

Quarterly Financial Report

For the Three Months Ended
June 30, 2025



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Management's Narrative Discussion

For The Three Month Ended June 30, 2025

Management's Narrative Discussion outlines the significant activities and initiatives, risks and financial results of the Canadian Air Transport Security Authority (CATSA) for the three months ended June 30, 2025. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2025, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* (FAA) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's *2025 Annual Report*. The information in this report is expressed in thousands of Canadian dollars and is current to August 21, 2025, unless otherwise stated.

Forward-looking statements

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

Materiality

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

Corporate Overview

Established on April 1, 2002, CATSA is an agent Crown corporation and is accountable to Parliament through the Minister of Transport and Trade. CATSA's mission is to protect the travelling public by providing the highest level of aviation security screening.

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

- Pre-board Screening (PBS): The screening of all passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building.
- Hold Baggage Screening (HBS): The screening of all passengers' checked ("hold") baggage for prohibited items such as explosives, prior to being loaded onto an aircraft.
- Non-passenger Screening (NPS): The screening of non-passengers such as flight personnel, ground crew and service providers, and their belongings (including vehicles and their contents) entering restricted areas at the highest-risk airports.
- Restricted Area Identity Card (RAIC): The management of the system that uses iris and fingerprint biometric identifiers to allow authorized non-passengers access to the restricted areas of airports. The final authority that determines access to the restricted areas of an airport is the airport authority.

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

Operating Environment

The Government of Canada collects the Air Travellers Security Charge and funds CATSA through appropriations from the federal Consolidated Revenue Fund for operating expenses and capital expenditures. Budget 2023 included incremental funding of \$1,746 million (net) over three years to continue to protect the public by securing critical elements of the air transportation system. This funding supports implementing changes to the non-passenger screening program and delivering a target wait time service level. In addition, it allows for CATSA to plan for the longer-term and enables CATSA to conduct focused and intentional engagement with industry, the community and government partners, as well as invest in innovation. Prior to Budget 2023, CATSA has historically relied on annual supplemental funding from the Government of Canada to carry out its mandated activities. With this three-year incremental funding coming to an end after 2025/26, CATSA will again seek sustainable long-term funding to deliver its essential security mandate and strategic objectives.

Statistics from CATSA's Boarding Pass Security System, and other data sources, indicate that screened traffic across Canada increased to approximately 17.3 million passengers for the three months ended June 30, 2025, compared to 16.7 million passengers for the same period in 2024. CATSA works closely with its screening contractors, TC and external partners to support the aviation industry.

In July 2025, the Government of Canada launched a Comprehensive Expenditure Review (CER) across government. CATSA was tasked to identify saving proposals of 7.5% in 2026/27, 10% in 2027/28 and 15% in 2028/29. Pending approval of the proposals, CATSA will work with TC and other partners to implement selected proposals, with consideration of the nature of the organization's national security mandate and core mission to ensure the secure, efficient movement of people and goods across Canada's air transportation network and internationally.

Screening Services

In previous years, CATSA provided screening services on a cost recovery basis to certain designated and non-designated airports. In 2025/26, CATSA signed an agreement with Montreal Metropolitan Airport to support the upcoming launch of commercial operations as part of the cost recovery framework established in the *CATSA Act*.

Risks and Uncertainties

CATSA maintains effective corporate risk management to ensure that risks are identified, assessed and managed appropriately. A full assessment of CATSA's corporate risks, potential impacts and risk mitigations is disclosed in CATSA's *2025 Annual Report*.

Analysis of Financial Results

Condensed Interim Statement of Comprehensive Income (Loss)

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income (Loss) for the three months ended June 30, 2025, and June 30, 2024.

Key Financial Highlights – Condensed Interim Statement of Comprehensive Income (Loss)				
(Thousands of Canadian dollars)		Three months ended		
(Unaudited)		June 30		
	2025	2024	\$ Change	% Change
Expenses¹				
Screening services and other related costs	\$ 224,198	\$ 198,575	\$ 25,623	12.9%
Equipment operating and maintenance	12,508	13,049	(541)	(4.1%)
Program support and corporate services	27,936	26,284	1,652	6.3%
Depreciation and amortization	13,870	11,731	2,139	18.2%
Total expenses	278,512	249,639	28,873	11.6%
Other expenses²	1,431	21	1,410	N/M
Financial performance before revenue and government funding	279,943	249,660	30,283	12.1%
Revenue	753	904	(151)	(16.7%)
Government funding				
Parliamentary appropriations for operating expenses	259,858	234,645	25,213	10.7%
Amortization of deferred government funding related to capital expenditures	13,008	11,041	1,967	17.8%
Parliamentary appropriations for lease payments	978	777	201	25.9%
Total government funding	273,844	246,463	27,381	11.1%
Financial performance	\$ (5,346)	\$ (2,293)	\$ (3,053)	(133.1%)
Other comprehensive income	9,893	4,130	5,763	139.5%
Total comprehensive income (loss)	\$ 4,547	\$ 1,837	\$ 2,710	147.5%

¹ The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 11 of the unaudited condensed interim financial statements for the three months ended June 30, 2025.

² The percentage change for the three months ended June 30, 2025, as compared to the same period in 2024, is not meaningful.

Screening Services and Other Related Costs

Screening services and other related costs increased by \$25,623 (12.9%) for the three months ended June 30, 2025, compared to the same period in 2024. The increase is mainly attributable to annual billing rate increases totaling \$14,385 and increased passenger volumes which resulted in the purchase of additional screening hours of \$6,145. The increase also reflects the deployment of bilingual facilitators to elevate the client experience and ensure that screening procedures uphold the dignity of all travellers, including those with accessibility needs, totaling \$4,754.

Program Support and Corporate Services

Program support and corporate services increased by \$1,652 (6.3%) for the three months ended June 30, 2025, compared to the same period in 2024. The increase is mainly attributable to higher

employee-related costs due, in part, to an increase in the organization's workforce (10) as approved by the Government of Canada in 2023. CATSA's current workforce remains slightly below its workforce as of 2010.

Depreciation and Amortization

Depreciation and amortization increased by \$2,139 (18.2%) for the three months ended June 30, 2025, compared to the same period in 2024. The increase is primarily attributable to new equipment deployments and the change in estimated useful lives of some of CATSA's screening equipment.

Other Expenses

Other expenses increased by \$1,410 (N/M) for the three months ended June 30, 2025, compared to the same period in 2024. The change is primarily due to net losses on the fair value of derivative financial instruments.

Government Funding

The Government of Canada collects the Air Travellers Security Charge and funds CATSA through appropriations from the federal Consolidated Revenue Fund for operating expenses and capital expenditures. Payments for CATSA's leases that are capitalized under IFRS 16 are funded through capital appropriations.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by \$25,213 (10.7%) for the three months ended June 30, 2025, compared to the same period in 2024. The increase is primarily attributable to increased spending for screening services and other related costs, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by \$1,967 (17.8%) for the three months ended June 30, 2025, compared to the same period in 2024. The increases are primarily attributable to higher depreciation and amortization expenses, as discussed above.

Parliamentary appropriations for lease payments

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

Other Comprehensive Income

Other comprehensive income is comprised of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets.

Other comprehensive income of \$9,893 for the three months ended June 30, 2025, was primarily attributable to a remeasurement gain of \$4,993 on the defined benefit liability arising from a 10 basis point increase in the discount rate between March 31, 2025, and June 30, 2025. It was also attributable to a remeasurement gain of \$4,900 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions.

Other comprehensive income of \$4,130 for the three months ended June 30, 2024, was attributable to a remeasurement gain of \$4,856 on the defined benefit liability arising from a 10 basis point increase in the discount rate between March 31, 2024, and June 30, 2024. This was offset by a remeasurement loss of \$726 resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions.

For more information, refer to note 8 of the unaudited condensed interim financial statements.

Condensed Interim Statement of Financial Position

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at June 30, 2025, compared to March 31, 2025.

Key Financial Highlights - Condensed Interim Statement of Financial Position

(Thousands of Canadian dollars) (Unaudited)	June 30, 2025	March 31, 2025	\$ Change	% Change
Current assets	\$ 189,970	\$ 210,820	\$ (20,850)	(9.9%)
Non-current assets	486,832	476,565	10,267	2.2%
Total assets	\$ 676,802	\$ 687,385	\$ (10,583)	(1.5%)
Current liabilities	\$ 197,082	\$ 213,684	\$ (16,602)	(7.8%)
Non-current liabilities	433,916	432,444	1,472	0.3%
Total liabilities	\$ 630,998	\$ 646,128	\$ (15,130)	(2.3%)

Assets

Current assets decreased by \$20,850 (9.9%) primarily due to the following:

- Decrease in cash of \$80,475 mainly due to the timing of funds received from the Government of Canada;
- Decrease in inventory of \$1,052 primarily due to the net usage of uniforms and spare part inventories; and
- Increase in trade and other receivables of \$62,060 due to an increase in parliamentary appropriations receivable and recoverable sales taxes, partially offset by a decrease in screening services – other receivable.

Non-current assets increased by \$10,267 (2.2%) primarily due to the following:

- Increase in employee benefits of \$8,714 primarily relating to CATSA's registered pension plan; and
- Increase in property and equipment and intangible assets of \$2,377 mainly due to acquisitions totaling \$15,407, partially offset by depreciation and amortization totaling \$13,030.

Liabilities

Current liabilities decreased by \$16,602 (7.8%) primarily due to the following:

- Decrease in trade and other payables of \$15,697 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of \$1,592 due to a reduction in inventories, as discussed above.

Non-current liabilities increased by \$1,472 (0.3%) primarily due to the following:

- Increase in the deferred government funding related to capital expenditures of \$2,399 due to parliamentary appropriations used to fund capital expenditures of \$15,407 exceeding amortization of deferred government funding related to capital expenditures of \$13,008.

Financial Performance Against Corporate Plan

As of the date of publishing, CATSA's *Summary of the 2025/26 to 2029/30 Corporate Plan* has not been tabled in Parliament. Until it is tabled in Parliament and made publicly available, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in the *Summary of the 2025/26 to 2029/30 Corporate Plan*.

Parliamentary Appropriations Used

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

Operating Expenditures

The table below serves to reconcile financial performance reported under International Financial Reporting Standards (IFRS) and operating appropriations used.

Reconciliation of Financial Performance to Operating Appropriations Used			
(Thousands of Canadian dollars) (Unaudited)		Three months ended June 30	
		2025	2024
Financial performance before revenue and government funding	\$	279,943	\$ 249,660
Revenue		(753)	(904)
Financial performance before government funding		279,190	248,756
Non-cash items			
Depreciation and amortization		(13,870)	(11,731)
Employee cost accruals ¹		(2,589)	(2,324)
Change in fair value of financial instruments at fair value through profit and loss		(1,481)	147
Employee benefits expense ²		(1,108)	(2)
Non-cash finance costs related to leases		(167)	(173)
Non-cash loss on foreign exchange recognized in financial performance		(117)	(28)
Appropriations used for operating expenses	\$	259,858	\$ 234,645
Other items affecting funding			
Net change in prepaids and inventories ³		(1,592)	(2,738)
Total operating appropriations used	\$	258,266	\$ 231,907

¹ Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to June 30, 2025. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

² Employee benefits expense is accounted for in the Condensed Interim Statement of Comprehensive Income (Loss) in accordance with IFRS. The reconciling item above represents the difference between cash payments for employee benefits and the accounting expense under IFRS.

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

Capital Expenditures

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

Reconciliation of Capital Expenditures to Capital Appropriations Used			
(Thousands of Canadian dollars)		Three months ended	
(Unaudited)		June 30	
		2025	2024
Explosives Detection Systems (EDS)	\$	14,309	\$ 11,420
Non-Explosives Detection Systems (Non-EDS)		1,098	503
Lease payments		978	777
Total capital expenditures	\$	16,385	\$ 12,700
Non-cash items			
Adjustment on foreign exchange		-	10
Total capital appropriations used	\$	16,385	\$ 12,710

Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these unaudited condensed interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, and The Treasury Board of Canada's *Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Report*, and for such internal controls as management determines are necessary to enable the preparation of the unaudited condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the unaudited condensed interim financial statements.

Based on our knowledge, these unaudited condensed interim financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of CATSA, as at the date of and for the periods presented in the unaudited condensed interim financial statements.



Neil Parry
Interim President and Chief Executive Officer

Ottawa, Canada
August 21, 2025



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

Ottawa, Canada
August 21, 2025

Condensed Interim Financial Statements of

Canadian Air Transport Security Authority

June 30, 2025

(Unaudited)

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Financial Position

(In thousands of Canadian dollars)

	June 30, 2025	March 31, 2025
Assets		
Current assets		
Cash	\$ 21,740	\$ 102,215
Trade and other receivables (note 4)	142,431	80,371
Inventories	17,724	18,776
Prepays	8,063	8,603
Derivative financial assets	12	855
	189,970	210,820
Non-current assets		
Property and equipment (note 5)	385,120	382,154
Intangible assets (note 6)	12,290	12,879
Right-of-use assets (note 7)	15,899	16,664
Employee benefits asset (note 8)	73,523	64,809
Derivative financial assets	-	59
	486,832	476,565
Total assets	\$ 676,802	\$ 687,385
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 167,252	\$ 182,949
Holdbacks	35	35
Lease liabilities (note 7)	3,371	3,263
Deferred government funding related to operating expenses (note 10)	25,787	27,379
Derivative financial liabilities	637	58
	197,082	213,684
Non-current liabilities		
Lease liabilities (note 7)	14,882	15,738
Deferred government funding related to capital expenditures (note 10)	392,089	389,690
Employee benefits liability (note 8)	22,374	22,445
Deferred revenue - screening services - other	4,571	4,571
	433,916	432,444
Equity		
Accumulated surplus	45,804	41,257
Total liabilities and equity	\$ 676,802	\$ 687,385

Contingencies (note 9) and contractual commitments (note 13)

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

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

	Three months ended June 30	
	2025	2024
Expenses		
Pre-Board Screening	\$ 175,060	\$ 157,222
Hold Baggage Screening	46,250	40,983
Non-Passenger Screening	41,103	36,855
Restricted Area Identity Card Program	1,067	1,060
Corporate services	15,032	13,519
Total expenses (note 11)	278,512	249,639
Other expenses		
Net loss (gain) on fair value of derivative financial instruments	1,481	(147)
Finance costs	169	177
Foreign exchange gain	(219)	(9)
Total other expenses	1,431	21
Financial performance before revenue and government funding	279,943	249,660
Revenue		
Finance income	735	902
Miscellaneous income	18	2
Total revenue	753	904
Government funding		
Parliamentary appropriations for operating expenses	259,858	234,645
Amortization of deferred government funding related to capital expenditures	13,008	11,041
Parliamentary appropriations for lease payments	978	777
Total government funding (note 10)	273,844	246,463
Financial performance	\$ (5,346)	\$ (2,293)
Other comprehensive income		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 8)	9,893	4,130
Total comprehensive income (loss)	\$ 4,547	\$ 1,837

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

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Changes in Equity

(In thousands of Canadian dollars)

For the three months ended June 30:	Accumulated surplus
Balance, March 31, 2025	\$ 41,257
Financial performance	(5,346)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 8)	9,893
Balance, June 30, 2025	\$ 45,804
Balance, March 31, 2024	\$ 36,901
Financial performance	(2,293)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 8)	4,130
Balance, June 30, 2024	\$ 38,738

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Cash Flows

(In thousands of Canadian dollars)

	Three months ended June 30	
	2025	2024
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (5,346)	\$ (2,293)
Items not involving cash		
Depreciation and amortization (note 11)	13,870	11,731
Change in fair value of financial instruments at fair value through profit and loss	1,481	(147)
Change in net employee benefits asset/liability	1,108	2
Amortization of deferred government funding related to capital expenditures (note 10)	(13,008)	(11,041)
Net change in working capital balances (note 15)	(79,549)	6,513
	(81,444)	4,765
Investing activities		
Parliamentary appropriations received for capital funding (note 10)	15,022	4,223
Purchase of property and equipment	(13,156)	(4,199)
Purchase of intangible assets	(74)	(81)
	1,792	(57)
Financing activities		
Lease principal payments	(823)	(604)
	(823)	(604)
(Decrease) increase in cash	(80,475)	4,104
Cash, beginning of period	102,215	9,955
Cash, end of period	\$ 21,740	\$ 14,059

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

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
(In thousands of Canadian dollars)
(Unaudited)

1. Corporate information

CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of His Majesty in right of Canada. CATSA's mandate is to provide effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport.

CATSA is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport and Internal Trade. In 2025/26, CATSA signed an agreement with Montreal Metropolitan Airport to support the upcoming launch of commercial operations as part of the cost recovery framework established in the *CATSA Act*.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on August 21, 2025.

2. Basis of preparation

These condensed interim financial statements have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB) and approved by the Accounting Standards Board of Canada.

Section 131.1 of the *Financial Administration Act* requires that most parent Crown corporations prepare and make public quarterly financial reports in compliance with the Treasury Board of Canada's *Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Report*. These condensed interim financial statements have not been audited or reviewed by CATSA's external auditor.

As permitted by IAS 34, these interim financial statements are presented on a condensed basis and therefore do not include all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual financial statements. These condensed interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements. Accordingly, they should be read in conjunction with CATSA's audited annual financial statements for the year ended March 31, 2025.

These condensed interim financial statements were prepared under the historical cost convention, except as required or permitted by IFRS and as indicated in note 3. Historical cost is generally based on the fair value of the consideration given up in exchange for goods and services at the transaction date.

3. Summary of material accounting policy information

(a) Use of estimates and judgments

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

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
(In thousands of Canadian dollars)
(Unaudited)

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

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

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

- note 3(b), note 3(c), note 5 and note 6 – Property and equipment and intangible assets

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

- note 3(e) and note 7 – Right-of-use assets and lease liabilities

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

- note 3(g) and note 8 – Employee benefits

Key estimates used for employee benefits include the discount rate, mortality rate, inflation rate, long-term rate of compensation increase and assumed medical cost trend rates. In determining the assumptions, CATSA takes into account past experience, the expertise of its actuaries, and current market conditions and rates. Changes to these assumptions would affect its employee benefits asset and liability, as well as financial performance and other comprehensive income or loss.

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
(In thousands of Canadian dollars)
(Unaudited)

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

- note 3(e) and note 7 – Right-of-use assets and lease liabilities

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

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

(b) Property and equipment

Property and equipment consists of screening equipment, RAIC equipment, computer, electronic and other equipment, leasehold improvements and work-in-progress.

Recognition and measurement

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

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

Subsequent costs

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

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
(In thousands of Canadian dollars)
(Unaudited)

Depreciation

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

Asset class	Useful life
PBS equipment	10 to 15 years
HBS equipment	10 to 15 years
NPS equipment	10 to 15 years
RAIC equipment	5 years
Computer, electronic and other equipment	5 to 10 years

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

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

(c) Intangible assets

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

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

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

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

Intangible assets are amortized using the straight-line method over their estimated useful lives of five to 15 years.

Canadian Air Transport Security Authority

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(d) Impairment

CATSA's assets do not generate cash flows. Instead, all assets interact to support CATSA's mandated activities, which are primarily funded by parliamentary appropriations. Overall levels of cash flow, provided by budgetary funding, reflect public policy requirements and decisions. Therefore, CATSA is considered one cash-generating unit (CGU).

The carrying amounts of CATSA's property and equipment and intangible assets are reviewed at each reporting period to determine whether there is any indication of impairment. Assets are tested at the CGU level when they cannot be tested individually. Property and equipment and intangible assets are considered to be impaired if they are no longer able to contribute to CATSA's mandate.

(e) Leases

Contracts are considered to be a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets

CATSA's right-of-use (ROU) assets are initially measured at cost based on the following:

- amount of the initial measurement of the lease liability; and
- lease payments made at or before the commencement date, less any lease incentives received.

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

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

Lease Liabilities

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

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

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

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

- there is a change in the lease term, including a change in the assessment of whether an extension option will be exercised;

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- the payments change due to changes in an index or rate, or a change in expected payments under a residual value guarantee; and
- a lease contract is modified and the lease modification is not accounted for as a separate lease.

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

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

(f) Financial instruments

Non-derivative financial assets:

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

Cash and receivables related to supplemental and other screening services are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method. At each reporting date, CATSA assesses, on a forward-looking basis, the expected credit losses on any financial assets measured at amortized cost.

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

Non-derivative financial liabilities:

Non-derivative financial liabilities include trade and other payables and holdbacks. Trade and other payables and holdbacks are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

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

Derivative financial instruments

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

Canadian Air Transport Security Authority

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(g) Employee benefits

Post-employment benefit plans – defined benefit

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

Defined benefit costs are categorized as follows:

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

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

Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligation to the net defined benefit asset or liability, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. Net interest is recognized as employee costs in determining financial performance.

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

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

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Post-employment benefit plan – defined contribution

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

Termination benefits

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

Short-term employee benefits

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

(h) Provisions and contingencies

A provision is recognized when, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle a present legal or constructive obligation, and the obligation can be estimated reliably. In situations where the amount of the obligation cannot be measured with sufficient reliability or the cash outflows are not probable, a contingent liability is disclosed.

Contingent liabilities may arise from uncertainty as to the existence of a liability, or represent an existing liability in respect of which settlement is not probable or, in extremely rare cases, the amount cannot be reliably measured. A liability is recognized when its existence is confirmed by a future event, settlement becomes probable and reliable measurement becomes possible.

Disputed claims

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

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Decommissioning costs

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

Given the nature of provisions and contingencies, judgments and estimates are required in determining the existence and amount of an obligation.

(i) Government funding

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

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

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

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

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4. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2025	March 31, 2025
Parliamentary appropriations	\$ 125,316	\$ 59,665
GST and HST recoverable	12,068	12,248
PST recoverable	5,047	3,204
Screening services - other	-	5,254
	\$ 142,431	\$ 80,371

Screening services – other, relates to screening equipment in support of a cost recovery agreement with Montreal Metropolitan Airport regarding their upcoming launch of commercial operations.

5. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS Equipment	HBS Equipment	NPS Equipment	RAIC Equipment	Computer, Electronic & Other Equipment	Leasehold Improve- ments	Work-in- progress	Total
Cost as at April 1, 2025	\$ 184,491	\$ 675,386	\$ 22,273	\$ 4,261	\$ 27,806	\$ 7,788	\$ 40,234	\$ 962,239
Additions	5,879	631	(12)	23	949	-	7,941	15,411
Disposals/ Write-offs	(471)	(654)	-	-	(217)	(83)	-	(1,425)
Transfers	8,801	9,043	115	768	1,329	-	(20,056)	-
Cost as at June 30, 2025	\$ 198,700	\$ 684,406	\$ 22,376	\$ 5,052	\$ 29,867	\$ 7,705	\$ 28,119	\$ 976,225
Accumulated depreciation as at April 1, 2025	\$ 113,158	\$ 421,994	\$ 17,627	\$ 1,732	\$ 19,842	\$ 5,732	\$ -	\$ 580,085
Depreciation	2,725	8,348	187	173	832	180	-	12,445
Disposals/ Write-offs	(471)	(654)	-	-	(217)	(83)	-	(1,425)
Accumulated depreciation as at June 30, 2025	\$ 115,412	\$ 429,688	\$ 17,814	\$ 1,905	\$ 20,457	\$ 5,829	\$ -	\$ 591,105
Carrying amounts as at June 30, 2025	\$ 83,288	\$ 254,718	\$ 4,562	\$ 3,147	\$ 9,410	\$ 1,876	\$ 28,119	\$ 385,120

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Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
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6. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under develop- ment	Total
Cost as at April 1, 2025	\$ 13,906	\$ 17,217	\$ 612	\$ 31,735
Additions	-	(4)		(4)
Write-offs	(719)	(417)		(1,136)
Transfers		612	(612)	-
Cost as at June 30, 2025	\$ 13,187	\$ 17,408	\$ -	\$ 30,595
Accumulated amortization as at April 1, 2025	\$ 7,783	\$ 11,073	\$ -	\$ 18,856
Amortization	235	350	-	585
Write-offs	(719)	(417)	-	(1,136)
Accumulated depreciation as at June 30, 2025	\$ 7,299	\$ 11,006	\$ -	\$ 18,305
Carrying amounts as at June 30, 2025	\$ 5,888	\$ 6,402	\$ -	\$ 12,290

7. Leases

Right-of-use assets

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

	Office space	Data centres	Total
Balance, April 1, 2025	\$ 16,192	\$ 472	\$ 16,664
Additions	75	-	75
Depreciation	(788)	(52)	(840)
Balance, June 30, 2025	\$ 15,479	\$ 420	\$ 15,899

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Lease liabilities

CATSA has included extension options in the measurement of its lease liabilities when it is reasonably certain to exercise the extension option.

A reconciliation of lease liabilities is as follows:

	June 30, 2025	March 31, 2025
Balance, beginning of period	\$ 19,001	\$ 19,197
Additions	75	2,667
Finance costs	155	674
Lease payments (note 10)	(978)	(3,242)
Foreign exchange revaluation	-	12
Decreases	-	(307)
Balance, end of period	\$ 18,253	\$ 19,001
Balance, end of period		
Current	\$ 3,371	\$ 3,263
Non-current	14,882	15,738

CATSA recognized the following expenses not included in the measurement of the lease liabilities as follows:

	Three months ended June 30	
	2025	2024
Variable lease payments ¹	\$ 476	\$ 494
Short-term leases	-	168
Low value leases	-	11
Other lease costs (note 11)	\$ 476	\$ 673

¹ Variable lease payments include operating costs, property taxes, insurance, and other service-related costs.

For the three months ended June 30, 2025, CATSA recognized a total cash outflow for leases of \$1,454 (2024 - \$1,450).

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

	June 30, 2025	March 31, 2025
Less than one year	\$ 6,243	\$ 5,957
One to five years	9,525	10,257
Greater than five years	408	471
	\$ 16,176	\$ 16,685

8. Employee benefits

Employee benefits asset and liability

Employee benefits asset and liability recognized and presented in the Condensed Interim Statement of Financial Position are detailed as follows:

	June 30, 2025	March 31, 2025
Employee benefits asset		
Registered pension plan (RPP)	\$ 71,709	\$ 63,391
Supplementary retirement plan (SRP)	1,814	1,418
	73,523	64,809
Employee benefits liability		
Other defined benefits plan (ODBP)	(22,374)	(22,445)
	(22,374)	(22,445)
Employee benefits - net asset	\$ 51,149	\$ 42,364

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
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Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended June 30							
	RPP		SRP		ODBP		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
Defined benefit cost (income) recognized in financial performance								
Current service cost	\$ 1,326	\$ 1,299	\$ 36	\$ 31	\$ 157	\$ 132	\$ 1,519	\$ 1,462
Administration costs	81	81	6	6	-	-	87	87
Interest cost on defined benefit obligation	2,882	2,751	104	91	274	230	3,260	3,072
Interest income on plan assets	(3,563)	(3,357)	(120)	(111)	-	-	(3,683)	(3,468)
	\$ 726	\$ 774	\$ 26	\$ 17	\$ 431	\$ 362	\$ 1,183	\$ 1,153

Remeasurement of defined benefit plans recognized in other comprehensive income

Return on plan assets excluding interest income	\$ 4,633	\$ (719)	\$ 267	\$ (7)	\$ -	\$ -	\$ 4,900	\$ (726)
Actuarial gains	4,411	4,396	155	126	427	334	4,993	4,856
	\$ 9,044	\$ 3,677	\$ 422	\$ 119	\$ 427	\$ 334	\$ 9,893	\$ 4,130

For the three months ended June 30, 2025, CATSA recognized an expense of \$307 (2024 - \$249) in relation to the defined contribution component of the RPP.

Significant actuarial assumptions

Assumptions used to measure the defined benefit plan assets and liabilities are reviewed and, as necessary, revised at each reporting period. This typically includes reviewing the discount rates and actual rate of return on the plan assets against rates previously estimated, to reflect the current assumptions and circumstances. Changes to actuarial assumptions result in remeasurement gains and/or losses recognized in other comprehensive (loss) income.

For the three months ended June 30, 2025, remeasurement gains of \$9,893 resulted from an increase in the discount rate of 10 basis points (from 4.80% at March 31, 2025 to 4.90% at June 30, 2025). The gains also resulted from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (2.75% actual versus 1.20% expected).

For the three months ended June 30, 2024, remeasurement gains of \$4,130 resulted from an increase in the discount rate of 10 basis points (from 4.90% at March 31, 2024 to 5.00% at June 30, 2024). This was partially offset by a lower actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (0.96% actual versus 1.23% expected).

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Employer contributions

Employer contributions paid to the defined benefit plans are as follows:

	Three months ended June 30	
	2025	2024
Employer contributions		
RPP	\$ -	\$ 1,083
ODBP	75	68
	\$ 75	\$ 1,151

Starting July 1, 2024, the Canada Revenue Agency (CRA), in accordance with the *Income Tax Act*, required that CATSA take a forced employer contribution holiday for the defined benefit component of the RPP. For the year ending March 31, 2026, the total employer contributions to CATSA's defined benefit plans for the SRP and ODBP components, are estimated to be \$739.

9. Provisions and contingencies

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. By nature, these amounts are subject to many uncertainties and the outcome of the individual matters is not always predictable. As at June 30, 2025, claims, audits and legal proceedings are not expected, individually or in the aggregate, to have a material adverse effect on the financial statements.

Provisions

During the three months ended June 30, 2025, there were no provisions recorded.

Contingencies – Decommissioning costs

During the three months ended June 30, 2025, there have been no material changes to contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 9 of CATSA's audited annual financial statements for the year ended March 31, 2025.

10. Government funding

Government funding

CATSA's *Summary of the 2025/26 – 2029/30 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet publicly available. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

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Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
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The following table reconciles parliamentary appropriations for operating expenses that were received and receivable with the amount of appropriations used:

	Three months ended June 30	
	2025	2024
Parliamentary appropriations received	\$ 193,000	\$ 231,000
Amounts received related to prior periods	(46,027)	(110,807)
Parliamentary appropriations receivable	111,293	111,714
Parliamentary appropriations used to fund operating expenses	\$ 258,266	\$ 231,907

The following table reconciles parliamentary appropriations for capital expenditures and lease payments that were received and receivable with the amount of appropriations used:

	Three months ended June 30	
	2025	2024
Parliamentary appropriations received	\$ 15,022	\$ 4,223
Amounts receivable related to prior periods	(13,638)	(9,856)
Parliamentary appropriations receivable	14,023	17,566
Parliamentary appropriations used to fund capital expenditures	15,407	11,933
Parliamentary appropriations used to fund lease payments (note 7)	978	777
Parliamentary appropriations used to fund capital expenditures and lease payments	\$ 16,385	\$ 12,710

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Deferred government funding

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

	June 30, 2025	March 31, 2025
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 27,379	\$ 22,968
Parliamentary appropriations used to fund operating expenses	258,266	1,006,527
Parliamentary appropriations for operating expenses recognized in financial performance	(259,858)	(1,002,116)
Balance, end of period	\$ 25,787	\$ 27,379
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 389,690	\$ 368,994
Parliamentary appropriations used to fund capital expenditures	15,407	68,897
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(13,008)	(48,201)
Balance, end of period	\$ 392,089	\$ 389,690
Total deferred government funding, end of period	\$ 417,876	\$ 417,069

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Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
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11. Expenses

The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity. The following table presents operating expenses by major expense type:

	Three months ended June 30	
	2025	2024
Screening services and other related costs		
Payments to screening contractors	\$ 220,581	\$ 195,068
Uniforms and other screening costs	2,640	2,300
Trace and consumables	977	1,207
	224,198	198,575
Equipment operating and maintenance		
Equipment maintenance and spare parts	11,798	12,470
Training and certification	434	350
RAIC	276	229
	12,508	13,049
Program support and corporate services		
Employee costs	22,486	19,844
Office and computer expenses	2,521	2,337
Professional services and other business related costs ¹	1,263	1,337
Other administrative costs ²	917	1,918
Other lease costs (note 7)	476	673
Communications and public awareness	273	175
	27,936	26,284
Depreciation and amortization		
Depreciation of property and equipment (note 5)	12,445	10,483
Depreciation of right-of-use assets (note 7)	840	667
Amortization of intangible assets (note 6)	585	581
	13,870	11,731
	\$ 278,512	\$ 249,639

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

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

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12. Fair values of financial instruments

Derivative financial instruments are recorded at fair value in the Condensed Interim Statement of Financial Position. The fair values of CATSA's derivative financial instruments approximate their carrying amount due to the nature of the instruments.

CATSA's derivative financial instruments are categorized as Level 2, based on observable inputs other than quoted prices. There were no transfers between levels during the three months ended June 30, 2025, or the year ended March 31, 2025.

13. Contractual commitments

During the three months ended June 30, 2025, there have been no material changes to CATSA's contractual commitments, other than the usage against contracts relating to payments to screening contractors.

For a description of CATSA's contractual commitments, refer to note 13 of CATSA's audited annual financial statements for the year ended March 31, 2025.

14. Related party transactions

CATSA had the following transactions with related parties:

Government of Canada, its agencies and other Crown corporations

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

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada, as disclosed in note 10. Parliamentary appropriations receivable are included in trade and other receivables, and disclosed in note 4.

Transactions with CATSA's post-employment benefit plans

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as disclosed in note 8. No other transactions were made during the three month period.

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Notes to the Condensed Interim Financial Statements for the three months ended June 30, 2025
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15. Supplementary cash flow information

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

	Three months ended June 30	
	2025	2024
Trade and other receivables ¹	\$ (61,675)	\$ 4,423
Inventories	1,052	1,441
Prepays	540	1,297
Trade and other payables ²	(17,874)	2,090
Deferred government funding related to operating expenses	(1,592)	(2,738)
	\$ (79,549)	\$ 6,513

¹ The change in trade and other receivables excludes an amount of \$385 (2024 – \$7,710) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

² The change in trade and other payables excludes an amount of \$2,177 (2024 – \$7,654) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.