

# Quarterly Financial Report

For the Three and Nine Months Ended  
December 31, 2022



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY  
MANAGEMENT'S NARRATIVE DISCUSSION  
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2022**

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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, 2022. 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, 2022, 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 *2022 Annual Report*, the *Quarterly Financial Report for the three months ended June 30, 2022*, and the *Quarterly Financial Report for the three and six months ended September 30, 2022*. The information in this report is expressed in thousands of Canadian dollars and is current to February 22, 2023, 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.

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**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 such as flight personnel, ground crew and airport employees, and their belongings (including vehicles and their contents) entering restricted areas at the highest-risk airports; and

- Restricted Area Identity Card (RAIC) Program: the system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports. 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 designated and non-designated airports. In light of the COVID-19 pandemic, no such services were provided from April 1, 2020, until June 24, 2022, when CATSA resumed screening services at the Muskoka Airport Authority. The agreement was in place for the summer travel season until September 6, 2022.

## **OPERATING ENVIRONMENT**

### **INDUSTRY RECOVERY**

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The COVID-19 pandemic had an unprecedented impact on the aviation industry. Passenger volumes reached a historic low in April 2020. Statistics from CATSA's Boarding Pass Security System, and other data sources, indicate that screened traffic across Canada increased from 8.2 million passengers for the three months ended December 31, 2021, to 14.8 million passengers for the three months ended December 31, 2022. In spring 2022, CATSA faced challenges due to the resurgent demand in air travel at certain airports. Although CATSA Screening Contractors began recalling laid off screening officers and hiring new ones as of spring 2021, increased hiring efforts were required to respond to the wait time pressures being experienced at certain checkpoints. CATSA continues to work closely with Transport Canada and external stakeholders to support the aviation industry's ongoing recovery.

### **RISKS AND UNCERTAINTIES**

CATSA maintains effective corporate risk management to ensure that risks are identified, assessed and managed appropriately. A full assessment of CATSA's corporate risks, potential impacts and risk mitigations is disclosed in CATSA's *2022 Annual Report*.

The overall level of CATSA's corporate risks remains unchanged from CATSA's *Quarterly Financial Report for the three months ended June 30, 2022*. CATSA is actively monitoring and mitigating the ongoing impacts of the recovery of the aviation industry on its corporate risks.

## ANALYSIS OF FINANCIAL RESULTS

### CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income for the three and nine months ended December 31, 2022, and December 31, 2021.

| <b>Key Financial Highlights -<br/>Condensed Interim Statement of<br/>Comprehensive Income</b> |                                       |                    |                   |                 |                                      |                   |                   |                 |
|---|---------------------------------------|--------------------|-------------------|-----------------|--------------------------------------|-------------------|-------------------|-----------------|
| (Unaudited)   | <b>Three Months Ended December 31</b> |                    |                   |                 | <b>Nine Months Ended December 31</b> |                   |                   |                 |
| (Thousands of Canadian dollars)   | <b>2022</b>                           | <b>2021</b>        | <b>\$ Change</b>  | <b>% Change</b> | <b>2022</b>                          | <b>2021</b>       | <b>\$ Change</b>  | <b>% Change</b> |
| <b>Expenses <sup>1</sup></b>  |                                       |                    |                   |                 |                                      |                   |                   |                 |
| Screening services and other related costs  | \$ 180,040                            | \$ 139,885         | \$ 40,155         | 28.7%           | \$ 529,488                           | \$ 407,292        | \$ 122,196        | 30.0%           |
| Equipment operating and maintenance   | 10,886                                | 10,224             | 662               | 6.5%            | 31,183                               | 29,587            | 1,596             | 5.4%            |
| Program support and corporate services  | 22,298                                | 21,037             | 1,261             | 6.0%            | 67,973                               | 63,398            | 4,575             | 7.2%            |
| Depreciation and amortization   | 11,120                                | 20,143             | (9,023)           | (44.8%)         | 33,162                               | 60,872            | (27,710)          | (45.5%)         |
| <b>Total expenses</b>   | <b>224,344</b>                        | <b>191,289</b>     | <b>33,055</b>     | <b>17.3%</b>    | <b>661,806</b>                       | <b>561,149</b>    | <b>100,657</b>    | <b>17.9%</b>    |
| <b>Other expenses (income)</b>  | <b>590</b>                            | <b>(236)</b>       | <b>826</b>        | <b>350.0%</b>   | <b>(743)</b>                         | <b>1,860</b>      | <b>(2,603)</b>    | <b>(139.9%)</b> |
| <b>Financial performance before revenue and government funding</b>                            | <b>224,934</b>                        | <b>191,053</b>     | <b>33,881</b>     | <b>17.7%</b>    | <b>661,063</b>                       | <b>563,009</b>    | <b>98,054</b>     | <b>17.4%</b>    |
| <b>Revenue</b>  | <b>763</b>                            | <b>57</b>          | <b>706</b>        | <b>1238.6%</b>  | <b>1,573</b>                         | <b>184</b>        | <b>1,389</b>      | <b>754.9%</b>   |
| <b>Government funding</b>   |                                       |                    |                   |                 |                                      |                   |                   |                 |
| Parliamentary appropriations for operating expenses   | 211,569                               | 170,751            | 40,818            | 23.9%           | 624,048                              | 499,319           | 124,729           | 25.0%           |
| Amortization of deferred government funding related to capital expenditures                   | 10,230                                | 19,247             | (9,017)           | (46.8%)         | 30,421                               | 60,050            | (29,629)          | (49.3%)         |
| Parliamentary appropriations for lease payments   | 859                                   | 801                | 58                | 7.2%            | 2,878                                | 2,812             | 66                | 2.3%            |
| <b>Total government funding</b>   | <b>222,658</b>                        | <b>190,799</b>     | <b>31,859</b>     | <b>16.7%</b>    | <b>657,347</b>                       | <b>562,181</b>    | <b>95,166</b>     | <b>16.9%</b>    |
| <b>Financial performance</b>  | <b>\$ (1,513)</b>                     | <b>\$ (197)</b>    | <b>\$ (1,316)</b> | <b>(668.0%)</b> | <b>\$ (2,143)</b>                    | <b>\$ (644)</b>   | <b>\$ (1,499)</b> | <b>(232.8%)</b> |
| <b>Other comprehensive income (loss)</b>  | <b>4,999</b>                          | <b>(14,002)</b>    | <b>19,001</b>     | <b>135.7%</b>   | <b>9,383</b>                         | <b>(7,238)</b>    | <b>16,621</b>     | <b>229.6%</b>   |
| <b>Total comprehensive income</b>   | <b>\$ 3,486</b>                       | <b>\$ (14,199)</b> | <b>\$ 17,685</b>  | <b>124.6%</b>   | <b>\$ 7,240</b>                      | <b>\$ (7,882)</b> | <b>\$ 15,122</b>  | <b>191.9%</b>   |

<sup>1</sup> The Condensed Interim Statement of Comprehensive Income 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, 2022.

#### Screening Services and Other Related Costs

Screening services and other related costs increased by \$40,155 (28.7%) and by \$122,196 (30.0%) for the three and nine months ended December 31, 2022, respectively, compared to the same periods in 2021. The increases are primarily attributable to increases in passenger volumes, which resulted in the purchase of additional screening hours totaling \$34,069 and \$99,783, respectively, partially offset by the purchase of fewer hours associated with temperature screening of \$Nil and \$15,997, respectively. The overall increases are also attributable to annual screening contractor billing rate increases totaling \$5,725 and \$11,625, respectively, and increased spending on screening officer training and related initiatives to support the recovery of the aviation industry of \$25,758 for the nine months ended December 31, 2022.

#### Program Support and Corporate Services

Program support and corporate services increased by \$1,261 (6.0%) and by \$4,575 (7.2%) for the three and nine months ended December 31, 2022, respectively, compared to the same periods in 2021. The increases are mainly attributable to higher employee-related costs of \$1,044 and \$3,075, respectively, and

higher costs in support of corporate priorities (industry recovery, Indigenous engagement, and modernization of office space) totaling \$808 and \$3,275, respectively. The increases were partially offset by lower costs associated with CATSA's defined benefit pension plan totaling \$592 and \$1,776, respectively.

#### ***Depreciation and Amortization***

Depreciation and amortization decreased by \$9,023 (44.8%) and by \$27,710 (45.5%) for the three and nine months ended December 31, 2022, respectively, compared to the same periods in 2021. The decreases are primarily attributable to the change in estimated useful lives of some of CATSA's screening equipment and its associated network software assets from 10 years to 15 years, as of April 1, 2022.

#### ***Other Expenses (Income)***

Other expenses (income) increased by \$826 (350.0%) and decreased by \$2,603 (139.9%) for the three and nine months ended December 31, 2022, respectively, compared to the same periods in 2021. The decrease for the nine months ended December 31, 2022, is primarily due to lower impairment losses and net foreign exchange gains. The decrease is partially offset by lower 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. Payments for CATSA's leases that are capitalized under IFRS 16 are funded through capital appropriations.

#### Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by \$40,818 (23.9%) and by \$124,729 (25.0%) for the three and nine months ended December 31, 2022, respectively, compared to the same periods in 2021. 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 decreased by \$9,017 (46.8%) and by \$29,629 (49.3%) for the three and nine months ended December 31, 2022, respectively, compared to the same periods in 2021. The decreases are primarily attributable to reduced depreciation and amortization expenses, as discussed above.

#### Parliamentary appropriations for lease payments

CATSA's lease payments are typically made in the same month that the appropriations are received, therefore there is no deferred funding associated with these appropriations.

Parliamentary appropriations for lease payments are comparable to the prior year.

### *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 \$4,999 for the three months ended December 31, 2022, 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 \$14,002 for the three months ended December 31, 2021, was 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 \$9,383 for the nine months ended December 31, 2022, was attributable to a remeasurement gain of \$39,852 on the defined benefit liability arising from a 100 basis point increase in the discount rate between March 31, 2022 and December 31, 2022. This was partially offset by a remeasurement loss of \$30,469 resulting from a lower 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, was 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.

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, 2022, compared to March 31, 2022.

| <b>Key Financial Highlights -</b>                        |                     |                   |                  |                 |
|--|---------------------|-------------------|------------------|-----------------|
| <b>Condensed Interim Statement of Financial Position</b> |                     |                   |                  |                 |
| (Unaudited)  | <b>December 31,</b> | <b>March 31,</b>  |                  |                 |
| (Thousands of Canadian dollars)                          | <b>2022</b>         | <b>2022</b>       | <b>\$ Change</b> | <b>% Change</b> |
| Current assets   | \$ 173,246          | \$ 126,526        | \$ 46,720        | 36.9%           |
| Non-current assets                                       | 465,134             | 480,996           | (15,862)         | (3.3%)          |
| <b>Total assets</b>                                      | <b>\$ 638,380</b>   | <b>\$ 607,522</b> | <b>\$ 30,858</b> | <b>5.1%</b>     |
| Current liabilities                                      | \$ 177,668          | \$ 129,955        | \$ 47,713        | 36.7%           |
| Non-current liabilities                                  | 415,698             | 439,793           | (24,095)         | (5.5%)          |
| <b>Total liabilities</b>                                 | <b>\$ 593,366</b>   | <b>\$ 569,748</b> | <b>\$ 23,618</b> | <b>4.1%</b>     |

### Assets

Current assets increased by \$46,720 (36.9%) primarily attributable to the following:

- Increase in cash of \$30,113 primarily due to the timing of disbursements to suppliers for goods and services;
- Increase in trade and other receivables of \$19,554 primarily due to an increase in parliamentary appropriations receivable; and
- Decrease in prepaid expenses of \$2,691 due to the amortization of annual insurance premiums, and annual maintenance and support services.

Non-current assets decreased by \$15,862 (3.3%) primarily attributable to the following:

- Decrease in property and equipment and intangible assets of \$20,590 primarily due to depreciation and amortization totaling \$30,508, partially offset by acquisitions totaling \$9,934.

### Liabilities

Current liabilities increased by \$47,713 (36.7%) primarily attributable to the following:

- Increase in trade and other payables of \$52,683 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of \$3,512 due to a reduction in inventories and prepaid expenses.

Non-current liabilities decreased by \$24,095 (5.5%) primarily attributable to the following:

- Decrease in the deferred government funding related to capital expenditures of \$20,635 due to amortization of deferred government funding related to capital expenditures of \$30,421 exceeding parliamentary appropriations used to fund capital expenditures of \$9,786; and
- Decrease in employee benefits liability of \$2,382 relating 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 and are reflected in CATSA's *Summary of the 2022/23 to 2026/27 Corporate Plan*.

### 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<br>(Unaudited)<br>(Thousands of Canadian dollars) | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | December 31        |                   | December 31       |                   |
|  | 2022               | 2021              | 2022              | 2021              |
| <b>Financial performance before revenue and government funding</b>   | \$ 224,934         | \$ 191,053        | \$ 661,063        | \$ 563,009        |
| <b>Revenue</b>   | (763)              | (57)              | (1,573)           | (184)             |
| <b>Financial performance before government funding</b>   | 224,171            | 190,996           | 659,490           | 562,825           |
| <b>Non-cash items</b>  |                    |                   |                   |                   |
| Depreciation and amortization  | (11,120)           | (20,143)          | (33,162)          | (60,872)          |
| Employee cost accruals <sup>1</sup>  | (877)              | (881)             | (2,829)           | (2,880)           |
| Non-cash finance costs related to leases   | (65)               | (49)              | (202)             | (123)             |
| Non-cash gain (loss) on foreign exchange recognized in financial performance   | 139                | 63                | 17                | (208)             |
| Change in fair value of financial instruments at fair value through profit and loss  | (970)              | 498               | 503               | 1,194             |
| Employee benefits expense <sup>2</sup>   | 291                | 334               | 247               | 1,430             |
| Write-off of property and equipment and intangible assets  | -                  | (67)              | (16)              | (107)             |
| Impairment of property and equipment   | -                  | -                 | -                 | (1,940)           |
| <b>Appropriations used for operating expenses</b>  | <b>\$ 211,569</b>  | <b>\$ 170,751</b> | <b>\$ 624,048</b> | <b>\$ 499,319</b> |
| <b>Other items affecting funding</b>   |                    |                   |                   |                   |
| Net change in prepaids and inventories <sup>3</sup>  | 446                | (1,433)           | (3,512)           | (6,233)           |
| <b>Total operating appropriations used</b>   | <b>\$ 212,015</b>  | <b>\$ 169,318</b> | <b>\$ 620,536</b> | <b>\$ 493,086</b> |

<sup>1</sup> Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to December 31, 2022. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

<sup>2</sup> Employee benefits expense is accounted for in the Condensed Interim Statement of Comprehensive Income in accordance with IFRS. The reconciling item above represents the difference between cash payments for employee benefits and the accounting expense under IFRS.

<sup>3</sup> 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<br>(unaudited)<br>(Thousands of Canadian dollars) | Three Months Ended<br>December 31  |                 | Nine Months Ended<br>December 31 |                 |
|---|------------------------------------|-----------------|----------------------------------|-----------------|
|   | 2022                               | 2021            | 2022                             | 2021            |
|   | Explosives Detection Systems (EDS) | \$ 4,715        | \$ 452                           | \$ 8,208        |
| Non-Explosives Detection Systems (Non-EDS)  | 869                                | 612             | 1,726                            | 872             |
| Lease payments  | 859                                | 801             | 2,878                            | 2,812           |
| <b>Total capital expenditures</b>   | <b>\$ 6,443</b>                    | <b>\$ 1,865</b> | <b>\$ 12,812</b>                 | <b>\$ 7,200</b> |
| Non-cash adjustment on foreign exchange related to capital expenditures   | (148)                              | -               | (148)                            | 4               |
| <b>Total capital appropriations used</b>  | <b>\$ 6,295</b>                    | <b>\$ 1,865</b> | <b>\$ 12,664</b>                 | <b>\$ 7,204</b> |

## APPROPRIATIONS USED COMPARED TO CORPORATE PLAN

Parliamentary appropriations used for operating expenditures are in line with the operating budget in CATSA's approved *Summary of the 2022/23 to 2026/27 Corporate Plan* for the nine months ended December 31, 2022.

Parliamentary appropriations used for capital expenditures for the nine months ended December 31, 2022 are lower than planned. This is due to delays in capital spending associated with various EDS and Non-EDS projects, resulting mainly from vendor delays and changes in airport project plans.

CATSA is on track to meet the operating goals, objectives and financial results for the current year as outlined in CATSA's approved *Summary of the 2022/23 to 2026/27 Corporate Plan*.

## 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.



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Michael Saunders  
President and Chief Executive Officer

Ottawa, Canada

February 22, 2023



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

Ottawa, Canada

February 22, 2023

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY  
AUTHORITY**

December 31, 2022

(Unaudited)

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position  
(Unaudited)

(In thousands of Canadian dollars)

|   | December 31,<br>2022 | March 31,<br>2022 |
|---|----------------------|-------------------|
| <b>Assets</b>   |                      |                   |
| Current assets  |                      |                   |
| Cash  | \$ 37,694            | \$ 7,581          |
| Trade and other receivables (note 4)                                  | 120,224              | 100,670           |
| Inventories (note 5)  | 10,585               | 11,406            |
| Prepays   | 4,144                | 6,835             |
| Derivative financial assets (note 15)                                 | 599                  | 34                |
|   | 173,246              | 126,526           |
| Non-current assets  |                      |                   |
| Property and equipment (note 6)                                       | 373,504              | 392,726           |
| Intangible assets (note 7)  | 13,377               | 14,745            |
| Right-of-use assets (note 8)  | 14,055               | 16,569            |
| Employee benefits asset (note 9)                                      | 64,198               | 56,950            |
| Derivative financial assets (note 15)                                 | -                    | 6                 |
|   | 465,134              | 480,996           |
| <b>Total assets</b>   | <b>\$ 638,380</b>    | <b>\$ 607,522</b> |
| <b>Liabilities and Equity</b>   |                      |                   |
| Current liabilities   |                      |                   |
| Trade and other payables  | \$ 159,431           | \$ 106,748        |
| Holdbacks   | 1,781                | 1,637             |
| Provisions (note 10)  | -                    | 200               |
| Lease liabilities (note 11)   | 1,727                | 3,129             |
| Deferred government funding related to operating expenses (note 12)   | 14,729               | 18,241            |
|   | 177,668              | 129,955           |
| Non-current liabilities   |                      |                   |
| Lease liabilities (note 11)   | 12,973               | 14,107            |
| Deferred government funding related to capital expenditures (note 12) | 385,944              | 406,579           |
| Employee benefits liability (note 9)                                  | 16,725               | 19,107            |
| Derivative financial liabilities (note 15)                            | 56                   | -                 |
|   | 415,698              | 439,793           |
| Equity  |                      |                   |
| Accumulated surplus   | 45,014               | 37,774            |
| <b>Total liabilities and equity</b>                                   | <b>\$ 638,380</b>    | <b>\$ 607,522</b> |

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  
(Unaudited)

(In thousands of Canadian dollars)

|   | Three months ended |             | Nine months ended |            |
|---|--------------------|-------------|-------------------|------------|
|   | December 31        |             | December 31       |            |
|   | 2022               | 2021        | 2022              | 2021       |
| <b>Expenses</b>   |                    |             |                   |            |
| Pre-Board Screening   | \$ 138,732         | \$ 103,961  | \$ 402,385        | \$ 287,214 |
| Hold Baggage Screening  | 37,763             | 40,596      | 112,401           | 119,963    |
| Non-Passenger Screening   | 34,412             | 33,839      | 105,782           | 115,799    |
| Restricted Area Identity Card Program   | 1,191              | 936         | 3,361             | 2,378      |
| Corporate services  | 12,246             | 11,957      | 37,877            | 35,795     |
| Total expenses (note 13)  | 224,344            | 191,289     | 661,806           | 561,149    |
| <b>Other expenses (income)</b>  |                    |             |                   |            |
| Net loss (gain) on fair value of derivative financial instruments                     | 970                | (498)       | (503)             | (1,194)    |
| Finance costs   | 67                 | 55          | 206               | 131        |
| Foreign exchange (gain) loss  | (447)              | 140         | (462)             | 876        |
| Write-off of property and equipment and intangible assets                             | -                  | 67          | 16                | 107        |
| Impairment of property and equipment (note 6)   | -                  | -           | -                 | 1,940      |
| Total other expenses (income)   | 590                | (236)       | (743)             | 1,860      |
| Financial performance before revenue and government funding                           | 224,934            | 191,053     | 661,063           | 563,009    |
| <b>Revenue</b>  |                    |             |                   |            |
| Finance income  | 731                | 57          | 1,471             | 184        |
| Miscellaneous income  | 32                 | -           | 32                | -          |
| Screening services - other  | -                  | -           | 70                | -          |
| Total revenue   | 763                | 57          | 1,573             | 184        |
| <b>Government funding</b>   |                    |             |                   |            |
| Parliamentary appropriations for operating expenses (note 12)                         | 211,569            | 170,751     | 624,048           | 499,319    |
| Amortization of deferred government funding related to capital expenditures (note 12) | 10,230             | 19,247      | 30,421            | 60,050     |
| Parliamentary appropriations for lease payments (note 14)                             | 859                | 801         | 2,878             | 2,812      |
| Total government funding  | 222,658            | 190,799     | 657,347           | 562,181    |
| Financial performance   | \$ (1,513)         | \$ (197)    | \$ (2,143)        | \$ (644)   |
| <b>Other comprehensive income (loss)</b>  |                    |             |                   |            |
| Item that will not be reclassified to financial performance                           |                    |             |                   |            |
| Remeasurement of defined benefit plans (note 9)                                       | 4,999              | (14,002)    | 9,383             | (7,238)    |
| Total comprehensive income  | \$ 3,486           | \$ (14,199) | \$ 7,240          | \$ (7,882) |

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)

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

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|   | Accumulated<br>surplus |
|---|------------------------|
| Balance, September 30, 2022                                 | \$ 41,528              |
| Financial performance                                       | (1,513)                |
| Item that will not be reclassified to financial performance |                        |
| Remeasurement of defined benefit plans (note 9)             | 4,999                  |
| <b>Balance, December 31, 2022</b>                           | <b>\$ 45,014</b>       |
| 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)               |
| <b>Balance, December 31, 2021</b>                           | <b>\$ 5,624</b>        |

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

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|   | Accumulated<br>surplus |
|---|------------------------|
| Balance, March 31, 2022                                     | \$ 37,774              |
| Financial performance                                       | (2,143)                |
| Item that will not be reclassified to financial performance |                        |
| Remeasurement of defined benefit plans (note 9)             | 9,383                  |
| <b>Balance, December 31, 2022</b>                           | <b>\$ 45,014</b>       |
| 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)                |
| <b>Balance, December 31, 2021</b>                           | <b>\$ 5,624</b>        |

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       |           |
|   | 2022               | 2021      | 2022              | 2021      |
| <b>Cash flows provided by (used in)</b>   |                    |           |                   |           |
| <b>Operating activities</b>   |                    |           |                   |           |
| Financial performance   | \$ (1,513)         | \$ (197)  | \$ (2,143)        | \$ (644)  |
| Items not involving cash  |                    |           |                   |           |
| Depreciation and amortization (note 13)   | 11,120             | 20,143    | 33,162            | 60,872    |
| Change in fair value of financial instruments at fair value through profit and loss   | 970                | (498)     | (503)             | (1,194)   |
| Amortization of deferred government funding related to capital expenditures (note 12) | (10,230)           | (19,247)  | (30,421)          | (60,050)  |
| Change in net employee benefits asset/liability                                       | (291)              | (334)     | (247)             | (1,430)   |
| Write-off of property and equipment and intangible assets                             | -                  | 67        | 16                | 107       |
| Other non-cash transactions   | -                  | 40        | 163               | 1,440     |
| Impairment of property and equipment (note 6)   | -                  | -         | -                 | 1,940     |
| Net change in working capital balances (note 18)                                      | (14,986)           | 13,001    | 31,698            | 21,458    |
|   | (14,930)           | 12,975    | 31,725            | 22,499    |
| <b>Investing activities</b>   |                    |           |                   |           |
| Parliamentary appropriations received for capital funding (note 14)                   | 4,141              | 2,199     | 7,057             | 15,281    |
| Purchase of property and equipment  | (811)              | (7,188)   | (5,763)           | (27,178)  |
| Purchase of intangible assets   | (103)              | (408)     | (230)             | (484)     |
|   | 3,227              | (5,397)   | 1,064             | (12,381)  |
| <b>Financing activities</b>   |                    |           |                   |           |
| Lease principal payments  | (794)              | (890)     | (2,676)           | (2,827)   |
|   | (794)              | (890)     | (2,676)           | (2,827)   |
| (Decrease) increase in cash   | (12,497)           | 6,688     | 30,113            | 7,291     |
| Cash, beginning of period   | 50,191             | 14,689    | 7,581             | 14,086    |
| Cash, end of period   | \$ 37,694          | \$ 21,377 | \$ 37,694         | \$ 21,377 |

Interest expense paid and interest income received approximate finance costs and finance income, respectively, in the Condensed Interim Statement of Comprehensive Income.

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, 2022  
(In thousands of Canadian dollars)

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## 1. Corporate information

CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of His 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 designated and non-designated airports. In light of the COVID-19 pandemic, no such services were provided from April 1, 2020, until June 24, 2022, when CATSA resumed screening services with Muskoka Airport Authority. The agreement was in place until September 6, 2022.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on February 22, 2023.

## 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 Standard 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, 2022.

## 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, 2022, and the condensed interim financial statements for the three months ended June 30, 2022.



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 4. Trade and other receivables

Trade and other receivables are comprised of:

|  | December 31,<br>2022 | March 31,<br>2022 |
|--|----------------------|-------------------|
| Parliamentary appropriations (note 17) | \$ 110,200           | \$ 91,760         |
| GST and HST recoverable                | 8,504                | 6,937             |
| PST recoverable                        | 1,459                | 1,973             |
| Screening services - other             | 61                   | -                 |
|  | <u>\$ 120,224</u>    | <u>\$ 100,670</u> |

Credit terms on trade receivables are 30 days. As at December 31, 2022, and March 31, 2022, there were no amounts included in trade and other receivables that were past due.

## 5. Inventories

Inventories are comprised of:

|             | December 31,<br>2022 | March 31,<br>2022 |
|-------------|----------------------|-------------------|
| Spare parts | \$ 9,508             | \$ 9,733          |
| RAIC        | 986                  | 854               |
| Uniforms    | 91                   | 819               |
|             | <u>\$ 10,585</u>     | <u>\$ 11,406</u>  |

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 6. Property and equipment

A reconciliation of property and equipment is as follows:

|                                   | PBS<br>equipment  | HBS<br>equipment  | NPS<br>equipment | RAIC<br>equipment | Computers,<br>integrated<br>software and<br>electronic<br>equipment | Office<br>furniture<br>and<br>equip-<br>ment | Leasehold<br>improve-<br>ments | Work-in-<br>progress | Total             |
|-----------------------------------|-------------------|-------------------|------------------|-------------------|---|--|--------------------------------|----------------------|-------------------|
| <b>Cost</b>                       |                   |                   |                  |                   |   |  |                                |                      |                   |
| Balance, March 31, 2021           | \$ 160,467        | \$ 662,284        | \$ 20,919        | \$ 5,336          | \$ 31,045   | \$ 129                                       | \$ 10,113                      | \$ 18,642            | \$ 908,935        |
| Additions                         | 400               | 1,016             | -                | 226               | 118   | -  | -                              | 4,017                | 5,777             |
| Disposals                         | (2,394)           | (5,630)           | -                | -                 | -   | -  | -                              | -                    | (8,024)           |
| Write-offs                        | (616)             | (736)             | (200)            | (1,736)           | (2,092)   | -  | -                              | (54)                 | (5,434)           |
| Impairments                       | -                 | -                 | -                | -                 | (1,582)   | -  | -                              | (358)                | (1,940)           |
| Reclassifications                 | 4,992             | 1,077             | 3                | 163               | 1,443   | -  | -                              | (7,704)              | (26)              |
| <b>Balance, March 31, 2022</b>    | <b>\$ 162,849</b> | <b>\$ 658,011</b> | <b>\$ 20,722</b> | <b>\$ 3,989</b>   | <b>\$ 28,932</b>  | <b>\$ 129</b>                                | <b>\$ 10,113</b>               | <b>\$ 14,543</b>     | <b>\$ 899,288</b> |
| Balance, March 31, 2022           | \$ 162,849        | \$ 658,011        | \$ 20,722        | \$ 3,989          | \$ 28,932   | \$ 129                                       | \$ 10,113                      | \$ 14,543            | \$ 899,288        |
| Additions                         | 427               | 363               | -                | 160               | 188   | -  | 767                            | 7,780                | 9,685             |
| Disposals                         | (5,269)           | (4,430)           | -                | (95)              | (313)   | -  | (2,918)                        | -                    | (13,025)          |
| Write-offs                        | -                 | -                 | -                | (752)             | (306)   | -  | -                              | (7)                  | (1,065)           |
| Reclassifications                 | 5,613             | 3,399             | -                | -                 | 401   | -  | 30                             | (9,443)              | -                 |
| <b>Balance, December 31, 2022</b> | <b>\$ 163,620</b> | <b>\$ 657,343</b> | <b>\$ 20,722</b> | <b>\$ 3,302</b>   | <b>\$ 28,902</b>  | <b>\$ 129</b>                                | <b>\$ 7,992</b>                | <b>\$ 12,873</b>     | <b>\$ 894,883</b> |
| <b>Accumulated depreciation</b>   |                   |                   |                  |                   |   |  |                                |                      |                   |
| Balance, March 31, 2021           | \$ 109,590        | \$ 289,287        | \$ 15,012        | \$ 4,206          | \$ 18,051   | \$ 72  | \$ 9,148                       | \$ -                 | \$ 445,366        |
| Depreciation                      | 8,971             | 59,943            | 1,115            | 383               | 3,649   | 23   | 379                            | -                    | 74,463            |
| Disposals                         | (2,394)           | (5,630)           | -                | -                 | -   | -  | -                              | -                    | (8,024)           |
| Write-offs                        | (555)             | (706)             | (154)            | (1,736)           | (2,092)   | -  | -                              | -                    | (5,243)           |
| <b>Balance, March 31, 2022</b>    | <b>\$ 115,612</b> | <b>\$ 342,894</b> | <b>\$ 15,973</b> | <b>\$ 2,853</b>   | <b>\$ 19,608</b>  | <b>\$ 95</b>                                 | <b>\$ 9,527</b>                | <b>\$ -</b>          | <b>\$ 506,562</b> |
| Balance, March 31, 2022           | \$ 115,612        | \$ 342,894        | \$ 15,973        | \$ 2,853          | \$ 19,608   | \$ 95  | \$ 9,527                       | \$ -                 | \$ 506,562        |
| Depreciation                      | 3,688             | 22,000            | 443              | 267               | 2,212   | 18   | 263                            | -                    | 28,891            |
| Disposals                         | (5,269)           | (4,429)           | -                | (95)              | (315)   | -  | (2,917)                        | -                    | (13,025)          |
| Write-offs                        | -                 | -                 | -                | (752)             | (297)   | -  | -                              | -                    | (1,049)           |
| <b>Balance, December 31, 2022</b> | <b>\$ 114,031</b> | <b>\$ 360,465</b> | <b>\$ 16,416</b> | <b>\$ 2,273</b>   | <b>\$ 21,208</b>  | <b>\$ 113</b>                                | <b>\$ 6,873</b>                | <b>\$ -</b>          | <b>\$ 521,379</b> |
| <b>Carrying amounts</b>           |                   |                   |                  |                   |   |  |                                |                      |                   |
| As at March 31, 2022              | \$ 47,237         | \$ 315,117        | \$ 4,749         | \$ 1,136          | \$ 9,324  | \$ 34  | \$ 586                         | \$ 14,543            | \$ 392,726        |
| As at December 31, 2022           | \$ 49,589         | \$ 296,878        | \$ 4,306         | \$ 1,029          | \$ 7,694  | \$ 16  | \$ 1,119                       | \$ 12,873            | \$ 373,504        |

As at March 31, 2022, the estimated useful life of some screening equipment and its associated centralized network software assets, was revised from 10 years to 15 years, to better reflect the anticipated lifecycles. The change in accounting estimate was accounted for on a prospective basis starting April 1, 2022.

# 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<br>acquired<br>software | Internally<br>developed<br>software | Under<br>development | Total            |
|-----------------------------------|------------------------------------|-------------------------------------|----------------------|------------------|
| <b>Cost</b>                       |                                    |                                     |                      |                  |
| Balance, March 31, 2021           | \$ 11,154                          | \$ 20,844                           | \$ 73                | \$ 32,071        |
| Additions                         | 439                                | 39                                  | -                    | 478              |
| Write-offs                        | (776)                              | (395)                               | -                    | (1,171)          |
| Reclassifications                 | 26                                 | 73                                  | (73)                 | 26               |
| <b>Balance, March 31, 2022</b>    | <b>\$ 10,843</b>                   | <b>\$ 20,561</b>                    | <b>\$ -</b>          | <b>\$ 31,404</b> |
| Balance, March 31, 2022           | \$ 10,843                          | \$ 20,561                           | \$ -                 | \$ 31,404        |
| Additions                         | -                                  | 230                                 | 19                   | 249              |
| Write-offs                        | (125)                              | (349)                               | -                    | (474)            |
| <b>Balance, December 31, 2022</b> | <b>\$ 10,718</b>                   | <b>\$ 20,442</b>                    | <b>\$ 19</b>         | <b>\$ 31,179</b> |
| <b>Accumulated amortization</b>   |                                    |                                     |                      |                  |
| Balance, March 31, 2021           | \$ 5,268                           | \$ 9,969                            | \$ -                 | \$ 15,237        |
| Amortization                      | 1,028                              | 1,560                               | -                    | 2,588            |
| Write-offs                        | (771)                              | (395)                               | -                    | (1,166)          |
| <b>Balance, March 31, 2022</b>    | <b>\$ 5,525</b>                    | <b>\$ 11,134</b>                    | <b>\$ -</b>          | <b>\$ 16,659</b> |
| Balance, March 31, 2022           | \$ 5,525                           | \$ 11,134                           | \$ -                 | \$ 16,659        |
| Amortization                      | 594                                | 1,023                               | -                    | 1,617            |
| Write-offs                        | (125)                              | (349)                               | -                    | (474)            |
| <b>Balance, December 31, 2022</b> | <b>\$ 5,994</b>                    | <b>\$ 11,808</b>                    | <b>\$ -</b>          | <b>\$ 17,802</b> |
| <b>Carrying amounts</b>           |                                    |                                     |                      |                  |
| As at March 31, 2022              | \$ 5,318                           | \$ 9,427                            | \$ -                 | \$ 14,745        |
| As at December 31, 2022           | \$ 4,724                           | \$ 8,634                            | \$ 19                | \$ 13,377        |

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 8. Right-of-use assets

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

|                                   |           | Office<br>space | Data<br>centres | Total            |
|-----------------------------------|-----------|-----------------|-----------------|------------------|
| Balance, March 31, 2021           | \$        | 8,566           | \$ 1,371        | \$ 9,937         |
| Additions                         |           | 10,292          | -               | 10,292           |
| Decreases                         |           | (49)            | -               | (49)             |
| Depreciation                      |           | (3,343)         | (268)           | (3,611)          |
| <b>Balance, March 31, 2022</b>    | <b>\$</b> | <b>15,466</b>   | <b>\$ 1,103</b> | <b>\$ 16,569</b> |
| Balance, March 31, 2022           | \$        | 15,466          | \$ 1,103        | \$ 16,569        |
| Additions                         |           | 140             | -               | 140              |
| Depreciation                      |           | (2,496)         | (158)           | (2,654)          |
| <b>Balance, December 31, 2022</b> | <b>\$</b> | <b>13,110</b>   | <b>\$ 945</b>   | <b>\$ 14,055</b> |

## 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,<br>2022 | March 31,<br>2022 |
|--------------------------------------|----------------------|-------------------|
| <b>Employee benefits asset</b>       |                      |                   |
| Registered pension plan (RPP)        | \$ 60,589            | \$ 53,600         |
| Supplementary retirement plan (SRP)  | 3,609                | 3,350             |
|                                      | <b>64,198</b>        | <b>56,950</b>     |
| <b>Employee benefits liability</b>   |                      |                   |
| Other defined benefits plan (ODBP)   | (16,725)             | (19,107)          |
|                                      | <b>(16,725)</b>      | <b>(19,107)</b>   |
| <b>Employee benefits - net asset</b> | <b>\$ 47,473</b>     | <b>\$ 37,843</b>  |

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## (b) Employee benefits costs

The elements of employee benefits costs are as follows:

|  | For the three months ended December 31 |          |         |       |        |        |          |          |
|--|--|----------|---------|-------|--------|--------|----------|----------|
|  | RPP                                    |          | SRP     |       | ODBP   |        | Total    |          |
|  | 2022                                   | 2021     | 2022    | 2021  | 2022   | 2021   | 2022     | 2021     |
| <b>Defined benefit cost (income) recognized in financial performance</b> |  |          |         |       |        |        |          |          |
| Current service cost   | \$ 1,398                               | \$ 1,726 | \$ 13   | \$ 20 | \$ 224 | \$ 255 | \$ 1,635 | \$ 2,001 |
| Administration costs   | 94                                     | 94       | 4       | 4     | -      | -      | 98       | 98       |
| Interest cost on defined benefit obligation                              | 2,130                                  | 1,939    | 49      | 46    | 198    | 183    | 2,377    | 2,168    |
| Interest income on plan assets   | (2,625)                                | (2,187)  | (82)    | (67)  | -      | -      | (2,707)  | (2,254)  |
|  | \$ 997                                 | \$ 1,572 | \$ (16) | \$ 3  | \$ 422 | \$ 438 | \$ 1,403 | \$ 2,013 |

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

|   |          |             |        |          |      |            |          |             |
|---|----------|-------------|--------|----------|------|------------|----------|-------------|
| Return on plan assets excluding interest income | \$ 4,714 | \$ 13,825   | \$ 285 | \$ 242   | \$ - | \$ -       | \$ 4,999 | \$ 14,067   |
| Actuarial losses                                | -        | (25,075)    | -      | (518)    | -    | (2,476)    | -        | (28,069)    |
|   | \$ 4,714 | \$ (11,250) | \$ 285 | \$ (276) | \$ - | \$ (2,476) | \$ 4,999 | \$ (14,002) |

|  | For the nine months ended December 31 |          |         |       |          |          |          |          |
|--|---------------------------------------|----------|---------|-------|----------|----------|----------|----------|
|  | RPP                                   |          | SRP     |       | ODBP     |          | Total    |          |
|  | 2022                                  | 2021     | 2022    | 2021  | 2022     | 2021     | 2022     | 2021     |
| <b>Defined benefit cost (income) recognized in financial performance</b> |                                       |          |         |       |          |          |          |          |
| Current service cost   | \$ 4,192                              | \$ 5,178 | \$ 40   | \$ 60 | \$ 672   | \$ 767   | \$ 4,904 | \$ 6,005 |
| Administration costs   | 282                                   | 282      | 12      | 12    | -        | -        | 294      | 294      |
| Interest cost on defined benefit obligation                              | 6,390                                 | 5,817    | 147     | 138   | 596      | 549      | 7,133    | 6,504    |
| Interest income on plan assets   | (7,875)                               | (6,560)  | (246)   | (202) | -        | -        | (8,121)  | (6,762)  |
|  | \$ 2,989                              | \$ 4,717 | \$ (47) | \$ 8  | \$ 1,268 | \$ 1,316 | \$ 4,210 | \$ 6,041 |

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

|   |             |            |          |         |          |            |             |            |
|---|-------------|------------|----------|---------|----------|------------|-------------|------------|
| Return on plan assets excluding interest income | \$ (29,924) | \$ 20,368  | \$ (545) | \$ 463  | \$ -     | \$ -       | \$ (30,469) | \$ 20,831  |
| Actuarial gains (losses)                        | 35,655      | (25,075)   | 707      | (518)   | 3,490    | (2,476)    | 39,852      | (28,069)   |
|   | \$ 5,731    | \$ (4,707) | \$ 162   | \$ (55) | \$ 3,490 | \$ (2,476) | \$ 9,383    | \$ (7,238) |

For the three and nine months ended December 31, 2022, CATSA recognized an expense of \$236 (2021 - \$212) and \$748 (2021 - \$671), respectively, in relation to the defined contribution component of the RPP.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## (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, 2022, remeasurement gains of \$4,999 resulted primarily from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (3.15% actual versus 1.00% expected).

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 nine months ended December 31, 2022, remeasurement gains of \$9,383 resulted from an increase in the discount rate of 100 basis points (from 4.00% at March 31, 2022 to 5.00% at December 31, 2022). This was partially offset by a lower actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (-8.70% actual versus 3.00% 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).

## (d) Employer contributions

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

|                        | Three months ended |          | Nine months ended |          |
|------------------------|--------------------|----------|-------------------|----------|
|                        | December 31        |          | December 31       |          |
|                        | 2022               | 2021     | 2022              | 2021     |
| Employer contributions |                    |          |                   |          |
| RPP                    | \$ 1,612           | \$ 2,250 | \$ 4,247          | \$ 7,276 |
| SRP                    | 30                 | 51       | 50                | 57       |
| ODBP                   | 52                 | 46       | 160               | 138      |
|                        | \$ 1,694           | \$ 2,347 | \$ 4,457          | \$ 7,471 |

Total employer contributions to the defined benefit plans are estimated to be \$6,975 for the year ending March 31, 2023.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

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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.

During the three months ended December 31, 2022, amounts assessed by Transport Canada in prior periods were paid.

### (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, 2022, there were no significant legal claims outstanding against CATSA.

#### (ii) Decommissioning costs

During the three and nine months ended December 31, 2022, there have been no material changes to contingencies related to decommissioning costs. For a description of CATSA's decommissioning cost, refer to note 10(b)(ii) of the audited annual financial statement for the year ended March 31, 2022.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
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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,<br>2022 | March 31,<br>2022 |
|-------------------------------|----------------------|-------------------|
| Balance, beginning of period  | \$ 17,236            | \$ 10,674         |
| Additions                     | 140                  | 10,430            |
| Decreases                     | -                    | (49)              |
| Lease payments (note 14)      | (2,878)              | (4,014)           |
| Finance costs                 | 202                  | 194               |
| Foreign exchange revaluation  | -                    | 1                 |
| <b>Balance, end of period</b> | <b>\$ 14,700</b>     | <b>\$ 17,236</b>  |
| Balance, end of period        |                      |                   |
| Current                       | \$ 1,727             | \$ 3,129          |
| Non-current                   | 12,973               | 14,107            |

CATSA recognized the following expenses not included in the measurement of the lease liabilities as follows:

|                                    | Three months ended<br>December 31 |               | Nine months ended<br>December 31 |                 |
|------------------------------------|-----------------------------------|---------------|----------------------------------|-----------------|
|                                    | 2022                              | 2021          | 2022                             | 2021            |
| Variable lease payments            | \$ 587                            | \$ 641        | \$ 1,956                         | \$ 1,564        |
| Low value leases                   | 15                                | 14            | 45                               | 45              |
| Short-term leases                  | 2                                 | -             | 2                                | 31              |
| <b>Other lease costs (note 13)</b> | <b>\$ 604</b>                     | <b>\$ 655</b> | <b>\$ 2,003</b>                  | <b>\$ 1,640</b> |

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

For the three and nine months ended December 31, 2022, CATSA recognized a total cash outflow for leases of \$1,463 (2021 - \$1,456) and \$4,881 (2021 - \$4,452), respectively.



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

|   | December 31,<br>2022 | March 31,<br>2022 |
|---|----------------------|-------------------|
| No later than 1 year                        | \$ 4,909             | \$ 5,931          |
| Later than 1 year and no later than 5 years | 15,036               | 13,852            |
| Later than 5 years                          | 1,083                | 3,387             |
|   | <u>\$ 21,028</u>     | <u>\$ 23,170</u>  |

## 12. Deferred government funding

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

|   | December 31,<br>2022     | March 31,<br>2022        |
|---|--------------------------|--------------------------|
| <b>Deferred government funding related to operating expenses</b>  |                          |                          |
| Balance, beginning of period  | \$ 18,241                | \$ 21,079                |
| Parliamentary appropriations used to fund operating expenses (note 14)  | 620,536                  | 674,625                  |
| Parliamentary appropriations for operating expenses recognized in financial performance                         | (624,048)                | (677,463)                |
| Balance, end of period  | <u>\$ 14,729</u>         | <u>\$ 18,241</u>         |
| <b>Deferred government funding related to capital expenditures</b>  |                          |                          |
| Balance, beginning of period  | \$ 406,579               | \$ 479,306               |
| Parliamentary appropriations used to fund capital expenditures (note 14)  | 9,786                    | 6,259                    |
| Amortization of deferred government funding related to capital expenditures recognized in financial performance | (30,421)                 | (78,986)                 |
| Balance, end of period  | <u>\$ 385,944</u>        | <u>\$ 406,579</u>        |
| <b>Total deferred government funding, end of period</b>   | <u><b>\$ 400,673</b></u> | <u><b>\$ 424,820</b></u> |

For additional information on government funding, see note 14.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 13. Expenses

The Condensed Interim Statement of Comprehensive Income 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       |            |
|   | 2022               | 2021       | 2022              | 2021       |
| <b>Screening services and other related costs</b>                   |                    |            |                   |            |
| Payments to screening contractors                                   | \$ 174,710         | \$ 134,642 | \$ 515,167        | \$ 393,997 |
| Uniforms and other screening costs                                  | 3,267              | 2,658      | 8,652             | 7,799      |
| Trace and consumables   | 2,063              | 2,585      | 5,669             | 5,496      |
|   | 180,040            | 139,885    | 529,488           | 407,292    |
| <b>Equipment operating and maintenance</b>                          |                    |            |                   |            |
| Equipment maintenance and spare parts                               | 10,568             | 9,626      | 30,023            | 28,719     |
| RAIC  | 312                | 182        | 896               | 359        |
| Training and certification  | 6                  | 416        | 264               | 509        |
|   | 10,886             | 10,224     | 31,183            | 29,587     |
| <b>Program support and corporate services</b>                       |                    |            |                   |            |
| Employee costs  | 15,930             | 15,478     | 48,919            | 47,620     |
| Professional services and other business related costs <sup>1</sup> | 2,322              | 1,411      | 6,438             | 4,157      |
| Office and computer expenses  | 1,804              | 1,653      | 5,502             | 4,846      |
| Other administrative costs <sup>2</sup>                             | 1,406              | 1,524      | 4,514             | 4,646      |
| Other lease costs (note 11)   | 604                | 655        | 2,003             | 1,640      |
| Communications and public awareness                                 | 232                | 316        | 597               | 489        |
|   | 22,298             | 21,037     | 67,973            | 63,398     |
| <b>Depreciation and amortization</b>                                |                    |            |                   |            |
| Depreciation of property and equipment (note 6)                     | 9,721              | 18,584     | 28,891            | 56,212     |
| Depreciation of right-of-use assets (note 8)                        | 862                | 913        | 2,654             | 2,718      |
| Amortization of intangible assets (note 7)                          | 537                | 646        | 1,617             | 1,942      |
|   | 11,120             | 20,143     | 33,162            | 60,872     |
|   | \$ 224,344         | \$ 191,289 | \$ 661,806        | \$ 561,149 |

<sup>1</sup> Other business related costs include travel expenses, conference fees, membership and association fees, and meeting expenses.

<sup>2</sup> Other administrative costs include insurance, network and telephone expenses, and facilities maintenance.

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 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:

|   | 2022       | 2021       |
|---|------------|------------|
| Parliamentary appropriations approved for the fiscal year                                 | \$ 922,689 | \$ 852,890 |
| Parliamentary appropriations used to date to fund operating expenses                      | (620,536)  | (493,086)  |
| Parliamentary appropriations used to date to fund capital expenditures and lease payments | (12,664)   | (7,204)    |
| Unused parliamentary appropriations   | \$ 289,489 | \$ 352,600 |

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

|  | Three months ended<br>December 31 |            | Nine months ended<br>December 31 |            |
|--|-----------------------------------|------------|----------------------------------|------------|
|  | 2022                              | 2021       | 2022                             | 2021       |
| Parliamentary appropriations received                                  | \$ 242,000                        | \$ 198,000 | \$ 604,825                       | \$ 508,694 |
| Amounts received related to prior periods                              | (135,321)                         | (111,768)  | (89,625)                         | (98,694)   |
| Parliamentary appropriations receivable                                | 105,336                           | 83,086     | 105,336                          | 83,086     |
| Parliamentary appropriations used to fund operating expenses (note 12) | \$ 212,015                        | \$ 169,318 | \$ 620,536                       | \$ 493,086 |

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
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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 |          | Nine months ended |           |
|---|--------------------|----------|-------------------|-----------|
|   | December 31        |          | December 31       |           |
|   | 2022               | 2021     | 2022              | 2021      |
| Parliamentary appropriations received   | \$ 4,141           | \$ 2,199 | \$ 7,057          | \$ 15,281 |
| Amounts receivable related to prior periods                                       | (3,569)            | (2,339)  | (2,135)           | (12,093)  |
| Parliamentary appropriations receivable   | 4,864              | 1,204    | 4,864             | 1,204     |
| Parliamentary appropriations used to fund capital expenditures (note 12)          | 5,436              | 1,064    | 9,786             | 4,392     |
| Parliamentary appropriations used to fund lease payments (note 11)                | 859                | 801      | 2,878             | 2,812     |
| Parliamentary appropriations used to fund capital expenditures and lease payments | \$ 6,295           | \$ 1,865 | \$ 12,664         | \$ 7,204  |

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

(In thousands of Canadian dollars)

## 15. Fair values of financial instruments

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

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

|   | December 31, 2022 |                      | March 31, 2022  |                      |
|---|-------------------|----------------------|-----------------|----------------------|
|   | Carrying Amount   | Fair Value (Level 2) | Carrying Amount | Fair Value (Level 2) |
| <b>Financial instruments measured at fair value</b> |                   |                      |                 |                      |
| Derivative financial assets <sup>1</sup>            | \$ 599            | \$ 599               | \$ 40           | \$ 40                |
| Derivative financial liabilities <sup>1</sup>       | 56                | 56                   | -               | -                    |

<sup>1</sup> 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, 2022, or the year ended March 31, 2022.

## 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,<br>2022 | March 31,<br>2022   |
|-----------|----------------------|---------------------|
| Operating | \$ 1,398,408         | \$ 1,816,147        |
| Capital   | 18,821               | 5,814               |
|           | <b>\$ 1,417,229</b>  | <b>\$ 1,821,961</b> |

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
(Unaudited)

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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, 2022, government funding of \$222,658 (2021 – \$190,799) and \$657,347 (2021 – \$562,181), respectively, is recognized in the Condensed Interim Statement of Comprehensive Income, 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 \$110,200 (March 31, 2022 – \$91,760), 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.

## 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       |           |
|  | 2022               | 2021      | 2022              | 2021      |
| Decrease (increase) in trade and other receivables                               | \$ 26,152          | \$ 28,424 | \$ (16,825)       | \$ 16,107 |
| (Increase) decrease in inventories   | (383)              | 715       | 658               | 1,420     |
| (Increase) decrease in prepaids  | (63)               | 678       | 2,691             | 3,375     |
| (Decrease) increase in trade and other payables                                  | (41,142)           | (15,364)  | 48,876            | 6,819     |
| Decrease in provisions   | -                  | -         | (200)             | -         |
| Increase (decrease) in holdbacks   | 4                  | (19)      | 10                | (30)      |
| Increase (decrease) in deferred government funding related to operating expenses | 446                | (1,433)   | (3,512)           | (6,233)   |
|  | \$ (14,986)        | \$ 13,001 | \$ 31,698         | \$ 21,458 |

# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to the Condensed Interim Financial Statements  
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For the three and nine months ended December 31, 2022, the change in trade and other receivables excludes amounts of \$1,295 (2021 – \$997) and \$2,729 (2021 – \$10,751), 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, 2022, the change in inventories excludes amounts of \$Nil (2021 - \$40) and \$163 (2021 - \$1,438), 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, 2022, the change in trade and other payables excludes amounts of \$4,533 (2021 – \$3,190) and \$3,807 (2021 – \$19,789), 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, 2022, the change in holdbacks excludes amounts of \$137 (2021 – \$3,342) and \$134 (2021 – \$3,485), respectively, in relation to the acquisition of property and equipment, as these amounts relate to investing activities.

## **19. Security Screening Services Commercialization Act**

As part of Budget 2019, the Government of Canada announced its intention to introduce legislation to enable the creation of an independent, not-for-profit entity, established by industry, which would assume the responsibility for aviation screening at Canada's airports. The *Security Screening Services Commercialization Act* (SSSCA) received Royal Assent in June 2019. The SSSCA allows for the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

These developments have not changed CATSA's mandate and CATSA intends to continue to realize its assets and discharge its liabilities in the normal course of business.

Negotiations are on hold. The timeline for negotiations and the potential sale remains undetermined.