

# Quarterly Financial Report

For the Three and Six Months Ended  
September 30, 2013



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY  
MANAGEMENT'S NARRATIVE DISCUSSION  
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2013**

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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 and six months ended September 30, 2013. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three and six months ended September 30, 2013, which have been prepared in accordance with the recognition and measurement standards applicable under International Financial Reporting Standards (IFRS). This Narrative Discussion should also be read in conjunction with CATSA's Management Discussion and Analysis and audited financial statements for the year ended March 31, 2013, and the Quarterly Financial Report for the three months ended June 30, 2013. The information in this report is expressed in thousands of Canadian dollars and is current to November 27, 2013, 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 the Narrative Discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the economic decisions of CATSA's stakeholders.

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**CORPORATE OVERVIEW**

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

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

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the screening of non-passengers on a random basis; and

- Restricted Area Identity Card (RAIC) Program: the administration of access control to airport restricted areas through biometric identifiers.

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

## **OPERATING ENVIRONMENT**

The following section provides information on significant changes in the operating environment that have occurred since June 30, 2013.

### **ENHANCED NPS**

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As noted in the *2013 Annual Report*, the International Civil Aviation Organization (ICAO) recently adopted a strengthened standard for NPS and security controls. CATSA is working with Transport Canada, airports and air carriers on long-term options to continue meeting the standard.

### **PASSENGER GROWTH**

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CATSA's operating funding profile does not fully accommodate increases in screening contractor billing rates, and does not accommodate passenger growth. Transport Canada statistics for the three-month period from June 2013 to August 2013 indicate that passenger volumes at Canada's eight busiest airports increased by 3.4% over the same period in 2012.<sup>1</sup>

In the current period, CATSA has witnessed longer wait times for passengers compared to the prior year. CATSA continues to work with Transport Canada to address this financial pressure.

### **LABOUR UPDATE**

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Subsequent to the end of the quarter, CATSA's screening contractor in the Eastern region, Securitas Transport Aviation Security Ltd., and its screening officer workforce at the Montréal-Pierre Elliott Trudeau International Airport, signed a new collective bargaining agreement. The agreement remains in effect until March 31, 2015. With this agreement finalized, all collective bargaining agreements between CATSA's screening contractors and their unionized screening officer workforce across Canada have been signed.

## **RISKS AND UNCERTAINTIES**

During the quarter, there have been no significant changes to CATSA's corporate risk profile.

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<sup>1</sup> Air traffic statistics for the three-month period from July 2013 to September 2013 were not available at the time of publishing.

## QUARTERLY FINANCIAL INFORMATION

The following table provides key highlights of the Statement of Comprehensive Income for the three and six months ended September 30, 2013 and September 30, 2012:

Key Financial Highlights - Statement of Comprehensive Income	Three Months Ended September 30				Six Months Ended September 30			
	2013	2012			2013	2012		
(Thousands of dollars)	(unaudited)	(unaudited)	\$ Change	% Change	(unaudited)	(unaudited)	\$ Change	% Change
<b>Expenses<sup>1</sup></b>								
Screening services and other related costs	\$ 85,130	\$ 86,528	\$ (1,398)	(2%)	\$ 170,579	\$ 174,827	\$ (4,248)	(2%)
Direct administrative costs and corporate services	17,676	18,207	(531)	(3%)	38,555	37,789	766	2%
Depreciation and amortization	15,355	17,950	(2,595)	(14%)	31,626	34,613	(2,987)	(9%)
Equipment operating and maintenance	10,425	10,723	(298)	(3%)	21,366	20,624	742	4%
<b>Total expenses</b>	<b>\$ 128,586</b>	<b>\$ 133,408</b>	<b>\$ (4,822)</b>	<b>(4%)</b>	<b>\$ 262,126</b>	<b>\$ 267,853</b>	<b>\$ (5,727)</b>	<b>(2%)</b>
<b>Total other expenses (income)</b>	<b>\$ 538</b>	<b>(246)</b>	<b>784</b>	<b>(319%)</b>	<b>969</b>	<b>(325)</b>	<b>1,294</b>	<b>(398%)</b>
<b>Financial performance before government funding</b>	<b>\$ 129,124</b>	<b>\$ 133,162</b>	<b>\$ (4,038)</b>	<b>(3%)</b>	<b>\$ 263,095</b>	<b>\$ 267,528</b>	<b>\$ (4,433)</b>	<b>(2%)</b>
<b>Government funding</b>								
Parliamentary appropriations for operating expenses	\$ 111,610	\$ 114,002	\$ (2,392)	(2%)	\$ 226,100	\$ 229,609	\$ (3,509)	(2%)
Amortization of deferred government funding related to capital expenditures	16,027	17,868	(1,841)	(10%)	32,802	34,647	(1,845)	(5%)
<b>Total government funding</b>	<b>\$ 127,637</b>	<b>\$ 131,870</b>	<b>\$ (4,233)</b>	<b>(3%)</b>	<b>\$ 258,902</b>	<b>\$ 264,256</b>	<b>\$ (5,354)</b>	<b>(2%)</b>
<b>Financial performance and total comprehensive loss</b>	<b>\$ (1,487)</b>	<b>\$ (1,292)</b>	<b>\$ (195)</b>	<b>15%</b>	<b>\$ (4,193)</b>	<b>\$ (3,272)</b>	<b>\$ (921)</b>	<b>28%</b>

<sup>1</sup> The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense category as disclosed in note 10 of the unaudited condensed interim financial statements for the three and six months ended September 30, 2013.

The following table provides key highlights of the Statement of Financial Position as at September 30, 2013 and March 31, 2013:

Key Financial Highlights - Statement of Financial Position	September 30, 2013		March 31, 2013	
(Thousands of dollars)	(unaudited)	(audited)	\$ Change	% Change
<b>Total assets</b>	<b>\$ 338,967</b>	<b>\$ 365,297</b>	<b>\$ (26,330)</b>	<b>(7%)</b>
<b>Total liabilities</b>	<b>\$ 361,632</b>	<b>\$ 383,769</b>	<b>\$ (22,137)</b>	<b>(6%)</b>

## **ANALYSIS OF FINANCIAL PERFORMANCE**

The following section provides information on key variances within the Statement of Comprehensive Income for the three and six months ended September 30, 2013, compared to the same periods of the prior fiscal year.

### **RESULTS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2013**

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#### ***Screening services and other related costs***

Screening services and other related costs decreased slightly for the three and six months ended September 30, 2013, compared to the same periods in 2012. The decrease was primarily due to a reduction in screening hours purchased at PBS checkpoints, partially offset by an increase in screening hours purchased at NPS checkpoints.

Screening hours purchased at PBS checkpoints decreased partly due to the deployment of Automated Target Recognition software for Full Body Scanner machines at major Canadian airports. In addition, CATSA is working within a lower budget for payments to screening contractors for PBS and HBS compared to the prior year. Combined with annual contractual billing rate increases, this has resulted in a decline in screening hours purchased primarily at PBS checkpoints at Canada's busiest airports.

Screening hours purchased at NPS checkpoints increased due to the implementation of enhanced NPS activities initiated during the second quarter as a result of the strengthened ICAO standard, as discussed above.

#### ***Depreciation and amortization***

Depreciation and amortization decreased by \$2,595 (14%) and \$2,987 (9%) for the three and six months ended September 30, 2013, respectively, compared to the same periods in 2012. The decrease was primarily due to a revision of the estimated useful life of certain HBS equipment during the second quarter. This equipment is being replaced in support of the multi-year, HBS life-cycle management program. The decrease is also due to computers, integrated software and electronic equipment becoming fully amortized.

#### ***Amortization of deferred government funding related to capital expenditures***

Amortization of deferred government funding related to capital expenditures decreased by \$1,841 (10%) and \$1,845 (5%) for the three and six months ended September 30, 2013, respectively, compared to the same periods in 2012. The decrease was primarily due to a revision of the estimated useful life of certain HBS equipment that were subject to depreciation in the second quarter, as well as decreased depreciation for fully amortized computers, integrated software and electronic equipment, as discussed above. The decrease was partially offset by higher losses on disposal of property and equipment in the current quarter.

## **ANALYSIS OF FINANCIAL POSITION**

The following section provides information on key variances within the Statement of Financial Position as at September 30, 2013, compared to March 31, 2013.

### **TOTAL ASSETS**

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Total assets decreased by \$26,330 (7%) primarily due to the following:

- Trade and other receivables decreased by \$7,700 primarily due to lower parliamentary appropriations receivable as a result of the timing of cash requests made to the Consolidated Revenue Fund; and
- Property and equipment and intangible assets decreased by \$19,981 primarily due to depreciation and amortization of \$31,626, partially offset by the acquisition and installation of equipment of \$12,838.

### **TOTAL LIABILITIES**

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Total liabilities decreased by \$22,137 (6%) primarily due to a decrease in total deferred government funding related to capital expenditures. The decrease resulted from amortization of deferred government funding related to capital expenditures of \$32,802, partially offset by parliamentary appropriations earned of \$12,822.

## **FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN**

CATSA's *2013/14 Summary of the Corporate Plan* has not been tabled in Parliament at the time of publishing. Until it is tabled in Parliament and made public, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *2013/14 Summary of the Corporate Plan*.

### **PARLIAMENTARY APPROPRIATIONS USED**

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CATSA's operations are funded by parliamentary appropriations from the Government of Canada. The amount of parliamentary appropriations used is reported on a near-cash accrual basis of accounting. Accordingly, the table below serves to reconcile operating expenses reported under IFRS and operating appropriations used:

Reconciliation of Total Expenses to Operating Appropriations Used	Three Months Ended		Six Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
(Thousands of dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Total expenses</b>	\$ 128,586	\$ 133,408	\$ 262,126	\$ 267,853
<b>Interest income and net foreign exchange gain/loss</b>	(134)	(175)	(133)	(263)
<b>Non-cash operating expenses</b>				
Depreciation and amortization	(15,355)	(17,950)	(31,626)	(34,613)
Employee benefits expense <sup>1</sup>	(1,836)	(1,387)	(3,335)	(2,790)
Employee cost accruals <sup>2</sup>	292	61	(971)	(546)
Spare parts expense funded from capital <sup>3</sup>	-	-	(75)	(123)
Deferred lease incentives expense <sup>4</sup>	57	45	114	91
<b>Parliamentary appropriations for operating expenses</b>	<b>111,610</b>	<b>114,002</b>	<b>226,100</b>	<b>229,609</b>
<b>Other items affecting funding</b>				
Net change in prepaids and inventories <sup>5</sup>	(837)	(2,394)	(1,193)	(2,494)
<b>Total operating appropriations used</b>	<b>\$ 110,773</b>	<b>\$ 111,608</b>	<b>\$ 224,907</b>	<b>\$ 227,115</b>

<sup>1</sup> Employee benefits are accounted for in the Statement of Comprehensive Income in accordance with IFRS. Based on the Treasury Board of Canada Secretariat's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, CATSA is permitted to draw funds from the Consolidated Revenue Fund based on its short-term needs. The amount of funding to be drawn down is determined by a solvency and going concern valuation performed by CATSA's actuary in accordance with the *Pension Benefits Standard Act*. The drawdown of funding for employee benefits is not necessarily equal to the expense for accounting purposes under IFRS, creating a reconciling item.

<sup>2</sup> Employee cost accruals are accounting expenses to record variable pay and accrued vacation expenses incurred to September 30, 2013. These costs are funded by appropriations when approved at year-end, creating a reconciling item.

<sup>3</sup> Spare parts expense funded from capital represents items that were funded from capital appropriations in prior years but were expensed during the current year, creating a reconciling item.

<sup>4</sup> Deferred lease incentives expense is an accounting expense to record the benefit derived from favourable lease terms, including significantly reduced rent and free common area costs. Rental costs are funded by appropriations when paid, creating a reconciling item.

<sup>5</sup> Prepaids and inventories are expensed as the benefit is derived from the asset by CATSA. They are funded by appropriations when purchased, creating a reconciling item.

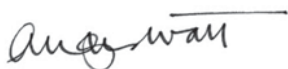
The table below serves to reconcile capital asset acquisitions reported under IFRS and capital appropriations used:

Reconciliation of Capital Acquisitions to Capital Appropriations Used	Three Months Ended		Six Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
(Thousands of dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total capital asset acquisitions	\$ 9,495	\$ 10,832	\$ 12,838	\$ 13,185
Proceeds on disposal of property and equipment and equipment held for sale	(16)	(92)	(16)	(632)
<b>Total capital appropriations used</b>	<b>\$ 9,479</b>	<b>\$ 10,740</b>	<b>\$ 12,822</b>	<b>\$ 12,553</b>

## STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with the Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*, and for such internal controls as management determines are necessary to enable the preparation of 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 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 comprehensive income, changes in equity and cash flows of CATSA, as at the date of and for the periods presented in the condensed interim financial statements.



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Angus Watt  
President and Chief Executive Officer  
Ottawa, Canada

November 27, 2013



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Mario Malouin, CPA, CA, MA  
Vice-President and Chief Financial Officer  
Ottawa, Canada

November 27, 2013



Condensed Interim Financial Statements of

# **CANADIAN AIR TRANSPORT SECURITY AUTHORITY**

Three and six months ended September 30, 2013 and 2012

(Unaudited)

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position  
(Unaudited)

(In thousands of Canadian dollars)

	September 30, 2013	March 31, 2013
<b>Assets</b>		
Current assets		
Cash	\$ 11,729	\$ 9,076
Trade and other receivables (note 4)	52,945	60,645
Inventories (note 5)	17,625	17,765
Prepaid expenses	1,624	2,677
	<u>83,923</u>	<u>90,163</u>
Non-current assets		
Employee benefits (note 9)	501	611
Property and equipment (note 6)	248,761	266,325
Intangible assets (note 7)	5,782	8,198
	<u>255,044</u>	<u>275,134</u>
	<u>\$ 338,967</u>	<u>\$ 365,297</u>

## Liabilities and Equity

Current liabilities		
Trade and other payables	\$ 65,646	\$ 69,721
Deferred government funding related to operating expenses (note 8)	19,249	20,442
	<u>84,895</u>	<u>90,163</u>
Non-current liabilities		
Deferred lease incentives	1,172	1,286
Deferred government funding related to capital expenditures (note 8)	254,543	274,523
Employee benefits (note 9)	21,022	17,797
	<u>276,737</u>	<u>293,606</u>
Equity		
Accumulated deficit	(22,665)	(18,472)
	<u>\$ 338,967</u>	<u>\$ 365,297</u>

Commitments (note 12) and contingent liabilities (note 14)

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income  
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended		Six months ended	
	September 30		September 30	
	2013	2012	2013	2012
<b>Expenses</b>				
Pre-Board Screening	\$ 76,076	\$ 81,161	\$ 155,803	\$ 163,673
Hold Baggage Screening	33,989	35,023	68,609	69,301
Corporate services	11,018	11,971	24,561	24,275
Non-Passenger Screening	6,562	4,268	11,393	8,683
Restricted Area Identity Card Program	941	985	1,760	1,921
<b>Total expenses (note 10)</b>	<b>128,586</b>	<b>133,408</b>	<b>262,126</b>	<b>267,853</b>
<b>Other expenses (income)</b>				
Loss (gain) on property and equipment	151	(76)	580	(76)
Write-down of intangible assets	521	-	521	-
Foreign exchange loss (gain)	(16)	(75)	89	(44)
Finance cost	-	10	1	20
Finance income	(118)	(100)	(222)	(219)
Gain on settlement of decommissioning liabilities	-	(5)	-	(6)
<b>Total other expenses (income)</b>	<b>538</b>	<b>(246)</b>	<b>969</b>	<b>(325)</b>
<b>Financial performance before government funding</b>	<b>129,124</b>	<b>133,162</b>	<b>263,095</b>	<b>267,528</b>
<b>Government funding</b>				
Parliamentary appropriations for operating expenses (note 8)	111,610	114,002	226,100	229,609
Amortization of deferred government funding related to capital expenditures (note 8)	16,027	17,868	32,802	34,647
<b>Total government funding</b>	<b>127,637</b>	<b>131,870</b>	<b>258,902</b>	<b>264,256</b>
<b>Financial performance and total comprehensive loss</b>	<b>\$ (1,487)</b>	<b>\$ (1,292)</b>	<b>\$ (4,193)</b>	<b>\$ (3,272)</b>

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity  
(Unaudited)

(In thousands of Canadian dollars)

## For the three months ended September 30:

	Accumulated deficit
Balance, June 30, 2012	\$ (29,429)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(1,292)
<b>Balance, September 30, 2012</b>	<b>\$ (30,721)</b>
Balance, June 30, 2013	\$ (21,178)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(1,487)
<b>Balance, September 30, 2013</b>	<b>\$ (22,665)</b>

## For the six months ended September 30:

	Accumulated deficit
Balance, March 31, 2012	\$ (27,449)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(3,272)
<b>Balance, September 30, 2012</b>	<b>\$ (30,721)</b>
Balance, March 31, 2013	\$ (18,472)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(4,193)
<b>Balance, September 30, 2013</b>	<b>\$ (22,665)</b>

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

## Condensed Interim Statement of Cash Flows (Unaudited)

(In thousands of Canadian dollars)

	Three months ended		Six months ended	
	September 30		September 30	
	2013	2012	2013	2012
Cash flows provided by (used in)				
Operating activities				
Financial performance	\$ (1,487)	\$ (1,292)	\$ (4,193)	\$ (3,272)
Items not involving cash				
Depreciation of property and equipment (note 10)	14,072	16,486	29,010	31,711
Increase in net employee benefits liability	1,836	1,387	3,335	2,790
Amortization of intangible assets (note 10)	1,283	1,464	2,616	2,902
Loss (gain) on property and equipment	151	(76)	580	(76)
Write-down of intangible assets	521	-	521	-
Other non-cash transaction	-	-	25	-
Amortization of deferred government funding related to capital expenditures (note 8)	(16,027)	(17,868)	(32,802)	(34,647)
Decrease in deferred lease incentives	(57)	(45)	(114)	(91)
Unwinding of discount on decommissioning liabilities	-	10	-	20
Gain on settlement of decommissioning liabilities	-	(5)	-	(6)
Net change in non-cash working capital balances (note 13)	(2,335)	6,160	4,976	16,022
	(2,043)	6,221	3,954	15,353
Investing activities				
Parliamentary appropriations received for capital funding	6,398	16,137	16,398	22,137
Purchase of property and equipment	(2,007)	(13,001)	(16,978)	(23,209)
Purchase of intangible assets	(363)	(341)	(721)	(689)
	4,028	2,795	(1,301)	(1,761)
Increase in cash	1,985	9,016	2,653	13,592
Cash, beginning of period	9,744	10,483	9,076	5,907
Cash, end of period	\$ 11,729	\$ 19,499	\$ 11,729	\$ 19,499

Supplementary cash flow information (note 13)

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

Three and six months ended September 30, 2013 and 2012  
(In thousands of Canadian dollars)

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## 1. Authority, mandate and programs

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

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

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

1. PBS – the screening of passengers, their carry-on baggage and their personal belongings;
2. HBS – the screening of checked baggage;
3. NPS – the screening of non-passengers on a random basis; and
4. RAIC Program – the administration of access control to airport restricted areas through biometric identifiers.

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

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

## 2. Basis of preparation

The condensed interim financial statements have been prepared in accordance with the *Standard on Quarterly Financial Reports for Crown Corporations* as published by the Treasury Board of Canada Secretariat (TBS Standard). These statements have not been audited or reviewed by CATSA's external auditors.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

Three and six months ended September 30, 2013 and 2012  
(In thousands of Canadian dollars)

The TBS Standard requires interim financial statements be prepared based on the recognition and measurement standards used in the preparation of the audited annual financial statements. Accordingly, the interim financial statements have been prepared based on recognition and measurement standards applicable under IFRS. The interim financial statements do not contain all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual and quarterly financial statements. They should be read in conjunction with the most recent audited annual financial statements and the narrative discussion included within the quarterly financial report for the three and six months ended September 30, 2013.

### 3. Summary of significant accounting policies

Significant accounting policies used in these condensed interim financial statements are disclosed in note 3 of CATSA's audited annual financial statements for the year ended March 31, 2013, except for the application of the new standards effective April 1, 2013 described in note 3(q) of the annual financial statements.

### 4. Trade and other receivables

Trade and other receivables are comprised of:

	September 30, 2013	March 31, 2013
Parliamentary appropriations	\$ 40,729	\$ 45,685
GST and HST recoverable	10,839	13,329
PST recoverable	1,314	1,496
Other	63	135
	<u>\$ 52,945</u>	<u>\$ 60,645</u>

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

Three and six months ended September 30, 2013 and 2012  
(In thousands of Canadian dollars)

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## 5. Inventories

Inventories are comprised of:

	September 30, 2013	March 31, 2013
Spare parts	\$ 16,636	\$ 16,881
RAIC	621	587
Uniforms	368	297
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	\$ 17,625	\$ 17,765



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

Three and six months ended September 30, 2013 and 2012  
(In thousands of Canadian dollars)

## 6. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equip- ment	Leasehold improve- ments	Work-in- progress	Total
<b>Cost</b>									
Balance,									
March 31, 2013	\$ 122,207	\$ 656,242	\$ 5,167	\$ 5,553	\$ 24,116	\$ 435	\$ 10,236	\$ 32,447	\$ 856,403
Additions	1	2,708	-	-	167	-	-	9,241	12,117
Disposals	(2,821)	(20,567)	(15)	(46)	(23)	-	-	-	(23,472)
Write-offs	(67)	(57)	(4)	(600)	(846)	(340)	(67)	(51)	(2,032)
Reclassifications	178	19,294	-	-	311	-	-	(19,783)	-
Balance,									
September 30, 2013	\$ 119,498	\$ 657,620	\$ 5,148	\$ 4,907	\$ 23,725	\$ 95	\$ 10,169	\$ 21,854	\$ 843,016
<b>Accumulated depreciation</b>									
Balance,									
March 31, 2013	\$ 57,913	\$ 498,795	\$ 2,468	\$ 3,386	\$ 18,608	\$ 435	\$ 8,473	\$ -	\$ 590,078
Depreciation	4,400	21,364	196	427	2,155	-	468	-	29,010
Disposals	(2,751)	(20,099)	(15)	(38)	(23)	-	-	-	(22,926)
Write-offs	(55)	(31)	(4)	(562)	(848)	(340)	(67)	-	(1,907)
Balance,									
September 30, 2013	\$ 59,507	\$ 500,029	\$ 2,645	\$ 3,213	\$ 19,892	\$ 95	\$ 8,874	\$ -	\$ 594,255
<b>Carrying amounts</b>									
As at March 31, 2013	\$ 64,294	\$ 157,447	\$ 2,699	\$ 2,167	\$ 5,508	\$ -	\$ 1,763	\$ 32,447	\$ 266,325
As at September 30, 2013	\$ 59,991	\$ 157,591	\$ 2,503	\$ 1,694	\$ 3,833	\$ -	\$ 1,295	\$ 21,854	\$ 248,761

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## 7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
<b>Cost</b>				
Balance, March 31, 2013	\$ 4,285	\$ 19,119	\$ 301	\$ 23,705
Additions	25	550	146	721
Write-offs	(428)	(1,860)	-	(2,288)
Reclassifications	-	206	(206)	-
<b>Balance, September 30, 2013</b>	<b>\$ 3,882</b>	<b>\$ 18,015</b>	<b>\$ 241</b>	<b>\$ 22,138</b>
<b>Accumulated amortization</b>				
Balance, March 31, 2013	\$ 3,120	\$ 12,387	\$ -	\$ 15,507
Amortization	388	2,228	-	2,616
Write-offs	(350)	(1,417)	-	(1,767)
<b>Balance, September 30, 2013</b>	<b>\$ 3,158</b>	<b>\$ 13,198</b>	<b>\$ -</b>	<b>\$ 16,356</b>
<b>Carrying amounts</b>				
At March 31, 2013	\$ 1,165	\$ 6,732	\$ 301	\$ 8,198
At September 30, 2013	\$ 724	\$ 4,817	\$ 241	\$ 5,782

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## 8. Deferred government funding

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

	September 30, 2013	March 31, 2013
<b>Deferred government funding related to operating expenses</b>		
Balance, beginning of period	\$ 20,442	\$ 23,100
Parliamentary appropriations billed	227,613	473,287
Parliamentary appropriations to be used in future periods	(2,706)	-
Parliamentary appropriations recognized as government funding for operating expenses	(226,100)	(475,945)
Balance, end of period	19,249	20,442
<b>Deferred government funding related to capital expenditures</b>		
Balance, beginning of period	\$ 274,523	\$ 310,120
Parliamentary appropriations billed	13,911	38,398
Parliamentary appropriations to be used in future periods	(1,089)	-
Amortization of deferred government funding related to capital expenditures	(32,802)	(73,995)
Balance, end of period	254,543	274,523
Total deferred government funding, end of period	\$ 273,792	\$ 294,965

## 9. Employee benefits

On a quarterly basis, CATSA's net asset or liability for the registered pension plan (RPP), the supplementary retirement plan (SRP) and the Other Defined Benefits Plan (ODBP) is updated for differences between estimated net benefit cost, as determined in the most recent annual actuarial valuations, and actual employer contributions to the plans. However, the net asset or liability is only updated for significant market fluctuations at the end of every fiscal year, with the assistance of the pension plans' actuary.

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The following table provides the expense and contributions relating to the plans for the three and six months ended September 30:

	Three months ended		Six months ended	
	September 30		September 30	
	2013	2012	2013	2012
<b>Expense</b>				
RPP	\$ 2,375	\$ 2,286	\$ 4,750	\$ 4,573
SRP	55	60	110	121
ODBP	622	577	1,244	1,155
	\$ 3,052	\$ 2,923	\$ 6,104	\$ 5,849
<b>Contributions</b>				
RPP	\$ 1,182	\$ 1,506	\$ 2,701	\$ 2,997
ODBP	34	31	68	62
	\$ 1,216	\$ 1,537	\$ 2,769	\$ 3,059

The current service cost and the benefit obligation of the plans are actuarially determined on an annual basis. The significant assumptions used to determine CATSA's obligations are disclosed in note 12 of the audited annual financial statements for the fiscal year ended March 31, 2013.

For the three and six months ended September 30, 2013, CATSA recognized an expense in the amount of \$3 (2012 - \$Nil) and \$3 (2012 - \$Nil), respectively, in relation to the defined contribution pension plan.

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## 10. Expenses

The Statement of Comprehensive Income presents operating expenses by program activity. The following table presents operating expenses by major expense type for the three and six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
Screening services and other related costs				
Payments to screening contractors	\$ 83,664	\$ 85,380	\$ 167,856	\$ 172,202
Uniforms and other screening costs	1,011	752	1,881	1,740
Trace and consumables	455	396	842	885
	85,130	86,528	170,579	174,827
Direct administrative costs and corporate services				
Employee costs	13,625	13,031	29,017	27,583
Operating leases	1,557	1,477	3,067	3,146
Professional services and other business related costs	856	1,061	2,272	2,032
Office and computer expenses	586	883	1,941	1,675
Other administrative costs	920	1,590	1,908	2,950
Communications	132	165	350	403
	17,676	18,207	38,555	37,789
Depreciation and amortization				
Depreciation of property and equipment	14,072	16,486	29,010	31,711
Amortization of intangible assets	1,283	1,464	2,616	2,902
	15,355	17,950	31,626	34,613
Equipment operating and maintenance				
Equipment maintenance and spare parts	10,002	10,558	20,614	20,086
RAIC	268	166	446	374
Training and certification	155	(1)	306	164
	10,425	10,723	21,366	20,624
	\$ 128,586	\$ 133,408	\$ 262,126	\$ 267,853

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

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## 11. Government funding

CATSA's 2013/14 *Summary of the 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 public. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

The following table reconciles parliamentary appropriations that were received and receivable in relation to operating expenses, to the amount of appropriations used during the three and six months ended September 30:

	Three months ended		Six months ended	
	September 30		September 30	
	2013	2012	2013	2012
Parliamentary appropriations received and receivable	\$ 120,665	\$ 124,117	\$ 263,900	\$ 280,889
Amounts received related to prior periods	(6,287)	(12,431)	(36,287)	(49,431)
Amounts to be used in future periods	(3,605)	(78)	(2,706)	(4,343)
<b>Parliamentary appropriations used for operating expenses</b>	<b>\$ 110,773</b>	<b>\$ 111,608</b>	<b>\$ 224,907</b>	<b>\$ 227,115</b>

Parliamentary appropriations related to operating expenses to be used in future periods are a result of forecasted expenditures higher than actual operating expenditures. These amounts are expected to be used and recognized in financial performance within the next fiscal quarter.

The following table reconciles parliamentary appropriations that were received and receivable in relation to capital expenditures, to the amount of appropriations used during the three and six months ended September 30:

	Three months ended		Six months ended	
	September 30		September 30	
	2013	2012	2013	2012
Parliamentary appropriations received and receivable	\$ 3,705	\$ 17,519	\$ 23,309	\$ 25,468
Amounts received related to prior periods	(4,398)	(7,137)	(9,398)	(10,137)
Amounts to be billed (used) in future periods	10,172	358	(1,089)	(2,778)
<b>Parliamentary appropriations used for capital expenditures</b>	<b>\$ 9,479</b>	<b>\$ 10,740</b>	<b>\$ 12,822</b>	<b>\$ 12,553</b>

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Parliamentary appropriations related to capital expenditures to be billed (used) in future periods are a result of forecasted expenditures lower (higher) than actual capital expenditures. These amounts are expected to be billed (used) and recognized in financial performance within the next fiscal quarter.

## 12. Commitments

### (a) Operating leases

CATSA is committed under operating leases for the rental of equipment and office space. The following table provides the minimum lease payments under the terms of these leases:

	September 30, 2013	March 31, 2013
No later than 1 year	\$ 7,325	\$ 7,087
Later than 1 year and no later than 5 years	20,923	20,115
Later than 5 years	661	1,923

CATSA's most significant operating lease is for the office space at headquarters. The lease expires on November 30, 2017 and contains an option to renew for five additional years, subject to the same terms and conditions as the original lease. There is no further right to extend after the expiry of the extension term and the future rent will be based on the prevailing market rate at that time.

### (b) Contractual obligations

Contractual obligations include various contracts for equipment purchases, screening services and equipment maintenance. These contractual obligations are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion.

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The following table provides commitments under these contractual obligations:

	September 30, 2013	March 31, 2013
No later than 1 year	\$ 531,301	\$ 517,862
Later than 1 year and no later than 5 years	1,250,121	1,288,360
Later than 5 years	14,556	16,782

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

The following table presents the net change in non-cash working capital balances for the three and six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
Decrease in trade and other receivables	\$ 7,775	\$ 5,525	\$ 4,124	\$ 26,196
Decrease in inventories	372	1,165	190	945
Decrease in prepaid expenses	465	1,229	1,053	1,673
Increase (decrease) in trade and other payables	(10,110)	867	802	(13,196)
Decrease in current portion of provisions	-	(310)	-	(1,445)
Increase (decrease) in deferred government funding related to operating	(837)	(2,316)	(1,193)	1,849
	\$ (2,335)	\$ 6,160	\$ 4,976	\$ 16,022

Interest income received and recognized during the three and six months ended September 30, 2013 totalled \$116 (2012 – \$101) and \$220 (2012 – \$217), respectively.

Interest expense paid and expensed during the three and six months ended September 30, 2013 totalled \$Nil (2012 – \$Nil) and \$1 (2012 – \$Nil), respectively.

For the three and six months ended September 30, 2013, the change in trade and other receivables excludes amounts of \$8,180 (2012 – \$5,755) and \$3,576 (2012 – \$6,806) respectively, in relation to government funding related to capital expenditures. Furthermore, the change in trade and other receivables excludes amounts of \$Nil (2012 – \$Nil) and \$Nil (2012 – \$540), respectively, in relation to capital credit notes, as the amounts relate to investing activities.



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For the three and six months ended September 30, 2013, the change in inventories excludes amounts of \$Nil (2012 – \$Nil) and \$50 (2012 – \$123), respectively, in relation to a transfer of spare parts from capital assets to inventory, as the amount relates to a non-cash transaction.

For the three and six months ended September 30, 2013, the change in trade and other payables excludes amounts of \$7,109 (2012 – \$2,603) and \$4,877 (2012 – \$10,806), respectively, in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

During the three and six months ended September 30, 2013, CATSA received non-cash proceeds in the form of credit notes from a supplier, totalling \$16 (2012 – \$92) and \$16 (2012 – \$92), respectively, related to the disposal of property and equipment, and totalling \$Nil (2012 – \$Nil) and \$Nil (2012 – \$540), respectively, related to the disposal of equipment held for sale.

## **14. Contingent liabilities**

During the three months ended September 30, 2013, the parties to the legal action that commenced in 2010/11 claiming damages against CATSA and the Attorney General of Canada have agreed to dismiss the action without costs to any party. With respect to the other two outstanding legal actions involving CATSA, refer to a description of those legal claims in note 19 of the audited annual financial statements for the year ended March 31, 2013.