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, 2018



Canada

CATSA ACSTA

**CANADIAN AIR TRANSPORT SECURITY AUTHORITY**
**MANAGEMENT'S NARRATIVE DISCUSSION**
**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018**

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, 2018. 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, 2018, 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 *2018 Annual Report,* and the *Quarterly Financial Report for the three months ended June 30, 2018.* The information in this report is expressed in thousands of Canadian dollars and is current to November 21, 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.

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

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building;
- Hold Baggage Screening (HBS): the screening of passengers' checked (or hold) baggage to prevent the boarding of prohibited items;

- Non-Passenger Screening (NPS): the random screening of non-passengers and their belongings, including vehicles, entering restricted areas of the aerodrome at the highest risk airports; and
- Restricted Area Identity Card (RAIC) Program: the system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports.

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

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

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, and extended annually thereafter. CATSA also entered into a similar agreement with the Vancouver Airport Authority (YVRAA) effective June 26, 2017. The YVRAA trial agreement ended June 30, 2018, while the GTAA trial agreement has been extended to March 31, 2019.

## OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since June 30, 2018.

### PASSENGER GROWTH AND SCREENING HOURS

Statistics from CATSA's Boarding Pass Security System for the three months ended September 30, 2018, indicate that screened traffic across Canada increased by 4.0% over the same period in 2017, resulting in a need for additional screening hours to maintain wait time service levels. Screening contractor billing rates will also continue to increase annually over the remaining term of the current Airport Screening Services Agreements that expire on March 31, 2022. This puts further pressure on CATSA's budget for screening hours. CATSA continues to work with TC to develop a long-term solution to address funding pressures and the associated impacts on air security screening programs.

## RISKS AND UNCERTAINTIES

CATSA regularly monitors and re-assesses its corporate risks. The following updates related to CATSA's capacity risk have been identified. There have been no other significant changes to the corporate risk profile as previously disclosed in the 2018 Annual Report for the three and six months ended September 30, 2018.

### LEVEL OF FUNDING TO DELIVER CORE MANDATE

CATSA continues to face a variety of external challenges such as increases in screening contractor billing rates and rising passenger volumes. As a result, its ability to purchase screening hours will decline over the coming years based on its approved funding levels. Consequently, passengers will wait longer to be screened without additional funding. CATSA has been working with TC to develop a long-term, sustainable and operationally effective funding strategy to address this risk.

CATSA has been successful in securing supplemental funding over several planning cycles and there is no indication that the organization will not receive supplemental funding for 2019/20. CATSA's risk related to its level of government funding to deliver its core mandate is now trending lower.

### LEVEL OF CORPORATE CAPACITY TO DELIVER CORE MANDATE AND PROVIDE CORPORATE SUPPORT SERVICES

While CATSA's streamlined corporate structure has made the organization leaner, the organization may have limited depth of resources to support its core mandate including the provision of corporate services. As passenger volumes continue to rise, more pressure is put on the organization's resources. As a result, CATSA has identified an increased risk related to corporate capacity. To address this risk, CATSA will continue to review its requirements for fixed-term positions and will use professional services as required.

## ANALYSIS OF FINANCIAL RESULTS

### CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income for the three and six months ended September 30, 2018, and September 30, 2017.

| Key Financial Highlights - Condensed Interim Statement of Comprehensive Income | Three Months Ended September 30 | | | | Six Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | | | 2018 | 2017 | | |
| (Thousands of Canadian dollars) | (unaudited) | (unaudited) | $ Change | % Change | (unaudited) | (unaudited) | $ Change | % Change |
| **Expenses** [1] | | | | | | | | |
| Screening services and other related costs | $ 150,813 | $ 136,962 | $ 13,851 | 10.1% | $ 295,945 | $ 269,790 | $ 26,155 | 9.7% |
| Equipment operating and maintenance | 10,832 | 8,860 | 1,972 | 22.3% | 20,698 | 18,305 | 2,393 | 13.1% |
| Program support and corporate services | 21,428 | 19,713 | 1,715 | 8.7% | 42,887 | 40,321 | 2,566 | 6.4% |
| Depreciation and amortization | 16,442 | 14,442 | 2,000 | 13.8% | 31,762 | 28,421 | 3,341 | 11.8% |
| **Total expenses** | **199,515** | **179,977** | **19,538** | **10.9%** | **391,292** | **356,837** | **34,455** | **9.7%** |
| **Other expenses (income)** | **312** | **1,490** | **(1,178)** | **(79.1%)** | **241** | **2,153** | **(1,912)** | **(88.8%)** |
| **Financial performance before revenue and government funding** | **199,827** | **181,467** | **18,360** | **10.1%** | **391,533** | **358,990** | **32,543** | **9.1%** |
| **Revenue** | **2,044** | **3,975** | **(1,931)** | **(48.6%)** | **6,511** | **7,509** | **(998)** | **(13.3%)** |
| **Government funding** | | | | | | | | |
| Parliamentary appropriations for operating expenses | 178,132 | 159,942 | 18,190 | 11.4% | 346,625 | 317,134 | 29,491 | 9.3% |
| Amortization of deferred government funding related to capital expenditures | 16,350 | 15,236 | 1,114 | 7.3% | 31,937 | 29,419 | 2,518 | 8.6% |
| **Total government funding** | **194,482** | **175,178** | **19,304** | **11.0%** | **378,562** | **346,553** | **32,009** | **9.2%** |
| **Financial performance** | **$ (3,301)** | **$ (2,314)** | **$ (987)** | **(42.7%)** | **$ (6,460)** | **$ (4,928)** | **$ (1,532)** | **(31.1%)** |
| **Other comprehensive income** | **7,488** | **19,293** | **(11,805)** | **(61.2%)** | **22,366** | **8,354** | **14,012** | **167.7%** |
| **Total comprehensive income** | **$ 4,187** | **$ 16,979** | **$ (12,792)** | **(75.3%)** | **$ 15,906** | **$ 3,426** | **$ 12,480** | **364.3%** |

[1] The Condensed Interim Statement of Comprehensive Income 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, 2018.

#### *Screening services and other related costs*

Screening services and other related costs increased by $13,851 (10.1%) and by $26,155 (9.7%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases are primarily due to the purchase of additional screening hours totaling $9,356 and $15,764, respectively, and annual screening contractor billing rate increases totaling $3,499 and $7,385, for the three and six months ended September 30, 2018, respectively. The increases are also due to higher performance program costs totaling $588 and $2,204, for the three and six months respectively, resulting from increased screening hours and improved screening contractor performance.

The increases in screening hours purchased are mainly due to additional screening requirements to support higher passenger volumes, operational changes at certain airports, and the implementation of enhanced security measures for electronic devices that came into effect in July 2017. These increases are partially offset by reduced screening requirements resulting from the NPS Aircraft exemption that came into effect in July 2017, as well as reduced requirements for supplemental screening hours as described below.

### *Equipment operating and maintenance*

Equipment operating and maintenance costs increased by $1,972 (22.3%) and by $2,393 (13.1%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases are mainly driven by additional maintenance costs to support equipment coming off warranty, as well as increased maintenance and spare parts costs to support new and/or existing Explosive Detection System (EDS) equipment. The increases are also attributable to additional training requirements for CATSA's maintenance service provider to support the ongoing deployment of new EDS equipment at certain airport locations.

### *Program support and corporate services*

Program support and corporate services costs increased by $1,715 (8.7%) and by $2,566 (6.4%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases are primarily attributable to increased employee-related costs of $1,132 and $1,924, respectively, and increased office and computer costs of $715 and $864, respectively, mainly to support CATSA's IT network infrastructure. Employee-related costs increased as a result of higher defined benefit plan costs resulting mainly from a decrease in the discount rate used to determine the current service cost for the year, as well as an increase in salary and benefit costs.

### *Depreciation and amortization*

Depreciation and amortization increased by $2,000 (13.8%) and by $3,341 (11.8%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases are primarily due to new deployments of CATSA Plus, changes in the estimated useful life of certain PBS equipment, and HBS equipment deployments as part of the HBS life-cycle management program. The increases are partially offset by older HBS equipment becoming fully depreciated.

### *Other expenses (income)*

Other expenses (income) decreased by $1,178 (79.1%) and by $1,912 (88.8%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The decreases are primarily due to the write-off of property and equipment, recorded in the prior year, for equipment that was retired from service as new equipment was deployed. The decrease for the six month period is also due to a lower net loss on the fair value of derivative financial instruments.

### *Revenue*

Revenue decreased by $1,931 (48.6%) and by $998 (13.3%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The decreases are mainly due to the purchase of fewer supplemental screening hours of $1,888 and $205, respectively, resulting from the expiry of the trial agreement with YVRAA in June 2018, and lower requirements from GTAA. The decrease for the six month period is also attributable to non-cash vendor credits of $792 recorded in the prior year.

### *Parliamentary appropriations for operating expenses*

Parliamentary appropriations for operating expenses increased by $18,190 (11.4%) and by $29,491 (9.3%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases are mainly attributable to increased spending for screening services and other related costs, program support and corporate services and equipment operating and maintenance, as discussed above.

### *Amortization of deferred government funding related to capital expenditures*

Amortization of deferred government funding related to capital expenditures increased by $1,114 (7.3%) and by $2,518 (8.6%) for the three and six months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases are mainly attributable to increased depreciation and amortization, as previously discussed.

### *Other comprehensive income*

Other comprehensive income is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets.

Other comprehensive income of $7,488 for the three months ended September 30, 2018, is due to a remeasurement gain of $12,156 on the defined benefit liability arising from a 25 basis point increase in the discount rate since June 30, 2018. This was partially offset by a remeasurement loss of $4,668 resulting from a lower actual rate of return on plan assets than the rate initially used in CATSA's assumptions. 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 between June 30, 2017, and September 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 $22,366 for the six months ended September 30, 2018, is due to a remeasurement gain of $24,952 on the defined benefit liability arising from a 50 basis point increase in the discount rate since March 31, 2018. This was partially offset by a remeasurement loss of $2,585 resulting from a lower actual rate of return on plan assets than the rate initially 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 between March 31, 2017 and September 30, 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.

For more information, refer to note 9 of the unaudited 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, 2018, compared to March 31, 2018.

| **Key Financial Highlights - Condensed Interim Statement of Financial Position** (Thousands of Canadian dollars) | **September 30, 2018** (unaudited) | **March 31, 2018** (audited) | $ Change | % Change |
|---|---|---|---|---|
| Current assets | $ 177,859 | $ 166,329 | $ 11,530 | 6.9% |
| Non-current assets | 470,957 | 430,157 | 40,800 | 9.5% |
| **Total assets** | **$ 648,816** | **$ 596,486** | **$ 52,330** | **8.8%** |
| Current liabilities | $ 174,192 | $ 161,751 | $ 12,441 | 7.7% |
| Non-current liabilities | 481,191 | 457,208 | 23,983 | 5.2% |
| **Total liabilities** | **$ 655,383** | **$ 618,959** | **$ 36,424** | **5.9%** |

### *Assets*

Current assets increased by $11,530 (6.9%) primarily due to the following:

- Increase in cash of $68,413 primarily due to the timing of funds received from the Government of Canada and the timing of disbursements to suppliers for goods and services;
- Decrease in trade and other receivables of $52,803, mainly due to a decrease in parliamentary appropriations receivable of $51,226, and a decrease in supplemental screening services receivable of $1,058;
- Decrease in inventories of $2,551 due to the net usage of uniform, RAIC card and spare part inventories, and
- Decrease in prepaid expenses of $1,243 due to the amortization of annual insurance premiums, and annual maintenance and support services.

Non-current assets increased by $40,800 (9.5%) primarily due to the following:

- Increase in property and equipment and intangible assets of $24,649 primarily due to acquisitions totaling $56,743, partially offset by depreciation and amortization of $31,762; and
- Increase in employee benefits asset of $16,175. 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 $21,605 on the defined benefit liability arising from a 50 basis point increase in the discount rate since March 31, 2018. This was partially offset by the defined benefit cost exceeding contributions by $2,845 and a remeasurement loss of $2,585 resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions.

### *Liabilities*

Current liabilities increased by $12,441 (7.7%) primarily due to the following:

- Increase in trade and other payables of $14,224 due to the timing of disbursements associated with obligations outstanding with suppliers;
- Increase in current holdbacks of $2,011 due to ongoing construction under the HBS recapitalization projects; and
- Decrease in deferred government funding related to operating expenditures of $3,794 mainly due to a reduction in the inventories and prepaid expenses balances.

Non-current liabilities increased by $23,983 (5.2%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures of $24,405 due to capital expenditures funded through parliamentary appropriations of $56,342 exceeding amortization of deferred government funding related to capital expenditures of $31,937;
- Increase in non-current holdbacks of $1,498 due to ongoing construction under the HBS recapitalization projects; and
- Decrease in employee benefits liability of $1,960 due to the remeasurement of CATSA's other defined benefits plan of $3,346, arising from a 50 basis point increase in the discount rate since March 31, 2018. This was partially offset by the defined benefit cost exceeding contributions by $1,386.

## FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2018/19 – 2022/23 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 2018/19 – 2022/23 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| (Thousands of Canadian dollars) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| **Financial performance before revenue and government funding** | $ 199,827 | $ 181,467 | $ 391,533 | $ 358,990 |
| **Revenue** | (2,044) | (3,975) | (6,511) | (7,509) |
| **Financial performance before government funding** | 197,783 | 177,492 | 385,022 | 351,481 |
| **Non-cash expenses** | | | | |
| Depreciation and amortization | (16,442) | (14,442) | (31,762) | (28,421) |
| Employee benefits expense [1] | (2,094) | (1,665) | (4,231) | (3,519) |
| Employee cost accruals [2] | (716) | (65) | (2,073) | (1,125) |
| Change in fair value of financial instruments at fair value through profit and loss | (512) | (591) | (398) | (1,239) |
| Spare parts expense funded from capital [3] | (3) | (15) | (7) | (31) |
| Gain (loss) on disposal of property and equipment | 56 | (15) | 4 | (72) |
| Non-cash gain (loss) on foreign exchange recognized in financial performance | 36 | (84) | 272 | 39 |
| Deferred lease incentives recognized in financial performance [4] | 24 | 80 | 48 | 161 |
| Write-off of property and equipment and intangible assets | - | (783) | (250) | (932) |
| Non-cash vendor credits | - | 30 | - | 792 |
| **Parliamentary appropriations for operating expenses** | **$ 178,132** | **$ 159,942** | **$ 346,625** | **$ 317,134** |
| **Other items affecting funding** | | | | |
| Net change in prepaid expenses and inventories [5] | (1,780) | (1,481) | (3,794) | (2,668) |
| **Total operating appropriations used** | **$ 176,352** | **$ 158,461** | **$ 342,831** | **$ 314,466** |

[1] Employee benefits are accounted for in the Condensed Interim Statement of Comprehensive Income 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, 2018. 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] Prepaid expenses 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| (Thousands of Canadian dollars) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Explosives Detection System | $ 17,204 | $ 11,041 | $ 55,451 | $ 29,698 |
| Non-Explosives Detection System | 845 | 417 | 1,292 | 807 |
| **Total capital asset acquisitions** | **$ 18,049** | **$ 11,458** | **$ 56,743** | **$ 30,505** |
| Proceeds on disposal of property and equipment [1] | (58) | - | (79) | (28) |
| Non-cash adjustment on foreign exchange related to capital acquisitions | (4) | 1 | (322) | (81) |
| Non-cash additions resulting from vendor credits | - | (30) | - | (792) |
| **Total capital appropriations used** | **$ 17,987** | **$ 11,429** | **$ 56,342** | **$ 29,604** |

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

## STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these unaudited condensed interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, and The Treasury Board of Canada *Standard on Quarterly Financial Statements for Crown Corporations* and for such internal controls as management determines are necessary to enable the preparation of the unaudited condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the unaudited condensed interim financial statements.

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

Michael Saunders
President and Chief Executive Officer

Ottawa, Canada

November 21, 2018

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

Ottawa, Canada

November 21, 2018

Condensed Interim Financial Statements of

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

September 30, 2018

(Unaudited)

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

| | September 30, 2018 | March 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 78,342 | $ 9,929 |
| Trade and other receivables (note 3) | 83,703 | 136,506 |
| Inventories (note 4) | 13,850 | 16,401 |
| Prepaid expenses | 1,890 | 3,133 |
| Derivative financial assets (note 12) | 74 | 360 |
| | 177,859 | 166,329 |
| Non-current assets | | |
| Property and equipment (note 5) | 437,055 | 416,438 |
| Intangible assets (note 6) | 12,697 | 8,665 |
| Employee benefits asset (note 9) | 21,205 | 5,030 |
| Derivative financial assets (note 12) | - | 24 |
| | 470,957 | 430,157 |
| Total assets | $ 648,816 | $ 596,486 |
| **Liabilities and Equity** | | |
| Current liabilities | | |
| Trade and other payables | $ 147,092 | $ 132,868 |
| Holdbacks | 11,360 | 9,349 |
| Deferred government funding related to operating expenses (note 8) | 15,740 | 19,534 |
| | 174,192 | 161,751 |
| Non-current liabilities | | |
| Holdbacks (note 12) | 5,836 | 4,338 |
| Deferred lease incentives | 394 | 442 |
| Deferred government funding related to capital expenditures (note 8) | 448,431 | 424,026 |
| Derivative financial liabilities (note 12) | 88 | - |
| Employee benefits liability (note 9) | 26,442 | 28,402 |
| | 481,191 | 457,208 |
| Equity | | |
| Accumulated deficit | (6,567) | (22,473) |
| Total liabilities and equity | $ 648,816 | $ 596,486 |

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
(Unaudited)

(In thousands of Canadian dollars)

| | Three months ended September 30 | | Six months ended September 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Expenses | | | | |
| Pre-Board Screening | $ 112,707 | $ 99,052 | $ 221,561 | $ 193,281 |
| Hold Baggage Screening | 40,161 | 36,698 | 77,876 | 73,705 |
| Non-Passenger Screening | 34,705 | 33,300 | 68,582 | 67,671 |
| Restricted Area Identity Card Program | 748 | 730 | 1,518 | 1,489 |
| Corporate services | 11,194 | 10,197 | 21,755 | 20,691 |
| Total expenses (note 10) | 199,515 | 179,977 | 391,292 | 356,837 |
| Other expenses (income) | | | | |
| Net loss on fair value of derivative financial instruments | 512 | 591 | 398 | 1,239 |
| Finance cost | 1 | 1 | 2 | 1 |
| Foreign exchange (gain) loss | (145) | 100 | (405) | (91) |
| (Gain) loss on disposal of property and equipment | (56) | 15 | (4) | 72 |
| Write-off of property and equipment and intangible assets | - | 783 | 250 | 932 |
| Total other expenses (income) | 312 | 1,490 | 241 | 2,153 |
| Financial performance before revenue and government funding | 199,827 | 181,467 | 391,533 | 358,990 |
| Revenue | | | | |
| Supplemental screening services | 1,816 | 3,704 | 6,095 | 6,299 |
| Finance income | 228 | 151 | 416 | 238 |
| Rental income | - | 90 | - | 180 |
| Miscellaneous income | - | 30 | - | 792 |
| Total revenue | 2,044 | 3,975 | 6,511 | 7,509 |
| Government funding | | | | |
| Parliamentary appropriations for operating expenses (note 8) | 178,132 | 159,942 | 346,625 | 317,134 |
| Amortization of deferred government funding related to capital expenditures (note 8) | 16,350 | 15,236 | 31,937 | 29,419 |
| Total government funding | 194,482 | 175,178 | 378,562 | 346,553 |
| Financial performance | $ (3,301) | $ (2,314) | $ (6,460) | $ (4,928) |
| Other comprehensive income | | | | |
| Item that will not be reclassified to financial performance | | | | |
| Remeasurement of defined benefit plans (note 9) | 7,488 | 19,293 | 22,366 | 8,354 |
| Total comprehensive income | $ 4,187 | $ 16,979 | $ 15,906 | $ 3,426 |

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, 2018 | $ | (10,754) |
| Financial performance | | (3,301) |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 9) | | 7,488 |
| Balance, September 30, 2018 | $ | (6,567) |
| 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) |

**For the six months ended September 30:**

| | | Accumulated deficit |
|---|---|---|
| Balance, March 31, 2018 | $ | (22,473) |
| Financial performance | | (6,460) |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 9) | | 22,366 |
| Balance, September 30, 2018 | $ | (6,567) |
| 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) |

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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Cash flows provided by (used in) | | | | |
| Operating activities | | | | |
| Financial performance | $ (3,301) | $ (2,314) | $ (6,460) | $ (4,928) |
| Items not involving cash | | | | |
| Depreciation of property and equipment (note 5 and 10) | 16,053 | 14,151 | 31,061 | 27,872 |
| Increase in net employee benefits liability | 2,094 | 1,665 | 4,231 | 3,519 |
| Change in fair value of financial instruments at fair value through profit and loss | 512 | 591 | 398 | 1,239 |
| Amortization of intangible assets (note 6 and 10) | 389 | 291 | 701 | 549 |
| Other non-cash transactions | 3 | (15) | 7 | (761) |
| Amortization of deferred government funding related to capital expenditures (note 8) | (16,350) | (15,236) | (31,937) | (29,419) |
| (Gain) loss on disposal of property and equipment | (56) | 15 | (4) | 72 |
| Deferred lease incentives recognized in financial performance | (24) | (80) | (48) | (161) |
| Write-off of property and equipment and intangible assets | - | 783 | 250 | 932 |
| Net change in working capital balances (note 15) | 26,275 | (11,541) | 91,550 | 20,407 |
| | 25,595 | (11,690) | 89,749 | 19,321 |
| Investing activities | | | | |
| Parliamentary appropriations received for capital funding | 23,592 | 19,001 | 50,792 | 44,809 |
| Purchase of property and equipment | (29,354) | (10,922) | (68,073) | (34,985) |
| Purchase of intangible assets | (133) | (160) | (4,071) | (368) |
| Proceeds on disposal of property and equipment | 16 | - | 16 | - |
| | (5,879) | 7,919 | (21,336) | 9,456 |
| Increase (decrease) in cash | 19,716 | (3,771) | 68,413 | 28,777 |
| Cash, beginning of period | 58,626 | 68,815 | 9,929 | 36,267 |
| Cash, end of period | $ 78,342 | $ 65,044 | $ 78,342 | $ 65,044 |

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. With the support of Transport Canada, CATSA entered into a Supplemental Screening Services trial agreement with the GTAA for the provision of supplemental screening services effective October 5, 2014, and extended annually thereafter. CATSA also entered into a similar agreement with the YVRAA effective June 26, 2017. The YVRAA trial agreement ended June 30, 2018, while the GTAA trial agreement has been extended to March 31, 2019.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on November 21, 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, 2018.

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, 2018, except as noted below.

(b) Change in presentation

Beginning April 1, 2018, CATSA changed the presentation of the current portion of holdbacks in the Condensed Interim Statement of Financial Position to reflect their significance. Previously, current holdbacks were included in trade and other payables. As a result of this change, $9,349 has been reclassified from trade and other payables as at March 31, 2018, to current holdbacks on the Condensed Interim Statement of Financial Position.

(c) Adoption of new International Financial Reporting Standards

The following new IFRS standards were adopted by CATSA effective April 1, 2018. The adoption of these accounting standards did not have an impact on the condensed interim financial statements.

(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 was effective for annual periods beginning on or after January 1, 2018, on a retrospective basis, with earlier application permitted.

(ii) IFRS 9 *Financial Instruments*

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

(d) Future accounting changes

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

(In thousands of Canadian dollars)

(i) 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 are currently being analyzed, which have a total undiscounted contract value of $28,044, as disclosed in note 13(b).

## 3. Trade and other receivables

Trade and other receivables are comprised of:

| | September 30, 2018 | March 31, 2018 |
|---|---|---|
| Parliamentary appropriations | $ 70,173 | $ 121,399 |
| GST and HST recoverable | 9,566 | 10,435 |
| PST recoverable | 2,372 | 2,306 |
| Supplemental screening services | 1,209 | 2,267 |
| Other | 383 | 99 |
| | $ 83,703 | $ 136,506 |

Credit terms on trade receivables are 30 days. As at September 30, 2018, and March 31, 2018, there were no amounts included in trade and other receivables that were past due.

## 4. Inventories

Inventories are comprised of:

| | September 30, 2018 | March 31, 2018 |
|---|---|---|
| Spare parts | $ 13,111 | $ 13,879 |
| Uniforms | 455 | 1,779 |
| RAIC | 284 | 743 |
| | $ 13,850 | $ 16,401 |

(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, 2017 | $ 125,283 | $ 747,167 | $ 20,345 | $ 5,329 | $ 27,203 | $ 30 | $ 9,929 | $ 69,472 | $ 1,004,758 |
| Additions | 15,810 | 19,055 | 1,196 | 59 | 680 | - | 87 | 38,177 | 75,064 |
| Disposals | (1,133) | (95,365) | (974) | - | (441) | - | - | - | (97,913) |
| Write-offs | (524) | (981) | (1,240) | (1,403) | (2,609) | - | (25) | (123) | (6,905) |
| Reclassifications | 5,434 | 19,927 | 527 | 454 | 2,081 | - | 11 | (28,434) | - |
| Balance, March 31, 2018 | $ 144,870 | $ 689,803 | $ 19,854 | $ 4,439 | $ 26,914 | $ 30 | $ 10,002 | $ 79,092 | $ 975,004 |
| Balance, March 31, 2018 | $ 144,870 | $ 689,803 | $ 19,854 | $ 4,439 | $ 26,914 | $ 30 | $ 10,002 | $ 79,092 | $ 975,004 |
| Additions | 2,843 | 3,378 | - | - | 21 | 118 | 386 | 45,287 | 52,033 |
| Disposals | (602) | (9,710) | (872) | - | - | - | - | - | (11,184) |
| Write-offs | (50) | (1,240) | - | (98) | (301) | (19) | - | - | (1,708) |
| Reclassifications | 4,876 | 55,233 | 259 | 36 | 1,199 | - | 57 | (61,683) | (23) |
| Balance, September 30, 2018 | $ 151,937 | $ 737,464 | $ 19,241 | $ 4,377 | $ 27,833 | $ 129 | $ 10,445 | $ 62,696 | $ 1,014,122 |
| **Accumulated depreciation** | | | | | | | | | |
| Balance, March 31, 2017 | $ 77,884 | $ 484,912 | $ 10,825 | $ 3,724 | $ 17,873 | $ 30 | $ 8,602 | $ - | $ 603,850 |
| Depreciation | 11,370 | 40,492 | 1,649 | 637 | 3,285 | - | 370 | - | 57,803 |
| Disposals | (1,130) | (94,791) | (974) | - | (441) | - | - | - | (97,336) |
| Write-offs | (360) | (871) | (484) | (1,402) | (2,609) | - | (25) | - | (5,751) |
| Balance, March 31, 2018 | $ 87,764 | $ 429,742 | $ 11,016 | $ 2,959 | $ 18,108 | $ 30 | $ 8,947 | $ - | $ 558,566 |
| Balance, March 31, 2018 | $ 87,764 | $ 429,742 | $ 11,016 | $ 2,959 | $ 18,108 | $ 30 | $ 8,947 | $ - | $ 558,566 |
| Depreciation | 7,021 | 21,411 | 796 | 267 | 1,333 | 2 | 231 | - | 31,061 |
| Disposals | (601) | (9,636) | (872) | - | - | - | - | - | (11,109) |
| Write-offs | 204 | (1,237) | - | (98) | (301) | (19) | - | - | (1,451) |
| Balance, September 30, 2018 | $ 94,388 | $ 440,280 | $ 10,940 | $ 3,128 | $ 19,140 | $ 13 | $ 9,178 | $ - | $ 577,067 |
| **Carrying amounts** | | | | | | | | | |
| As at March 31, 2018 | $ 57,106 | $ 260,061 | $ 8,838 | $ 1,480 | $ 8,806 | $ - | $ 1,055 | $ 79,092 | $ 416,438 |
| As at September 30, 2018 | $ 57,549 | $ 297,184 | $ 8,301 | $ 1,249 | $ 8,693 | $ 116 | $ 1,267 | $ 62,696 | $ 437,055 |

During the six months ended September 30, 2018, two of CATSA's portable screening units, for which no future use to CATSA had been identified, met the criteria to be classified as held for sale. CATSA finalized the sale of the two portable screening units to third parties, for combined proceeds of $16, during the three months ended September 30, 2018. The portable screening units had a net book value of $Nil prior to 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, 2017 | $ 4,111 | $ 19,655 | $ 2,333 | $ 26,099 |
| Additions | 451 | - | 908 | 1,359 |
| Write-offs | (68) | - | - | (68) |
| Balance, March 31, 2018 | $ 4,494 | $ 19,655 | $ 3,241 | $ 27,390 |
| Balance, March 31, 2018 | $ 4,494 | $ 19,655 | $ 3,241 | $ 27,390 |
| Additions | 4,411 | - | 299 | 4,710 |
| Write-offs | (16) | - | - | (16) |
| Reclassifications | 23 | - | - | 23 |
| Balance, September 30, 2018 | $ 8,912 | $ 19,655 | $ 3,540 | $ 32,107 |
| **Accumulated amortization** | | | | |
| Balance, March 31, 2017 | $ 3,119 | $ 14,529 | $ - | $ 17,648 |
| Amortization | 287 | 858 | - | 1,145 |
| Write-offs | (68) | - | - | (68) |
| Balance, March 31, 2018 | $ 3,338 | $ 15,387 | $ - | $ 18,725 |
| Balance, March 31, 2018 | $ 3,338 | $ 15,387 | $ - | $ 18,725 |
| Amortization | 261 | 440 | - | 701 |
| Write-offs | (16) | - | - | (16) |
| Balance, September 30, 2018 | $ 3,583 | $ 15,827 | $ - | $ 19,410 |
| **Carrying amounts** | | | | |
| As at March 31, 2018 | $ 1,156 | $ 4,268 | $ 3,241 | $ 8,665 |
| As at September 30, 2018 | $ 5,329 | $ 3,828 | $ 3,540 | $ 12,697 |

**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 September 30, 2018, or March 31, 2018.

(b) Contingencies

CATSA's contingent liabilities consist of claims and legal proceedings and decommissioning costs for which no provision is recorded.

(i) Claims and legal proceedings

In 2017/18, CATSA received notification from an airport authority that it had been assessed by the Canada Revenue Agency for failing to charge HST to CATSA on funding agreements related to integration projects and maintenance agreements. With the cooperation of the airport authority, CATSA filed a notice of objection and is of the view that it is more likely than not that the notice of objection will be successful. Should the objection prove to be successful, CATSA will be able to recover all amounts remitted related to this assessment.

CATSA has similar funding agreements with other airport authorities that could result in an assessment by tax authorities. While CATSA judges that the likelihood of economic outflow related to these other funding agreements to be not probable, there is a risk that CATSA could be required to pay other assessments in the event that these other airport authorities are audited and the Canada Revenue Agency upholds its position. The maximum undiscounted cash flow that could be required to settle this contingent liability is estimated to be $19,090 (March 31, 2018 – $17,140), offset by estimated recoverable taxes of $9,410 (March 31, 2018 – $8,580) for a net amount of $9,680 (March 31, 2018 – $8,560). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

During the six months ended September 30, 2018, 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, 2018.

(In thousands of Canadian dollars)

## 8. Deferred government funding

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

| | September 30, 2018 | March 31, 2018 |
|---|---|---|
| **Deferred government funding related to operating expenses** | | |
| Balance, beginning of period | $ 19,534 | $ 18,725 |
| Operating expenses funded through parliamentary appropriations | 342,831 | 646,307 |
| Parliamentary appropriations recognized as government funding for operating expenses | (346,625) | (645,498) |
| Balance, end of period | $ 15,740 | $ 19,534 |
| **Deferred government funding related to capital expenditures** | | |
| Balance, beginning of period | $ 424,026 | $ 408,959 |
| Capital expenditures funded through parliamentary appropriations | 56,342 | 75,592 |
| Amortization of deferred government funding related to capital expenditures | (31,937) | (60,525) |
| Balance, end of period | $ 448,431 | $ 424,026 |
| Total deferred government funding, end of period | $ 464,171 | $ 443,560 |

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, 2018 | March 31, 2018 |
|---|---|---|
| Employee benefits asset | | |
| Registered pension plan (RPP) | $ 19,012 | $ 3,346 |
| Supplementary retirement plan (SRP) | 2,193 | 1,684 |
| | 21,205 | 5,030 |
| Employee benefits liability | | |
| Other defined benefits plan (ODBP) | (26,442) | (28,402) |
| | (26,442) | (28,402) |
| Employee benefits - net liability | $ (5,237) | $ (23,372) |

(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 | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Defined benefit cost (income) recognized in financial performance** | | | | | | | | |
| Current service cost | $ 2,243 | $ 2,049 | $ 18 | $ 17 | $ 462 | $ 412 | $ 2,723 | $ 2,478 |
| Administration costs | 63 | 63 | 4 | 4 | - | - | 67 | 67 |
| Interest cost on defined benefit obligation | 1,775 | 1,644 | 44 | 38 | 264 | 242 | 2,083 | 1,924 |
| Interest income on plan assets | (1,728) | (1,726) | (58) | (60) | - | - | (1,786) | (1,786) |
| Defined benefit cost (income) | $ 2,353 | $ 2,030 | $ 8 | $ (1) | $ 726 | $ 654 | $ 3,087 | $ 2,683 |
| **Remeasurement of defined benefit plans recognized in other comprehensive income** | | | | | | | | |
| Return on plan assets excluding interest income | $ (4,675) | $ (4,128) | $ 8 | $ - | $ - | $ - | $ (4,667) | $ (4,128) |
| Actuarial gains | 10,327 | 19,918 | 206 | 382 | 1,622 | 3,121 | 12,155 | 23,421 |
| Remeasurement of defined benefit plans | $ 5,652 | $ 15,790 | $ 214 | $ 382 | $ 1,622 | $ 3,121 | $ 7,488 | $ 19,293 |

| | For the six months ended September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | RPP | | SRP | | ODBP | | Total | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Defined benefit cost (income) recognized in financial performance** | | | | | | | | |
| Current service cost | $ 4,487 | $ 4,098 | $ 35 | $ 34 | $ 924 | $ 824 | $ 5,446 | $ 4,956 |
| Administration costs | 125 | 125 | 8 | 8 | - | - | 133 | 133 |
| Interest cost on defined benefit obligation | 3,550 | 3,289 | 88 | 76 | 528 | 484 | 4,166 | 3,849 |
| Interest income on plan assets | (3,456) | (3,452) | (116) | (120) | - | - | (3,572) | (3,572) |
| Defined benefit cost (income) | $ 4,706 | $ 4,060 | $ 15 | $ (2) | $ 1,452 | $ 1,308 | $ 6,173 | $ 5,366 |
| **Remeasurement of defined benefit plans recognized in other comprehensive income** | | | | | | | | |
| Return on plan assets excluding interest income | $ (2,693) | $ (2,939) | $ 108 | $ (33) | $ - | $ - | $ (2,585) | $ (2,972) |
| Actuarial gains | 21,192 | 9,661 | 413 | 165 | 3,346 | 1,500 | 24,951 | 11,326 |
| Remeasurement of defined benefit plans | $ 18,499 | $ 6,722 | $ 521 | $ 132 | $ 3,346 | $ 1,500 | $ 22,366 | $ 8,354 |

For the three and six months ended September 30, 2018, CATSA recognized an expense of $122 (2017 - $109) and $264 (2017 - $237), 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.

For the three months ended September 30, 2018, remeasurement gains of $7,488 resulted primarily from an increase in the discount rate of 25 basis points (from 3.75% at June 30, 2018 to 4.00% at September 30, 2018). 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 (-1.48% actual versus 0.88% expected).

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 six months ended September 30, 2018, remeasurement gains of $22,366 resulted from an increase in the discount rate of 50 basis points (from 3.50% at March 31, 2018 to 4.00% at September 30, 2018) and a higher actual rate of return on plan assets than the rate used in CATSA's assumptions for the SRP (3.38% actual versus 1.75% 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 (0.39% actual versus 1.75% expected).

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 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).

(In thousands of Canadian dollars)

(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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Employer contributions | | | | |
| RPP | $ 956 | $ 980 | $ 1,873 | $ 1,778 |
| SRP | 3 | 6 | 3 | 6 |
| ODBP | 34 | 32 | 66 | 63 |
| | $ 993 | $ 1,018 | $ 1,942 | $ 1,847 |

Total employer contributions to the defined benefit plans are estimated to be $4,100 for the year ending March 31, 2019.

(In thousands of Canadian dollars)

## 10. Expenses

The Condensed Interim Statement of Comprehensive Income 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Screening services and other related costs | | | | |
| Payments to screening contractors | $ 148,999 | $ 135,167 | $ 292,287 | $ 266,329 |
| Uniforms and other screening costs | 1,249 | 1,273 | 2,648 | 2,670 |
| Trace and consumables | 565 | 522 | 1,010 | 791 |
| | 150,813 | 136,962 | 295,945 | 269,790 |
| Equipment operating and maintenance | | | | |
| Equipment maintenance and spare parts | 10,309 | 8,609 | 19,663 | 17,808 |
| Training and certification | 336 | 17 | 577 | 53 |
| RAIC | 187 | 234 | 458 | 444 |
| | 10,832 | 8,860 | 20,698 | 18,305 |
| Program support and corporate services | | | | |
| Employee costs | 15,335 | 14,203 | 31,619 | 29,695 |
| Office and computer expenses | 1,957 | 1,240 | 3,057 | 2,187 |
| Operating leases | 1,541 | 1,587 | 3,107 | 3,191 |
| Professional services and other business related costs | 1,209 | 1,390 | 2,564 | 2,739 |
| Other administrative costs | 1,181 | 1,140 | 2,226 | 2,189 |
| Communications and public awareness | 205 | 153 | 314 | 320 |
| | 21,428 | 19,713 | 42,887 | 40,321 |
| Depreciation and amortization | | | | |
| Depreciation of property and equipment | 16,053 | 14,151 | 31,061 | 27,872 |
| Amortization of intangible assets | 389 | 291 | 701 | 549 |
| | 16,442 | 14,442 | 31,762 | 28,421 |
| | $ 199,515 | $ 179,977 | $ 391,292 | $ 356,837 |

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 2018/19 – 2022/23 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Parliamentary appropriations received and receivable | $ 246,147 | $ 202,438 | $ 453,424 | $ 386,407 |
| Amounts received and receivable related to prior period | (68,086) | (41,505) | (107,407) | (67,925) |
| Amounts to be used in future periods | (1,709) | (2,472) | (3,186) | (4,016) |
| Parliamentary appropriations used to fund operating expenses (note 8) | $ 176,352 | $ 158,461 | $ 342,831 | $ 314,466 |

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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Parliamentary appropriations received and receivable | $ 52,062 | $ 25,275 | $ 77,398 | $ 56,128 |
| Amounts received and receivable related to prior period | (25,147) | (8,176) | (13,992) | (15,809) |
| Amounts to be used in future periods | (8,928) | (5,670) | (7,064) | (10,715) |
| Parliamentary appropriations used to fund capital expenditures (note 8) | $ 17,987 | $ 11,429 | $ 56,342 | $ 29,604 |

Parliamentary appropriations to be used in future periods are a result of higher forecasted expenditures than actual operating and capital expenditures. These amounts are expected to be 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, trade and other payables, and current holdbacks approximate their carrying amount due to the current nature of these instruments.

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

| | September 30, 2018 | | March 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value (Level 2) | Carrying Amount | Fair Value (Level 2) |
| Financial instruments measured at fair value | | | | |
| Derivative financial assets[1] | $ 74 | $ 74 | $ 384 | $ 384 |
| Derivative financial liabilities[1] | 88 | 88 | - | - |
| Financial instruments measured at amortized cost | | | | |
| Non-current holdbacks[2] | $ 5,836 | $ 5,836 | $ 4,338 | $ 4,338 |

[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 six months ended September 30, 2018, or year ended March 31, 2018.

(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, 2018 | March 31, 2018 |
|---|---|---|
| Operating | $ 1,921,115 | $ 2,228,761 |
| Capital | 103,541 | 122,149 |
| Total | $ 2,024,656 | $ 2,350,910 |

(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:

| | September 30, 2018 | March 31, 2018 |
|---|---|---|
| No later than 1 year | $ 7,236 | $ 6,945 |
| Later than 1 year and no later than 5 years | 19,719 | 22,260 |
| Later than 5 years | 1,089 | - |
| Total | $ 28,044 | $ 29,205 |

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:

(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 September 30 | | Six months ended September 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Income | $ 194,482 | $ 175,178 | $ 378,562 | $ 346,553 |
| Expenses | 5,571 | 4,248 | 10,442 | 7,721 |

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, 2018, include $5,524 (2017 – $4,013), and $10,093 (2017 – $7,246), respectively, in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

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

| | September 30, 2018 | March 31, 2018 |
|---|---|---|
| Receivable from related parties | $ 79,804 | $ 131,933 |
| Payable to related parties | (388) | (1,134) |
| Net receivable from related parties | $ 79,416 | $ 130,799 |

Amounts receivable from related parties consist primarily of $70,173 (March 31, 2018 – $121,399) due from the Government of Canada for parliamentary appropriations, and $9,566 (March 31, 2018 – $10,435) 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.

(In thousands of Canadian dollars)

(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.

## 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Decrease in trade and other receivables | $ 18,016 | $ 80 | $ 58,353 | $ 30,150 |
| Decrease in inventories | 742 | 511 | 2,551 | 1,413 |
| Decrease in prepaid expenses | 1,038 | 970 | 1,243 | 1,255 |
| Increase (decrease) in trade and other payables | 8,259 | (11,621) | 33,197 | (9,743) |
| Decrease in deferred government funding related to operating expenses | (1,780) | (1,481) | (3,794) | (2,668) |
| | $ 26,275 | $ (11,541) | $ 91,550 | $ 20,407 |

For the three and six months ended September 30, 2018, the change in trade and other receivables excludes amounts of $5,605 (2017 – $7,572) and $5,550 (2017 – $15,205), 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, 2018, the change in trade and other payables excludes amounts of $13,674 (2017 – $116) and $18,973 (2017 – $6,081), respectively, in relation to the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.