

Quarterly Financial Report

For the Three and Nine Months Ended
December 31, 2013



Management's Narrative Discussion	1
Statement of Management Responsibility	8
Condensed Interim Financial Statements (Unaudited)	9

**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2013**

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 nine months ended December 31, 2013. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three and nine months ended December 31, 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, the Quarterly Financial Report for the three months ended June 30, 2013, and the Quarterly Financial Report for the three and six months ended September 30, 2013. The information in this report is expressed in thousands of Canadian dollars and is current to February 26, 2014, 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.

CORPORATE OVERVIEW

CATSA is an agent 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 September 30, 2013.

GOVERNANCE UPDATE

Subsequent to the end of the quarter, Ms. Melissa Coulson was appointed to CATSA's Board of Directors for a three year term, replacing Mr. Donald Robinson, Q.C. , effective January 30, 2014.

ENHANCED NPS

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

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 September 2013 to November 2013 indicate that passenger volumes at Canada's eight busiest airports increased by 2.8% over the same period in 2012.¹

Since last quarter, 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

During 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.

¹ Air traffic statistics for the three-month period from October 2013 to December 2013 were not available at the time of publishing.

RISKS AND UNCERTAINTIES

During the quarter, CATSA completed its annual corporate risk profile exercise for fiscal year 2013/14. There have been no significant changes to the corporate risk profile, as previously disclosed in the 2013 Annual Report.

QUARTERLY FINANCIAL INFORMATION

The following table provides key highlights of the Statement of Comprehensive Income for the three and nine months ended December 31, 2013 and December 31, 2012:

Key Financial Highlights - Statement of Comprehensive Income	Three Months Ended December 31				Nine Months Ended December 31			
	2013	2012			2013	2012		
(Thousands of dollars)	(unaudited)	(unaudited)	\$ Change	% Change	(unaudited)	(unaudited)	\$ Change	% Change
Expenses¹								
Screening services and other related costs	\$ 89,259	\$ 87,685	\$ 1,574	2%	\$ 259,838	\$ 262,512	\$ (2,674)	(1%)
Direct administrative costs and corporate services	19,278	20,338	(1,060)	(5%)	57,833	58,127	(294)	(1%)
Depreciation and amortization	14,977	19,314	(4,337)	(22%)	46,603	53,927	(7,324)	(14%)
Equipment operating and maintenance	12,068	12,621	(553)	(4%)	33,434	33,245	189	1%
Total expenses	\$ 135,582	\$ 139,958	\$ (4,376)	(3%)	\$ 397,708	\$ 407,811	\$ (10,103)	(2%)
Total other expenses (income)	\$ 246	\$ (97)	\$ 343	(354%)	\$ 1,215	\$ (422)	\$ 1,637	(388%)
Financial performance before government funding	\$ 135,828	\$ 139,861	\$ (4,033)	(3%)	\$ 398,923	\$ 407,389	\$ (8,466)	(2%)
Government funding								
Parliamentary appropriations for operating expenses	\$ 118,922	\$ 119,217	\$ (295)	(0%)	\$ 345,022	\$ 348,826	\$ (3,804)	(1%)
Amortization of deferred government funding related to capital expenditures	15,102	19,306	(4,204)	(22%)	47,904	53,953	(6,049)	(11%)
Total government funding	\$ 134,024	\$ 138,523	\$ (4,499)	(3%)	\$ 392,926	\$ 402,779	\$ (9,853)	(2%)
Financial performance and total comprehensive loss	\$ (1,804)	\$ (1,338)	\$ (466)	35%	\$ (5,997)	\$ (4,610)	\$ (1,387)	30%

¹ 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 nine months ended December 31, 2013.

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

Key Financial Highlights - Statement of Financial Position	December 31,		March 31,	
	2013	2013	2013	2013
(Thousands of dollars)	(unaudited)	(unaudited)	(audited)	(audited)
		\$ Change		% Change
Total assets	\$ 361,638	\$ (3,659)	\$ 365,297	(1%)
Total liabilities	\$ 386,107	\$ 2,338	\$ 383,769	1%

ANALYSIS OF FINANCIAL PERFORMANCE

The following section provides information on key variances within the Statement of Comprehensive Income for the three and nine months ended December 31, 2013, compared to the same periods of the prior fiscal year.

Screening services and other related costs

Screening services and other related costs are comparable for the three and nine months ended December 31, 2013, compared to the same periods in 2012. This is primarily the result of an increase in screening hours purchased at NPS checkpoints, offset by a reduction in screening hours purchased at PBS checkpoints.

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

Screening hours purchased at PBS checkpoints decreased partly due to the deployment of Automated Target Recognition software for Full Body Scanner machines. In addition, CATSA is working within a lower budget for payments to screening contractors for PBS 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.

Depreciation and amortization

Depreciation and amortization decreased by \$4,337 (22%) and by \$7,324 (14%) for the three and nine months ended December 31, 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 fiscal year 2013/14. 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 \$4,204 (22%) and by \$6,049 (11%) for the three and nine months ended December 31, 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 during fiscal year 2013/14, 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 during fiscal year 2013/14.

ANALYSIS OF FINANCIAL POSITION

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

TOTAL ASSETS

Total assets decreased by \$3,659 (1%) primarily due to the following:

- Decrease in property and equipment and intangible assets by \$14,618 primarily due to depreciation and amortization of \$46,603, partially offset by the acquisition and installation of equipment and intangible assets of \$33,302; and
- Increase in trade and other receivables by \$11,311 primarily due to higher parliamentary appropriations receivable as a result of the timing of cash requests made to the Consolidated Revenue Fund and higher sales taxes receivable as a result of expenditures incurred during the quarter.

TOTAL LIABILITIES

Total liabilities increased by \$2,338 (1%) primarily due to the following:

- Increase in trade and other payables by \$15,636 due to timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to capital expenditures by \$14,618 resulting from the amortization of deferred government funding related to capital expenditures of \$47,904 exceeding parliamentary appropriations earned of \$33,286.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

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		Nine Months Ended	
	December 31		December 31	
	2013	2012	2013	2012
(Thousands of dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total expenses	\$ 135,582	\$ 139,958	\$ 397,708	\$ 407,811
Interest income and net foreign exchange gain/loss	120	(100)	(13)	(363)
Non-cash operating expenses				
Depreciation and amortization	(14,977)	(19,314)	(46,603)	(53,927)
Employee benefits expense ¹	(1,396)	(304)	(4,731)	(3,094)
Employee cost accruals ²	(463)	(1,065)	(1,434)	(1,611)
Spare parts expense funded from capital ³	-	(5)	(75)	(128)
Deferred lease incentives ⁴	56	47	170	138
Parliamentary appropriations for operating expenses	118,922	119,217	345,022	348,826
Other items affecting funding				
Net change in prepaids and inventories ⁵	(1,888)	(2,144)	(3,081)	(4,639)
Total operating appropriations used	\$ 117,034	\$ 117,073	\$ 341,941	\$ 344,187

¹ 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.

² Employee cost accruals are accounting expenses to record variable pay and accrued vacation expenses incurred to December 31, 2013. These costs are funded by appropriations at year-end, creating a reconciling item.

³ 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.

⁴ Deferred lease incentives is an accounting adjustment 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.

⁵ 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		Nine Months Ended	
	December 31		December 31	
	2013	2012	2013	2012
(Thousands of dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Explosives Detection System (EDS)	\$ 19,676	\$ 3,952	\$ 31,144	\$ 16,182
Non-EDS	788	823	2,158	1,778
Total capital asset acquisitions	\$ 20,464	\$ 4,775	\$ 33,302	\$ 17,960
Proceeds on disposal of property and equipment	-	(15)	(16)	(647)
Total capital appropriations used	\$ 20,464	\$ 4,760	\$ 33,286	\$ 17,313

APPROPRIATIONS USED COMPARED TO CORPORATE PLAN

Parliamentary appropriations used for operating expenses are in line with the approved 2013/14 Corporate Plan operating budget for the nine months ended December 31, 2013.

Parliamentary appropriations used for capital expenditures for the nine months ended December 31, 2013 represent 33% of the approved *2013/14 Corporate Plan* capital budget. A significant portion of the planned capital spending will take place in the latter part of the year. In addition, Treasury Board of Canada Secretariat approved a capital re-profile of \$7.6M to fiscal year 2014/15. This is mainly due to postponed capital spending for certain HBS integration projects, resulting from changes in airport project plans beyond CATSA's control.

CATSA is on track to meet the operating goals, objectives and financial results for the current year as outlined in the approved *2013/14 Corporate Plan*, after considering the capital re-profile discussed above.

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.



Angus Watt
President and Chief Executive Officer
Ottawa, Canada

February 26, 2014



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

February 26, 2014

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Three and nine months ended December 31, 2013 and 2012

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2013	March 31, 2013
Assets		
Current assets		
Cash	\$ 11,965	\$ 9,076
Trade and other receivables (note 4)	71,956	60,645
Inventories (note 5)	15,955	17,765
Prepaid expenses	1,406	2,677
	101,282	90,163
Non-current assets		
Employee benefits (note 9)	451	611
Property and equipment (note 6)	254,565	266,325
Intangible assets (note 7)	5,340	8,198
	260,356	275,134
	\$ 361,638	\$ 365,297

Liabilities and Equity

Current liabilities		
Trade and other payables	\$ 85,357	\$ 69,721
Deferred government funding related to operating expenses (note 8)	17,361	20,442
	102,718	90,163
Non-current liabilities		
Deferred lease incentives	1,116	1,286
Deferred government funding related to capital expenditures (note 8)	259,905	274,523
Employee benefits (note 9)	22,368	17,797
	283,389	293,606
Equity		
Accumulated deficit	(24,469)	(18,472)
	\$ 361,638	\$ 365,297

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		Nine months ended	
	December 31		December 31	
	2013	2012	2013	2012
Expenses				
Pre-Board Screening	\$ 76,311	\$ 83,402	\$ 232,114	\$ 247,075
Hold Baggage Screening	34,701	37,618	103,310	106,919
Corporate services	11,830	13,555	36,391	37,830
Non-Passenger Screening	11,939	4,415	23,332	13,098
Restricted Area Identity Card Program	801	968	2,561	2,889
Total expenses (note 10)	135,582	139,958	397,708	407,811
Other expenses (income)				
Loss (gain) on property and equipment	125	(7)	705	(83)
Write-down of intangible assets	-	-	521	-
Foreign exchange loss (gain)	253	25	342	(19)
Finance cost	1	10	2	30
Finance income	(133)	(125)	(355)	(344)
Gain on settlement of decommissioning liabilities	-	-	-	(6)
Total other expenses (income)	246	(97)	1,215	(422)
Financial performance before government funding	135,828	139,861	398,923	407,389
Government funding				
Parliamentary appropriations for operating expenses (note 8)	118,922	119,217	345,022	348,826
Amortization of deferred government funding related to capital expenditures (note 8)	15,102	19,306	47,904	53,953
Total government funding	134,024	138,523	392,926	402,779
Financial performance and total comprehensive loss	\$ (1,804)	\$ (1,338)	\$ (5,997)	\$ (4,610)

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 December 31:

	Accumulated deficit
Balance, September 30, 2012	\$ (30,721)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(1,338)
Balance, December 31, 2012	\$ (32,059)

Balance, September 30, 2013	\$ (22,665)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(1,804)
Balance, December 31, 2013	\$ (24,469)

For the nine months ended December 31:

	Accumulated deficit
Balance, March 31, 2012	\$ (27,449)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(4,610)
Balance, December 31, 2012	\$ (32,059)

Balance, March 31, 2013	\$ (18,472)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(5,997)
Balance, December 31, 2013	\$ (24,469)

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		Nine months ended	
	December 31		December 31	
	2013	2012	2013	2012
Cash flows provided by (used in)				
Operating activities				
Financial performance	\$ (1,804)	\$ (1,338)	\$ (5,997)	\$ (4,610)
Items not involving cash				
Depreciation of property and equipment (note 10)	13,941	17,907	42,951	49,618
Increase in net employee benefits liability	1,396	304	4,731	3,094
Amortization of intangible assets (note 10)	1,036	1,407	3,652	4,309
Loss (gain) on property and equipment	125	(7)	705	(83)
Write-down of intangible assets	-	-	521	-
Other non-cash transaction	-	-	25	-
Amortization of deferred government funding related to capital expenditures (note 8)	(15,102)	(19,306)	(47,904)	(53,953)
Decrease in deferred lease incentives	(56)	(47)	(170)	(138)
Unwinding of discount on decommissioning liabilities	-	10	-	30
Gain on settlement of decommissioning liabilities	-	-	-	(6)
Net change in non-cash working capital balances (note 13)	(1,807)	(14,783)	3,169	1,239
	(2,271)	(15,853)	1,683	(500)
Investing activities				
Parliamentary appropriations received for capital funding	11,000	4,000	27,398	26,137
Purchase of property and equipment	(7,899)	(4,031)	(24,877)	(27,240)
Purchase of intangible assets	(594)	(601)	(1,315)	(1,290)
	2,507	(632)	1,206	(2,393)
Increase (decrease) in cash	236	(16,485)	2,889	(2,893)
Cash, beginning of period	11,729	19,499	9,076	5,907
Cash, end of period	\$ 11,965	\$ 3,014	\$ 11,965	\$ 3,014

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 nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

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 nine months ended December 31, 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 nine months ended December 31, 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:

	December 31, 2013	March 31, 2013
Parliamentary appropriations	\$ 53,228	\$ 45,685
GST and HST recoverable	16,715	13,329
PST recoverable	1,938	1,496
Other	75	135
	<u>\$ 71,956</u>	<u>\$ 60,645</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

5. Inventories

Inventories are comprised of:

	December 31, 2013	March 31, 2013
Spare parts	\$ 15,180	\$ 16,881
RAIC	495	587
Uniforms	280	297
	<hr/>	<hr/>
	\$ 15,955	\$ 17,765

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 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
Cost									
Balance,									
March 31, 2013	\$ 122,207	\$ 656,242	\$ 5,167	\$ 5,553	\$ 24,116	\$ 435	\$ 10,236	\$ 32,447	\$ 856,403
Additions	72	5,835	-	-	800	-	-	25,280	31,987
Disposals	(2,955)	(30,910)	(15)	(46)	(23)	-	-	-	(33,949)
Write-offs	(91)	(48)	(4)	(773)	(1,475)	(340)	(81)	(51)	(2,863)
Reclassifications	179	24,007	-	-	554	-	-	(24,740)	-
Balance,									
December 31, 2013	\$ 119,412	\$ 655,126	\$ 5,148	\$ 4,734	\$ 23,972	\$ 95	\$ 10,155	\$ 32,936	\$ 851,578
Accumulated depreciation									
Balance,									
March 31, 2013	\$ 57,913	\$ 498,795	\$ 2,468	\$ 3,386	\$ 18,608	\$ 435	\$ 8,473	\$ -	\$ 590,078
Depreciation	6,586	31,781	294	622	3,076	-	592	-	42,951
Disposals	(2,808)	(30,442)	(15)	(38)	(23)	-	-	-	(33,326)
Write-offs	(79)	(23)	(4)	(699)	(1,464)	(340)	(81)	-	(2,690)
Balance,									
December 31, 2013	\$ 61,612	\$ 500,111	\$ 2,743	\$ 3,271	\$ 20,197	\$ 95	\$ 8,984	\$ -	\$ 597,013
Carrying amounts									
As at March 31, 2013	\$ 64,294	\$ 157,447	\$ 2,699	\$ 2,167	\$ 5,508	\$ -	\$ 1,763	\$ 32,447	\$ 266,325
As at December 31, 2013	\$ 57,800	\$ 155,015	\$ 2,405	\$ 1,463	\$ 3,775	\$ -	\$ 1,171	\$ 32,936	\$ 254,565

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2013	\$ 4,285	\$ 19,119	\$ 301	\$ 23,705
Additions	107	595	613	1,315
Write-offs	(428)	(1,860)	-	(2,288)
Reclassifications	89	212	(301)	-
Balance, December 31, 2013	\$ 4,053	\$ 18,066	\$ 613	\$ 22,732
Accumulated amortization				
Balance, March 31, 2013	\$ 3,120	\$ 12,387	\$ -	\$ 15,507
Amortization	557	3,095	-	3,652
Write-offs	(350)	(1,417)	-	(1,767)
Balance, December 31, 2013	\$ 3,327	\$ 14,065	\$ -	\$ 17,392
Carrying amounts				
At March 31, 2013	\$ 1,165	\$ 6,732	\$ 301	\$ 8,198
At December 31, 2013	\$ 726	\$ 4,001	\$ 613	\$ 5,340

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

8. Deferred government funding

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

	December 31, 2013	March 31, 2013
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 20,442	\$ 23,100
Parliamentary appropriations billed	345,069	473,287
Parliamentary appropriations to be used in future periods	(3,128)	-
Parliamentary appropriations recognized as government funding for operating expenses	(345,022)	(475,945)
Balance, end of period	17,361	20,442
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 274,523	\$ 310,120
Parliamentary appropriations billed	42,095	38,398
Parliamentary appropriations to be used in future periods	(8,809)	-
Amortization of deferred government funding related to capital expenditures	(47,904)	(73,995)
Balance, end of period	259,905	274,523
Total deferred government funding, end of period	\$ 277,266	\$ 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.

The following table provides the expense and contributions relating to the plans for the three and nine months ended December 31:

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

	Three months ended		Nine months ended	
	December 31		December 31	
	2013	2012	2013	2012
Expense				
RPP	\$ 2,375	\$ 2,287	\$ 7,125	\$ 6,860
SRP	54	61	164	182
ODBP	622	577	1,866	1,732
	<u>\$ 3,051</u>	<u>\$ 2,925</u>	<u>\$ 9,155</u>	<u>\$ 8,774</u>
Contributions				
RPP	\$ 1,618	\$ 2,588	\$ 4,319	\$ 5,585
SRP	4	1	4	1
ODBP	33	32	101	94
	<u>\$ 1,655</u>	<u>\$ 2,621</u>	<u>\$ 4,424</u>	<u>\$ 5,680</u>

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 nine months ended December 31, 2013, CATSA recognized an expense in the amount of \$11 (2012 - \$Nil) and \$14 (2012 - \$Nil), respectively, in relation to the defined contribution pension plan.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

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 nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2013	2012	2013	2012
Screening services and other related costs				
Payments to screening contractors	\$ 87,734	\$ 86,159	\$ 255,590	\$ 258,361
Uniforms and other screening costs	1,112	1,103	2,993	2,843
Trace and consumables	413	423	1,255	1,308
	89,259	87,685	259,838	262,512
Direct administrative costs and corporate services				
Employee costs	14,389	14,440	43,406	42,023
Operating leases	1,538	1,678	4,605	4,824
Professional services and other business related costs	1,163	1,372	3,435	3,404
Office and computer expenses	1,033	1,100	2,974	2,775
Other administrative costs	867	1,471	2,775	4,421
Communications	288	277	638	680
	19,278	20,338	57,833	58,127
Depreciation and amortization				
Depreciation of property and equipment	13,941	17,907	42,951	49,618
Amortization of intangible assets	1,036	1,407	3,652	4,309
	14,977	19,314	46,603	53,927
Equipment operating and maintenance				
Equipment maintenance and spare parts	11,822	12,282	32,436	32,368
RAIC	126	237	572	611
Training and certification	120	102	426	266
	12,068	12,621	33,434	33,245
	\$ 135,582	\$ 139,958	\$ 397,708	\$ 407,811

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.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

11. Government funding

Parliamentary appropriations approved and amounts used by CATSA during the nine months ended December 31 are as follows:

	2013	2012
Parliamentary appropriations approved for the fiscal year	\$ 578,310	\$ 557,001
Re-profiled parliamentary appropriations to 2014/15	(7,566)	-
Parliamentary appropriations used for operating expenses	(341,941)	(344,187)
Parliamentary appropriations used for capital expenditures	(33,286)	(17,313)
Unused parliamentary appropriations	\$ 195,517	\$ 195,501

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 nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2013	2012	2013	2012
Parliamentary appropriations received and receivable	\$ 152,363	\$ 143,731	\$ 381,356	\$ 396,162
Amounts received related to prior periods	(34,907)	(28,458)	(36,287)	(49,431)
Amounts to be billed (used) in future periods	(422)	1,800	(3,128)	(2,544)
Parliamentary appropriations used for operating expenses	\$ 117,034	\$ 117,073	\$ 341,941	\$ 344,187

Parliamentary appropriations related to operating expenses to be billed (used) in future periods are a result of forecasted expenditures lower (higher) than actual operating expenditures. These amounts are expected to be billed (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 nine months ended December 31:

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

	Three months ended		Nine months ended	
	December 31		December 31	
	2013	2012	2013	2012
Parliamentary appropriations received and receivable	\$ 34,006	\$ 7,425	\$ 51,493	\$ 29,562
Amounts received related to prior periods	(5,822)	(3,331)	(9,398)	(10,137)
Amounts to be billed (used) in future periods	(7,720)	666	(8,809)	(2,112)
Parliamentary appropriations used for capital expenditures	\$ 20,464	\$ 4,760	\$ 33,286	\$ 17,313

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:

	December 31, 2013	March 31, 2013
No later than 1 year	\$ 7,265	\$ 7,087
Later than 1 year and no later than 5 years	24,531	20,115
Later than 5 years	18,803	1,923

CATSA's most significant operating lease is for the office space at headquarters. The lease expires on November 30, 2017 and the option to renew for an additional five years was exercised during the quarter. The renewal terms incorporated lease incentives not included in the original agreement, and an option to further extend the lease for an additional five years, subject to the same terms and conditions. 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.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

(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.

The following table provides commitments under these contractual obligations:

	December 31, 2013	March 31, 2013
No later than 1 year	\$ 521,108	\$ 517,862
Later than 1 year and no later than 5 years	1,170,516	1,288,360
Later than 5 years	13,285	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 nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2013	2012	2013	2012
Decrease (increase) in trade and other receivables	\$ (9,547)	\$ (10,033)	\$ (5,423)	\$ 16,163
Decrease in inventories	1,670	1,721	1,860	2,666
Decrease in prepaid expenses	218	428	1,271	2,101
Increase (decrease) in trade and other payables	7,740	(3,104)	8,542	(16,300)
Increase (decrease) in current portion of provisions	-	149	-	(1,296)
Decrease in deferred government funding related to operating expenses	(1,888)	(3,944)	(3,081)	(2,095)
	\$ (1,807)	\$ (14,783)	\$ 3,169	\$ 1,239

Interest income received and recognized during the three and nine months ended December 31, 2013 totalled \$131 (2012 – \$125) and \$351 (2012 – \$344), respectively.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

Interest expense paid and expensed during the three and nine months ended December 31, 2013 totalled \$1 (2012 – \$Nil) and \$2 (2012 – \$Nil), respectively.

For the three and nine months ended December 31, 2013, the change in trade and other receivables excludes amounts of \$9,464 (2012 – \$94) and \$5,888 (2012 – \$6,712) 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.

For the three and nine months ended December 31, 2013, the change in inventories excludes amounts of \$50 (2012 – \$5) and \$50 (2012 – \$128), 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 nine months ended December 31, 2013, the change in trade and other payables excludes amounts of \$11,971 (2012 – \$128) and \$7,094 (2012 – \$10,677), respectively, in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

During the three and nine months ended December 31, 2013, CATSA received non-cash proceeds in the form of credit notes from a supplier, totalling \$Nil (2012 – \$15) and \$16 (2012 – \$107), 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

In the prior quarter, the parties to the legal action that commenced in 2010/11 claiming damages against CATSA and the Attorney General of Canada agreed to dismiss the action without costs to any party. There have been no changes 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.