

# Quarterly Financial Report

For the Three Months Ended  
June 30, 2017



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY  
MANAGEMENT'S NARRATIVE DISCUSSION  
FOR THE THREE MONTHS ENDED JUNE 30, 2017**

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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, 2017. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2017, 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 *2017 Annual Report*. At the time of publishing, CATSA's *2017 Annual Report* has not been tabled in Parliament. Until that time, CATSA is not in a position to provide the Management Discussion and Analysis for the year ended March 31, 2017. As a result, certain supplemental information has been provided in this Narrative Discussion. The information in this report is expressed in thousands of Canadian dollars and is current to August 23, 2017, 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.

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**CORPORATE OVERVIEW**

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

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

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

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

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

With the support of TC, CATSA entered into a Supplemental Screening Services trial agreement with the Greater Toronto Airports Authority (GTAA) for the provision of supplemental screening services effective October 5, 2014. CATSA also entered into a similar agreement with the Vancouver Airport Authority effective June 26, 2017. These agreements are set to expire on March 31, 2018.

## **ANNUAL HIGHLIGHTS**

- CATSA was able to screen an average of approximately 166 passengers per hour per line.
- CATSA delivered a wait time service level where approximately 86% of passengers were screened, on average, in 15 minutes or less at Canada's eight busiest airports.
- Despite significant growth in passenger volumes, CATSA has maintained wait time service levels while offering the highest levels of security to the public.
- In collaboration with the Calgary International Airport, CATSA deployed the full CATSA Plus concept in the new international terminal in October 2016.
- CATSA also worked closely with the Montreal-Trudeau International Airport to introduce one CATSA Plus line to pilot the concept at the airport in August 2016.
- As a result of close collaboration between CATSA and TC, Budget 2017 provided CATSA with funding to maintain a national average passenger wait time target of screening 85% of passengers in 15 minutes or less at Canada's busiest airports in 2017/18.
- CATSA has introduced a number of efficiencies with tools such as the Wait Time Impact Model and the Screening Checkpoint Optimization Tool. These tools allow CATSA to make use of its high quality, real time data on passenger arrivals at the checkpoint to plan resources strategically, and measure and optimize actual deployment tactically.
- The HBS Recapitalization Program continues on track and on budget for completion in 2020.
- CATSA continued to work collaboratively and build on its relationship with key national and international stakeholders through a number of initiatives, including discussions on the deployment of CATSA Plus.
- CATSA provides advice and training on screening to a number of federal departments, as well as international partners, demonstrating CATSA's innovative training expertise.
- CATSA takes passenger complaints very seriously. Despite continuous increases in passenger volumes, the number of complaints that CATSA receives is relatively small, averaging about one complaint per 50,000 screened passengers.

## **OPERATING ENVIRONMENT**

### **ECONOMIC ENVIRONMENT**

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Events and developments occurring in the economic environment greatly influence CATSA's operations.

### **ECONOMIC OUTLOOK**

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Global economic growth decreased from 3.3% in 2015 to an estimated 2.9% in 2016. It is expected to increase to 3.3% in 2017, 3.4% in 2018 and 3.5% in 2019. In Canada, the economy grew by 1.4% in 2016, and is projected to grow by 2.6% in 2017, 1.9% in 2018 and 1.8% in 2019.<sup>1</sup>

### **PASSENGER GROWTH AND SCREENING HOURS**

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Economic growth generally leads to increased passenger travel. Recent projections indicate that the number of enplaned passengers at Canadian airports is expected to grow in each of the next 5 years.

Passenger traffic forecasts are based on average annual growth across Canada. However, growth does not occur uniformly at all airports. Changes in passenger traffic occur largely on a regional and site-specific basis and without much warning, often as a result of changes in flight schedules or the introduction of new services by air carriers. For CATSA, a change in passenger traffic can often lead to a higher or sudden demand for screening hours and increased operating expenditures. To support any changes in passenger volumes that may occur, CATSA closely examines its purchases of screening hours among airports. CATSA also works closely with its industry partners on the impact of operational factors, such as flight schedules, available space and passenger arrival patterns, to help manage potential issues related to large influxes of passengers.

Statistics from CATSA's Boarding Pass Security System for the three months ended June 30, 2017, indicate that screened traffic across Canada increased by 11.5% over the same period in 2016, resulting in an increase in required screening hours.

Screening contractor billing rates will also increase over the term of the Airport Screening Services Agreements, putting 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 the Parliament of Canada 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.

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<sup>1</sup> Bank of Canada, *Monetary Policy Report*, April 2017.

Over the last two years, CATSA has received one-year incremental funding from the Government of Canada to achieve its targeted wait time service level, pending a long-term funding solution. More specifically, CATSA received incremental funding of \$26.8M in 2015/16 and \$29.0M in 2016/17. The funding provided in 2016/17 also enabled the implementation of One Stop Security and screening requirements associated with airport economic development plans. The One Stop Security initiative was announced by the Government of Canada on February 29, 2016, to make connections from European and U.S. flights through Canada simpler and faster. The Government of Canada provided CATSA with additional funding for PBS, which will allow CATSA to continue targeting a service level where 85% of passengers are screened in 15 minutes or less.

In addition, the incremental funding that CATSA initially received to deliver NPS screening as part of the enhanced NPS program expired March 31, 2017. Budget 2017 also provided one-year incremental funding of \$131.9M for CATSA to continue the delivery of the enhanced NPS program for 2017/18.

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

## **RISK ENVIRONMENT**

CATSA's ability to respond to a changing operating environment is critical to the organization's success. Risk management at CATSA is a formalized, systematic approach to determine the best course of action during times of uncertainty by identifying, assessing, evaluating, acting on and communicating risk throughout the organization. This approach contributes to risk-informed decision-making, which enables CATSA to effectively manage uncertainties and capitalize on opportunities.

CATSA's risk management program is focused on risks that may impede the organization's ability to meet the following objectives:

- I. To deliver mandated activities in an effective, efficient and consistent manner, while safeguarding the interests of the travelling public; and
- II. To provide services or programs in support of its mandated activities.

CATSA's mandate is not that of an intelligence gathering organization; rather, it relies upon directives from TC in order to respond to threat and risk information identified by intelligence agencies. The organization's mandated security screening programs provide a web of security that helps to reduce aviation security risks across the system.

## **RISK GOVERNANCE**

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CATSA has established a comprehensive risk management framework that identifies corporate risks associated with CATSA's environment and operating activities. CATSA conducts an annual corporate risk profiling exercise whereby corporate risks are identified and assessed against established criteria after taking into account CATSA's existing controls to mitigate them. CATSA's corporate risks are then actively monitored and re-assessed on a quarterly basis by the Senior Management Committee (SMC) and reported to the Board of Directors (BoD). This process is flexible as it enables the organization to include new and emerging risk information for consideration and assessment, and enables senior management to analyze emerging and forward-looking risk trends.

### *Board of Directors*

The BoD's key function and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, it ensures that management identifies, monitors and manages CATSA's corporate risks. It is responsible for providing clear direction of risk attitude, and approving the risk management policy as well as the corporate risk profile.

### *Senior Management Committee*

The SMC is responsible for assessing CATSA's key risks, evaluating corporate risks as per CATSA's risk attitude and ensuring appropriate controls and mitigation strategies are in place and implemented to effectively manage these risks. The role includes supporting risk awareness and communicating risks throughout the organization.

## **RISKS AND UNCERTAINTIES**

CATSA's key risks are a snapshot of those risks that could impede the organization's ability to achieve its strategic objectives. The following is a summary of CATSA's key corporate risks identified as at March 31, 2017. There have been no significant changes to the corporate risk profile during the three months ended June 30, 2017.

### *Mandated Services Risk*

#### Detection capability

Aviation security is CATSA's top priority. CATSA is mandated to provide screening in accordance with the security regulations, measures and directives set by TC. There is a risk that CATSA may not detect all high-risk threat items, which may result in substantial consequences to the civil aviation system.

To address this risk, CATSA works to continually review, test and improve the effectiveness of its operational processes and procedures, and also maintains a capital program to support the replacement and upgrading of screening equipment.

#### Threat and risk information

The continuously evolving threat environment and aviation security trends may challenge CATSA's ability to act on emerging threats and risks. There is a risk that CATSA may not be able to respond to threat and risk information in a timely manner or may not exercise adequate due diligence when information is received.

To address this risk, CATSA conducts continuous monitoring and analysis of threat and risk information from external sources, and disseminates this information to the appropriate decision makers. Detailed integrated response strategies include ensuring business continuity and emergency response plans are in place to respond to this threat and risk information. To strengthen the resilience of these plans, they are periodically tested and exercises conducted.

## ***Capacity Risk***

### **Core mandate**

CATSA continues to face a variety of external challenges and pressures such as increases in screening contractor billing rates and rising passenger volumes. As a result, its ability to purchase screening hours may decline over the coming years based on its approved funding levels. Consequently, passengers may wait longer to be screened without additional funding.

CATSA has been working with TC to develop an operationally effective long term funding strategy to address this risk.

### **Provision of corporate support services**

Since 2015, CATSA has had a reduced workforce to provide corporate support services; however, the demand for these services has remained constant or has increased on occasion. While the organization will always provide corporate services to ensure its mandatory requirements are met, there is a risk that the current corporate service structure may be inadequate to support the delivery of the current support services workload.

To address this risk, a Corporate Rebalancing Exercise identified temporary resources to alleviate workload pressures in corporate support services in 2017/18.

## ***Service Delivery through Third-Party Risk***

### **Illegal labour disruptions**

CATSA outsources its services to screening contractors, who rely on a unionized screening workforce to deliver screening services. There is a risk that illegal labour disruptions may occur at some airports as a result of union activity or the collective bargaining process.

To address this risk, CATSA continually monitors labour issues between screening contractors and the unions representing screening officers. In the event of an illegal labour disruption, CATSA has prepared labour contingency plans with operational, legal and communications components. However, CATSA's ability to directly influence the return to normal service is limited.

### **Service delivery model - outsourcing**

Given CATSA's service delivery model, the organization relies on screening contractors for delivering a critical and mandated service for Canadians. There is a risk that if a screening contractor is unable to provide screening services as contracted, CATSA's service delivery may be negatively impacted.

To address this risk, CATSA continually monitors screening contractor performance and has developed a screening contractor relationship management framework, which promotes a systematic and collaborative relationship between CATSA and the screening contractors.

## ***Reputational Risk***

Through various communications channels, stakeholders have raised concerns about CATSA's operations on a variety of issues such as inconsistency of screening, longer wait-times and have questioned whether CATSA's delivery of mandated services provides value for money. There is a risk that this may damage CATSA's reputation.

To address this risk, CATSA continues to improve the passenger experience by responding to customer complaints in a timely manner and promoting a customer service-oriented culture. CATSA regularly liaises with industry stakeholders and has implemented a variety of communication strategies such as conducting passenger intercept surveys and the expanded use of social media to engage its multiple stakeholder groups.

### *Management Systems/Control Systems Risk*

#### Management of sensitive, secret or personal information

CATSA produces, collects and maintains a multitude of sensitive, secret and personal documentation and information. There is a risk that sensitive, secret or personal information in both physical and/or electronic formats may be lost or disclosed inappropriately.

To address this risk, CATSA has a variety of physical security and information technology security controls in place, and conducts privacy impact assessments for all new or modified programs and activities that involve the use of personal information. CATSA has also established privacy policies and procedures to safeguard the organization against this risk.

#### Organizational preparedness for emergencies

An integrated business continuity and emergency management plan is essential to ensure continuity of operations and recovery from major incidents or emergencies. There is a risk that CATSA's business continuity and emergency response plans may not be fully integrated, tested and understood, in order to effectively respond to and recover from emergencies and maintain operational readiness.

To address this risk, the plan is regularly updated and various components of the plan are tested on an annual basis. Any identified gaps will be corrected and addressed during upcoming review processes.

### *Human Resources Risk*

#### Employee recruitment, retention and engagement

CATSA strives to maintain an engaged, high-performing workforce. CATSA is facing challenges in recruiting and retaining talent in key and specialized positions and in maintaining a healthy workplace.

To address this risk, the organization is focusing on initiatives to retain talent and improve employee engagement. CATSA is currently implementing improvements to its human resources practices and policies arising from the recommendations of three working groups established to address the employee concerns around flexible work environments, the culture of recognition and an inclusive and diverse workforce.

### *Information Technology (IT) Risk*

#### Cyber attacks on IT infrastructure

Government departments, agencies and Crown corporations are constantly exposed to a variety of cyber threats to their IT infrastructure. There is a risk that cyber threats and/or attacks may negatively impact CATSA's IT infrastructure and/or compromise organizationally sensitive information, resulting in a loss of public confidence and potential damage to CATSA's reputation.

To address this risk, the organization has a variety of devices, systems, processes and procedures to safeguard the organization's IT infrastructure.



## Governance Risk

### Period of interim senior leadership

The term for CATSA's Chairperson expired in October, 2016. The current CEO has been appointed by an order in council for a one-year term or until a new CEO is appointed. The board is being led by the Vice Chair. There is a risk that, in such circumstances, the organization may face challenges in pursuing longer term strategies and objectives.

To address this risk, CATSA is actively engaged with government to support the process to appoint a new Chairperson and CEO.

## 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, 2017, and June 30, 2016.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss) (Thousands of Canadian dollars)	Three Months Ended			
	2017 (unaudited)	2016 (unaudited)	\$ Change	% Change
<b>Expenses<sup>1</sup></b>				
Screening services and other related costs	\$ 132,828	\$ 121,305	\$ 11,523	9.5%
Equipment operating and maintenance	9,445	10,158	(713)	(7.0%)
Program support and corporate services	20,608	19,801	807	4.1%
Depreciation and amortization	13,979	13,179	800	6.1%
<b>Total expenses</b>	<b>176,860</b>	<b>164,443</b>	<b>12,417</b>	<b>7.6%</b>
<b>Other expenses (income)</b>	<b>663</b>	<b>(29)</b>	<b>692</b>	<b>N/M</b>
<b>Financial performance before revenue and government funding</b>	<b>177,523</b>	<b>164,414</b>	<b>13,109</b>	<b>8.0%</b>
<b>Revenue</b>	<b>3,534</b>	<b>1,249</b>	<b>2,285</b>	<b>182.9%</b>
<b>Government funding</b>				
Parliamentary appropriations for operating expenses	157,192	147,112	10,080	6.9%
Amortization of deferred government funding related to capital expenditures	14,183	13,171	1,012	7.7%
<b>Total government funding</b>	<b>171,375</b>	<b>160,283</b>	<b>11,092</b>	<b>6.9%</b>
<b>Financial performance</b>	<b>\$ (2,614)</b>	<b>\$ (2,882)</b>	<b>\$ 268</b>	<b>9.3%</b>
<b>Other comprehensive loss</b>	<b>(10,939)</b>	<b>(17,064)</b>	<b>6,125</b>	<b>35.9%</b>
<b>Total comprehensive loss</b>	<b>\$ (13,553)</b>	<b>\$ (19,946)</b>	<b>\$ 6,393</b>	<b>32.1%</b>

<sup>1</sup> 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, 2017.

N/M = not meaningful

### ***Screening services and other related costs***

Screening services and other related costs increased by \$11,523 (9.5%) for the three months ended June 30, 2017, compared to the same period in 2016. The variance is primarily due to the purchase of additional screening hours totalling \$6,894, coupled with annual screening contractor billing rate increases amounting to \$3,870.

The rise in screening hours purchased is mainly attributable to additional screening requirements to support an increase in passenger volumes and changes in operational needs at certain airports. The increase is also due to the purchase of a greater number of supplemental screening hours by the GTAA, and additional screening requirements to support the enhanced NPS program as construction of permanent vehicle search facilities have been completed at certain airports.

### ***Equipment operating and maintenance***

Equipment operating and maintenance costs decreased by \$713 (7.0%) for the three months ended June 30, 2017, compared to the same period in 2016. The decrease is primarily due to lower training requirements for equipment technologists to support the ongoing deployment of new EDS equipment, based on the capital deployment plan.

### ***Program support and corporate services***

Program support and corporate services increased by \$807 (4.1%) for the three months ended June 30, 2017, compared to the same period in 2016. The increase was primarily attributable to a credit recorded in 2016 related to commodity taxes in the amount of \$660. Other program support and corporate services costs remained stable.

### ***Depreciation and amortization***

Depreciation and amortization increased by \$800 (6.1%) for the three months ended June 30, 2017, compared to the same period in 2016. The increase is primarily due to new deployments of CATSA Plus, as well as HBS equipment deployments as part of the normal life-cycle management program. The increase is partially offset by older HBS equipment becoming fully depreciated in the previous year. The increase is also offset by changes in estimated useful lives being applied to equipment impacted by the HBS life-cycle management program.

### ***Other expenses (income)***

Other expenses increased by \$692 for the three months ended June 30, 2017, compared to the same period in 2016. The increase is primarily due to the net loss on fair value of derivative financial instruments related to CATSA's recently implemented currency hedging strategy.

### ***Revenue***

Revenue increased by \$2,285 (182.9%) for the three months ended June 30, 2017, compared to the same period in 2016. This is mainly attributable to the purchase of a greater number of supplemental screening hours by the GTAA, relative to the comparative period. This is also due to a non-cash vendor credit received during the quarter.

### ***Parliamentary appropriations for operating expenses***

Parliamentary appropriations for operating expenses increased by \$10,080 (6.9%) for the three months ended June 30, 2017, compared to the same period in 2016. The increase is primarily due to increased spending for screening services and other related costs, as previously discussed.

### *Amortization of deferred government funding related to capital expenditures*

Amortization of deferred government funding related to capital expenditures increased by \$1,012 (7.7%) for the three months ended June 30, 2017, compared to the same period in 2016. The increase is primarily due to increased depreciation and amortization, 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 of \$10,939 for the three months ended June 30, 2017, is due to a remeasurement loss of \$12,095 on the defined benefit liability arising from a 25 basis point decrease in the discount rate since March 31, 2017, partially offset by a remeasurement gain of \$1,156 resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions.

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 actual rate of return on plan assets than the rate used in CATSA's assumptions.

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

## **STATEMENT OF FINANCIAL POSITION**

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at June 30, 2017, compared to March 31, 2017.

<b>Key Financial Highlights -</b>				
<b>Condensed Interim Statement of Financial Position</b>				
	<b>June 30,</b>	<b>March 31,</b>		
(Thousands of Canadian dollars)	<b>2017</b>	<b>2017</b>	<b>\$ Change</b>	<b>% Change</b>
	(unaudited)	(audited)		
Current assets	\$ 145,389	\$ 152,005	\$ (6,616)	(4.4%)
Non-current assets	422,670	428,458	(5,788)	(1.4%)
<b>Total assets</b>	<b>\$ 568,059</b>	<b>\$ 580,463</b>	<b>\$ (12,404)</b>	<b>(2.1%)</b>
Current liabilities	\$ 145,607	\$ 150,796	\$ (5,189)	(3.4%)
Non-current liabilities	441,212	434,874	6,338	1.5%
<b>Total liabilities</b>	<b>\$ 586,819</b>	<b>\$ 585,670</b>	<b>\$ 1,149</b>	<b>0.2%</b>

### **Assets**

Current assets decreased by \$6,616 (4.4%) primarily due to the following:

- Decrease in trade and other receivables of \$37,703, mainly due to a decrease in parliamentary appropriations receivable of \$34,053 and a decrease in taxes recoverable of \$4,073;
- Decrease in inventories of \$902 primarily due to usage of \$893 of uniforms and RAIC cards inventories; and
- Increase in cash of \$32,548 primarily due to the timing of funds received from the Government of Canada.

Non-current assets decreased by \$5,788 (1.4%) primarily due to the following:

- Decrease in employee benefits of \$10,549. The employee benefits asset is comprised of CATSA's registered pension plan and supplementary retirement plan, which were both in a net asset position. The decrease is primarily due to a remeasurement loss of \$10,474 on the defined benefit liability arising from a 25 basis point decrease in the discount rate since March 31, 2017 and defined benefit cost exceeding contributions by \$1,231, partially offset by higher actual return on plan assets compared to the return expected per CATSA's assumptions by \$1,156; and
- Increase in property and equipment and intangible assets of \$4,818 primarily due to the acquisition of property and equipment and intangible assets of \$19,047, partially offset by depreciation and amortization of \$13,979.

### *Liabilities*

Current liabilities decreased by \$5,189 (3.4%) primarily due to the following:

- Decrease in trade and other payables of \$4,319 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of \$1,187 due to a reduction in inventories and prepaids balances.

Non-current liabilities increased by \$6,338 (1.5%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures of \$3,992 due to capital expenditures financed through parliamentary appropriations of \$18,175, exceeding amortization of \$14,183; and
- Increase in employee benefits of \$2,244 in relation to CATSA's other defined benefits plan due a remeasurement loss of \$1,621 on the defined benefit liability arising from a 25 basis point decrease in the discount rate since March 31, 2017 and to the defined benefit cost exceeding contributions by \$623.

## FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2017/18 – 2021/22 Corporate Plan* has not been tabled for approval 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 2017/18 – 2021/22 Corporate Plan*.

## PARLIAMENTARY APPROPRIATIONS USED

CATSA's operations are funded primarily by parliamentary appropriations from the Government of Canada. The table below serves to reconcile financial performance reported under International Financial Reporting Standards (IFRS) and operating appropriations used on a near-cash accrual basis:

Reconciliation of Financial Performance to Operating Appropriations Used (Thousands of Canadian dollars)	Three Months Ended June 30	
	2017 (unaudited)	2016 (unaudited)
<b>Financial performance before revenue and government funding</b>	\$ 177,523	\$ 164,414
<b>Revenue</b>	(3,534)	(1,249)
<b>Financial performance before government funding</b>	173,989	163,165
<b>Non-cash expenses</b>		
Depreciation and amortization	(13,979)	(13,179)
Employee benefits expense <sup>1</sup>	(1,854)	(1,923)
Employee cost accruals <sup>2</sup>	(1,060)	(1,015)
Change in fair value of financial instruments designated at fair value through profit and loss	(648)	-
Write-off of property and equipment and intangible assets	(149)	(7)
Loss on disposal of property and equipment	(57)	-
Spare parts expense funded from capital <sup>3</sup>	(16)	(3)
Non-cash vendor credits	762	-
Non-cash gain on foreign exchange recognized in financial performance	123	-
Deferred lease incentives recognized in financial performance <sup>4</sup>	81	74
<b>Parliamentary appropriations for operating expenses</b>	<b>\$ 157,192</b>	<b>\$ 147,112</b>
<b>Other items affecting funding</b>		
Net change in prepaids and inventories <sup>5</sup>	(1,187)	(1,867)
<b>Total operating appropriations used</b>	<b>\$ 156,005</b>	<b>\$ 145,245</b>

<sup>1</sup> 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.

<sup>2</sup> Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to June 30, 2017. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

<sup>3</sup> 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.

<sup>4</sup> 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.

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

## CAPITAL EXPENDITURES

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

Reconciliation of Capital Acquisitions to Capital Appropriations Used	Three Months Ended	
	June 30	
(Thousands of Canadian dollars)	2017	2016
	(unaudited)	(unaudited)
Explosives Detection System	\$ 18,657	\$ 17,176
Non-Explosives Detection System	390	1,556
<b>Total capital asset acquisitions</b>	<b>\$ 19,047</b>	<b>\$ 18,732</b>
Non-cash additions resulting from vendor credits	(762)	-
Non-cash gain on foreign exchange related to capital acquisitions	(82)	-
Proceeds on disposal of property and equipment <sup>1</sup>	(28)	-
<b>Total capital appropriations used</b>	<b>\$ 18,175</b>	<b>\$ 18,732</b>

<sup>1</sup> Proceeds on disposal of property and equipment include 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 The Treasury Board of Canada *Standard on Quarterly Financial Statements for Crown Corporations* and for such internal controls as management determines are necessary to enable the preparation of condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed interim financial statements.

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



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Michael Saunders  
President and Chief Executive Officer

Ottawa, Canada

August 23, 2017



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

Ottawa, Canada

August 23, 2017

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY  
AUTHORITY**

June 30, 2017

(Unaudited)



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position  
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2017	March 31, 2017
<b>Assets</b>		
Current assets		
Cash	\$ 68,815	\$ 36,267
Trade and other receivables (note 3)	59,036	96,739
Inventories (note 4)	14,827	15,729
Prepaid expenses	2,711	2,996
Derivative financial instruments (note 12)	-	274
	145,389	152,005
Non-current assets		
Property and equipment (note 5)	405,776	400,908
Intangible assets (note 6)	8,401	8,451
Employee benefits (note 9)	8,493	19,042
Derivative financial instruments (note 12)	-	57
	422,670	428,458
<b>Total assets</b>	<b>\$ 568,059</b>	<b>\$ 580,463</b>
<b>Liabilities and Equity</b>		
Current liabilities		
Trade and other payables	\$ 127,752	\$ 132,071
Deferred government funding related to operating expenses (note 8)	17,538	18,725
Derivative financial instruments (note 12)	317	-
	145,607	150,796
Non-current liabilities		
Construction holdbacks (note 12)	1,118	935
Deferred lease incentives	607	688
Deferred government funding related to capital expenditures (note 8)	412,951	408,959
Employee benefits (note 9)	26,536	24,292
	441,212	434,874
Equity		
Accumulated deficit	(18,760)	(5,207)
<b>Total liabilities and equity</b>	<b>\$ 568,059</b>	<b>\$ 580,463</b>

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	
	2017	2016
<b>Expenses</b>		
Pre-Board Screening	\$ 94,229	\$ 86,803
Hold Baggage Screening	37,007	35,193
Non-Passenger Screening	34,371	31,841
Restricted Area Identity Card Program	759	927
Corporate services	10,494	9,679
<b>Total expenses (note 10)</b>	<b>176,860</b>	<b>164,443</b>
<b>Other expenses (income)</b>		
Net loss on fair value of derivative financial instruments	648	-
Write-off of property and equipment and intangible assets	149	7
Loss on disposal of property and equipment	57	-
Finance cost	-	3
Foreign exchange gain	(191)	(39)
<b>Total other expenses (income)</b>	<b>663</b>	<b>(29)</b>
<b>Financial performance before revenue and government funding</b>	<b>177,523</b>	<b>164,414</b>
<b>Revenue</b>		
Supplemental screening services	2,595	1,121
Miscellaneous income	762	-
Rental income	90	-
Finance income	87	128
<b>Total revenue</b>	<b>3,534</b>	<b>1,249</b>
<b>Government funding</b>		
Parliamentary appropriations for operating expenses (note 8)	157,192	147,112
Amortization of deferred government funding related to capital expenditures (note 8)	14,183	13,171
<b>Total government funding</b>	<b>171,375</b>	<b>160,283</b>
<b>Financial performance</b>	<b>\$ (2,614)</b>	<b>\$ (2,882)</b>
<b>Other comprehensive loss</b>		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)	(10,939)	(17,064)
<b>Total comprehensive income (loss)</b>	<b>\$ (13,553)</b>	<b>\$ (19,946)</b>

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)

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**For the three months ended June 30:**

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	Accumulated deficit
Balance, March 31, 2017	\$ (5,207)
Financial performance	(2,614)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	(10,939)
<hr/> Balance, June 30, 2017	<hr/> \$ (18,760)
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)

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	
	2017	2016
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (2,614)	\$ (2,882)
Items not involving cash		
Depreciation of property and equipment (note 5 and 10)	13,721	12,849
Increase in net employee benefits liability (note 15)	1,854	1,923
Change in fair value of financial instruments designated at fair value through profit and loss (note 12)	648	-
Amortization of intangible assets (note 6 and 10)	258	330
Write-off of property and equipment and intangible assets	149	7
Loss on disposal of property and equipment	57	-
Amortization of deferred government funding related to capital expenditures (note 8)	(14,183)	(13,171)
Other non-cash transactions (note 15)	(746)	3
Deferred lease incentives recognized in financial performance	(81)	(74)
Net change in working capital balances (note 15)	31,948	20,125
	31,011	19,110
Investing activities		
Parliamentary appropriations received for capital funding	25,808	20,000
Purchase of property and equipment	(24,063)	(15,958)
Purchase of intangible assets	(208)	(447)
	1,537	3,595
Increase in cash	32,548	22,705
Cash, beginning of period	36,267	11,227
Cash, end of period	\$ 68,815	\$ 33,932

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, 2017  
(In thousands of Canadian dollars)

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## 1. Corporate information

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

CATSA is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. In October 2014, CATSA entered into a Supplemental Screening Services Trial Agreement with the Greater Toronto Airports Authority for the purchase of supplemental PBS screening hours from CATSA on a cost recovery basis. With the support of Transport Canada, the agreement was extended to March 31, 2018. Effective June 26, 2017, CATSA entered into a similar Trial Agreement with the Vancouver Airport Authority. The Trial will run until March 31, 2018.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on August 23, 2017.

## 2. Summary of significant accounting policies

### (a) Basis of preparation

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

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

As permitted by IAS 34, these interim financial statements are presented on a condensed basis and therefore do not include all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual financial statements. These condensed interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements. Accordingly, they should be read in conjunction with the audited annual financial statements for the year ended March 31, 2017.

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, 2017.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

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(b) Future accounting changes

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

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

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

(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 of IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. This standard will become effective for annual periods beginning on or after January 1, 2018, on a retrospective basis.

(iii) IFRS 16 *Leases*

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

CATSA does not expect any significant changes to its financial statements as a result of the adoption and implementation of IFRS 15 and IFRS 9. While the assessment of IFRS 16 is in its early stages, CATSA expects the impact on its financial statements will be significant.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 3. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2017	March 31, 2017
Parliamentary appropriations	\$ 49,681	\$ 83,734
GST and HST recoverable	5,995	8,574
Supplemental screening services	2,140	1,791
PST recoverable	1,018	2,512
Other	202	128
	<u>\$ 59,036</u>	<u>\$ 96,739</u>

Credit terms on trade receivables are 30 days. As of June 30, 2017, and March 31, 2017, there were no trade receivables that were past due.

## 4. Inventories

Inventories are comprised of:

	June 30, 2017	March 31, 2017
Spare parts	\$ 13,290	\$ 13,299
RAIC	873	1,082
Uniforms	664	1,348
	<u>\$ 14,827</u>	<u>\$ 15,729</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 presented as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equip- ment	Leasehold improve- ments	Work-in- progress	Total
<b>Cost</b>									
Balance, March 31, 2016	\$ 117,081	\$ 678,886	\$ 16,482	\$ 5,394	\$ 23,265	\$ 84	\$ 9,489	\$ 96,845	\$ 947,526
Additions	10,528	30,446	181	166	2,121	-	494	60,688	104,624
Disposals	(2,106)	(35,211)	(58)	-	(108)	-	-	(42)	(37,525)
Write-offs	(2,565)	(1,497)	-	(266)	(3,497)	(54)	(54)	-	(7,933)
Impairments	-	-	-	-	-	-	-	(1,934)	(1,934)
Reclassifications	2,345	74,543	3,740	35	5,422	-	-	(86,085)	-
<b>Balance, March 31, 2017</b>	<b>\$ 125,283</b>	<b>\$ 747,167</b>	<b>\$ 20,345</b>	<b>\$ 5,329</b>	<b>\$ 27,203</b>	<b>\$ 30</b>	<b>\$ 9,929</b>	<b>\$ 69,472</b>	<b>\$ 1,004,758</b>
Balance, March 31, 2017	\$ 125,283	\$ 747,167	\$ 20,345	\$ 5,329	\$ 27,203	\$ 30	\$ 9,929	\$ 69,472	\$ 1,004,758
Additions	3,524	3,355	4	-	63	-	-	11,893	18,839
Disposals	-	(37,687)	-	-	(389)	-	-	-	(38,076)
Write-offs	(101)	(269)	-	(1,417)	(296)	-	-	(41)	(2,124)
Reclassifications	3,136	193	348	436	136	-	-	(4,249)	-
<b>Balance, June 30, 2017</b>	<b>\$ 131,842</b>	<b>\$ 712,759</b>	<b>\$ 20,697</b>	<b>\$ 4,348</b>	<b>\$ 26,717</b>	<b>\$ 30</b>	<b>\$ 9,929</b>	<b>\$ 77,075</b>	<b>\$ 983,397</b>
<b>Accumulated depreciation</b>									
Balance, March 31, 2016	\$ 73,621	\$ 485,440	\$ 7,643	\$ 3,457	\$ 17,385	\$ 84	\$ 8,251	\$ -	\$ 595,881
Depreciation	9,493	36,510	1,783	533	2,779	-	406	-	51,504
Disposals	(1,851)	(34,841)	(59)	-	(105)	-	-	-	(36,856)
Write-offs	(2,022)	(1,427)	538	(266)	(3,393)	(54)	(55)	-	(6,679)
Reclassifications	(1,357)	(770)	920	-	1,207	-	-	-	-
<b>Balance, March 31, 2017</b>	<b>\$ 77,884</b>	<b>\$ 484,912</b>	<b>\$ 10,825</b>	<b>\$ 3,724</b>	<b>\$ 17,873</b>	<b>\$ 30</b>	<b>\$ 8,602</b>	<b>\$ -</b>	<b>\$ 603,850</b>
Balance, March 31, 2017	\$ 77,884	\$ 484,912	\$ 10,825	\$ 3,724	\$ 17,873	\$ 30	\$ 8,602	\$ -	\$ 603,850
Depreciation	2,570	9,762	428	145	725	-	91	-	13,721
Disposals	-	(37,602)	-	-	(389)	-	-	-	(37,991)
Write-offs	(73)	(189)	-	(1,402)	(295)	-	-	-	(1,959)
<b>Balance, June 30, 2017</b>	<b>\$ 80,381</b>	<b>\$ 456,883</b>	<b>\$ 11,253</b>	<b>\$ 2,467</b>	<b>\$ 17,914</b>	<b>\$ 30</b>	<b>\$ 8,693</b>	<b>\$ -</b>	<b>\$ 577,621</b>
<b>Carrying amounts</b>									
As at March 31, 2017	\$ 47,399	\$ 262,255	\$ 9,520	\$ 1,605	\$ 9,330	\$ -	\$ 1,327	\$ 69,472	\$ 400,908
As at June 30, 2017	\$ 51,461	\$ 255,876	\$ 9,444	\$ 1,881	\$ 8,803	\$ -	\$ 1,236	\$ 77,075	\$ 405,776



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 6. Intangible assets

A reconciliation of intangible assets is presented as follows:

	Externally acquired software	Internally developed software	Under development	Total
<b>Cost</b>				
Balance, March 31, 2016	\$ 4,171	\$ 19,583	\$ 414	\$ 24,168
Additions	329	919	1,958	3,206
Write-offs	(389)	(886)	-	(1,275)
Reclassifications	-	39	(39)	-
<b>Balance, March 31, 2017</b>	<b>\$ 4,111</b>	<b>\$ 19,655</b>	<b>\$ 2,333</b>	<b>\$ 26,099</b>
Balance, March 31, 2017	\$ 4,111	\$ 19,655	\$ 2,333	\$ 26,099
Additions	-	-	208	208
<b>Balance, June 30, 2017</b>	<b>\$ 4,111</b>	<b>\$ 19,655</b>	<b>\$ 2,541</b>	<b>\$ 26,307</b>
<b>Accumulated amortization</b>				
Balance, March 31, 2016	\$ 3,266	\$ 14,149	\$ -	\$ 17,415
Amortization	221	1,226	-	1,447
Write-offs	(368)	(846)	-	(1,214)
<b>Balance, March 31, 2017</b>	<b>\$ 3,119</b>	<b>\$ 14,529</b>	<b>\$ -</b>	<b>\$ 17,648</b>
Balance, March 31, 2017	\$ 3,119	\$ 14,529	\$ -	\$ 17,648
Amortization	68	190	-	258
<b>Balance, June 30, 2017</b>	<b>\$ 3,187</b>	<b>\$ 14,719</b>	<b>\$ -</b>	<b>\$ 17,906</b>
<b>Carrying amounts</b>				
As at March 31, 2017	\$ 992	\$ 5,126	\$ 2,333	\$ 8,451
As at June 30, 2017	\$ 924	\$ 4,936	\$ 2,541	\$ 8,401

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

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## 7. Provisions and contingencies

### (a) Provisions

Several claims, audits and legal proceedings have been asserted or instituted against CATSA.

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

No provisions were recorded as at June 30, 2017, and March 31, 2017.

### (b) Contingencies

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

#### (i) Claims and legal proceedings

As at June 30, 2017, there were no significant legal claims outstanding against CATSA.

#### (ii) Decommissioning costs

During the three months ended June 30, 2017, there have been no material changes to the contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 8(b)(ii) of the audited annual financial statement for the year ended March 31, 2017.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 8. Deferred government funding

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

	June 30, 2017	March 31, 2017
<b>Deferred government funding related to operating expenses</b>		
Balance, beginning of period	\$ 18,725	\$ 19,171
Operating expenses funded through parliamentary appropriations	156,005	615,925
Parliamentary appropriations recognized as government funding for operating expenses	(157,192)	(616,371)
Balance, end of period	\$ 17,538	\$ 18,725
<b>Deferred government funding related to capital expenditures</b>		
Balance, beginning of period	\$ 408,959	\$ 357,936
Capital expenditures funded through parliamentary appropriations	18,175	107,809
Amortization of deferred government funding related to capital expenditures	(14,183)	(56,786)
Balance, end of period	\$ 412,951	\$ 408,959
<b>Total deferred government funding, end of period</b>	<b>\$ 430,489</b>	<b>\$ 427,684</b>

For additional information on government funding, see 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 detailed as follows:

	June 30, 2017	March 31, 2017
Employee benefits asset		
Registered pension plan (RPP)	\$ 6,320	\$ 16,620
Supplementary retirement plan (SRP)	2,173	2,422
	8,493	19,042
Employee benefits liability		
Other defined benefits plan (ODBP)	(26,536)	(24,292)
	(26,536)	(24,292)
Employee benefits - net liability	\$ (18,043)	\$ (5,250)

# 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 as follows:

	For the three months ended June 30							
	RPP		SRP		ODBP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Defined benefit cost recognized in financial performance</b>								
Current service cost	\$ 2,049	\$ 2,255	\$ 17	\$ 28	\$ 412	\$ 504	\$ 2,478	\$ 2,787
Administration costs	62	63	4	4	-	-	66	67
Interest cost on defined benefit obligation	1,645	1,588	38	42	242	256	1,925	1,886
Interest income on plan assets	(1,726)	(1,571)	(60)	(56)	-	-	(1,786)	(1,627)
<b>Defined benefit cost (income)</b>	<b>\$ 2,030</b>	<b>\$ 2,335</b>	<b>\$ (1)</b>	<b>\$ 18</b>	<b>\$ 654</b>	<b>\$ 760</b>	<b>\$ 2,683</b>	<b>\$ 3,113</b>

## Remeasurement of defined benefit plans recognized in other comprehensive loss

Return on plan assets excluding interest income	\$ 1,189	\$ 7,132	\$ (33)	\$ 1	\$ -	\$ -	\$ 1,156	\$ 7,133
Actuarial losses arising from changes in financial assumptions	(10,257)	(20,157)	(217)	(525)	(1,621)	(3,515)	(12,095)	(24,197)
<b>Remeasurement of defined benefit plans</b>	<b>\$ (9,068)</b>	<b>\$ (13,025)</b>	<b>\$ (250)</b>	<b>\$ (524)</b>	<b>\$ (1,621)</b>	<b>\$ (3,515)</b>	<b>\$ (10,939)</b>	<b>\$ (17,064)</b>

For the three months ended June 30, 2017, CATSA recognized an expense of \$128 (2016 - \$74) in relation to the defined contribution component of the RPP.

## (c) Significant actuarial assumptions

Assumptions used to measure the defined benefit pension plan assets and liabilities are reviewed and, as necessary, revised at each reporting period. This typically includes reviewing the discount rates and actual rate of return on the plan assets against rates previously estimated, to reflect the current assumptions and circumstances. Changes to actuarial assumptions result in remeasurement gains and/or losses recognized in other comprehensive income.

For the three months ended June 30, 2017, remeasurement losses of \$10,939 resulted from a decrease in the discount rate of 25 basis points (from 3.75% at March 31, 2017 to 3.50% at June 30, 2017) and a lower actual return on plan assets than the rate used in CATSA's assumptions for the SRP (0.42% actual versus 0.94% expected). This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (1.60% actual versus 0.94% expected).

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended June 30, 2016, remeasurement losses of \$17,064 resulted from a decrease in the discount rate of 50 basis points (from 3.75% at March 31, 2016 to 3.25% at June 30, 2016). This was partially offset by a higher actual 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).

(d) Employer contributions

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

	Three months ended	
	June 30	
	2017	2016
Employer contributions		
RPP	\$ 798	\$ 1,160
ODBP	31	30
	\$ 829	\$ 1,190

Total employer contributions to the defined benefit plans are estimated to be \$4,044 for the year ending March 31, 2018.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

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	
	2017	2016
Screening services and other related costs		
Payments to screening contractors	\$ 131,162	\$ 119,415
Uniforms and other screening costs	1,397	1,600
Trace and consumables	269	290
	132,828	121,305
Equipment operating and maintenance		
Equipment maintenance and spare parts	9,199	9,410
RAIC	210	491
Training and certification	36	257
	9,445	10,158
Program support and corporate services		
Employee costs	15,492	15,378
Operating leases	1,604	1,576
Professional services and other business related costs	1,349	1,191
Other administrative costs	1,049	370
Office and computer expenses	947	1,135
Communications and public awareness	167	151
	20,608	19,801
Depreciation and amortization		
Depreciation of property and equipment	13,721	12,849
Amortization of intangible assets	258	330
	13,979	13,179
	\$ 176,860	\$ 164,443

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 2017/18 – 2021/22 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet publicly available. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

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

	Three months ended June 30	
	2017	2016
Parliamentary appropriations received and receivable	\$ 225,474	\$ 203,260
Amounts received and receivable related to prior period	(67,925)	(54,733)
Amounts to be used in future periods	(1,544)	(3,282)
<b>Parliamentary appropriations used to fund operating expenses (note 8)</b>	<b>\$ 156,005</b>	<b>\$ 145,245</b>

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

	Three months ended June 30	
	2017	2016
Parliamentary appropriations received and receivable	\$ 39,029	\$ 39,176
Amounts received and receivable related to prior period	(15,809)	(14,872)
Amounts to be used in future periods	(5,045)	(5,572)
<b>Parliamentary appropriations used to fund capital expenditures (note 8)</b>	<b>\$ 18,175</b>	<b>\$ 18,732</b>

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.



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 12. Fair values of financial instruments

Derivative financial instruments are recorded at fair value on the Condensed Interim Statement of Financial Position. The fair values of cash, receivables related to supplemental screening services and trade and other payables approximate their carrying amount due to the current nature of these instruments.

The carrying amounts and corresponding fair values of CATSA's remaining financial assets and liabilities are as follows:

	June 30, 2017		March 31, 2017	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial asset instruments <sup>1</sup>	\$ -	\$ -	\$ 331	\$ 331
Derivative financial liability instruments <sup>1</sup>	317	317	-	-
Financial instruments measured at amortized cost				
Construction holdbacks <sup>2</sup>	\$ 1,118	\$ 1,118	\$ 935	\$ 935

<sup>1</sup> The fair value is based on a discounted cash flow model based on observable inputs.

<sup>2</sup> The fair value is determined using expected future cash flows, discounted using published Government bond rates with similar terms and characteristics.

There were no transfers between levels during the three months ended June 30, 2017, or the year ended March 31, 2017.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
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## 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, 2017	March 31, 2017
Operating	\$ 2,682,825	\$ 2,819,072
Capital	135,501	139,093
<b>Total</b>	<b>\$ 2,818,326</b>	<b>\$ 2,958,165</b>

### (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, 2017	March 31, 2017
No later than 1 year	\$ 7,512	\$ 7,035
Later than 1 year and no later than 5 years	23,474	21,970
Later than 5 years	3,487	4,660
<b>Total</b>	<b>\$ 34,473</b>	<b>\$ 33,665</b>

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

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(In thousands of Canadian dollars)

## 14. Related party transactions

CATSA had the following transactions with related parties for the three months ended June 30, 2017:

(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.

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

	Three months ended June 30	
	2017	2016
Income	\$ 171,375	\$ 160,283
Expenses	3,473	3,445

Income from related parties represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses presented above for the three months ended June 30, 2017, include \$3,233 (2016 – \$3,383) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

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

	June 30, 2017	March 31, 2017
Receivable from related parties	\$ 55,850	\$ 92,426
Payable to related parties	(843)	(1,189)
<b>Net receivable from related parties</b>	<b>\$ 55,007</b>	<b>\$ 91,237</b>

Amounts receivable from related parties consist primarily of \$49,681 (March 31, 2017 – \$83,734) due from the Government of Canada for parliamentary appropriations, and \$5,995 (March 31, 2017 – \$8,574) due from the Canada Revenue Agency for recoverable taxes paid on expenses. Amounts payable to related parties consist primarily of indirect taxes payable to the Canada Revenue Agency.

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

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as disclosed in note 9. No other transactions were made during the three month period.

## 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	
	2017	2016
Decrease (increase) in trade and other receivables	\$ 30,070	\$ (3,908)
Decrease in inventories	902	1,709
Decrease in prepaid expenses	285	158
Increase in trade and other payables	1,878	24,244
Decrease in current portion of provisions	-	(211)
Decrease in deferred government funding related to operating expenses	(1,187)	(1,867)
	<u>\$ 31,948</u>	<u>\$ 20,125</u>

Interest income received and recognized during the three months ended June 30, 2017, totalled \$87 (2016 – \$128).

Interest expense paid and expensed during the three months ended June 30, 2017, totalled \$Nil (2016 – \$3).

The change in trade and other receivables excludes an amount of \$7,633 (2016 – \$1,268) 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 \$6,197 (2016 – \$2,104) 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 \$10,939 (2016 – \$17,064) in relation to the remeasurement of defined benefit plans presented in other comprehensive loss, as the amount relates to a non-cash remeasurement.

During the three months ended June 30, 2017, other non-cash transactions included non-cash vendor credits of \$762 (2016 – \$Nil) and non-cash transfers of spare parts from property and equipment to inventory totalling \$16 (2016 – \$3).

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
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During the three months ended June 30, 2017, CATSA had non-cash adjustments on currency hedged property and equipment purchases of \$82 (2016 – \$Nil).

During the three months ended June 30, 2017, CATSA had non-cash additions to deferred lease incentives of \$Nil (2016 – \$9).