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

QUARTERLY FINANCIAL REPORT

For the three months ended June 30, 2011

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

MANAGEMENT'S NARRATIVE DISCUSSION

FOR THE THREE MONTHS ENDED JUNE 30, 2011

Management's narrative discussion of the quarterly financial results and operations (Narrative Discussion) has been prepared based on information available to the Canadian Air Transport Security Authority (CATSA or the Authority) as at June 30, 2011. The Narrative Discussion should be read in conjunction with the Authority's unaudited condensed interim financial statements for the three months ended June 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 and involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of the Authority 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.

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

CORPORATE OVERVIEW

CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada in order to provide effective, efficient and consistent security screening in the interest of the travelling public at 89 designated airports across 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

CATSA's operating environment has remained consistent with prior periods with no significant changes to the security threat environment, economic environment, regulatory environment, and funding model. CATSA's President and Chief Executive Officer, Kevin McGarr, has announced his retirement effective December 31, 2011. The Board of Directors has initiated a process to hire his successor. Both Mr. McGarr and the Board of Directors have committed to ensure a seamless transition to new leadership.

On June 6, 2011, the 2011 Federal Budget (Budget 2011) was tabled in Parliament. In this budget, CATSA received additional funding over the five-year planning period to start addressing the life-cycle management of its HBS systems. In addition, CATSA's ongoing reference levels were increased by $33.0 million ($2.0 million in operating and $31.0 million in capital) starting in 2016/17, to allow the organization to continue life-cycle management at the remaining airports, with the objective of aligning its HBS systems with those of the United States and the European Union.

The organization-wide review completed by CATSA last fiscal year (CATSA Review 2010) identified a number of recommendations to create operational efficiencies. Budget 2011 confirmed that savings realized by these efficiencies will be used to enhance other areas of the air transport security system. CATSA has since been working to implement these efficiencies, which have increased passenger throughput at PBS checkpoints. However, due to operational pressures, including projected growth in passenger volumes and inflation, efficiency gains in throughput will not lead to shorter wait times for passengers in future years.

In Budget 2011, the Government of Canada also announced a government-wide strategic and operating review. This review commenced during the second quarter of 2011/12, and is expected to take several months until completion.

CATSA's third-party service delivery model involves service agreements with various screening contractors for screening services at designated airports across the country. CATSA continues to advance the request for proposals process that was launched in January 2011 in order to secure new Airport Screening Services Agreements (ASSAs). On August 8, 2011, CATSA awarded new contracts for screening services in four regions of the country (Pacific, Prairies, Central, and Eastern). The new ASSAs come into effect November 1, 2011.

A number of collective bargaining agreements (CBAs) between the screening contractors and the unions representing the Screening Officers expired on March 31, 2011. Of these expired CBAs, the majority have been renewed with minimal labour issues. Three CBAs are still in the negotiation process and the financial impact will only be known once an agreement is reached.

Transport Canada statistics for the three-month period from February 1, 2011 to April 30, 2011 indicate passenger volumes at the eight largest airports increased by 2.7% over the same period in 2010[1]. The impact of increased passenger volumes was minimized by the realization of operational efficiencies at PBS checkpoints. However, as CATSA's reference level funding for operating expenditures does not accommodate growth in passenger volume or inflation, in the absence of further operational changes, these pressures will continue to put a strain on CATSA's PBS capacity, triggering longer wait times in future years.

RISK AND UNCERTAINTIES

During the quarter, CATSA implemented various risk management initiatives to improve its ability to assess and report corporate risks. In addition, standardized risk criteria have been adopted across the organization.

CATSA's corporate risks are consistent with those reported within the 2011 Annual Report. The following sections provide an update on significant developments regarding corporate risks and uncertainties, including one new operational risk in relation to labour unrest.

[1] Air Traffic Statistics for the three month period ending June 30, 2011 were not available at the time of printing.

OPERATIONAL RISK

Labour unrest

CATSA outsources its screening services to third-party screening contractors who rely on a unionized Screening Officer workforce to deliver services. Due to a number of current events that may negatively impact the Screening Officer workforce, there is a potential for labour unrest to occur. These events include the re-negotiation of certain CBAs, the implementation of operational efficiencies leading to a reduction in the number of screening hours purchased by CATSA, as well as ongoing activities related to the request for proposals for the ASSAs.

CATSA has put in place a Working Group to identify labour risks, monitor developments in labour relations, and establish internal/external communication protocols to inform stakeholders of labour relations issues.

FUNDING RISK

Capacity - Insufficient financial resources

CATSA is facing a variety of external challenges such as an evolving threat environment, the government-wide strategic and operating review, potential regulatory changes to its mandate and potential airport expansions. In addition, there continues to be funding pressures relating to passenger growth and inflation that are not reflected within CATSA's current funding profile. As a result, CATSA may lack the financial resources required to maintain the current level of service for future years.

CATSA will continue implementing the operational efficiencies identified within its 2009 Strategic Review and the CATSA Review 2010, including the re-engineering of PBS checkpoints and other process improvement initiatives such as streaming passengers according to their perceived needs and associated risk.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As discussed within the 2011 Annual Report, the Authority will prepare its first annual International Financial Reporting Standards (IFRS) financial statements for the fiscal year ending March 31, 2012. The Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations* requires 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 months ended June 30, 2010 and the year ended March 31, 2011 have been restated to reflect the adoption of IFRS measurement and recognition standards.

IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles (GAAP), but there are significant differences related to recognition, measurement and disclosures. The new significant accounting policies adopted under IFRS are disclosed in note 3 of the interim financial statements for the three months ended June 30, 2011. The adjustments made by CATSA in preparing its IFRS opening statement of financial position as at April 1, 2010, and in restating its previous Canadian GAAP financial statements for the year ended March 31, 2011, are discussed in detail within note 18 of the interim financial statements.

QUARTERLY FINANCIAL INFORMATION

The following table provides key highlights of the statement of comprehensive income for the three months ended June 30, 2011, and June 30, 2010:

Key Financial Highlights - Statement of Comprehensive Income (Millions of dollars)	Three Months Ended June 30 2011 (unaudited)	2010 (unaudited)	$ Change	% Change
Expenses:				
Payments to screening contractors	$ 87.9	$ 89.4	$ (1.5)	-2%
Depreciation and amortization	20.7	18.1	2.6	14%
Direct administrative costs and corporate services	20.5	19.6	0.9	5%
Equipment maintenance, spare parts and warehousing costs	8.7	8.7	-	0%
Other operating costs	2.4	2.5	(0.1)	-4%
Total expenses	**$ 140.2**	**$ 138.3**	**$ 1.9**	**1%**
Total other income	**$ 1.4**	**$ 0.7**	**$ 0.7**	**100%**
Financial performance for the period before government funding	**$ 138.8**	**$ 137.6**	**$ 1.2**	**1%**
Government funding:				
Parliamentary appropriations for operating expenses	$ 117.5	$ 119.0	$ (1.5)	-1%
Amortization of deferred funding contributions related to capital	21.0	19.2	1.8	9%
Total government funding	**$ 138.5**	**$ 138.2**	**$ 0.3**	**0%**
Financial performance and total comprehensive income (loss) for the period	**$ (0.3)**	**$ 0.6**	**$ (0.9)**	**-150%**

The following table provides key highlights of the statement of financial position as at June 30, 2011, and March 31, 2011:

Key Financial Highlights - Statement of Financial Position (Millions of dollars)	June 30, 2011 (unaudited)	March 31, 2011 (unaudited)	$ Change	% Change
Total assets	**$ 447.9**	**$ 497.8**	**$ (49.9)**	**-10%**
Total liabilities	**$ 422.6**	**$ 472.2**	**$ (49.6)**	**-11%**

ANALYSIS OF FINANCIAL PERFORMANCE

The following section provides discussion on significant variances of account balances within the statement of comprehensive income for the three months ended June 30, 2011, compared to the three months ended June 30, 2010.

OPERATING EXPENSES

Payments to screening contractors

Payments to screening contractors decreased by $1.5 million (2%) primarily as a result of a decrease in the screening hours purchased during the quarter, partially offset by an increase in the average hourly billing rate, and higher account management and fixed fees.

The decrease in the purchase of screening hours is attributable to the implementation of operational efficiencies initiated as a result of the 2009 Strategic Review, combined with more effective resource scheduling at PBS checkpoints. The impact of these efficiencies was partially offset by increased screening hours associated with passenger growth and Full-Body Scanners. Full-Body Scanners were deployed throughout the prior fiscal year, in support of the enhanced security requirements imposed by Transport Canada in response to the failed terrorist attack on December 25, 2009. This resulted in a greater number of units in operation during the first quarter of 2011/12 as compared to the same period in the prior year.

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

The increase in account management and fixed fees paid to screening contractors reflects prior year contractual amendments and the annual increases required under these contracts.

Depreciation and amortization

Depreciation and amortization increased by $2.6 million (14%) due to the acquisition of new Explosives Detection Systems (EDS) equipment, including PBS Multi-view X-ray units and Full-Body Scanners, which were made available for use primarily after the first quarter of 2010/11. The increase also relates to management revising the assumptions used in determining the decommissioning liabilities, which resulted in a one-time reduction to the depreciation expense in the prior year.

Direct administrative costs and corporate services

Direct administrative costs and corporate services increased by $0.9 million (5%) due primarily to higher employee costs resulting from an increased rate of employer contributions to the current service costs of the organization’s pension plan and annual salary increases, which came into effect January 1, 2011 and April 1, 2011, respectively.

ANALYSIS OF FINANCIAL POSITION

The following section provides discussion on significant variances of account balances within the statement of financial position as at June 30, 2011, compared to March 31, 2011.

TOTAL ASSETS

Total assets decreased by approximately $49.9 million (10%) due primarily to the following:

- Accounts receivable decreased by $30.3 million due to CATSA receiving parliamentary appropriations payments during the quarter for amounts which were accrued at March 31, 2011. The balance at March 31, 2011 reflected traditionally high fourth quarter spending. The decrease was partially offset by an increase in recoverable sales taxes resulting from the accumulation of sales taxes recoverable on expenditures incurred during the quarter; and

- Property, equipment and intangible assets decreased by $18.3 million due primarily to depreciation and amortization for the period ($20.7 million). The decrease was partially offset by the acquisition of EDS ($1.8 million) and non-EDS ($0.8 million) equipment.

TOTAL LIABILITIES

Total liabilities decreased by approximately $49.6 million (11%) due primarily to the following:

- Trade and other payables decreased by $36.7 million due primarily to 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 decreased by $13.3 million due to the recognition of government funding in relation to parliamentary appropriations for operating expenditures ($117.5 million) and the amortization of deferred capital funding ($21.0 million), partially offset by current quarter billings ($125.2 million).

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

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

CATSA's 2011/12 Corporate Plan budget is currently pending approval. Accordingly, the amount of funding available for the current year is unknown until the current year's budget is approved by Cabinet. As a result, a variance analysis between the financial results for the three months ended June 30, 2011 and the Corporate Plan budget has not been provided.

As the current year's Corporate Plan budget is pending approval, the parliamentary appropriations billed during the period have been based on the organization's short-term cash requirements in accordance with the prior year's 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 June 30**	
	2011	**2010**
(Millions of dollars)	(unaudited)	(unaudited)
Total expenses (IFRS)	$ 140.2	$ 138.3
Non-operating expenses:		
Depreciation and amortization	(20.7)	(18.1)
Other sources of funding:		
Net change in prepaids and inventory	(0.9)	(0.7)
Interest and foreign exchange loss	(0.1)	0.3
Non-cash accounting expenses:		
Employee costs accruals	(0.7)	(0.3)
Employee benefits expense	(0.2)	(0.3)
Deferred lease inducement expense	(0.1)	(0.2)
Total appropriations used - Operating	**$ 117.5**	**$ 119.0**

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 June 30**	
	2011	**2010**
(Millions of dollars)	(unaudited)	(unaudited)
Total capital asset acquisitions (IFRS)	$ 2.6	$ 2.3
Proceeds on disposal of property and equipment	(1.6)	(0.8)
Total appropriations used - Capital	**$ 1.0**	**$ 1.5**

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these 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 is necessary to enable the preparation of 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 interim financial statements.

Based on our knowledge, these unaudited 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 interim financial statements.

Kevin McGarr, M.S.M., MBA
President and Chief Executive Officer
Ottawa, Canada
August 25, 2011

Mario Malouin, CA
Vice-President and Chief Financial Officer
Ottawa, Canada
August 25, 2011

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Three months ended June 30, 2011 and 2010

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2011	March 31, 2011	April 1, 2010
Assets			
Current assets:			
Cash	$ 6,919	$ 7,335	$ 3,512
Accounts receivable (note 5)	40,392	70,725	112,588
Inventories (note 6)	21,074	21,785	19,695
Prepaid expenses	3,097	3,355	3,537
	71,482	103,200	139,332
Non-current assets:			
Employee benefits (note 11)	11,935	11,804	5,360
Property and equipment (note 7)	351,317	369,989	404,713
Intangible assets (note 8)	13,198	12,849	11,369
	376,450	394,642	421,442
	$ 447,932	$ 497,842	$ 560,774
Liabilities and Equity			
Current liabilities:			
Trade and other payables	$ 41,365	$ 78,106	$ 116,014
Provisions (note 9)	18	18	86
Deferred funding contributions (note 10)	3,116	-	-
	44,499	78,124	116,100
Non-current liabilities:			
Provisions (note 9)	2,158	2,174	6,570
Deferred lease inducement	1,606	1,497	730
Deferred funding contributions (note 10)	366,509	382,911	413,900
Employee benefits (note 11)	7,850	7,483	5,188
	378,123	394,065	426,388
Equity:			
Retained earnings	25,310	25,653	18,286
	25,310	25,653	18,286
	$ 447,932	$ 497,842	$ 560,774

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 June 30	
	2011	2010
Expenses:		
Pre-Board Screening and Hold-Baggage Screening	$ 124,005	$ 122,031
Corporate services	11,012	11,713
Non-Passenger Screening	4,116	4,003
Restricted Area Identity Card Program	1,116	600
Total expenses (note 12)	140,249	138,347
Other income (expenses):		
Gain on disposal of property and equipment	1,344	737
Finance income	103	54
Gain on settlement of decommissioning liabilities	2	314
Finance cost	(15)	(35)
Foreign exchange loss	-	(345)
	1,434	725
Financial performance for the period before government funding	138,815	137,622
Government funding:		
Parliamentary appropriations for operating expenses (note 13)	117,506	119,020
Amortization of deferred funding contributions related to capital (note 10)	20,966	19,231
	138,472	138,251
Financial performance and total comprehensive income (loss) for the period	$ (343)	$ 629

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)

		Retained earnings
Balance, April 1, 2010	$	18,286
Financial performance for the period		629
Balance, June 30, 2010	$	18,915
Balance, April 1, 2011	$	25,653
Financial performance for the period		(343)
Balance, June 30, 2011	$	25,310

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Cash Flows
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended June 30 2011	2010
Cash flows provided by (used in):		
Operating activities:		
Financial performance for the period	$ (343)	$ 629
Items not involving cash:		
Depreciation of property and equipment (note 12)	19,664	17,519
Amortization of intangible assets (note 12)	993	568
Decrease in employee benefits	236	281
Increase in deferred lease inducement	109	193
Unwinding of discount on decommissioning liabilities	15	35
Amortization of deferred funding contributions related to capital	(20,966)	(19,231)
Gain on disposal of property and equipment	(1,344)	(737)
Gain on settlement of decommissioning liabilities	(2)	(314)
Net change in non-cash working capital balances (note 16)	5,383	66,145
	3,745	65,088
Financing activities:		
Parliamentary appropriations received for capital funding	16,000	40,907
	16,000	40,907
Investing activities:		
Purchase of property and equipment	(19,360)	(49,554)
Purchase of intangible assets	(801)	(125)
	(20,161)	(49,679)
Increase (decrease) in cash	(416)	56,316
Cash, beginning of period	7,335	3,512
Cash, end of period	$ 6,919	$ 59,828

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 or the Authority) 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* 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. The Authority 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.

The Authority is not subject to income tax under the provisions of the *Income Tax Act* (Canada). CATSA is subject to the *Excise Tax Act* (Canada), the federal Goods and Services Tax (GST), and all sales taxes 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 Secretariat of Canada (TBS Standard). These statements have not been audited or reviewed by the Company's external auditors.

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). They do not contain all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual and quarterly financial statements. The interim financial statements 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 months ended June 30, 2011.

2. Basis of preparation (continued):

The interim financial statements have been prepared in accordance with the accounting policies the Authority 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 the Authority 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.

The Authority's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (GAAP). Canadian GAAP differs in certain areas from IFRS. In preparing these interim financial statements, management has amended certain accounting and valuation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for the year ended March 31, 2011 have been restated to reflect these adjustments. Certain information and disclosures which are considered material to the understanding of the Authority's interim financial statements and which are normally included in the annual financial statements prepared in accordance with IFRS are provided in note 18, along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, comprehensive income and cash flows.

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

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.

2. Basis of preparation (continued):

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

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

Judgments made by management in the application of IFRS that have a significant effect on the financial statements are discussed in notes 3(c), 9(b) and 17.

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.

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 carrying amount and are recognized in financial performance for the period.

3. Significant accounting policies (continued):

(b) Property and equipment (continued):

(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 the Authority 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 bring the licences to use. These costs are amortized using the straight-line method over their estimated useful lives of 3-5 years.

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 the Authority 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 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. These costs are amortized using the straight-line method over their estimated useful lives of 3-5 years.

All other costs associated with developing or maintaining computer software programs are expensed as incurred.

(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.

3. Significant accounting policies (continued):

(d) Impairment (continued):

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).

The Authority'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.

3. Significant accounting policies (continued):

(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 the Authority becomes a party to the contractual provisions of the instrument.

The Authority 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 ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Authority 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.

The Authority 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 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 the Authority becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Authority 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.

3. Significant accounting policies (continued):

(f) Financial instruments (continued):

(ii) Non-derivative financial liabilities (continued):

The Authority classifies non-derivative liabilities into the other financial liabilities category. 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:

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Authority 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 (RPP) and a supplementary retirement plan (SRP). The Authority also sponsors other unfunded post-retirement benefits which include life insurance and eligible health and dental benefits (Other Benefits Plan).

The Authority's net obligation 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 the Authority'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 the Authority, 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 the Authority. An economic benefit is available to the Authority if it is realizable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees 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):

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

The Authority recognizes gains or losses on the curtailment or settlement of a 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. The Authority 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 the Authority 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, the Authority 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:

The Authority 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 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, the Authority 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. 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 the Authority 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, the Authority recognizes any impairment loss on the assets associated with that contract.

No onerous contracts have been identified for the three month periods ended June 30, 2011 and 2010.

3. Significant accounting policies (continued):

(i) Parliamentary appropriations:

The Authority'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 the Authority disposes of funded depreciable assets, the 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 represents 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.

(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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

(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 the 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.

The Authority 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
June 30, 2011	$ 85	$ 85
March 31, 2011	5,121	5,061
April 1, 2010	18,831	19,124

(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 three months	Three to less than six months	Six months to one year	Total
June 30, 2011	$ 39,984	$ 1,399	$ -	$ 41,383
March 31, 2011	77,031	-	1,093	78,124
April 1, 2010	114,299	164	1,637	116,100

(In thousands of Canadian dollars)

5. Accounts receivable:

Accounts receivable are comprised of:

	June 30, 2011	March 31, 2011	April 1, 2010
Parliamentary appropriations	$ 14,368	$ 52,183	$ 103,219
Goods and Services Tax recoverable	23,916	17,044	7,720
Provincial Sales Tax recoverable	1,927	1,369	1,578
Other	181	129	71
	$ 40,392	$ 70,725	$ 112,588

6. Inventories:

CATSA's inventories are comprised of:

	June 30, 2011	March 31, 2011	April 1, 2010
Spare parts	$ 19,728	$ 19,688	$ 17,710
RAIC	849	1,107	1,904
Uniforms	497	990	81
	$ 21,074	$ 21,785	$ 19,695

(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, 2010	$ 96,412	$ 624,360	$ 3,895	$ 19,020	$ 18,617	$ 3,674	$ 13,597	$ 77,867	$ 857,442
Additions	14,173	9,017	2,639	(8)	5,048	-	65	19,261	50,195
Disposals	(4,220)	(3,989)	(75)	(12,993)	(7,813)	(2,945)	(1,516)	(613)	(34,164)
Reclassifications	27,993	17,672	3,177	2,625	10,042	-	125	(61,505)	129
Revisions to decommissioning liabilities estimates	(1,245)	(2,561)	(28)	-	-	-	(25)	-	(3,859)
Balance, March 31, 2011	$ 133,113	$ 644,499	$ 9,608	$ 8,644	$ 25,894	$ 729	$ 12,246	$ 35,010	$ 869,743
Balance, April 1, 2011	$ 133,113	$ 644,499	$ 9,608	$ 8,644	$ 25,894	$ 729	$ 12,246	$ 35,010	$ 869,743
Additions	10	649	-	-	24	-	-	1,083	1,766
Disposals	(5,811)	(548)	(16)	-	-	-	-	-	(6,375)
Reclassifications	4,253	3,125	109	111	234	-	-	(8,373)	(541)
Revisions to decommissioning liabilities estimates	(10)	(14)	(1)	-	-	-	(5)	(1)	(31)
Balance, June 30, 2011	$ 131,555	$ 647,711	$ 9,700	$ 8,755	$ 26,152	$ 729	$ 12,241	$ 27,719	$ 864,562
Accumulated depreciation									
Balance, April 1, 2010	$ 51,755	$ 358,201	$ 1,397	$ 16,198	$ 13,895	$ 3,289	$ 7,994	$ -	$ 452,729
Depreciation	11,856	57,502	972	1,346	5,593	166	1,692	-	79,127
Disposals	(4,073)	(3,058)	(76)	(12,993)	(7,734)	(2,944)	(1,428)	-	(32,306)
Reclassifications	-	-	-	-	(196)	-	-	-	(196)
Revisions to decommissioning liabilities estimates	284	116	-	-	-	-	-	-	400
Balance, March 31, 2011	$ 59,822	$ 412,761	$ 2,293	$ 4,551	$ 11,558	$ 511	$ 8,258	$ -	$ 499,754
Balance, April 1, 2011	$ 59,822	$ 412,761	$ 2,293	$ 4,551	$ 11,558	$ 511	$ 8,258	$ -	$ 499,754
Depreciation	3,390	13,493	269	384	1,673	32	423	-	19,664
Disposals	(5,634)	(521)	(16)	-	-	-	-	-	(6,171)
Revisions to decommissioning liabilities estimates	(2)	-	-	-	-	-	-	-	(2)
Balance, June 30, 2011	$ 57,576	$ 425,733	$ 2,546	$ 4,935	$ 13,231	$ 543	$ 8,681	$ -	$ 513,245
Carrying amounts									
At April 1, 2010	$ 44,657	$ 266,159	$ 2,498	$ 2,822	$ 4,722	$ 385	$ 5,603	$ 77,867	$ 404,713
At March 31, 2011	73,291	231,738	7,315	4,093	14,336	218	3,988	35,010	369,989
At June 30, 2011	73,979	221,978	7,154	3,820	12,921	186	3,560	27,719	351,317

(In thousands of Canadian dollars)

8. Intangible assets:

	Externally acquired software	Internally developed software	Work-in-progress	Total
Cost				
Balance, April 1, 2010	$ 6,405	$ 7,033	$ 7,267	$ 20,705
Additions	440	1,965	3,597	6,002
Disposals	(370)	(945)	(124)	(1,439)
Reclassifications	(1,991)	9,256	(7,394)	(129)
Balance, March 31, 2011	$ 4,484	$ 17,309	$ 3,346	$ 25,139
Balance, April 1, 2011	$ 4,484	$ 17,309	$ 3,346	$ 25,139
Additions	-	324	477	801
Reclassifications	129	2,427	(2,015)	541
Balance, June 30, 2011	$ 4,613	$ 20,060	$ 1,808	$ 26,481
Accumulated amortization				
Balance, April 1, 2010	$ 4,741	$ 4,595	$ -	$ 9,336
Amortization	1,034	2,688	-	3,722
Disposals	(370)	(594)	-	(964)
Reclassifications	(1,674)	1,870	-	196
Balance, March 31, 2011	$ 3,731	$ 8,559	$ -	$ 12,290
Balance, April 1, 2011	$ 3,731	$ 8,559	$ -	$ 12,290
Amortization	149	844	-	993
Balance, June 30, 2011	$ 3,880	$ 9,403	$ -	$ 13,283
Carrying amounts				
At April 1, 2010	$ 1,664	$ 2,438	$ 7,267	$ 11,369
At March 31, 2011	753	8,750	3,346	12,849
At June 30, 2011	733	10,657	1,808	13,198

(In thousands of Canadian dollars)

9. Provisions:

Provisions are comprised of:

	June 30, 2011	March 31, 2011	April 1, 2010
Decommissioning liabilities	$ 2,158	$ 2,174	$ 6,570
Legal claims	18	18	86
	2,176	2,192	6,656
Less current portion	(18)	(18)	(86)
	$ 2,158	$ 2,174	$ 6,570

(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.

A reconciliation of the decommissioning liability is as follows:

	June 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	(2)	(449)
Unwinding of discount	15	69
Liabilities incurred during the period	-	216
Balance, end of period	$ 2,158	$ 2,174

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

(In thousands of Canadian dollars)

9. Provisions (continued):

(b) Legal claims:

Management has accrued a provision for legal claims as a result of the Authority 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.

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

	June 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

10. Deferred funding contributions:

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

	June 30, 2011	March 31, 2011
Deferred funding contributions, beginning of period	$ 382,911	$ 413,900
Parliamentary appropriations billed in relation to capital expenditures	4,564	54,934
Parliamentary appropriations billed in relation to operating expenditures	120,622	512,249
Parliamentary appropriations used during the period for operating expenditures	(117,506)	(512,249)
Amortization of deferred funding contributions related to capital	(20,966)	(85,923)
	369,625	382,911
Less current portion	(3,116)	-
	$ 366,509	$ 382,911

(In thousands of Canadian dollars)

11. Employee benefits:

The Authority's Defined Benefit Pension Plan benefits are based on the average of the five best consecutive years of pensionable service and indexed for inflation.

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

	2011	2010
Expense:		
Defined Benefit Pension Plans	$ 1,041	$ 878
Other Benefits Plan	397	221
	$ 1,438	$ 1,099
Contributions:		
Defined Benefit Pension Plans	$ 1,172	$ 809
Other Benefits Plan	30	9
	$ 1,202	$ 818

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 the Authority's obligations as at March 31, 2011 and June 30, 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%

(In thousands of Canadian dollars)

11. Employee benefits (continued):

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

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 months ended June 30:

	2011	2010
Payments to screening contractors	$ 87,907	$ 89,428
Depreciation of property and equipment	19,664	17,519
Employee costs	14,530	13,420
Equipment maintenance	8,686	8,649
Other administrative costs	4,045	4,361
Operating leases	1,746	1,642
Uniforms and other screening related costs	1,234	1,521
Amortization of intangible assets	993	568
Screening supplies and consumable goods	601	574
Training and certification	435	280
RAIC	264	181
Communications and public awareness	162	175
Equipment spare parts and warehousing costs	(18)	29
	$ 140,249	$ 138,347

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 Corporate Plan is currently pending approval and, therefore, the total amount of parliamentary appropriations available for the current year is not yet determinable. As a result, parliamentary appropriations billed during the period have been based on short-term cash requirements in line with the budget approved within the prior year Corporate Plan.

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 months ended June 30:

	2011	2010
Parliamentary appropriations received and receivable	$ 154,478	$ 228,949
Amounts received in relation to prior year billings	(30,000)	(61,500)
Amounts receivable in relation to prior year billings	(3,856)	(2,182)
Amounts deferred to future periods	(3,116)	(46,247)
Parliamentary appropriations used for operating expenses	$ 117,506	$ 119,020

Parliamentary appropriations relating to operating expenses which have been deferred are a result of the Authority 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 months ended June 30:

	2011	2010
Parliamentary appropriations received and receivable	$ 22,890	$ 46,570
Amounts received in relation to prior year billings	(13,000)	(37,500)
Amounts receivable in relation to prior year billings	(5,327)	(2,038)
Amounts deferred to future periods	(3,544)	(4,778)
Parliamentary appropriations used for capital expenditures	$ 1,019	$ 2,254

Parliamentary appropriations relating to capital expenditures which have been deferred are a result of the Authority receiving funds in advance of billings, forecasted expenditures exceeding actual capital expenditures, and the Authority 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:

	June 30, 2011	March 31, 2011	April 1, 2010
No later than 1 year	$ 13,391	$ 13,616	$ 10,023
Later than 1 year and no later than 5 years	22,685	24,583	24,662
Later than 5 years	5,763	6,609	9,729

The operating lease for the office space 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:

	June 30, 2011	March 31, 2011	April 1, 2010
No later than 1 year	$ 373,649	$ 342,809	$ 462,321
Later than 1 year and no later than 5 years	142,215	139,514	24,084
Later than 5 years	15	31	-

(In thousands of Canadian dollars)

15. Capital management:

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

The primary objective in managing capital is to provide sufficient liquidity to support the Authority'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.

The Authority's capital is comprised of the following:

	June 30, 2011	March 31, 2011	April 1, 2010
Cash	$ 6,919	$ 7,335	$ 3,512
Accounts receivable	40,392	70,725	112,588
Trade and other payables	(41,365)	(78,106)	(116,014)
Current portion of provisions	(18)	(18)	(86)
Current portion of deferred funding contributions	(3,116)	-	-
	$ 2,812	$ (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.

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 months ended June 30:

	2011	2010
Decrease in accounts receivable	$ 18,897	$ 48,012
Decrease in inventories	711	211
Decrease in prepaid expenses	258	472
Decrease in trade and other payables	(17,599)	(28,842)
Increase in current portion of provisions	-	45
Increase in current portion of deferred funding contributions	3,116	46,247
	$ 5,383	$ 66,145

16. Net change in non-cash working capital balances and supplementary cash flow information (continued):

Interest income received and recognized for the three months ended June 30, 2011 amounts to $103 (2010 – $54).

The change in accounts receivable excludes an amount of $11,436 (2010 – $33,875) in relation to capital funding.

The change in accounts payable and accrued liabilities excludes an amount of $19,142 (2010 – $48,164) in relation to the acquisition of property and equipment and intangible assets.

Non-cash investing activities include non-cash proceeds of $1,548 (2010 – $750) 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.

18. Explanation of transition to IFRS:

The Authority’s transition date to IFRS is April 1, 2010 (Transition Date). The Authority has prepared an opening IFRS statement of financial position as at the Transition Date.

In preparing its opening IFRS statement of financial position, the Authority has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP (its previous GAAP).

The opening IFRS statement of financial position has been prepared in advance of preparing the Authority's first annual IFRS financial statements for the year ending March 31, 2012 as part of the Authority's changeover to IFRS. The opening IFRS statement of financial position has been prepared using management's best knowledge of the expected standards and interpretations expected to be effective and the accounting policies expected to be adopted for the Authority’s first IFRS annual financial statements.

18. Explanation of transition to IFRS (continued):

There is a possibility that the opening IFRS statement of financial position may require adjustment before comprising part of the first IFRS financial statements issued as at March 31, 2012. Adjustments may occur as a result of:

- changes in management's determinations regarding the IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1) optional exemptions and mandatory exceptions;
- changes in management's determinations regarding accounting policy selections;
- early adoption of any IFRS issued but not effective until after March 31, 2012;
- changes in the Authority's operations; and
- changes in financial reporting requirements arising from new or revised standards issued by the International Accounting Standards Board or interpretations issued by the International Financial Reporting Interpretations Committee.

(a) Application of IFRS 1:

IFRS 1 provides the basis for preparing financial statements when adopting IFRS for the first time. The Authority is required to establish its IFRS accounting policies and apply these retrospectively to determine the IFRS opening statement of financial position as at the Transition Date. The accounting standard provides a number of mandatory exceptions and permits specified exemptions from the general principle of retrospective restatement. In preparing the financial statements, the Authority has applied the applicable mandatory exception and certain of the optional exemptions available under IFRS 1:

(i) Mandatory exception from full retrospective application:

Estimates:

The Authority has applied the mandatory exception in relation to the use of estimates at the Transition Date. Accordingly, the estimates applied at the Transition Date are consistent with the estimates made for the same date under its previous GAAP, unless there is evidence that those estimates were in error.

18. Explanation of transition to IFRS (continued):

(a) Application of IFRS 1 (continued):

(ii) Optional exemptions from full retrospective application:

Decommissioning liabilities:

The Authority has elected to apply the optional exemption available for the measurement of decommissioning liabilities. Accordingly, the Authority has re-measured the provision for decommissioning liabilities and the cost of the related asset, as at the Transition Date based on the methodology prescribed within IFRS 1.

Refer to note 18(b)(ii) for further discussion regarding the adjustment made to the decommissioning liabilities on transition to IFRS.

Employee benefits:

The Authority has elected to apply the optional exemption relating to the recognition of actuarial gains and losses on employee benefits at the Transition Date. An actuarial valuation was obtained at the Transition Date and all cumulative actuarial gains and losses have been recognized in the opening retained earnings balance as at the Transition Date.

Refer to note 18(b)(iii) for further discussion regarding the adjustments made to employee benefits on transition to IFRS.

Leases:

The Authority has elected to apply the optional exemption in relation to assessing whether arrangements contain a lease under IFRIC 4, *Determining whether an Arrangement Contains a Lease*. Accordingly, management has not re-assessed whether existing arrangements entered into subsequent to the effective date of EIC 150, *Determining whether an Arrangement Contains a Lease* (the Canadian GAAP equivalent) contained a lease. For those arrangements entered into prior to the effective date of EIC 150, management has re-assessed whether those arrangements contain a lease in accordance with the guidance prescribed within IFRIC 4.

No additional lease arrangements were identified based on the re-assessment performed.

18. Explanation of transition to IFRS (continued):

(b) Adjustments on transition from its previous GAAP to IFRS:

The IFRS adoption date is April 1, 2011 and, therefore, these financial statements represent the Authority's first interim financial statements prepared in accordance with the measurement and recognition principles of IFRS standards.

The accounting policies set forth in note 3 have been applied in preparing the interim financial statements for the three-month period ended June 30, 2011, the comparative information presented in these interim financial statements for both the three months ended June 30, 2010 and the year ended March 31, 2011 and in the preparation of an opening IFRS statement of financial position at April 1, 2010.

An explanation of how the transition from its previous GAAP to IFRS has affected the Authority's equity, comprehensive income and cash flows, is set out in the following tables and the notes that accompany the tables.

(In thousands of Canadian dollars)

18. Explanation of transition to IFRS (continued):

Reconciliation of Equity

		April 1, 2010			March 31, 2011		
	Note	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
Assets:							
Cash		$ 3,512	-	$ 3,512	$ 7,335	$ -	$ 7,335
Accounts receivable		112,588	-	112,588	70,725	-	70,725
Inventories		19,695	-	19,695	21,785	-	21,785
Prepaid expenses		3,537	-	3,537	3,355	-	3,355
Current assets		139,332	-	139,332	103,200	-	103,200
Employee benefits	iii	11,468	(6,108)	5,360	21,694	(9,890)	11,804
Property and equipment	i,ii	405,921	(1,208)	404,713	369,945	44	369,989
Intangible assets		11,369	-	11,369	12,849	-	12,849
Non-current assets		428,758	(7,316)	421,442	404,488	(9,846)	394,642
Total assets		$ 568,090	(7,316)	$ 560,774	$ 507,688	$ (9,846)	$ 497,842
Liabilities and equity:							
Trade and other payables	iv	$ 116,100	(86)	$ 116,014	$ 78,124	(18)	$ 78,106
Provisions	iv	-	86	86	-	18	18
Current liabilities		116,100	-	116,100	78,124	-	78,124
Provisions	ii	7,112	(542)	6,570	2,378	(204)	2,174
Deferred lease inducement		730	-	730	1,497	-	1,497
Deferred funding contributions	i	414,983	(1,083)	413,900	383,726	(815)	382,911
Employee benefits	iii	4,759	429	5,188	5,521	1,962	7,483
Non-current liabilities		427,584	(1,196)	426,388	393,122	943	394,065
Retained earnings	v	24,406	(6,120)	18,286	36,442	(10,789)	25,653
Total equity		24,406	(6,120)	18,286	36,442	(10,789)	25,653
Total liabilities and equity		$ 568,090	$ (7,316)	$ 560,774	$ 507,688	$ (9,846)	$ 497,842

(In thousands of Canadian dollars)

18. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the year ended March 31, 2011

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Expenses:				
Pre-Board Screening and Hold-Baggage Screening	i,ii,iii,iv	$ 510,170	$ (896)	$ 509,274
Corporate services	ii,iii,iv	54,515	329	54,844
Non-Passenger Screening	ii,iii	17,151	8	17,159
Restricted Area Identity Card Program	iii	4,464	16	4,480
Total expenses		586,300	(543)	585,757
Other income (expenses):				
Gain on settlement of decommissioning liabilities	ii	919	(470)	449
Finance income		470	-	470
Loss on disposal of property and equipment	i	(881)	43	(838)
Write-down of intangible assets		(476)	-	(476)
Foreign exchange loss		(136)	-	(136)
Finance cost	ii,iv	-	(69)	(69)
Total other income (expenses)		(104)	(496)	(600)
Financial performance for the period before government funding		586,404	(47)	586,357
Government funding:				
Parliamentary appropriations for operating expenses		512,249	-	512,249
Amortization of deferred funding contributions related to capital	i	86,191	(268)	85,923
		598,440	(268)	598,172
Financial performance for the period		12,036	(221)	11,815
Other comprehensive loss:				
Actuarial loss on defined benefit plans	iii	-	(4,448)	(4,448)
Total comprehensive income for the period		$ 12,036	$ (4,669)	$ 7,367

(In thousands of Canadian dollars)

18. Explanation of transition to IFRS (continued):

Material adjustments to the statement of cash flows for the year ended March 31, 2011

The adjustments recorded on transition to IFRS were all non-cash adjustments and did not impact the statement of cash flows. There are no other material differences between the statement of cash flows under IFRS and the statement of cash flows under its previous GAAP.

Index to the notes to the reconciliations

(i) Depreciation start-dates:

Canadian GAAP – Property and equipment is depreciated when assets are placed in service.

IFRS – Assets are depreciated as they become available for use. Consequently, management adjusted the depreciation start dates on certain assets where management deemed the assets were available for use before the depreciation start date used under its previous GAAP. The resulting adjustment to the property and equipment also resulted in an adjustment to deferred funding contributions.

The impact arising from the change is summarized below:

	April 1, 2010	March 31, 2011
Statement of comprehensive income:		
Pre-Board Screening and Hold-Baggage Screening	$ -	$ 225
Loss on disposal of property and equipment	-	43
Amortization of deferred funding related to capital	-	(268)
Adjustment to total comprehensive income	$ -	$ -
Statement of financial position:		
Property and equipment	$ (1,083)	$ (815)
Deferred funding contributions	1,083	815
Adjustment to retained earnings	$ -	$ -

18. Explanation of transition to IFRS (continued):

Index to the notes to the reconciliations (continued):

(ii) Decommissioning liabilities:

Canadian GAAP – Decommissioning liabilities are initially measured based on the present value of the estimated future costs of decommissioning the assets. In periods subsequent to initial measurement, the liabilities are re-measured to recognize period-to-period changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

IFRS – The IFRS 1 election to apply the exemption from full retrospective application resulted in the re-measurement of the decommissioning liabilities as at the Transition Date. Accordingly, the decommissioning liabilities were re-measured using the measurement criteria under IFRS 1 which requires:

- calculating the provision at the date of transition as if the obligation arose at that date, discounting the provision using a current market-based discount rate;
- determining the present value of the provision by discounting the provision back to the date that the obligation first arose, using management's best estimate of the historical risk-adjusted discount rate that would have applied between that date and the date of transition; and
- depreciating the resulting present value from the date the obligation first arose to the date of transition.

Subsequent to the Transition Date, IFRS requires the re-measurement of decommissioning liabilities to reflect changes in discount rates.

(In thousands of Canadian dollars)

18. Explanation of transition to IFRS (continued):

Index to the notes to the reconciliations (continued):

(ii) Decommissioning liabilities (continued):

The impact arising from the change is summarized below:

		April 1, 2010		March 31, 2011
Statement of comprehensive income:				
Pre-Board Screening and Hold-Baggage Screening	$	-	$	949
Corporate services		-		31
Non-Passenger Screening		-		11
Gain on settlement of decommissioning liabilities		-		(470)
Finance cost		-		125
Adjustment to total comprehensive income	$	-	$	646
Statement of financial position:				
Property and equipment	$	(125)	$	859
Long-term portion of provisions		542		204
Adjustment to retained earnings	$	417	$	1,063

(iii) Defined benefit obligations:

Canadian GAAP – An entity could elect to measure defined benefit obligations using a measurement date as of a date no earlier than three months prior to the entity's reporting date. The Authority elected to measure its defined benefit obligations using a measurement date of December 31, three months prior to its reporting date.

In addition, actuarial gains and losses are recognized based on the corridor method. Under the corridor method, actuarial gains and losses exceeding 10% of the greater of the accrued benefit obligation and fair value of the plan assets at the beginning of the year, are amortized on a straight-line basis over the expected average service period of active participants and recognized as a component of the pension expense. Actuarial gains and losses below the 10% corridor threshold are deferred.

18. Explanation of transition to IFRS (continued):

Index to the notes to the reconciliations (continued):

(iii) Defined benefit obligations (continued):

Finally, liabilities and expenses for vested past service costs under a defined benefit plan are recognized on a straight-line basis over the expected average remaining service period of the plan participants.

IFRS – Defined benefit obligations should be measured with sufficient regularity such that the amounts recognized in the financial statements do not differ materially from what would be determined at the end of the reporting period. Accordingly, the Authority has elected to measure its defined benefit obligation under IFRS using a measurement date of March 31.

The IFRS 1 election to apply the exemption from full retrospective application resulted in the recognition of all cumulative actuarial gains and losses relating to employee benefit plans, as at the Transition Date, in opening retained earnings. In addition, the Authority will recognize all subsequent actuarial gains and losses relating to the employee benefit plans directly in other comprehensive income at the end of each fiscal year.

Finally, liabilities and expenses for vested past service costs under defined benefit plans are recognized immediately. Accordingly, all remaining vested past service costs as at the Transition Date, have been recognized directly in opening retained earnings.

(In thousands of Canadian dollars)

18. Explanation of transition to IFRS (continued):

Index to the notes to the reconciliations (continued):

(iii) Defined benefit obligations (continued):

The impact arising from the change is summarized below:

	April 1, 2010	March 31, 2011
Statement of comprehensive income:		
Pre-Board Screening and Hold-Baggage Screening	$ -	$ (480)
Corporate services	-	(352)
Non-Passenger Screening	-	(19)
Restricted Area Identity Card Program	-	(16)
Actuarial loss on defined benefit plans	-	(4,448)
Adjustment to total comprehensive income	$ -	$ (5,315)
Statement of financial position:		
Employee benefits asset	$ (6,108)	$ (9,890)
Employee benefits liability	(429)	(1,962)
Adjustment to retained earnings	$ (6,537)	$ (11,852)

(In thousands of Canadian dollars)

18. Explanation of transition to IFRS (continued):

Index to the notes to the reconciliations (continued):

(iv) Reclassifications:

Certain balances under its previous GAAP have been reclassified to conform to the presentation adopted under IFRS. These reclassifications are summarized below:

	April 1, 2010	March 31, 2011
Statement of comprehensive income:		
Pre-Board Screening and Hold-Baggage Screening	$ -	$ 202
Corporate services	-	(8)
Finance cost	-	(194)
Adjustment to total comprehensive income	$ -	$ -
Statement of financial position:		
Trade and other payables	$ 86	$ 18
Current portion of provisions	(86)	(18)
Adjustment to retained earnings	$ -	$ -

(v) Retained earnings:

The above changes increased (decreased) retained earnings as follows:

	Note	April 1, 2010	March 31, 2011
Decommissioning liabilities	ii	417	1,063
Employee benefits	iii	(6,537)	(11,852)
Decrease to retained earnings		$ (6,120)	$ (10,789)