

Quarterly Financial Report

For the Three and Six Months Ended
September 30, 2020



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2020**

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, 2020. 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, 2020, 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 *2020 Annual Report*, and the *Quarterly Financial Report for the three months ended June 30, 2020*. The information in this report is expressed in thousands of Canadian dollars and is current to November 23, 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 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.

In June 2020, TC announced that CATSA would be conducting temperature screening of passengers, as well as employees and personnel that enter or work in restricted areas of airports. CATSA met TC's timeline to commence temperature screening at the four busiest Canadian airports by the end of July, and an additional 11 airports by the end of September.

In prior years, CATSA has provided screening services on a cost recovery basis to the Greater Toronto Airports Authority (GTAA) and Muskoka Airport Authority. In light of the COVID-19 pandemic, no services were provided during the six months ended September 30, 2020.

OPERATING ENVIRONMENT

In response to the COVID-19 pandemic, Governments around the world imposed a number of travel restrictions and there has been a drastic reduction in passenger volumes at Canadian airports. Statistics from CATSA's Boarding Pass Security System indicated that screened traffic across Canada decreased by 87.2% for the three months ended September 30, 2020, compared to the same period in the prior year. This has significantly impacted CATSA's screening operations and screening equipment, as some screening lines have temporarily closed.

Given the impact on screening operations, CATSA has entered into short-term arrangements with its third party screening contractors in an effort to contain costs, and allow CATSA the flexibility to respond as the situation evolves. These arrangements include a gradual reduction of screening hours purchased that does not fully reflect the drastic decline in passenger volumes.

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 disclosed in CATSA's *2020 Annual Report*.

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, 2020, and September 30, 2019.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended September 30				Six Months Ended September 30			
	2020	2019			2020	2019		
	(unaudited)	(unaudited)	\$ Change	% Change	(unaudited)	(unaudited)	\$ Change	% Change
(Thousands of Canadian dollars)								
Expenses¹								
Screening services and other related costs	\$ 126,031	\$ 156,811	\$ (30,780)	(19.6%)	\$ 256,608	\$ 308,126	\$ (51,518)	(16.7%)
Equipment operating and maintenance	9,274	11,948	(2,674)	(22.4%)	17,389	22,436	(5,047)	(22.5%)
Program support and corporate services	21,181	20,210	971	4.8%	44,055	42,293	1,762	4.2%
Depreciation and amortization	18,411	17,739	672	3.8%	36,966	34,835	2,131	6.1%
Total expenses	174,897	206,708	(31,811)	(15.4%)	355,018	407,690	(52,672)	(12.9%)
Other expenses (income)	386	452	(66)	(14.6%)	1,876	1,918	(42)	(2.2%)
Financial performance before revenue and government funding	175,283	207,160	(31,877)	(15.4%)	356,894	409,608	(52,714)	(12.9%)
Revenue	79	2,061	(1,982)	(96.2%)	189	6,228	(6,039)	(97.0%)
Government funding								
Parliamentary appropriations for operating expenses	155,458	184,631	(29,173)	(15.8%)	313,794	360,495	(46,701)	(13.0%)
Amortization of deferred government funding related to capital expenditures	17,457	17,389	68	0.4%	35,957	34,597	1,360	3.9%
Parliamentary appropriations for lease payments	977	981	(4)	(0.4%)	2,013	1,962	51	2.6%
Total government funding	173,892	203,001	(29,109)	(14.3%)	351,764	397,054	(45,290)	(11.4%)
Financial performance	\$ (1,312)	\$ (2,098)	\$ 786	37.5%	\$ (4,941)	\$ (6,326)	\$ 1,385	21.9%
Other comprehensive income (loss)	3,711	2,405	1,306	54.3%	(26,436)	(22,669)	(3,767)	(16.6%)
Total comprehensive income (loss)	\$ 2,399	\$ 307	\$ 2,092	681.4%	\$ (31,377)	\$ (28,995)	\$ (2,382)	(8.2%)

¹ The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 13 of the unaudited condensed interim financial statements for the three and six months ended September 30, 2020.

Screening services and other related costs

Screening services and other related costs decreased by \$30,780 (19.6%) and by \$51,518 (16.7%) for the three and six months ended September 30, 2020, respectively, compared to the same periods in 2019, mainly due to the impact of the COVID-19 pandemic. The variances are primarily attributable to the purchase of fewer screening hours totaling \$41,388 and \$64,925, respectively, partially offset by the purchase of additional hours totaling \$5,123 for the three and six months ended September 30, 2020, associated with temperature screening.

The net decreases in screening hours purchased were partially offset by annual screening contractor billing rate increases amounting to \$3,736 and \$7,140, respectively, and additional costs for the three and six month periods associated with increased sanitization of screening checkpoints and purchases of personal protective equipment totaling \$1,812 and \$3,457, respectively.

Equipment operating and maintenance

Equipment operating and maintenance costs decreased by \$2,674 (22.4%) and by \$5,047 (22.5%) for the three and six months ended September 30, 2020, respectively, compared to the same periods in 2019. The decreases are attributable to lower maintenance and spare part costs for Explosives Detection Systems (EDS) equipment mainly due to reduced usage as some screening lines have been temporarily closed, and as legacy EDS units were replaced with new equipment under warranty. The decreases are also attributable to reduced training activity.

Program support and corporate services

Program support and corporate services increased by \$971 (4.8%) and by \$1,762 (4.2%) for the three and six months ended September 30, 2020, respectively, compared to the same periods in 2019. The increases are primarily attributable to the purchase of war risk insurance, for which the Government of Canada had provided an indemnification in prior years, and higher employee-related costs. The increases are partially offset by lower travel expenses.

Depreciation and amortization

Depreciation and amortization increased by \$672 (3.8%) and by \$2,131 (6.1%) for the three and six months ended September 30, 2020, respectively, compared to the same periods in 2019. The increases are primarily attributable to new HBS equipment deployments as part of the HBS recapitalization program. The increases are partially offset by equipment becoming fully depreciated or being retired and changes in estimated useful lives resulting from the HBS recapitalization program.

Revenue

Revenue decreased by \$1,982 (96.2%) and by \$6,039 (97.0%) for the three and six months ended September 30, 2020, respectively, compared to the same periods in 2019. The decreases are primarily attributable to CATSA not providing supplemental screening services to the GTAA during the three and six month periods, in light of the COVID-19 pandemic.

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 decreased by \$29,173 (15.8%) and by \$46,701 (13.0%) for the three and six months ended September 30, 2020, respectively, compared to the same periods in 2019. The decreases are primarily attributable to decreased spending for screening services and other related costs, as well as 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 \$68 (0.4%) and by \$1,360 (3.9%) for the three and six months ended September 30, 2020, respectively, compared to the same periods in 2019. The increases are primarily attributable to increased depreciation and amortization, as previously discussed.

Other comprehensive income (loss)

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

Other comprehensive income of \$3,711 for the three months ended September 30, 2020, and \$2,405 for the three months ended September 30, 2019, are attributable to remeasurement gains resulting from higher actual rates of return on plan assets than the rates used in CATSA's assumptions.

Other comprehensive loss of \$26,436 for the six months ended September 30, 2020, is due to a remeasurement loss of \$55,637 on the defined benefit liability arising from a 100 basis point decrease in the discount rate since March 31, 2020. This is partially offset by a remeasurement gain of \$29,201 resulting from a higher rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive loss of \$22,669 for the six months ended September 30, 2019, was due to a remeasurement loss of \$29,796 on the defined benefit liability arising from a 50 basis point decrease in the discount rate between March 31, 2019, and September 30, 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 used in CATSA's assumptions.

For more information, refer to note 12 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, 2020, compared to March 31, 2020.

Key Financial Highlights -				
Condensed Interim Statement of Financial Position	September 30,	March 31,		
(Thousands of Canadian dollars)	2020	2020	\$ Change	% Change
	(unaudited)	(audited)		
Current assets	\$ 148,914	\$ 182,252	\$ (33,338)	(18.3%)
Non-current assets	511,504	523,918	(12,414)	(2.4%)
Total assets	\$ 660,418	\$ 706,170	\$ (45,752)	(6.5%)
Current liabilities	\$ 155,848	\$ 180,053	\$ (24,205)	(13.4%)
Non-current liabilities	559,849	550,019	9,830	1.8%
Total liabilities	\$ 715,697	\$ 730,072	\$ (14,375)	(2.0%)

Assets

Current assets decreased by \$33,338 (18.3%) primarily attributable to the following:

- Decrease in trade and other receivables of \$22,644 attributable to a decrease in parliamentary appropriations receivable and supplemental screening services receivable; and
- Decrease in cash of \$9,180 primarily attributable to timing of disbursements to suppliers for goods and services.

Non-current assets decreased by \$12,414 (2.4%) primarily attributable to the following:

- Decrease in property and equipment of \$10,852 primarily attributable to depreciation of \$34,143, partially offset by acquisitions totaling \$24,298; and

- Decrease in right-of-use assets of \$1,839 primarily attributable to depreciation.

Liabilities

Current liabilities decreased by \$24,205 (13.4%) primarily attributable to the following:

- Decrease in trade and other payables of \$31,130 attributable to the timing of disbursements associated with obligations outstanding with suppliers; and
- Increase in the current portion of holdbacks of \$6,412 attributable to HBS recapitalization projects that were non-current and are now current, as well as ongoing construction under the HBS recapitalization program.

Non-current liabilities increased by \$9,830 (1.8%) attributable to the following:

- Increase in employee benefits liability of \$26,997 in relation to CATSA's registered pension plan and other defined benefits plan;
- Decrease in the deferred government funding related to capital expenditures of \$9,937 attributable to amortization of deferred government funding related to capital expenditures of \$35,957 exceeding parliamentary appropriations used to fund capital expenditures of \$26,020;
- Decrease in the non-current portion of holdbacks of \$5,410 attributable to HBS recapitalization projects that were non-current and are now current; and
- Decrease in the non-current portion of lease liabilities of \$1,820 primarily attributable to ongoing lease payments.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's corporate plan for the current fiscal year has not been tabled 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

Operating Expenditures

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		Six Months Ended	
	September 30		September 30	
(Thousands of Canadian dollars)	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	\$ 175,283	\$ 207,160	\$ 356,894	\$ 409,608
Revenue	(79)	(2,061)	(189)	(6,228)
Financial performance before government funding	175,204	205,099	356,705	403,380
Non-cash expenses				
Depreciation and amortization	(18,411)	(17,739)	(36,966)	(34,835)
Employee cost accruals ¹	(443)	(234)	(2,554)	(1,828)
Change in fair value of financial instruments at fair value through profit and loss	(407)	352	(1,388)	(285)
Employee benefits expense ²	(379)	(2,020)	(1,080)	(4,164)
Non-cash finance costs related to leases	(109)	(125)	(222)	(253)
Write-off of property and equipment and intangible assets	(26)	(612)	(798)	(691)
Non-cash gain (loss) on foreign exchange recognized in financial performance	23	(86)	250	160
Gain (loss) on disposal of property and equipment	6	(4)	31	(988)
Impairment of property and equipment	-	-	(177)	-
Spare parts expense funded from capital ³	-	-	(7)	(1)
Parliamentary appropriations for operating expenses	\$ 155,458	\$ 184,631	\$ 313,794	\$ 360,495
Other items affecting funding				
Net change in prepaids and inventories ⁴	(1,882)	(2,032)	(173)	(2,529)
Total operating appropriations used	\$ 153,576	\$ 182,599	\$ 313,621	\$ 357,966

¹ Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to September 30, 2020. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

² 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.

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 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 (Thousands of Canadian dollars)	Three Months Ended September 30		Six Months Ended September 30	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Explosives Detection Systems	\$ 10,827	\$ 23,782	\$ 17,930	\$ 43,600
Non-Explosives Detection Systems	3,078	3,270	8,146	4,367
Lease payments	977	981	2,013	1,962
Total capital expenditures	\$ 14,882	\$ 28,033	\$ 28,089	\$ 49,929
Proceeds on disposal of property and equipment ¹	(29)	(33)	(56)	(33)
Non-cash adjustment on foreign exchange related to capital expenditures	-	46	-	-
Total capital appropriations used	\$ 14,853	\$ 28,046	\$ 28,033	\$ 49,896

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 23, 2020



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

Ottawa, Canada

November 23, 2020

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY
AUTHORITY**

September 30, 2020

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	September 30, 2020	March 31, 2020
Assets		
Current assets		
Cash	\$ 9,312	\$ 18,492
Trade and other receivables (note 4)	119,669	142,313
Inventories (note 5)	15,467	16,025
Prepays	4,466	4,496
Derivative financial assets (note 15)	-	926
	148,914	182,252
Non-current assets		
Property and equipment (note 6)	472,344	483,196
Intangible assets (note 7)	17,825	17,029
Right-of-use assets (note 8)	20,372	22,211
Employee benefits asset (note 12)	963	1,482
	511,504	523,918
Total assets	\$ 660,418	\$ 706,170
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 109,588	\$ 140,718
Holdbacks	22,779	16,367
Provisions (note 9)	200	-
Lease liabilities (note 10)	3,572	3,548
Deferred government funding related to operating expenses (note 11)	19,247	19,420
Derivative financial liabilities (note 15)	462	-
	155,848	180,053
Non-current liabilities		
Holdbacks (note 15)	-	5,410
Lease liabilities (note 10)	17,559	19,379
Deferred government funding related to capital expenditures (note 11)	488,857	498,794
Employee benefits liability (note 12)	53,433	26,436
	559,849	550,019
Equity		
Accumulated deficit	(55,279)	(23,902)
Total liabilities and equity	\$ 660,418	\$ 706,170

Contingencies (note 9) 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		Six months ended	
	September 30		September 30	
	2020	2019	2020	2019
Expenses				
Pre-Board Screening	\$ 90,969	\$ 116,939	\$ 182,756	\$ 229,059
Hold Baggage Screening	36,593	42,378	76,726	83,273
Non-Passenger Screening	34,557	35,746	69,553	71,099
Restricted Area Identity Card Program	559	757	1,116	1,529
Corporate services	12,219	10,888	24,867	22,730
Total expenses (note 13)	174,897	206,708	355,018	407,690
Other expenses (income)				
Net loss (gain) on fair value of derivative financial instruments	407	(352)	1,388	285
Finance costs	111	127	224	256
Write-off of property and equipment and intangible assets	26	612	798	691
Foreign exchange (gain) loss	(152)	61	(680)	(302)
(Gain) loss on disposal of property and equipment	(6)	4	(31)	988
Impairment of property and equipment (note 6)	-	-	177	-
Total other expenses (income)	386	452	1,876	1,918
Financial performance before revenue and government funding	175,283	207,160	356,894	409,608
Revenue				
Finance income	79	388	189	607
Screening services - supplemental	-	1,613	-	5,536
Screening services - other	-	60	-	85
Total revenue	79	2,061	189	6,228
Government funding				
Parliamentary appropriations for operating expenses (note 11)	155,458	184,631	313,794	360,495
Amortization of deferred government funding related to capital expenditures (note 11)	17,457	17,389	35,957	34,597
Parliamentary appropriations for lease payments (note 14)	977	981	2,013	1,962
Total government funding	173,892	203,001	351,764	397,054
Financial performance	\$ (1,312)	\$ (2,098)	\$ (4,941)	\$ (6,326)
Other comprehensive income (loss)				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 12)	3,711	2,405	(26,436)	(22,669)
Total comprehensive income (loss)	\$ 2,399	\$ 307	\$ (31,377)	\$ (28,995)

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, 2020	\$ (57,678)
Financial performance	(1,312)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 12)	3,711
Balance, September 30, 2020	\$ (55,279)
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 12)	2,405
Balance, September 30, 2019	\$ (52,634)

For the six months ended September 30:

	Accumulated deficit
Balance, March 31, 2020	\$ (23,902)
Financial performance	(4,941)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 12)	(26,436)
Balance, September 30, 2020	\$ (55,279)
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 12)	(22,669)
Balance, September 30, 2019	\$ (52,634)

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		Six months ended	
	September 30		September 30	
	2020	2019	2020	2019
Cash flows provided by (used in)				
Operating activities				
Financial performance	\$ (1,312)	\$ (2,098)	\$ (4,941)	\$ (6,326)
Items not involving cash				
Depreciation and amortization (note 13)	18,411	17,739	36,966	34,835
Change in fair value of financial instruments at fair value through profit and loss	407	(352)	1,388	285
Increase in net employee benefits liability	379	2,020	1,080	4,164
Write-off of property and equipment and intangible assets	26	612	798	691
Amortization of deferred government funding related to capital expenditures (note 11)	(17,457)	(17,389)	(35,957)	(34,597)
(Gain) loss on disposal of property and equipment	(6)	4	(31)	988
Other non-cash transactions	(2)	2	-	1
Impairment of property and equipment (note 6)	-	-	177	-
Net change in working capital balances (note 18)	(28,419)	(10,684)	20,928	29,510
	(27,973)	(10,146)	20,408	29,551
Investing activities				
Parliamentary appropriations received for capital funding (note 14)	12,070	43,618	13,187	107,490
Purchase of property and equipment	(12,801)	(28,961)	(38,929)	(54,427)
Purchase of intangible assets	(150)	(748)	(2,055)	(4,305)
Proceeds on disposal of property and equipment	-	1	-	1
	(881)	13,910	(27,797)	48,759
Financing activities				
Lease principal payments	(868)	(856)	(1,791)	(1,709)
	(868)	(856)	(1,791)	(1,709)
(Decrease) increase in cash	(29,722)	2,908	(9,180)	76,601
Cash, beginning of period	39,034	77,700	18,492	4,007
Cash, end of period	\$ 9,312	\$ 80,608	\$ 9,312	\$ 80,608

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.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

For the three and six months ended September 30, 2020
(In thousands of Canadian dollars)

1. Corporate information

CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of Her Majesty in right of Canada. CATSA is responsible for securing specific elements of the air transportation system, from passenger and baggage screening to screening airport workers.

CATSA is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. In prior years, CATSA has provided screening services on a cost recovery basis to the Greater Toronto Airports Authority and Muskoka Airport Authority. In light of the COVID-19 pandemic, no services were provided in the three and six months ended September 30, 2020.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on November 23, 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, 2020.

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, 2020.

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Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

4. Trade and other receivables

Trade and other receivables are comprised of:

	September 30, 2020	March 31, 2020
Parliamentary appropriations (note 17)	\$ 112,679	\$ 132,862
GST and HST recoverable (note 17)	5,224	5,143
PST recoverable	1,760	2,397
Other	6	-
Screening services - supplemental	-	1,911
	<u>\$ 119,669</u>	<u>\$ 142,313</u>

Credit terms on trade receivables are 30 days. As at September 30, 2020, and March 31, 2020, there were no amounts included in trade and other receivables that were past due.

5. Inventories

Inventories are comprised of:

	September 30, 2020	March 31, 2020
Spare parts	\$ 14,119	\$ 13,956
RAIC	1,066	1,183
Uniforms	282	886
	<u>\$ 15,467</u>	<u>\$ 16,025</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

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(Unaudited)

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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, 2019	\$ 159,376	\$ 719,505	\$ 18,391	\$ 4,475	\$ 28,234	\$ 129	\$ 10,613	\$ 95,956	\$ 1,036,679
Additions	3,589	56,594	-	370	1,964	-	165	33,472	96,154
Disposals	(2,584)	(133,350)	(187)	-	(1,813)	-	-	-	(137,934)
Write-offs	(431)	(3,055)	-	(189)	(1,901)	-	(864)	(31)	(6,471)
Impairments	-	-	-	-	(214)	-	-	(383)	(597)
Reclassifications	(3,542)	72,391	2,653	27	2,436	-	-	(73,965)	-
Balance, March 31, 2020	\$ 156,408	\$ 712,085	\$ 20,857	\$ 4,683	\$ 28,706	\$ 129	\$ 9,914	\$ 55,049	\$ 987,831
Balance, March 31, 2020	\$ 156,408	\$ 712,085	\$ 20,857	\$ 4,683	\$ 28,706	\$ 129	\$ 9,914	\$ 55,049	\$ 987,831
Additions	95	3,496	-	343	2,483	-	238	17,643	24,298
Disposals	-	(65,442)	-	-	(71)	-	-	-	(65,513)
Write-offs	(212)	(18)	-	(16)	(274)	-	-	-	(520)
Impairments	-	-	-	-	(177)	-	-	-	(177)
Reclassifications	1,940	18,726	-	167	45	-	65	(20,943)	-
Balance, September 30, 2020	\$ 158,231	\$ 668,847	\$ 20,857	\$ 5,177	\$ 30,712	\$ 129	\$ 10,217	\$ 51,749	\$ 945,919
Accumulated depreciation									
Balance, March 31, 2019	\$ 97,357	\$ 440,136	\$ 10,898	\$ 3,407	\$ 19,945	\$ 24	\$ 9,388	\$ -	\$ 581,155
Depreciation	12,908	47,690	1,650	551	2,890	24	349	-	66,062
Disposals	(2,531)	(131,887)	(187)	-	(1,813)	-	-	-	(136,418)
Write-offs	(334)	(2,946)	-	(189)	(1,831)	-	(864)	-	(6,164)
Reclassifications	(4,210)	2,542	1,668	-	-	-	-	-	-
Balance, March 31, 2020	\$ 103,190	\$ 355,535	\$ 14,029	\$ 3,769	\$ 19,191	\$ 48	\$ 8,873	\$ -	\$ 504,635
Balance, March 31, 2020	\$ 103,190	\$ 355,535	\$ 14,029	\$ 3,769	\$ 19,191	\$ 48	\$ 8,873	\$ -	\$ 504,635
Depreciation	4,988	26,591	615	260	1,490	12	187	-	34,143
Disposals	-	(65,417)	-	-	(71)	-	-	-	(65,488)
Write-offs	(198)	773	-	(16)	(274)	-	-	-	285
Balance, September 30, 2020	\$ 107,980	\$ 317,482	\$ 14,644	\$ 4,013	\$ 20,336	\$ 60	\$ 9,060	\$ -	\$ 473,575
Carrying amounts									
As at March 31, 2020	\$ 53,218	\$ 356,550	\$ 6,828	\$ 914	\$ 9,515	\$ 81	\$ 1,041	\$ 55,049	\$ 483,196
As at September 30, 2020	\$ 50,251	\$ 351,365	\$ 6,213	\$ 1,164	\$ 10,376	\$ 69	\$ 1,157	\$ 51,749	\$ 472,344

During the three and six months ended September 30, 2020, CATSA recognized impairment losses of \$Nil and \$177, respectively, 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.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

(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, 2019	\$ 9,120	\$ 20,208	\$ 4,577	\$ 33,905
Additions	1,616	203	2,166	3,985
Write-offs	(171)	(4,444)	-	(4,615)
Reclassifications	1,062	952	(2,014)	-
Balance, March 31, 2020	\$ 11,627	\$ 16,919	\$ 4,729	\$ 33,275
Balance, March 31, 2020	\$ 11,627	\$ 16,919	\$ 4,729	\$ 33,275
Additions	27	-	1,751	1,778
Write-offs	(109)	-	-	(109)
Balance, September 30, 2020	\$ 11,545	\$ 16,919	\$ 6,480	\$ 34,944
Accumulated amortization				
Balance, March 31, 2019	\$ 4,005	\$ 14,185	\$ -	\$ 18,190
Amortization	888	1,240	-	2,128
Write-offs	(171)	(3,901)	-	(4,072)
Balance, March 31, 2020	\$ 4,722	\$ 11,524	\$ -	\$ 16,246
Balance, March 31, 2020	\$ 4,722	\$ 11,524	\$ -	\$ 16,246
Amortization	529	453	-	982
Write-offs	(109)	-	-	(109)
Balance, September 30, 2020	\$ 5,142	\$ 11,977	\$ -	\$ 17,119
Carrying amounts				
As at March 31, 2020	\$ 6,905	\$ 5,395	\$ 4,729	\$ 17,029
As at September 30, 2020	\$ 6,403	\$ 4,942	\$ 6,480	\$ 17,825

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8. Right-of-use assets

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

		Office space		Data centres		Total
Balance, April 1, 2019	\$	23,741	\$	1,733	\$	25,474
Additions		291		117		408
Depreciation		(3,459)		(212)		(3,671)
Balance, March 31, 2020	\$	20,573	\$	1,638	\$	22,211
Balance, March 31, 2020	\$	20,573	\$	1,638	\$	22,211
Additions		2		-		2
Depreciation		(1,707)		(134)		(1,841)
Balance, September 30, 2020	\$	18,868	\$	1,504	\$	20,372

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Notes to the Condensed Interim Financial Statements
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9. Provisions and contingencies

(a) Provisions

A reconciliation of provisions is as follows:

Balance, March 31, 2020	\$	-
Provisions recognized, June 30, 2020		300
Provisions reversed during the period		(100)
<hr/>		
Balance, September 30, 2020	\$	200

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 the individual matters is not always predictable. The provisions were determined by taking into account internal analysis, consultations with external subject matter experts, and all available information at the time of financial statement preparation.

The provisions as at September 30, 2020 relate to amounts assessed by Transport Canada. The provisions are classified as current and the expected future cash flows were not discounted, as the timing of associated cash outflows is expected to be within 12 months.

(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 2018, CATSA received notification from an airport authority that it had been assessed by the Canada Revenue Agency (CRA) 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 formally disputed the CRA's assessments and is of the view that it is more likely than not that the notices of objection that have been filed will be successful.

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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 \$24,126 (March 31, 2020 – \$22,744), offset by estimated recoverable taxes of \$10,653 (March 31, 2020 – \$10,360) for a net amount of \$13,473 (March 31, 2020 – \$12,384). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

During the three and six months ended September 30, 2020, there have been no material changes to contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 15(b)(ii) of the audited annual financial statements for the year ended March 31, 2020.

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Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

10. 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:

	September 30, 2020		March 31, 2020	
Balance, beginning of period	\$	22,927	\$	25,956
Additions		2		408
Lease payments (note 14)		(2,013)		(3,936)
Finance costs		222		492
Foreign exchange revaluation		(7)		7
Balance, end of period	\$	21,131	\$	22,927
Balance, end of period				
Current	\$	3,572	\$	3,548
Non-current		17,559		19,379

CATSA recognized the following expenses that are not included in the measurement of the lease liabilities:

	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
Variable lease payments	\$ 673	\$ 634	\$ 1,330	\$ 1,234
Short-term leases	17	16	19	33
Low value leases	15	30	29	52
Total (note 13)	\$ 705	\$ 680	\$ 1,378	\$ 1,319

Variable lease payments include operating costs, property taxes, insurance, and other service-related costs.

For the three and six months ended September 30, 2020, CATSA recognized a total cash outflow for leases of \$1,682 (2019 - \$1,661) and \$3,391 (2019 - \$3,281), respectively.

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The following table presents the undiscounted cash flows for contractual lease obligations:

	September 30, 2020	March 31, 2020
No later than 1 year	\$ 7,253	\$ 7,170
Later than 1 year and no later than 5 years	8,458	11,651
Later than 5 years	286	343
Total	\$ 15,997	\$ 19,164

11. Deferred government funding

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

	September 30, 2020	March 31, 2020
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 19,420	\$ 18,558
Parliamentary appropriations used to fund operating expenses (note 14)	313,621	743,000
Parliamentary appropriations for operating expenses recognized in financial performance	(313,794)	(742,138)
Balance, end of period	\$ 19,247	\$ 19,420
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 498,794	\$ 469,732
Parliamentary appropriations used to fund capital expenditures (note 14)	26,020	99,926
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(35,957)	(70,864)
Balance, end of period	\$ 488,857	\$ 498,794
Total deferred government funding, end of period	\$ 508,104	\$ 518,214

For additional information on government funding, see note 14.

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Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

12. 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, 2020	March 31, 2020
Employee benefits asset		
Supplementary retirement plan (SRP)	\$ 963	\$ 1,482
	963	1,482
Employee benefits liability		
Registered pension plan (RPP)	(26,724)	(5,827)
Other defined benefits plan (ODBP)	(26,709)	(20,609)
	(53,433)	(26,436)
Employee benefits - net liability	\$ (52,470)	\$ (24,954)

(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended September 30							
	RPP		SRP		ODBP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Defined benefit cost recognized in financial performance								
Current service cost	\$ 1,834	\$ 2,136	\$ 19	\$ 24	\$ 268	\$ 468	\$ 2,121	\$ 2,628
Administration costs	94	75	4	4	-	-	98	79
Interest cost on defined benefit obligation	1,976	1,854	48	45	202	282	2,226	2,181
Interest income on plan assets	(1,874)	(1,816)	(61)	(60)	-	-	(1,935)	(1,876)
Defined benefit cost	\$ 2,030	\$ 2,249	\$ 10	\$ 13	\$ 470	\$ 750	\$ 2,510	\$ 3,012
Remeasurement of defined benefit plans recognized in other comprehensive income								
Return on plan assets excluding interest income	\$ 3,589	\$ 2,393	\$ 122	\$ 12	\$ -	\$ -	\$ 3,711	\$ 2,405
Actuarial gains (losses)	-	-	-	-	-	-	-	-
Remeasurement of defined benefit plans	\$ 3,589	\$ 2,393	\$ 122	\$ 12	\$ -	\$ -	\$ 3,711	\$ 2,405

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Notes to the Condensed Interim Financial Statements
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	For the six months ended September 30							
	RPP		SRP		ODBP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Defined benefit cost recognized in financial performance								
Current service cost	\$ 3,668	\$ 4,273	\$ 38	\$ 48	\$ 535	\$ 935	\$ 4,241	\$ 5,256
Administration costs	188	150	8	8	-	-	196	158
Interest cost on defined benefit obligation	3,952	3,708	96	90	404	564	4,452	4,362
Interest income on plan assets	(3,748)	(3,632)	(122)	(120)	-	-	(3,870)	(3,752)
Defined benefit cost	\$ 4,060	\$ 4,499	\$ 20	\$ 26	\$ 939	\$ 1,499	\$ 5,019	\$ 6,024
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	\$ 28,671	\$ 7,102	\$ 530	\$ 25	\$ -	\$ -	\$ 29,201	\$ 7,127
Actuarial losses	(49,340)	(25,138)	(1,044)	(551)	(5,253)	(4,107)	(55,637)	(29,796)
Remeasurement of defined benefit plans	\$ (20,669)	\$ (18,036)	\$ (514)	\$ (526)	\$ (5,253)	\$ (4,107)	\$ (26,436)	\$ (22,669)

For the three and six months ended September 30, 2020, CATSA recognized an expense of \$179 (2019 - \$164) and \$394 (2019 - \$341), 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, 2020, remeasurement gains of \$3,711 resulted from a higher actual rate of return on plan assets than the rates used in CATSA's assumptions for the RPP (2.43% actual versus 0.94% expected).

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

For the six months ended September 30, 2020, remeasurement losses of \$26,436 resulted from a decrease in the discount rate of 100 basis points (from 3.75% at March 31, 2020 to 2.75% at September 30, 2020). 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 (17.56% actual versus 1.88% expected).

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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).

(d) Employer contributions

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

	Three months ended		Six months ended	
	September 30		September 30	
	2020	2019	2020	2019
Employer contributions				
RPP	\$ 2,071	\$ 941	\$ 3,832	\$ 1,771
SRP	15	10	15	10
ODBP	45	41	92	79
	\$ 2,131	\$ 992	\$ 3,939	\$ 1,860

Total employer contributions to the defined benefit plans are estimated to be \$8,016 for the year ending March 31, 2021.

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Notes to the Condensed Interim Financial Statements
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13. 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:

	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
Screening services and other related costs				
Payments to screening contractors	\$ 122,673	\$ 154,829	\$ 249,783	\$ 304,111
Trace and consumables	1,705	639	3,006	1,238
Uniforms and other screening costs	1,653	1,343	3,819	2,777
	126,031	156,811	256,608	308,126
Equipment operating and maintenance				
Equipment maintenance and spare parts	9,199	10,796	17,346	20,828
RAIC	66	253	121	463
Training and certification	9	899	(78)	1,145
	9,274	11,948	17,389	22,436
Program support and corporate services				
Employee costs	15,693	15,279	33,425	32,074
Other administrative costs	1,741	902	3,493	1,519
Office and computer expenses	1,437	1,537	3,193	3,755
Professional services and other business related costs	1,378	1,615	2,277	3,265
Other lease costs (note 10)	705	680	1,378	1,319
Communications and public awareness	227	197	289	361
	21,181	20,210	44,055	42,293
Depreciation and amortization				
Depreciation of property and equipment (note 6)	16,993	16,267	34,143	31,930
Depreciation of right-of-use assets (note 8)	926	922	1,841	1,832
Amortization of intangible assets (note 7)	492	550	982	1,073
	18,411	17,739	36,966	34,835
	\$ 174,897	\$ 206,708	\$ 355,018	\$ 407,690

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.

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Payments to screening contractors includes amounts paid under short-term arrangements to maintain the certified screening officer workforce at levels deemed appropriate for CATSA to respond as the pandemic situation evolves and passenger volumes increase. For the three and six months ended September 30, 2020, these amounts have been allocated in the Condensed Interim Statement of Comprehensive Income (Loss), based on the historical distribution of payments to screening contractors, as follows:

	Three months ended September 30	Six months ended September 30
	2020	2020
Pre-Board Screening	\$ 18,151	\$ 64,855
Hold Baggage Screening	4,048	15,143
Non-Passenger Screening	3,985	12,046
	<u>\$ 26,184</u>	<u>\$ 92,044</u>

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Notes to the Condensed Interim Financial Statements
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(In thousands of Canadian dollars)

14. 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		Six months ended	
	September 30		September 30	
	2020	2019	2020	2019
Parliamentary appropriations received	\$ 152,790	\$ 180,401	\$ 358,265	\$ 388,474
Amounts received related to prior periods	(99,060)	(61,667)	(144,490)	(94,373)
Parliamentary appropriations receivable	99,846	63,865	99,846	63,865
Parliamentary appropriations used to fund operating expenses (note 11)	\$ 153,576	\$ 182,599	\$ 313,621	\$ 357,966

The following table reconciles parliamentary appropriations for capital expenditures and lease payments that were received and receivable with the amount of appropriations used:

	Three months ended		Six months ended	
	September 30		September 30	
	2020	2019	2020	2019
Parliamentary appropriations received	\$ 12,070	\$ 43,618	\$ 13,187	\$ 107,490
Amounts received related to prior periods	(11,027)	-	-	(37,553)
Parliamentary appropriations receivable	12,833	-	12,833	-
Current deferred funding related to capital expenditures	-	(16,553)	-	(22,003)
Parliamentary appropriations used to fund capital expenditures (note 11)	13,876	27,065	26,020	47,934
Parliamentary appropriations received - lease payments (note 10)	977	981	2,013	1,962
Parliamentary appropriations used to fund capital expenditures and lease payments	\$ 14,853	\$ 28,046	\$ 28,033	\$ 49,896

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.

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15. Fair values of financial instruments

Derivative financial instruments are recorded at fair value on the Condensed Interim Statement of Financial Position. The fair values of cash, receivables related to supplemental screening services, trade and other payables, and current holdbacks approximate their carrying amount due to the current nature of these instruments.

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

	September 30, 2020		March 31, 2020	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets ¹	\$ -	\$ -	\$ 926	\$ 926
Derivative financial liabilities ¹	462	462	-	-
Financial instruments measured at amortized cost				
Non-current holdbacks ²	\$ -	\$ -	\$ 5,410	\$ 5,410

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, 2020, or the year ended March 31, 2020.

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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, 2020	March 31, 2020
Operating	\$ 754,934	\$ 1,015,479
Capital	32,658	53,803
Total	\$ 787,592	\$ 1,069,282

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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 significant transactions with related parties:

	Three months ended		Six months ended	
	September 30		September 30	
	2020	2019	2020	2019
Income	\$ 173,892	\$ 203,001	\$ 351,764	\$ 397,054
Non-recoverable taxes	2,787	5,143	6,911	9,187
Lease payments	22	22	103	103
HBS equipment	-	1,766	-	2,183

Income from related parties includes parliamentary appropriations for operating expenses, parliamentary appropriations for lease payments, and amortization of deferred government funding related to capital expenditures, as recognized in the Condensed Interim Statement of Comprehensive Income (Loss). Non-recoverable taxes represents amounts paid to fiduciaries of the Canada Revenue Agency.

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(Unaudited)

(In thousands of Canadian dollars)

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

	September 30, 2020	March 31, 2020
Receivable from related parties	\$ 117,903	\$ 138,005
Payable to related parties	(222)	(1,203)
Provisions for related parties (note 9)	(200)	-
Net receivable from related parties	\$ 117,481	\$ 136,802

Amounts receivable from related parties consist primarily of \$112,679 (March 31, 2020 – \$132,862) due from the Government of Canada for parliamentary appropriations, and \$5,224 (March 31, 2020 – \$5,143) due from the Canada Revenue Agency for recoverable taxes paid on expenses.

(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 12. 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	
	2020	2019	2020	2019
(Increase) decrease in trade and other receivables	\$ (2,274)	\$ 808	\$ 35,477	\$ 31,319
Decrease in inventories	73	1,058	558	1,511
Decrease (increase) in prepaids	1,809	974	(385)	1,018
Decrease in trade and other payables	(26,045)	(11,492)	(14,749)	(1,809)
(Decrease) increase in provisions	(100)	-	200	-
Decrease in deferred government funding related to operating expenses	(1,882)	(2,032)	(173)	(2,529)
	\$ (28,419)	\$ (10,684)	\$ 20,928	\$ 29,510

For the three and six months ended September 30, 2020, the change in trade and other receivables excludes amounts of \$1,806 (2019 – \$Nil) and \$12,833 (2019 – \$37,553), respectively, in relation to government funding related to capital expenditures, as these amounts relate to investing activities.

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Notes to the Condensed Interim Financial Statements
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(In thousands of Canadian dollars)

For the three and six months ended September 30, 2020, the change in prepaids excludes amounts of \$441 (2019 – \$201) and \$415 (2019 – \$877), 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, 2020, the change in trade and other payables excludes amounts of \$15 (2019 – \$1,603) and \$16,381 (2019 – \$11,481), 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 would assume the responsibility for aviation screening at Canada's airports. The *Security Screening Services Commercialization Act* (SSSCA) 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.

20. Impact of COVID-19

In response to the COVID-19 pandemic, Governments around the world imposed a number of travel restrictions and there has been a drastic reduction in passenger volumes at Canadian airports. CATSA has experienced significant impacts on its screening operations and screening equipment, as some screening lines have temporarily closed.

CATSA and its screening contractors have entered into short-term agreements to maintain the certified screening officer workforce at a level that was deemed appropriate to contain costs and allow CATSA the flexibility to respond as the situation evolves, including a gradual reduction of screening hours purchased that did not fully reflect the drastic decline in passenger volumes. CATSA's priority is the health and safety of screening officers at airports, maintaining security effectiveness, and being ready to respond as the situation evolves.

CATSA will continue to monitor the situation and adjust accordingly.