



Quarterly Financial Report

For the Three Months Ended
June 30, 2024



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**Canadian Air Transport Security Authority
Management's Narrative Discussion
For The Three Month Ended June 30, 2024**

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, 2024. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2024, 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 *2024 Annual Report*. The information in this report is expressed in thousands of Canadian dollars and is current to August 22, 2024, 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

Established on April 1, 2002, CATSA is an agent Crown corporation and is accountable to Parliament 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. Playing a pivotal role in Canada's civil aviation system, CATSA is responsible for the delivery of the following four mandated activities:

- Pre-board Screening (PBS): The screening of all 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 all passengers' checked ("hold") baggage for prohibited items such as explosives, prior to being loaded onto an aircraft.
- Non-passenger Screening (NPS): The screening of non-passengers such as flight personnel, ground crew and service providers, and their belongings (including vehicles and their contents) entering restricted areas at the highest-risk airports.

- **Restricted Area Identity Card (RAIC):** The management of the system that uses iris and fingerprint biometric identifiers to allow authorized 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.

In addition to its mandated activities, CATSA has an agreement with Transport Canada (TC) to screen cargo at small 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.

CATSA has previously provided screening services on a cost recovery basis to certain airports. There are currently no such arrangements in place.

Operating Environment

Budget 2023 included incremental funding of \$1,746 million (net) over three years to continue to protect the public by securing critical elements of the air transportation system. This funding supports implementing changes to the non-passenger screening program, supports the delivery of target wait time service level in 2024/25 and 2025/26, and allows CATSA to plan for the longer-term.

Budget 2023 also announced initiatives aimed at reducing government spending. CATSA has identified reductions in professional services and travel budgets, as well as overall operating expenses. CATSA will implement these reductions, while recognizing the nature of the organization's air travel security screening service mandate.

Statistics from CATSA's Boarding Pass Security System, and other data sources, indicate that screened traffic across Canada increased from approximately 16 million passengers for the three months ended June 30, 2023, to 16.9 million passengers for the three months ended June 30, 2024. CATSA works closely with its screening contractors, TC and external stakeholders to support the aviation industry.

Airport Screening Service Agreements

Effective April 1, 2024, CATSA began new airport screening services contracts with its Screening Contractors. The term of the new contracts is from April 1, 2024 to March 31, 2029, and they are renewable for two additional five-year periods at CATSA's discretion. CATSA's Screening Contractors are responsible for delivering screening services at designated airports across Canada under these contracts.

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 *2024 Annual Report*.

Analysis of Financial Results

Condensed Interim Statement of Comprehensive Income (Loss)

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income (Loss) for the three months ended June 30, 2024, and June 30, 2023.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)

(Thousands of Canadian dollars)
(Unaudited)

	Three months ended			
	June 30			
	2024	2023	\$ Change	% Change
Expenses¹				
Screening services and other related costs	\$ 198,575	\$ 191,944	\$ 6,631	3.5%
Equipment operating and maintenance	13,049	11,803	1,246	10.6%
Program support and corporate services	26,284	24,275	2,009	8.3%
Depreciation and amortization	11,731	11,200	531	4.7%
Total expenses	249,639	239,222	10,417	4.4%
Other income	21	390	(369)	(94.6%)
Financial performance before revenue and government funding	249,660	239,612	10,048	4.2%
Revenue	904	677	227	33.5%
Government funding				
Parliamentary appropriations for operating expenses	234,645	224,527	10,118	4.5%
Amortization of deferred government funding related to capital expenditures	11,041	10,455	586	5.6%
Parliamentary appropriations for lease payments	777	529	248	46.9%
Total government funding	246,463	235,511	10,952	4.7%
Financial performance	\$ (2,293)	\$ (3,424)	\$ 1,131	33.0%
Other comprehensive income (loss)	4,130	(3,235)	7,365	227.7%
Total comprehensive income (loss)	\$ 1,837	\$ (6,659)	\$ 8,496	127.6%

¹ The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 12 of the unaudited condensed interim financial statements for the three months ended June 30, 2024.

Screening Services and Other Related Costs

Screening services and other related costs increased by \$6,631 (3.5%) for the three months ended June 30, 2024, compared to the same period in 2023. The increase is mainly attributable to increased passenger volumes, and higher staffing to improve passenger wait times, which resulted in the purchase of additional screening hours totaling \$4,910. The higher staffing has positioned CATSA to achieve its 2024/25 objective for improved passenger wait times and changes to the non-passenger screening program. The increase is also attributable to billing rate increases of \$1,544 under CATSA's new airport screening services contracts.

Equipment Operating and Maintenance

Equipment operating and maintenance increased by \$1,246 (10.6%) for the three months ended June 30, 2024, compared to the same period in 2023. The increase is mainly attributable to costs associated with CATSA's transition to a new maintenance service provider and other equipment related spending.

Program Support and Corporate Services

Program support and corporate services increased by \$2,009 (8.3%) for the three months ended June 30, 2024, compared to the same period in 2023. The increase is primarily attributable to higher employee-related costs, which includes an increase in the organization's workforce.

Government Funding

The Government of Canada collects the Air Travellers Security Charge and funds CATSA through 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 \$10,118 (4.5%) for the three months ended June 30, 2024, compared to the same period in 2023. The increase is primarily attributable to increased spending for screening services and other related costs, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by \$586 (5.6%) for the three months ended June 30, 2024, compared to the same period in 2023. The increase is primarily attributable to higher depreciation and amortization expenses.

Parliamentary appropriations for lease payments

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

Other Comprehensive Income (Loss)

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

Other comprehensive income of \$4,130 for the three months ended June 30, 2024, was attributable to a remeasurement gain of \$4,856 on the defined benefit liability arising from a 10 basis point increase in the discount rate between March 31, 2024, and June 30, 2024. This was offset by a remeasurement loss of \$726 resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions. Other comprehensive loss of \$3,235 for the three months ended June 30, 2023, was attributable to a remeasurement loss of \$4,283 on the defined benefit liability arising from a 10 basis point decrease in the discount rate between March 31, 2023, and June 30, 2023. This was partially offset by a remeasurement gain of \$1,048 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 8 of the unaudited condensed interim financial statements.

Condensed Interim Statement of Financial Position

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at June 30, 2024, compared to March 31, 2024.

Key Financial Highlights – Condensed Interim Statement of Financial Position				
(Thousands of Canadian dollars) (Unaudited)	June 30, 2024	March 31, 2024	\$ Change	% Change
Current assets	\$ 167,667	\$ 162,959	\$ 4,708	2.9%
Non-current assets	448,900	444,033	4,867	1.1%
Total assets	\$ 616,567	\$ 606,992	\$ 9,575	1.6%
Current liabilities	\$ 172,868	\$ 165,795	\$ 7,073	4.3%
Non-current liabilities	404,961	404,296	665	0.2%
Total liabilities	\$ 577,829	\$ 570,091	\$ 7,738	1.4%

Assets

Current assets increased by \$4,708 (2.9%) primarily due to the following:

- Increase in cash of \$4,104 mainly due to the timing of disbursements to suppliers for goods and services;
- Increase in trade and other receivables of \$3,287 due to an increase in parliamentary appropriations receivable, partially offset by a decrease in recoverable sales taxes;
- Decrease in inventory of \$1,441 primarily due to the net usage of uniforms and spare part inventories; and
- Decrease in prepaids of \$1,297 due to the impact of amortization, less additions.

Non-current assets increased by \$4,867 (1.1%) primarily due to the following:

- Increase in property and equipment and intangible assets of \$859 mainly due to acquisitions totaling \$11,923, partially offset by depreciation and amortization totaling \$11,064; and
- Increase in employee benefits of \$4,088 primarily relating to CATSA's registered pension plan.

Liabilities

Current liabilities increased by \$7,073 (4.3%) primarily due to the following:

- Increase in trade and other payables of \$9,744 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of \$2,738 due to a reduction in inventory and prepaids, as discussed above.

Non-current liabilities increased by \$665 (0.2%) primarily due to the following:

- Increase in the deferred government funding related to capital expenditures of \$892 due to parliamentary appropriations used to fund capital expenditures of \$11,933 exceeding amortization of deferred government funding related to capital expenditures of \$11,041.

Financial Performance Against Corporate Plan

As of the date of publishing, CATSA's *Summary of the 2024/25 to 2028/29 Corporate Plan* has not been tabled in Parliament. Until it is tabled in Parliament and made publicly available, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in the *Summary of the 2024/25 to 2028/29 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		
(Thousands of Canadian dollars)	Three months ended	
(Unaudited)	June 30	
	2024	2023
Financial performance before revenue and government funding	\$ 249,660	\$ 239,612
Revenue	(904)	(677)
Financial performance before government funding	248,756	238,935
Non-cash items		
Depreciation and amortization	(11,731)	(11,200)
Employee cost accruals ¹	(2,324)	(2,169)
Non-cash finance costs related to leases	(173)	(63)
Non-cash (loss) gain on foreign exchange recognized in financial performance	(28)	83
Employee benefits expense ²	(2)	(634)
Change in fair value of financial instruments at fair value through profit and loss	147	(407)
Write-off of property and equipment and intangible assets	-	(15)
Loss on disposal of property and equipment	-	(3)
Appropriations used for operating expenses	\$ 234,645	\$ 224,527
Other items affecting funding		
Net change in prepaids and inventories ³	(2,738)	(275)
Total operating appropriations used	\$ 231,907	\$ 224,252

¹ Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to June 30, 2024. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

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

³ 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 (Thousands of Canadian dollars) (Unaudited)	Three months ended	
	June 30	
	2024	2023
Explosives Detection Systems (EDS)	\$ 11,420	\$ 373
Non-Explosives Detection Systems (Non-EDS)	503	799
Lease payments	777	529
Total capital expenditures	\$ 12,700	\$ 1,701
Non-cash adjustment on foreign exchange related to capital expenditures	10	(4)
Total capital appropriations used	\$ 12,710	\$ 1,697

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.



Nada Semaan
President and Chief Executive Officer

Ottawa, Canada

August 22, 2024



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

Ottawa, Canada

August 22, 2024

Condensed Interim Financial Statements of

Canadian Air Transport Security Authority

June 30, 2024

(Unaudited)

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Financial Position

(In thousands of Canadian dollars)	June 30, 2024	March 31, 2024
Assets		
Current assets		
Cash	\$ 14,059	\$ 9,955
Trade and other receivables (note 4)	133,323	130,036
Inventories	13,021	14,462
Prepays	7,209	8,506
Derivative financial assets	55	-
	167,667	162,959
Non-current assets		
Property and equipment (note 5)	357,121	355,726
Intangible assets (note 6)	13,624	14,160
Right-of-use assets (note 7)	16,979	17,059
Employee benefits asset (note 8)	61,176	57,088
	448,900	444,033
Total assets	\$ 616,567	\$ 606,992
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 149,958	\$ 140,214
Holdbacks	131	142
Lease liabilities (note 10)	2,549	2,389
Deferred government funding related to operating expenses (note 11)	20,230	22,968
Derivative financial liabilities	-	82
	172,868	165,795
Non-current liabilities		
Lease liabilities (note 10)	16,631	16,808
Deferred government funding related to capital expenditures (note 11)	369,886	368,994
Employee benefits liability (note 8)	18,444	18,484
Derivative financial liabilities	-	10
	404,961	404,296
Equity		
Accumulated surplus	38,738	36,901
Total liabilities and equity	\$ 616,567	\$ 606,992

Contingencies (note 9) and contractual arrangements (note 14)

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

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Comprehensive Income (Loss)

(In thousands of Canadian dollars)	Three months ended	
	June 30	
	2024	2023
Expenses		
Pre-Board Screening	\$ 157,222	\$ 147,476
Hold Baggage Screening	40,983	40,193
Non-Passenger Screening	36,855	37,276
Restricted Area Identity Card Program	1,060	1,096
Corporate services	13,519	13,181
Total expenses (note 12)	249,639	239,222
Other income		
Finance costs	177	67
Net (gain) loss on fair value of derivative financial instruments	(147)	407
Foreign exchange gain	(9)	(102)
Write-off of property and equipment and intangible assets	-	15
Loss on disposal of property and equipment	-	3
Total other income	21	390
Financial performance before revenue and government funding	249,660	239,612
Revenue		
Finance income	902	677
Miscellaneous income	2	-
Total revenue	904	677
Government funding		
Parliamentary appropriations for operating expenses	234,645	224,527
Amortization of deferred government funding related to capital expenditures	11,041	10,455
Parliamentary appropriations for lease payments	777	529
Total government funding (note 11)	246,463	235,511
Financial performance	\$ (2,293)	\$ (3,424)
Other comprehensive income (loss)		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 8)	4,130	(3,235)
Total comprehensive income (loss)	\$ 1,837	\$ (6,659)

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

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Changes in Equity

For the three months ended June 30:

(In thousands of Canadian dollars)	Accumulated surplus
Balance, March 31, 2024	\$ 36,901
Financial performance	(2,293)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 8)	4,130
Balance, June 30, 2024	\$ 38,738
Balance, March 31, 2023	\$ 35,129
Financial performance	(3,424)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 8)	(3,235)
Balance, June 30, 2023	\$ 28,470

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

Canadian Air Transport Security Authority

(Unaudited)

Condensed Interim Statement of Cash Flows

(In thousands of Canadian dollars)	Three months ended June 30	
	2024	2023
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (2,293)	\$ (3,424)
Items not involving cash		
Depreciation and amortization (note 12)	11,731	11,200
Change in net employee benefits asset/liability	2	634
Amortization of deferred government funding related to capital expenditures (note 11)	(11,041)	(10,455)
Change in fair value of financial instruments at fair value through profit and loss	(147)	407
Write-off of property and equipment and intangible assets	-	15
Loss on disposal of property and equipment	-	3
Net change in working capital balances (note 16)	6,513	9,791
	4,765	8,171
Investing activities		
Parliamentary appropriations received for capital funding (note 11)	4,223	-
Purchase of property and equipment	(4,199)	(2,775)
Purchase of intangible assets	(81)	-
	(57)	(2,775)
Financing activities		
Lease principal payments	(604)	(466)
	(604)	(466)
Increase in cash	4,104	4,930
Cash, beginning of period	9,955	13,785
Cash, end of period	\$ 14,059	\$ 18,715

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 months ended June 30, 2024
(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 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 airports. There are currently no such arrangements in place.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on August 22, 2024.

2. Basis of preparation

These 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, 2024.

These condensed interim financial statements were prepared under the historical cost convention, except as required or permitted by IFRS and as indicated in note 3. Historical cost is generally based on the fair value of the consideration given up in exchange for goods and services at the transaction date.

3. Summary of material accounting policy information

(a) Use of estimates and judgments

The preparation of these condensed interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions based on existing knowledge that

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

affect the reported amounts and disclosures in the condensed interim financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions.

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

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

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

- note 3(b), note 3(c), note 5 and note 6 – Property and equipment and intangible assets

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

- note 3(e), note 7 and note 10 – Right-of-use assets and lease liabilities

Key estimates used for right-of-use assets and lease liabilities include the determination of an appropriate incremental borrowing rate to discount the lease payments, when the interest rate implicit in the lease is not readily determinable. As CATSA does not have borrowing authority and, in practice, does not have readily observable approved or granted borrowing rates from a financial institution, CATSA's approach to determining its incremental borrowing rate is based on the Bank of Canada zero-coupon bond rate, CATSA's entity-specific credit spread, and the lease-specific spread. CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings. The rate used to discount CATSA's lease payments is also based on the identified lease term.

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

- note 3(g) and note 8 – Employee benefits

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

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

- note 3(e), note 7 and note 10 – Right-of-use assets and lease liabilities

Judgments are required in determining whether it is reasonably certain that an extension or termination option will be exercised for contracts that contain a lease. In making this assessment, management considers a number of factors, including the nature of CATSA's work, proximity of other locations, lease extensions exercised in the past, market conditions, recent leasehold improvements and contract specific termination clauses.

Judgments are required in determining whether variable lease payments are in-substance fixed. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. Such payments are included in the measurement of the lease liability. In determining whether variable lease payments are in-substance fixed, CATSA reviews lease contracts to assess the nature of the payments, specifically identifying if payments are subject to adjustments based on actual costs incurred, or payments are based on services that are variable in nature.

(b) Property and equipment

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

(i) Recognition and measurement

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

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

Asset class	Useful life
PBS equipment	10 to 15 years
HBS equipment	10 to 15 years
NPS equipment	10 to 15 years
RAIC equipment	5 years
Computers, integrated software and electronic equipment	3 to 10 years
Office furniture and equipment	5 years

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

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

(c) Intangible assets

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

Certain costs incurred in connection with the development of software to be used internally or for providing screening services are capitalized once a project has progressed beyond a conceptual,

Canadian Air Transport Security Authority

Notes to the Condensed Interim Financial Statements
(Unaudited)

(In thousands of Canadian dollars)

preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by CATSA are recognized as intangible assets when the following criteria are met:

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

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

Intangible assets are amortized using the straight-line method over their estimated useful lives of five to 15 years.

(d) Impairment

CATSA's assets do not generate cash flows. Instead, all assets interact to support CATSA's mandated activities, which are primarily funded by parliamentary appropriations. Overall levels of cash flow, provided by budgetary funding, reflect public policy requirements and decisions. Therefore, CATSA is considered one cash-generating unit (CGU).

The carrying amounts of CATSA's property and equipment and intangible assets are reviewed at each reporting period to determine whether there is any indication of impairment. Assets are tested at the CGU level when they cannot be tested individually. Property and equipment and intangible assets are considered to be impaired if they are no longer able to contribute to CATSA's mandate.

(e) Leases

Contracts are considered to be a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Right-of-use assets

CATSA's right-of-use (ROU) assets are initially measured at cost based on the following:

- amount of the initial measurement of the lease liability; and

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- lease payments made at or before the commencement date, less any lease incentives received.

An ROU asset is subsequently measured at cost less accumulated depreciation. The carrying amount of the right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, if any.

An ROU asset is depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the underlying asset. The lease term includes periods covered by an option to extend if CATSA is reasonably certain to exercise that option.

(ii) Lease Liabilities

CATSA's lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, CATSA's incremental borrowing rate, as identified above in note 3(a).

CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings.

Variable lease payments that do not depend on an index or rate, and are not in-substance fixed, are not included in the measurement of the lease liability and, subsequently, the right-of-use asset. These payments are recognized as an expense in the period in which they occur.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured whenever:

- there is a change in the lease term, including a change in the assessment of whether an extension option will be exercised;
- the payments change due to changes in an index or rate, or a change in expected payments under a residual value guarantee; and
- a lease contract is modified and the lease modification is not accounted for as a separate lease.

Based on the nature and use of CATSA's right-of-use assets, CATSA has two classes of underlying assets: office space and data centres. CATSA accounts for lease components and any non-lease components as a single lease component for its office space asset class. For its data centre asset class, CATSA separates non-lease components from lease components and accounts for them separately.

CATSA does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

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(f) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial assets:

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

Cash and receivables related to supplemental and other screening services are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method. At each reporting date, CATSA assesses, on a forward-looking basis, the expected credit losses on any financial assets measured at amortized cost.

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

Non-derivative financial liabilities:

Non-derivative financial liabilities include trade and other payables and holdbacks. Trade and other payables and holdbacks are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

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

(ii) Derivative financial instruments

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

(g) Employee benefits

(i) Post-employment benefit plans – defined benefit

The employee benefits asset and liability presented in the Condensed Interim Statement of Financial Position represent the actual surplus or deficit of each of CATSA's defined benefit pension plans and its other defined benefits plan. The surplus or deficit is determined by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The future benefit is then discounted to determine its present value, using a discount rate established at the end of the reporting period. The obligation is

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recognized over the period of employee service determined actuarially using the projected unit credit method. To the extent applicable, the fair value of any plan assets is deducted from the present value of the future benefit obligation. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined benefit costs are categorized as follows:

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

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

Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligation to the net defined benefit asset or liability, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. Net interest is recognized as employee costs in determining financial performance.

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

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

(ii) Post-employment benefit plan – defined contribution

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

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(iii) Termination benefits

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

(iv) Short-term employee benefits

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

(h) Provisions and contingencies

A provision is recognized when, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle a present legal or constructive obligation, and the obligation can be estimated reliably. In situations where the amount of the obligation cannot be measured with sufficient reliability or the cash outflows are not probable, a contingent liability is disclosed.

Contingent liabilities may arise from uncertainty as to the existence of a liability, or represent an existing liability in respect of which settlement is not probable or, in extremely rare cases, the amount cannot be reliably measured. A liability is recognized when its existence is confirmed by a future event, settlement becomes probable and reliable measurement becomes possible.

(i) Disputed claims

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

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(ii) Decommissioning costs

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

Given the nature of provisions and contingencies, judgments and estimates are required in determining the existence and amount of an obligation.

(i) Government funding

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

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

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

Appropriations used for lease payments are recognized in financial performance in the period in which lease payments are made.

4. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2024	March 31, 2024
Parliamentary appropriations	\$ 129,280	\$ 120,663
GST and HST recoverable	3,232	7,906
PST recoverable	811	1,467
	<u>\$ 133,323</u>	<u>\$ 130,036</u>

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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, 2023	\$ 163,194	\$ 658,885	\$ 20,722	\$ 3,332	\$ 28,193	\$ 118	\$ 8,009	\$ 11,868	\$ 894,321
Additions	2,828	9,120	-	1,970	1,803	-	1,169	12,257	29,147
Disposals	(833)	(7,416)	(76)	-	(262)	-	(2,182)	-	(10,769)
Write-offs	(595)	(291)	(35)	(1,873)	(3,541)	-	(18)	-	(6,353)
Reclassifications	2,523	3,547	-	-	1,681	-	199	(7,950)	-
Balance, March 31, 2024	\$ 167,117	\$ 663,845	\$ 20,611	\$ 3,429	\$ 27,874	\$ 118	\$ 7,177	\$ 16,175	\$ 906,346
Balance, March 31, 2024	\$ 167,117	\$ 663,845	\$ 20,611	\$ 3,429	\$ 27,874	\$ 118	\$ 7,177	\$ 16,175	\$ 906,346
Additions	605	941	-	-	23	-	(3)	10,312	11,878
Disposals	(4,830)	(73)	-	-	(842)	-	-	-	(5,745)
Write-offs	-	-	-	-	(164)	-	-	-	(164)
Reclassifications	4,061	967	-	354	247	-	-	(5,629)	-
Balance, June 30, 2024	\$ 166,953	\$ 665,680	\$ 20,611	\$ 3,783	\$ 27,138	\$ 118	\$ 7,174	\$ 20,858	\$ 912,315
Accumulated depreciation									
Balance, March 31, 2023	\$ 113,594	\$ 366,901	\$ 16,563	\$ 2,358	\$ 20,589	\$ 108	\$ 6,953	\$ -	\$ 527,066
Depreciation	5,372	30,204	652	395	3,059	10	410	-	40,102
Disposals	(833)	(7,354)	(76)	-	(262)	-	(2,179)	-	(10,704)
Write-offs	(470)	(180)	(35)	(1,642)	(3,499)	-	(18)	-	(5,844)
Balance, March 31, 2024	\$ 117,663	\$ 389,571	\$ 17,104	\$ 1,111	\$ 19,887	\$ 118	\$ 5,166	\$ -	\$ 550,620
Balance, March 31, 2024	\$ 117,663	\$ 389,571	\$ 17,104	\$ 1,111	\$ 19,887	\$ 118	\$ 5,166	\$ -	\$ 550,620
Depreciation	1,556	7,650	161	136	809	-	171	-	10,483
Disposals	(4,830)	(73)	-	-	(842)	-	-	-	(5,745)
Write-offs	-	-	-	-	(164)	-	-	-	(164)
Balance, June 30, 2024	\$ 114,389	\$ 397,148	\$ 17,265	\$ 1,247	\$ 19,690	\$ 118	\$ 5,337	\$ -	\$ 555,194
Carrying amounts									
As at March 31, 2024	\$ 49,454	\$ 274,274	\$ 3,507	\$ 2,318	\$ 7,987	\$ -	\$ 2,011	\$ 16,175	\$ 355,726
As at June 30, 2024	\$ 52,564	\$ 268,532	\$ 3,346	\$ 2,536	\$ 7,448	\$ -	\$ 1,837	\$ 20,858	\$ 357,121

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6. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2023	\$ 10,538	\$ 20,442	\$ -	\$ 30,980
Additions	3,334	303	89	3,726
Write-offs	(15)	(3,985)	-	(4,000)
Balance, March 31, 2024	\$ 13,857	\$ 16,760	\$ 89	\$ 30,706
Balance, March 31, 2024	\$ 13,857	\$ 16,760	\$ 89	\$ 30,706
Additions	-	(5)	50	45
Reclassifications	-	56	(56)	-
Balance, June 30, 2024	\$ 13,857	\$ 16,811	\$ 83	\$ 30,751
Accumulated amortization				
Balance, March 31, 2023	\$ 5,989	\$ 12,159	\$ -	\$ 18,148
Amortization	814	1,583	-	2,397
Write-offs	(14)	(3,985)	-	(3,999)
Balance, March 31, 2024	\$ 6,789	\$ 9,757	\$ -	\$ 16,546
Balance, March 31, 2024	\$ 6,789	\$ 9,757	\$ -	\$ 16,546
Amortization	238	343	-	581
Balance, June 30, 2024	\$ 7,027	\$ 10,100	\$ -	\$ 17,127
Carrying amounts				
As at March 31, 2024	\$ 7,068	\$ 7,003	\$ 89	\$ 14,160
As at June 30, 2024	\$ 6,830	\$ 6,711	\$ 83	\$ 13,624

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7. Right-of-use assets

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

	Office space	Data centres	Total
Balance, March 31, 2023	\$ 12,688	\$ 893	\$ 13,581
Additions	6,264	-	6,264
Depreciation	(2,575)	(211)	(2,786)
Balance, March 31, 2024	\$ 16,377	\$ 682	\$ 17,059
Balance, March 31, 2024	\$ 16,377	\$ 682	\$ 17,059
Additions	587	-	587
Depreciation	(615)	(52)	(667)
Balance, June 30, 2024	\$ 16,349	\$ 630	\$ 16,979

8. Employee benefits

(a) Employee benefits asset and liability

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

	June 30, 2024	March 31, 2024
Employee benefits asset		
Registered pension plan (RPP)	\$ 59,418	\$ 55,432
Supplementary retirement plan (SRP)	1,758	1,656
	61,176	57,088
Employee benefits liability		
Other defined benefits plan (ODBP)	(18,444)	(18,484)
	(18,444)	(18,484)
Employee benefits - net asset	\$ 42,732	\$ 38,604

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(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended June 30							
	RPP		SRP		ODBP		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Defined benefit cost recognized in financial performance								
Current service cost	\$ 1,299	\$ 1,246	\$ 31	\$ 33	\$ 132	\$ 120	\$ 1,462	\$ 1,399
Administration costs	81	81	6	6	-	-	87	87
Interest cost on defined benefit obligation	2,751	2,572	91	80	230	207	3,072	2,859
Interest income on plan assets	(3,357)	(3,136)	(111)	(100)	-	-	(3,468)	(3,236)
	\$ 774	\$ 763	\$ 17	\$ 19	\$ 362	\$ 327	\$ 1,153	\$ 1,109
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	\$ (719)	\$ 1,030	\$ (7)	\$ 18	\$ -	\$ -	\$ (726)	\$ 1,048
Actuarial gains (losses)	4,396	(3,857)	126	(114)	334	(312)	4,856	(4,283)
	\$ 3,677	\$ (2,827)	\$ 119	\$ (96)	\$ 334	\$ (312)	\$ 4,130	\$ (3,235)

For the three months ended June 30, 2024, CATSA recognized an expense of \$249 (2023 - \$341) in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

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

For the three months ended June 30, 2024, remeasurement gains of \$4,130 resulted from an increase in the discount rate of 10 basis points (from 4.90% at March 31, 2024 to 5.00% at June 30, 2024). 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 (0.96% actual versus 1.23% expected).

For the three months ended June 30, 2023, remeasurement losses of \$3,235 resulted from a decrease in the discount rate of 10 basis points (from 4.90% at March 31, 2023 to 4.80% at June 30, 2023). 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 (1.62% actual versus 1.23% expected).

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(d) Employer contributions

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

	Three months ended	
	June 30	
	2024	2023
Employer contributions		
RPP	\$ 1,083	\$ 422
ODBP	68	53
	<u>\$ 1,151</u>	<u>\$ 475</u>

Total employer contributions to the defined benefit plans are estimated to be \$1,709 for the year ending March 31, 2025.

9. Provisions and contingencies

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. As at June 30, 2024, claims, audits and legal proceedings are not expected, individually or in the aggregate, to have a material adverse effect on the financial statements.

(a) Provisions

During the three months ended June 30, 2024, there were no provisions recorded.

(b) Contingencies – Decommissioning costs

During the three months ended June 30, 2024, there have been no material changes to contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 9(b) of the audited annual financial statements for the year ended March 31, 2024.

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10. Lease liabilities

CATSA has leases for office space and data centres. CATSA has included extension options in the measurement of its lease liabilities when it is reasonably certain to exercise the extension option.

A reconciliation of lease liabilities is as follows:

	June 30, 2024	March 31, 2024
Balance, beginning of period	\$ 19,197	\$ 14,485
Additions	587	6,264
Lease payments (note 11)	(777)	(2,058)
Finance costs	173	506
Balance, end of period	\$ 19,180	\$ 19,197
Balance, end of period		
Current	\$ 2,549	\$ 2,389
Non-current	16,631	16,808

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

	Three months ended June 30	
	2024	2023
Variable lease payments	\$ 494	\$ 472
Short-term leases	168	36
Low value leases	11	13
Other lease costs (note 12)	\$ 673	\$ 521

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

For the three months ended June 30, 2024, CATSA recognized a total cash outflow for leases of \$1,450 (2023 - \$1,050).

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

	June 30, 2024	March 31, 2024
No later than 1 year	\$ 5,169	\$ 4,998
Later than 1 year and no later than 5 years	11,916	12,658
Later than 5 years	664	757
	<u>\$ 17,749</u>	<u>\$ 18,413</u>

11. Government funding

(a) Government funding

CATSA's *Summary of the 2024/25 – 2028/29 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet publicly available. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

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

	Three months ended June 30	
	2024	2023
Parliamentary appropriations received	\$ 231,000	\$ 218,000
Amounts received related to prior periods	(110,807)	(117,813)
Parliamentary appropriations receivable	111,714	124,065
Parliamentary appropriations used to fund operating expenses	<u>\$ 231,907</u>	<u>\$ 224,252</u>

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The following table reconciles parliamentary appropriations for capital expenditures and lease payments that were received and receivable with the amount of appropriations used:

	Three months ended June 30	
	2024	2023
Parliamentary appropriations received	\$ 4,223	\$ -
Amounts receivable related to prior periods	(9,856)	(2,651)
Parliamentary appropriations receivable	17,566	3,819
Parliamentary appropriations used to fund capital expenditures	11,933	1,168
Parliamentary appropriations used to fund lease payments (note 10)	777	529
Parliamentary appropriations used to fund capital expenditures and lease payments	\$ 12,710	\$ 1,697

(b) Deferred government funding

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

	June 30, 2024	March 31, 2024
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 22,968	\$ 19,253
Parliamentary appropriations used to fund operating expense	231,907	935,807
Parliamentary appropriations for operating expenses recognized in financial performance	(234,645)	(932,092)
Balance, end of period	\$ 20,230	\$ 22,968
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 368,994	\$ 379,180
Parliamentary appropriations used to fund capital expenditures	11,933	32,798
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(11,041)	(42,984)
Balance, end of period	\$ 369,886	\$ 368,994
Total deferred government funding, end of period	\$ 390,116	\$ 391,962

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12. Expenses

The Condensed Interim Statement of Comprehensive Income (Loss) presents operating expenses by program activity. The following table presents operating expenses by major expense type:

	Three months ended	
	June 30	
	2024	2023
Screening services and other related costs		
Payments to screening contractors	\$ 195,068	\$ 187,857
Uniforms and other screening costs	2,300	3,167
Trace and consumables	1,207	920
	198,575	191,944
Equipment operating and maintenance		
Equipment maintenance and spare parts	12,470	11,465
Training and certification	350	136
RAIC	229	202
	13,049	11,803
Program support and corporate services		
Employee costs	19,844	18,316
Office and computer expenses	2,337	1,766
Other administrative costs ¹	1,918	1,512
Professional services and other business related costs ²	1,337	1,860
Other lease costs (note 10)	673	521
Communications and public awareness	175	300
	26,284	24,275
Depreciation and amortization		
Depreciation of property and equipment (note 5)	10,483	9,908
Depreciation of right-of-use assets (note 7)	667	742
Amortization of intangible assets (note 6)	581	550
	11,731	11,200
	\$ 249,639	\$ 239,222

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

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

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13. 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 CATSA's derivative financial instruments approximate their carrying amount due to the nature of the instruments.

CATSA's derivative financial instruments are categorized as Level 2, based on observable inputs other than quoted prices. There were no transfers between levels during the three months ended June 30, 2024, or the year ended March 31, 2024.

14. Contractual commitments

During the three months ended June 30, 2024, there have been no material changes to CATSA's contractual commitments, other than the usage of contracts relating to payments to screening contractors.

For a description of CATSA's contractual commitments, refer to note 14 of the audited annual financial statements for the year ended March 31, 2024.

15. 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, as disclosed in note 11. Parliamentary appropriations receivable are included in trade and other receivables, and disclosed in note 4.

(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 8. No other transactions were made during the three month period.

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16. Supplementary cash flow information

The following table presents the net change in working capital balances:

	Three months ended	
	June 30	
	2024	2023
Trade and other receivables ¹	\$ 4,423	\$ (5,699)
Inventories	1,441	2
Prepays	1,297	273
Trade and other payables ²	2,090	15,490
Deferred government funding related to operating expenses	(2,738)	(275)
	\$ 6,513	\$ 9,791

¹ The change in trade and other receivables excludes an amount of \$7,710 (2023 – \$1,168) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

² The change in trade and other payables excludes an amount of \$7,654 (2023 – \$187) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.