

Quarterly Financial Report

For the Three and Six Months Ended
September 30, 2021



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 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 and six months ended September 30, 2021. 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, 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*, and the *Quarterly Financial Report for the three months ended June 30, 2021*. The information in this report is expressed in thousands of Canadian dollars and is current to November 24, 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 significant reduction in passenger volumes at Canadian airports. Statistics from CATSA's Boarding Pass Security System indicate that screened traffic across Canada decreased by 62.5% and 87.2% for the three months ended September 30, 2021 and September 30, 2020, respectively, compared to the three months ended September 30, 2019. CATSA's screening operations and screening equipment have been impacted, 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 instructed 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.

In October 2021, the Government of Canada announced a mandatory COVID-19 vaccination requirement for passengers and non-passengers entering restricted areas at airports. TC instructed CATSA to validate proof of vaccinations during the phase-in period of this requirement.

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 and six months ended September 30, 2021, and September 30, 2020.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)								
(Unaudited)								
	Three Months Ended September 30				Six Months Ended September 30			
	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Expenses¹								
Screening services and other related costs	\$ 144,603	\$ 126,031	\$ 18,572	14.7%	\$ 267,407	\$ 256,608	\$ 10,799	4.2%
Equipment operating and maintenance	10,688	9,274	1,414	15.2%	19,363	17,389	1,974	11.4%
Program support and corporate services	20,004	21,181	(1,177)	(5.6%)	42,361	44,055	(1,694)	(3.8%)
Depreciation and amortization	20,236	18,411	1,825	9.9%	40,729	36,966	3,763	10.2%
Total expenses	195,531	174,897	20,634	11.8%	369,860	355,018	14,842	4.2%
Other expenses (income)	1,842	386	1,456	377.2%	2,096	1,876	220	11.7%
Financial performance before revenue and government funding	197,373	175,283	22,090	12.6%	371,956	356,894	15,062	4.2%
Revenue	78	79	(1)	(1.3%)	127	189	(62)	(32.8%)
Government funding								
Parliamentary appropriations for operating expenses	175,703	155,458	20,245	13.0%	328,568	313,794	14,774	4.7%
Amortization of deferred government funding related to capital expenditures	21,253	17,457	3,796	21.7%	40,803	35,957	4,846	13.5%
Parliamentary appropriations for lease payments	980	977	3	0.3%	2,011	2,013	(2)	(0.1%)
Total government funding	197,936	173,892	24,044	13.8%	371,382	351,764	19,618	5.6%
Financial performance	\$ 641	\$ (1,312)	\$ 1,953	N/M	\$ (447)	\$ (4,941)	\$ 4,494	91.0%
Other comprehensive income (loss)	8,171	3,711	4,460	120.2%	6,764	(26,436)	33,200	N/M
Total comprehensive income (loss)	\$ 8,812	\$ 2,399	\$ 6,413	267.3%	\$ 6,317	\$ (31,377)	\$ 37,694	N/M

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, 2021.

N/M = not meaningful

Screening services and other related costs

Screening services and other related costs increased by \$18,572 (14.7%) and by \$10,799 (4.2%) for the three and six months ended September 30, 2021, respectively, compared to the same periods in 2020.

The increase for the three months ended September 30, 2021, is primarily attributable to increased passenger volumes, resulting in the purchase of additional screening hours of \$13,497 and an increase in

other screening related costs of \$1,998, which consists of screening officer uniforms, trace and other consumables. The increase is also attributable to annual screening contract billing rate increases of \$3,133.

The increase for the six months ended September 30, 2021, is primarily attributable to annual screening contract billing rate increases of \$7,958, and an increase in other screening related costs of \$2,176.

Equipment operating and maintenance

Equipment operating and maintenance increased by \$1,414 (15.2%) and by \$1,974 (11.4%) for the three and six months ended September 30, 2021, respectively, compared to the same periods in 2020. The increases are primarily due to write-downs of \$1,209 and \$1,398, respectively, for spare parts relating to equipment taken out of service due to the HBS recapitalization program and temperature screening.

The increases are also attributable to increased maintenance activity at the airports as more equipment is put back into service and training on new equipment resumes.

Program support and corporate services

Program support and corporate services decreased by \$1,177 (5.6%) and by \$1,694 (3.8%) for the three and six months ended September 30, 2021, respectively, compared to the same periods in 2020. The decreases are mainly attributable to lower employee-related costs, including costs associated with CATSA's defined benefit pension plan.

Depreciation and amortization

Depreciation and amortization increased by \$1,825 (9.9%) and by \$3,763 (10.2%) for the three and six months ended September 30, 2021, respectively, compared to the same periods in 2020. The increases are 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 increases are partially offset by assets becoming fully depreciated.

Other expenses (income)

Other expenses (income) increased by \$1,456 (377.2%) and by \$220 (11.7%) for the three and six months ended September 30, 2021, respectively, compared to the same periods in 2020. The increases are primarily due to impairment losses relating to temperature screening equipment and net foreign exchange losses. The increases were partially offset by net gains on the fair value of derivative financial instruments.

Government Funding

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

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by \$20,245 (13.0%) and by \$14,774 (4.7%) for the three and six months ended September 30, 2021, respectively, compared to the same periods in 2020. The increases are primarily attributable to increased spending for screening services and other related costs, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by \$3,796 (21.7%) and by \$4,846 (13.5%) for the three and six months ended September 30, 2021, respectively, compared to

the same periods in 2020. The increases are primarily attributable to increased depreciation and amortization, as well as losses on the impairment of property and equipment, as discussed above.

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 \$8,171 for the three months ended September 30, 2021, is attributable to a remeasurement gain of \$13,163 on the defined benefit liability arising from a 25 basis point increase in the discount rate between June 30, 2021, and September 30, 2021. This was partially offset by a remeasurement loss of \$4,992 resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive income of \$3,711 for the three months ended September 30, 2020, was attributable to a remeasurement gain resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions.

Other comprehensive income of \$6,764 for the six months ended September 30, 2021, is attributable to a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive loss of \$26,436 for the six months ended September 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 September 30, 2020. This was 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.

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 September 30, 2021, compared to March 31, 2021.

Key Financial Highlights - Condensed Interim Statement of Financial Position				
(Unaudited)	September 30,	March 31,		
(Thousands of Canadian dollars)	2021	2021	\$ Change	% Change
Current assets	\$ 152,060	\$ 153,694	\$ (1,634)	(1.1%)
Non-current assets	494,725	524,865	(30,140)	(5.7%)
Total assets	\$ 646,785	\$ 678,559	\$ (31,774)	(4.7%)
Current liabilities	\$ 158,496	\$ 158,616	\$ (120)	(0.1%)
Non-current liabilities	468,466	506,437	(37,971)	(7.5%)
Total liabilities	\$ 626,962	\$ 665,053	\$ (38,091)	(5.7%)

Assets

Current assets decreased by \$1,634 (1.1%) primarily attributable to the following:

- Decrease in inventory of \$2,103 primarily due to write-downs for spare parts relating to equipment taken out of service due to the HBS recapitalization program and temperature screening, and the net usage of inventories;

- Decrease in prepaid expenses of \$2,697 due to the amortization of annual insurance premiums, and annual maintenance and support services; and
- Increase in trade and other receivables of \$2,563 due to an increase in parliamentary appropriations receivable.

Non-current assets decreased by \$30,140 (5.7%) primarily attributable to the following:

- Decrease in property and equipment and intangible assets of \$37,580 primarily attributable to depreciation and amortization totaling \$38,924, partially offset by acquisitions totaling \$3,324; and
- Increase in employee benefits of \$8,646 in relation to CATSA's registered pension plan and supplementary retirement plan.

Liabilities

Current liabilities decreased by \$120 (0.1%) primarily attributable to the following:

- Decrease in deferred government funding related to operating expenditures of \$4,800 due to a reduction in inventories and prepaid expenses;
- Decrease in other current liabilities of \$904, primarily due to fluctuations in derivative financial instruments; and
- Increase in trade and other payables of \$5,584 attributable to the timing of disbursements associated with obligations outstanding with suppliers.

Non-current liabilities decreased by \$37,971 (7.5%) primarily attributable to the following:

- Decrease in the deferred government funding related to capital expenditures of \$37,475 attributable to amortization of deferred government funding related to capital expenditures of \$40,803 exceeding parliamentary appropriations used to fund capital expenditures of \$3,328.

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		Six Months Ended	
	September 30		September 30	
	2021	2020	2021	2020
Financial performance before revenue and government funding	\$ 197,373	\$ 175,283	\$ 371,956	\$ 356,894
Revenue	(78)	(79)	(127)	(189)
Financial performance before government funding	197,295	175,204	371,829	356,705
Non-cash items				
Depreciation and amortization	(20,236)	(18,411)	(40,729)	(36,966)
Impairment of property and equipment	(1,940)	-	(1,940)	(177)
Employee cost accruals ¹	(83)	(443)	(1,999)	(2,554)
Non-cash (loss) gain on foreign exchange recognized in financial performance	(56)	23	(271)	250
Write-off of property and equipment and intangible assets	(40)	(26)	(40)	(798)
Non-cash finance costs related to leases	(36)	(109)	(74)	(222)
Change in fair value of financial instruments at fair value through profit and loss	457	(407)	696	(1,388)
Employee benefits expense ²	342	(379)	1,096	(1,080)
Gain on disposal of property and equipment	-	6	-	31
Spare parts expense funded from capital ³	-	-	-	(7)
Appropriations used for operating expenses	\$ 175,703	\$ 155,458	\$ 328,568	\$ 313,794
Other items affecting funding				
Net change in prepaids and inventories ⁴	(3,339)	(1,882)	(4,800)	(173)
Total operating appropriations used	\$ 172,364	\$ 153,576	\$ 323,768	\$ 313,621

¹ Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to September 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 expense is 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 and inventories funded through operating appropriations 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 (unaudited) (Thousands of Canadian dollars)	Three Months Ended September 30		Six Months Ended September 30	
	2021	2020	2021	2020
	Explosives Detection Systems	\$ 829	\$ 10,827	\$ 3,064
Non-Explosives Detection Systems	205	3,078	260	8,146
Lease payments	980	977	2,011	2,013
Total capital expenditures	\$ 2,014	\$ 14,882	\$ 5,335	\$ 28,089
Proceeds on disposal of property and equipment ¹	-	(29)	-	(56)
Non-cash adjustment on foreign exchange related to capital expenditures	-	-	4	-
Total capital appropriations used	\$ 2,014	\$ 14,853	\$ 5,339	\$ 28,033

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

November 24, 2021



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

Ottawa, Canada

November 24, 2021

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY
AUTHORITY**

September 30, 2021

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	September 30, 2021	March 31, 2021
Assets		
Current assets		
Cash	\$ 14,689	\$ 14,086
Trade and other receivables (note 4)	121,092	118,529
Inventories (note 5)	11,964	14,067
Prepays	4,315	7,012
	152,060	153,694
Non-current assets		
Property and equipment (note 6)	427,262	463,569
Intangible assets (note 7)	15,561	16,834
Right-of-use assets (note 8)	8,731	9,937
Employee benefits asset (note 9)	43,171	34,525
	494,725	524,865
Total assets	\$ 646,785	\$ 678,559
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 115,775	\$ 110,191
Holdbacks	22,198	22,352
Provisions (note 10)	200	200
Lease liabilities (note 11)	3,543	3,667
Deferred government funding related to operating expenses (note 12)	16,279	21,079
Derivative financial liabilities (note 15)	501	1,127
	158,496	158,616
Non-current liabilities		
Lease liabilities (note 11)	5,795	7,007
Deferred government funding related to capital expenditures (note 12)	441,831	479,306
Derivative financial liabilities (note 15)	-	70
Employee benefits liability (note 9)	20,840	20,054
	468,466	506,437
Equity		
Accumulated surplus	19,823	13,506
Total liabilities and equity	\$ 646,785	\$ 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		Six months ended	
	September 30		September 30	
	2021	2020	2021	2020
Expenses				
Pre-Board Screening	\$ 103,047	\$ 90,969	\$ 183,253	\$ 182,756
Hold Baggage Screening	41,392	36,593	79,367	76,726
Non-Passenger Screening	39,040	34,557	81,960	69,553
Restricted Area Identity Card Program	669	559	1,442	1,116
Corporate services	11,383	12,219	23,838	24,867
Total expenses (note 13)	195,531	174,897	369,860	355,018
Other expenses (income)				
Impairment of property and equipment (note 6)	1,940	-	1,940	177
Foreign exchange loss (gain)	283	(152)	736	(680)
Write-off of property and equipment and intangible assets	40	26	40	798
Finance costs	36	111	76	224
Net (gain) loss on fair value of derivative financial instruments	(457)	407	(696)	1,388
Gain on disposal of property and equipment	-	(6)	-	(31)
Total other expenses (income)	1,842	386	2,096	1,876
Financial performance before revenue and government funding	197,373	175,283	371,956	356,894
Revenue				
Finance income	78	79	127	189
Total revenue	78	79	127	189
Government funding				
Parliamentary appropriations for operating expenses (note 12)	175,703	155,458	328,568	313,794
Amortization of deferred government funding related to capital expenditures (note 12)	21,253	17,457	40,803	35,957
Parliamentary appropriations for lease payments (note 14)	980	977	2,011	2,013
Total government funding	197,936	173,892	371,382	351,764
Financial performance	\$ 641	\$ (1,312)	\$ (447)	\$ (4,941)
Other comprehensive income (loss)				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	8,171	3,711	6,764	(26,436)
Total comprehensive income (loss)	\$ 8,812	\$ 2,399	\$ 6,317	\$ (31,377)

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 surplus (deficit)
Balance, June 30, 2021	\$ 11,011
Financial performance	641
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	8,171
Balance, September 30, 2021	\$ 19,823
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 9)	3,711
Balance, September 30, 2020	\$ (55,279)

For the six months ended September 30:

	Accumulated surplus (deficit)
Balance, March 31, 2021	\$ 13,506
Financial performance	(447)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	6,764
Balance, September 30, 2021	\$ 19,823
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 9)	(26,436)
Balance, September 30, 2020	\$ (55,279)

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	
	2021	2020	2021	2020
Cash flows provided by (used in)				
Operating activities				
Financial performance	\$ 641	\$ (1,312)	\$ (447)	\$ (4,941)
Items not involving cash				
Depreciation and amortization (note 13)	20,236	18,411	40,729	36,966
Impairment of property and equipment (note 6)	1,940	-	1,940	177
Other non-cash transactions	1,210	(2)	1,400	-
Write-off of property and equipment and intangible assets	40	26	40	798
Amortization of deferred government funding related to capital expenditures (note 12)	(21,253)	(17,457)	(40,803)	(35,957)
Change in fair value of financial instruments at fair value through profit and loss	(457)	407	(696)	1,388
Change in net employee benefits asset/liability	(342)	379	(1,096)	1,080
Gain on disposal of property and equipment	-	(6)	-	(31)
Net change in working capital balances (note 18)	(8,022)	(28,419)	8,457	20,928
	(6,007)	(27,973)	9,524	20,408
Investing activities				
Parliamentary appropriations received for capital funding (note 14)	13,082	12,070	13,082	13,187
Purchase of property and equipment	(7,867)	(12,801)	(19,990)	(38,929)
Purchase of intangible assets	-	(150)	(76)	(2,055)
	5,215	(881)	(6,984)	(27,797)
Financing activities				
Lease principal payments	(944)	(868)	(1,937)	(1,791)
	(944)	(868)	(1,937)	(1,791)
(Decrease) increase in cash	(1,736)	(29,722)	603	(9,180)
Cash, beginning of period	16,425	39,034	14,086	18,492
Cash, end of period	\$ 14,689	\$ 9,312	\$ 14,689	\$ 9,312

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, 2021
(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 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 November 24, 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

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, 2021, and the condensed interim financial statements for the three months ended June 30, 2021.

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(In thousands of Canadian dollars)

4. Trade and other receivables

Trade and other receivables are comprised of:

	September 30, 2021	March 31, 2021
Parliamentary appropriations (note 17)	\$ 114,107	\$ 110,788
GST and HST recoverable	4,786	5,329
PST recoverable	1,841	2,072
Other	358	340
	<u>\$ 121,092</u>	<u>\$ 118,529</u>

Credit terms on trade receivables are 30 days. As at September 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:

	September 30, 2021	March 31, 2021
Spare parts	\$ 10,357	\$ 11,575
RAIC	1,329	1,502
Uniforms	278	990
	<u>\$ 11,964</u>	<u>\$ 14,067</u>

During the three and six months ended September 30, 2021, CATSA recognized write-downs of \$1,209 (2020 – \$Nil) and \$1,398 (2020 – \$Nil), respectively, for spare parts relating to equipment taken out of service due to the HBS recapitalization program and temperature screening.

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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, 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	43	2,010	-	-	58	-	-	1,185	3,296
Disposals	-	(1,695)	-	-	-	-	-	-	(1,695)
Write-offs	(259)	(259)	-	-	(1,553)	-	-	(35)	(2,106)
Impairments	-	-	-	-	(1,582)	-	-	(358)	(1,940)
Reclassifications	2,921	213	4	69	845	-	-	(4,052)	-
Balance, September 30, 2021	\$ 163,172	\$ 662,553	\$ 20,923	\$ 5,405	\$ 28,813	\$ 129	\$ 10,113	\$ 15,382	\$ 906,490
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	4,454	30,048	559	184	2,157	12	214	-	37,628
Disposals	-	(1,695)	-	-	-	-	-	-	(1,695)
Write-offs	(259)	(259)	-	-	(1,553)	-	-	-	(2,071)
Balance, September 30, 2021	\$ 113,785	\$ 317,381	\$ 15,571	\$ 4,390	\$ 18,655	\$ 84	\$ 9,362	\$ -	\$ 479,228
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 September 30, 2021	\$ 49,387	\$ 345,172	\$ 5,352	\$ 1,015	\$ 10,158	\$ 45	\$ 751	\$ 15,382	\$ 427,262

During the three and six months ended September 30, 2021, CATSA recognized impairment losses of \$1,940 relating to temperature 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.

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, 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
Write-offs	(776)	(133)	-	(909)
Balance, September 30, 2021	\$ 10,378	\$ 20,711	\$ 101	\$ 31,190
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	520	776	-	1,296
Write-offs	(771)	(133)	-	(904)
Balance, September 30, 2021	\$ 5,017	\$ 10,612	\$ -	\$ 15,629
Carrying amounts				
As at March 31, 2021	\$ 5,886	\$ 10,875	\$ 73	\$ 16,834
As at September 30, 2021	\$ 5,361	\$ 10,099	\$ 101	\$ 15,561

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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, 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		635		-		635
Decreases		(36)		-		(36)
Depreciation		(1,671)		(134)		(1,805)
Balance, September 30, 2021	\$	7,494	\$	1,237	\$	8,731

Subsequent to September 30, 2021, CATSA amended its corporate headquarters lease agreement. Amounts recorded in the table above exclude this amendment as it was entered into after the reporting period.

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Notes to the Condensed Interim Financial Statements
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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:

	September 30, 2021	March 31, 2021
Employee benefits asset		
Registered pension plan (RPP)	\$ 40,482	\$ 32,058
Supplementary retirement plan (SRP)	2,689	2,467
	43,171	34,525
Employee benefits liability		
Other defined benefits plan (ODBP)	(20,840)	(20,054)
	(20,840)	(20,054)
Employee benefits - net asset	\$ 22,331	\$ 14,471

(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended September 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	\$ 268	\$ 2,002	\$ 2,121
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	(2,187)	(1,874)	(67)	(61)	-	-	(2,254)	(1,935)
	\$ 1,572	\$ 2,030	\$ 3	\$ 10	\$ 439	\$ 470	\$ 2,014	\$ 2,510
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	\$ (5,000)	\$ 3,589	\$ 8	\$ 122	\$ -	\$ -	\$ (4,992)	\$ 3,711
Actuarial gains	11,764	-	248	-	1,151	-	13,163	-
	\$ 6,764	\$ 3,589	\$ 256	\$ 122	\$ 1,151	\$ -	\$ 8,171	\$ 3,711

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

	For the six months ended September 30							
	RPP		SRP		ODBP		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Defined benefit cost recognized in financial performance								
Current service cost	\$ 3,452	\$ 3,668	\$ 40	\$ 38	\$ 512	\$ 535	\$ 4,004	\$ 4,241
Administration costs	188	188	8	8	-	-	196	196
Interest cost on defined benefit obligation	3,878	3,952	92	96	366	404	4,336	4,452
Interest income on plan assets	(4,373)	(3,748)	(135)	(122)	-	-	(4,508)	(3,870)
	\$ 3,145	\$ 4,060	\$ 5	\$ 20	\$ 878	\$ 939	\$ 4,028	\$ 5,019
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	\$ 6,543	\$ 28,671	\$ 221	\$ 530	\$ -	\$ -	\$ 6,764	\$ 29,201
Actuarial losses	-	(49,340)	-	(1,044)	-	(5,253)	-	(55,637)
	\$ 6,543	\$ (20,669)	\$ 221	\$ (514)	\$ -	\$ (5,253)	\$ 6,764	\$ (26,436)

For the three and six months ended September 30, 2021, CATSA recognized an expense of \$212 (2020 - \$179) and \$459 (2020 - \$394), 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, 2021, remeasurement gains of \$8,171 resulted from an increase in the discount rate of 25 basis points (from 3.25% at June 30, 2021 to 3.50% at September 30, 2021). This was partially offset by a lower actual rate of return on plan assets than the rates used in CATSA's assumptions for the RPP (-1.05% actual versus 0.88% expected).

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 six months ended September 30, 2021, remeasurement gains of \$6,764 resulted from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (3.55% actual versus 1.75% expected).

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Notes to the Condensed Interim Financial Statements
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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).

(d) Employer contributions

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

	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Employer contributions				
RPP	\$ 2,304	\$ 2,071	\$ 5,026	\$ 3,832
SRP	6	15	6	15
ODBP	46	45	92	92
	<u>\$ 2,356</u>	<u>\$ 2,131</u>	<u>\$ 5,124</u>	<u>\$ 3,939</u>

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

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Notes to the Condensed Interim Financial Statements
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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 September 30, 2021, relate to amounts assessed by Transport Canada and are unchanged from March 31, 2021.

(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 September 30, 2021, there were no significant legal claims outstanding against CATSA.

(ii) Decommissioning costs

During the three and six months ended September 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.

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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:

	September 30, 2021		March 31, 2021	
Balance, beginning of period	\$	10,674	\$	22,927
Additions		635		5
Decreases		(36)		(8,624)
Lease payments (note 14)		(2,011)		(3,973)
Finance costs		74		348
Foreign exchange revaluation		2		(9)
Balance, end of period	\$	9,338	\$	10,674
Balance, end of period				
Current	\$	3,543	\$	3,667
Non-current		5,795		7,007

Subsequent to September 30, 2021, CATSA amended its corporate headquarters lease agreement. Amounts recorded in the table above exclude this amendment as it was entered into after the reporting period.

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

	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Variable lease payments	\$ 375	\$ 673	\$ 923	\$ 1,330
Short-term leases	16	17	31	19
Low value leases	14	15	31	29
Other lease costs (note 13)	\$ 405	\$ 705	\$ 985	\$ 1,378

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

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For the three and six months ended September 30, 2021, CATSA recognized a total cash outflow for leases of \$1,385 (2020 - \$1,682) and \$2,996 (2020 - \$3,391), respectively.

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

	September 30, 2021	March 31, 2021
No later than 1 year	\$ 7,417	\$ 7,262
Later than 1 year and no later than 5 years	2,571	5,368
Later than 5 years	157	213
	\$ 10,145	\$ 12,843

12. Deferred government funding

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

	September 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)	323,768	628,069
Parliamentary appropriations for operating expenses recognized in financial performance	(328,568)	(626,410)
Balance, end of period	\$ 16,279	\$ 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)	3,328	53,720
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(40,803)	(73,208)
Balance, end of period	\$ 441,831	\$ 479,306
Total deferred government funding, end of period	\$ 458,110	\$ 500,385

For additional information on government funding, see note 14.

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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		Six months ended	
	September 30		September 30	
	2021	2020	2021	2020
Screening services and other related costs				
Payments to screening contractors	\$ 139,738	\$ 122,673	\$ 259,355	\$ 249,783
Uniforms and other screening costs	2,477	1,653	5,141	3,819
Trace and consumables	2,388	1,705	2,911	3,006
	144,603	126,031	267,407	256,608
Equipment operating and maintenance				
Equipment maintenance and spare parts	10,647	9,199	19,093	17,346
Training and certification	36	9	93	(78)
RAIC	5	66	177	121
	10,688	9,274	19,363	17,389
Program support and corporate services				
Employee costs	14,835	15,693	32,142	33,425
Office and computer expenses	1,692	1,437	3,193	3,193
Other administrative costs ¹	1,583	1,741	3,122	3,493
Professional services and other business related costs ²	1,365	1,378	2,746	2,277
Other lease costs (note 11)	405	705	985	1,378
Communications and public awareness	124	227	173	289
	20,004	21,181	42,361	44,055
Depreciation and amortization				
Depreciation of property and equipment (note 6)	18,676	16,993	37,628	34,143
Depreciation of right-of-use assets (note 8)	912	926	1,805	1,841
Amortization of intangible assets (note 7)	648	492	1,296	982
	20,236	18,411	40,729	36,966
	\$ 195,531	\$ 174,897	\$ 369,860	\$ 355,018

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.

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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 September 30		Six months ended September 30	
	2021	2020	2021	2020
PBS	\$ 12,482	\$ 18,151	\$ 28,430	\$ 64,855
HBS	2,347	4,048	5,726	15,143
NPS	3,960	3,985	9,938	12,046
	\$ 18,789	\$ 26,184	\$ 44,094	\$ 92,044

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Notes to the Condensed Interim Financial Statements
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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 September 30		Six months ended September 30	
	2021	2020	2021	2020
Parliamentary appropriations received	\$ 156,694	\$ 152,790	\$ 310,694	\$ 358,265
Amounts received related to prior periods	(96,098)	(99,060)	(98,694)	(144,490)
Parliamentary appropriations receivable	111,768	99,846	111,768	99,846
Parliamentary appropriations used to fund operating expenses (note 12)	\$ 172,364	\$ 153,576	\$ 323,768	\$ 313,621

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 September 30		Six months ended September 30	
	2021	2020	2021	2020
Parliamentary appropriations received	\$ 13,082	\$ 12,070	\$ 13,082	\$ 13,187
Amounts receivable related to prior periods	(14,387)	(11,027)	(12,093)	-
Parliamentary appropriations receivable	2,339	12,833	2,339	12,833
Parliamentary appropriations used to fund capital expenditures (note 12)	1,034	13,876	3,328	26,020
Parliamentary appropriations used to fund lease payments (note 11)	980	977	2,011	2,013
Parliamentary appropriations used to fund capital expenditures and lease payments	\$ 2,014	\$ 14,853	\$ 5,339	\$ 28,033

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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:

	September 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	\$ 501	\$ 501	\$ 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 six months ended September 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:

	September 30, 2021	March 31, 2021
Operating Capital	\$ 2,051,521 8,136	\$ 2,283,534 10,688
	\$ 2,059,657	\$ 2,294,222

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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 and six months ended September 30, 2021, government funding of \$197,936 (2020 – \$173,892) and \$371,382 (2020 – \$351,764), respectively, 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 \$114,107 (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 and six month periods.

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Notes to the Condensed Interim Financial Statements
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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		Six months ended	
	September 30		September 30	
	2021	2020	2021	2020
(Increase) decrease in trade and other receivables	\$ (13,826)	\$ (2,274)	\$ (12,317)	\$ 35,477
Decrease in inventories	284	73	705	558
Decrease (increase) in prepaids	1,846	1,809	2,697	(385)
Increase (decrease) in trade and other payables	7,013	(26,045)	22,172	(14,749)
(Decrease) increase in provisions	-	(100)	-	200
Decrease in deferred government funding related to operating expenses	(3,339)	(1,882)	(4,800)	(173)
	\$ (8,022)	\$ (28,419)	\$ 8,457	\$ 20,928

For the three and six months ended September 30, 2021, the change in trade and other receivables excludes amounts of \$12,048 (2020 – \$1,806) and \$9,754 (2020 – \$12,833), respectively, in relation to government funding related to capital expenditures, as these amounts relate to investing activities.

For the three and six months ended September 30, 2021, the change in inventories excludes amounts of \$1,209 (2020 - \$Nil) and \$1,398 (2020 - \$Nil), respectively, resulting from write-downs of inventories. These amounts are included as part of other non-cash transactions in the Condensed Interim Statement of Cash Flows.

For the three and six months ended September 30, 2021, the change in prepaids excludes amounts of \$Nil (2020 – \$441) and \$Nil (2020 – \$415), 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, 2021, the change in trade and other payables excludes amounts of \$6,490 (2020 – \$15) and \$16,599 (2020 – \$16,381), respectively, in relation to the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

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 significant reduction in passenger volumes at Canadian airports. CATSA's screening operations and screening equipment have been impacted, 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.