



Quarterly Financial Report

For the Three Months Ended
June 30, 2013



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CANADIAN AIR TRANSPORT SECURITY AUTHORITY

MANAGEMENT'S NARRATIVE DISCUSSION

FOR THE THREE MONTHS ENDED JUNE 30, 2013

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, 2013. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2013, which have been prepared in accordance with the recognition and measurement standards applicable under International Financial Reporting Standards (IFRS). This Narrative Discussion should also be read in conjunction with CATSA's Management Discussion and Analysis and audited annual financial statements for the year ended March 31, 2013. The information in this report is expressed in Canadian dollars and is current to August 27, 2013, unless otherwise stated.

Forward-looking statements

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

Materiality

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

CORPORATE OVERVIEW

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

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

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

In addition to its mandated activities, CATSA has an agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources. In 2012/13, this program was expanded to include 42 additional airports, for a total of 49 airports.

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since March 31, 2013.

PASSENGER GROWTH

CATSA's operating funding profile may not fully accommodate increases in screening contractors' billing rate, and may not accommodate passenger growth. Transport Canada statistics for the three-month period from March 2013 to May 2013 indicate that passenger volumes at Canada's eight busiest airports increased by 2.2% over the same period in 2012.¹ CATSA continues to work with Transport Canada to address this financial pressure.

GOVERNANCE UPDATE

During the quarter, Ms. Joanne Whittle was appointed to CATSA's Board of Directors for a three year term, replacing Mr. H. Glenn Rainbird.

RISKS AND UNCERTAINTIES

There have been no significant changes to CATSA's corporate risk profile since March 31, 2013.

¹ Air traffic statistics for the three-month period from April 2013 to June 2013 were not available at the time of publishing.

QUARTERLY FINANCIAL INFORMATION

The following table provides key highlights of the Statement of Comprehensive Income for the three months ended June 30, 2013 and June 30, 2012:

Key Financial Highlights - Statement of Comprehensive Income	Three Months Ended June 30			
	2013	2012		
(Thousands of dollars)	(unaudited)	(unaudited)	\$ Variance	% Variance
Expenses¹:				
Screening services and other related costs	\$ 85,449	\$ 88,299	\$ (2,850)	(3%)
Direct administrative costs and corporate services	20,879	19,582	1,297	7%
Depreciation and amortization	16,271	16,663	(392)	(2%)
Equipment operating and maintenance	10,941	9,901	1,040	11%
Total expenses	\$ 133,540	\$ 134,445	\$ (905)	(1%)
Total other expenses (income)	\$ 431	\$ (79)	\$ 510	(646%)
Financial performance before government funding	\$ 133,971	\$ 134,366	\$ (395)	(0%)
Government funding:				
Parliamentary appropriations for operating expenses	\$ 114,490	\$ 115,607	\$ (1,117)	(1%)
Amortization of deferred government funding related to capital expenditures	16,775	16,779	(4)	(0%)
Total government funding	\$ 131,265	\$ 132,386	\$ (1,121)	(1%)
Total comprehensive loss	\$ (2,706)	\$ (1,980)	\$ (726)	37%

¹ The Statement of Comprehensive Income presents operating expenses by mandated activity, whereas operating expenses above are presented by major expense category as disclosed in note 10 of the unaudited condensed interim financial statements for the three months ended June 30, 2013.

The following table provides key highlights of the Statement of Financial Position as at June 30, 2013 and March 31, 2013:

Key Financial Highlights - Statement of Financial Position	June 30,	March 31,		
	2013	2013		
(Thousands of dollars)	(unaudited)	(audited)	\$ Change	% Change
Total assets	\$ 360,377	\$ 365,297	\$ (4,920)	(1%)
Total liabilities	\$ 381,555	\$ 383,769	\$ (2,214)	(1%)

ANALYSIS OF FINANCIAL PERFORMANCE

Screening services and other related costs decreased by \$2.9 million (3%) for the three months ended June 30, 2013, compared to the same period in 2012. The decrease is due to a reduction in screening hours purchased at PBS checkpoints, partly resulting from the deployment of Automated Target Recognition (ATR) software for Full Body Scanner machines at major Canadian airports. The new ATR software enhances passenger privacy at airports, while continuing to ensure the safety and security of Canadian air travellers. ATR software eliminates the requirement for a screening officer to view a passenger's detailed image by automatically analyzing the raw data of a passenger's scan.

Other than screening services and other related costs, expenses and income for the three months ended June 30, 2013 were comparable to the same period in 2012.

ANALYSIS OF FINANCIAL POSITION

Total assets decreased by \$4.9 million (1%) primarily due to the following:

- Property and equipment and intangible assets decreased by \$13.4 million primarily due to depreciation and amortization of \$16.3 million, partially offset by the acquisition and installation of equipment of \$3.3 million; and
- Trade and other receivables increased by \$8.3 million primarily due to the accumulation of sales taxes receivable on expenditures incurred during the quarter.

Total liabilities decreased by \$2.2 million (1%) primarily due to a decrease in total deferred government funding related to capital expenditures. The decrease resulted from amortization of deferred government funding related to capital expenditures of \$16.8 million, partially offset by parliamentary appropriations invoiced of \$14.6 million.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *2013/14 Summary of the Corporate Plan* has not been tabled in Parliament at the time of publishing. Until it is tabled in Parliament and made public, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *2013/14 Summary of the Corporate Plan*.

PARLIAMENTARY APPROPRIATIONS USED

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

Reconciliation of Total Expenses to Operating Appropriations Used	Three Months Ended June 30	
	2013	2012
(Thousands of dollars)	(unaudited)	(unaudited)
Total expenses	\$ 133,540	\$ 134,445
Finance income and net foreign exchange gain/loss	1	(88)
Non-cash operating expenses:		
Depreciation and amortization	(16,271)	(16,663)
Employee benefits expense ¹	(1,499)	(1,403)
Employee cost accruals ²	(1,263)	(607)
Spare parts expense funded from capital ³	(75)	(123)
Deferred lease incentives expense ⁴	57	46
Parliamentary appropriations for operating expenses	114,490	115,607
Other items affecting funding:		
Net change in prepaids and inventories ⁵	(356)	(100)
Total operating appropriations used	\$ 114,134	\$ 115,507

¹ Employee benefits are accounted for in the Statement of Comprehensive Income in accordance with IFRS. Based on the Treasury Board of Canada Secretariat's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, CATSA is permitted to draw funds from the Consolidated Revenue Fund based on its short-term needs. The amount of funding to be drawn down is determined by a solvency and going concern valuation performed by CATSA's actuary in accordance with the *Pension Benefits Standard Act*. The drawdown of funding for employee benefits is not necessarily equal to the expense for accounting purposes under IFRS, creating a reconciling item.

² Employee cost accruals are accounting expenses to record variable pay and accrued vacation expenses incurred to June 30, 2013. These costs are funded by appropriations when approved at year-end, creating a reconciling item.

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

³ Deferred lease incentives expense is an accounting expense to record the benefit derived from favourable lease terms, including significantly reduced rent and free common area costs. Rental costs are funded by appropriations when paid, creating a reconciling item.

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

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

Reconciliation of Capital Asset Acquisitions to Capital Appropriations Used	Three Months Ended June 30	
	2013	2012
(Thousands of dollars)	(unaudited)	(unaudited)
Total capital asset acquisitions	\$ 3,343	\$ 2,353
Proceeds on disposal of property and equipment	-	(540)
Total capital appropriations used	\$ 3,343	\$ 1,813

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

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



Angus Watt
President and Chief Executive Officer
Ottawa, Canada

August 27, 2013



Mario Malouin, CPA, CA, MA
Vice-President and Chief Financial Officer
Ottawa, Canada

August 27, 2013

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY
AUTHORITY**

Three months ended June 30, 2013 and 2012

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2013	March 31, 2013
Assets		
Current assets		
Cash	\$ 9,744	\$ 9,076
Trade and other receivables (note 4)	68,900	60,645
Inventories (note 5)	17,997	17,765
Prepaid expenses	2,089	2,677
	98,730	90,163
Non-current assets		
Employee benefits (note 9)	556	611
Property and equipment (note 6)	253,868	266,325
Intangible assets (note 7)	7,223	8,198
	261,647	275,134
	\$ 360,377	\$ 365,297
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 68,647	\$ 69,721
Deferred government funding related to operating expenses (note 8)	20,086	20,442
	88,733	90,163
Non-current liabilities		
Deferred lease incentives	1,229	1,286
Deferred government funding related to capital expenditures (note 8)	272,352	274,523
Employee benefits (note 9)	19,241	17,797
	292,822	293,606
Equity		
Accumulated deficit	(21,178)	(18,472)
	\$ 360,377	\$ 365,297

Commitments (note 12) and contingent liabilities (note 14)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended	
	June 30	
	2013	2012
Expenses		
Pre-Board Screening	\$ 79,727	\$ 82,512
Hold Baggage Screening	34,620	34,278
Corporate services	13,543	12,304
Non-Passenger Screening	4,831	4,415
Restricted Area Identity Card Program	819	936
Total expenses (note 10)	133,540	134,445
Other expenses (income)		
Loss on property and equipment	429	–
Foreign exchange loss	105	31
Finance cost	1	10
Finance income	(104)	(119)
Gain on settlement of decommissioning liabilities	–	(1)
Total other expenses (income)	431	(79)
Financial performance before government funding	133,971	134,366
Government funding		
Parliamentary appropriations for operating expenses (note 8)	114,490	115,607
Amortization of deferred government funding related to capital expenditures (note 8)	16,775	16,779
Total government funding	131,265	132,386
Financial performance and total comprehensive loss	\$ (2,706)	\$ (1,980)

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)

	Accumulated deficit
Balance, April 1, 2012	\$ (27,449)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(1,980)
Balance, June 30, 2012	\$ (29,429)

	Accumulated deficit
Balance, April 1, 2013	\$ (18,472)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(2,706)
Balance, June 30, 2013	\$ (21,178)

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	
	2013	2012
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (2,706)	\$ (1,980)
Items not involving cash		
Depreciation of property and equipment (note 6)	14,938	15,225
Increase in net employee benefits liability	1,499	1,403
Amortization of intangible assets (note 7)	1,333	1,438
Loss on property and equipment	429	–
Other non-cash transaction	25	–
Amortization of deferred government funding related to capital expenditures (note 8)	(16,775)	(16,779)
Decrease in deferred lease incentives	(57)	(46)
Gain on settlement of decommissioning liabilities	–	(1)
Unwinding of discount on decommissioning liabilities	–	10
Net change in non-cash working capital balances (note 13)	7,311	9,862
	5,997	9,132
Investing activities		
Parliamentary appropriations received for capital funding	10,000	6,000
Purchase of property and equipment	(14,971)	(10,208)
Purchase of intangible assets	(358)	(348)
	(5,329)	(4,556)
Increase in cash	668	4,576
Cash, beginning of year	9,076	5,907
Cash, end of year	\$ 9,744	\$ 10,483

Supplementary cash flow information (note 13)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

1. Authority, mandate and programs

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

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

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

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

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

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

2. Basis of preparation

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

2. Basis of preparation (continued)

The TBS Standard requires interim financial statements be prepared based on the recognition and measurement standards used in the preparation of the audited annual financial statements. Accordingly, the interim financial statements have been prepared based on recognition and measurement standards applicable under International Financial Reporting Standards (IFRS). The interim financial statements do not contain all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual and quarterly financial statements. They should be read in conjunction with the most recent audited annual financial statements and the narrative discussion included within the quarterly financial report for the three months ended June 30, 2013.

3. 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, 2013, except for the application of the new standards effective April 1, 2013 described in note 3(q) of the annual financial statements.

4. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2013	March 31, 2013
Parliamentary appropriations	\$ 47,423	\$ 45,685
GST and HST recoverable	19,197	13,329
PST recoverable	2,208	1,496
Other	72	135
	<u>\$ 68,900</u>	<u>\$ 60,645</u>

5. Inventories

Inventories are comprised of:

	June 30, 2013	March 31, 2013
Spare parts	\$ 16,838	\$ 16,881
Uniforms	490	587
RAIC	669	297
	<u>\$ 17,997</u>	<u>\$ 17,765</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(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, April 1, 2013	\$ 122,207	\$ 656,242	\$ 5,167	\$ 5,553	\$ 24,116	\$ 435	\$ 10,236	\$ 32,447	\$ 856,403
Additions	13	774	–	–	3	–	–	2,195	2,985
Disposals	(1,772)	(17,091)	–	–	–	–	–	(25)	(18,888)
Write-offs	(45)	(9)	(4)	(148)	(661)	(340)	(27)	–	(1,234)
Reclassifications	179	19,208	–	–	219	–	–	(19,606)	–
Balance, June 30, 2013	\$ 120,582	\$ 659,124	\$ 5,163	\$ 5,405	\$ 23,677	\$ 95	\$ 10,209	\$ 15,011	\$ 839,266
Accumulated depreciation									
Balance, April 1, 2013	\$ 57,913	\$ 498,795	\$ 2,468	\$ 3,386	\$ 18,608	\$ 435	\$ 8,473	\$ –	\$ 590,078
Depreciation	2,207	11,000	98	219	1,140	–	274	–	14,938
Disposals	(1,772)	(16,612)	–	–	–	–	–	–	(18,384)
Write-offs	(45)	(9)	(4)	(148)	(661)	(340)	(27)	–	(1,234)
Balance, June 30, 2013	\$ 58,303	\$ 493,174	\$ 2,562	\$ 3,457	\$ 19,087	\$ 95	\$ 8,720	\$ –	\$ 585,398
Carrying amounts									
At March 31, 2013	\$ 64,294	\$ 157,447	\$ 2,699	\$ 2,167	\$ 5,508	\$ –	\$ 1,763	\$ 32,447	\$ 266,325
At June 30, 2013	\$ 62,279	\$ 165,950	\$ 2,601	\$ 1,948	\$ 4,590	\$ –	\$ 1,489	\$ 15,011	\$ 253,868

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, April 1, 2013	\$ 4,285	\$ 19,119	\$ 301	\$ 23,705
Additions	–	26	332	358
Write-offs	(102)	–	–	(102)
Reclassifications	–	147	(147)	–
Balance, June 30, 2013	\$ 4,183	\$ 19,292	\$ 486	\$ 23,961
Accumulated amortization				
Balance, April 1, 2013	\$ 3,120	\$ 12,387	\$ –	\$ 15,507
Amortization	198	1,135	–	1,333
Write-offs	(102)	–	–	(102)
Balance, June 30, 2013	\$ 3,216	\$ 13,522	\$ –	\$ 16,738
Carrying amounts				
At March 31, 2013	\$ 1,165	\$ 6,732	\$ 301	\$ 8,198
At June 30, 2013	\$ 967	\$ 5,770	\$ 486	\$ 7,223

8. Deferred government funding

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

	June 30, 2013	March 31, 2013
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 20,442	\$ 23,100
Parliamentary appropriations billed	113,235	473,287
Parliamentary appropriations to be billed in future periods	899	–
Parliamentary appropriations recognized as government funding for operating expenses	(114,490)	(475,945)
Balance, end of period	20,086	20,442
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 274,523	\$ 310,120
Parliamentary appropriations billed	14,604	38,398
Amortization of deferred government funding related to capital expenditures	(16,775)	(73,995)
Balance, end of period	272,352	274,523
Total deferred government funding, end of period	\$ 292,438	\$ 294,965

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

9. Employee benefits

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

The following table provides the expense and contributions relating to these plans for the three months ended June 30:

	2013	2012
Expense		
RPP	\$ 2,375	\$ 2,287
SRP	55	61
ODBP	622	578
	\$ 3,052	\$ 2,926
Contributions		
RPP	\$ 1,519	\$ 1,491
SRP	-	-
ODBP	34	31
	\$ 1,553	\$ 1,522

The current service cost and the benefit obligation of the plans are actuarially determined on an annual basis. The significant assumptions used to determine CATSA's obligations are disclosed in note 12 of the audited annual financial statements for the fiscal year ended March 31, 2013.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

10. Expenses

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

	2013	2012
Screening services and other related costs		
Payments to screening contractors	\$ 84,192	\$ 86,822
Uniforms and other related costs	870	988
Trace and consumables	387	489
	85,449	88,299
Direct administrative costs and corporate services		
Employee costs	15,392	14,552
Operating leases	1,510	1,669
Professional services and other business related costs	1,416	971
Office and computer expenses	1,355	792
Other administrative costs	988	1,360
Communications and public awareness	218	238
	20,879	19,582
Depreciation and amortization		
Depreciation of property and equipment	14,938	15,225
Amortization of intangible assets	1,333	1,438
	16,271	16,663
Equipment operating and maintenance		
Equipment maintenance and spare parts	10,612	9,528
RAIC	178	208
Training and certification	151	165
	10,941	9,901
	\$ 133,540	\$ 134,445

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

11. Government funding

CATSA's 2013/14 *Summary of the Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet public. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

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

	2013	2012
Parliamentary appropriations received and receivable	\$ 149,522	\$ 169,203
Amounts received and receivable related to prior periods	(36,287)	(49,431)
Amounts to be billed (used) in future periods	899	(4,265)
Parliamentary appropriations used for operating expenses	\$ 114,134	\$ 115,507

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

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

	2013	2012
Parliamentary appropriations received and receivable	\$ 24,002	\$ 15,086
Amounts received and receivable related to prior periods	(9,398)	(10,137)
Amounts to be used in future periods	(11,261)	(3,136)
Parliamentary appropriations used for capital expenditures	\$ 3,343	\$ 1,813

Parliamentary appropriations related to capital expenditures to be used in future periods are a result of forecasted expenditures higher than actual 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)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

12. Commitments

(a) Operating leases

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

	June 30, 2013	March 31, 2013
Less than 1 year	\$ 7,658	\$ 7,087
1 year to less than 5 years	22,694	20,115
5 years or more	864	1,923

CATSA's most significant operating lease is the lease for office space at headquarters. The lease expires on November 30, 2017 and contains an option to renew for five additional years, subject to the same terms and conditions as the original lease. There is no further right to extend after the expiry of the extension term and the future rent will be based on the prevailing market rate at that time.

(b) Contractual obligations

Contractual obligations include various contracts for equipment purchases, screening services and equipment maintenance. These contractual obligations are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion.

The following table provides the minimum commitments under these contractual obligations.

	June 30, 2013	March 31, 2013
Less than 1 year	\$ 513,936	\$ 517,862
1 year to less than 5 years	1,239,641	1,288,360
5 years or more	16,001	16,782

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

Three months ended June 30, 2013 and 2012
(In thousands of Canadian dollars)

13. Net change in non-cash working capital balances and supplementary cash flow information

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

	2013	2012
Decrease (increase) in trade and other receivables	\$ (3,651)	\$ 20,671
Increase in inventories	(182)	(220)
Decrease in prepaid expenses	588	444
Increase (decrease) in trade and other payables	10,912	(14,063)
Decrease in current portion of provisions	–	(1,135)
Increase (decrease) in current portion of deferred government contributions related to operating expenses	(356)	4,165
	<u>\$ 7,311</u>	<u>\$ 9,862</u>

Interest income received and recognized during the three months ended June 30, 2013 totalled \$104 (2012 – \$116).

Interest expense paid and expensed during the three months ended June 30, 2013 totalled \$1 (2012 – Nil).

The change in trade and other receivables excludes an amount of \$4,604 (2012 – \$1,051) in relation to government funding related to capital expenditures. Furthermore, the change in trade and other receivables excludes an amount of Nil (2011 – \$540) in relation to capital credit notes, as the amounts relate to investing activities.

The change in inventories excludes an amount of \$50 (2012 – \$123) in relation to a transfer of spare parts from capital assets to inventory, as the amount relates to a non-cash transaction.

The change in trade and other payables excludes an amount of \$11,986 (2012 – \$8,203) in relation to the acquisition of property and equipment and intangible assets.

During the three months ended June 30, 2013, CATSA received non-cash proceeds of Nil (2012 – \$540) related to the disposal of property and equipment, in the form of credit notes from a supplier.

14. Contingent liabilities

During the three months ended June 30, 2013, there have been no changes to the outstanding legal actions involving CATSA. Refer to a description of those legal claims in note 19 of the audited annual financial statements for the year ended March 31, 2013.