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, 2019

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2019

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, 2019. 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, 2019, 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 March 31, 2019 audited annual financial statements and the *Quarterly Financial Report for the three months ended June 30, 2019*. At the time of publishing, CATSA's *2019 Annual Report* has not been tabled in Parliament. Until that time, CATSA is not in a position to provide the Management Discussion and Analysis for the year ended March 31, 2019. The information in this report is expressed in thousands of Canadian dollars and is current to November 22, 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 for prohibited items, prior to being loaded onto an aircraft;

- 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.

CATSA entered into a Supplemental Screening Services agreement with the Greater Toronto Airports Authority (GTAA) effective October 5, 2014, and extended annually thereafter, to trial the provision of PBS supplemental screening services on a cost recovery basis. CATSA also entered into a similar agreement with the Vancouver International Airport Authority (YVRAA) effective June 26, 2017. The YVRAA trial agreement ended June 30, 2018. CATSA received approval from TC to extend the ongoing agreement with GTAA until March 31, 2020.

CATSA also entered into a cost recovery agreement with the Muskoka Airport Authority to provide screening services over a 10-week period. Approval was obtained from TC and the 10-week period ran from June to September 2019. Discussions with relevant parties regarding a renewal will be held over the coming months.

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since June 30, 2019.

PASSENGER GROWTH AND SCREENING CONTRACTOR BILLING RATES

Statistics from CATSA's Boarding Pass Security System indicated that screened traffic across Canada decreased by 0.4% for the three months ended September 30, 2019, compared to the same period in the prior year. Screening contractor billing rates continue to increase annually over the remaining term of the current Airport Screening Services Agreements (ASSAs) that expire on March 31, 2022. This puts pressure on CATSA's budget for screening hours.

RISKS AND UNCERTAINTIES

CATSA regularly monitors and re-assesses its corporate risks. There have been no significant changes to CATSA's Enterprise Risk Management profile, as previously disclosed in the *Quarterly Financial Report for the three months ended June 30, 2019*.

ANALYSIS OF FINANCIAL RESULTS

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income (Loss) for the three and six months ended September 30, 2019, and September 30, 2018.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended September 30				Six Months Ended September 30			
	2019	2018			2019	2018		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	$ Change	% Change	(unaudited)	(unaudited)	$ Change	% Change
Expenses [1]								
Screening services and other related costs	$ 156,811	$ 150,813	$ 5,998	4.0%	$ 308,126	$ 295,945	$ 12,181	4.1%
Equipment operating and maintenance	11,948	10,832	1,116	10.3%	22,436	20,698	1,738	8.4%
Program support and corporate services	20,210	21,428	(1,218)	(5.7%)	42,293	42,887	(594)	(1.4%)
Depreciation and amortization	17,739	16,442	1,297	7.9%	34,835	31,762	3,073	9.7%
Total expenses	**206,708**	**199,515**	**7,193**	**3.6%**	**407,690**	**391,292**	**16,398**	**4.2%**
Other expenses (income)	**452**	**312**	**140**	**44.9%**	**1,918**	**241**	**1,677**	**695.9%**
Financial performance before revenue and government funding	**207,160**	**199,827**	**7,333**	**3.7%**	**409,608**	**391,533**	**18,075**	**4.6%**
Revenue	**2,061**	**2,044**	**17**	**0.8%**	**6,228**	**6,511**	**(283)**	**(4.3%)**
Government funding								
Parliamentary appropriations for operating expenses	184,631	178,132	6,499	3.6%	360,495	346,625	13,870	4.0%
Amortization of deferred government funding related to capital expenditures	17,389	16,350	1,039	6.4%	34,597	31,937	2,660	8.3%
Parliamentary appropriations for lease payments	981	-	981	N/M	1,962	-	1,962	N/M
Total government funding	**203,001**	**194,482**	**8,519**	**4.4%**	**397,054**	**378,562**	**18,492**	**4.9%**
Financial performance	**$ (2,098)**	**$ (3,301)**	**$ 1,203**	**36.4%**	**$ (6,326)**	**$ (6,460)**	**$ 134**	**2.1%**
Other comprehensive income (loss)	**2,405**	**7,488**	**(5,083)**	**(67.9%)**	**(22,669)**	**22,366**	**(45,035)**	**(201.4%)**
Total comprehensive income (loss)	**$ 307**	**$ 4,187**	**$ (3,880)**	**(92.7%)**	**$ (28,995)**	**$ 15,906**	**$ (44,901)**	**(282.3%)**

[1] The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 12 of the unaudited condensed interim financial statements for the three and six months ended September 30, 2019.

N/M = not meaningful

Screening services and other related costs

Screening services and other related costs increased by $5,998 (4.0%) and by $12,181 (4.1%) for the three and six months ended September 30, 2019, respectively, compared to the same periods in 2018. The variances are primarily due to the purchase of additional screening hours totaling $2,648 and $6,290, respectively, and annual screening contractor billing rate increases totaling $3,160 and $6,536, for the three and six months ended September 30, 2019, respectively.

The increases in screening hours purchased are the result of additional screening requirements to support operational changes at certain airports and reflect the delivery of improved wait time service levels at Canada's busiest airports.

Equipment operating and maintenance

Equipment operating and maintenance costs increased by $1,116 (10.3%) and by $1,738 (8.4%) for the three and six months ended September 30, 2019, respectively, compared to the same periods in 2018. The increases are driven by additional maintenance and spare parts costs primarily to support existing Explosives Detection System (EDS) equipment coming off warranty, as well as maintenance costs associated with new EDS equipment. The increase is also attributable to additional training requirements for CATSA's maintenance service provider to support the deployment of new EDS equipment at certain airport locations.

Program support and corporate services

Program support and corporate services decreased by $1,218 (5.7%) and by $594 (1.4%) for the three and six months ended September 30, 2019, respectively, compared to the same periods in 2018. The decreases are mainly due to lower rent and facilities costs resulting from the adoption of a new International Financial Reporting Standard (IFRS), IFRS 16 *Leases*. The majority of CATSA's rent costs are now reflected through the depreciation of its right-of-use assets, as identified below. The decreases are also attributable to lower network and telephony costs. For the six month period, the decrease was partially offset by higher office and computer costs to support the life-cycle management of CATSA's IT network infrastructure, and other administrative costs.

Depreciation and amortization

Depreciation and amortization increased by $1,297 (7.9%) and by $3,073 (9.7%) for the three and six months ended September 30, 2019, respectively, compared to the same periods in 2018. The increases are primarily due to the adoption of IFRS 16, which requires the depreciation of right-of-use assets in accordance with their respective lease terms. The increases are also due to new HBS equipment deployments as part of the HBS life-cycle management program, as well as new CATSA Plus deployments. The increases are partially offset by older equipment becoming fully depreciated.

Other expenses (income)

Other expenses (income) increased by $140 (44.9%) and by $1,677 (695.9%) for the three and six months ended September 30, 2019, respectively, compared to the same periods in 2018. The increase for the six month period is mainly due to higher losses on the disposal and write-offs of property and equipment resulting from the life-cycle of CATSA's HBS recapitalization program.

Government Funding

CATSA is funded by appropriations from the federal Consolidated Revenue Fund for operating expenses and capital expenditures, which includes funding for lease payments.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by $6,499 (3.6%) and by $13,870 (4.0%) for the three and six months ended September 30, 2019, respectively, compared to the same periods in 2018. The increases are mainly attributable to increased spending for screening services and other related costs, and equipment operating and maintenance costs, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by $1,039 (6.4%) and by $2,660 (8.3%) for the three and six months ended September 30, 2019, respectively, compared to the same periods in 2018. The increases are mainly attributable to increased depreciation and amortization, excluding depreciation of right-of-use assets, and higher losses on disposal and write-offs of property and equipment, as previously discussed.

Parliamentary appropriations for lease payments

As a result of the adoption of IFRS 16, the majority of CATSA’s lease payments are now funded through capital appropriations, as opposed to parliamentary appropriations for operating expenses. CATSA’s lease payments are typically made in the same month that appropriations are received, therefore there is no deferred funding related to these appropriations.

Other comprehensive income (loss)

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

Other comprehensive income of $2,405 for the three months ended September 30, 2019, is due to a remeasurement gain resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions. Other comprehensive income of $7,488 for the three months ended September 30, 2018, is due to a remeasurement gain of $12,155 on the defined benefit liability arising from a 25 basis point increase in the discount rate between June 30, 2018, and September 30, 2018. This was partially offset by a remeasurement loss of $4,667 resulting from a lower actual rate of return on plan assets than the rate initially used in CATSA's assumptions.

Other comprehensive loss of $22,669 for the six months ended September 30, 2019, is due to a remeasurement loss of $29,796 on the defined benefit liability arising from a 50 basis point decrease in the discount rate since March 31, 2019. This was partially offset by a remeasurement gain of $7,127 resulting from a higher 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 $24,951 on the defined benefit liability arising from a 50 basis point increase in the discount rate between March 31, 2018, and September 30, 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.

For more information, refer to note 11 of the unaudited condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at September 30, 2019, compared to March 31, 2019.

Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars)	September 30, 2019 (unaudited)	March 31, 2019 (audited)	$ Change	% Change
Current assets	$ 174,384	$ 168,550	$ 5,834	3.5%
Non-current assets	509,402	477,009	32,393	6.8%
Total assets	**$ 683,786**	**$ 645,559**	**$ 38,227**	**5.9%**
Current liabilities	$ 170,820	$ 160,710	$ 10,110	6.3%
Non-current liabilities	565,600	508,488	57,112	11.2%
Total liabilities	**$ 736,420**	**$ 669,198**	**$ 67,222**	**10.0%**

Assets

Current assets increased by $5,834 (3.5%) primarily due to the following:

- Increase in cash of $76,601 is primarily due to the timing of funds received from the Government of Canada;
- Decrease in trade and other receivables of $68,872, mainly due to a decrease in parliamentary appropriations receivable; and
- Decrease in inventories of $1,511 due to the usage of spare parts and uniform inventories.

Non-current assets increased by $32,393 (6.8%) primarily due to the following:

- Increase in right-of-use assets of $23,657 due to the adoption of IFRS 16;
- Increase in property and equipment and intangible assets of $13,251 primarily due to acquisitions totaling $47,967, partially offset by depreciation and amortization of $33,003; and
- Decrease in employee benefits asset of $4,473. The employee benefits asset as at March 31, 2019, was comprised of CATSA's registered pension plan and supplementary retirement plan, which were both in a net asset position. As at September 30, 2019, the registered pension plan is in a net liability position (see explanation in non-current liabilities sections for further detail).

Liabilities

Current liabilities increased by $10,110 (6.3%) primarily due to the following:

- Increase in the current portion of deferred government funding related to capital expenditures of $22,003 primarily due to the timing of funds received from the Government of Canada;
- Increase in current lease liabilities of $3,432 due to the adoption of IFRS 16;
- Decrease in trade and other payables of $13,290 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of $2,529 due to a reduction in inventories and prepaid expenses balances.

Non-current liabilities increased by $57,112 (11.2%) primarily due to the following:

- Increase in employee benefits liability of $22,360 in relation to CATSA's registered pension plan and other defined benefits plan. The increase in the employee benefits liability is due to the registered pension plan net liability of $16,833 (total variance of $20,764; from a $3,931 asset as at March 31, 2019, to a $16,833 liability as at September 30, 2019) and an increase in the other defined benefits plan liability of $5,527. The increases are mainly due to remeasurement losses of $29,245 arising from a 50 basis point decrease in the discount rate used to measure the defined benefit liabilities of these two plans. The increases are also due to defined benefit costs exceeding contributions by $4,148. These increases were partially offset by a remeasurement gain of $7,102 arising from a higher rate of return on plan assets than the rate used in CATSA's assumptions;
- Increase in non-current lease liabilities of $20,830 due to the adoption of IFRS 16; and
- Increase in the non-current portion of the deferred government funding related to capital expenditures of $13,337 due to capital expenditures funded through parliamentary appropriations of $47,934 exceeding amortization of deferred government funding related to capital expenditures of $34,597.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's corporate plan for the current fiscal year 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 the corporate plan summary.

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	
	2019	2018	2019	2018
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	$ 207,160	$ 199,827	$ 409,608	$ 391,533
Revenue	(2,061)	(2,044)	(6,228)	(6,511)
Financial performance before government funding	205,099	197,783	403,380	385,022
Non-cash expenses				
Depreciation and amortization	(17,739)	(16,442)	(34,835)	(31,762)
Employee benefits expense [1]	(2,020)	(2,094)	(4,164)	(4,231)
Write-off of property and equipment	(612)	-	(691)	(250)
Employee cost accruals [2]	(234)	(716)	(1,828)	(2,073)
Finance costs	(125)	-	(253)	-
Non-cash (loss) gain on foreign exchange recognized in financial performance	(86)	36	160	272
(Loss) gain on disposal of property and equipment	(4)	56	(988)	4
Change in fair value of financial instruments at fair value through profit and loss	352	(512)	(285)	(398)
Spare parts expense funded from capital [3]	-	(3)	(1)	(7)
Deferred lease incentives recognized in financial performance [4]	-	24	-	48
Parliamentary appropriations for operating expenses	**$ 184,631**	**$ 178,132**	**$ 360,495**	**$ 346,625**
Other items affecting funding				
Net change in prepaids and inventories [5]	(2,032)	(1,780)	(2,529)	(3,794)
Total operating appropriations used	**$ 182,599**	**$ 176,352**	**$ 357,966**	**$ 342,831**

[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, 2019. 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. There are no deferred lease incentives for the current periods as these amounts are included as an offset to the right-of-use assets under IFRS 16 *Leases*.

[5] Prepaids funded through operating appropriations 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 expenditures reported under IFRS and capital appropriations used:

Reconciliation of Capital Expenditures to Capital Appropriations Used	**Three Months Ended September 30**		**Six Months Ended September 30**	
	2019	**2018**	**2019**	**2018**
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Explosives Detection System	$ 23,782	$ 17,204	$ 43,600	$ 55,451
Non-Explosives Detection System	3,270	845	4,367	1,292
Lease Payments	981	-	1,962	-
Total capital expenditures	**$ 28,033**	**$ 18,049**	**$ 49,929**	**$ 56,743**
Proceeds on disposal of property and equipment [1]	(33)	(58)	(33)	(79)
Non-cash adjustment on foreign exchange related to capital expenditures	46	(4)	-	(322)
Total capital appropriations used	**$ 28,046**	**$ 17,987**	**$ 49,896**	**$ 56,342**

[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 Secretariat's *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 22, 2019

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

Ottawa, Canada

November 22, 2019

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

September 30, 2019

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	September 30, 2019	March 31, 2019
Assets		
Current assets		
Cash	$ 80,608	$ 4,007
Trade and other receivables (note 4)	76,618	145,490
Inventories (note 5)	13,794	15,305
Prepaids	3,112	3,253
Derivative financial assets (note 14)	252	495
	174,384	168,550
Non-current assets		
Property and equipment (note 6)	467,959	455,524
Intangible assets (note 7)	16,531	15,715
Right-of-use assets (note 8)	23,657	-
Employee benefits asset (note 11)	1,255	5,728
Derivative financial assets (note 14)	-	42
	509,402	477,009
Total assets	$ 683,786	$ 645,559
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 116,429	$ 129,719
Holdbacks	12,927	12,433
Lease liabilities (note 9)	3,432	-
Deferred government funding related to capital expenditures (note 10)	22,003	-
Deferred government funding related to operating expenses (note 10)	16,029	18,558
	170,820	160,710
Non-current liabilities		
Holdbacks (note 14)	8,834	7,767
Lease liabilities (note 9)	20,830	-
Deferred lease incentives (note 8)	-	482
Deferred government funding related to capital expenditures (note 10)	483,069	469,732
Employee benefits liability (note 11)	52,867	30,507
	565,600	508,488
Equity		
Accumulated deficit	(52,634)	(23,639)
Total liabilities and equity	$ 683,786	$ 645,559

Contingencies (note 15) and contractual arrangements (note 16)
The accompanying notes are an integral part of these condensed interim financial statements.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income (Loss)
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Expenses				
Pre-Board Screening	$ 116,939	$ 112,707	$ 229,059	$ 221,561
Hold Baggage Screening	42,378	40,161	83,273	77,876
Non-Passenger Screening	35,746	34,705	71,099	68,582
Restricted Area Identity Card Program	757	748	1,529	1,518
Corporate services	10,888	11,194	22,730	21,755
Total expenses (note 12)	206,708	199,515	407,690	391,292
Other expenses (income)				
Loss (gain) on disposal of property and equipment	4	(56)	988	(4)
Write-off of property and equipment and intangible assets	612	-	691	250
Net (gain) loss on fair value of derivative financial instruments	(352)	512	285	398
Finance costs	127	1	256	2
Foreign exchange loss (gain)	61	(145)	(302)	(405)
Total other expenses (income)	452	312	1,918	241
Financial performance before revenue and government funding	207,160	199,827	409,608	391,533
Revenue				
Screening services - supplemental	1,613	1,816	5,536	6,095
Finance income	388	228	607	416
Screening services - other	60	-	85	-
Total revenue	2,061	2,044	6,228	6,511
Government funding				
Parliamentary appropriations for operating expenses (note 10)	184,631	178,132	360,495	346,625
Amortization of deferred government funding related to capital expenditures (note 10)	17,389	16,350	34,597	31,937
Parliamentary appropriations for lease payments (note 10 and 13)	981	-	1,962	-
Total government funding	203,001	194,482	397,054	378,562
Financial performance	$ (2,098)	$ (3,301)	$ (6,326)	$ (6,460)
Other comprehensive income (loss)				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 11)	2,405	7,488	(22,669)	22,366
Total comprehensive income (loss)	$ 307	$ 4,187	(28,995)	15,906

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, 2019	$	(52,941)
Financial performance		(2,098)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 11)		2,405
Balance, September 30, 2019	$	(52,634)
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 11)		7,488
Balance, September 30, 2018	$	(6,567)

For the six months ended September 30:

		Accumulated deficit
Balance, March 31, 2019	$	(23,639)
Financial performance		(6,326)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 11)		(22,669)
Balance, September 30, 2019	$	(52,634)
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 11)		22,366
Balance, September 30, 2018	$	(6,567)

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	
	2019	2018	2019	2018
Cash flows provided by (used in)				
Operating activities				
Financial performance	$ (2,098)	$ (3,301)	$ (6,326)	$ (6,460)
Items not involving cash				
Depreciation and amortization (note 12)	17,739	16,442	34,835	31,762
Increase in net employee benefits liability	2,020	2,094	4,164	4,231
Loss (gain) on disposal of property and equipment	4	(56)	988	(4)
Change in fair value of financial instruments at fair value through profit and loss	(352)	512	285	398
Write-off of property and equipment and intangible assets	612	-	691	250
Amortization of deferred government funding related to capital expenditures (note 10)	(17,389)	(16,350)	(34,597)	(31,937)
Other non-cash transactions	2	3	1	7
Deferred lease incentives recognized in financial performance	-	(24)	-	(48)
Net change in working capital balances (note 18)	(10,684)	26,275	29,510	91,550
	(10,146)	25,595	29,551	89,749
Investing activities				
Parliamentary appropriations received for capital funding	43,618	23,592	107,490	50,792
Purchase of property and equipment	(28,961)	(29,354)	(54,427)	(68,073)
Purchase of intangible assets	(748)	(133)	(4,305)	(4,071)
Proceeds on disposal of property and equipment	1	16	1	16
	13,910	(5,879)	48,759	(21,336)
Financing activities				
Drawdown of lease liabilities	(856)	-	(1,709)	-
	(856)	-	(1,709)	-
Increase in cash	2,908	19,716	76,601	68,413
Cash, beginning of period	77,700	58,626	4,007	9,929
Cash, end of period	$ 80,608	$ 78,342	$ 80,608	$ 78,342

Interest expense paid and interest income received approximate finance costs and finance income, respectively, in the Condensed Interim Statement of Comprehensive Income (Loss).

Supplementary cash flow information (note 18)

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. CATSA entered into a Supplemental Screening Services agreement with the GTAA effective October 5, 2014, and extended annually thereafter, to trial the provision of PBS supplemental screening services on a cost recovery basis. CATSA received approval from TC to extend the ongoing agreement with GTAA until March 31, 2020.

CATSA also entered into a cost recovery agreement with the Muskoka Airport Authority to provide screening services over a 10-week period. Approval was obtained from TC and the 10-week period ran from June to September 2019.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on November 22, 2019.

2. 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, 2019.

3. Summary of significant accounting policies

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, 2019, with the exception of IFRS 16 *Leases*, which became effective for CATSA April 1, 2019.

IFRS 16 specifies how to recognize, measure, present and disclose leases. This standard introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and lease liability at the lease commencement date for all leases, except for certain leases subject to exemption. 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*.

CATSA has applied IFRS 16 using the modified retrospective approach and accordingly the prior period information has not been restated. CATSA also elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease liabilities of $25,956 were recorded as of April 1, 2019, with no impact to equity. When measuring lease liabilities, CATSA discounted lease payments using its incremental borrowing rate as at April 1, 2019. The weighted-average incremental borrowing rate applied was 2.0%.

Based on the nature and use of CATSA's right-of-use assets, CATSA has two classes of underlying assets: office space and data centres.

CATSA has elected to apply the practical expedient available on transition to not reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease, in accordance with IAS 17 and IFRIC 4 *Determining whether an arrangement contains a lease*, will continue to be applied to leases entered into or modified prior to April 1, 2019. CATSA applies the definition of a lease under IFRS 16 to all lease contracts entered into or modified on or after April 1, 2019.

CATSA has elected to apply the practical expedient available on transition to not recognize a right-of-use asset or lease liability for certain leases where the lease term ends within 12 months of transition. This assessment was made on a lease-by-lease basis. For leases where the practical expedient was applied, CATSA accounts for these leases in the same manner as short-term leases and the payments are recognized as an expense in the period in which they occurred.

See accounting policy note below for additional practical expedient choices.

(In thousands of Canadian dollars)

The following table reconciles CATSA's operating lease commitments as at March 31, 2019, as previously disclosed in CATSA's financial statements, to the lease liabilities recognized on initial application of IFRS 16 as at April 1, 2019:

Operating lease commitments as at March 31, 2019	$ 25,243
Discounted using incremental borrowing rate as at April 1, 2019	(2,246)
Variable lease payments that do not depend on an index or rate	(9,757)
Fixed operating costs related to data centre non-lease components[1]	(800)
Recognition exemption for short-term leases	(63)
Extension options reasonably certain to be exercised	13,579
Lease liabilities recognized as at April 1, 2019	$ 25,956

[1] Previously, under IFRIC 4 *Determining whether an Arrangement contains a Lease*, CATSA included fixed operating costs associated with one of its data centre leases in the measurement of its operating lease commitments. Under IFRS 16 these items are considered non-lease components and are excluded from the measurement of the lease liabilities.

As a result of the adoption of IFRS 16, the following updates have been made to CATSA's significant accounting policies:

Use of estimates and judgments:

The critical estimates and assumptions utilized in preparing these financial statements include:

- Right-of-use assets and lease liabilities

  Key estimates used for right-of-use assets and lease liabilities include the determination of an appropriate incremental borrowing rate to discount the lease payments, when the interest rate implicit in the lease is not readily determinable. As CATSA does not have borrowing authority and, in practice, does not have readily observable approved or granted borrowing rates from a financial institution, CATSA's approach to determining its incremental borrowing rate is based on the Bank of Canada zero-coupon bond rate, CATSA's entity-specific credit spread, and the lease-specific spread. CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings. The rate used to discount CATSA's lease payments is also based on the identified lease term.

The critical judgments made by management in preparing these financial statements include:

- Right-of-use assets and lease liabilities

  Judgments are required in determining whether it is reasonably certain that an extension or termination option will be exercised for contracts that are or contain a lease. In making this assessment, management considers a number of factors, including the nature of CATSA's work, proximity of other locations, lease extensions exercised in the past, market conditions, recent leasehold improvements and contract specific termination clauses.

  Judgments are required in determining whether variable lease payments are in-substance fixed. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. Such payments are included in the measurement of the lease liability. In determining whether variable lease payments are in-substance fixed, CATSA reviews lease contracts to assess the nature of the payments, specifically identifying if payments are subject to adjustments based on actual costs incurred, or payments are based on services that are variable in nature.

Accounting policy - Leases:

At the inception of a contract, CATSA assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If a lease is identified, CATSA recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost based on the following:

- Amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred; and
- An estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently measured at cost less accumulated depreciation. The carrying amount of the right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability, if any.

The right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the underlying asset. The lease term includes periods covered by an option to extend if CATSA is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, CATSA's incremental borrowing rate, as identified in the above use of estimates and judgments.

The lease payments included in the measurement of the lease liability are comprised of the following, where applicable:

- Fixed payments (including in-substance fixed payments, if any), less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under residual value guarantees;
- Exercise price of a purchase option if it is reasonably certain that CATSA will exercise that; and
- Payments of penalties for terminating the lease, if the lease term reflects CATSA exercising an option to terminate the lease.

CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings.

Variable lease payments that do not depend on an index or rate, and are not in-substance fixed, are not included in the measurement of the lease liability and, subsequently, the right-of-use asset. These payments are recognized as an expense in the period in which they occur.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured whenever:

- There is a change in the lease term, including a change in the assessment of whether an extension option will be exercised, in which case the lease liability is remeasured by discounting the revised lease payments on the basis of the revised lease term using a revised discount rate;
- The payments change due to changes in an index or rate, or a change in expected payments under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; and
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Based on the nature and use of CATSA's right-of-use assets, CATSA has two classes of underlying assets: office space and data centres. CATSA accounts for lease components and any non-lease components as a single lease component for its office space asset class. For its data centre asset class, CATSA separates non-lease components from lease components and accounts for them separately.

CATSA does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or are leases of low value. The lease payments associated with these leases are recognized as an expense on straight-line basis over the lease term.

(In thousands of Canadian dollars)

4. Trade and other receivables

Trade and other receivables are comprised of:

	September 30, 2019	March 31, 2019
Parliamentary appropriations	$ 63,865	$ 131,926
GST and HST recoverable	8,263	9,142
PST recoverable	2,360	2,447
Screening services - supplemental	2,122	1,975
Screening services - other	8	-
	$ 76,618	$ 145,490

Credit terms on trade receivables are 30 days. As at September 30, 2019, and March 31, 2019, there were no amounts included in trade and other receivables that were past due.

5. Inventories

Inventories are comprised of:

	September 30, 2019	March 31, 2019
Spare parts	$ 12,830	$ 13,843
RAIC	744	313
Uniforms	220	1,149
	$ 13,794	$ 15,305

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

6. 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, 2018	$ 144,870	$ 689,803	$ 19,854	$ 4,439	$ 26,914	$ 30	$ 10,002	$ 79,092	$ 975,004
Additions	13,261	8,515	(16)	88	673	118	639	79,531	102,809
Disposals	(3,216)	(32,871)	(1,744)	-	(392)	-	(19)	-	(38,242)
Write-offs	(963)	(1,192)	-	(88)	(446)	(19)	(66)	(95)	(2,869)
Reclassifications	5,424	55,250	297	36	1,485	-	57	(62,572)	(23)
Balance, March 31, 2019	$ 159,376	$ 719,505	$ 18,391	$ 4,475	$ 28,234	$ 129	$ 10,613	$ 95,956	$ 1,036,679
Balance, March 31, 2019	$ 159,376	$ 719,505	$ 18,391	$ 4,475	$ 28,234	$ 129	$ 10,613	$ 95,956	$ 1,036,679
Additions	3,284	13,355	-	-	239	-	-	28,655	45,533
Disposals	(1,141)	(73,296)	(76)	-	(121)	-	-	-	(74,634)
Write-offs	(375)	(3)	-	(181)	(647)	-	-	-	(1,206)
Reclassifications	(4,522)	58,998	2,653	27	1,291	-	-	(58,447)	-
Balance, September 30, 2019	$ 156,622	$ 718,559	$ 20,968	$ 4,321	$ 28,996	$ 129	$ 10,613	$ 66,164	$ 1,006,372
Accumulated depreciation									
Balance, March 31, 2018	$ 87,764	$ 429,742	$ 11,016	$ 2,959	$ 18,108	$ 30	$ 8,947	$ -	$ 558,566
Depreciation	13,398	43,663	1,572	536	2,663	13	526	-	62,371
Disposals	(3,211)	(32,092)	(1,745)	-	(392)	-	(19)	-	(37,459)
Write-offs	(594)	(1,177)	55	(88)	(434)	(19)	(66)	-	(2,323)
Balance, March 31, 2019	$ 97,357	$ 440,136	$ 10,898	$ 3,407	$ 19,945	$ 24	$ 9,388	$ -	$ 581,155
Balance, March 31, 2019	$ 97,357	$ 440,136	$ 10,898	$ 3,407	$ 19,945	$ 24	$ 9,388	$ -	$ 581,155
Depreciation	6,816	22,344	862	277	1,424	12	195	-	31,930
Disposals	(1,088)	(72,328)	(76)	-	(121)	-	-	-	(73,613)
Write-offs	(295)	(3)	-	(181)	(580)	-	-	-	(1,059)
Reclassifications	(4,210)	2,542	1,668	-	-	-	-	-	-
Balance, September 30, 2019	$ 98,580	$ 392,691	$ 13,352	$ 3,503	$ 20,668	$ 36	$ 9,583	$ -	$ 538,413
Carrying amounts									
As at March 31, 2019	$ 62,019	$ 279,369	$ 7,493	$ 1,068	$ 8,289	$ 105	$ 1,225	$ 95,956	$ 455,524
As at September 30, 2019	$ 58,042	$ 325,868	$ 7,616	$ 818	$ 8,328	$ 93	$ 1,030	$ 66,164	$ 467,959

(In thousands of Canadian dollars)

7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2018	$ 4,494	$ 19,655	$ 3,241	$ 27,390
Additions	4,633	288	3,886	8,807
Write-offs	(30)	(2,285)	-	(2,315)
Reclassifications	23	2,550	(2,550)	23
Balance, March 31, 2019	$ 9,120	$ 20,208	$ 4,577	$ 33,905
Balance, March 31, 2019	$ 9,120	$ 20,208	$ 4,577	$ 33,905
Additions	31	152	2,251	2,434
Write-offs	(164)	(2,565)	-	(2,729)
Reclassifications	438	537	(975)	-
Balance, September 30, 2019	$ 9,425	$ 18,332	$ 5,853	$ 33,610
Accumulated amortization				
Balance, March 31, 2018	$ 3,338	$ 15,387	$ -	$ 18,725
Amortization	697	1,083	-	1,780
Write-offs	(30)	(2,285)	-	(2,315)
Balance, March 31, 2019	$ 4,005	$ 14,185	$ -	$ 18,190
Balance, March 31, 2019	$ 4,005	$ 14,185	$ -	$ 18,190
Amortization	393	680	-	1,073
Write-offs	(164)	(2,020)	-	(2,184)
Balance, September 30, 2019	$ 4,234	$ 12,845	$ -	$ 17,079
Carrying amounts				
As at March 31, 2019	$ 5,115	$ 6,023	$ 4,577	$ 15,715
As at September 30, 2019	$ 5,191	$ 5,487	$ 5,853	$ 16,531

(In thousands of Canadian dollars)

8. Right-of-use assets

A reconciliation of right-of-use assets is as follows:

	Office space	Data centres	Total
Balance, April 1, 2019	$ 24,223	$ 1,733	$ 25,956
Deferred lease incentives adjustment	(482)	-	(482)
Additions	15	-	15
Depreciation	(1,727)	(105)	(1,832)
Balance, September 30, 2019	$ 22,029	$ 1,628	$ 23,657

(In thousands of Canadian dollars)

9. Lease liabilities

CATSA has leases that are for office space and data centres. CATSA has included extension options in the measurement of its lease liabilities when it is reasonably certain to exercise the extension option.

A reconciliation of lease liabilities is as follows:

Balance, April 1, 2019	$	25,956
Additions		15
Lease payments		(1,962)
Finance costs		253
Balance, September 30, 2019	$	24,262
Balance, September 30, 2019		
Current	$	3,432
Non-current		20,830

For the three and six months ended September 30, 2019, CATSA recognized an expense of $634 and $1,234, respectively, relating to variable lease payments not included in the measurement of lease liabilities. These amounts include variable lease payments for operating costs, property taxes, insurance, and other service-related costs. For the three and six months ended September 30, 2019, CATSA recognized an expense relating to short-term leases of $16 and $33, respectively, and an expense relating to low value assets of $30 and $52, respectively. For the three and six months ended September 30, 2019, CATSA recognized a total cash outflow for leases of $1,661 and $3,281, respectively.

The following table presents the undiscounted cash flows for contractual lease obligations as at September 30, 2019:

No later than 1 year	$	6,992
Later than 1 year and no later than 5 years		14,301
Later than 5 years		423
Total	$	21,716

(In thousands of Canadian dollars)

10. Deferred government funding

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

	September 30, 2019	March 31, 2019
Deferred government funding related to operating expenses		
Balance, beginning of period	$ 18,558	$ 19,534
Parliamentary appropriations used to fund operating expenses (note 13)	357,966	703,073
Parliamentary appropriations for operating expenses recognized in financial performance	(360,495)	(704,049)
Balance, end of period	$ 16,029	$ 18,558
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 469,732	$ 424,026
Parliamentary appropriations used to fund capital expenditures (note 13)	49,896	110,853
Parliamentary appropriations for lease payments (note 13)	(1,962)	-
Amounts to be used in future periods (note 13)	22,003	-
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(34,597)	(65,147)
Balance, end of period	$ 505,072	$ 469,732
Total deferred government funding, end of period	$ 521,101	$ 488,290

For additional information on government funding, see note 13.

(In thousands of Canadian dollars)

11. 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, 2019	March 31, 2019
Employee benefits asset		
Registered pension plan (RPP)	$ -	$ 3,931
Supplementary retirement plan (SRP)	1,255	1,797
	1,255	5,728
Employee benefits liability		
Registered pension plan (RPP)	(16,833)	-
Other defined benefits plan (ODBP)	(36,034)	(30,507)
	(52,867)	(30,507)
Employee benefits - net liability	$ (51,612)	$ (24,779)

(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	
	2019	2018	2019	2018	2019	2018	2019	2018
Defined benefit cost recognized in financial performance								
Current service cost	$ 2,136	$ 2,243	$ 24	$ 18	$ 468	$ 462	$ 2,628	$ 2,723
Administration costs	75	63	4	4	-	-	79	67
Interest cost on defined benefit obligation	1,854	1,775	45	44	282	264	2,181	2,083
Interest income on plan assets	(1,816)	(1,728)	(60)	(58)	-	-	(1,876)	(1,786)
Defined benefit cost	$ 2,249	$ 2,353	$ 13	$ 8	$ 750	$ 726	$ 3,012	$ 3,087
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 2,393	$ (4,675)	$ 12	$ 8	$ -	$ -	$ 2,405	$ (4,667)
Actuarial gains	-	10,327	-	206	-	1,622	-	12,155
Remeasurement of defined benefit plans	$ 2,393	$ 5,652	$ 12	$ 214	$ -	$ 1,622	$ 2,405	$ 7,488

	For the six months ended September 30							
	RPP		SRP		ODBP		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Defined benefit cost recognized in financial performance								
Current service cost	$ 4,273	$ 4,487	$ 48	$ 35	$ 935	$ 924	$ 5,256	$ 5,446
Administration costs	150	125	8	8	-	-	158	133
Interest cost on defined benefit obligation	3,708	3,550	90	88	564	528	4,362	4,166
Interest income on plan assets	(3,632)	(3,456)	(120)	(116)	-	-	(3,752)	(3,572)
Defined benefit cost	$ 4,499	$ 4,706	$ 26	$ 15	$ 1,499	$ 1,452	$ 6,024	$ 6,173
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 7,102	$ (2,693)	$ 25	$ 108	$ -	$ -	$ 7,127	$ (2,585)
Actuarial (losses) gains	(25,138)	21,192	(551)	413	(4,107)	3,346	(29,796)	24,951
Remeasurement of defined benefit plans	$ (18,036)	$ 18,499	$ (526)	$ 521	$(4,107)	$ 3,346	$ (22,669)	$ 22,366

For the three and six months ended September 30, 2019, CATSA recognized an expense of $164 (2018 - $122) and $341 (2018 - $264), respectively, in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

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

For the three months ended September 30, 2019, remeasurement gains of $2,405 resulted primarily from a higher actual rates of return on plan assets than the rates used in CATSA's assumptions for the RPP (1.96% actual versus 0.88% expected).

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 six months ended September 30, 2019, remeasurement losses of $22,669 resulted from a decrease in the discount rate of 50 basis points (from 3.50% at March 31, 2019 to 3.00% at September 30, 2019). This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (5.30% actual versus 1.75% expected).

For the six months ended September 30, 2018, remeasurement gains of $22,366 resulted primarily 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).

(In thousands of Canadian dollars)

(d) Employer contributions

Employer contributions paid to the defined benefit plans are as follows:

	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Employer contributions				
RPP	$ 941	$ 956	$ 1,771	$ 1,873
SRP	10	3	10	3
ODBP	41	34	79	66
	$ 992	$ 993	$ 1,860	$ 1,942

Total employer contributions to the defined benefit plans are estimated to be $4,110 for the year ending March 31, 2020.

(In thousands of Canadian dollars)

12. Expenses

The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity. The following table presents operating expenses by major expense type as follows:

	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Screening services and other related costs				
Payments to screening contractors	$ 154,829	$ 148,999	$ 304,111	$ 292,287
Uniforms and other screening costs	1,343	1,249	2,777	2,648
Trace and consumables	639	565	1,238	1,010
	156,811	150,813	308,126	295,945
Equipment operating and maintenance				
Equipment maintenance and spare parts	10,796	10,309	20,828	19,663
Training and certification	899	336	1,145	577
RAIC	253	187	463	458
	11,948	10,832	22,436	20,698
Program support and corporate services				
Employee costs	15,279	15,335	32,074	31,619
Office and computer expenses	1,537	1,957	3,755	3,057
Professional services and other business related costs	1,615	1,209	3,265	2,564
Other administrative costs	902	1,181	1,519	2,226
Other lease costs (note 9)	680	-	1,319	-
Communications and public awareness	197	205	361	314
Operating leases	-	1,541	-	3,107
	20,210	21,428	42,293	42,887
Depreciation and amortization				
Depreciation of property and equipment (note 6)	16,267	16,053	31,930	31,061
Depreciation of right-of-use assets (note 8)	922	-	1,832	-
Amortization of intangible assets (note 7)	550	389	1,073	701
	17,739	16,442	34,835	31,762
	$ 206,708	$ 199,515	$ 407,690	$ 391,292

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)

13. Government funding

CATSA's corporate plan for the current fiscal year 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:

	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Parliamentary appropriations received and receivable	$ 246,987	$ 246,147	$ 457,685	$ 453,424
Amounts received and receivable related to prior periods	(61,667)	(68,086)	(94,373)	(107,407)
Amounts to be used in future periods	(2,721)	(1,709)	(5,346)	(3,186)
Parliamentary appropriations used to fund operating expenses (note 10)	$ 182,599	$ 176,352	$ 357,966	$ 342,831

The following table reconciles parliamentary appropriations related to capital expenditures that were received and receivable with the amount of appropriations used:

	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Parliamentary appropriations received and receivable	$ 43,618	$ 52,062	$ 107,490	$ 77,398
Parliamentary appropriations received and receivable - lease payments	981	-	1,962	-
Amounts received and receivable related to prior periods	-	(25,147)	(37,553)	(13,992)
Amounts to be used in future periods	(16,553)	(8,928)	(22,003)	(7,064)
Parliamentary appropriations used to fund capital expenditures (note 10)	$ 28,046	$ 17,987	$ 49,896	$ 56,342

Parliamentary appropriations to be used in future periods are a result of higher forecasted expenditures than actual operating and capital expenditures, as well as the timing of appropriations received. These amounts are expected to be used within the next fiscal quarter.

(In thousands of Canadian dollars)

14. 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 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, 2019		March 31, 2019	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets[1]	$ 252	$ 252	$ 537	$ 537
Financial instruments measured at amortized cost				
Non-current holdbacks[2]	$ 8,834	$ 8,834	$ 7,767	$ 7,767

[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, 2019, or the year ended March 31, 2019.

15. 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, 2019, or March 31, 2019.

(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 $23,699 (March 31, 2019 – $20,950), offset by estimated recoverable taxes of $10,986 (March 31, 2019 – $9,980) for a net amount of $12,713 (March 31, 2019 – $10,970). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

During the three and six months ended September 30, 2019, 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, 2019.

(In thousands of Canadian dollars)

16. Contractual 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, 2019	March 31, 2019
Operating	$ 1,338,566	$ 1,626,045
Capital	75,458	111,938
Total	$ 1,414,024	$ 1,737,983

(In thousands of Canadian dollars)

17. 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	
	2019	2018	2019	2018
Operating				
Income	$ 203,001	$ 194,482	$ 397,054	$ 378,562
Expenses	5,285	5,571	9,168	10,442
Capital				
HBS Equipment	1,788	-	2,227	-

Income from related parties represent parliamentary appropriations for operating expenses, parliamentary appropriations for lease payments, and amortization of deferred government funding related to capital expenditures. Expenses presented above for the three and six months ended September 30, 2019, include $5,143 (2018 – $5,524), and $9,187 (2018 – $10,093), 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, 2019	March 31, 2019
Receivable from related parties	$ 72,128	$ 141,068
Payable to related parties	(513)	(1,394)
Net receivable from related parties	$ 71,615	$ 139,674

(In thousands of Canadian dollars)

Amounts receivable from related parties consist primarily of $63,865 (March 31, 2019 – $131,926) due from the Government of Canada for parliamentary appropriations, and $8,263 (March 31, 2019 – $9,142) due from the Canada Revenue Agency for recoverable taxes paid on expenses. Amounts payable to related parties consist primarily of indirect taxes payable to the Canada Revenue Agency.

(b) Transactions with CATSA's post-employment benefit plans

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as disclosed in note 11. No other transactions were made during the three and six month periods.

18. Net change in working capital balances and supplementary cash flow information

The following table presents the net change in working capital balances:

	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Decrease in trade and other receivables	$ 808	$ 18,016	$ 31,319	$ 58,353
Decrease in inventories	1,058	742	1,511	2,551
Decrease in prepaids	974	1,038	1,018	1,243
(Decrease) increase in trade and other payables	(11,492)	8,259	(1,809)	33,197
Decrease in deferred government funding related to operating expenses	(2,032)	(1,780)	(2,529)	(3,794)
	$ (10,684)	$ 26,275	$ 29,510	$ 91,550

For the three and six months ended September 30, 2019, the change in trade and other receivables excludes amounts of $Nil (2018 – $5,605) and $37,553 (2018 – $5,550), 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, 2019, the change in prepaids excludes amounts of $201 (2018 – $Nil) and $877 (2018 – $Nil), respectively, in relation to the acquisition of property and equipment, as these amounts relate to investing activities.

For the three and six months ended September 30, 2019, the change in trade and other payables excludes amounts of $1,603 (2018 – $13,674) and $11,481 (2018 – $18,973), respectively, in relation to the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.

19. Budget 2019 and the Security Screening Services Commercialization Act

As part of Budget 2019, the Government of Canada announced its intention to introduce legislation to enable the creation of an independent, not-for-profit entity, established by industry, which will assume the responsibility for aviation screening at Canada's airports. The *Security Screening Services Commercialization Act* (SSSCA) was tabled as part of Bill C-97 and received Royal Assent in June 2019. The SSSCA allows for the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

These developments have not changed CATSA's mandate. CATSA will continue to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.