



Quarterly Financial Report

For the Three and Nine Months Ended
December 31, 2014



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2014**

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, 2014. 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, 2014, 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 annual financial statements for the year ended March 31, 2014, the Quarterly Financial Report for the three months ended June 30, 2014, and the Quarterly Financial Report for the three and six months ended September 30, 2014. The information in this report is expressed in thousands of Canadian dollars and is current to February 26, 2015, unless otherwise stated.

Forward-looking statements

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

Materiality

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

CORPORATE OVERVIEW

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

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

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

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

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since September 30, 2014.

PASSENGER GROWTH AND SCREENING CONTRACTOR BILLING RATES

CATSA's operating funding profile does not fully address rising passenger volumes and increases in screening contractor billing rates.

Statistics from CATSA's Boarding Pass Security System for the three-month period ended December 31, 2014 indicate that screened traffic increased by 5.8% over the same period in 2013. In addition, CATSA's purchasing power for screening hours has decreased as a result of annual contractual increases in screening contractor billing rates.

As a consequence, CATSA has witnessed longer wait times for passengers. It continues to work with Transport Canada to address the impact on operations and the travelling public.

ORGANIZATIONAL CHANGES

Lise Patry, Vice-President, Legal and Corporate Secretary, and Mario Malouin, Vice-President and Chief Financial Officer, left CATSA during the quarter. Chuck Gudgeon, Director, Procurement & Contracting, has assumed the position of Vice-President, Legal and Corporate Secretary on an interim basis and Omar Rashed, Director, Financial Operations, has assumed the position of Vice-President and Chief Financial Officer on an interim basis.

RISKS AND UNCERTAINTIES

There have been no significant changes to the corporate risk profile as previously disclosed in the *2014 Annual Report*.

QUARTERLY AND YEAR-TO-DATE FINANCIAL INFORMATION

The following table provides key highlights of the Statement of Comprehensive Income for the three and nine months ended December 31, 2014 and December 31, 2013:

Key Financial Highlights - Statement of Comprehensive Income	Three Months Ended				Nine Months Ended			
	December 31				December 31			
	2014	2013			2014	2013		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	\$ Change	% Change	(unaudited)	(unaudited)	\$ Change	% Change
Expenses¹								
Screening services and other related costs	\$ 102,658	\$ 89,259	\$ 13,399	15%	\$ 301,131	\$ 259,838	\$ 41,293	16%
Program support and corporate services	19,137	19,278	(141)	(1%)	56,701	57,833	(1,132)	(2%)
Depreciation and amortization	13,343	14,977	(1,634)	(11%)	41,397	46,603	(5,206)	(11%)
Equipment operating and maintenance	11,588	12,068	(480)	(4%)	35,233	33,434	1,799	5%
Total expenses	\$ 146,726	\$ 135,582	\$ 11,144	8%	\$ 434,462	\$ 397,708	\$ 36,754	9%
Total other expenses (income)	(252)	246	(498)	(202%)	(315)	1,215	(1,530)	(126%)
Financial performance before government funding	\$ 146,474	\$ 135,828	\$ 10,646	8%	\$ 434,147	\$ 398,923	\$ 35,224	9%
Government funding								
Parliamentary appropriations for operating expenses	\$ 131,687	\$ 118,922	\$ 12,765	11%	\$ 387,249	\$ 345,022	\$ 42,227	12%
Amortization of deferred government funding related to capital expenditures	13,350	15,102	(1,752)	(12%)	41,611	47,904	(6,293)	(13%)
Total government funding	\$ 145,037	\$ 134,024	\$ 11,013	8%	\$ 428,860	\$ 392,926	\$ 35,934	9%
Financial performance and total comprehensive loss	\$ (1,437)	\$ (1,804)	\$ 367	20%	\$ (5,287)	\$ (5,997)	\$ 710	12%

¹ The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense category, as disclosed in note 11 of the unaudited condensed interim financial statements for the three and nine months ended December 31, 2014.

The following table provides key highlights of the Statement of Financial Position as at December 31, 2014 and March 31, 2014:

Key Financial Highlights - Statement of Financial Position	December 31,		March 31,	
	2014	2014	2014	2014
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(audited)	(audited)
			\$ Change	% Change
Total assets	\$ 399,940	\$ 439,601	\$ (39,661)	(9%)
Total liabilities	\$ 414,357	\$ 448,731	\$ (34,374)	(8%)

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, 2014, compared to the same periods of the prior fiscal year.

Screening services and other related costs

Screening services and other related costs increased by \$13,399 (15%) and by \$41,293 (16%) for the three and nine months ended December 31, 2014 respectively, compared to the same periods in 2013. This is mainly attributable to an increase in screening hours purchased for the Enhanced NPS program, as disclosed in the *2014 Annual Report*.

The increase is also attributable to a higher number of screening hours purchased for PBS checkpoints. CATSA redirected funds from other program activities for the purchase of the additional screening hours, which helped reduce increases in passenger wait times at Canada's eight busiest airports.

In addition, annual contractual increases in screening contractor billing rates contributed to higher screening costs.

Depreciation and amortization

Depreciation and amortization decreased by \$1,634 (11%) and by \$5,206 (11%) for the three and nine months ended December 31, 2014, respectively, compared to the same periods in 2013. The decrease is primarily due to a revision of the estimated useful life of certain HBS equipment during fiscal year 2013/14. This equipment is being replaced in support of the multi-year, HBS life-cycle management program. The decrease is also due to certain computers, integrated software and electronic equipment becoming fully amortized.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by \$12,765 (11%) and by \$42,227 (12%) for the three and nine months ended December 31, 2014, respectively, compared to the same periods in 2013. The increase is primarily due to increased spending for screening services and other related costs, as previously discussed.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures decreased by \$1,752 (12%) and by \$6,293 (13%) for the three and nine months ended December 31, 2014, respectively, compared to the same periods in 2013. The decrease is primarily due to decreased depreciation and amortization, as previously discussed.

ANALYSIS OF FINANCIAL POSITION

The following section provides information on key variances within the Statement of Financial Position as at December 31, 2014, compared to March 31, 2014.

TOTAL ASSETS

Total assets decreased by \$39,661 (9%) primarily due to a decrease in trade and other receivables. This is mainly due to a decrease in parliamentary appropriations receivable, as a result of the timing of cash requests made to the Consolidated Revenue Fund, partially offset by an increase in recoverable sales taxes.

TOTAL LIABILITIES

Total liabilities decreased by \$34,374 (8%) primarily due to a decrease in trade and other payables. This is mainly due to the timing of disbursements associated with obligations outstanding with suppliers.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN SUMMARY

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

Reconciliation of Total Expenses to Operating Appropriations Used	Three Months Ended		Nine Months Ended	
	December 31		December 31	
	2014	2013	2014	2013
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total expenses	\$ 146,726	\$ 135,582	\$ 434,462	\$ 397,708
Finance income, finance cost, foreign exchange loss and miscellaneous income	(258)	120	(517)	(13)
Non-cash operating expenses				
Depreciation and amortization	(13,343)	(14,977)	(41,397)	(46,603)
Employee benefits expense ¹	(1,167)	(1,396)	(4,311)	(4,731)
Employee cost accruals ²	(333)	(463)	(1,163)	(1,434)
Spare parts expense funded from capital ³	(1)	-	(12)	(75)
Deferred lease incentives ⁴	63	56	187	170
Parliamentary appropriations for operating expenses	\$ 131,687	\$ 118,922	\$ 387,249	\$ 345,022
Other items affecting funding				
Net change in prepaids and inventories ⁵	(626)	(1,888)	(3,591)	(3,081)
Total operating appropriations used	\$ 131,061	\$ 117,034	\$ 383,658	\$ 341,941

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, 2014. These costs are funded by appropriations at year-end, creating a reconciling item.

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

⁴ Deferred lease incentives is a non-cash accounting adjustment to record the benefit derived from favourable lease terms, including significantly reduced rent and free common area costs. Rental costs are funded by appropriations when paid, creating a reconciling item.

⁵ Prepays 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 (Thousands of Canadian dollars)	Three Months Ended December 31		Nine Months Ended December 31	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Explosives Detection System	\$ 19,233	\$ 19,676	\$ 41,109	\$ 31,144
Non-Explosives Detection System	2,464	788	2,840	2,158
Total capital asset acquisitions	\$ 21,697	\$ 20,464	\$ 43,949	\$ 33,302
Proceeds on disposal of property and equipment	-	-	(23)	(16)
Total capital appropriations used	\$ 21,697	\$ 20,464	\$ 43,926	\$ 33,286

APPROPRIATIONS USED COMPARED TO CORPORATE PLAN SUMMARY

Parliamentary appropriations used for operating expenses are in line with the operating budget in the approved *2014/15 Corporate Plan Summary* for the nine months ended December 31, 2014.

Parliamentary appropriations used for capital expenditures for the nine months ended December 31, 2014 represent approximately 37% of the capital budget in the approved *2014/15 Corporate Plan Summary*, which is lower than planned. This is primarily due to delays in capital spending associated with the life-cycle management of HBS systems at certain airports, resulting from changes in airport project plans which are beyond CATSA's control.

CATSA is on track to meet the operating goals, objectives and financial results for the current year as outlined in the approved *2014/15 Corporate Plan Summary*, after considering the delays discussed above.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with the Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*, and for such internal controls as management determines are necessary to enable the preparation of condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed interim financial statements.

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



Angus Watt
President and Chief Executive Officer
Ottawa, Canada



Omar S. Rashed, CPA, CA
A/Vice-President and Chief Financial Officer
Ottawa, Canada

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Three and nine months ended December 31, 2014 and 2013

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2014	March 31, 2014
Assets		
Current assets		
Cash	\$ 7,968	\$ 6,191
Trade and other receivables (note 4)	75,247	112,640
Inventories (note 5)	15,066	17,065
Prepaid expenses	1,296	2,888
	<u>99,577</u>	<u>138,784</u>
Non-current assets		
Employee benefits (note 10)	5,251	8,020
Property and equipment (note 6)	292,833	288,040
Intangible assets (note 7)	2,279	4,757
	<u>300,363</u>	<u>300,817</u>
	<u>\$ 399,940</u>	<u>\$ 439,601</u>
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 84,043	\$ 118,831
Provisions (note 8)	335	-
Deferred government funding related to operating expenses (note 9)	16,362	19,953
	<u>100,740</u>	<u>138,784</u>
Non-current liabilities		
Deferred lease incentives	866	1,053
Deferred government funding related to capital expenditures (note 9)	295,112	292,797
Employee benefits (note 10)	17,639	16,097
	<u>313,617</u>	<u>309,947</u>
Equity		
Accumulated deficit	(14,417)	(9,130)
	<u>\$ 399,940</u>	<u>\$ 439,601</u>

Commitments (note 13) and contingent liabilities (note 15)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income

(Unaudited)

(In thousands of Canadian dollars)

	Three months ended		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
Expenses				
Pre-Board Screening	\$ 80,656	\$ 76,311	\$ 240,311	\$ 232,114
Hold Baggage Screening	35,212	34,701	106,619	103,310
Non-Passenger Screening	19,026	11,939	52,591	23,332
Corporate services	11,092	11,830	32,486	36,391
Restricted Area Identity Card Program	740	801	2,455	2,561
Total expenses (note 11)	146,726	135,582	434,462	397,708
Other expenses (income)				
Foreign exchange loss	226	253	216	342
Write-off of intangible assets (note 7)	-	-	148	521
Loss on property and equipment	6	125	54	705
Finance cost	-	1	1	2
Miscellaneous income	(384)	-	(384)	-
Finance income	(100)	(133)	(350)	(355)
Total other expenses (income)	(252)	246	(315)	1,215
Financial performance before government funding	146,474	135,828	434,147	398,923
Government funding				
Parliamentary appropriations for operating expenses (note 9)	131,687	118,922	387,249	345,022
Amortization of deferred government funding related to capital expenditures (note 9)	13,350	15,102	41,611	47,904
Total government funding	145,037	134,024	428,860	392,926
Financial performance and total comprehensive loss	\$ (1,437)	\$ (1,804)	\$ (5,287)	\$ (5,997)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended December 31:

	Accumulated deficit
Balance, September 30, 2013	\$ (22,665)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(1,804)
Balance, December 31, 2013	\$ (24,469)
Balance, September 30, 2014	\$ (12,980)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(1,437)
Balance, December 31, 2014	\$ (14,417)

For the nine months ended December 31:

	Accumulated deficit
Balance, March 31, 2013	\$ (18,472)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(5,997)
Balance, December 31, 2013	\$ (24,469)
Balance, March 31, 2014	\$ (9,130)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(5,287)
Balance, December 31, 2014	\$ (14,417)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Cash Flows
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
Cash flows provided by (used in)				
Operating activities				
Financial performance	\$ (1,437)	\$ (1,804)	\$ (5,287)	\$ (5,997)
Items not involving cash				
Depreciation of property and equipment (note 11)	12,599	13,941	38,969	42,951
Increase in net employee benefits liability	1,167	1,396	4,311	4,731
Amortization of intangible assets (note 11)	744	1,036	2,428	3,652
Write-off of intangible assets (note 7)	-	-	148	521
Loss on property and equipment	6	125	54	705
Other non-cash transactions	1	-	12	25
Amortization of deferred government funding related to capital expenditures (note 9)	(13,350)	(15,102)	(41,611)	(47,904)
Decrease in deferred lease incentives	(63)	(56)	(187)	(170)
Net change in non-cash working capital balances (note 14)	(17,735)	(1,807)	(7,811)	3,169
	(18,068)	(2,271)	(8,974)	1,683
Investing activities				
Parliamentary appropriations received for capital funding	30,000	11,000	82,239	27,398
Purchase of property and equipment	(8,028)	(7,899)	(71,390)	(24,877)
Purchase of intangible assets	(65)	(594)	(98)	(1,315)
	21,907	2,507	10,751	1,206
Increase in cash	3,839	236	1,777	2,889
Cash, beginning of period	4,129	11,729	6,191	9,076
Cash, end of period	\$ 7,968	\$ 11,965	\$ 7,968	\$ 11,965

Supplementary cash flow information (note 14)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three and nine months ended December 31, 2014 and 2013
(In thousands of Canadian dollars)

1. Authority, mandate and programs

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

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

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

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

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

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

2. Basis of preparation

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three and nine months ended December 31, 2014 and 2013
(In thousands of Canadian dollars)

The TBS Standard requires interim financial statements be prepared based on the recognition and measurement standards used in the preparation of the audited annual financial statements. Accordingly, the interim financial statements have been prepared based on recognition and measurement standards applicable under IFRS. The interim financial statements do not contain all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual and quarterly financial statements. They should be read in conjunction with the most recent audited annual financial statements and the narrative discussion included within the Quarterly Financial Report for the three and nine months ended December 31, 2014.

3. Summary of significant accounting policies

Significant accounting policies used in these condensed interim financial statements are disclosed in note 3 of CATSA's audited annual financial statements for the year ended March 31, 2014, except for the application of the new standards effective April 1, 2014 described in note 3(q) of the audited annual financial statements.

4. Trade and other receivables

Trade and other receivables are comprised of:

	December 31, 2014	March 31, 2014
Parliamentary appropriations	\$ 56,584	\$ 96,677
GST and HST recoverable	17,524	14,146
PST recoverable	952	1,741
Other	187	76
	<u>\$ 75,247</u>	<u>\$ 112,640</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three and nine months ended December 31, 2014 and 2013
(In thousands of Canadian dollars)

5. Inventories

Inventories are comprised of:

	December 31, 2014	March 31, 2014
Spare parts	\$ 14,526	\$ 15,381
RAIC	412	224
Uniforms	128	1,460
	<hr/>	<hr/>
	\$ 15,066	\$ 17,065

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three and nine months ended December 31, 2014 and 2013
(In thousands of Canadian dollars)

6. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equip- ment	Leasehold improve- ments	Work-in- progress	Total
Cost									
Balance,									
March 31, 2014	\$ 121,416	\$ 653,491	\$ 5,183	\$ 4,538	\$ 23,444	\$ 95	\$ 10,119	\$ 75,344	\$ 893,630
Additions	342	1,964	266	-	1,064	-	-	40,215	43,851
Disposals	(1,160)	(6,911)	-	-	-	-	-	-	(8,071)
Write-offs	(132)	(385)	-	(177)	(36)	-	(7)	-	(737)
Reclassifications	4,998	12,510	1,717	16	145	-	-	(19,386)	-
Balance,									
December 31, 2014	\$ 125,464	\$ 660,669	\$ 7,166	\$ 4,377	\$ 24,617	\$ 95	\$ 10,112	\$ 96,173	\$ 928,673
Accumulated depreciation									
Balance,									
March 31, 2014	\$ 63,353	\$ 506,994	\$ 2,841	\$ 3,270	\$ 19,976	\$ 95	\$ 9,061	\$ -	\$ 605,590
Depreciation	7,002	29,839	383	490	975	-	280	-	38,969
Disposals	(1,145)	(6,879)	-	-	-	-	-	-	(8,024)
Write-offs	(131)	(371)	-	(169)	(17)	-	(7)	-	(695)
Balance,									
December 31, 2014	\$ 69,079	\$ 529,583	\$ 3,224	\$ 3,591	\$ 20,934	\$ 95	\$ 9,334	\$ -	\$ 635,840
Carrying amounts									
As at March 31, 2014	\$ 58,063	\$ 146,497	\$ 2,342	\$ 1,268	\$ 3,468	\$ -	\$ 1,058	\$ 75,344	\$ 288,040
As at December 31, 2014	\$ 56,385	\$ 131,086	\$ 3,942	\$ 786	\$ 3,683	\$ -	\$ 778	\$ 96,173	\$ 292,833

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three and nine months ended December 31, 2014 and 2013
(In thousands of Canadian dollars)

7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2014	\$ 4,188	\$ 18,186	\$ 64	\$ 22,438
Additions	-	39	59	98
Write-offs	(417)	(224)	-	(641)
Reclassifications	-	64	(64)	-
Balance, December 31, 2014	\$ 3,771	\$ 18,065	\$ 59	\$ 21,895
Accumulated amortization				
Balance, March 31, 2014	\$ 2,872	\$ 14,809	\$ -	\$ 17,681
Amortization	494	1,934	-	2,428
Write-offs	(417)	(76)	-	(493)
Balance, December 31, 2014	\$ 2,949	\$ 16,667	\$ -	\$ 19,616
Carrying amounts				
At March 31, 2014	\$ 1,316	\$ 3,377	\$ 64	\$ 4,757
At December 31, 2014	\$ 822	\$ 1,398	\$ 59	\$ 2,279

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three and nine months ended December 31, 2014 and 2013
(In thousands of Canadian dollars)

8. Provisions

Management accrues provisions for disputed claims from various parties requesting monetary compensation. The provision recorded as at December 31, 2014 was established by management taking into account legal assessments, information presently available and other recourse. The amount was classified as current and the expected future cash flows were not discounted, as the timing of the cash outflows associated with the disputed claims could not be reasonably determined.

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

	December 31, 2014	March 31, 2014
Balance, beginning of period	\$ -	\$ -
Provision made in the period	335	-
<u>Balance, end of period</u>	<u>\$ 335</u>	<u>\$ -</u>

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9. Deferred government funding

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

	December 31, 2014	March 31, 2014
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 19,953	\$ 20,442
Parliamentary appropriations used to finance operating expenses	383,658	475,438
Parliamentary appropriations recognized as government funding for operating expenses	(387,249)	(475,927)
Balance, end of period	16,362	19,953
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 292,797	\$ 274,523
Parliamentary appropriations used to finance capital expenditures	43,926	81,239
Amortization of deferred government funding related to capital expenditures	(41,611)	(62,965)
Balance, end of period	295,112	292,797
Total deferred government funding, end of period	\$ 311,474	\$ 312,750

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10. Employee benefits

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

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

	Three months ended		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
Expense				
RPP	\$ 2,122	\$ 2,375	\$ 6,367	\$ 7,125
SRP	39	54	115	164
ODBP	558	622	1,673	1,866
	\$ 2,719	\$ 3,051	\$ 8,155	\$ 9,155
Contributions				
RPP	\$ 1,496	\$ 1,618	\$ 3,700	\$ 4,319
SRP	12	4	13	4
ODBP	44	33	131	101
	\$ 1,552	\$ 1,655	\$ 3,844	\$ 4,424

The current service cost and the benefit obligation of these plans are actuarially determined on an annual basis. The significant assumptions used to determine CATSA's obligations are disclosed in note 10 of the audited annual financial statements for the fiscal year ended March 31, 2014.

For the three and nine months ended December 31, 2014, CATSA recognized an expense in the amount of \$15 (2013 – \$11) and \$43 (2013 – \$14), respectively, in relation to the defined contribution component of the RPP.

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11. Expenses

The Statement of Comprehensive Income presents operating expenses by program activity. The following table presents operating expenses by major expense type for the three and nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
Screening services and other related costs				
Payments to screening contractors	\$ 101,300	\$ 87,734	\$ 296,546	\$ 255,590
Uniforms and other screening costs	913	1,112	3,159	2,993
Trace and consumables	445	413	1,426	1,255
	102,658	89,259	301,131	259,838
Program support and corporate services				
Employee costs	13,757	14,389	42,383	43,406
Operating leases	1,541	1,538	4,391	4,605
Office and computer expenses	1,236	1,033	3,281	2,974
Other costs	1,211	867	2,982	2,775
Professional services and other business related costs	1,090	1,163	2,905	3,435
Communications	302	288	759	638
	19,137	19,278	56,701	57,833
Depreciation and amortization				
Depreciation of property and equipment	12,599	13,941	38,969	42,951
Amortization of intangible assets	744	1,036	2,428	3,652
	13,343	14,977	41,397	46,603
Equipment operating and maintenance				
Equipment maintenance and spare parts	11,239	11,822	33,455	32,436
Training and certification	228	120	1,196	426
RAIC	121	126	582	572
	11,588	12,068	35,233	33,434
	\$ 146,726	\$ 135,582	\$ 434,462	\$ 397,708

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

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12. Government funding

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

	2014	2013
Parliamentary appropriations approved for the fiscal year	\$ 676,186	\$ 578,310
Re-profiled parliamentary appropriations to future years	-	(7,566)
Parliamentary appropriations used to finance operating expenses	(383,658)	(341,941)
Parliamentary appropriations used to finance capital expenditures	(43,926)	(33,286)
Unused parliamentary appropriations	\$ 248,602	\$ 195,517

The following table reconciles parliamentary appropriations for operating expenses that were received and receivable, to the amount of appropriations used during the three and nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
Parliamentary appropriations received and receivable	\$ 191,814	\$ 152,363	\$ 442,282	\$ 381,356
Amounts received and receivable related to prior periods	(59,597)	(34,907)	(55,438)	(36,287)
Amounts to be used in future periods	(1,156)	(422)	(3,186)	(3,128)
Parliamentary appropriations used to finance operating expenses	\$ 131,061	\$ 117,034	\$ 383,658	\$ 341,941

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

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The following table reconciles parliamentary appropriations related to capital expenditures that were received and receivable, to the amount of appropriations used during the three and nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
Parliamentary appropriations received and receivable	\$ 30,873	\$ 34,006	\$ 91,851	\$ 51,493
Amounts received and receivable related to prior periods	(11,229)	(5,822)	(41,239)	(9,398)
Amounts to be billed (used) in future periods	2,053	(7,720)	(6,686)	(8,809)
Parliamentary appropriations used to finance capital expenditures	\$ 21,697	\$ 20,464	\$ 43,926	\$ 33,286

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

13. Commitments

(a) Operating leases

CATSA is committed under non-cancellable 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, 2014	March 31, 2014
No later than 1 year	\$ 7,472	\$ 7,575
Later than 1 year and no later than 5 years	24,768	25,481
Later than 5 years	14,437	18,042

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CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters. The lease expires on November 30, 2017 and the option to renew for five additional years was exercised in the prior year. The renewal terms incorporated lease incentives not included in the original agreement, and an option to further extend the lease for an additional five years, subject to the same terms and conditions. There is no further right to extend after the expiry of the extension term and the future rent will be based on the prevailing market rate at that time.

(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 minimum commitments under these contractual obligations:

	December 31, 2014	March 31, 2014
No later than 1 year	\$ 585,481	\$ 552,815
Later than 1 year and no later than 5 years	811,580	1,113,254
Later than 5 years	4,645	9,197

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14. 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		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
Decrease (increase) in trade and other receivables	\$ 132	\$ (9,547)	\$ (920)	\$ (5,423)
Decrease in inventories	224	1,670	1,999	1,860
Decrease in prepaid expenses	402	218	1,592	1,271
Increase (decrease) in trade and other payables	(18,202)	7,740	(7,226)	8,542
Increase in current portion of provisions	335	-	335	-
Decrease in deferred government funding related to operating expenses	(626)	(1,888)	(3,591)	(3,081)
	\$ (17,735)	\$ (1,807)	\$ (7,811)	\$ 3,169

Interest income received and recognized during the three and nine months ended December 31, 2014 totalled \$99 (2013 – \$131) and \$349 (2013 – \$351), respectively.

Interest expense paid and expensed during the three and nine months ended December 31, 2014 totalled \$Nil (2013 – \$1) and \$1 (2013 – \$2), respectively.

For the three and nine months ended December 31, 2014, the change in trade and other receivables excludes amounts of \$8,303 (2013 – \$9,464) and \$38,313 (2013 – \$5,888) respectively, in relation to government funding for capital expenditures, as the amount relates to investing activities.

For the three and nine months ended December 31, 2014, the change in trade and other payables excludes amounts of \$13,604 (2013 – \$11,971) and \$27,562 (2013 – \$7,094), 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, 2014, CATSA received non-cash proceeds in the form of credit notes from a supplier, totalling \$Nil (2013 – \$Nil) and \$23 (2013 – \$16), respectively, related to the disposal of property and equipment. In addition, CATSA transferred spare parts from capital assets to inventory totalling \$1 (2013 – \$50) and \$12 (2013 – \$50), respectively.

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15. Contingent liabilities

During the three months ended December 31, 2014, the legal action that had commenced in 2011/12 claiming damages against CATSA and other defendants was dismissed without costs. With respect to the other outstanding legal action described in note 17 of the audited annual financial statements for the year ended March 31, 2014, there has been no material change during the three months ended December 31, 2014.