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

Quarterly Financial Report

For the Three and Nine Months Ended
December 31, 2017

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 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 nine months ended December 31, 2017. 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, 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*, the *Quarterly Financial Report for the three months ended June 30, 2017*, and the *Quarterly Financial Report for the three and six months ended September 30, 2017*. The information in this report is expressed in thousands of Canadian dollars and is current to February 27, 2018, unless otherwise stated.

Forward-looking statements

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

Materiality

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

CORPORATE OVERVIEW

CATSA is an agent Crown corporation, funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada.

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

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

CATSA is also responsible for ensuring consistency in the delivery of screening across Canada and for air transport security functions that the Minister of Transport may assign to it, subject to any terms and conditions that the Minister may establish.

In addition to its mandated activities, CATSA has an agreement with Transport Canada (TC) to conduct screening of cargo at smaller airports. 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 September 30, 2017.

COMPLIANCE WITH DIRECTIVES

Defined Benefit Pension Plan

In December 2014, CATSA was issued a directive (PC 2014-1382) pursuant to section 89 of the FAA to align with *Budget 2013* direction on public sector pension reform. The pension reform included a provision for adjusting the employer/employee current service cost sharing ratio to 50:50 by December 31, 2017.

In July 2015, CATSA received notification that an exemption was available to pension plans that could demonstrate either unfairness to pension plan members, or recruitment and retention challenges, as a result of implementing the pension reform. Following this notification, CATSA began working with its external pension actuary to draft a business case for an exemption on the basis that the pension reform would be unfair to plan members. It is CATSA's view that its business case demonstrates that closing of the defined benefit pension plan in 2013 would result in an unfair cost sharing burden on employees, and that the cost sharing ratio should be calculated as if the plan were open to new members.

CATSA submitted the final version of its business case to TC in May 2017, with the understanding that it would be approved by the December 31, 2017 deadline. In December 2017, TC advised that the business case would not be approved by the deadline due to processing delays. TC continues to work with Treasury Board of Canada Secretariat to obtain the necessary approvals. It is unknown at this time when it will be received.

As of January 1, 2018, CATSA aligned its employee contribution rates with the objectives identified in the business case that is pending approval.

KEY MANAGEMENT PERSONNEL

Following a competitive search process to fill the vacant Vice-President, Corporate Services, General Counsel and Corporate Secretary position, CATSA announced the appointment of Lisa Hamilton to the position on February 2, 2018. On February 21, 2018, the Governor in Council appointed four new board members to replace board members whose terms had expired, and reappointed one board member.

PASSENGER GROWTH AND SCREENING HOURS

Statistics from CATSA's Boarding Pass Security System for the three months ended December 31, 2017, indicate that screened traffic across Canada increased by 5.0% over the same period in 2016, resulting in a need for additional screening hours to maintain wait time service levels. 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.

CATSA is working with TC to develop an operationally effective long-term funding strategy for PBS and NPS.

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 TC regulations, CATSA implemented enhanced security measures to meet Transport Security Administration (TSA) requirements for US-bound flights as of July 19, 2017, some of which were expanded to Domestic and International checkpoints for operational consistency. 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 continue to be randomly selected for additional screening, which now includes screening of electronic devices. If selected, passengers are asked to remove any covers or protective cases from their electronic devices before inspection, and may be asked to show that the devices can be powered on. Electronic devices that cannot be taken out of their cases or powered on when requested during enhanced screening will not be 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.

Changes to the Prohibited Items List

On November 6, 2017, TC announced changes to the *Prohibited Items List* that affect screening procedures at CATSA checkpoints. Adjustments to screening procedures are necessary from time to time to reflect changes in the security environment and to harmonize with international standards and partner countries.

Effective November 27, 2017, inorganic powders and granular material with a volume of 350 ml or more are prohibited in all carry-on baggage in Canada. Prohibited material includes items such as bath salts, sea salt, baby powder, foot powder, cooking powder and sand. These items are still permitted in checked baggage.

TC also amended the list so that very small knife blades (6 cm or less) will not be prohibited on domestic or international flights. To respect our security screening agreement with the United States, knife blades of any length remain prohibited on flights to the United States through preclearance facilities. Razor blades and box cutters of any size remain prohibited at all screening checkpoints.

RISKS AND UNCERTAINTIES

CATSA outsources its services to screening contractors, who rely on a unionized screening officer workforce to perform screening operations. Given the nature of the third-party service delivery model, CATSA has no direct role in labour relations and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions. The majority of the collective bargaining agreements between screening contractors and unions are set to expire on March 31, 2018. Given the commencement of the collective bargaining process, CATSA has identified an increased risk of legal labour disruption. CATSA will continue to monitor labour negotiations between screening contractors and unions, and keep TC apprised of any developments.

There have been no other significant changes to the corporate risk profile as previously disclosed in the *2017 Annual Report* for the three and nine months ended December 31, 2017.

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, 2017, and December 31, 2016.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended December 31				Nine Months Ended December 31			
	2017	2016			2017	2016		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	$ Change	% Change	(unaudited)	(unaudited)	$ Change	% Change
Expenses [1]								
Screening services and other related costs	$ 136,066	$ 127,808	$ 8,258	6.5%	$ 405,856	$ 374,854	$ 31,002	8.3%
Equipment operating and maintenance	9,440	11,153	(1,713)	(15.4%)	27,745	31,409	(3,664)	(11.7%)
Program support and corporate services	20,712	19,595	1,117	5.7%	61,033	58,677	2,356	4.0%
Depreciation and amortization	14,819	13,026	1,793	13.8%	43,240	38,650	4,590	11.9%
Total expenses	**181,037**	**171,582**	**9,455**	**5.5%**	**537,874**	**503,590**	**34,284**	**6.8%**
Other expenses (income)	**(81)**	**1,703**	**(1,784)**	**(104.8%)**	**2,072**	**3,944**	**(1,872)**	**(47.5%)**
Financial performance before revenue and government funding	**180,956**	**173,285**	**7,671**	**4.4%**	**539,946**	**507,534**	**32,412**	**6.4%**
Revenue	**4,474**	**2,297**	**2,177**	**94.8%**	**11,983**	**4,676**	**7,307**	**156.3%**
Government funding								
Parliamentary appropriations for operating expenses	159,339	154,418	4,921	3.2%	476,473	453,935	22,538	5.0%
Amortization of deferred government funding related to capital expenditures	14,944	14,167	777	5.5%	44,363	41,784	2,579	6.2%
Total government funding	**174,283**	**168,585**	**5,698**	**3.4%**	**520,836**	**495,719**	**25,117**	**5.1%**
Financial performance	**$ (2,199)**	**$ (2,403)**	**$ 204**	**8.5%**	**$ (7,127)**	**$ (7,139)**	**$ 12**	**0.2%**
Other comprehensive income (loss)	**(14,871)**	**20,410**	**(35,281)**	**(172.9%)**	**(6,517)**	**8,317**	**(14,834)**	**(178.4%)**
Total comprehensive income (loss)	**$ (17,070)**	**$ 18,007**	**$ (35,077)**	**(194.8%)**	**$ (13,644)**	**$ 1,178**	**$ (14,822)**	**(1,258.2%)**

[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 nine months ended December 31, 2017.

Screening services and other related costs

Screening services and other related costs increased by $8,258 (6.5%) and by $31,002 (8.3%) for the three and nine months ended December 31, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to the purchase of additional screening hours totalling $3,483 and $17,262, and annual screening contractor billing rate increases amounting to $4,084 and $12,121, for the three and nine months ended December 31, 2017, respectively.

The increases in screening hours purchased for the three and nine 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 $1,713 (15.4%) and by $3,664 (11.7%) for the three and nine months ended December 31, 2017, respectively, compared to the same periods in 2016. The decreases are mainly attributable to lower spare parts and 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 costs increased by $1,117 (5.7%) and by $2,356 (4.0%) for the three and nine months ended December 31, 2017, respectively, compared to the same periods in 2016. The increases extend across various administrative costs including professional services in support of corporate initiatives (e.g. CATSA's governance review), rent and facilities costs resulting from property tax credits received in 2016 and the reversal in the prior year of a commodity tax accrual.

Depreciation and amortization

Depreciation and amortization increased by $1,793 (13.8%) and by $4,590 (11.9%) for the three and nine months ended December 31, 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 (income)

Other expenses (income) decreased by $1,784 (104.8%) and by $1,872 (47.5%) for the three and nine months ended December 31, 2017, respectively, compared to the same periods in 2016. The decrease for the three month period is mainly attributable to lower write-offs of property and equipment and intangible assets and more favourable foreign exchange rates in the current period. It is also attributable to a net gain on the fair value of derivative financial instruments in the current period.

The decrease for the nine month period is 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 and a reduction in foreign exchange loss. This was partially offset by an increase in net loss on the fair value of derivative financial instruments.

Revenue

Revenue increased by $2,177 (94.8%) and by $7,307 (156.3%) for the three and nine months ended December 31, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to the purchase of a greater number of supplemental screening hours in the amount of $1,994 and $6,132, respectively, to support the trial agreements. The increase for the nine months ended December 31, 2017, is also attributable to non-cash vendor credits of $792.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by $4,921 (3.2%) and by $22,538 (5.0%) for the three and nine months ended December 31, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to increased spending for screening services and other related costs, as well as program support and corporate services expense, 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 $777 (5.5%) and by $2,579 (6.2%) for the three and nine months ended December 31, 2017, respectively, compared to the same periods in 2016. The increases are mainly attributable to increased depreciation and amortization, partially offset by decreases in impairment of property and equipment, and write-offs of property and equipment and intangible assets, 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 loss of $14,871 for the three months ended December 31, 2017, is due to a remeasurement loss of $23,421 on the defined benefit liability arising from a 50 basis point decrease in the discount rate since September 30, 2017. This was partially offset by a remeasurement gain of $8,550 resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions. 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 between September 30, 2016, and December 31, 2016. This was 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 $6,517 for the nine months ended December 31, 2017, is due to a remeasurement loss of $12,095 on the defined benefit liability arising from a 25 basis point decrease in the discount rate since March 31, 2017. This was partially offset by a remeasurement gain of $5,578 resulting from a higher actual rate of return on plan assets than the rate initially 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.

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, 2017, compared to March 31, 2017.

Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars)	**December 31, 2017** (unaudited)	**March 31, 2017** (audited)	$ Change	% Change
Current assets	$ 144,626	$ 152,005	$ (7,379)	(4.9%)
Non-current assets	426,182	428,458	(2,276)	(0.5%)
Total assets	**$ 570,808**	**$ 580,463**	**$ (9,655)**	**(1.7%)**
Current liabilities	$ 145,603	$ 150,796	$ (5,193)	(3.4%)
Non-current liabilities	444,056	434,874	9,182	2.1%
Total liabilities	**$ 589,659**	**$ 585,670**	**$ 3,989**	**0.7%**

Assets

Current assets decreased by $7,379 (4.9%) primarily due to the following:

- Decrease in trade and other receivables of $40,955, mainly due to a decrease in parliamentary appropriations receivable of $39,236 and a decrease in taxes recoverable of $2,722, partially offset by an increase in supplemental screening services receivable of $1,064;
- Decrease in inventories of $1,859 primarily due to usage of $1,790 relating to RAIC cards and uniform inventories;
- Decrease in prepaids of $1,091 due to the amortization of annual insurance premiums, and annual maintenance and support services; and
- Increase in cash of $36,800 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 decreased by $2,276 (0.5%) primarily due to the following:

- Decrease in employee benefits asset of $8,146. 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 decrease is primarily due to a remeasurement loss of $10,473 on the defined benefit liability arising from a 25 basis point decrease in the discount rate since March 31, 2017, and the defined benefit cost exceeding contributions by $3,251. This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions by $5,578; and
- Increase in property and equipment and intangible assets of $5,927 primarily due to the acquisition of property and equipment and intangible assets of $50,396, partially offset by depreciation and amortization of $43,240.

Liabilities

Current liabilities decreased by $5,193 (3.4%) primarily due to the following:

- Decrease in deferred government funding related to operating expenditures of $2,950 due to a reduction in inventories and prepaids balances; and
- Decrease in trade and other payables of $2,725 due to the timing of disbursements associated with obligations outstanding with suppliers.

Non-current liabilities increased by $9,182 (2.1%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures of $5,112 due to parliamentary appropriations earned of $49,475 exceeding amortization of $44,363; and
- Increase in employee benefits liability of $3,486 due to the remeasurement of CATSA's other defined benefits plan of $1,622, as previously described in the Analysis of Financial Results for Other Comprehensive Income (Loss), and current benefit costs exceeding contributions by $1,864.

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 December 31		Nine Months Ended December 31	
	2017	2016	2017	2016
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	$ 180,956	$ 173,285	$ 539,946	$ 507,534
Revenue	(4,474)	(2,297)	(11,983)	(4,676)
Financial performance before government funding	176,482	170,988	527,963	502,858
Non-cash expenses				
Depreciation and amortization	(14,819)	(13,026)	(43,240)	(38,650)
Employee benefits expense [1]	(1,596)	(1,858)	(5,115)	(5,767)
Employee cost accruals [2]	(1,032)	(602)	(2,157)	(1,542)
Write-off of property and equipment and intangible assets	(157)	(1,127)	(1,089)	(1,144)
Non-cash loss on foreign exchange recognized in financial performance	(40)	-	(1)	-
Spare parts expense funded from capital [3]	(9)	-	(40)	(3)
Impairment of property and equipment	-	-	-	(1,934)
Change in fair value of financial instruments at fair value through profit and loss	426	-	(813)	-
Deferred lease incentives recognized in financial performance [4]	62	74	223	223
Gain (loss) on disposal of property and equipment	22	(31)	(50)	(106)
Non-cash vendor credits	-	-	792	-
Parliamentary appropriations for operating expenses	**$ 159,339**	**$ 154,418**	**$ 476,473**	**$ 453,935**
Other items affecting funding				
Net change in prepaids and inventories [5]	(282)	(1,280)	(2,950)	(4,892)
Total operating appropriations used	**$ 159,057**	**$ 153,138**	**$ 473,523**	**$ 449,043**

[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 December 31, 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 December 31		Nine Months Ended December 31	
	2017	2016	2017	2016
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Explosives Detection System	$ 18,912	$ 33,354	$ 48,610	$ 80,061
Non-Explosives Detection System	979	2,034	1,786	4,795
Total capital asset acquisitions	**$ 19,891**	**$ 35,388**	**$ 50,396**	**$ 84,856**
Proceeds on disposal of property and equipment [1]	(22)	(2)	(50)	(5)
Non-cash additions resulting from vendor credits	-	-	(792)	-
Non-cash loss (gain) on foreign exchange related to capital acquisitions	2	-	(79)	-
Total capital appropriations used	**$ 19,871**	**$ 35,386**	**$ 49,475**	**$ 84,851**

[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

February 27, 2018

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

Ottawa, Canada

February 27, 2018

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

December 31, 2017

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2017	March 31, 2017
Assets		
Current assets		
Cash	$ 73,067	$ 36,267
Trade and other receivables (note 3)	55,784	96,739
Inventories (note 4)	13,870	15,729
Prepaid expenses	1,905	2,996
Derivative financial assets (note 12)	-	274
	144,626	152,005
Non-current assets		
Property and equipment (note 5)	407,224	400,908
Intangible assets (note 6)	8,062	8,451
Employee benefits asset (note 9)	10,896	19,042
Derivative financial assets (note 12)	-	57
	426,182	428,458
Total assets	$ 570,808	$ 580,463
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 129,346	$ 132,071
Deferred government funding related to operating expenses (note 8)	15,775	18,725
Derivative financial liabilities (note 12)	482	-
	145,603	150,796
Non-current liabilities		
Construction holdbacks (note 12)	1,742	935
Deferred lease incentives	465	688
Deferred government funding related to capital expenditures (note 8)	414,071	408,959
Employee benefits liability (note 9)	27,778	24,292
	444,056	434,874
Equity		
Accumulated deficit	(18,851)	(5,207)
Total liabilities and equity	$ 570,808	$ 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 December 31		Nine months ended December 31	
	2017	2016	2017	2016
Expenses				
Pre-Board Screening	$ 99,936	$ 91,976	$ 293,217	$ 268,198
Hold Baggage Screening	36,991	36,690	110,696	107,014
Non-Passenger Screening	32,792	32,792	100,463	97,269
Restricted Area Identity Card Program	797	663	2,286	2,237
Corporate services	10,521	9,461	31,212	28,872
Total expenses (note 10)	181,037	171,582	537,874	503,590
Other expenses (income)				
Foreign exchange loss	209	544	118	749
Write-off of property and equipment and intangible assets	157	1,127	1,089	1,144
Finance cost	1	1	2	11
Net (gain) loss on fair value of derivative financial instruments	(426)	-	813	-
(Gain) loss on disposal of property and equipment	(22)	31	50	106
Impairment of property and equipment (note 5)	-	-	-	1,934
Total other expenses (income)	(81)	1,703	2,072	3,944
Financial performance before revenue and government funding	180,956	173,285	539,946	507,534
Revenue				
Supplemental screening services	4,160	2,165	10,459	4,327
Finance income	193	132	431	349
Rental income	75	-	255	-
Miscellaneous income	46	-	838	-
Total revenue	4,474	2,297	11,983	4,676
Government funding				
Parliamentary appropriations for operating expenses (note 8)	159,339	154,418	476,473	453,935
Amortization of deferred government funding related to capital expenditures (note 8)	14,944	14,167	44,363	41,784
Total government funding	174,283	168,585	520,836	495,719
Financial performance	$ (2,199)	$ (2,403)	$ (7,127)	$ (7,139)
Other comprehensive income (loss)				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	(14,871)	20,410	(6,517)	8,317
Total comprehensive income (loss)	$ (17,070)	$ 18,007	$ (13,644)	$ 1,178

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 December 31:

		Accumulated deficit
Balance, September 30, 2017	$	(1,781)
Financial performance		(2,199)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(14,871)
Balance, December 31, 2017	$	(18,851)
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
Balance, December 31, 2016	$	(20,288)

For the nine months ended December 31:

		Accumulated deficit
Balance, March 31, 2017	$	(5,207)
Financial performance		(7,127)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(6,517)
Balance, December 31, 2017	$	(18,851)
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
Balance, December 31, 2016	$	(20,288)

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 December 31		Nine months ended December 31	
	2017	2016	2017	2016
Cash flows provided by (used in)				
Operating activities				
Financial performance	$ (2,199)	$ (2,403)	$ (7,127)	$ (7,139)
Items not involving cash				
Depreciation of property and equipment (note 5 and 10)	14,522	12,696	42,394	37,661
Increase in net employee benefits liability	1,596	1,858	5,115	5,767
Amortization of intangible assets (note 6 and 10)	297	330	846	989
Write-off of property and equipment and intangible assets	157	1,127	1,089	1,144
Other non-cash transactions (note 15)	9	-	(752)	3
Amortization of deferred government funding related to capital expenditures (note 8)	(14,944)	(14,167)	(44,363)	(41,784)
Change in fair value of financial instruments at fair value through profit and loss	(426)	-	813	-
Deferred lease incentives recognized in financial performance	(62)	(74)	(223)	(223)
(Gain) loss on disposal of property and equipment	(22)	31	50	106
Impairment of property and equipment (note 5)	-	-	-	1,934
Net change in working capital balances (note 15)	4,775	(43,713)	25,182	(7,087)
	3,703	(44,315)	23,024	(8,629)
Investing activities				
Parliamentary appropriations received for capital funding	17,600	20,000	62,409	64,872
Purchase of property and equipment	(13,194)	(31,824)	(48,179)	(56,836)
Purchase of intangible assets	(89)	(1,150)	(457)	(2,241)
Proceeds on disposal of property and equipment	3	2	3	2
	4,320	(12,972)	13,776	5,797
Increase (decrease) in cash	8,023	(57,287)	36,800	(2,832)
Cash, beginning of period	65,044	65,682	36,267	11,227
Cash, end of period	$ 73,067	$ 8,395	$ 73,067	$ 8,395

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 February 27, 2018.

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.

CATSA does not anticipate an impact on its financial performance, total comprehensive income (loss) or accumulated deficit upon adoption of IFRS 15. However, expanded note disclosure will be required relating specifically to the use of estimates and judgements.

(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 anticipate an impact on its financial performance, total comprehensive income (loss), or accumulated deficit upon adoption of IFRS 9. However, expanded note disclosure will be required related specifically to the expected credit loss model.

(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.

(In thousands of Canadian dollars)

CATSA's assessment of IFRS 16 is ongoing. An initial scoping of its agreements has identified approximately 20 contracts that are currently being analyzed, which have a total undiscounted contract value of $31,359, as disclosed in note 13(b).

3. Trade and other receivables

Trade and other receivables are comprised of:

	December 31, 2017	March 31, 2017
Parliamentary appropriations	$ 44,498	$ 83,734
GST and HST recoverable	5,233	8,574
Supplemental screening services	2,855	1,791
PST recoverable	3,131	2,512
Other	67	128
	$ 55,784	$ 96,739

Credit terms on trade receivables are 30 days. As of December 31 and March 31, 2017, there were no amounts included in trade and other receivables that were past due.

4. Inventories

Inventories are comprised of:

	December 31, 2017	March 31, 2017
Spare parts	$ 13,230	$ 13,299
RAIC	337	1,082
Uniforms	303	1,348
	$ 13,870	$ 15,729

(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	9,245	17,868	7	-	521	-	87	22,211	49,939
Disposals	(1,104)	(53,552)	(436)	-	(441)	-	-	-	(55,533)
Write-offs	(430)	(776)	(1,224)	(1,392)	(345)	-	(25)	(123)	(4,315)
Equipment held for sale	-	-	(436)	-	-	-	-	-	(436)
Reclassifications	5,389	15,491	527	454	1,374	-	11	(23,246)	-
Balance, December 31, 2017	$ 138,383	$ 726,198	$ 18,783	$ 4,391	$ 28,312	$ 30	$ 10,002	$ 68,314	$ 994,413
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	8,181	29,790	1,230	477	2,439	-	277	-	42,394
Disposals	(1,101)	(53,455)	(436)	-	(441)	-	-	-	(55,433)
Write-offs	(282)	(676)	(467)	(1,392)	(344)	-	(25)	-	(3,186)
Equipment held for sale	-	-	(436)	-	-	-	-	-	(436)
Balance, December 31, 2017	$ 84,682	$ 460,571	$ 10,716	$ 2,809	$ 19,527	$ 30	$ 8,854	$ -	$ 587,189
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 December 31, 2017	$ 53,701	$ 265,627	$ 8,067	$ 1,582	$ 8,785	$ -	$ 1,148	$ 68,314	$ 407,224

No amounts related to impairment have been recorded during the three and nine months ended December 31, 2017. During the nine months ended December 31, 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 nine months ended December 31, 2017 and 2016.

During the three and nine months ended December 31, 2017, CATSA recorded write-offs of property and equipment amounting to $157 (2016 – $1,127), and $1,089 (2016 – $1,138), respectively. These write-offs mainly represent equipment that was retired from service as new equipment was deployed.

During the three months ended December 31, 2017, management approved a plan to dispose of one of its portable screening units, for which no future use has been identified. CATSA is currently finalizing the terms and conditions of the sale of the unit to a third party. The sale is expected to be completed within the next 12 months. The portable screening unit had a net book value of $Nil.

CATSA classifies property and equipment as held for sale if its carrying amount will be recovered principally through a sale rather than through continuing use. This condition is only met when the asset is available for immediate sale in its present condition and the sale is highly probable. An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Depreciation is not recorded while an asset is classified as held for sale.

(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	143	-	314	457
Write-offs	(68)	-	-	(68)
Balance, December 31, 2017	$ 4,186	$ 19,655	$ 2,647	$ 26,488
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	211	635	-	846
Write-offs	(68)	-	-	(68)
Balance, December 31, 2017	$ 3,262	$ 15,164	$ -	$ 18,426
Carrying amounts				
As at March 31, 2017	$ 992	$ 5,126	$ 2,333	$ 8,451
As at December 31, 2017	$ 924	$ 4,491	$ 2,647	$ 8,062

7. Provisions and contingencies

(a) Provisions

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. By nature, these amounts are subject to many uncertainties and the outcome of 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 at the time of financial statement preparation.

There were no provisions recorded as at December 31 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 December 31, 2017, there were no significant legal claims outstanding against CATSA.

(ii) Decommissioning costs

During the nine months ended December 31, 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:

	December 31, 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	473,523	615,925
Parliamentary appropriations recognized as government funding for operating expenses	(476,473)	(616,371)
Balance, end of period	$ 15,775	$ 18,725
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 408,959	$ 357,936
Capital expenditures funded through parliamentary appropriations	49,475	107,809
Amortization of deferred government funding related to capital expenditures	(44,363)	(56,786)
Balance, end of period	$ 414,071	$ 408,959
Total deferred government funding, end of period	$ 429,846	$ 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:

	December 31, 2017	March 31, 2017
Employee benefits asset		
Registered pension plan (RPP)	$ 8,564	$ 16,620
Supplementary retirement plan (SRP)	2,332	2,422
	10,896	19,042
Employee benefits liability		
Other defined benefits plan (ODBP)	(27,778)	(24,292)
	(27,778)	(24,292)
Employee benefits - net liability	$ (16,882)	$ (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 December 31							
	RPP		SRP		ODBP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Defined benefit cost (income) recognized in financial performance								
Current service cost	$ 2,050	$ 2,256	$ 18	$ 28	$ 411	$ 504	$ 2,479	$ 2,788
Administration costs	63	61	3	4	-	-	66	65
Interest cost on defined benefit obligation	1,646	1,588	38	42	241	256	1,925	1,886
Interest income on plan assets	(1,727)	(1,570)	(61)	(56)	-	-	(1,788)	(1,626)
Defined benefit cost (income)	$ 2,032	$ 2,335	$ (2)	$ 18	$ 652	$ 760	$ 2,682	$ 3,113
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 8,422	$ (3,869)	$ 128	$ 82	$ -	$ -	$ 8,550	$ (3,787)
Actuarial (losses) gains arising from changes in financial assumptions	(19,918)	20,157	(381)	525	(3,122)	3,515	(23,421)	24,197
Remeasurement of defined benefit plans	$ (11,496)	$ 16,288	$ (253)	$ 607	$ (3,122)	$ 3,515	$ (14,871)	$ 20,410

(In thousands of Canadian dollars)

	For the nine months ended December 31							
	RPP		SRP		ODBP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Defined benefit cost (income) recognized in financial performance								
Current service cost	$ 6,148	$ 6,766	$ 52	$ 84	$ 1,235	$ 1,512	$ 7,435	$ 8,362
Administration costs	188	187	11	12	-	-	199	199
Interest cost on defined benefit obligation	4,935	4,764	114	126	725	768	5,774	5,658
Interest income on plan assets	(5,179)	(4,712)	(181)	(168)	-	-	(5,360)	(4,880)
Defined benefit cost (income)	$ 6,092	$ 7,005	$ (4)	$ 54	$ 1,960	$ 2,280	$ 8,048	$ 9,339
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 5,483	$ 8,099	$ 95	$ 218	$ -	$ -	$ 5,578	$ 8,317
Actuarial losses arising from changes in financial assumptions	(10,257)	-	(216)	-	(1,622)	-	(12,095)	-
Remeasurement of defined benefit plans	$ (4,774)	$ 8,099	$ (121)	$ 218	$(1,622)	$ -	$ (6,517)	$ 8,317

For the three and nine months ended December 31, 2017, CATSA recognized an expense of $124 (2016 - $91) and $361 (2016 - $250), 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 December 31, 2017, remeasurement losses of $14,871 resulted from a decrease in the discount rate of 50 basis points (from 4.00% at September 30, 2017 to 3.50% at December 31, 2017). This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (5.47% actual versus 0.94% expected for the RPP and 2.93% actual versus 0.94% expected for the SRP).

(In thousands of Canadian dollars)

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).

For the nine months ended December 31, 2017, remeasurement losses of $6,517 resulted from a decrease in the discount rate of 25 basis points (from 3.75% at March 31, 2017 to 3.50% at December 31, 2017). This was partially offset by a remeasurement gain arising from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (5.78% actual versus 2.81% expected for the RPP and 4.29% actual versus 2.81% 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.

(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 December 31		Nine months ended December 31	
	2017	2016	2017	2016
Employer contributions				
RPP	$ 1,032	$ 1,189	$ 2,810	$ 3,447
SRP	21	37	27	37
ODBP	33	29	96	88
	$ 1,086	$ 1,255	$ 2,933	$ 3,572

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 nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Screening services and other related costs				
Payments to screening contractors	$ 134,029	$ 125,962	$ 400,358	$ 369,307
Uniforms and other screening costs	1,541	1,429	4,211	4,344
Trace and consumables	496	417	1,287	1,203
	136,066	127,808	405,856	374,854
Equipment operating and maintenance				
Equipment maintenance and spare parts	9,082	10,518	26,890	29,195
RAIC	301	169	745	835
Training and certification	57	466	110	1,379
	9,440	11,153	27,745	31,409
Program support and corporate services				
Employee costs	14,944	14,684	44,639	44,209
Operating leases	1,615	1,156	4,806	4,312
Professional services and other business related costs	1,446	1,343	4,185	3,754
Other administrative costs	1,147	1,060	3,336	2,415
Office and computer expenses	1,098	1,121	3,285	3,421
Communications and public awareness	462	231	782	566
	20,712	19,595	61,033	58,677
Depreciation and amortization				
Depreciation of property and equipment	14,522	12,696	42,394	37,661
Amortization of intangible assets	297	330	846	989
	14,819	13,026	43,240	38,650
	$ 181,037	$ 171,582	$ 537,874	$ 503,590

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 nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Parliamentary appropriations received and receivable	$ 198,510	$ 194,211	$ 544,951	$ 506,695
Amounts received and receivable related to prior period	(39,966)	(40,905)	(67,925)	(54,733)
Amounts to be billed (used) in future periods	513	(168)	(3,503)	(2,919)
Parliamentary appropriations used to fund operating expenses (note 8)	$ 159,057	$ 153,138	$ 473,523	$ 449,043

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 December 31		Nine months ended December 31	
	2017	2016	2017	2016
Parliamentary appropriations received and receivable	$ 15,172	$ 44,487	$ 70,695	$ 95,142
Amounts received and receivable related to prior period	(605)	(19,465)	(15,809)	(14,872)
Amounts to be billed (used) in future periods	5,304	10,364	(5,411)	4,581
Parliamentary appropriations used to fund capital expenditures (note 8)	$ 19,871	$ 35,386	$ 49,475	$ 84,851

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:

	December 31, 2017		March 31, 2017	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets[1]	$ -	$ -	$ 331	$ 331
Derivative financial liabilities[1]	482	482	-	-
Financial instruments measured at amortized cost				
Construction holdbacks[2]	$ 1,742	$ 1,742	$ 935	$ 935

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

There were no transfers between levels during the nine months ended December 31, 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:

	December 31, 2017	March 31, 2017
Operating	$ 2,402,820	$ 2,819,072
Capital	141,163	139,093
Total	$ 2,543,983	$ 2,958,165

(b) Lease arrangements

CATSA is committed under non-cancellable operating leases for the rental of office and other space and equipment. The following table provides the pre-tax minimum lease payments under the terms of these leases:

	December 31, 2017	March 31, 2017
No later than 1 year	$ 10,005	$ 7,035
Later than 1 year and no later than 5 years	21,354	21,970
Later than 5 years	-	4,660
Total	$ 31,359	$ 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 nine months ended December 31:

(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 December 31		Nine months ended December 31	
	2017	2016	2017	2016
Income	$ 174,283	$ 168,585	$ 520,836	$ 495,719
Expenses	4,034	4,494	11,755	11,601

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, 2017, include $3,753 (2016 – $4,327), and $10,999 (2016 – $11,124), respectively, in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

(In thousands of Canadian dollars)

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

	December 31, 2017	March 31, 2017
Receivable from related parties	$ 49,798	$ 92,426
Payable to related parties	(1,023)	(1,189)
Net receivable from related parties	$ 48,775	$ 91,237

Amounts receivable from related parties consist primarily of $44,498 (March 31, 2017 – $83,734) due from the Government of Canada for parliamentary appropriations, and $5,233 (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 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	
	2017	2016	2017	2016
(Increase) decrease in trade and other receivables	$ (2,129)	$ (35,211)	$ 28,021	$ (20,686)
Decrease in inventories	446	654	1,859	3,046
(Increase) decrease in prepaid expenses	(164)	626	1,091	1,846
Increase (decrease) in trade and other payables	6,904	(8,303)	(2,839)	14,310
Decrease in provisions	-	(199)	-	(711)
Decrease in deferred government funding related to operating expenses	(282)	(1,280)	(2,950)	(4,892)
	$ 4,775	$ (43,713)	$ 25,182	$ (7,087)

Interest income received and recognized during the three and nine months ended December 31, 2017, totalled $193 (2016 – $132) and $431 (2016 – $349), respectively.

Interest expense paid and expensed during the three and nine months ended December 31, 2017, totalled $1 (2016 – $1) and $2 (2016 – $11), respectively.

For the three and nine months ended December 31, 2017, the change in trade and other receivables excludes amounts of $2,271 (2016 – $15,386) and $12,934 (2016 – $19,979), respectively, in relation to government funding related to capital expenditures, as these amounts relate to investing activities.

For the three and nine months ended December 31, 2017, the change in trade and other payables excludes amounts of $6,195 (2016 – $2,224) and $114 (2016 – $25,270), respectively, in relation to 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, 2017, the change in net employee benefits liability excludes amounts of $(14,871) (2016 – $20,410) and $(6,517) (2016 – $8,317), 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 nine months ended December 31, 2017, CATSA received non-cash proceeds of $19 (2016 – $Nil) and $47 (2016 – $3), respectively, in relation to the disposal of property and equipment, in the form of credit notes from suppliers.

During the three and nine months ended December 31, 2017, other non-cash transactions included non-cash vendor credits of $Nil (2016 – $Nil), and $792 (2016 – $Nil), respectively, offset by non-cash transfers of spare parts from property and equipment to inventory totalling $9 (2016 – $Nil) and $40 (2016 – $3), respectively.

During the three and nine months ended December 31, 2017, CATSA had non-cash adjustments on currency hedged property and equipment purchases of $(2) (2016 – $Nil), and $79 (2016 – $Nil), respectively.

During the three and nine months ended December 31, 2017, CATSA had non-cash additions to deferred lease incentives of $Nil (2016 – $Nil) and $Nil (2016 – $9), respectively.