CATSA ACSTA

Canadian Air Transport Security Authority
Administration canadienne de la sûreté du transport aérien

QUARTERLY FINANCIAL REPORT

For the Three and Six Months Ended September 30, 2011

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2011

Management's Narrative Discussion outlines the financial results and operational changes of the Canadian Air Transport Security Authority (CATSA) for the three and six months ended September 30, 2011. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three and six months ended September 30, 2011 and the Management Discussion and Analysis and audited financial statements for the year ended March 31, 2011.

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 involving 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. Potential risks and uncertainties include, without limitation, the uncertainties associated with a continuously evolving security threat environment subject to federal regulation, management of a third-party service delivery model and CATSA's need for government funding to continue as a going concern.

In assessing what information is to be provided in the Narrative Discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement, judged in the surrounding circumstances, would influence the economic decisions of the stakeholders of CATSA.

The financial information reported herein has been prepared in accordance with the recognition and measurement standards applicable under International Financial Reporting Standards, and is expressed in Canadian dollars, unless otherwise stated.

CORPORATE OVERVIEW

CATSA is a Crown corporation charged with protecting the public through effective and efficient screening of air travellers and their baggage. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada. The goal of the organization is to provide a professional, effective and consistent level of security service at 89 designated airports across the country, at or above the standards set by its regulator, Transport Canada.

To achieve this, CATSA is mandated to conduct screening services 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, pursuant to direction from the Minister of Transport, Infrastructure and Communities; and
- Restricted Area Identity Card (RAIC): the administration of access control to airport restricted areas through biometric identifiers.

In meeting this mandate, CATSA strives to maintain compatibility with its key international partners, both in terms of technologies and security screening processes. CATSA delivers on this commitment in accordance with the resources assigned to it by the Government of Canada and as approved by Parliament.

OPERATING ENVIRONMENT

The following section provides discussion on significant changes in the operating environment that have occurred since June 30, 2011, including events up to the reporting date.

Service delivery

On August 8, 2011, CATSA awarded new five-year agreements for airport screening services in four regions of the country. The new agreements came into effect on November 1, 2011 and contain an option to extend for up to five additional years.

The new airport screening services agreements were awarded to the following companies:

- Pacific Region - G4S Secure Solutions (Canada) Ltd.;
- Prairies Region - Aeroguard Company Ltd.;
- Central Region - Garda Security Screening Inc.; and
- East Region - Securitas Transport Aviation Security Ltd.

Garda Security Screening Inc. (Garda) completed an asset acquisition of Aeroguard Company Ltd. subsequent to the issuance of the new agreements. CATSA approved the assignment of the airport screening services agreement in the Prairies Region to Garda Security Screening Inc. in conjunction with this transaction.

The new four-region model is outcome-based and performance driven, creating greater accountabilities and a focus on attaining results. This will greatly enhance CATSA's ability to provide security screening that is effective, efficient, and delivered in a professional and consistent manner across the country. Reducing the number of agreements from seventeen to four and the number of regions from six to four enables CATSA to streamline its operations and expenditures and make the best possible use of resources, while concentrating on enhancing customer experience. It also allows CATSA to focus its operations and strengthen the service delivery model currently in place with third-party screening contractors.

Following the awarding of the new five-year agreements, CATSA worked closely with both the new and incumbent screening contractors to achieve a seamless and smooth transition. As a result of the successful transition, security screening at Canadian airports continued to be delivered at or above the standards set by Transport Canada, while meeting CATSA's commitment to industry to increase throughput. Today, CATSA continues to work closely with the new screening contractors as they turn their focus to optimizing efficiencies throughout their screening operations.

This close collaborative relationship with CATSA's screening contractors was instrumental in dealing with labour issues that arose in early October 2011. A limited number of Screening Officers engaged in an illegal work action that resulted in a slowdown in the throughput of passengers at screening checkpoints at Toronto Pearson International Airport. This caused significant delays, long line-ups and extended wait times for passengers. After consultation with CATSA and other relevant authorities, Garda took immediate action to mitigate the effect of this work slowdown. Following an order by the Canadian Industrial Relations Board to cease the illegal work action, Garda suspended those individuals participating in illegal work activity. Shortly thereafter, regular service levels resumed as operations returned to normal. CATSA was instrumental in this recovery, deploying its own personnel in support of Garda, including a number of CATSA employees who were tasked with facilitation duties to ease the strain on wait times and to better prepare passengers.

Strategic and Operating Review

In Budget 2011, the Government of Canada announced a comprehensive government-wide Strategic and Operating Review to take place in fiscal year 2011/12. This review will focus on improving the efficiency and effectiveness of government operations and programs to ensure value for taxpayer money, with the objective of achieving at least $4 billion in ongoing annual savings by fiscal year 2014/15 (representing 5% of the review base). As part of this exercise, emphasis will be placed on generating savings from operating expenses and improving productivity, while also examining the relevance and effectiveness of programs. In response to this requirement, CATSA submitted its proposal to the Minister of Transport, Infrastructure and Communities during the second quarter of fiscal year 2011/12, with results expected to be announced in Budget 2012.

Passenger growth

Transport Canada statistics for the three-month period from June 1, 2011 to August 31, 2011 indicate that passenger volumes at the eight largest airports increased by 3.5% over the same period in 2010[1]. The impact of increased passenger volumes was minimized by operational efficiencies at PBS checkpoints which were identified in the 2009 Strategic Review and CATSA Review 2010, and implemented during the current fiscal year. However, as CATSA's reference level funding for operating expenditures does not accommodate forecasted growth in passenger volume or inflation, these pressures will continue to put a strain on CATSA's PBS capacity and, in the absence of further operational changes, could trigger longer wait times in future years.

RISK AND UNCERTAINTIES

During the quarter, CATSA completed its corporate risk profiling exercise for fiscal year 2011/12. The following section provides an update on significant developments regarding key corporate risks and uncertainties.

CAPACITY RISK

Insufficient financial resources to maintain level of service

CATSA is facing funding pressures due to increased passenger volumes and inflation which are not reflected in CATSA's current funding profile. As a result, CATSA may lack the financial resources required to maintain its current level of service in future years.

To address this risk, CATSA has implemented various operational efficiencies identified in both the 2009 Strategic Review and CATSA Review 2010. In addition, it is anticipated that CATSA will better streamline its operations and expenditures under the new airport screening services agreements. CATSA also continues to work with Transport Canada and Central Agencies to address funding pressures.

MANDATED SERVICES RISK

Detection capability

CATSA's activities include detecting and intercepting prohibited items as defined by its regulator, Transport Canada. There is a risk that CATSA may not detect all prohibited items, which may result in a threat to the civil aviation system.

To mitigate this risk, CATSA maintains various programs and activities focused on controlling human factors, such as training, communications, and oversight activities, as well as improving screening processes and technologies.

REPUTATIONAL RISK

Stakeholder engagement

In executing its mandate, CATSA works closely with various stakeholders including Transport Canada, airport authorities, air carriers, the Government of Canada, and the travelling public. There is a risk that CATSA's reputation may be damaged with its stakeholders due to misperceptions regarding CATSA's role in the security aviation sector. This includes how CATSA carries out this role, and issues such as inconsistency in screening and labour challenges inherent in the third-party delivery model.

To address this risk, CATSA has implemented strategies to communicate to stakeholders its role in the larger aviation security system. This includes working closely with screening contractors to proactively address screening delivery issues and liaising with industry stakeholders, including the Canadian Airports

[1] Air traffic statistics for the three-month period ending September 30, 2011 were not available at the time of printing.

Council and airline associations. In addition, CATSA has invested resources towards educating the travelling public and providing appropriate and timely responses to customer service complaints.

MANAGEMENT SYSTEMS/CONTROL SYSTEMS RISK

Management of sensitive, secret or personal information

CATSA produces, collects and maintains a multitude of sensitive, secret and personal documentation and information. As with any security organization, there is a risk that this type of information in both physical and electronic format could be lost or disclosed inappropriately.

To address this risk, CATSA:

- maintains an information and data classification inventory;
- conducts security training activities such as Security Awareness Week, employee orientation sessions for all new employees, and document classification sessions; and
- implemented a variety of physical and information technology security controls to protect sensitive, secret and personal information.

SERVICE DELIVERY THROUGH THIRD PARTIES RISK

Labour unrest

CATSA outsources its screening services to third-party screening contractors who rely on a unionized Screening Officer workforce to deliver services. There is a risk that labour unrest may occur at some airports as a result of union activities.

To address this risk, CATSA has a Labour Relations Working Group in place to identify risk and monitor developments in labour relations. This Group is also responsible for establishing internal/external protocols to inform stakeholders of labour relations issues. These protocols proved to be effective in dealing with the illegal work action that occurred at Toronto Pearson International Airport in October of this year.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As discussed in CATSA's *Annual Report 2011* and the *Quarterly Financial Report for the Three Months Ended June 30, 2011*, CATSA will prepare its first annual financial statements in accordance with International Financial Reporting Standards (IFRS) for the fiscal year ending March 31, 2012. The Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations* requires that interim financial statements issued after April 1, 2011, be prepared based on the recognition and measurement standards used in the preparation of the organization's annual audited financial statements. Accordingly, the interim financial statements have been prepared in accordance with the measurement and recognition principles of IFRS currently issued and expected to be effective at the end of CATSA's first annual IFRS reporting period, March 31, 2012. The comparative information presented in this Narrative Discussion and the interim financial statements for the three and six months ended September 30, 2011 have been restated to reflect the adoption of IFRS measurement and recognition standards.

QUARTERLY FINANCIAL INFORMATION

The following table provides key highlights of the Statement of Comprehensive Income for the three and six months ended September 30, 2011, and September 30, 2010:

Key Financial Highlights - Statement of Comprehensive Income	Three Months Ended September 30				Six Months Ended September 30			
(Millions of dollars)	2011 (unaudited)	2010 (unaudited)	$ Change	% Change	2011 (unaudited)	2010 (unaudited)	$ Change	% Change
Expenses:								
Payments to Screening Contractors	$ 82.4	$ 88.7	$ (6.3)	(7%)	$ 170.3	$ 178.1	$ (7.8)	(4%)
Depreciation and amortization	22.1	20.7	1.4	7%	42.8	38.8	4.0	10%
Direct administrative costs and corporate services	18.6	19.3	(0.7)	(4%)	39.1	38.9	0.2	1%
Equipment maintenance, spare parts and warehousing costs	9.5	8.2	1.3	16%	18.2	16.9	1.3	8%
Other operating costs	1.9	2.6	(0.7)	(27%)	4.3	5.2	(0.9)	(17%)
Total expenses	**$ 134.5**	**$ 139.5**	**$ (5.0)**	**(4%)**	**$ 274.7**	**$ 277.9**	**$ (3.2)**	**(1%)**
Total other income (loss)	**$ (0.4)**	**$ (0.2)**	**$ (0.2)**	**100%**	**$ 1.0**	**$ 0.5**	**$ 0.5**	**100%**
Financial performance for the period before government funding	**$ 134.9**	**$ 139.7**	**$ (4.8)**	**(3%)**	**$ 273.7**	**$ 277.4**	**$ (3.7)**	**(1%)**
Government funding:								
Parliamentary appropriations for operating expenses	$ 111.2	$ 118.1	$ (6.9)	(6%)	$ 228.7	$ 237.2	$ (8.5)	(4%)
Amortization of deferred funding contributions related to capital	21.3	21.5	(0.2)	(1%)	42.2	40.7	1.5	4%
Total government funding	**$ 132.5**	**$ 139.6**	**$ (7.1)**	**(5%)**	**$ 270.9**	**$ 277.9**	**$ (7.0)**	**(3%)**
Financial performance and total comprehensive income (loss) for the period	**$ (2.4)**	**$ (0.1)**	**$ (2.3)**	**2,300%**	**$ (2.8)**	**$ 0.5**	**$ (3.3)**	**(660%)**

The following table provides key highlights of the Statement of Financial Position as at September 30, 2011 and March 31, 2011:

Key Financial Highlights - Statement of Financial Position (Millions of dollars)	September 30, 2011 (unaudited)	March 31, 2011 (unaudited)	$ Change	% Change
Total assets	**$ 474.0**	**$ 497.8**	**$ (23.8)**	**(5%)**
Total liabilities	**$ 451.1**	**$ 472.2**	**$ (21.1)**	**(4%)**

ANALYSIS OF FINANCIAL PERFORMANCE

The following section provides discussion on significant variances of account balances within the Statement of Comprehensive Income for the three and six months ended September 30, 2011, compared to the same periods of the prior fiscal year.

RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011

Payments to Screening Contractors

Payments to Screening Contractors decreased by $6.3 million (7%) for the three months ended September 30, 2011, compared to the same period in 2010. The decrease is primarily due to a decrease in screening hours purchased, partially offset by an increase in the average hourly billing rate.

The decrease in the purchase of screening hours is attributable to the implementation of operational efficiencies during the current fiscal year, initiated as a result of the 2009 Strategic Review and CATSA Review 2010. Consequently, fewer hours were purchased due to more effective resource scheduling and an increase in passenger throughput at PBS checkpoints. The savings resulting from these efficiencies were reduced, in part, by an increase in screening hours associated with passenger growth and the operation of Full-Body Scanners which continue to be deployed this fiscal year.

The increase in the average hourly billing rate is a result of wage rate increases required under the existing collective bargaining agreements between screening contractors and the unions representing the Screening Officers at certain airports.

Depreciation and amortization

Depreciation and amortization increased by $1.4 million (7%) for the three months ended September 30, 2011, compared to the same period in 2010. The increase is partially due to a higher volume of new and replacement capital equipment made available for use towards the end of the second quarter of fiscal year 2010/11. The increase is also attributable to accelerated depreciation of explosives detection systems deployed in terminals which are scheduled to close early, in advance of the end of the assets' estimated useful lives.

Direct administrative costs and corporate services

Direct administrative costs and corporate services for the three months ended September 30, 2011 are comparable to the same period in 2010. This is primarily due to an increase in employee costs resulting from annual salary increases and higher current service costs of CATSA's pension plan, offset by a reduction in the average number of staffed indeterminate and fixed term positions, lower professional services and decreased administrative costs.

Equipment maintenance, spare parts and warehousing costs

Equipment maintenance, spare parts and warehousing costs increased by $1.3 million (16%) for the three months ended September 30, 2011, compared to the same period in 2010. The increase is primarily due to inflationary increases in existing equipment maintenance contracts, additional costs associated with expired equipment warranty coverage and higher per unit support costs for more advanced technology equipment deployed as part of CATSA's life-cycle management plan. The increase is also attributable to the purchase of non-capitalized RAIC equipment and application support for the Boarding Pass Security System installed in fiscal year 2010/11.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses decreased by $6.9 million (6%) for the three months ended September 30, 2011, compared to the same period in 2010. The decrease is directly correlated to the decrease in operating expenses, as discussed above.

Amortization of deferred funding contributions related to capital

Amortization of deferred funding contributions related to capital for the three months ended September 30, 2011 is comparable to the same period in 2010. This is due to an increase in depreciation and amortization, as discussed above, offset by proceeds on disposal received in the form of credit notes from a supplier.

RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

Payments to Screening Contractors

Payments to Screening Contractors decreased by $7.8 million (4%) for the six months ended September 30, 2011, compared to the same period in 2010. The decrease is primarily due to a reduction in screening hours purchased, partially offset by an increase in the average hourly billing rate, as discussed above. The decrease is also offset by an increase in fixed fees and account management fees paid to screening contractors as a result of contractual amendments and annual increases required under these contracts.

Depreciation and amortization

Depreciation and amortization increased by $4.0 million (10%) for the six months ended September 30, 2011, compared to the same period in 2010. The increase is partially due to a higher volume of new and replacement capital equipment made available for use towards the end of the second quarter of fiscal year 2010/11. The increase is also attributable to accelerated depreciation of explosives detection systems resulting from the closure of terminals, as discussed above. Lastly, a revision of the assumptions used in determining decommissioning liabilities, resulted in a one-time reduction to depreciation expense in the first quarter of the prior fiscal year.

Direct administrative costs and corporate services

Direct administrative costs and corporate services for the six months ended September 30, 2011 are comparable to the same period in 2010. This is primarily due to an increase in employee costs resulting from annual salary increases and higher current service costs of CATSA's pension plan, offset by a reduction in the average number of staffed indeterminate and fixed term positions, lower professional services and decreased administrative costs.

Equipment maintenance, spare parts and warehousing costs

Equipment maintenance, spare parts and warehousing costs increased by $1.3 million (8%) for the six months ended September 30, 2011, compared to the same period in 2010. The increase is primarily due to inflationary increases in existing equipment maintenance contracts, additional costs associated with expired equipment warranty coverage and higher per unit support costs for more advanced technology equipment deployed as part of CATSA's life-cycle management plan. This was partially offset by a lower average US exchange rate.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses decreased by $8.5 million (4%) for the six months ended September 30, 2011, compared to the same period in 2010. The decrease is directly correlated to the decrease in operating expenses, as discussed above.

Amortization of deferred funding contributions related to capital

Amortization of deferred funding contributions related to capital increased by $1.5 million (4%) for the six months ended September 30, 2011, compared to the same period in 2010. The increase is due to the increase in depreciation and amortization, as discussed above, partially offset by proceeds on disposal received in the form of credit notes from a supplier.

ANALYSIS OF FINANCIAL POSITION

The following section provides discussion on significant variances of account balances within the Statement of Financial Position as at September 30, 2011, compared to March 31, 2011.

TOTAL ASSETS

Total assets decreased by approximately $23.8 million (5%) primarily due to the following:

- Accounts receivable decreased by $41.8 million due to the receipt of parliamentary appropriations relating to the prior fiscal year which had been accrued at March 31, 2011. The balance at March 31, 2011 reflected traditionally high fourth quarter spending;
- Property, equipment and intangible assets decreased by $36.6 million primarily due to depreciation and amortization for the period ($42.8 million), partially offset by the acquisition and installation of equipment ($7.9 million); and
- Cash increased by $56.3 million due to the receipt of appropriations which were not payable to CATSA until October 2011.

TOTAL LIABILITIES

Total liabilities decreased by approximately $21.1 million (4%) primarily due to the following:

- Trade and other payables decreased by $34.3 million primarily due to the payment of obligations outstanding with suppliers which were accrued at March 31, 2011. The balance at March 31, 2011 reflected traditionally high fourth quarter spending; and
- Deferred funding contributions increased by $12.4 million due to parliamentary appropriations invoiced ($238.2 million) and October 2011 appropriations received in advance ($45.0 million), partially offset by operating expenditures incurred ($228.7 million) and amortization of deferred capital funding ($42.2 million).

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's operations are funded by federal parliamentary appropriations from the Government of Canada.

CATSA's *2011/12 Summary of the Corporate Plan* has not been tabled in Parliament at the time of publishing this document. Until it is tabled in Parliament and made public, CATSA will not be in a position to provide a variance analysis between its financial results and the budget in the Corporate Plan.

The amount of parliamentary appropriations used is reported on a near-cash accrual basis of accounting. Accordingly, the table below serves to reconcile parliamentary appropriations used and the IFRS operating expenses presented within the Statement of Comprehensive Income:

Parliamentary Appropriations Used - Operating	**Three Months Ended September 30**		**Six Months Ended September 30**	
(Millions of dollars)	**2011** (unaudited)	**2010** (unaudited)	**2011** (unaudited)	**2010** (unaudited)
Total expenses (IFRS)	$ 134.5	$ 139.5	$ 274.7	$ 277.9
Non-operating expenses:				
Depreciation and amortization	(22.1)	(20.7)	(42.8)	(38.8)
Other sources of funding:				
Net change in prepaids and inventory	(1.5)	(0.5)	(2.4)	(1.2)
Interest and foreign exchange loss (gain)	(0.1)	(0.1)	(0.2)	0.2
Non-cash accounting expenses:				
Employee costs accruals	0.2	-	(0.5)	(0.3)
Employee benefits expense	0.2	0.1	-	(0.2)
Deferred lease inducement expense	-	(0.2)	(0.1)	(0.4)
Total appropriations used - Operating	**$ 111.2**	**$ 118.1**	**$ 228.7**	**$ 237.2**

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

Parliamentary Appropriations Used - Capital	**Three Months Ended September 30**		**Six Months Ended September 30**	
(Millions of dollars)	**2011** (unaudited)	**2010** (unaudited)	**2011** (unaudited)	**2010** (unaudited)
Total capital asset acquisitions (IFRS)	$ 5.3	$ 8.6	$ 7.9	$ 10.9
Proceeds on disposal of property and equipment	(0.9)	(0.2)	(2.5)	(1.0)
Total appropriations used - Capital	**$ 4.4**	**$ 8.4**	**$ 5.4**	**$ 9.9**

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with the Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*, 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 comprehensive income, changes in equity and cash flows of the corporation, as at the date of and for the periods presented in the condensed interim financial statements.

Kevin McGarr, M.S.M., MBA
President and Chief Executive Officer
Ottawa, Canada

November 25, 2011

Mario Malouin, CA
Vice-President and Chief Financial Officer
Ottawa, Canada

November 25, 2011

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Three and six months ended September 30, 2011 and 2010

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	September 30, 2011	March 31, 2011
Assets		
Current assets:		
Cash	$ 63,585	$ 7,335
Accounts receivable (note 5)	28,899	70,725
Inventories (note 6)	20,675	21,785
Prepaid expenses	2,102	3,355
	115,261	103,200
Non-current assets:		
Employee benefits (note 11)	12,476	11,804
Property and equipment (note 7)	333,836	369,989
Intangible assets (note 8)	12,384	12,849
	358,696	394,642
	$ 473,957	$ 497,842
Liabilities and Equity		
Current liabilities:		
Trade and other payables	$ 43,845	$ 78,106
Provisions (note 9)	18	18
Deferred funding contributions (note 10)	50,919	-
	94,782	78,124
Non-current liabilities:		
Provisions (note 9)	2,149	2,174
Deferred lease inducement	1,566	1,497
Deferred funding contributions (note 10)	344,359	382,911
Employee benefits (note 11)	8,218	7,483
	356,292	394,065
Equity:		
Retained earnings	22,883	25,653
	22,883	25,653
	$ 473,957	$ 497,842

Commitments (note 14) and contingent liabilities (note 17)

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 September 30		Six months ended September 30	
	2011	2010	2011	2010
Expenses:				
Pre-Board Screening and Hold-Baggage Screening	$ 118,160	$ 122,805	$ 242,165	$ 244,836
Corporate services	11,466	12,131	22,478	23,844
Non-Passenger Screening	3,422	3,489	7,538	7,492
Restricted Area Identity Card Program	1,404	1,148	2,520	1,748
Total expenses (note 12)	134,452	139,573	274,701	277,920
Other income (expenses):				
Gain (loss) on disposal of property and equipment	110	(316)	1,454	421
Finance income	138	103	241	157
Gain on settlement of decommissioning liabilities	19	11	21	325
Write-down of intangible assets	(631)	-	(631)	-
Finance cost	(12)	(12)	(27)	(47)
Foreign exchange gain (loss)	(3)	29	(3)	(316)
	(379)	(185)	1,055	540
Financial performance for the period before government funding	134,831	139,758	273,646	277,380
Government funding:				
Parliamentary appropriations for operating expenses (note 13)	111,154	118,140	228,660	237,160
Amortization of deferred funding contributions related to capital (note 10)	21,250	21,472	42,216	40,703
	132,404	139,612	270,876	277,863
Financial performance and total comprehensive income (loss) for the period	$ (2,427)	$ (146)	$ (2,770)	$ 483

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended September 30:

		Retained earnings
Balance, July 1, 2010	$	18,915
Financial performance for the period		(146)
Balance, September 30, 2010	$	18,769
Balance, July 1, 2011	$	25,310
Financial performance for the period		(2,427)
Balance, September 30, 2011	$	22,883

For the six months ended September 30:

		Retained earnings
Balance, April 1, 2010	$	18,286
Financial performance for the period		483
Balance, September 30, 2010	$	18,769
Balance, April 1, 2011	$	25,653
Financial performance for the period		(2,770)
Balance, September 30, 2011	$	22,883

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 September 30 2011	Three months ended September 30 2010	Six months ended September 30 2011	Six months ended September 30 2010
Cash flows provided by (used in):				
Operating activities:				
Financial performance for the period	$ (2,427)	$ (146)	$ (2,770)	$ 483
Items not involving cash:				
Depreciation of property and equipment (note 12)	20,940	19,657	40,604	37,176
Amortization of intangible assets (note 12)	1,247	1,027	2,240	1,595
Write-down of intangible assets	631	-	631	-
Increase (decrease) in deferred lease inducement	(40)	191	69	384
Decrease (increase) in employee benefits	(173)	(161)	63	120
Unwinding of discount on decommissioning liabilities	11	12	26	47
Amortization of deferred funding contributions related to capital	(21,250)	(21,472)	(42,216)	(40,703)
Loss (gain) on disposal of property and equipment	(110)	316	(1,454)	(421)
Gain on settlement of decommissioning liabilities	(19)	(11)	(21)	(325)
Net change in non-cash working capital balances (note 16)	52,875	(6,627)	58,258	59,518
	51,685	(7,214)	55,430	57,874
Financing activities:				
Parliamentary appropriations received for capital funding	6,827	11,238	22,827	52,145
	6,827	11,238	22,827	52,145
Investing activities:				
Purchase of property and equipment	(785)	(8,058)	(20,145)	(57,612)
Purchase of intangible assets	(1,061)	(1,417)	(1,862)	(1,542)
Proceeds on disposal of property and equipment	-	2	-	2
	(1,846)	(9,473)	(22,007)	(59,152)
Increase (decrease) in cash	56,666	(5,449)	56,250	50,867
Cash, beginning of period	6,919	59,828	7,335	3,512
Cash, end of period	$ 63,585	$ 54,379	$ 63,585	$ 54,379

Supplementary cash flow information (note 16)

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

1. Authority, mandate, and programs:

The Canadian Air Transport Security Authority (CATSA) was established under the *Canadian Air Transport Security Authority Act* (the *CATSA Act*), which came into force on April 1, 2002. CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* (Canada) and is an agent of Her Majesty in right of Canada.

CATSA's mandate is to deliver effective and efficient screening of individuals and their baggage before accessing aircraft or restricted areas through screening points at designated airports within Canada. CATSA is also responsible for ensuring consistency in the delivery of screening activities in the public interest and has four mandated activities:

1. Pre-Board Screening (PBS) – the screening of passengers, their carry-on baggage and their personal belongings;
2. Hold-Baggage Screening (HBS) – the screening of checked baggage;
3. Non-Passenger Screening (NPS) – the screening of non-passengers on a random basis, pursuant to direction from the Minister of Transport, Infrastructure and Communities; and
4. Restricted Area Identity Cards (RAIC) – the administration of access control to airport restricted areas through biometric identifiers.

CATSA is not subject to income tax under the provisions of the *Income Tax Act* (Canada). CATSA is subject to the *Excise Tax Act* (Canada), which includes the federal Goods and Services Tax (GST) and Harmonized Sales Tax (HST). CATSA is also subject to all provincial sales taxes (PST) applied by the provinces and territories in which it operates.

2. Basis of preparation:

The interim financial statements have been prepared in accordance with the *Standard on Quarterly Financial Reports for Crown Corporations* as published by the Treasury Board of Canada Secretariat (TBS Standard). These statements have not been audited or reviewed by CATSA's external auditors.

2. Basis of preparation (continued):

The TBS Standard requires interim financial statements be prepared based on the recognition and measurement standards used in the preparation of the annual audited financial statements. Accordingly, the interim financial statements have been prepared based on recognition and measurement standards applicable under International Financial Reporting Standards (IFRS). The comparative figures for the three and six months ended September 30, 2010 and the year ended March 31, 2011 have also been restated to reflect the adoption of IFRS recognition and measurement standards. The interim financial statements do not contain all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual and quarterly financial statements. They should be read in conjunction with the most recent annual audited financial statements and the narrative discussion included within the quarterly financial report for the three and six months ended September 30, 2011.

The interim financial statements have been prepared in accordance with the accounting policies that CATSA expects to adopt in its March 31, 2012 annual financial statements. Those accounting policies are based on IFRS, including International Financial Reporting Interpretations Committee (IFRIC) interpretations that CATSA expects to be applicable at that time. The IFRS that will be applicable March 31, 2012 are not known with certainty at the time of preparing these interim financial statements. The policies set out below have been consistently applied to all the periods presented.

These interim financial statements were prepared under the historical cost convention except for the following material items in the statement of financial position:

- financial instruments categorized as fair value through profit or loss are measured at fair value; and
- defined benefit pension plan assets are recognized as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next six months are included in the following notes:

- note 3(b) – Property and equipment
- note 9(a) – Decommissioning liabilities
- note 11 – Employee benefits

2. Basis of preparation (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements are discussed in the following notes:

- note 3(c) – Intangible assets
- note 9(b) – Legal claims
- note 17 – Contingent liabilities

3. Significant accounting policies:

(a) Inventories:

Inventories consist of spare parts acquired for equipment maintenance, RAIC and Screening Officer uniforms. Inventories are stated at the lower of cost and net realizable value. Cost is determined using a weighted average cost and net realizable value is defined as replacement cost.

(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 at the airports to ensure the assets are in a condition necessary for their intended use.

Work-in-progress includes costs relating to integration projects that remain incomplete at period-end. The valuation of work-in-progress is determined based on period-end valuations performed by either independent engineers or management, depending on management's assessment of risk.

3. Significant accounting policies (continued):

(b) Property and equipment (continued):

(i) Recognition and measurement (continued):

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing proceeds with the carrying amount and are recognized in financial performance for the period.

(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 for the period.

(iii) Depreciation:

Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below:

Asset	Useful life
PBS equipment	3-10 years
HBS equipment	7-10 years
NPS equipment	7-10 years
RAIC equipment	3-7 years
Computers, integrated software and electronic equipment	3 years
Office furniture and equipment	5 years

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(c) Intangible assets:

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

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3. Significant accounting policies (continued):

(c) Intangible assets (continued):

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, 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 and to use the software product 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 3-5 years.

(d) Impairment:

Assets subject to depreciation and amortization are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is subsequently estimated.

The recoverable amount of an asset or cash-generating unit is the greater of an asset’s value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (Cash-Generating Unit).

3. Significant accounting policies (continued):

(d) Impairment (continued):

CATSA's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the Cash-Generating Unit to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its Cash-Generating Unit exceeds its estimated recoverable amount. Impairment losses are recognized in financial performance for the period.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. Reversals of impairment losses are recognized in financial performance for the period.

(e) Leases:

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Expenses incurred under operating leases are recognized in financial performance for the period on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(f) Financial instruments:

(i) Non-derivative financial assets:

Non-derivative financial assets are comprised of cash. Accounts receivable are not classified as non-derivative financial assets because they are not contractual rights but rather created as a result of statutory requirements imposed by federal and provincial governments. Non-derivative financial assets are recognized initially on the trade date at which CATSA becomes a party to the contractual provisions of the instrument.

CATSA derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial asset are transferred.

3. Significant accounting policies (continued):

(f) Financial instruments (continued):

(i) Non-derivative financial assets (continued):

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, CATSA has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

CATSA classifies its non-derivative financial assets into the category of financial assets at fair value through profit or loss. An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such on initial recognition. Financial instruments at fair value through profit or loss are initially measured at fair value, and subsequent changes therein are recognized in financial performance for the period. Upon initial recognition, attributable transaction costs are recognized in financial performance for the period when incurred.

(ii) Non-derivative financial liabilities:

Non-derivative financial liabilities are comprised of trade and other payables. Non-derivative financial liabilities are recognized initially on the trade date at which CATSA becomes a party to the contractual provisions of the instrument.

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

CATSA classifies non-derivative liabilities into the category of other financial liabilities. These financial liabilities 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.

(g) Employee benefits:

(i) Post-employment defined benefit plans:

CATSA maintains two defined benefit pension plans to provide retirement benefits to its employees (Defined Benefit Pension Plans). The Defined Benefit Pension Plans include a registered pension plan and a supplementary retirement plan. CATSA also sponsors other unfunded post-retirement benefits which include life insurance and eligible health and dental benefits (Other Benefits Plan). Pension benefits are based on the average of the best five consecutive years of pensionable salary and are indexed to the rate of inflation. Employees are required to contribute a percentage of their pensionable salary to the plan, with CATSA providing the balance of funding as required based on actuarial valuations, with payments to the fund made monthly.

3. Significant accounting policies (continued):

(g) Employee benefits (continued):

(i) Post-employment defined benefit plans (continued):

CATSA's net asset or liability in respect of these three plans is calculated separately for each plan 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. To the extent applicable, the fair value of any plan assets and any unrecognized past service costs are deducted from the present value of the future benefit. The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of CATSA's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to CATSA, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits in the form of any future refunds from the plans or reductions in future contributions to the plans. In order to calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in CATSA. An economic benefit is available to CATSA if it is realizable during the life of the plan, or on settlement of the plan's liabilities.

On a quarterly basis, CATSA's net asset or liability is updated for differences between estimated net benefit cost, as determined in the most recent annual actuarial valuations, and actual employer contributions to the plans. However, the net asset or liability is only updated for significant market fluctuations at the end of every fiscal year, with the assistance of the pension plans' actuary.

When past service costs arise from plan improvements, the portion of the increased benefit relating to past service is recognized in financial performance for the period on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in financial performance for the period.

3. Significant accounting policies (continued):

(g) Employee benefits (continued):

(i) Post-employment defined benefit plans (continued):

CATSA recognizes all actuarial gains and losses from post-retirement defined benefit plans in other comprehensive income. Expenses related to post-retirement defined benefit plans are recognized as employee costs in determining financial performance for the period.

CATSA recognizes gains or losses on the curtailment or settlement of a post-retirement defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

(ii) Termination benefits:

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. CATSA recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

(iii) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if CATSA has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Provisions:

A provision is recognized if, as a result of a past event, CATSA has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. Significant accounting policies (continued):

(h) Provisions (continued):

(i) Decommissioning liabilities:

CATSA recognizes a provision for future decommissioning liabilities associated with a lease agreement and the cost of disposing certain screening equipment in an environmentally responsible manner. In the year of acquisition, the decommissioning liability is based on a discounted estimate of the future cash outflows. The decommissioning liability is capitalized as part of the carrying amount of the related asset and amortized over the asset's estimated useful life.

The decommissioning liability is reviewed each reporting period to consider changes in the estimated outflow of resources embodying the economic benefit required to settle the obligation, changes in the current market-based discount rate (which includes changes in the time value of money and the risks specific to the liability) and increases that reflect the passage of time. The effect of a change in estimate is recognized prospectively and depreciated over the remaining estimated useful lives of the assets to which they relate.

The unwinding of the discount is recognized as a finance cost, while changes resulting from the timing or amount of the initial estimate of future cash flows are recognized in the related decommissioning liability and carrying amount of the related asset.

(ii) Legal 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 a legal claim arising from a past event results in a present legal or constructive obligation that can be estimated reliably, and it is probable that the claim will be settled, resulting in an outflow of economic benefits. If the legal claim is expected to be settled 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.

(iii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by CATSA from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, CATSA recognizes any impairment loss on the assets associated with that contract.

3. Significant accounting policies (continued):

(i) Parliamentary appropriations:

CATSA's funding is represented by parliamentary appropriations received or receivable from the Government of Canada. Parliamentary appropriations used for operating expenditures are recorded in financial performance in the period in which the related expenses are incurred. Parliamentary appropriations for operating expenditures that were billed but remain unused at period-end are recorded as a deferred funding contribution.

Parliamentary appropriations used to acquire property and equipment and intangible assets are recorded as a deferred funding contribution and amortized on a straight-line basis over the estimated useful lives of the assets. The amortization of the deferred funding contributions relating to capital is recognized in financial performance for the period.

In the event CATSA disposes of funded depreciable assets, the related remaining deferred funding contributions are recognized in financial performance in the period of disposal.

Unused parliamentary appropriations at year-end are returned to the Government of Canada.

(j) Finance income:

Finance income is comprised primarily of interest income derived from bank balances and is recognized in financial performance in the period it is earned.

(k) Finance cost:

Finance cost is comprised primarily of the unwinding of the discount on the provision for decommissioning liabilities and is recognized in financial performance in the period it is incurred.

(l) Foreign currency translation:

Foreign currency transactions are translated using exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in financial performance for the period.

(m) Deferred lease inducement:

Deferred lease inducement represents a rent-free period of common area costs as well as a period of significantly reduced rent related to leased premises. The deferred lease inducement is recognized in financial performance on a straight-line basis over the term of the lease, which expires November 30, 2017.

3. Significant accounting policies (continued):

(n) New accounting standards:

Certain new accounting standards and amendments have been published which are not required to be adopted for the current reporting period. As at the date of these financial statements, the following applicable standards and amendments were issued but are not yet effective:

- IAS 1, *Presentation of Financial Statements*, effective for annual periods beginning on or after July 1, 2012;
- IAS 19, *Employee Benefits*, effective for annual periods beginning on or after January 1, 2013;
- IFRS 7, *Financial Instruments: Disclosures*, effective for annual periods beginning on or after July 1, 2011;
- IFRS 9, *Financial Instruments*, effective for annual periods beginning on or after January 1, 2013; and
- IFRS 13, *Fair Value Measurement*, effective for annual periods beginning on or after January 1, 2013.

CATSA is currently assessing the impact of these standards on the financial statements.

4. Financial risk management:

(a) Fair value:

Fair values have been measured and disclosed based on a hierarchy that reflects the significance of inputs used in making these estimates. The hierarchy of fair value includes the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash is determined based on Level 1 of the fair value hierarchy. The fair value of trade and other payables approximates their carrying values due to their short-term nature and the time left to maturity.

All of the financial instruments arose in the normal course of operations.

(In thousands of Canadian dollars)

4. Financial risk management (continued):

(b) Financial instrument risk:

(i) Market risk:

Market risk is the risk that the fair market value or future cash flows of a financial instrument will fluctuate because of changes in market price. CATSA's key market risk relates to foreign exchange 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. Foreign exchange risk arises from trade and other payables denominated in a currency other than the Canadian dollar, which is the functional currency of CATSA. Although management monitors exposure to fluctuations in foreign exchange rates, it does not employ external hedging strategies to offset the impact of these fluctuations.

The following table provides the trade and other payables denominated in the United States dollar (USD) and the Canadian dollar (CAD) equivalent:

	USD	CAD
September 30, 2011	$ 113	$ 119
March 31, 2011	5,121	5,061

(ii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. CATSA manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada.

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

	Less than 3 months	3 to less than 6 months	6 months to 1 year	Total
September 30, 2011	$ 43,066	$ 19	$ 778	$ 43,863
March 31, 2011	77,031	-	1,093	78,124

(In thousands of Canadian dollars)

5. Accounts receivable:

Accounts receivable are comprised of:

	September 30, 2011	March 31, 2011
Parliamentary appropriations	$ 10,243	$ 52,183
GST and HST recoverable	15,142	17,044
PST recoverable	2,490	1,369
Other	1,024	129
	$ 28,899	$ 70,725

6. Inventories:

Inventories are comprised of:

	September 30, 2011	March 31, 2011
Spare parts	$ 19,725	$ 19,688
RAIC	694	1,107
Uniforms	256	990
	$ 20,675	$ 21,785

(In thousands of Canadian dollars)

7. Property and equipment:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equipment	Leasehold improve-ments	Work-in-progress	Total
Cost									
Balance, April 1, 2011	$ 133,113	$ 644,499	$ 9,608	$ 8,644	$ 25,894	$ 729	$ 12,246	$ 35,010	$ 869,743
Additions	169	637	-	-	2	-	13	5,216	6,037
Disposals	(6,879)	(668)	(16)	(909)	(122)	-	-	(807)	(9,401)
Reclassifications	5,267	4,625	110	137	1,463	-	-	(12,146)	(544)
Revisions to decommissioning liabilities estimates	(10)	(14)	(1)	-	-	-	(6)	-	(31)
Balance, September 30, 2011	$ 131,660	$ 649,079	$ 9,701	$ 7,872	$ 27,237	$ 729	$ 12,253	$ 27,273	$ 865,804
Accumulated depreciation									
Balance, April 1, 2011	$ 59,822	$ 412,761	$ 2,293	$ 4,551	$ 11,558	$ 511	$ 8,258	$ -	$ 499,754
Depreciation	6,790	27,997	590	894	3,434	64	835	-	40,604
Disposals	(6,700)	(641)	(16)	(909)	(122)	-	-	-	(8,388)
Revisions to decommissioning liabilities estimates	(2)	-	-	-	-	-	-	-	(2)
Balance, September 30, 2011	$ 59,910	$ 440,117	$ 2,867	$ 4,536	$ 14,870	$ 575	$ 9,093	$ -	$ 531,968
Carrying amounts									
At April 1, 2011	73,291	231,738	7,315	4,093	14,336	218	3,988	35,010	369,989
At September 30, 2011	71,751	208,962	6,834	3,336	12,367	154	3,160	27,272	333,836

(In thousands of Canadian dollars)

8. Intangible assets:

	Externally acquired software	Internally developed software	Work-in-progress	Total
Cost				
Balance, April 1, 2011	$ 4,484	$ 17,309	$ 3,346	$ 25,139
Additions	-	372	1,490	1,862
Disposals	-	-	(631)	(631)
Reclassifications	615	2,565	(2,636)	544
Balance, September 30, 2011	$ 5,099	$ 20,246	$ 1,569	$ 26,914
Accumulated amortization				
Balance, April 1, 2011	$ 3,731	$ 8,559	$ -	$ 12,290
Amortization	362	1,878	-	2,240
Balance, September 30, 2011	$ 4,093	$ 10,437	$ -	$ 14,530
Carrying amounts				
At April 1, 2011	753	8,750	3,346	12,849
At September 30, 2011	1,006	9,809	1,569	12,384

9. Provisions:

Provisions are comprised of:

	September 30, 2011	March 31, 2011
Decommissioning liabilities	$ 2,149	$ 2,174
Legal claims	18	18
	2,167	2,192
Less current portion	(18)	(18)
	$ 2,149	$ 2,174

(a) Decommissioning liabilities:

In determining the carrying value of the decommissioning liabilities associated with certain screening equipment and lease agreements, management has applied certain assumptions which are disclosed in note 10 of the audited financial statements for the fiscal year ended March 31, 2011. The key assumptions include: credit-adjusted risk-free discount rates, inflation rates and the expected years to settlement.

(In thousands of Canadian dollars)

9. Provisions (continued):

(a) Decommissioning liabilities (continued):

A reconciliation of the decommissioning liability is as follows:

	September 30, 2011	March 31, 2011
Balance, beginning of period	$ 2,174	$ 6,570
Revision in estimated cash flows including change in discount rate	(29)	(4,232)
Gain on settlement of liabilities	(21)	(449)
Unwinding of discount	25	69
Liabilities incurred during the period	-	216
Balance, end of period	$ 2,149	$ 2,174

The obligations relating to the decommissioning liabilities are expected to be settled between 2011 and 2018.

(b) Legal claims:

Management has accrued a provision for legal claims as a result of CATSA receiving claims from various parties requesting monetary compensation. A provision has been recognized on the basis that management believes a present legal or constructive obligation exists and it is probable the claim will be settled. The provision was established by management taking into account legal assessments, information presently available and other recourse. The timing of the cash outflows associated with the legal claims cannot be reasonably determined.

A reconciliation of the provision for legal claims is as follows:

	September 30, 2011	March 31, 2011
Balance, beginning of period	$ 18	$ 86
Additional provision made in the period	-	113
Proceeds paid out in settlement	-	(77)
Provision released in the period	-	(104)
Balance, end of period	$ 18	$ 18

(c) Onerous contracts:

No onerous contracts have been identified during the three and six months ended September 30, 2011 and the year ended March 31, 2011.

(In thousands of Canadian dollars)

10. Deferred funding contributions:

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

	September 30, 2011	March 31, 2011
Balance, beginning of period	$ 382,911	$ 413,900
Parliamentary appropriations billed in relation to capital expenditures	3,164	54,934
Parliamentary appropriations billed in relation to operating expenditures	235,079	512,249
Parliamentary appropriations received in advance in relation to capital expenditures	500	-
Parliamentary appropriations received in advance in relation to operating expenditures	44,500	-
Parliamentary appropriations used during the period for operating expenditures	(228,660)	(512,249)
Amortization of deferred funding contributions related to capital	(42,216)	(85,923)
	395,278	382,911
Less current portion	(50,919)	-
Balance, end of year	$ 344,359	$ 382,911

11. Employee benefits:

The following table provides the expense and contributions relating to the Defined Benefit Pension Plans and Other Benefits Plan for the three and six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Expense:				
Defined Benefit Pension Plans	$ 1,042	$ 877	$ 2,082	$ 1,755
Other Benefits Plan	397	221	794	442
	$ 1,439	$ 1,098	$ 2,876	$ 2,197
Contributions:				
Defined Benefit Pension Plans	$ 1,582	$ 1,250	$ 2,754	$ 2,059
Other Benefits Plan	30	9	59	18
	$ 1,612	$ 1,259	$ 2,813	$ 2,077

(In thousands of Canadian dollars)

11. Employee benefits (continued):

The current service cost and the benefit obligation of the plans are actuarially determined on an annual basis using the projected unit credit method. The significant weighted-average assumptions used to determine CATSA's obligations as at September 30, 2011 and March 31, 2011 include the following:

	Defined Benefit Pension Plans	Other Benefits Plan
Expected rate of return on plan assets	6.83%	N/A
Discount rate for benefit cost	6.25%	6.25%
Discount rate for accrued benefit obligation	6.00%	6.00%
Inflation for benefit cost	2.25%	2.25%
Inflation for accrued benefit obligation	2.25%	2.25%
Long-term rate of compensation increase (including inflation and promotion)	4.25%	4.25%

The assumed health care cost trend rates used in determining the obligations as at September 30, 2011 and March 31, 2011 include the following:

Initial health care cost trend rate	7.90%
Ultimate health care cost trend rate	4.60%
Year ultimate rate reached	2021

(In thousands of Canadian dollars)

12. Expenses:

CATSA conducts its operations using a functional organizational structure. The statement of comprehensive income presents operating expenses by mandated activity. The following table presents operating expenses by major expense type for the three and six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Payments to screening contractors	$ 82,411	$ 88,668	$ 170,318	$ 178,096
Depreciation of property and equipment	20,940	19,657	40,604	37,176
Employee costs	13,270	13,049	27,800	26,469
Equipment maintenance	9,531	8,636	18,217	17,285
Other administrative costs	3,677	4,273	7,722	8,634
Operating leases	1,467	1,682	3,213	3,324
Uniforms and other screening related costs	1,165	1,195	2,399	2,716
Amortization of intangible assets	1,247	1,027	2,240	1,595
Screening supplies and consumable goods	398	777	999	1,351
Training and certification	27	531	462	811
RAIC	154	218	418	399
Communications and public awareness	154	252	316	427
Equipment spare parts and warehousing costs	11	(392)	(7)	(363)
	$ 134,452	$ 139,573	$ 274,701	$ 277,920

Other administrative costs include travel expenses, office supplies, professional services, insurance, network and telephone costs.

(In thousands of Canadian dollars)

13. Parliamentary appropriations:

CATSA's 2011/12 Summary of the Corporate Plan has not been tabled in Parliament at the time of publishing these interim financial statements and, therefore, the total amount of parliamentary appropriations is not disclosed.

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

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Parliamentary appropriations received and receivable	$166,435	$129,090	$313,435	$ 346,183
Amounts received in relation to prior period billings	(7,478)	(11,856)	(33,856)	(63,682)
Amounts billed in (deferred to) future periods	(47,803)	906	(50,919)	(45,341)
Parliamentary appropriations used for operating expenses	$111,154	$118,140	$228,660	$ 237,160

Parliamentary appropriations relating to operating expenses which have been deferred are a result of CATSA receiving funds in advance of billings and forecasted expenditures exceeding actual operating expenditures. The amounts deferred are expected to be used and recognized in financial performance for the period within the next fiscal quarter.

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

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Parliamentary appropriations received and receivable	$ 5,991	$ 15,412	$ 21,991	$ 56,319
Amounts received in relation to prior period billings	(6,890)	(5,663)	(18,327)	(39,538)
Amounts billed in (deferred to) future periods	5,312	(1,377)	1,768	(6,894)
Parliamentary appropriations used for capital expenditures	$ 4,413	$ 8,372	$ 5,432	$ 9,887

Parliamentary appropriations relating to capital expenditures which have been deferred are a result of CATSA receiving funds in advance of billings, forecasted expenditures exceeding actual capital expenditures, and CATSA disposing of certain assets which generated proceeds that were used to finance capital expenditures during the period. The amounts deferred are expected to be used within the next fiscal quarter.

(In thousands of Canadian dollars)

14. Commitments:

(a) Operating leases:

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

	September 30, 2011	March 31, 2011
No later than 1 year	$ 13,680	$ 13,616
Later than 1 year and no later than 5 years	21,520	24,583
Later than 5 years	4,900	6,609

The operating lease for the office space at headquarters contains an option to renew for five additional years, subject to the same terms and conditions as the original lease except that there is no further right to extend after the expiry of the extension term, and the future rent will be based on the prevailing market rate as at the date of extension.

There are no restrictions imposed by these arrangements.

(b) Contractual obligations:

Contractual obligations include capital commitments and other contractual obligations associated with various contracts for screening services and equipment maintenance. These contractual obligations are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion.

The following table provides the minimum commitments under these contractual obligations:

	September 30, 2011	March 31, 2011
No later than 1 year	$ 596,479	$ 342,809
Later than 1 year and no later than 5 years	1,631,920	139,514
Later than 5 years	187,247	31

(In thousands of Canadian dollars)

15. Capital management:

As a federal Crown corporation, CATSA is subject to the *Financial Administration Act* (Canada) which, in general, restricts it from borrowing money. As a result, CATSA relies upon capital and operating appropriations from the Government of Canada to support its financial obligations and strategic requirements.

The primary objective in managing capital is to provide sufficient liquidity to support CATSA's financial obligations and its operating and strategic plans. CATSA manages its capital in accordance with the Treasury Board of Canada Secretariat's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, in that appropriated funds are drawn from the Consolidated Revenue Fund for the purpose of meeting short-term funding requirements.

Capital is comprised of the following:

	September 30, 2011	March 31, 2011
Cash	$ 63,585	$ 7,335
Accounts receivable	28,899	70,725
Trade and other payables	(43,845)	(78,106)
Current portion of provisions	(18)	(18)
Current portion of deferred funding contributions	(50,919)	-
	$ (2,298)	$ (64)

CATSA's objectives, policies, and processes for managing capital have not changed since March 31, 2011. CATSA is not subject to externally imposed capital requirements.

(In thousands of Canadian dollars)

16. 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 and six months ended September 30:

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Decrease (increase) in accounts receivable	$ 5,443	$ (8,979)	$ 24,340	$ 39,033
Decrease (increase) in inventories	399	(218)	1,110	(7)
Decrease in prepaid expenses	995	739	1,253	1,211
Increase (decrease) in trade and other payables	(1,765)	2,687	(19,364)	(26,155)
Increase in current portion of provisions	-	50	-	95
Increase (decrease) in current portion of deferred funding contributions	47,803	(906)	50,919	45,341
	$ 52,875	$ (6,627)	$ 58,258	$ 59,518

Interest income received and recognized during the three and six months ended September 30, 2011 amounts to $138 (2010 – $103) and $241 (2010 - $157), respectively.

Interest expense paid and recognized during the three and six months ended September 30, 2011 amounts to $2 (2010 – Nil) and $2 (2010 - Nil), respectively.

For the three and six months ended September 30, 2011, the change in accounts receivable excludes amounts of $7,727 (2010 – $1,489) and $19,163 (2010 - $35,364), respectively, in relation to capital funding, as the amounts relate to financing activities. Furthermore, the change in accounts receivable excludes amounts of $1,677 (2010 – Nil) and $1,677 (2010 – Nil), respectively, in relation to capital credit notes, as the amounts relate to investing activities.

For the three and six months ended September 30, 2011, the change in accounts payable and accrued liabilities excludes amounts of $4,245 (2010 – $1,103) and $14,897 (2010 - $49,267), respectively, in relation to the acquisition of property and equipment and intangible assets, as the amounts relate to investing activities.

Non-cash investing activities for the three and six months ended September 30, 2011 include non-cash proceeds of $919 (2010 – $234) and $2,467 (2010 - $984), respectively, relating to the disposal of property and equipment, in the form of credit notes from a supplier.

17. Contingent liabilities:

CATSA has been named as a defendant in a legal action claiming damages. Although no amount has been included within the Statement of Claim, legal counsel has advised management that the claim is for several million dollars. Management is of the opinion that there is a strong defense against the claim and it is not probable that the claim will result in an outflow of economic benefits. Accordingly, a provision has not been recognized in the current period.