



Quarterly Financial Report

For the Three Months Ended
June 30, 2016



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE MONTHS ENDED JUNE 30, 2016**

Management's Narrative Discussion outlines the significant activities and initiatives, risks and financial results of the Canadian Air Transport Security Authority (CATSA) for the three months ended June 30, 2016. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2016, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's 2016 Annual Report. The information in this report is expressed in thousands of Canadian dollars and is current to August 23, 2016, unless otherwise stated.

Forward-looking statements

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

Materiality

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

CORPORATE OVERVIEW

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

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

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

- Non-Passenger Screening (NPS): the random screening of non-passengers accessing restricted areas, including the screening of vehicles entering restricted areas of the aerodrome at the highest risk airports; and
- Restricted Area Identity Card (RAIC) Program: the administration of access control to airport restricted areas through biometric identifiers.

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

In October 2014, CATSA entered into a Supplemental Screening Trial Agreement with the Greater Toronto Airports Authority (GTAA). The trial enabled the GTAA to purchase additional screening services in the form of supplemental screening lines. During the trial, CATSA maintained the authority to move resources as required between checkpoints and to reduce the capacity available to the GTAA on any given day as needed. To date, results indicate that the trial is achieving reductions in passenger wait times and mitigating the effects of decreased funding at the times and locations, where supplemental screening lines were deployed. With the support of TC, the agreement was extended to March 31, 2017.

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since March 31, 2016.

PASSENGER GROWTH AND SCREENING CONTRACTOR BILLING RATES

Statistics from CATSA's Boarding Pass Security System (BPSS) for the three months ended June 30, 2016, indicate that screened traffic across Canada increased by 1.9% over the same period in 2015.

In addition to passenger growth, screening contractor billing rates will continue to increase annually over the remaining term of the current ASSAs that expire on March 31, 2017, and their five-year renewal term. This puts further pressure on CATSA's budget for screening hours.

GOVERNMENT FUNDING

CATSA, as an agent Crown corporation, is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. As a consequence, CATSA's financial plan is prepared in accordance with the resources it is assigned by the Government of Canada and as approved by Parliament.

CATSA is not fully funded for passenger growth or increases in screening contractor billing rates. Consequently, without additional funding, CATSA will not be able to maintain the service level it achieved in previous years, despite significant screening efficiency improvements. In 2015/16, CATSA received one-year incremental funding to achieve a wait time service level of approximately 85% of passengers screened within 15 minutes at Canada's eight busiest airports. CATSA exceeded its target, delivering a service level of approximately 89%. In March 2016, the Government of Canada approved additional funding for CATSA to maintain a level of service in 2016/17 similar to 2015/16.

CATSA is working with TC to develop an operationally effective long-term funding strategy for unfunded passenger growth and screening contractor billing rate increases, as well as for the enhanced NPS program.

RISKS AND UNCERTAINTIES

There have been no new risks identified during the three months ended June 30, 2016.

ANALYSIS OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income (Loss) for the three months ended June 30, 2016, and June 30, 2015.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss) (Thousands of Canadian dollars)	Three Months Ended June 30			
	2016 (unaudited)	2015 (unaudited)	\$ Change	% Change
Expenses¹				
Screening services and other related costs	\$ 121,305	\$ 106,629	\$ 14,676	13.8%
Equipment operating and maintenance	10,158	10,559	(401)	(3.8%)
Program support and corporate services	19,801	19,655	146	0.7%
Depreciation and amortization	13,179	13,248	(69)	(0.5%)
Total expenses	\$ 164,443	\$ 150,091	\$ 14,352	9.6%
Other (income) expenses	(29)	159	(188)	(118.2%)
Financial performance before revenue and government funding	\$ 164,414	\$ 150,250	\$ 14,164	9.4%
Revenue	\$ 1,249	\$ 639	\$ 610	95.5%
Government funding				
Parliamentary appropriations for operating expenses	\$ 147,112	\$ 133,123	\$ 13,989	10.5%
Amortization of deferred government funding related to capital expenditures	13,171	13,486	(315)	(2.3%)
Total government funding	\$ 160,283	\$ 146,609	\$ 13,674	9.3%
Financial performance	\$ (2,882)	\$ (3,002)	\$ 120	4.0%
Other comprehensive (loss) income	\$ (17,064)	\$ 10,640	\$ (27,704)	(260.4%)
Total comprehensive income (loss)	\$ (19,946)	\$ 7,638	\$ (27,584)	(361.1%)

¹ The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 10 of the unaudited condensed interim financial statements for the three months ended June 30, 2016.

Screening services and other related costs

Screening services and other related costs increased by \$14,676 (13.8%) for the three months ended June 30, 2016, compared to the same period in 2015. The increase is primarily due to the purchase of additional screening hours totalling \$10,390, coupled with annual screening contractor billing rate increases amounting to \$2,993.

The increase in screening hours is primarily due to the implementation of the enhanced NPS program to support the strengthened ICAO standard on NPS and security controls. In 2016/17, CATSA transitioned from an interim vehicle screening solution to achieving 100% presence at the vehicle access points at Canada's highest risk airports.

The variance is also attributable to additional screening hours purchased for PBS mainly to support changes in operational requirements at certain airports and rising passenger volumes.

Equipment operating and maintenance

Equipment operating and maintenance costs decreased by \$401 (3.8%) for the three months ended June 30, 2016, compared to the same period in 2015. The decrease is due to lower conveyor maintenance costs of \$2,642 resulting from the termination of the funding agreements for conveyor maintenance and support services at Canada's busiest airports, which took effect October 1, 2015. The decrease is partially offset by higher equipment maintenance and spare parts costs totalling \$1,774, mainly to support Explosives Detection System equipment no longer under warranty and PBS checkpoint reconfigurations. The remainder of the variance is attributable to several factors, which are individually insignificant.

Revenue

Revenue increased by \$610 (95.5%) for the three months ended June 30, 2016, compared to the same period in 2015. This is attributable to revenue generated from the purchase of a greater number of supplemental screening hours by the GTAA.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by \$13,989 (10.5%) for the three months ended June 30, 2016, compared to the same period in 2015. The increase is primarily due to increased spending for screening services and other related costs, as previously discussed.

Other comprehensive (loss) income

Other comprehensive (loss) income is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets. Other comprehensive loss of \$17,064 for the three months ended June 30, 2016, is due to a remeasurement loss of \$24,197 on the defined benefit liability arising from a 50 basis point decrease in the discount rate since March 31, 2016, partially offset by a remeasurement gain of \$7,133 resulting from a higher rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive income of \$10,640 for the three months ended June 30, 2015, is due to a remeasurement gain of \$17,646 on the defined benefit liability arising from a 50 basis point increase in the discount rate since March 31, 2015, partially offset by a remeasurement loss of \$7,006 resulting from a lower rate of return on plan assets than the rate used in CATSA's assumptions.

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

STATEMENT OF FINANCIAL POSITION

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

Key Financial Highlights -				
Condensed Interim Statement of Financial Position				
(Thousands of Canadian dollars)	June 30, 2016 (unaudited)	March 31, 2016 (audited)	\$ Change	% Change
Current assets	\$ 141,915	\$ 118,437	\$ 23,478	19.8%
Non-current assets	364,957	362,822	2,135	0.6%
Total assets	\$ 506,872	\$ 481,259	\$ 25,613	5.3%
Current liabilities	\$ 142,508	\$ 118,238	\$ 24,270	20.5%
Non-current liabilities	405,776	384,487	21,289	5.5%
Total liabilities	\$ 548,284	\$ 502,725	\$ 45,559	9.1%

Assets

Current assets increased by \$23,478 (19.8%) primarily due to the following:

- Increase in cash of \$22,705 primarily due to delays in the timing of disbursements to suppliers for goods and services;
- Increase in trade and other receivables of \$2,640 primarily due to an increase in parliamentary appropriations receivable of \$11,977, offset by lower consumption taxes receivable of \$8,405 and lower supplemental screening services receivable of \$966;
- Decrease in inventories of \$1,709 primarily due to usage of \$1,995 exceeding purchases of spare parts, uniforms and RAIC cards of \$359.

Non-current assets increased by \$2,135 (0.6%) primarily due to the following:

- Increase in property and equipment and intangible assets of \$5,552 primarily due to the acquisition and installation of property and equipment and intangible assets of \$18,741, partially offset by depreciation and amortization of \$13,179; and
- Decrease in employee benefits of \$3,417. The employee benefits asset at March 31, 2016, was comprised of CATSA's registered pension plan and supplementary retirement plan, which were both in a net asset position. During the current quarter, the registered pension plan changed to a net liability position, and is classified as a non-current liability in the Condensed Interim Statement of Financial Position as at June 30, 2016. This change is primarily due to the remeasurement of CATSA's defined benefit pension plans, as previously described in the Analysis of Financial Results for Other comprehensive (loss) income.

Liabilities

Current liabilities increased by \$24,270 (20.5%) primarily due to the following:

- Increase in trade and other payables of \$26,348 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of \$1,867 mainly due to a reduction in inventories balance.

Non-current liabilities increased by \$21,289 (5.5%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures by \$5,561 due to parliamentary appropriations used of \$18,732, exceeding amortization of \$13,171; and
- Increase in employee benefits of \$15,570 in relation to CATSA's other defined benefits plan and registered pension plan (which changed to a net liability position during the quarter) mainly due to remeasurements, as previously described in the Analysis of Financial Results for Other comprehensive (loss) income.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2016/17 – 2020/21 Corporate Plan* has not been tabled in Parliament at the time of publishing. Until it is tabled in Parliament and made publicly available, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *Summary of the 2016/17 – 2020/21 Corporate Plan*.

PARLIAMENTARY APPROPRIATIONS USED

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

Reconciliation of Financial Performance to Operating Appropriations Used (Thousands of Canadian dollars)	Three Months Ended June 30	
	2016 (unaudited)	2015 (unaudited)
Financial performance before revenue and government funding	\$ 164,414	\$ 150,250
Revenue	(1,249)	(639)
Financial performance before government funding	163,165	149,611
Non-cash expenses		
Depreciation and amortization	(13,179)	(13,248)
Employee benefits expense ¹	(1,923)	(2,173)
Employee cost accruals ²	(1,015)	(897)
Write-off of property and equipment and intangible assets	(7)	-
Spare parts expense funded from capital ³	(3)	(3)
Deferred lease incentives recognized in financial performance ⁴	74	68
Impairment of property and equipment	-	(231)
Loss on disposal of property and equipment	-	(4)
Parliamentary appropriations for operating expenses	\$ 147,112	\$ 133,123
Other items affecting funding		
Net change in prepaids and inventories ⁵	(1,867)	(1,490)
Total operating appropriations used	\$ 145,245	\$ 131,633

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

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

- ³ Spare parts expense funded from capital represents items that were funded from capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.
- ⁴ Deferred lease incentives are non-cash accounting adjustments to record the benefit derived from favourable lease terms, including significantly reduced rent, free common area costs and leasehold improvements provided at no cost. Rental costs are funded by appropriations when paid, creating a reconciling item.
- ⁵ 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.

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

August 23, 2016



Nancy Fitchett, CPA, CA
Acting Vice-President and Chief Financial
Officer
Ottawa, Canada

August 23, 2016

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY
AUTHORITY**

June 30, 2016

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2016	March 31, 2016
Assets		
Current assets		
Cash	\$ 33,932	\$ 11,227
Trade and other receivables (note 3)	90,679	88,039
Inventories (note 4)	14,618	16,327
Prepaid expenses	2,686	2,844
	<u>141,915</u>	<u>118,437</u>
Non-current assets		
Property and equipment (note 5)	357,080	351,645
Intangible assets (note 6)	6,870	6,753
Employee benefits (note 9)	1,007	4,424
	<u>364,957</u>	<u>362,822</u>
Total assets	<u>\$ 506,872</u>	<u>\$ 481,259</u>
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 124,704	\$ 98,356
Provisions (note 7)	500	711
Deferred government funding related to operating expenses (note 8)	17,304	19,171
	<u>142,508</u>	<u>118,238</u>
Non-current liabilities		
Construction holdbacks	422	199
Deferred lease incentives	918	983
Deferred government funding related to capital expenditures (note 8)	363,497	357,936
Employee benefits (note 9)	40,939	25,369
	<u>405,776</u>	<u>384,487</u>
Equity		
Accumulated deficit	(41,412)	(21,466)
Total liabilities and equity	<u>\$ 506,872</u>	<u>\$ 481,259</u>

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

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

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

(In thousands of Canadian dollars)

	Three months ended	
	June 30	
	2016	2015
Expenses		
Pre-Board Screening	\$ 86,803	\$ 82,271
Hold Baggage Screening	35,193	35,819
Non-Passenger Screening	31,841	21,045
Restricted Area Identity Card Program	927	613
Corporate services	9,679	10,343
Total expenses (note 10)	164,443	150,091
Other (income) expenses		
Impairment of property and equipment (note 5)	-	231
Write-off of property and equipment and intangible assets (note 5 and 6)	7	-
Loss on disposal of property and equipment (note 5)	-	4
Finance cost	3	1
Foreign exchange gain	(39)	(77)
Total other (income) expenses	(29)	159
Financial performance before revenue and government funding	164,414	150,250
Revenue		
Supplemental screening services	1,121	459
Finance income	128	104
Miscellaneous income	-	76
Total revenue	1,249	639
Government funding		
Parliamentary appropriations for operating expenses (note 8)	147,112	133,123
Amortization of deferred government funding related to capital expenditures (note 8)	13,171	13,486
Total government funding	160,283	146,609
Financial performance	\$ (2,882)	\$ (3,002)
Other comprehensive (loss) income		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)	(17,064)	10,640
Total comprehensive income (loss)	\$ (19,946)	\$ 7,638

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 June 30:

	Accumulated deficit
Balance, March 31, 2016	\$ (21,466)
Financial performance	(2,882)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	(17,064)
<hr/> Balance, June 30, 2016	<hr/> \$ (41,412)
Balance, March 31, 2015	\$ (8,888)
Financial performance	(3,002)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	10,640
<hr/> Balance, June 30, 2015	<hr/> \$ (1,250)

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 June 30	
	2016	2015
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (2,882)	\$ (3,002)
Items not involving cash		
Depreciation of property and equipment (note 5 and 10)	12,849	12,804
Increase in net employee benefits liability (note 15)	1,923	2,161
Amortization of intangible assets (note 6 and 10)	330	444
Write-off of property and equipment and intangible assets (note 5 and 6)	7	-
Other non-cash transactions (note 15)	3	3
Impairment of property and equipment (note 5)	-	231
Loss on disposal of property and equipment (note 5)	-	4
Amortization of deferred government funding related to capital expenditures (note 8)	(13,171)	(13,486)
Deferred lease incentives recognized in financial performance	(74)	(68)
Net change in working capital balances (note 15)	20,125	11,682
	19,110	10,773
Investing activities		
Parliamentary appropriations received for capital funding	20,000	21,000
Purchase of property and equipment	(15,958)	(20,799)
Purchase of intangible assets	(447)	(12)
	3,595	189
Increase in cash	22,705	10,962
Cash, beginning of period	11,227	7,981
Cash, end of period	\$ 33,932	\$ 18,943

Supplementary cash flow information (note 15)

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 months ended June 30, 2016
(In thousands of Canadian dollars)

1. Corporate information

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

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

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

As permitted by IAS 34, these interim financial statements are presented on a condensed basis and therefore do not include all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual financial statements. These condensed interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements. Accordingly, they should be read in conjunction with the audited annual financial statements for the year ended March 31, 2016.

Significant accounting policies used in these condensed interim financial statements are disclosed in note 3 of CATSA's audited annual financial statements for the year ended March 31, 2016, except for the application of the new and revised standards effective April 1, 2016, as described in note 2(b) below.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

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

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

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

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

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

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

(iii) Amendments to IAS 1 *Disclosure Initiative*

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

(c) Future accounting changes

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

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

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

(ii) IFRS 9 *Financial Instruments*

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

(vi) IFRS 16 *Leases*

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

3. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2016	March 31, 2016
Parliamentary appropriations	\$ 81,582	\$ 69,605
GST and HST recoverable	7,252	14,821
PST recoverable	906	1,742
Supplemental screening services	901	1,867
Other	38	4
	<u>\$ 90,679</u>	<u>\$ 88,039</u>

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

4. Inventories

Inventories are comprised of:

	June 30, 2016	March 31, 2016
Spare parts	\$ 13,416	\$ 14,128
RAIC	659	1,150
Uniforms	543	1,049
	<u>\$ 14,618</u>	<u>\$ 16,327</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(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	42	27,265	1,135	566	2,604	-	545	61,697	93,854
Disposals	(3,280)	(72,070)	(400)	(10)	(128)	-	(350)	(34)	(76,272)
Write-offs	(545)	(5,931)	(16)	(748)	(4,758)	(11)	(927)	(25)	(12,961)
Impairments	(158)	(94)	-	-	(855)	-	-	-	(1,107)
Reclassifications	(3,725)	72,730	6,215	1,199	591	-	-	(77,010)	-
Balance, March 31, 2016	\$ 117,081	\$ 678,886	\$ 16,482	\$ 5,394	\$ 23,265	\$ 84	\$ 9,489	\$ 96,845	\$ 947,526
Balance, March 31, 2016	\$ 117,081	\$ 678,886	\$ 16,482	\$ 5,394	\$ 23,265	\$ 84	\$ 9,489	\$ 96,845	\$ 947,526
Additions	-	2,326	-	-	522	-	9	15,437	18,294
Disposals	-	(5,275)	-	-	-	-	-	-	(5,275)
Write-offs	(28)	(30)	-	-	(792)	-	-	-	(850)
Reclassifications	(809)	6,435	1,880	-	3,900	-	-	(11,406)	-
Balance, June 30, 2016	\$ 116,244	\$ 682,342	\$ 18,362	\$ 5,394	\$ 26,895	\$ 84	\$ 9,498	\$ 100,876	\$ 959,695
Accumulated depreciation									
Balance, March 31, 2015	\$ 70,966	\$ 523,774	\$ 3,659	\$ 3,582	\$ 21,150	\$ 95	\$ 9,002	\$ -	\$ 632,228
Depreciation	8,995	39,571	1,462	633	1,456	-	519	-	52,636
Disposals	(2,897)	(71,985)	(293)	(10)	(128)	-	(350)	-	(75,663)
Write-offs	(513)	(5,877)	(16)	(748)	(4,420)	(11)	(920)	-	(12,505)
Impairments	(99)	(43)	-	-	(673)	-	-	-	(815)
Reclassifications	(2,831)	-	2,831	-	-	-	-	-	-
Balance, March 31, 2016	\$ 73,621	\$ 485,440	\$ 7,643	\$ 3,457	\$ 17,385	\$ 84	\$ 8,251	\$ -	\$ 595,881
Balance, March 31, 2016	\$ 73,621	\$ 485,440	\$ 7,643	\$ 3,457	\$ 17,385	\$ 84	\$ 8,251	\$ -	\$ 595,881
Depreciation	2,235	9,437	343	138	582	-	114	-	12,849
Disposals	-	(5,275)	-	-	-	-	-	-	(5,275)
Write-offs	(24)	(31)	-	-	(785)	-	-	-	(840)
Reclassifications	(1,010)	-	(193)	-	1,203	-	-	-	-
Balance, June 30, 2016	\$ 74,822	\$ 489,571	\$ 7,793	\$ 3,595	\$ 18,385	\$ 84	\$ 8,365	\$ -	\$ 602,615
Carrying amounts									
As at March 31, 2016	\$ 43,460	\$ 193,446	\$ 8,839	\$ 1,937	\$ 5,880	\$ -	\$ 1,238	\$ 96,845	\$ 351,645
As at June 30, 2016	\$ 41,422	\$ 192,771	\$ 10,569	\$ 1,799	\$ 8,510	\$ -	\$ 1,133	\$ 100,876	\$ 357,080

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

During the three months ended June 30, 2016, CATSA did not recognize any impairment losses. During the three months ended June 30, 2015, CATSA recognized an impairment loss of \$231 that related primarily to screening equipment. Due to technical advancements, these assets were no longer contributing to the fulfillment of CATSA's mandate. As a result, the assets were considered to be fully impaired and the remaining net book value was recognized as an impairment loss. There were no amounts recorded related to reversal of impairment losses during the three months ended June 30, 2016, and 2015.

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(Unaudited)

(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	537	4,574	414	5,525
Write-offs	(173)	(3,831)	-	(4,004)
Balance, March 31, 2016	\$ 4,171	\$ 19,583	\$ 414	\$ 24,168
Balance, March 31, 2016	\$ 4,171	\$ 19,583	\$ 414	\$ 24,168
Additions	(330)	-	777	447
Balance, June 30, 2016	\$ 3,841	\$ 19,583	\$ 1,191	\$ 24,615
Accumulated amortization				
Balance, March 31, 2015	\$ 3,000	\$ 16,863	\$ -	\$ 19,863
Amortization	439	1,009	-	1,448
Write-offs	(173)	(3,723)	-	(3,896)
Balance, March 31, 2016	\$ 3,266	\$ 14,149	\$ -	\$ 17,415
Balance, March 31, 2016	\$ 3,266	\$ 14,149	\$ -	\$ 17,415
Amortization	41	289	-	330
Balance, June 30, 2016	\$ 3,307	\$ 14,438	\$ -	\$ 17,745
Carrying amounts				
As at March 31, 2016	\$ 905	\$ 5,434	\$ 414	\$ 6,753
As at June 30, 2016	\$ 534	\$ 5,145	\$ 1,191	\$ 6,870

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Notes to Condensed Interim Financial Statements
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(In thousands of Canadian dollars)

7. Provisions and contingencies

(a) Provisions

A reconciliation of provisions is as follows:

	June 30, 2016	March 31, 2016
Balance, beginning of period	\$ 711	\$ 335
Provisions made in the period	18	711
Amounts used	-	(90)
Provisions released in the period	(229)	(245)
Balance, end of period	\$ 500	\$ 711

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

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

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

(b) Contingencies

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

(i) Claims and legal proceedings

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

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Notes to Condensed Interim Financial Statements
(Unaudited)

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(ii) Decommissioning costs

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

8. Deferred government funding

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

	June 30, 2016	March 31, 2016
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 19,171	\$ 20,845
Operating expenses funded through parliamentary appropriations	145,245	554,733
Parliamentary appropriations recognized as government funding for operating expenses	(147,112)	(556,407)
Balance, end of period	\$ 17,304	\$ 19,171
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 357,936	\$ 314,568
Capital expenditures financed through parliamentary appropriations	18,732	98,872
Amortization of deferred government funding related to capital expenditures	(13,171)	(55,504)
Balance, end of period	\$ 363,497	\$ 357,936
Total deferred government funding, end of period	\$ 380,801	\$ 377,107

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

9. Employee benefits

(a) Employee benefits asset and liability

Employee benefits asset and liability recognized and presented in the Condensed Interim Statement of Financial Position are as follows:

	June 30, 2016	March 31, 2016
Employee benefits asset		
Registered pension plan (RPP)	\$ -	\$ 2,875
Supplementary retirement plan (SRP)	1,007	1,549
	1,007	4,424
Employee benefits liability		
Registered pension plan (RPP)	(11,325)	-
Other defined benefits plan (ODBP)	(29,614)	(25,369)
	(40,939)	(25,369)
Employee benefits - net liability	\$ (39,932)	\$ (20,945)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

(b) Employee benefits costs

The elements of employee benefits costs are:

	For the three months ended June 30							
	RPP		SRP		ODBP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Defined benefit cost recognized in financial performance								
Current service cost	\$ 2,255	\$ 2,657	\$ 28	\$ 38	\$ 504	\$ 461	\$ 2,787	\$ 3,156
Administration costs	63	77	4	4	-	-	67	81
Interest cost on defined benefit obligation	1,588	1,644	42	45	256	235	1,886	1,924
Interest income on plan assets	(1,571)	(1,684)	(56)	(60)	-	-	(1,627)	(1,744)
Defined benefit cost	\$ 2,335	\$ 2,694	\$ 18	\$ 27	\$ 760	\$ 696	\$ 3,113	\$ 3,417

Remeasurement of defined benefit plans recognized in other comprehensive (loss) income

Return on plan assets excluding interest income	\$ 7,132	\$ (6,888)	\$ 1	\$ (118)	\$ -	\$ -	\$ 7,133	\$ (7,006)
Actuarial gains (losses) arising from changes in financial assumptions	(20,157)	14,955	(525)	385	(3,515)	2,306	(24,197)	17,646
Remeasurement of defined benefit plans	\$ (13,025)	\$ 8,067	\$ (524)	\$ 267	\$ (3,515)	\$ 2,306	\$ (17,064)	\$ 10,640

For the three months ended June 30, 2016, CATSA recognized an expense of \$74 (2015 - \$19) 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 June 30, 2016, other comprehensive (loss) income of \$17,064 resulted from a remeasurement loss on the defined benefit liability arising from a decrease in the discount rate of 50 basis points (3.25% - June 30, 2016, 3.75% - March 31, 2016). This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (5.30% actual versus 0.94% expected for the RPP and 0.96% actual versus 0.94% expected for the SRP).

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Notes to Condensed Interim Financial Statements
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(In thousands of Canadian dollars)

For the three months ended June 30, 2015, other comprehensive (loss) income of \$10,640 resulted from a remeasurement gain on the defined benefit liability arising from an increase in the discount rate of 50 basis points (4.50% - June 30, 2015, 4.00% - March 31, 2015). This was partially offset by a lower actual rate of return on plan assets than the rate used in CATSA's assumptions (-3.30% actual versus 1.00% expected for the RPP and -1.01% actual versus 1.00% expected for the SRP).

(d) Employer contributions

Employer contributions paid to the defined benefit plans for the three months ended June 30 are as follows:

	Three months ended	
	June 30	
	2016	2015
Employer contributions		
RPP	\$ 1,160	\$ 1,210
ODBP	30	46
	<u>\$ 1,190</u>	<u>\$ 1,256</u>

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

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Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

10. Expenses

The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity. The following table presents operating expenses by major expense type for the three months ended June 30:

	Three months ended June 30	
	2016	2015
Screening services and other related costs		
Payments to screening contractors	\$ 119,415	\$ 105,332
Uniforms and other screening costs	1,600	1,077
Trace and consumables	290	220
	121,305	106,629
Equipment operating and maintenance		
Equipment maintenance and spare parts	9,410	10,278
RAIC	491	178
Training and certification	257	103
	10,158	10,559
Program support and corporate services		
Employee costs	15,378	15,073
Operating leases	1,576	1,586
Professional services and other business related costs	1,191	987
Office and computer expenses	1,135	915
Other administrative costs	370	946
Communications and public awareness	151	148
	19,801	19,655
Depreciation and amortization		
Depreciation of property and equipment	12,849	12,804
Amortization of intangible assets	330	444
	13,179	13,248
	\$ 164,443	\$ 150,091

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.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

11. Government funding

CATSA's *Summary of the 2016/17 – 2020/21 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet publicly available. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

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

	Three months ended June 30	
	2016	2015
Parliamentary appropriations received and receivable	\$ 203,260	\$ 193,727
Amounts received and receivable related to prior period	(54,733)	(59,834)
Amounts to be used in future periods	(3,282)	(2,260)
Parliamentary appropriations used to finance operating expenses	\$ 145,245	\$ 131,633

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

	Three months ended June 30	
	2016	2015
Parliamentary appropriations received and receivable	\$ 39,176	\$ 44,692
Amounts received and receivable related to prior period	(14,872)	(17,800)
Amounts to be used in future periods	(5,572)	(15,980)
Parliamentary appropriations used to finance capital expenditures	\$ 18,732	\$ 10,912

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

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Notes to Condensed Interim Financial Statements
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(In thousands of Canadian dollars)

12. Fair values of financial instruments

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

The fair value of construction holdbacks is \$422.

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:

	June 30, 2016	March 31, 2016
Operating	\$ 494,517	\$ 636,006
Capital	160,910	156,913
Total	\$ 655,427	\$ 792,919

(b) Lease arrangements

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

	June 30, 2016	March 31, 2016
No later than 1 year	\$ 6,567	\$ 6,524
Later than 1 year and no later than 5 years	21,919	22,229
Later than 5 years	6,505	7,724

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Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

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

14. Related party transactions

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

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

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

Income from these related parties for the three months ended June 30, 2016, amounted to \$160,283 (2015 – \$146,609), 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 months ended June 30, 2016, amounted to \$3,445 (2015 – \$3,194), which include \$3,383 (2015 – \$2,678) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

As at June 30, 2016, amounts receivable from related parties were \$88,868 (March 31, 2016 – \$84,426). This amount primarily includes \$81,582 (March 31, 2016 – \$69,605) due from the Government of Canada for parliamentary appropriations and \$7,252 (March 31, 2016 – \$14,821) due from the Canada Revenue Agency for recoverable taxes paid on expenses. As at June 30, 2016, amounts payable to related parties were \$1,078 (March 31, 2016 – \$603).

(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 year.

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Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

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

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

	Three months ended June 30	
	2016	2015
(Increase) decrease in trade and other receivables	\$ (3,908)	\$ 20,990
Decrease in inventories	1,709	1,122
Decrease in prepaid expenses	158	368
Increase (decrease) in trade and other payables	24,244	(9,308)
Decrease in current portion of provisions	(211)	-
Decrease in deferred government funding related to operating expenses	(1,867)	(1,490)
	<u>\$ 20,125</u>	<u>\$ 11,682</u>

Interest income received and recognized during the three months ended June 30, 2016, totalled \$128 (2015 – \$104).

Interest expense paid and expensed during the three months ended June 30, 2016, totalled \$3 (2015 – \$1).

The change in trade and other receivables excludes an amount of \$1,268 (2015 – \$10,088) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of \$2,104 (2015 – \$9,899) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

The change in net employee benefits liability excludes an amount of \$17,064 (2015 – \$10,640) in relation to the remeasurement of defined benefit plans presented in other comprehensive (loss) income, as the amount relates to a non-cash remeasurement.

During the three months ended June 30, 2016, non-cash transfers of spare parts from property and equipment to inventory totalled \$3 (2015 – \$3).