

# Quarterly Financial Report

For the Three and Nine Months Ended  
December 31, 2016



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY  
MANAGEMENT'S NARRATIVE DISCUSSION  
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2016**

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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 and nine months ended December 31, 2016. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three and nine months ended December 31, 2016, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's 2016 Annual Report, the Quarterly Financial Report for the three months ended June 30, 2016, and the Quarterly Financial Report for the three and six months ended September 30, 2016. The information in this report is expressed in thousands of Canadian dollars and is current to February 22, 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. This agreement is set to expire on March 31, 2017.

## **OPERATING ENVIRONMENT**

The following section provides information on significant changes in the operating environment that have occurred since September 30, 2016.

### **CHANGES IN KEY MANAGEMENT PERSONNEL**

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As disclosed in CATSA's previous Quarterly Financial Report, the term for CATSA's Chairperson of the Board of Directors expired in October 2016. Currently, the Vice-Chairperson of the Board is responsible for fulfilling the duties and functions of this role. The term for the President and Chief Executive Officer (CEO) expired in January 2017, and the Board has appointed CATSA's Vice-President and Chief Technology Officer to the role of President and CEO on an interim basis.

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

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Statistics from CATSA's Boarding Pass Security System for the three months ended December 31, 2016, indicate that screened traffic across Canada increased by 7.2% over the same period in 2015, 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. In addition, the incremental funding that CATSA received to deliver NPS screening as part of the enhanced NPS program will come to an end March 31, 2017.

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.

### **FOREIGN CURRENCY**

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CATSA is exposed to foreign exchange risk, as it plans to purchase a significant amount of equipment and services from foreign vendors in the coming years. During the quarter, CATSA entered into its first hedging transactions, followed by a full implementation of its hedging strategy in January 2017, to help mitigate its foreign exchange risk and minimize the impact of fluctuations in the U.S.-Canada exchange rate on its funding.

## **RISKS AND UNCERTAINTIES**

There have been no significant changes to the corporate risk profile as previously disclosed in the *2016 Annual Report* and updated in CATSA's Quarterly Financial Report for the three and six months ended September 30, 2016.

## ANALYSIS OF FINANCIAL RESULTS

### STATEMENT OF COMPREHENSIVE INCOME (LOSS)

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income (Loss) for the three and nine months ended December 31, 2016, and December 31, 2015.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended December 31				Nine Months Ended December 31			
	2016	2015			2016	2015		
	(unaudited)	(unaudited)	\$ Change	% Change	(unaudited)	(unaudited)	\$ Change	% Change
(Thousands of Canadian dollars)								
<b>Expenses<sup>1</sup></b>								
Screening services and other related costs	\$ 127,808	\$ 110,508	\$ 17,300	15.7%	\$ 374,854	\$ 327,370	\$ 47,484	14.5%
Equipment operating and maintenance	11,153	8,361	2,792	33.4%	31,409	29,635	1,774	6.0%
Program support and corporate services	19,595	19,214	381	2.0%	58,677	57,990	687	1.2%
Depreciation and amortization	13,026	13,942	(916)	(6.6%)	38,650	41,334	(2,684)	(6.5%)
<b>Total expenses</b>	<b>171,582</b>	<b>152,025</b>	<b>19,557</b>	<b>12.9%</b>	<b>503,590</b>	<b>456,329</b>	<b>47,261</b>	<b>10.4%</b>
<b>Other expenses</b>	<b>1,703</b>	<b>1,066</b>	<b>637</b>	<b>59.8%</b>	<b>3,944</b>	<b>1,600</b>	<b>2,344</b>	<b>146.5%</b>
<b>Financial performance before revenue and government funding</b>	<b>173,285</b>	<b>153,091</b>	<b>20,194</b>	<b>13.2%</b>	<b>507,534</b>	<b>457,929</b>	<b>49,605</b>	<b>10.8%</b>
<b>Revenue</b>	<b>2,297</b>	<b>1,630</b>	<b>667</b>	<b>40.9%</b>	<b>4,676</b>	<b>3,060</b>	<b>1,616</b>	<b>52.8%</b>
<b>Government funding</b>								
Parliamentary appropriations for operating expenses	154,418	135,279	19,139	14.1%	453,935	405,843	48,092	11.8%
Amortization of deferred government funding related to capital expenditures	14,167	13,986	181	1.3%	41,784	41,792	(8)	(0.0%)
<b>Total government funding</b>	<b>168,585</b>	<b>149,265</b>	<b>19,320</b>	<b>12.9%</b>	<b>495,719</b>	<b>447,635</b>	<b>48,084</b>	<b>10.7%</b>
<b>Financial performance</b>	<b>\$ (2,403)</b>	<b>\$ (2,196)</b>	<b>\$ (207)</b>	<b>(9.4%)</b>	<b>\$ (7,139)</b>	<b>\$ (7,234)</b>	<b>\$ 95</b>	<b>(1.3%)</b>
<b>Other comprehensive income (loss)</b>	<b>20,410</b>	<b>(6,115)</b>	<b>26,525</b>	<b>(433.8%)</b>	<b>8,317</b>	<b>(2,907)</b>	<b>(11,224)</b>	<b>(386.1%)</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 18,007</b>	<b>\$ (8,311)</b>	<b>\$ 26,318</b>	<b>(316.7%)</b>	<b>\$ 1,178</b>	<b>\$ (10,141)</b>	<b>\$ 11,319</b>	<b>111.6%</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 and nine months ended December 31, 2016.

#### Screening services and other related costs

Screening services and other related costs increased by \$17,300 (15.7%) and by \$47,484 (14.5%) for the three and nine months ended December 31, 2016, respectively, compared to the same periods in 2015. The variances for the three and nine months are primarily due to an increase in the screening hours purchased totalling \$12,834 and \$33,909, respectively, coupled with annual screening contractor billing rate increases amounting to \$3,293 and \$9,341, respectively.

The rise in screening hours purchased is primarily due to an increase in the vehicle screening coverage to 100% presence at Canada's highest risk airports, as part of the enhanced NPS program. The increase is also attributable to additional PBS screening requirements to support changes in operational needs at certain airports, rising passenger volume and the GTAA trial.

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

Equipment operating and maintenance costs increased by \$2,792 (33.4%) and by \$1,774 (6.0%) for the three and nine months ended December 31, 2016, respectively, compared to the same periods in 2015. The variances for the three and nine months are primarily due to higher equipment maintenance and spare parts costs of \$2,319 and \$5,547, respectively, mainly associated with Explosives Detection System (EDS) equipment that is no longer under warranty or approaching the end of its useful life. The variances were also due to increased spending on various initiatives, including some PBS checkpoint reconfigurations and the movement of EDS equipment to meet operational requirements. Higher training costs for the three and nine months totalling \$465 and \$1,266, respectively, to support new EDS capital deployments also explain the increased spending.

The increase for the nine months is partially offset by lower conveyor maintenance costs of \$5,341, resulting from the termination of the funding agreements for conveyor maintenance and support services at Canada's eight busiest airports, which took effect October 1, 2015.

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

Depreciation and amortization decreased by \$916 (6.6%) and by \$2,684 (6.5%) for the three and nine months ended December 31, 2016, respectively, compared to the same periods in 2015. These decreases are primarily due to HBS equipment becoming fully depreciated. This equipment is being replaced in support of the multi-year, HBS life-cycle management program. The decrease is also due to changes in estimated useful life being applied to equipment impacted by the HBS life-cycle management program. The decrease is partially offset by the deployment of new HBS equipment.

### ***Other expenses***

Other expenses increased by \$637 (59.8%) and by \$2,344 (146.5%) for the three and nine months ended December 31, 2016, respectively, compared to the same periods in 2015. The increase in the third quarter is primarily due to the write-off of property and equipment that has been removed from service as new equipment is deployed.

The increase for the nine month period is also due to an impairment of property and equipment in the second quarter related to screening equipment that no longer meets TC's standards. CATSA is currently exploring alternative uses for the equipment.

### ***Revenue***

Revenue increased by \$667 (40.9%) and by \$1,616 (52.8%) for the three and nine months ended December 31, 2016, respectively, compared to the same periods in 2015. This is attributable to additional revenue generated by the provision of increased supplemental screening services to the GTAA, relative to the comparative periods.

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

Parliamentary appropriations for operating expenses increased by \$19,139 (14.1%) and by \$48,092 (11.8%) for the three and nine months ended December 31, 2016, respectively, compared to the same periods in 2015. These increases are primarily due to increased spending for screening services and other related costs, and equipment operating and maintenance as previously discussed.

### *Other comprehensive income (loss)*

Other comprehensive income (loss) is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets. Other comprehensive income of \$20,410 for the three months ended December 31, 2016, is due to a remeasurement gain of \$24,197 on the defined benefit liability arising from a 50 basis point increase in the discount rate since September 30, 2016, partially offset by a remeasurement loss of \$3,787 resulting from a lower actual rate of return on plan assets than the rate initially used in CATSA's assumptions. Other comprehensive loss of \$6,115 for the three months ended December 31, 2015, is due to a remeasurement loss of \$8,823 on the defined benefit liability arising from a 25 basis point decrease in the discount rate since September 30, 2015, partially offset by a remeasurement gain of \$2,708 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions.

Other comprehensive income of \$8,317 for the nine months ended December 31, 2016, is due to a remeasurement gain resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive loss of \$2,907 for the nine months ended December 31, 2015, is due to a remeasurement loss of \$11,730 resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions, partially offset by a remeasurement gain of \$8,823 on the defined benefit liability arising from a 25 basis point increase in the discount rate between March 31, 2015, and December 31, 2015.

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

### **STATEMENT OF FINANCIAL POSITION**

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

<b>Key Financial Highlights -</b>				
<b>Condensed Interim Statement of Financial Position</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>		
(Thousands of Canadian dollars)	(unaudited)	(audited)	\$ Change	% Change
Current assets	\$ 151,378	\$ 118,437	\$ 32,941	27.8%
Non-current assets	410,587	362,822	47,765	13.2%
<b>Total assets</b>	<b>\$ 561,965</b>	<b>\$ 481,259</b>	<b>\$ 80,706</b>	<b>16.8%</b>
Current liabilities	\$ 152,215	\$ 118,238	\$ 33,977	28.7%
Non-current liabilities	430,038	384,487	45,551	11.8%
<b>Total liabilities</b>	<b>\$ 582,253</b>	<b>\$ 502,725</b>	<b>\$ 79,528</b>	<b>15.8%</b>

## Assets

Current assets increased by \$32,941 (27.8%) primarily due to the following:

- Increase in trade and other receivables of \$40,665, mainly due to an increase in parliamentary appropriations receivable of \$45,290, partially offset by a decrease in taxes recoverable of \$4,887;
- Decrease in inventories of \$3,046 primarily due to usage of \$7,397 exceeding purchases of spare parts, uniforms and RAIC cards of \$4,442;
- Decrease in cash of \$2,832 primarily due to the timing of disbursements to suppliers for goods and services; and
- Decrease in prepaids of \$1,846 due to the amortization of annual insurance premiums, and annual maintenance and support services.

Non-current assets increased by \$47,765 (13.2%) primarily due to the following:

- Increase in property and equipment and intangible assets of \$43,023 primarily due to the acquisition and installation of property and equipment and intangible assets of \$84,865, partially offset by depreciation and amortization of \$38,650; and
- Increase in employee benefits of \$4,742. 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 increase is due to higher actual return on plan assets compared to the return expected per CATSA's assumptions by \$8,317, partially offset by the defined benefit cost exceeding contributions by \$3,575.

## Liabilities

Current liabilities increased by \$33,977 (28.7%) primarily due to the following:

- Increase in trade and other payables of \$39,580 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of \$4,892 due to a reduction in inventories and prepaids balances.

Non-current liabilities increased by \$45,551 (11.8%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures of \$43,067 due to capital expenditures financed through parliamentary appropriations of \$84,851, exceeding amortization of \$41,784; and
- Increase in employee benefits of \$2,192 in relation to CATSA's other defined benefits plan due to the defined benefit cost exceeding contributions.

## FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2016/17 – 2020/21 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 2016/17 – 2020/21 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	Three Months Ended December 31		Nine Months Ended December 31	
	2016	2015	2016	2015
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Financial performance before revenue and government funding</b>	\$ 173,285	\$ 153,091	\$ 507,534	\$ 457,929
<b>Revenue</b>	(2,297)	(1,630)	(4,676)	(3,060)
<b>Financial performance before government funding</b>	170,988	151,461	502,858	454,869
<b>Non-cash expenses</b>				
Depreciation and amortization	(13,026)	(13,942)	(38,650)	(41,334)
Employee benefits expense <sup>1</sup>	(1,858)	(1,776)	(5,767)	(6,145)
Write-off of property and equipment and intangible assets	(1,127)	-	(1,144)	-
Employee cost accruals <sup>2</sup>	(602)	(488)	(1,542)	(1,294)
Loss on disposal of property and equipment	(31)	(32)	(106)	(141)
Deferred lease incentives recognized in financial performance <sup>3</sup>	74	68	223	205
Impairment of property and equipment	-	-	(1,934)	(292)
Spare parts expense funded from capital <sup>4</sup>	-	(12)	(3)	(25)
<b>Parliamentary appropriations for operating expenses</b>	<b>\$ 154,418</b>	<b>\$ 135,279</b>	<b>\$ 453,935</b>	<b>\$ 405,843</b>
<b>Other items affecting funding</b>				
Net change in prepaids and inventories <sup>5</sup>	(1,280)	173	(4,892)	(2,681)
<b>Total operating appropriations used</b>	<b>\$ 153,138</b>	<b>\$ 135,452</b>	<b>\$ 449,043</b>	<b>\$ 403,162</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 December 31, 2016. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

<sup>3</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>4</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>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 (Thousands of Canadian dollars)	Three Months Ended December 31		Nine Months Ended December 31	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Explosives Detection System	\$ 33,354	\$ 38,801	\$ 80,061	\$ 68,062
Non-Explosives Detection System	2,034	1,731	4,795	2,846
<b>Total capital asset acquisitions</b>	<b>\$ 35,388</b>	<b>\$ 40,532</b>	<b>\$ 84,856</b>	<b>\$ 70,908</b>
Proceeds on disposal of property and equipment <sup>1</sup>	(2)	(36)	(5)	(42)
<b>Total capital appropriations used</b>	<b>\$ 35,386</b>	<b>\$ 40,496</b>	<b>\$ 84,851</b>	<b>\$ 70,866</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

February 22, 2017



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

February 22, 2017

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY  
AUTHORITY**

December 31, 2016

(Unaudited)

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position  
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2016	March 31, 2016
<b>Assets</b>		
Current assets		
Cash	\$ 8,395	\$ 11,227
Trade and other receivables (note 3)	128,704	88,039
Inventories (note 4)	13,281	16,327
Prepaid expenses	998	2,844
	<u>151,378</u>	<u>118,437</u>
Non-current assets		
Property and equipment (note 5)	393,422	351,645
Intangible assets (note 6)	7,999	6,753
Employee benefits (note 9)	9,166	4,424
	<u>410,587</u>	<u>362,822</u>
Total assets	<u>\$ 561,965</u>	<u>\$ 481,259</u>
<b>Liabilities and Equity</b>		
Current liabilities		
Trade and other payables	\$ 137,936	\$ 98,356
Provisions (note 7)	-	711
Deferred government funding related to operating expenses (note 8)	14,279	19,171
	<u>152,215</u>	<u>118,238</u>
Non-current liabilities		
Construction holdbacks	705	199
Deferred lease incentives	769	983
Deferred government funding related to capital expenditures (note 8)	401,003	357,936
Employee benefits (note 9)	27,561	25,369
	<u>430,038</u>	<u>384,487</u>
Equity		
Accumulated deficit	(20,288)	(21,466)
Total liabilities and equity	<u>\$ 561,965</u>	<u>\$ 481,259</u>

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

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income (Loss)

(Unaudited)

(In thousands of Canadian dollars)

	Three months ended		Nine months ended	
	December 31		December 31	
	2016	2015	2016	2015
<b>Expenses</b>				
Pre-Board Screening	\$ 91,976	\$ 83,986	\$ 268,198	\$ 250,377
Hold Baggage Screening	36,690	35,004	107,014	108,625
Non-Passenger Screening	32,792	22,105	97,269	64,505
Restricted Area Identity Card Program	663	742	2,237	2,097
Corporate services	9,461	10,188	28,872	30,725
Total expenses (note 10)	171,582	152,025	503,590	456,329
<b>Other expenses</b>				
Write-off of property and equipment and intangible assets (note 5)	1,127	-	1,144	-
Foreign exchange loss	544	1,034	749	1,165
Loss on disposal of property and equipment	31	32	106	141
Finance cost	1	-	11	2
Impairment of property and equipment (note 5)	-	-	1,934	292
Total other expenses	1,703	1,066	3,944	1,600
Financial performance before revenue and government funding	173,285	153,091	507,534	457,929
<b>Revenue</b>				
Supplemental screening services	2,165	1,506	4,327	2,576
Finance income	132	87	349	303
Miscellaneous income	-	37	-	181
Total revenue	2,297	1,630	4,676	3,060
<b>Government funding</b>				
Parliamentary appropriations for operating expenses (note 8)	154,418	135,279	453,935	405,843
Amortization of deferred government funding related to capital expenditures (note 8)	14,167	13,986	41,784	41,792
Total government funding	168,585	149,265	495,719	447,635
Financial performance	\$ (2,403)	\$ (2,196)	\$ (7,139)	\$ (7,234)
<b>Other comprehensive income (loss)</b>				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	20,410	(6,115)	8,317	(2,907)
Total comprehensive income (loss)	\$ 18,007	\$ (8,311)	\$ 1,178	\$ (10,141)

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 December 31:**

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	Accumulated deficit
Balance, September 30, 2016	\$ (38,295)
Financial performance	(2,403)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	20,410
<b>Balance, December 31, 2016</b>	<b>\$ (20,288)</b>
Balance, September 30, 2015	\$ (10,718)
Financial performance	(2,196)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	(6,115)
<b>Balance, December 31, 2015</b>	<b>\$ (19,029)</b>

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**For the nine months ended December 31:**

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	Accumulated deficit
Balance, March 31, 2016	\$ (21,466)
Financial performance	(7,139)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	8,317
<b>Balance, December 31, 2016</b>	<b>\$ (20,288)</b>
Balance, March 31, 2015	\$ (8,888)
Financial performance	(7,234)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	(2,907)
<b>Balance, December 31, 2015</b>	<b>\$ (19,029)</b>

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		Nine months ended	
	December 31		December 31	
	2016	2015	2016	2015
Cash flows provided by (used in)				
Operating activities				
Financial performance	\$ (2,403)	\$ (2,196)	\$ (7,139)	\$ (7,234)
Items not involving cash				
Depreciation of property and equipment (note 5 and 10)	12,696	13,577	37,661	40,110
Increase in net employee benefits liability (note 15)	1,858	1,444	5,767	5,783
Write-off of property, equipment and intangible assets (note 5)	1,127	-	1,144	-
Amortization of intangible assets (note 6 and 10)	330	365	989	1,224
Loss on disposal of property and equipment	31	32	106	141
Impairment of property and equipment (note 5)	-	-	1,934	292
Other non-cash transactions (note 15)	-	12	3	25
Amortization of deferred government funding related to capital expenditures (note 8)	(14,167)	(13,986)	(41,784)	(41,792)
Deferred lease incentives recognized in financial performance	(74)	(68)	(223)	(205)
Net change in working capital balances (note 15)	(43,713)	(2,802)	(7,087)	(6,071)
	(44,315)	(3,622)	(8,629)	(7,727)
Investing activities				
Parliamentary appropriations received for capital funding	20,000	47,000	64,872	81,800
Purchase of property and equipment	(31,824)	(25,558)	(56,836)	(58,654)
Purchase of intangible assets	(1,150)	(4,143)	(2,241)	(4,155)
Proceeds on disposal of property and equipment	2	-	2	-
	(12,972)	17,299	5,797	18,991
(Decrease) increase in cash	(57,287)	13,677	(2,832)	11,264
Cash, beginning of period	65,682	5,568	11,227	7,981
Cash, end of period	\$ 8,395	\$ 19,245	\$ 8,395	\$ 19,245

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 and nine months ended December 31, 2016  
(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, 2017.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on February 22, 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, 2016.

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



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
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(b) New accounting policy - Derivative financial instruments

During the three months ended December 31, 2016, CATSA began using derivative financial instruments, comprised of foreign exchange forward contracts, for the purpose of managing its exposure to foreign currency risk. CATSA does not apply hedge accounting to its derivatives.

Derivative financial instruments are classified at fair value through profit and loss. These derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The resulting change in fair value is recognized in the Condensed Interim Statement of Comprehensive Income.

The fair values of derivative financial instruments are presented in the Condensed Interim Statement of Financial Position; the positive fair values are reported as a derivative financial asset and the negative fair values are reported as derivative financial liabilities.

There were no derivative financial instruments outstanding as at December 31, 2016.

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

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

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

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

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

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

(iii) Amendments to IAS 1 *Disclosure Initiative*

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

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(d) 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 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.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
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## 3. Trade and other receivables

Trade and other receivables are comprised of:

	December 31, 2016	March 31, 2016
Parliamentary appropriations	\$ 114,895	\$ 69,605
GST and HST recoverable	8,700	14,821
PST recoverable	2,976	1,742
Supplemental screening services	2,025	1,867
Other	108	4
	<u>\$ 128,704</u>	<u>\$ 88,039</u>

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

## 4. Inventories

Inventories are comprised of:

	December 31, 2016	March 31, 2016
Spare parts	\$ 12,661	\$ 14,128
RAIC	316	1,150
Uniforms	304	1,049
	<u>\$ 13,281</u>	<u>\$ 16,327</u>

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 5. Property and equipment

A reconciliation of property and equipment is 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, 2015	\$ 124,747	\$ 656,986	\$ 9,548	\$ 4,387	\$ 25,811	\$ 95	\$ 10,221	\$ 112,217	\$ 944,012
Additions	42	27,265	1,135	566	2,604	-	545	61,697	93,854
Disposals	(3,280)	(72,070)	(400)	(10)	(128)	-	(350)	(34)	(76,272)
Write-offs	(545)	(5,931)	(16)	(748)	(4,758)	(11)	(927)	(25)	(12,961)
Impairments	(158)	(94)	-	-	(855)	-	-	-	(1,107)
Reclassifications	(3,725)	72,730	6,215	1,199	591	-	-	(77,010)	-
<b>Balance, March 31, 2016</b>	<b>\$ 117,081</b>	<b>\$ 678,886</b>	<b>\$ 16,482</b>	<b>\$ 5,394</b>	<b>\$ 23,265</b>	<b>\$ 84</b>	<b>\$ 9,489</b>	<b>\$ 96,845</b>	<b>\$ 947,526</b>
Balance, March 31, 2016	\$ 117,081	\$ 678,886	\$ 16,482	\$ 5,394	\$ 23,265	\$ 84	\$ 9,489	\$ 96,845	\$ 947,526
Additions	5,640	11,198	1,213	3	1,049	-	365	63,156	82,624
Disposals	-	(32,448)	-	-	(108)	-	-	(42)	(32,598)
Write-offs	(40)	(46)	-	-	(2,288)	-	-	-	(2,374)
Impairments	-	-	-	-	-	-	-	(1,934)	(1,934)
Reclassifications	1,428	40,599	2,935	-	5,008	-	-	(49,970)	-
<b>Balance, December 31, 2016</b>	<b>\$ 124,109</b>	<b>\$ 698,189</b>	<b>\$ 20,630</b>	<b>\$ 5,397</b>	<b>\$ 26,926</b>	<b>\$ 84</b>	<b>\$ 9,854</b>	<b>\$ 108,055</b>	<b>\$ 993,244</b>
<b>Accumulated depreciation</b>									
Balance, March 31, 2015	\$ 70,966	\$ 523,774	\$ 3,659	\$ 3,582	\$ 21,150	\$ 95	\$ 9,002	\$ -	\$ 632,228
Depreciation	8,995	39,571	1,462	633	1,456	-	519	-	52,636
Disposals	(2,897)	(71,985)	(293)	(10)	(128)	-	(350)	-	(75,663)
Write-offs	(513)	(5,877)	(16)	(748)	(4,420)	(11)	(920)	-	(12,505)
Impairments	(99)	(43)	-	-	(673)	-	-	-	(815)
Reclassifications	(2,831)	-	2,831	-	-	-	-	-	-
<b>Balance, March 31, 2016</b>	<b>\$ 73,621</b>	<b>\$ 485,440</b>	<b>\$ 7,643</b>	<b>\$ 3,457</b>	<b>\$ 17,385</b>	<b>\$ 84</b>	<b>\$ 8,251</b>	<b>\$ -</b>	<b>\$ 595,881</b>
Balance, March 31, 2016	\$ 73,621	\$ 485,440	\$ 7,643	\$ 3,457	\$ 17,385	\$ 84	\$ 8,251	\$ -	\$ 595,881
Depreciation	6,853	26,830	1,220	393	2,051	-	314	-	37,661
Disposals	-	(32,382)	-	-	(105)	-	-	-	(32,487)
Write-offs	458	(46)	538	-	(2,183)	-	-	-	(1,233)
Reclassifications	(1,010)	-	(197)	-	1,207	-	-	-	-
<b>Balance, December 31, 2016</b>	<b>\$ 79,922</b>	<b>\$ 479,842</b>	<b>\$ 9,204</b>	<b>\$ 3,850</b>	<b>\$ 18,355</b>	<b>\$ 84</b>	<b>\$ 8,565</b>	<b>\$ -</b>	<b>\$ 599,822</b>
<b>Carrying amounts</b>									
As at March 31, 2016	\$ 43,460	\$ 193,446	\$ 8,839	\$ 1,937	\$ 5,880	\$ -	\$ 1,238	\$ 96,845	\$ 351,645
As at December 31, 2016	\$ 44,187	\$ 218,347	\$ 11,426	\$ 1,547	\$ 8,571	\$ -	\$ 1,289	\$ 108,055	\$ 393,422

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

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During the three months ended September 30, 2016, CATSA recognized impairment losses of \$1,934 on equipment that no longer met Transport Canada standards for screening equipment. The assets can no longer contribute to the fulfillment of CATSA's mandate. As a result, the assets were considered to be fully impaired and the remaining net book value was 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 are estimated to be \$Nil. No impairment amounts have been recorded during the three months ended December 31, 2016.

During the nine months ended December 31, 2015, CATSA recognized impairment losses of \$292 related to screening equipment that was no longer able to contribute to the fulfilment of CATSA's mandate due to technical advancements.

There were no amounts recorded related to reversal of impairment losses during the three and nine months ended December 31, 2016 and 2015.

During the three and nine months ended December 31, 2016, CATSA recorded write-offs of property and equipment and intangible assets amounting to \$1,127 (2015 – \$Nil), and \$1,144 (2015 – \$Nil), respectively. These write-offs mainly represent equipment that was retired from service as new equipment was deployed.

# 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, 2015	\$ 3,807	\$ 18,840	\$ -	\$ 22,647
Additions	537	4,574	414	5,525
Write-offs	(173)	(3,831)	-	(4,004)
Balance, March 31, 2016	\$ 4,171	\$ 19,583	\$ 414	\$ 24,168
Balance, March 31, 2016	\$ 4,171	\$ 19,583	\$ 414	\$ 24,168
Additions	(245)	33	2,453	2,241
Write-offs	(17)	(77)	-	(94)
Balance, December 31, 2016	\$ 3,909	\$ 19,539	\$ 2,867	\$ 26,315
<b>Accumulated amortization</b>				
Balance, March 31, 2015	\$ 3,000	\$ 16,863	\$ -	\$ 19,863
Amortization	439	1,009	-	1,448
Write-offs	(173)	(3,723)	-	(3,896)
Balance, March 31, 2016	\$ 3,266	\$ 14,149	\$ -	\$ 17,415
Balance, March 31, 2016	\$ 3,266	\$ 14,149	\$ -	\$ 17,415
Amortization	125	864	-	989
Write-offs	(17)	(71)	-	(88)
Balance, December 31, 2016	\$ 3,374	\$ 14,942	\$ -	\$ 18,316
<b>Carrying amounts</b>				
As at March 31, 2016	\$ 905	\$ 5,434	\$ 414	\$ 6,753
As at December 31, 2016	\$ 535	\$ 4,597	\$ 2,867	\$ 7,999

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 7. Provisions and contingencies

### (a) Provisions

A reconciliation of provisions is presented as follows:

	December 31 2016	March 31, 2016
Balance, beginning of period	\$ 711	\$ 335
Provisions made during the period	18	711
Amounts used	(281)	(90)
Provisions released during the period	(448)	(245)
Balance, end of period	\$ -	\$ 711

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. The provisions recorded as a result of these claims consisted primarily of amounts related to licensing agreements and commodity taxes.

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

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## (ii) Decommissioning costs

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

## 8. Deferred government funding

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

	December 31, 2016	March 31, 2016
<b>Deferred government funding related to operating expenses</b>		
Balance, beginning of period	\$ 19,171	\$ 20,845
Operating expenses funded through parliamentary appropriations	449,043	554,733
Parliamentary appropriations recognized as government funding for operating expenses	(453,935)	(556,407)
Balance, end of period	\$ 14,279	\$ 19,171
<b>Deferred government funding related to capital expenditures</b>		
Balance, beginning of period	\$ 357,936	\$ 314,568
Capital expenditures funded through parliamentary appropriations	84,851	98,872
Amortization of deferred government funding related to capital expenditures	(41,784)	(55,504)
Balance, end of period	\$ 401,003	\$ 357,936
<b>Total deferred government funding, end of period</b>	<b>\$ 415,282</b>	<b>\$ 377,107</b>

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



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 9. Employee benefits

### (a) Employee benefits asset and liability

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

	December 31, 2016	March 31, 2016
Employee benefits asset		
Registered pension plan (RPP)	\$ 7,416	\$ 2,875
Supplementary retirement plan (SRP)	1,750	1,549
	9,166	4,424
Employee benefits liability		
Other defined benefits plan (ODBP)	(27,561)	(25,369)
	(27,561)	(25,369)
Employee benefits - net liability	\$ (18,395)	\$ (20,945)

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## (b) Employee benefits costs

The details of employee benefits costs are presented as follows:

	For the three months ended December 31							
	RPP		SRP		ODBP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Defined benefit cost recognized in financial performance</b>								
Current service cost	\$ 2,256	\$ 2,658	\$ 28	\$ 38	\$ 504	\$ 460	\$ 2,788	\$ 3,156
Administration costs	61	77	4	3	-	-	65	80
Interest cost on defined benefit obligation	1,588	1,645	42	44	256	235	1,886	1,924
Interest income on plan assets	(1,570)	(1,685)	(56)	(60)	-	-	(1,626)	(1,745)
<b>Defined benefit cost</b>	<b>\$ 2,335</b>	<b>\$ 2,695</b>	<b>\$ 18</b>	<b>\$ 25</b>	<b>\$ 760</b>	<b>\$ 695</b>	<b>\$ 3,113</b>	<b>\$ 3,415</b>
<b>Remeasurement of defined benefit plans recognized in other comprehensive income (loss)</b>								
Return on plan assets excluding interest income	\$ (3,869)	\$ 2,443	\$ 82	\$ 265	\$ -	\$ -	\$ (3,787)	\$ 2,708
Actuarial gains (losses) arising from changes in financial assumptions	20,157	(7,477)	525	(193)	3,515	(1,153)	24,197	(8,823)
<b>Remeasurement of defined benefit plans</b>	<b>\$ 16,288</b>	<b>\$ (5,034)</b>	<b>\$ 607</b>	<b>\$ 72</b>	<b>\$ 3,515</b>	<b>\$ (1,153)</b>	<b>\$ 20,410</b>	<b>\$ (6,115)</b>

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

	For the nine months ended December 31							
	RPP		SRP		ODBP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Defined benefit cost recognized in financial performance</b>								
Current service cost	\$ 6,766	\$ 7,972	\$ 84	\$ 114	\$ 1,512	\$ 1,382	\$ 8,362	\$ 9,468
Administration costs	187	231	12	11	-	-	199	242
Interest cost on defined benefit obligation	4,764	4,933	126	134	768	705	5,658	5,772
Interest income on plan assets	(4,712)	(5,053)	(168)	(180)	-	-	(4,880)	(5,233)
<b>Defined benefit cost</b>	<b>\$ 7,005</b>	<b>\$ 8,083</b>	<b>\$ 54</b>	<b>\$ 79</b>	<b>\$ 2,280</b>	<b>\$ 2,087</b>	<b>\$ 9,339</b>	<b>\$ 10,249</b>
<b>Remeasurement of defined benefit plans recognized in other comprehensive income (loss)</b>								
Return on plan assets excluding interest income	\$ 8,099	\$(11,617)	\$ 218	\$ (113)	\$ -	\$ -	\$ 8,317	\$(11,730)
Actuarial gains arising from changes in financial assumptions	-	7,478	-	192	-	1,153	-	8,823
<b>Remeasurement of defined benefit plans</b>	<b>\$ 8,099</b>	<b>\$ (4,139)</b>	<b>\$ 218</b>	<b>\$ 79</b>	<b>\$ -</b>	<b>\$ 1,153</b>	<b>\$ 8,317</b>	<b>\$ (2,907)</b>

For the three and nine months ended December 31, 2016, CATSA recognized an expense of \$91 (2015 - \$48) and \$250 (2015 - \$93), respectively, 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 December 31, 2016, remeasurement gains of \$20,410 resulted from an increase in the discount rate of 50 basis points (from 3.25% at September 30, 2016 to 3.75% at December 31, 2016) and a higher actual return on plan assets than the rate used in CATSA's assumptions for the SRP (2.29% actual versus 0.94% expected). This was partially offset by a lower actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (-1.30% actual versus 0.94% expected).

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

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

For the three months ended December 31, 2015, remeasurement losses of \$6,115 resulted from a decrease in the discount rate of 25 basis points (from 4.50% at September 30, 2015 to 4.25% at December 31, 2015). This was partially offset by a higher actual return on plan assets than the rate used in CATSA's assumptions (3.19% actual versus 1.00% expected for the RPP and 4.03% actual versus 1.00% expected for the SRP).

For the nine months ended December 31, 2016, remeasurement gains of \$8,317 resulted from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (7.84% actual versus 2.82% expected for the RPP and 6.46% actual versus 2.82% expected for the SRP). There was no impact arising from changes in actuarial assumptions as there were no significant changes in the assumptions during the nine month period.

For the nine months ended December 31, 2015, remeasurement losses of \$2,907 were due to a lower actual return on plan assets than the rate used in CATSA's assumptions (-4.35% actual versus 3.00% expected for the RPP and 1.05% actual versus 3.00% expected for the SRP). This was partially offset by a remeasurement gain on the defined benefit liability arising from an increase in the discount rate of 25 basis points (from 4.00% at March 31, 2015 to 4.25% at December 31, 2015).

(d) Employer contributions

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

	Three months ended		Nine months ended	
	December 31		December 31	
	2016	2015	2016	2015
Employer contributions				
RPP	\$ 1,189	\$ 1,904	\$ 3,447	\$ 4,300
SRP	37	21	37	28
ODBP	29	46	88	138
	\$ 1,255	\$ 1,971	\$ 3,572	\$ 4,466

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

# 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 and nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2016	2015	2016	2015
Screening services and other related costs				
Payments to screening contractors	\$ 125,962	\$ 108,851	\$ 369,307	\$ 323,026
Uniforms and other screening costs	1,429	1,197	4,344	3,292
Trace and consumables	417	460	1,203	1,052
	127,808	110,508	374,854	327,370
Equipment operating and maintenance				
Equipment maintenance and spare parts	10,518	8,199	29,195	28,988
Training and certification	466	-	1,379	112
RAIC	169	162	835	535
	11,153	8,361	31,409	29,635
Program support and corporate services				
Employee costs	14,684	14,244	44,209	43,914
Professional services and other business related costs	1,343	1,180	3,754	3,091
Operating leases	1,156	1,589	4,312	4,777
Office and computer expenses	1,121	997	3,421	2,937
Other administrative costs	1,060	979	2,415	2,663
Communications and public awareness	231	225	566	608
	19,595	19,214	58,677	57,990
Depreciation and amortization				
Depreciation of property and equipment	12,696	13,577	37,661	40,110
Amortization of intangible assets	330	365	989	1,224
	13,026	13,942	38,650	41,334
	\$ 171,582	\$ 152,025	\$ 503,590	\$ 456,329

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

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 11. Government funding

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

The following table reconciles parliamentary appropriations for operating expenses that were received and receivable with the amount of appropriations used during the three and nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2016	2015	2016	2015
Parliamentary appropriations received and receivable	\$ 194,211	\$ 201,403	\$ 506,695	\$ 464,312
Amounts received and receivable related to prior period	(40,905)	(66,710)	(54,733)	(59,834)
Amounts to be (used) billed in future periods	(168)	759	(2,919)	(1,316)
<b>Parliamentary appropriations used to fund operating expenses (note 8)</b>	<b>\$ 153,138</b>	<b>\$ 135,452</b>	<b>\$ 449,043</b>	<b>\$ 403,162</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 and nine months ended December 31:

	Three months ended		Nine months ended	
	December 31		December 31	
	2016	2015	2016	2015
Parliamentary appropriations received and receivable	\$ 44,487	\$ 51,865	\$ 95,142	\$ 98,016
Amounts received and receivable related to prior period	(19,465)	(13,370)	(14,872)	(17,800)
Amounts to be billed (used) in future periods	10,364	2,001	4,581	(9,350)
<b>Parliamentary appropriations used to fund capital expenditures (note 8)</b>	<b>\$ 35,386</b>	<b>\$ 40,496</b>	<b>\$ 84,851</b>	<b>\$ 70,866</b>

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

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Notes to Condensed Interim Financial Statements  
(Unaudited)

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## 12. Fair values of financial instruments

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

The fair value of construction holdbacks approximates their carrying value.

## 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 presents the remaining pre-tax balance on these contractual arrangements:

	December 31, 2016	March 31, 2016
Operating	\$ 2,930,953	\$ 636,006
Capital	150,562	156,913
<b>Total</b>	<b>\$ 3,081,515</b>	<b>\$ 792,919</b>

During the three months ended December 31, 2016, CATSA announced the renewal of its airport screening service agreements for the five-year period from April 1, 2017 to March 31, 2022. The renewal of these service agreements has added approximately \$2,600,000 to CATSA's contractual arrangements.

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(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:

	December 31, 2016	March 31, 2016
No later than 1 year	\$ 6,679	\$ 6,524
Later than 1 year and no later than 5 years	21,223	22,229
Later than 5 years	4,069	7,724
<b>Total</b>	<b>\$ 31,971</b>	<b>\$ 36,477</b>

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



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

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

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## 14. Related party transactions

CATSA had the following transactions with related parties for the three and nine months ended December 31, 2016:

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

CATSA is wholly owned by the Government of Canada, and is under common control with other Government of Canada departments, agencies and Crown corporations. CATSA enters into transactions with these entities in the normal course of operations. 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		Nine months ended	
	December 31		December 31	
	2016	2015	2016	2015
Income	\$ 168,585	\$ 149,265	\$ 495,719	\$ 447,635
Expenses	4,494	3,279	11,601	9,548

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 and nine months ended December 31, 2016, include \$4,327 (2015 – \$3,017), and \$11,124 (2015 – \$8,805), respectively, in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

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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:

	December 31, 2016	March 31, 2016
Receivable from related parties	\$ 123,703	\$ 84,426
Payable to related parties	(612)	(603)
<b>Net receivable from related parties</b>	<b>\$ 123,091</b>	<b>\$ 83,823</b>

Amounts receivable from related parties consist primarily of \$114,895 (March 31, 2016 – \$69,605) due from the Government of Canada for parliamentary appropriations, and \$8,700 (March 31, 2016 – \$14,821) 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.

(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 and nine month periods.

## 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 and nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
Increase in trade and other receivables	\$ (35,211)	\$ (2,967)	\$ (20,686)	\$ (7,158)
Decrease (increase) in inventories	654	(257)	3,046	1,282
Decrease in prepaid expenses	626	84	1,846	1,399
(Decrease) increase in trade and other payables	(8,303)	165	14,310	1,422
Decrease in current portion of provisions	(199)	-	(711)	(335)
(Decrease) increase in deferred government funding related to operating expenses	(1,280)	173	(4,892)	(2,681)
	<b>\$ (43,713)</b>	<b>\$ (2,802)</b>	<b>\$ (7,087)</b>	<b>\$ (6,071)</b>

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Notes to Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

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Interest income received and recognized during the three and nine months ended December 31, 2016, totalled \$132 (2015 – \$87) and \$349 (2015 – \$303), respectively.

Interest expense paid and expensed during the three and nine months ended December 31, 2016, totalled \$1 (2015 – \$Nil) and \$11 (2015 – \$2), respectively.

For the three and nine months ended December 31, 2016, the change in trade and other receivables excludes amounts of \$15,386 (2015 – \$6,504) and \$19,979 (2015 – \$10,934) respectively, for government funding for capital expenditures, as these amounts relate to investing activities.

For the three and nine months ended December 31, 2016, the change in trade and other payables excludes amounts of \$2,224 (2015 – \$10,795) and \$25,270 (2015 – \$8,057), respectively, for the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.

For the three and nine months ended December 31, 2016, the change in net employee benefits liability excludes an amount of \$20,410 (2015 – \$6,115) and \$8,317 (2015 – \$2,907), respectively, for the remeasurement of defined benefit plans presented in other comprehensive income (loss), as the amount relates to a non-cash remeasurement.

During the three and nine months ended December 31, 2016, CATSA received non-cash proceeds in the form of credit notes from a supplier, totalling \$Nil (2015 – \$36) and \$3 (2015 – \$42), respectively, related to the disposal of property and equipment.

During the three and nine months ended December 31, 2016, non-cash transfers of spare parts from property and equipment to inventory totalled \$Nil (2015 – \$12) and \$3 (2015 – \$25), respectively.

During the three and nine months ended December 31, 2016, CATSA had non-cash additions to deferred lease incentives of \$Nil (2015 – \$Nil) and \$9 (2015 – \$Nil), respectively.