resolution of a security incident from the SCC. The quick resolution of security incidents improves the service to the passenger and mitigates costly delays.

### Pre-board Screening

PBS costs rose from \$164,097 in 2005 to \$168,822 in fiscal 2006. However, even higher screening costs were offset somewhat by efficiencies resulting from increased CATSA oversight and improved operating practices. The cost increase is a result of higher hourly rates for screening providers and growth in passenger traffic. The budget for fiscal 2006 was \$166,382.

### Air Security Related Policing Programs and Hold Bag Screening

For security reasons the financial reporting of these programs is combined. These programs had expenses of \$129,716 for fiscal 2006 compared with \$85,091 for fiscal 2005. Budgeted costs were \$175,913. The increase spending in these programs from the previous year is due to bringing on line many of the explosives detection systems (EDS) that CATSA has deployed. CATSA met the international requirement for 100% hold bag screening during the 2006 fiscal year, one year ahead of the schedule initially set by the Government of Canada. The actual expenses were less than budgeted as the two policing programs have yet to be fully implemented. The RCMP continues to staff its Airport Policing Program. CATSA is reviewing the contributions it makes for policing at certain airports to maximize the use of these funds.

### Non-Passenger Screening

The NPS program is a random screening of airport workers that is operational in 28 airports. NPS expenditures for fiscal 2006 were \$11,943 slightly less than 2005 expenditures of \$12,164. This minor variation is mainly attributable to lower training and certification costs. NPS for 2006 was budgeted at \$14,972.

### Restricted Area Identification Card

The RAIC has been deployed and is operational in 8 airports. The deployment to the remaining 20 larger airports continues. Currently 25% of the targeted population has been enrolled. The fiscal 2006 budget of \$5,003 was exceeded as \$5,369 was expensed to RAIC. This was an increase over the 2005 RAIC expenses of \$2,080. The increase relates primarily to depreciation expenses for the equipment that have been purchased and installed by CATSA.

## CORPORATE MEASURES

The cost of Corporate Services has risen from \$31,452 to \$32,946 in fiscal 2006, mainly as a result of increased staffing. In CATSA's first year, the emphasis was on getting the operations up and running. Few resources were devoted to the administrative and financial infrastructure, but now these processes are being reviewed and strengthened. In particular, more people are being added to carry out the corporate functions necessary to support operating and managing an accountable corporation.

One measure of the efficiency of corporate services expenses is the ratio of corporate services to the total budget. In 2006 CATSA limited corporate services expenses to 8% of total expenses.

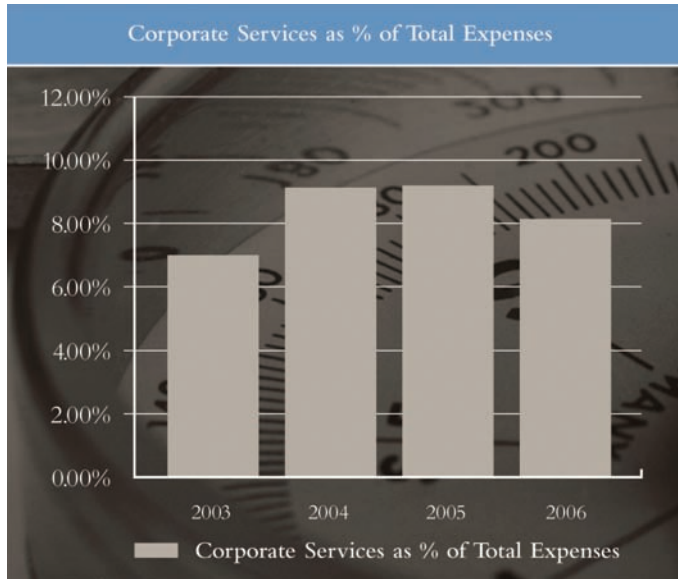


Table 4

CATSA has been able to obtain significant Aviation Liability Insurance coverage against war and terrorism risk. This coverage includes the screening officers and service providers. This insurance is a necessary condition to the public private screening model we are using. As a result, in part, of underwriter confidence in CATSA's operations, fiscal 2006 insurance cost \$3,800 compared with \$4,200 in 2005.

CATSA has developed key systems to provide management with information on program results. These business systems include Business Intelligence, Balanced Scorecard, Financial and others. These are developed in partnership with the private sector and are maintained internally. CATSA is still developing some of these systems and adding functionality to allow them to serve management more effectively and improve accountability. In 2006 CATSA's expenses for corporate computers, networks and office systems were \$3,668 compared with a budget of \$4,021. Table 5 shows the investment that CATSA has made on these systems and the cost to maintain them.

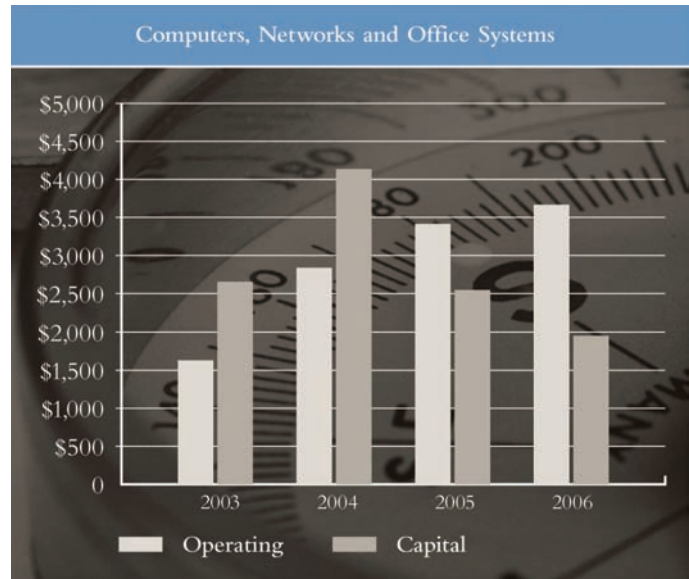


Table 5

CATSA is under considerable scrutiny as a new Crown corporation. During fiscal 2006, in addition to the normal oversight provided by the Board, the Auditor General commenced her Special Examination that is required by the *Financial Administration Act*. The Minister of Transport also launched a review of the Authority's mandate as required by the *CATSA Act*. While these activities have precipitated demands on an already stretched staff, we look forward to the recommendations that will lead to further improvements in our organization.

## FINANCE

CATSA's funding is provided through appropriations from the Consolidated Revenue Fund and a small portion is through interest revenue. CATSA does not receive the Air Transport Security Charge nor does it participate in establishing the level of the charge. Parliament approved appropriations of \$438,400 for the 2006 fiscal year. Through prudent use of resources the unused portion of Parliamentary appropriations for 2006 is \$13,387 compared with \$14,425 for 2005. The total recognized appropriations of \$425,013 were split between capital of \$134,868 and operating of \$290,145. The parliamentary appropriations for 2006 were less than that of 2005 as the capital investment on EDS was winding down. Capital appropriations in 2005 were \$220,999. Table 6 shows the year-by-year capital and operating appropriations used.



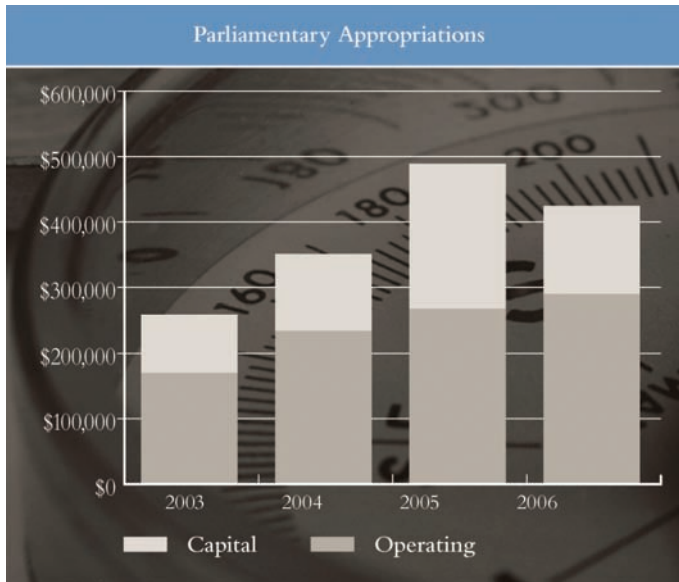


Table 6

### Cash

Cash balances as at March 31, 2006 were \$1,314 versus \$158,804 at the same time in the previous year. This year we refined our process of drawing down funds through Transport Canada from the Consolidated Revenue Fund to avoid large cash balances. While we have significant accounts payable relating to the 2006 activities we will draw down sufficient cash to meet those payments on a timely basis.

### Accounts Receivable

The accounts receivable balance was \$98,738 compared with \$19,922 for the prior period. This increase was due to the manner in which we managed the cash account in that we did not draw down the appropriations we need to pay bills coming due after year end for work performed in fiscal 2006. Accordingly, the largest part of the receivable is Parliamentary Appropriations amounting to \$85,080. The other significant recoverable is the Goods and Services and Provincial Sales taxes amounting to \$13,366.

### Inventory

Inventory, which includes EDS spare parts and Restricted Area Identification Cards, reduced slightly by \$447 from \$15,127 in 2005 to \$14,680 in 2006. Due to unexpected delays in the RAIC program, the use of card inventory was only \$455 compared with a budget of \$1,292. The RAIC inventory is anticipated to be distributed over the next fiscal year. However, the EDS spare parts inventory is expected to rise as more equipment has been deployed and we learn more of the equipment reliability.

### Property and Equipment

Property and Equipment with a net book value of \$512,680 are shown as of March 31, 2006. This compares with \$428,572 for the previous year. Current year acquisitions for the most part reflect the final push to achieve 100% HBS deployment. Property and Equipment acquisitions during the year were primarily made up of \$134,437 for EDS equipment, \$3,531 for RAIC and NPS assets and \$2,885 in other assets. In total, the recognized cost related to Property and Equipment amounted to \$140,852 in 2006. Property and equipment represent a major investment by CATSA and accordingly CATSA has developed major asset management and maintenance practices.

### Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities were \$98,454 as of March 31, 2006. This was down significantly from the prior year \$171,238 as the EDS deployment program winds down. The "other" accounts payable is made up of payment obligations to regular vendors.

### Employee future Benefits

The employee future benefits have been separated into benefit plans that have an accrued asset and those that have an accrued liability based on actuarial valuations. The Supplementary Pension Plan has an accrued asset value of \$1,134, while the Regular Pension Plan has an accrued liability of \$410. The other employee future benefit plans have an accrued liability of \$1,621. As CATSA is a new corporation, there are currently few beneficiaries of the plans.

### Deferred Capital Funding

Deferred Capital Funding primarily offsets the unamortized value of the Property and Equipment shown on the Balance Sheet. As CATSA's capital is funded through appropriations the current year revenue for capital is the amortization of the Property and Equipment. The remaining value is treated as a deferred parliamentary appropriation that is recognized as revenue as the assets are used or disposed. This amount increased as CATSA continued to acquire and install new EDS equipment to complete the national deployment program.

## RISK AND GOVERNANCE

Consistent with this rapid development, CATSA's Board of Directors and senior management have initiated a rigorous and integrated approach to enterprise risk management to identify, assess and manage risks, particularly operating risks. All organizations have to deal with risks and uncertainties. CATSA embraces this challenge and is putting in place a robust risk management initiative to effectively manage and deal with uncertainty and the associated risk and opportunity, and provide the highest level of security possible for our stakeholders and the travelling public.

CATSA has put in place an effective system of Governance to manage these many challenges and risks. In the first instance CATSA's Board of Directors sets the strategies and direction of the corporation. Through its committees, the Board oversees management's efforts in achieving the objectives of the corporation. The Audit Committee carefully scrutinizes the accounts on a quarterly basis. CATSA's senior executive team meets regularly to review risks and take decisions. Capital projects are closely scrutinized by the Capital Committee chaired by the EVP & COO. The Contract Review Committee that reviews the Contracting Processes and the awarding of Contracts is chaired by the Vice President & CFO. All these mechanisms are put in place to ensure that security issues and the mandates of CATSA are effectively managed and the taxpayer is receiving value for money.

### Looking Ahead

Going forward, CATSA is also faced with non-operating risks and uncertainties that could have a major impact on future operations. The most significant of these potential non-operating risks are funding shortfalls and mandate changes.

Fiscal 2006 represents the final year of the initial five-year \$1.942 billion funding allocated to CATSA, and CATSA has not secured sustainable funding beyond March 31, 2008. Furthermore, most appropriations-based entities have the ability to carry forward unused appropriations and have the ability to cost recover services that are incidental to its mandate. CATSA has neither capability which restricts its ability to act innovatively and quickly in the best interest of the traveling public and the taxpayer.

Two important external reviews of CATSA are currently underway – the Special Examination by the Office of the Auditor General of Canada and the Five-Year Review of the CATSA Act. CATSA looks forward to the recommendations from both these external studies as part of our commitment to continuously improve and build CATSA into a world class security organization. One of the key considerations of the Five-Year Review is to assess the appropriateness of CATSA's mandate. Mandate changes could have a significant impact on CATSA's future operations and funding.

Another aspect consistent with CATSA's rapid growth from a "start-up" to an "early-stage" corporation is the need to focus on several corporate administrative and infrastructure issues that will become important in CATSA's development as an effectively managed and accountable Crown corporation. Accordingly, during the coming months, CATSA will focus on and make significant progress in:

- measuring and reporting on performance;
- strengthening the governance and management of contracts and projects;
- accelerating the development of an enterprise-wide (corporate) financial system; and
- implementing effective asset management capabilities to protect CATSA's rapid and significant investment in property and equipment and reflect the transition from asset deployment to asset maintenance.

CATSA is all about security. We are continually developing and putting into place leading security measures and administrative systems so that we are an accountable organization. We have been in existence for a short period of time and we have been focused on providing the highest level of security and full value for the investment.

**MANAGEMENT'S RESPONSIBILITY STATEMENT**

For the year ended March 31, 2006

Management of the Authority is responsible for the preparation and integrity of the financial statements contained in this Annual Report. These statements, recommended by the Audit Committee and approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. Information contained in the Annual Report is consistent with that contained in the financial statements.

To fulfill its responsibilities, the Authority's management maintains systems of internal control, policies and procedures to provide reasonable assurance that relevant and reliable financial information is produced. In addition, these systems of control exist to protect the assets of the Authority and ensure transactions are in accordance with the applicable sections of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act*.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, frequently meets with the external auditor – the Auditor General of Canada - and with management to ensure that the assets of the organization are properly protected, to review financial information produced and to review the internal control of the Authority.

The Authority's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



Jacques Duchesneau, C.M.  
President and Chief Executive Officer



Michael McLaughlin, CMA, FCMA  
Vice President and Chief Financial Officer

May 26, 2006



## AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Canadian Air Transport Security Authority as at March 31, 2006 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
May 26, 2006

## BALANCE SHEET

As at March 31, 2006 (Thousands of dollars)

	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,314	\$ 158,804
Accounts receivable (note 4)	98,738	19,922
Inventory	14,680	15,127
Prepaid expenses	3,470	3,762
Deposits on purchase of property and equipment (note 5)	-	272
	<b>118,202</b>	<b>197,887</b>
<b>Employee future benefits - asset (note 7)</b>	<b>1,134</b>	<b>700</b>
<b>Property and equipment (note 5)</b>	<b>512,680</b>	<b>428,572</b>
	<b>\$ 632,016</b>	<b>\$ 627,159</b>
<b>Liabilities and Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 6)	\$ 98,454	\$ 171,238
<b>Employee future benefits - liability (note 7)</b>	<b>2,031</b>	<b>1,889</b>
<b>Asset retirement obligations (note 8)</b>	<b>4,666</b>	<b>4,415</b>
<b>Deferred capital funding (note 9)</b>	<b>509,959</b>	<b>431,432</b>
	<b>615,110</b>	<b>608,974</b>
<b>Government of Canada Equity</b>		
Equity	16,906	18,185
	<b>\$ 632,016</b>	<b>\$ 627,159</b>

*Commitments (note 11) and contingent liabilities (note 14)*

Approved by the Board of Directors



Chairman

Approved by Management



Vice-President and Chief Financial Officer

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

STATEMENT OF OPERATIONS AND EQUITY

For the year ended March 31, 2006 (Thousands of dollars)

	2006	2005
<b>Expenses</b>		
Pre-board screening	\$ 168,822	\$ 164,097
Air security related policing programs and hold bag screening	129,716	85,091
Corporate services	32,946	31,452
Non-passenger screening	11,943	12,164
Restricted area identification card	5,369	2,080
	<b>348,796</b>	<b>294,884</b>
<b>Revenues</b>		
Interest revenue	1,417	1,026
Foreign exchange loss	(386)	(186)
<b>Net operating loss before government funding</b>	<b>347,765</b>	<b>294,044</b>
<b>Government funding</b>		
Parliamentary appropriations for operating expenditures (note 3)	290,145	268,251
Amortization of deferred capital funding (note 9)	56,341	28,664
	<b>346,486</b>	<b>296,915</b>
<b>Net (deficit) / surplus for the year</b>	<b>(1,279)</b>	<b>2,871</b>
<b>Equity, beginning of year</b>	<b>18,185</b>	<b>15,314</b>
<b>Equity, end of year</b>	<b>\$ 16,906</b>	<b>\$ 18,185</b>

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

## STATEMENT OF CASH FLOWS

For the year ended March 31, 2006 (Thousands of dollars)

	2006	2005
<b>Cash flows from (used in)</b>		
Net (deficit) / surplus for the year	\$ (1,279)	\$ 2,871
Items not affecting cash:		
Amortization of property and equipment (note 5)	56,743	28,895
Accretion expense (note 8)	139	76
Amortization of deferred capital funding (note 9)	(56,341)	(28,664)
Change in employee future benefits	(292)	666
Net change in non-cash working capital balances (note 13)	(150,861)	104,420
	<b>(151,891)</b>	<b>108,264</b>
<b>Financing activities</b>		
Parliamentary appropriations for capital funding (note 3)	134,868	220,999
	<b>134,868</b>	<b>220,999</b>
<b>Investing activities</b>		
Acquisition of property and equipment	(140,467)	(214,700)
	<b>(140,467)</b>	<b>(214,700)</b>
<b>Net cash (outflow) / inflow</b>	<b>(157,490)</b>	<b>114,563</b>
<b>Cash, beginning of year</b>	<b>158,804</b>	<b>44,241</b>
<b>Cash, end of year</b>	<b>\$ 1,314</b>	<b>\$ 158,804</b>

Supplementary cash flow information – Note 13

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

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

## 1 AUTHORITY, OBJECTIVES, AND PROGRAMS

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

The Government's objectives in the establishment of CATSA were to enhance air transport security, improve public confidence in the air transport security system, increase Government visibility in air transport security, provide a consistent approach across the system, integrate air transport security services and deliver services in an efficient and effective manner, having due regard to the interest of the travelling public. In assuming responsibility for certain air transport security functions previously undertaken by the private sector, the Government of Canada made it clear that CATSA's actions were to be driven by security concerns, not economic considerations.

CATSA's primary objective is to further the Government of Canada's objectives through the effective delivery of its mandated responsibilities. CATSA's responsibilities under the *CATSA Act* fall into six major areas:

1. Pre-Board Screening of Passengers and their carry-on baggage;
2. Hold Bag Screening;
3. Canadian Air Carrier Protective Program
4. Airport Policing Contribution Program;
5. Non-Passenger Screening at major airports;
6. Restricted Area Identification Card for major Canadian airports;

Responsibilities relating to non-passenger screening at major airports and restricted area identification card for major Canadian airports were assigned to CATSA on November 5, 2002 pursuant to sub-section 6(2) on the *CATSA Act*, which allows the Minister of Transport, Infrastructure and Communities to assign other air transport security functions to

CATSA. Initial planning for these responsibilities started during the period from November 2002 to March 2004, with implementation primarily starting after April 1, 2004.

CATSA is not subject to income tax under the provisions of the *Income Tax Act*.

## 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies.

### (a) Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Inventory is recorded net of an appropriate provision for obsolescence. The estimated useful life of property and equipment, the percentage of completion of work in progress, the assumptions underlying the asset retirement obligations, the assumptions underlying the employee future benefits calculation and the assessment of contingent liabilities are the most significant items where estimates are used. Actual results could differ from these estimates.

### (b) Inventory

The inventory consists primarily of spare parts acquired for equipment maintenance and the restricted area identification cards. Inventory is valued at the lower of weighted average cost or replacement cost.



## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

**(c) Property and equipment**

Property and equipment transferred from Transport Canada when CATSA was created were recorded at their depreciated cost at that date. Property and equipment acquired after that date are recorded at cost. The cost of property and equipment includes shipping and installation costs. Amortization is calculated on a straight-line basis over the estimated useful life of the property and equipment as follows:

Pre-board screening equipment	5 - 7 years
Hold bag screening equipment	7 years
Non-passenger screening equipment	7 years
Restricted area identification card equipment	7 years
Computers, software and electronic equipment	3 years
Office furniture and equipment	5 years

Leasehold improvements are capitalized and amortized on a straight-line basis over the life of the related leases.

Amounts included in work in progress are transferred to the appropriate property and equipment classification upon completion, and are then amortized according to the above stated policy.

**(d) Asset retirement obligations**

Asset retirement obligations are recognized at fair value in the period it is incurred. The asset retirement cost is capitalized as part of the asset's carrying amount.

The liability for the asset retirement obligations is reviewed annually to consider changes resulting from the passage of time and revisions to either the timing or the amount of the initial estimate of undiscounted cash flows.

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

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

**(e) Employee future benefits**

CATSA maintains two defined benefit pension plans, a registered pension plan (RPP) and a supplementary pension plan (SPP), to provide retirement benefits to its employees. CATSA also provides other post-retirement and post-employment benefits (other benefits plans) for employees including short and long term disability, post-retirement health care, dental care, and life insurance. Management considers that the assumptions used to determine the accrued benefit obligation and the net benefit cost of pension benefits and other pension benefits, except for the benefit obligation discount rate, are of a long-term nature, which is consistent with the long-term nature of employee future benefits.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

CATSA's independent actuaries measure the accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the RPP for funding purposes was as of December 31, 2004, and the next required valuation, to be completed in 2006, will be as of December 31, 2005. For the SPP, the next required valuation, to be completed in 2008, will be as of December 31, 2007.

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees. The expected average remaining service period of the active employees for 2006 has been determined to be 13 years (2005 – 18 years) for the RPP, 10 years (2005 – 10 years) for the SPP and 17 years (2005 – 19 years) for the other benefit plans.

The cumulative difference between the employee benefit cost and funding contributions is reflected in the balance sheet as accrued benefit liability.

**(f) Parliamentary appropriations**

CATSA's primary source of funding is appropriations received from the Government of Canada. Parliamentary appropriations for operating expenses are recorded on the statement of operations. Parliamentary appropriations for property and equipment are recorded as deferred capital funding and amortized on the same basis and over the same periods as the related property and equipment. Upon disposition of funded depreciable property and equipment, CATSA recognizes into income all remaining deferred capital funding related to property and equipment.

**(g) Interest revenue**

The source of interest revenue is derived from interest on bank balances and is recognized as it is earned.

**(h) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. All exchange gains and losses are included in determining net deficit/surplus for the year.

**(i) Security considerations**

In the interest of security at airports in Canada and pursuant to Section 32 of the *CATSA Act*, information relating to air security related policing programs is not made public. To achieve this, the statement of operations and equity combines the expenses relating to hold bag screening and air security related policing programs.

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

**3 PARLIAMENTARY APPROPRIATIONS**

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

	2006	2005
Parliamentary appropriation approved	\$ 438,400	\$ 503,675
Unused portion of Parliamentary appropriation (operating)	(13,387)	(14,425)
Total Parliamentary appropriations used	\$ 425,013	\$ 489,250

Appropriations were used as follows:

	2006	2005
Operating funding	\$ 290,145	\$ 268,251
Capital funding (note 9)	134,868	220,999
	\$ 425,013	\$ 489,250

**4 ACCOUNTS RECEIVABLE**

Accounts receivable are comprised of:

	2006	2005
Parliamentary appropriations	\$ 85,080	\$ -
Goods and Services and Provincial Sales Taxes recoverable	13,366	19,856
Other	292	66
Total Parliamentary appropriations used	\$ 98,738	\$ 19,922

**5 PROPERTY AND EQUIPMENT**

	Cost	Accumulated Amortization	Net Book Value 2006	Net Book Value 2005
Pre-board screening equipment	\$ 53,551	\$ 25,783	\$ 27,768	\$ 33,793
Hold bag screening equipment	458,295	52,251	406,044	218,718
Non-passenger screening equipment	2,309	501	1,808	3,690
Restricted area identification card equipment	13,468	4,659	8,809	6,597
Computers, software and electronic equipment	18,230	12,851	5,379	9,049
Office furniture and equipment	3,097	1,739	1,358	1,889
Leasehold improvements	8,789	3,154	5,635	6,560
Work in progress	55,879	-	55,879	148,276
	\$ 613,618	\$ 100,938	\$ 512,680	\$ 428,572

As at March 31, 2006, no deposits (2005 - \$272) were made towards the purchase of property and equipment and have been included on the balance sheet. The current year amortization amounts to \$56,743 (2005 - \$28,895).

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

**6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities are comprised of:

	2006	2005
Equipment implementation and airport policing programs	\$ 55,022	\$ 125,832
Screening operations	27,191	24,199
Other	16,241	21,207
	<b>\$ 98,454</b>	<b>\$ 171,238</b>

**7 EMPLOYEE FUTURE BENEFITS**

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

	Pension benefit plans		Other benefit plans	
	2006	2005	2006	2005
<b>Change in fair value of plan assets</b>				
Fair value of plan assets at beginning of year	\$ 11,922	\$ 7,121	\$ -	\$ -
CATSA contributions	1,654	2,201	7	-
Plan participants' contributions	804	686	-	-
Benefit payment and transfers	732	2,408	(7)	-
Actual return on plan assets - gain (loss)	1,091	(494)	-	-
Fair value of plan assets at end of year	<b>\$ 16,203</b>	<b>\$ 11,922</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in accrued benefit obligation</b>				
Accrued benefit obligation at beginning of year	\$ 14,789	\$ 9,336	\$ 1,819	\$ 1,168
Plan participants' contributions	804	686	-	-
Current service cost	2,002	1,847	463	414
Interest cost	1,011	687	142	103
Benefit payment and transfers	732	2,408	(7)	-
Actuarial loss (gain)	5,770	(175)	502	134
Accrued benefit obligation at end of year	<b>\$ 25,108</b>	<b>\$ 14,789</b>	<b>\$ 2,919</b>	<b>\$ 1,819</b>
<b>Reconciliation with Funded Position</b>				
Unfunded liabilities	(\$ 8,905)	(\$ 2,867)	(\$ 2,919)	(\$ 1,819)
4th quarter contribution adjustment	1,917	334	-	-
Unamortized past service cost	675	718	321	358
Unamortized net actuarial loss	7,037	1,594	977	493
Accrued benefit liability at end of year	<b>\$ 724</b>	<b>(\$ 221)</b>	<b>(\$ 1,621)</b>	<b>(\$ 968)</b>

Total accrued benefit liability at end of the year was \$897 (2005 - \$1,189).

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

## 7 EMPLOYEE FUTURE BENEFITS (continued)

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

	Pension benefit plans		Other benefit plans	
	2006	2005	2006	2005
Accrued benefit obligation	\$ 24,032	\$ 14,142	\$ 2,919	\$ 1,819
Fair value of plan assets	15,065	10,800	-	-
Funded status – plan (deficit)	(\$ 8,967)	(\$ 3,342)	(\$ 2,919)	(\$ 1,819)

Based on the fair value of the plan assets at December 31, 2005:

## Plan assets consist of:

Asset category	2006	2005
Equity securities	64%	64%
Debt securities	32%	29%
CRA refundable tax account	4%	7%
	100%	100%

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

	Pension benefit plans		Other benefit plans	
	2006	2005	2006	2005
<b>Net employee benefit cost incurred in the period</b>				
Current service cost	\$ 2,002	\$ 1,847	\$ 463	\$ 414
Interest cost	1,011	687	142	103
Actuarial loss (gain)	5,770	(175)	502	134
Actual return on plan assets – (gain) loss	(1,091)	494	-	-
Net benefit cost incurred in the period	\$ 7,692	\$ 2,853	\$ 1,107	\$ 651
<b>Net benefit cost recognized in the period</b>				
Current service cost	\$ 2,002	\$ 1,847	\$ 463	\$ 414
Interest cost	1,011	687	142	103
Expected return on plan assets	(773)	(552)	-	-
Amortization of past service cost	43	43	36	37
Amortization of net actuarial loss	9	8	18	13
Net benefit cost recognized in the period	\$ 2,292	\$ 2,033	\$ 659	\$ 567

Total cash payments for employee future benefits for 2006, consisting of cash contributed by CATSA to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans was \$3,132 (2005 - \$2,201). Included in total cash payments in 2006 was \$562 (2005 – nil) in additional contributions to the SPP in relation to a plan deficit identified as a result of the 2004 funding valuation.

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

**7 EMPLOYEE FUTURE BENEFITS (continued)**

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

	Pension benefit plans		Other benefit plans	
	2006	2005	2006	2005
Expected rate of return on plan assets	<b>5.88%</b>	6.75%	<b>N/A</b>	N/A
Discount rate for benefit cost	<b>6.25%</b>	6.50%	<b>6.25%</b>	6.50%
Discount rate for accrued benefit obligation	<b>5.10%</b>	6.25%	<b>5.00%</b>	6.25%
Inflation	<b>3.00%</b>	3.00%	<b>3.00%</b>	3.00%
Long-term rate of compensation increase (including inflation and promotion)	<b>4.75%</b>	4.75%	<b>4.75%</b>	4.75%

**Assumed health care cost trend rates:**

	2006	2005
Initial health care cost trend rate	<b>9.60%</b>	9.60%
Ultimate health care cost trend rate	<b>4.87%</b>	4.87%
Year ultimate rate reached	<b>2015</b>	2014

**Sensitivity analysis:**

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2006:

	Increase	Decrease
Total of service and interest cost	122	(92)
Accrued benefit obligation	563	(427)

Employees transferring from the Federal Public Service are given the option to transfer pension assets and benefit obligations to CATSA's pension plan as a Reciprocal Transfer Agreement is in place, or to leave them with the Public Service Pension Plan until retirement. Management has assumed that all entitled employees will transfer such pension credits. It is estimated that the transfer of pension benefits will result in an unfunded liability which is already factored into the reconciliation with funded position shown above (see unamortized past service cost).

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

**8 ASSET RETIREMENT OBLIGATIONS**

The Authority has identified asset retirement obligations associated with certain screening equipment and lease agreements. These obligations are expected to be settled between 2009 and 2014.

The estimated liability is based on estimated asset expected useful lives, external estimates as to the estimated cost to retire these assets in the future and regulatory requirements. The total undiscounted amount of the estimated cash flows required to settle the obligations is \$5,210 (2005 - \$5,076). The liability is a discounted amount using a credit-adjusted risk-free rate of 4.44% (2005 - 4.44%).

A reconciliation of the asset retirement obligation liability for the year ended March 31, 2006 is as follows:

	2006	2005
Balance, beginning of year	\$ 4,415	\$ 3,397
Liabilities incurred	112	942
Accretion expense	139	76
Balance, end of year	\$ 4,666	\$ 4,415

**9 DEFERRED CAPITAL FUNDING**

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

	2006	2005
Deferred capital funding,		
beginning of year	\$ 431,432	\$ 239,097
Parliamentary appropriations		
to finance the acquisition		
of property and equipment	134,868	220,999
Amortization of deferred capital		
funding	(56,341)	(28,664)
Deferred capital funding,		
end of year	\$ 509,959	\$ 431,432

**10 FINANCIAL INSTRUMENTS**

CATSA's financial instruments consist of cash, accounts receivable, and accounts payable and accrued liabilities. Management believes the carrying values of the financial instruments approximate their fair value, due to their short term to maturity. CATSA does not believe it is exposed to significant credit risk due to the nature of the instruments. CATSA is also exposed to foreign exchange risk in that some of its transactions are denominated in foreign currencies. However, the time from securing a contract price until delivery of the goods is normally less than 6 months. CATSA does not currently hedge its exposure to currency rate fluctuation.

**11 COMMITMENTS****Operating leases**

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

	Year ending March 31
2007	\$ 3,848
2008	3,446
2009	3,004
2010	2,813
2011	2,811
2012 to 2014	4,682
	\$20,604

**Other Contractual obligations**

CATSA is committed under various contracts for equipment purchases, screening services and equipment maintenance over the next four years:

	Year ending March 31
2007	\$ 423,684
2008	9,972
2009	2,951
2010	1,135
	\$ 437,742

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (Thousands of dollars)

**12 RELATED PARTY TRANSACTIONS**

CATSA is related to the Government of Canada, its departments and other agencies such as the Royal Canadian Mounted Police (RCMP), Public Works and Government Services Canada (PWGSC), Translation Bureau, and Transport Canada. CATSA enters into transactions with these entities in the normal course of operations, and pursuant to authority given in the *CATSA Act*.

**13 NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES AND SUPPLEMENTARY CASH FLOW INFORMATION**

	2006	2005
Accounts receivable	\$ (78,816)	\$ 41,776
Inventory	447	(5,854)
Prepaid expenses	292	(2,671)
Accounts payable and accrued liabilities	(72,784)	71,169
	<b>\$ (150,861)</b>	<b>\$ 104,420</b>

Interest revenue recognized and received for the year ended March 31, 2006 amounted to \$1,417 (2005 - \$1,026).

**14 CONTINGENT LIABILITIES**

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

For the year ended March 31, 2006, there are various outstanding legal actions involving CATSA. CATSA has recorded its best assessment of the various outstanding legal actions in its financial statements.

**15 COMPARATIVE FIGURES**

Certain 2005 figures have been reclassified to conform to the current year's presentation.