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, 2015

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2015

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, 2015. 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, 2015, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's 2015 Annual Report, the Quarterly Financial Report for the three months ended June 30, 2015, and the Quarterly Financial Report for the three and six months ended September 30, 2015. The information in this report is expressed in thousands of Canadian dollars and is current to February 24, 2016, unless otherwise stated.

Forward-looking statements

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

Materiality

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

CORPORATE OVERVIEW

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

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

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold Baggage Screening (HBS): the screening of checked baggage;

- Non-Passenger Screening (NPS): the 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.

With the support of Transport Canada, CATSA entered into a trial agreement with the Greater Toronto Airports Authority for the provision of supplemental screening services effective October 5, 2014. This agreement is set to expire on March 31, 2016.

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since September 30, 2015.

CHANGE IN REGULATION

The Government of Canada has announced new regulations to allow airports that do not have access to security screening services from CATSA to obtain them on a cost-recovery basis. The new regulations allow smaller, non-designated airports to invest in screening services in order to facilitate passenger connectivity through larger, designated airports, while enhancing the security of the aviation system in Canada. CATSA is working with Transport Canada to develop a feasible cost-recovery solution at these airports.

PASSENGER GROWTH AND SCREENING CONTRACTOR BILLING RATES

CATSA's operating reference levels do not accommodate screening contractor billing rate increases nor passenger growth. In 2015/16, CATSA received one-year incremental funding of $26,800 to deliver an average wait time service level of approximately 85% of passengers screened within 15 minutes at Canada's eight busiest airports[1]. CATSA is working with Transport Canada to seek interim funding for 2016/17 in order to address immediate wait time issues until an operationally effective long-term funding strategy is in place.

Statistics from CATSA's Boarding Pass Security System (BPSS) for the three months ended December 31, 2015, indicate that screened traffic across Canada increased by 2.5% over the same period in 2014.

RISKS AND UNCERTAINTIES

The Service Delivery through Third Party risk associated with legal labour disruptions of the unionized screening workforce is trending lower as the majority of the collective bargaining agreements negotiated between the unions and screening contractors have been ratified for Canada's 28 major airports. There have been no other significant changes to the corporate risk profile as previously disclosed in the *2015 Annual Report*.

[1] The incremental funding was determined using the assumption that passenger growth for 2015/16 will be 3.5%.

ANALYSIS OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income for the three and nine months ended December 31, 2015, and December 31, 2014.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income	Three Months Ended December 31				Nine Months Ended December 31			
	2015	2014			2015	2014		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	$ Change	% Change	(unaudited)	(unaudited)	$ Change	% Change
Expenses [1]								
Screening services and other related costs	$ 110,508	$ 102,658	$ 7,850	7.6%	$ 327,370	$ 301,131	$ 26,239	8.7%
Equipment operating and maintenance	8,361	11,588	(3,227)	(27.8%)	29,635	35,233	(5,598)	(15.9%)
Program support and corporate services	19,214	19,137	77	0.4%	57,990	56,701	1,289	2.3%
Depreciation and amortization	13,942	13,343	599	4.5%	41,334	41,397	(63)	(0.2%)
Total expenses	**$ 152,025**	**$ 146,726**	**$ 5,299**	**3.6%**	**$ 456,329**	**$ 434,462**	**$ 21,867**	**5.0%**
Total other expenses	**1,066**	**232**	**834**	**359.5%**	**1,600**	**419**	**1,181**	**281.9%**
Financial performance before revenue and government funding	**$ 153,091**	**$ 146,958**	**$ 6,133**	**4.2%**	**$ 457,929**	**$ 434,881**	**$ 23,048**	**5.3%**
Revenue	**$ 1,630**	**$ 484**	**$ 1,146**	**236.8%**	**3,060**	**734**	**$ 2,326**	**316.9%**
Government funding								
Parliamentary appropriations for operating expenses	$ 135,279	$ 131,687	$ 3,592	2.7%	$ 405,843	$ 387,249	$ 18,594	4.8%
Amortization of deferred government funding related to capital expenditures	13,986	13,350	636	4.8%	41,792	41,611	181	0.4%
Total government funding	**$ 149,265**	**$ 145,037**	**$ 4,228**	**2.9%**	**$ 447,635**	**$ 428,860**	**$ 18,775**	**4.4%**
Financial performance	**$ (2,196)**	**$ (1,437)**	**$ (759)**	**52.8%**	**$ (7,234)**	**$ (5,287)**	**$ (1,947)**	**36.8%**
Other comprehensive loss	**$ (6,115)**	**$ -**	**$ (6,115)**	**-**	**$ (2,907)**	**$ -**	**$ (2,907)**	**-**
Total comprehensive loss	**$ (8,311)**	**$ (1,437)**	**$ (6,874)**	**478.4%**	**$ (10,141)**	**$ (5,287)**	**$ (4,854)**	**91.8%**

[1] The Condensed Interim Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 10 of the unaudited condensed interim financial statements for the three and nine months ended December 31, 2015.

Screening services and other related costs

Screening services and other related costs increased by $7,850 (7.6%) and by $26,239 (8.7%) for the three and nine months ended December 31, 2015, respectively, compared to the same periods in 2014. The increases for the three and nine months are primarily due to an increase in the volume of screening hours purchased, coupled with annual contractual increases in screening contractor billing rates.

The increase in screening hours purchased is mainly attributable to the screening of vehicles entering restricted areas of the aerodrome at Canada's highest risk airports, which commenced in November 2014 as part of the Enhanced NPS program. The increase is also due to rising passenger volumes, as CATSA strives to meet its targeted wait time service levels at Canada's eight busiest airports. The remainder of the increase is primarily due to additional screening hours purchased as part of the trial agreement with the Greater Toronto Airports Authority for supplemental screening services, and to support the 3-level HBS system transition at certain airports.

Equipment operating and maintenance

Equipment operating and maintenance costs decreased by $3,227 (27.8%) and by $5,598 (15.9%) for the three and nine months ended December 31, 2015, respectively, compared to the same periods in 2014. The decreases for the three and nine month periods are primarily due to the termination of funding agreements for conveyor maintenance and support services at Canada's eight busiest airports, which took effect October 1, 2015 as part of the Strategic Operating Review. The decrease is also due to a reduction in spare parts usage and the in-sourcing of BPSS equipment maintenance services. The decreases are partially offset by higher costs for equipment maintenance contracts denominated in United States dollars, attributable to the weakening of the Canadian dollar in comparison to the prior year.

The decrease for the nine month period is also due to lower training requirements for equipment maintenance providers based on CATSA's capital deployment plan.

Program support and corporate services

Program support and corporate services increased by $77 (0.4%) and by $1,289 (2.3%) for the three and nine months ended December 31, 2015, respectively, compared to the same periods in 2014. The increases for the three and nine month periods are primarily due to higher costs associated with CATSA's post-employment benefit plans. This is attributable to a 75-basis point decrease in the year-over-year discount rate used to determine the current service cost. The increase is partially offset by a lower number of staffed positions.

The increase for the nine month period is also attributable to severance costs incurred as a result of workforce reductions as part of the Strategic Operating Review, partially offset by a decrease in other administrative costs.

Total other expenses

Total other expenses increased by $834 (359.5%) and by $1,181 (281.9%) for the three and nine months ended December 31, 2015, respectively, compared to the same periods in 2014. The increases for the three and nine month periods are primarily due to higher foreign exchange losses and higher losses on disposals of assets.

The increase for the nine month period is also due to higher impairment charges for property and equipment that are no longer in use, partially offset by a decrease in the write-off of intangible assets.

Revenue

Revenue increased by $1,146 (236.8%) and by $2,326 (316.9%) for the three and nine months ended December 31, 2015, respectively, compared to the same periods in 2014. The increases for the three and nine month periods are primarily due to the revenue generated from the trial agreement with the Greater Toronto Airports Authority for supplemental screening services, which commenced in October 2014.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by $3,592 (2.7%) and by $18,594 (4.8%) for the three and nine months ended December 31, 2015, respectively, compared to the same periods in 2014. The increases for the three and nine month periods are primarily due to increased spending for screening services and other related costs, partially offset by decreased spending for equipment operating and maintenance, as previously discussed.

Other comprehensive loss

Other comprehensive loss is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets. Other comprehensive loss increased by $6,115 for the three months ended December 31, 2015, compared to the same period in 2014. The increase is due to a remeasurement loss on the defined benefit liability arising from a decrease in the discount rate of 0.25% since September 30, 2015, which was partially offset by a remeasurement gain resulting from a higher return on plan assets than the rate used in CATSA's assumptions.

Other comprehensive loss increased by $2,907 for the nine months ended December 31, 2015, compared to the same period in 2014. The increase is due to a remeasurement loss resulting from a lower return on plan assets than the rate used in CATSA's assumptions, which was partially offset by a remeasurement gain on the defined benefit liability arising from an increase in the discount rate of 0.25% since March 31, 2015.

For more information, refer to note 9 of the condensed interim financial statements.

STATEMENT OF FINANCIAL POSITION

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at December 31, 2015, compared to March 31, 2015.

Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars)	**December 31, 2015** (unaudited)	**March 31, 2015** (audited)	$ Change	% Change
Current assets	$ 127,930	$ 123,123	$ 4,807	3.9%
Non-current assets	347,903	326,723	21,180	6.5%
Total assets	**$ 475,833**	**$ 449,846**	**$ 25,987**	**5.8%**
Current liabilities	$ 128,086	$ 121,623	$ 6,463	5.3%
Non-current liabilities	366,776	337,111	29,665	8.8%
Total liabilities	**$ 494,862**	**$ 458,734**	**$ 36,128**	**7.9%**

Assets

Current assets increased by $4,807 (3.9%) primarily due to the following:

- Increase in cash of $11,264 primarily due to the timing of disbursements to suppliers for goods and services;
- Decrease in trade and other receivables of $3,776 primarily due to a decrease in parliamentary appropriations receivable, offset by higher consumption taxes receivable and higher supplemental screening services receivable;
- Decrease in prepaids of $1,399 due to the amortization of annual insurance premiums and annual maintenance and support services; and
- Decrease in inventory of $1,282 primarily due to usage exceeding purchases of uniforms, RAIC cards and spare parts.

Non-current assets increased by $21,180 (6.5%) primarily due to the following:

- Increase in property and equipment and intangible assets of $29,074 primarily due to the acquisition and installation of property and equipment and intangible assets of $70,908, partially offset by depreciation and amortization of $41,334; and
- Decrease in employee benefits (comprised of CATSA's registered pension plan and supplementary retirement plan, which are both in a net asset position) of $7,894 due to the remeasurement of CATSA's defined benefit pension plans by $4,060, as previously described in the Analysis of Financial Results for Other Comprehensive Loss, and additional non-cash current benefit costs of $3,834.

Liabilities

Current liabilities increased by $6,463 (5.3%) primarily due to the following:

- Increase in trade and other payables of $9,479 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of $2,681 due to a reduction in inventories and prepaid expenses balances.

Non-current liabilities increased by $29,665 (8.8%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures by $29,074 due to parliamentary appropriations used of $70,866, exceeding amortization of $41,792; and
- Increase in employee benefits of $796 in relation to CATSA's other defined benefits plan due to additional non-cash current benefit costs of $1,949, partially offset by the remeasurement of CATSA's other defined benefits plan by $1,153, as previously described in the Analysis of Financial Results for Other Comprehensive Loss.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2015/16 – 2019/20 Corporate Plan* has not been tabled in Parliament at the time of publishing. Until it is tabled in Parliament and made public, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *Summary of the 2015/16 – 2019/20 Corporate Plan*.

PARLIAMENTARY APPROPRIATIONS USED

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

Reconciliation of Financial Performance to Operating Appropriations Used	**Three Months Ended December 31**		**Nine Months Ended December 31**	
	2015	**2014**	**2015**	**2014**
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	$ 153,091	$ 146,958	$ 457,929	$ 434,881
Revenue	(1,630)	(484)	(3,060)	(734)
Financial performance before government funding	151,461	146,474	454,869	434,147
Non-cash expenses				
Depreciation and amortization	(13,942)	(13,343)	(41,334)	(41,397)
Employee benefits expense [1]	(1,776)	(1,167)	(6,145)	(4,311)
Employee cost accruals [2]	(488)	(333)	(1,294)	(1,163)
Impairment of property and equipment	-	-	(292)	-
Loss on property and equipment	(32)	(6)	(141)	(54)
Spare parts expense funded from capital [3]	(12)	(1)	(25)	(12)
Deferred lease incentives [4]	68	63	205	187
Write-off of intangible assets	-	-	-	(148)
Parliamentary appropriations for operating expenses	**$ 135,279**	**$ 131,687**	**$ 405,843**	**$ 387,249**
Other items affecting funding				
Net change in prepaids and inventories [5]	173	(626)	(2,681)	(3,591)
Total operating appropriations used	**$ 135,452**	**$ 131,061**	**$ 403,162**	**$ 383,658**

[1] Employee benefits are accounted for in the Condensed Interim Statement of Comprehensive Income in accordance with IFRS. The reconciling item above represents the difference between cash payments for employee benefits and the accounting expense under IFRS.

[2] Employee cost accruals are accounting expenses to record variable pay and accrued vacation expenses incurred to December 31, 2015. These costs are funded by appropriations at year-end, creating a reconciling item during interim periods.

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

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

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

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

Reconciliation of Capital Acquisitions to Capital Appropriations Used	Three Months Ended December 31		Nine Months Ended December 31	
	2015	2014	2015	2014
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Explosives Detection System	$ 38,801	$ 19,233	$ 68,062	$ 41,109
Non-Explosives Detection System	1,731	2,464	2,846	2,840
Total capital asset acquisitions	**$ 40,532**	**$ 21,697**	**$ 70,908**	**$ 43,949**
Proceeds on disposal of property and equipment[1]	(36)	-	(42)	(23)
Total capital appropriations used	**$ 40,496**	**$ 21,697**	**$ 70,866**	**$ 43,926**

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

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 – *Interim Financial Reporting*, and for such internal controls as management determines are necessary to enable the preparation of condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed interim financial statements.

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

Angus Watt
President and Chief Executive Officer
Ottawa, Canada

February 24, 2016

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

February 24, 2016

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Three and nine months ended December 31, 2015 and 2014

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2015	March 31, 2015
Assets		
Current assets		
Cash	$ 19,245	$ 7,981
Trade and other receivables (note 3)	90,521	94,297
Inventories (note 4)	16,698	17,980
Prepaid expenses	1,466	2,865
	127,930	123,123
Non-current assets		
Employee benefits (note 9)	4,261	12,155
Property and equipment (note 5)	337,927	311,784
Intangible assets (note 6)	5,715	2,784
	347,903	326,723
	$ 475,833	$ 449,846
Liabilities and Equity		
Current liabilities		
Trade and other payables (note 12)	$ 109,922	$ 100,443
Provisions (note 7)	-	335
Deferred government funding related to operating expenses (note 8)	18,164	20,845
	128,086	121,623
Non-current liabilities		
Deferred lease incentives	593	798
Deferred government funding related to capital expenditures (note 8)	343,642	314,568
Employee benefits (note 9)	22,541	21,745
	366,776	337,111
Equity		
Accumulated deficit	(19,029)	(8,888)
	$ 475,833	$ 449,846

Contractual arrangements (note 13) and contingencies (note 7).

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	
	2015	2014	2015	2014
Expenses				
Pre-Board Screening	$ 83,986	$ 80,656	$ 250,377	$ 240,311
Hold Baggage Screening	35,004	35,212	108,625	106,619
Non-Passenger Screening	22,105	19,026	64,505	52,591
Restricted Area Identity Card Program	742	740	2,097	2,455
Corporate services	10,188	11,092	30,725	32,486
Total expenses (note 10)	152,025	146,726	456,329	434,462
Other expenses				
Foreign exchange loss	1,034	226	1,165	216
Impairment of property and equipment (note 5)	-	-	292	-
Loss on property and equipment (note 5)	32	6	141	54
Finance cost	-	-	2	1
Write-off of intangible assets (note 6)	-	-	-	148
Total other expenses	1,066	232	1,600	419
Financial performance before revenue and government funding	153,091	146,958	457,929	434,881
Revenue				
Supplemental screening services	1,506	384	2,576	384
Finance income	87	100	303	350
Miscellaneous income	37	-	181	-
Total revenue	1,630	484	3,060	734
Government funding				
Parliamentary appropriations for operating expenses (note 8)	135,279	131,687	405,843	387,249
Amortization of deferred government funding related to capital expenditures (note 8)	13,986	13,350	41,792	41,611
Total government funding	149,265	145,037	447,635	428,860
Financial performance	$ (2,196)	$ (1,437)	$ (7,234)	$ (5,287)
Other comprehensive loss				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	(6,115)	-	(2,907)	-
Total comprehensive loss	$ (8,311)	$ (1,437)	$ (10,141)	$ (5,287)

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, 2015	$	(10,718)
Financial performance		(2,196)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(6,115)
Balance, December 31, 2015	$	(19,029)
Balance, September 30, 2014	$	(12,980)
Financial performance		(1,437)
Balance, December 31, 2014	$	(14,417)

For the nine months ended December 31:

		Accumulated deficit
Balance, March 31, 2015	$	(8,888)
Financial performance		(7,234)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(2,907)
Balance, December 31, 2015	$	(19,029)
Balance, March 31, 2014	$	(9,130)
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 December 31		Nine months ended December 31	
	2015	2014	2015	2014
Cash flows provided by (used in)				
Operating activities				
Financial performance	$ (2,196)	$ (1,437)	$ (7,234)	$ (5,287)
Items not involving cash				
Depreciation of property and equipment (note 5 and 10)	13,577	12,599	40,110	38,969
Increase in net employee benefits liability (note 15)	1,444	1,167	5,783	4,311
Amortization of intangible assets (note 6 and 10)	365	744	1,224	2,428
Impairment of property and equipment (note 5)	-	-	292	-
Loss on property and equipment (note 5)	32	6	141	54
Other non-cash transactions (note 15)	12	1	25	12
Write-off of intangible assets (note 6)	-	-	-	148
Amortization of deferred government funding related to capital expenditures (note 8)	(13,986)	(13,350)	(41,792)	(41,611)
Decrease in deferred lease incentives	(68)	(63)	(205)	(187)
Net change in non-cash working capital balances (note 15)	(2,802)	(17,735)	(6,071)	(7,811)
	(3,622)	(18,068)	(7,727)	(8,974)
Investing activities				
Parliamentary appropriations received for capital funding	47,000	30,000	81,800	82,239
Purchase of property and equipment	(25,558)	(8,028)	(58,654)	(71,390)
Purchase of intangible assets	(4,143)	(65)	(4,155)	(98)
	17,299	21,907	18,991	10,751
Increase in cash	13,677	3,839	11,264	1,777
Cash, beginning of period	5,568	4,129	7,981	6,191
Cash, end of period	$ 19,245	$ 7,968	$ 19,245	$ 7,968

Supplementary cash flow information (note 15)

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

1. Corporate information

CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of Her Majesty in right of Canada. CATSA is responsible for securing specific elements of the air transportation system, from passenger and baggage screening to screening airport workers.

CATSA is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. With the support of Transport Canada, CATSA entered into a trial agreement with the Greater Toronto Airports Authority for the provision of supplemental screening services effective October 5, 2014.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on February 24, 2016.

2. Summary of significant accounting policies

(a) Basis of preparation

The condensed interim financial statements have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standards 34 *Interim Financial Reporting* (IAS 34).

Section 131.1 of the *Financial Administration Act* requires that most parent Crown corporations prepare and make public quarterly financial reports in compliance with the Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*. These condensed interim financial statements have not been audited or reviewed by CATSA's external auditor.

As permitted by IAS 34, these interim financial statements are presented on a condensed basis and therefore do not include all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual financial statements. These condensed interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2015. Accordingly, they should be read in conjunction with the audited annual financial statements for the year ended March 31, 2015.

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, 2015, except for the application of the new and revised standards effective April 1, 2015 as described in note 2(b) below, and the following revenue policy related to supplemental screening services.

Revenue

Supplemental screening services revenue is recognized in financial performance when the screening services are provided, CATSA has no remaining obligations, and when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to CATSA. Revenue is measured at the fair value of consideration received or receivable. The related receivables are classified into the category of loans and receivables. They are recognized initially at fair value, and subsequently measured at amortized cost using the effective interest rate method.

(b) Change in presentation

Beginning April 1, 2015, CATSA changed the presentation of its supplemental screening services revenue in the Statement of Comprehensive Income, as well as the presentation of the related receivable in note 3. The change was made to separately present the revenue recorded from the provision of supplemental screening services since they have become material in the current fiscal year. This change also provides greater transparency around revenue sources for CATSA. Supplemental screening services revenue of $384 for the nine months ended December 31, 2014 has been reclassified from miscellaneous income to supplemental screening services revenue on the Condensed Interim Statement of Comprehensive Income. The related receivable of $301 at March 31, 2015, which was previously presented as other in note 3, has been reclassified to supplemental screening services.

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

The following amendment and annual improvements, issued by the International Accounting Standards Board (IASB), were adopted by CATSA effective April 1, 2015. The adoption of the amendment and annual improvements had no impact on the condensed interim financial statements as at and for the nine months ended December 31, 2015.

(i) *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*

IAS 19 was amended in November 2013 to clarify how contributions from employees linked to service should be attributed to periods of service. These amendments are effective for annual reporting periods beginning on or after July 1, 2014, on a retrospective basis.

(ii) *Annual Improvements to IFRSs: 2010-2012 Cycle and 2011-2013 Cycle*

The Annual Improvements to IFRSs 2010-2012 Cycle and the Annual Improvements to IFRSs 2011-2013 Cycle were issued in December 2013. These improvements include amendments to various IFRSs which were effective for annual reporting periods beginning on or after July 1, 2014, on a retrospective basis.

(In thousands of Canadian dollars)

3. Trade and other receivables

Trade and other receivables are comprised of:

	December 31, 2015	March 31, 2015
Parliamentary appropriations	$ 68,027	$ 77,634
GST and HST recoverable	18,516	14,438
PST recoverable	2,256	1,922
Supplemental screening services	1,573	301
Other	149	2
	$ 90,521	$ 94,297

4. Inventories

Inventories are comprised of:

	December 31, 2015	March 31, 2015
Spare parts	$ 16,264	$ 16,407
RAIC	320	855
Uniforms	114	718
	$ 16,698	$ 17,980

(In thousands of Canadian dollars)

5. 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, 2015	$ 124,747	$ 656,986	$ 9,548	$ 4,387	$ 25,811	$ 95	$ 10,221	$ 112,217	$ 944,012
Additions	11	18,723	4	494	350	-	64	47,107	66,753
Disposals	(2,672)	(40,313)	(114)	(11)	(128)	-	-	(21)	(43,259)
Write-offs	(52)	(4,796)	-	(741)	(256)	-	-	(12)	(5,857)
Impairments	(159)	(94)	-	-	(855)	-	-	-	(1,108)
Reclassifications	(3,725)	70,886	5,644	1,199	307	-	-	(74,311)	-
Balance, December 31, 2015	$ 118,150	$ 701,392	$ 15,082	$ 5,328	$ 25,229	$ 95	$ 10,285	$ 84,980	$ 960,541
Accumulated depreciation									
Balance, March 31, 2015	$ 70,966	$ 523,774	$ 3,659	$ 3,582	$ 21,150	$ 95	$ 9,002	$ -	$ 632,228
Depreciation	6,752	29,767	1,538	488	1,229	-	336	-	40,110
Disposals	(2,601)	(40,252)	(114)	(11)	(128)	-	-	-	(43,106)
Write-offs	(49)	(4,772)	-	(741)	(240)	-	-	-	(5,802)
Impairments	(99)	(44)	-	-	(673)	-	-	-	(816)
Reclassifications	(2,831)	-	2,831	-	-	-	-	-	-
Balance, December 31, 2015	$ 72,138	$ 508,473	$ 7,914	$ 3,318	$ 21,338	$ 95	$ 9,338	$ -	$ 622,614
Carrying amounts									
As at March 31, 2015	$ 53,781	$ 133,212	$ 5,889	$ 805	$ 4,661	$ -	$ 1,219	$ 112,217	$ 311,784
As at December 31, 2015	$ 46,012	$ 192,919	$ 7,168	$ 2,010	$ 3,891	$ -	$ 947	$ 84,980	$ 337,927

(In thousands of Canadian dollars)

6. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2015	$ 3,807	$ 18,840	$ -	$ 22,647
Additions	16	-	4,139	4,155
Write-offs	(150)	-	-	(150)
Balance, December 31, 2015	$ 3,673	$ 18,840	$ 4,139	$ 26,652
Accumulated amortization				
Balance, March 31, 2015	$ 3,000	$ 16,863	$ -	$ 19,863
Amortization	331	893	-	1,224
Write-offs	(150)	-	-	(150)
Balance, December 31, 2015	$ 3,181	$ 17,756	$ -	$ 20,937
Carrying amounts				
At March 31, 2015	$ 807	$ 1,977	$ -	$ 2,784
At December 31, 2015	$ 492	$ 1,084	$ 4,139	$ 5,715

7. Provisions and contingencies

(a) Provisions

Management records provisions for disputed claims from various parties requesting monetary compensation if, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle a present legal or constructive obligation, and the obligation can be estimated reliably. The provision recorded as at March 31, 2015 was established by management for a legal dispute with a third party. The amount was determined by taking into account legal assessments and information available at that time. It was classified as current and the expected future cash flows were not discounted, as the timing of cash outflows associated with the claim was expected to be within 12 months. In September 2015, the claim was settled for $90 and the remaining provision was released. There have been no additional provisions recorded during the three months ended December 31, 2015.

(b) Contingencies

CATSA's contingent liabilities consist of claims and legal proceedings and decommissioning liabilities for which no provision has been recorded.

(i) Claims and legal proceedings

Litigation is subject to many uncertainties and the outcome of individual matters is not always predictable. Claims for which an outflow of resources is not probable or cannot be reliably measured are considered to be contingencies and are not recorded in CATSA's financial statements.

As at December 31, 2015, there was one significant legal claim outstanding against CATSA for which no provision was recorded. For a description of this legal claim, refer to note 18(a) of the audited annual financial statements for the year ended March 31, 2015. There have been no material changes to this legal claim during the three and nine months ended December 31, 2015.

(ii) Decommissioning costs

During the three and nine months ended December 31, 2015, there have been no material changes to the contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 18(b) of the audited annual financial statements for the year ended March 31, 2015.

(In thousands of Canadian dollars)

8. Deferred government funding

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

	December 31, 2015	March 31, 2015
Deferred government funding related to operating expenses		
Balance, beginning of period	$ 20,845	$ 19,953
Operating expenses financed through parliamentary appropriations	403,162	543,834
Parliamentary appropriations recognized as government funding for operating expenses	(405,843)	(542,942)
Balance, end of period	$ 18,164	$ 20,845
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 314,568	$ 292,797
Capital expenditures financed through parliamentary appropriations	70,866	76,800
Amortization of deferred government funding related to capital expenditures	(41,792)	(55,029)
Balance, end of period	$ 343,642	$ 314,568
Total deferred government funding, end of period	$ 361,806	$ 335,413

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

(In thousands of Canadian dollars)

9. Employee benefits

(a) Employee benefits asset and liability

The following provides a reconciliation between the post-employment benefit plans to the employee benefits asset and liability presented in the Condensed Interim Statement of Financial Position:

	December 31, 2015	March 31, 2015
Employee benefits asset		
Registered pension plan (RPP)	$ 2,663	$ 10,585
Supplementary retirement plan (SRP)	1,598	1,570
	4,261	12,155
Employee benefits liability		
Other defined benefits plan (ODBP)	(22,541)	(21,745)
	(22,541)	(21,745)
Employee benefits - net liability	$ (18,280)	$ (9,590)

(In thousands of Canadian dollars)

(b) Employee benefits costs

The elements of employee benefits costs are:

	For the three months ended December 31							
	RPP		SRP		ODBP		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Defined benefit cost recognized in financial performance								
Current service cost	$ 2,658	$ 2,079	$ 38	$ 50	$ 460	$ 351	$ 3,156	$ 2,480
Administration costs	77	78	3	5	-	-	80	83
Interest cost on defined benefit obligation	1,645	1,454	44	47	235	207	1,924	1,708
Interest income on plan assets	(1,685)	(1,489)	(60)	(63)	-	-	(1,745)	(1,552)
Defined benefit cost	$ 2,695	$ 2,122	$ 25	$ 39	$ 695	$ 558	$ 3,415	$ 2,719
Remeasurement of defined benefit plans recognized in other comprehensive loss								
Return on plan assets excluding interest income	$ 2,443	$ -	$ 265	$ -	$ -	$ -	$ 2,708	$ -
Actuarial loss arising from changes in financial assumptions	(7,477)	-	(193)	-	(1,153)	-	(8,823)	-
Remeasurement of defined benefit plans	$ (5,034)	$ -	$ 72	$ -	$ (1,153)	$ -	$ (6,115)	$ -

(In thousands of Canadian dollars)

The elements of employee benefits costs are:

	For the nine months ended December 31							
	RPP		SRP		ODBP		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Defined benefit cost recognized in financial performance								
Current service cost	$ 7,972	$ 6,236	$ 114	$ 148	$ 1,382	$ 1,053	$ 9,468	$ 7,437
Administration costs	231	234	11	15	-	-	242	249
Interest cost on defined benefit obligation	4,933	4,364	134	141	705	620	5,772	5,125
Interest income on plan assets	(5,053)	(4,467)	(180)	(189)	-	-	(5,233)	(4,656)
Defined benefit cost	$ 8,083	$ 6,367	$ 79	$ 115	$ 2,087	$ 1,673	$ 10,249	$ 8,155
Remeasurement of defined benefit plans recognized in other comprehensive loss								
Return on plan assets excluding interest income	$ (11,617)	$ -	$ (113)	$ -	$ -	$ -	$ (11,730)	$ -
Actuarial gains arising from changes in financial assumptions	7,478	-	192	-	1,153	-	8,823	-
Remeasurement of defined benefit plans	$ (4,139)	$ -	$ 79	$ -	$ 1,153	$ -	$ (2,907)	$ -

For the three and nine months ended December 31, 2015, CATSA recognized an expense of $48 (2014 - $15) and $93 (2014 - $43), respectively, in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

The defined benefit pension plans' assumptions are assessed and revised as appropriate at each reporting period. This typically includes adjusting the discount rates throughout the reporting periods, and adjusting for the actual rate of return on the plan assets above or below the rate used in CATSA's assumptions.

For the three months ended December 31, 2015, other comprehensive loss of $6,115 resulted from a remeasurement loss on the defined benefit liability arising from a decrease in the discount rate of 25 basis points (from 4.50% at September 30, 2015 to 4.25% at December 31, 2015). This was partially offset by a higher actual return on plan assets than the rate used in CATSA's assumptions (2.19% higher for the RPP and 3.03% higher for the SRP).

(In thousands of Canadian dollars)

For the nine months ended December 31, 2015, other comprehensive loss of $2,907 was due to a lower actual return on plan assets than the rate used in CATSA's assumptions (7.35% lower for the RPP and 1.95% lower for the SRP). This was partially offset by a remeasurement gain on the defined benefit liability arising from an increase in the discount rate of 25 basis points (from 4.00% at March 31, 2015 to 4.25% at December 31, 2015).

(d) Employer contributions

Employer contributions paid to the defined benefit pension plans for the three and nine months ended December 31 are as follows:

	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
Employer contributions				
RPP	$ 1,904	$ 1,496	$ 4,300	$ 3,700
SRP	21	12	28	13
ODBP	46	44	138	131
	$ 1,971	$ 1,552	$ 4,466	$ 3,844

Total employer contributions to the defined benefit pension plans are estimated to be $5,700 for the year ending March 31, 2016.

(In thousands of Canadian dollars)

10. Expenses

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

	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
Screening services and other related costs				
Payments to screening contractors	$ 108,851	$ 101,300	$ 323,026	$ 296,546
Uniforms and other screening costs	1,197	913	3,292	3,159
Trace and consumables	460	445	1,052	1,426
	110,508	102,658	327,370	301,131
Equipment operating and maintenance				
Equipment maintenance and spare parts	8,199	11,239	28,988	33,455
RAIC	162	121	535	582
Training and certification	-	228	112	1,196
	8,361	11,588	29,635	35,233
Program support and corporate services				
Employee costs	14,244	13,757	43,914	42,383
Operating leases	1,589	1,541	4,777	4,391
Professional services and other business related costs	1,180	1,090	3,091	2,905
Office and computer expenses	997	1,236	2,937	3,281
Other administrative costs	979	1,211	2,663	2,982
Communications and public awareness	225	302	608	759
	19,214	19,137	57,990	56,701
Depreciation and amortization				
Depreciation of property and equipment	13,577	12,599	40,110	38,969
Amortization of intangible assets	365	744	1,224	2,428
	13,942	13,343	41,334	41,397
	$ 152,025	$ 146,726	$ 456,329	$ 434,462

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

(In thousands of Canadian dollars)

11. Government funding

CATSA's *Summary of the 2015/16 – 2019/20 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet public. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

The following table reconciles parliamentary appropriations 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 December 31		Nine months ended December 31	
	2015	2014	2015	2014
Parliamentary appropriations received and receivable	$ 201,403	$ 191,814	$ 464,312	$ 442,282
Amounts received and receivable related to prior period	(66,710)	(59,597)	(59,834)	(55,438)
Amounts to be billed (used) in future periods	759	(1,156)	(1,316)	(3,186)
Parliamentary appropriations used to finance operating expenses	$ 135,452	$ 131,061	$ 403,162	$ 383,658

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 December 31		Nine months ended December 31	
	2015	2014	2015	2014
Parliamentary appropriations received and receivable	$ 51,865	$ 30,873	$ 98,016	$ 91,851
Amounts received and receivable related to prior period	(13,370)	(11,229)	(17,800)	(41,239)
Amounts to be billed (used) in future periods	2,001	2,053	(9,350)	(6,686)
Parliamentary appropriations used to finance capital expenditures	$ 40,496	$ 21,697	$ 70,866	$ 43,926

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

(In thousands of Canadian dollars)

12. Fair values and risks arising from financial instruments

Fair values of financial instruments

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

Financial risk factors

CATSA's activities are exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

(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.

The following table provides the total foreign currency exposure related to amounts recorded in trade and other payables as of December 31, 2015 and March 31, 2015 denominated in the United States dollar (USD) and their Canadian dollar (CAD) equivalent:

	USD	CAD
December 31, 2015	$ 9,139	$ 12,649
March 31, 2015	3,471	4,396

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase or decrease in financial performance of $632 (March 31, 2015 – $220).

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. Liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada. CATSA manages its liquidity risk by preparing and monitoring forecasts of cash flows for anticipated operating and investing activities. Also, the Board of Directors reviews and approves CATSA's operating and capital budgets.

(In thousands of Canadian dollars)

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

	Less than 3 months	3 months to 1 year	Total
December 31, 2015	$ 81,887	$ 28,035	$ 109,922
March 31, 2015	$ 83,844	$ 16,599	$ 100,443

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2015.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to CATSA. As a means of mitigating risk of financial loss from defaults, CATSA has adopted a policy of only extending credit to creditworthy counterparties. CATSA's exposure and the creditworthiness of its counterparties are continuously monitored. As required, CATSA establishes an allowance for doubtful accounts that reflects the estimated impairment of receivables.

CATSA is exposed to credit risk through its supplemental screening services receivables. The maximum exposure to credit risk of CATSA at December 31, 2015 and 2014 is the carrying value of these assets.

(i) CATSA's supplemental screening services receivables are derived from the provision of services to an airport authority. CATSA does not believe that it is exposed to an unusual or significant level of credit risk. No allowance for doubtful accounts is required as at December 31, 2015.

(ii) CATSA does not have any receivables that are past due or have been determined to be impaired as at December 31, 2015.

(In thousands of Canadian dollars)

13. Contractual arrangements

(a) Non-lease arrangements

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

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

	December 31, 2015	March 31, 2015
Operating	$ 776,062	$ 1,134,698
Capital	189,804	194,202
Total	$ 965,866	$ 1,328,900

(b) Lease arrangements

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

	December 31, 2015	March 31, 2015
No later than 1 year	$ 18,008	$ 7,310
Later than 1 year and no later than 5 years	18,904	23,561
Later than 5 years	352	12,403

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters, which expires on November 30, 2022 after the option to renew for five additional years was exercised. 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 rent during the option term will be based on the prevailing market rate at that time.

14. Related party transactions

CATSA had the following transactions with related parties for the three and nine months ended December 31, 2015:

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

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

Income from these related parties for the three and nine months ended December 31, 2015 amounted to $149,265 (2014 – $145,037), and $447,635 (2014 – $428,860), respectively, which represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses for these related parties for the three and nine months ended December 31, 2015 amounted to $3,279 (2014 – $3,190), and $9,548 (2014 – $9,009), respectively, which include $3,017 (2014 – $2,968), and $8,805 (2014 – $8,211), respectively, in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

As at December 31, 2015, amounts receivable from related parties were $86,579 (March 31, 2015 – $92,072). These include $18,516 (March 31, 2015 – $14,438) due from the Canada Revenue Agency for recoverable taxes paid on expenses and $68,027 (March 31, 2015 – $77,634) due from the Government of Canada for parliamentary appropriations used during the period and not received at quarter end. As at December 31, 2015, amounts payable to related parties were $321 (March 31, 2015 – $671).

(b) Transactions with CATSA's post-employment benefit plans

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 9. There were no other transactions during the period.

(In thousands of Canadian dollars)

15. 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	
	2015	2014	2015	2014
Decrease (increase) in trade and other receivables	$ (2,967)	$ 132	$ (7,158)	$ (920)
Decrease (increase) in inventories	(257)	224	1,282	1,999
Decrease in prepaid expenses	84	402	1,399	1,592
Increase (decrease) in trade and other payables	165	(18,202)	1,422	(7,226)
Increase (decrease) in current portion of provisions	-	335	(335)	335
Increase (decrease) in deferred government funding related to operating expenses	173	(626)	(2,681)	(3,591)
	$ (2,802)	$ (17,735)	$ (6,071)	$ (7,811)

Interest income received and recognized during the three and nine months ended December 31, 2015 totalled $87 (2014 – $99) and $303 (2014 – $349), respectively.

Interest expense paid and expensed during the three and nine months ended December 31, 2015 totalled $Nil (2014 – $Nil) and $2 (2014 – $1), respectively.

For the three and nine months ended December 31, 2015, the change in trade and other receivables excludes amounts of $6,504 (2014 – $8,303) and $10,934 (2014 – $38,313) 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, 2015, the change in trade and other payables excludes amounts of $10,795 (2014 – $13,604) and $8,057 (2014 – $27,562), respectively, in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

For the three and nine months ended December 31, 2015, the change in net employee benefits liability excludes an amount of $6,115 (2014 – $Nil) and $2,907 (2014 – $Nil), respectively, in relation to the remeasurement of defined benefit plans presented in other comprehensive income, as the amount relates to a non-cash remeasurement.

During the three and nine months ended December 31, 2015, CATSA received non-cash proceeds in the form of credit notes from a supplier, totalling $36 (2014 – $Nil) and $42 (2014 – $23), respectively, related to the disposal of property and equipment.

During the three and nine months ended December 31, 2015, non-cash transfers of spare parts from property and equipment to inventory totalled $12 (2014 – $1) and $25 (2014 – $12), respectively.