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, 2018

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 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 nine months ended December 31, 2018. 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, 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*, the *Quarterly Financial Report for the three months ended June 30, 2018*, and the *Quarterly Financial Report for the three and six months ended September 30, 2018.* The information in this report is expressed in thousands of Canadian dollars and is current to February 20, 2019, 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 September 30, 2018.

PASSENGER GROWTH AND SCREENING HOURS

Statistics from CATSA's Boarding Pass Security System for the three months ended December 31, 2018, indicate that screened traffic across Canada increased by 2.5% 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. In the absence of long-term funding, CATSA continues to work with TC to seek short-term supplemental funding in order to maintain its current operations.

RISKS AND UNCERTAINTIES

CATSA regularly monitors and re-assesses its corporate risks. There have been no significant changes to the corporate risk profile, as previously disclosed in the *2018 Annual Report*, with the exception of the risk update provided in the *Quarterly Financial Report for the three and six months ended September 30, 2018.*

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 nine months ended December 31, 2018, and December 31, 2017.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income	Three Months Ended December 31				Nine Months Ended December 31			
	2018	2017			2018	2017		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	$ Change	% Change	(unaudited)	(unaudited)	$ Change	% Change
Expenses [1]								
Screening services and other related costs	$ 149,269	$ 136,066	$ 13,203	9.7%	$ 445,214	$ 405,856	$ 39,358	9.7%
Equipment operating and maintenance	11,331	9,440	1,891	20.0%	32,029	27,745	4,284	15.4%
Program support and corporate services	21,793	20,712	1,081	5.2%	64,680	61,033	3,647	6.0%
Depreciation and amortization	16,428	14,819	1,609	10.9%	48,190	43,240	4,950	11.4%
Total expenses	**198,821**	**181,037**	**17,784**	**9.8%**	**590,113**	**537,874**	**52,239**	**9.7%**
Other expenses (income)	**(916)**	**(81)**	**(835)**	**N/M**	**(675)**	**2,072**	**(2,747)**	**(132.6%)**
Financial performance before revenue and government funding	**197,905**	**180,956**	**16,949**	**9.4%**	**589,438**	**539,946**	**49,492**	**9.2%**
Revenue	**3,185**	**4,474**	**(1,289)**	**(28.8%)**	**9,696**	**11,983**	**(2,287)**	**(19.1%)**
Government funding								
Parliamentary appropriations for operating expenses	176,600	159,339	17,261	10.8%	523,225	476,473	46,752	9.8%
Amortization of deferred government funding related to capital expenditures	16,648	14,944	1,704	11.4%	48,585	44,363	4,222	9.5%
Total government funding	**193,248**	**174,283**	**18,965**	**10.9%**	**571,810**	**520,836**	**50,974**	**9.8%**
Financial performance	**$ (1,472)**	**$ (2,199)**	**$ 727**	**33.1%**	**$ (7,932)**	**$ (7,127)**	**$ (805)**	**(11.3%)**
Other comprehensive income (loss)	**(9,600)**	**(14,871)**	**5,271**	**35.4%**	**12,766**	**(6,517)**	**19,283**	**295.9%**
Total comprehensive income (loss)	**$ (11,072)**	**$ (17,070)**	**$ 5,998**	**35.1%**	**$ 4,834**	**$ (13,644)**	**$ 18,478**	**135.4%**

[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 nine months ended December 31, 2018.

N/M = not meaningful

Screening services and other related costs

Screening services and other related costs increased by $13,203 (9.7%) and by $39,358 (9.7%) for the three and nine months ended December 31, 2018, respectively, compared to the same periods in 2017. The increases are primarily due to the purchase of additional screening hours totaling $8,355 and $24,119, respectively, and annual screening contractor billing rate increases totaling $3,899 and $11,284, for the three and nine months ended December 31, 2018, respectively. The increases are also due to higher performance program costs totaling $727 and $2,931, for the three and nine 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 and operational changes at certain airports. The increase for the nine-month period is also attributable to 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 $1,891 (20.0%) and by $4,284 (15.4%) for the three and nine months ended December 31, 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 $1,081 (5.2%) and by $3,647 (6.0%) for the three and nine months ended December 31, 2018, respectively, compared to the same periods in 2017. The increases are primarily attributable to higher office and computer costs of $1,018 and $1,882, respectively, mainly to support CATSA's IT network infrastructure, and higher employee-related costs of $2,274 for the nine months ended December 31, 2018. 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 $1,609 (10.9%) and by $4,950 (11.4%) for the three and nine months ended December 31, 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 $835 (N/M) and by $2,747 (132.6%) for the three and nine months ended December 31, 2018, respectively, compared to the same periods in 2017. The decreases are mainly due to higher net gains on the fair value of derivative financial instrument. The decrease for the nine-month period is also 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.

Revenue

Revenue decreased by $1,289 (28.8%) and by $2,287 (19.1%) for the three and nine months ended December 31, 2018, respectively, compared to the same periods in 2017. The decreases are mainly due to the purchase of fewer supplemental screening hours of $1,233 and $1,438, respectively, resulting primarily from the expiry of the trial agreement with YVRAA in June 2018. The decrease for the nine-month period is also attributable to non-cash vendor credits recorded in the prior year.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by $17,261 (10.8%) and by $46,752 (9.8%) for the three and nine months ended December 31, 2018, respectively, compared to the same periods in 2017. The increases are mainly attributable to increased spending for screening services and other related costs, equipment operating and maintenance, and program support and corporate services, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by $1,704 (11.4%) and by $4,222 (9.5%) for the three and nine months ended December 31, 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 (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 $9,600 for the three months ended December 31, 2018, is due to a remeasurement loss resulting from a lower actual rate of return on plan assets than the rate initially used in CATSA's assumptions. 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 between September 30, 2017, and December 31, 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 $12,766 for the nine months ended December 31, 2018, is due to a remeasurement gain of $24,951 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 $12,185 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 between March 31, 2017, and December 30, 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.

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 December 31, 2018, compared to March 31, 2018.

Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars)	**December 31, 2018** (unaudited)	**March 31, 2018** (audited)	$ Change	% Change
Current assets	$ 166,875	$ 166,329	$ 546	0.3%
Non-current assets	470,652	430,157	40,495	9.4%
Total assets	**$ 637,527**	**$ 596,486**	**$ 41,041**	**6.9%**
Current liabilities	$ 162,052	$ 161,751	$ 301	0.2%
Non-current liabilities	493,114	457,208	35,906	7.9%
Total liabilities	**$ 655,166**	**$ 618,959**	**$ 36,207**	**5.8%**

Assets

Current assets increased by $546 (0.3%) primarily due to the following:

- Increase in cash of $2,553 primarily due to the timing of disbursements to suppliers for goods and services;
- Increase in trade and other receivables of $1,375, mainly due to an increase in parliamentary appropriations receivable of $3,854, partially offset by a decrease in sales tax recoverable of $2,455;
- Decrease in inventories of $2,721 mainly due to the net usage of uniform and spare part inventories, and
- Decrease in prepaid expenses of $1,537 due to the amortization of annual insurance premiums, and annual maintenance and support services.

Non-current assets increased by $40,495 (9.4%) primarily due to the following:

- Increase in property and equipment and intangible assets of $35,107 primarily due to acquisitions totaling $83,919 partially offset by depreciation and amortization of $48,190; and
- Increase in employee benefits asset of $5,199. 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 a remeasurement loss of $12,185 resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions and the defined benefit cost exceeding contributions by $4,221.

Liabilities

Current liabilities increased by $301 (0.2%) primarily due to the following:

- Increase in current holdbacks of $2,716 due to ongoing construction under the HBS recapitalization projects;
- Increase in trade and other payables of $1,843 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of $4,258 mainly due to a reduction in the inventories and prepaid expenses balances.

Non-current liabilities increased by $35,906 (7.9%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures of $34,701 due to capital expenditures funded through parliamentary appropriations of $83,286 exceeding amortization of deferred government funding related to capital expenditures of $48,585;
- Increase in non-current holdbacks of $2,407 due to ongoing construction under the HBS recapitalization projects; and
- Decrease in employee benefits liability of $1,269 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 $2,077.

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 December 31**		**Nine Months Ended December 31**	
	2018	**2017**	**2018**	**2017**
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	$ 197,905	$ 180,956	$ 589,438	$ 539,946
Revenue	(3,185)	(4,474)	(9,696)	(11,983)
Financial performance before government funding	194,720	176,482	579,742	527,963
Non-cash expenses				
Depreciation and amortization	(16,428)	(14,819)	(48,190)	(43,240)
Employee benefits expense [1]	(2,067)	(1,596)	(6,298)	(5,115)
Non-cash loss on foreign exchange recognized in financial performance	(445)	(40)	(173)	(1)
Employee cost accruals [2]	(409)	(1,032)	(2,482)	(2,157)
(Loss) gain on disposal of property and equipment	(258)	22	(254)	(50)
Spare parts expense funded from capital [3]	(2)	(9)	(9)	(40)
Change in fair value of financial instruments at fair value through profit and loss	1,463	426	1,065	(813)
Deferred lease incentives recognized in financial performance [4]	26	62	74	223
Write-off of property and equipment and intangible assets	-	(157)	(250)	(1,089)
Non-cash vendor credits	-	-	-	792
Parliamentary appropriations for operating expenses	**$ 176,600**	**$ 159,339**	**$ 523,225**	**$ 476,473**
Other items affecting funding				
Net change in prepaid expenses and inventories [5]	(464)	(282)	(4,258)	(2,950)
Total operating appropriations used	**$ 176,136**	**$ 159,057**	**$ 518,967**	**$ 473,523**

[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 December 31, 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 December 31		Nine Months Ended December 31	
	2018	2017	2018	2017
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Explosives Detection System	$ 25,363	$ 18,912	$ 80,814	$ 48,610
Non-Explosives Detection System	1,813	979	3,105	1,786
Total capital asset acquisitions	**$ 27,176**	**$ 19,891**	**$ 83,919**	**$ 50,396**
Non-cash additions to leasehold improvements	(141)	-	(141)	-
Proceeds on disposal of property and equipment [1]	(30)	(22)	(109)	(50)
Non-cash adjustment on foreign exchange related to capital acquisitions	(61)	2	(383)	(79)
Non-cash additions resulting from vendor credits	-	-	-	(792)
Total capital appropriations used	**$ 26,944**	**$ 19,871**	**$ 83,286**	**$ 49,475**

[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

February 20, 2019

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

Ottawa, Canada

February 20, 2019

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

December 31, 2018

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2018	March 31, 2018
Assets		
Current assets		
Cash	$ 12,482	$ 9,929
Trade and other receivables (note 3)	137,881	136,506
Inventories (note 4)	13,680	16,401
Prepaid expenses	1,596	3,133
Derivative financial assets (note 12)	1,236	360
	166,875	166,329
Non-current assets		
Property and equipment (note 5)	447,094	416,438
Intangible assets (note 6)	13,116	8,665
Employee benefits asset (note 9)	10,229	5,030
Derivative financial assets (note 12)	213	24
	470,652	430,157
Total assets	$ 637,527	$ 596,486
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 134,711	$ 132,868
Holdbacks	12,065	9,349
Deferred government funding related to operating expenses (note 8)	15,276	19,534
	162,052	161,751
Non-current liabilities		
Holdbacks (note 12)	6,745	4,338
Deferred lease incentives	509	442
Deferred government funding related to capital expenditures (note 8)	458,727	424,026
Employee benefits liability (note 9)	27,133	28,402
	493,114	457,208
Equity		
Accumulated deficit	(17,639)	(22,473)
Total liabilities and equity	$ 637,527	$ 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 (Loss)
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
Expenses				
Pre-Board Screening	$ 111,459	$ 99,936	$ 333,020	$ 293,217
Hold Baggage Screening	40,434	36,991	118,310	110,696
Non-Passenger Screening	34,921	32,792	103,503	100,463
Restricted Area Identity Card Program	600	797	2,118	2,286
Corporate services	11,407	10,521	33,162	31,212
Total expenses (note 10)	198,821	181,037	590,113	537,874
Other expenses (income)				
Foreign exchange loss (gain)	288	209	(117)	118
Loss (gain) on disposal of property and equipment	258	(22)	254	50
Finance cost	1	1	3	2
Write-off of property and equipment and intangible assets	-	157	250	1,089
Net (gain) loss on fair value of derivative financial instruments	(1,463)	(426)	(1,065)	813
Total other expenses (income)	(916)	(81)	(675)	2,072
Financial performance before revenue and government funding	197,905	180,956	589,438	539,946
Revenue				
Supplemental screening services	2,927	4,160	9,022	10,459
Finance income	258	193	674	431
Rental income	-	75	-	255
Miscellaneous income	-	46	-	838
Total revenue	3,185	4,474	9,696	11,983
Government funding				
Parliamentary appropriations for operating expenses (note 8)	176,600	159,339	523,225	476,473
Amortization of deferred government funding related to capital expenditures (note 8)	16,648	14,944	48,585	44,363
Total government funding	193,248	174,283	571,810	520,836
Financial performance	$ (1,472)	$ (2,199)	$ (7,932)	$ (7,127)
Other comprehensive income (loss)				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	(9,600)	(14,871)	12,766	(6,517)
Total comprehensive income (loss)	$ (11,072)	$ (17,070)	$ 4,834	$ (13,644)

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, 2018	$	(6,567)
Financial performance		(1,472)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(9,600)
Balance, December 31, 2018	$	(17,639)
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)

For the nine months ended December 31:

		Accumulated deficit
Balance, March 31, 2018	$	(22,473)
Financial performance		(7,932)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		12,766
Balance, December 31, 2018	$	(17,639)
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)

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	
	2018	2017	2018	2017
Cash flows provided by (used in)				
Operating activities				
Financial performance	$ (1,472)	$ (2,199)	$ (7,932)	$ (7,127)
Items not involving cash				
Depreciation of property and equipment (note 5 and 10)	15,961	14,522	47,022	42,394
Increase in net employee benefits liability	2,067	1,596	6,298	5,115
Amortization of intangible assets (note 6 and 10)	467	297	1,168	846
Loss (gain) on disposal of property and equipment	258	(22)	254	50
Other non-cash transactions	2	9	9	(752)
Write-off of property and equipment and intangible assets	-	157	250	1,089
Amortization of deferred government funding related to capital expenditures (note 8)	(16,648)	(14,944)	(48,585)	(44,363)
Change in fair value of financial instruments at fair value through profit and loss	(1,463)	(426)	(1,065)	813
Deferred lease incentives recognized in financial performance	(26)	(62)	(74)	(223)
Net change in working capital balances (note 15)	(59,685)	4,775	31,865	25,182
	(60,539)	3,703	29,210	23,024
Investing activities				
Parliamentary appropriations received for capital funding	12,000	17,600	62,792	62,409
Purchase of property and equipment	(16,394)	(13,194)	(84,467)	(48,179)
Purchase of intangible assets	(942)	(89)	(5,013)	(457)
Proceeds on disposal of property and equipment	15	3	31	3
	(5,321)	4,320	(26,657)	13,776
(Decrease) increase in cash	(65,860)	8,023	2,553	36,800
Cash, beginning of period	78,342	65,044	9,929	36,267
Cash, end of period	$ 12,482	$ 73,067	$ 12,482	$ 73,067

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 February 20, 2019.

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.

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,* 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 finalizing its assessment of the impact on the financial statements, and will continue to monitor this standard for developments until the time of adoption.

(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 right-of-use assets and lease liabilities for all major leases. 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.

CATSA will adopt IFRS 16 using the modified retrospective approach, therefore prior year figures will not be restated. CATSA has elected to record its right-of-use assets based on the corresponding lease liabilities. The impact on the Statement of Financial Position is expected to be significant, with the addition of right-of-use assets and corresponding lease liabilities of approximately $27,300, based on CATSA's current incremental borrowing rates. Expanded note disclosure will also be required under the new standard.

(In thousands of Canadian dollars)

3. Trade and other receivables

Trade and other receivables are comprised of:

	December 31, 2018	March 31, 2018
Parliamentary appropriations	$ 125,253	$ 121,399
GST and HST recoverable	9,321	10,435
Supplemental screening services	2,266	2,267
PST recoverable	965	2,306
Other	76	99
	$ 137,881	$ 136,506

Credit terms on trade receivables are 30 days. As at December 31, 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:

	December 31, 2018	March 31, 2018
Spare parts	$ 12,858	$ 13,879
RAIC	588	743
Uniforms	234	1,779
	$ 13,680	$ 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	9,361	4,762	-	-	295	118	646	63,141	78,323
Disposals	(2,953)	(17,984)	(1,744)	-	-	-	-	-	(22,681)
Write-offs	(205)	(1,240)	-	(107)	(428)	(19)	(65)	-	(2,064)
Reclassifications	5,387	55,241	259	35	1,277	-	57	(62,279)	(23)
Balance, December 31, 2018	$ 156,460	$ 730,582	$ 18,369	$ 4,367	$ 28,058	$ 129	$ 10,640	$ 79,954	$ 1,028,559
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	10,306	32,679	1,184	400	2,005	7	441	-	47,022
Disposals	(2,953)	(17,621)	(1,744)	-	-	-	-	-	(22,318)
Write-offs	51	(1,237)	-	(107)	(428)	(19)	(65)	-	(1,805)
Balance, December 31, 2018	$ 95,168	$ 443,563	$ 10,456	$ 3,252	$ 19,685	$ 18	$ 9,323	$ -	$ 581,465
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 December 31, 2018	$ 61,292	$ 287,019	$ 7,913	$ 1,115	$ 8,373	$ 111	$ 1,317	$ 79,954	$ 447,094

(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	4,452	145	999	5,596
Write-offs	(16)	(460)	-	(476)
Reclassifications	23	2,549	(2,549)	23
Balance, December 31, 2018	$ 8,953	$ 21,889	$ 1,691	$ 32,533
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	430	738	-	1,168
Write-offs	(16)	(460)	-	(476)
Balance, December 31, 2018	$ 3,752	$ 15,665	$ -	$ 19,417
Carrying amounts				
As at March 31, 2018	$ 1,156	$ 4,268	$ 3,241	$ 8,665
As at December 31, 2018	$ 5,201	$ 6,224	$ 1,691	$ 13,116

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, 2018, or March 31, 2018.

(b) Contingencies

CATSA's contingent liabilities consist of claims and legal proceedings and decommissioning costs for which no provisions are 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 $20,070 (March 31, 2018 – $17,140), offset by estimated recoverable taxes of $9,720 (March 31, 2018 – $8,580) for a net amount of $10,350 (March 31, 2018 – $8,560). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

During the nine months ended December 31, 2018, there have been no material changes to contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 8(b)(ii) of the audited annual financial statements for the year ended March 31, 2018.

(In thousands of Canadian dollars)

8. Deferred government funding

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

	December 31, 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	518,967	646,307
Parliamentary appropriations recognized as government funding for operating expenses	(523,225)	(645,498)
Balance, end of period	$ 15,276	$ 19,534
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 424,026	$ 408,959
Capital expenditures funded through parliamentary appropriations	83,286	75,592
Amortization of deferred government funding related to capital expenditures	(48,585)	(60,525)
Balance, end of period	$ 458,727	$ 424,026
Total deferred government funding, end of period	$ 474,003	$ 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:

	December 31, 2018	March 31, 2018
Employee benefits asset		
Registered pension plan (RPP)	$ 8,410	$ 3,346
Supplementary retirement plan (SRP)	1,819	1,684
	10,229	5,030
Employee benefits liability		
Other defined benefits plan (ODBP)	(27,133)	(28,402)
	(27,133)	(28,402)
Employee benefits - net liability	$ (16,904)	$ (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 December 31							
	RPP		SRP		ODBP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Defined benefit cost (income) recognized in financial performance								
Current service cost	$ 2,244	$ 2,050	$ 18	$ 18	$ 462	$ 411	$ 2,724	$ 2,479
Administration costs	63	63	3	3	-	-	66	66
Interest cost on defined benefit obligation	1,775	1,646	44	38	264	241	2,083	1,925
Interest income on plan assets	(1,729)	(1,727)	(58)	(61)	-	-	(1,787)	(1,788)
Defined benefit cost (income)	$ 2,353	$ 2,032	$ 7	$ (2)	$ 726	$ 652	$ 3,086	$ 2,682
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ (9,203)	$ 8,422	$ (397)	$ 128	$ -	$ -	$ (9,600)	$ 8,550
Actuarial losses	-	(19,918)	-	(381)	-	(3,122)	-	(23,421)
Remeasurement of defined benefit plans	$ (9,203)	$(11,496)	$ (397)	$ (253)	$ -	$(3,122)	$ (9,600)	$ (14,871)

	For the nine months ended December 31							
	RPP		SRP		ODBP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Defined benefit cost (income) recognized in financial performance								
Current service cost	$ 6,731	$ 6,148	$ 53	$ 52	$ 1,386	$ 1,235	$ 8,170	$ 7,435
Administration costs	188	188	11	11	-	-	199	199
Interest cost on defined benefit obligation	5,325	4,935	132	114	792	725	6,249	5,774
Interest income on plan assets	(5,185)	(5,179)	(174)	(181)	-	-	(5,359)	(5,360)
Defined benefit cost (income)	$ 7,059	$ 6,092	$ 22	$ (4)	$ 2,178	$ 1,960	$ 9,259	$ 8,048
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ (11,896)	$ 5,483	$ (289)	$ 95	$ -	$ -	$ (12,185)	$ 5,578
Actuarial gains (losses)	21,192	(10,257)	413	(216)	3,346	(1,622)	24,951	(12,095)
Remeasurement of defined benefit plans	$ 9,296	$ (4,774)	$ 124	$ (121)	$ 3,346	$(1,622)	$ 12,766	$ (6,517)

For the three and nine months ended December 31, 2018, CATSA recognized an expense of $139 (2017 - $124) and $403 (2017 - $361), 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, 2018, remeasurement losses of $9,600 resulted from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions (-3.06% actual versus 0.88% expected for the RPP and -5.12% actual versus 0.88% expected for the SRP).

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).

For the nine months ended December 31, 2018, remeasurement gains of $12,766 resulted from an increase in the discount rate of 50 basis points (from 3.50% at March 31, 2018 to 4.00% at December 31, 2018). This was partially offset by a lower actual rate of return on plan assets than the rate used in CATSA's assumptions (-3.42% actual versus 2.63% expected for the RPP and -1.74% actual versus 2.63% expected for the SRP).

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).

(In thousands of Canadian dollars)

(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	
	2018	2017	2018	2017
Employer contributions				
RPP	$ 954	$ 1,032	$ 2,827	$ 2,810
SRP	30	21	33	27
ODBP	35	33	101	96
	$ 1,019	$ 1,086	$ 2,961	$ 2,933

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 nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
Screening services and other related costs				
Payments to screening contractors	$ 146,977	$ 134,029	$ 439,264	$ 400,358
Uniforms and other screening costs	1,475	1,541	4,123	4,211
Trace and consumables	817	496	1,827	1,287
	149,269	136,066	445,214	405,856
Equipment operating and maintenance				
Equipment maintenance and spare parts	10,681	9,082	30,344	26,890
Training and certification	523	57	1,100	110
RAIC	127	301	585	745
	11,331	9,440	32,029	27,745
Program support and corporate services				
Employee costs	15,293	14,944	46,912	44,639
Office and computer expenses	2,117	1,098	5,174	3,285
Professional services and other business related costs	1,656	1,446	4,220	4,185
Operating leases	1,289	1,615	4,396	4,806
Other administrative costs	1,186	1,147	3,412	3,336
Communications and public awareness	252	462	566	782
	21,793	20,712	64,680	61,033
Depreciation and amortization				
Depreciation of property and equipment	15,961	14,522	47,022	42,394
Amortization of intangible assets	467	297	1,168	846
	16,428	14,819	48,190	43,240
	$ 198,821	$ 181,037	$ 590,113	$ 537,874

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 nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
Parliamentary appropriations received and receivable	$ 226,085	$ 198,510	$ 628,878	$ 544,951
Amounts received and receivable related to prior periods	(50,631)	(39,966)	(107,407)	(67,925)
Amounts to be billed (used) in future periods	682	513	(2,504)	(3,503)
Parliamentary appropriations used to fund operating expenses (note 8)	$ 176,136	$ 159,057	$ 518,967	$ 473,523

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	
	2018	2017	2018	2017
Parliamentary appropriations received and receivable	$ 43,830	$ 15,172	$ 101,686	$ 70,695
Amounts received and receivable related to prior periods	(19,542)	(605)	(13,992)	(15,809)
Amounts to be billed (used) in future periods	2,656	5,304	(4,408)	(5,411)
Parliamentary appropriations used to fund capital expenditures (note 8)	$ 26,944	$ 19,871	$ 83,286	$ 49,475

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, 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:

	December 31, 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]	$ 1,449	$ 1,449	$ 384	$ 384
Financial instruments measured at amortized cost				
Non-current holdbacks[2]	$ 6,745	$ 6,745	$ 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 nine months ended December 31, 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:

	December 31, 2018	March 31, 2018
Operating	$ 1,785,006	$ 2,228,761
Capital	109,021	122,149
Total	$ 1,894,027	$ 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:

	December 31, 2018	March 31, 2018
No later than 1 year	$ 7,668	$ 6,945
Later than 1 year and no later than 5 years	19,729	22,260
Later than 5 years	873	-
Total	$ 28,270	$ 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 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	
	2018	2017	2018	2017
Income	$ 193,248	$ 174,283	$ 571,810	$ 520,836
Expenses	4,393	4,034	14,839	11,755

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, 2018, include $4,018 (2017 – $3,753), and $14,110 (2017 – $10,999), 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:

	December 31, 2018	March 31, 2018
Receivable from related parties	$ 134,641	$ 131,933
Payable to related parties	(1,527)	(1,134)
Net receivable from related parties	$ 133,114	$ 130,799

Amounts receivable from related parties consist primarily of $125,253 (March 31, 2018 – $121,399) due from the Government of Canada for parliamentary appropriations, and $9,321 (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 nine months ended December 31:

	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
(Increase) decrease in trade and other receivables	$ (39,234)	$ (2,129)	$ 19,119	$ 28,021
Decrease in inventories	170	446	2,721	1,859
Decrease (increase) in prepaid expenses	294	(164)	1,537	1,091
(Decrease) increase in trade and other payables	(20,451)	6,904	12,746	(2,839)
Decrease in deferred government funding related to operating expenses	(464)	(282)	(4,258)	(2,950)
	$ (59,685)	$ 4,775	$ 31,865	$ 25,182

For the three and nine months ended December 31, 2018, the change in trade and other receivables excludes amounts of $14,944 (2017 – $2,271) and $20,494 (2017 – $12,934), 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, 2018, the change in trade and other payables excludes amounts of $8,070 (2017 – $6,195) and $10,903 (2017 – $114), respectively, in relation to the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.