

Quarterly Financial Report

For the Three Months Ended
June 30, 2020



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE MONTHS ENDED JUNE 30, 2020**

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, 2020. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2020, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* (FAA) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's *2020 Annual Report*. The information in this report is expressed in thousands of Canadian dollars and is current to August 24, 2020, 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, funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. CATSA's mission is to protect the public by securing critical elements of the air transportation system.

CATSA delivers the mandate of security screening at 89 designated airports across the country through a third-party screening contractor model. CATSA is responsible for the delivery of the following four mandated activities:

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building;
- Hold Baggage Screening (HBS): the screening of passengers' checked (or hold) baggage prior to being loaded onto an aircraft;
- Non-Passenger Screening (NPS): the random screening of non-passengers and their belongings, including vehicles, entering restricted areas of the aerodrome at the highest risk airports; and
- Restricted Area Identity Card (RAIC) Program: the system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports.

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

In prior years, CATSA has provided screening services on a cost recovery basis to the Greater Toronto Airports Authority (GTAA) and Muskoka Airport Authority. In light of the COVID-19 pandemic, no services were provided during the three months ended June 30, 2020.

OPERATING ENVIRONMENT

In response to the COVID-19 pandemic, Governments around the world imposed a number of travel restrictions and there has been a drastic reduction in passenger volumes at Canadian airports. Statistics from CATSA's Boarding Pass Security System indicated that screened traffic across Canada decreased by 95.7% for the three months ended June 30, 2020, compared to the same period in the prior year. This has significantly impacted CATSA's screening operations and screening equipment, as some screening lines have temporarily closed.

Given the impact on screening operations, CATSA has entered into short-term arrangements with its third party screening contractors in an effort to contain costs, and allow CATSA the flexibility to respond as the situation evolves. These arrangements include a gradual reduction of screening hours purchased that does not fully reflect the drastic decline in passenger volumes.

In June 2020, TC announced that CATSA will conduct temperature screening of passengers, as well as employees and personnel that enter or work in the restricted area of airports. CATSA met TC's timeline to commence temperature screening at the four major airports identified for international travel by the end of July and is on track to have temperature screening stations in place at the next 11 busiest airports in Canada by the end of September.

RISKS AND UNCERTAINTIES

CATSA regularly monitors and re-assesses its corporate risks. There have been no significant changes to CATSA's Enterprise Risk Management profile disclosed in CATSA's *2020 Annual Report*.

ANALYSIS OF FINANCIAL RESULTS

CONDENSED INTERIM 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, 2020, and June 30, 2019.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended			
	June 30			
(Thousands of Canadian dollars)	2020 (unaudited)	2019 (unaudited)	\$ Change	% Change
Expenses¹				
Screening services and other related costs	\$ 130,577	\$ 151,315	\$ (20,738)	(13.7%)
Equipment operating and maintenance	8,115	10,488	(2,373)	(22.6%)
Program support and corporate services	22,874	22,083	791	3.6%
Depreciation and amortization	18,555	17,096	1,459	8.5%
Total expenses	180,121	200,982	(20,861)	(10.4%)
Other expenses (income)	1,490	1,466	24	1.6%
Financial performance before revenue and government funding	181,611	202,448	(20,837)	(10.3%)
Revenue	110	4,167	(4,057)	(97.4%)
Government funding				
Parliamentary appropriations for operating expenses	158,336	175,864	(17,528)	(10.0%)
Amortization of deferred government funding related to capital expenditures	18,500	17,208	1,292	7.5%
Parliamentary appropriations for lease payments	1,036	981	55	5.6%
Total government funding	177,872	194,053	(16,181)	(8.3%)
Financial performance	\$ (3,629)	\$ (4,228)	\$ 599	14.2%
Other comprehensive loss	(30,147)	(25,074)	(5,073)	(20.2%)
Total comprehensive income (loss)	\$ (33,776)	\$ (29,302)	\$ (4,474)	(15.3%)

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 13 of the unaudited condensed interim financial statements for the three months ended June 30, 2020.

Screening services and other related costs

Screening services and other related costs decreased by \$20,738 (13.7%) for the three months ended June 30, 2020, compared to the same period in 2019. The variance is primarily attributable to the purchase of fewer screening hours totaling \$23,537 due to the COVID-19 pandemic. This was partially offset by annual screening contractor billing rate increases amounting to \$3,404 and additional costs associated with increased sanitization of screening checkpoints and purchases of personal protective equipment totaling \$1,645.

Equipment operating and maintenance

Equipment operating and maintenance costs decreased by \$2,373 (22.6%) for the three months ended June 30, 2020, compared to the same period in 2019. The decrease is attributable to lower maintenance and spare part costs for Explosives Detection System (EDS) equipment due to reduced usage as some screening lines have temporarily closed, and as legacy EDS units were replaced with new equipment under warranty. The decrease is also attributable to reduced training activity as CATSA's maintenance service provider was restricted from travelling to the airports.

Program support and corporate services

Program support and corporate services increased by \$791 (3.6%) for the three months ended June 30, 2020, compared to the same period in 2019. The increase is attributable to higher employee-related costs and the purchase of war risk insurance for which the Government of Canada had provided an indemnification in prior years. These increases are partially offset by lower travel expenses and office and computer expenses.

Depreciation and amortization

Depreciation and amortization increased by \$1,459 (8.5%) for the three months ended June 30, 2020, compared to the same period in 2019. The increase is primarily attributable to depreciation relating to new HBS equipment deployments as part of the HBS recapitalization program. The increase is partially offset by equipment becoming fully depreciated or being retired.

Revenue

Revenue decreased by \$4,057 (97.4%) for the three months ended June 30, 2020, compared to the same period in 2019. The decrease is primarily attributable to CATSA not providing supplemental screening services to the GTAA during the current period, in light of the COVID-19 pandemic.

Government Funding

CATSA is funded by appropriations from the federal Consolidated Revenue Fund for operating expenses and capital expenditures, which includes funding for lease payments.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses decreased by \$17,528 (10.0%) for the three months ended June 30, 2020, compared to the same period in 2019. The decrease is primarily attributable to decreased spending for screening services and other related costs, as well as equipment operating and maintenance costs, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by \$1,292 (7.5%) for the three months ended June 30, 2020, compared to the same period in 2019. The increase is primarily attributable 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 \$30,147 for the three months ended June 30, 2020, is primarily attributable to a remeasurement loss of \$55,637 on the defined benefit liability arising from a 100 basis point decrease in the discount rate since March 31, 2020. This is partially offset by a remeasurement gain of \$25,490 resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions. Other comprehensive loss of \$25,074 for the three months ended June 30, 2019, was primarily attributable to a remeasurement loss of \$29,796 on the defined benefit liability arising from a 50 basis point decrease in the discount rate between March 31, 2019, and June 30, 2019. This was partially offset by a remeasurement gain of \$4,722 resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions.

For more information, refer to note 12 of the unaudited condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at June 30, 2020, compared to March 31, 2020.

Key Financial Highlights -				
Condensed Interim Statement of Financial Position				
	June 30,	March 31,		
(Thousands of Canadian dollars)	2020	2020	\$ Change	% Change
	(unaudited)	(unaudited)		
Current assets	\$ 176,879	\$ 182,252	\$ (5,373)	(2.9%)
Non-current assets	515,930	523,918	(7,988)	(1.5%)
Total assets	\$ 692,809	\$ 706,170	\$ (13,361)	(1.9%)
Current liabilities	\$ 179,791	\$ 180,053	\$ (262)	(0.1%)
Non-current liabilities	570,696	550,019	20,677	3.8%
Total liabilities	\$ 750,487	\$ 730,072	\$ 20,415	2.8%

Assets

Current assets decreased by \$5,373 (2.9%) primarily attributable to the following:

- Decrease in trade and other receivables of \$26,724 attributable to a decrease in parliamentary appropriations receivable, recoverable sales taxes and supplemental screening services receivable;
- Increase in cash of \$20,542 is primarily attributable to changes in the expected timing of disbursements to suppliers for goods and services; and
- Increase in prepaids of \$2,220, primarily attributable to the prepayment of annual insurance premiums.

Non-current assets decreased by \$7,988 (1.5%) primarily attributable to the following:

- Decrease in property and equipment of \$7,702 primarily attributable to depreciation of \$17,150, partially offset by acquisitions totaling \$10,406;
- Decrease in right-of-use assets of \$915 attributable to depreciation; and
- Increase in intangible assets of \$1,275 attributable to acquisitions totaling \$1,765, partially offset by amortization of \$490.

Liabilities

Current liabilities decreased by \$262 (0.1%) primarily attributable to the following:

- Decrease in trade and other payables of \$5,070 attributable to the timing of disbursements associated with obligations outstanding with suppliers;
- Increase in the current portion of holdbacks of \$2,727 attributable to HBS recapitalization projects that were non-current and are now current, as well as ongoing construction under the HBS recapitalization program; and
- Increase in deferred government funding related to operating expenditures of \$1,709 primarily attributable to an increase in prepaid expense.

Non-current liabilities increased by \$20,677 (3.8%) primarily attributable to the following:

- Increase in employee benefits liability of \$30,202 in relation to CATSA's registered pension plan and other defined benefits plan;
- Decrease in the deferred government funding related to capital expenditures of \$6,356 attributable to amortization of deferred government funding related to capital expenditures of \$18,500 exceeding parliamentary appropriations used to fund capital expenditures of \$12,144;
- Decrease in the non-current portion of holdbacks of \$2,224 attributable to HBS recapitalization projects that were non-current and are now current, partially offset by ongoing construction under the HBS recapitalization program; and
- Decrease in the non-current portion of lease liabilities of \$945 attributable to ongoing lease payments.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's corporate plan for the current fiscal year 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 the corporate plan summary.

PARLIAMENTARY APPROPRIATIONS USED

Operating Expenditures

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	
	2020 (unaudited)	2019 (unaudited)
Financial performance before revenue and government funding	\$ 181,611	\$ 202,448
Revenue	(110)	(4,167)
Financial performance before government funding	181,501	198,281
Non-cash expenses		
Depreciation and amortization	(18,555)	(17,096)
Employee cost accruals ¹	(2,111)	(1,594)
Change in fair value of financial instruments at fair value through profit and loss	(981)	(637)
Write-off of property and equipment	(772)	(79)
Employee benefits expense ²	(701)	(2,144)
Impairment of property and equipment	(177)	-
Non-cash finance costs related to leases	(113)	(128)
Spare parts expense funded from capital ³	(7)	(1)
Non-cash gain on foreign exchange recognized in financial performance	227	246
Gain (loss) on disposal of property and equipment	25	(984)
Parliamentary appropriations for operating expenses	\$ 158,336	\$ 175,864
Other items affecting funding		
Net change in prepaids and inventories ⁴	1,709	(497)
Total operating appropriations used	\$ 160,045	\$ 175,367

¹ Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to June 30, 2020. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

² 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.

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 Prepaids funded through operating appropriations 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 expenditures reported under IFRS and capital appropriations used:

Reconciliation of Capital Expenditures to Capital Appropriations Used	Three Months Ended	
	June 30	
(Thousands of Canadian dollars)	2020	2019
	(unaudited)	(unaudited)
Explosives Detection System	\$ 7,103	\$ 19,819
Non-Explosives Detection System	5,068	1,096
Lease payments	1,036	981
Total capital expenditures	\$ 13,207	\$ 21,896
Non-cash adjustment on foreign exchange related to capital expenditures	-	(46)
Proceeds on disposal of property and equipment ¹	(27)	-
Total capital appropriations used	\$ 13,180	\$ 21,850

¹ 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 unaudited condensed interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, and The Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Statements for Crown Corporations* and for such internal controls as management determines are necessary to enable the preparation of the unaudited 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 unaudited 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 unaudited condensed interim financial statements.



Michael Saunders
President and Chief Executive Officer

Ottawa, Canada

August 24, 2020



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

Ottawa, Canada

August 24, 2020

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY
AUTHORITY**

June 30, 2020

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2020	March 31, 2020
Assets		
Current assets		
Cash	\$ 39,034	\$ 18,492
Trade and other receivables (note 4)	115,589	142,313
Inventories (note 5)	15,540	16,025
Prepays	6,716	4,496
Derivative financial assets (note 15)	-	926
	176,879	182,252
Non-current assets		
Property and equipment (note 6)	475,494	483,196
Intangible assets (note 7)	18,304	17,029
Right-of-use assets (note 8)	21,296	22,211
Employee benefits asset (note 12)	836	1,482
	515,930	523,918
Total assets	\$ 692,809	\$ 706,170
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 135,648	\$ 140,718
Holdbacks	19,094	16,367
Provisions (note 9)	300	-
Lease liabilities (note 10)	3,565	3,548
Deferred government funding related to operating expenses (note 11)	21,129	19,420
Derivative financial liabilities (note 15)	55	-
	179,791	180,053
Non-current liabilities		
Holdbacks (note 15)	3,186	5,410
Lease liabilities (note 10)	18,434	19,379
Deferred government funding related to capital expenditures (note 11)	492,438	498,794
Employee benefits liability (note 12)	56,638	26,436
	570,696	550,019
Equity		
Accumulated deficit	(57,678)	(23,902)
Total liabilities and equity	\$ 692,809	\$ 706,170

Contingencies (note 9) and contractual arrangements (note 16)

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	
	2020	2019
Expenses		
Pre-Board Screening	\$ 91,787	\$ 112,120
Hold Baggage Screening	40,133	40,895
Non-Passenger Screening	34,996	35,353
Restricted Area Identity Card Program	557	772
Corporate services	12,648	11,842
Total expenses (note 13)	180,121	200,982
Other expenses (income)		
Net loss on fair value of derivative financial instruments	981	637
Write-off of property and equipment	772	79
Impairment of property and equipment (note 6)	177	-
Finance costs	113	129
Foreign exchange gain	(528)	(363)
(Gain) loss on disposal of property and equipment	(25)	984
Total other expenses (income)	1,490	1,466
Financial performance before revenue and government funding	181,611	202,448
Revenue		
Finance income	110	219
Screening services - supplemental	-	3,923
Screening services - other	-	25
Total revenue	110	4,167
Government funding		
Parliamentary appropriations for operating expenses (note 11)	158,336	175,864
Amortization of deferred government funding related to capital expenditures (note 11)	18,500	17,208
Parliamentary appropriations for lease payments (note 14)	1,036	981
Total government funding	177,872	194,053
Financial performance	\$ (3,629)	\$ (4,228)
Other comprehensive loss		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 12)	(30,147)	(25,074)
Total comprehensive income (loss)	\$ (33,776)	\$ (29,302)

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, 2020	\$ (23,902)
Financial performance	(3,629)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 12)	(30,147)
<hr/> Balance, June 30, 2020	<hr/> \$ (57,678)
Balance, March 31, 2019	\$ (23,639)
Financial performance	(4,228)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 12)	(25,074)
<hr/> Balance, June 30, 2019	<hr/> \$ (52,941)

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	
	2020	2019
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (3,629)	\$ (4,228)
Items not involving cash		
Depreciation and amortization (note 13)	18,555	17,096
Change in fair value of financial instruments at fair value through profit and loss	981	637
Write-off of property and equipment	772	79
Increase in net employee benefits liability	701	2,144
Impairment of property and equipment (note 6)	177	-
Other non-cash transactions	2	(1)
Amortization of deferred government funding related to capital expenditures (note 11)	(18,500)	(17,208)
(Gain) loss on disposal of property and equipment	(25)	984
Net change in working capital balances (note 18)	49,347	40,194
	48,381	39,697
Investing activities		
Parliamentary appropriations received for capital funding (note 14)	1,117	63,872
Purchase of property and equipment	(26,128)	(25,466)
Purchase of intangible assets	(1,905)	(3,557)
	(26,916)	34,849
Financing activities		
Lease principal payments	(923)	(853)
	(923)	(853)
Increase in cash	20,542	73,693
Cash, beginning of period	18,492	4,007
Cash, end of period	\$ 39,034	\$ 77,700

Interest expense paid and interest income received approximate finance costs and finance income, respectively, in the Condensed Interim Statement of Comprehensive Income (Loss).

Supplementary cash flow information (note 18)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2020
(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 prior years, CATSA has provided screening services on a cost recovery basis to the Greater Toronto Airports Authority (GTAA) and Muskoka Airport Authority. In light of the COVID-19 pandemic, no services were provided in the three months ended June 30, 2020.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on August 24, 2020.

2. 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.

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, 2020.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

3. Summary of significant accounting policies

Significant accounting policies used in these condensed interim financial statements are disclosed in note 3 of CATSA's audited annual financial statements for the year ended March 31, 2020.

4. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2020	March 31, 2020
Parliamentary appropriations (note 17)	\$ 110,087	\$ 132,862
GST and HST recoverable (note 17)	4,835	5,143
PST recoverable	661	2,397
Other	6	-
Screening services - supplemental	-	1,911
	<u>\$ 115,589</u>	<u>\$ 142,313</u>

Credit terms on trade receivables are 30 days. As at June 30, 2020, and March 31, 2020, there were no amounts included in trade and other receivables that were past due.

5. Inventories

Inventories are comprised of:

	June 30, 2020	March 31, 2020
Spare parts	\$ 13,812	\$ 13,956
RAIC	1,130	1,183
Uniforms	598	886
	<u>\$ 15,540</u>	<u>\$ 16,025</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

6. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equip- ment	Leasehold improve- ments	Work-in- progress	Total
Cost									
Balance, March 31, 2019	\$ 159,376	\$ 719,505	\$ 18,391	\$ 4,475	\$ 28,234	\$ 129	\$ 10,613	\$ 95,956	\$ 1,036,679
Additions	3,589	56,594	-	370	1,964	-	165	33,472	96,154
Disposals	(2,584)	(133,350)	(187)	-	(1,813)	-	-	-	(137,934)
Write-offs	(431)	(3,055)	-	(189)	(1,901)	-	(864)	(31)	(6,471)
Impairments	-	-	-	-	(214)	-	-	(383)	(597)
Reclassifications	(3,542)	72,391	2,653	27	2,436	-	-	(73,965)	-
Balance, March 31, 2020	\$ 156,408	\$ 712,085	\$ 20,857	\$ 4,683	\$ 28,706	\$ 129	\$ 9,914	\$ 55,049	\$ 987,831
Balance, March 31, 2020	\$ 156,408	\$ 712,085	\$ 20,857	\$ 4,683	\$ 28,706	\$ 129	\$ 9,914	\$ 55,049	\$ 987,831
Additions	-	711	-	-	410	-	243	9,042	10,406
Disposals	-	(20,202)	-	-	(24)	-	-	-	(20,226)
Write-offs	(5)	(12)	-	(16)	(221)	-	-	-	(254)
Impairments	-	-	-	-	(177)	-	-	-	(177)
Reclassifications	-	5,286	-	167	5	-	66	(5,524)	-
Balance, June 30, 2020	\$ 156,403	\$ 697,868	\$ 20,857	\$ 4,834	\$ 28,699	\$ 129	\$ 10,223	\$ 58,567	\$ 977,580
Accumulated depreciation									
Balance, March 31, 2019	\$ 97,357	\$ 440,136	\$ 10,898	\$ 3,407	\$ 19,945	\$ 24	\$ 9,388	\$ -	\$ 581,155
Depreciation	12,908	47,690	1,650	551	2,890	24	349	-	66,062
Disposals	(2,531)	(131,887)	(187)	-	(1,813)	-	-	-	(136,418)
Write-offs	(334)	(2,946)	-	(189)	(1,831)	-	(864)	-	(6,164)
Reclassifications	(4,210)	2,542	1,668	-	-	-	-	-	-
Balance, March 31, 2020	\$ 103,190	\$ 355,535	\$ 14,029	\$ 3,769	\$ 19,191	\$ 48	\$ 8,873	\$ -	\$ 504,635
Balance, March 31, 2020	\$ 103,190	\$ 355,535	\$ 14,029	\$ 3,769	\$ 19,191	\$ 48	\$ 8,873	\$ -	\$ 504,635
Depreciation	2,610	13,237	333	157	725	6	82	-	17,150
Disposals	-	(20,200)	-	-	(24)	-	-	-	(20,224)
Write-offs	(5)	767	-	(16)	(221)	-	-	-	525
Balance, June 30, 2020	\$ 105,795	\$ 349,339	\$ 14,362	\$ 3,910	\$ 19,671	\$ 54	\$ 8,955	\$ -	\$ 502,086
Carrying amounts									
As at March 31, 2020	\$ 53,218	\$ 356,550	\$ 6,828	\$ 914	\$ 9,515	\$ 81	\$ 1,041	\$ 55,049	\$ 483,196
As at June 30, 2020	\$ 50,608	\$ 348,529	\$ 6,495	\$ 924	\$ 9,028	\$ 75	\$ 1,268	\$ 58,567	\$ 475,494

During the three months ended June 30, 2020, CATSA recognized impairment losses of \$177 relating to screening equipment that was no longer able to contribute to the fulfilment of CATSA's mandate. The assets were considered fully impaired and the remaining net book value was recorded as an impairment loss. The recoverable amount was deemed to be \$Nil, which represents the equipment's value in use to CATSA, as all future cash flows associated with the equipment were estimated to be \$Nil.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

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7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2019	\$ 9,120	\$ 20,208	\$ 4,577	\$ 33,905
Additions	1,616	203	2,166	3,985
Write-offs	(171)	(4,444)	-	(4,615)
Reclassifications	1,062	952	(2,014)	-
Balance, March 31, 2020	\$ 11,627	\$ 16,919	\$ 4,729	\$ 33,275
Balance, March 31, 2020	\$ 11,627	\$ 16,919	\$ 4,729	\$ 33,275
Additions	27	-	1,738	1,765
Balance, June 30, 2020	\$ 11,654	\$ 16,919	\$ 6,467	\$ 35,040
Accumulated amortization				
Balance, March 31, 2019	\$ 4,005	\$ 14,185	\$ -	\$ 18,190
Amortization	888	1,240	-	2,128
Write-offs	(171)	(3,901)	-	(4,072)
Balance, March 31, 2020	\$ 4,722	\$ 11,524	\$ -	\$ 16,246
Balance, March 31, 2020	\$ 4,722	\$ 11,524	\$ -	\$ 16,246
Amortization	264	226	-	490
Balance, June 30, 2020	\$ 4,986	\$ 11,750	\$ -	\$ 16,736
Carrying amounts				
As at March 31, 2020	\$ 6,905	\$ 5,395	\$ 4,729	\$ 17,029
As at June 30, 2020	\$ 6,668	\$ 5,169	\$ 6,467	\$ 18,304

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8. Right-of-use assets

A reconciliation of right-of-use assets is as follows:

		Office space		Data centres	Total
Balance, April 1, 2019	\$	23,741	\$	1,733	\$ 25,474
Additions		291		117	408
Depreciation		(3,459)		(212)	(3,671)
Balance, March 31, 2020	\$	20,573	\$	1,638	\$ 22,211
Balance, March 31, 2020	\$	20,573	\$	1,638	\$ 22,211
Depreciation		(849)		(66)	(915)
Balance, June 30, 2020	\$	19,724	\$	1,572	\$ 21,296

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Notes to the Condensed Interim Financial Statements
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9. Provisions and contingencies

(a) Provisions

A reconciliation of provisions is as follows:

	June 30, 2020
Balance, beginning of period	\$ -
Provisions made in the period	300
Balance, end of period	\$ 300

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. By nature, these amounts are subject to many uncertainties and the outcome of the 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 as at June 30, 2020 relate to amounts assessed, and expected to be assessed, by Transport Canada. 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

In 2018, CATSA received notification from an airport authority that it had been assessed by the Canada Revenue Agency for failing to charge HST to CATSA on funding agreements related to integration projects and maintenance agreements. With the cooperation of the airport authority, CATSA filed a notice of objection and is of the view that it is more likely than not that the notice of objection will be successful. Should the objection prove to be successful, CATSA will be able to recover all amounts remitted related to this assessment.

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CATSA has similar funding agreements with other airport authorities that could result in an assessment by tax authorities. While CATSA judges that the likelihood of economic outflow related to these other funding agreements to be not probable, there is a risk that CATSA could be required to pay other assessments in the event that these other airport authorities are audited and the Canada Revenue Agency upholds its position. The maximum undiscounted cash flow that could be required to settle this contingent liability is estimated to be \$23,623 (March 31, 2020 – \$22,744), offset by estimated recoverable taxes of \$10,641 (March 31, 2020 – \$10,360) for a net amount of \$12,982 (March 31, 2020 – \$12,384). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

During the three months ended June 30, 2020, there have been no material changes to contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 15(b)(ii) of the audited annual financial statements for the year ended March 31, 2020.

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Notes to the Condensed Interim Financial Statements
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10. Lease liabilities

CATSA has leases that are for office space and data centres. CATSA has included extension options in the measurement of its lease liabilities when it is reasonably certain to exercise the extension option.

A reconciliation of lease liabilities is as follows:

	June 30, 2020	March 31, 2020
Balance, beginning of period	\$ 22,927	\$ 25,956
Additions	-	408
Lease payments (note 14)	(1,036)	(3,936)
Finance costs	113	492
Foreign exchange revaluation	(5)	7
Balance, end of period	\$ 21,999	\$ 22,927
Balance, end of period		
Current	\$ 3,565	\$ 3,548
Non-current	18,434	19,379

CATSA recognized the following expenses not included in the measurement of the lease liabilities:

	Three months ended June 30	
	2020	2019
Variable lease payments	\$ 657	\$ 600
Short-term leases	1	17
Low value leases	15	22
	\$ 673	\$ 639

Variable lease payments include operating costs, property taxes, insurance, and other service-related costs.

For the three months ended June 30, 2020, CATSA recognized a total cash outflow for leases of \$1,709 (2019 - \$1,620).

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The following table presents the undiscounted cash flows for contractual lease obligations:

	June 30, 2020	March 31, 2020
No later than 1 year	\$ 7,203	\$ 7,170
Later than 1 year and no later than 5 years	10,035	11,651
Later than 5 years	317	343
Total	\$ 17,555	\$ 19,164

11. Deferred government funding

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

	June 30, 2020	March 31, 2020
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 19,420	\$ 18,558
Parliamentary appropriations used to fund operating expenses (note 14)	160,045	743,000
Parliamentary appropriations for operating expenses recognized in financial performance	(158,336)	(742,138)
Balance, end of period	\$ 21,129	\$ 19,420
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 498,794	\$ 469,732
Parliamentary appropriations used to fund capital expenditures (note 14)	12,144	99,926
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(18,500)	(70,864)
Balance, end of period	\$ 492,438	\$ 498,794
Total deferred government funding, end of period	\$ 513,567	\$ 518,214

For additional information on government funding, see note 14.

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

12. 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, 2020	March 31, 2020
Employee benefits asset		
Supplementary retirement plan (SRP)	836	1,482
	836	1,482
Employee benefits liability		
Registered pension plan (RPP)	(30,354)	(5,827)
Other defined benefits plan (ODBP)	(26,284)	(20,609)
	(56,638)	(26,436)
Employee benefits - net liability	\$ (55,802)	\$ (24,954)

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Notes to the Condensed Interim Financial Statements
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(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended June 30							
	RPP		SRP		ODBP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Defined benefit cost recognized in financial performance								
Current service cost	\$ 1,834	\$ 2,137	\$ 19	\$ 24	\$ 267	\$ 467	\$ 2,120	\$ 2,628
Administration costs	94	75	4	4	-	-	98	79
Interest cost on defined benefit obligation	1,976	1,854	48	45	202	282	2,226	2,181
Interest income on plan assets	(1,874)	(1,816)	(61)	(60)	-	-	(1,935)	(1,876)
Defined benefit cost	\$ 2,030	\$ 2,250	\$ 10	\$ 13	\$ 469	\$ 749	\$ 2,509	\$ 3,012

Remeasurement of defined benefit plans recognized in other comprehensive income

Return on plan assets excluding interest income	\$ 25,082	\$ 4,709	\$ 408	\$ 13	\$ -	\$ -	\$ 25,490	\$ 4,722
Actuarial losses	(49,340)	(25,138)	(1,044)	(551)	(5,253)	(4,107)	(55,637)	(29,796)
Remeasurement of defined benefit plans	\$ (24,258)	\$ (20,429)	\$ (636)	\$ (538)	\$ (5,253)	\$ (4,107)	\$ (30,147)	\$ (25,074)

For the three months ended June 30, 2020, CATSA recognized an expense of \$216 (2019 - \$177) in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

Assumptions used to measure the defined benefit 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 (loss).

For the three months ended June 30, 2020, remeasurement losses of \$30,147 resulted from a decrease in the discount rate of 100 basis points (from 3.75% at March 31, 2020 to 2.75% at June 30, 2020). This was partially offset by a higher actual rate of return on plan assets than the rates used in CATSA's assumptions for the RPP (14.77% actual versus 0.94% expected).

For the three months ended June 30, 2019, remeasurement losses of \$25,074 resulted from a decrease in the discount rate of 50 basis points (from 3.50% at March 31, 2019 to 3.00% at June 30, 2019). This was partially offset by higher actual rates of return on plan assets than the rates used in CATSA's assumptions for the RPP (3.27% actual versus 0.88%) and for the SRP (0.97% actual versus 0.88%).

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

(d) Employer contributions

Employer contributions paid to the defined benefit plans are as follows:

	Three months ended	
	June 30	
	2020	2019
Employer contributions		
RPP	\$ 1,761	\$ 830
ODBP	47	38
	<u>\$ 1,808</u>	<u>\$ 868</u>

Total employer contributions to the defined benefit plans are estimated to be \$8,016 for the year ending March 31, 2021.

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Notes to the Condensed Interim Financial Statements
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13. 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:

	Three months ended	
	June 30	
	2020	2019
Screening services and other related costs		
Payments to screening contractors	\$ 127,110	\$ 149,282
Uniforms and other screening costs	2,166	1,434
Trace and consumables	1,301	599
	130,577	151,315
Equipment operating and maintenance		
Equipment maintenance and spare parts	8,147	10,032
RAIC	55	210
Training and certification	(87)	246
	8,115	10,488
Program support and corporate services		
Employee costs	17,732	16,795
Office and computer expenses	1,756	2,218
Other administrative costs	1,752	617
Professional services and other business related costs	899	1,650
Other lease costs (note 10)	673	639
Communications and public awareness	62	164
	22,874	22,083
Depreciation and amortization		
Depreciation of property and equipment (note 6)	17,150	15,663
Depreciation of right-of-use assets (note 8)	915	910
Amortization of intangible assets (note 7)	490	523
	18,555	17,096
	\$ 180,121	\$ 200,982

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.

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Included in Payments to screening contractors are amounts totaling \$65,860 related to amounts paid to screening contractors under short-term arrangements to maintain the certified screening officer workforce at levels deemed appropriate for CATSA to respond as the situation evolves and passenger volumes increase. These amounts are included in the Condensed Interim Statement of Comprehensive Income (Loss) as part of Pre-Board Screening (\$46,704), Hold Baggage Screening (\$11,095), and Non-Passenger Screening (\$8,061), which have been allocated based on the historical distribution of payments to screening contractors.

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Notes to the Condensed Interim Financial Statements
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14. Government funding

CATSA's corporate plan for the current fiscal year 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:

	Three months ended	
	June 30	
	2020	2019
Parliamentary appropriations received	\$ 205,475	\$ 208,073
Amounts received related to prior periods	(144,490)	(94,373)
Parliamentary appropriations receivable	99,060	61,667
Parliamentary appropriations used to fund operating expenses (note 11)	\$ 160,045	\$ 175,367

The following table reconciles parliamentary appropriations for capital expenditures and lease payments that were received and receivable with the amount of appropriations used:

	Three months ended	
	June 30	
	2020	2019
Parliamentary appropriations received	\$ 1,117	\$ 63,872
Amounts received related to prior periods	-	(37,553)
Parliamentary appropriations receivable	11,027	-
Current deferred funding related to capital expenditures	-	(5,450)
Parliamentary appropriations used to fund capital expenditures (note 11)	12,144	20,869
Parliamentary appropriations received - lease payments	1,036	981
Parliamentary appropriations used to fund capital expenditures and lease payments	\$ 13,180	\$ 21,850

Current deferred government funding related to capital expenditures is a result of higher forecasted expenditures than actual capital expenditures, as well as the timing of appropriations received.

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Notes to the Condensed Interim Financial Statements
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15. 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 screening services, trade and other payables, and current holdbacks 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, 2020		March 31, 2020	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets ¹	\$ -	\$ -	\$ 926	\$ 926
Derivative financial liabilities ¹	55	55	-	-
Financial instruments measured at amortized cost				
Non-current holdbacks ²	\$ 3,186	\$ 3,186	\$ 5,410	\$ 5,410

¹ The fair value is based on a discounted cash flow model based on observable inputs.

² The fair value is determined using expected future cash flows, discounted using published Government of Canada bond rates with similar terms and characteristics.

There were no transfers between levels during the three months ended June 30, 2020, or the year ended March 31, 2020.

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Notes to the Condensed Interim Financial Statements
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16. Contractual 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, 2020	March 31, 2020
Operating	\$ 886,531	\$ 1,015,479
Capital	43,881	53,803
Total	\$ 930,412	\$ 1,069,282

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Notes to the Condensed Interim Financial Statements
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17. Related party transactions

CATSA had the following transactions with related parties:

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

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

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

	Three months ended June 30	
	2020	2019
Operating		
Income	\$ 177,872	\$ 194,053
Expenses	4,524	3,883
Capital		
HBS equipment	567	439

Income from related parties represent parliamentary appropriations for operating expenses, parliamentary appropriations for lease payments, and amortization of deferred government funding related to capital expenditures. Expenses presented above for the three months ended June 30, 2020, include \$4,124 (2019 – \$4,044) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

The following related party balances are included in trade and other receivables and trade and other payables and provisions, respectively, on the Condensed Interim Statement of Financial Position:

	June 30, 2020	March 31, 2020
Receivable from related parties	\$ 114,922	\$ 138,005
Payable to related parties	(1,245)	(1,203)
Provisions for related parties (note 9)	(300)	-
Net receivable from related parties	\$ 113,377	\$ 136,802

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Amounts receivable from related parties consist primarily of \$110,087 (March 31, 2020 – \$132,862) due from the Government of Canada for parliamentary appropriations used during the period and not received at the end of period, and \$4,835 (March 31, 2020 – \$5,143) due from the Canada Revenue Agency for recoverable taxes paid on expenses.

(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 12. No other transactions were made during the three month period.

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

The following table presents the net change in working capital balances:

	Three months ended June 30	
	2020	2019
Decrease in trade and other receivables	\$ 37,751	\$ 30,511
Decrease in inventories	485	453
(Increase) decrease in prepaids	(2,194)	44
Increase in trade and other payables	11,296	9,683
Increase in provisions	300	-
Increase (decrease) in deferred government funding related to operating expenses	1,709	(497)
	<u>\$ 49,347</u>	<u>\$ 40,194</u>

The change in trade and other receivables excludes an amount of \$11,027 (2019 – \$37,533) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

The change in prepaids excludes an amount of \$26 (2019 – \$676) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of \$16,366 (2019 – \$9,878) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

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19. Budget 2019 and the Security Screening Services Commercialization Act

As part of Budget 2019, the Government of Canada announced its intention to introduce legislation to enable the creation of an independent, not-for-profit entity, established by industry, which would assume the responsibility for aviation screening at Canada's airports. The *Security Screening Services Commercialization Act* (SSSCA) received Royal Assent in June 2019. The SSSCA allows for the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

These developments have not changed CATSA's mandate. CATSA will continue to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

20. Impact of COVID-19

In response to the COVID-19 pandemic, Governments around the world imposed a number of travel restrictions and there has been a drastic reduction in passenger volumes at Canadian airports. CATSA has experienced significant impacts on its screening operations and screening equipment, as some screening lines have temporarily closed.

CATSA and its screening contractors have entered into short-term agreements to maintain the certified screening officer workforce at a level that was deemed appropriate to contain costs and allow CATSA the flexibility to respond as the situation evolves, including a gradual reduction of screening hours purchased that did not fully reflect the drastic decline in passenger volumes. CATSA's priority is the health and safety of screening officers at airports, maintaining security effectiveness, and being ready to respond as the situation evolves.

CATSA will continue to monitor the situation and adjust accordingly.