Canadian Air Transport Security Authority | Administration canadienne de la sûreté du transport aérien

Quarterly Financial Report

For the Three Months Ended
June 30, 2021

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE MONTHS ENDED JUNE 30, 2021

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 months ended June 30, 2021. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2021, 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 *2021 Annual Report.* The information in this report is expressed in thousands of Canadian dollars and is current to August 25, 2021, 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 the Parliament of Canada 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 such as explosives, 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. These non-passengers include CATSA personnel, screening officers, flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees; 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. The final authority that determines access to the restricted areas of an airport is the airport authority.

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 prior years, CATSA provided screening services on a cost recovery basis to certain airports. In light of the COVID-19 pandemic, no services have been provided since April 1, 2020.

OPERATING ENVIRONMENT

COVID-19 PANDEMIC

As a result of the COVID-19 pandemic, there has been a drastic reduction in passenger volumes at Canadian airports. Statistics from CATSA's Boarding Pass Security System indicate that screened traffic across Canada decreased by 89.8% and 95.7% for the three months ended June 30, 2021 and June 30, 2020, respectively, compared to the three months ended June 30, 2019. 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 entered into temporary arrangements with its third party screening contractors. These arrangements have resulted in a reduction in screening hours purchased that does not fully reflect the decline in passenger volumes, ensuring that CATSA maintains the certified screening officer workforce at a level deemed appropriate to contain costs while allowing CATSA the flexibility to respond as the aviation industry recovers.

In June 2020, TC directed CATSA to commence temperature screening of passengers and non-passengers entering restricted areas at certain airports. Due to the improving epidemiological situation, in August 2021, Transport Canada removed the requirement for CATSA to perform temperature screening.

RISKS AND UNCERTAINTIES

CATSA regularly monitors and re-assesses its corporate risks. There have been no significant changes to CATSA's Enterprise Risk Management profile as disclosed in CATSA's *2021 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 months ended June 30, 2021, and June 30, 2020.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss) (Unaudited) (Thousands of Canadian dollars)	**Three Months Ended June 30** 2021	2020	$ Change	% Change
Expenses[1]				
Screening services and other related costs	$ 122,804	$ 130,577	$ (7,773)	(6.0%)
Equipment operating and maintenance	8,675	8,115	560	6.9%
Program support and corporate services	22,357	22,874	(517)	(2.3%)
Depreciation and amortization	20,493	18,555	1,938	10.4%
Total expenses	**174,329**	**180,121**	**(5,792)**	**(3.2%)**
Other expenses (income)	**254**	**1,490**	**(1,236)**	**(83.0%)**
Financial performance before revenue and government funding	**174,583**	**181,611**	**(7,028)**	**(3.9%)**
Revenue	**49**	**110**	**(61)**	**(55.5%)**
Government funding				
Parliamentary appropriations for operating expenses	152,865	158,336	(5,471)	(3.5%)
Amortization of deferred government funding related to capital expenditures	19,550	18,500	1,050	5.7%
Parliamentary appropriations for lease payments	1,031	1,036	(5)	(0.5%)
Total government funding	**173,446**	**177,872**	**(4,426)**	**(2.5%)**
Financial performance	**$ (1,088)**	**$ (3,629)**	**$ 2,541**	**70.0%**
Other comprehensive loss	**(1,407)**	**(30,147)**	**28,740**	**95.3%**
Total comprehensive income (loss)	**$ (2,495)**	**$ (33,776)**	**$ 31,281**	**92.6%**

[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 months ended June 30, 2021.

Screening services and other related costs

Screening services and other related costs decreased by $7,773 (6.0%) for the three months ended June 30, 2021, compared to the same period in 2020. The decrease is primarily attributable to the purchase of fewer screening hours totaling $24,754, partially offset by the purchase of hours associated with temperature screening totaling $11,006. The net decrease in screening hours purchased was partially offset by screening contractor billing rate increases of $4,825.

Depreciation and amortization

Depreciation and amortization increased by $1,938 (10.4%) for the three months ended June 30, 2021, compared to the same period in 2020. The increase is primarily attributable to depreciation relating to new HBS equipment deployments as part of the HBS recapitalization program, as well as new non-EDS assets. The increase was partially offset by assets becoming fully depreciated or being retired.

Other expenses (income)

Other expenses (income) decreased by $1,236 (83.0%) for the three months ended June 30, 2021, compared to the same period in 2020. The decrease is primarily attributable to net gains on the fair value of derivative financial instruments and lower write-offs of property and equipment. The decrease was partially offset by net foreign exchange losses.

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 $5,471 (3.5%) for the three months ended June 30, 2021, compared to the same period in 2020. The decrease is primarily attributable to decreased 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 $1,050 (5.7%) for the three months ended June 30, 2021, compared to the same period in 2020. The increase is primarily attributable to increased depreciation and amortization, partially offset by lower write-offs of property and equipment.

Other comprehensive loss

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

Other comprehensive loss of $1,407 for the three months ended June 30, 2021, is attributable to a remeasurement loss of $13,163 on the defined benefit liability arising from a 25 basis point decrease in the discount rate. This was partially offset by a remeasurement gain of $11,756 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive loss of $30,147 for the three months ended June 30, 2020, was attributable to a remeasurement loss of $55,637 on the defined benefit liability arising from a 100 basis point decrease in the discount rate between March 31, 2020, and June 30, 2020. This was partially offset by a remeasurement gain of $25,490 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions.

For more information, refer to note 9 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 June 30, 2021, compared to March 31, 2021.

Key Financial Highlights - Condensed Interim Statement of Financial Position (Unaudited) (Thousands of Canadian dollars)	June 30, 2021	March 31, 2021	$ Change	% Change
Current assets	$ 155,357	$ 153,694	$ 1,663	1.1%
Non-current assets	507,617	524,865	(17,248)	(3.3%)
Total assets	**$ 662,974**	**$ 678,559**	**$ (15,585)**	**(2.3%)**
Current liabilities	$ 162,078	$ 158,616	$ 3,462	2.2%
Non-current liabilities	489,885	506,437	(16,552)	(3.3%)
Total liabilities	**$ 651,963**	**$ 665,053**	**$ (13,090)**	**(2.0%)**

Assets

Current assets increased by $1,663 (1.1%) primarily attributable to the following:

- Increase in cash of $2,339 primarily due to the timing of disbursements to suppliers for goods and services.

Non-current assets decreased by $17,248 (3.3%) primarily attributable to the following:

- Decrease in property and equipment of $16,690 primarily attributable to depreciation of $18,952, partially offset by acquisitions totaling $2,262.

Liabilities

Current liabilities increased by $3,462 (2.2%) primarily attributable to the following:

- Increase in trade and other payables of $5,052 attributable to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of $1,461 due to a reduction in inventories and prepaids.

Non-current liabilities decreased by $16,552 (3.3%) attributable to the following:

- Decrease in the deferred government funding related to capital expenditures of $17,256 attributable to amortization of deferred government funding related to capital expenditures of $19,550 exceeding parliamentary appropriations used to fund capital expenditures of $2,294; and
- Increase in employee benefits liability of $1,544 in relation to CATSA's other defined benefits plan.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2021/22 – 2022/23 Corporate Plan* 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 its *Summary of the 2021/22 – 2022/23 Corporate Plan*.

PARLIAMENTARY APPROPRIATIONS USED

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. Appropriations used are reported on a near-cash accrual basis of accounting.

Operating Expenditures

The table below serves to reconcile financial performance reported under International Financial Reporting Standards (IFRS) and operating appropriations used:

Reconciliation of Financial Performance to Operating Appropriations Used (Unaudited) (Thousands of Canadian dollars)	**Three Months Ended June 30** **2021**	**2020**
Financial performance before revenue and government funding	$ 174,583	$ 181,611
Revenue	(49)	(110)
Financial performance before government funding	174,534	181,501
Non-cash expenses		
Depreciation and amortization	(20,493)	(18,555)
Employee cost accruals [1]	(1,916)	(2,111)
Non-cash (loss) gain on foreign exchange recognized in financial performance	(215)	227
Non-cash finance costs related to leases	(38)	(113)
Employee benefits expense [2]	754	(701)
Change in fair value of financial instruments at fair value through profit and loss	239	(981)
Write-off of property and equipment	-	(772)
Impairment of property and equipment	-	(177)
Spare parts expense funded from capital [3]	-	(7)
Gain on disposal of property and equipment	-	25
Appropriations used for operating expenses	**$ 152,865**	**$ 158,336**
Other items affecting funding		
Net change in prepaids and inventories [4]	(1,461)	1,709
Total operating appropriations used	**$ 151,404**	**$ 160,045**

[1] Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to June 30, 2021. 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	**Three Months Ended**	
(Unaudited)	**June 30**	
(Thousands of Canadian dollars)	**2021**	**2020**
Explosives Detection Systems	$ 2,235	$ 7,103
Non-Explosives Detection Systems	55	5,068
Lease payments	1,031	1,036
Total capital expenditures	**$ 3,321**	**$ 13,207**
Non-cash adjustment on foreign exchange related to capital expenditures	4	-
Proceeds on disposal of property and equipment[1]	-	(27)
Total capital appropriations used	**$ 3,325**	**$ 13,180**

[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's *Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports,* 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

August 25, 2021

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

Ottawa, Canada

August 25, 2021

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

June 30, 2021

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2021	March 31, 2021
Assets		
Current assets		
Cash	$ 16,425	$ 14,086
Trade and other receivables (note 4)	119,314	118,529
Inventories (note 5)	13,457	14,067
Prepaids	6,161	7,012
	155,357	153,694
Non-current assets		
Property and equipment (note 6)	446,879	463,569
Intangible assets (note 7)	16,214	16,834
Right-of-use assets (note 8)	9,108	9,937
Employee benefits asset (note 9)	35,416	34,525
	507,617	524,865
Total assets	$ 662,974	$ 678,559
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 115,243	$ 110,191
Holdbacks	22,550	22,352
Provisions (note 10)	200	200
Lease liabilities (note 11)	3,509	3,667
Deferred government funding related to operating expenses (note 12)	19,618	21,079
Derivative financial liabilities (note 15)	958	1,127
	162,078	158,616
Non-current liabilities		
Lease liabilities (note 11)	6,237	7,007
Deferred government funding related to capital expenditures (note 12)	462,050	479,306
Derivative financial liabilities (note 15)	-	70
Employee benefits liability (note 9)	21,598	20,054
	489,885	506,437
Equity		
Accumulated surplus	11,011	13,506
Total liabilities and equity	$ 662,974	$ 678,559

Contingencies (note 10) 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 June 30	
	2021	2020
Expenses		
Pre-Board Screening	$ 80,206	$ 91,787
Hold Baggage Screening	37,975	40,133
Non-Passenger Screening	42,920	34,996
Restricted Area Identity Card Program	773	557
Corporate services	12,455	12,648
Total expenses (note 13)	174,329	180,121
Other expenses (income)		
Foreign exchange loss (gain)	453	(528)
Finance costs	40	113
Net (gain) loss on fair value of derivative financial instruments	(239)	981
Write-off of property and equipment	-	772
Impairment of property and equipment (note 6)	-	177
Gain on disposal of property and equipment	-	(25)
Total other expenses (income)	254	1,490
Financial performance before revenue and government funding	174,583	181,611
Revenue		
Finance income	49	110
Total revenue	49	110
Government funding		
Parliamentary appropriations for operating expenses (note 12)	152,865	158,336
Amortization of deferred government funding related to capital expenditures (note 12)	19,550	18,500
Parliamentary appropriations for lease payments (note 14)	1,031	1,036
Total government funding	173,446	177,872
Financial performance	$ (1,088)	$ (3,629)
Other comprehensive loss		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)	(1,407)	(30,147)
Total comprehensive income (loss)	$ (2,495)	$ (33,776)

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 June 30:

		Accumulated surplus (deficit)
Balance, March 31, 2021	$	13,506
Financial performance		(1,088)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(1,407)
Balance, June 30, 2021	$	11,011
Balance, March 31, 2020	$	(23,902)
Financial performance		(3,629)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(30,147)
Balance, June 30, 2020	$	(57,678)

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 June 30	
	2021	2020
Cash flows provided by (used in)		
Operating activities		
Financial performance	$ (1,088)	$ (3,629)
Items not involving cash		
Depreciation and amortization (note 13)	20,493	18,555
Other non-cash transactions	190	2
Amortization of deferred government funding related to capital expenditures (note 12)	(19,550)	(18,500)
Change in net employee benefits asset/liability	(754)	701
Change in fair value of financial instruments at fair value through profit and loss	(239)	981
Write-off of property and equipment	-	772
Impairment of property and equipment (note 6)	-	177
Gain on disposal of property and equipment	-	(25)
Net change in working capital balances (note 18)	16,479	49,347
	15,531	48,381
Investing activities		
Parliamentary appropriations received for capital funding (note 14)	-	1,117
Purchase of property and equipment	(12,123)	(26,128)
Purchase of intangible assets	(76)	(1,905)
	(12,199)	(26,916)
Financing activities		
Lease principal payments	(993)	(923)
	(993)	(923)
Increase in cash	2,339	20,542
Cash, beginning of period	14,086	18,492
Cash, end of period	$ 16,425	$ 39,034

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. In prior years, CATSA provided screening services on a cost recovery basis to certain airports. In light of the COVID-19 pandemic, no services have been provided since April 1, 2020.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on August 25, 2021.

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's *Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports*. 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, 2021.

3. Summary of significant accounting policies

(a) Basis of measurement

These condensed interim financial statements were prepared under the historical cost convention, except as required or permitted by IFRS and as indicated within this note. Historical cost is generally based on the fair value of the consideration given up in exchange for goods and services at the transaction date.

(b) Use of estimates and judgments

The preparation of these condensed interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions based on existing knowledge that affect the reported amounts and disclosures in the condensed interim financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions.

In making estimates and using assumptions, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and assumptions have been applied in a manner consistent with prior periods. There are no known commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates in the condensed interim financial statements.

Estimates and underlying assumptions are regularly reviewed by management and changes in those estimates are recognized prospectively in the period of change, if the change affects that period only; or the period of the change and future periods, if the change affects both.

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

- note 3(d), note 3(f), note 6 and note 7 – Property and equipment and intangible assets

  Key estimates used for property and equipment include the determination of their useful lives and the valuation of work-in-progress. The key estimate used for intangible assets includes the determination of their useful lives. In determining the expected useful lives of these assets, CATSA takes into account past experience, industry trends and internally-specific factors, such as changing technologies and expectations for the in-service period of the assets. Changes to estimates of useful life would affect future depreciation or amortization expenses and future carrying values of assets. In determining the value of work-in-progress, CATSA takes into account estimates provided by internal and external experts with respect to the stage of completion of an equipment integration project. Changes to the stage of completion would affect trade and other payables and the values of assets.

- note 3(h), note 8 and note 11 – 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.

- note 3(j) and note 9 – Employee benefits

  Key estimates used for employee benefits include the discount rate, mortality rate, inflation rate, long-term rate of compensation increase and assumed medical cost trend rates. In determining the assumptions, CATSA takes into account past experience, the expertise of its actuaries, and current market conditions and rates, which have been subjected to increased volatility due to the COVID-19 pandemic. Changes to these assumptions would affect its employee benefits asset and liability, as well as financial performance and other comprehensive income or loss.

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

- note 3(f) and note 7 – Intangible assets

  Judgments are required in determining when internally generated intangible assets enter the development phase. In determining when to recognize costs as intangible assets, management makes judgments about when the criteria for capitalization are met as described in note 3(f). Changes to management's judgments would affect the carrying amount of its intangible assets as well as future amortization.

- note 3(h), note 8 and note 11 – 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 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.

- note 3(k) and note 10 – Provisions and contingencies

  Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability of an outflow of future economic benefits. In determining when to record a provision, management makes assumptions about the amount and likelihood of outflows and their timing. Factors affecting these assumptions include the nature of the provision, opinions and views of legal counsel and other advisors, experience in similar circumstances, and any decision of management as to how CATSA intends to handle the obligation. Changes to these assumptions would affect the recording of the provision and financial performance.

- note 3(l) – Revenue

  The measurement and recognition of revenue requires the use of estimates and judgment in identifying whether a contract exists, identifying performance obligations, the allocation of the transaction price and the method used to measure progress in satisfying the performance obligation and thus determining the timing of revenue recognition.

  In determining whether a contract with a customer exists for the purposes of recognizing revenue, CATSA determines whether certain criteria are met, including whether it is more likely than not that the consideration will be collected from the customer. In making this assessment at contract inception, CATSA considers a number of factors, which may include results from customer credit checks, the customer's credit history, and CATSA's ability to limit losses by ceasing to provide services in the case of non-payment.

  The nature of CATSA's promise in its contracts with the airport authorities is to provide supplemental screening of passengers. This screening includes a number of different activities, none of which individually provides a benefit to the airport authority. All activities are inputs into the combined output of the supplemental screening service. Consequently, CATSA has determined that the promise in the contract, which is the provision of supplemental screening services for the contract period, constitutes one performance obligation.

The consideration for screening services is variable in nature and requires two key judgments to determine when to recognize revenue:

(i) the method used to measure progress in satisfying the single performance obligation, and

(ii) the measurement and allocation of any variable consideration.

Given that the services, when provided, are on an ongoing basis and are substantially the same, CATSA has determined a time-based measure of progress best depicts the transfer of services to the customer. Further, since the variable consideration is compensating CATSA for its efforts in providing the services, the variable consideration is allocated to increments of time and recognized as the service is delivered to the customers over time.

(c) Inventories

Inventories consist of spare parts acquired for equipment maintenance, screening officer uniforms and RAIC. Inventories are stated at the lower of cost and net realizable value. Cost is determined using a weighted average cost formula and net realizable value is defined as replacement cost.

(d) Property and equipment

Property and equipment consists of screening equipment, RAIC equipment, computers, integrated software and electronic equipment, office furniture and equipment, leasehold improvements and work-in-progress.

(i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress, which is recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition and installation of the assets, including integration costs related to the installation of the assets at the airports to ensure they are in a condition necessary for their intended use. These costs include conveyor systems, platforms and other structures required to connect screening equipment to existing airport infrastructures.

Work-in-progress includes costs related to integration projects that remain incomplete at the end of the reporting period. The value of work-in-progress is determined based on estimates performed by independent experts or management, depending on management's assessment of risk.

When significant components of an item of property and equipment have different useful lives, they are depreciated separately.

The carrying amount of an item of property and equipment is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing proceeds, if any, to the carrying amount and are recognized in financial performance.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to CATSA and that the cost of the item can be measured reliably. The cost of day-to-day servicing of property and equipment is recognized in financial performance as incurred.

(iii) Depreciation

Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets.

Asset class	Useful life
PBS equipment	10 years
HBS equipment	10 years
NPS equipment	10 years
RAIC equipment	5 years
Computers, integrated software and electronic equipment	3 to 10 years
Office furniture and equipment	5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the related lease term or estimated useful life.

Depreciation methods, estimated useful lives and residual values are reviewed at least annually.

(e) Assets held for sale

CATSA classifies property and equipment as held for sale if its carrying amount will be recovered principally through a sale rather than through continuing use. This condition is only met when the asset is available for immediate sale in its present condition and the sale is highly probable. An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Depreciation is not recorded while an asset is classified as held for sale.

(f) Intangible assets

Separately acquired computer software licences are capitalized based on the costs incurred to acquire and bring the licences to use.

Certain costs incurred in connection with the development of software to be used internally or for providing screening services are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by CATSA are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of the software product and to use it are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project. All other costs associated with developing or maintaining computer software programs are expensed as incurred.

Intangible assets are amortized using the straight-line method over their estimated useful lives of five to 10 years.

(g) Impairment

The carrying amounts of CATSA's property and equipment and intangible assets are reviewed at each reporting period at the cash-generating unit (CGU) level to determine whether there is any indication of impairment. For the purpose of impairment testing, a CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

Under CATSA's business model, there are no assets that generate cash flows largely independent of the cash flows of other assets and liabilities. Instead, all assets interact to support its mandated activities. These operations are primarily funded by parliamentary appropriations. Overall levels of cash flow reflect public policy requirements and decisions, and budgetary funding is provided to CATSA in its entirety. Therefore, CATSA is considered one CGU. Assets are tested at the CGU level when they cannot be tested individually.

Property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment, and are considered to be impaired if they are no longer able to contribute to CATSA's mandate. When the assets continue to contribute to the fulfillment of CATSA's mandate, the estimated useful lives of that property and equipment and intangible assets are reviewed and adjustments to amortization/depreciation are recorded on a prospective basis, if necessary.

(h) Leases

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

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

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

The right-of-use asset is subsequently measured at cost less accumulated depreciation. The carrying amount of the right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements 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 above in note 3(b).

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 and leases of low value. The lease payments associated with these leases are recognized as an expense on straight-line basis over the lease term.

(i) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial assets include cash and receivables related to supplemental screening services. The remaining receivables are not classified as non-derivative financial assets because they are not contractual rights but, rather, created as a result of statutory requirements of the federal and provincial governments.

CATSA classifies non-derivative financial assets into the category of financial assets measured at amortized cost. These financial assets are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method. Measurement is based on CATSA's business model for managing financial assets and the contractual terms of the cash flows (financial assets are held with the intent of collecting contractual cash flows and the contractual cash flows of the financial asset represent solely payments of principal and interest). If CATSA's business model were to change, its classification would be reassessed.

At each reporting date, CATSA assesses, on a forward-looking basis, the expected credit losses on any financial assets measured at amortized cost. For trade receivables, CATSA applies the simplified approach required by IFRS 9, *Financial Instruments*, which requires lifetime expected losses to be recognized from the initial recognition of the receivables. CATSA has not recorded a credit loss provision on cash because of the high credit quality of the financial institutions in which CATSA holds such instruments.

CATSA derecognizes a non-derivative financial asset when the contractual rights to the cash flows from the asset are either collected, expire or are transferred to another party.

Non-derivative financial liabilities include trade and other payables and holdbacks.

CATSA classifies non-derivative financial liabilities into the category of financial liabilities measured at amortized cost. Non-derivative financial liabilities are recognized on the trade date at which CATSA becomes a party to the contractual provisions of the instrument. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

CATSA derecognizes a non-derivative financial liability when its contractual obligations are discharged, cancelled or expired.

(ii) Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts entered into by CATSA for the purpose of managing its exposure to foreign currency risk. CATSA does not apply hedge accounting to its derivative financial instruments.

Derivative financial instruments are classified at fair value through profit and loss. These derivative financial instruments are initially recognized at fair value at the date at which CATSA enters into the derivative contracts. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The resulting change in fair value is recognized in financial performance in the Condensed Interim Statement of Comprehensive Income (Loss). CATSA derecognizes a derivative financial instrument upon settlement of the instrument.

The fair values of derivative financial instruments are presented in the Condensed Interim Statement of Financial Position; the positive fair values are reported as derivative financial assets and the negative fair values are reported as derivative financial liabilities. If a derivative financial asset or a derivative financial liability has a maturity date of more than 12 months after the reporting period, they are classified as non-current.

(j) Employee benefits

(i) Post-employment benefit plans – defined benefit

The employee benefits asset and liability presented in the Condensed Interim Statement of Financial Position represent the actual surplus or deficit of each of CATSA's defined benefit pension plans and its other defined benefits plan. The surplus or deficit is determined by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The future benefit is then discounted to determine its present value, using a discount rate established at the end of the reporting period. The obligation is recognized over the period of employee service determined actuarially using the projected unit credit method. To the extent applicable, the fair value of any plan assets is deducted from the present value of the future benefit obligation. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined benefit costs are categorized as follows:

- service costs;
- net interest on the net defined benefit asset or liability; and
- remeasurements.

Service costs are determined separately for each plan using the projected unit credit method, with actuarial valuations for accounting purposes being carried out at the end of each annual reporting period. Current service cost is recognized as employee costs in determining financial performance. Employee contributions are recorded as a reduction to service cost in the period in which the related service is rendered. Past service cost is recognized as an employee cost in financial performance in the period of plan amendment or when the related restructuring costs or termination benefits are recognized, whichever is earlier. Administration costs paid from the plan assets during the period, excluding the costs of managing plan assets, are included in service costs. The cost of managing plan assets is recorded against the actual return on plan assets.

Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligation to the net defined benefit asset or liability, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. The discount rate is determined by reference to the yield, at the beginning of the period, on high quality corporate and provincial bonds that:

a) have an overall duration equal to the respective duration of the defined benefit obligations; and

b) are denominated in the same currency in which the benefits are expected to be paid.

Net interest is recognized as employee costs in determining financial performance.

Remeasurement of defined benefit plans consists of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of changes in the asset ceiling (if applicable). When a funded plan gives rise to a net pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Those future economic benefits are available under the terms of CATSA's defined benefit pension plans, which allow CATSA to take contribution holidays when certain funding thresholds are met.

Remeasurement of defined benefit plans is recognized in other comprehensive income or loss and is included immediately in accumulated surplus (deficit) without reclassification to financial performance in a subsequent period.

(ii) Post-employment benefit plan – defined contribution

Employer contributions to the defined contribution pension plan are recognized as an employee cost in financial performance when employees have rendered service entitling them to the contributions.

(iii) Termination benefits

Termination benefits result from either CATSA's decision to terminate employment or an employee's decision to accept the entity's offer of benefits in exchange for termination of employment. CATSA recognizes termination benefits at the earliest of when the entity can no longer withdraw the offer of those benefits or when restructuring costs are accrued if termination benefits are part of a restructuring plan. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

(iv) Short-term employee benefits

Short-term employee benefit obligations, such as salaries, annual leave and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized in trade and other payables for the amount expected to be paid when CATSA has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions and contingencies

A provision is a liability of uncertain timing or amount. A provision is recognized if, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle a present legal or constructive obligation, and the obligation can be estimated reliably.

Contingent liabilities are not recognized in the Condensed Interim Statement of Financial Position. They may arise from uncertainty as to the existence of a liability, or represent an existing liability in respect of which settlement is not probable or, in extremely rare cases, the amount cannot be reliably measured. A liability is recognized when its existence is confirmed by a future event, settlement becomes probable and reliable measurement becomes possible. Unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability is disclosed when:

- a possible obligation has arisen from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of CATSA; or

- a present obligation has arisen from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(i) Disputed claims

In the normal course of operations, CATSA receives claims requesting monetary compensation from various parties. A provision is accrued to the extent management believes it is probable that a disputed claim arising from a past event results in a present legal or constructive obligation, and the obligation can be estimated reliably. If the timing of the cash outflows associated with the disputed claim can be reasonably determined to be more than 12 months after the reporting period, the provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(ii) Decommissioning costs

CATSA has future obligations associated with the disposal of certain screening equipment in an environmentally responsible manner, and the restoration of leased premises to an agreed upon standard at the end of the lease. To the extent that it is probable that these obligations will result in an outflow of economic benefits, CATSA recognizes a provision for decommissioning liabilities, and the costs are capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

(l) Revenue

(i) Supplemental screening services

CATSA's revenue from contracts with customers is for supplemental screening services at airports on a cost recovery basis. A contract for supplemental screening services exists when collection of consideration is probable, the contract has commercial substance, the rights to supplemental screening services and payment terms are identifiable, and the contract is approved and all parties are committed to their obligations. The contracts may have varying stated terms, but are cancellable at any time by either party, subject to a notice period. Payments for services are due within 30 days of invoicing.

Revenue from supplemental screening services is recognized in financial performance as the customer obtains control of the service, which occurs over time as the screening services are provided. A time-based measure is used to measure the progress of transferring services to the customer.

Revenue is measured at the transaction price, which is the amount that CATSA expects to be entitled to in exchange for the supplemental screening services. The transaction price is based on screening services provided by CATSA and rates specified in the contract and excludes taxes collected on behalf of third parties. Since the supplemental screening service is a single performance obligation, no other allocation is required.

(ii) Finance income

Finance income is comprised primarily of interest income derived from cash balances and is recognized in financial performance in the period it is earned.

(m) Government funding

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Parliamentary appropriations are accounted for as Government of Canada grants and are recognized in financial performance on a systematic basis over the periods in which CATSA recognizes as expenses the related costs for which the grants are intended to compensate.

Appropriations related to operating expenses for future periods are recorded as deferred government funding related to operating expenses and are recognized in financial performance in the period in which the related expenses are incurred. Appropriations used for the purchase of property and equipment and intangible assets are recorded as deferred government funding related to capital expenditures and are amortized on the same basis as the related assets. Appropriations used for lease payments are recognized in financial performance in the period in which lease payments are made.

Upon the disposal of funded depreciable assets, the related remaining deferred government funding is recognized in financial performance in the period of disposal.

Unused parliamentary appropriations at year-end are lapsed or reprofiled to future years.

(n) Finance cost

Finance cost, which is comprised primarily of interest expense associated with CATSA's lease liabilities, is recognized in financial performance in the period in which it is incurred.

(o) Foreign currency translation

Transactions in foreign currency are translated using exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, using the exchange rates at the end of the reporting period, are recognized in financial performance. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates the assets are acquired or the obligations are incurred.

(In thousands of Canadian dollars)

4. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2021	March 31, 2021
Parliamentary appropriations (note 17)	$ 111,516	$ 110,788
GST and HST recoverable	4,440	5,329
PST recoverable	3,006	2,072
Other	352	340
	$ 119,314	$ 118,529

Credit terms on trade receivables are 30 days. As at June 30, 2021, and March 31, 2021, there were no amounts included in trade and other receivables that were past due.

5. Inventories

Inventories are comprised of:

	June 30, 2021	March 31, 2021
Spare parts	$ 11,557	$ 11,575
RAIC	1,334	1,502
Uniforms	566	990
	$ 13,457	$ 14,067

During the three months ended June 30, 2021, CATSA recognized write-downs of $189 (2020 – $Nil) for spare parts relating to legacy equipment platforms retired from service.

(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, 2020	$ 156,408	$ 712,085	$ 20,857	$ 4,683	$ 28,706	$ 129	$ 9,914	$ 55,049	$ 987,831
Additions	3,680	31,915	265	502	6,446	-	258	8,583	51,649
Disposals	(298)	(121,645)	-	-	(663)	-	-	-	(122,606)
Write-offs	(3,177)	(127)	(203)	(16)	(4,115)	-	(124)	-	(7,762)
Impairments	-	-	-	-	(177)	-	-	-	(177)
Reclassifications	3,854	40,056	-	167	848	-	65	(44,990)	-
Balance, March 31, 2021	$ 160,467	$ 662,284	$ 20,919	$ 5,336	$ 31,045	$ 129	$ 10,113	$ 18,642	$ 908,935
Balance, March 31, 2021	$ 160,467	$ 662,284	$ 20,919	$ 5,336	$ 31,045	$ 129	$ 10,113	$ 18,642	$ 908,935
Additions	-	1,833	-	-	-	-	-	429	2,262
Disposals	-	(1,078)	-	-	-	-	-	-	(1,078)
Write-offs	(88)	-	-	-	(1,355)	-	-	-	(1,443)
Reclassifications	658	50	4	15	550	-	-	(1,277)	-
Balance, June 30, 2021	$ 161,037	$ 663,089	$ 20,923	$ 5,351	$ 30,240	$ 129	$ 10,113	$ 17,794	$ 908,676
Accumulated depreciation									
Balance, March 31, 2020	$ 103,190	$ 355,535	$ 14,029	$ 3,769	$ 19,191	$ 48	$ 8,873	$ -	$ 504,635
Depreciation	9,817	54,704	1,186	453	3,638	24	399	-	70,221
Disposals	(298)	(121,616)	-	-	(663)	-	-	-	(122,577)
Write-offs	(3,119)	664	(203)	(16)	(4,115)	-	(124)	-	(6,913)
Balance, March 31, 2021	$ 109,590	$ 289,287	$ 15,012	$ 4,206	$ 18,051	$ 72	$ 9,148	$ -	$ 445,366
Balance, March 31, 2021	$ 109,590	$ 289,287	$ 15,012	$ 4,206	$ 18,051	$ 72	$ 9,148	$ -	$ 445,366
Depreciation	2,234	15,028	280	92	1,205	6	107	-	18,952
Disposals	-	(1,078)	-	-	-	-	-	-	(1,078)
Write-offs	(88)	-	-	-	(1,355)	-	-	-	(1,443)
Balance, June 30, 2021	$ 111,736	$ 303,237	$ 15,292	$ 4,298	$ 17,901	$ 78	$ 9,255	$ -	$ 461,797
Carrying amounts									
As at March 31, 2021	$ 50,877	$ 372,997	$ 5,907	$ 1,130	$ 12,994	$ 57	$ 965	$ 18,642	$ 463,569
As at June 30, 2021	$ 49,301	$ 359,852	$ 5,631	$ 1,053	$ 12,339	$ 51	$ 858	$ 17,794	$ 446,879

(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, 2020	$ 11,627	$ 16,919	$ 4,729	$ 33,275
Additions	39	1,943	73	2,055
Write-offs	(512)	(2,747)	-	(3,259)
Reclassifications	-	4,729	(4,729)	-
Balance, March 31, 2021	$ 11,154	$ 20,844	$ 73	$ 32,071
Balance, March 31, 2021	$ 11,154	$ 20,844	$ 73	$ 32,071
Additions	-	-	28	28
Balance, June 30, 2021	$ 11,154	$ 20,844	$ 101	$ 32,099
Accumulated amortization				
Balance, March 31, 2020	$ 4,722	$ 11,524	$ -	$ 16,246
Amortization	1,058	1,192	-	2,250
Write-offs	(512)	(2,747)	-	(3,259)
Balance, March 31, 2021	$ 5,268	$ 9,969	$ -	$ 15,237
Balance, March 31, 2021	$ 5,268	$ 9,969	$ -	$ 15,237
Amortization	260	388	-	648
Balance, June 30, 2021	$ 5,528	$ 10,357	$ -	$ 15,885
Carrying amounts				
As at March 31, 2021	$ 5,886	$ 10,875	$ 73	$ 16,834
As at June 30, 2021	$ 5,626	$ 10,487	$ 101	$ 16,214

(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, March 31, 2020	$ 20,573	$ 1,638	$ 22,211
Additions	5	-	5
Decreases	(8,624)	-	(8,624)
Depreciation	(3,388)	(267)	(3,655)
Balance, March 31, 2021	$ 8,566	$ 1,371	$ 9,937
Balance, March 31, 2021	$ 8,566	$ 1,371	$ 9,937
Additions	100	-	100
Decreases	(36)	-	(36)
Depreciation	(826)	(67)	(893)
Balance, June 30, 2021	$ 7,804	$ 1,304	$ 9,108

9. Employee benefits

(a) Employee benefits asset and liability

Employee benefits asset and liability recognized and presented in the Condensed Interim Statement of Financial Position are detailed as follows:

	June 30, 2021	March 31, 2021
Employee benefits asset		
Registered pension plan (RPP)	$ 32,986	$ 32,058
Supplementary retirement plan (SRP)	2,430	2,467
	35,416	34,525
Employee benefits liability		
Other defined benefits plan (ODBP)	(21,598)	(20,054)
	(21,598)	(20,054)
Employee benefits - net asset	$ 13,818	$ 14,471

(In thousands of Canadian dollars)

(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended June 30							
	RPP		SRP		ODBP		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Defined benefit cost recognized in financial performance								
Current service cost	$ 1,726	$ 1,834	$ 20	$ 19	$ 256	$ 267	$ 2,002	$ 2,120
Administration costs	94	94	4	4	-	-	98	98
Interest cost on defined benefit obligation	1,939	1,976	46	48	183	202	2,168	2,226
Interest income on plan assets	(2,186)	(1,874)	(68)	(61)	-	-	(2,254)	(1,935)
	$ 1,573	$ 2,030	$ 2	$ 10	$ 439	$ 469	$ 2,014	$ 2,509
Remeasurement of defined benefit plans recognized in other comprehensive loss								
Return on plan assets excluding interest income	$ 11,543	$ 25,082	$ 213	$ 408	$ -	$ -	$ 11,756	$ 25,490
Actuarial losses	(11,764)	(49,340)	(248)	(1,044)	(1,151)	(5,253)	(13,163)	(55,637)
	$ (221)	$(24,258)	$ (35)	$ (636)	$ (1,151)	$(5,253)	$ (1,407)	$ (30,147)

For the three months ended June 30, 2021, CATSA recognized an expense of $247 (2020 - $216) 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 June 30, 2021, remeasurement losses of $1,407 resulted from a decrease in the discount rate of 25 basis points (from 3.50% at March 31, 2021 to 3.25% at June 30, 2021). This was partially offset by a higher actual rate of return on plan assets than the rates used in CATSA's assumptions for the RPP (4.65% actual versus 0.88% expected).

For the three months ended June 30, 2020, remeasurement losses of $30,147 resulted from a decrease in the discount rate of 100 basis points (from 3.75% at March 31, 2020 to 2.75% at June 30, 2020). This was partially offset by a higher actual rate of return on plan assets than the rates used in CATSA's assumptions for the RPP (14.77% actual versus 0.94% expected).

(In thousands of Canadian dollars)

(d) Employer contributions

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

	Three months ended June 30	
	2021	2020
Employer contributions		
RPP	$ 2,722	$ 1,761
ODBP	46	47
	$ 2,768	$ 1,808

Total employer contributions to the defined benefit plans are estimated to be $9,957 for the year ending March 31, 2022.

10. 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 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 June 30, 2021, relate to amounts assessed by Transport Canada and are unchanged from March 31, 2021. 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

As at June 30, 2021, there were no significant legal claims outstanding against CATSA.

(ii) Decommissioning costs

During the three months ended June 30, 2021, there have been no material changes to contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 10(b)(ii) of the audited annual financial statements for the year ended March 31, 2021.

(In thousands of Canadian dollars)

11. 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:

	June 30, 2021	March 31, 2021
Balance, beginning of period	$ 10,674	$ 22,927
Additions	100	5
Decreases	(36)	(8,624)
Lease payments (note 14)	(1,031)	(3,973)
Finance costs	38	348
Foreign exchange revaluation	1	(9)
Balance, end of period	$ 9,746	$ 10,674
Balance, end of period		
Current	$ 3,509	$ 3,667
Non-current	6,237	7,007

CATSA recognized other lease costs that are not included in the measurement of the lease liabilities as follows:

	Three months ended June 30	
	2021	2020
Variable lease payments	$ 548	$ 657
Short-term leases	15	1
Low value leases	17	15
Other lease costs (note 13)	$ 580	$ 673

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

For the three months ended June 30, 2021, CATSA recognized a total cash outflow for leases of $1,611 (2020 - $1,709).

(In thousands of Canadian dollars)

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

	June 30, 2021	March 31, 2021
No later than 1 year	$ 7,282	$ 7,262
Later than 1 year and no later than 5 years	3,853	5,368
Later than 5 years	183	213
	$ 11,318	$ 12,843

12. Deferred government funding

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

	June 30, 2021	March 31, 2021
Deferred government funding related to operating expenses		
Balance, beginning of period	$ 21,079	$ 19,420
Parliamentary appropriations used to fund operating expenses (note 14)	151,404	628,069
Parliamentary appropriations for operating expenses recognized in financial performance	(152,865)	(626,410)
Balance, end of period	$ 19,618	$ 21,079
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 479,306	$ 498,794
Parliamentary appropriations used to fund capital expenditures (note 14)	2,294	53,720
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(19,550)	(73,208)
Balance, end of period	$ 462,050	$ 479,306
Total deferred government funding, end of period	$ 481,668	$ 500,385

For additional information on government funding, see note 14.

(In thousands of Canadian dollars)

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 June 30	
	2021	2020
Screening services and other related costs		
Payments to screening contractors	$ 119,617	$ 127,110
Uniforms and other screening costs	2,664	2,166
Trace and consumables	523	1,301
	122,804	130,577
Equipment operating and maintenance		
Equipment maintenance and spare parts	8,446	8,147
RAIC	172	55
Training and certification	57	(87)
	8,675	8,115
Program support and corporate services		
Employee costs	17,307	17,732
Other administrative costs[1]	1,539	1,752
Office and computer expenses	1,501	1,756
Professional services and other business related costs[2]	1,381	899
Other lease costs (note 11)	580	673
Communications and public awareness	49	62
	22,357	22,874
Depreciation and amortization		
Depreciation of property and equipment (note 6)	18,952	17,150
Depreciation of right-of-use assets (note 8)	893	915
Amortization of intangible assets (note 7)	648	490
	20,493	18,555
	$ 174,329	$ 180,121

[1] Other administrative costs include insurance, network and telephone expenses, and facilities maintenance.

[2] Other business related costs include travel expenses, conference fees, membership and association fees, and meeting expenses.

(In thousands of Canadian dollars)

Payments to screening contractors includes amounts paid under temporary arrangements to maintain the certified screening officer workforce at a level deemed appropriate for CATSA to respond as the aviation industry recovers. 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 June 30	
	2021	2020
PBS	$ 15,948	$ 46,704
HBS	3,379	11,095
NPS	5,978	8,061
	$ 25,305	$ 65,860

(In thousands of Canadian dollars)

14. Government funding

CATSA's *Summary of the 2021/22 – 2022/23 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet publicly available. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

The following table reconciles parliamentary appropriations for operating expenses that were received and receivable with the amount of appropriations used:

	Three months ended June 30	
	2021	2020
Parliamentary appropriations received	$ 154,000	$ 205,475
Amounts received related to prior periods	(98,694)	(144,490)
Parliamentary appropriations receivable	96,098	99,060
Parliamentary appropriations used to fund operating expenses (note 12)	$ 151,404	$ 160,045

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 June 30	
	2021	2020
Parliamentary appropriations received	$ -	$ 1,117
Amounts receivable related to prior periods	(12,093)	-
Parliamentary appropriations receivable	14,387	11,027
Parliamentary appropriations used to fund capital expenditures (note 12)	2,294	12,144
Parliamentary appropriations used to fund lease payments (note 11)	1,031	1,036
Parliamentary appropriations used to fund capital expenditures and lease payments	$ 3,325	$ 13,180

(In thousands of Canadian dollars)

15. Fair values of financial instruments

Derivative financial instruments are recorded at fair value in the Condensed Interim Statement of Financial Position. The fair values of cash, 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:

	June 30, 2021		March 31, 2021	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial liabilities[1]	$ 958	$ 958	$ 1,197	$ 1,197

[1] The fair value is based on a discounted cash flow model based on observable inputs.

There were no transfers between levels during the three months ended June 30, 2021, or the year ended March 31, 2021.

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:

	June 30, 2021	March 31, 2021
Operating	$ 2,200,619	$ 2,283,534
Capital	7,292	10,688
	$ 2,207,911	$ 2,294,222

(In thousands of Canadian dollars)

17. Related party transactions

CATSA had the following transactions with related parties:

(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.

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. For the three months ended June 30, 2021, government funding of $173,446 (2020 – $177,872) is recognized in the Condensed Interim Statement of Comprehensive Income (Loss), and includes parliamentary appropriations for operating expenses, parliamentary appropriations for lease payments, and amortization of deferred government funding related to capital expenditures. Parliamentary appropriations receivable of $111,516 (March 31, 2021 – $110,788), are included in trade and other receivables in the Condensed Interim Statement of Financial Position.

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

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as disclosed in note 9. No other transactions were made during the three month period.

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 June 30	
	2021	2020
Decrease in trade and other receivables	$ 1,509	$ 37,751
Decrease in inventories	421	485
Decrease (increase) in prepaids	851	(2,194)
Increase in trade and other payables	15,159	11,296
Increase in provisions	-	300
(Decrease) increase in deferred government funding related to operating expenses	(1,461)	1,709
	$ 16,479	$ 49,347

The change in trade and other receivables excludes an amount of $2,294 (2020 – $11,027) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

The change in inventories excludes an amount of $189 (2020 – $Nil) resulting from net write-downs of inventories. The amount is included as part of other non-cash transactions in the Condensed Interim Statement of Cash Flows.

The change in prepaids excludes an amount of $Nil (2020 – $26) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of $10,109 (2020 – $16,366) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

19. 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 and CATSA intends to continue to realize its assets and discharge its liabilities in the normal course of business.

In light of the impacts of the COVID-19 pandemic on the aviation industry, no further developments have occurred regarding the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

20. Impact of COVID-19 Pandemic

As a result of the COVID-19 pandemic, 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.

Given the impact on screening operations, CATSA entered into temporary arrangements with its third party screening contractors. These arrangements have resulted in a reduction in screening hours purchased that does not fully reflect the decline in passenger volumes, ensuring that CATSA maintains the certified screening officer workforce at a level deemed appropriate to contain costs while allowing CATSA the flexibility to respond as the aviation industry recovers.