

Quarterly Financial Report

For the Three and Nine Months Ended
December 31, 2021



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 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 nine months ended December 31, 2021. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three and nine months ended December 31, 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 *Quarterly Financial Report for the three months ended June 30, 2021*, and the *Quarterly Financial Report for the three and six months ended September 30, 2021*. The information in this report is expressed in thousands of Canadian dollars and is current to February 23, 2022, 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 of Transport 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 49.6% and 85.6% for the three months ended December 31, 2021 and December 31, 2020, respectively, compared to the three months ended December 31, 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. 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, which ended February 2022.

RISKS AND UNCERTAINTIES

CATSA regularly monitors and re-assesses its corporate risks. The following update related to CATSA's reputational risk has been identified. There have been no other significant changes to CATSA's Enterprise Risk Management profile as disclosed in CATSA's 2021 Annual Report.

REPUTATIONAL RISK

In some cases, passengers at certain airports have recently experienced longer wait times as screening contractors are facing labour challenges in some areas of the country. While CATSA is ensuring that the screening contractors are taking the necessary steps to address potential capacity challenges, the organization could face longer wait-time service levels in the interim. As a result, CATSA's reputational risk is now trending higher.

ANALYSIS OF FINANCIAL RESULTS

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income (Loss) for the three and nine months ended December 31, 2021, and December 31, 2020.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)								
(Unaudited)	Three Months Ended December 31				Nine Months Ended December 31			
(Thousands of Canadian dollars)	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Expenses¹								
Screening services and other related costs	\$ 139,885	\$ 125,249	\$ 14,636	11.7%	\$ 407,292	\$ 381,857	\$ 25,435	6.7%
Equipment operating and maintenance	10,224	12,165	(1,941)	(16.0%)	29,587	29,554	33	0.1%
Program support and corporate services	21,037	21,725	(688)	(3.2%)	63,398	65,780	(2,382)	(3.6%)
Depreciation and amortization	20,143	19,343	800	4.1%	60,872	56,309	4,563	8.1%
Total expenses	191,289	178,482	12,807	7.2%	561,149	533,500	27,649	5.2%
Other expenses (income)	(236)	1,097	(1,333)	(121.5%)	1,860	2,973	(1,113)	(37.4%)
Financial performance before revenue and government funding	191,053	179,579	11,474	6.4%	563,009	536,473	26,536	4.9%
Revenue	57	125	(68)	(54.4%)	184	314	(130)	(41.4%)
Government funding								
Parliamentary appropriations for operating expenses	170,751	157,633	13,118	8.3%	499,319	471,427	27,892	5.9%
Amortization of deferred government funding related to capital expenditures	19,247	18,351	896	4.9%	60,050	54,308	5,742	10.6%
Parliamentary appropriations for lease payments	801	978	(177)	(18.1%)	2,812	2,991	(179)	(6.0%)
Total government funding	190,799	176,962	13,837	7.8%	562,181	528,726	33,455	6.3%
Financial performance	\$ (197)	\$ (2,492)	\$ 2,295	92.1%	\$ (644)	\$ (7,433)	\$ 6,789	91.3%
Other comprehensive (loss) income	(14,002)	12,409	(26,411)	(212.8%)	(7,238)	(14,027)	6,789	48.4%
Total comprehensive income (loss)	\$ (14,199)	\$ 9,917	\$ (24,116)	(243.2%)	\$ (7,882)	\$ (21,460)	\$ 13,578	63.3%

¹ The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 13 of the unaudited condensed interim financial statements for the three and nine months ended December 31, 2021.

Screening services and other related costs

Screening services and other related costs increased by \$14,636 (11.7%) and by \$25,435 (6.7%) for the three and nine months ended December 31, 2021, respectively, compared to the same periods in 2020.

The increases are primarily attributable to increased passenger volumes, which resulted in the purchase of additional screening hours of \$18,198 and \$6,940, respectively, partially offset by the purchase of fewer hours associated with temperature screening totaling \$13,007 and \$2,002, respectively. The increases are also attributable to payments to screening contractors for training, management personnel, and other contractual requirements of \$4,952 and \$6,815, respectively, and annual screening contractor billing rate increases of \$2,439 and \$10,396, respectively. Lastly, other screening related costs, consisting of screening officer uniforms, trace and consumables, increased by \$2,055 and \$3,283, respectively.

Equipment operating and maintenance

Equipment operating and maintenance decreased by \$1,941 (16.0%) and increased by \$33 (0.1%) for the three and nine months ended December 31, 2021, respectively, compared to the same periods in 2020. The decrease for the three months ended December 31, 2021 is primarily attributable to a \$3,177 write-down of spare parts in 2020 relating to equipment taken out of service as part of the HBS recapitalization program.

The increase for the nine months ended December 31, 2021 is primarily attributable to an increase in maintenance costs of \$1,546, as the majority of CATSA's screening equipment is back in service, and equipment training activity at the airports of \$463, as training on new equipment resumes. The increase was partially offset by lower spare part write-downs in 2021, as compared to 2020, of approximately \$2,000.

Program support and corporate services

Program support and corporate services decreased by \$688 (3.2%) and by \$2,382 (3.6%) for the three and nine months ended December 31, 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 \$800 (4.1%) and by \$4,563 (8.1%) for the three and nine months ended December 31, 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. The increases are partially offset by assets becoming fully depreciated.

Other expenses (income)

Other expenses (income) decreased by \$1,333 (121.5%) and by \$1,113 (37.4%) for the three and nine months ended December 31, 2021, respectively, compared to the same periods in 2020. The decreases are primarily due to net gains on the fair value of derivative financial instruments. The decreases are partially offset by impairment losses relating to temperature screening equipment and 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 increased by \$13,118 (8.3%) and by \$27,892 (5.9%) for the three and nine months ended December 31, 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 \$896 (4.9%) and by \$5,742 (10.6%) for the three and nine months ended December 31, 2021, respectively, compared to the same periods in 2020. The increases are primarily attributable to increased depreciation and amortization, as well as impairment losses relating to temperature screening equipment.

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 loss of \$14,002 for the three months ended December 31, 2021, is attributable to a remeasurement loss of \$28,069 on the defined benefit liability arising from a 50 basis point decrease in the discount rate between September 30, 2021, and December 31, 2021. This was partially offset by a remeasurement gain of \$14,067 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive income of \$12,409 for the three months ended December 31, 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 loss of \$7,238 for the nine months ended December 31, 2021, is attributable to a remeasurement loss of \$28,069 on the defined benefit liability arising from a 50 basis point decrease in the discount rate between March 31, 2021, and December 31, 2021. This was partially offset by a remeasurement gain of \$20,831 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive loss of \$14,027 for the nine months ended December 31, 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 December 31, 2020. This was partially offset by a remeasurement gain of \$41,610 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 December 31, 2021, compared to March 31, 2021.

Key Financial Highlights -				
Condensed Interim Statement of Financial Position				
(Unaudited)	December 31,	March 31,		
(Thousands of Canadian dollars)	2021	2021	\$ Change	% Change
Current assets	\$ 127,894	\$ 153,694	\$ (25,800)	(16.8%)
Non-current assets	470,752	524,865	(54,113)	(10.3%)
Total assets	\$ 598,646	\$ 678,559	\$ (79,913)	(11.8%)
Current liabilities	\$ 134,703	\$ 158,616	\$ (23,913)	(15.1%)
Non-current liabilities	458,319	506,437	(48,118)	(9.5%)
Total liabilities	\$ 593,022	\$ 665,053	\$ (72,031)	(10.8%)

Assets

Current assets decreased by \$25,800 (16.8%) primarily attributable to the following:

- Decrease in trade and other receivables of \$26,825 primarily due to a decrease in parliamentary appropriations receivable;
- Decrease in prepaid expenses of \$3,375 due to the amortization of annual insurance premiums, and annual maintenance and support services;
- Decrease in inventory of \$2,858 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; and
- Increase in cash of \$7,291 primarily due to the timing of disbursements to suppliers for goods and services.

Non-current assets decreased by \$54,113 (10.3%) primarily attributable to the following:

- Decrease in property and equipment and intangible assets of \$55,813 primarily attributable to depreciation and amortization totaling \$58,154, and impairment losses of \$1,940 relating to temperature screening equipment, partially offset by acquisitions totaling \$4,388;
- Decrease in employee benefits of \$2,154 in relation to CATSA's registered pension plan and supplementary retirement plan; and
- Increase in right-of-use assets of \$3,716 primarily attributable to additions of \$6,608, including CATSA's amendment to its corporate headquarters lease agreement (\$5,090), partially offset by depreciation of \$2,718.

Liabilities

Current liabilities decreased by \$23,913 (15.1%) primarily attributable to the following:

- Decrease in trade and other payables of \$12,970 attributable to the timing of disbursements associated with obligations outstanding with suppliers;

- Decrease in deferred government funding related to operating expenditures of \$6,233 due to a reduction in inventories and prepaid expenses; and
- Decrease in the current portion of holdbacks of \$3,515 attributable to the substantial completion of CATSA's HBS recapitalization program.

Non-current liabilities decreased by \$48,118 (9.5%) primarily attributable to the following:

- Decrease in the deferred government funding related to capital expenditures of \$55,658 attributable to amortization of deferred government funding related to capital expenditures of \$60,050 exceeding parliamentary appropriations used to fund capital expenditures of \$4,392.
- Increase in the non-current portion of lease liabilities of \$3,956 primarily attributable to CATSA's amendment to its corporate headquarters lease agreement (\$5,228). The increase is partially offset by ongoing lease payments; and
- Increase in employee benefits liability of \$3,654 in relation to CATSA's other defined benefits plan.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. CATSA's funding, as reflected in the *Summary of the 2021/22 to 2022/23 Corporate Plan*, was developed early in the COVID-19 pandemic. Actual operating and capital appropriations used are lower than the amounts reflected in the Corporate Plan, mainly due to a slower than anticipated industry recovery.

PARLIAMENTARY APPROPRIATIONS USED

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		Nine Months Ended	
	December 31		December 31	
	2021	2020	2021	2020
Financial performance before revenue and government funding	\$ 191,053	\$ 179,579	\$ 563,009	\$ 536,473
Revenue	(57)	(125)	(184)	(314)
Financial performance before government funding	190,996	179,454	562,825	536,159
Non-cash items				
Depreciation and amortization	(20,143)	(19,343)	(60,872)	(56,309)
Employee cost accruals ¹	(881)	(1,060)	(2,880)	(3,614)
Write-off of property and equipment and intangible assets	(67)	-	(107)	(798)
Non-cash finance costs related to leases	(49)	(85)	(123)	(307)
Change in fair value of financial instruments at fair value through profit and loss	498	(967)	1,194	(2,355)
Employee benefits expense ²	334	(549)	1,430	(1,629)
Non-cash gain (loss) on foreign exchange recognized in financial performance	63	161	(208)	411
Gain on disposal of property and equipment	-	22	-	53
Impairment of property and equipment	-	-	(1,940)	(177)
Spare parts expense funded from capital ³	-	-	-	(7)
Appropriations used for operating expenses	\$ 170,751	\$ 157,633	\$ 499,319	\$ 471,427
Other items affecting funding				
Net change in prepaids and inventories ⁴	(1,433)	(4,298)	(6,233)	(4,471)
Total operating appropriations used	\$ 169,318	\$ 153,335	\$ 493,086	\$ 466,956

¹ Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to December 31, 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		Nine Months Ended	
	December 31		December 31	
	2021	2020	2021	2020
Explosives Detection Systems	\$ 452	\$ 11,756	\$ 3,516	\$ 29,686
Non-Explosives Detection Systems	612	1,654	872	9,800
Lease payments	801	978	2,812	2,991
Total capital expenditures	\$ 1,865	\$ 14,388	\$ 7,200	\$ 42,477
Proceeds on disposal of property and equipment ¹	-	(22)	-	(78)
Non-cash adjustment on foreign exchange related to capital expenditures	-	96	4	96
Total capital appropriations used	\$ 1,865	\$ 14,462	\$ 7,204	\$ 42,495

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 Report*, and for such internal controls as management determines are necessary to enable the preparation of the unaudited condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the unaudited condensed interim financial statements.

Based on our knowledge, these unaudited condensed interim financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of CATSA, as at the date of and for the periods presented in the unaudited condensed interim financial statements.



Michael Saunders
President and Chief Executive Officer

Ottawa, Canada

February 23, 2022



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

Ottawa, Canada

February 23, 2022

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY
AUTHORITY**

December 31, 2021

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	December 31, 2021	March 31, 2021
Assets		
Current assets		
Cash	\$ 21,377	\$ 14,086
Trade and other receivables (note 4)	91,671	118,529
Inventories (note 5)	11,209	14,067
Prepays	3,637	7,012
	127,894	153,694
Non-current assets		
Property and equipment (note 6)	409,241	463,569
Intangible assets (note 7)	15,349	16,834
Right-of-use assets (note 8)	13,653	9,937
Derivative financial assets (note 15)	138	-
Employee benefits asset (note 9)	32,371	34,525
	470,752	524,865
Total assets	\$ 598,646	\$ 678,559
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 97,221	\$ 110,191
Holdbacks	18,837	22,352
Provisions (note 10)	200	200
Lease liabilities (note 11)	3,458	3,667
Deferred government funding related to operating expenses (note 12)	14,846	21,079
Derivative financial liabilities (note 15)	141	1,127
	134,703	158,616
Non-current liabilities		
Lease liabilities (note 11)	10,963	7,007
Deferred government funding related to capital expenditures (note 12)	423,648	479,306
Derivative financial liabilities (note 15)	-	70
Employee benefits liability (note 9)	23,708	20,054
	458,319	506,437
Equity		
Accumulated surplus	5,624	13,506
Total liabilities and equity	\$ 598,646	\$ 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		Nine months ended	
	December 31		December 31	
	2021	2020	2021	2020
Expenses				
Pre-Board Screening	\$ 103,961	\$ 86,977	\$ 287,214	\$ 269,733
Hold Baggage Screening	40,596	39,560	119,963	116,286
Non-Passenger Screening	33,839	38,818	115,799	108,371
Restricted Area Identity Card Program	936	845	2,378	1,961
Corporate services	11,957	12,282	35,795	37,149
Total expenses (note 13)	191,289	178,482	561,149	533,500
Other expenses (income)				
Foreign exchange loss (gain)	140	66	876	(614)
Write-off of property and equipment and intangible assets	67	-	107	798
Finance costs	55	86	131	310
Net (gain) loss on fair value of derivative financial instruments	(498)	967	(1,194)	2,355
Impairment of property and equipment (note 6)	-	-	1,940	177
Gain on disposal of property and equipment	-	(22)	-	(53)
Total other expenses (income)	(236)	1,097	1,860	2,973
Financial performance before revenue and government funding	191,053	179,579	563,009	536,473
Revenue				
Finance income	57	125	184	314
Total revenue	57	125	184	314
Government funding				
Parliamentary appropriations for operating expenses (note 12)	170,751	157,633	499,319	471,427
Amortization of deferred government funding related to capital expenditures (note 12)	19,247	18,351	60,050	54,308
Parliamentary appropriations for lease payments (note 14)	801	978	2,812	2,991
Total government funding	190,799	176,962	562,181	528,726
Financial performance	\$ (197)	\$ (2,492)	\$ (644)	\$ (7,433)
Other comprehensive (loss) income				
Item that will not be reclassified to financial performance				
Remeasurement of defined benefit plans (note 9)	(14,002)	12,409	(7,238)	(14,027)
Total comprehensive income (loss)	\$ (14,199)	\$ 9,917	\$ (7,882)	\$ (21,460)

The accompanying notes are an integral part of these condensed interim financial statements.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended December 31:

	Accumulated surplus (deficit)
Balance, September 30, 2021	\$ 19,823
Financial performance	(197)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	(14,002)
Balance, December 31, 2021	\$ 5,624
Balance, September 30, 2020	\$ (55,279)
Financial performance	(2,492)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	12,409
Balance, December 31, 2020	\$ (45,362)

For the nine months ended December 31:

	Accumulated surplus (deficit)
Balance, March 31, 2021	\$ 13,506
Financial performance	(644)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	(7,238)
Balance, December 31, 2021	\$ 5,624
Balance, March 31, 2020	\$ (23,902)
Financial performance	(7,433)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	(14,027)
Balance, December 31, 2020	\$ (45,362)

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		Nine months ended	
	December 31		December 31	
	2021	2020	2021	2020
Cash flows provided by (used in)				
Operating activities				
Financial performance	\$ (197)	\$ (2,492)	\$ (644)	\$ (7,433)
Items not involving cash				
Depreciation and amortization (note 13)	20,143	19,343	60,872	56,309
Write-off of property and equipment and intangible assets	67	-	107	798
Other non-cash transactions	40	3,181	1,440	3,509
Amortization of deferred government funding related to capital expenditures (note 12)	(19,247)	(18,351)	(60,050)	(54,308)
Change in fair value of financial instruments at fair value through profit and loss	(498)	967	(1,194)	2,355
Change in net employee benefits asset/liability	(334)	549	(1,430)	1,629
Impairment of property and equipment (note 6)	-	-	1,940	177
Gain on disposal of property and equipment	-	(22)	-	(53)
Net change in working capital balances (note 18)	13,001	2,069	21,458	22,669
	12,975	5,244	22,499	25,652
Investing activities				
Parliamentary appropriations received for capital funding (note 14)	2,199	19,922	15,281	33,109
Purchase of property and equipment	(7,188)	(13,663)	(27,178)	(52,592)
Purchase of intangible assets	(408)	(192)	(484)	(2,247)
	(5,397)	6,067	(12,381)	(21,730)
Financing activities				
Lease principal payments	(890)	(893)	(2,827)	(2,684)
	(890)	(893)	(2,827)	(2,684)
Increase in cash	6,688	10,418	7,291	1,238
Cash, beginning of period	14,689	9,312	14,086	18,492
Cash, end of period	\$ 21,377	\$ 19,730	\$ 21,377	\$ 19,730

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 nine months ended December 31, 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 February 23, 2022.

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 Report*. 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.

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4. Trade and other receivables

Trade and other receivables are comprised of:

	December 31, 2021	March 31, 2021
Parliamentary appropriations (note 17)	\$ 84,290	\$ 110,788
GST and HST recoverable	5,943	5,329
PST recoverable	1,000	2,072
Other	438	340
	<u>\$ 91,671</u>	<u>\$ 118,529</u>

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

	December 31, 2021	March 31, 2021
Spare parts	\$ 9,907	\$ 11,575
RAIC	1,150	1,502
Uniforms	152	990
	<u>\$ 11,209</u>	<u>\$ 14,067</u>

During the three and nine months ended December 31, 2021, CATSA recognized write-downs of \$40 (2020 – \$3,183) and \$1,438 (2020 – \$3,511), 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	220	2,472	-	94	67	-	-	1,099	3,952
Disposals	(1,117)	(3,323)	-	-	-	-	-	-	(4,440)
Write-offs	(358)	(259)	-	-	(1,922)	-	-	(54)	(2,593)
Impairments	-	-	-	-	(1,582)	-	-	(358)	(1,940)
Reclassifications	4,608	956	3	147	1,231	-	-	(6,971)	(26)
Balance, December 31, 2021	\$ 163,820	\$ 662,130	\$ 20,922	\$ 5,577	\$ 28,839	\$ 129	\$ 10,113	\$ 12,358	\$ 903,888
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	6,734	45,119	837	281	2,915	17	309	-	56,212
Disposals	(1,117)	(3,323)	-	-	-	-	-	-	(4,440)
Write-offs	(310)	(259)	-	-	(1,922)	-	-	-	(2,491)
Balance, December 31, 2021	\$ 114,897	\$ 330,824	\$ 15,849	\$ 4,487	\$ 19,044	\$ 89	\$ 9,457	\$ -	\$ 494,647
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 December 31, 2021	\$ 48,923	\$ 331,306	\$ 5,073	\$ 1,090	\$ 9,795	\$ 40	\$ 656	\$ 12,358	\$ 409,241

During the nine months ended December 31, 2021, CATSA recognized impairment losses of \$1,940 (2020 – \$177) 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
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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	-	39	397	436
Write-offs	(776)	(293)	-	(1,069)
Reclassifications	26	73	(73)	26
Balance, December 31, 2021	\$ 10,404	\$ 20,663	\$ 397	\$ 31,464
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	777	1,165	-	1,942
Write-offs	(771)	(293)	-	(1,064)
Balance, December 31, 2021	\$ 5,274	\$ 10,841	\$ -	\$ 16,115
Carrying amounts				
As at March 31, 2021	\$ 5,886	\$ 10,875	\$ 73	\$ 16,834
As at December 31, 2021	\$ 5,130	\$ 9,822	\$ 397	\$ 15,349

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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		6,470		-		6,470
Decreases		(36)		-		(36)
Depreciation		(2,516)		(202)		(2,718)
Balance, December 31, 2021	\$	12,484	\$	1,169	\$	13,653

During the three and nine months ended December 31, 2021, CATSA amended its corporate headquarters lease agreement, resulting in an increase in right-of-use assets of \$5,090.

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:

		December 31, 2021		March 31, 2021
Employee benefits asset				
Registered pension plan (RPP)	\$	29,910	\$	32,058
Supplementary retirement plan (SRP)		2,461		2,467
		32,371		34,525
Employee benefits liability				
Other defined benefits plan (ODBP)		(23,708)		(20,054)
		(23,708)		(20,054)
Employee benefits - net asset	\$	8,663	\$	14,471

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Notes to the Condensed Interim Financial Statements
(Unaudited)

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(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended December 31							
	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	\$ 255	\$ 268	\$ 2,001	\$ 2,121
Administration costs	94	94	4	4	-	-	98	98
Interest cost on defined benefit obligation	1,939	1,976	46	47	183	202	2,168	2,225
Interest income on plan assets	(2,187)	(1,874)	(67)	(61)	-	-	(2,254)	(1,935)
	\$ 1,572	\$ 2,030	\$ 3	\$ 9	\$ 438	\$ 470	\$ 2,013	\$ 2,509

Remeasurement of defined benefit plans recognized in other comprehensive (loss) income

Return on plan assets excluding interest income	\$ 13,825	\$ 12,126	\$ 242	\$ 283	\$ -	\$ -	\$ 14,067	\$ 12,409
Actuarial losses	(25,075)	-	(518)	-	(2,476)	-	(28,069)	-
	\$ (11,250)	\$ 12,126	\$ (276)	\$ 283	\$ (2,476)	\$ -	\$ (14,002)	\$ 12,409

	For the nine months ended December 31							
	RPP		SRP		ODBP		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Defined benefit cost recognized in financial performance								
Current service cost	\$ 5,178	\$ 5,502	\$ 60	\$ 57	\$ 767	\$ 803	\$ 6,005	\$ 6,362
Administration costs	282	282	12	12	-	-	294	294
Interest cost on defined benefit obligation	5,817	5,928	138	143	549	606	6,504	6,677
Interest income on plan assets	(6,560)	(5,622)	(202)	(183)	-	-	(6,762)	(5,805)
	\$ 4,717	\$ 6,090	\$ 8	\$ 29	\$ 1,316	\$ 1,409	\$ 6,041	\$ 7,528

Remeasurement of defined benefit plans recognized in other comprehensive (loss) income

Return on plan assets excluding interest income	\$ 20,368	\$ 40,797	\$ 463	\$ 813	\$ -	\$ -	\$ 20,831	\$ 41,610
Actuarial losses	(25,075)	(49,340)	(518)	(1,044)	(2,476)	(5,253)	(28,069)	(55,637)
	\$ (4,707)	\$ (8,543)	\$ (55)	\$ (231)	\$ (2,476)	\$ (5,253)	\$ (7,238)	\$ (14,027)

For the three and nine months ended December 31, 2021, CATSA recognized an expense of \$212 (2020 - \$198) and \$671 (2020 - \$592), respectively, in relation to the defined contribution component of the RPP.

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(c) Significant actuarial assumptions

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

For the three months ended December 31, 2021, remeasurement losses of \$14,002 resulted from a decrease in the discount rate of 50 basis points (from 3.50% at September 30, 2021 to 3.00% at December 31, 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 (5.62% actual versus 0.87% expected).

For the three months ended December 31, 2020, remeasurement gains of \$12,409 resulted primarily from a higher actual rate of return on plan assets than the rates used in CATSA's assumptions for the RPP (5.59% actual versus 0.93% expected).

For the nine months ended December 31, 2021, remeasurement losses of \$7,238 resulted from a decrease in the discount rate of 50 basis points (from 3.50% at March 31, 2021 to 3.00% at December 31, 2021). 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 (9.89% actual versus 2.63% expected).

For the nine months ended December 31, 2020, remeasurement losses of \$14,027 resulted from a decrease in the discount rate of 100 basis points (from 3.75% at March 31, 2020 to 2.75% at December 31, 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 (24.59% actual versus 2.81% expected).

(d) Employer contributions

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

	Three months ended		Nine months ended	
	December 31		December 31	
	2021	2020	2021	2020
Employer contributions				
RPP	\$ 2,250	\$ 1,867	\$ 7,276	\$ 5,699
SRP	51	47	57	62
ODBP	46	46	138	138
	\$ 2,347	\$ 1,960	\$ 7,471	\$ 5,899

Total employer contributions to the defined benefit plans are estimated to be \$9,609 for the year ending March 31, 2022.

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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 December 31, 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 December 31, 2021, there were no significant legal claims outstanding against CATSA.

(ii) Decommissioning costs

During the three and nine months ended December 31, 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:

	December 31, 2021	March 31, 2021
Balance, beginning of period	\$ 10,674	\$ 22,927
Additions	6,608	5
Decreases	(36)	(8,624)
Lease payments	(2,950)	(3,973)
Finance costs	123	348
Foreign exchange revaluation	2	(9)
Balance, end of period	\$ 14,421	\$ 10,674
Balance, end of period		
Current	\$ 3,458	\$ 3,667
Non-current	10,963	7,007

During the three and nine months ended December 31, 2021, CATSA amended its corporate headquarters lease agreement, resulting in an increase in lease liabilities of \$5,228.

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

	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Variable lease payments	\$ 641	\$ 661	\$ 1,564	\$ 1,991
Short-term leases	-	15	31	34
Low value leases	14	15	45	44
Other lease costs (note 13)	\$ 655	\$ 691	\$ 1,640	\$ 2,069

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

For the three and nine months ended December 31, 2021, CATSA recognized a total cash outflow for leases of \$1,456 (2020 - \$1,669) and \$4,452 (2020 - \$5,060), respectively.

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

	December 31, 2021	March 31, 2021
No later than 1 year	\$ 6,526	\$ 7,262
Later than 1 year and no later than 5 years	12,451	5,368
Later than 5 years	3,024	213
	<u>\$ 22,001</u>	<u>\$ 12,843</u>

12. Deferred government funding

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

	December 31, 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)	493,086	628,069
Parliamentary appropriations for operating expenses recognized in financial performance	(499,319)	(626,410)
Balance, end of period	<u>\$ 14,846</u>	<u>\$ 21,079</u>
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 479,306	\$ 498,794
Parliamentary appropriations used to fund capital expenditures (note 14)	4,392	53,720
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(60,050)	(73,208)
Balance, end of period	<u>\$ 423,648</u>	<u>\$ 479,306</u>
Total deferred government funding, end of period	<u>\$ 438,494</u>	<u>\$ 500,385</u>

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		Nine months ended	
	December 31		December 31	
	2021	2020	2021	2020
Screening services and other related costs				
Payments to screening contractors	\$ 134,642	\$ 122,062	\$ 393,997	\$ 371,845
Uniforms and other screening costs	2,658	2,105	7,799	5,924
Trace and consumables	2,585	1,082	5,496	4,088
	139,885	125,249	407,292	381,857
Equipment operating and maintenance				
Equipment maintenance and spare parts	9,626	11,899	28,719	29,245
Training and certification	416	123	509	45
RAIC	182	143	359	264
	10,224	12,165	29,587	29,554
Program support and corporate services				
Employee costs	15,478	16,107	47,620	49,532
Office and computer expenses	1,653	1,452	4,846	4,645
Other administrative costs ¹	1,524	1,782	4,646	5,275
Professional services and other business related costs ²	1,411	1,327	4,157	3,604
Other lease costs (note 11)	655	691	1,640	2,069
Communications and public awareness	316	366	489	655
	21,037	21,725	63,398	65,780
Depreciation and amortization				
Depreciation of property and equipment (note 6)	18,584	17,710	56,212	51,853
Depreciation of right-of-use assets (note 8)	913	921	2,718	2,762
Amortization of intangible assets (note 7)	646	712	1,942	1,694
	20,143	19,343	60,872	56,309
	\$ 191,289	\$ 178,482	\$ 561,149	\$ 533,500

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		Nine months ended	
	December 31		December 31	
	2021	2020	2021	2020
PBS	\$ 3,393	\$ 12,193	\$ 31,823	\$ 77,048
HBS	468	2,289	6,194	17,432
NPS	627	3,329	10,565	15,375
	\$ 4,488	\$ 17,811	\$ 48,582	\$ 109,855

14. Government funding

Parliamentary appropriations approved for the fiscal year and amounts used by CATSA during the nine months ended December 31 are as follows:

	2021	2020
Parliamentary appropriations approved for the full fiscal year	\$ 852,890	\$ 917,729
Parliamentary appropriations used to date to fund operating expenses	(493,086)	(466,956)
Parliamentary appropriations used to date to fund capital expenditures and lease payments	(7,204)	(42,495)
<u>Unused parliamentary appropriations</u>	<u>\$ 352,600</u>	<u>\$ 408,278</u>

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

	Three months ended		Nine months ended	
	December 31		December 31	
	2021	2020	2021	2020
Parliamentary appropriations received	\$ 198,000	\$ 161,100	\$ 508,694	\$ 519,365
Amounts received related to prior periods	(111,768)	(99,846)	(98,694)	(144,490)
Parliamentary appropriations receivable	83,086	92,081	83,086	92,081
<u>Parliamentary appropriations used to fund operating expenses (note 12)</u>	<u>\$ 169,318</u>	<u>\$ 153,335</u>	<u>\$ 493,086</u>	<u>\$ 466,956</u>

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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 December 31		Nine months ended December 31	
	2021	2020	2021	2020
Parliamentary appropriations received	\$ 2,199	\$ 19,922	\$ 15,281	\$ 33,109
Amounts receivable related to prior periods	(2,339)	(12,833)	(12,093)	-
Parliamentary appropriations receivable	1,204	6,395	1,204	6,395
Parliamentary appropriations used to fund capital expenditures (note 12)	1,064	13,484	4,392	39,504
Parliamentary appropriations received - lease payments	801	978	2,812	2,991
Parliamentary appropriations used to fund capital expenditures and lease payments	\$ 1,865	\$ 14,462	\$ 7,204	\$ 42,495

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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:

	December 31, 2021		March 31, 2021	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets ¹	\$ 138	\$ 138	\$ -	\$ -
Derivative financial liabilities ¹	141	141	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 nine months ended December 31, 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:

	December 31, 2021	March 31, 2021
Operating Capital	\$ 1,926,291	\$ 2,283,534
	7,992	10,688
	\$ 1,934,283	\$ 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 nine months ended December 31, 2021, government funding of \$190,799 (2020 – \$176,962) and \$562,181 (2020 – \$528,726), 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 \$84,290 (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 nine month periods.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

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		Nine months ended	
	December 31		December 31	
	2021	2020	2021	2020
Decrease in trade and other receivables	\$ 28,424	\$ 8,390	\$ 16,107	\$ 43,867
Decrease in inventories	715	331	1,420	561
Decrease in prepaids	678	784	3,375	399
(Decrease) increase in trade and other payables	(15,364)	(3,165)	6,819	(17,914)
Increase in provisions	-	-	-	200
(Decrease) increase in holdbacks	(19)	27	(30)	27
Decrease in deferred government funding related to operating expenses	(1,433)	(4,298)	(6,233)	(4,471)
	\$ 13,001	\$ 2,069	\$ 21,458	\$ 22,669

For the three and nine months ended December 31, 2021, the change in trade and other receivables excludes amounts of \$997 (2020 – \$6,438) and \$10,751 (2020 – \$6,395), respectively, in relation to government funding related to capital expenditures, as these amounts relate to investing activities.

For the three and nine months ended December 31, 2021, the change in inventories excludes amounts of \$40 (2020 - \$3,183) and \$1,438 (2020 - \$3,511), 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 nine months ended December 31, 2021, the change in prepaids excludes amounts of \$Nil (2020 – \$531) and \$Nil (2020 – \$946), respectively, in relation to the acquisition of property and equipment, as these amounts relate to investing activities.

For the three and nine months ended December 31, 2021, the change in trade and other payables excludes amounts of \$3,190 (2020 – \$56) and \$19,789 (2020 – \$16,325), respectively, in relation to the acquisition of property and equipment and intangible assets, as these amounts relate to investing activities.

For the three and nine months ended December 31, 2021, the change in holdbacks excludes amounts of \$3,342 (2020 – \$1,054) and \$3,485 (2020 – \$52), respectively, in relation to the acquisition of property and equipment, 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.