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

Quarterly Financial Report

For the Three and Nine Months Ended December 31, 2012

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

MANAGEMENT'S NARRATIVE DISCUSSION

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2012

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, 2012. 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, 2012, 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, 2012, the Quarterly Financial Report for the three months ended June 30, 2012, and the Quarterly Financial Report for the three and six months ended September 30, 2012. The information in this report is expressed in Canadian dollars and is current to February 27, 2013, unless otherwise stated.

Forward-looking statements

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

Materiality

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

Comparative figures

Certain comparative figures contained in this Narrative Discussion have been restated, as a result of an accounting policy change related to the transition to IFRS that was adopted subsequent to the issuance of the unaudited condensed interim financial statements for the three and nine months ended December 31, 2011. The accounting policy change is disclosed in note 19 of the unaudited condensed interim financial statements for the three and nine months ended December, 2012, and in further detail in note 20 of the audited annual financial statements for the year ended March 31, 2012.

CORPORATE OVERVIEW

CATSA is a Crown corporation mandated with protecting the public through effective and efficient screening of air travellers and their baggage. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada. The goal of the organization is to provide an effective, efficient and consistent level of security screening at designated airports across the country, at or above the standards set by its regulator, Transport Canada.

CATSA is mandated to conduct security 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): the administration of access control to airport restricted areas through biometric identifiers.

In meeting this mandate, CATSA strives to maintain equivalency with its key international partners, both in terms of technologies and security screening processes. CATSA delivers on this commitment in accordance with the resources assigned to it by the Government of Canada and as approved by Parliament.

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since September 30, 2012.

LABOUR RELATIONS

As disclosed in the previous Quarterly Financial Report for the three and six months ended September 30, 2012, CATSA's screening contractors in the Pacific and Prairie regions and their screening officer workforces signed new collective bargaining agreements that remain in effect until March 31, 2015.

Since the publication of the most recent Quarterly Financial Report, CATSA's screening contractor in the Central region (Garda Security Screening Ltd.) and its screening officer workforce also signed new collective bargaining agreements that remain in effect until March 31, 2015. While agreements have been concluded for much of the Eastern region between Securitas Transport Aviation Security Ltd. and its screening officer workforce, the collective bargaining process is ongoing in Montreal.

PASSENGER GROWTH

CATSA's reference levels may not fully accommodate increases in screening contractors' billing rates, and may not accommodate passenger growth. Transport Canada statistics for the three-month period from September 2012 to November 2012[1] indicate that passenger volumes at Canada's eight busiest airports increased by 3.5% over the same period in 2011, as compared to 2.9% for the three-month period from June 2012 to August 2012. CATSA continues to address financial pressures due to the increase in screening contractors' billing rates and passenger growth for 2012/13.

PROCUREMENT OF HBS EQUIPMENT

During the quarter, CATSA completed a competitive procurement process (Request for Standing Offer) for the acquisition of Computed Tomography equipment. In accordance with CATSA's multi-year, HBS life-cycle management program, this equipment will replace end-of-life, single-view X-ray equipment with more advanced, internationally compatible technology. The implementation of this recapitalization plan began in 2011/12 and will continue over a 10-year period for all major airports in Canada.

EXECUTIVE CHANGES

On December 12, 2012, CATSA announced changes in its senior management team. Yves Duguay, Senior Vice President, Operations and Customer Experience, will step down effective March 29, 2013 and Neil Parry, Senior Director, Program Delivery, will assume Mr. Duguay's responsibilities. As Vice-President, Service Delivery, Mr. Parry will oversee all passenger, non-passenger and hold baggage security screening at Canada's 89 designated airports.

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[1] Air traffic statistics for the three-month period from October 2012 to December 2012 were not available at the time of publishing this document.

RISKS AND UNCERTAINTIES

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

QUARTERLY FINANCIAL INFORMATION

The following table provides key highlights of the Statement of Comprehensive Income for the three and nine months ended December 31, 2012 and December 31, 2011:

Key Financial Highlights - Statement of Comprehensive Income	**Three Months Ended December 31**				**Nine Months Ended December 31**			
	2012	**2011**			**2012**	**2011**		
(Millions of dollars)	(unaudited)	(unaudited and restated)	$ Change	% Change	(unaudited)	(unaudited and restated)	$ Change	% Change
Expenses[1]:								
Screening services and other related costs	$ 87.7	$ 91.1	$ (3.4)	(4%)	$ 262.5	$ 264.8	$ (2.3)	(1%)
Direct administrative costs and corporate services	20.3	19.8	0.5	3%	58.1	58.8	(0.7)	(1%)
Depreciation and amortization	19.3	22.0	(2.7)	(12%)	53.9	64.9	(11.0)	(17%)
Equipment operating and maintenance	12.6	10.8	1.8	17%	33.3	29.9	3.4	11%
Total expenses	**$ 139.9**	**$ 143.7**	**$ (3.8)**	**(3%)**	**$ 407.8**	**$ 418.4**	**$ (10.6)**	**(3%)**
Total other income	**$ (0.1)**	**$ (0.1)**	**$ -**	**0%**	**$ (0.4)**	**$ (1.1)**	**$ 0.7**	**(64%)**
Financial performance before government funding	**$ 139.8**	**$ 143.6**	**$ (3.8)**	**(3%)**	**$ 407.4**	**$ 417.3**	**$ (9.9)**	**(2%)**
Government funding:								
Parliamentary appropriations for operating expenses	$ 119.2	$ 121.3	$ (2.1)	(2%)	$ 348.8	$ 352.3	$ (3.5)	(1%)
Amortization of deferred government funding related to capital	19.3	22.1	(2.8)	(13%)	54.0	64.3	(10.3)	(16%)
Total government funding	**$ 138.5**	**$ 143.4**	**$ (4.9)**	**(3%)**	**$ 402.8**	**$ 416.6**	**$ (13.8)**	**(3%)**
Financial performance and total comprehensive loss	**$ (1.3)**	**$ (0.2)**	**$ (1.1)**	**550%**	**$ (4.6)**	**$ (0.7)**	**$ (3.9)**	**557%**

[1] The Statement of Comprehensive Income presents operating expenses by mandated activity, whereas operating expenses above are presented by major expense category as disclosed in note 13 of the unaudited condensed interim financial statements for the three and nine months ended December 31, 2012.

The following table provides key highlights of the Statement of Financial Position as at December 31, 2012 and March 31, 2012:

Key Financial Highlights - Statement of Financial Position	**December 31, 2012**	**March 31, 2012**		
(Millions of dollars)	(unaudited)	(audited)	$ Change	% Change
Total assets	**$ 350.6**	**$ 417.3**	**$ (66.7)**	**(16%)**
Total liabilities	**$ 382.6**	**$ 444.7**	**$ (62.1)**	**(14%)**

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, 2012, compared to the same periods of the prior fiscal year.

RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012

Screening services and other related costs

Screening services and other related costs decreased by $3.4 million (4%) for the three months ended December 31, 2012, compared to the same period in 2011. The decrease was primarily due to lower payments to screening contractors. More effective resource scheduling, resulting from the implementation of the current airport screening services agreements and the use of screening optimization tools, led to a reduction of screening hours purchased. These operational efficiency gains enabled CATSA to manage passenger growth during the quarter. The decrease was also due to a one-time charge incurred in 2011 related to a tax assessment, resulting from a supplier invoicing CATSA the incorrect taxes. The decrease was partially offset by annual contractual billing rate increases and higher performance-based incentive payments.

Direct administrative costs and corporate services

Direct administrative costs and corporate services increased slightly for the three months ended December 31, 2012, compared to the same period in 2011. The increase was primarily due to greater employee costs resulting from higher current benefit costs associated with CATSA's defined benefit pension plans, partially offset by a decrease in the average number of staffed positions. The higher current benefit costs are attributable to a change in the methodology used to establish the discount rate for the accounting valuation at the end of the prior fiscal year, which impacts current year costs.

Depreciation and amortization

Depreciation and amortization decreased by $2.7 million (12%) for the three months ended December 31, 2012, compared to the same period in 2011. The decrease was primarily due to a March 31, 2012 revision of the estimated useful lives of Explosives Detection System (EDS) equipment from seven to ten years. The decrease was partially offset by a reduction of the estimated useful lives of certain HBS equipment this quarter. The equipment will be replaced as a result of planned deployments at certain airports in support of the multi-year, HBS life-cycle management program discussed above.

Equipment operating and maintenance

Equipment operating and maintenance costs increased by $1.8 million (17%) for the three months ended December 31, 2012, compared to the same period in 2011. The increase was primarily due to higher maintenance costs for older EDS equipment, as well as additional costs associated with operational enhancements. The increase was also due to a current quarter write-down of spare parts for EDS technology platforms that are no longer required.

Amortization of deferred government funding related to capital

Amortization of deferred government funding related to capital decreased by $2.8 million (13%) for the three months ended December 31, 2012, compared to the same period in 2011. The decrease was primarily due to the revisions of the estimated useful lives of EDS equipment that were subject to depreciation in the current quarter, as discussed above.

RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2012

Screening services and other related costs

Screening services and other related costs decreased slightly for the nine months ended December 31, 2012, compared to the same period in 2011. The decrease was primarily due to a reduction in screening hours purchased, as a result of the realization of passenger throughput efficiencies identified in CATSA Review 2010, combined with more effective resource scheduling. These operational efficiency gains enabled CATSA to manage passenger growth during the nine months ended December 31, 2012. The decrease was also due to a one-time charge incurred in 2011 related to a tax assessment, as discussed above. The decrease was partially offset by annual contractual billing rate increases and higher performance-based incentive payments.

Direct administrative costs and corporate services

Direct administrative costs and corporate services decreased slightly for the nine months ended December 31, 2012, compared to the same period in 2011. The decrease was primarily due to lower other administrative costs, and lower employee costs resulting from a decrease in the average number of staffed positions, partially offset by higher current benefit costs associated with CATSA's defined benefit pension plans.

Depreciation and amortization

Depreciation and amortization decreased by $11.0 million (17%) for the nine months ended December 31, 2012, compared to the same period in 2011. The decrease was primarily due to a March 31, 2012 extension of the estimated useful lives of EDS equipment from seven to ten years, partially offset by a reduction of the estimated useful lives of certain HBS equipment during the current period, as discussed above.

Equipment operating and maintenance

Equipment operating and maintenance costs increased by $3.4 million (11%) for the nine months ended December 31, 2012, compared to the same period in 2011. The increase was primarily due to higher maintenance costs for older EDS equipment, higher costs associated with operational enhancements and the write-down of spare parts inventory for EDS technology platforms that are no longer required.

Amortization of deferred government funding related to capital

Amortization of deferred government funding related to capital decreased by $10.3 million (16%) for the nine months ended December 31, 2012, compared to the same period in 2011. The decrease was primarily due to the revisions of the estimated useful lives of EDS equipment that were subject to depreciation in the current period, as discussed above.

ANALYSIS OF FINANCIAL POSITION

The following section provides information on key variances within the Statement of Financial Position as at December 31, 2012, compared to March 31, 2012.

TOTAL ASSETS

Total assets decreased by $66.7 million (16%) primarily due to the following:

- Trade and other receivables decreased by $22.3 million primarily due to the receipt of parliamentary appropriations relating to the prior fiscal year which had been accrued at March 31, 2012; and
- Property and equipment and intangible assets decreased by $36.1 million primarily due to depreciation and amortization of $53.9 million, partially offset by the acquisition and installation of equipment of $18.0 million.

TOTAL LIABILITIES

Total liabilities decreased by $62.1 million (14%) primarily due to the following:

- Trade and other payables decreased by $27.0 million primarily due to the payment of obligations outstanding with suppliers which were accrued at March 31, 2012; and
- Total deferred government funding related to capital decreased by $34.5 million due to amortization of deferred government funding related to capital of $54.0 million, partially offset by parliamentary appropriations invoiced of $19.5 million.

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 December 31		Nine Months Ended December 31	
	2012	2011	2012	2011
(Millions of dollars)	(unaudited)	(unaudited and restated)	(unaudited)	(unaudited and restated)
Total expenses	$ 139.9	$ 143.7	$ 407.8	$ 418.4
Interest income and net foreign exchange gain/loss	(0.1)	(0.1)	(0.4)	(0.3)
Non-cash operating expenses:				
Depreciation and amortization	(19.3)	(22.0)	(53.9)	(64.9)
Employee benefits expense[1]	(0.3)	0.2	(3.1)	0.2
Employee cost accruals[2]	(1.0)	(0.5)	(1.7)	(1.1)
Deferred lease incentives expense[3]	-	-	0.1	-
Parliamentary appropriations for operating expenses	119.2	121.3	348.8	352.3
Other items affecting funding:				
Net change in prepaids and inventories[4]	(2.1)	(0.7)	(4.6)	(3.0)
Total operating appropriations used	**$ 117.1**	**$ 120.6**	**$ 344.2**	**$ 349.3**

[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, 2012. These costs are funded by appropriations when paid, creating a reconciling item.

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

[4] 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 December 31		Nine Months Ended December 31	
	2012	2011	2012	2011
(Millions of dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total capital asset acquisitions	$ 4.8	$ 5.4	$ 18.0	$ 13.3
Proceeds on disposal of property and equipment and equipment held for sale	-	-	(0.7)	(2.5)
Total capital appropriations used	**$ 4.8**	**$ 5.4**	**$ 17.3**	**$ 10.8**

OPERATING APPROPRIATIONS USED COMPARED TO CORPORATE PLAN

The following table provides key highlights of operating appropriations used during the nine months ended December 31, 2012, compared to the approved 2012/13 Corporate Plan annual budget:

Operating Appropriations Used Compared to Corporate Plan (Millions of dollars)	Nine Months Ended December 31, 2012 (unaudited)	Corporate Plan Budget 2012/13	% of Budget Used
Operating expenses:			
Screening services and other related costs	$ 262.5	$ 343.1	77%
Direct administrative costs and corporate services	58.1	81.0	72%
Equipment operating and maintenance	33.3	43.8	76%
Interest income and net foreign exchange gain/loss	(0.4)	-	100%
Net change in prepaids and inventories	(4.6)	-	100%
Non-cash operating expenses (excluding depreciation and amortization)	(4.7)	-	100%
Total operating appropriations	**$ 344.2**	**$ 467.9**	**74%**

Parliamentary appropriations used for operating expenditures for the nine months ended December 31, 2012 are in line with the approved 2012/13 Corporate Plan operating budget. CATSA is on track to meet the operating goals, objectives and financial results for the current year as outlined in the approved 2012/13 Corporate Plan.

CAPITAL APPROPRIATIONS USED COMPARED TO CORPORATE PLAN

The following table provides key highlights of capital appropriations used during the nine months ended December 31, 2012, compared to the 2012/13 Corporate Plan annual budget:

Capital Appropriations Used Compared to Corporate Plan (Millions of dollars)	Nine Months Ended December 31, 2012 (unaudited)	Corporate Plan Budget 2012/13	% of Budget Used
EDS	$ 16.2	$ 83.8	19%
Non-EDS	1.8	5.3	34%
Total capital asset acquisitions	**$ 18.0**	**$ 89.1**	**20%**
Proceeds on disposal of property and equipment and equipment held for sale	(0.7)	-	100%
Total capital appropriations	**$ 17.3**	**$ 89.1**	**19%**

Capital appropriations used for the nine months ended December 31, 2012 represent 19% of the approved annual capital budget. Consistent with the Corporate Plan annual budget, a significant portion of CATSA's capital spending will take place in the latter part of the year. The majority of planned EDS capital expenditures relate to HBS projects in support of CATSA's multi-year, HBS life-cycle management program.

At the end of the quarter, EDS capital expenditures were lower than planned primarily due to project plan revisions related to the deployment of the new HBS system at certain airports across Canada and an extended competitive bidding process that delayed the purchase of EDS equipment.

REPORT ON USE OF GOVERNMENT APPROPRIATIONS

The following table provides a summary of appropriations that remain unused as at December 31, 2012 and December 31, 2011:

Unused Appropriations (Millions of dollars)	**2012** (unaudited)	**2011** (unaudited)
Annual appropriations authorized by the Government of Canada	$ 557.0	$ 519.2
Less:		
Operating appropriations used for the nine months ended December 31	344.2	349.3
Capital appropriations used for the nine months ended December 31	17.3	10.8
Unused appropriations at December 31	**$ 195.5**	**$ 159.1**

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	Mario Malouin, CPA, CA, MA
President and Chief Executive Officer	Vice-President and Chief Financial Officer
Ottawa, Canada	Ottawa, Canada
February 27, 2013	February 27, 2013

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Three and nine months ended December 31, 2012 and 2011

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2012	March 31, 2012
Assets		
Current assets		
Cash	$ 3,014	$ 5,907
Trade and other receivables (note 5)	55,154	77,489
Inventories (note 6)	16,397	18,935
Prepaid expenses	2,064	4,165
Equipment held for sale (note 8)	–	540
	76,629	107,036
Non-current assets		
Employee benefits (note 12)	26	207
Property and equipment (note 7)	265,056	298,162
Intangible assets (note 9)	8,870	11,889
	273,952	310,258
	$ 350,581	$ 417,294
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 54,250	$ 81,228
Provisions (note 10)	907	2,203
Deferred government funding related to operating (note 11)	21,005	23,100
	76,162	106,531
Non-current liabilities		
Provisions (note 10)	2,323	2,304
Deferred lease incentives	1,343	1,481
Deferred government funding related to capital (note 11)	275,592	310,120
Employee benefits (note 12)	27,220	24,307
	306,478	338,212
Equity		
Accumulated deficit	(32,059)	(27,449)
	$ 350,581	$ 417,294

Commitments (note 15) and contingent liabilities (note 18)

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 December 31		Nine months ended December 31	
	2012	2011 (restated - note 19)	2012	2011 (restated - note 19)
Expenses				
Pre-Board Screening	$ 83,402	$ 86,319	$ 247,075	$ 253,941
Hold Baggage Screening	37,618	37,995	106,919	112,538
Corporate services	13,555	14,238	37,830	36,716
Non-Passenger Screening	4,415	3,920	13,098	11,458
Restricted Area Identity Card Program	968	1,205	2,889	3,725
Total expenses (note 13)	139,958	143,677	407,811	418,378
Other (income) expenses				
Finance income	(125)	(165)	(344)	(406)
Gain on disposal of property and equipment	(7)	(46)	(83)	(1,500)
Foreign exchange (gain) loss	25	115	(19)	118
Gain on settlement of decommissioning liabilities (note 10)	–	(2)	(6)	(23)
Write-down of intangible assets	–	–	–	631
Finance cost	10	17	30	44
Total other income	(97)	(81)	(422)	(1,136)
Financial performance before government funding	139,861	143,596	407,389	417,242
Government funding				
Parliamentary appropriations for operating expenses (note 11)	119,217	121,271	348,826	352,295
Amortization of deferred government funding related to capital (note 11)	19,306	22,101	53,953	64,317
Total government funding	138,523	143,372	402,779	416,612
Financial performance and total comprehensive loss	$ (1,338)	$ (224)	$ (4,610)	$ (630)

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:

		Retained Earnings (Accumulated deficit) (restated – note 19)
Balance, September 30, 2011	$	107
Financial performance and total comprehensive loss		(224)
Balance, December 31, 2011	$	(117)
Balance, September 30, 2012	$	(30,721)
Financial performance and total comprehensive loss		(1,338)
Balance, December 31, 2012	$	(32,059)

For the nine months ended December 31:

		Retained Earnings (Accumulated deficit) (restated – note 19)
Balance, March 31, 2011	$	513
Financial performance and total comprehensive loss		(630)
Balance, December 31, 2011	$	(117)
Balance, March 31, 2012	$	(27,449)
Financial performance and total comprehensive loss		(4,610)
Balance, December 31, 2012	$	(32,059)

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 December 31		Nine months ended December 31	
	2012	2011 (restated - note 19)	2012	2011 (restated - note 19)
Cash flows provided by (used in):				
Operating activities				
Financial performance	$ (1,338)	$ (224)	$ (4,610)	$ (630)
Items not involving cash				
Depreciation of property and equipment (note 13)	17,907	20,777	49,618	61,381
Amortization of intangible assets (note 13)	1,407	1,262	4,309	3,502
Net increase (decrease) in employee benefits	304	(232)	3,094	(169)
Unwinding of discount on decommissioning liabilities (note 10)	10	12	30	38
Write-down of intangible assets	–	–	–	631
Amortization of deferred government funding related to capital	(19,306)	(22,101)	(53,953)	(64,317)
Increase (decrease) in deferred lease incentives	(47)	(40)	(138)	29
Gain on disposal of property and equipment	(7)	(46)	(83)	(1,500)
Gain on settlement of decommissioning liabilities	–	(2)	(6)	(23)
Net change in non-cash working capital balances (note 17)	(14,783)	11,506	1,239	67,400
	(15,853)	10,912	(500)	66,342
Investing activities				
Parliamentary appropriations received for capital funding	4,000	4,500	26,137	27,327
Purchase of property and equipment	(4,031)	(684)	(27,240)	(20,829)
Purchase of intangible assets	(601)	(685)	(1,290)	(2,547)
	(632)	3,131	(2,393)	3,951
Increase (decrease) in cash	(16,485)	14,043	(2,893)	70,293
Cash, beginning of period	19,499	63,585	5,907	7,335
Cash, end of period	$ 3,014	$ 77,628	$ 3,014	$ 77,628

Supplementary cash flow information (note 17)

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

1. Authority, mandate and programs

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

CATSA's mandate is to deliver effective and efficient screening of individuals and their baggage before accessing aircraft or restricted areas through screening points at designated airports within Canada. CATSA is also responsible for ensuring consistency in the delivery of screening activities in the public interest and has four mandated activities:

1. Pre-Board Screening (PBS) – the screening of passengers, their carry-on baggage and their personal belongings;
2. Hold Baggage Screening (HBS) – the screening of checked baggage;
3. Non-Passenger Screening (NPS) – the screening of non-passengers on a random basis; and
4. Restricted Area Identity Card (RAIC) Program – the administration of access control to airport restricted areas through biometric identifiers.

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.

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 International Financial Reporting Standards (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, 2012.

3. Summary of significant accounting policies

(a) Basis of measurement

These interim financial statements were prepared under the historical cost convention except for employee benefits which are recognized as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

(b) Use of estimates and judgments

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next three months are:

- note 3(d)(f)(g), note 7 and note 9 – Property and equipment and intangible assets
  Key estimates used for property and equipment and intangible assets include the useful lives of assets and valuation of work-in-progress.

- note 3(e) and note 8 – Equipment held for sale
  The key estimate used for equipment held for sale is the fair value of the asset less costs to sell.

- note 3(k)(i) and note 10(a) – Decommissioning liabilities
  Key estimates used for decommissioning liabilities include the rate of inflation, the expected years to settlement and market risk premiums for unforeseeable circumstances.

- note 3(j) and note 12 – Employee benefits
  Key estimates used for employee benefits include expected rates of return, discount rates, inflation and the long-term rate of compensation increase.

Underlying assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements are:

- note 3(f) and note 9 – Intangible assets
  Judgments are required in determining when internally generated intangible assets enter the development phase.

- note 3(k)(ii), note 10(b) and note 18 – Disputed claims
  Judgments are required in assessing the probability of disputed claims resulting in settlement.

3. Summary of significant accounting policies (continued)

(b) Use of estimates and judgments (continued)

- note 3(k), note 10(b) and note 18 – Provisions and contingent liabilities
  Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability that a claim will result in an outflow of future economic benefits.

(c) Inventories

Inventories consist of spare parts acquired for equipment maintenance, RAIC and screening officer uniforms. Inventories are stated at the lower of cost and net realizable value. Cost is determined using a weighted average cost formula and net realizable value is defined as replacement cost.

(d) Property and equipment

Property and equipment consists of screening equipment, RAIC equipment, computers, integrated software and electronic equipment, office furniture and equipment, leasehold improvements and work-in-progress.

(i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress, which is recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition and installation of the assets, including integration costs related to the installation of the assets at the airports to ensure they are in a condition necessary for their intended use, and decommissioning costs associated with the disposal of certain screening equipment (note 3(k)(i)).

Work-in-progress includes costs relating to integration projects that remain incomplete at period-end. The valuation of work-in-progress at period-end is determined based on estimates performed by independent engineers or management, depending on management's assessment of risk.

When significant parts of an item of property and equipment have different useful lives, they are depreciated separately.

Gains and losses on disposal of an item of property and equipment are determined by comparing proceeds with the carrying amount and are recognized in financial performance for the period.

3. Summary of significant accounting policies (continued)

(d) Property and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

Asset	Useful life
PBS equipment	3-10 years
HBS equipment	7-10 years
NPS equipment	7-10 years
RAIC equipment	3-7 years
Computers, integrated software and electronic equipment	3 years
Office furniture and equipment	5 years

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

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date.

(e) Equipment held for sale

Equipment held for sale consists of screening equipment for which its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Equipment held for sale is measured at the lower of carrying value and fair value less costs to sell. Prior to the initial classification of the equipment as held for sale, the carrying amount of the assets are measured in accordance with 3(d)(i),(ii) and (iii) as noted. An impairment loss upon initial and subsequent write-down of the asset is recognized in financial performance.

Depreciation is not recorded while an asset is classified as held for sale.

(f) Intangible assets

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

3. Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

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

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

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

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

(g) Impairment

At the end of each reporting period, CATSA reviews its property and equipment and intangible assets to determine whether there is any indication of impairment.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash inflows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. CATSA does not generate cash inflows from the use of its assets, as its operations are funded by Government appropriations on a break-even basis. Therefore, value in use will always be zero. Furthermore, there is no active market for most of CATSA's major assets due to their specialized nature. As a result, fair value less costs to sell cannot be reliably estimated.

3. Summary of significant accounting policies (continued)

(g) Impairment (continued)

As the recoverable amount of an asset cannot be determined, the estimated useful lives of CATSA's assets are reviewed at the end of each reporting period when an indication of impairment is observed. Any changes in estimated useful lives are recorded on a prospective basis in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

(h) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Expenses incurred under operating leases are recognized in financial performance on a straight-line basis over the term of the lease.

(i) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets are comprised of cash. Trade and other receivables are not classified as non-derivative financial assets because they are not contractual rights but rather created as a result of statutory requirements imposed by federal and provincial governments.

CATSA classifies non-derivative financial assets into the category of loans and receivables. These financial assets are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities are comprised of trade and other payables. Non-derivative financial liabilities are recognized initially on the trade date at which CATSA becomes a party to the contractual provisions of the instrument.

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

CATSA classifies non-derivative liabilities into the category of financial liabilities measured at amortized cost. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

3. Summary of significant accounting policies (continued)

(j) Employee benefits

(i) Post-employment benefit plans

CATSA maintains two funded defined benefit pension plans to provide retirement benefits to its employees. These include a registered pension plan and a supplementary retirement plan. CATSA also sponsors an unfunded post-employment benefits plan, the Other Defined Benefits Plan, which includes life insurance and eligible health and dental benefits. Pension benefits are based on the average of the best five consecutive years of pensionable salary and are indexed to the rate of inflation. Employees are required to contribute a percentage of their pensionable salary to the pension plans, with CATSA providing the balance of funding, as required, based on actuarial valuations, with payments being made monthly.

CATSA's net position in respect of these three plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The future benefit is then discounted to determine its present value. To the extent applicable, the fair value of any plan assets and any unrecognized past service costs are deducted from the present value of the future benefit. The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of CATSA's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to CATSA, the recognized asset is limited to the total of any unrecognized past service costs and the present value of the economic benefits in the form of any future refunds from the plans or reductions in future contributions to the plans. In order to calculate the present value of the economic benefits, consideration is given to minimum funding requirements that apply to any plan. An economic benefit is available to CATSA if it is realizable during the life of the plan, or on settlement of the plan liabilities.

On a quarterly basis, CATSA's net asset or liability for each plan 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.

3. Summary of significant accounting policies (continued)

(j) Employee benefits (continued)

(i) Post-employment benefit plans (continued)

When past service costs arise from plan improvements, the portion of the increased benefit relating to past service is recognized in financial performance on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in financial performance for the period.

CATSA recognizes all actuarial gains and losses from post-employment benefits plans in other comprehensive income. Expenses related to post-employment benefits plans are recognized as employee costs in determining financial performance for the period.

CATSA recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

(ii) Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. CATSA recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

(iii) Short-term employee benefits

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

3. Summary of significant accounting policies (continued)

(k) Provisions

A provision is recognized if, as a result of a past event, CATSA has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Decommissioning liabilities

CATSA recognizes a provision for future decommissioning liabilities associated with the cost of disposing certain screening equipment in an environmentally responsible manner, and the cost to restore leased premises to an agreed upon standard at the end of the lease. In the period of acquisition of the screening equipment or upon signing of the facilities lease, the decommissioning liability is calculated based on an estimate of the discounted future cash outflows. The decommissioning liability is capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

The decommissioning liability is reviewed each reporting period to consider changes in the estimated outflow of resources embodying the economic benefit required to settle the obligation, changes in the current market-based discount rate (which includes changes in the time value of money and the risks specific to the liability) and increases that reflect the passage of time. The effect of a change in estimate is recognized prospectively and depreciated over the remaining lives of the assets to which they relate.

The unwinding of the discount is recognized as a finance cost, while changes resulting from the timing or amount of the initial estimate of future cash flows or market-based discount rate are recognized in the related decommissioning liability and carrying amount of the related asset.

(ii) Disputed claims

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

3. Summary of significant accounting policies (continued)

(k) Provisions (continued)

(iii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by CATSA from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, CATSA recognizes any impairment loss on the assets associated with that contract.

(l) Government funding

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Parliamentary appropriations are accounted for as Government of Canada grants and are recognized in financial performance on a systematic basis over the periods in which CATSA recognizes as expenses the related costs for which the grants are intended to compensate. Parliamentary appropriations are not recognized in financial performance for the period until there is reasonable assurance that CATSA will comply with the conditions attached to them and that the grants will be received.

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

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

Unused parliamentary appropriations at year-end are lapsed.

(m) Finance income

Finance income is comprised primarily of interest income derived from cash balances and is recognized in financial performance in the period it is earned.

(n) Finance cost

Finance cost is comprised primarily of the unwinding of the discount on the provision for decommissioning liabilities and is recognized in financial performance in the period it is incurred.

3. Summary of significant accounting policies (continued)

(o) Deferred lease incentives

Lease incentives represent a rent-free period of common area costs as well as a period of significantly reduced rent related to leased premises. The lease incentives are deferred and recognized as part of operating lease expenses in financial performance on a straight-line basis over the term of the lease, which expires on November 30, 2017.

(p) Foreign currency translation

Foreign currency transactions are translated using exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation, using period-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognized in financial performance for the period. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates the assets are acquired or the obligations are incurred.

(q) Future accounting changes

Certain new accounting standards and amendments have been published which are not required to be adopted for the current reporting period. CATSA does not intend to adopt the new standards prior to their effective dates. As at the date of these condensed interim financial statements, the following applicable standards and amendments have been issued but are not yet effective. Based upon current facts and circumstances, CATSA does not expect to be materially impacted by their application:

- IAS 1, *Presentation of Financial Statements*, was amended to require items in other comprehensive income to be classified by nature, and grouped into those that will not be reclassified subsequently to financial performance, and those that will be reclassified subsequently to financial performance when specific conditions are met. The amendment is effective for annual periods beginning on or after July 1, 2012;
- IAS 19, *Employee Benefits*, was amended to eliminate the option to defer the recognition of actuarial gains and losses, modify the presentation of changes in defined benefit obligations and plan assets in the Statement of Comprehensive Income, require net interest to be calculated by using a high quality corporate bond yield, as well as to improve disclosure about the risks arising from defined benefit plans.

  The amendment that is expected to have the most significant impact on CATSA's financial statements is the use of the high quality corporate bond yield (discount rate) to calculate the income on the plan assets, as opposed to the expected long-term rate of return under the existing standard. The expected long-term rate of return on plan assets assumption will no longer be used for defined benefit plan measurement purposes.

3. Summary of significant accounting policies (continued)

(q) Future accounting changes (continued)

CATSA anticipates that the expected long-term rate of return on plan assets will exceed the discount rate. The relative effect of the amended standard, therefore, is expected to be a decrease in financial performance. The variation, if any, between the actual rate of return on defined benefits plan assets and the discount rate, will be recognized in other comprehensive income as a re-measurement. The amendment is effective for annual periods beginning on or after January 1, 2013.

- IAS 32, *Financial Instruments Presentation*, was amended to provide further guidance to the criteria for offsetting financial assets and financial liabilities and presenting the net amount in the Statement of Financial Position. The amendment is effective for annual periods beginning on or after January 1, 2014;
- IFRS 7, *Financial Instruments Disclosures*, was amended to include specific disclosure requirements for financial assets and financial liabilities that are offset and presented on a net basis in the Statement of Financial Position. The amendment is effective for annual periods beginning on or after January 1, 2013;
- IFRS 9, *Financial Instruments*, was issued to deal with classification and measurement requirements for financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2015; and
- IFRS 13, *Fair Value Measurement*, was issued to provide a single source for guidance on measuring and disclosing fair values, clarify the definition of fair value and how it is determined, and mandate disclosures over fair value measurements. The standard is effective for annual periods beginning on or after January 1, 2013.

4. Financial instruments

As part of its operations, CATSA enters into transactions with financial risks exposure such as market and liquidity risks.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CATSA's key market risk relates to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from trade and other payables denominated in a currency other than the Canadian dollar, which is the functional currency of CATSA. Although management monitors exposure to fluctuations in foreign exchange rates, it does not employ external hedging strategies to offset the impact of these fluctuations.

(In thousands of Canadian dollars)

4. Financial instruments (continued)

(a) Market risk (continued)

The following table provides the trade and other payables denominated in the United States dollar (USD) and the Canadian dollar (CAD) equivalent:

	USD	CAD
December 31, 2012	$ 2,901	$ 2,888
March 31, 2012	4,217	4,206

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. CATSA manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows for operations and anticipated investing and funding activities. The liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada.

Trade and other payables and the current portion of provisions represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of these financial liabilities:

	Less than 3 months	3 to less than 6 months	6 months to 1 year	Total
December 31, 2012	$ 51,951	$ 2,512	$ 694	$ 55,157
March 31, 2012	80,332	676	2,423	83,431

(In thousands of Canadian dollars)

5. Trade and other receivables

Trade and other receivables are comprised of:

	December 31, 2012	March 31, 2012
Parliamentary appropriations	$ 35,156	$ 59,569
GST and HST recoverable	17,381	16,648
PST recoverable	2,015	1,188
Other	602	84
	$ 55,154	$ 77,489

6. Inventories

Inventories are comprised of:

	December 31, 2012	March 31, 2012
Spare parts	$ 15,577	$ 17,533
RAIC	498	340
Uniforms	322	1,062
	$ 16,397	$ 18,935

(In thousands of Canadian dollars)

7. 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, 2012	$ 127,137	$ 658,389	$ 5,429	$ 6,511	$ 25,363	$ 637	$ 12,779	$ 10,401	$ 846,646
Additions	(5)	429	–	(63)	134	–	–	16,186	16,681
Disposals	(4,419)	(3,601)	(16)	(11)	(716)	(7)	–	(61)	(8,831)
Reclassifications	1,041	653	–	–	965	–	–	(2,659)	–
Revisions to decommissioning liabilities estimates	(6)	(7)	(1)	–	–	–	(2)	–	(16)
Balance, December 31, 2012	$ 123,748	$ 655,863	$ 5,412	$ 6,437	$ 25,746	$ 630	$ 12,777	$ 23,867	$ 854,480
Accumulated depreciation									
Balance, March 31, 2012	$ 60,276	$ 456,553	$ 2,307	$ 3,885	$ 15,250	$ 557	$ 9,656	$ –	$ 548,484
Depreciation	6,584	35,578	298	731	5,001	61	1,365	–	49,618
Disposals	(4,395)	(3,538)	(16)	(8)	(714)	(7)	–	–	(8,678)
Balance, December 31, 2012	$ 62,465	$ 488,593	$ 2,589	$ 4,608	$ 19,537	$ 611	$ 11,021	$ –	$ 589,424
Carrying amounts									
At March 31, 2012	$ 66,861	$ 201,836	$ 3,122	$ 2,626	$ 10,113	$ 80	$ 3,123	$ 10,401	$ 298,162
At December 31, 2012	61,283	167,270	2,823	1,829	6,209	19	1,756	23,867	265,056

(In thousands of Canadian dollars)

8. Equipment held for sale

A reconciliation of equipment held for sale is as follows:

	December 31, 2012	March 31, 2012
Balance, beginning of period	$ 540	$ –
Reclassification from property and equipment	–	540
Disposals	(540)	–
Balance, end of period	$ –	$ 540

9. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2012	$ 5,177	$ 19,680	$ 722	$ 25,579
Additions	104	614	572	1,290
Disposals	(39)	–	–	(39)
Reclassifications	475	141	(616)	–
Balance, December 31, 2012	$ 5,717	$ 20,435	$ 678	$ 26,830
Accumulated amortization				
Balance, March 31, 2012	$ 4,113	$ 9,577	$ –	$ 13,690
Amortization	608	3,701	–	4,309
Disposals	(39)	–	–	(39)
Balance, December 31, 2012	$ 4,682	$ 13,278	$ –	$ 17,960
Carrying amounts				
At March 31, 2012	$ 1,064	$ 10,103	$ 722	$ 11,889
At December 31, 2012	1,035	7,157	678	8,870

(In thousands of Canadian dollars)

10. Provisions

Provisions are comprised of:

	December 31, 2012	March 31, 2012
Decommissioning liabilities	$ 2,323	$ 2,304
Disputed claims	907	2,203
	3,230	4,507
Less current portion	(907)	(2,203)
Non-current portion	$ 2,323	$ 2,304

(a) Decommissioning liabilities

In determining the carrying value of the decommissioning liabilities associated with certain screening equipment and lease agreements, management has applied certain assumptions which are disclosed in note 10 of the audited annual financial statements for the fiscal year ended March 31, 2012.

A reconciliation of the decommissioning liability is as follows:

	December 31, 2012	March 31, 2012
Balance, beginning of period	$ 2,304	$ 2,174
Revision in estimated cash flows including change in discount rate	(16)	121
Gain on settlement of liabilities	(6)	(76)
Unwinding of discount	30	50
Additional provision due to property and equipment acquired during the period	11	35
Balance, end of period	$ 2,323	$ 2,304

(In thousands of Canadian dollars)

10. Provisions (continued)

(b) Disputed claims

Management has accrued a provision for disputed claims as a result of CATSA receiving claims from various parties requesting monetary compensation. A provision has been recognized on the basis that management believes a present legal or constructive obligation exists and it is probable the claim will be settled. The provision was established by management taking into account legal assessments, information presently available and other recourse. The timing of the cash outflows associated with the disputed claims cannot be reasonably determined. As a result, the total amount of the provision was classified as a current liability and the expected future cash flows have not been discounted.

A reconciliation of the provision for disputed claims is as follows:

	December 31, 2012	March 31, 2012
Balance, beginning of period	$ 2,203	$ 18
Additional provision made in the period	490	2,203
Proceeds paid out in settlement	(1,570)	–
Provision released in the period	(216)	(18)
Balance, end of period	$ 907	$ 2,203

(c) Onerous contracts

No onerous contracts have been identified during the three and nine months ended December 31, 2012 and the year ended March 31, 2012.

(In thousands of Canadian dollars)

11. Deferred government funding

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

	December 31, 2012	March 31, 2012
Deferred government funding related to operating		
Balance, beginning of period	$ 23,100	$ 25,140
Parliamentary appropriations billed	346,731	486,431
Parliamentary appropriations recognized as government funding for operating expenses	(348,826)	(488,471)
Balance, end of period	21,005	23,100
Deferred government funding related to capital		
Balance, beginning of period	$ 310,120	$ 382,911
Parliamentary appropriations billed	19,425	23,138
Amortization of deferred government funding related to capital	(53,953)	(95,929)
Balance, end of period	275,592	310,120
Total deferred government funding, end of period	$ 296,597	$ 333,220

12. Employee benefits

The following table provides the expense and contributions relating to the registered pension plan (RPP), the supplementary retirement plan (SRP) and the Other Defined Benefits Plan (ODBP) for the three and nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2012	2011	2012	2011
Expense				
RPP	$ 2,287	$ 996	$ 6,860	$ 2,988
SRP	61	45	182	135
ODBP	577	397	1,732	1,191
	$ 2,925	$ 1,438	$ 8,774	$ 4,314
Contributions				
RPP	$ 2,588	$ 1,637	$ 5,585	$ 4,391
SRP	1	4	1	4
ODBP	32	29	94	88
	$ 2,621	$ 1,670	$ 5,680	$ 4,483

(In thousands of Canadian dollars)

12. Employee benefits (continued)

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, 2012.

13. Expenses

CATSA conducts its operations using a functional organizational structure. The Statement of Comprehensive Income presents operating expenses by mandated activity. The following table presents operating expenses by major expense type for the three and nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2012	2011	2012	2011
Screening services and other related costs				
Payments to screening contractors	$ 86,159	$ 89,422	$ 258,361	$ 259,740
Uniforms and other screening costs	1,103	1,209	2,843	3,608
Trace and consumables	423	434	1,308	1,433
	87,685	91,065	262,512	264,781
Direct administrative costs and corporate services				
Employee costs	14,440	13,421	42,023	41,221
Operating leases	1,678	1,460	4,824	4,673
Other administrative costs	1,471	1,823	4,421	4,836
Professional services and other business related costs	1,372	1,701	3,404	4,729
Office and computer expenses	1,100	875	2,775	2,556
Communications	277	488	680	804
	20,338	19,768	58,127	58,819
Depreciation and amortization				
Depreciation of property and equipment	17,907	20,777	49,618	61,381
Amortization of intangible assets	1,407	1,262	4,309	3,502
	19,314	22,039	53,927	64,883
Equipment operating and maintenance				
Equipment maintenance and spare parts	12,282	10,413	32,368	28,623
RAIC	237	159	611	577
Training and certification	102	233	266	695
	12,621	10,805	33,245	29,895
	$ 139,958	$ 143,677	$ 407,811	$ 418,378

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.

(In thousands of Canadian dollars)

14. Government funding

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

	2012	2011
Parliamentary appropriations approved for the fiscal year	$ 557,001	$ 519,224
Parliamentary appropriations used for operating expenditures	(344,187)	(349,241)
Parliamentary appropriations used for capital expenditures	(17,313)	(10,843)
Unused parliamentary appropriations	$ 195,501	$ 159,140

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 December 31		Nine months ended December 31	
	2012	2011	2012	2011
Parliamentary appropriations received and receivable	$143,731	$119,503	$396,162	$421,859
Amounts received related to prior periods	(28,458)	(11,079)	(49,431)	(33,856)
Amounts to be billed (used) in future periods	1,800	12,157	(2,544)	(38,762)
Parliamentary appropriations used for operating expenses	$117,073	$120,581	$344,187	$349,241

Parliamentary appropriations related to operating expenses to be used in future periods are a result of CATSA receiving funds in advance of billings and forecasted expenditures exceeding actual operating expenditures. These amounts are expected to be used and recognized in financial performance for the period 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:

	Three months ended December 31		Nine months ended December 31	
	2012	2011	2012	2011
Parliamentary appropriations received and receivable	$ 7,425	$ 10,159	$ 29,562	$ 32,986
Amounts received related to prior periods	(3,331)	–	(10,137)	(18,327)
Amounts to be billed (used) in future periods	666	(4,748)	(2,112)	(3,816)
Parliamentary appropriations used for capital expenditures	$ 4,760	$ 5,411	$ 17,313	$ 10,843

(In thousands of Canadian dollars)

14. Government funding (continued)

Parliamentary appropriations related to capital expenditures to be used in future periods are a result of CATSA receiving funds in advance of billings, forecasted expenditures exceeding actual capital expenditures and CATSA disposing of certain assets which generated proceeds that were used to finance capital expenditures during the period. These amounts are expected to be used within the next fiscal quarter.

15. 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, 2012	March 31, 2012
No later than 1 year	$ 8,087	$ 10,634
Later than 1 year and no later than 5 years	21,599	20,739
Later than 5 years	796	3,923

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

There are decommissioning liabilities associated with the operating lease for the office space at headquarters that represent the cost required to restore the premises to an agreed upon standard.

(In thousands of Canadian dollars)

15. Commitments (continued)

(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 the minimum commitments under these contractual obligations:

	December 31, 2012	March 31, 2012
No later than 1 year	$ 576,438	$ 500,055
Later than 1 year and no later than 5 years	1,335,601	1,654,648
Later than 5 years	19,897	26,235

16. Capital management

As a federal Crown corporation, CATSA is subject to the *Financial Administration Act* which, in general, restricts it from borrowing money. As a result, CATSA relies upon appropriations from Parliament to support its financial obligations and strategic requirements.

The primary objective in managing capital is to provide sufficient liquidity to support CATSA's financial obligations and its operating and strategic plans. CATSA manages its capital in accordance with the Treasury Board of Canada Secretariat's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, in that appropriated funds are drawn from the Consolidated Revenue Fund for the purpose of meeting short-term funding requirements.

Capital is comprised of the following:

	December 31, 2012	March 31, 2012
Cash	$ 3,014	$ 5,907
Trade and other receivables	55,154	77,489
Trade and other payables	(54,250)	(81,228)
Current portion of provisions	(907)	(2,203)
Parliamentary appropriations to be used in future periods	(4,655)	–
	$ (1,644)	$ (35)

CATSA's objectives, policies, and processes for managing capital have not changed since March 31, 2012. CATSA is not subject to externally imposed capital requirements.

(In thousands of Canadian dollars)

17. 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	
	2012	2011 (restated - note 19)	2012	2011 (restated - note 19)
Decrease (increase) in trade and other receivables	$ (10,033)	$ (3,873)	$ 16,163	$ 20,467
Decrease in inventories	1,721	278	2,666	1,388
Decrease in prepaid expenses	428	430	2,101	1,683
Increase (decrease) in trade and other payables	(3,104)	27,519	(16,300)	8,154
Increase (decrease) in current portion of provisions	149	–	(1,296)	–
Increase (decrease) in deferred government funding related to operating	(3,944)	(12,848)	(2,095)	35,708
	$ (14,783)	$ 11,506	$ 1,239	$ 67,400

Interest income received and recognized during the three and nine months ended December 31, 2012 totalled $125 (2011 – $165) and $344 (2011 – $406), respectively.

Interest expense paid and expensed during the three and nine months ended December 31, 2012 totalled Nil (2011 – $5) and Nil (2011 – $7), respectively.

For the three and nine months ended December 31, 2012, the change in trade and other receivables excludes amounts of $94 (2011 – $6,495) and $6,712 (2011 – $12,668), respectively, in relation to government funding related to capital. Furthermore, the change in trade and other receivables excludes amounts of Nil (2011 – $36) and $540 (2011 – $1,713), respectively, in relation to capital credit notes, as the amounts relate to investing activities.

For the three and nine months ended December 31, 2012, the change in inventories excludes amounts of $5 (2011 – $17) and $128 (2011 – $17), 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, 2012, the change in trade and other payables excludes amounts of $128 (2011 – $4,078) and $10,677 (2011 – $10,819), 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, 2012, CATSA received non-cash proceeds in the form of credit notes from a supplier, totalling Nil (2011 – Nil) and $540 (2011 – Nil), respectively, for the disposal of equipment held for sale, and $15 (2011 – $36) and $107 (2011 – $2,503), respectively, for the disposal of property and equipment.

18. Contingent liabilities

During 2011/12, CATSA was named as a defendant in a legal action claiming damages against multiple defendants. Management is of the opinion that there is a defense to the claim. No provision for losses has been recognized in the current year in relation to this matter. CATSA is unable to estimate when this claim will be resolved. CATSA has insurance which could reimburse a portion of the total amount claimed.

During 2010/11, CATSA was named as a defendant with the Attorney General of Canada in a legal action claiming damages. Although no amount has been included within the statement of claim, it is estimated the claim may be for several million dollars. Management is of the opinion that there is a strong defense against the claim. The likelihood of an outflow of economic benefits cannot be determined at this time. Accordingly, no provision for losses has been recognized in the current or prior year in relation to this matter. CATSA is unable to estimate when this claim will be resolved. CATSA has notified its insurers and the possibility of reimbursement cannot be determined at this time.

19. Restatement

CATSA's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles. CATSA issued its first annual financial statements in accordance with IFRS for the year ended March 31, 2012.

The condensed interim financial statements for the three and nine months ended December 31, 2011 were prepared in accordance with the accounting policies that CATSA expected to adopt in its March 31, 2012 annual financial statements. These accounting policies were not known with certainty at the time of preparing the condensed interim financial statements for the three and nine months ended December 31, 2011. Subsequent to the issuance of these condensed interim financial statements, the transition to IFRS resulted in an additional accounting policy change related to government funding. The adjustment is disclosed in note 20 of the audited annual financial statements for the year ended March 31, 2012. As a result, the comparative figures for the three and nine months ended December 31, 2011 have been restated accordingly.

The effect of the change in accounting policy is an increase to parliamentary appropriations for operating expenses for the three and nine months ended December 31, 2011 of $690 and $3,054, respectively, and an increase in retained earnings (accumulated deficit) as at April 1, 2011 and December 31, 2011 of $25,140 and $22,086, respectively.

20. Comparative figures

The presentation of expenses contained in note 13 has been revised to be consistent with CATSA's 2012/13 Corporate Plan. Specifically, equipment maintenance and spare parts have been aggregated, and other administrative costs have been disaggregated into other administrative costs, professional services and other business related costs, and office and computer expenses.

In addition, Pre-Board Screening and Hold Baggage Screening expenses have been presented separately in the Condensed Interim Statement of Comprehensive Income.