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, 2019



Canada

CATSA ACSTA

**CANADIAN AIR TRANSPORT SECURITY AUTHORITY**
**MANAGEMENT'S NARRATIVE DISCUSSION**
**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 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 nine months ended December 31, 2019. 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, 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 *2019 Annual Report*, the *Quarterly Financial Report for the three months ended June 30, 2019*, and the *Quarterly Financial Report for the three and six months ended September 30, 2019.* The information in this report is expressed in thousands of Canadian dollars and is current to February 26, 2020, 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 received approval from TC to extend this agreement until March 31, 2020. CATSA had 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.

## OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since September 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 0.1% for the three months ended December 31, 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. The following update related to CATSA's legal labour disruptions risk has been identified. There have been no other significant changes to CATSA's Enterprise Risk Management profile disclosed in the *Quarterly Financial Report for the three months ended June 30, 2019.*

### LEGAL OR ILLEGAL LABOUR DISRUPTIONS

CATSA outsources its services to screening contractors, who rely on a unionized screening officer workforce to perform screening operations. Given the nature of the third-party service delivery model, CATSA has no direct role in labour relations and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions. CATSA continually monitors labour issues between its screening contractors and the unions representing the screening officers. As at March 31, 2019, the majority of the collective bargaining agreements between screening contractors and unions had expired. As at December 31, 2019, new collective bargaining agreements are in place for all Class 1 airports and the majority of Class 2 airports. As a result, CATSA's risk related to legal labour disruptions is now trending lower.

## 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 nine months ended December 31, 2019, and December 31, 2018.

| Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss) | Three Months Ended December 31 | | | | Nine Months Ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | | | 2019 | 2018 | | |
| (Thousands of Canadian dollars) | (unaudited) | (unaudited) | $ Change | % Change | (unaudited) | (unaudited) | $ Change | % Change |
| **Expenses** [1] | | | | | | | | |
| Screening services and other related costs | $ 158,128 | $ 149,269 | $ 8,859 | 5.9% | $ 466,254 | $ 445,214 | $ 21,040 | 4.7% |
| Equipment operating and maintenance | 10,908 | 11,331 | (423) | (3.7%) | 33,344 | 32,029 | 1,315 | 4.1% |
| Program support and corporate services | 21,469 | 21,793 | (324) | (1.5%) | 63,762 | 64,680 | (918) | (1.4%) |
| Depreciation and amortization | 18,165 | 16,428 | 1,737 | 10.6% | 53,000 | 48,190 | 4,810 | 10.0% |
| **Total expenses** | **208,670** | **198,821** | **9,849** | **5.0%** | **616,360** | **590,113** | **26,247** | **4.4%** |
| **Other expenses (income)** | **1,302** | **(916)** | **2,218** | **N/M** | **3,220** | **(675)** | **3,895** | **N/M** |
| **Financial performance before revenue and government funding** | **209,972** | **197,905** | **12,067** | **6.1%** | **619,580** | **589,438** | **30,142** | **5.1%** |
| **Revenue** | **452** | **3,185** | **(2,733)** | **(85.8%)** | **6,680** | **9,696** | **(3,016)** | **(31.1%)** |
| **Government funding** | | | | | | | | |
| Parliamentary appropriations for operating expenses | 187,072 | 176,600 | 10,472 | 5.9% | 547,567 | 523,225 | 24,342 | 4.7% |
| Amortization of deferred government funding related to capital expenditures | 18,247 | 16,648 | 1,599 | 9.6% | 52,844 | 48,585 | 4,259 | 8.8% |
| Parliamentary appropriations for lease payments | 984 | - | 984 | N/M | 2,946 | - | 2,946 | N/M |
| **Total government funding** | **206,303** | **193,248** | **13,055** | **6.8%** | **603,357** | **571,810** | **31,547** | **5.5%** |
| **Financial performance** | **$ (3,217)** | **$ (1,472)** | **$ (1,745)** | **(118.5%)** | **$ (9,543)** | **$ (7,932)** | **$ (1,611)** | **(20.3%)** |
| **Other comprehensive income (loss)** | **19,572** | **(9,600)** | **29,172** | **N/M** | **(3,097)** | **12,766** | **(15,863)** | **(124.3%)** |
| **Total comprehensive income (loss)** | **$ 16,355** | **$ (11,072)** | **$ 27,427** | **N/M** | **$ (12,640)** | **$ 4,834** | **$ (17,474)** | **(361.5%)** |

[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 nine months ended December 31, 2019.

N/M = not meaningful

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

Screening services and other related costs increased by $8,859 (5.9%) and by $21,040 (4.7%) for the three and nine months ended December 31, 2019, respectively, compared to the same periods in 2018. The variances are primarily due to annual screening contractor billing rate increases totaling $3,768 and $11,243, respectively, and the purchase of additional screening hours totaling $3,749 and $9,098, respectively, for the three and nine months ended December 31, 2019.

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. These increases are partially offset by reduced requirements for supplemental screening hours as described below.

### *Program support and corporate services*

Program support and corporate services decreased by $324 (1.5%) and by $918 (1.4%) for the three and nine months ended December 31, 2019, respectively, compared to the same periods in 2018. The decrease for the nine month period is 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 decrease is also attributable to lower network and telephony costs. These decreases are partially offset by higher employee costs and other administrative costs.

### *Depreciation and amortization*

Depreciation and amortization increased by $1,737 (10.6%) and by $4,810 (10.0%) for the three and nine months ended December 31, 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 recapitalization program, as well as new CATSA Plus deployments. These increases are partially offset by older equipment becoming fully depreciated and changes in estimated useful lives resulting from the HBS recapitalization program.

### *Other expenses (income)*

Other expenses (income) increased by $2,218 and by $3,895 for the three and nine months ended December 31, 2019, respectively, compared to the same periods in 2018. The increases are mainly due to net losses on the fair value of derivative financial instruments in the current period. For the nine-month period, the increase is also due to higher losses on the disposal of property and equipment resulting from the life-cycle of CATSA's HBS recapitalization program.

### *Revenue*

Revenue decreased by $2,733 (85.8%) and by $3,016 (31.1%) for the three and nine months ended December 31, 2019, respectively, compared to the same periods in 2018. The decreases are primarily due to CATSA providing fewer supplemental screening hours ($2,790 and $3,349, respectively), resulting from lower service requirements from GTAA and the expiry of the trial agreement with YVRAA in June 2018.

### *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 $10,472 (5.9%) and by $24,342 (4.7%) for the three and nine months ended December 31, 2019, respectively, compared to the same periods in 2018. The increases are mainly attributable to increased spending for screening services and other related costs, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by $1,599 (9.6%) and by $4,259 (8.8%) for the three and nine months ended December 31, 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 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 $19,572 for the three months ended December 31, 2019, is primarily due to a remeasurement gain of $15,533 on the defined benefit liability arising from a 25 basis point increase in the discount rate since September 30, 2019. Other comprehensive income also includes a remeasurement gain of $4,039 resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions. Other comprehensive loss of $9,600 for the three months ended December 31, 2018, was 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 $3,097 for the nine months ended December 31, 2019, is due to a remeasurement loss of $14,263 on the defined benefit liability arising from a 25 basis point decrease in the discount rate since March 31, 2019. This is partially offset by a remeasurement gain of $11,166 resulting from a higher 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, was 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 December 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.

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 December 31, 2019, compared to March 31, 2019.

| Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars) | December 31, 2019 (unaudited) | March 31, 2019 (audited) | $ Change | % Change |
|---|---|---|---|---|
| Current assets | $ 185,293 | $ 168,550 | $ 16,743 | 9.9% |
| Non-current assets | 520,927 | 477,009 | 43,918 | 9.2% |
| **Total assets** | **$ 706,220** | **$ 645,559** | **$ 60,661** | **9.4%** |
| Current liabilities | $ 187,263 | $ 160,710 | $ 26,553 | 16.5% |
| Non-current liabilities | 555,236 | 508,488 | 46,748 | 9.2% |
| **Total liabilities** | **$ 742,499** | **$ 669,198** | **$ 73,301** | **11.0%** |

### *Assets*

Current assets increased by $16,743 (9.9%) primarily due to the following:

- Increase in cash of $31,166 is primarily due to the timing of disbursements to suppliers for goods and services;
- Decrease in trade and other receivables of $11,184, mainly due to decreases in parliamentary appropriations receivable and recoverable sales taxes; and
- Decrease in inventories of $2,009 due to the usage of spare parts and uniform inventories.

Non-current assets increased by $43,918 (9.2%) primarily due to the following:

- Increase in property and equipment and intangible assets of $25,174 primarily due to acquisitions totaling $78,218, partially offset by depreciation and amortization of $50,245;
- Increase in right-of-use assets of $22,783 due to the adoption of IFRS 16; and
- Decrease in employee benefits asset of $3,997. 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 December 31, 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 $26,553 (16.5%) primarily due to the following:

- Increase in the current portion of deferred government funding related to capital expenditures of $15,475 primarily due to the timing of funds received from the Government of Canada;
- Increase in trade and other payables of $5,868 due to the timing of disbursements associated with obligations outstanding with suppliers;
- Increase in the current portion of holdbacks of $4,424 due to HBS recapitalization projects that were non-current and are now current, as well as ongoing construction under the HBS recapitalization program;
- Increase in the current portion of lease liabilities of $3,439 due to the adoption of IFRS 16; and

- Decrease in deferred government funding related to operating expenditures of $2,744 due to a reduction in inventories and prepaid expense balances.

Non-current liabilities increased by $46,748 (9.2%) primarily due to the following:

- Increase in the non-current portion of the deferred government funding related to capital expenditures of $25,225 due to capital expenditures funded through parliamentary appropriations of $78,069 exceeding amortization of deferred government funding related to capital expenditures of $52,844;
- Increase in the non-current portion of lease liabilities of $20,010 due to the adoption of IFRS 16;
- Increase in employee benefits liability of $5,111 in relation to CATSA's registered pension plan and other defined benefits plan. The increase in the employee benefits liability is due primarily to an increase in the other defined benefits plan liability of $4,207. In addition, the registered pension plan has moved from an asset position of $3,931 as at March 31, 2019, to a liability position of $904 as at December 31, 2019. The increases are mainly due to remeasurement losses of $14,015 arising from a 25 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 $6,021. These increases are partially offset by a remeasurement gain of $10,994 arising from a higher rate of return on plan assets than the rate used in CATSA's assumptions; and
- Decrease in the non-current portion of holdbacks of $3,116 due to HBS recapitalization projects that were non-current and are now current, partially offset by ongoing construction under the HBS recapitalization program.

## 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 December 31 | | Nine Months Ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| (Thousands of Canadian dollars) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| **Financial performance before revenue and government funding** | $ 209,972 | $ 197,905 | $ 619,580 | $ 589,438 |
| **Revenue** | (452) | (3,185) | (6,680) | (9,696) |
| **Financial performance before government funding** | 209,520 | 194,720 | 612,900 | 579,742 |
| **Non-cash expenses** | | | | |
| Depreciation and amortization | (18,165) | (16,428) | (53,000) | (48,190) |
| Employee benefits expense [1] | (1,847) | (2,067) | (6,011) | (6,298) |
| Employee cost accruals [2] | (954) | (409) | (2,782) | (2,482) |
| Impairment of property and equipment | (597) | - | (597) | - |
| Loss on disposal of property and equipment | (383) | (258) | (1,371) | (254) |
| Change in fair value of financial instruments at fair value through profit and loss | (343) | 1,463 | (628) | 1,065 |
| Non-cash finance costs related to leases | (122) | - | (375) | - |
| Spare parts expense funded from capital [3] | (47) | (2) | (48) | (9) |
| Write-off of property and equipment | (24) | - | (715) | (250) |
| Deferred lease incentives recognized in financial performance [4] | - | 26 | - | 74 |
| Non-cash gain (loss) on foreign exchange recognized in financial performance | 34 | (445) | 194 | (173) |
| **Parliamentary appropriations for operating expenses** | **$ 187,072** | **$ 176,600** | **$ 547,567** | **$ 523,225** |
| **Other items affecting funding** | | | | |
| Net change in prepaids and inventories [5] | (215) | (464) | (2,744) | (4,258) |
| **Total operating appropriations used** | **$ 186,857** | **$ 176,136** | **$ 544,823** | **$ 518,967** |

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

[2] Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to December 31, 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 December 31 | | Nine Months Ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| (Thousands of Canadian dollars) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Explosives Detection System | $ 28,434 | $ 25,363 | $ 72,034 | $ 80,814 |
| Non-Explosives Detection System | 1,817 | 1,813 | 6,184 | 3,105 |
| Lease Payments | 984 | - | 2,946 | - |
| **Total capital expenditures** | **$ 31,235** | **$ 27,176** | **$ 81,164** | **$ 83,919** |
| Proceeds on disposal of property and equipment[1] | (35) | (30) | (68) | (109) |
| Non-cash additions to leasehold improvements | - | (141) | - | (141) |
| Non-cash adjustment on foreign exchange related to capital expenditures | (81) | (61) | (81) | (383) |
| **Total capital appropriations used** | **$ 31,119** | **$ 26,944** | **$ 81,015** | **$ 83,286** |

[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

February 26, 2020

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

Ottawa, Canada

February 26, 2020

Condensed Interim Financial Statements of

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

December 31, 2019

(Unaudited)

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 35,173 | $ 4,007 |
| Trade and other receivables (note 4) | 134,306 | 145,490 |
| Inventories (note 5) | 13,296 | 15,305 |
| Prepaids | 2,518 | 3,253 |
| Derivative financial assets (note 14) | - | 495 |
| | 185,293 | 168,550 |
| Non-current assets | | |
| Property and equipment (note 6) | 479,129 | 455,524 |
| Intangible assets (note 7) | 17,284 | 15,715 |
| Right-of-use assets (note 8) | 22,783 | - |
| Employee benefits asset (note 11) | 1,731 | 5,728 |
| Derivative financial assets (note 14) | - | 42 |
| | 520,927 | 477,009 |
| Total assets | $ 706,220 | $ 645,559 |
| **Liabilities and Equity** | | |
| Current liabilities | | |
| Trade and other payables | $ 135,587 | $ 129,719 |
| Holdbacks | 16,857 | 12,433 |
| Lease liabilities (note 9) | 3,439 | - |
| Deferred government funding related to capital expenditures (note 10) | 15,475 | - |
| Deferred government funding related to operating expenses (note 10) | 15,814 | 18,558 |
| Derivative financial liabilities (note 14) | 91 | - |
| | 187,263 | 160,710 |
| Non-current liabilities | | |
| Holdbacks (note 14) | 4,651 | 7,767 |
| Lease liabilities (note 9) | 20,010 | - |
| Deferred lease incentives (note 8) | - | 482 |
| Deferred government funding related to capital expenditures (note 10) | 494,957 | 469,732 |
| Employee benefits liability (note 11) | 35,618 | 30,507 |
| | 555,236 | 508,488 |
| Equity | | |
| Accumulated deficit | (36,279) | (23,639) |
| Total liabilities and equity | $ 706,220 | $ 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 December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Expenses | | | | |
| Pre-Board Screening | $ 116,593 | $ 111,459 | $ 345,652 | $ 333,020 |
| Hold Baggage Screening | 43,628 | 40,434 | 126,901 | 118,310 |
| Non-Passenger Screening | 36,191 | 34,921 | 107,290 | 103,503 |
| Restricted Area Identity Card Program | 740 | 600 | 2,269 | 2,118 |
| Corporate services | 11,518 | 11,407 | 34,248 | 33,162 |
| Total expenses (note 12) | 208,670 | 198,821 | 616,360 | 590,113 |
| Other expenses (income) | | | | |
| Impairment of property and equipment (note 6) | 597 | - | 597 | - |
| Loss on disposal of property and equipment | 383 | 258 | 1,371 | 254 |
| Net loss (gain) on fair value of derivative financial instruments | 343 | (1,463) | 628 | (1,065) |
| Finance costs | 157 | 1 | 413 | 3 |
| Write-off of property and equipment and intangible assets | 24 | - | 715 | 250 |
| Foreign exchange (gain) loss | (202) | 288 | (504) | (117) |
| Total other expenses (income) | 1,302 | (916) | 3,220 | (675) |
| Financial performance before revenue and government funding | 209,972 | 197,905 | 619,580 | 589,438 |
| Revenue | | | | |
| Finance income | 308 | 258 | 915 | 674 |
| Screening services - supplemental | 137 | 2,927 | 5,673 | 9,022 |
| Miscellaneous income | 4 | - | 4 | - |
| Screening services - other | 3 | - | 88 | - |
| Total revenue | 452 | 3,185 | 6,680 | 9,696 |
| Government funding | | | | |
| Parliamentary appropriations for operating expenses (note 10) | 187,072 | 176,600 | 547,567 | 523,225 |
| Amortization of deferred government funding related to capital expenditures (note 10) | 18,247 | 16,648 | 52,844 | 48,585 |
| Parliamentary appropriations for lease payments (note 10 and 13) | 984 | - | 2,946 | - |
| Total government funding | 206,303 | 193,248 | 603,357 | 571,810 |
| Financial performance | $ (3,217) | $ (1,472) | $ (9,543) | $ (7,932) |
| Other comprehensive income (loss) | | | | |
| Item that will not be reclassified to financial performance | | | | |
| Remeasurement of defined benefit plans (note 11) | 19,572 | (9,600) | (3,097) | 12,766 |
| Total comprehensive income (loss) | $ 16,355 | $ (11,072) | (12,640) | 4,834 |

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, 2019 | $ | (52,634) |
| Financial performance | | (3,217) |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 11) | | 19,572 |
| Balance, December 31, 2019 | $ | (36,279) |
| 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 11) | | (9,600) |
| Balance, December 31, 2018 | $ | (17,639) |

**For the nine months ended December 31:**

| | | Accumulated deficit |
|---|---|---|
| Balance, March 31, 2019 | $ | (23,639) |
| Financial performance | | (9,543) |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 11) | | (3,097) |
| Balance, December 31, 2019 | $ | (36,279) |
| 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 11) | | 12,766 |
| Balance, December 31, 2018 | $ | (17,639) |

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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flows provided by (used in) | | | | |
| Operating activities | | | | |
| Financial performance | $ (3,217) | $ (1,472) | $ (9,543) | $ (7,932) |
| Items not involving cash | | | | |
| Depreciation and amortization (note 12) | 18,165 | 16,428 | 53,000 | 48,190 |
| Increase in net employee benefits liability | 1,847 | 2,067 | 6,011 | 6,298 |
| Impairment of property and equipment (note 6) | 597 | - | 597 | - |
| Loss on disposal of property and equipment | 383 | 258 | 1,371 | 254 |
| Change in fair value of financial instruments at fair value through profit and loss | 343 | (1,463) | 628 | (1,065) |
| Other non-cash transactions | 47 | 2 | 48 | 9 |
| Write-off of property and equipment and intangible assets | 24 | - | 715 | 250 |
| Amortization of deferred government funding related to capital expenditures (note 10) | (18,247) | (16,648) | (52,844) | (48,585) |
| Deferred lease incentives recognized in financial performance | - | (26) | - | (74) |
| Net change in working capital balances (note 18) | (54,604) | (59,685) | (25,094) | 31,865 |
| | (54,662) | (60,539) | (25,111) | 29,210 |
| Investing activities | | | | |
| Parliamentary appropriations received for capital funding (note 13) | 23,607 | 12,000 | 131,097 | 62,792 |
| Purchase of property and equipment | (11,544) | (16,394) | (65,971) | (84,467) |
| Purchase of intangible assets | (1,974) | (942) | (6,279) | (5,013) |
| Proceeds on disposal of property and equipment | - | 15 | 1 | 31 |
| | 10,089 | (5,321) | 58,848 | (26,657) |
| Financing activities | | | | |
| Drawdown of lease liabilities | (862) | - | (2,571) | - |
| | (862) | - | (2,571) | - |
| (Decrease) increase in cash | (45,435) | (65,860) | 31,166 | 2,553 |
| Cash, beginning of period | 80,608 | 78,342 | 4,007 | 9,929 |
| Cash, end of period | $ 35,173 | $ 12,482 | $ 35,173 | $ 12,482 |

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 February 26, 2020.

## 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.

<u>Accounting policy - Leases:</u>

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:

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| Parliamentary appropriations | $ 129,313 | $ 131,926 |
| GST and HST recoverable | 3,711 | 9,142 |
| PST recoverable | 1,136 | 2,447 |
| Screening services - supplemental | 139 | 1,975 |
| Other | 7 | - |
| | $ 134,306 | $ 145,490 |

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

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| Spare parts | $ 12,630 | $ 13,843 |
| RAIC | 529 | 313 |
| Uniforms | 137 | 1,149 |
| | $ 13,296 | $ 15,305 |

(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 | 3,174 | 44,992 | - | - | 1,256 | - | 72 | 25,048 | 74,542 |
| Disposals | (1,519) | (95,203) | (76) | - | (484) | - | - | - | (97,282) |
| Write-offs | (408) | (2,454) | - | (182) | (1,053) | - | - | - | (4,097) |
| Impairments | - | - | - | - | (214) | - | - | (383) | (597) |
| Reclassifications | (3,563) | 70,190 | 2,654 | 27 | 1,702 | - | - | (71,010) | - |
| Balance, December 31, 2019 | $ 157,060 | $ 737,030 | $ 20,969 | $ 4,320 | $ 29,441 | $ 129 | $ 10,685 | $ 49,611 | $ 1,009,245 |
| **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 | 10,007 | 34,541 | 1,280 | 417 | 2,143 | 18 | 277 | - | 48,683 |
| Disposals | (1,467) | (93,816) | (76) | - | (484) | - | - | - | (95,843) |
| Write-offs | (323) | (2,390) | - | (182) | (984) | - | - | - | (3,879) |
| Reclassifications | (4,210) | 2,541 | 1,669 | - | - | - | - | - | - |
| Balance, December 31, 2019 | $ 101,364 | $ 381,012 | $ 13,771 | $ 3,642 | $ 20,620 | $ 42 | $ 9,665 | $ - | $ 530,116 |
| **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 December 31, 2019 | $ 55,696 | $ 356,018 | $ 7,198 | $ 678 | $ 8,821 | $ 87 | $ 1,020 | $ 49,611 | $ 479,129 |

During the three months ended December 31, 2019, CATSA recognized impairment losses of $597 relating to screening equipment that was no longer able to contribute to the fulfilment of CATSA's mandate. The assets were considered fully impaired and the remaining net book value was recorded as an impairment loss. The recoverable amount was deemed to be $Nil, which represents the equipment's value in use to CATSA, as all future cash flows associated with the equipment were estimated to be $Nil.

(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 | 3,493 | 3,676 |
| Write-offs | (164) | (3,494) | - | (3,658) |
| Reclassifications | 438 | 537 | (975) | - |
| Balance, December 31, 2019 | $ 9,425 | $ 17,403 | $ 7,095 | $ 33,923 |
| **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 | 606 | 956 | - | 1,562 |
| Write-offs | (164) | (2,949) | - | (3,113) |
| Balance, December 31, 2019 | $ 4,447 | $ 12,192 | $ - | $ 16,639 |
| **Carrying amounts** | | | | |
| As at March 31, 2019 | $ 5,115 | $ 6,023 | $ 4,577 | $ 15,715 |
| As at December 31, 2019 | $ 4,978 | $ 5,211 | $ 7,095 | $ 17,284 |

(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 | 64 | - | 64 |
| Depreciation | (2,597) | (158) | (2,755) |
| Balance, December 31, 2019 | $ 21,208 | $ 1,575 | $ 22,783 |

(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 | | 64 |
| Lease payments | | (2,946) |
| Finance costs | | 375 |
| Balance, December 31, 2019 | $ | 23,449 |
| Balance, December 31, 2019 | | |
| Current | $ | 3,439 |
| Non-current | | 20,010 |

For the three and nine months ended December 31, 2019, CATSA recognized an expense of $634 and $1,867, 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 nine months ended December 31, 2019, CATSA recognized an expense relating to short-term leases of $16 and $50, respectively, and an expense relating to low value assets of $6 and $58, respectively. For the three and nine months ended December 31, 2019, CATSA recognized a total cash outflow for leases of $1,640 and $4,921, respectively.

The following table presents the undiscounted cash flows for contractual lease obligations as at December 31, 2019:

| | | |
|---|---|---|
| No later than 1 year | $ | 7,006 |
| Later than 1 year and no later than 5 years | | 12,806 |
| Later than 5 years | | 380 |
| Total | $ | 20,192 |

(In thousands of Canadian dollars)

## 10. Deferred government funding

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

| | December 31, 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) | 544,823 | 703,073 |
| Parliamentary appropriations for operating expenses recognized in financial performance | (547,567) | (704,049) |
| Balance, end of period | $ 15,814 | $ 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) | 81,015 | 110,853 |
| Parliamentary appropriations for lease payments (note 13) | (2,946) | - |
| Current deferred government funding related to capital expenditures (note 13) | 15,475 | - |
| Amortization of deferred government funding related to capital expenditures recognized in financial performance | (52,844) | (65,147) |
| Balance, end of period | $ 510,432 | $ 469,732 |
| Balance, end of period | | |
| Current | $ 15,475 | $ - |
| Non-current | 494,957 | 469,732 |
| Total deferred government funding, end of period | $ 526,246 | $ 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:

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| Employee benefits asset | | |
| Registered pension plan (RPP) | $ - | $ 3,931 |
| Supplementary retirement plan (SRP) | 1,731 | 1,797 |
| | 1,731 | 5,728 |
| Employee benefits liability | | |
| Registered pension plan (RPP) | (904) | - |
| Other defined benefits plan (ODBP) | (34,714) | (30,507) |
| | (35,618) | (30,507) |
| Employee benefits - net liability | $ (33,887) | $ (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 December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | RPP | | SRP | | ODBP | | Total | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Defined benefit cost recognized in financial performance** | | | | | | | | |
| Current service cost | $ 2,136 | $ 2,244 | $ 24 | $ 18 | $ 468 | $ 462 | $ 2,628 | $ 2,724 |
| Administration costs | 75 | 63 | 4 | 3 | - | - | 79 | 66 |
| 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) | (1,729) | (60) | (58) | - | - | (1,876) | (1,787) |
| Defined benefit cost | $ 2,249 | $ 2,353 | $ 13 | $ 7 | $ 750 | $ 726 | $ 3,012 | $ 3,086 |
| **Remeasurement of defined benefit plans recognized in other comprehensive income (loss)** | | | | | | | | |
| Return on plan assets excluding interest income | $ 3,892 | $ (9,203) | $ 147 | $ (397) | $ - | $ - | $ 4,039 | $ (9,600) |
| Actuarial gains | 13,201 | - | 303 | - | 2,029 | - | 15,533 | - |
| Remeasurement of defined benefit plans | $ 17,093 | $ (9,203) | $ 450 | $ (397) | $ 2,029 | $ - | $ 19,572 | $ (9,600) |

| | For the nine months ended December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | RPP | | SRP | | ODBP | | Total | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Defined benefit cost recognized in financial performance** | | | | | | | | |
| Current service cost | $ 6,409 | $ 6,731 | $ 72 | $ 53 | $ 1,403 | $ 1,386 | $ 7,884 | $ 8,170 |
| Administration costs | 225 | 188 | 12 | 11 | - | - | 237 | 199 |
| Interest cost on defined benefit obligation | 5,562 | 5,325 | 135 | 132 | 846 | 792 | 6,543 | 6,249 |
| Interest income on plan assets | (5,448) | (5,185) | (180) | (174) | - | - | (5,628) | (5,359) |
| Defined benefit cost | $ 6,748 | $ 7,059 | $ 39 | $ 22 | $ 2,249 | $ 2,178 | $ 9,036 | $ 9,259 |
| **Remeasurement of defined benefit plans recognized in other comprehensive income (loss)** | | | | | | | | |
| Return on plan assets excluding interest income | $ 10,994 | $(11,896) | $ 172 | $ (289) | $ - | $ - | $ 11,166 | $(12,185) |
| Actuarial (losses) gains | (11,937) | 21,192 | (248) | 413 | (2,078) | 3,346 | (14,263) | 24,951 |
| Remeasurement of defined benefit plans | $ (943) | $ 9,296 | $ (76) | $ 124 | $(2,078) | $ 3,346 | $ (3,097) | $ 12,766 |

For the three and nine months ended December 31, 2019, CATSA recognized an expense of $176 (2018 - $139) and $516 (2018 - $403), 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, 2019, remeasurement gains of $19,572 resulted from an increase in the discount rate of 25 basis points (from 3.00% at September 30, 2019 to 3.25% at December 31, 2019) and a higher actual rate of return on plan assets than the rates used in CATSA's assumptions for the RPP (2.89% actual versus 0.88% expected).

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 nine months ended December 31, 2019, remeasurement losses of $3,097 resulted from a decrease in the discount rate of 25 basis points (from 3.50% at March 31, 2019 to 3.25% at December 31, 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 (8.04% actual versus 2.63% expected).

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).

(In thousands of Canadian dollars)

(d) Employer contributions

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

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Employer contributions | | | | |
| RPP | $ 1,085 | $ 954 | $ 2,856 | $ 2,827 |
| SRP | 39 | 30 | 49 | 33 |
| ODBP | 41 | 35 | 120 | 101 |
| | $ 1,165 | $ 1,019 | $ 3,025 | $ 2,961 |

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 December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Screening services and other related costs | | | | |
| Payments to screening contractors | $ 156,093 | $ 146,977 | $ 460,204 | $ 439,264 |
| Uniforms and other screening costs | 1,405 | 1,475 | 4,182 | 4,123 |
| Trace and consumables | 630 | 817 | 1,868 | 1,827 |
| | 158,128 | 149,269 | 466,254 | 445,214 |
| Equipment operating and maintenance | | | | |
| Equipment maintenance and spare parts | 10,441 | 10,681 | 31,269 | 30,344 |
| Training and certification | 248 | 523 | 1,393 | 1,100 |
| RAIC | 219 | 127 | 682 | 585 |
| | 10,908 | 11,331 | 33,344 | 32,029 |
| Program support and corporate services | | | | |
| Employee costs | 16,262 | 15,293 | 48,336 | 46,912 |
| Professional services and other business related costs | 1,956 | 1,656 | 5,221 | 4,220 |
| Office and computer expenses | 1,571 | 2,117 | 5,326 | 5,174 |
| Other administrative costs | 830 | 1,186 | 2,349 | 3,412 |
| Other lease costs (note 9) | 656 | - | 1,975 | - |
| Communications and public awareness | 194 | 252 | 555 | 566 |
| Operating leases | - | 1,289 | - | 4,396 |
| | 21,469 | 21,793 | 63,762 | 64,680 |
| Depreciation and amortization | | | | |
| Depreciation of property and equipment (note 6) | 16,753 | 15,961 | 48,683 | 47,022 |
| Depreciation of right-of-use assets (note 8) | 923 | - | 2,755 | - |
| Amortization of intangible assets (note 7) | 489 | 467 | 1,562 | 1,168 |
| | 18,165 | 16,428 | 53,000 | 48,190 |
| | $ 208,670 | $ 198,821 | $ 616,360 | $ 590,113 |

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 December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Parliamentary appropriations received | $ 121,409 | $ 136,000 | $ 509,883 | $ 535,607 |
| Amounts received related to prior periods | (63,865) | (50,631) | (94,373) | (107,407) |
| Parliamentary appropriations receivable | 129,313 | 90,767 | 129,313 | 90,767 |
| Parliamentary appropriations used to fund operating expenses (note 10) | $ 186,857 | $ 176,136 | $ 544,823 | $ 518,967 |

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

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Parliamentary appropriations received | $ 23,607 | $ 12,000 | $ 131,097 | $ 62,792 |
| Parliamentary appropriations received - lease payments | 984 | - | 2,946 | - |
| Amounts received related to prior periods | - | (12,000) | (37,553) | (13,992) |
| Parliamentary appropriations receivable | 6,528 | 26,944 | - | 34,486 |
| Current deferred government funding related to capital expenditures | - | - | (15,475) | - |
| Parliamentary appropriations used to fund capital expenditures (note 10) | $ 31,119 | $ 26,944 | $ 81,015 | $ 83,286 |

Current deferred government funding related to capital expenditures is a result of higher forecasted expenditures than actual 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:

| | December 31, 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] | $ - | $ - | $ 537 | $ 537 |
| Derivative financial liabilities[1] | 91 | 91 | - | - |
| Financial instruments measured at amortized cost | | | | |
| Non-current holdbacks[2] | $ 4,651 | $ 4,651 | $ 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 nine months ended December 31, 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 December 31, 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 $23,492 (March 31, 2019 – $20,950), offset by estimated recoverable taxes of $10,851 (March 31, 2019 – $9,980) for a net amount of $12,641 (March 31, 2019 – $10,970). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

During the three and nine months ended December 31, 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:

| | December 31, 2019 | March 31, 2019 |
|---|---|---|
| Operating | $ 1,174,684 | $ 1,626,045 |
| Capital | 58,532 | 111,938 |
| Total | $ 1,233,216 | $ 1,737,983 |

(In thousands of Canadian dollars)

### 17. 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Operating | | | | |
| Income | $ 206,303 | $ 193,248 | $ 603,357 | $ 571,810 |
| Expenses | 4,834 | 4,393 | 14,002 | 14,839 |
| Capital | | | | |
| HBS equipment | 1,103 | - | 3,330 | - |

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 nine months ended December 31, 2019, include \$4,685 (2018 – \$4,018), and \$13,872 (2018 – \$14,110), 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, 2019 | March 31, 2019 |
|---|---|---|
| Receivable from related parties | $ 133,024 | $ 141,068 |
| Payable to related parties | (838) | (1,394) |
| Net receivable from related parties | $ 132,186 | $ 139,674 |

(In thousands of Canadian dollars)

Amounts receivable from related parties consist primarily of $129,313 (March 31, 2019 – $131,926) due from the Government of Canada for parliamentary appropriations, and $3,711 (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 nine 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 December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| (Increase) decrease in trade and other receivables | $ (57,688) | $ (39,234) | $ (26,369) | $ 19,119 |
| Decrease in inventories | 498 | 170 | 2,009 | 2,721 |
| (Increase) decrease in prepaids | (283) | 294 | 735 | 1,537 |
| Increase (decrease) in trade and other payables | 3,084 | (20,451) | 1,275 | 12,746 |
| Decrease in deferred government funding related to operating expenses | (215) | (464) | (2,744) | (4,258) |
| | $ (54,604) | $ (59,685) | $ (25,094) | $ 31,865 |

For the three and nine months ended December 31, 2019, the change in trade and other receivables excludes amounts of $Nil (2018 – $14,944) and $37,553 (2018 – $20,494), 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, 2019, the change in prepaids excludes amounts of $877 (2018 – $Nil) and $Nil (2018 – $Nil), respectively, in relation to the acquisition of property and equipment, as these amounts relate to investing activities.

For the three and nine months ended December 31, 2019, the change in trade and other payables excludes amounts of $16,074 (2018 – $8,070) and $4,593 (2018 – $10,903), 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.