

Quarterly Financial Report

For the Three Months Ended
June 30, 2015



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE MONTHS ENDED JUNE 30, 2015**

Management's Narrative Discussion outlines the significant activities and initiatives, risks and financial results of the Canadian Air Transport Security Authority (CATSA) for the three months ended June 30, 2015. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2015, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standards 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's Management Discussion and Analysis and audited annual financial statements for the year ended March 31, 2015. The information in this report is expressed in thousands of Canadian dollars and is current to August 26, 2015, 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 mandated to provide effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport. CATSA is also responsible for ensuring consistency in the delivery of screening across Canada and for air transport security functions that the Minister of Transport may assign to it, subject to any terms and conditions that the Minister may establish. In carrying out its responsibilities, CATSA must do so in the public interest, having due regard to the interest of the travelling public. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada.

To achieve this, CATSA conducts screening in the following four areas:

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the screening of non-passengers on a random basis; and

- Restricted Area Identity Card (RAIC) Program: the administration of access control to airport restricted areas through biometric identifiers.

In addition to its mandated activities, CATSA has an agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources.

With the support of Transport Canada, CATSA also entered into a trial agreement with the Greater Toronto Airports Authority for the provision of supplemental screening services effective October 5, 2014. The trial will run until March 31, 2016.

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since March 31, 2015.

PASSENGER GROWTH AND SCREENING CONTRACTOR BILLING RATES

CATSA received incremental funding for 2015/16 to allow the organization to maintain wait time service levels comparable to those of 2014/15¹. CATSA will continue to work with Transport Canada to develop possible solutions to address funding pressures associated with passenger growth and billing rate increases that are anticipated for 2016/17 and beyond.

Statistics from CATSA's Boarding Pass Security System (BPSS) for the three months ended June 30, 2015 indicate that screened traffic across Canada increased by 5.8% over the same period in 2014.

ORGANIZATIONAL CHANGES

Board of Directors Changes

On June 18, 2015, Mr. Raf Souccar was appointed to CATSA's Board of Directors for a three year term. Mr. Souccar replaces Mr. Gene McLean.

Effective June 30, 2015, Ms. Joanne Whittle resigned from the Board of Directors. Her position is currently vacant.

RISKS AND UNCERTAINTIES

There have been no significant changes to the corporate risk profile as previously disclosed in the *2015 Annual Report*.

¹ The incremental funding was determined using the assumption that passenger growth for 2015/16 will be 3.5%.

ANALYSIS OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

The following section provides information on key variances within the Statement of Comprehensive Income for the three months ended June 30, 2015 and June 30, 2014.

Key Financial Highlights - Statement of Comprehensive Income (Thousands of Canadian dollars)	Three Months Ended June 30			
	2015 (unaudited)	2014 (unaudited)	\$ Change	% Change
Expenses¹				
Screening services and other related costs	\$ 106,629	\$ 95,879	\$ 10,750	11.2%
Equipment operating and maintenance	10,559	11,585	(1,026)	(8.9%)
Program support and corporate services	19,655	19,725	(70)	(0.4%)
Depreciation and amortization	13,248	14,249	(1,001)	(7.0%)
Total expenses	\$ 150,091	\$ 141,438	\$ 8,653	6.1%
Total other expenses (income)	236	(16)	252	N/M
Financial performance before revenue and government funding	\$ 150,327	\$ 141,422	\$ 8,905	6.3%
Revenue	\$ 716	\$ 186	\$ 530	284.9%
Government funding				
Parliamentary appropriations for operating expenses	\$ 133,123	\$ 124,041	\$ 9,082	7.3%
Amortization of deferred government funding related to capital expenditures	13,486	14,243	(757)	(5.3%)
Total government funding	\$ 146,609	\$ 138,284	\$ 8,325	6.0%
Financial performance	\$ (3,002)	\$ (2,952)	\$ (50)	(1.7%)
Other comprehensive income	\$ 10,640	\$ -	\$ 10,640	-
Total comprehensive income (loss)	\$ 7,638	\$ (2,952)	\$ 10,590	358.7%

¹ The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense category, as disclosed in note 10 of the unaudited condensed interim financial statements for the three months ended June 30, 2015.

N/M = not meaningful

Screening services and other related costs

Screening services and other related costs increased by \$10,750 (11.2%) for the three months ended June 30, 2015 compared to the same period in 2014. This is mainly attributable to an increase in the screening hours purchased at NPS and PBS, coupled with annual contractual increases in screening contractor billing rates.

The increase in the screening hours purchased at NPS is associated with the implementation of vehicle screening which commenced in November 2014 as part of the Enhanced NPS program. Screening hours purchased for PBS checkpoints increased primarily to accommodate passenger growth. In addition, incremental PBS hours were purchased as part of a trial agreement with the Greater Toronto Airports Authority for the provision of supplemental screening services.

Equipment operating and maintenance

Equipment operating and maintenance costs decreased by \$1,026 (8.9%) for the three months ended June 30, 2015, compared to the same period in 2014. The decrease is primarily due to lower training requirements for equipment maintenance providers in support of CATSA's capital deployment plan, in-sourcing of BPSS equipment maintenance from a third party vendor, and lower spare parts costs. The decrease is partially offset by higher costs for equipment maintenance contracts denominated in United States dollars, with the weakening of the Canadian dollar in comparison to the prior year.

Depreciation and amortization

Depreciation and amortization decreased by \$1,001 (7.0%) for the three months ended June 30, 2015, compared to the same period in 2014. The decrease is primarily due to the combined impact of various adjustments to the remaining estimated useful lives of certain HBS equipment that are dependent on airport project plans that frequently evolve. This equipment is being replaced in support of the multi-year, HBS life-cycle management program.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by \$9,082 (7.3%) for the three months ended June 30, 2015, compared to the same period in 2014. The increase is primarily due to increased spending for screening services and other related costs, as previously discussed.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures decreased by \$757 (5.3%) for the three months ended June 30, 2015, compared to the same period in 2014. The decrease is primarily due to lower depreciation and amortization expense of the assets purchased with government funds for capital expenditures.

Other comprehensive income

Other comprehensive income increased by \$10,640 for the three months ended June 30, 2015, compared to the same period in 2014. The increase is due to non-cash remeasurements resulting from changes in actuarial assumptions and returns on pension plan assets. CATSA recorded a remeasurement gain on the defined benefit liability arising from an increase in the discount rate of 50 basis points since March 31, 2015, which was partially offset by a remeasurement loss from lower returns on plan assets for the quarter than the rate used in CATSA's assumptions. For more information, refer to note 10 of the condensed interim financial statements.

STATEMENT OF FINANCIAL POSITION

The following section provides information on key variances within the Statement of Financial Position as at June 30, 2015, compared to March 31, 2015.

Key Financial Highlights - Statement of Financial Position (Thousands of Canadian dollars)	June 30, 2015 (unaudited)	March 31, 2015 (audited)	\$ Change	% Change
Total assets	\$ 432,489	\$ 449,846	\$ (17,357)	(3.9%)
Total liabilities	\$ 433,739	\$ 458,734	\$ (24,995)	(5.4%)

Total Assets

Total assets decreased by \$17,357 (3.9%) primarily due to the following:

- Decrease in trade and other receivables of \$31,078 primarily due to lower parliamentary appropriations receivable, as a result of the timing of cash requests made to the Consolidated Revenue Fund. In addition, recoverable commodity taxes decreased as a result of tax reimbursements received during the quarter;
- Increase in cash of \$10,962 primarily due to the receipt of commodity tax reimbursements during the quarter; and
- Increase in employee benefits of \$6,823 primarily due to the measurement of the defined benefit plans, as previously described in the Analysis of Financial Results for Other Comprehensive Income.

Total Liabilities

Total liabilities decreased by \$24,995 (5.4%) primarily due to lower trade and other payables. This is mainly due to the timing of disbursements associated with obligations outstanding with suppliers.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's *Summary of the 2015/16 – 2019/20 Corporate Plan* has not been tabled in Parliament at the time of publishing. Until it is tabled in Parliament and made public, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *Summary of the 2015/16 – 2019/20 Corporate Plan*.

PARLIAMENTARY APPROPRIATIONS USED

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. The amount of parliamentary appropriations used is reported on a near-cash accrual basis of accounting. Accordingly, the table below serves to reconcile operating expenses reported under IFRS and operating appropriations used:

Reconciliation of Total Expenses to Operating Appropriations Used	Three Months Ended	
	June 30	
	2015	2014
(Thousands of Canadian dollars)	(unaudited)	(unaudited)
Total expenses	\$ 150,091	\$ 141,438
Revenue, net of finance cost	(715)	(185)
Non-cash operating expenses		
Depreciation and amortization	(13,248)	(14,249)
Employee benefits expense ¹	(2,173)	(1,837)
Employee cost accruals ²	(897)	(1,177)
Spare parts expense funded from capital ³	(3)	(11)
Deferred lease incentives ⁴	68	62
Parliamentary appropriations for operating expenses	\$ 133,123	\$ 124,041
Other items affecting funding		
Net change in prepaids and inventories ⁵	(1,490)	(1,554)
Total operating appropriations used	\$ 131,633	\$ 122,487

¹ Employee benefits are accounted for in the 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.

² Employee cost accruals are accounting expenses to record variable pay and accrued vacation expenses incurred to June 30, 2015. These costs are funded by appropriations at year-end, creating a reconciling item.

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 Deferred lease incentives is a non-cash accounting adjustment to record the benefit derived from favourable lease terms, including significantly reduced rent and free common area costs. Rental costs are funded by appropriations when paid, creating a reconciling item.

⁵ Prepaids and inventories are expensed as the benefit is derived from the asset by CATSA. They are funded by appropriations when purchased, creating a reconciling item.


The table below serves to reconcile capital asset acquisitions reported under IFRS and capital appropriations used:

Reconciliation of Capital Acquisitions to Capital Appropriations Used	Three Months Ended	
	June 30	
	2015	2014
(Thousands of Canadian dollars)	(unaudited)	(unaudited)
Explosives Detection System	\$ 10,659	\$ 8,745
Non-Explosives Detection System	253	35
Total capital asset acquisitions	\$ 10,912	\$ 8,780
Proceeds on disposal of property and equipment	-	(21)
Total capital appropriations used	\$ 10,912	\$ 8,759

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 – *Interim Financial Reporting*, and for such internal controls as management determines are necessary to enable the preparation of 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 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 condensed interim financial statements.



Angus Watt
President and Chief Executive Officer
Ottawa, Canada

August 26, 2015



Andie Andreou, CPA, CA
Vice-President and Chief Financial Officer
Ottawa, Canada

August 26, 2015

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Three months ended June 30, 2015 and 2014

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2015	March 31, 2015
Assets		
Current assets		
Cash	\$ 18,943	\$ 7,981
Trade and other receivables (note 3)	63,219	94,297
Inventories (note 4)	16,858	17,980
Prepaid expenses	2,497	2,865
	<u>101,517</u>	<u>123,123</u>
Non-current assets		
Employee benefits (note 9)	18,978	12,155
Property and equipment (note 5)	309,642	311,784
Intangible assets (note 6)	2,352	2,784
	<u>330,972</u>	<u>326,723</u>
	<u>\$ 432,489</u>	<u>\$ 449,846</u>
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 81,236	\$ 100,443
Provisions (note 7)	335	335
Deferred government funding related to operating expenses (note 8)	19,355	20,845
	<u>100,926</u>	<u>121,623</u>
Non-current liabilities		
Deferred lease incentives	730	798
Deferred government funding related to capital expenditures (note 8)	311,994	314,568
Employee benefits (note 9)	20,089	21,745
	<u>332,813</u>	<u>337,111</u>
Equity		
Accumulated deficit	(1,250)	(8,888)
	<u>\$ 432,489</u>	<u>\$ 449,846</u>

Contractual arrangements (note 13) and contingent liabilities (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 June 30	
	2015	2014
Expenses		
Pre-Board Screening	\$ 82,271	\$ 78,434
Hold Baggage Screening	35,819	35,876
Non-Passenger Screening	21,045	15,367
Restricted Area Identity Card Program	613	737
Corporate services	10,343	11,024
Total expenses (note 10)	150,091	141,438
Other expenses (income)		
Impairment of property and equipment	231	-
Loss (gain) on property and equipment	4	(17)
Finance cost	1	1
Total other expenses (income)	236	(16)
Financial performance before revenue and government funding	150,327	141,422
Revenue		
Supplemental screening services	459	-
Finance income	104	69
Foreign exchange gain	77	117
Miscellaneous income	76	-
Total revenue	716	186
Government funding		
Parliamentary appropriations for operating expenses (note 8)	133,123	124,041
Amortization of deferred government funding related to capital expenditures (note 8)	13,486	14,243
Total government funding	146,609	138,284
Financial performance	\$ (3,002)	\$ (2,952)
Other comprehensive income		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)	10,640	-
Total comprehensive income (loss)	\$ 7,638	\$ (2,952)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended June 30:

	Accumulated deficit
Balance, March 31, 2015	\$ (8,888)
Financial performance	(3,002)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	10,640
<hr/> Balance, June 30, 2015	<hr/> (1,250)
Balance, March 31, 2014	\$ (9,130)
Financial performance	(2,952)
<hr/> Balance, June 30, 2014	<hr/> (12,082)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Cash Flows

(Unaudited)

(In thousands of Canadian dollars)

	Three months ended June 30	
	2015	2014
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (3,002)	\$ (2,952)
Items not involving cash		
Depreciation of property and equipment (note 10)	12,804	13,348
Increase in net employee benefits liability (note 15)	2,161	1,837
Amortization of intangible assets (note 10)	444	901
Impairment of property and equipment	231	-
Loss (gain) on property and equipment	4	(17)
Other non-cash transactions (note 15)	3	-
Amortization of deferred government funding related to capital expenditures (note 8)	(13,486)	(14,243)
Decrease in deferred lease incentives	(68)	(62)
Net change in non-cash working capital balances (note 15)	11,682	32,737
	10,773	31,549
Investing activities		
Parliamentary appropriations received for capital funding	21,000	39,000
Purchase of property and equipment	(20,799)	(40,800)
Purchase of intangible assets	(12)	(12)
	189	(1,812)
Increase in cash	10,962	29,737
Cash, beginning of period	7,981	6,191
Cash, end of period	\$ 18,943	\$ 35,928

Supplementary cash flow information (note 15)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2015 and 2014
(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. With the support of Transport Canada, CATSA also entered into a trial agreement with the Greater Toronto Airports Authority for the provision of supplemental screening services effective October 5, 2014. The trial will run until March 31, 2016.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on August 26, 2015.

2. Summary of significant accounting policies

(a) 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).

Section 131.1 of the *Financial Administration Act* requires that most parent Crown corporations prepare and make public quarterly financial reports in compliance with the Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*. These condensed interim financial statements have not been audited or reviewed by CATSA's external auditor.

As permitted by IAS 34, these interim financial statements are presented on a condensed basis and therefore do not include all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual financial statements. These condensed interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2015. Accordingly, they should be read in conjunction with the audited annual financial statements for the year ended March 31, 2015, and the narrative discussion included within the Quarterly Financial Report for the three months ended June 30, 2015.

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, 2015, except for the application of the new and revised standards effective April 1, 2015 as described in note 2(b) below, and the following revenue policy related to supplemental screening services described in note 1 above.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2015 and 2014
(In thousands of Canadian dollars)

Revenue

Supplemental screening services revenue is recognized in financial performance when the screening services are provided, CATSA has no remaining obligations, and when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to CATSA. Revenue is measured at the fair value of consideration received or receivable.

(b) Adoption of new and revised International Financial Reporting Standards

The following amendments and annual improvements, issued by the International Accounting Standards Board (IASB), were adopted by CATSA effective April 1, 2015. The adoption of the amendment and annual improvements had no impact on the condensed interim financial statements for the three months ended June 30, 2015.

(i) *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*

IAS 19 was amended in November 2013 to clarify how contributions from employees linked to service should be attributed to periods of service. These amendments are effective for annual reporting periods beginning on or after July 1, 2014, on a retrospective basis.

(ii) *Annual Improvements to IFRSs: 2010-2012 Cycle and 2011-2013 Cycle*

The Annual Improvements to IFRSs 2010-2012 Cycle and the Annual Improvements to IFRSs 2011-2013 Cycle were issued in December 2013. These improvements include amendments to various IFRSs which are effective for annual reporting periods beginning on or after July 1, 2014, on a retrospective basis.

3. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2015	March 31, 2015
Parliamentary appropriations	\$ 57,179	\$ 77,634
GST and HST recoverable	5,237	14,438
PST recoverable	744	1,922
Other	59	303
	<u>\$ 63,219</u>	<u>\$ 94,297</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2015 and 2014
(In thousands of Canadian dollars)

4. Inventories

Inventories are comprised of:

	June 30, 2015	March 31, 2015
Spare parts	\$ 15,928	\$ 16,407
RAIC	677	855
Uniforms	253	718
	\$ 16,858	\$ 17,980

5. 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, 2015	\$ 124,747	\$ 656,986	\$ 9,548	\$ 4,387	\$ 25,811	\$ 95	\$ 10,221	\$ 112,217	\$ 944,012
Additions	-	579	-	(2)	(1)	-	-	10,324	10,900
Disposals	(793)	(14,779)	(58)	-	-	-	-	-	(15,630)
Write-offs	-	(2,222)	-	(16)	(84)	-	-	-	(2,322)
Impairments	(159)	(93)	-	-	(505)	-	-	-	(757)
Reclassifications	(4,177)	54,640	5,410	-	307	-	-	(56,180)	-
Balance, June 30, 2015	\$ 119,618	\$ 695,111	\$ 14,900	\$ 4,369	\$ 25,528	\$ 95	\$ 10,221	\$ 66,361	\$ 936,203
Accumulated depreciation									
Balance, March 31, 2015	70,966	\$ 523,774	\$ 3,659	\$ 3,582	\$ 21,150	\$ 95	\$ 9,002	\$ -	\$ 632,228
Depreciation	2,238	9,400	509	124	419	-	114	-	12,804
Disposals	(793)	(14,775)	(58)	-	-	-	-	-	(15,626)
Write-offs	-	(2,219)	-	(16)	(84)	-	-	-	(2,319)
Impairments	(99)	(43)	-	-	(384)	-	-	-	(526)
Reclassifications	(2,831)	-	2,831	-	-	-	-	-	-
Balance, June 30, 2015	\$ 69,481	\$ 516,137	\$ 6,941	\$ 3,690	\$ 21,101	\$ 95	\$ 9,116	\$ -	\$ 626,561
Carrying amounts									
As at March 31, 2015	\$ 53,781	\$ 133,212	\$ 5,889	\$ 805	\$ 4,661	\$ -	\$ 1,219	\$ 112,217	\$ 311,784
As at June 30, 2015	\$ 50,137	\$ 178,974	\$ 7,959	\$ 679	\$ 4,427	\$ -	\$ 1,105	\$ 66,361	\$ 309,642

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2015 and 2014
(In thousands of Canadian dollars)

6. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2015	\$ 3,807	\$ 18,840	\$ -	\$ 22,647
Additions	-	-	12	12
Write-offs	(137)	-	-	(137)
Balance, June 30, 2015	\$ 3,670	\$ 18,840	\$ 12	\$ 22,522
Accumulated amortization				
Balance, March 31, 2015	\$ 3,000	\$ 16,863	\$ -	\$ 19,863
Amortization	124	320	-	444
Write-offs	(137)	-	-	(137)
Balance, June 30, 2015	\$ 2,987	\$ 17,183	\$ -	\$ 20,170
Carrying amounts				
At March 31, 2015	\$ 807	\$ 1,977	\$ -	\$ 2,784
At June 30, 2015	\$ 683	\$ 1,657	\$ 12	\$ 2,352

7. Provisions

Management accrues provisions for disputed claims from various parties requesting monetary compensation. The provisions recorded as at June 30, 2015 of \$335 (March 31, 2015 – \$335) were established by management taking into account legal assessments, information presently available and other recourse. The amounts were classified as current and the expected future cash flows were not discounted, as the timing of the cash outflows associated with the disputed claims could not be reasonably determined.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2015 and 2014
(In thousands of Canadian dollars)

8. Deferred government funding

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

	June 30, 2015	March 31, 2015
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 20,845	\$ 19,953
Parliamentary appropriations used to finance operating expenses	131,633	543,834
Parliamentary appropriations recognized as government funding for operating expenses	(133,123)	(542,942)
Balance, end of period	\$ 19,355	\$ 20,845
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 314,568	\$ 292,797
Parliamentary appropriations used to finance capital expenditures	10,912	76,800
Amortization of deferred government funding related to capital expenditures	(13,486)	(55,029)
Balance, end of period	\$ 311,994	\$ 314,568
Total deferred government funding, end of period	\$ 331,349	\$ 335,413

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2015 and 2014
(In thousands of Canadian dollars)

9. Employee benefits

(a) Net employee benefits liability

The following provides a reconciliation between the surplus or deficit of the defined benefit pension plans to the net employee benefits liability presented in the Statement of Financial Position:

	June 30, 2015	March 31, 2015
Employee benefits asset		
Registered pension plan (RPP)	\$ 17,168	\$ 10,585
Supplementary retirement plan (SRP)	1,810	1,570
	<u>18,978</u>	<u>12,155</u>
Employee benefits liability		
Other defined benefits plan (ODBP)	(20,089)	(21,745)
	<u>(20,089)</u>	<u>(21,745)</u>
Employee benefits - net liability	<u>\$ (1,111)</u>	<u>\$ (9,590)</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2015 and 2014
(In thousands of Canadian dollars)

(b) Employee benefits costs

The elements of employee benefits costs for the three months ended June 30 are as follows:

	RPP		SRP		ODBP	
	2015	2014	2015	2014	2015	2014
Defined benefit cost recognized in financial performance						
Current service cost	\$ 2,657	\$ 2,079	\$ 38	\$ 49	\$ 461	\$ 351
Administration costs	77	78	4	5	-	-
Net interest on the net defined benefit asset or liability	(40)	(34)	(15)	(16)	235	207
Defined benefit cost	\$ 2,694	\$ 2,123	\$ 27	\$ 38	\$ 696	\$ 558
Remeasurement of defined benefit plans recognized in other comprehensive income						
Return on plan assets excluding interest income	\$ (6,888)	\$ -	\$ (118)	\$ -	\$ -	\$ -
Actuarial gains arising from changes in financial assumptions	14,955	-	385	-	2,306	-
Remeasurement of defined benefit plans	\$ 8,067	\$ -	\$ 267	\$ -	\$ 2,306	\$ -

For the three months ended June 30, 2015, CATSA recognized an expense of \$19 (2014 - \$14) in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

For the three months ended June 30, 2015, CATSA recorded a remeasurement gain totalling \$10,640 that resulted from a remeasurement of the defined benefit liability for the quarter given the discount rate on the defined benefit liability increased by 50 basis points (from 4.00% at March 31, 2015 to 4.50% at June 30, 2015) offset by a lower return on plan assets for the quarter of -3.30% compared to the rate used in CATSA's assumptions of 1.00%.

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(d) Employer Contributions

Employer contributions paid to the defined benefit pension plans for the three months ended June 30 are as follows:

	Three months ended	
	June 30	
	2015	2014
Employer contributions		
RPP	\$ 1,210	\$ 838
ODBP	46	44
	<hr/>	<hr/>
	\$ 1,256	\$ 882

The estimated total employer contributions to the defined benefit pension plans for the year ending March 31, 2016 are \$3,653.

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10. Expenses

The Statement of Comprehensive Income presents operating expenses by program activity. The following table presents operating expenses by major expense type for the three months ended June 30:

	Three months ended June 30	
	2015	2014
Screening services and other related costs		
Payments to screening contractors	\$ 105,332	\$ 94,033
Uniforms and other screening costs	1,077	1,317
Trace and consumables	220	529
	106,629	95,879
Equipment operating and maintenance		
Equipment maintenance and spare parts	10,278	10,631
RAIC	178	131
Training and certification	103	823
	10,559	11,585
Program support and corporate services		
Employee costs	15,073	15,347
Operating leases	1,586	1,301
Professional services and other business related costs	987	1,050
Other administrative costs	946	846
Office and computer expenses	915	1,022
Communications and public awareness	148	159
	19,655	19,725
Depreciation and amortization		
Depreciation of property and equipment	12,804	13,348
Amortization of intangible assets	444	901
	13,248	14,249
	\$ 150,091	\$ 141,438

Other business related costs include travel expenses, conference fees, membership and association fees, and meeting expenses. Other administrative costs include insurance, network and telephone expenses, and facilities maintenance.

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11. Government funding

CATSA's *Summary of the 2015/16 – 2019/20 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet public. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

The following table reconciles parliamentary appropriations for operating expenses that were received and receivable, to the amount of appropriations used during the three months ended June 30:

	Three months ended June 30	
	2015	2014
Parliamentary appropriations received and receivable	\$ 193,727	\$ 181,603
Amounts received and receivable related to prior periods	(59,834)	(55,438)
Amounts to be used in future periods	(2,260)	(3,678)
Parliamentary appropriations used to finance operating expenses	\$ 131,633	\$ 122,487

Parliamentary appropriations to be used in future periods are a result of higher forecasted expenditures than actual operating expenditures. These amounts are expected to be used and recognized in financial performance within the next fiscal quarter.

The following table reconciles parliamentary appropriations related to capital expenditures that were received and receivable, to the amount of appropriations used during the three months ended June 30:

	Three months ended June 30	
	2015	2014
Parliamentary appropriations received and receivable	\$ 44,692	\$ 62,935
Amounts received and receivable related to prior periods	(17,800)	(41,239)
Amounts to be used in future periods	(15,980)	(12,937)
Parliamentary appropriations used to finance capital expenditures	\$ 10,912	\$ 8,759

Parliamentary appropriations to be used in future periods are a result of higher forecasted expenditures than actual capital expenditures. These amounts are expected to be used and recorded within the next fiscal quarter.

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12. Financial instruments

As part of its operations, CATSA enters into transactions that have exposures to financial risks such as market and liquidity risks.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CATSA's key market risk relates to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from trade and other payables denominated in a currency other than the Canadian dollar, which is the functional currency of CATSA.

The following table provides the total foreign currency exposure related to amounts recorded as of June 30 and March 31, 2015 denominated in the United States dollar (USD) and their Canadian dollar (CAD) equivalent:

	USD	CAD
Trade and other payables		
June 30, 2015	\$ 645	\$ 806
March 31, 2015	3,471	4,396

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase/decrease in financial performance of \$40 (March 31, 2015 – \$220).

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. Liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada. CATSA manages its liquidity risk by preparing and monitoring forecasts of cash flows for anticipated operating and investing activities. Also, the Board of Directors reviews and approves CATSA's operating and capital budgets.

Trade and other payables and provisions represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of these financial liabilities:

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	Less than 3 months	3 months to 1 year	Total
June 30, 2015	\$ 58,062	\$ 23,509	\$ 81,571
March 31, 2015	\$ 84,179	\$ 16,599	\$ 100,778

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2015.

13. Contractual arrangements

(a) Non-lease arrangements

In the normal course of operations, CATSA enters into contractual arrangements for the supply of goods and services. These contractual arrangements are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion. The most significant arrangements relate to contracts signed with screening contractors for the provision of screening services, as well as with vendors for screening equipment and related maintenance.

The following table provides the remaining pre-tax balance on these contractual arrangements:

	June 30, 2015	March 31, 2015
Operating Capital	\$ 1,016,786 182,234	\$ 1,134,698 194,202
Total	\$ 1,199,020	\$ 1,328,900

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(b) Lease arrangements

CATSA is committed under non-cancellable operating leases for the rental of equipment and office space. The following table provides the pre-tax minimum lease payments under the terms of these leases:

	June 30, 2015	March 31, 2015
No later than 1 year	\$ 7,480	\$ 7,310
Later than 1 year and no later than 5 years	23,047	23,561
Later than 5 years	11,229	12,403

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters. The lease expires on November 30, 2017 and the option to renew for five additional years was exercised. The renewal terms incorporated lease incentives not included in the original agreement, and an option to further extend the lease for an additional five years, subject to the same terms and conditions. There is no further right to extend after the expiry of the extension term and the rent during the option term will be based on the prevailing market rate at that time.

14. Related party transactions

CATSA had the following transactions with related parties for the three months ended June 30, 2015:

(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 and pursuant to authority given in the *CATSA Act*. These related party transactions are based on normal trade terms applicable to all individuals and corporations.

Income from these related parties for the three months ended June 30, 2015 amounted to \$146,609 (2014 – \$138,284), which represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses for these related parties for the three months ended June 30, 2015 amounted to \$3,194 (2014 – \$2,716), which include \$2,678 (2014 – \$2,425) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

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As at June 30, 2015, amounts receivable from related parties were \$62,416 (March 31, 2015 – \$92,072). These include \$5,237 (March 31, 2015 – \$14,438) due from the Canada Revenue Agency for recoverable taxes paid on expenses and \$57,179 (March 31, 2015 – \$77,634) due from the Government of Canada for parliamentary appropriations used during the three months and not received at quarter end. As at June 30, 2015, amounts payable to related parties were \$723 (March 31, 2015 – \$671).

(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 determined by actuarial valuations, as disclosed in note 9. There were no other transactions during the year.

15. Net change in non-cash working capital balances and supplementary cash flow information

The following table presents the net change in non-cash working capital balances for the three months ended June 30:

	Three months ended June 30	
	2015	2014
Decrease in trade and other receivables	\$ 20,990	\$ 42,440
Decrease in inventories	1,122	1,349
Decrease in prepaid expenses	368	216
Decrease in trade and other payables	(9,308)	(9,714)
Decrease in deferred government funding related to operating expenses	(1,490)	(1,554)
	<u>\$ 11,682</u>	<u>\$ 32,737</u>

Interest income received and recognized during the three months ended June 30, 2015 totalled \$104 (2014 – \$117).

Interest expense paid and expensed during the three months ended June 30, 2015 totalled \$1 (2014 – \$1).

The change in trade and other receivables excludes an amount of \$10,088 (2014 – \$30,241) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

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The change in trade and other payables excludes an amount of \$9,899 (2014 – \$32,053) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

The change in net employee benefits liability excludes an amount of \$10,640 (2014 – \$Nil) in relation to the remeasurement of defined benefit plans presented in other comprehensive income, as the amount relates to a non-cash remeasurement.

During the three months ended June 30, 2015, CATSA received non-cash proceeds of \$Nil (2014 – \$21) related to the disposal of property and equipment, in the form of credit notes from a supplier.

During the three months ended June 30, 2015, non-cash transfers of spare parts from property and equipment to inventory totalled \$3 (2014 – \$11).

16. Contingent liabilities

During the three months ended June 30, 2015, there have been no material changes to the outstanding legal action involving CATSA. For a description of the legal claim, refer to note 18(a) of the audited annual financial statements for the year ended March 31, 2015.