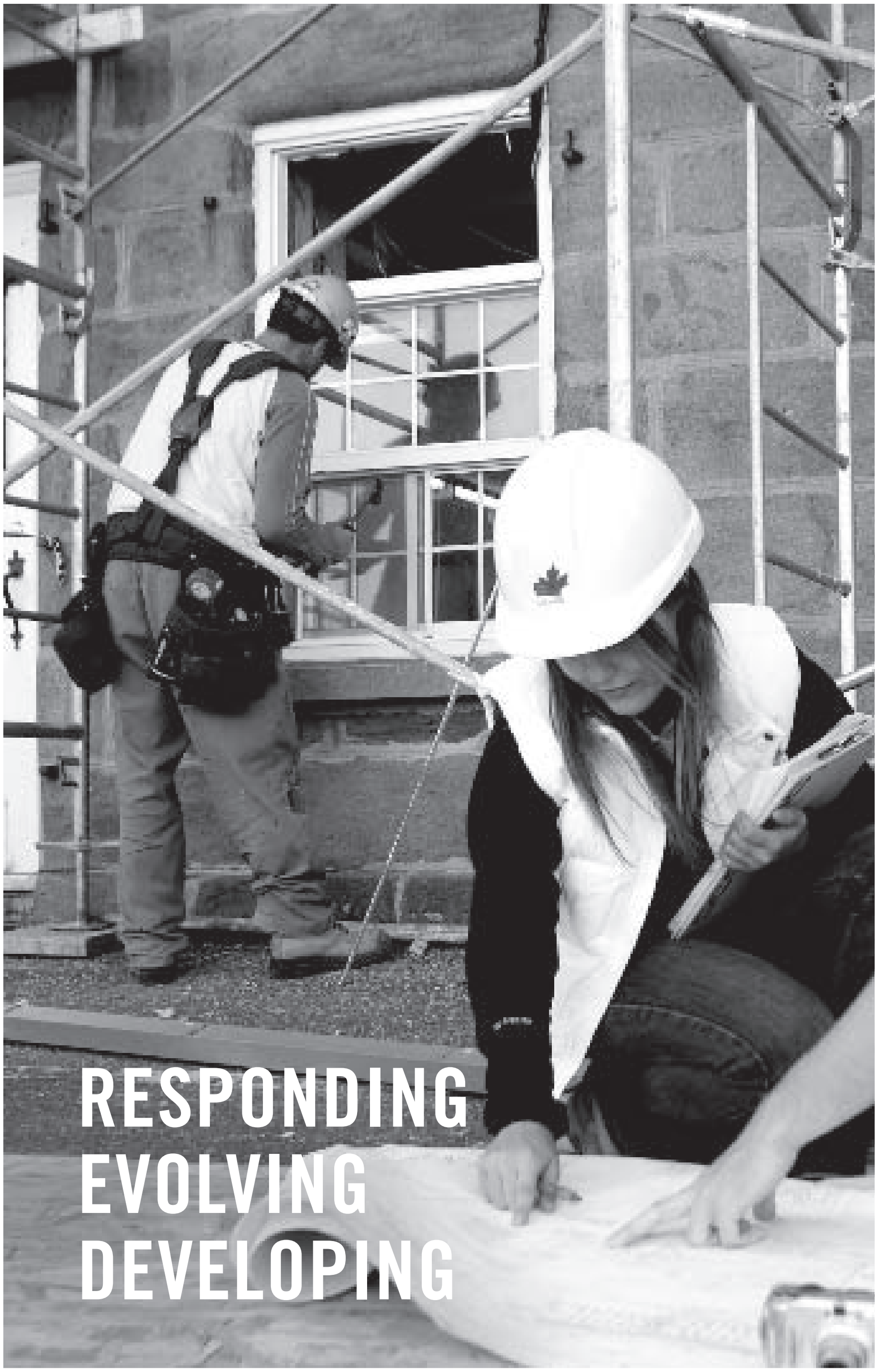


RESPONDING
EVOLVING
DEVELOPING

DEFENCE CONSTRUCTION (1951) LIMITED
ANNUAL REPORT 2007–2008

Canada

AT A GLANCE

CORPORATE PROFILE

Defence Construction Canada is a Crown corporation that provides contracting, construction-management and infrastructure services in support of the Department of National Defence, the Canadian Forces and the defence of Canada.

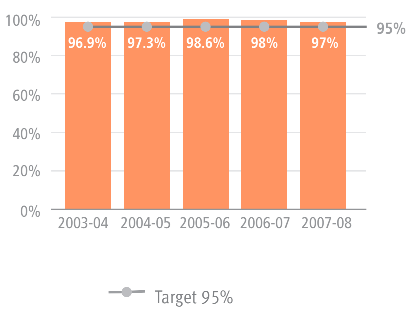
CORPORATE SERVICES

DCC contracts for and manages consulting, construction and environmental services on behalf of a number of client groups within the Department of National Defence, including the Infrastructure and Environment Group, the chiefs of the maritime, land and air staffs, and the Canadian Forces Personnel Support Agency, the Canadian Forces Housing Agency and Defence Research and Development Canada. Our Corporation's services are delivered through these service lines:

- Contract Services,
- Construction Services,
- Environmental Services,
- Project and Program Management Support, and
- Infrastructure Support Services.

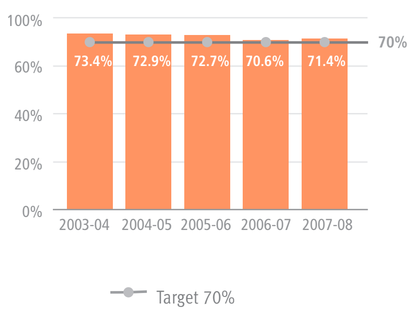
2007–08 PERFORMANCE HIGHLIGHTS

Client satisfaction

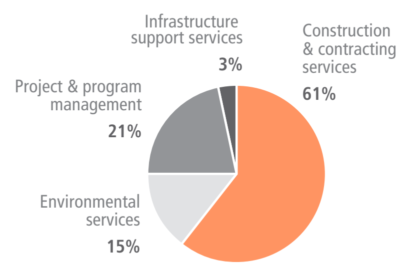


Utilization rate

Percentage of employee hours spent on client contract work



Services revenue



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DCC·CDC
Construction de Défense Canada
Defence Construction Canada

Recycled
Supporting responsible use of forest resources
www.fsc.org Cert no. SW-COC-000890
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FSC
100%

www.dcc-cdc.gc.ca

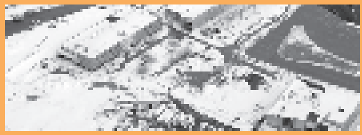
RESPONDING, EVOLVING, DEVELOPING

1 RESPONDING: MEETING CLIENT EXPECTATIONS

DCC was established in 1951 to assist in the building of national defence infrastructure. Today, DCC does much more than simply administer construction services. DCC contracts for, manages, maintains and decommissions facilities, and delivers a host of specialized, professional services in support of DND's operations here in Canada and abroad. Continuous improvement in its operations allows DCC to maintain a high level of client satisfaction.

2 EVOLVING: DELIVERING SERVICE EFFICIENTLY

As DCC service offerings have evolved, so too has its organizational structure. Before, standards in service delivery differed from region to region. Now the client has access to the same quality, responsiveness and consistency of service across Canada. DCC's service delivery model allows for added value and innovative solutions that meet client requirements.



CONSTRUCTION SERVICES

CONTRACT SERVICES

ENVIRONMENTAL SERVICES

PROJECT & PROGRAM MANAGEMENT

INFRASTRUCTURE SUPPORT SERVICES

3 DEVELOPING: IMPROVING EMPLOYEE CAPABILITY

At the core of DCC's capabilities is its team of employees. The expertise, commitment and values each individual brings to this Corporation every day drive DCC forward. The goal is to develop and maintain a skilled and professional workforce, and position DCC as a model employer. DCC employees are the Corporation's chief asset.

MESSAGE FROM THE CHAIR

Over the past year, the Board of Directors of Defence Construction Canada (DCC) has overseen sustained growth in the number of services the Corporation provides and in the size of its workforce. In the current environment, which is characterized by rapid change, it is important that the Corporation function more efficiently than ever before. With strong leadership and the commitment of all our employees, DCC has continued to deliver value in its strategic partnerships with the Canadian Forces and the Department of National Defence.

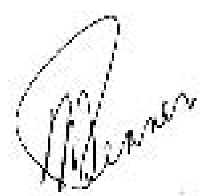
One of the ways DCC delivers value is through a company-wide focus on fairness and transparency. DCC believes in the value of strong, ethical leadership as a contributor to the Corporation's success and prides itself on applying strictly the principles of good corporate governance. To that end, much of the Board's work last year was focused on addressing governance issues, particularly the approval of the strategic plan for the Corporation and the creation – and approval – of a charter for its Governance Committee.

The Board also remained committed to the implementation of the initiatives outlined in the Treasury Board of Canada's *Review of the Governance Framework for Canada's Crown Corporations*, in particular the requirement that all Boards of Directors of Crown corporations complete internal assessments. The DCC Board completed its initial assessment in early 2008 and has already begun to implement a series of recommendations to enhance effectiveness and accountability. The Board also began planning for the holding of a public meeting with its stakeholders and for establishing, in co-operation with the Minister of Public Works and Government Services, a statement of priorities and accountabilities.

Last year saw quite a bit of change within the Board of Directors—a theme reflected throughout this organization in recent years. We had the pleasure of welcoming four new members: Kris Matthews, Robert Presser, Lloyd Callahan and Shirley McClellan. These very capable women and men expand the breadth of our collective experience, which now includes accounting, law, governance, engineering, construction, business, public policy and management, all of which are valuable in strategic planning and the general management of DCC's operations.

I regret to report the departure of two members of our Board. John McLure, Chair of the Board since April 2001 and a Board Member since January 1990, has served the Board with diligence, insight and good humour and his contributions will be missed. We have also benefited greatly from the construction-industry expertise that Jean-Claude Garneau brought to the Board during his term from February 1998 to April 2008. On behalf of the Board of Directors, I wish to thank both men for their valuable contributions.

Going forward, I am pleased to continue to serve the Board of Directors in my capacity as Acting Chair and, along with all the Board Members, continue to provide sound oversight and stewardship of the Corporation.



Nancy Penner
Acting Chair

MESSAGE FROM THE PRESIDENT

Fiscal year 2007–08 was a busy and challenging one for Defence Construction Canada. However, I am pleased to report that it was a very successful year.

The Corporation continues to grow in response to increasing demand for services by its various client groups within the Canadian Forces (CF) and the Department of National Defence (DND). This speaks to the satisfaction and confidence these groups have in the performance of DCC and its employees. They now rely on the Corporation to do more in new and different areas. DCC's profile has changed from an organization that simply delivers construction programs and projects, to one that also offers a variety of professional services related to project management, environmental sciences and realty asset management. I would like to make special mention of the Corporation's increasing support to CF deployed operations and, in particular, to commend the women and men of our Kandahar office who support Task Force Afghanistan with contracting, contract management and general infrastructure management expertise. DCC will exercise its mandate wherever it is feasible to do so.

There are many supply-related challenges associated with meeting the demand of DND requirements. First, recruiting and retaining skilled staff in today's buoyant economy requires concerted efforts. This year, for that reason, management conceived a new recruitment and retention strategy to ensure that we have the workforce needed today and in the future. Coupled with sound human resources management practices, a healthy work environment and continued focus on employee development and career progression, DCC is well positioned to meet the changing needs of the defence program.

Second, particularly in certain areas of the country, DCC has faced the challenge of attracting and maintaining the interest of contractors and consultants responding to defence design and construction projects. DCC cannot fulfill its mandate without private sector capability, and has continued to work on maintaining its reputation in the industry as a fair and responsive contractual partner. In addition to exercising sound contract management, DCC works closely with architectural, engineering and construction industry associations and their constituents to adopt best practices and standard contract documents.

Measures of success in managing both of these challenges include an increase of 8% in contract activity, of 12% in staff levels and of 16% in the total value of services provided to DND. The other corporate and operational performance indicators detailed in this report are all positive. Client satisfaction, which is perhaps the most telling of all measures, remains at an exceptional 97%.

The DCC management group has concentrated a great deal of time and energy on nurturing and controlling the growth of the Corporation. DCC has tripled in size and complexity over the last 10 years, and the slope of this trend line shows no sign of changing. It is within this dynamic environment that DCC has been developing a new approach to managing its service lines with the goal of maintaining – and improving – the quality and consistency of services provided to clients. The service line management concept is now at a stage where a new matrix framework of responsibilities and accountabilities for service management is ready to be implemented in 2008–09. Many core aspects of the traditional regional management concept that has served the Corporation so well for over half a century will be retained, and I am convinced that this fundamental structural change will enable the Corporation to continue enhancing its impressive reputation and track record as a high performance, cost effective provider of high quality services.

None of the accomplishments described in this report could have been achieved without the dedication of DCC employees and managers, or the collaboration of our client representatives and industry partners. As a team, we share the credit for the delivery of projects and programs that support the common mission of the CF and DND in the defence of Canada.

Ross Nicholls
President
& Chief Executive Officer

CONSTRUCTION SERVICES:

REFINING INTERNAL PROCESSES

Construction Services is the largest service line in the Corporation. It supports the design, construction, renovation and maintenance of a wide variety of facilities for DND's infrastructure and environment program.

One of the service line's principal goals in 2007–08 was to refine its internal processes. To that end, Construction Services conducted reviews of its audit program, contract management procedures for low-risk projects and a portion of its operations manual.

During 2008–09, Construction Services will continue to improve upon these processes, with a focus on developing and standardizing key documents.

About Construction Services

Construction Services is responsible for contract payment administration, change management, risk management, document and schedule control, quality assurance, quality audit, dispute mitigation and resolution, claims management, performance assessment and warranty management. Key functions of the service line include contract administration, regular client reporting, coordination of expert services, monitoring of construction schedules, certification of progress payments, certification of contract completion, and resolution of contractor performance issues.

The following two practice areas also fall under Construction Services:

Commissioning: *DCC's capabilities in mechanical, electrical and other infrastructure-related disciplines ensure that building systems are designed, installed, functionally tested and capable of meeting the client's operational needs before the facility is turned over to the client.*

Quality audit and evaluation: *DCC uses a comprehensive system to assess project and construction management processes. An integrated series of activities focuses on investigating and confirming whether processes and activities comply with contract and quality requirements. Quality auditing gives the client confidence that the contractor has achieved the quality requirements of the contract. It also identifies potential areas of non-conformance and ensures that they are tracked and corrected.*

Bottom right: Work on the multi-phase refit project at 12 Wing/ CFB Shearwater is well underway. The $99 million contract is the largest DCC has ever awarded and includes the construction of three in-service support facilities to accommodate the arrival of the CF's new CH-148 Cyclone helicopters.

Contractors at 8 Wing/CFB Trenton. Over the next five to seven years DCC will be managing $60 to $70 million worth of projects annually in Trenton—Ontario's busiest base.

CONTRACT SERVICES:

RESPONDING TO A CHALLENGING CONSTRUCTION MARKET

Fiscal 2007–08 was a period of transition for Contract Services. While the service line has adopted the Corporation's new service delivery framework to better respond to the increasing complexity of its clients' demands, Contract Services has been faced with the challenge of awarding construction contracts in an environment that is much less competitive than in previous years. Contract Services has responded in two ways: by streamlining its service-delivery practices at the regional level, and building external awareness of DCC practices among construction industry groups.

About Contract Services

Contract Services oversees the procurement of professional services, construction services, maintenance services and goods to fulfill Canada's defence infrastructure needs, both domestically and overseas. Its responsibilities include procurement and solicitation planning, preparing tender documents, soliciting and evaluating bids, awarding contracts and conducting market assessments.

Contract Services issues approximately 1,800 contracts annually for professional services, construction, goods, and other infrastructure-related work. Using DCC's ISO-9001 certified quality program, the service line ensures consistent delivery, enhanced client input and continuous improvement.

DCC has many other infrastructure-related tender processes. Each is designed to meet a particular requirement. They include:

- best-value contracts,
- construction management,
- energy-performance contracts,
- standing offers, and
- facility maintenance contracts.

Contract Services can manage a procurement project using any of a number of processes, such as:

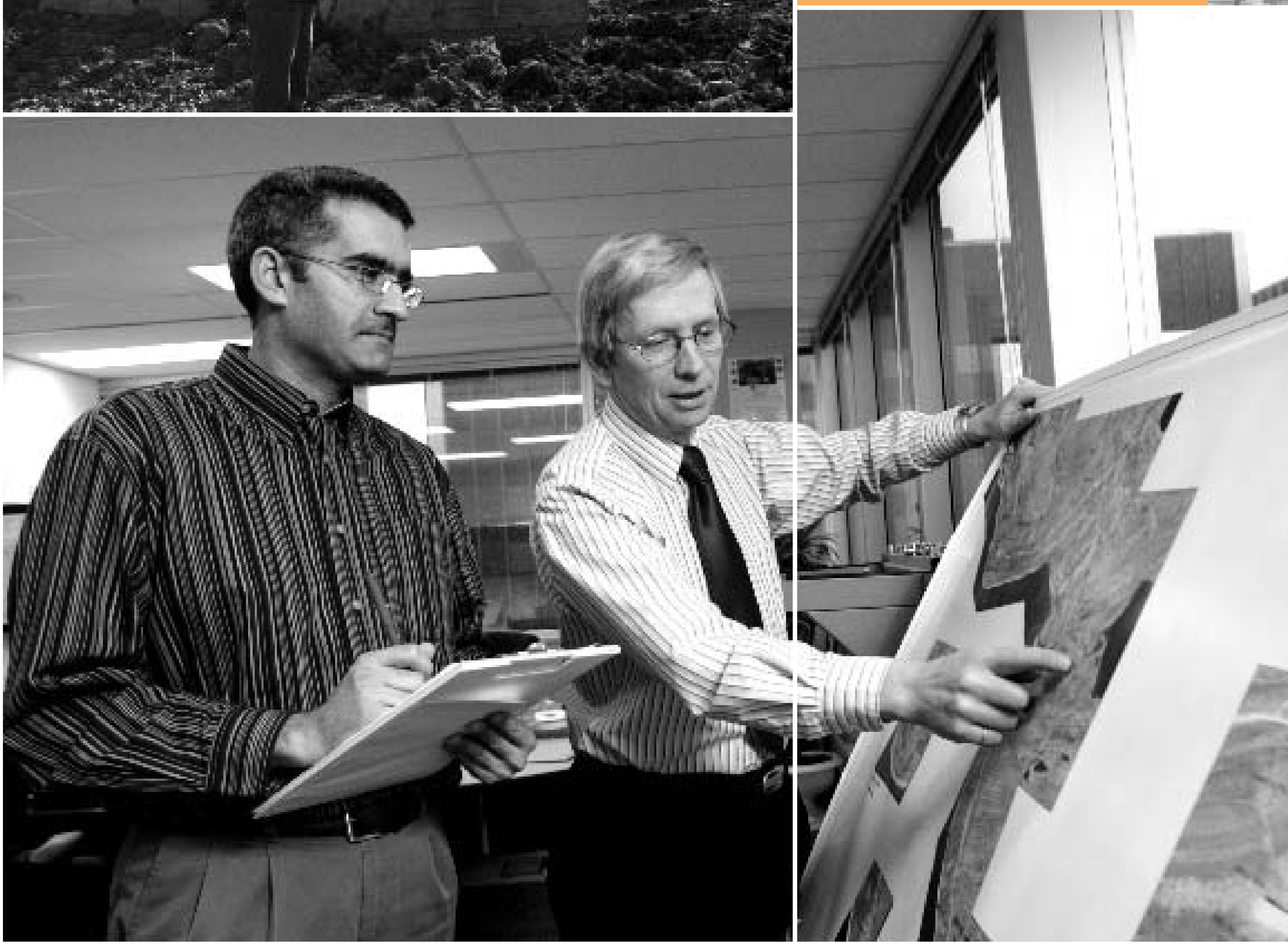
Quick-response tenders: *DCC maintains a list of contractors capable of meeting the construction needs of specific locations. Contracts for small, uncomplicated projects can be in place within 14 days.*

Tender boards: *Minor construction projects that are time sensitive but more complex are candidates for this process. The target time from notice to awarding the contract is 25 calendar days.*

Design-build: *This contract option is used to deliver a portion of a major capital construction program. The time required to contract under this option is longer than for other standard processes, but the overall project delivery time has been reduced from the traditional design-build method.*

Bottom right: Imad Jaradat, Project Support Officer (left), and David Eagles, DND Project Manager for the DEW Line Clean-Up project. To support DND in its efforts to clean-up 21 former Arctic Radar Stations, DCC provides project and contract management through a dedicated project management office in Ottawa.

Colleen Nichol, Contract Coordinator, on site at CFB Cold Lake. A shortage of skilled trades people and the province's continued growth make Alberta's construction market especially challenging.



ENVIRONMENTAL SERVICES:

SUPPORTING DND'S ENVIRONMENTAL PERFORMANCE TARGETS

Environmental Services enjoyed a busy 2007–08, a year characterized by growth in service demand and the refinement of the service line's internal processes.

Environmental Services played a key role in supporting DND's efforts to manage the risk of unexploded explosive ordinance on active and legacy sites across the country, among them Lac Saint-Pierre, Quebec. Through its contaminated sites practice area, the service line played a direct role in the on-site remediation process of sites such as 5 Wing Goose Bay in Newfoundland and Labrador. There were also a significant number of environmental assessments conducted on behalf of DND, and in accordance with the principles, standards and procedures established in federal legislation and DND policy requirements.

Internally, Environmental Services adjusted its accountability framework to better fit within the Corporation's service-matrix system and, consequently, become more responsive to client needs. The service line has also identified a series of key elements—including practice area specialties, federal statutory requirements and core DCC principles—that will form the basis of a specific program of training and development in the coming years.

About Environmental Services

Environmental Services works with DND to meet environmental performance targets, comply with regulatory requirements and manage due diligence and risk. Some of the service line's key activities include environmental impact and site assessments, site remediation and decommissioning, environmental support for project and program management, sustainable development strategy support, policy, compliance and advisory services, waste management auditing and planning, and environmental monitoring and compliance auditing.

Martin Buteau, Contract Coordinator working with the team responsible for managing the risk of unexploded explosive ordinance at Lac Saint-Pierre, Quebec, taking groundwater samples at the Military Experimental Testing Centre in Nicolet.

PROJECT & PROGRAM MANAGEMENT:

EXPANDING LOCAL SERVICE DELIVERY CAPACITY

The Project & Program Management (PPM) service line is made up of professionals with a mandate to deliver realty asset management support services to DND.

In fiscal 2007–08, PPM expanded its service delivery capacity at the regional level. Where previously, PPM services had been offered principally at the national level, practice-area leaders at the regional level can now assist staff from all areas of the service line with the completion of client deliverables. To affect this change, the service line has launched a rigorous program of process and documentation standardization.

Employee recruitment, development and retention was a core focus for PPM during fiscal 2007–08. The service line recruited a new group of regional leaders whose skill sets directly match the DND approach to project and program management. Going forward, the PPM team will expand its human resources with a particular focus on training and development.

About Project & Program Management

Project & Program Management Support controls the scope, cost and schedule of programs and projects, handles program planning and prepares scope documents, such as terms of reference and statements of requirement. The specific services provided vary from identifying and analyzing problems to the planning, design and construction phases of a project. Project management support services range from specific tasks to support DND project managers to turnkey project services and program management.

Military operations support: *An important part of DCC's mandate is to help DND meet its operational requirements and comply with federal contracting policies. DCC can take the expertise it provides at bases and wings and bring it to an operational theatre. Currently DCC's primary support to military operations is through contract and project management support in Kandahar, Afghanistan. In 2007–08, DCC provided contract and construction services in support of Exercise Tropical Hammer in Jamaica.*

Top right: Inside the newly renovated 118-year-old Pacific Fleet Headquarters at CFB Esquimalt, British Columbia. Keeping the building's heritage structure, while modernizing facilities and ensuring that it meets the highest seismic standards were some of this $6 million project's challenges.

Members of the Project and Program Services (PPS) team. PPS provides a range of fully integrated services in project and program management. The PPS group provides support to all aspects of DND's program and project management activities.

Back row, from left: project assistants Ben Thomas, Michael Langsford, Samit Kapoor, Ramzy Hissin and Jeffrey Samuel.

Front row, from left: project assistants Olakunle Fajimi, Camille Attia, Ramez El Khanagry, Ivana Arambasic and Yakob Woldeyesus.

INFRASTRUCTURE SUPPORT SERVICES:

BUILDING ASSET MANAGEMENT SERVICES TO ACCOMMODATE DND'S NEEDS

New employees with practice-area-specific skills such as fire- and life-safety, urban planning and facilities management were hired to assist with the development of DND's physical assets. As a result, Infrastructure Support Services, working closely with National Defence Headquarters, will now be able to deliver a complete asset management strategy that includes facilities management and preventative maintenance.

About Infrastructure Support Services

Infrastructure Support Services (ISS) provide a single window to comprehensive services for the client's capital program, creating cost savings and efficiencies. While not a formal service line itself, ISS is a component of the operations division that aims to develop new service offerings. Over time, these new services will either become new practice areas or be incorporated into existing service lines. The infrastructure services that DCC offers include facilities management, production of building condition reports, life-safety system management, maintenance contract management, utilities management and recapitalization planning.

Energy support services: *DCC provides specialized assistance to bases in co-generation and analysis of re-capitalization requirements. This assistance includes energy performance contracting services.*

Sustainable practices: *DCC provides expert advice on sustainable practices, including green building technologies and LEED certifications.*

Real property support: *This advisory service includes realty asset life-cycle management from the time the client identifies a need for such management until the client disposes of the real property.*

Bottom right: A new housing development for the Canadian Forces Housing Agency was completed early in 2008 at CFB Wainwright. The $20 million project includes the construction of 60 rental housing units, including two large, barrier-free, wheelchair-accessible units.

Monique Richard, Administrative Assistant with Realty Asset Support (RAS). RAS offers expertise and services to assist DND in managing the entire life-cycle of its infrastructure, including realty asset planning, property transactions and policy development.

REPORT ON STRATEGIC INITIATIVES

Defence Construction Canada's corporate plan identifies five themes that inform the Corporation's strategic initiatives. The following is a summary of DCC's efforts in 2007–08 to address these initiatives, and the results achieved.

1. CORPORATE GOVERNANCE AND LEADERSHIP

INITIATIVE	RESULTS
Review the management of safety risks associated with construction management activities.	DCC worked with the Department of National Defence to clarify construction-site safety-management procedures. • The result was the development of contract specifications that define the safety expectations of contracted third parties. • An operations safety handbook, *Creating a Safe Working Site*, was developed to provide DCC employees with an understanding of their role in working within the guidelines established by DND.
Implement the internal corporate communications strategy, with a particular emphasis on developing communications tools for managers.	• Created an online leadership communications course for managers that includes material on internal processes, roles and accountability, and performance standards. • Developed a tool kit for managers that includes tip sheets and tutorials relating to communications processes. • Promoted the DCC Intranet site as a resource for standard messaging and trained all Intranet administrators to support the communications functions of the Corporation's business units and managers. • Refined the Corporation's mission statement to make it more succinct and easier to communicate and remember. • Produced the "We are DCC" video.

2. PEOPLE

INITIATIVE	RESULTS
Continue to implement the Corporation's training and development framework.	• Built a registration and tracking system into the Intranet site that allows managers to monitor employee course completion information. The system is designed to help the Corporation better align its training and development program with its employees' career goals. • Conducted a review of DCC's succession planning and management framework to assess the Corporation's immediate and longer-term human resource requirements. • Produced content for six online and two in-class training modules.

PEOPLE *(continued)*

Initiative	Results
Develop a recruitment and retention plan that satisfies current and future human resources requirements.	• Created a series of recommendations for employee recruitment and retention that includes: - implementation of a management system for tracking potential employees, - a referral incentive program, - an employee engagement survey that identifies the Corporation's short and long-term needs, and - a branding exercise that positions DCC as a model employer.

Target	Retention Rate 2007–08
90%	90%

3. STAKEHOLDER RELATIONSHIPS

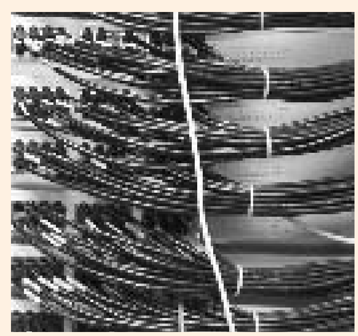
INITIATIVE	RESULTS
Update administrative arrangements with DND.	• DCC and DND updated their memorandum of understanding (MOU). • Guidance on financial and administrative arrangements resulting from the MOU will be provided to staff next year.

4. SERVICE DELIVERY

INITIATIVE	RESULTS
Review the service-line accountability framework in light of DCC's move to its new service-line model.	• The adjustment of the accountability framework to better clarify the responsibilities of business unit managers and service-line leaders. • The development of a chart of roles and responsibilities for all aspects of business management and service delivery.

Construction & contracting services	61%
Project & program management	21%
Environmental services	15%
Infrastructure support services	3%

5. SUPPORT TO SERVICE DELIVERY



INITIATIVE	RESULTS
Continue to implement the Information Services (IS) road map—a multi-year plan to enhance DCC's information services and technology.	• Developed a new in-house payroll system that was launched in January. • Began work on a human resources information services portal that tracks employee salaries, leave and benefits. • Formatted the Corporation's Profit and Loss software for easier, online use. • Updated the OneWorld application to support French-language users. • Upgraded and established servers on 15 sites across the country to facilitate communications among site offices.

THE ORGANIZATION

GOVERNING LEGISLATION

Defence Construction (1951) Limited was created pursuant to the *Defence Production Act* and incorporated by Letters Patent under the *Companies Act* of 1934. The Corporation was granted continuance under the *Canada Business Corporations Act* of 1978. Defence Construction Canada is listed in Schedule III, Part I of the *Financial Administration Act*, and follows the governance, planning, reporting and audit practices established in Part X of that legislation. The Corporation is accountable to Parliament through the Minister of Public Works and Government Services.

MANDATE AND PUBLIC POLICY ROLE

DCC's mandate, set out in its Letters Patent, is to provide a wide variety of property-related services in support of the timely delivery of defence projects. To fulfill this mandate, the Corporation maintains a clearly defined relationship with the Department of National Defence, and works closely with Canada's design, construction and consulting industries. The Minister of Public Works and Government Services last reviewed DCC's mandate in 2001 and renewed it without change.

DCC also plays a role in achieving several of the Government of Canada's key policy objectives by:

- contributing to Canadian Forces operations through the delivery of construction, maintenance, facilities management and professional services,
- supporting DND's efforts to reduce greenhouse gas emissions, hazardous waste and energy consumption, and
- contributing to a fair and secure marketplace by complying with accepted best practices for procurement.

HISTORY

Initially established to meet the Government of Canada's increased need for national defence infrastructure, DCC has since played a major role in several projects that have helped shape Canadian history: the construction of the Distant Early Warning line across the Arctic, the rapid expansion of military facilities across the country and the development of military infrastructure abroad as part of Canada's commitment to the North Atlantic Treaty Organization.

Where previously the Corporation provided limited support to specific CF-deployed military operations, it now helps to manage the Department's in-theatre construction contract requirements from a site office at the Kandahar Air Field in Afghanistan. DCC is prepared to support the CF in all of its operations.

ORGANIZATIONAL STRUCTURE

The President & CEO reports to the Board of Directors. DCC's executive consists of four officers: the President, two Vice-Presidents of Operations and the Vice-President of Corporate Services, who also serves as the Corporation's Chief Financial Officer and Secretary-Treasurer.

DCC's Operations Division is responsible for management of the National Operations Group in Ottawa, the remote offices in the Arctic and in Kandahar, Afghanistan, and the site offices at all active CF establishments in Canada. Four regional offices (Atlantic, Quebec, Ontario and Western) manage DCC operations at CF Bases. The Corporate Services Division provides business support functions to the Corporation.

SERVICE-DELIVERY MODEL

DCC has realigned its reporting structure in order to provide the client with better services. Where previously DCC's management model followed a traditional hierarchical structure, the new matrix-management system will be more effective. The Corporation's core services are divided among four service lines: construction services, contracting services, environmental services and project and program management services. The client can benefit from consistent systems and procedures, leveraged expertise across regions and offices, and be assured of receiving the highest possible level of service, regardless of location.

DCC'S CLIENT

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group of National Defence headquarters is DCC's principal point of contact for the centrally managed capital construction and environmental programs. As the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their respective facilities, DCC also has significant dealings with their organizations, primarily at the base, wing and station levels.

Some of the smaller DND organizations for which DCC also contracts for—and manages—construction and environmental services include the Canadian Forces Housing Agency, Defence Research and Development Canada, and the Canadian Forces Personnel Support Agency. The Corporation also supports our country's NATO allies with training programs and facilities in Canada.

DCC will respond to requests for support within the scope of its mandate from other government departments and agencies with roles in Canada's changing defence environment.

GOVERNMENT SECURITY POLICY

In October 2007 the Auditor General submitted a report to Parliament entitled *Safeguarding Government Information and Assets in Contracting*. She criticized a number of practices that were not consistent with the Government Security Policy. The Auditor General recommended that DCC and DND establish an integrated framework for managing industrial security on defence projects in accordance with the Government Security Policy.

DCC responded quickly to establish a comprehensive new security policy and a framework for the management of security within the Corporation. This was done in collaboration with DND security officials and processes.

CONTRACTORS AND CONSULTANTS

Because DCC works closely with private sector consultants and contractors, it is vital that the Corporation stay abreast of trends in the construction industry. In addition to formal exchanges with the Canadian Construction Association and its provincial and trade counterparts, DCC employees interact with contractors on job sites every day. These discussions help keep DCC informed of industry developments and provide a useful forum through which the Corporation connects with its contractor partners.

DCC also maintains relations with groups such as the Association of Canadian Engineering Companies, the Royal Architectural Institute of Canada, the Canadian Public Procurement Council and the Canadian Design-Build Institute, as well as industry organizations for a variety of non-construction services.

Sophie Tremblay, Assistant Manager, Site Operations at the Valcartier Garrison, received the Customer Satisfaction Award for 2007-2008. She is pictured here with Steve Irwin, Vice-President, Operations.

ENVIRONMENTAL RESPONSIBILITIES

With a drive to mitigate DCC's impact on the environment, the Board of Directors and senior management group of DCC are committed to the principles of sound environmental stewardship. The Corporation's operational policies and procedures are designed to minimize environmental impacts on all work sites, and specify the significance of environmental incidents that must be reported by employees. No such incidents occurred in 2007–08.

MAINTAINING A SAFE WORK ENVIRONMENT

Occupational health and safety is a primary concern at DCC. The Corporation is committed to a program of investment in safety-related communications and training.

DCC reformed its safety program in late summer 2007–08, creating a two-tiered occupational safety strategy. The Corporation's Operational Safety Program governs the work of contractor and consultant partners on DCC construction sites, while its Corporate Safety Program sets the standard for safe work practices and minimum job specific training requirements for DCC staff.

Much of DCC's health and safety efforts in 2007–08 focused on developing the Operational Safety Program. The Corporation distributed its operations safety handbook "Creating a Safe Work Site" to all employees and released a series of specification templates and worksite-monitoring and inspection documents for use on construction sites. By the end of the fiscal year, all operations employees had been trained on the new program.

Although the Corporation took significant steps to enhance its safety procedures last year, the number of lost-time injuries (LTIs) increased from three in 2006–07 to five in 2007–08, while the number of hours lost rose accordingly, from 31 to 63. This increase in LTI frequency might be attributed to an increase in the number of employees in the Corporation, from 543 in 2006–07 to 606 in 2007–08.

NATIONAL AWARDS 2007–08

DCC proudly recognizes the contributions of all employees to the Corporation's success. The National Awards program in particular is a celebration of the very best accomplishments of the men and women who drive DCC forward.

The **President's Award** is presented annually to the employee who has consistently demonstrated outstanding service to the Corporation. This year's recipient is *Bruno Champeval*, Area Manager, Quebec Region.

The **Service Development Award** recognizes the employee(s) whose actions best contributed to the development or promotion of client services and the service delivery team. DCC is proud to recognize the team from Lac St-Pierre, Quebec— *Martin Buteau, Alain Dufresne, Josée Gagnon, Daniel Normandin, Josée Potvin and Jonathan Preston*—as this year's Service Development Award winner.

The Corporation presents its **Customer Satisfaction Award** to the employee who has consistently provided exemplary customer service over the years. This year's recipient is *Sophie Tremblay*, Assistant Manager of Site Operations at the Valcartier Garrison.

The **Service Innovation Award** recognizes the employees who deliver innovative, value-added solutions to DCC's clients. Recipients of this year's award are: *Marc Brophy*, Construction Program Manager at 12 Wing Shearwater, *Robert Moore*, Contract Co-ordinator at 12 Wing Shearwater, and *Fran Thorne*, Administrative Officer at the Atlantic Regional Office.

The **Robert Graham Memorial Award** is presented to the employee who makes a special contribution to the improvement of workplace safety or environmental protection. *John Blasko*, Manager of Contract Services is the 2007–08 recipient.

GOVERNANCE

Over the past several years, events in the private and public sectors have had a significant impact on the way DCC conducts its business. Stakeholders and the general public demand complete transparency and accountability in all business operations and management activities.

To meet these expectations and fulfill its commitment to good governance, DCC has participated in government-wide reviews to ensure that its business practices reflect the intent of central agencies of the Government of Canada. The Corporation is committed to promptly and proactively implementing all regulations, guidelines and best practices that are the products of these reviews. DCC has already introduced a number of important measures outlined in the Treasury Board of Canada's *Review of the Governance Framework for Canada's Crown Corporations*.

A number of recent policy reviews have been directly relevant to DCC's core business activities. The Parliamentary Task Force on Procurement Reform, for example, stressed the need for speed, ease, fairness, transparency and cost effectiveness in a procurement system—all qualities inherent in DCC's processes. And in its October 2007 report, the Auditor General's office recommended that DCC and DND "establish an integrated framework for managing industrial security on defence projects in accordance with the requirements of the Government Security Policy." To that end, DCC, in collaboration with DND, refined its processes to ensure that all DND-identified security requirements are included in contracting documentation.

The Corporation continues to monitor government policy changes and will modify its business procedures as required, ensuring that they remain aligned with standard industry practices.

THE BOARD OF DIRECTORS

Members of the DCC Board of Directors are appointed by the Governor-in-Council on the recommendation of the Minister of Public Works and Government Services.

The Board of Directors safeguards the interests of the Corporation and its stakeholders through three key functions: strategic planning, oversight of management performance monitoring and evaluations, and risk management.

Strategic Planning

The Board takes into account government and industry trends and issues in its review and approval of the Corporation's strategic plans.

Performance Monitoring and Evaluation

The Board monitors corporate performance against strategic and operational plans and assesses to what extent the Corporation fulfills its public policy objectives and statutory mandate.

Governance Committee

The Governance Committee of the Board reviewed DCC practices to ensure conformance to the most recent recommendations of the Treasury Board and the best practices of other Crown corporations. In 2007, the Board completed its first self assessment.

BOARD RENEWAL AND DEVELOPMENT

The Nominating Committee of the Board of Directors advises the Minister of Public Works and Government Services on the appointments and re-appointment of the President and Chief Executive Officer.

According to the Committee's profile of skills, experience and competencies required to meet the governance requirements of a Crown corporation, board members must have a strong balance of public- and private-sector experience and knowledge of fields relevant to the Corporation's business lines, such as engineering, construction, law, finance, general management and public administration.

RISK MANAGEMENT: FRAMEWORK AND APPLICATION

Senior management has instituted a comprehensive risk management framework that identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk, and defines mitigation measures. The strategy also allows for operational risks identified at the working level to be referred to more senior levels within the organization for action. This framework is integrated into the Corporation's strategic planning process to ensure high risk areas receive special consideration, particularly with respect to establishing priorities and allocating resources.

The Corporation's executive team develops DCC's risk-mitigation strategy and disseminates it through the organizational structure for implementation.

Audit Committee

The Board has an Audit Committee that oversees the Corporation's internal operations and provides guidance on workplace values and ethics. All Audit Committee members are independent of management.

The Board's Audit Committee for 2008–09 is comprised of Chair Kris Matthews, Robert Presser and Shirley McClellan.

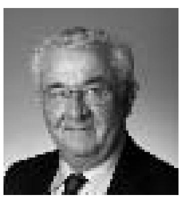
VALUES AND ETHICS

DCC regularly conducts business in a number of areas such as procurement and contract management that demand the highest level of ethical behaviour. As such, the Corporation, its directors and senior management have established a code of business conduct to inform all staff of the standards for behaviour. The code is based on best practices for fairness, accountability and transparency, and maintained through strong leadership and internal quality management.

BOARD OF DIRECTORS

The Honourable Michael Fortier, Minister of Public Works and Government Services, announced one new appointment to the DCC Board of Directors in 2007–08: Shirley McClellan. In March 2008, Ms. McClellan was appointed to the Board to replace Mr. Garneau. Mr. McLure's term as Chair expired in April 2008. Mr. Robert Presser was appointed Chair in June 2008.

Mr. John D. McLure (Chair)
A former federal deputy minister and member of the Canadian Forces, Mr. McLure served as Chair of DCC from April 2001 until April 2008.



Mr. T. L. (Lloyd) Callahan
Mr. Callahan is President and CEO of Callahan Construction and brings business management and construction industry experience to DCC.

Mr. Jean-Claude Garneau
President of Exotech, Mr. Garneau has more than 35 years of construction industry experience on large-scale engineering and construction projects.

Ms. Kris Matthews ◇
Ms. Matthews is a business consultant who has served on the boards of numerous organizations. She is a senior principal with Matthews Group LLP.

Ms. Shirley McClellan ◇
Ms. McClellan served as a Member of the Alberta Legislature between 1987 and 2007, holding a number of senior cabinet positions. She is currently a Distinguished Scholar in Residence at the University of Alberta.

Mr. Ross Nicholls +
Mr. Nicholls joined DCC in 1978 and served in many operations and management positions in various regions before being appointed President & CEO in 1996.

Ms. Nancy Penner * +
Ms. Penner has practiced law for more than 20 years in diverse fields. She has also served on the boards of many public, private and not-for-profit organizations. Ms. Penner is the Acting Chair of DCC.

Mr. Robert Presser * ◇
Mr. Presser is Vice President of Marketing with Montreal's Acme Engineering Products. He has extensive experience developing corporate governance and merger and acquisition mandates for large Canadian corporations.

* Denotes a member of the Governance Committee
\+ Denotes a member of the Nominating Committee
◇ Denotes a member of the Audit Committee

EXECUTIVE TEAM

Ross Nicholls, P.Eng.
President & Chief Executive Officer
After joining DCC in 1978, Mr. Nicholls held a variety of positions within the Corporation before he was appointed President and Chief Executive Officer in 1996. Active on the boards of several industry groups, he holds a Bachelor of Science degree from Mount Allison University and a Bachelor of Engineering (Civil) degree from the Nova Scotia Technical College.

Ronald de Vries, P.Eng.
Vice-President, Operations
Since joining DCC in 1983, Mr. de Vries has spearheaded a number of initiatives that have contributed to the development of the Corporation's services and practices. He holds a Bachelor of Science (Civil Engineering) degree from Queen's University and volunteers on several procurement committees within industry and government.

Steve Irwin, CD, P.Eng.
Vice-President, Operations
Mr. Irwin joined DCC in 2006 after serving as the CEO of the Canadian Forces Housing Agency. He graduated from the Royal Military College with a Bachelor of Engineering (Mechanical) degree and acted in a number of positions within the Canadian Forces. He concluded his tenure as Chief Engineer of the CF at the rank of Brigadier General.

Angelo Ottoni, CA
Vice-President, Corporate Services, Chief Financial Officer and Secretary-Treasurer
Mr. Ottoni joined DCC in 2001 after working in the technology industry and with an international accounting firm. A certified chartered accountant, he earned a Bachelor of Commerce degree from Concordia University and a Public Accountancy diploma from McGill University.

SENIOR MANAGEMENT TEAM

Stephen Karpyshin, P.Eng.
Director, Western Region

Marc Lanteigne, P. Eng.
Director, Quebec Region

David McCuaig, PMP, MPM
Director, National Operations

Randy McGee, P.Eng., GSC
Director, Ontario Region

George Plank
Director, Contract Services

Ross Welsman, P.Eng., PMP
Director, Atlantic Region

MANAGEMENT'S DISCUSSION AND ANALYSIS

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1.0 CORPORATE PROFILE

1.1 Profile

Created in 1951, Defence Construction Canada (DCC) is a Crown corporation that provides a wide variety of property related services to support the defence of Canada. The prime beneficiaries of DCC's services are the Department of National Defence (DND) and Canadian Forces (CF) operations, both domestically and overseas. DCC is accountable to Parliament through the Minister of Public Works and Government Services.

DCC also plays a major role in projects that shape the Canadian economic and military landscape and fulfill its international obligations. In the past, DCC's construction expertise has been tapped to construct the Distant Early Warning (DEW) line across the Arctic, the Trans-Canada Pipeline and, more recently, the Canadian Embassy in Kabul, Afghanistan. DCC also supports Canada's international aid efforts through assistance on such projects as the construction of hydroelectric developments in South Asia and schools in the West Indies.

1.2 Mission, Vision and Values

Mission: DCC's mission is to deliver infrastructure and environmental projects and services required for the defence of Canada.

Vision: DCC's vision is to be the leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

Values: DCC's values ensure the Corporation can continue to meet the requirements of the DND and CF in Canada and abroad. Those values include:

Dedication: DCC is dedicated to supporting the infrastructure and environment requirements of the Department of National Defence. For over 55 years, DCC employees have dependably and diligently carried out that mission.

Fairness: DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common interests of all parties.

Competence: DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

1.3 Corporate Objectives

As a Crown corporation, DCC aims to achieve the following corporate objectives related to governance and leadership, people, stakeholder relationships, service delivery, and support to service delivery:

1) To provide strong and ethical leadership for the Corporation;
2) To maintain a skilled professional workforce;
3) To be recognized for its competence and value;
4) To ensure that client requirements are met; and,
5) To support service delivery capability.

2.0 CAPABILITIES TO DELIVER RESULTS

2.1 Core Competencies

There are five characteristics that allow DCC to deliver quality service consistently. These characteristics have a direct impact on the viability of the Corporation.

Focus: DCC has had a single focus on a major client for more than half a century, developing an understanding of the client's needs and preferred approaches. This makes DCC unlike any other organization of this size in either the private or public sector.

Service: Standing between the public and private sectors, DCC knows how both the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

Delivery: DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

Flexibility: DCC manages its staff and administers projects with efficiency and flexibility equal to that of the private sector.

Value: DCC has consistently provided cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

2.2 Operating Resources

DCC's head office is located in Ottawa, Canada. The Corporation has four regional offices (Atlantic, Quebec, Ontario, Western) and 38 site offices located wherever there are Canadian Forces Bases, Wings or Area Support Units. In addition, DCC maintains remote offices in the Arctic as required for the Dew Line Clean-up, and overseas in support of CF deployments. With ready access to a team of over 600 engineers, engineering technicians, technologists, environmental specialists, trades people and administrative specialists, DCC delivers innovative projects that are cost-effective and meet client specifications. DCC can easily and effectively transition services that it already provides for the client in Canada to an operational theatre. In 2007–08, this was demonstrated when DCC deployed 11 staffers to Afghanistan to provide construction contracting and contract management services.

3.0 KEY PERFORMANCE DRIVERS

3.1 DND's Requirements

Although DND's annual spending on construction and maintenance has remained consistent in the $450 million to $500 million range, the number of employees at DCC has risen because of increasing demand for specialty services, such as environmental remediation, facilities management and project management support. Last year, 39% of DCC's total revenue came from non-construction services compared to 29% five years ago. DCC has responded to this increased diversity of services by fine-tuning its matrix style of managing its services. In addition to a management structure based on business units, each service line has an accountability structure extending from a vice-president to a service provider.

3.2 DCC's Changing Workforce

The substantial growth at DCC created by demand from the DND and CF has a significant impact on the Corporation's human resources. For example, 66% of employees have been with DCC for five years or less. This group of employees has had limited exposure to DCC's culture, history and practices. At the same time, there is more diverse expertise and experience within the Corporation's employee population. DCC recognizes that it must consider the motivation and personal values of the new generation of younger employees. These factors of experience and identity have an impact on the development of policies and practices for recruitment and retention, succession planning, and on DCC's employee training and development.

High labour demand in the industry also affects DCC's ability to recruit and retain qualified staff. Despite increased competition, particularly in British Columbia and Alberta, DCC has been able to attract and retain sufficient staff to fulfill its mandate. Research by the Construction Sector Council indicates that competition for skilled labour in the construction sector will continue to be intense. Last year, DCC began to develop a recruitment strategy to address these challenges while continuing to ensure a corporate demography that reflects Canadian society.

3.3 The Construction Industry

The construction industry experiences activity cycles related to the economic influences of house building, manufacturing and resource development. The Canadian industry is currently booming, and demand is surpassing supply in some areas of the country. According to the Canadian Construction Association, this situation affects the number of contractors who respond to DCC's tenders. Therefore, DCC is both monitoring and soliciting interest in procurement opportunities to ensure competitive tenders and successful contract awards. Supply and demand in the construction industry also affects the availability of architectural, engineering and environmental consultants. Although there is substantial competitive activity in the construction sector, DCC continued to meet client expectations throughout 2007–08.

3.4 Corporate Governance and Government of Canada Policy

Like other federal organizations, DCC works within a larger context of private and public sector concerns, which affect the way it does business. The Corporation has responded to demands for greater transparency and accountability by promptly implementing new regulations, guidelines and best practices resulting from government-wide policy reviews.

DCC supports any other new procedures, policies or initiatives introduced by the federal government or any of its central agencies, such as the Treasury Board. DCC will review and adjust its business procedures as required, while ensuring that they also reflect standard industry practice.

To promote employment equity goals, the Corporation also works to ensure its employee base accurately reflects Canadian demographics.

DCC has direct accountability to Government under the Government Security Policy (GSP), and also supports DND in its direct efforts to comply with the GSP. This policy is designed to safeguard sensitive government information and assets. In DCC's case there is an emphasis on ensuring security with contractors and consultants. DCC has taken measures throughout 2007–08 to strengthen its policies, procedures and systems to ensure that all contract security requirements are identified and appropriate mitigation measures are implemented in a timely manner.

4.0 STRATEGIC INITIATIVES

DCC's 2008–13 strategic plan is designed to meet both the opportunities and challenges inherent in the trends that affected the Corporation last year and are expected to remain relevant in the coming year:

- The tight and competitive labour market, which will lead to continuing challenges in recruiting and retaining qualified staff;
- Increased competition for industry capacity, particularly in certain sectors and geographic regions, which will require the Corporation to be innovative in its approach to industry;
- Sustained corporate growth in both the number of employees and the diversity of services, which will require strong internal management;
- Resource requirements of the Department of National Defence (DND) and the Canadian Forces (CF) that are extraneous to the client's operational focus, may lead the client to turn more frequently to DCC for services previously performed in house;
- Technological change, which will require the re-evaluation of technology's role in DCC operations; and

- Maintenance of strong governance, spurred by evolving government policies related to corporate governance and by the need to prepare for the impending retirement of DCC's President and Chief Executive Officer (CEO).

All initiatives in the corporate strategic plan and individual business plans are shaped by the five strategic themes in DCC's Corporate Strategic Plan for 2007–08 to 2010–11: corporate governance and leadership, people, stakeholder relationships, service delivery, and support to service delivery.

4.1 Governance and Leadership

Under the theme of governance and leadership, DCC identified four strategic outcomes for the 2007–12 planning period in order to provide strong and ethical leadership for the Corporation:

1. The Corporation supports government policies, including those related to employment equity, official languages, environmental stewardship, safety and security.
2. The Corporation is accountable to the Government of Canada through transparent, ethical corporate governance and management.
3. Business and decision-making practices balance the best of the public and private sectors.
4. Employees relate to the Corporation's mission and objectives and participate in achieving the desired outcomes.

The 2007–08 Corporate Plan identified two initiatives related to this theme:

1. *Review the management of corporate safety risks associated with construction management activities*. The Corporation worked with DND to clarify the safety management regime on construction sites and to ensure that the appropriate policies, procedures and contract documentation are in place to manage the total Crown responsibility on DND property. In conjunction with the Corporation, DND is developing *A Guide on the Safety Responsibilities of DND and the CF in Relation to Contractors*, which documents DND's expectations for safety on three types of DND work sites. It also clarifies the liabilities of DND, the CF, DCC, contractors and subcontractors. DCC used the guide as the basis for a suite of new products developed to help staff write specifications and manage contracts, including a new handbook, *Creating a Safe Work Site*. These tasks have been completed and the launch of these products, as well as awareness training for all relevant stakeholders, is complete.

2. *Implement the corporate internal communications strategy*. DCC launched the implementation of this strategy in 2007–08 by focusing on the development of its management cadre as the key information source for employees. Content for an on-line training course on DCC's vision for internal communications and the Corporation's expectations for its managers was developed along with a manager tool kit. This training is expected to help managers enhance employee engagement and retain staff, which in turn contributes to the Corporation's client service capability. The implementation of the internal communication strategy, as described in the plan for 2007–08, is expected to unfold over several years.

4.2 People

As a knowledge-based company, DCC acknowledges that its chief asset is people, and that its ability to serve its client and its overall corporate success depend on employees' ability and commitment. The strategic objective for this theme is to maintain a skilled, professional workforce. DCC's approach to people management can be broken down into two components.

First, the Corporation aims to establish policies, systems and practices that will make it a model employer. This approach includes focusing on basics such as general working conditions, internal job opportunities, diversity in the employee population, benefits and employee communications. These systems, structures, values and culture all contribute to a healthy work environment and demonstrate that DCC places a priority on its employees.

Second, DCC focuses on managing and deploying its employees appropriately. The Corporation must be able to put the right people in the right place at the right time. To do this, it must recruit and retain the types of employees that it needs and to provide those employees with development opportunities.

There are two strategic outcomes for this strategic theme:

1. Human resources policies and practices provide for:
   a. A healthy and productive work environment that supports innovation and collaboration; and,
   b. Fair compensation and benefits as well as employee growth and development.

2. The Corporation's human resources are managed to meet business and operational requirements.

The 2007–08 Corporate Plan identified the following two initiatives that relate to the People theme.

1. *Continue to implement the Corporation's training and development framework.* As part of this ongoing initiative, DCC is placing particular emphasis on in-house course development.

The past year focused on in-house course development with six on-line courses and two in-class courses developed. These courses will meet the need to train a large number of new employees quickly. In addition, a succession planning and management framework was developed that will enable DCC to plan for staffing transitions without an interruption in service delivery capability.

2. Develop a strategy for recruitment and retention that satisfies current and future requirements. The Corporation must ensure that it meets its staffing requirements. In 2007–08 it developed a corporate-wide recruitment and retention strategy that remains consistent with objectives of the public sector and management of Crown interests.

The strategic approach to recruitment and retention is based on developing and managing more in-depth relationships with qualified potential candidates, a policy for employee referrals, and undertaking an internal employee branding campaign. To ensure that senior management has full awareness of any gaps in DCC's recruitment and retention capabilities, an internal employee survey will be developed and administered in 2008–09. These steps will enable the Corporation to maintain its flexibility in providing qualified staff for client projects.

4.3 Service Delivery

Given DCC's mission to deliver high-quality, timely and efficient services to DND, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. The strategic objective is aimed at ensuring client requirements are met. Ultimately, DCC's goal is to provide the infrastructure solution that DND and CF require. To do this, DCC tailors its services and deliverables so that it can effectively meet the scope, quality and schedule requirements of projects and programs.

Ultimately, DCC's goal is to provide DND and the CF with infrastructure solutions to a wide range of requirements from completing the construction of a building to remediating environmental contamination.

To do so, DCC tailors its services and deliverables so that it can effectively meet the scope, quality and schedule requirements of projects and programs. For example:

1. The management framework optimizes service delivery;
2. DCC and client planning and information systems are integrated to respond to client needs;
3. DCC's knowledge of and relationship with industry enable DCC to leverage industry capacity to the client's benefit.

The 2007–08 Corporate Plan identified the following initiative related to this theme.

1. Review the service line accountability framework. The matrix and regional management model launched in 2005–06 is now well established within the Corporation. During 2007–08, the Corporation assessed the impact of this service delivery structure on internal management accountabilities.

As a result of this review, some minor adjustments were made to the framework. These adjustments clarify the accountabilities between service lines and corporate management. The details attributed to each of the roles cover all aspects of business development, financial and business management, HR management, service delivery, quality management, risk management and communications. By the end of 2007–08, the review of and refinements to the structure were complete.

4.4 Stakeholder Relationships

DCC's success is based, in part, on the Corporation's efforts to build solid rapport with client, industry and government organizations. This conscious strategy goes beyond the basics of doing good work and getting results to creating goodwill and relationships that have long-term benefits in the communities where DCC operates. There is some duplication between this planning theme and the service delivery planning theme in that strong stakeholder relationships help DCC deliver excellent service. DCC believes strongly in supporting and participating in industry associations, an approach that creates an opportunity for both industry groups to share business practices and procedures. DCC can better understand trends in the marketplace and the needs of contractors and consultants, while industry can see that working with DCC is a doorway to opportunity.

In working with DND and the CF, the Corporation wants to be considered a full member of the defence team. DND and DCC share the common goal of leveraging the industry's capacity in order to meet requirements quickly, effectively and efficiently. Rather than simply delivering successful results on a job-by-job basis, DCC has committed significant time and resources to integrating its planning and decision-making with those of DND, as DND seeks state-of-the-art solutions to its infrastructure requirements.

Equally important is the Corporation's relationship with the government and its departments. Employees throughout DCC maintain regular contact with government organizations that have an interest in DCC's policy development, service delivery or information-sharing activities. As an agent of the Crown, DCC is accountable to the Minister of Public Works and Government Services, to Parliament and to the people of Canada. Simply, the Corporation attempts to deliver the best, most cost-effective work, and interact with its stakeholders equitably and reasonably.

The strategic objective for this theme is to be recognized for DCC's competence and value as it strives to maintain a solid working relationship with industry, and to form a strong partnership with the CF and DND in order to meet their corporate infrastructure and environmental needs.

The 2007–08 Corporate Plan identified the following initiative related to this theme.

1. Update administrative arrangements with DND. While the *Defence Production Act* and the Corporation's Letters Patent outline DCC's mandate, a formal memorandum of understanding (MOU) outlines the business relationship with the client. The latest version of the MOU was signed in 2001. Since that time, a number of financial and other administrative accountability issues have been addressed. In 2007–08, DND and the Corporation worked to update administrative arrangements, such as the form and content of service level agreements, payment terms, etc. A clause on roles and responsibilities related to security management was added. The revised MOU was actually signed in 2008.

4.5 Support to Service Delivery

The administrative structure of DCC is geared entirely to helping employees meet the client's requirements every day. To that end, the strategic objective for this theme is to support service delivery capability.

Without high-quality corporate support systems, DCC business units would not be able to perform their functions effectively. These systems include finance, accounting and information services; human resources; administration; corporate security; and communications. They also include corporate operational support systems, policies and procedures that support the service delivery level.

To support service delivery capability:

1. Corporate resources are safeguarded by effective internal control systems;
2. Effective business practices, policies and tools support DCC's people and service delivery.

The 2007–08 Corporate Plan identified the following initiative related to this theme.

1. *Continue to implement the Information Services (IS) Roadmap*. The IS Roadmap is a multi-year plan to enhance corporate information systems and technology, to renew IS support capacities and to transform the service delivery model of the IS Department through closer working relationships with other DCC business units. So far, DCC has implemented approximately two-thirds of the recommendations under this five-year initiative, including a high-level audit of DCC's major business processes. At the end of 2007–08, with the completion of some major enhancements to the Corporation's enterprise resources planning system (ERP), in particular the human resource management component, the Corporation no longer considers the work remaining on this initiative to be strategic. Implementation of the remaining recommendations will continue through the Corporation's ongoing business planning processes.

5.0 STRATEGIC AND PERFORMANCE INDICATORS

DCC measures its performance by using metrics meaningful to customers, business partners and employees. The measures below also allow DCC to monitor its ability to provide value to stakeholders.

5.1 Timeliness of Procurement

Construction Procurement

Indicator	Target (in days)	Median Number of Days to Award[1]		Number of Contracts	
		2007–2008	2006–2007	2007–2008	2006–2007
Regular tender call	35	36	36	250	172
Tender boards	25	28	25	411	406
Quick response tenders	14	14	13	200	220
Design-build tenders	120	NA[2]	NA[2]	4	1

1) The median number of days from receipt of Notice of Proposed Procurement. Based on historical trends and the multitude of project specific variables, it is reasonable to expect DCC to achieve the targets 50% of the time.
2) The results for the design-build contracts are not reported due to the small number of contracts. The reduced number of design-build contracts is not indicative of a new trend in the use of design-build as a project delivery method; it is simply a cyclical phenomenon and is dependent upon the requirements of the client.

Consultant Procurement

Indicator	Target (in days)	Median Number of Days to Award[1]		Number of Contracts	
		2007–2008	2006–2007	2007–2008	2006–2007
SELECT	25	29	25	236	251
One-step proposal	60	26	63	231	77
Two-step proposal	120	65	153	89	8

DCC's client wants to begin work on their projects as soon as possible after receiving approval, making timeliness of procurement a key performance indicator. DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement. The targets represent a reasonable length of time from receipt of the Notice of Proposed Procurement (NPP) to the awarding of the contract to the contractor or consultant. Factors that affect performance against the targets include the availability of funding, bid anomalies, and changes to the scope and value of the work during the procurement process. Additional time that might be required as a result of these is not included in the targets and often accounts for exceeding the performance targets. To date, DCC is meeting the industry expectations for a reasonable turnaround time to award a contract after a tender has closed.

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year-end, 95.1% of DCC tender calls resulted in the award of a contract. This compares to 94.7% in 2006–07, 93.6% in 2005–6 and 99.5% in 2004–5. The most frequent reason for tenders to not result in contract is that the contract price exceeds the approved budget amount.

5.2 Client Satisfaction

Performance measure	2007–2008	2006–2007	% change
Client satisfaction	97%	98%	-1%
Successful contracting ratio	95.1%	94.7%	1%
Value of contract claims at fiscal year end	$ 14,791,595	$ 14,628,938	2%

Completing each project or task to the satisfaction of the client is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction as one of its key performance indicators. DCC administers surveys by interviewing clients individually in person once a year. Each client has the opportunity to comment on the service DCC provided on all projects in which the client was involved.

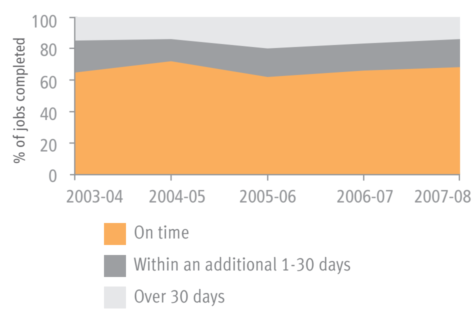
In 2007–08, DCC conducted surveys with 278 client representatives involved in 769 projects, compared to 356 surveys in 2006–07, 503 surveys in 2005–06 and 660 surveys in 2004–05. Scores are weighted according to the value of each service agreement. For example, a score based on a contract valued at $1 million is weighted more heavily than a score based on a contract valued at $10,000. Client satisfaction scores are based on a scale of one to five. A score of three meets expectations, and a score of four or five surpasses expectations. During 2007–08, 97% of clients indicated DCC met or exceeded client expectations with 65.1% rating DCC's service four or more and 32.4% offering scores of between three and four.

DCC considers all feedback received during this process and swift action is taken where required, especially on those surveys that receive a score of less than three. Each year, DCC receives a range of feedback. Typically, issues relate to specific incidents that fall into one of several categories such as communications, administrative procedural problems or staffing concerns. In 2007–08, the complaints did not indicate any wide-ranging pattern of concern.

Timeliness of construction contract completion

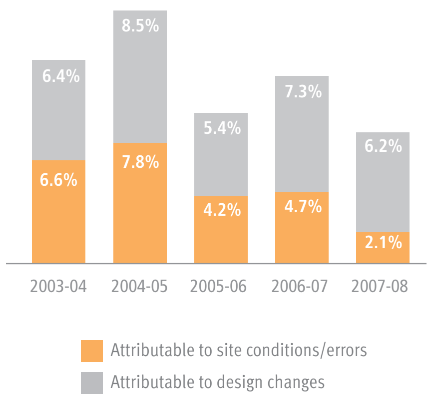
Schedule control is a key component of client satisfaction. DCC monitors timeliness of construction contract completions and works with clients to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons. In 2007–08, 68% of completed construction contracts were finished by the established completion date. Another 18% were completed within one to 30 days and 14% were completed in over 30 days.

Timeliness of Construction Contract Completions



Change Order Values

Percentage of total award value



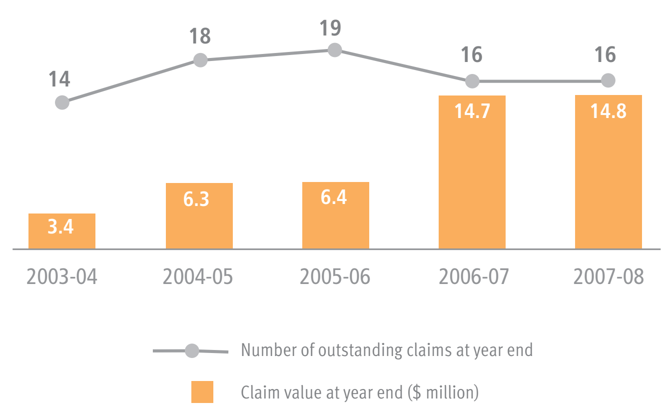
Change order values

The change order values in 2007–08 reverted to the trend established in 2005–06. The change in total award value for the year was 8.3%, with 6.2% arising from design changes and 2.1% arising from site conditions. The increase in change order values in 2006–07 was due to a major change in design on one project. Similarly, the significantly higher rate of cost growth in 2004–05 was the result of a single contract. Although formal targets are not set for this indicator, DCC tracks this information in order to inform the client and to help the facility users manage any schedule risks associated with the construction.

Legal claims

DCC manages legal claims on behalf of the Department of National Defence. The dollar value of contract claims before the courts is a direct indication of DCC's efforts to protect the interests of the Crown. A balance must be struck between treating contractors fairly and ensuring the government receives fair value for contracted commitments. In 2007–08 DCC settled five claims for a total value of $373,806. As at March 31, there were 14 claims outstanding with a total value of $14,791,595 compared to $14,628,938 outstanding at the end of 2006–07. There is one on-going claim, valued at $9.1 million that is creating a significant increase in the outstanding claims for the past two years. Excluding this case, the outstanding claims at the end of 2007–08 were $5.7 million, and $5.5 million at the end of 2006–07. These amounts are consistent with the trend of the past five years. The settlements resulting from the resolution of legal claims are funded by the DND and do not have any financial impact on the Corporation.

Legal Claims at Fiscal Year End



6.0 PERFORMANCE BY REGION

Throughout 2007–08, DCC provided support to DND for a variety of construction projects across the country at different Canadian Forces Base (CFB) and Area Support Unit (ASU) locations. DCC delivers a range of projects to DND including everything from family housing and recreational facilities on bases to runways, secure buildings and environmental clean-ups.

More than 1,800 contracts valued at approximtely $500 million are awarded by DCC every year for professional services, construction, goods and other infrastructure related works throughout Canada and overseas.

Atlantic Region

At 12 Wing/ CFB Shearwater, construction began on a $99 million multi-phase refit in preparation for the new CH-148 helicopters. This is the largest contract DCC has ever awarded. The design-built project involves the construction of three major facilities: the 12 Wing Common Support Facility, the 12 Air Maintenance Squadron facilities and the 423 Maritime Helicopter Squadron facility.

The second phase of a $20 million runway rehabilitation program at 12 Wing/ CFB Goose Bay was completed. This final phase involved replacing the asphalt on one runway and adding a crown to alleviate drainage issues.

At CFB Gagetown, DCC employees oversaw the construction of a new outdoor track and field facility in preparation for the Royal Canadian Legion's National Track and Field Championships.

Quebec Region

At Quebec City's historic Citadel, DCC oversaw more than 30 revitalization projects totaling $9 million in value in preparation for the city's 400th anniversary celebrations beginning January 1, 2008. Work ranged from replacing windows, refinishing roofs, building an observatory and restoring the North Ravelin, a project that involved securing the services of specialized masons.

A team from the Quebec Regional Office has been put in place to help DND reduce the risks posed by unexploded ordnance (UXO) at Lac St-Pierre while minimizing the environmental impact and stimulating the economy. Between 1952 and 1999 more than 500,000 projectiles were fired into the lake at Munitions Experimental Test Centre Nicolet. It is estimated that almost 300,000 projectiles remain in the lake of which 8,000 are believed to be UXO. The area has been designated a United Nations Biosphere and its economy is heavily dependant on fishing and tourism industries.

Ontario Region

With more than $1 billion in construction scheduled over the next several years, 8 Wing/CFB Trenton is Ontario region's busiest base. DCC staff is overseeing the construction of the Canadian Joint Incident Response Unit (CJIRU) Facility. Construction of the $18 million project began in May 2007. At the end of fiscal 2007–08, the project was on track for June 2008 delivery.

Work has also begun on DND's Airlift Capability program valued at more than $600 million. Work conducted over the past year included the first phase of a $90 million apron replacement program, completed in November, and the construction of a $5.5 million temporary hangar project.

At CFB Petawawa, DCC staff oversaw the construction of a $1.5 million Urban Operations Facility known as Seacan City. The project involves assembling more than 100 40-foot sea containers in various configurations to simulate a town site of one- to three-storey buildings complete with windows, doors, interior partitions, staircases and balconies.

Western Region

Work on the Fleet Maintenance Facility continued this year at CFB Esquimalt. DCC personnel oversaw the construction of the $55 million F-Jetty Colwood Refuelling Facility, the $16 million Naval Officer Training Facility and the $6 million Corrosive Fluid Facility.

At CFB Wainwright, DCC staff oversaw the construction of 60 rental housing units. The $20 million project included 46 two-storey three-bedroom duplexes, 12 two-storey four-bedroom duplexes, and two barrier-free wheelchair-accessible units.

DCC employees are working with CFB Suffield to implement the Green Plan, an environmental initiative aimed at improving the sustainability and protecting this National Wildlife Biosphere. The Plan was developed with input from occupants at the base and will be implemented in three stages. The first stage involves changing the behaviour of the occupants. The second will focus on technology while the third will include capital projects, such as retrofitting buildings to accommodate energy conserving appliances.

Contract Expenditures 2007–2008 (in thousands of dollars)

	Construction Contracts	Professional Services	Total
Atlantic Canada			
Gagetown NB	$ 24,058	$ 2,920	$ 26,978
Goose Bay NL	15,718	2,730	18,448
Gander NL	560	742	1,302
Greenwood NS	6,488	1,223	7,711
Halifax NS	10,730	2,410	13,140
Shearwater NS	60,916	1,367	62,283
Other	50	2,255	2,305
Subtotal	**$ 118,520**	**$ 13,647**	**$ 132,167**
Quebec			
Bagotville QC	$ 7,146	$ 541	$ 7,687
Montréal QC	14,968	1,734	16,702
Valcartier QC	28,622	2,884	31,506
Other	862	334	1,196
Subtotal	**$ 51,598**	**$ 5,493**	**$ 57,091**
Ontario			
Borden ON	$ 11,493	$ 1,301	$ 12,794
Kingston ON	24,278	4,064	28,342
London ON	5,805	342	6,147
North Bay ON	6,275	465	6,740
Petawawa ON	22,517	2,634	25,151
Trenton ON	46,279	3,295	49,574
Toronto ON	11,166	416	11,582
Ottawa ON	8,539	971	9,510
Subtotal	**$ 136,352**	**$ 13,488**	**$ 149,840**
Western Canada			
Calgary AB	$ 9,158	$ 479	$ 9,637
Chilliwack BC	1,805	55	1,860
Cold Lake AB	6,698	1,008	7,706
Comox BC	12,257	554	12,811
Edmonton AB	6,082	338	6,420
Esquimalt BC	17,753	5,537	23,290
Moose Jaw SK	3,811	113	3,924
Suffield AB	9,319	1,047	10,366
Shilo MB	8,601	543	9,144
Winnipeg MB	14,228	1,286	15,514
Wainwright AB	27,845	5,063	32,908
Other	19	104	123
Subtotal	**$ 117,576**	**$ 16,127**	**$ 133,703**
Northern Canada	22,987	3,043	26,030
Others	**1,120**	**6,251**	**7,371**
Totals	**$ 448,153**	**$ 58,049**	**$ 506,202**

7.0 CORPORATE SERVICES IN SUPPORT OF THE BUSINESS

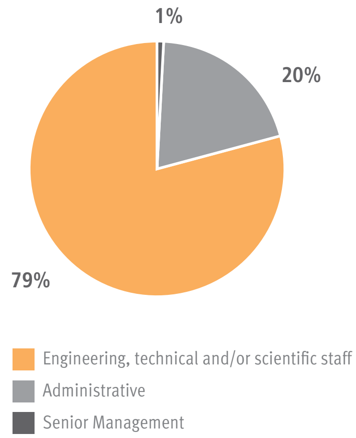
7.1 Human Resources

DCC's chief asset is its people and our corporate success is built on employee ability and commitment. One of DCC's strengths is its dedicated workforce of engineers, engineering technicians and technologists, environmental scientists and experienced trades people. Other specialists in finance, human resources, information technology, communications and administration support these employees.

At year-end, DCC had 606 employees, an increase of 12% from 543 employees at the end of 2006–07 and an increase of 74% from 348 employees in 2003–04. This growth in the number of employees is in response to DND's increased need for support as it focuses its internal resources on defence operational requirements.

DCC recognized seven employees in 2007–08 with 10 years of service, eight employees with 20 years of service, three employees with 25 years of service and five employees with 30 years of service.

DCC Workforce

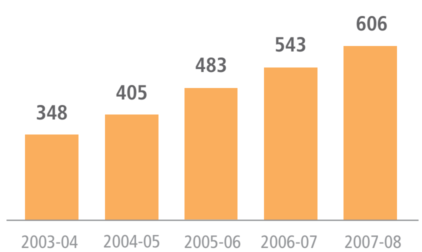


Recruitment

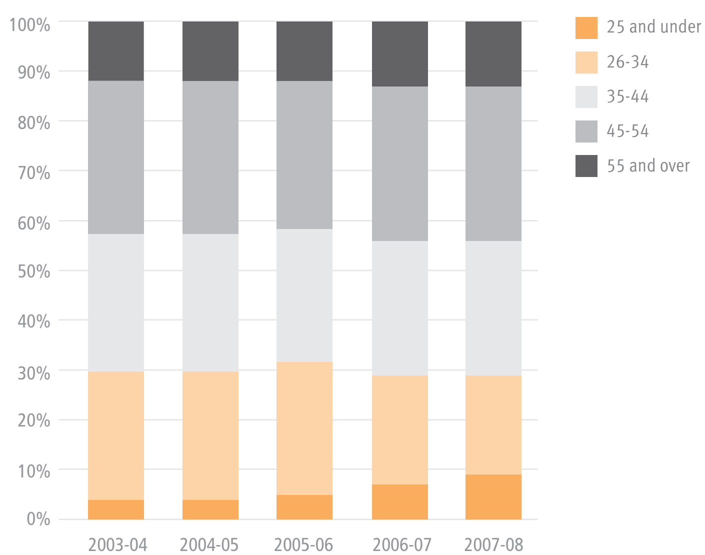
Recruitment practices focus on engaging professionals who strive to maintain DCC's continued success and take pride in achieving their personal goals.

DCC's internal career development practices helped 94 employees advance their careers through promotions, lateral transfers and relocations during the past year. Eleven employees volunteered for foreign deployment in Afghanistan and eight volunteered for northern assignments for DEW Line projects. DCC and DND benefit from the movement of skills around the operating theatres and remote sites as employees hone their skills and test themselves. Through this interchange, DCC expands its collective base of knowledge and experience.

Number of employees



Employee Demographics



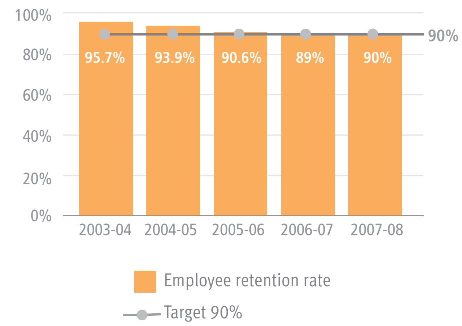
Retention rate

As a knowledge-based company, DCC's success depends on its ability to put the right people in the right place at the right time. To that end, the recruitment and retention of the types of employees needed to guarantee a high level of service to the client is critical.

Given the nature of DCC's industry, there will always be some turnover of staff due to the seasonal and geographically cyclical nature of DCC's work. In 2007–08, DCC met its retention rate target of 90%. This is a slight increase from the 2006–07 retention rate of 89% and similar to the rate of 90.6% from 2005–06. A major factor affecting retention is labour market conditions in certain regions of the country, particularly the western provinces.

The retention rate is a measure of employee satisfaction with DCC's working environment. In this fiscal year, DCC plans to implement an approach to recruitment developed last year. The Corporation wants to become an employer of choice so that it can recruit and retain the type of employees it needs so that it can put the right people in place at the right time to better serve the client.

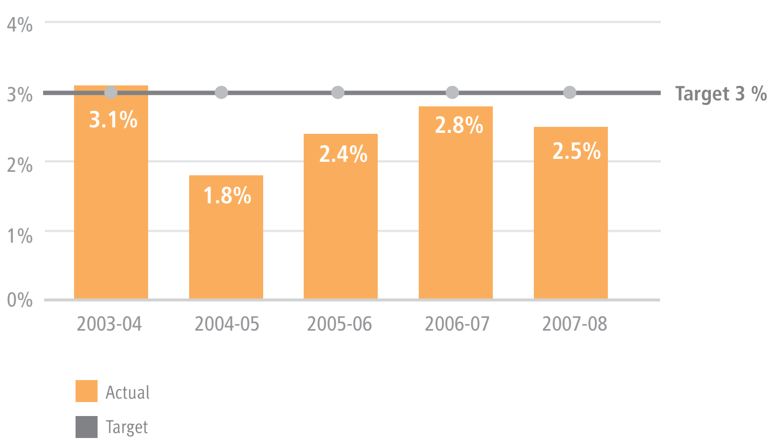
Retention rate



Professional development to salary cost ratio

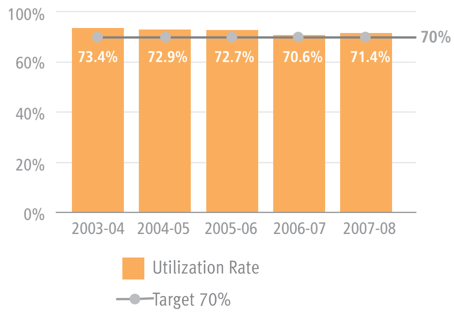
DCC's ability to serve its client is heavily reliant on the skills of its employees. Therefore, training and development are a high priority with a target for spending on training and development established at 3% of total salary costs for direct education costs. Over the last four years, a portion of the allocation was redirected from direct training to the design and development of a comprehensive training and development framework. As a result, during 2007–08, only 2.5% of salary cost was spent on direct training compared to 2.8% in 2006–07. As this initiative matures and in-house training modules are rolled out, it is anticipated that training and development expenditures will return to the target levels of 3% in the next fiscal year.

Professional Development to Salary Cost Ratio



Utilization rate

Percentage of employee hours spent on client contract work



Utilization rate

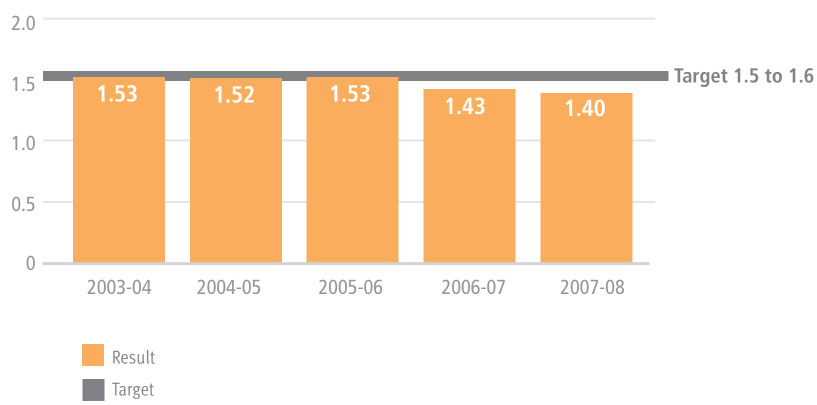
The utilization rate indicates the hours spent on contract related functions as opposed to non-billable overhead functions. It is an important performance indicator as well as a key financial management tool. DCC's target utilization rate is 70%. In 2007–08, the utilization rate was 71.4%, an increase from 70.6% in 2006–07. The past two years have seen a slight decrease in the utilization rate in contrast to the five-year trend. This decline was the result of allocating resources to non-billable tasks related to managing risks associated with company growth and implementing improvements to the service delivery structure. Over the previous three years, the rate had remained fairly consistent.

Direct personnel expense multiplier

The Direct Personnel Expense Multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. These expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, holidays and professional development time. This multiplier is used to establish billing rates for DCC services. The target range for this indicator is 1.50 to 1.60. Fluctuations in the actual multiplier from period to period are the result of the application of the company's financial management policy. Consistent with this policy, at times, the DPEM can be lowered below the target range in order to return surplus funds to DND.

With increased business volumes and business activity, and in order to manage operating surpluses, DCC was able to maintain billing rates unchanged for the three year period from April 2004 to March 2007. This in turn caused the DPEM to decline by 6% to 1.43 in 2006–07. For 2007–08, the rate was 1.40, still below the target range of 1.50 to 1.60.

Direct Personnel Expense Multiplier



7.2 Communications

The Communications Department is accountable to the senior management group and reports directly to the Vice-President of Corporate Services. With resources allocated annually based on the communication requirements of the entire Corporation, the department has two primary goals: 1) to enable corporate communications that address DCC-wide needs; and 2) to work with business units and service lines to help them become self-sufficient in their communications activities. In pursuit of these goals, the Communications Department connects staff to the tools and techniques that can help them deliver region- and site-specific messages effectively to both internal and external audiences. The primary focus of the past two years has been the development and implementation of a corporate internal communications strategy. The vision is to further a culture of communications within DCC that will, in turn, enhance the Corporation's ability to deliver service to the client.

7.3 Information Services

Information Services (IS) is located centrally in Ottawa and functions within the Corporate Service Division of DCC. It is responsible for the acquisition and delivery of computing resources as well as application development, maintenance and support for all DCC sites across Canada. The group consists of an IT manager who is supported by a technology staff of 11, including a network administrator, three support analysts, four business analysts and three application developers. This team supports DCC operations on internal IT priorities, such as budgeting and financial tracking as well as reporting and document and records management, along with day-to-day business requirements. In 2007–08 this group completed the conversion of DCC's payroll system from a third party service provider to an in-house payroll application, part of the overall enhancement of the Corporation's enterprise resource planning system (ERP).

8.0 RISK MANAGEMENT

Under the direction of the Board of Directors, senior management has established a comprehensive risk management framework within DCC's general management framework. The framework identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize the risk. The framework is integrated into the Corporation's strategic planning process to ensure high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

A Risk Management Committee of the President and the three Vice Presidents establishes the overall risk mitigation strategy. The management team is responsible for implementing actions that will mitigate risks while promoting awareness of risk management among staff. At the same time, sound risk management practices are embedded in DCC's corporate culture. Staff members are expected to identify risks and deal expediently with issues and problems. When necessary, operating risks are referred to senior managers for guidance and assistance.

DCC balances risks with the need to provide a high level of timely operational support to DND and the CF. DCC's risk management approach is characterized by having sound business process documentation, as well as effective and efficient levels of delegation of authority supported by speedy communication up the chain of command.

9.0 FINANCIAL PERFORMANCE

9.1 Services Revenue

Services revenue was $55.4 million in the year ended March 31, 2008, an increase of $7.6 million or 16% from revenue in 2006–07. Approximately 4% of the increase was due to an increase in average billing rates. Approximately 12% was due to increased business activity.

Services Revenue (in thousands of dollars)

	2007–08		2006–07		Change	
					$	%
Construction services	$ 27 499		$ 24 943		$ 2 556	10%
Contracting services	6 085		4 879		1 206	25%
Construction and contracting services	33 584	61%	29 822	62%	3 762	13%
Environmental services	8 144		7 163		981	14%
Project and program management services	11 983		9 014		2 969	33%
Infrastructure support services	1 747		1 827		(80)	-4%
Related services	21 874	39%	18 004	38%	3 870	21%
	$55 458		**$ 47 826**		**$ 7 632**	**16%**

Construction services revenue

Revenue from contract management increased by 10% over the previous year, driven by increases in average billing rates, volume of work and other factors including changes in the nature and size of individual construction projects from year to year and the effort required to manage the projects.

Contracting services revenue

Contracting services revenue increased by 25%, driven by an increase in average billing rates, the volume of contracts tendered and other factors. These included the client's increased demand for value-added services related to contracting, a change in the size and complexity of contracts tendered from year to year and the effort required to award the contracts.

Related services revenue

Revenue from related services increased by 21% in 2007–08 over 2006–07. This increase was driven by a decrease in the percentage of total revenue generated from construction and contracting services to 61% from 62% in the previous fiscal year, and an increase in the percentage generated from related services to 39%, from 38%. Some of the fluctuation in revenue reflects cyclical variations in demand related to the client's program implementation. Notably, revenue from project and program management services increased by 33%. On the other hand, infrastructure support services revenue decreased by 4% reflecting a decrease in demand for services related to energy performance, facilities management and facilities decommissioning.

Interest revenue

Interest revenue, which is generated from the Corporation's average current account bank balance, declined to $258,000 in the year ended March 31, 2008, a decline of $7,000 or approximately 3% from 2006–07. This small variance is the result of a decrease in the average monthly cash balance to $5.8 million in 2007–08 from $6.3 million in 2006–07 offset partially by a small increase in the average interest rate to 4.19% in 2007–08 from 4.12% in the previous year.

Interest Revenue (in thousands of dollars)

2007–08	2006–07	Change	
		$	%
$ 258	$ 265	$ (7)	-3%

9.2 Expenses

Salaries and employee benefits

Salaries increased to $38.5 million in 2007–08, an increase of $5.4 million or by approximately 16% over the previous fiscal year. An increase in the number of DCC employees accounted for approximately 11% of the increase; inflation and performance-based salary increases accounted for about 5%.

Employee benefits increased to $10.8 million in 2007–08, an increase of $1.3 million or approximately 14% over 2006–07. This increase is largely related to the increase in salaries offset partially by a decrease in the cost of benefits as a percentage of salary from 28.5% to 28% due mainly to a reduction in the costs associated with payments made for the buy-back of pensionable service by certain employees.

Salaries and Employee Benefits (in thousands of dollars)

	2007–08	2006–07	Change	
			$	%
Salaries	$ 38,559	$ 33,136	$ 5,423	16%
Benefits	10,784	9,456	1,328	14%
	$ 49,343	$ 42,592	$ 6,751	16%
Benefits as a percentage of salaries	28%	28.5%	-0.5%	

Operating and administrative expenses

Operating and administrative expenses were $6.2 million for 2007–08, an increase of 432,000 or approximately 7% over the previous fiscal year. A variety of factors influenced these expenses:

- Rent expenses increased by approximately 19% due to additional office space procured at regional and head office locations to accommodate growth in personnel.
- Employee training and development costs increased by approximately 7%. Expressed as a percentage of salary cost, training and development in 2007–08 was 2.5% compared to 2.8% in the previous year.
- Office supplies and equipment expense decreased by 19%. In 2006–07 additional costs were incurred to accommodate the expansion and hiring of additional resources.
- Travel costs increased by 11%, primarily due to increased business activity and the development of the service lines.
- Staff relocation costs increased by approximately 38% with an increase in the number of relocations.
- Computer software and equipment expenses decreased by 25% due to exceptional spending on the Human Resources Information System (HRIS) implementation in 2006–07. Software maintenance costs increased by 10%, due primarily to purchase of new software applications.
- Leased office equipment expenses increased by 20% due to an increase in the number and the cost of equipment such as copiers, printers and faxes and printers which is tied to the increase in staff, facilities and business activity.
- Client services and communications costs increased by 11%, partially due to the costs associated with the development of an internal communications strategy and related toolkit for managers.

Operating and Administrative Expenses (in thousands of dollars)

	2007–08	2006–07	Change	
			$	%
Rent	$ 1,496	$ 1,258	$ 238	19%
Employee training and development	978	916	62	7%
Professional services	753	743	10	1%
Telephone and data communications	720	688	32	5%
Office supplies and equipment	388	479	(91)	-19%
Travel	512	463	49	11%
Staff relocation	370	268	102	38%
Computer software and equipment	126	167	(41)	-25%
Software maintenance	148	135	13	10%
Leased office equipment	143	119	24	20%
Client services and communications	131	118	13	11%
Recruiting costs	104	100	4	4%
Other overhead expenses	359	391	17	5%
	$ 6,228	**$ 5,845**	**$ 432**	**7%**

Amortization of property, plant and equipment

Amortization of property, plant and equipment decreased by 3% or $30,000 during fiscal 2007–08 and was due to the lower levels of capital expenditures in fiscal 2007-08 compared to the previous fiscal year.

Amortization (in thousands of dollars)

	2007–08	2006–07	Change	
			$	%
Amortization of property, plant and equipment	$ 851	$ 881	$ (30)	-3%

9.3 Net (loss)

The loss for the year ended March 31, 2008 was $706,000 compared to a loss of $1.2 million in the previous year. Although service revenues increased 16%, the gross margin declined to 40% from 41% as the increase in salaries and benefits costs exceeded the increase in the average billing rate. Overhead salaries and benefits as a percentage of services revenues decreased to 29% in 2007–08 from 30% in the previous year, contributing to improved overall results. Consistent with the Corporation's financial management policy, the losses of the past two fiscal years will be taken into consideration in determining the financial plans and budgets for the 2008-09 fiscal year.

Net (loss) (in thousands of dollars)

	2007–08	2006–07	Change	
			$	%
Net (loss)	$ (706)	$ (1,227)	$ 521	-42%

9.4 Liquidity and Capital Resources

The Corporation's financial management policy and financial statements assume that the Corporation is a going concern and its stated mandate will continue for the foreseeable future. DCC's financial management policy is to generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating needs, the Corporation considers the risks inherent in its operations; particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures by DND.

To fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation allows for reasonable levels of operating contingencies in determining the amount of cash reserves it carries. Management constantly monitors and reviews cash levels to determine their appropriateness. Any surpluses or shortfalls that may occur occasionally are taken into consideration in formulating future business plans. In particular, cash surpluses judged to be in excess of operating requirements are returned to the client through the setting of billing rates for future services.

Cash

The Corporation does not have segregated cash reserves. Cash that exceeds short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

The cash balance at March 31, 2008 was $6.135 million, a decrease of $1.7 million or 22% from the previous year. During fiscal 2007–08, the Corporation experienced a shortfall of $925,000 in cash from operating activities and spent $785,000 on capital expenditures.

Due from related parties

In 2007–08 there was a major fluctuation in trade receivables caused by an increase in the average number of days that accounts were outstanding to 53 at March 31, 2008 from 42 days at the end of fiscal 2006–07. A significant amount of receivables were not collected until the first week of the new fiscal year.

Current liabilities were $4.3 million at March 31, 2008, a decrease of $782,000 or 15% from March 31, 2007. The variance is primarily attributable to three factors: a decrease of $902,000 in the accounts payable trade, entirely attributable to the Public Works and Government Services Canada funded payable, a decrease of $100,000 in goods and services tax (GST) payable; and an increase of $250,000 in the accrual amount associated with vacation, furlough and overtime expenses.

Other factors that affect this balance from year to year include the amount of the current portion of employee future benefits and the timing of expenditure incurrence and payment.

Liquidity and Capital Resources (in thousands of dollars)

	2007–08	2006–07	Change	
			$	%
Cash	$ 6,135	$ 7,845	$ (1,710)	-22%
Due from related parties	$ 9,500	$ 7,351	$ 2,149	29%
Current liabilities	$ 4,340	$ 5,122	$ (782)	-15%

9.5 Provision for Employee Future Benefits

The Corporation records a liability for the estimated cost of severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2008 was $9.8 million, an increase of $1.7 million or approximately 21% from the previous fiscal year. The balance increased by the amount of benefits accrued in the current fiscal year of $2 million and decreased by the amount of benefits paid in the current fiscal year of $327,000. The provision for employee future benefits fluctuates from year to year due to a combination of factors including the inflation rate, workforce changes, changes in the discount rate (which is determined by reference to market interest rates), changes in the average rate of salary increases, and changes to the average expected remaining service lifetime of active employees, due to the changing demographics. Note 5 to the financial statements describes the actuarial assumptions used in determining the provision. This liability is primarily long term in nature and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, it has sufficient capital resources to meet its employee future benefit payment obligations as they become due.

Provision for Employee Future Benefits (in thousands of dollars)

	2007–08	2006–07	Change	
			$	%
Accrued future benefits	$ 10,013	$ 8,313	$ 1,700	20%
Less: current portion	228	237	(9)	-4%
Long-term portion	$ 9,785	$ 8,076	$ 1,709	21%

9.6 Capital Expenditures

The Corporation's capital expenditures for fiscal 2007–08 totaled $785,000, a decrease of $208,000 or 21% from the previous year. The decrease is mainly due to the large amount of spending on leasehold improvements and the purchase of furniture and supplies for new office space which occurred in the previous fiscal year.

Capital Expenditures (in thousands of dollars)

	2007–08	2006–07	Change	
			$	%
Software	$ 226	$ 251	$ (25)	-10%
Computer equipment	453	376	77	20%
Furniture and equipment	97	279	(182)	-65%
Leasehold improvements	9	87	(78)	-90%
	$ 785	**$ 993**	**$ (208)**	**-21%**

9.7 Actual Performance Versus Plan

The 2007–08 to 2011–12 Corporate Plan Summary (the Plan) was tabled in the House of Commons in summer 2007.

The table below indicates the Corporation's actual performance for fiscal 2007–08 compared to the projections in the Plan. Services revenue was $2 million or 4% above plan due mainly to higher than planned business volume.

Interest revenue was $72,000 or 39% above Plan. This variance is due to higher than planned average interest rates during the year.

Salaries and employee benefits were $2.9 million or 6% higher than Plan. This increase is largely the result of a combination of higher than planned staff growth and increases in salaries and benefits. Operating and administrative expenses were consistent with the Plan.

Amortization of property, plant and equipment was $128,000 or 13% lower than Plan. This variance is the result of the lower level of capital expenditures compared to Plan.

The Corporation had planned for a break even position for fiscal 2007–08. Although revenues were higher than planned, higher than expected increases to salaries and employee benefits cost contributed to a loss of $706,000.

Capital expenditures were $334,000 or 30% lower than Plan. This decrease is due to lower than expected spending for furniture and equipment as well as leasehold improvements.

Actual Performance Versus Plan (in thousands of dollars)

	Actual 2007–08	Plan 2007–08	Change $	Change %
Revenue				
Services	$ 55,458	$ 53,418	$ 2,040	4%
Interest	258	186	72	39%
	55,716	**53,604**	**2,112**	**4%**
Expenses				
Salaries and employee benefits	49,343	46,462	2,881	6%
Operating and administrative	6,228	6,161	67	1%
Amortization of property, plant and equipment	851	979	(128)	-13%
	56,422	**53,602**	**2,820**	**5%**
Net income	**$ (706)**	**$ 2**	**$ (708)**	**-354%**
Capital expenditures	**$ 785**	**$ 1,119**	**$ (334)**	**-30%**

Five-Year Summary Financial Information (in thousands of dollars)

	2007–08	2006–07	2005–06	2004–05	2003–04
Revenue					
Services	$ 55,458	$ 47,826	$ 42,481	$ 34,641	$ 29,417
Interest	258	265	164	93	126
	55,716	**48,091**	**42,645**	**34,734**	**29,543**
Expenses					
Salaries and employee benefits	49,343	42,592	35,310	28,671	24,009
Operating and administrative	6,228	5,845	5,108	4,268	4,428
Amortization of property, plant and equipment	851	881	769	808	830
	56,422	**49,318**	**41,187**	**33,747**	**29,267**
Net (loss) income	**$ (706)**	**$ (1,227)**	**$ 1,458**	**$ 987**	**$ 276**
Retained earnings, beginning of year	**4,092**	**5,319**	**3,861**	**2,874**	**2,598**
Retained earnings, end of year	**$ 3,386**	**$ 4,092**	**$ 5,319**	**$ 3,861**	**$ 2,874**
Assets					
Cash	$ 6,135	$ 7,845	$ 7,295	$ 5,152	$ 4,307
Accounts receivable, related parties, prepaids and advances	9,847	7,850	7,648	6,152	5,306
Property, plant and equipment	1,529	1,595	1,483	1,504	1,444
	$ 17,511	**$ 17,290**	**$ 16,426**	**$ 12,808**	**$ 11,057**
Liabilities					
Accounts payable, related parties and accrued liabilities	$ 4,112	$ 4,885	$ 4,216	$ 3,361	$ 3,655
Provision for employee benefits	10,013	8,313	6,891	5,586	4,528
	14,125	**13,198**	**11,107**	**8,947**	**8,183**
Capital stock and retainined earnings					
Common shares	-	-	-	-	-
Retained earnings	3,386	4,092	5,319	3,861	2,874
	3,386	4,092	5,319	3,861	2,874
	$ 17,511	**$ 17,290**	**$ 16,426**	**$ 12,808**	**$ 11,057**
Cash flows from (used in)					
Operating activities	$ (925)	$ 1,543	$ 2,891	$ 1,713	$ 1,467
Acquisition of property, plant and equipment	(785)	(993)	(748)	(868)	(1,392)
	(1,710)	**550**	**2,143**	**845**	**75**
Cash, beginning of year	7,845	7,295	5,152	4,307	4,232
Cash, end of year	**$ 6,135**	**$ 7,845**	**$ 7,295**	**$ 5,152**	**$ 4,307**

10.0 OUTLOOK

The past five years at DCC have been marked by constant growth in service offerings to the Department of National Defence, and this trend is expected to continue. Although DND spending for its capital construction program has remained consistent at $450 to $500 million, it is turning to DCC increasingly more often to handle projects that could be considered to be on the periphery of construction contract management. These types of projects include project and program management support, facilities management, and diverse and specialized environmental projects. DCC's ready and flexible capability has managed these client requirements over the past few years quite adroitly, and will continue to do so. The increase in DCC's non-construction services to 39% of service revenue is a clear sign that the Corporation is not exclusively a construction contract management firm anymore. In the future, diversity in the evolution of the business is a certainty.

To meet the challenges that this diversity brings, DCC has undertaken several strategic initiatives that focus on managing change. The Corporation understands that in this time of business evolution, elements of human resources such as learning and development, internal communications, succession planning, and recruitment and retention are critical to business success. In both the short and medium term, senior management will apply special attention to these areas in order to ensure the viability and the success of the Corporation. This could mean a slight decrease in the utilization rate for the short term, but must be seen to be a long-term investment for the benefit of the client.

In 2007–08 the Corporation's Board experienced several transitions. Four new members were added: Kris Matthews, Robert Presser, Lloyd Callahan and Shirley McClellan. These individuals bring new perspectives and experience that will benefit the Corporation. In the coming year, DCC will have a new Chair at the helm, who will also contribute to the future of the Corporation. DCC is also preparing for the pending retirement of the President and CEO, another transition that will have an impact on the Corporation. DCC has a strong senior management team in place that will support and allow for a seamless transition of these senior roles.

The Corporation's employee population reached 606 full time staffers at the end of 2007–08. This is a 74% increase from 348 employees in 2003–04. Clearly, DCC is in the midst of a transition in many ways. Looking forward five years, there are many variables that could affect the Corporation's scope and range of services. The major factor will be the demands of the Canadian government for defence services, and the subsequent priorities of DND and the CF. DCC has a well established track record of success in construction contract management and infrastructure support services. This collective core expertise, held together by over 55 years of culture, good governance and steady management will enable the Corporation to meet these needs in the future.

10.1 Financial Outlook

The Corporation has traditionally taken a conservative approach to forecasting future growth. The Corporation's latest Corporate Plan shows an increase in revenues of approximately 13% for 2008–09 driven by a combination of anticipated higher business volumes and a planned increase in billing rates of approximately 3%. For the remaining Plan years, revenue growth has been forecasted to increase by approximately 3% a year, which is in line with expected increases in salaries and benefits. Business volumes are assumed to remain constant over this period.

Salaries and benefits expenses for 2008–09 are forecasted to increase by approximately 11% from 2007–08. This increase is due to a combination of an expected increase in total staff as well as to inflationary and merit increases to salaries. For future years, the Corporation's financial forecasts assume an increase in salaries and benefits of approximately 3% a year, with staff strength remaining constant.

Operating and administrative expenses for 2008–09 are projected to increase by 14% over 2007–08. This increase is due to a combination of inflationary increases, increased business volume, and higher projected spending on rent and certain discretionary expenses, such as employee training and development and professional fees. For the remaining Plan years, operating and administrative expenses are forecasted to increase by 3% a year, primarily to cover projected inflation increases.

Amortization of property, plant and equipment is expected to increase by 36% in 2008–09 over 2007–08, due mainly to the projected increase in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in the amortization of capital assets over the remaining years of the Plan.

Essentially, a break-even position (slight loss of $53,000) is forecasted for 2008–09 in order to maintain adequate financial resources for operating purposes, following the loss of $706,000 that was incurred in 2007–08. This is in keeping with the Corporation's financial management policy. For the remaining Plan years, the forecast assumes a more or less break-even position.

Capital expenditures are projected to increase by 69% in 2008–09 over the previous year. The anticipated expenditures for the year ending March 31, 2009 will primarily relate to ongoing requirements to provide computers and software to new employees, as well as to upgrade older computer systems and software as well as leasehold improvements and office furniture and equipment for new facilities to accommodate the growing workforce. Increased spending is projected in the last three years of the Plan in anticipation of major expected upgrades to the Corporation's main computer systems and software applications.

Financial Outlook (in thousands of dollars)

	2007–08 Actual	2008–09 Plan	2009–10 Plan	2010–11 Plan	2011–12 Plan	2012–13 Plan
Revenue						
Services	$ 55,458	$ 62,672	$ 64,740	$ 66,876	$ 69,016	$ 71,155
Interest	258	277	321	360	396	425
	55,716	**62,949**	**65,061**	**67,236**	**69,412**	**71,580**
Expenses						
Salaries and employee benefits	49,343	54,776	56,419	58,112	59,855	61,651
Operating and administrative	6,228	7,072	7,284	7,503	7,728	7,960
Amortization of property, plant and equipment	851	1,154	1,316	1,585	1,760	1,934
	56,422	**63,002**	**65,019**	**67,200**	**69,343**	**71,545**
Net (Loss) Income	**$ (706)**	**$ (53)**	**$ 42**	**$ 36**	**$ 69**	**$ 35**
Capital expenditures	**$ 785**	**$ 1,325**	**$ 1,400**	**$ 1,900**	**$ 1,950**	**$ 2,050**

ACCOUNTS AND FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.

Ross Nicholls
President
& Chief Executive Officer

Angelo Ottoni
Chief Financial Officer

May 2, 2008

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2008 and the statements of operations and comprehensive loss, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation.

Sylvain Ricard, CA, CMA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 2, 2008

DEFENCE CONSTRUCTION (1951) LIMITED

BALANCE SHEET

as at March 31, 2008 (in thousands of dollars)

	2008	2007
Assets		
Current		
Cash	$ 6,135	$ 7,845
Due from related parties (note 6)	9,500	7,351
Prepaids, advances and accounts receivable	347	499
	15,982	15,695
Property, plant and equipment (note 4)	1,529	1,595
	$ 17,511	$ 17,290
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 4,074	$ 4,839
Due to related parties (note 6)	38	46
Current portion – provision for employee future benefits (note 5)	228	237
	4,340	5,122
Provision for employee future benefits (note 5)	9,785	8,076
	$ 14,125	$ 13,198
Shareholders' equity		
Share capital		
Authorized – 1,000 common shares of no par value		
Issued – 32 common shares	-	-
Retained earnings	3,386	4,092
	3,386	4,092
	$ 17,511	$ 17,290

Contingencies (note 9)

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

Approved by the Board of Directors:

Director
Robert Presser

Director
Kris Matthews

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS

for the year ended March 31, 2008 (in thousands of dollars)

	2008	2007
Revenue		
Services (note 6)	$ 55,458	$ 47,826
Interest	258	265
	55,716	48,091
Expenses		
Salaries and employee benefits	49,343	42,592
Operating and administrative	6,228	5,845
Amortization of property, plant and equipment	851	881
	56,422	49,318
Net loss and comprehensive loss	$ (706)	$ (1,227)

STATEMENT OF RETAINED EARNINGS

for the year ended March 31, 2008 (in thousands of dollars)

	2008	2007
Retained earnings at beginning of year	$ 4,092	$ 5,319
Net loss and comprehensive loss	(706)	(1,227)
Retained earnings at end of year	$ 3,386	$ 4,092

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

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF CASH FLOWS

for the year ended March 31, 2008 (in thousands of dollars)

	2008	2007
Cash Flows From Operating Activities		
Net loss and comprehensive loss	$ (706)	$ (1,227)
Items not requiring cash		
Provision for employee future benefits	2,027	1,782
Amortization	851	881
Employee severance and other benefits paid	(327)	(360)
Net increase (decrease) in non-cash working capital balances related to operations	(2,770)	467
	(925)	1,543
Cash Flows Used In Investing Activities		
Acquisition of property, plant and equipment	$ (785)	$ (993)
(Decrease) increase in cash during the year	(1,710)	550
Cash at beginning of the year	7,845	7,295
Cash at end of the year	$ 6,135	$ 7,845

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

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

1. Authority and objective

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies who play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Standards and Interpretations effective in the current year:

Comprehensive income

The Corporation adopted CICA Handbook Section 1530, "Comprehensive Income". Comprehensive income includes net earnings and other comprehensive income (OCI). OCI refers to changes in net assets from certain transactions and other events and circumstances, other than transactions with shareholders. These changes are recorded directly as a separate component of shareholders' equity and excluded from net earnings. The adoption of the new requirement did not affect the Corporation's financial statements. The Statement of Operations has been renamed to Statement of Operations and Comprehensive Loss.

Equity

Effective April 1, 2007, the Corporation adopted CICA Handbook Section 3251, "Equity" which establishes the standards for presentation of equity and changes in equity during the reporting period including the requirement to separately disclose each component of equity and the changes during the reporting period. These components are: accumulated other comprehensive loss, retained earnings, contributed surplus, share capital and reserves.

Financial instruments – Recognition and measurement

Effective April 1, 2007, the Corporation adopted CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" which prescribes that all financial instruments within the scope of this standard, including derivatives, be initially measured at fair value and included on an entity's balance sheet. Subsequent measurement of financial instruments should be either at their fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. It also specifies when gains and losses as a result of changes in fair value are to be recognized in the statement of operations. The adoption of this new requirement did not affect the Corporation's financial statements.

Financial instrument classification is as follows:

Cash	Held for trading
Accounts receivable	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities

Embedded derivatives

Upon adoption of section 3855, the Corporation reviewed all outstanding contracts. There were no embedded derivatives that required recognition as an asset or liability on the balance sheet.

Early adoption of Standards and Interpretations:

The Corporation has elected to adopt the following in advance of their effective dates:

Capital disclosures

The Corporation adopted CICA Handbook Section 1535, "Capital Disclosures" which requires that an entity disclose qualitative information about its objectives, policies and processes for managing capital, qualitative data about what it regards as capital and whether it has complied with any externally imposed capital requirements and if not the consequences of such non-compliance. The Corporation has presented the required disclosures related to this Section in Note 3 below.

Financial instruments – Disclosure and presentation

The new CICA Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" require the disclosure of information with regards to the significance of financial instruments for the Corporation's financial position and performance and the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the period and at the balance sheet date, and how the Corporation manages those risks.

The new disclosure and presentation requirements of sections 3862 and 3863 did not have a material impact on the Corporation's financial statements and, where applicable, have been incorporated into the financial statements and accompanying notes.

Accounting policies:

Cash

Cash consists of funds held in one bank account.

Due from related parties and accounts receivables

Due from related parties and accounts receivable are stated at amortized cost, which approximates fair value, given the short dated nature of these financial assets.

Property, plant and equipment

Property, plant and equipment are comprised of leasehold improvements, equipment (which includes furniture) and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Equipment	5 years
Computers	3 years
Leasehold improvements	Initial lease term

In the year of acquisition, a full year of amortization is recognized.

Accounts payable and due to related parties

Accounts payable and due to related parties are stated at amortized cost, which approximates fair value, given the short dated nature of these financial liabilities.

Employee future benefits

Employees are entitled to specific severance and other non-pension benefits. The projected accrued benefit obligations are actuarially determined using the projected benefit method pro-rated on services (which incorporates management best estimates of expected salary escalation, retirement ages of employees and expected health care costs). The current year expense is comprised of current service cost during the year, imputed interest on the projected benefit obligation and the amortization of the actuarial loss in excess of 10% of the benefit obligation over the average remaining service period of active employees.

Pension benefits

All eligible employees of the Corporation participate in the Public Service Pension Plan administered by the Government of Canada. Although the Public Service Pension Plan is a defined benefit plan, it meets the definition of a multi-employer plan, which is accounted for as a defined contribution plan, as sufficient information is not available to record it as a defined benefit plan. The Corporation's contributions to the Plan are currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are expensed during the year in which the services are rendered. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

Revenue

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, the service has been performed, the price to the recipient is fixed or determinable and collection is reasonably assured.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The most significant estimate in these financial statements is the provision for employee future benefits. Actual results could differ significantly from this estimate.

3. Capital disclosures

The Corporation's objectives in managing capital are to safeguard the Corporation's ability to continue as a going concern and fulfill its stated mandate, generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating needs, the Corporation considers the planning and operating risk inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by the Department of National Defence. The Corporation allows for reasonable levels of contingencies in its financial projections to ensure that it can continue to fulfill its mandate and serve its client in an effective and timely manner. Cash levels are constantly monitored and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into account in the determination of billing rates for future services. The Corporation's capital consists of its share capital and retained earnings.

4. Property, plant and equipment (in thousands of dollars)

	2008			2007
	Cost	**Accumulated Amortization**	**Net**	**Net**
Equipment	**$ 1,770**	**$ 1,412**	**$ 358**	$ 437
Computers	**8,617**	**7,955**	**662**	556
Leasehold Improvements	**973**	**464**	**509**	602
	$ 11,360	**$ 9,831**	**$ 1,529**	$ 1,595

5. Provision for employee future benefits

Severance and other non-pension benefits (in thousands of dollars)

The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

	2008	2007
Total provision for employee future benefits	**$ 10,013**	$ 8,313
Less: current portion	**228**	237
	$ 9,785	$ 8,076

	2008	2007
Projected accrued benefit obligation	**$ 11,358**	$ 9,047
Unamortized actuarial losses	**(1,345)**	(734)
Provision for employee future benefits	**$ 10,013**	$ 8,313
Current year's expense	**$ 2,027**	$ 1,782
Benefits paid during the year	**$ 327**	$ 360

The significant actuarial assumptions adopted in measuring the Corporation's severance and other benefit plans are as follows:

	2008	2007
Discount rate for projected benefit obligation	**4.96%**	5.15%
Average rate of general salary increases	**3.50%**	3.24%
Inflation rate	**2.50%**	2.24%
Average rate of extended health care cost increases	**4.50%**	4.24%
Mortality rates based on mortality tables:		
Uninsured Pensioner 1994 with mortality projections to year 2015 (UP94@2015) for 2008 and 2007.	**UP94@2015**	UP94@2015
Retirement age	**59**	59

The measurement date for the last actuarial valuation of the accrued benefit obligation was April 9, 2008. The next actuarial valuation is planned for April 2009.

Pension benefits

The current year's contributions by the Corporation to the Plan were $4,498,014 (2007 - $4,006,873). The current year's contributions by the employees of the Corporation to the Plan were $2,029,674 (2007 - $1,673,219).

6. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue is generated primarily from services provided to the Department of National Defence.

The Department of National Defence provides office space free of charge for some employees of the Corporation.

Amounts due from and to related parties at the end of the fiscal year are as follows (in thousands of dollars):

	2008	2007
Due from:		
Department of National Defence	**$ 9,493**	$ 7,267
Public Works and Government Services Canada	**4**	84
Natural Resources Canada	**3**	-
	$ 9,500	$ 7,351
Due to:		
Department of National Defence	**$ 5**	$ 6
Public Works and Government Services Canada	**19**	22
Justice Canada	**-**	2
Human Resources and Social Development Canada	**12**	8
Canada School of Public Service	**1**	8
Public Service Commission of Canada	**1**	-
	$ 38	$ 46

The aging of receivables at the end of the year (in thousands of dollars):

	2008	2007
Current (<61 days)	**$ 9,226**	$ 7,050
Past due (61-120 days)	**213**	118
Past due (>120 days)	**61**	183

During the year the Corporation wrote-off $1,558 (2007- $1,648) of amounts due from related parties primarily to account for invoicing corrections. The Corporation has no significant exposure to credit risk given that its revenue is derived from the Government of Canada. Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts.

7. Lease commitments

The Corporation leases office space for its operations. The future minimum annual lease payments are as follows:

Year ending March 31 (in thousands of dollars):

2009	$ 1,703
2010	1,782
2011	1,704
2012	1,443
2013	1,353
2014	1,023
	$ 9,008

8. Financial instruments

Financial instruments consist of cash, due from and due to related parties, accounts receivable and accounts payable. Accounts receivable and accounts payable are primarily due on demand and non-interest bearing. The carrying amounts of these financial instruments approximate fair values due to their short-term nature. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

9. Contingencies

Letters of credit aggregating $200,000 (2007 - $200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations totalling $14,791,595 (2007 - $14,628,938) and in respect of employment matters totalling $75,000 (2007 - $75,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding between the Corporation and the Department of National Defence, the settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by the Department, in the year of settlement. As a result of this Annex, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to legal claims.