Canadian Air Transport Security Authority
Administration canadienne de la sûreté du transport aérien

Quarterly Financial Report

For the Three and Six Months Ended
September 30, 2017

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2017

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

CORPORATE OVERVIEW

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

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

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

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

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

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

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since June 30, 2017.

PASSENGER GROWTH AND SCREENING HOURS

Statistics from CATSA's Boarding Pass Security System for the three months ended September 30, 2017, indicate that screened traffic across Canada increased by 5.1% over the same period in 2016, resulting in an increase in required screening hours. Screening contractor billing rates will also continue to 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 initially received to deliver NPS screening as part of the enhanced NPS program expired on March 31, 2017. Budget 2017 provided one-year incremental funding for CATSA to continue the delivery of the enhanced NPS program for 2017/18 and to continue delivering a PBS service level where 85% of passengers are screened in 15 minutes or less. 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.

KEY MANAGEMENT PERSONNEL

On September 18, 2017, the Governor in Council, on the recommendation of the Minister of Transport, appointed Ms. Marguerite Nadeau as CATSA's Chairperson of Board of Directors for a term of five years. You can find more information about Ms. Nadeau on CATSA's website at http://www.catsa.gc.ca/profile/. Effective November 2, 2017, the Vice-President, Corporate Services and Corporate Secretary left the organization. CATSA has initiated the process to fill the position. Lastly, a selection process is ongoing for directors to replace those whose terms have expired or will be expiring in the coming months. Under the FAA, incumbent directors continue in office until a successor is appointed.

REGULATORY CHANGES

NPS Aircraft Exemption

On July 18, 2017, CATSA was relieved from the regulatory requirement to screen non-passengers who access U.S. bound aircrafts at airports where an enhanced NPS program is in place.

TSA Enhanced Security Measures

As part of new TC regulations, CATSA implemented enhanced security measures to meet TSA requirements for US-bound flights as of July 19, 2017. These measures involve screening of all electronic devices larger than a cellphone or smartphone for passengers going through all checkpoints at Class I and the seven largest Class II airports, and may include a secondary search.

Overall, these regulations mean that passengers will continue to be randomly selected for additional screening, which now includes screening of electronic devices. Passengers are encouraged to remove the protective cover from their electronic devices in advance of screening, in order to facilitate the screening process. Electronic devices that cannot be taken out of their cases or powered on when requested during enhanced screening are not permitted beyond the screening checkpoint.

To date, CATSA has absorbed the costs associated with the introduction of the enhanced measures, in part by redirecting funds from NPS to PBS resulting from the NPS Aircraft Exemption discussed above.

RISKS AND UNCERTAINTIES

There have been no significant changes to the corporate risk profile as previously disclosed in the *2017 Annual Report* for the three and six months ended September 30, 2017. Although a new Chairperson has been appointed to the Board of Directors, the level of Governance Risk related to the period of interim senior leadership has not changed.

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 six months ended September 30, 2017, and September 30, 2016.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended September 30				Six Months Ended September 30			
	2017	2016			2017	2016		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	$ Change	% Change	(unaudited)	(unaudited)	$ Change	% Change
Expenses [1]								
Screening services and other related costs	$ 136,962	$ 125,741	$ 11,221	8.9%	$ 269,790	$ 247,046	$ 22,744	9.2%
Equipment operating and maintenance	8,860	10,098	(1,238)	(12.3%)	18,305	20,256	(1,951)	(9.6%)
Program support and corporate services	19,713	19,281	432	2.2%	40,321	39,082	1,239	3.2%
Depreciation and amortization	14,442	12,445	1,997	16.0%	28,421	25,624	2,797	10.9%
Total expenses	**179,977**	**167,565**	**12,412**	**7.4%**	**356,837**	**332,008**	**24,829**	**7.5%**
Other expenses	**1,490**	**2,270**	**(780)**	**(34.4%)**	**2,153**	**2,241**	**(88)**	**(3.9%)**
Financial performance before revenue and government funding	**181,467**	**169,835**	**11,632**	**6.8%**	**358,990**	**334,249**	**24,741**	**7.4%**
Revenue	**3,975**	**1,130**	**2,845**	**251.8%**	**7,509**	**2,379**	**5,130**	**215.6%**
Government funding								
Parliamentary appropriations for operating expenses	159,942	152,405	7,537	4.9%	317,134	299,517	17,617	5.9%
Amortization of deferred government funding related to capital expenditures	15,236	14,446	790	5.5%	29,419	27,617	1,802	6.5%
Total government funding	**175,178**	**166,851**	**8,327**	**5.0%**	**346,553**	**327,134**	**19,419**	**5.9%**
Financial performance	**$ (2,314)**	**$ (1,854)**	**$ (460)**	**(24.8%)**	**$ (4,928)**	**$ (4,736)**	**$ (192)**	**(4.1%)**
Other comprehensive income (loss)	**19,293**	**4,971**	**14,322**	**288.1%**	**8,354**	**(12,093)**	**20,447**	**169.1%**
Total comprehensive income (loss)	**$ 16,979**	**$ 3,117**	**$ 13,862**	**444.7%**	**$ 3,426**	**$ (16,829)**	**$ 20,255**	**120.4%**

[1] The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 10 of the unaudited condensed interim financial statements for the three and six months ended September 30, 2017.

Screening services and other related costs

Screening services and other related costs increased by $11,221 (8.9%) and by $22,744 (9.2%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to the purchase of additional screening hours totalling $6,885 and $13,779, and annual screening contractor billing rate increases amounting to $4,167 and $8,037, for the three and six months ended September 30, 2017, respectively.

The increases in screening hours purchased for the three and six month periods are mainly attributable to additional screening requirements to support higher passenger volumes, changes in operational needs at certain airports, and the implementation of the enhanced security measures that came into effect on July 19, 2017. The increases in screening hours purchased are also attributable to additional supplemental screening hours relating to the GTAA and YVRAA trial agreements, as well as additional screening requirements to support the enhanced NPS program, as the construction of permanent vehicle search facilities has been completed at certain airports. These increases are partially offset by the NPS Aircraft Exemption that came into effect July 18, 2017.

Equipment operating and maintenance

Equipment operating and maintenance costs decreased by $1,238 (12.3%) and by $1,951 (9.6%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The decreases are mainly attributable to lower maintenance costs resulting from the replacement of legacy EDS equipment with new equipment that is under standard warranty as part of the capital life-cycle management plan, and lower training requirements for equipment maintenance providers to support the ongoing deployment of new EDS equipment.

Program support and corporate services

Program support and corporate services increased by $432 (2.2%) and by $1,239 (3.2%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to higher professional services to support corporate initiatives related to CATSA's governance review. The increase for the six months ended September 30, 2017 is also attributable to the reversal in the prior year of a commodity tax accrual in the amount of $744.

Depreciation and amortization

Depreciation and amortization increased by $1,997 (16.0%) and by $2,797 (10.9%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to new deployments of CATSA Plus, as well as HBS equipment deployments as part of the HBS life-cycle management program. The increases are partially offset by older HBS equipment becoming fully depreciated, as well as changes in the estimated useful lives of equipment impacted by the HBS life-cycle management program.

Other expenses

Other expenses decreased by $780 (34.4%) and by $88 (3.9%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The decreases are mainly attributable to the impairment of property and equipment, recorded in the prior year, relating to screening equipment that no longer met TC's standards. These decreases are partially offset by the current year net loss on fair value of derivative financial instruments due to a strengthening of the Canadian dollar in comparison to the US dollar, and the write-off of property and equipment that was retired from service as new equipment was deployed.

Revenue

Revenue increased by $2,845 (251.8%) and by $5,130 (215.6%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to the purchase of greater number of supplemental screening hours in the amount of $2,664 and $4,138, respectively, to support the GTAA and YVRAA trial agreements. The increase for the six months ended September 30, 2017 is also attributable to a non-cash vendor credit of $762 received in the first quarter of the fiscal year.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by $7,537 (4.9%) and by $17,617 (5.9%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to increased spending for screening services and other related costs, partially offset by lower spending for equipment operating and maintenance, as previously discussed.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by $790 (5.5%) and by $1,802 (6.5%) for the three and six months ended September 30, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to increased depreciation and amortization and write-offs of property and equipment, partially offset by decreases in impairment of property and equipment, 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 $19,293 for the three months ended September 30, 2017, is due to a remeasurement gain of $23,421 on the defined benefit liability arising from a 50 basis point increase in the discount rate since June 30, 2017. This was partially offset by a remeasurement loss of $4,128 resulting from a lower actual rate of return on plan assets than the rate initially used in CATSA's assumptions. Other comprehensive income of $4,971 for the three months ended September 30, 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 income of $8,354 for the six months ended September 30, 2017, is due to a remeasurement gain of $11,326 on the defined benefit liability arising from a 25 basis point increase in the discount rate since March 31, 2017. This was partially offset by a remeasurement loss of $2,972 resulting from a lower actual rate of return on plan assets than the rate initially used in CATSA's assumptions. Other comprehensive loss of $12,093 for the six months ended September 30, 2016, is due to a remeasurement loss of $24,197 on the defined benefit liability arising from a 50 basis point decrease in the discount rate between March 31, 2016 and September 30, 2016. This was partially offset by a remeasurement gain of $12,104 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions.

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

STATEMENT OF FINANCIAL POSITION

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

Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars)	September 30, 2017 (unaudited)	March 31, 2017 (audited)	$ Change	% Change
Current assets	$ 132,485	$ 152,005	$ (19,520)	(12.8%)
Non-current assets	434,002	428,458	5,544	1.3%
Total assets	**$ 566,487**	**$ 580,463**	**$ (13,976)**	**(2.4%)**
Current liabilities	$ 133,212	$ 150,796	$ (17,584)	(11.7%)
Non-current liabilities	435,056	434,874	182	0.0%
Total liabilities	**$ 568,268**	**$ 585,670**	**$ (17,402)**	**(3.0%)**

Assets

Current assets decreased by $19,520 (12.8%) primarily due to the following:

- Decrease in trade and other receivables of $45,355, mainly due to a decrease in parliamentary appropriations receivable of $43,163 and a decrease in taxes recoverable of $4,004, partially offset by an increase in supplemental screening services receivable of $1,769;
- Decrease in inventories of $1,413 primarily due to usage of $1,369 of uniform and RAIC card inventories;
- Decrease in prepaids of $1,255 due to the amortization of annual insurance premiums, and annual maintenance and support services; and
- Increase in cash of $28,777 primarily due to the variance in the amount of appropriations received from the Government of Canada and the timing of disbursements to suppliers for goods and services.

Non-current assets increased by $5,544 (1.3%) primarily due to the following:

- Increase in employee benefits of $4,580. The employee benefits asset is comprised of CATSA's registered pension plan and supplementary retirement plan, which are both in a net asset position. The increase is primarily due to a remeasurement gain of $9,826 on the defined benefit liability arising from a 25 basis point increase in the discount rate since March 31, 2017. This was partially offset by a lower actual rate of return on plan assets than the rate used in CATSA's assumptions by $2,972 and the defined benefit cost exceeding contributions by $2,274; and
- Increase in property and equipment and intangible assets of $1,021 primarily due to the acquisition of property and equipment and intangible assets of $30,505, partially offset by depreciation and amortization of $28,421.

Liabilities

Current liabilities decreased by $17,584 (11.7%) primarily due to the following:

- Decrease in trade and other payables of $15,824 due to the timing of disbursements associated with obligations outstanding with suppliers;

- Decrease in deferred government funding related to operating expenditures of $2,668 due to a reduction in inventories and prepaids balances; and
- Increase in current liabilities relating to derivative financial instruments of $908 due to a strengthening of the Canadian dollar in comparison to the US dollar.

There was no significant variance in non-current liabilities.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2017/18 – 2021/22 Corporate Plan* has not been tabled for approval in Parliament at the time of publishing. Until it is tabled in Parliament and made publicly available, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *Summary of the 2017/18 – 2021/22 Corporate Plan*.

PARLIAMENTARY APPROPRIATIONS USED

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

Reconciliation of Financial Performance to Operating Appropriations Used	Three Months Ended September 30		Six Months Ended September 30	
	2017	2016	2017	2016
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	$ 181,467	$ 169,835	$ 358,990	$ 334,249
Revenue	(3,975)	(1,130)	(7,509)	(2,379)
Financial performance before government funding	177,492	168,705	351,481	331,870
Non-cash expenses				
Depreciation and amortization	(14,442)	(12,445)	(28,421)	(25,624)
Employee benefits expense [1]	(1,665)	(1,986)	(3,519)	(3,909)
Write-off of property and equipment and intangible assets	(783)	(10)	(932)	(17)
Non-cash (loss) gain on foreign exchange recognized in	(84)	-	39	-
Employee cost accruals [2]	(65)	75	(1,125)	(940)
Loss on disposal of property and equipment	(15)	(75)	(72)	(75)
Spare parts expense funded from capital [3]	(15)	-	(31)	(3)
Impairment of property and equipment	-	(1,934)	-	(1,934)
Deferred lease incentives recognized in financial performance [4]	80	75	161	149
Non-cash vendor credits	30	-	792	-
Change in fair value of financial instruments at fair value through profit and loss	(591)	-	(1,239)	-
Parliamentary appropriations for operating expenses	**$ 159,942**	**$ 152,405**	**$ 317,134**	**$ 299,517**
Other items affecting funding				
Net change in prepaids and inventories [5]	(1,481)	(1,745)	(2,668)	(3,612)
Total operating appropriations used	**$ 158,461**	**$ 150,660**	**$ 314,466**	**$ 295,905**

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

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

[3] Spare parts expense funded from capital represents items that were funded from capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

[4] Deferred lease incentives are non-cash accounting adjustments to record the benefit derived from favourable lease terms, including significantly reduced rent, free common area costs and leasehold improvements provided at no cost. Rental costs are funded by appropriations when paid, creating a reconciling item.

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

CAPITAL EXPENDITURES

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

Reconciliation of Capital Acquisitions to Capital Appropriations Used	**Three Months Ended September 30**		**Six Months Ended September 30**	
(Thousands of Canadian dollars)	**2017** (unaudited)	**2016** (unaudited)	**2017** (unaudited)	**2016** (unaudited)
Explosives Detection System	$ 11,041	$ 29,531	$ 29,698	$ 46,707
Non-Explosives Detection System	417	1,205	807	2,761
Total capital asset acquisitions	**$ 11,458**	**$ 30,736**	**$ 30,505**	**$ 49,468**
Non-cash additions resulting from vendor credits	(30)	-	(792)	-
Non-cash loss (gain) on foreign exchange related to capital acquisitions	1	-	(81)	-
Proceeds on disposal of property and equipment [1]	-	(3)	(28)	(3)
Total capital appropriations used	**11,429**	**$ 30,733**	**$ 29,604**	**$ 49,465**

[1] Proceeds on disposal of property and equipment include non-cash proceeds received in the form of credit notes from suppliers.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these 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.

Michael Saunders
President and Chief Executive Officer

Ottawa, Canada

November 22, 2017

Andie Andreou, CPA, CA
Vice-President, Corporate Affairs and
Chief Financial Officer

Ottawa, Canada

November 22, 2017

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

September 30, 2017

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	September 30, 2017	March 31, 2017
Assets		
Current assets		
Cash	$ 65,044	$ 36,267
Trade and other receivables (note 3)	51,384	96,739
Inventories (note 4)	14,316	15,729
Prepaid expenses	1,741	2,996
Derivative financial instruments (note 12)	-	274
	132,485	152,005
Non-current assets		
Property and equipment (note 5)	402,110	400,908
Intangible assets (note 6)	8,270	8,451
Employee benefits (note 9)	23,622	19,042
Derivative financial instruments (note 12)	-	57
	434,002	428,458
Total assets	$ 566,487	$ 580,463
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 116,247	$ 132,071
Deferred government funding related to operating expenses (note 8)	16,057	18,725
Derivative financial instruments (note 12)	908	-
	133,212	150,796
Non-current liabilities		
Construction holdbacks (note 12)	1,348	935
Deferred lease incentives	527	688
Deferred government funding related to capital expenditures (note 8)	409,144	408,959
Employee benefits (note 9)	24,037	24,292
	435,056	434,874
Equity		
Accumulated deficit	(1,781)	(5,207)
Total liabilities and equity	$ 566,487	$ 580,463

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 September 30		Six months ended September 30	
	2017	2016	2017	2016
Expenses				
Pre-Board Screening	$ 99,052	$ 89,419	$ 193,281	$ 176,222
Hold Baggage Screening	36,698	35,131	73,705	70,324
Non-Passenger Screening	33,300	32,636	67,671	64,477
Restricted Area Identity Card Program	730	647	1,489	1,574
Corporate services	10,197	9,732	20,691	19,411
Total expenses (note 10)	179,977	167,565	356,837	332,008
Other expenses				
Write-off of property and equipment and intangible assets (note 5)	783	10	932	17
Net loss on fair value of derivative financial instruments	591	-	1,239	-
Foreign exchange loss (gain)	100	244	(91)	205
Loss on disposal of property and equipment	15	75	72	75
Finance cost	1	7	1	10
Impairment of property and equipment (note 5)	-	1,934	-	1,934
Total other expenses	1,490	2,270	2,153	2,241
Financial performance before revenue and government funding	181,467	169,835	358,990	334,249
Revenue				
Supplemental screening services	3,704	1,041	6,299	2,162
Finance income	151	89	238	217
Rental income	90	-	180	-
Miscellaneous income	30	-	792	-
Total revenue	3,975	1,130	7,509	2,379
Government funding				
Parliamentary appropriations for operating expenses (note 8)	159,942	152,405	317,134	299,517
Amortization of deferred government funding related to capital expenditures (note 8)	15,236	14,446	29,419	27,617
Total government funding	175,178	166,851	346,553	327,134
Financial performance	$ (2,314)	$ (1,854)	$ (4,928)	$ (4,736)
Other comprehensive income (loss)				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	19,293	4,971	8,354	(12,093)
Total comprehensive income (loss)	$ 16,979	$ 3,117	$ 3,426	$ (16,829)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended September 30:

		Accumulated deficit
Balance, June 30, 2017	$	(18,760)
Financial performance		(2,314)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		19,293
Balance, September 30, 2017	$	(1,781)
Balance, June 30, 2016	$	(41,412)
Financial performance		(1,854)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		4,971
Balance, September 30, 2016	$	(38,295)

For the six months ended September 30:

		Accumulated deficit
Balance, March 31, 2017	$	(5,207)
Financial performance		(4,928)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		8,354
Balance, September 30, 2017	$	(1,781)
Balance, March 31, 2016	$	(21,466)
Financial performance		(4,736)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(12,093)
Balance, September 30, 2016	$	(38,295)

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 September 30		Six months ended September 30	
	2017	2016	2017	2016
Cash flows provided by (used in)				
Operating activities				
Financial performance	$ (2,314)	$ (1,854)	$ (4,928)	$ (4,736)
Items not involving cash				
Depreciation of property and equipment (note 5 and 10)	14,151	12,116	27,872	24,965
Increase in net employee benefits liability (note 15)	1,665	1,986	3,519	3,909
Write-off of property and equipment and intangible assets (note 5)	783	10	932	17
Change in fair value of financial instruments at fair value through profit and loss	591	-	1,239	-
Amortization of intangible assets (note 6 and 10)	291	329	549	659
Loss on disposal of property and equipment	15	75	72	75
Amortization of deferred government funding related to capital expenditures (note 8)	(15,236)	(14,446)	(29,419)	(27,617)
Deferred lease incentives recognized in financial performance	(80)	(75)	(161)	(149)
Other non-cash transactions (note 15)	(15)	-	(761)	3
Impairment of property and equipment (note 5)	-	1,934	-	1,934
Net change in working capital balances (note 15)	(11,541)	16,501	20,407	36,626
	(11,690)	16,576	19,321	35,686
Investing activities				
Parliamentary appropriations received for capital funding	19,001	24,872	44,809	44,872
Purchase of property and equipment	(10,922)	(9,054)	(34,985)	(25,012)
Purchase of intangible assets	(160)	(644)	(368)	(1,091)
	7,919	15,174	9,456	18,769
(Decrease) increase in cash	(3,771)	31,750	28,777	54,455
Cash, beginning of period	68,815	33,932	36,267	11,227
Cash, end of period	$ 65,044	$ 65,682	$ 65,044	$ 65,682

Supplementary cash flow information (note 15)

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

1. Corporate information

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

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

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

Significant accounting policies used in these condensed interim financial statements are disclosed in note 3 of CATSA’s audited annual financial statements for the year ended March 31, 2017.

(b) Future accounting changes

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

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

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

Due to the nature and volume of its revenue contracts, CATSA does not anticipate a significant impact on its financial statements as a result of adopting and implementing IFRS 15, with the exception of new disclosure requirements.

(ii) IFRS 9 *Financial Instruments*

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

CATSA does not expect there to be any impact on the identification, classification or measurement of its financial instruments as a result of the adoption and implementation of IFRS 9. CATSA is currently analyzing the new requirements related to the impairment of financial assets, although it does not anticipate a significant impact as a result of the new model, as well as changes to disclosure requirements.

(In thousands of Canadian dollars)

(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, on a retrospective basis, with earlier adoption permitted in the period when IFRS 15 is adopted.

CATSA's assessment of IFRS 16 is ongoing. An initial scoping of its agreements has identified approximately 20 contracts that will need to be analyzed, which have a total undiscounted contract value of $32,928, as disclosed in note 13(b).

3. Trade and other receivables

Trade and other receivables are comprised of:

	September 30, 2017	March 31, 2017
Parliamentary appropriations	$ 40,571	$ 83,734
GST and HST recoverable	4,966	8,574
Supplemental screening services	3,560	1,791
PST recoverable	2,116	2,512
Other	171	128
	$ 51,384	$ 96,739

Credit terms on trade receivables are 30 days. As of September 30, 2017, trade and other receivables included amounts that were past due. CATSA did not recognize an allowance for doubtful accounts for these receivables because there had not been a significant change in credit quality and the amounts were still considered recoverable.

As at March 31, 2017, there were no amounts included in trade and other receivables that were past due.

(In thousands of Canadian dollars)

The age of trade and other receivables, excluding amounts related to parliamentary appropriations and recoverable taxes, that are past due, but not impaired, are:

	September 30, 2017	March 31, 2017
31 - 60 days	$ 212	$ -

4. Inventories

Inventories are comprised of:

	September 30, 2017	March 31, 2017
Spare parts	$ 13,255	$ 13,299
RAIC	639	1,082
Uniforms	422	1,348
	$ 14,316	$ 15,729

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
Notes to Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

5. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equip-ment	Leasehold improve-ments	Work-in-progress	Total
Cost									
Balance, March 31, 2016	$ 117,081	$ 678,886	$ 16,482	$ 5,394	$ 23,265	$ 84	$ 9,489	$ 96,845	$ 947,526
Additions	10,528	30,446	181	166	2,121	-	494	60,688	104,624
Disposals	(2,106)	(35,211)	(58)	-	(108)	-	-	(42)	(37,525)
Write-offs	(2,565)	(1,497)	-	(266)	(3,497)	(54)	(54)	-	(7,933)
Impairments	-	-	-	-	-	-	-	(1,934)	(1,934)
Reclassifications	2,345	74,543	3,740	35	5,422	-	-	(86,085)	-
Balance, March 31, 2017	$ 125,283	$ 747,167	$ 20,345	$ 5,329	$ 27,203	$ 30	$ 9,929	$ 69,472	$ 1,004,758
Balance, March 31, 2017	$ 125,283	$ 747,167	$ 20,345	$ 5,329	$ 27,203	$ 30	$ 9,929	$ 69,472	$ 1,004,758
Additions	3,176	6,518	7	-	358	-	-	20,078	30,137
Disposals	(1,074)	(46,069)	-	-	(441)	-	-	-	(47,584)
Write-offs	(166)	(1,144)	(1,224)	(1,393)	(317)	-	(25)	(40)	(4,309)
Reclassifications	4,622	10,017	527	454	996	-	-	(16,616)	-
Balance, September 30, 2017	$ 131,841	$ 716,489	$ 19,655	$ 4,390	$ 27,799	$ 30	$ 9,904	$ 72,894	$ 983,002
Accumulated depreciation									
Balance, March 31, 2016	$ 73,621	$ 485,440	$ 7,643	$ 3,457	$ 17,385	$ 84	$ 8,251	$ -	$ 595,881
Depreciation	9,493	36,510	1,783	533	2,779	-	406	-	51,504
Disposals	(1,851)	(34,841)	(59)	-	(105)	-	-	-	(36,856)
Write-offs	(2,022)	(1,427)	538	(266)	(3,393)	(54)	(55)	-	(6,679)
Reclassifications	(1,357)	(770)	920	-	1,207	-	-	-	-
Balance, March 31, 2017	$ 77,884	$ 484,912	$ 10,825	$ 3,724	$ 17,873	$ 30	$ 8,602	$ -	$ 603,850
Balance, March 31, 2017	$ 77,884	$ 484,912	$ 10,825	$ 3,724	$ 17,873	$ 30	$ 8,602	$ -	$ 603,850
Depreciation	5,348	19,551	847	316	1,627	-	183	-	27,872
Disposals	(1,072)	(45,971)	-	-	(441)	-	-	-	(47,484)
Write-offs	(92)	(1,054)	(466)	(1,392)	(317)	-	(25)	-	(3,346)
Balance, September 30, 2017	$ 82,068	$ 457,438	$ 11,206	$ 2,648	$ 18,742	$ 30	$ 8,760	$ -	$ 580,892
Carrying amounts									
As at March 31, 2017	$ 47,399	$ 262,255	$ 9,520	$ 1,605	$ 9,330	$ -	$ 1,327	$ 69,472	$ 400,908
As at September 30, 2017	$ 49,773	$ 259,051	$ 8,449	$ 1,742	$ 9,057	$ -	$ 1,144	$ 72,894	$ 402,110

No impairment amounts have been recorded during the three and six months ended September 30, 2017. During the three and six months ended September 30, 2016, CATSA recognized impairment losses of $1,934 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 six months ended September 30, 2017 and 2016.

During the three and six months ended September 30, 2017, CATSA recorded write-offs of property and equipment amounting to $783 (2016 – $10), and $932 (2016 – $11), respectively. These write-offs mainly represent equipment that was retired from service as new equipment was deployed.

(In thousands of Canadian dollars)

6. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2016	$ 4,171	$ 19,583	$ 414	$ 24,168
Additions	329	919	1,958	3,206
Write-offs	(389)	(886)	-	(1,275)
Reclassifications	-	39	(39)	-
Balance, March 31, 2017	$ 4,111	$ 19,655	$ 2,333	$ 26,099
Balance, March 31, 2017	$ 4,111	$ 19,655	$ 2,333	$ 26,099
Additions	125	-	243	368
Balance, September 30, 2017	$ 4,236	$ 19,655	$ 2,576	$ 26,467
Accumulated amortization				
Balance, March 31, 2016	$ 3,266	$ 14,149	$ -	$ 17,415
Amortization	221	1,226	-	1,447
Write-offs	(368)	(846)	-	(1,214)
Balance, March 31, 2017	$ 3,119	$ 14,529	$ -	$ 17,648
Balance, March 31, 2017	$ 3,119	$ 14,529	$ -	$ 17,648
Amortization	137	412	-	549
Balance, September 30, 2017	$ 3,256	$ 14,941	$ -	$ 18,197
Carrying amounts				
As at March 31, 2017	$ 992	$ 5,126	$ 2,333	$ 8,451
As at September 30, 2017	$ 980	$ 4,714	$ 2,576	$ 8,270

7. Provisions and contingencies

(a) Provisions

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

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

No provisions were recorded as at September 30, 2017, or March 31, 2017.

(b) Contingencies

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

(i) Claims and legal proceedings

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

(ii) Decommissioning costs

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

(In thousands of Canadian dollars)

8. Deferred government funding

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

	September 30, 2017	March 31, 2017
Deferred government funding related to operating expenses		
Balance, beginning of period	$ 18,725	$ 19,171
Operating expenses funded through parliamentary appropriations	314,466	615,925
Parliamentary appropriations recognized as government funding for operating expenses	(317,134)	(616,371)
Balance, end of period	$ 16,057	$ 18,725
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 408,959	$ 357,936
Capital expenditures funded through parliamentary appropriations	29,604	107,809
Amortization of deferred government funding related to capital expenditures	(29,419)	(56,786)
Balance, end of period	$ 409,144	$ 408,959
Total deferred government funding, end of period	$ 425,201	$ 427,684

For additional information on government funding, see note 11.

(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:

	September 30, 2017	March 31, 2017
Employee benefits asset		
Registered pension plan (RPP)	$ 21,060	$ 16,620
Supplementary retirement plan (SRP)	2,562	2,422
	23,622	19,042
Employee benefits liability		
Other defined benefits plan (ODBP)	(24,037)	(24,292)
	(24,037)	(24,292)
Employee benefits - net liability	$ (415)	$ (5,250)

(In thousands of Canadian dollars)

(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended September 30							
	RPP		SRP		ODBP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Defined benefit cost (income) recognized in financial performance								
Current service cost	$ 2,049	$ 2,255	$ 17	$ 28	$ 412	$ 504	$ 2,478	$ 2,787
Administration costs	63	63	4	4	-	-	67	67
Interest cost on defined benefit obligation	1,644	1,588	38	42	242	256	1,924	1,886
Interest income on plan assets	(1,726)	(1,571)	(60)	(56)	-	-	(1,786)	(1,627)
Defined benefit cost (income)	$ 2,030	$ 2,335	$ (1)	$ 18	$ 654	$ 760	$ 2,683	$ 3,113
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ (4,128)	$ 4,836	$ -	$ 135	$ -	$ -	$ (4,128)	$ 4,971
Actuarial gains arising from changes in financial assumptions	19,918	-	382	-	3,121	-	23,421	-
Remeasurement of defined benefit plans	$ 15,790	$ 4,836	$ 382	$ 135	$ 3,121	$ -	$ 19,293	$ 4,971

(In thousands of Canadian dollars)

	For the six months ended September 30							
	RPP		SRP		ODBP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Defined benefit cost (income) recognized in financial performance								
Current service cost	$ 4,098	$ 4,510	$ 34	$ 56	$ 824	$ 1,008	$ 4,956	$ 5,574
Administration costs	125	126	8	8	-	-	133	134
Interest cost on defined benefit obligation	3,289	3,176	76	84	484	512	3,849	3,772
Interest income on plan assets	(3,452)	(3,142)	(120)	(112)	-	-	(3,572)	(3,254)
Defined benefit cost (income)	$ 4,060	$ 4,670	$ (2)	$ 36	$ 1,308	$ 1,520	$ 5,366	$ 6,226
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ (2,939)	$ 11,968	$ (33)	$ 136	$ -	$ -	$ (2,972)	$ 12,104
Actuarial gains (losses) arising from changes in financial assumptions	9,661	(20,157)	165	(525)	1,500	(3,515)	11,326	(24,197)
Remeasurement of defined benefit plans	$ 6,722	$ (8,189)	$ 132	$ (389)	$ 1,500	$(3,515)	$ 8,354	$(12,093)

For the three and six months ended September 30, 2017, CATSA recognized an expense of $109 (2016 - $85) and $237 (2016 - $159), respectively, in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

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

For the three months ended September 30, 2017, remeasurement gains of $19,293 resulted from an increase in the discount rate of 50 basis points (from 3.50% at June 30, 2017 to 4.00% at September 30, 2017). 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 (-1.29% actual versus 0.94% expected).

For the three months ended September 30, 2016, remeasurement gains of $4,971 resulted from a higher actual rate of return on plan assets than the rate used in CATSA’s assumptions (3.76% actual versus 0.94% expected for the RPP and 3.20% actual versus 0.94% 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 three month period.

(In thousands of Canadian dollars)

For the six months ended September 30, 2017, remeasurement gains of $8,354 resulted from an increase in the discount rate of 25 basis points (from 3.75% at March 31, 2017 to 4.00% at September 30, 2017). This was partially offset by a remeasurement loss arising from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions (0.29% actual versus 1.88% expected for the RPP and 1.36% actual versus 1.88% expected for the SRP).

For the six months ended September 30, 2016, remeasurement losses of $12,093 resulted from a decrease in the discount rate of 50 basis points (from 3.75% at March 31, 2016 to 3.25% at September 30, 2016). This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (9.26% actual versus 1.88% expected for the RPP and 4.16% actual versus 1.88% expected for the SRP).

(d) Employer contributions

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

	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Employer contributions				
RPP	$ 980	$ 1,098	$ 1,778	$ 2,258
SRP	6	-	6	-
ODBP	32	29	63	59
	$ 1,018	$ 1,127	$ 1,847	$ 2,317

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

(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 six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Screening services and other related costs				
Payments to screening contractors	$ 135,167	$ 123,930	$ 266,329	$ 243,345
Uniforms and other screening costs	1,273	1,315	2,670	2,915
Trace and consumables	522	496	791	786
	136,962	125,741	269,790	247,046
Equipment operating and maintenance				
Equipment maintenance and spare parts	8,609	9,267	17,808	18,677
RAIC	234	175	444	666
Training and certification	17	656	53	913
	8,860	10,098	18,305	20,256
Program support and corporate services				
Employee costs	14,203	14,147	29,695	29,525
Operating leases	1,587	1,580	3,191	3,156
Professional services and other business related costs	1,390	1,220	2,739	2,411
Office and computer expenses	1,240	1,165	2,187	2,300
Other administrative costs	1,140	985	2,189	1,355
Communications and public awareness	153	184	320	335
	19,713	19,281	40,321	39,082
Depreciation and amortization				
Depreciation of property and equipment	14,151	12,116	27,872	24,965
Amortization of intangible assets	291	329	549	659
	14,442	12,445	28,421	25,624
	$ 179,977	$ 167,565	$ 356,837	$ 332,008

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.

(In thousands of Canadian dollars)

11. Government funding

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

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

	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Parliamentary appropriations received and receivable	$ 202,438	$ 218,107	$ 386,407	$ 353,389
Amounts received and receivable related to prior period	(41,505)	(67,978)	(67,925)	(54,733)
Amounts to be (used) billed in future periods	(2,472)	531	(4,016)	(2,751)
Parliamentary appropriations used to fund operating expenses (note 8)	$ 158,461	$ 150,660	$ 314,466	$ 295,905

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 six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Parliamentary appropriations received and receivable	$ 25,275	$ 44,548	$ 56,128	$ 70,120
Amounts received and receivable related to prior period	(8,176)	(13,604)	(15,809)	(14,872)
Amounts to be used in future periods	(5,670)	(211)	(10,715)	(5,783)
Parliamentary appropriations used to fund capital expenditures (note 8)	$ 11,429	$ 30,733	$ 29,604	$ 49,465

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.

(In thousands of Canadian dollars)

12. Fair values of financial instruments

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

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

	September 30, 2017		March 31, 2017	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial asset instruments[1]	$ -	$ -	$ 331	$ 331
Derivative financial liability instruments[1]	908	908	-	-
Financial instruments measured at amortized cost				
Construction holdbacks[2]	$ 1,348	$ 1,348	$ 935	$ 935

[1] The fair value is determined using a discounted cash flow model based on observable inputs.
[2] The fair value is determined using expected future cash flows, discounted using published Government of Canada bond rates with similar terms and characteristics.

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

(In thousands of Canadian dollars)

13. Contractual arrangements

(a) Non-lease arrangements

In the normal course of operations, CATSA enters into contractual arrangements for the supply of goods and services. These contractual arrangements are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion. The most significant arrangements relate to contracts signed with screening contractors for the provision of screening services, as well as with vendors for screening equipment and related maintenance.

The following table provides the remaining pre-tax balance on these contractual arrangements:

	September 30, 2017	March 31, 2017
Operating	$ 2,541,101	$ 2,819,072
Capital	131,796	139,093
Total	$ 2,672,897	$ 2,958,165

(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:

	September 30, 2017	March 31, 2017
No later than 1 year	$ 10,168	$ 7,035
Later than 1 year and no later than 5 years	22,024	21,970
Later than 5 years	736	4,660
Total	$ 32,928	$ 33,665

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

(In thousands of Canadian dollars)

14. Related party transactions

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

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

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

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

	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Income	$ 175,178	$ 166,851	$ 346,553	$ 327,134
Expenses	4,248	3,662	7,721	7,107

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 six months ended September 30, 2017, include $4,013 (2016 – $3,414), and $7,246 (2016 – $6,797), respectively, in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

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

	September 30, 2017	March 31, 2017
Receivable from related parties	$ 45,708	$ 92,426
Payable to related parties	(949)	(1,189)
Net receivable from related parties	$ 44,759	$ 91,237

(In thousands of Canadian dollars)

Amounts receivable from related parties consist primarily of $40,571 (March 31, 2017 – $83,734) due from the Government of Canada for parliamentary appropriations, and $4,966 (March 31, 2017 – $8,574) due from the Canada Revenue Agency for recoverable taxes paid on expenses. Amounts payable to related parties consist primarily of indirect taxes payable to the Canada Revenue Agency.

(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 six 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 six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Decrease in trade and other receivables	$ 80	$ 18,433	$ 30,150	$ 14,525
Decrease in inventories	511	683	1,413	2,392
Decrease in prepaid expenses	970	1,062	1,255	1,220
(Decrease) increase in trade and other payables	(11,621)	(1,631)	(9,743)	22,613
Decrease in current portion of provisions	-	(301)	-	(512)
Decrease in deferred government funding related to operating expenses	(1,481)	(1,745)	(2,668)	(3,612)
	$ (11,541)	$ 16,501	$ 20,407	$ 36,626

Interest income received and recognized during the three and six months ended September 30, 2017, totalled $151 (2016 – $89) and $238 (2016 – $217), respectively.

Interest expense paid and expensed during the three and six months ended September 30, 2017, totalled $1 (2016 – $7) and $1 (2016 – $10), respectively.

For the three and six months ended September 30, 2017, the change in trade and other receivables excludes amounts of $7,572 (2016 – $5,861) and $15,205 (2016 – $4,593), respectively, in relation to government funding related to capital expenditures, as these amounts relate to investing activities.

For the three and six months ended September 30, 2017, the change in trade and other payables excludes amounts of $116 (2016 – $20,942) and $6,081 (2016 – $23,046), respectively, in relation to the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.

For the three and six months ended September 30, 2017, the change in net employee benefits liability excludes amounts of $19,293 (2016 – $4,971) and $8,354 (2016 – $12,093), respectively, in relation to the remeasurement of defined benefit plans presented in other comprehensive income (loss), as these amounts relate to a non-cash remeasurement.

During the three and six months ended September 30, 2017, CATSA received non-cash proceeds in the form of credit notes from suppliers, totalling $Nil (2016 – $3) and $28 (2016 – $3), respectively, in relation to the disposal of property and equipment.

During the three and six months ended September 30, 2017, other non-cash transactions included non-cash vendor credits of $30 (2016 – $Nil), and $792 (2016 – $Nil), respectively, and non-cash transfers of spare parts from property and equipment to inventory totalling $15 (2016 – $Nil) and $31 (2016 – $3), respectively.

During the three and six months ended September 30, 2017, CATSA had non-cash adjustments on currency hedged property and equipment purchases of $(1) (2016 – $Nil), and $81 (2016 – $Nil), respectively.

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