BUILT THROUGH EXPERIENCE

DEFENCE CONSTRUCTION CANADA
ANNUAL REPORT 2011–2012

60 YEARS ANS
DCC | CDC

Canada

CORPORATE PROFILE

Defence Construction (1951) Limited (operating as Defence Construction Canada or DCC) is a Crown corporation that provides innovative and cost-effective contracting, construction management, infrastructure and environmental services for the Department of National Defence (DND) and the Canadian Forces (CF), as required for the defence of Canada. From project needs planning to building decommissioning, our work covers a broad spectrum of activities and includes services for organizations within DND such as Communications Security Establishment Canada (CSEC), among others. DCC's resources are divided among five service lines.

CONSTRUCTION SERVICES
This is DCC's longest-standing service line. The Construction Services team supports the creation, renovation and maintenance of facilities for DND's infrastructure and environmental program.

CONTRACT SERVICES
The Contract Services team oversees the procurement of goods and professional, construction and maintenance services to fulfill Canada's domestic and international defence infrastructure needs.

ENVIRONMENTAL SERVICES
Environmental Services helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk.

PROJECT AND PROGRAM MANAGEMENT SERVICES
The Project and Program Management Services line advises DND on matters such as building requirements, program planning, and schedule and document control.

REAL PROPERTY MANAGEMENT SERVICES
From needs planning to facility decommissioning, the Real Property Management Services team ensures DND's real property assets are managed efficiently throughout their lifecycles.

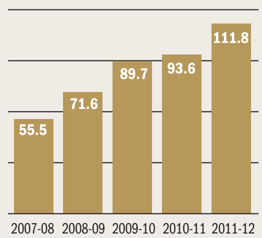
TABLE OF CONTENTS

COVER: Aerial view of the new Ship Repair Unit at the dockyard at CFB Esquimalt, British Columbia, 1991. DCC was involved through the early '80s in renovation and construction on both the West and East coasts to accommodate the overhaul of the Navy's ships. Today work continues with the fleet maintenance facility Cape Breton project that will consolidate and modernize the ship maintenance facilities.
Photo source: National Defence Image Library

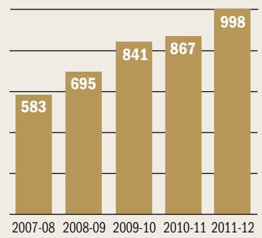
INSIDE FRONT COVER: The Experimental Army Signals Establishment (commonly known as the Diefenbunker)—was built in Carp, Ontario between 1951 and 1961 to shelter Canada's leaders in the event of nuclear war. DCC helped to construct this emergency government headquarters and was responsible for ongoing maintenance for a decade after completion.
Photo source: Diefenbunker, Canada's Cold War Museum

PERFORMANCE HIGHLIGHTS

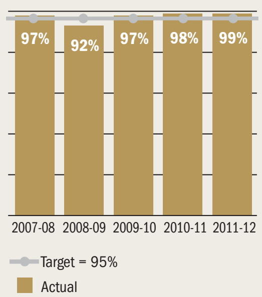
Services revenue
(in millions of dollars)



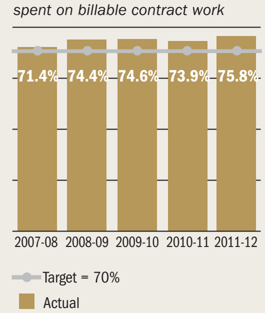
Number of employees
(based on FTEs)



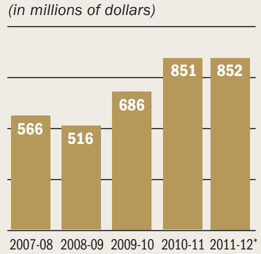
Client satisfaction



Utilization rate
Percentage of employee hours spent on billable contract work

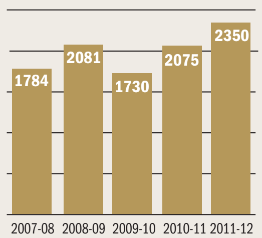


Value of contracts awarded
(in millions of dollars)

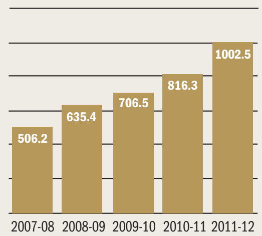


* In addition to the value listed in the graph, DCC had planned or phased construction contract changes in the amount of $148 million in fiscal 2011–12.

Number of contracts awarded



Contract expenditures
(in millions of dollars)



CONTRACT EXPENDITURES BY REGION – 2011–12

(in millions of dollars)

Region	Construction Services and Goods	Professional Services	Total
Atlantic	$ 172.6	$ 22.0	$ 194.6
National Capital	105.3	19.6	124.9
Ontario	319.9	26.5	346.4
Quebec	79.2	16.1	95.3
Western	194.6	27.7	222.3
Deployed Operations	19.0	–	19.0
Total	$ **890.6**	$ **111.9**	$ **1,002.5**

In addition to the expenditures shown in this chart, DCC also made expenditures under the public-private partnership (P3) contract for the Communications Security Establishment Canada Long-Term Accommodation Project (CSEC LTAP). This contract totals $4.6 billion over 34 years, with a construction value of approximately $867 million.

BUILT THROUGH EXPERIENCE

Over the past 60 years, DCC has demonstrated itself to be a dedicated and responsive partner to government and industry. Every day, the men and women of this Corporation draw on our deep corporate experience to provide the specialized services that support the infrastructure programs of the Department of National Defence and the Canadian Forces.

As conditions change, DCC adapts. Experience tells us that we must continually evolve our services, processes and business models to address the particular demands of DND/CF, respond to the requirements of private business, and support the public policy goals of the Government of Canada.

Our long corporate memory, combined with our flexibility to change, has made us the effective organization we are today.

We are DCC. We are built through experience.

< *Contractors at CFB/ASU Edmonton install steel rebar for the new Land Force Western Area headquarters, November 2011. This $30-million, 8,159m^2 facility will be the command centre for military operations in the event of a natural or manmade disaster in Western Canada. The building is designed and constructed to meet higher structural post-disaster standards.*

MESSAGE FROM THE CHAIR

During the past 60 years, Defence Construction Canada has demonstrated itself to be a reliable and capable partner to the Department of National Defence and the Canadian Forces. As the needs of each have expanded and transformed, we have augmented and refined our service offerings to suit. Truly, DCC is built through experience.

Today, DCC delivers a broad range of projects at a high standard across the country and around the world for our Client-Partner. And we do so in novel ways. In Ottawa, for example, DCC experts are managing the delivery of a public-private partnership project—the first we have ever administered—on behalf of Communications Security Establishment Canada. Such an initiative is exciting. It tests our ability to explore different and complex procurement methods, provides an opportunity to further demonstrate our innovative spirit and gives us another chance to support the objectives of government.

One of the ways in which DCC serves the Government of Canada and our Client-Partner is by delivering carefully considered strategic advice. As the federal government consults with DCC and other levels of government to ensure it achieves value for money throughout its operations, we reaffirm our commitment to such a vital role. Although we will adapt our processes to suit the changing demands of DND and the CF, the expertise we provide and value we deliver will never waver.

Through the years, we have demonstrated the strength of our organization by operating at the highest standard, regardless of massive change. We are once again in the middle of such a period. Our senior management team has been almost completely transformed in the past three years, yet our work continues apace. To do so, we balance a proven approach for developing internal resources with a capacity to recruit outside expertise. Although only one in seven DCC employees has served for ten or more years, our approach to change management has enabled us to build a workplace culture that easily integrates new hires and enables them to quickly tap into our wealth of considerable experience.

In everything we do, the people of DCC are always learning, adapting and improving. We are proudly built through experience.

Robert Presser
Chair of the Board of Directors

MESSAGE FROM THE PRESIDENT

DCC is truly built through experience. Since 1951, we have used current thinking to refine established processes. Every day, we apply best practices and lessons learned from each project we deliver to our deep base of knowledge. As we do, we discover new and exciting opportunities to improve the ways in which we serve our Client-Partner, DND/CF, and support the objectives of the Government of Canada.

In 2011–12, DCC embarked on a period of significant change and optimization which will result in a greatly enhanced service delivery model. For example, we have revised our corporate risk management framework to empower our employees with new decision-making authorities. These changes will enable DCC to act more efficiently and effectively than ever before. They will also help to produce more challenging, more rewarding workplaces for our people.

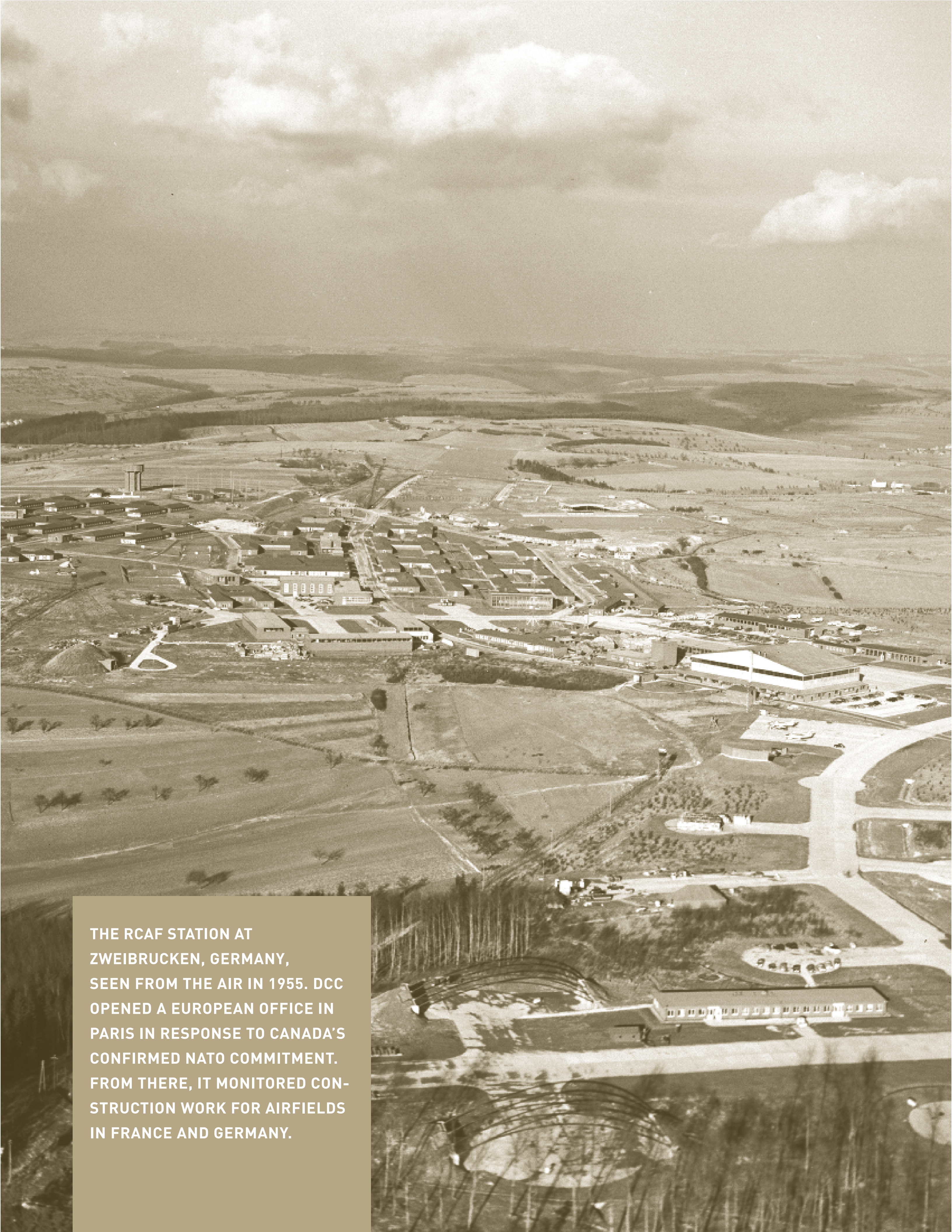
Our efforts will not stop there. We are also transforming the ways in which we manage infrastructure contracts. Our goal is to adopt innovative approaches to contracting—such as new procurement methods—that enable us to deliver projects quickly and with optimal value for money.

Amid all this change, DCC remains strongly focused on our core mandate. We deliver infrastructure services for the Department of National Defence and the Canadian Forces. In conjunction with this, we also communicate regularly with our other key stakeholders—the Minister of Public Works and Government Services, our valued partners at PWGSC and the Treasury Board Secretariat. Further, we engage in active consultations with associations representing design and construction professionals from across the country to ensure their inputs are considered. The strong and forthright communications that we enjoy with each of these groups help us meet the key objectives of DND/CF and the Government of Canada.

Ultimately, it would be impossible for us to meet such objectives were it not for the dedicated efforts of our employees. DCC is proud to maintain a skilled and engaged group of people who work tirelessly to serve Canada. We do so by listening and responding. We took some key initiatives in response to items identified to us in our employee engagement survey—such as communicating our strategic vision more often and enhancements to our workplace culture.

In closing, I want to acknowledge two key members of our senior management team who retired during the year—Ron de Vries, Senior Vice-President, Operations and Steve Irwin, Vice-President, Operations—both made significant contributions to the experience DCC has built, and I wish them both well in the future.

James S. Paul
President and Chief Executive Officer



THE RCAF STATION AT ZWEIBRUCKEN, GERMANY, SEEN FROM THE AIR IN 1955. DCC OPENED A EUROPEAN OFFICE IN PARIS IN RESPONSE TO CANADA'S CONFIRMED NATO COMMITMENT. FROM THERE, IT MONITORED CONSTRUCTION WORK FOR AIRFIELDS IN FRANCE AND GERMANY.

DEPLOYED OPERATIONS

ACROSS CANADA AND AROUND THE WORLD, DCC SERVES

In 1952—just a year after DCC was founded—the Corporation was tasked with administering the construction of four Canadian airfields in France and Germany. Sixty years later, DCC employees continue to crisscross the globe in support of the Corporation and its commitments to the Department of National Defence and the Canadian Forces. Indeed, for DCC and its people, delivering support to military operations in the furthest reaches of the world is far from a rare occurrence. It is a facet of the Corporation's service delivery portfolio that DCC has developed and refined throughout its history.

Some of the most public examples of DCC's deployed operations work have occurred in Afghanistan, where employees served in theatre between 2006 and 2011 to commission the construction of on-base military infrastructure and nation-building projects throughout the country. But DCC's breadth of experience is by no means limited to that part of the world. Throughout its 60-year history, DCC and its people have administered and directed the construction of a host of military and major public-infrastructure projects in countries such as Bangladesh, Bosnia-Herzegovina, Germany, Haiti, India, Jamaica, Pakistan and Sri Lanka.

Although the locations visited and the nature of the projects administered by DCC in support of Canada's objectives vary, two themes run current among all DCC's deployed operations projects. The first is an unfailing commitment to serve DND and CF whenever and under whatever conditions their missions demand. The second is a keen desire on the part of the men and women of DCC to apply their particular expertise to defence infrastructure procurement in parts of the world that are anything but familiar.

In 2008, DCC participated in Operation Tropical Hammer, deploying staff to Jamaica to help Canadian and Jamaican Military Engineers and local contractors build classrooms, workshops and accommodations for the Caribbean country's Defence Force.

DCC BOARD CHAIR AND DND/CF REPRESENTATIVES ASSEMBLE WITH HEAD OFFICE EMPLOYEES AT THE GARDEN OF THE PROVINCES IN OTTAWA, MAY 2011.

A BROAD EMPLOYEE BASE

SPECIALIZED EXPERTISE. RESOLUTE DEDICATION. NATIONAL PRIDE.

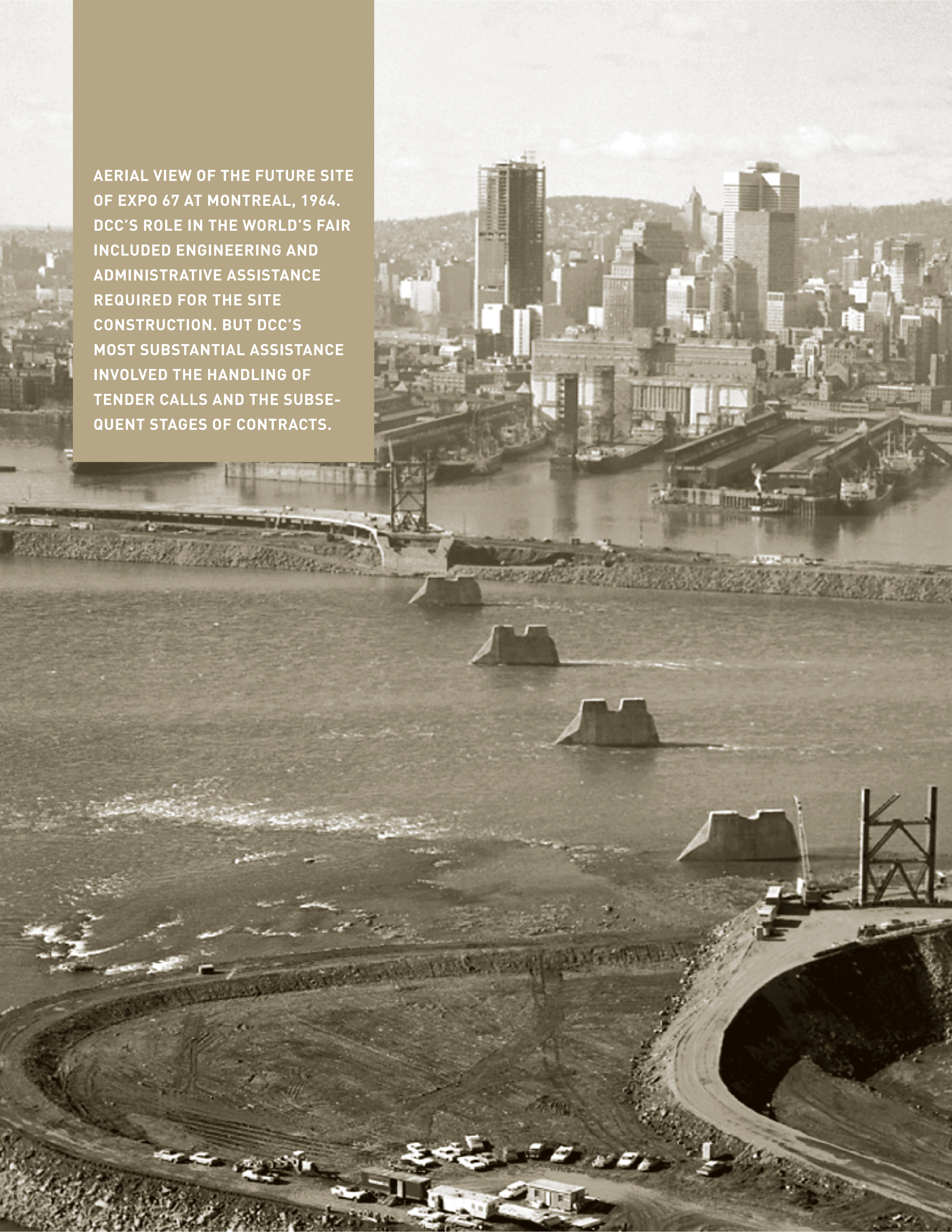
Ask a dozen DCC employees to describe their skill sets and you will likely receive a dozen very different answers. The truth of the matter is that the almost-1,000 people who comprise the organization today own a wide range of educational backgrounds and professional experiences. That fact is more than a happy coincidence for DCC. It is a point of pride, an indicator of DCC's stature as an employer of choice, and a reflection of the breadth of the Corporation's service portfolio.

DCC's employee base has always been varied. The Corporation has been able to serve its Client-Partner faithfully over the past 60 years by blending public sector processes with particular private sector expertise. In the Corporation's early days, that formula married Crown corporation employees with contracting experts from private industry. Today, however, DCC's staff base is even broader. Although construction, design, engineering and procurement skills—from across industry and government—are still highly valued, DCC also employs urban planners, environmental engineers and geographic information systems experts.

DCC Head Office staff gathers on the steps of the Supreme Court of Canada Building in May 1954. Many of DCC's early employees came from Central Mortgage and Housing Corporation as well as the construction industry.

As such, the Corporation is able to leverage its service delivery model to address the needs of Department of National Defence and the Canadian Forces to the fullest extent possible. By populating local and regional business units with experts from across its national service lines, the Corporation builds precisely the project teams required to not only deliver highly sophisticated infrastructure projects, but also ensure maximum value for Canadian taxpayers.

No matter the task, DCC demands the utmost from its people. In supporting DND and the CF in their goals to promote the defence of Canada, DCC employees must always perform at peak capacity and at times under difficult conditions. The rewards, however, of jobs well done and national pride created far outweigh such challenges.



AERIAL VIEW OF THE FUTURE SITE OF EXPO 67 AT MONTREAL, 1964. DCC'S ROLE IN THE WORLD'S FAIR INCLUDED ENGINEERING AND ADMINISTRATIVE ASSISTANCE REQUIRED FOR THE SITE CONSTRUCTION. BUT DCC'S MOST SUBSTANTIAL ASSISTANCE INVOLVED THE HANDLING OF TENDER CALLS AND THE SUBSEQUENT STAGES OF CONTRACTS.

AN ESTABLISHED REPUTATION

FORGING BONDS WITH GOVERNMENT AND INDUSTRY

During its 60-year history, DCC has earned a reputation for adding strategic value to the processes by which defence infrastructure is constructed, maintained and decommissioned. It builds on this track record every day by forging strong ties with industry, supporting the objectives of government, and delivering high standards of service for its Client-Partner.

Among its private sector partners, DCC is recognized for contracting with fairness and transparency. The Corporation maintains productive, interactive bonds with construction industry associations to ensure that the contractors and consultants that bid on defence contracts perceive DCC as an owner of choice. To achieve such a goal, DCC regularly engages with industry and requests feedback on its processes.

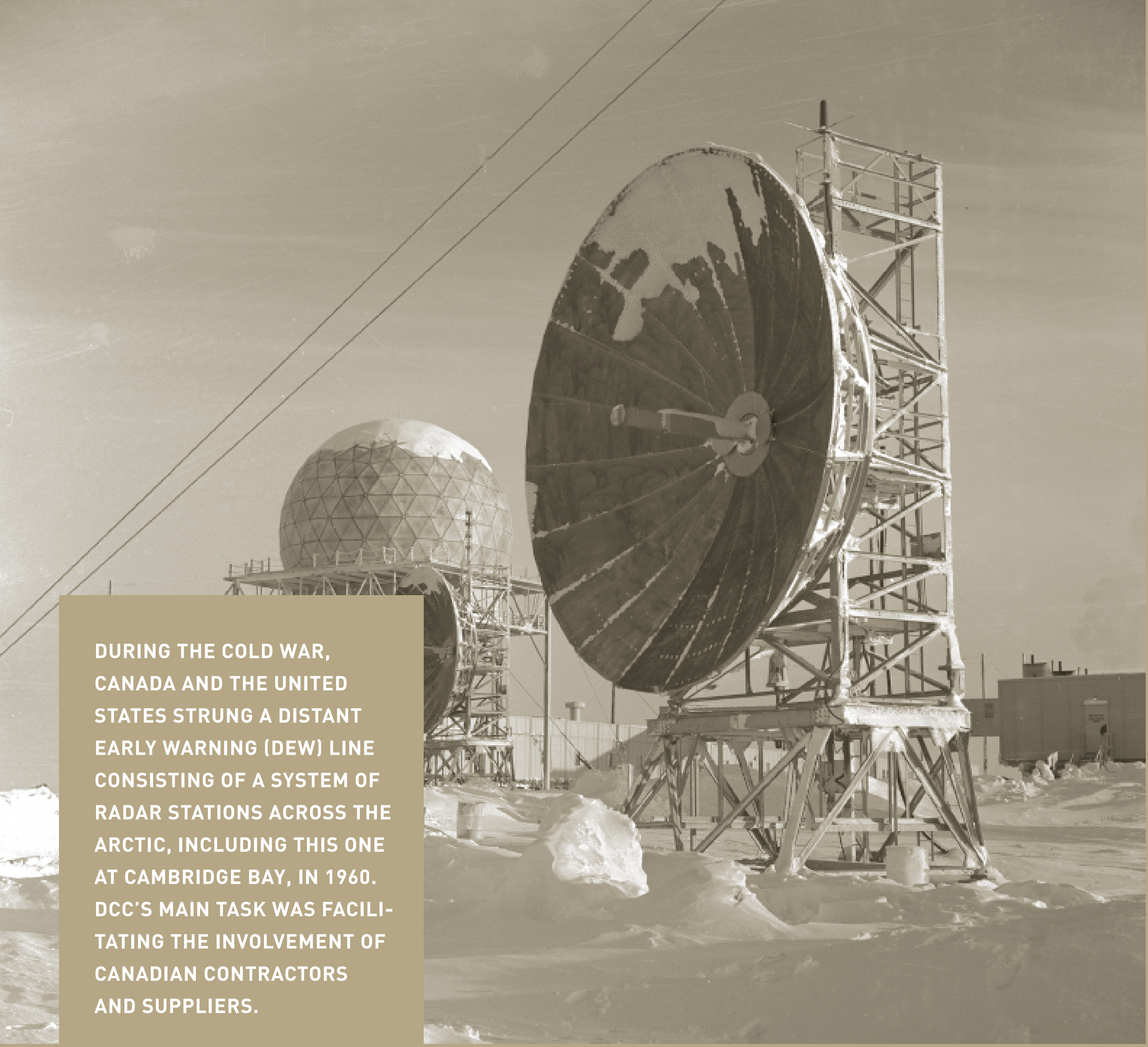
Within government, DCC is regarded as efficient and effective. Its status as a Crown corporation supplies DCC with a governance structure that enables it to respond quickly to changing business environments, while nevertheless advancing the objectives of the Department of National Defence and the Government of Canada.

Going forward, DCC is committed to building on its reputation. Alongside its Client-Partner, it is building a series of joint performance measures that will enable both parties to quantify the success of the DCC-DND work experience on specific projects with a view to fine-tuning processes for even more success in the future.

Whether responding to industry needs, adapting to suit government objectives, or serving its Client-Partner, DCC builds on its established reputation every day.

In 2011, the DCC/Communications Security Establishment Canada (CSEC) team was honoured with the Group-Partnership Award by the Real Property Institute of Canada for the CSEC Long-Term Accommodation project. This award recognizes person(s) who have actively engaged in, promoted or enabled partnership initiatives in real property with other departments, other levels of government and/or the private sector resulting in increased efficiency or effectiveness.

Photo source: Canada Science and Technology Museum



DURING THE COLD WAR, CANADA AND THE UNITED STATES STRUNG A DISTANT EARLY WARNING (DEW) LINE CONSISTING OF A SYSTEM OF RADAR STATIONS ACROSS THE ARCTIC, INCLUDING THIS ONE AT CAMBRIDGE BAY, IN 1960. DCC'S MAIN TASK WAS FACILITATING THE INVOLVEMENT OF CANADIAN CONTRACTORS AND SUPPLIERS.

Photo source: National Defence Image Library

ON GUARD FOR CANADA

SUPPORTING DEFENCE REQUIREMENTS

In the early days of DCC, the Corporation's work centred on helping the Government of Canada and the Department of National Defence address post-World War II security requirements. Here in Canada and as far away as Europe, DCC agents led the procurement of major infrastructure projects such as the Distant Early Warning (DEW) Line (a system of radar installations across the Arctic Circle) and the Marville airfield (one of four bases in France and Germany that hosted the squadrons of the No. 1 Air Division).

Although the threat of the Cold War is a distant memory today, DCC's services are still very much top-of-mind for DND. The Corporation supports DND on an as-needed basis and in entirely novel ways. For example, DCC's professionals are drawing on the Corporation's long history of work in Canada's Far North to decommission DEW Line installations in an environmentally responsible fashion.

In 1996–97, DCC was involved with the government's Infrastructure Reduction Program to cut costs through the closing and amalgamation of DND facilities. The majority of IRP expenditures (approximately $92 million) were made at CFB Edmonton. To handle the immense amount of work, DCC and DND set up a joint project office.

In Ottawa, they are also leading the procurement of a new Long-Term Accommodation Project for Communications Security Establishment Canada.

Historically, DCC has adjusted the scope of its services to support defence requirements. When the Corporation was founded during the post-war boom period of the 1950s, construction services were very much the order of the day. During a broad-spectrum review of defence infrastructure holdings in the 1990s, however, DCC expanded its expertise into consolidation and decommissioning practices, and adopted a fee-for-service model to further support DND. Today, the Government of Canada has committed itself to strengthen the Canadian armed forces and invest in the development of Canada's North. DCC stands ready to support that objective. The Corporation has successfully led a variety of procurement and remediation projects in the Arctic, and is prepared to further deliver services in that part of the country as and when required.

Around the world, across the country and in many different ways, DCC stands on guard for Canada.

DCC employees with DND and contractor representatives take part in the overland mobilization of one of the FOX-3 DEW Line Clean-Up sites, April 2009. Today DND continues the environmental clean-up of 21 former Arctic radar stations and DCC provides project and contract management support through a dedicated project management office in Ottawa.

MARK MOORE, DCC CAD OPERATOR (LEFT) AND RAJKA RASEVIC, DCC PROJECT SUPPORT TEAM LEADER REVIEW A NEW DND MEDICAL CENTRE DESIGN WITH JOHN HALE, DND CHIEF CAD/BIM, DIRECTORATE CORPORATE ARCHITECTURE AND ENGINEERING, USING BUILDING INFORMATION MODELING SOFTWARE.

EVOLVING PRACTICES

ADAPTING TO SUIT CHANGING TIMES

DCC has come a long way since its inception in 1951. In those days, a staff of fewer than 30 people administered $80 million worth of annual contracts. Today, more than 1,000 employees manage a broad range of infrastructure-related services worth almost a billion dollars each year.

Through such change, DCC has enacted modern and efficient practices that facilitate the delivery of its mission.

In the field, for example, DCC furnishes its employees with the innovative tools they need to perform. The first computer arrived at DCC in the 1970s. Contracting databases followed in the 1990s, and in the 2000s, the Corporation began to consider the use of building information modeling applications. DCC's goal is to strike a balance between implementing the latest technologies and supporting its partners in government and industry.

DCC has also evolved modern and responsive processes for office work. Its service delivery matrix allocates exactly the right mix of experience and expertise to specific projects for the Department of National Defence and the Canadian Forces. Its *Ideas at Work* initiative encourages all employees to act on and share thoughts on process and workplace-culture improvements, and its document management system combines DCC's historic records to enhance the sharing of corporate knowledge.

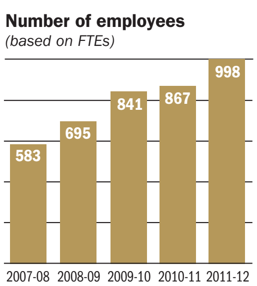
Finally, to accommodate the diversity of DCC's service portfolio, the Corporation has launched a principles-based approach to business management enabled by the new risk management framework and greater risk tolerance. Going forward, employees will have more freedom to use their expertise to make business decisions, while working within the framework of DCC's proven processes and procedures.

DCC employees in the General Accounts Department (now known as Finance), circa 1976. In 1978, DCC installed an IBM System 32 computer at Head Office in Ottawa.

THE ORGANIZATION

EMPLOYEES

DCC's chief asset is its people, and its corporate success is built on employee ability and commitment. DCC has a dedicated workforce of professional, technical and administrative people. Other specialists in finance, human resources, information technology, communications and administration support the operations workforce.



At year end, DCC had 998 employees based on full-time equivalents (FTEs), an increase of 13% from 867 FTEs in 2010–11.

DCC has many longstanding employees who have enjoyed exciting careers with the Corporation. Each year, DCC recognizes those employees who have achieved employment milestones. In 2011–12, 62 employees reached five years of service with DCC, 13 employees marked 10 years of service, four employees achieved 15 years of service, five employees marked 20 years of service, two employees reached 25 years of service and five employees marked 30 years of service.

DCC's internal career development practices helped 97 employees advance their careers through promotions, transfers, relocations and acting assignments during the past year. Twenty-nine employees volunteered for deployment to Afghanistan and for northern assignments for Distant Early Warning (DEW) Line Clean-Up projects. DCC and DND benefit from the transfer of skills among operating locations as employees hone their skills and test themselves. In addition, DCC expands its base of knowledge and experience.

EXECUTIVE MANAGEMENT STRUCTURE

The President and CEO is accountable to the Board of Directors for the overall management and performance of the Corporation. DCC's President reports to the Chair of the Board. The Executive Management Team—made up of the President and CEO and four Vice-Presidents (three for operations, one for corporate services)—is located at DCC's Head Office in Ottawa. In addition to their day-to-day interactions, they meet regularly as the Executive Management Group (EMG), supported by the Corporate Secretary, to review strategic, operations and financial matters for the Corporation.

For most of the 2011–12 fiscal year, the Senior Vice-President, Operations, was responsible for operational oversight related to service line management and service delivery. In the third quarter, the Senior Vice-President retired. As part of a reorganization of DCC's executive

Members of the HR department, (left to right) Jen Sow, Greig Simmons, Chantal Tessier and Lynda Brunet.

management responsibilities and in support of DCC's cost savings measures, it was decided that this position would be eliminated and replaced with a Vice-President level position responsible for procurement. A competitive recruitment process for this position will be undertaken.

Two Vice-Presidents, Operations, have responsibility for DCC service delivery and business management activities, respectively, among other duties. In the first half of 2011–12, the responsibilities of these Vice-Presidents were realigned to focus on key business management and service delivery initiatives that increase integration and collaboration across service lines and business regions. This realignment also better leverages the individual expertise of the current senior management team.

Upon the retirement of a Vice-President, Operations, in the second quarter, DCC held a competitive recruitment process and a retired senior member of the CF was the successful candidate for the position.

The Vice-President, Operations – Business Management, is responsible for the business management of all the regions, and is the executive sponsor for the Construction Services service line. The Vice-President, Operations – Corporate Planning and Service Delivery, is responsible for service delivery for the Contract Services, Environmental Services, Project and Program Management Services, and Real Property Management Services service lines, as well as focusing on corporate planning activities that support the strategic initiatives set out in DCC's Corporate Plan. He also acts as the Corporate Security Officer.

The Vice-President, Operations – Procurement will be accountable for the leadership and oversight of the procurement function across the Corporation and as part of the Executive Management Team, will play an important role in the transformation of the contract services delivery model for the Corporation.

The Vice-President, Corporate Services, is also the Chief Financial Officer and Treasurer, and is responsible for DCC's Corporate Services group, including human resources, finance, IT and administrative services.

Regional Directors manage activities in the Western, Ontario, National Capital, Quebec and Atlantic regions through regional offices located in Edmonton, Kingston, Ottawa, Montréal and Halifax, respectively. One Director manages DCC's Contract Services and is located in Ottawa.

Finance staff Alice Boame, Richard Danis and Franca Milito

As anticipated through DCC's succession planning process, there were several changes to the membership of the senior management group during 2011–12. These changes enabled DCC to use elements of its succession planning strategy to allow for internal promotion opportunities.

The Communications Department, formerly organized within the Corporate Services Group, was moved to the Office of the President to reflect the strategic importance of this key corporate resource.

The Corporate Secretary is responsible for governance related matters, and ensures that DCC complies with all relevant legislation, regulations and government policies, supports the Board of Directors, and communicates with the Corporation's stakeholders.

CORPORATE SERVICES

To help DCC deliver services, the Corporate Services Group at the Corporation's Head Office in Ottawa provides support services to the entire organization and contract financial administration services to the client. These services include human resources, financial and accounting, information technology and administrative support services.

The Corporate Services Group comprises a strong and dedicated team of employees, technicians and professionals from a variety of disciplines. Collectively, they have met the ever-increasing challenge of building and maintaining adequate infrastructure to handle the growing demand for support services in response to significant growth in recent years. To meet these growing and changing business requirements, the Corporate Services Group has invested in such things as new office space, information systems and technologies, administrative tools, and office equipment. In addition, the group maintains business and operational policies and practices to create an effective internal control system that safeguards corporate assets, while supporting employees and service delivery.

James Paul (centre) with 2011–12 National Award winners in Ottawa, May 2012.

NATIONAL AWARDS 2011–2012

Each year, DCC proudly recognizes the outstanding achievements of its employees and the contributions they make to the success of the Corporation. By honouring these individuals and teams, DCC highlights the innovative spirit and dedication of its most valuable resource—its people. These achievements are celebrated annually during the National Awards ceremony held in Ottawa. The following were the recipients of the 2011–12 national awards.

Gilles Bernardin, Manager, Operations, at CFB Petawawa, was honoured with the President's Award. This award is presented annually to the employee who has consistently demonstrated outstanding service to the Corporation.

The Service Development Award recognizes an employee or group of employees whose actions best contribute to the development or promotion of client services and the service delivery team. This year, the Fire and Life Safety Team in the National Capital Region received the award. Team members included Janette Brodeur, Michael Leduc, Richard Hudon, Daniel Campeau, Laurent Longval, Ian Adams and Dean Scowen.

DCC presents a Customer Satisfaction Award to employees who consistently provide exemplary customer service. In 2010, this award was altered to include two presentations—individual and team awards—based on the increased number and strength of the nominations. The range of nominations is a true testament to DCC's commitment to its Client-Partner, and to the importance DCC places on meeting or exceeding client expectations. In 2011–12, DCC was privileged to present this award to the following employees:

- Jenelle Ramnath, Coordinator, Environmental Services, from the Ontario Regional Office in Kingston; and
- the Mid-Term Accommodation Project (MTAP) team from the National Capital Region, whose members included Louis Brisson, Alicia Phinney and Ryan Maher.

Faouzi Djafi, Officer, Program Support, at the Valcartier Garrison in Quebec, received the Innovation Award for delivering innovative, value-added solutions to DCC's Client-Partner.

The Robert Graham Memorial Award recognizes an employee who makes a special contribution to the improvement of workplace safety or environmental protection. Norman Steele, Coordinator, Environmental Projects, was the 2011–12 recipient of this award.

(left to right) Robert Presser, Chair of the DCC Board of Directors, LCol Wayne Gauthier, DND Director, Construction Project Delivery, Scott Stevenson, DND Assistant Deputy Minister (Infrastructure and Environment) and James Paul, DCC President and CEO.

GENERAL SERVICE MEDALS

The General Service Medal is awarded to Canadian citizens, other than members of the CF, who deploy outside of Canada to provide direct, full-time support to operations in the presence of an armed enemy. DCC is proud of its employees who accept the challenge of serving Canada and DND's deployed operations. In 2011–12, the following 12 DCC employees received the General Service Medal or bar for serving in Kandahar, Afghanistan, in support of Operation ATHENA:

Mario Brulé	Derek Fraser	Michelle McAuley
Larry Clinton	Tania Gardner	Todd Nauss
Steven Denault	Gary Gesner	Alain Schneiter
Judy Elliott	Mark Jarman	Kim Thibault

James Paul (left) receives the CICA corporate reporting award on November 29, 2011

FRIENDS OF DCC AWARD

During the National Awards ceremony, DCC President and CEO James Paul presented the Friends of DCC Award to LCol Wayne Gauthier, DND Director, Construction Project Delivery, in ADM(IE). LCol Gauthier was honoured for his continued support and collaboration in advancing efficiencies and delivery of the Directorate for Construction Project Delivery procurement program. His partnered approach helped establish joint DCC-DND procurement practices and performance measures to facilitate enhanced service delivery.

CORPORATE REPORTING AWARD

For the second year in a row, DCC was recognized for the quality of its corporate financial reporting by the Canadian Institute of Chartered Accountants (CICA). DCC won the 2011 Award of Excellence in the category for small federal Crown corporations for the 2010–11 Annual Report. CICA has been handing out its corporate reporting awards for 60 years, as part of a broader program to enhance the quality of financial reporting in Canada.

INDUSTRY AWARDS

During 2011–12, the members of the DCC-Communications Security Establishment Canada (CSEC) team received three industry awards for their collaboration on the Long-Term Accommodation Project (LTAP). The associated 30-year, design-build-finance-maintain contract includes unique security, infrastructure and financing arrangements. The 72,000-square-metre, state-of-the-art, high-security facility will contain office and special-purpose space for CSEC, the national cryptologic agency, and is being built to the Leadership in Energy and Environmental Design (LEED) Gold standard.

The team was honoured with the 2011 Partnership (Group) Award by the Real Property Institute of Canada (RPIC) for the innovative public-private partnership (P3) that has been driving the design and construction of the new east-end Ottawa campus. RPIC promotes high standards for real property management of federal facilities and it recognized the approach to partnership DCC, CSEC and industry have taken at all steps of this project.

The project also won the 2011 Silver Award for Project Financing from the Canadian Council for Public-Private Partnerships. The award recognizes excellence and innovation in financing, payment and revenue arrangements for capital projects that involve both private and public sector partners.

On March 1, 2012, *Project Finance* magazine recognized the LTAP project as the 2011 North American Social Infrastructure Deal of the Year. Among the elements of the project that the publication singled out was the way the financing was structured. The financing is the Canadian federal government's largest public-private partnership to date and the record-low pricing on its debt prompted the Canadian government to implement a P3 screen for all federal projects with capital costs of over $100 million.

CORPORATE GOVERNANCE

BOARD STEWARDSHIP

DCC reports to Parliament through the Minister of Public Works and Government Services (the Minister) and DCC's Board of Directors (the Board) is responsible for the stewardship of the Corporation. *The Financial Administration Act* (FAA) states that DCC's Board is responsible for the management of the business, activities and other affairs of the Corporation. DCC's bylaws set out the framework for the operation and management of the Corporation, and the Board of Directors Charter outlines the particular areas of responsibilities. The Board Charter is available on DCC's website at www.dcc-cdc.gc.ca.

In December 2011, the Chair of DCC's Board received the annual statement of priorities and accountabilities, also known as a letter of expectations, from the Minister. This document articulates key guidance and expectations of the Government of Canada for DCC and helps DCC ensure that it fulfills its mandate. Elements of this statement have been incorporated into DCC's 2012–13 to 2016–17 Corporate Plan, as well as this Annual Report.

To assist the Board in its responsibilities, two committees have been established: an Audit Committee and a Governance and Human Resources Committee. These committees have separate and distinct responsibilities that are articulated in their respective charters, which are available on DCC's website at www.dcc-cdc.gc.ca. Details of the activities of each committee in 2011–12 are outlined later in this Annual Report.

In addition to the FAA, other key pieces of legislation to which DCC is subject include the *Public Servants Disclosure Protection Act*, *Access to Information Act* and *Privacy Act*. DCC also receives policy and guidance on various matters from the Treasury Board of Canada, Secretariat (TBS).

STRATEGIC PLANNING

Board and committee meetings are scheduled primarily to maximize the Board's involvement in DCC's strategic planning process. DCC's annual strategic planning process began in September 2011, when the Board met to discuss initial input into the Corporation's strategic plan, such as key priorities of the Government of Canada and the ways DCC's strategic objectives relate to these priorities. DCC executive management used the input from these discussions to inform DCC's strategic planning session, which was held in mid-September, and to draft the Corporate Plan. At the strategic planning session, DCC's senior management team also reviewed and assessed

DCC's progress on the initiatives from previous corporate plans, and analyzed the results of an environmental scan of issues and trends relevant to DCC's operations. The resulting draft 2012–13 to 2016–17 Corporate Plan (draft Plan) incorporated all of this input and set out the new key corporate initiatives for the Corporation, as well as their related performance measures. The Board reviewed and approved the draft Plan, along with the annual operating and capital budgets, at a meeting in early December 2011.

COMMUNICATION WITH GOVERNMENT, OTHER STAKEHOLDERS AND THE PUBLIC

DCC's Annual Public Meeting was another successful event in 2011. A notice of this event was posted on the DCC website a month before it took place. As it does every year, the Corporation also sent written invitations to the heads of industry associations who, in turn, passed along the details about the Annual Public Meeting to their membership. DCC's Client-Partner and the entities with which DCC works regularly within DND and the CF were also invited to attend this meeting and DCC's employees were encouraged to participate.

The 2011–12 Annual Public Meeting took place in Ottawa on June 13, 2011. At this event, DCC shared information on its financial results, service lines and procurement practices, and various issues of concern to industry stakeholders were outlined and discussed. A summary of the proceedings for this meeting may be found on DCC's website at www.dcc-cdc.gc.ca.

As appropriate, the Chair of the Board communicates regularly with the Minister and reports on issues to the board members. The Board also receives regular reports on the stakeholder engagement and relationship management activities of the President, as well as of each member of DCC's Executive Management Group.

WORKING RELATIONSHIP BETWEEN THE BOARD AND MANAGEMENT

The Board of Directors encourages DCC's executive management to participate in board meetings, especially where it is fiscally responsible to do so. Board meetings are held both in Ottawa and DCC's regional offices across Canada (Atlantic, Quebec, Ontario and Western). It was not appropriate to have the entire executive team incur travel expenses to attend meetings held outside of Ottawa, due to the current period of economic restraint, so specific representatives of DCC's Executive Management Group were invited to take part in these meetings in 2011–12.

DCC Board of Directors (left to right) Shirley McClellan, Paul Cataford, James Paul, Robert Presser, Marc Ouellet and Kris Matthews.

Board meetings held in DCC's regional offices give DCC employees an opportunity to meet board members and to better understand DCC's corporate governance process. In conjunction with the formal meetings, regional directors or their representatives give presentations to board members on such topics as DCC's activities and how DCC is responding to the needs of DND/CF in that area as well as key concerns facing DCC in that region. In 2011–12, board meetings were held at CFB Petawawa (September 2011) and CFB Suffield (March 2012).

BOARD INDEPENDENCE

DCC's Board is made up of seven members all of whom are independent of DCC management, except for DCC's President and CEO. At fiscal year end, there were three vacancies. As permitted by the FAA, two Board members have chosen to continue beyond the end of their term and one additional vacancy remains. The Board functions independently of DCC management, which is a fundamental principle of good governance. The Chair of the Board ensures the effective functioning of the Board as it carries out its responsibilities and duties.

The roles of the Chair of the Board and of the President and CEO are separate, and no employees or corporate officers of DCC serve as directors. The Minister appoints board members, with the approval of the Governor in Council. Board members may hold office for four years, after which time they may continue in office until a successor is appointed, should they wish to do so. The Governor in Council appoints the Chair of the Board and the President and CEO for such terms as the Governor in Council considers appropriate.

The Board meets at least quarterly and, in order to keep expenses to a minimum, committee meetings are scheduled around board meetings. Private sessions are held at each board and committee meeting so that members of the Board may meet as a group without DCC management being present. The Board also meets regularly with the Office of the Auditor General (OAG) and with DCC's internal auditors, Interis Consulting Inc. In 2011, new members of the OAG's audit team were introduced to the Board at the commencement of the annual audit exercise.

Robert Presser, Chair of the Board of Directors

EVALUATING THE PERFORMANCE OF THE PRESIDENT AND CEO

The President and CEO's performance management is directly linked to DCC's overall corporate performance. For the 2011–12 performance period, the Privy Council Office (PCO) clarified the process and included guidance on the expectation that DCC adhere to the spirit and intent of the government's strategic and operating review, also referred to as the deficit reduction action plan, and added a section to the performance agreement for corporate commitments related to this plan. Due to the importance of the deficit reduction action plan, in preparation for this new PCO requirement, the Board of Directors has been particularly involved in monitoring and evaluating DCC's performance in 2011–12 by reviewing and approving the annual five-year Corporate Plan, as well as the regular reporting provided by the President and CEO and other members of the Executive Management Group on the status of the implementation of corporate initiatives.

Pursuant to PCO's Performance Management Program, the Board used the performance agreement for DCC's President and CEO, which had been finalized the previous year, as the basis for the President and CEO's 2011–12 performance review and evaluation, and the Board's subsequent rating recommendations. As part of PCO's process, the Chair consulted with the Minister and board members and ensured that the shareholder's views were reflected in the 2011–12 performance agreement, the final version of which the Chair submitted to the Minister. Copies also went to the Deputy Minister of Public Works and Government Services, and to the Deputy Secretary to the Cabinet (Senior Personnel and Public Service Renewal) PCO, as per PCO guidance.

EVALUATING BOARD EFFECTIVENESS

Also pursuant to PCO guidelines, DCC uses a Director Profile to help identify and clarify the roles and responsibilities of the Board and its committees; to identify the core attributes, competencies and experience that are expected of members of DCC's Board; and to define the optimal mix of specific skills, knowledge and experience needed for the Board to function effectively. The key roles and responsibilities of members of DCC's Board include governance, strategic planning, risk assessment and management, internal controls, performance management and evaluation, and management continuity.

*Michael Atkinson, President,
Canadian Construction Association*

The intention of PCO is that the Director Profile be used in the board member appointment process to ensure there is an appropriate mix of skills and experience among members. Currently, DCC's board members demonstrate a good balance of public and private sector experience, and have knowledge of some fields relevant to the Corporation's business, such as engineering, law, finance and public administration. There is also gender equity, with four male and two female board members. At fiscal year end, there were three vacancies on DCC's Board. A new member was appointed in December 2011.

To assess and ensure continued effectiveness, all board members complete an annual board assessment questionnaire, which also assesses the performance of committees as well as of individual board members. The Board and Committee Charters are used as guides for the assessment process. Guidance from TBS is also used to ensure consistency. The assessment process gives members of DCC's Board of Directors an opportunity to examine how the Board is functioning, and to suggest improvements in the operations of the Board and its committees. The process focuses on board and committee performance. It provides each board member with an opportunity to comment on the performance of the Chair of the Board, as well as of the committee chairs. The members also evaluate their individual contributions as a self-development tool.

The 2011 board assessment process took place between December 2011 and March 2012. DCC's Corporate Secretary compiles the results and prepared an analysis report with no individual attributions. The report was reviewed by the Chair of the Governance and Human Resources Committee and then by that committee's members in early March 2012. The full Board reviewed and discussed it at the board meeting held at the end of March 2012. The Minister was then informed of the results of the analysis, as per TBS guidance.

ORIENTATION AND ONGOING TRAINING FOR BOARD MEMBERS

It is important that all members of DCC's Board of Directors understand how DCC functions, as well as the role the Board plays in the management of DCC.

When new board members are appointed, they participate in DCC's initial full-day intensive orientation program, as well as supplemental sessions, as they wish. Continuing education opportunities for all board members are available throughout the year, especially when new requirements are established for the Corporation, such as the new International Financial

James Paul, DCC President and CEO, during the 2012 annual public meeting in Ottawa.

Reporting Standards (IFRS). Members are also welcome to seek further information on any aspect of DCC's business at their convenience. Furthermore, all board members receive quarterly briefings about DCC's programs and services. Board members may request information on specific issues of interest, and DCC personnel may also bring matters to the Board's attention. DCC is a member of the Institute of Corporate Directors (ICD), and encourages board members to participate in ICD events and to review ICD publications.

When meetings are held outside of Ottawa, board members tour project sites and see first hand how DCC's services add value for the Government of Canada. These activities increase board members' knowledge of DCC and solidify their understanding of the environment within which DCC operates. During the September 2011 board meeting at CFB Petawawa and the March 2012 board meeting at CFB Suffield, board members saw projects in which DCC is participating, and heard from both DCC personnel and DND/CF personnel about activities at those sites.

GOVERNANCE APPROACH FOR DCC

The Board of Directors has ultimate responsibility for the governance of DCC. The main ways in which the Board carries out this role are by approving the strategic direction in the Corporate Plan; ensuring that the principal operational and reputational risks associated with DCC's business have been identified and that appropriate systems are in place to manage them, including a corporate risk management framework; approving the Executive Management Group's succession plan; and ensuring that information systems and management practices meet DCC's needs and foster confidence in the integrity of corporate information and reports.

The Board ensures that the Corporation is well placed to achieve its goals in a number of ways, which include overseeing the strategic planning process, providing input and guidance to DCC on both the process and its output, and assessing the appropriateness of DCC's corporate plans, including the initiatives and performance measures noted therein.

It is also important for the Board to ensure that DCC management takes into consideration all public policy objectives, as well as relevant private sector business practices and trends, in the Corporation's operations. DCC seeks input from industry on best practices at every opportunity, including at its Annual Public Meeting, and discusses them in DCC's Corporate Plans and

John D. Gamble, President, Association of Consulting Engineering Companies-Canada

Annual Reports. In 2011–12, the Board received quarterly reports on the status of the revision of DCC's corporate risk management framework and the steps being taken to address any concerns. Information on DCC's risk management framework may be found in Section 5.0 of Management's Discussion and Analysis on page 48 of this report.

ETHICAL BUSINESS CONDUCT

DCC's employees are aware of expectations placed on them in such areas as codes of ethics, disclosure of wrongdoing, and compliance with legislation and governmental policies. In addition to applying the *Public Servants Disclosure Protection Act*, DCC has its own Code of Business Conduct (the Code). DCC's Board monitors compliance with the Code, as well as policies and legislation related to business and employee conduct, through regular reports.

Each year, DCC personnel are required to review their obligations under DCC's Code and to reply to an annual electronic reminder of their responsibilities. This electronic system ensures that DCC keeps accurate records of responses and that there is appropriate follow-up. New employees must pass an online test on DCC's Code shortly after they are hired. The President reports to the Board regarding Code compliance matters as they arise and provides an annual update as well. In this way, the Board ensures that DCC maintains its good practices regarding programs and policies related to values and ethics. In 2011–12, all DCC personnel responded to the annual request for review and all new hires completed the required test.

Board members adhere to the requirements of the *Conflict of Interest Act*. Each year, they sign a declaration regarding the *Conflict of Interest Act*, which ensures they are aware of the requirements of this Act and confirms they will continue to comply with them. In 2011–12, all board members signed the declaration.

AUDIT

As stipulated in the FAA, the Office of the Auditor General (OAG) is the auditor for DCC. In addition to regular annual audits of the Corporation's financial statements, the OAG is obligated by the FAA to carry out a special examination of DCC at least once every 10 years. DCC's last special examination took place in 2008.

Elaine Warren, DCC Manager, Human Resources (left) and Sabrina Rock, Manager, Operations Coordination

DCC maintains an internal audit function, and selected Interis Consulting Inc. to provide third-party internal audit services to DCC. The Board receives regular reports on internal audits, including details on the implementation of recommendations. The Audit Committee section of this report provides further information on audit activities.

SUCCESSION

The Board reviews the succession plan for DCC's executive management to ensure DCC can identify, attract and retain appropriate skills and knowledge.

COMMITTEES OF THE BOARD OF DIRECTORS

Two committees assist the Board in meeting its accountabilities: the Audit Committee, and the Governance and Human Resources Committee. Each member of the Board serves on at least one of these committees. The following sections contain information on the charter of each committee, as well as on the committees' key activities in 2011–12.

AUDIT COMMITTEE

Chair: Kris Matthews. Members: Shirley McClellan and Marc Ouellet. The Committee met four times in 2011–12.

The key functions of the Audit Committee are to review the financial statements included in DCC's Annual Report and the annual auditor's report, and to advise the Board with respect to them; to oversee all internal audits of DCC; and to perform other functions assigned to it by the Board, under the bylaws of the Corporation or under the Audit Committee Charter. The Audit Committee also helps the Board oversee DCC's annual financial statements and reporting, internal controls, financial accounting principles and policies, internal and external audit processes, and compliance programs.

The Audit Committee is also responsible for overseeing all audits of DCC, including financial statement, compliance, and operational audits, as well as all attestation and assurance services.

All Audit Committee members are independent of management, as per the FAA requirements. Further to the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*, members of this committee are financially literate and the Chair is a financial expert who holds a recognized accounting designation.

The Audit Committee meets regularly *in camera* with representatives from the OAG and from Interis Consulting Inc.

KEY ACTIVITIES

Internal auditors: The Committee reviewed and approved proposed internal audits pursuant to the previously approved audit plan. The Committee also reviewed the results of all internal audits conducted during the reporting period, as well as the follow-up on recommendations in previous audits.

OAG: The Committee reviewed the OAG's annual audit plan in preparation for DCC's annual audit.

Audit Committee Charter: The Committee reviewed its Charter to ensure its continued alignment with the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises,* as well as best practices in this regard. It also regularly reviewed and revised its work plan.

International Financial Reporting Standards: The Committee continued its review of DCC's implementation of these new standards.

FAA requirement for quarterly financial reporting and the TBS Standard on Quarterly Financial Reports for Crown Corporations: The Committee received regular reports on DCC's compliance with this new requirement.

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

Chair: Robert Presser (Acting). Members: Marc Ouellet and James Paul (*ex officio*). The Committee met five times in 2011–12.

The key function of the Governance and Human Resources Committee is to help DCC develop the Corporation's approach to corporate governance, a task that includes evaluating DCC's practices to ensure they are in line with current best governance practices and TBS guidance. The Committee also oversees the annual board self-assessment process, which includes questions related to committees as well as to individual board members.

In relation to human resources matters, the Committee ensures that DCC's core human resources policies are sound and that appropriate related processes are in place. It also oversees the performance management process for the President and CEO, as well as the annual performance assessment of DCC's Executive Management Group, and recommends the appointment of corporate officers.

The Committee also participates in the nomination and appointment process for Order in Council appointments, and ensures that the Board Competency Profile remains relevant and captures the appropriate requirements.

KEY ACTIVITIES

Governance
Board and committee membership: The Committee reviewed the succession planning requirements, including the need for three more board members.

DCC bylaws: The Committee reviewed and recommended for approval the amendment, consolidation and updating of DCC's bylaws, recognizing that a portion of the bylaws remains outstanding.

Board assessment: The Committee oversaw the annual board assessment and individual director survey; ensured that a plan was in place to implement recommendations for improvement; and reported on the results to the Minister of Public Works and Government Services, pursuant to the relevant TBS guidelines.

Human Resources
DCC's human resources policies: The Committee reviewed newly proposed policies and amendments to existing policies, and recommended them for board approval.

Performance Management Program: The Committee assessed the President and CEO's performance, including the PCO's changes to the compensation regime related to DCC's proposal in support of the deficit reduction action plan; reviewed proposed changes to the performance review process for DCC's executive team; and recommended the reappointment of corporate officers.

Nominations
Director Profile: The Committee maintained the Director Profile.

ATTENDANCE AT BOARD OF DIRECTORS MEETINGS AND COMMITTEE MEETINGS

APRIL 1, 2011, TO MARCH 31, 2012

	Board Meetings	Audit Committee	Governance and Human Resources Committee
Presser, Robert	5/5		5/5
Cataford, Paul [1]	2/2		
Matthews, Kris	5/5	4/4	
McClellan, Shirley	5/5	4/4	
Ouellet, Marc	5/5	4/4	5/5
Paul, James	5/5		5/5

(1) Mr. Paul Cataford became a member of the Board on December 1, 2011.

This chart notes attendance at committee meetings of committee members only and not that of board members who attend committee meetings as observers.

BOARD COMPENSATION

The Privy Council Office's document, *Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations*, dated October 2000, sets out the guidance for retainer and per diem amounts for Crown corporation board members. In the Privy Council's February 2011 document, *Performance Management Program Guidelines for Chief Executive Officers of Crown Corporations*, DCC is listed in Group 3. The compensation for board members is set by Order in Council and there is a blanket Order in Council for DCC board members.

	Annual Retainer	Per Diem
Presser, Robert (Chair)	$7,500.00	$300.00
Cataford, Paul	$3,800.00	$300.00
Matthews, Kris	$3,800.00	$300.00
McClellan, Shirley	$3,800.00	$300.00
Ouellet, Marc	$3,800.00	$300.00

BOARD OF DIRECTORS






FROM LEFT TO RIGHT:
Robert Presser, Paul Cataford, Kris Matthews, Shirley McClellan, Marc Ouellet, James Paul

ROBERT PRESSER
Chair of the Board
As Vice-President of Acme Engineering Products Ltd. in Montreal, Mr. Presser has extensive experience in corporate governance, as well as in mergers and acquisitions, with large Canadian corporations.

PAUL CATAFORD
Mr. Cataford is President and CEO of Zephyr Sleep Technologies Inc. and serves as a director on the boards of a number of public and private companies, as well as a not-for-profit entity. He has held several senior management positions in various financial and investment firms.

KRIS MATTHEWS
A Certified Management Accountant and a business consultant, Ms. Matthews is the Managing Partner of The Matthews Group, LLP, in Calgary, and has served on the boards of directors of numerous private sector organizations.

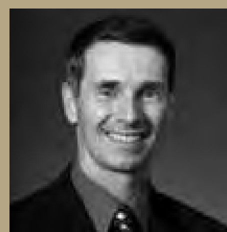
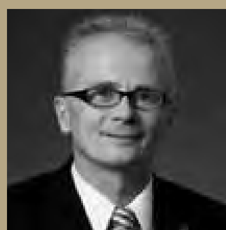
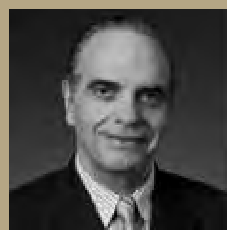
SHIRLEY MCCLELLAN
Appointed as the 12th Chancellor of the University of Lethbridge in March 2011, Ms. McClellan is also the Chair of the Board of Horse Racing Alberta and held numerous senior cabinet positions as a member of the Alberta Legislature from 1987 to 2007.

MARC OUELLET
After retiring from the Air Force after a 32-year career, during which he held several command appointments, Mr. Ouellet is now an aerospace and security consultant with CIRRUS Research Associates Inc.

JAMES PAUL
Mr. Paul has 30 years of business experience with a variety of international companies. He has a Law degree from the University of Ottawa and, prior to his appointment with DCC, he served as Chair of the Canada Science and Technology Museum Corporation's Board of Trustees.

EXECUTIVE TEAM

FROM LEFT TO RIGHT:
James Paul,
Daniel Benjamin,
Randy McGee,
Angelo Ottoni

JAMES PAUL, LLB
President and Chief Executive Officer
Mr. Paul was appointed to the position of President and Chief Executive Officer in September 2009. His career has spanned almost 30 years and includes senior management roles in large Canadian technology firms. Before his appointment to DCC, Mr. Paul served as President of a Canadian technology company, and as Chair of the Canada Science and Technology Museum Corporation. He holds a Law degree from the University of Ottawa.

DANIEL BENJAMIN, P.ENG., ING.
Vice-President, Operations
Mr. Benjamin joined DCC in September 2011 after a 35-year career with the CF. He attained the position of Chief Military Engineer for the CF and Chief of Staff (Infrastructure and Environment). He was involved in the design and construction of infrastructure, and in project, program and facility management of all military facilities in Canada and abroad. Mr. Benjamin retired from the military at the rank of Major-General. He holds a Master of Engineering degree from the Royal Military College.

RANDY MCGEE, P.ENG., GSC
Vice-President, Operations
Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector. He has extensive experience in managing large construction, consultant and design-build projects. Mr. McGee holds a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba and is a Canadian Construction Association Gold Seal Certified Project Manager.

ANGELO OTTONI, CA
Vice-President, Corporate Services,
Chief Financial Officer and Treasurer
Mr. Ottoni joined DCC in 2001 after working nine years in the technology industry and 15 years with a major international accounting firm. He earned a Bachelor of Commerce degree from Concordia University, as well as a Public Accountancy diploma from McGill University. Mr. Ottoni received his Chartered Accountant designation in 1978.

SENIOR MANAGEMENT TEAM

FROM LEFT TO RIGHT:
John Graham, Stephen Karpyshin, Mélinda Nycholat, Grant Sayers, George Theoharopoulos, Ross Welsman

JOHN GRAHAM, P.ENG., PMP
Director, Ontario Region
Mr. Graham graduated from Lakehead University in 1988 with a Bachelor of Engineering (Civil) degree. He joined DCC as a Junior Engineer in the Kingston office. In 1998, he attained his designation as a Project Management Professional, and the following year he became the Area Engineer for Ontario Region. Mr. Graham was appointed as the Director, Ontario Region, in 2009.

STEPHEN KARPYSHIN, P.ENG.
Director, Western Region
Mr. Karpyshin joined DCC in 1988 and has worked on a wide range of projects. A graduate of the University of Manitoba in Physics and Civil Engineering, he is a member of the Association of Professional Engineers and Geoscientists (Manitoba); the Association of Professional Engineers, Geologists, and Geophysicists of Alberta; and the Alberta Federal Council.

MÉLINDA NYCHOLAT, P.ENG., PMP
Director, Contract Services
Ms. Nycholat joined DCC in 1988 as a Junior Engineer in Gagetown. She holds a Bachelor of Civil Engineering degree from l'Université Laval, as well as a Project Management Professional certificate. She sits on the Board of Directors of the Canadian Public Procurement Council and on the Treasury Board Advisory Committee for Construction Contracts.

GRANT SAYERS, C.E.T.
Director, Quebec Region
Mr. Sayers was promoted to the role of Director, Quebec Region in 2012. He joined DCC in 2003 as a Contract Coordinator at CFB Suffield and later served as Operations Manager in Comox and Regional Service Line Manager for Real Property in Edmonton. He is a Certified Engineering Technologist with a mechanical background.

GEORGE THEOHAROPOULOS, P.ENG.
Director, Atlantic Region
Mr. Theoharopoulos became the Director, Atlantic Region, in July 2011. He joined DCC in 2004 following 14 years in the public and private sectors, and has held a variety of positions, including Manager of Environmental Services and Manager of Business Operations in the Atlantic Region. He holds an Engineering degree from the Technical University of Nova Scotia.

ROSS WELSMAN, P.ENG., PMP
Director, National Capital Region
Originally with DCC in the 1980s, Mr. Welsman rejoined DCC in 2003 and was appointed Director, Atlantic Region in 2006. He transferred to Ottawa to assume the role of Director, National Capital Region. Mr. Welsman earned Bachelors of Science and of Engineering (Civil) degrees from Memorial University of Newfoundland, and holds a Project Management Professional designation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 focus and beneficiaries of DCC's services are the Department of National Defence (DND) and Canadian Forces (CF) operations, both domestic and overseas. DCC is accountable to Parliament through the Minister of Public Works and Government Services.

Over the years, DCC's extensive construction expertise has been instrumental in the construction of projects that have shaped the Canadian economic and military landscape and fulfilled Canada's international obligations. Examples of such projects include the Distant Early Warning (DEW) Line across the Arctic, the Northern Ontario section of the Trans-Canada Pipeline and the Canadian Embassy in Kabul, Afghanistan.

1.2 MISSION, VISION AND VALUES

MISSION: DCC's mission is to deliver and maintain infrastructure and environmental projects and services, and provide full lifecycle infrastructure support, required for the defence of Canada.

VISION: DCC's vision is to be a leading provider of innovative solutions that add value for its client, foster professional development of its employees and make meaningful contributions to its industry.

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

DEDICATION: DCC is dedicated to supporting DND's infrastructure and environment requirements. For over 60 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 objectives 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 DCC'S CLIENT-PARTNER

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. DCC supports CF operations as requested by Canadian Operational Support Command, Canadian Expeditionary Forces Command and Canada Command.

Some of the DND organizations for which DCC also contracts for—and manages—construction and environmental services include for example, Communications Security Establishment Canada (CSEC), a stand-alone agency within the Minister of National Defence portfolio, as well as the Canadian Forces Housing Agency, Defence Research and Development Canada, and the Canadian Forces Personnel Support Agency. The Corporation also supports the country's North Atlantic Treaty Organization (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.

1.4 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 maintaining 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 industry partners.

DCC also maintains relations with other groups, such as the Association of Consulting Engineering Companies – Canada, 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.

2.0 CAPABILITIES TO DELIVER RESULTS

2.1 CORE CHARACTERISTICS

Five characteristics allow DCC to deliver quality service consistently. These have a direct impact on the viability of the Corporation.

FOCUS: DCC has had a single focus on a major client for 60 years, developing an understanding of the client's needs and preferred approaches. That makes DCC unlike any other organization of its 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 STRUCTURE

DCC maintains site offices at all active CF establishments in Canada and abroad, as required, and its Head Office is located in Ottawa. The Corporation maintains five regional offices (Atlantic, Quebec, Ontario, Western and National Capital Region), as well as 47 site offices located at CF bases, wings and area support units. In addition, DCC maintains remote offices in the Arctic, as required for the DEW Line Clean-Up, and for the past eight years has maintained site offices in Kabul and Kandahar, Afghanistan. With the CF leaving Kandahar, Afghanistan, in December 2011 and DCC's infrastructure support work ending, DCC closed its site office in Kandahar in October 2011 and the site office in Kabul in September 2011. All DCC employees have returned home from these deployments. DCC stands ready to support future CF operations abroad or at home in Canada, as required.

3.0 STRATEGIC INITIATIVES

DCC's Corporate Plan is structured into five planning themes—business management, service delivery, people, strategic management and leadership, and corporate governance and stakeholder relationships—that inform the organization's strategic initiatives.

The following is a summary of DCC's progress in 2011–12 with respect to initiatives identified under these themes.

THEME	**BUSINESS MANAGEMENT**
OBJECTIVE	To develop and maintain sustainable business management structures, tools, teams and practices
INITIATIVE	DCC will enhance the corporate enterprise resource planning solution in the areas of finance, project collaboration and corporate reporting to meet future business needs.

This is a multi-year initiative and, as planned, work progressed throughout the 2011–12 fiscal year. The installation of the new hardware platform was completed in the first six months of 2011–12, a task that included integrating many customized system software programs. In the second half of the fiscal year, corporate reporting requirements and security became key areas of focus, as both had many functional aspects that needed to be addressed. During the last quarter, the lengthy process of reviewing, redeveloping and validating hundreds of customized programs neared completion, and user testing and the development of user training packages became the next priority. Further efforts are expected to continue into the first quarter of 2012–13, as organization-wide use of the updated system is scheduled for June 2012.

THEME	**SERVICE DELIVERY**
OBJECTIVE	To ensure client requirements are met
INITIATIVE	DCC will continue an optimization review of its processes and practices for its Contract Services (CS) and Construction Services (CSC) service lines.

During 2011–12, ideas for procedural efficiencies emerged and necessary improvements to service delivery processes were recognized. Optimization of contract management processes continued to be a prime focus for the CSC service line. Working groups consisting of CSC regional service line managers, directors, vice-presidents, and national service line leaders from all service lines collaborated to identify and implement a number of key process changes to support optimization. Outcomes included streamlining of the change management process, a reduced level of detail captured in contract records based on contract risks, streamlining of the contract close-out process for consultant contracts, and implementation of a new policy to mandate the increased use of the low-risk contract management process for contracts valued at less than $1 million. These changes were communicated through a CSC best practice bulletin and implemented in conjunction with the new corporate risk management framework with increases to delegated authority levels for CSC contract management activities.

Similarly, DCC identified and implemented a number of opportunities for increased efficiencies in the CS service line. Change initiatives included a new evaluation process aimed at reducing timelines and increasing effectiveness; increased authorities for managers and contract services officers to limit the number of steps for approval and increase accountability; and the implementation of a new source list for the Directorate for Construction Project Delivery major capital program that streamlines the procurement process.

Work on this optimization process will continue, with a review of the remaining service lines and the development of a revised *Operations Manual* that will provide principles-based guidance and a framework to support efficient processes.

INITIATIVE | DCC will seek opportunities to assist in the improvement of DND project and program delivery.

DCC is committed to collaborating on improvements to project and program management delivery, supporting the establishment of joint project offices, and reviewing project delivery procedures. During 2011–12, DCC explored different opportunities to help its Client-Partner deliver infrastructure projects, such as early collaboration with DCC's Project and Program Management, Contract, and Construction service lines. With this approach, project procurement plans, with the necessary security requirements, are in place once DND project approvals are secured.

The new process for procurement planning identifies scope requirements, reviews security and procurement risks, proposes the procurement approach and outcome, and sets target dates for submission of contract documentation. Additionally, DCC and its Client-Partner have started to use the results from the new joint performance measures (see below) to find areas for project delivery improvements. DCC has also contributed its expertise by supporting its Client-Partner in refining the DND-ADM(IE) infrastructure and environment project approvals process, and in developing its centralized funding model.

INITIATIVE	DCC will collaborate with DND on the identification of joint performance measures.

Historically, DCC has maintained a consistently high rating for its service delivery. However, continuous improvement is always top of mind for the Corporation. By developing joint performance indicators, both DCC and DND can identify areas where they can improve processes.

Following a successful pilot project, DCC and the Canadian Forces Housing Agency (CFHA) launched a nation-wide joint evaluation framework in October 2011. The goal of this initiative was to assess and improve the performance of local DCC-CFHA project delivery teams; encourage continuous communications between DCC and CFHA; and improve the working relationship between DCC and CFHA.

DCC also collaborated with DND to determine relevant and meaningful indicators and targets for its annual 2011–12 capital construction program. For example, a tracking system was developed to monitor the status of procurement plans. The system is updated jointly on a monthly basis and, following each quarter end, the targets are reviewed and areas for improvement are identified. The result is an efficient management tool for both DCC and DND. The specific measurement results will be reported on in the Contract Services business plan.

THEME	PEOPLE
OBJECTIVE	To recruit and support a skilled, professional and motivated workforce
INITIATIVE	DCC will continue to promote a culture of innovation through the Ideas at Work initiative.

First launched in 2008, the Ideas at Work program was created to reinforce DCC's innovation strategy and to develop a culture of innovation among employees. It is expected to unfold over several years. The key to its success is to maintain momentum in order to influence workplace culture. Building on work in the previous year, DCC developed a project plan and a communications plan for 2011–12 to encourage employees at all levels to act on and share their ideas for improvements. Steps taken during this fiscal year included reviewing and implementing the terms of reference for the Ideas at Work Committee, as well as creating a peer-to-peer instant recognition system. This intranet tool, expected to be rolled out in the first quarter of 2012–13, will recognize employees' involvement as advocates and involved promoters of the Ideas at Work initiative. By year end, the Ideas at Work Committee was tracking 25 ideas initiated at DCC sites, all to be addressed at the national level, and DCC had recognized 10 employees for their contributions.

INITIATIVE | DCC will act on the results of the employee engagement survey.

In 2009–10, as part of the recruitment and retention plan initiative, DCC administered an employee engagement survey. Overall, the results of the engagement survey were quite positive and indicated that employees want more information about DCC's strategic direction. Senior management has made continued efforts to inform employees about DCC's vision and strategic direction. During 2011–12, management continued to initiate strategic and corporate communications across the organization to further enhance employee engagement and managers' participation in achieving the strategic outcomes of the Corporation.

The opportunity to further engage employees during the year was largely associated with the activities surrounding the celebration of DCC's 60th anniversary. Employees reinforced the positive responses in the employee engagement survey by participating in a number of corporate-wide activities. They provided feedback, such as digitally-recorded messages from their site, and testimonials about why they enjoy working at DCC.

INITIATIVE | DCC will continue the development of a competency-based performance management program, including leadership development.

This initiative, first identified in the Corporate Plan for 2010–11, is focused on the creation of a competency-based performance management program that also includes leadership development. During the first half of the fiscal year, DCC endorsed an organization-wide competency framework, and defined a common set of six core competencies for all roles and levels across the organization. Leadership as a competency was embedded at all levels. The program development phase, which is nearing completion, will drive the values of the organization and contribute to effective performance management that is linked to recruitment, performance, training and development, workforce and succession planning, and leadership development. The program will also ensure that supervisors and employees have the tools and supports required to manage employee performance and development. They will do so by assessing defined performance goals and objectives, and by assessing defined competency expectations for an employee's level using a defined rating scale. This initiative will continue into the 2012–13 fiscal year, with the goal of launching the new performance management program in 2013–14.

THEME	STRATEGIC MANAGEMENT AND LEADERSHIP
OBJECTIVE	To provide strong, ethical and effective strategic management and leadership for the Corporation
INITIATIVE	DCC will develop a Procurement Code of Conduct for industry.

In conjunction with its industry partners, DCC developed a Procurement Code of Conduct for industry. This is in addition to DCC's existing Code of Business Conduct for its employees. The new Procurement Code of Conduct focuses on the contractors who bid on contracts that DCC is awarding on behalf of its Client-Partner. It focuses on the responsibilities of contractors to respond to DCC's bid solicitations in an honest, fair and transparent manner. The intent of this Procurement Code of Conduct is to enhance public confidence in the Corporation's procurement activities. The document is available publicly in both official languages on DCC's website at www.dcc-cdc.gc.ca.

INITIATIVE	DCC will review its enterprise risk management model.

DCC reviewed its enterprise risk management model and developed an updated framework that is similar to the framework used by the Department of National Defence and many other government departments. Based on integrated risk management principles, the framework provides a more comprehensive external risk analysis, explains more fully DCC's level of risk tolerance, uses common language when describing roles and principles, and standardizes DCC's quarterly reporting and risk management tracking. The new approach allows for greater management of risks at the lowest possible level and encourages knowledge-based decision making in principles-based service delivery. Prior to year end, the framework was endorsed by the Board of Directors and delivered to all DCC managers, along with an associated training package to assist in its organization-wide implementation.

THEME	CORPORATE GOVERNANCE AND STAKEHOLDER RELATIONSHIPS
OBJECTIVE	To be recognized as competent and responsive to government priorities, policies and practices
INITIATIVE	DCC will continue to focus on industrial security by refining its processes in compliance with the TBS Policy on Government Security (PGS).

Developing and refining the process for fostering security awareness among DCC employees continues to be an ongoing priority. However, with corporate security fully entrenched in DCC's culture, the focus of this initiative for 2011–12 was on industrial security.

DCC and DND worked jointly to establish an integrated framework for managing industrial security on defence projects, in accordance with the PGS. As the contracting authority for defence projects, DCC complies with all relevant measures in the PGS, as well as with any other security requirements identified by DND. DCC updated its security policy to include revisions to its Industrial Security Standard, which included detailed guidance on project file requirements.

The main focus of activities identified in the 2011–12 Security Action Plan was on industrial security. DCC sought approval under the authority of the *Canadian Security Intelligence Service Act* to have DCC's President and CEO recognized as a deputy head. A deputy head is permitted to exercise some authority-related security clearances. DCC is awaiting approval of this request.

Additional activities identified in the plan and carried out throughout the year included working with the Canadian Industrial Security Directorate and DND to identify and manage industrial security requirements at the project planning, tender and post-award stages, as well as continuing to disseminate *Industrial Security Best Practices Bulletins* and security training to employees and contractors.

DCC's senior management briefed the Board of Directors regularly on the progress of the Security Action Plan.

INITIATIVE	DCC will demonstrate fiscal restraint as per Government of Canada requirements, TBS and the 2010 Budget.

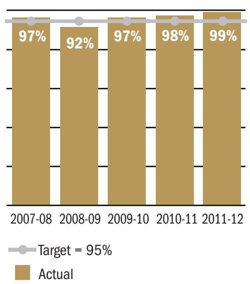
In the 2010 Budget, the Government of Canada announced measures to reduce the rate of growth of its operating expenditures and improve efficiency, while lowering the rate of growth in the size and operations of the public service. As part of this effort, the government asked departments and Crown corporations funded by parliamentary appropriations to freeze their operating budgets for 2011–12 and 2012–13 at 2010–11 levels. DCC operates on a fee-for-service basis and its spending is largely determined by the demand for its services from its Client-Partner. However, opportunities to constrain certain costs exist and, in keeping with the intent of the 2010 Budget, DCC planned to manage its discretionary spending carefully, with the goal of limiting discretionary expenses for 2011–12 and 2012–13 to 2010–11 levels.

As a result of the cost containment measures, the Corporation's discretionary expenses (such as business travel, conference and hospitality expenses) did not increase in 2011–12 over the baseline amounts established in 2010–11. Other discretionary spending for goods and services (such as office supplies, telecommunications, postage and freight, and corporate communications) was held below the rate of revenue increase in 2011–12.

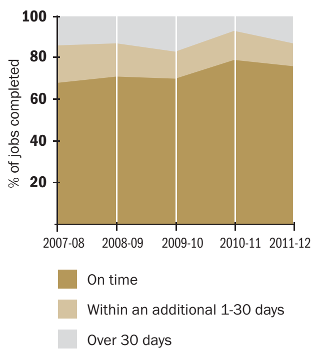
INITIATIVE	DCC's Board of Directors will finalize the Corporation's Bylaw Consolidation and Revision Project.

DCC identified a need to revisit the Corporation's current governance documents, since the scope of its business has evolved greatly over the past few years. In 2010–11, DCC reviewed its governance practices in relation to the delegation of authorities by the Board of Directors to the President and CEO, and in the area of policy approvals by the Board. Following this work, the bylaws of the Board of Directors were reviewed, consolidated and updated. In 2011–12, DCC's Board of Directors reviewed the status of the bylaw consolidation and revision project and noted that, due to legislative changes, further research was required on one specific point of law before the project could be finalized. Therefore, the Board approved the completed amendments and agreed to hold the relevant section in abeyance until the research has been concluded.

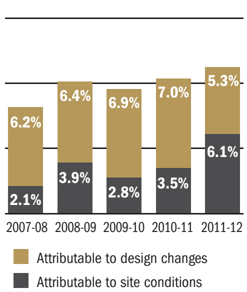
Client satisfaction



Timeliness of construction contract completions



Construction change order values
Percentage of total awarded value



4.0 STRATEGIC AND OPERATIONAL PERFORMANCE INDICATORS

4.1 SERVICE DELIVERY

Completing each project or task to the satisfaction of the Client-Partner is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction through a service delivery rating system as one of its key performance indicators. DCC interviews representatives of its Client-Partner individually each year. Each representative has the opportunity to comment on the service DCC provided on all projects in which he or she was involved.

In 2011–12, DCC conducted 110 service delivery ratings. This was a decrease in the number of ratings from the previous year, due to continued improvement and efficiency in the rating process. DCC allowed clients to provide single service delivery ratings for multiple projects.

Rating scores are weighted according to the value of each service level arrangement. Service delivery ratings are based on a scale of one to five. A score of three means DCC met expectations and a score of four or five means DCC surpassed expectations. In 2011–12, 99% of clients indicated DCC met or exceeded their expectations.

DCC will continue to look for opportunities to further increase the efficiency of the service delivery rating process.

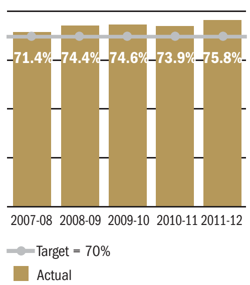
TIMELINESS OF CONSTRUCTION CONTRACT COMPLETION

Timely completion of projects is a key component of client satisfaction. DCC monitors the timeliness of construction contract completion, and works with clients and contractors to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons, and the Corporation takes all necessary action to ensure that the project is completed as quickly as possible, to minimize the impact on DND. In 2011–12, 76% of construction contracts were finished by the established contract completion date, another 11% were completed within 30 days of that date and 13% were completed thereafter.

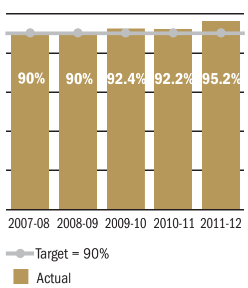
CONSTRUCTION CHANGE ORDER VALUES

The change in total award value for 2011–12 was 11.4%, an increase from the 2010–11 figure of 10.5%. Of the 11.4% change in total award value, 5.3 percentage points related to design changes and 6.1 percentage points related to site condition changes. Although DCC does not set formal targets for this indicator, it tracks this information in order to inform the client and to help facility users manage scheduling risks associated with construction.

Utilization rate
Percentage of employee hours spent on billable contract work



Employee retention rate



4.2 UTILIZATION RATE

The utilization rate indicates the hours spent directly on service delivery functions that are billable to the client, as opposed to administrative functions that are considered overhead support. It is an important performance indicator for efficiency and effectiveness, and a key financial management tool. DCC's target utilization rate is 70%. In 2011–12, the Corporation achieved an actual utilization rate of 75.8%, an increase of almost two percentage points from last year's rate of 73.9% and well above the targeted rate. This is due primarily to the increased utilization rate in the National Capital Region (NCR). This is DCC's newest region, evolving out of the former National Operations Group (NOG). Following a year of reorganization, this region is now operating at expected target levels.

4.3 EMPLOYEE RETENTION RATE

DCC's success depends on its ability to maintain a skilled, professional and motivated workforce to meet business requirements. To that end, it is critical to recruit and retain the types of employees needed to guarantee a high level of client service. It is normal for DCC to experience some staff turnover, due to the seasonal and geographically cyclical nature of its work. In 2011–12, DCC exceeded its retention rate target of 90% by reaching 95.2%. DCC has met or surpassed its target each year over the past five years—in 2010–11 and 2009–10, it surpassed the target by attaining 92.2% and 92.4%, respectively, and in 2008–09 and 2007–08, it met the target of 90%.

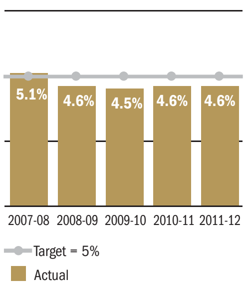
4.4 DIRECT PERSONNEL EXPENSE MULTIPLIER

The direct personnel expense multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. These project personnel expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, statutory holidays and professional development time. In 2011–12, the target range for this indicator was changed from between 1.50 and 1.60 to between 1.40 and 1.50. DCC made this change due to increased business volumes and believes that the new target range for the DPEM multiplier is appropriate. In future years, this key performance indicator will be tracked and reported against this target. In 2011–12, the multiplier remained consistent with the previous fiscal year at 1.43.

4.5 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

DCC's ability to serve DND is heavily dependent on the skills of its employees and maintaining a skilled and professional workforce is a key corporate objective. Therefore, the training and development of its employees continues to be a high corporate priority and a key area of investment of resources. In 2009–10, DCC developed a new performance indicator for training and development based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development

Professional development to salary cost ratio



activities, expressed as a percentage of total salary cost. On this basis, DCC established an overall corporate target for spending on training and development of 5% of salary costs. In 2011–12, the actual percentage remained consistent with the 2010–11 percentage of 4.6%, but slightly below the 5% target. The actual rate achieved may vary from year to year, depending on the effort expended to develop and maintain the internal course curriculum.

4.6 SUCCESSFUL CONTRACTS

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 had resulted in the award of a contract. This figure is relatively unchanged from 2010–11, when it was 95.4%. This percentage exceeds the 2009–10 percentage of 93.4%, but it is similar to the 2008–09 and 2007–08 percentages of 95% and 95.1%, respectively. The most frequent reason why a tender does not result in a contract is that the tender price exceeds the approved budget amount.

4.7 LEGAL CLAIMS

DCC's efforts to resolve contract disputes are reflected in the number and value of contract claims before the courts. As at March 31, 2012, there were 18 ongoing claims totalling $13.5 million, including three under appeal and one matter not related to DND (the latter matter is a $50,000 claim related to DCC for which no provision is required). These figures compare with 11 ongoing claims with a total value of $7.9 million at March 31, 2011.

In accordance with the memorandum of understanding (MOU) between DCC and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by DCC. Thus, the financial risk associated with settling these contractual claims does not have any financial impact on DCC. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims.

5.0 RISK MANAGEMENT

Under the direction of the Board of Directors, senior management established a new comprehensive corporate risk management framework. The new framework is based on the principles of integrated risk management and is written in accordance with the risk management methodology used by DND and many other government organizations.

The new framework will ensure that management direction on risks is clearly communicated, understood and applied throughout DCC; that risk management is integrated into DCC's existing decision-making, planning and corporate governance structures; and that there is a consistent means to effectively apply risk management regularly to corporate and project-related activities.

Sound risk management practices are already ingrained in DCC's corporate culture, but the new framework is better integrated into the Corporation's strategic planning process and business management framework. Risk management will continue to be practised at various levels across the organization, for both the corporate and operational aspects of DCC's business. Quarterly, business units will identify and report potential risks to regional offices. The regions and service lines will evaluate and deal with areas of concern, forwarding those considered to have a region-wide impact to the vice-presidents for their review. The Executive Management Group will review risks that are considered corporate wide and then forward them to the Board of Directors.

The Executive Management Group is responsible for implementing actions that will mitigate corporate risks, while also promoting awareness of risk management among employees. Staff members are expected to identify risks and deal expediently with issues and problems. Risks will be managed at the lowest level possible; however, when employees identify a high risk, they must report it to their manager immediately, and a mitigation plan will be generated and implemented accordingly.

When necessary, employees ask senior managers for guidance and assistance regarding operational risks. 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 includes sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

5.1 ENVIRONMENTAL RESPONSIBILITIES

To mitigate DCC's impact on the environment, DCC's Board of Directors and Senior Management Group 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 to specify the significance of environmental incidents that employees must report.

Four environmental incidents arising from DCC activities or those of its contractors were reported in 2011–12.

- The first such incident, reported in May 2011, was an accidental discharge of black and grey sewage water from a holding tank at the DYE-M DEW Line Clean-Up project site. The contractor site crew immediately removed the discoloured snow and added the affected material to the nearby sewage lagoon. During the summer, when the area snow had melted, a visual inspection of the area was conducted and determined that the area affected posed no environmental risk.

- The second incident reported was a diesel fuel leak from a fuel truck at the FOX-3 Dewar Lakes DEW Line Clean-Up project site. The contractor immediately contained the spill, removed the leaked product and affected soil, and coordinated confirmatory soil sampling to verify the clean-up results.
- In August 2011, the third reported incident related to a diesel fuel spill at the CSEC Long-Term Accommodation Project site in Ottawa. The contractor contained the spill and the area was excavated to remove all of the contaminated fill material, which was transported offsite to an appropriate landfill site.
- The fourth incident occurred in February 2012 at the Canadian Forces Ammunition Depot (CFAD) Bedford site at CFB Halifax, Nova Scotia. It involved a diesel fuel spill from an auger truck that was engaged in the installation of a fence. The spill was immediately contained, fuel recovery was performed and an emergency clean-up with confirmatory soil sampling was completed.

DCC employees reported all four incidents in a timely and appropriate manner. Three such reportable environmental incidents occurred in 2010–11, while no incidents were reported in 2009–10 or 2008–09.

DCC continues to implement environmental incident reporting criteria that are harmonized with DND's criteria for spill reporting.

5.2 MAINTAINING A SAFE WORK ENVIRONMENT

Occupational health and safety are primary concerns at DCC, and the Corporation invests in safety-related communications and training. In 2011–12, DCC redefined its safe work practices, and engaged its site health and safety representatives to communicate the new safety processes and procedures. Improving the internal health and safety audit process is the key to monitoring DCC's performance. Health and safety audits were conducted at each site to identify areas for improvement and, following a review by the national coordinator, corrective measures were shared with each region. A new monthly *Health and Safety e-News Bulletin* was also developed to provide updated information to all health and safety representatives. Site and office inspections were conducted each month to engage employees and to help keep workplace safety top of mind.

The number of lost-time injuries increased from five in 2010–11 to 13 in 2011–12. Many of these accidents involved minor injuries and accounted for only 13 days of lost time, a decrease from 28 days in the previous fiscal year.

6.0 FINANCIAL PERFORMANCE

6.1 REVENUE

SERVICES REVENUE

Services revenue for all service lines combined was $111.8 million in 2011–12, an increase of $18.2 million or approximately 20% from the previous year. Approximately 19 percentage points of the increase related to the overall rise in business activity due to higher demand for services from the client and approximately one percentage point related to the increase in billing rates.

CONSTRUCTION SERVICES REVENUE

Revenue from Construction Services, which represents 50% of total revenue from all service lines, increased in 2011–12 by 19% over the previous year. About 18 percentage points of the increase related to higher demand for construction services and approximately one percentage point related to higher billing rates.

CONTRACT SERVICES REVENUE

Revenue from Contract Services increased during 2011–12 by 16% over the previous year. Although the overall dollar value of contracts awarded during fiscal 2011–12 remained stable over the previous fiscal year, the number of contracts awarded in fiscal 2011–12 increased 13% over the previous fiscal year. The increase in the volume of contracts awarded was the largest contributing factor to the year over year increase in contract services revenue. Other factors include increases to billing rates and the complexity of contracts awarded, which can vary from year to year.

PROJECT AND PROGRAM MANAGEMENT SERVICES REVENUE

Project and Program Management Services revenue increased by 23% in 2011–12, due to higher DND demand for the services included in this service line. The cyclical nature of DND's demand for these services has a direct impact on the revenue this service line generates from year to year.

ENVIRONMENTAL SERVICES REVENUE

Environmental Services revenue increased in 2011–12 by 10% over the previous fiscal year, driven primarily by increased demand for these services. The cyclical nature of DND's demand for these services has a direct impact on the revenue this service line generates from year to year.

REAL PROPERTY MANAGEMENT SERVICES REVENUE

Revenue from Real Property Management Services, which is an emerging service line, increased by 42% in 2011–12. That rise reflected a marked increase in demand for services related to facility and portfolio management, and the reclassification and consolidation of real property-type contract work from other service lines.

REVENUE, BY SERVICE LINE

			CHANGE	
(in thousands of dollars)	**2011–12**	2010–11	$	%
Construction Services	**$ 54,977**	$ 46,341	$ 8,636	19%
Contract Services	**11,382**	9,857	1,525	16%
Project and Program Management Services	**23,449**	19,072	4,377	23%
Environmental Services	**13,456**	12,281	1,175	10%
Real Property Management Services	**8,542**	6,025	2,517	42%
	$ 111,806	$ 93,576	$ 18,230	20%

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in the bank account and from investments, increased in 2011–12 by $286,000 or approximately 137% over the previous fiscal year. This significant increase is due to a combination of factors. The average monthly cash balance during the fiscal year was higher: $16.9 million in 2011–12, compared with $15.3 million in the previous year. The average interest rate paid on cash held at the bank increased from 0.97% in 2010–11 to 1.2% in 2011–12. In addition, the Corporation placed excess funds of $9.6 million in investments yielding average returns of 3.6% during all of 2011–12. In the previous year, these investments were in place for only three months.

INVESTMENT REVENUE

			CHANGE	
(in thousands of dollars)	**2011–12**	2010–11	$	%
Investment revenue	**$ 495**	$ 209	$ 286	137%

6.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries rose to $71.4 million in 2011–12, an increase of $10.7 million or approximately 18% over the previous fiscal year. Growth in the number of employees, due to higher levels of business activity, accounted for approximately 14 percentage points of the increase, whereas a combination of salary increases and employee salary mix accounted for the remainder.

Employee benefits rose to $21.2 million in 2011–12, an increase of $2.4 million or approximately 13% over the previous fiscal year. This increase was largely related to the rise in salaries. The increase of 13% is less than the increase in salaries due to lower costs related to the employer portion of Public Sector Superannuation (PSSA) pension contributions. The decrease in PSSA contributions contributed to the decrease in employee benefits as a percentage of salary to 30%, a decrease of about one percentage point over the previous year.

SALARIES AND EMPLOYEE BENEFITS

			CHANGE	
(in thousands of dollars)	**2011–12**	2010–11	$	%
Salaries	**$ 71,405**	$ 60,689	$ 10,716	18%
Employee benefits	**21,205**	18,777	2,428	13%
	$ 92,610	$ 79,466	$ 13,144	17%
Employee benefits as a percentage of salaries	30%	31%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $9.5 million in 2011–12, an increase of $1.3 million or approximately 16% over the previous year. A variety of factors influenced these expenses.

- Rent expenses increased by approximately 3%. The increase is due partly to the increase in office space and to increases in base rent, as per lease agreements, and increased in occupancy costs paid to landlords.
- Employee training and development costs increased by 20%, due to the rising number of employees and the inclusion of professional membership fees in employee training and development costs. Expressed as a percentage of base salary cost, the external costs for training and development activities in 2011–12 were 2.23%, which is a quarter percentage point higher than the figure in the previous year.

- Professional services expenses increased by about 17%, due to increased spending on the following:
  - consulting services for human resources projects related to implementing a competency-based performance management system and to evaluating DCC's job classification system; and
  - information technology consulting related to upgrading DCC's enterprise resource planning system and DCC's new document management software solution.
- Telephone and data communications costs decreased by 5%. They dropped because the Corporation realigned and consolidated telephone and data communications costs at DCC offices, and changed to a cheaper wireless service provider.
- Software maintenance costs rose by 17%, due to increased maintenance fees for desktop productivity software and enterprise software, such as DCC's document management systems and enterprise resource planning system.
- Computer software expenses increased by 1,311% due to purchases of desktop software that cost less than the Corporation's capitalization threshold of $1,000.
- Travel costs decreased by 15%. Employees travelled more efficiently in response to the Corporation's commitment to the fiscal restraint measures in the 2010 Budget.
- Office services, supplies and equipment expenses decreased by 1%, as the Corporation committed to keeping the expenses for office services at the 2010–11 level specified by the fiscal restraint measures in the 2010 Budget.
- Staff relocation costs increased by approximately 130%. This significant increase was the result of an increase in the number of staff relocations needed to address business requirements at both the operational and senior management levels. In any given year, the level of relocation activity is not necessarily tied to the overall volume of business. The Corporation undertakes a business case analysis in relation to all relocation decisions to ensure they are cost effective.
- Printing and stationery costs rose by 19%, due to a combination of increased staff, rising prices and increased business activity, specifically for service line development.
- Client services and communications costs increased by 9%, due to increased spending on the production of the quarterly financial reports.
- Recruiting costs decreased by 28% in 2011–12, due to lower use of advertising, as some key positions were advertised internally only.
- Computer equipment costs increased by 12% because DCC purchased more equipment that cost less than the Corporation's $1,000 capitalization threshold, as prices for computer equipment decreased.

OPERATING AND ADMINISTRATIVE EXPENSES

(in thousands of dollars)	**2011–12**	2010–11	CHANGE $	CHANGE %
	Actual	Actual		
Rent	**$ 2,191**	$ 2,136	$ 55	3%
Employee training and development	**1,596**	1,335	261	20%
Professional services	**1,227**	1,051	176	17%
Telephone and data communications	**724**	764	(40)	-5%
Software maintenance	**682**	582	100	17%
Computer software	**621**	44	577	1,311%
Travel	**557**	658	(101)	-15%
Office services, supplies and equipment	**573**	578	(5)	-1%
Staff relocation	**444**	193	251	130%
Printing and stationery	**236**	198	38	19%
Client services and communications	**125**	115	10	9%
Recruiting	**113**	158	(45)	-28%
Computer equipment	**67**	60	7	12%
Other	**321**	309	12	4%
	$ 9,477	$ 8,181	$ 1,296	16%

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by a total of 22% or $231,000 in 2011–12. Amortization of intangible assets increased by $46,000 or 65% over the previous fiscal year due to the Corporation's purchase of document management software in the middle of 2010–11. Fiscal 2011–12 was the first full year of amortization for this software. Depreciation of property, plant and equipment increased by $171,000 or 19%, because 2011–12 was the first full year of depreciation for assets purchased in late 2010–11.

DEPRECIATION AND AMORTIZATION

			CHANGE	
(in thousands of dollars)	**2011–12**	2010–11	$	%
Depreciation of property, plant and equipment	**$ 1,065**	$ 894	$ 171	19%
Depreciation of assets under finance lease	**115**	101	14	14%
Amortization of intangible assets	**117**	71	46	65%
	$ 1,297	$ 1,066	$ 231	22%

6.3 TOTAL COMPREHENSIVE INCOME

The total comprehensive income of the Corporation for the year ended March 31, 2012, was $9.0 million, compared with total comprehensive income of $5.4 million in the previous year, an increase of 66% or $3.6 million. The increase in operating results is due to a combination of factors, including an increase of 20% in revenue combined with slower increases in salaries and benefits of 17% and in operating costs of 16%. Another factor in the increase in total comprehensive income is the increase of 2% in staff utilization, which decreased overhead salaries as a percentage of revenue. A consequence of the Corporation's efforts relating to the fiscal restraint measures in the 2010 Budget was that the rate of growth of certain expenses was kept to 0% or to a level lower than revenue growth. This resulted in lower operating costs as a percentage of revenue, which increased total comprehensive income.

The Corporation also experienced a gain of $98,000 in fiscal 2011–12 and $369,000 in fiscal 2010–11 on the actuarial valuation of employee benefits.

TOTAL COMPREHENSIVE INCOME

(in thousands of dollars)	**2011–12**	2010–11	CHANGE $	CHANGE %
Net income	**$ 8,890**	$ 5,048	$ 3,842	76%
Other comprehensive income				
Gain on employee benefits	**98**	369	(271)	-73%
Total comprehensive income	**$ 8,988**	$ 5,417	$ 3,571	66%

6.4 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

DCC's financial management policy is to generate and maintain sufficient cash to meet its anticipated operating requirements and capital requirements, and to settle its financial obligations as they become due.

The Corporation operates on a fee-for-service basis and receives no cash funding through government appropriations, nor does it maintain or have access to any lines of credit or other sources of borrowings. Thus, the Corporation's cash is generated solely from fees collected from its Client-Partner (DND) for services provided.

Consistent with its mandate, the intent of the Corporation is to operate on a slightly better than break-even basis and to return any excess funds to its Client-Partner. All of the Corporation's cash is generated from the services it provides to DND. Any cash surpluses judged to exceed operating requirements are returned to the Client-Partner through the setting of billing rates for ongoing services, which reduces the cost of infrastructure services for DND. The Corporation sets billing rates based on expected program and operating costs. However, unexpected increases in program services provided to DND, as well as DCC's additional success in achieving its own operating efficiencies, can result in margins that exceed its initial targets.

The Corporation prudently allows for reasonable levels of cash contingencies in its financial projections to ensure that it has sufficient cash reserves to continue to fulfill its mandate and serve its Client-Partner in an effective and timely manner. Cash levels are constantly monitored. Any surpluses or shortfalls that may occur from time to time are taken into account in future operating plans and budgets, particularly in the setting of billing rates for ongoing services provided to DND.

The Corporation takes several factors into consideration in determining the amount of cash reserves maintained, including the planning and operating risk inherent in its operations. In particular, the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by DND has a direct impact on the amount or timing of services provided by DCC and on the cash levels generated.

Other factors include the uncertainty in the timing of collections of accounts receivable from DCC's Client-Partner for services rendered, as well as the timing and amount of payments to satisfy the Corporation's obligations and to pay for liabilities associated with employee benefits, as detailed below.

There are no restrictions on the use of the Corporation's funds, and no legal or statutory obligations to segregate funds for any current or future liabilities, including benefits for employees. As such, the Corporation does not have any segregated or restricted funds, and cash in excess of short-term operating and capital requirements is invested in accordance with the investment policy approved by the Board of Directors.

CASH REQUIREMENTS AND USES

Some of the more significant working capital cash requirements include payments for salaries, wages and benefits, leased office space, employee training and development, professional services, telecommunications, office supplies, and business travel. Cash is also maintained and used to buy computer hardware and software, as well as office furniture and equipment, and to pay for leasehold improvements.

The Corporation carries a liability on its financial statements for employee benefits. It represents the Corporation's liability for the estimated costs of severance accumulation for retirement and resignation benefits for its employees, as well as health care benefits for its retirees. This liability also includes amounts to provide for severance payments to employees upon retirement or resignation. In a June 2011 communication from the Secretary of the Treasury Board, confirmed by DCC's Minister in her letter of expectation dated December 15, 2011, Crown corporations were asked to work toward the 2011 Budget commitment to manage compensation costs by taking the necessary steps to eliminate severance accumulation for retirement and resignation benefits. In response to this request, DCC is currently looking at ways to deal with this issue, and it expects to use some of its cash reserves to reduce or eliminate these liabilities.

Cash may also be required for costs associated with workforce adjustments, including relocations, if such adjustments are required as a result of unexpected fluctuations or changes in DND's infrastructure program.

CASH AND INVESTMENTS

The cash balance at March 31, 2012, was $20.9 million, an increase of $8.1 million or 63% from the previous year. During 2011–12, the Corporation generated $9.7 million in cash from operating activities, spent $1.2 million on capital expenditures, invested $362,000, and paid $141,000 on finance lease obligations.

Investments (both current and long term) at March 31, 2012, were $9.8 million, an increase of $242,000 or 3% from the previous year. Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity. The Corporation currently invests in listed bonds, guaranteed investment certificates and mutual funds that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

Cash and investments totalled $30.7 million at March 31, 2012, an increase of $8.3 million or 37% from the previous year.

TRADE RECEIVABLES

Trade receivables are due from the Corporation's client, DND. At March 31, 2012, the amount of trade receivables was $22.8 million, which represents an increase of $4.3 million or 23% over the previous year. The increase was due to higher revenue in the last quarter of 2011–12 compared with the comparable quarter of the previous fiscal year.

CURRENT LIABILITIES

Current liabilities were $13.5 million at March 31, 2012, an increase of $5.0 million or 58% from March 31, 2011. As previously mentioned, DCC is working to eliminate the severance accumulation for retirement and resignation benefits, and expects to reduce or eliminate a portion of the employee benefits relating to the severance payout. As such, the variance in current liabilities is primarily attributable to the reclassification of $5.0 million in employee benefits from non-current to current.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands of dollars)	**2011–12**	2010–11	CHANGE $	CHANGE %
Cash	**$ 20,869**	$ 12,789	$ 8,080	63%
Investments	**9,835**	9,593	242	3%
Cash and investments	**$ 30,704**	$ 22,382	$ 8,322	37%
Trade receivables	**$ 22,812**	$ 18,526	$ 4,286	23%
Current liabilities	**$ 13,477**	$ 8,507	$ 4,970	58%

6.5 PROVISION FOR EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave and severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2012, was $20.8 million, an increase of $3.4 million or approximately 20% from the previous year. The balance increased by the amount of benefits accrued in the current fiscal year ($4.3 million) and decreased by the amount of benefits paid in the current year ($816,000). The provision for employee 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 in the average expected remaining service lifetime of active employees, due to changing demographics. Note 17 to the financial statements describes the actuarial assumptions used in determining the provision. This liability is primarily a non-current one 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 benefit payment obligations as they become due. As previously stated, the Corporation expects to settle all or a portion of the severance benefits and, as such, a portion of the provision for employee benefits ($5 million) has been reclassified as a current liability in anticipation of the settlement of the severance benefits.

PROVISION FOR EMPLOYEE BENEFITS

(in thousands of dollars)	**2011–12**	2010–11	CHANGE $	CHANGE %
Accrued benefit liability	**$ 20,806**	$ 17,410	$ 3,396	20%
Less: Current portion	**5,504**	409	5,095	1,246%
Long-term portion	**$ 15,302**	$ 17,001	$ (1,699)	-10%

6.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for 2011–12 totalled $1.2 million, a decrease of $425,000 or 26% from the previous year. The decrease was mainly due to lower spending for leasehold improvements for Head Office, lower spending on furniture and equipment at regional and site offices, and lower spending on software related to the document management system that DCC implemented in 2010–11. The Corporation also spent less on computer equipment because employee growth slowed and because the Corporation updated a great deal of older information technology infrastructure in 2010–11.

CAPITAL EXPENDITURES

			CHANGE	
(in thousands of dollars)	**2011–12**	2010–11	$	%
Software	**$ 175**	$ 330	$ (155)	-47%
Computer equipment	**770**	869	(99)	-11%
Furniture and equipment	**81**	147	(66)	-45%
Leasehold improvements	**165**	270	(105)	-39%
	$ 1,191	$ 1,616	$ (425)	-26%

6.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in 2011–12 with the projections in the Corporate Plan.

Services revenue was $9.7 million or 10% above plan, due mainly to higher-than-planned business volume.

Investment revenue was $295,000 or 148% above plan. This variance was primarily due to a higher-than-planned cash balance and returns on the investment portfolio.

Salaries and employee benefits were $3.3 million or 4% higher than plan. This increase was largely the result of higher-than-planned staff growth and higher-than-planned service requirements of the client.

Operating and administrative expenses were $478,000 or 5% below plan. The decrease was largely due to lower-than-planned spending in areas such as training and development, relocation, travel, and professional fees due to the Corporation's efforts to limit spending as part of the 2010 Budget fiscal restraint measures.

Depreciation and amortization were $97,000 or 8% higher than plan, despite lower capital expenditures in the current year. Depreciation and amortization were higher in 2011–12 as it was the first full year of depreciation and amortization for the assets purchased in late 2010–11.

The significant variation in total comprehensive income compared with plan is the result of three major factors: a better gross margin rate; a decrease in operating and administrative expenses, expressed as a percentage of revenue; and higher employee utilization rates in the year.

Capital expenditures were $828,000 or 36% below plan, due to lower spending on leasehold improvements, office furniture and equipment, and software.

ACTUAL PERFORMANCE VERSUS PLAN

	Actual	Plan	CHANGE	
(in thousands of dollars)	**2011–12**	2011–12	$	%
Revenue				
Services	**$ 111,806**	$ 102,085	$ 9,721	10%
Investment	**495**	200	295	148%
	112,301	102,285	10,016	10%
Expenses				
Salaries and employee benefits	**92,610**	89,285	3,325	4%
Operating and administrative costs	**9,504**	9,982	(478)	-5%
Depreciation and amortization	**1,297**	1,200	97	8%
	103,411	100,467	2,944	3%
Net income	**8,890**	1,818	7,072	389%
Items of other comprehensive income	**98**	–	98	100%
Total comprehensive income	**8,988**	1,818	7,170	394%
Capital expenditures	**$ 1,191**	$ 2,019	$ (828)	-36%

6.8. FIVE-YEAR SUMMARY FINANCIAL INFORMATION*

(in thousands of dollars)	**2011–12**	2010–11	2009–10	2008–09	2007–08
Revenue					
Services	**$ 111,806**	$ 93,576	$ 89,654	$ 71,570	$ 55,458
Investment	**495**	209	73	154	258
	$ 112,301	$ 93,785	$ 89,727	$ 71,724	$ 55,716
Expenses					
Salaries and employee benefits	**92,610**	79,466	74,552	60,069	49,343
Operating and administrative costs	**9,477**	8,181	7,964	7,130	6,228
Depreciation and amortization	**1,297**	1,066	939	1,053	851
Finance costs	**27**	24	–	–	–
	103,411	88,737	83,455	68,252	56,422
Profit (loss) for the year	**$ 8,890**	$ 5,048	$ 6,272	$ 3,472	$ (706)
Other comprehensive income	**98**	369	853	–	–
Total comprehensive income	**8,988**	5,417	7,125	3,472	(706)
Retained earnings, beginning of year	**19,400**	13,983	6,858	3,386	4,092
Retained earnings, end of year	**$ 28,388**	$ 19,400	$ 13,983	$ 6,858	$ 3,386
Assets					
Cash	**$ 20,869**	$ 12,789	$ 17,493	$ 7,962	$ 6,135
Investments	**9,835**	9,593	–	–	–
Trade receivables, prepaids and advances	**23,789**	19,871	16,984	15,917	9,847
Property, plant and equipment and assets under finance lease	**2,490**	2,532	2,073	1,700	1,413
Intangible assets	**428**	370	111	110	116
	$ 57,411	$ 45,155	$ 36,661	$ 25,689	$ 17,511

continued >

(in thousands of dollars)	**2011–12**	2010–11	2009–10	2008–09	2007–08
Liabilities					
Accounts payable, related parties and accrued liabilities	**$ 7,853**	$ 7,911	$ 7,911	$ 6,488	$ 4,112
Finance lease obligation	**364**	354	297	–	–
Employee benefits	**20,806**	17,410	14,470	12,343	10,013
	29,023	25,755	22,678	18,831	14,125
Equity					
Share capital	**–**	–	–	–	–
Retained earnings	**28,388**	19,400	13,983	6,858	3,386
	$ 28,388	$ 19,400	$ 13,983	$ 6,858	$ 3,386
	$ 57,411	$ 45,155	$ 36,661	$ 25,689	$ 17,511
Cash flows from (used in):					
Operating activities	**$ 9,747**	$ 6,664	$ 10,595	$ 3,161	$ (925)
Acquisition of property, plant and equipment, and intangibles	**(1,191)**	(1,616)	(1,064)	(1,334)	(785)
Acquisition of investments	**(362)**	(9,651)	–	–	–
Financial activities	**(114)**	(101)	–	–	–
Increase (decrease) in cash during the year	**8,080**	(4,704)	9,531	1,827	(1,710)
Cash, beginning of year	**12,789**	17,493	7,962	6,135	7,845
Cash, end of year	**$ 20,869**	$ 12,789	$ 17,493	$ 7,962	$ 6,135

* NOTE: Fiscal 2009–10, 2010–11 and 2011–12 figures are presented in accordance with International Financial Reporting Standards (IFRS). Fiscal 2007–08 and 2008–09 figures are presented in accordance with Canadian generally accepted accounting principles.

6.9 COST CONTAINMENT

In the Corporate Plan for 2011–12 to 2015–16, the Corporation outlined a number of initiatives to respond to the announcements outlined in the Government of Canada's 2010 Budget. The 2010 Budget announced measures to reduce operating expenditures and improve efficiency while lowering the rate of growth in the size and operations of the public service. As part of this effort, the government asked departments and Crown corporations funded by parliamentary appropriations to freeze their operating budgets for 2011–12 and 2012–13 at 2010–11 levels. The government also announced that it expected federal organizations not funded by parliamentary appropriations to follow suit and freeze their operating expenses.

As DCC is a revenue-generating Crown corporation, its spending is largely determined by DND's demand for its services. As such, it cannot simply implement an organization-wide spending freeze on operating expenses. In keeping with the intent of the 2010 Budget, DCC planned to manage its discretionary spending carefully with the goal of limiting discretionary spending for 2011–12 and 2012–13 to 2010–11 levels. The Corporation took subsequent steps and achieved the following results:

SALARY INCREASES AND BENEFITS

The Corporation continues to monitor trends in the private and public sectors to determine appropriate salary increases. For the 2011–12 year, the Corporation increased salaries by 1.75%, in keeping with similar agreements in the public sector and inflation in general. For the 2012–13 year, the economic salary increase was set at 1.5%. Salaries and benefits grew by 17% in 2011–12, while revenue increased by 20%.

STAFFING LEVELS

For the 2011–12 year, the growth in staff was strictly limited to those necessary to meet client requirements. Overhead resources not directly related to the delivery of services to DND were not added beyond those already budgeted for.

BUSINESS TRAVEL

In 2011–12, the Corporation was able to reduce discretionary business travel expenses by $101,000 or 15% from 2010–11 spending. Business travel expenses were $573,000 in 2011–12, compared with $658,000 in 2010–11.

CONFERENCES

The Corporation continued to minimize spending on conferences by sending employees only to those events necessary to support revenue-generating activities.

HOSPITALITY

The Corporation kept hospitality expenses to $30,000 in 2011–12, consistent with spending in 2010–11.

PROFESSIONAL AND CONSULTING FEES

The Corporation spent $176,000 more on professional and consulting fees in 2011–12 than in 2010–11, an increase of 17%. The increase related to projects to introduce a competency-based performance management system, evaluate the current job classification system and upgrade the Corporation's enterprise management planning system. These strategic initiatives were identified in the 2011–12 Corporate Plan.

OTHER DISCRETIONARY SPENDING

Overall, the Corporation's administrative and operating expenses increased more slowly than revenue did. Administrative and operating expenses increased by 16%, while revenue increased by 20%.

7.0 OUTLOOK

For 60 years, DCC has partnered with the Department of National Defence in delivering infrastructure services. The Corporation is proud to be able to contribute to the defence of Canada. It is expected that DCC will remain a strong partner with DND in its ongoing implementation of the *Canada First* Defence Strategy, by continuing to support the infrastructure and environmental requirements of the Army, Navy and Air Force.

Providing cost-effective service, protecting the interests of the Crown and generating value for Canadians have always been key DCC goals. As stated in the 2012–13 Corporate Plan, DCC is committed to the spirit and intent of the fiscal restraint measures that the Government of Canada outlined in the 2011 Budget and is focused on generating savings within its operations where possible to support the plan to reduce Canada's deficit.

Demand from DND/CF for services largely determines DCC's spending level. Based on a request from the Minister in July 2011, DCC completed a review and submitted a proposal to reduce the cost of DCC services to DND/CF. The cost-saving opportunities DCC has identified in its proposal will allow the Corporation to freeze its billing rates at current levels for at least the next two fiscal years. This measure is expected to save DND/CF approximately $5 million.

DCC will continue to respond to the evolving needs of its Client-Partner, especially as DND implements its own internal cost-efficiency measures. Generally, as the Government of Canada focuses on reducing the deficit by controlling spending and cutting waste, DCC is open to exploring ways its mandate, well-established business model and expertise can support this effort.

DCC's service demand is driven primarily by the requirements of DND/CF, and the Corporation has created a structure and business model that can respond rapidly to changing client requirements. The volumes of DND's capital construction (including construction to support equipment acquisition) and environmental remediation programs are expected to remain at current levels in 2012–13, with moderate increases forecasted through the planning period. A slight funding increase is expected in DND's operations and maintenance budget for 2012–13. Depending on the outcome of the strategic and operating review, DND/CF may require more support for real property or facilities management.

As well, the Government of Canada may call on DCC to leverage some of its other expertise. For example, over the past two years, DCC has been involved with Communications Security Establishment Canada's Long-Term Accommodation Project, delivered as a public-private partnership (P3). The Government of Canada fully supports this type of procurement approach where desirable and specifically noted in the 2011 Budget that all infrastructure projects valued at over $100 million should be considered under the P3 approach. DCC's proficiency in this area could be used to maximum advantage in the future. At the same time, DCC is ready, willing and able to contribute to a more effective real property management model for the Government of Canada, which would optimize expenditures and demonstrate efficiencies.

As part of Canada's Northern Strategy, the government is prepared to vigorously defend Canada's Arctic sovereignty. That requires an increased military presence. DCC has 60 years of experience and expertise in managing Arctic infrastructure projects for its Client-Partner. The Corporation stands ready to apply its accumulated northern expertise in relation to defence infrastructure and environmental projects arising out of Canada's Northern Strategy.

Recruiting and retaining skilled professionals remain corporate priorities in the near to medium-term future. The Corporation faces an ongoing requirement for highly specialized expertise. At the same time, it must manage its own workforce demographic environment, including a wave of impending retirements. Currently, 65% of employees have been with DCC for five years or less, and 45% of all employees have been with DCC for three years or less. DCC will continue to adjust its processes, procedures, controls and systems to suit the new scale of the Corporation, and to shift its expertise to different areas, as required.

Crown corporations are important instruments of public policy and DCC plays a role in advancing a number of the government's objectives. Specifically, DCC contributes to the results of DND/CF in the defence of Canada by supporting CF operations, in Canada and overseas, in the areas of construction, maintenance, facility operation, and specialized professional services to support project and program delivery. In her most recent statement of priorities and accountabilities (also known as a letter of expectations), the Minister of Public Works and Government Services recognized DCC's role and its contributions to Canada.

7.1 FINANCIAL OUTLOOK

The Corporation has traditionally taken a conservative approach to forecasting future growth. Its latest Corporate Plan shows an increase in revenue of approximately 9% for 2012–13, driven by anticipated higher business volume. The Corporation has committed to a 0% increase in billing rates for fiscal 2012–13, 2013–14 and 2014–15.

For the remaining plan years, revenue is forecast to continue to increase moderately each year—by approximately 3% in 2013–14, by 2% in 2014–15, by 4% in 2015–16 and by 3% in 2016–17. The increases of 4% and 3% in 2015–16 and 2016–17, respectively, are a combination of growth and billing rate increases of 1%, which will recommence after three years of being held at the 2011–12 level. These forecasts are all based on DND projections.

Salary and benefits expenses for 2012–13 are forecast to increase by approximately 15% from those in 2011–12. This increase is due to revenue growth of approximately 10% and to a combination of inflation and performance-based merit increases totalling 5%. The increases in salary and benefits expense in 2013–14, 2014–15, 2015–16 and 2016–17 are 7%, 6%, 6% and 5% respectively, and are due to a combination of factors including the expected increases for inflation and merit and the expected increases to the workforce which is in line with the projected increases to services revenue.

Operating and administrative expenses for 2012–13 are projected to decrease by 0.5% from those in 2011–12. This decrease is the Corporation's response to the Government of Canada's efforts to contain costs as part of the strategic and operating review and the deficit reduction action plan. The Corporation has committed to keeping certain discretionary costs in 2012–13 in line with those in 2011–12. Operating and administrative expenses are forecast to increase by 2.5% annually from 2013–14 to 2016–17. The increases in the later part of the plan are related to inflation.

Depreciation and amortization are expected to increase by 26% in 2012–13 over figures in 2011–12, due mainly to the projected rise in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in depreciation and amortization over the remaining years of the plan.

Total comprehensive income of $5.5 million is forecast for 2012–13, a decrease of 38% from the actual total comprehensive income of $9.0 million in 2011–12. The decrease is a result of holding billing rates at the 2011–12 level. In the remaining years of the plan, total comprehensive income is expected to decrease each year as billing rates are held to 2011–12 rates until 2014–15, to reach a loss of $8.8 million in 2016–17.

Capital expenditures are projected to increase by 77% in 2012–13 over the previous year. The anticipated expenditures for the year ending March 31, 2013, will primarily relate to ongoing requirements to provide computers and software to new employees; to upgrade older computer systems and software; and to make leasehold improvements, and buy office furniture and equipment for new facilities, to accommodate the growing workforce. Spending is projected to remain stable from 2013–14 to 2016–17 due to the expected slowdown in the growth of the Corporation's workforce and to capital replacement plans for information technology that will spread spending more evenly over the years.

FINANCIAL OUTLOOK

(in thousands of dollars)	**2011–12 ACTUAL**	2012–13 PLAN	2013–14 PLAN	2014–15 PLAN	2015–16 PLAN	2016–17 PLAN
Revenue						
Services	**$ 111,806**	$ 122,307	$ 125,976	$ 128,496	$ 133,636	$ 137,645
Investment	**495**	450	473	450	400	350
	112,301	122,757	126,449	128,946	134,036	137,995
Expenses						
Salaries and employee benefits	**92,610**	106,120	113,181	119,913	127,054	133,700
Operating finance and administrative costs	**9,504**	9,465	9,702	9,945	10,194	10,449
Depreciation and amortization	**1,297**	1,634	1,990	2,132	2,553	2,604
	103,411	117,219	124,873	131,990	139,801	146,753
Profit (loss) for the year	**8,890**	5,538	1,576	(3,044)	(5,765)	(8,758)
Comprehensive income	**98**	–	–	–	–	–
Total comprehensive income	**8,988**	5,538	1,576	(3,044)	(5,765)	(8,758)
Capital expenditures	**$ 1,191**	$ 2,103	$ 2,750	$ 2,750	$ 2,750	$ 2,750

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 International Financial Reporting Standards using management's best estimates and judgements where appropriate. 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 bylaws 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 his report thereon.

James S. Paul
President
and Chief Executive Officer

Angelo Ottoni
Vice-President, Corporate Services,
Chief Financial Officer and Treasurer

June 6, 2012

Auditor General of Canada
Vérificatrice générale du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Public Works and Government Services Canada

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Defence Construction (1951) Limited, which comprise the statements of financial position as at 31 March 2012, 31 March 2011 and 1 April 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended 31 March 2012 and 31 March 2011, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of Defence Construction (1951) Limited as at 31 March 2012, 31 March 2011 and 1 April 2010, and its financial performance and its cash flows for the years ended 31 March 2012 and 31 March 2011 in accordance with International Financial Reporting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards explained in Note 23 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Defence Construction (1951) Limited that have come to my notice during my audits 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 Defence Construction (1951) Limited.

Joe Martire, CA
Principal
for the Auditor General of Canada

6 June 2012
Ottawa, Canada

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF FINANCIAL POSITION

As at March 31, 2012

(in thousands of Canadian dollars)	**2012**	2011	2010
Assets			
Cash (note 8)	**$ 20,869**	$ 12,789	$ 17,493
Investments (note 14)	**554**	685	–
Trade receivables (note 9, 20)	**22,812**	18,526	16,170
Prepaid and other current assets (note 10)	**977**	1,345	814
Current assets	**45,212**	33,345	34,477
Investments (note 14)	**9,281**	8,908	–
Property, plant and equipment (note 11)	**2,167**	2,216	1,824
Assets under finance lease (note 12)	**323**	316	249
Intangible assets (note 13)	**428**	370	111
Non-current assets	**12,199**	11,810	2,184
Total assets	**$ 57,411**	$ 45,155	$ 36,661
Liabilities and equity			
Trade and other payables (note 16, 20)	**$ 7,853**	$ 7,991	$ 7,911
Current portion - finance lease obligation (note 15)	**120**	107	96
Current portion - employee benefits (note 17)	**5,504**	409	235
Current liabilities	**13,477**	8,507	8,242
Finance lease obligation (note 15)	**244**	247	191
Employee benefits (note 17)	**15,302**	17,001	14,245
Non-current liabilities	**15,546**	17,248	14,436
Total liabilities	**29,023**	25,755	22,678
Equity			
Share capital			
Authorized - 1,000 common shares of no par value Issued - 32 common shares	**–**	–	–
Retained earnings	**28,388**	19,400	13,983
Total equity	**28,388**	19,400	13,983
Total liabilities and equity	**$ 57,411**	$ 45,155	$ 36,661

Commitments: see note 19
Contingent liabilities: see note 22
The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors on June 6, 2012:

K. Matthews

Kris Matthews
Director

Shirley McClellan
Director

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31, 2012

(in thousands of Canadian dollars)	**2012**	2011
Services revenue (note 20)	**$ 111,806**	$ 93,576
Investment revenue (note 7)	**495**	209
Total revenue	**112,301**	93,785
Salaries and employee benefits	**92,610**	79,466
Operating and administrative expenses (note 6)	**9,477**	8,181
Depreciation of property, plant and equipment (note 11)	**1,065**	894
Depreciation of assets under finance lease (note 12)	**115**	101
Amortization of intangible assets (note 13)	**117**	71
Finance costs (note 18)	**27**	24
Total expenses	**103,411**	88,737
Profit for the year	**8,890**	5,048
Other comprehensive income		
Actuarial gain on employee benefit obligations	**98**	369
Total comprehensive income	**$ 8,988**	$ 5,417

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2012

(in thousands of Canadian dollars)	Share capital	Total capital	Retained earnings	Total equity
Balance at April 1, 2010	$ –	$ –	$ **13,983**	$ **13,983**
Profit for the year	–	–	5,048	5,048
Actuarial gain on employee benefit obligations			369	369
Balance at March 31, 2011	**–**	**–**	**19,400**	**19,400**
Profit for the year	–	–	8,890	8,890
Actuarial gain on employee benefit obligations			98	98
Balance at March 31, 2012	**$ –**	**$ –**	**$ 28,388**	**$ 28,388**

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, 2012

(in thousands of Canadian dollars)	**2012**	2011
Cash flow from operations		
Total comprehensive income	**$ 8,988**	$ 5,417
Items not requiring cash:		
Employee benefits (note 17)	**3,396**	2,930
Depreciation of property, plant and equipment (note 11)	**1,065**	894
Depreciation of assets under finance lease (note 12)	**115**	101
Amortization of intangible assets (note 13)	**117**	71
Amortization of investment premiums	**120**	58
	13,801	9,471
Increase (decrease) in non-cash working capital balances related to operations:		
Trade receivables	**(4,284)**	(2,356)
Prepaid and other current assets	**368**	(531)
Trade and other payables	**(138)**	80
	(4,054)	(2,807)
Net cash flows provided by (used in) operating activities	**9,747**	6,664
Cash flows used in investing activities		
Acquisition of investments	**(362)**	(9,651)
Acquisition of property, plant and equipment (note 11)	**(1,016)**	(1,286)
Acquisition of intangible assets (note 13)	**(175)**	(330)
Net cash flows provided by (used in) investing activities	**(1,553)**	(11,267)
Cash flows from (used in) financial activities		
Interest on finance leases (note 18)	**27**	24
Repayment of finance lease obligations	**(141)**	(125)
Net cash flows provided by (used in) financial activities	**(114)**	(101)
Increase (decrease) in cash during the period	**8,080**	(4,704)
Cash at the beginning of the period	**12,789**	17,493
Cash at the end of the period (note 8)	**$ 20,869**	$ 12,789

Supplementary Cash Flow information: see note 18

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

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Unless otherwise stated, all amounts are in thousands of Canadian dollars.

March 31, 2012

NOTE 1: SUMMARY OF BUSINESS AUTHORITY AND OBJECTIVES

Defence Construction (1951) Limited (the "Corporation") 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's head office is located at 350 Albert Street, Ottawa, Ontario, Canada. The Corporation is an agent Crown corporation named in Part 1 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 that play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

NOTE 2: BASIS OF PREPARATION AND PRESENTATION

These financial statements are prepared by the Corporation in accordance with the International Financial Reporting Standards (IFRS) issued by the Accounting Standards Board (AcSB). The Corporation adopted IFRS in accordance with IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. The first date on which the Corporation applied IFRS was April 1, 2010. (See note 23 for further explanation of the transition to IFRS.)

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

3.1 OVERALL CONSIDERATIONS AND FIRST-TIME ADOPTION OF IFRS

The significant accounting policies that the Corporation applied in preparing these financial statements are summarized below.

The financial statements have been prepared based on the historical cost except for financial instruments at fair value through profit and loss, which are measured at fair value. They have also been prepared using accounting policies specified by IFRS that were in effect at the end of the reporting period (March 31, 2012) or that the Corporation adopted earlier.

These accounting policies have been used throughout all periods presented in the financial statements, except where the Corporation applied certain accounting policies and exemptions upon transition to IFRS. Note 23 outlines these exceptions and the effects of the transition to IFRS.

3.2 EARLY ADOPTION OF IFRS

The Corporation has elected to apply IFRS 9 *Financial Instruments* (as amended in October 2010) early, in its first financial statements under IFRS.

IFRS 9 defines two primary measurement categories for financial assets: amortized cost and fair value. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

IFRS 9 requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead, the hybrid financial instrument is assessed in its entirety to determine whether it should be measured at amortized cost or fair value.

For investments in equity instruments that are not held for trading, IFRS 9 allows an irrevocable election, on an investment-by-investment basis, to present fair value changes from the investment in other comprehensive income. Dividends on such investments are generally recognized in profit and loss.

IFRS 9 requires that the effects of changes in the credit risk of liabilities designated as at fair value through profit and loss be presented in other comprehensive income, unless such treatment would create or enlarge an accounting mismatch in profit and loss. In that case, all gains and losses on that liability are presented in profit and loss.

The adoption of IFRS 9 has been applied retrospectively and is presented in note 5.

3.3 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

RECOGNITION AND INITIAL MEASUREMENT

The Corporation's financial assets and liabilities, including assets and liabilities designated as fair value through profit and loss, are initially recognized on the trade date on which the Corporation becomes a party to their acquisition.

A financial asset or liability is measured initially at fair value plus, for an item not recognized at fair value through profit and loss, transaction costs that are directly attributable to its acquisition.

CLASSIFICATION OF FINANCIAL ASSETS

At inception, a financial asset is classified at amortized cost or fair value.

A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Corporation assesses the business model at an asset level, as this best reflects the way the business is managed and information is provided to management.

In assessing whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Corporation considers the following:

- management's stated policies and objectives for the asset, and the operation of those policies in practice;
- how management evaluates the performance of the asset;
- the frequency of any expected asset sales; and
- whether assets that are sold are held for an extended period relative to their contractual maturity or are sold shortly after acquisition.

Financial assets held for trading are not held within a business model whose objective is to hold the assets in order to collect contractual cash flows.

Financial assets are not reclassified subsequent to their initial recognition, except when the Corporation changes its business model for managing financial assets.

CLASSIFICATION OF FINANCIAL LIABILITIES

The Corporation classifies its financial liabilities as measured at amortized cost or fair value through profit and loss.

FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date.

The Corporation measures the fair value using quoted prices in an active market, when available. If the market is not active, the Corporation establishes fair value using valuation techniques, including recent arm's-length transactions between knowledgeable, willing parties, if available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price—that is, the fair value of consideration given or received. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at that price.

IDENTIFICATION AND MEASUREMENT OF IMPAIRMENT

At each reporting date, the Corporation determines whether there is objective evidence that financial assets carried at amortized cost are impaired. A financial asset is impaired when objective evidence demonstrates a loss has occurred after the initial recognition of the asset.

3.4 CASH

For the purposes of the cash flow statement, cash includes cash on hand and in banks.

3.5 INVESTMENTS

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturities. The Corporation currently holds listed bonds, guaranteed investment certificates and mutual fund accounts that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. Interest income is accrued when receivable and included in income for the year.

3.6 TRADE RECEIVABLES

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value. Subsequent measurement of trade receivables are at amortized cost.

The Corporation does not maintain an allowance for doubtful accounts, as all trade receivables are receivable from the Government of Canada.

3.7 INTANGIBLE ASSETS

Intangible assets include acquired and internally developed software used in business operations. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted as an intangible asset. They are accounted for using the cost model, whereby capitalized costs are amortized on a straight-line basis over their estimated useful life. The estimated useful life of software is three to 10 years.

Items of intangible assets measured at cost not in use are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. The recoverable amount is the greater of fair value less cost to sell and value in use.

Amortization has been presented as "Amortization of Intangible Assets."

3.8 PROPERTY, PLANT AND EQUIPMENT, AND ASSETS UNDER FINANCE LEASE

Computer equipment, furniture and fixtures, leasehold improvements, and assets under finance lease are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged so as to write off the cost over the estimated useful life of such assets, using the straight-line method. The following useful lives are used to calculate depreciation:

Computer equipment	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	5 to 10 years
Assets under finance lease	5 years

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in profit and loss.

Items of property, plant and equipment, and assets under finance lease measured at cost less depreciation and impairment loss are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. The recoverable amount is the greater of the fair value less cost to sell and the value in use.

3.9 LEASED ASSETS

Leases are classified as either operating or finance, based on the substance of the transaction at the inception of the lease. Classification is reassessed if the terms of the lease change.

OPERATING LEASE

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentive received by the lessor) are recognized in the statement of comprehensive income on a straight-line basis over the period of the lease.

FINANCE LEASE

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between the finance expenses and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit and loss.

3.10 TRADE PAYABLES

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value and subsequently measured at amortized cost.

3.11 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities to the Corporation for which the amount or timing is uncertain. Provisions are recognized when: (a) the Corporation has a current legal or constructive obligation as a result of past events; (b) an outflow of resources will likely be required to settle the obligation; and (c) the amount can be reliably estimated. If any of these conditions are not met, no provision shall be recognised and a contingent liability will be disclosed in the note 22.

3.12 EMPLOYEE BENEFITS

Employees are entitled to specific severance and other non-pension post-employment benefits. Each year, independent actuaries use the projected unit credit method to actuarially determine the net periodic expense. To do so, they make assumptions about such factors as the discount rate for obligations, expected mortality, the expected rate of future compensation and the expected health care cost trend rate. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized immediately in other comprehensive income and included in the statement of comprehensive income.

The Corporation provides post-employment benefits payable after completion of employment. Sick leave is accumulated by employees and available in case of absence from work. Accumulated sick leave is not paid out when the employee leaves the Corporation. The types of post-employment benefits include severance payable upon retirement, extended health care and paid-up life insurance.

3.13 PENSION BENEFITS

Substantially all of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Under current legislation, the Corporation has no legal or constructive obligation to make further contributions for any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

3.14 REVENUE RECOGNITION

The Corporation does not generate revenue from the sale of goods, from dividends or from royalties.

SERVICE REVENUE

Revenue comes from the delivery of services to the client. It is measured by reference to the fair value of consideration received or receivable for services provided.

Revenue is recognized when the amount of revenue can be measured reliably, when the economic benefits associated with the transaction will likely flow to the Corporation, and when the costs incurred or to be incurred can be measured reliably.

Revenue from an arrangement to provide services is recognized using the time and materials method as the agreed rates as labour hours are delivered and direct expenses are incurred and using the fixed fee method where the client is billing a regular monthly amount.

INVESTMENT REVENUE

Investment revenue is recognized on an accrual basis using the effective interest method.

3.15 TAXATION

The Corporation is not subject to corporate taxation under section 149(1)(d) of the *Income Tax Act*.

3.16 FUTURE CHANGES IN ACCOUNTING POLICIES

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation.

IAS 1 PRESENTATION OF FINANCIAL STATEMENT (“IAS 1”)

IAS 1 was amended to revise the way other comprehensive income is presented. The adoption of this amendment is not expected to have an impact on the Corporation’s financial statements. IAS 1 is applicable fiscal years beginning on or after July 1, 2012.

IFRS 13 FAIR VALUE MEASUREMENT (“IFRS 13”)

IFRS 13 defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS standards that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Corporation’s financial statements.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES

Under the Corporation's accounting policies, described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 DEPRECIATION AND AMORTIZATION

The Corporation reviews the estimated life of property, plant and equipment, intangible assets, and assets under finance lease at each year end. There was no change required at the last year end.

4.2 EMPLOYEE BENEFITS

The Corporation provides employee benefits to cover employees' severance pay, extended health care, life insurance and sick leave benefits. The determination of expenses and obligations associated with employee benefits requires the use of assumptions about such factors as the discount rate for measuring obligations, mortality rates, the rate of future compensation and health care cost trends. Because determining the expenses and obligations associated with employee benefits requires the use of such assumptions, measurement uncertainty is inherent in the actuarial valuation process. Actual results may differ from results estimated based on assumptions. See note 17 for further details.

NOTE 5: FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION

	Fair value through profit and loss	Fair value through other comprehensive income	Amortized cost	Total carrying amount	Fair value
As at March 31, 2012					
Cash	$ 20,869	$ –	$ –	$ 20,869	$ 20,869
Investments	–	–	9,835	9,835	10,249
Trade receivables	–	–	22,812	22,812	22,812
Other current assets	–	–	22	22	22
Total financial assets	**$ 20,869**	**$ –**	**$ 32,669**	**$ 53,538**	**$ 53,952**
Accounts payable and accrued liabilities	$ –	$ –	$ 7,853	$ 7,853	$ 7,853
Total financial liabilities	**$ –**	**$ –**	**$ 7,853**	**$ 7,853**	**$ 7,853**

	Fair value through profit and loss	Fair value through other comprehensive income	Amortized cost	Total carrying amount	Fair value
As at March 31, 2011					
Cash	$ 12,789	$ –	$ –	$ 12,789	$ 12,789
Investments	–	–	9,593	9,593	9,528
Trade receivables	–	–	18,526	18,526	18,526
Other current assets	–	–	23	23	23
Total financial assets	**$ 12,789**	**$ –**	**$ 28,142**	**$ 40,931**	**$ 40,866**
Accounts payable and accrued liabilities	$ –	$ –	$ 7,991	$ 7,991	$ 7,991
Total financial liabilities	**$ –**	**$ –**	**$ 7,991**	**$ 7,991**	**$ 7,991**

	Fair value through profit and loss	Fair value through other comprehensive income	Amortized cost	Total carrying amount	Fair value
As at April 1, 2010					
Cash	$ 17,493	$ –	$ –	$ 17,493	$ 17,493
Investments	–	–	–	–	—
Trade receivables	–	–	16,170	16,170	16,170
Other current assets	–	–	24	24	24
Total financial assets	**$ 17,493**	**$ –**	**$ 16,194**	**$ 33,687**	**$ 33,687**
Accounts payable and accrued liabilities	$ –	$ –	$ 7,911	$ 7,911	$ 7,911
Total financial liabilities	**$ –**	**$ –**	**$ 7,911**	**$ 7,911**	**$ 7,911**

5.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets subject to credit risk as at March 31, 2012, was $53,538 (as at March 31, 2011, it was $40,931 and as at April 1, 2010, it was $33,687) and represented the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset. The Corporation minimizes credit risk on cash by depositing the cash only with reputable and high-quality financial institutions. The Corporation has no significant exposure to credit risk on trade receivables, as almost all of the trade receivables are due from the Government of Canada. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of trade receivables with any one customer. Based on historic default rates and the aging analysis in note 9, Trade Receivables, the company believes that there are no requirements for an allowance for doubtful accounts. Other current assets consist of balances related to travel advances to employees and computer loans to employees. Prepaids are not included in other current assets.

5.2 LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities as at March 31, 2012, was $7,853 (as at March 31, 2011, it was $7,991 and as at April 1, 2010, it was $7,911) and represented the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low, since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. Maturity analysis in note 16 shows low risk as virtually all obligations are current. In addition, as at March 31, 2012, the Corporation's financial assets exceeded its financial liabilities by $45,685 (as at March 31, 2011, its financial assets exceeded its financial liabilities by $32,940 and as at April 1, 2010, its financial assets exceeded its financial liabilities by$25,776).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	6 months or less	More than 6 months
Accrued vacation and overtime	$ 3,480	$ 3,480	$ 3,480	$ –
Accrued liabilities	731	731	731	–
Accounts payable	2,826	2,826	2,826	–
Commodity taxes payable	816	816	816	–
	$ 7,853	**$ 7,853**	**$ 7,853**	**$ –**

5.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation's financial assets and liabilities are not exposed to fluctuations in currency risk, given their underlying nature and characteristics.

The Corporation is exposed to fluctuations in interest rates on its investments. As at March 31, 2012, most of the investments ($9,835) were in fixed interest-bearing instruments (as at March 31, 2011, the comparable figure was $9,593 and as at April 1, 2010, $0). Fluctuations in the interest rate would affect the fair value of the instruments; however, management intends to hold these instruments until maturity. The Corporation has determined that the risk is not significant.

NOTE 6: OPERATING AND ADMINISTRATIVE EXPENSES

		2012		2011
Rent	**$**	**2,191**	$	2,136
Employee training and development		**1,596**		1,335
Professional services		**1,227**		1,051
Telephone and data communications		**724**		764
Maintenance		**682**		582
Computer software		**621**		44
Office services, supplies and equipment		**573**		578
Travel		**557**		658
Staff relocation		**444**		193
Printing and stationery		**236**		198
Client services and communications		**125**		115
Recruiting		**113**		158
Computer equipment		**67**		60
Other		**321**		309
	$	**9,477**	$	8,181

NOTE 7: INVESTMENT REVENUE

		2012		2011
Interest from:				
Bank deposits	**$**	**205**	$	158
Investments		**290**		51
	$	**495**	$	209

NOTE 8: CASH

		As at March 31, 2012		As at March 31, 2011		As at April 1, 2010
Cash in the bank	$	20,869	$	12,789	$	17,493

There are no restrictions on cash and all transactions are in Canadian currency.

NOTE 9: TRADE RECEIVABLES

Trade receivables are due entirely from related parties (see note 20).

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Trade receivables	$ 22,812	$ 18,526	$ 16,170

The aging of the trade receivables at each reporting date was as follows.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Current	$ 11,369	$ 9,950	$ 8,126
Past due 0-30 days	11,332	–	7,968
Past due 31-60 days	–	8,434	34
Past due 61-90 days	115	116	–
Past due 91 plus days	(4)	26	42
	$ 22,812	**$ 18,526**	**$ 16,170**

Trade receivables are derived from the Government of Canada and, as such, the Corporation is not exposed to normal credit risk with respect to its trade receivables and does not make an allowance for doubtful accounts.

NOTE 10: PREPAID AND OTHER CURRENT ASSETS

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Prepaid expenses	$ 829	$ 806	$ 778
Unbilled revenue	–	395	–
Other receivables	126	121	12
Employee advances	9	10	7
Travel advances	13	13	17
	$ 977	**$ 1,345**	**$ 814**

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Cost	$ 7,039	$ 6,487	$ 8,906
Less: Accumulated depreciation	4,872	4,271	7,082
Net book value	**$ 2,167**	**$ 2,216**	**$ 1,824**
Net book value, by asset class			
Computer equipment	$ 1,348	$ 1,147	$ 761
Furniture and fixtures	369	462	521
Leasehold improvements	450	607	542
Net book value	**$ 2,167**	**$ 2,216**	**$ 1,824**

The changes in property, plant and equipment are shown in the following table.

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance as at April 1, 2010	**$ 5,143**	**$ 2,354**	**$ 1,409**	**$ 8,906**
Plus: Additions	869	147	270	1,286
Less: Disposals	3,114	591	–	3,705
Balance as at March 31, 2011	**$ 2,898**	**$ 1,910**	**$ 1,679**	**$ 6,487**
Plus: Additions	770	81	165	1,016
Less: Disposals	376	88	–	464
Balance as at March 31, 2012	**$ 3,292**	**$ 1,903**	**$ 1,844**	**$ 7,039**

The changes in accumulated depreciation are shown in the following table.

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance as at April 1, 2010	**$ 4,382**	**$ 1,833**	**$ 867**	**$ 7,082**
Plus: Depreciation expense	483	206	205	894
Less: Disposals	3,114	591	–	3,705
Balance as at March 31, 2011	**$ 1,751**	**$ 1,448**	**$ 1,072**	**$ 4,271**
Plus: Depreciation expense	569	174	322	1,065
Less: Disposals	376	88	–	464
Balance as at March 31, 2012	**$ 1,944**	**$ 1,534**	**$ 1,394**	**$ 4,872**

There is no impairment of property, plant and equipment.

NOTE 12: ASSETS UNDER FINANCE LEASE

Assets under finance lease consist of multi-function copiers leased under finance arrangements by the Corporation.

		As at March 31, 2012		As at March 31, 2011		As at April 1, 2010
Cost	$	610	$	563	$	496
Less: Accumulated depreciation		287		247		247
Net book value	**$**	**323**	**$**	**316**	**$**	**249**

The changes to assets under finance lease are detailed in the following table.

		Total
Cost		
Balance as at April 1, 2010	**$**	**496**
Plus: Additions		162
Less: Disposals		95
Balance as at March 31, 2011	**$**	**563**
Plus: Additions		122
Less: Disposals		75
Balance as at March 31, 2012	**$**	**610**

The changes in accumulated depreciation are shown in the following table.

		Total
Accumulated depreciation		
Balance as at April 1, 2010	**$**	**247**
Plus: Depreciation expense		101
Less: Disposals		101
Balance as at March 31, 2011	**$**	**247**
Plus: Depreciation expense		115
Less: Disposals		75
Balance as at March 31, 2012	**$**	**287**

There is no impairment of assets under finance lease.

NOTE 13: INTANGIBLE ASSETS

Intangible assets consist of the software purchased by the Corporation. Intangible assets are shown in the following table.

		As at March 31, 2012		As at March 31, 2011		As at April 1, 2010
Cost	$	4,267	$	4,092	$	3,762
Less: Accumulated amortization		3,839		3,722		3,651
Net book value	**$**	**428**	**$**	**370**	**$**	**111**

Changes to intangible assets are detailed in the following table.

		Total
Cost		
Balance as at April 1, 2010	**$**	**3,762**
Plus: Additions		330
Less: Disposals		–
Balance as at March 31, 2011	**$**	**4,092**
Plus: Additions		175
Less: Disposals		–
Balance as at December 31, 2011	**$**	**4,267**

Changes to accumulated amortization are detailed in the following table.

		Total
Accumulated amortization		
Balance as at April 1, 2010	**$**	**3,651**
Plus: Amortization expense		71
Less: Disposals		–
Balance as at March 31, 2011	**$**	**3,722**
Plus: Amortization expense		117
Less: Disposals		–
Balance as at March 31, 2012	**$**	**3,839**

There is no impairment of intangible assets.

NOTE 14: INVESTMENTS

Investments consist of Canadian, provincial and corporate bonds with fixed interest rates ranging from 3.15% to 6.00%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from 2012 to 2022. The mutual fund accounts can be liquidated on demand. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following table.

The fair value of the investments can be determined by: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (ie derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The fair values of the investments are determined from quote prices in active markets which is Level 1.

The current portion of investments consists of instruments maturing in the next 12 months.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Carrying amount at amortized cost:			
Bonds	$ 9,780	$ 8,857	$ –
Guaranteed investment certificates	–	400	–
Mutual Funds	55	336	–
	$ 9,835	**$ 9,593**	**$ –**

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Current portion	$ 554	$ 685	$ –
Long-term portion	9,281	8,908	–
	$ 9,835	**$ 9,593**	**$ –**

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Fair value:			
Bonds	$ 10,194	$ 8,792	$ –
Guaranteed investment certificates	–	400	–
Mutual Funds	55	336	–
	$ 10,249	**$ 9,528**	**$ –**

NOTE 15: FINANCE LEASE OBLIGATION

The net book amount of the finance lease obligation was $364 as at March 31, 2012, and $354 as at March 31, 2011 for multi-function copiers held under finance leases. The Corporation added $122 in the year ended March 31, 2012, and $162 in the comparable period ended March 31, 2011.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Current portion	$ 120	$ 107	$ 96
Long-term portion	244	247	191
Finance lease obligation	**$ 364**	**$ 354**	**$ 287**

The leases are for a term of five years from the inception of the lease. Interest rates underlying the obligations under finance leases are fixed at contract dates and range from 3% to 29% per annum. The reconciliation of the minimum lease payments is shown in the following table.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Minimum lease payments			
Within one year	$ 140	$ 127	$ 118
Within two to five years	266	281	224
	406	**408**	**342**
Less: Future finance charges included in lease payments			
Within one year	20	20	22
Within two to five years	22	34	33
	42	**54**	**55**
Finance lease obligation	**$ 364**	**$ 354**	**$ 287**

No contingent rents are included in the finance leases. No sublease payments are expected for any finance lease as at the date of the statement of financial position. There are no terms of renewal, purchase options or escalation clauses in the leases, and no restrictions are imposed due to the lease arrangements.

NOTE 16: TRADE AND OTHER PAYABLES

Trade and other payables of the Corporation principally comprise amounts outstanding for trade purchases relating to corporate activities, accruals for employee vacations and overtime, and payroll and commodity taxes. The usual credit period for trade purchases is 30 days.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Accrued vacation and overtime	$ 3,480	$ 3,001	$ 2,659
Accrued liabilities	731	675	2,656
Accounts payable	2,826	3,709	2,303
Commodity taxes payable	816	606	293
	$ 7,853	**$ 7,991**	**$ 7,911**

The following is an aged analysis of the accounts payable.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Less than one month	$ 2,816	$ 3,698	$ 2,102
One to three months	2	11	11
Three to six months	8	–	190
	$ 2,826	**$ 3,709**	**$ 2,303**

Accounts payable include balances with related parties. (See also note 20.)

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Related-party balances (note 20)	$ 13	$ 2,316	$ 259
Third-party balances	2,813	1,393	2,044
	$ 2,826	**$ 3,709**	**$ 2,303**

NOTE 17: EMPLOYEE BENEFITS

17.1 POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Post-employment and other long-term employee benefits represent the Corporation's liability for the estimated costs of sick leave for employees, severance for employees at retirement as well as health and life insurance benefits for its retirees. The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Total for employee benefits	$ 20,806	$ 17,410	$ 14,480
Less: Current portion	5,504	409	235
	$ 15,302	**$ 17,001**	**$ 14,245**

The health care cost trend rate is assumed to exceed inflation by 2.5% per annum for future years. The measurement date for the last actuarial valuation of the provision for employee benefits was April 1, 2012. The next actuarial valuation is planned for April 2013.

The Corporation amended its employee benefits regarding employee severance for all positions. As of March 31, 2012, employees will no longer accrue severance benefits for retirement. As compensation for the elimination of this future entitlement after March 31, 2012, the Corporation added an additional 0.5% to the annual salary increase to staff that became effective April 1, 2012.

Management will be offering employees the option of taking an immediate lump sum payment of part of the accrued severance benefits or leaving the current severance benefit to be paid out upon retirement in accordance with corporate policy. In relation to this option, management has reclassified $5 million of the employee benefit liability to the current portion representing management's best estimate of the probable amount that will be paid out to employees who choose the immediate lump-sum payment option.

The significant actuarial assumptions adopted in measuring the Corporation's severance and non-pension benefits are as follows.

	2012	2011
Discount rate for projected benefit obligation	**4.35%**	5.5%
Average rate of general salary increases	**3.50%**	3.50%
Inflation rate	**2.50%**	2.50%
Assumed health care cost trend rate	**5.00%**	5.00%
Ultimate heath care cost trend rate	**5.00%**	5.00%
Year ultimate health care cost trend rate is reached	**2012**	2011
Uninsured Pensioner 1994 with mortality projections to year 2020 (UP94@2020) for 2011 and 2010	**UP94@2020**	UP94@2020
Retirement age	**62**	59

Movement in the present value of the defined benefit obligation in the current year are as follows.

		2012		2011
Opening value of obligation	**$**	**17,410**	$	14,480
Current service cost		**3,285**		2,859
Interest on present value of obligation		**1,025**		901
Actuarial gains		**(98)**		(369)
Benefits paid		**(816)**		(461)
Closing value of benefit obligation	**$**	**20,806**	**$**	**17,410**

Amounts recognized in profit and loss in respect of these defined benefit plans are as follows.

		2012		2011
Current service cost	**$**	**3,285**	$	2,859
Interest on present value of obligation		**1,025**		901
Actuarial gains		**(98)**		(369)
Benefits paid		**(816)**		(461)
Benefit cost for the period	**$**	**3,396**	**$**	**2,930**

Reconciliation of the actuarial gain and losses flowing through other comprehensive income (OCI) are as follows.

		2012		2011
Opening amount of actuarial gains previously recognized in OCI	**$**	**(1,221)**	$	(852)
Actuarial gains recognized in the current period		**(98)**		(369)
Closing amount of actuarial gains recognized through OCI	**$**	**(1,319)**	**$**	**(1,221)**

Historical information

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Present value of defined benefit obligation	$ 20,806	$ 17,410	$ 14,480
Fair value of plan assets	–	–	–
Deficit in the plan	20,806	17,410	14,480
Experience adjustment arising on plan liabilities	$ (98)	$ (369)	$ (852)

The Corporation will expense $2,764 in 2013 (2012 - $3,285) for current service costs related to employee benefits.

17.2 PENSION BENEFITS

Almost all of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Employees and the Corporation must both contribute. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was 13.08% (2011 - 12.24%). Total contributions of $8,769 (2011- $7,931) were recognized as expense in the current year.

The Government of Canada has a statutory obligation to pay benefits under the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Quebec Pension Plan benefits and are indexed to inflation.

NOTE 18: SUPPLEMENTAL CASH FLOW INFORMATION

	2012	2011
Interest charges	$ 27	$ 24
Income taxes	$ –	$ –

NOTE 19: LEASE COMMITMENTS

The Corporation leases office space for its operations to meet client requirements. The Corporation has entered into leases for the co-location of Department of National Defence (DND) and Corporation staff to jointly deliver services. These co-location leases are recoverable from DND.

As at March 31, 2012

	Corporation leases	Co-location leases	Total
2013	$ 2,366	$ 2,769	**$ 5,135**
2014	1,963	2,769	**4,732**
2015	642	2,240	**2,882**
2016	605	158	**763**
2017	335	16	**351**
	$ 5,911	$ 7,952	**$ 13,863**

As at March 31, 2011

	Corporation leases	Co-location leases	Total
2012	$ 2,203	$ 2,673	**$ 4,876**
2013	2,070	2,673	**4,743**
2014	1,580	2,673	**4,253**
2015	191	2,145	**2,336**
2016	122	62	**184**
	$ 6,166	$ 10,226	**$ 16,392**

As at April 1, 2010

	Corporation leases	Co-location leases	Total
2011	$ 2,164	$ 2,611	**$ 4,775**
2012	1,901	2,611	**4,512**
2013	1,812	2,611	**4,423**
2014	1,350	2,611	**3,961**
2015	37	2,082	**2,119**
	$ 7,264	$ 12,526	**$ 19,790**

NOTE 20: RELATED-PARTY TRANSACTIONS AND BALANCES

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 fair value, which is the actual amount of the consideration given or received for the services provided. All of the Corporation's services revenue of $111,806 (2011 – 93,576) was generated from services provided to DND. In the National Capital Region, Public Works and Government Services Canada manages DND facilities and pays the Corporation to engage contractors to provide infrastructure services.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totaled $178,000 ($194,000 – 2011).

In accordance with a memorandum of understanding between DND and the Corporation, DND is to provide office accommodations free of charge to the Corporation's service delivery personnel at DND-owned bases and wings and at other locations. Where office space is not provided, and for the Corporation's service delivery personnel who cannot be accommodated at a DND-owned facility, accommodation costs are recovered either as an out-of-pocket reimbursable disbursement or through the hourly billing rates established for the services provided.

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Due from:			
Department of National Defence	**$ 22,527**	$ 18,467	$ 16,149
Public Works and Government Services Canada	**285**	59	21
	$ 22,812	$ 18,526	$ 16,170
Due to:			
Department of National Defence	**$ 4**	$ 4	$ 5
Public Works and Government Services Canada	**2**	2,309	232
Canada School of Public Service	**2**	3	20
Environment Canada	**5**	–	–
Public Service Commission of Canada	**–**	–	2
	$ 13	$ 2,316	$ 259

20.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are those persons—including directors of the Corporation—having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	2012	2011
Short-term benefits	**$ 2,457**	$ 2,478
Post-employment benefits	**158**	140
	$ 2,615	**$ 2,618**

NOTE 21: CAPITAL MANAGEMENT

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 come due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the planning and operating risks 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. 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 equity and retained earnings.

NOTE 22: CONTINGENT LIABILITIES

22.1 LEGAL CLAIMS

The Corporation's efforts to resolve contract disputes are reflected in the number and value of contract claims before the courts. As at March 31, 2012, there were 18 ongoing claims totalling $13.5 million, including three under appeal and one matter not related to DND (the latter matter is a $50 claim related to the Corporation for which no provision has been provided). These figures compare with 11 ongoing claims with a total value of $7.9 million at March 31, 2011.

In accordance with the memorandum of understanding (MOU) between the Corporation and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by the Corporation. Thus, the financial risk associated with settling these contractual claims does not have any financial impact on the Corporation. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims from third party contracts.

NOTE 23: TRANSITION TO IFRS

These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the Accounting Standards Board (AcSB). The Corporation has adopted IFRS in accordance with IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. The first date on which IFRS was applied was April 1, 2010 (the "transition date"). The Corporation prepared a reconciliation of the statement of financial position as at the transition date and the statements of financial position and of comprehensive income. The Corporation's transition to IFRS did not have a material impact on the total operating, investing and financing cash flows. In accordance with IFRS, the Corporation has done the following:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retroactively applied all effective IFRS standards as of March 31, 2012, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable to first-time IFRS adopters.

The Corporation's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (CGAAP).

23.1 INITIAL ELECTIONS UPON ADOPTION

Set forth below are the IFRS 1 application exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS OPTIONAL EXEMPTIONS

IFRS 1 provides the option to retroactively apply the corridor approach under IAS 19 *Employee Benefits* in recognizing actuarial gains and losses, or recognizing all cumulative gains and losses deferred under Canadian GAAP, in opening retained earnings at the transition date. The Corporation elected to recognize all cumulative actuarial gains and losses that existed at its transition date in opening retained earnings for its employee future benefits.

The Corporation has elected to apply the IFRS 1 exemption related to certain disclosures of employee benefits. This exemption allows the Corporation to disclose the history of its defined benefit obligations and experience adjustments from the date of transition to IFRS rather than for a five year history as required by IAS 19.

IFRS MANDATORY EXCEPTIONS

Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

23.2 RECONCILIATION OF CANADIAN GAAP TO IFRS

The adjustments to the opening financial statements from Canadian GAAP statements consist of two entries to adjust the statements to IFRS.

ADJUSTMENTS TO EMPLOYEE BENEFITS

The first adjustment eliminated the accumulated actuarial gain on the provision for employee benefits of $1,221. The long-term portion for employee benefits was debited and retained earnings were credited by $852 for the experience gain up to April 1, 2010. The experience gain of $369 for the fiscal year ended March 31, 2011, was debited from the long-term portion of employee benefits, and the experience gain was credited to salaries and employee benefits.

ADJUSTMENTS TO ASSETS UNDER FINANCE LEASE

The second adjustment to the March 31, 2011, Canadian GAAP statements consists of two entries to adjust the statements to IFRS. The first adjustment recorded the opening balances as at April 1, 2010. The opening balances were adjusted to debit office equipment copiers by $496 and retained earnings by $48 and to credit finance lease obligation— short-term by $96 and the long-term obligation by $201 and accumulated depreciation by $247.

The second adjustment recorded the balances as at March 31, 2011. The adjustment was to debit office equipment copiers by $563, interest expense by $121 and depreciation for the period by $351, and to credit finance lease obligation—the short-term obligation by $107 and the long-term obligation by $247—accumulated depreciation by $247 and lease payments by $434.

Reconciliation of Statement of Financial Position as at April 1, 2010

CGAAP account	CGAAP balance	IFRS adjustments	IFRS balance	IFRS account
Assets				**Assets**
Current				
Cash	$ 17,493	$ –	$ 17,493	Cash
Due from related parties	16,170	–	16,170	Trade receivables
Prepaids, advances and accounts receivable	814	–	814	Prepaids and other current assets
	34,477	**–**	**34,477**	**Current assets**
Property, plant and equipment	1,824	–	1,824	Property, plant and equipment
	–	249	249	Assets under finance lease
Intangible assets	111	–	111	Intangible assets
	1,935	249	2,184	**Non-current assets**
	$ 36,412	**$ 249**	**$ 36,661**	**Total assets**
Liabilities				**Liabilities and equity**
Current				
Accounts payable and accrued liabilities	$ 7,652	$ –	$ 7,652	Trade and other payables
Due to related parties	259	–	259	Trade and other payables
	–	96	96	Current portion - finance lease obligation
Current portion - provision for employee future benefits	235	–	235	Current portion - employee benefits
	$ 8,146	**$ 96**	**$ 8,242**	**Current liabilities**
	–	191	191	Finance lease obligation
Provision for employee future benefits	15,097	(852)	14,245	Employee benefits
	15,097	(661)	14,436	**Non-current liabilities**
	23,243	**(556)**	**22,687**	**Total liabilities**
Shareholders' Equity				**Equity**
Share capital	–	–	–	Share capital
Retained earnings	13,169	814	13,983	Retained earnings
	13,169	**814**	**13,983**	**Total equity**
	$ 36,412	**$ 249**	**$ 36,661**	**Total liabilities and equity**

Reconciliation of Statement of Financial Position as at March 31, 2011

STATEMENT OF FINANCIAL POSITION

CGAAP account	CGAAP balance	IFRS adjustments	IFRS balance	IFRS account
Assets				**Assets**
Current				
Cash	$ 12,789	$ –	$ 12,789	Cash
Investments	685	–	685	Investments
Due from related parties	18,526	–	18,526	Trade receivables
Prepaids, advances and accounts receivable	1,345	–	1,345	Prepaids and other current assets
	33,345	**–**	**33,345**	**Current assets**
Investments	8,908	–	8,908	Investments
Property, plant and equipment	2,216	–	2,216	Property, plant and equipment
	–	316	316	Assets under finance lease
Intangible assets	370	–	370	Intangible assets
Long-term assets	11,494	316	11,810	**Non-current assets**
	$ 44,839	**$ 316**	**$ 45,155**	**Total assets**
Liabilities				**Liabilities and equity**
Current				
Accounts payable and accrued liabilities	$ 5,675	$ –	$ 5,675	Trade and other payables
Due to related parties	2,316	–	2,316	Trade and other payables
	–	107	107	Current portion - finance lease obligation
Current portion - provision for employee future benefits	409	–	409	Current portion - employee benefits
	$ 8,400	**$ 107**	**$ 8,507**	**Current liabilities**
	–	247	247	Finance lease obligation
Provision for employee future benefits	18,222	(1,221)	17,001	Employee benefits
	18,222	**(974)**	**17,248**	**Non-current liabilities**
	26,622	**(867)**	**25,755**	**Total liabilities**
Shareholders' Equity				**Equity**
Share capital	–	–	–	Share capital
Retained earnings	18,217	1,184	19,400	Retained earnings
	18,217	**1,184**	**19,400**	**Total equity**
	$ 44,839	**$ 316**	**$ 45,155**	**Total liabilities and equity**

Reconciliation of Statement of Comprehensive Income as at March 31, 2011

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

CGAAP account	CGAAP balance	IFRS adjustments	IFRS balance	IFRS account
Revenue				
Services	$ 93,576	$ –	$ 93,576	Services revenue
Interest	209	–	209	Investment revenue
	93,785	**–**	**93,785**	**Total revenue**
Expenses				
Salaries and employee benefits	79,466	–	79,466	Salaries and employee benefits
Operating and administrative	8,306	(125)	8,181	Operating and administrative
Amortization of property, plant and equipment	894	–	894	Depreciation of property, plant and equipment
Amortization of intangible assets	71	–	71	Amortization of intangible assets
	–	101	101	Depreciation of assets under finance lease
		24	24	Finance costs
	88,737	**–**	**88,737**	**Total expenses**
			$ 5,048	**Profit for the year**
				Other comprehensive income
		$ 369	**$ 369**	**Actuarial gain on employee benefit obligations**
Net income and comprehensive income	**$ 5,048**	**$ 369**	**$ 5,417**	**Total comprehensive income**