Canadian Air Transport Security Authority
Administration canadienne de la sûreté du transport aérien

Quarterly Financial Report

For the Three and Six Months Ended
September 30, 2016

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2016

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, 2016. 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, 2016, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's 2016 Annual Report, and the Quarterly Financial Report for the three months ended June 30, 2016. The information in this report is expressed in thousands of Canadian dollars and is current to November 23, 2016, unless otherwise stated.

Forward-looking statements

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

Materiality

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

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 random screening of non-passengers accessing restricted areas, including the screening of vehicles entering restricted areas of the aerodrome at the highest risk airports; 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 (TC) 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.

With the support of TC, CATSA entered into a trial agreement with the Greater Toronto Airports Authority (GTAA) for the provision of supplemental screening services effective October 5, 2014. This agreement is set to expire on March 31, 2017.

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since June 30, 2016.

AIRPORT SCREENING SERVICES AGREEMENTS

In October 2016, CATSA renewed its Airport Screening Services Agreements (ASSAs) with all of its screening contractors for a period of five years.

The initial five-year contracts took effect on November 1, 2011, with an option to extend for up to five additional years. CATSA conducted a thorough assessment of each contractor’s performance over the initial term. The results from these evaluations indicated that the current screening contractors delivered on their contract commitments and met CATSA’s expectations. By exercising its renewal options, CATSA is extending the contracts until March 31, 2022. The approximate value of the contract extensions is $2.6 billion.

CATSA PLUS

As part of CATSA’s ongoing efforts to innovate and optimize the security screening experience, the organization is currently starting the deployment of CATSA Plus. The goal of CATSA Plus is to transform the passenger experience through tangible checkpoint innovations that will enhance customer service and improve screening effectiveness.

Since mid-August, CATSA has operationalized one CATSA Plus screening line at the Montreal — Pierre Elliott Trudeau International Airport. With the opening of the new facilities at the Calgary International Airport in October 2016, CATSA has been afforded an opportunity to demonstrate the full CATSA Plus concept within a large, spacious checkpoint. CATSA will continue to deploy and implement the CATSA Plus screening concept at PBS checkpoints across the country, subject to airport space and available funding.

PASSENGER GROWTH AND SCREENING HOURS

Statistics from CATSA's Boarding Pass Security System for the three months ended September 30, 2016, indicate that screened traffic across Canada increased by 7.1% over the same period in 2015, resulting in an increase in screening hours. Screening contractor billing rates will also increase over the term of the ASSAs, putting further pressure on CATSA's budget for screening hours. In addition, the incremental funding that CATSA received to deliver NPS screening as part of the enhanced NPS program will come to an end March 31, 2017.

CATSA is working with TC to develop operationally effective long-term funding strategies for unfunded passenger growth, screening contractor billing rate increases and NPS screening.

FOREIGN CURRENCY

CATSA is exposed to foreign exchange risk, as it plans to purchase a significant amount of equipment and services from foreign vendors in the coming years. During the quarter, CATSA's Board of Directors approved a hedging strategy to help mitigate its foreign exchange risk and minimize the impact of fluctuations in the U.S.-Canada exchange rate on its funding requirements. CATSA is currently implementing the hedging strategy.

RISKS AND UNCERTAINTIES

The term for CATSA's Chairperson of the Board of Directors expired in October 2016 and the Chief Executive Officer's (CEO) term will expire in January 2017. As a new Chairperson and CEO will not be in place in advance of the current appointments expiring, there will be a period where the organization will be led by the Vice-Chairperson of the Board and, likely, an Acting CEO. It may be more challenging for the organization to pursue longer term strategies and objectives during this period of interim senior leadership. In response to this new risk, the Vice-Chairperson of the Board is responsible for fulfilling the duties and functions of the Chairperson and the *CATSA Act* stipulates that the Board may appoint an employee of the organization to exercise the powers and perform the duties and functions of the CEO for a fixed period.

There have been no other significant changes to the corporate risk profile as previously disclosed in the *2016 Annual Report*.

ANALYSIS OF FINANCIAL RESULTS

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 and six months ended September 30, 2016, and September 30, 2015.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended September 30				Six Months Ended September 30			
	2016	2015			2016	2015		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	$ Change	% Change	(unaudited)	(unaudited)	$ Change	% Change
Expenses [1]								
Screening services and other related costs	$ 125,741	$ 110,233	$ 15,508	14.1%	$ 247,046	$ 216,862	$ 30,184	13.9%
Equipment operating and maintenance	10,098	10,715	(617)	(5.8%)	20,256	21,274	(1,018)	(4.8%)
Program support and corporate services	19,281	19,121	160	0.8%	39,082	38,776	306	0.8%
Depreciation and amortization	12,445	14,144	(1,699)	(12.0%)	25,624	27,392	(1,768)	(6.5%)
Total expenses	**167,565**	**154,213**	**13,352**	**8.7%**	**332,008**	**304,304**	**27,704**	**9.1%**
Other expenses	**2,270**	**375**	**1,895**	**505.3%**	**2,241**	**534**	**1,707**	**319.7%**
Financial performance before revenue and government funding	**169,835**	**154,588**	**15,247**	**9.9%**	**334,249**	**304,838**	**29,411**	**9.6%**
Revenue	**1,130**	**791**	**339**	**42.9%**	**2,379**	**1,430**	**949**	**66.4%**
Government funding								
Parliamentary appropriations for operating expenses	152,405	137,441	14,964	10.9%	299,517	270,564	28,953	10.7%
Amortization of deferred government funding related to capital expenditures	14,446	14,320	126	0.9%	27,617	27,806	(189)	(0.7%)
Total government funding	**166,851**	**151,761**	**15,090**	**9.9%**	**327,134**	**298,370**	**28,764**	**9.6%**
Financial performance	**$ (1,854)**	**$ (2,036)**	**$ 182**	**8.9%**	**$ (4,736)**	**$ (5,038)**	**$ 302**	**(6.0%)**
Other comprehensive income (loss)	**4,971**	**(7,432)**	**12,403**	**(166.9%)**	**(12,093)**	**3,208**	**15,301**	**(477.0%)**
Total comprehensive income (loss)	**$ 3,117**	**$ (9,468)**	**$ 12,585**	**(132.9%)**	**$ (16,829)**	**$ (1,830)**	**$ (14,999)**	**(819.6%)**

[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 10 of the unaudited condensed interim financial statements for the three and six months ended September 30, 2016.

Screening services and other related costs

Screening services and other related costs increased by $15,508 (14.1%) and by $30,184 (13.9%) for the three and six months ended September 30, 2016, respectively, compared to the same periods in 2015. The variances for the three and six months are primarily due to an increase in the screening hours purchased totalling $10,685 and $21,075 respectively, coupled with annual screening contractor billing rate increases amounting to $3,055 and $6,048, respectively.

The increase in screening hours purchased is primarily due to the transition from an interim vehicle screening solution to achieving 100% presence at vehicle access points for Canada's highest risk airports, effective in 2016/17 as part of the enhanced NPS program. The increase is also attributable to additional screening hours purchased for PBS in support of changes in operational requirements at certain airports, rising passenger volumes and the GTAA trial agreement.

Equipment operating and maintenance

Equipment operating and maintenance costs decreased by $617 (5.8%) and by $1,018 (4.8%) for the three and six months ended September 30, 2016, respectively, compared to the same periods in 2015. The decreases for the three and six months are mainly due to lower conveyor maintenance costs of $2,699 and $5,341, respectively, resulting from the termination of the funding agreements for conveyor maintenance and support services at Canada's eight busiest airports, which took effect October 1, 2015. The decreases are partially offset by higher equipment maintenance and spare parts costs totalling $1,455 and $3,228, respectively, mainly associated with certain Explosives Detection System (EDS) equipment that is no longer under warranty, some equipment approaching the end of its useful life, as well as with various other initiatives, including the reconfiguration of PBS checkpoints. The decreases are also partially offset by higher training costs totalling $647 and $801, respectively, to support new EDS capital deployments.

Depreciation and amortization

Depreciation and amortization decreased by $1,699 (12.0%) and by $1,768 (6.5%) for the three and six months ended September 30, 2016, respectively, compared to the same periods in 2015. The decrease is primarily due to HBS equipment becoming fully depreciated and retired. This equipment is being replaced in support of the multi-year, HBS life-cycle management program. The decrease is also due to changes in estimated useful life being applied to equipment impacted by the HBS life-cycle management program. The decrease is partially offset by the deployment of new HBS equipment.

Other expenses

Other expenses increased by $1,895 (505.3%) and by $1,707 (319.7%) for the three and six months ended September 30, 2016, respectively, compared to the same periods in 2015. The increase is primarily due to an impairment of property and equipment in the current quarter related to screening equipment that no longer meets TC's standards. CATSA is currently exploring alternative uses for the equipment, including the potential transfer to another government agency.

Revenue

Revenue increased by $339 (42.9%) and by $949 (66.4%) for the three and six months ended September 30, 2016, respectively, compared to the same periods in 2015. This is attributable to revenue generated from the purchase of a greater number of supplemental screening hours by the GTAA.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by $14,964 (10.9%) and by $28,953 (10.7%) for the three and six months ended September 30, 2016, respectively, compared to the same periods in 2015. The increase is primarily due to increased spending for screening services and other related costs, as previously discussed.

Other comprehensive income (loss)

Other comprehensive income (loss) is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets. Other comprehensive income of $4,971 for the three months ended September 30, 2016, is due to a remeasurement gain resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive loss of $7,432 for the three months ended September 30, 2015, is due to a remeasurement loss resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions.

Other comprehensive loss of $12,093 for the six months ended September 30, 2016, is due to a remeasurement loss of $24,197 on the defined benefit liability arising from a 50 basis point decrease in the discount rate since March 31, 2016, partially offset by a remeasurement gain of $12,104 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive income of $3,208 for the six months ended September 30, 2015, is due to a remeasurement gain of $17,646 on the defined benefit liability arising from an increase in the discount rate of 50 basis points from March 31, 2015 to September 30, 2015 which was partially offset by a remeasurement loss of $14,438 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 9 of the condensed interim financial statements.

STATEMENT OF FINANCIAL POSITION

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at September 30, 2016, compared to March 31, 2016.

Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars)	**September 30, 2016** (unaudited)	**March 31, 2016** (audited)	$ Change	% Change
Current assets	$ 159,348	$ 118,437	$ 40,911	34.5%
Non-current assets	381,343	362,822	18,521	5.1%
Total assets	**$ 540,691**	**$ 481,259**	**$ 59,432**	**12.3%**
Current liabilities	$ 159,773	$ 118,238	$ 41,535	35.1%
Non-current liabilities	419,213	384,487	34,726	9.0%
Total liabilities	**$ 578,986**	**$ 502,725**	**$ 76,261**	**15.2%**

Assets

Current assets increased by $40,911 (34.5%) primarily due to the following:

- Increase in cash of $54,455 primarily due to the timing of funds received from the Government of Canada;
- Decrease in trade and other receivables of $9,932 primarily due to a decrease in parliamentary appropriations receivable of $9,235;
- Decrease in inventories of $2,392 primarily due to usage of $4,839 exceeding purchases of spare parts, uniforms and RAIC cards of $2,521; and

- Decrease in prepaids of $1,220 due to the amortization of annual insurance premiums, and annual maintenance and support services.

Non-current assets increased by $18,521 (5.1%) primarily due to the following:

- Increase in property and equipment and intangible assets of $21,821 primarily due to the acquisition and installation of property and equipment and intangible assets of $49,477, partially offset by depreciation and amortization of $25,624; and
- Decrease in employee benefits of $3,300. The employee benefits asset at March 31, 2016, was comprised of CATSA's registered pension plan and supplementary retirement plan, which were both in a net asset position. During the current year, the registered pension plan changed to a net liability position, and is classified as a non-current liability in the Condensed Interim Statement of Financial Position as at September 30, 2016. This change is primarily due to the remeasurement of CATSA's defined benefit pension plans, as previously described in the Analysis of Financial Results for Other comprehensive income (loss).

Liabilities

Current liabilities increased by $41,535 (35.1%) primarily due to the following:

- Increase in trade and other payables of $45,659 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of $3,612 due to a reduction in inventories and prepaids balances.

Non-current liabilities increased by $34,726 (9.0%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures of $21,848 due to capital expenditures financed through parliamentary appropriations of $49,465, exceeding amortization of $27,617; and
- Increase in employee benefits of $12,702 in relation to CATSA's other defined benefits plan and registered pension plan (which changed to a net liability position during the period) mainly due to remeasurements, as previously described in the Analysis of Financial Results for Other comprehensive income (loss).

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2016/17 – 2020/21 Corporate Plan* has not been tabled in Parliament at the time of publishing. 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 its *Summary of the 2016/17 – 2020/21 Corporate Plan*.

PARLIAMENTARY APPROPRIATIONS USED

CATSA's operations are funded primarily 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 financial performance reported under International Financial Reporting Standards (IFRS) and operating appropriations used:

Reconciliation of Financial Performance to Operating Appropriations Used	Three Months Ended September 30		Six Months Ended September 30	
	2016	2015	2016	2015
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	$ 169,835	$ 154,588	$ 334,249	$ 304,838
Revenue	(1,130)	(791)	(2,379)	(1,430)
Financial performance before government funding	168,705	153,797	331,870	303,408
Non-cash expenses				
Depreciation and amortization	(12,445)	(14,144)	(25,624)	(27,392)
Employee benefits expense [1]	(1,986)	(2,195)	(3,909)	(4,368)
Employee cost accruals [2]	75	90	(940)	(807)
Impairment of property and equipment	(1,934)	(61)	(1,934)	(292)
Loss on disposal of property and equipment	(75)	(105)	(75)	(109)
Spare parts expense funded from capital [3]	-	(10)	(3)	(13)
Deferred lease incentives recognized in financial performance [4]	75	69	149	137
Write-off of property and equipment and intangible assets	(10)	-	(17)	-
Parliamentary appropriations for operating expenses	**$ 152,405**	**$ 137,441**	**$ 299,517**	**$ 270,564**
Other items affecting funding				
Net change in prepaids and inventories [5]	(1,745)	(1,364)	(3,612)	(2,854)
Total operating appropriations used	**$ 150,660**	**$ 136,077**	**$ 295,905**	**$ 267,710**

[1] Employee benefits are 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.

[2] Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to September 30, 2016. These costs are recorded on a cash basis at year-end only, creating a reconciling item during interim periods.

[3] Spare parts expense funded from capital represents items that were funded from capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

[4] Deferred lease incentives are non-cash accounting adjustments to record the benefit derived from favourable lease terms, including significantly reduced rent, free common area costs and leasehold improvements provided at no cost. 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.

CAPITAL EXPENDITURES

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 September 30		Six Months Ended September 30	
	2016	2015	2016	2015
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Explosives Detection System	$ 29,531	$ 18,603	$ 46,707	$ 29,262
Non-Explosives Detection System	1,205	861	2,761	1,114
Total capital asset acquisitions	**$ 30,736**	**$ 19,464**	**$ 49,468**	**$ 30,376**
Proceeds on disposal of property and equipment[1]	(3)	(6)	(3)	(6)
Total capital appropriations used	**$ 30,733**	**$ 19,458**	**$ 49,465**	**$ 30,370**

[1] Proceeds on disposal of property and equipment consist of non-cash proceeds received in the form of credit notes from suppliers.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, 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 operations 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

November 23, 2016

Andie Andreou, CPA, CA
Vice-President and Chief Financial Officer
Ottawa, Canada

November 23, 2016

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

September 30, 2016

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	September 30, 2016	March 31, 2016
Assets		
Current assets		
Cash	$ 65,682	$ 11,227
Trade and other receivables (note 3)	78,107	88,039
Inventories (note 4)	13,935	16,327
Prepaid expenses	1,624	2,844
	159,348	118,437
Non-current assets		
Property and equipment (note 5)	373,040	351,645
Intangible assets (note 6)	7,179	6,753
Employee benefits (note 9)	1,124	4,424
	381,343	362,822
Total assets	$ 540,691	$ 481,259
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 144,015	$ 98,356
Provisions (note 7)	199	711
Deferred government funding related to operating expenses (note 8)	15,559	19,171
	159,773	118,238
Non-current liabilities		
Construction holdbacks	515	199
Deferred lease incentives	843	983
Deferred government funding related to capital expenditures (note 8)	379,784	357,936
Employee benefits (note 9)	38,071	25,369
	419,213	384,487
Equity		
Accumulated deficit	(38,295)	(21,466)
Total liabilities and equity	$ 540,691	$ 481,259

Contingencies (note 7) and contractual arrangements (note 13).

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income (Loss)
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Expenses				
Pre-Board Screening	$ 89,419	$ 84,120	$ 176,222	$ 166,391
Hold Baggage Screening	35,131	37,802	70,324	73,621
Non-Passenger Screening	32,636	21,355	64,477	42,400
Restricted Area Identity Card Program	647	742	1,574	1,355
Corporate services	9,732	10,194	19,411	20,537
Total expenses (note 10)	167,565	154,213	332,008	304,304
Other expenses				
Impairment of property and equipment (note 5)	1,934	61	1,934	292
Foreign exchange loss	244	208	205	131
Loss on disposal of property and equipment (note 5)	75	105	75	109
Write-off of property and equipment and intangible assets (note 5 and 6)	10	-	17	-
Finance cost	7	1	10	2
Total other expenses	2,270	375	2,241	534
Financial performance before revenue and government funding	169,835	154,588	334,249	304,838
Revenue				
Supplemental screening services	1,041	611	2,162	1,070
Finance income	89	112	217	216
Miscellaneous income	-	68	-	144
Total revenue	1,130	791	2,379	1,430
Government funding				
Parliamentary appropriations for operating expenses (note 8)	152,405	137,441	299,517	270,564
Amortization of deferred government funding related to capital expenditures (note 8)	14,446	14,320	27,617	27,806
Total government funding	166,851	151,761	327,134	298,370
Financial performance	$ (1,854)	$ (2,036)	$ (4,736)	$ (5,038)
Other comprehensive income (loss)				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	4,971	(7,432)	(12,093)	3,208
Total comprehensive income (loss)	$ 3,117	$ (9,468)	$ (16,829)	$ (1,830)

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, 2016	$	(41,412)
Financial performance		(1,854)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		4,971
Balance, September 30, 2016	$	(38,295)
Balance, June 30, 2015	$	(1,250)
Financial performance		(2,036)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(7,432)
Balance, September 30, 2015	$	(10,718)

For the six months ended September 30:

		Accumulated deficit
Balance, March 31, 2016	$	(21,466)
Financial performance		(4,736)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(12,093)
Balance, September 30, 2016	$	(38,295)
Balance, March 31, 2015	$	(8,888)
Financial performance		(5,038)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		3,208
Balance, September 30, 2015	$	(10,718)

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 September 30		Six months ended September 30	
	2016	2015	2016	2015
Cash flows provided by (used in)				
Operating activities				
Financial performance	$ (1,854)	$ (2,036)	$ (4,736)	$ (5,038)
Items not involving cash				
Depreciation of property and equipment (note 5 and 10)	12,116	13,729	24,965	26,533
Increase in net employee benefits liability (note 15)	1,986	2,178	3,909	4,339
Impairment of property and equipment (note 5)	1,934	61	1,934	292
Amortization of intangible assets (note 6 and 10)	329	415	659	859
Loss on disposal of property and equipment (note 5)	75	105	75	109
Write-off of property and equipment and intangible assets (note 5 and 6)	10	-	17	-
Other non-cash transactions (note 15)	-	10	3	13
Amortization of deferred government funding related to capital expenditures (note 8)	(14,446)	(14,320)	(27,617)	(27,806)
Deferred lease incentives recognized in financial performance	(75)	(69)	(149)	(137)
Net change in working capital balances (note 15)	16,501	(14,951)	36,626	(3,269)
	16,576	(14,878)	35,686	(4,105)
Investing activities				
Parliamentary appropriations received for capital funding	24,872	13,800	44,872	34,800
Purchase of property and equipment	(9,054)	(12,297)	(25,012)	(33,096)
Purchase of intangible assets	(644)	-	(1,091)	(12)
	15,174	1,503	18,769	1,692
Increase (decrease) in cash	31,750	(13,375)	54,455	(2,413)
Cash, beginning of period	33,932	18,943	11,227	7,981
Cash, end of period	$ 65,682	$ 5,568	$ 65,682	$ 5,568

Supplementary cash flow information (note 15)

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

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1. Corporate information

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 is responsible for securing specific elements of the air transportation system, from passenger and baggage screening to screening airport workers.

CATSA is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. In October 2014, CATSA entered into a Supplemental Screening Services Trial Agreement with the Greater Toronto Airports Authority for the purchase of supplemental PBS screening hours from CATSA on a cost recovery basis. With the support of Transport Canada, the agreement was extended to March 31, 2017.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on November 23, 2016.

2. Summary of significant accounting policies

(a) Basis of preparation

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

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 Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*. 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 the audited annual financial statements for the year ended March 31, 2016.

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, 2016, except for the application of the new and revised standards effective April 1, 2016, as described in note 2(b) below.

(b) Adoption of new and revised International Financial Reporting Standards

The following amendments and annual improvements, issued by the IASB and approved by the AcSB, were adopted by CATSA effective April 1, 2016. The adoption of these amendments and annual improvements did not have an impact on the condensed interim financial statements.

(i) Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

IAS 16 and IAS 38 were amended to clarify when the use of a revenue-based amortization method is acceptable. These amendments were effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

(ii) *Annual Improvements to IFRSs: 2012-2014 Cycle*

The *Annual Improvements to IFRSs: 2012-2014 Cycle* were issued in September 2014. These improvements include a number of amendments to various IFRSs, including changes to non-current assets held for sale, financial instruments disclosure, employee benefits, and interim financial reporting, and were effective for annual reporting periods beginning on or after January 1, 2016, on a retrospective basis.

(iii) Amendments to IAS 1 *Disclosure Initiative*

IAS 1 was amended to clarify, rather than significantly change, existing IAS 1 requirements relating to materiality, order of notes, subtotals, accounting policies, and disaggregation. These amendments were effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

(c) Future accounting changes

As at the date of these financial statements, the following applicable new accounting standards have been issued by the IASB, but are not yet effective. CATSA is currently assessing the potential impact on its financial statements, and will continue to monitor these standards for developments until the time of adoption.

(i) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and a number of other revenue-related interpretations. The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard will become effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

(In thousands of Canadian dollars)

(ii) IFRS 9 *Financial Instruments*

IFRS 9 was issued in July 2014 and is considered the final version, replacing earlier versions of IFRS 9, and completes the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. This standard will become effective for annual periods beginning on or after January 1, 2018, on a retrospective basis.

(iii) IFRS 16 *Leases*

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*. This standard will become effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted in the period when IFRS 15 is adopted.

3. Trade and other receivables

Trade and other receivables are comprised of:

	September 30, 2016	March 31, 2016
Parliamentary appropriations	$ 60,370	$ 69,605
GST and HST recoverable	14,713	14,821
PST recoverable	1,913	1,742
Supplemental screening services	1,048	1,867
Other	63	4
	$ 78,107	$ 88,039

Credit terms on trade receivables are 30 days. As of September 30, 2016, there were no trade receivables that were past due. Trade receivables at March 31, 2016, include amounts that were past due for which CATSA did not recognize an allowance for doubtful accounts because there had not been a significant change in credit quality and the amounts were still considered recoverable. Trade receivables at March 31, 2016, that were past due and not impaired were outstanding for 31-60 days.

(In thousands of Canadian dollars)

4. Inventories

Inventories are comprised of:

	September 30, 2016	March 31, 2016
Spare parts	$ 13,076	$ 14,128
RAIC	484	1,150
Uniforms	375	1,049
	$ 13,935	$ 16,327

(In thousands of Canadian dollars)

5. Property and equipment

A reconciliation of property and equipment is presented 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, 2015	$ 124,747	$ 656,986	$ 9,548	$ 4,387	$ 25,811	$ 95	$ 10,221	$ 112,217	$ 944,012
Additions	42	27,265	1,135	566	2,604	-	545	61,697	93,854
Disposals	(3,280)	(72,070)	(400)	(10)	(128)	-	(350)	(34)	(76,272)
Write-offs	(545)	(5,931)	(16)	(748)	(4,758)	(11)	(927)	(25)	(12,961)
Impairments	(158)	(94)	-	-	(855)	-	-	-	(1,107)
Reclassifications	(3,725)	72,730	6,215	1,199	591	-	-	(77,010)	-
Balance, March 31, 2016	$ 117,081	$ 678,886	$ 16,482	$ 5,394	$ 23,265	$ 84	$ 9,489	$ 96,845	$ 947,526
Balance, March 31, 2016	$ 117,081	$ 678,886	$ 16,482	$ 5,394	$ 23,265	$ 84	$ 9,489	$ 96,845	$ 947,526
Additions	73	4,030	484	-	726	-	10	43,063	48,386
Disposals	-	(15,806)	-	-	(91)	-	-	(42)	(15,939)
Write-offs	(29)	(40)	-	-	(1,333)	-	-	-	(1,402)
Impairments	-	-	-	-	-	-	-	(1,934)	(1,934)
Reclassifications	729	7,857	2,281	-	3,715	-	-	(14,582)	-
		-							
Balance, September 30, 2016	$ 117,854	$ 674,927	$ 19,247	$ 5,394	$ 26,282	$ 84	$ 9,499	$ 123,350	$ 976,637
Accumulated depreciation									
Balance, March 31, 2015	$ 70,966	$ 523,774	$ 3,659	$ 3,582	$ 21,150	$ 95	$ 9,002	$ -	$ 632,228
Depreciation	8,995	39,571	1,462	633	1,456	-	519	-	52,636
Disposals	(2,897)	(71,985)	(293)	(10)	(128)	-	(350)	-	(75,663)
Write-offs	(513)	(5,877)	(16)	(748)	(4,420)	(11)	(920)	-	(12,505)
Impairments	(99)	(43)	-	-	(673)	-	-	-	(815)
Reclassifications	(2,831)	-	2,831	-	-	-	-	-	-
Balance, March 31, 2016	$ 73,621	$ 485,440	$ 7,643	$ 3,457	$ 17,385	$ 84	$ 8,251	$ -	$ 595,881
Balance, March 31, 2016	$ 73,621	$ 485,440	$ 7,643	$ 3,457	$ 17,385	$ 84	$ 8,251	$ -	$ 595,881
Depreciation	4,514	17,840	763	266	1,355	-	227	-	24,965
Disposals	-	(15,772)	-	-	(89)	-	-	-	(15,861)
Write-offs	(25)	(40)	-	-	(1,323)	-	-	-	(1,388)
Reclassifications	(1,009)	-	(194)	-	1,203	-	-	-	-
Balance, September 30, 2016	$ 77,101	$ 487,468	$ 8,212	$ 3,723	$ 18,531	$ 84	$ 8,478	$ -	$ 603,597
Carrying amounts									
As at March 31, 2016	$ 43,460	$ 193,446	$ 8,839	$ 1,937	$ 5,880	$ -	$ 1,238	$ 96,845	$ 351,645
As at September 30, 2016	$ 40,753	$ 187,459	$ 11,035	$ 1,671	$ 7,751	$ -	$ 1,021	$ 123,350	$ 373,040

During the three months ended September 30, 2016, CATSA recognized impairment losses of $1,934 on equipment that no longer met Transport Canada standards for screening equipment. The assets can no longer contribute to the fulfillment of CATSA's mandate. As a result, the assets were considered to be fully impaired and the remaining net book value was recorded as an impairment loss. The recoverable amount is deemed to be $Nil, which represents the equipment's value in use to CATSA, as all future cash flows associated with the equipment are estimated to be $Nil.

During the three and six months ended September 30, 2015, CATSA recognized impairment losses of $61, and $292, respectively, related to screening equipment that was no longer able to contribute to the fulfilment of CATSA's mandate due to technical advancements.

There were no amounts recorded related to reversal of impairment losses during the three and six months ended September 30, 2016 and 2015.

(In thousands of Canadian dollars)

6. Intangible assets

A reconciliation of intangible assets is presented as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2015	$ 3,807	$ 18,840	$ -	$ 22,647
Additions	537	4,574	414	5,525
Write-offs	(173)	(3,831)	-	(4,004)
Balance, March 31, 2016	$ 4,171	$ 19,583	$ 414	$ 24,168
Balance, March 31, 2016	$ 4,171	$ 19,583	$ 414	$ 24,168
Additions	(330)	-	1,421	1,091
Write-offs	(17)	(77)	-	(94)
Balance, September 30, 2016	$ 3,824	$ 19,506	$ 1,835	$ 25,165
Accumulated amortization				
Balance, March 31, 2015	$ 3,000	$ 16,863	$ -	$ 19,863
Amortization	439	1,009	-	1,448
Write-offs	(173)	(3,723)	-	(3,896)
Balance, March 31, 2016	$ 3,266	$ 14,149	$ -	$ 17,415
Balance, March 31, 2016	$ 3,266	$ 14,149	$ -	$ 17,415
Amortization	81	578	-	659
Write-offs	(16)	(72)	-	(88)
Balance, September 30, 2016	$ 3,331	$ 14,655	$ -	$ 17,986
Carrying amounts				
As at March 31, 2016	$ 905	$ 5,434	$ 414	$ 6,753
As at September 30, 2016	$ 493	$ 4,851	$ 1,835	$ 7,179

(In thousands of Canadian dollars)

7. Provisions and contingencies

(a) Provisions

A reconciliation of provisions is presented as follows:

	September 30, 2016	March 31, 2016
Balance, beginning of period	$ 711	$ 335
Provisions made during the period	18	711
Amounts used	(84)	(90)
Provisions released during the period	(446)	(245)
Balance, end of period	$ 199	$ 711

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. The provisions recorded related to these claims consist primarily of amounts relating to licensing agreements and commodity taxes.

By nature, these amounts are subject to many uncertainties and the outcome of individual matters is not always predictable. The provisions were determined by taking into account internal analysis, consultations with external subject matter experts, and all available information up to the date these financial statements were authorized for issue.

The provisions are classified as current and the expected future cash flows were not discounted, as the timing of cash outflows associated with these claims are expected to be within 12 months.

(b) Contingencies

CATSA's contingent liabilities consist of claims and legal proceedings and decommissioning costs for which no provisions have been recorded.

(i) Claims and legal proceedings

As at September 30, 2016, there was one significant legal claim outstanding against CATSA for which no provision was recorded. For a description of this legal claim, refer to note 8(b) of the audited annual financial statements for the year ended March 31, 2016. There have been no material changes to this legal claim during the three and six months ended September 30, 2016.

(In thousands of Canadian dollars)

(ii) Decommissioning costs

During the three and six months ended September 30, 2016, there have been no material changes to the contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 8(b)(ii) of the audited annual financial statements for the year ended March 31, 2016.

8. Deferred government funding

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

	September 30, 2016	March 31, 2016
Deferred government funding related to operating expenses		
Balance, beginning of period	$ 19,171	$ 20,845
Operating expenses funded through parliamentary appropriations	295,905	554,733
Parliamentary appropriations recognized as government funding for operating expenses	(299,517)	(556,407)
Balance, end of period	$ 15,559	$ 19,171
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 357,936	$ 314,568
Capital expenditures financed through parliamentary appropriations	49,465	98,872
Amortization of deferred government funding related to capital expenditures	(27,617)	(55,504)
Balance, end of period	$ 379,784	$ 357,936
Total deferred government funding, end of period	$ 395,343	$ 377,107

For additional information on government funding, refer to note 11.

(In thousands of Canadian dollars)

9. Employee benefits

(a) 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:

	September 30, 2016	March 31, 2016
Employee benefits asset		
Registered pension plan (RPP)	$ -	$ 2,875
Supplementary retirement plan (SRP)	1,124	1,549
	1,124	4,424
Employee benefits liability		
Registered pension plan (RPP)	(7,726)	-
Other defined benefits plan (ODBP)	(30,345)	(25,369)
	(38,071)	(25,369)
Employee benefits - net liability	$ (36,947)	$ (20,945)

(In thousands of Canadian dollars)

(b) Employee benefits costs

The details of employee benefits costs are presented as follows:

	For the three months ended September 30							
	RPP		SRP		ODBP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Defined benefit cost recognized in financial performance								
Current service cost	$ 2,255	$ 2,657	$ 28	$ 38	$ 504	$ 461	$ 2,787	$ 3,156
Administration costs	63	77	4	4	-	-	67	81
Interest cost on defined benefit obligation	1,588	1,644	42	45	256	235	1,886	1,924
Interest income on plan assets	(1,571)	(1,684)	(56)	(60)	-	-	(1,627)	(1,744)
Defined benefit cost	$ 2,335	$ 2,694	$ 18	$ 27	$ 760	$ 696	$ 3,113	$ 3,417
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 4,836	$ (7,172)	$ 135	$ (260)	$ -	$ -	$ 4,971	$ (7,432)
Remeasurement of defined benefit plans	$ 4,836	$ (7,172)	$ 135	$ (260)	$ -	$ -	$ 4,971	$ (7,432)

	For the six months ended September 30							
	RPP		SRP		ODBP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Defined benefit cost recognized in financial performance								
Current service cost	$ 4,510	$ 5,314	$ 56	$ 76	$ 1,008	$ 922	$ 5,574	$ 6,312
Administration costs	126	154	8	8	-	-	134	162
Interest cost on defined benefit obligation	3,176	3,288	84	90	512	470	3,772	3,848
Interest income on plan assets	(3,142)	(3,368)	(112)	(120)	-	-	(3,254)	(3,488)
Defined benefit cost	$ 4,670	$ 5,388	$ 36	$ 54	$ 1,520	$ 1,392	$ 6,226	$ 6,834
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 11,968	$(14,060)	$ 136	$ (378)	$ -	$ -	$ 12,104	$(14,438)
Actuarial (losses) gains arising from changes in financial assumptions	(20,157)	14,955	(525)	385	(3,515)	2,306	(24,197)	17,646
Remeasurement of defined benefit plans	$ (8,189)	$ 895	$ (389)	$ 7	$(3,515)	$ 2,306	$ (12,093)	$ 3,208

For the three and six months ended September 30, 2016, CATSA recognized an expense of $85 (2015 - $26) and $159 (2015 - $45), respectively, in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

Assumptions used to measure the defined benefit pension 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 income.

For the three months ended September 30, 2016, remeasurement gains of $4,971 resulted from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (3.76% actual versus 0.94% expected for the RPP and 3.20% actual versus 0.94% expected for the SRP). There was no impact arising from changes in actuarial assumptions as there were no significant changes in the assumptions during the three month period.

For the three months ended September 30, 2015, remeasurement losses of $7,432 resulted from a lower actual return on plan assets than the rate used in CATSA's assumptions (-3.73% actual versus 1.00% expected for the RPP and -3.52% actual versus 1.00% expected for the SRP). There was no impact arising from changes in actuarial assumptions as there were no significant changes in the assumption during the three month period ended September 30, 2015.

For the six months ended September 30, 2016, remeasurement losses of $12,093 resulted from a decrease in the discount rate of 50 basis points (3.25% - September 30, 2016, 3.75% - March 31, 2016). This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (9.26% actual versus 1.88% expected for the RPP and 4.16% actual versus 1.88% expected for the SRP).

For the six months ended September 30, 2015, remeasurement gains of $3,208 resulted from an increase in the discount rate of 50 basis points (4.50% - September 30, 2015, 4.00% - March 31, 2015). This was partially offset by lower actual returns on plan assets than the rate used in CATSA's assumptions (-6.90% actual versus 2.00% expected for the RPP and -4.50% actual versus 2.00% expected for the SRP).

(In thousands of Canadian dollars)

(d) Employer contributions

Employer contributions paid to the defined benefit plans for the three and six months ended September 30 are presented as follows:

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Employer contributions				
RPP	$ 1,098	$ 1,186	$ 2,258	$ 2,396
SRP	-	7	-	7
ODBP	29	46	59	92
	$ 1,127	$ 1,239	$ 2,317	$ 2,495

Total employer contributions to the defined benefit plans are estimated to be $5,865 for the year ending March 31, 2017.

(In thousands of Canadian dollars)

10. 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 for the three and six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Screening services and other related costs				
Payments to screening contractors	$ 123,930	$ 108,843	$ 243,345	$ 214,175
Uniforms and other screening costs	1,315	1,018	2,915	2,095
Trace and consumables	496	372	786	592
	125,741	110,233	247,046	216,862
Equipment operating and maintenance				
Equipment maintenance and spare parts	9,267	10,511	18,677	20,789
Training and certification	656	9	913	112
RAIC	175	195	666	373
	10,098	10,715	20,256	21,274
Program support and corporate services				
Employee costs	14,147	14,597	29,525	29,670
Operating leases	1,580	1,602	3,156	3,188
Professional services and other business related costs	1,220	924	2,411	1,911
Office and computer expenses	1,165	1,025	2,300	1,940
Other administrative costs	985	738	1,355	1,684
Communications and public awareness	184	235	335	383
	19,281	19,121	39,082	38,776
Depreciation and amortization				
Depreciation of property and equipment	12,116	13,729	24,965	26,533
Amortization of intangible assets	329	415	659	859
	12,445	14,144	25,624	27,392
	$ 167,565	$ 154,213	$ 332,008	$ 304,304

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

(In thousands of Canadian dollars)

11. Government funding

CATSA's *Summary of the 2016/17 – 2020/21 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.

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

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Parliamentary appropriations received and receivable	$ 218,107	$ 141,726	$ 353,389	$ 329,619
Amounts received and receivable related to prior period	(67,978)	(5,834)	(54,733)	(59,834)
Amounts to be billed (used) in future periods	531	185	(2,751)	(2,075)
Parliamentary appropriations used to finance operating expenses	$ 150,660	$ 136,077	$ 295,905	$ 267,710

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

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Parliamentary appropriations received and receivable	$ 44,548	$ 21,629	$ 70,120	$ 59,521
Amounts received and receivable related to prior period	(13,604)	(6,800)	(14,872)	(17,800)
Amounts to be (used) billed in future periods	(211)	4,629	(5,783)	(11,351)
Parliamentary appropriations used to finance capital expenditures	$ 30,733	$ 19,458	$ 49,465	$ 30,370

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

(In thousands of Canadian dollars)

12. Fair values of financial instruments

The fair values of cash, receivables related to supplemental screening services, and trade and other payables approximate their carrying value due to the current nature of these instruments.

The fair value of construction holdbacks approximates their carrying value.

13. Contractual arrangements

(a) Non-lease arrangements

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

The following table presents the remaining pre-tax balance on these contractual arrangements:

	September 30, 2016	March 31, 2016
Operating	$ 493,993	$ 636,006
Capital	158,101	156,913
Total	$ 652,094	$ 792,919

(b) Lease arrangements

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

	September 30, 2016	March 31, 2016
No later than 1 year	$ 6,690	$ 6,524
Later than 1 year and no later than 5 years	21,612	22,229
Later than 5 years	5,276	7,724
Total	$ 33,578	$ 36,477

(In thousands of Canadian dollars)

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters.

14. Related party transactions

CATSA had the following transactions with related parties for the three and six months ended September 30, 2016:

(a) Government of Canada, its agencies and other Crown corporations

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

The following table summarizes CATSA's transactions with related parties:

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Income	$ 166,851	$ 151,761	$ 327,134	$ 298,370
Expenses	3,662	3,075	7,107	6,279

Income from related parties represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses presented above for the three and six months ended September 30, 2016 include $3,414 (2015 – $3,109), and $6,797 (2015 – $5,787), respectively, in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

The following balances were outstanding at the end of the period and are included in Trade and other receivables and Trade and other payables on the Condensed Interim Statement of Financial Position:

(In thousands of Canadian dollars)

	September 30, 2016	March 31, 2016
Receivable from related parties	$ 75,146	$ 84,426
Payable to related parties	(1,238)	(603)
Net receivable from related parties	$ 73,908	$ 83,823

Amounts receivable from related parties include $60,370 (March 31, 2016 – $69,605) due from the Government of Canada for parliamentary appropriations, and $14,713 (March 31, 2016 – $14,821) due from the Canada Revenue Agency for recoverable taxes paid on expenses. Amounts payable to related parties consist primarily of indirect taxes payable to the Canada Revenue Agency.

(b) 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 9. No other transactions were made during the three and six month periods.

15. Net change in working capital balances and supplementary cash flow information

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

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Decrease (increase) in trade and other receivables	$ 18,433	$ (25,181)	$ 14,525	$ (4,191)
Decrease in inventories	683	417	2,392	1,539
Decrease in prepaid expenses	1,062	947	1,220	1,315
(Decrease) increase in trade and other payables	(1,631)	10,565	22,613	1,257
Decrease in current portion of provisions	(301)	(335)	(512)	(335)
Decrease in deferred government funding related to operating expenses	(1,745)	(1,364)	(3,612)	(2,854)
	$ 16,501	$ (14,951)	$ 36,626	$ (3,269)

Interest income received and recognized during the three and six months ended September 30, 2016 totalled $89 (2015 – $112) and $217 (2015 – $216), respectively.

Interest expense paid and expensed during the three and six months ended September 30, 2016 totalled $7 (2015 – $1) and $10 (2015 – $2), respectively.

For the three and six months ended September 30, 2016, the change in trade and other receivables excludes amounts of $5,861 (2015 – $5,658) and $4,593 (2015 – $4,430) respectively, for government funding for capital expenditures, as these amounts relate to investing activities.

For the three and six months ended September 30, 2016, the change in trade and other payables excludes amounts of $20,942 (2015 – $7,161) and $23,046 (2015 – $2,738), respectively, for the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.

For the three and six months ended September 30, 2016, the change in net employee benefits liability excludes an amount of $4,971 (2015 – $7,432) and $12,093 (2015 – $3,208), respectively, for the remeasurement of defined benefit plans presented in other comprehensive income (loss), as the amount relates to a non-cash remeasurement.

During the three and six months ended September 30, 2016, CATSA received non-cash proceeds in the form of credit notes from a supplier, totalling $3 (2015 – $6) and $3 (2015 – $6), respectively, related to the disposal of property and equipment.

During the three and six months ended September 30, 2016, non-cash transfers of spare parts from property and equipment to inventory totalled $Nil (2015 – $10) and $3 (2015 – $13), respectively.

16. Subsequent event

On October 18, 2016, CATSA announced the renewal of its airport screening service agreements for the five-year period from April 1, 2017 to March 31, 2022. The renewal of these service agreements will add approximately $2,600,000 to CATSA's future contractual arrangements as described in note 13(a).