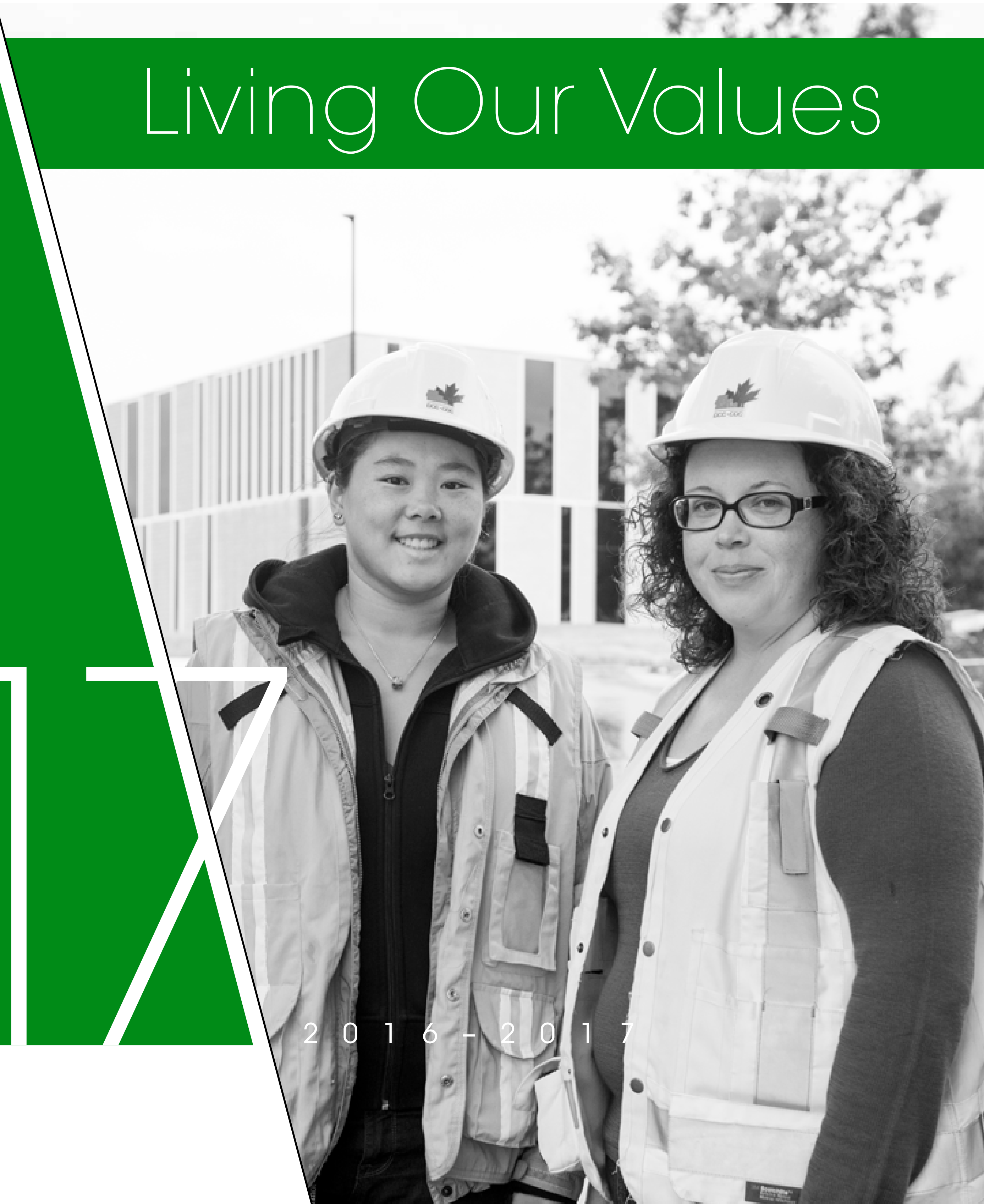
DEFENCE CONSTRUCTION CANADA

Living Our Values

ANNUAL REPORT

17



2016 – 2017

COVER: Karyan Ngo (left) and Paula Simpson, Coordinators, Construction Services managed the modified design-build contract for the new Peace Support Training Centre at CFB Kingston, Ontario.

ABOVE: Exterior of the new Peace Support Training Centre at CFB Kingston. The facility will provide a Centre of Excellence for training and leadership for 60 personnel and over 1,000 students each year. The building focuses on classrooms and outdoor training spaces that will help prepare civilians and army personnel for peace support operations around the world.

Canada

Corporate Profile

Defence Construction (1951) Limited, operating as Defence Construction Canada (DCC), is a Crown corporation that provides innovative and cost-effective contracting, construction contract management, infrastructure and environmental services, and lifecycle support for Canada's defence requirements. It has two primary Client-Partners: the Infrastructure and Environment (IE) community at the Department of National Defence (DND), and the Communications Security Establishment (CSE). The Corporation also provides services to Shared Services Canada relating to the expansion of the electronic data centre at CFB Borden.

From project needs planning to facility decommissioning, DCC's work covers a broad spectrum of activities. DCC's resources are divided among five service lines.

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.

CONTRACT MANAGEMENT SERVICES

The Contract Management Services team supports the creation, renovation and maintenance of facilities for DND's IE program.

ENVIRONMENTAL SERVICES

The Environmental Services team 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 team advises on matters such as infrastructure requirements, program planning, and schedule and document control.

REAL PROPERTY MANAGEMENT SERVICES

From needs planning to facility decommissioning, the Real Property Management Services team supports the efficient operation of DND's infrastructure.

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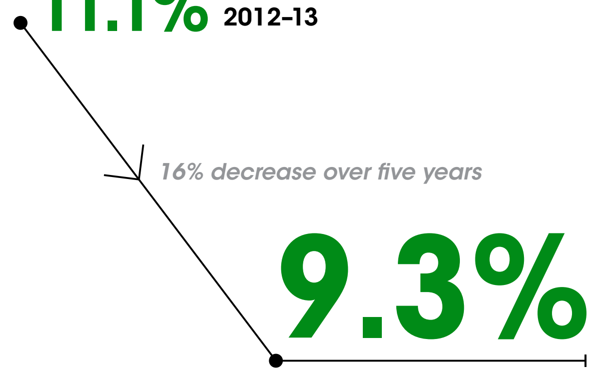
Performance Highlights

SERVICE MEASURES

$1 BILLION
CONTRACT PAYMENTS
10.1% increase from previous year



9.3%
COST OF SERVICE

1,949
CONTRACTS AWARDED

$833 MILLION
VALUE OF CONTRACTS AWARDED

BUSINESS PERFORMANCE

$93.7 MILLION
SERVICES REVENUE
10.4% increase from previous year

97%
CLIENT SATISFACTION RATING
Target = 95%

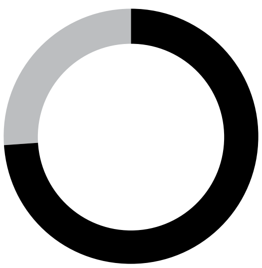
BUSINESS PERFORMANCE

899

EMPLOYEES (FTE)

$1.1 MILLION

CONTRACT PAYMENTS PER EMPLOYEE



74.1% UTILIZATION RATE

(% OF EMPLOYEE TIME SPENT ON BILLABLE WORK)

Target = 70%

PROCUREMENT RESULTS

96.3% CONTRACT AWARD SUCCESS

Target = 95%

99.5%

PUBLICLY ACCESSIBLE CONTRACTS

Target = 98%

5.1

NUMBER OF BIDDERS PER PROCUREMENT

Target = 4

Members of the Project and Program Management Services (PPMS) team (l to r) David Sherrard, Leah Hilsenteger, Mousumi Mukherjee and Victor Lee. The PPMS service line advises on matters such as infrastructure requirements, program planning, and schedule and document control.

Living Our Values

SUPPORTING CANADA'S DEFENCE INFRASTRUCTURE

Dedication. Collaboration. Competence. Fairness.

At DCC, the strength of our people and our systems rest on these core values. We live by them in every decision we make and every task we undertake in the service of Canada's defence. Our goals are too important to do anything less.

We have built both our history and our future on this approach. It combines the diversity, innovation, expertise and experience of our people with the robust flexibility of our underlying processes: a service matrix that allows us to deploy people seamlessly across five service lines; innovative procurement processes focused on delivering value for Client-Partners and industry; a particularly strong focus on security; and transparency in our governance and corporate performance management. We are committed to being the service provider of choice and the employer of choice for Canada's defence infrastructure.

DCC leverages this environment of excellence to effectively manage the full range of Client-Partner priorities—from the National Shipbuilding Strategy to Canadian Arctic Sovereignty to Armoury Rehabilitation to the Energy Performance Contract Program. We work in remote locations and in built-up urban areas, in environmental sustainability and real property lifecycles.

Wherever we are, and in all that we do, we take pride in living our values.

Message from the Chair

For more than 65 years, DCC has been guided by a set of core beliefs that have remained steadfast. These are embodied in the core values that we have established as the basis for our business: dedication, collaboration, competence, and fairness.

These are not just words or concepts for DCC. We live by them. We work by them. And in doing so, we support Canada's defence needs, here at home and around the world.

In this work, we are constantly mindful that DCC contributes to Canada in other important ways. The construction projects that we deliver support the nation's economic growth. Since 2011–12, DCC contract payments have totalled approximately $900 million annually. It is our responsibility to ensure our Client-Partners, and all Canadians, receive the maximum value possible for that investment in defence infrastructure, knowing that it helps to create an estimated 3,600 jobs for Canadians every year.

Our work increasingly focuses on environmental sustainability, supporting the remediation of legacy sites from Canada's defence history, and looking ahead, contributing to greater energy efficiency and reduced greenhouse gas emissions—helping DND to meet the targets set out by the Government of Canada. And we recognize the critical importance of security as well, working with Client-Partners such as the Communications Security Establishment and Shared Services Canada to ensure that infrastructure meets their data security needs.

This is important work, and we are careful to conduct our activities in an ethical, open and transparent manner. For example, we were pleased to support the Office of the Auditor General's Special Examination, beginning in late 2015. The OAG's 2016 report confirmed that we have good corporate management practices in place, and are effectively managing our governance, strategic planning, risks, performance measurement and reporting. The report also made four recommendations, in response to which we have already launched a new corporate strategic initiative.

DCC has also aligned our travel, hospitality, conference and event expenditure policies with Treasury Board policy, to comply with the Government of Canada's directive on this matter. For example, we have begun disclosing on our website the travel and hospitality expenses of all members of our Board of Directors, and our CEO and Vice-Presidents. Managing expenditures appropriately is embedded in DCC's Financial Management Policy, with oversight mechanisms, accountabilities and controls that build trust with our Client-Partners and industry. We are also supporting the implementation of the Government of Canada's new, more open and transparent process for Governor in Council appointments, including the selection of candidates for our Board of Directors.

It is truly my privilege to undertake this work with my fellow DCC Board members and with the employees of DCC, particularly as we celebrate Canada's 150th anniversary in 2017. Thank you to every one of you. By taking DCC's values to heart and to work with you every day, you are making a significant difference to Canada's security and prosperity.

Robert Presser
Chair of the Board

Message from the President

Service provider of choice. Employer of choice. In supporting Canada's defence, DCC strives to be both—anticipating the needs of our Client-Partners, delivering value with every project, and ensuring openness and transparency in all that we do. We succeed thanks to the dedication of our people and the collaborative way in which we work with our Client-Partners, industry, and the Government of Canada.

The 2016-17 fiscal year was marked by continued higher DND program volume resulting from Budget 2016 and the balance of the Federal Infrastructure Investments Program. Worth $263 million and $452 million respectively, these programs were implemented in addition to DND's regular annual infrastructure and environment program funding. DCC's ability to deliver this increased activity rests on our flexible business model, allowing us to quickly and efficiently adapt staffing levels and priorities.

Our employees are integral to DCC's success, and we are committed to supporting them in keeping with our core values. We aim for a workforce that reflects Canada's diverse society—one that fosters an inclusive culture and supports both physical and mental well-being. To further this commitment, we launched two new programs in 2016–17, focused on Diversity and Inclusion and on Workplace Wellness and Mental Health.

The results of the focus on our people can be seen in their success in delivering projects from the Fleet Maintenance Facility (Cape Breton) Shop Consolidation Project in Esquimalt, British Columbia, to the new naval facility in Nanisivik, Nunavut, 700 kilometres north of the Arctic Circle. We rely on our staff's expertise to remediate unexploded explosive ordnance, to support deployed operations in locations such as Iraq, Kuwait and Latvia, and to offer innovative environmental services. We also develop the processes and frameworks to support innovative approaches, including public-private partnership (P3) projects, e-procurement, and energy performance contracts.

I am proud that our employees' efforts have been recognized nationally: *Canadian Occupational Safety* magazine named DCC one of Canada's safest employers; our work in e-procurement has gained industry accolades for three consecutive years by the National Procurement Institute; and we proudly received the National Team Spirit Award at the 2016 Government of Canada Charitable Campaign Awards.

This reflects our approach to continuous improvement, under which we are pleased to respond to the four recommendations made by the Office of the Auditor General in their Special Examination of DCC. These relate to increasing our focus on fraud awareness, detection and prevention; streamlining DCC's system for online document management; maintaining a standard frequency of internal service line verifications; and completing an online register and archive for tracking employee training.

DCC could not succeed in any of these endeavours without the dedication of our staff to excellence in service delivery and maximizing value for our Client-Partners, for industry, and for all Canadians. I am in a unique position to see the results of your hard work daily, and I thank you for all that you do for DCC and for Canada.

James S. Paul
President and Chief Executive Officer

Lory Hovsepian, Coordinator, Health and Wellness (left) with Shirley Cardinal, Coordinator, Employment Equity and Diversity, Head Office, Ottawa. Lory and Shirley are focused on the implementation of DCC's Workplace Wellness and Mental Health, and Diversity and Inclusion strategies.

Our People

DEDICATION

DCC is dedicated to supporting defence infrastructure and environmental requirements. For 65 years, DCC employees have dependably and diligently carried out that mission for Client-Partners.

Our people find themselves doing the most amazing work to support our Client-Partner needs. Some work behind the scenes, creating new ways to increase energy efficiency. Some work out in the open, overseeing new infrastructure critical to Canada's defence. They coordinate, negotiate and innovate. Whatever role they fulfill, they are dedication personified—the heart and soul of DCC.

As a knowledge-based professional services organization, DCC depends on the expertise and experience of our people. And they deliver, every day. Many have served with our Client-Partners or in the construction industry; all bring an attitude of flexibility and ingenuity to their jobs.

It shows, in awards like *Canadian Occupational Safety* magazine's Gold Award (public sector category) for our Health and Safety and Hazard Prevention Program. The National Team Spirit Award at the 2016 Government of Canada Charitable Campaign Recognition Awards. Our work in e-procurement, which has earned DCC the Achievement of Excellence in Procurement Award from the U.S. National Procurement Institute, and recent retiree Richard Allie the 2016 Project Management Award from the Canadian Institute for Procurement and Materiel Management.

This recognition highlights the teamwork that goes into our achievements. And we respond by supporting our teams. A healthy, productive and respectful work environment fosters flexibility and innovation, and makes DCC an employer of choice. In 2016–17, we focused on implementing internal communications initiatives and, in line with Government of Canada priorities, launching two new programs with multi-year implementation strategies:

- The Workplace Wellness and Mental Health Strategy reflects our commitment to a workplace environment that encourages staff to incorporate self-care and mental health and wellness into their daily routines, and to make work-life balance a practice.
- The Diversity and Inclusion Strategy supports our view of employee diversity as a strategic advantage. We are committed to having a workforce that reflects Canadian society, comprising people from diverse cultures and backgrounds, with a particular commitment to promote employee equity for four designated groups: women, Indigenous peoples, persons with disabilities, and members of visible minorities. Our motivation is more than legislated: a competent, engaged and diverse workforce in which all employees feel included enables us to leverage the different perspectives and experiences of all our staff, building strength and creativity in the way we work.

Healthy, diverse workplaces encourage everyone to realize their full potential—and that, in turn, fosters our workplace culture of positive employee engagement, creativity and innovation.

Kris Seiler, Regional Service Line Leader, Environmental Services (left) is DCC's representative supporting DND's program to reduce safety risks of Unexploded Explosive Ordnance (UXO). Together with Andrew Onespot, Liaison Officer Tsuut'ina Nation, the work includes collaboration with two First Nations: the Okanagan Indian Band, located near Vernon, British Columbia, and the Tsuut'ina Nation, near Calgary, Alberta.

Our Business Model

COLLABORATION

DCC is committed to developing collaborative relationships with Client-Partners, industry, employees and other stakeholders. Together, we leverage our shared expertise toward our common goals.

DCC has been built on strong relationships. In fact, we view ourselves as a bridge between industry and our Client-Partners, helping them to achieve mutual understanding and growth.

This is founded on our clear and consistent approach to business—we provide timely, knowledgeable, effective and efficient service to our Client-Partners, using our service delivery matrix to align our services with their needs. Their missions are critical to Canada, and our support is critical to them in turn. We deliver this through strong collaboration: we plan jointly, we share information, we develop new support services, and we exchange lessons. We communicate early and often, using a results-focused team approach. Our stakeholder outreach at DCC sites across Canada means that we understand both private sector needs and government process requirements, bringing them together for the benefit of both.

This collaboration has fostered some of the most innovative projects and practices that DCC has developed. E-procurement, for example, was created as a faster, cost-effective option for administering DCC's tender calls and contract awards for its Client-Partners, while also enhancing industry access to bids. We began rolling it out in March 2016, offering industry training across the country. Today, we are accepting electronic bids for construction contracts that require bid security, putting out larger jobs to tender electronically, and making it easier for more companies of all sizes to bid—particularly those in remote locations. We're proud of the recognition that DCC has received from industry as a result of this innovation, achievement and leadership.

Other innovative DCC procurement practices include the P3 (public-private partnership) model. Our success in bringing together partners for the Communications Security Establishment Long-Term Accommodation Project in Ottawa positioned us as the service provider of choice to deliver Shared Services Canada's Enterprise Data Centre at Canadian Forces Base Borden, a P3 project valued at $330 million.

Meanwhile, our experience in the DEW Line clean-up provided processes and tools to the Mid-Canada Line clean-up. This unique partnership between federal and provincial governments, DCC and First Nations allowed us to pass critical knowledge to Ontario's Ministry of Natural Resources and Forestry for remediating the province's remaining MCL sites.

From environmental remediation and unexploded explosive ordnance removal, to energy performance contracts and advanced building materials such as self-repairing concrete: we have the expertise to anticipate and respond to our Client-Partners' evolving needs.

Michael Langsford, Team Leader, Program Management (left) leads the team in Ottawa who support DCC's deployed operations staff in theatre. Imad Jaradat, Technical Specialist, Project Management spent three months in Kuwait supporting Operation Impact.

Our Service Lines

COMPETENCE

DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to Client-Partner needs.

DCC delivers using an agile and responsive service line matrix, a combination of services that has evolved in partnership with our Client-Partner needs:

- Contract Management Services
- Contract Services
- Environmental Services
- Project and Program Management Services
- Real Property Management Services

The adaptability of this approach has allowed us to manage significantly increased activity from the Federal Infrastructure Investments Program and Budget 2016. In late 2014, DND received $452 million to repair and upgrade CAF facilities over the following two fiscal years, including rehabilitation of armouries, airfield and hangar repairs, and military housing improvements. Budget 2016 provided another $264 million for defence infrastructure. At year end March 2017, DCC had supported the investment of $428 million and $238 million respectively, in addition to DND's annual infrastructure funding.

This work focuses on innovation. In environmental services, for example, we are supporting DND's clean-up at 5 Wing Goose Bay and Esquimalt Harbour, and the remediation of unexploded explosive ordnance. We are assisting DND to reduce its real property portfolio's greenhouse gas emissions by 40% by 2025. And our innovative Energy Performance Contracts Program, in which savings from energy-saving upgrades are used to fund those upgrades, are helping facilities nationwide improve energy efficiency.

We are also leveraging our work in remote environments to overcome challenges on deployed operations—including Operation Impact in Iraq, overseeing a $2.2-million construction contract, and the Operational Support Hub in Kuwait, where we led the identification and assessment of local vendors. DCC adapts as each project requires. For Hangar 6 construction at 8 Wing Trenton, we dealt with roof trusses weighing more than 50,000 kg that had to be transported in pieces. And when the A/B jetty project at CFB Esquimalt turned up finds such as a stone cutting tool some 7,500 years old, we worked with local First Nations to assess the artifacts' cultural and historical value.

These projects are important indicators of the scope of our work. But we also ensure the fulfilment of our strategic objectives and business plan initiatives, using our Corporate Performance Management Framework: a combination of qualitative and quantitative key performance indicators that tracks progress and results. We set strategic targets that include employee utilization rates, costs of DCC services to DND, and financial results. And at the business planning level, some 30 tactical indicators cover activities such as service costs, timeliness of procurement, quality, accounts receivable, and contractor performance. Rigorous and regular data collection, monitoring, and reporting are hallmarks of our daily work and another example of how DCC focuses on excellence.

Fadila Hamadene, Coordinator, Contract Services at the Montreal Garrison in Quebec is a member of DCC`s Contract Services team who oversee the procurement of construction and professional services for the infrastructure and environment portfolio of Department of National Defence.

Our Approach

FAIRNESS

DCC deals with Client-Partners, industry, employees and other stakeholders in a fair and ethical manner, advocating mutual respect and professionalism.

It is vitally important to DCC that we continue to demonstrate our value, integrity and innovation—to our stakeholders and our Client-Partners. Our deliverology approach ensures this focus on performance by monitoring qualitative and quantitative key performance indicators that measure corporate, employee and contractor performance, defining both success and progress.

This drives continuous improvement, whether we are examining our business performance, Code of Business Conduct, Procurement Code of Conduct, or metrics covering environment, health and safety, and security. We know that viable procurements encourage competition and ensure all enterprises have an equal opportunity to bid on contracts, helping to ensure the best value possible for our Client-Partners. We therefore constantly balance the need for both diligent oversight and efficiency, demonstrating open and transparent processes that support our reputation as knowledgeable and fair.

For example, we have a robust reporting process for procurement competition, with clear performance indicators that we consistently meet or exceed. This not only guides our internal processes, it helps us clearly demonstrate to industry our commitment to fairness and equal opportunity. It is important to us that industry sees DCC as an attractive company to work with; when we ensure that Canadian businesses have fair access to DND contracts, it leads to varied bidders competing for our work, providing a wide range of qualified and competitive choices. This helps us to ensure that the right people are on every job, and produces positive results for every stakeholder in the contracting process.

Our focus on value and fairness is also behind the way in which we negotiate change orders with contractors. Change orders can be a significant source of cost increases in contracts; when we negotiate, we are able to balance the work and the cost, supporting our contractors with a superior level of communication and contracting expertise while exercising due diligence for our Client-Partners and the Crown.

We carry this approach to integrity and value throughout our organization, including our employees. We are focussed on providing employee policies, programs and support that are fair and productive—from employee training and leave policies, to diversity and inclusion programs, to a focus on values and ethics that supports our employees in their work. Internally and externally, this is how we've done business for more than 65 years, and is an integral part of our success.

All of this helps to ensure that, at DCC, we are living our values: dedication, collaboration, competence, and fairness.

Elvin Vicedo, Coordinator, Contract Services provides procurement services in support of the delivery of defence projects at 17 Wing Winnipeg, Manitoba.

The Organization

EMPLOYEES

DCC's greatest 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.

In 2016–17, DCC had 899 employees, based on full-time equivalents (FTEs)—an increase of 12.9% from 796 FTEs in 2015–16. To meet its operating objectives, DCC continually adjusts the size of its workforce in response to the demand for infrastructure services from the Department of National Defence and the Canadian Armed Forces (DND/CAF). Due to growth in DND's IE-related program expenditures, DCC increased its FTE staff strength to meet higher work volumes. The increased demand for DCC's services was the result of the Corporation's support for the government's Federal Infrastructure Investments Program (FIIP), and Budget 2016 investment in defence infrastructure. At fiscal year end, the employee headcount was 925, compared to 830 in 2015–16, 751 in 2014–15, 802 in 2013–14, and 963 in 2012–13—an increase of 11.4% in 2016–17 and 10.5% in 2015–16, following year-over-year decreases of 6.4% and 16.7%, respectively. Staff levels are expected to increase in the upcoming fiscal year to support the increase in work volume forecasted for 2017–18.

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 2016–17, 102 employees reached five years of service with DCC, 35 employees marked 10 years of service, nine employees achieved 15 years of service, three employees marked 20 years of service, five marked 25 years of service, one employee reached 30 years of service and four employees achieved 35 years of service.

During the year, DCC's internal career development practices helped 86 employees progress in their careers through promotions, reclassifications and acting assignments. DCC and DND also benefit from the transfer of skills among operating locations as employees hone their skills and test themselves. In 2016–17, 13 employees transferred from one region to another, and 47 employees transferred to a different business unit within the same region.

DCC also works with DND and the CAF not only across Canada, but also around the world. Our team is always standing by, ready to provide short- and long-term contract management, contract administration and project support services to military operations abroad. In 2016–17, five DCC employees volunteered for deployment including two employees to Erbil, Iraq and three to Kuwait in support of Operation Impact.

EXECUTIVE MANAGEMENT STRUCTURE

The President and Chief Executive Officer (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—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, operational, financial and human resources matters for the Corporation.

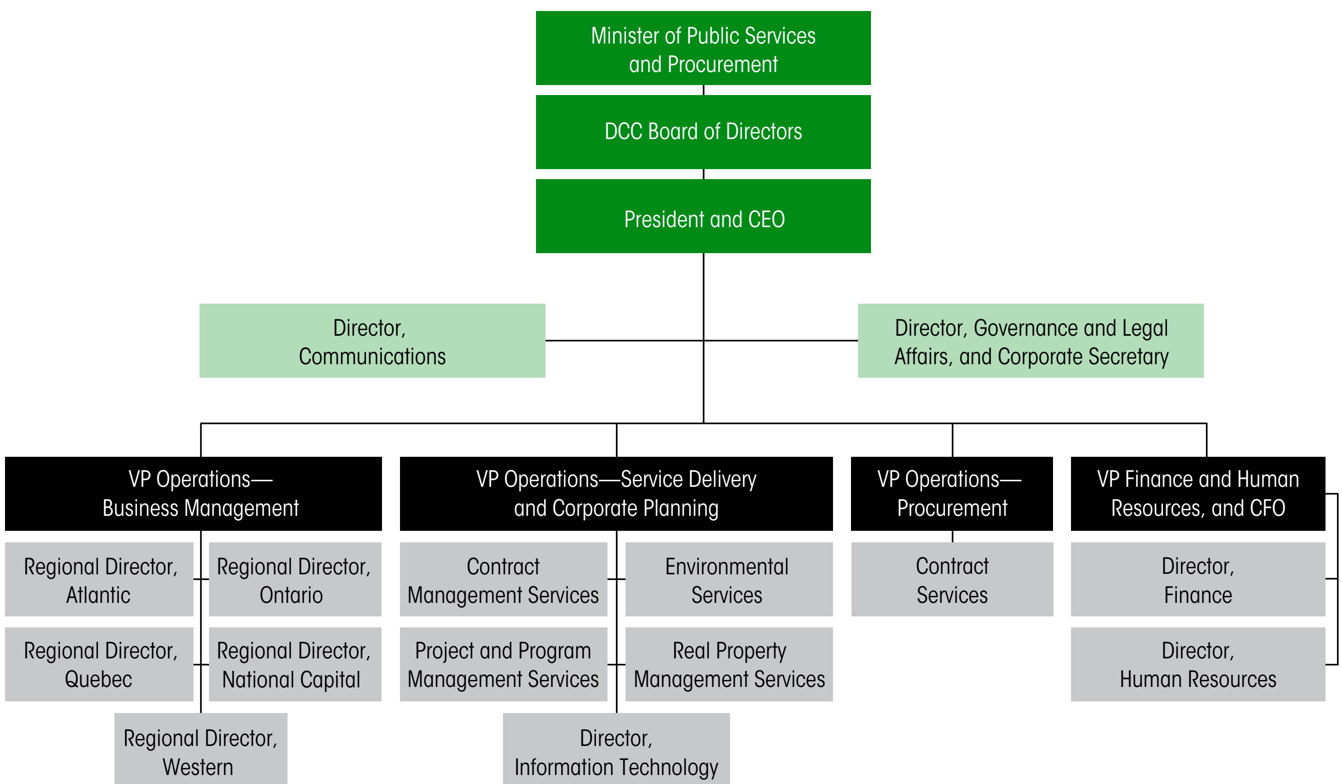
Three vice-presidents, operations, are responsible for DCC service delivery, corporate planning, business management and procurement activities. The Vice-President, Operations—Business Management is responsible for business management in all regions. The Vice-President, Operations—Service Delivery and Corporate Planning is responsible for service delivery for the Contract Management Services, Environmental Services, Project and Program Management Services, and Real Property Management Services service lines, as well as corporate planning activities that support the strategic initiatives set out in DCC's Corporate Plan. This person also acts as the Corporate Security Officer and is the Chair of the Information Technology Steering Committee.

The Vice-President, Operations—Procurement is responsible for the leadership and oversight of the procurement function across the Corporation.

The Vice-President, Finance & Human Resources and Chief Financial Officer is responsible for the financial affairs of the Corporation and the executive leadership of DCC's finance and human resources function.

Members of the Senior Management Team include regional directors, the National Service Line Leader for Contract Management and Real Property Management Services, and directors. 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. Directors of communications, finance, governance and legal affairs, human resources, and information technology are accountable for the corporate strategic leadership and management of their respective function and group.

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



RECOGNITION AND HONOURS

National Awards

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. DCC celebrates these achievements annually during the National Awards ceremony held in Ottawa. The following are the recipients of the 2017 National Awards.

The President's Award is presented annually to the employee who has consistently demonstrated exemplary service to DCC and achieved exceptional results. Louis Brisson, Site Manager at Valcartier Garrison, was honoured with this award for his exemplary service to DCC—most notably the CSE Long-Term Accommodation Project.

The Deployed Operations Team from the National Capital Region received the Service Development Award. It recognizes an employee or group of employees for making a notable contribution to developing and promoting value-added Client-Partner services. The team received this award for their rapid and efficient response to the request for construction of the camp in Erbil, Iraq. Members of the team included John Blasko, Robert Bronson, Julie Demers, Diana Ivanova, Imad Jaradat, Michael Langsford and Samantha Roeske.

DCC presents Customer Satisfaction Awards to employees who consistently provide exemplary customer service. The large number of nominations is a true testament to DCC's commitment to its Client-Partners, and to the importance DCC places on meeting or exceeding client expectations. In 2016–17, DCC presented the Customer Satisfaction Individual Award to Mélanie Pouliot, Technical Specialist, Procurement at Head Office in Ottawa for her outstanding customer service, in particular the complex procurement of the Shared Services Data Centre at CFB Borden. The Customer Satisfaction Team Award went to the Hangar 6 Team from 8 Wing Trenton—composed of Eron Forsythe, Nicholas Hilts, Mark McNeill, Dan Munroe and Stephen Rashotte—for their management of the $78-million hangar project over four years.

The Innovation Award is presented to an employee or group of employees who have played an instrumental role in developing and implementing an innovative solution. The 2017 recipient of this award was the E-procurement Initiating Team, which included Richard Allie, John Blasko, Sean Brushett, Martine Côté, Joel Fisher, Suzanne Ménard, Cherry Riley, Sabrina Rock, Allanah Walsh and Alain Xatruch. The team won the award for developing and implementing the e-procurement initiative which proved to be an open, secure, fair and transparent option for administering DCC's tender calls and contract awards.

Bruno Champeval, Regional Operations Manager for the Quebec Region, received the 2017 Robert Graham Memorial Award. This award recognizes an employee who makes a special contribution to improving workplace safety or environmental protection. Mr. Champeval received this award for his exceptional work on the Energy Performance Contract program.

The President's Certificate of Recognition may be awarded, at the President's discretion, to one or more nominees who have made an outstanding contribution to DCC. In 2017, certificates were awarded to Cyril Paris, Technical Advisor, Corporate Performance Reporting, at Head Office in Ottawa, for his support providing corporate performance reporting; and the Unexploded Explosive Ordnance Team (UXO) Team of Josée Gagnon and Josée Potvin from the Quebec Operational Group received the certificate for their outstanding work on two major environmental projects in Quebec.

Friends of DCC Award

During the national awards ceremony, DCC Vice-President, Operations Daniel Benjamin had the sad privilege of presenting the Friends of DCC Award posthumously to Douglas Lloyd. This award is presented to formally recognize an individual who has contributed greatly to DCC's success. Douglas Lloyd, former Director General, Infrastructure and Environmental Engineering Services for ADM(IE), was a strong partner with DCC.

External Recognition

ACHIEVEMENT OF EXCELLENCE IN PROCUREMENT

For the third year in a row, DCC has received the Achievement of Excellence in Procurement Award from the U.S. National Procurement Institute. In 2016, the Institute recognized 202 successful applicants in 48 countries. This award honours excellence in public procurement.

CANADA'S SAFEST EMPLOYER

In 2016, *Canadian Occupational Safety* recognized DCC as one of Canada's Safest Employers. This award recognizes companies across Canada for their outstanding accomplishments in promoting the health and safety of their workers. DCC received the Gold Award in the public sector category for its commitment to occupational health and safety.

GOVERNMENT OF CANADA WORKPLACE CHARITABLE CAMPAIGN

DCC received the National Team Spirit Award at the 2016 Charitable Campaign Recognition Awards ceremony on February 21, 2017. The Government of Canada Workplace Charitable Campaign awards program celebrates leadership, commitment and unwavering enthusiasm demonstrated during the campaign. The National Team Spirit Award recognizes success in creating a nationwide campaign and engaging employees across the country.

CANADIAN INSTITUTE FOR PROCUREMENT AND MATERIEL MANAGEMENT

A leading industry group recognized DCC's work to bring electronic procurement to the federal public sector. The Canadian Institute for Procurement and Materiel Management honoured Richard Allie, DCC Procurement Specialist, with its 2016 Project Management Award. This award recognizes an individual's innovation, achievement and leadership when carrying out a procurement project.

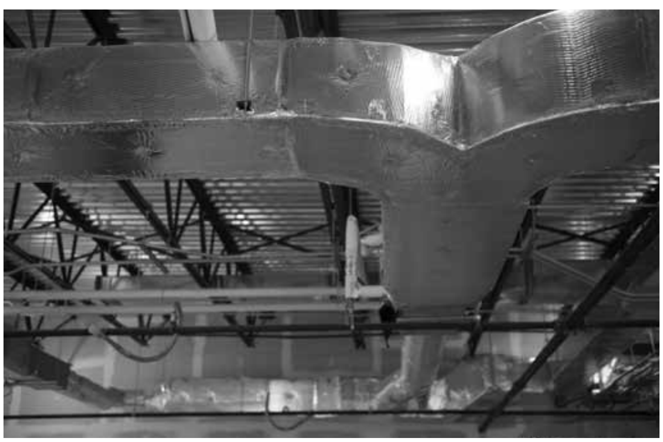
PROJECT HIGHLIGHTS 2016–17

Nanisivik Naval Facility, Nanisivik, Nunavut

DCC is contracting and managing construction of the Nanisivik Naval Facility, located in Nunavut along the north shore of Baffin Island. The $56-million facility will serve as a docking and refueling station for military, civilian and Government of Canada vessels during the Northern shipping season. It is expected to be ready to support Arctic/Offshore Patrol Ships in 2018.

Hangar 6, Trenton, Ontario

The Hangar 6 facility at 8 Wing Trenton was officially opened on January 25, 2017. The $78-million, two-bay hangar was built over four years for 8 Wing's fleet of CC-177 Globemasters and CC-150 Polaris aircraft. The 17,000-m^2 hangar contains more than 4,000 tonnes of steel, and the 16 roof trusses weigh more than 50,000 kg each.



Energy Performance Contracts Program

The Federal Sustainable Development Strategy requires DND to reduce its greenhouse gas emissions by 40% for its real property portfolio by 2025. DCC's innovative Energy Performance Contracts Program, in which savings from energy-saving upgrades are used to fund those upgrades, are helping facilities nationwide improve energy efficiency.

Deployed Operations, Iraq and Kuwait

DCC deployed staff to Erbil, Iraq to manage the $2.2-million construction contract to build accommodations, office buildings, workshops, a medical station and a power generation station, as part of the CAF's contribution to the multinational coalition combatting ISIL. Success in Erbil generated work in Kuwait and has recently led to additional overseas support in Latvia.

(l to r) Isabelle Lafrenière, Administrator, Records and Information Management, Alison Lawford, Director, Governance & Legal Affairs and Corporate Secretary, and Marie-Josée Duford, Administrative Assistant, Corporate Secretariat at Head Office in Ottawa. The team supported the OAG`s Special Examination of DCC, and the alignment of DCC`s travel and related expenditure policies, guidelines and practices.

Corporate Governance

STEWARDSHIP

The *Financial Administration Act* (FAA) stipulates that DCC's Board of Directors (the Board) is responsible for the management of the business, activities and other affairs of the Corporation. DCC reports to Parliament through the Minister of Public Services and Procurement (the Minister). DCC's Board of Directors has established a Corporate Governance Framework, which provides an overview of the governance structure, principles and practices of the Board. The other documents on which the Board relies for guidance include the Corporation's bylaws and the Board Charter. DCC is committed to openness and transparency, so board-related documentation is available on DCC's website.

The Government of Canada is the sole shareholder of DCC. The Board plays a role in ensuring that DCC's services are delivered efficiently through an open, transparent, competitive and streamlined procurement process. Along with the FAA, the *Defence Production Act* governs DCC. Like other federal Crown corporations, DCC is also subject to other federal legislation, including the *Access to Information Act*, the *Privacy Act*, the *Employment Equity Act*, the Canada Labour Code and the *Official Languages Act.*

The Board established two committees that assist it in carrying out its responsibilities, each of which has its own Charter. These Committees are the Audit Committee, and the Governance and Human Resources Committee.

Travel Directive

Further to the Governor in Council directive that Crown corporations align their policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures, in a manner that is consistent with their legal obligations, DCC completed this task in 2016–17. DCC follows the principles of prudent stewardship of public funds, and the effective, efficient and economical use of public resources, and acts at all times with the highest standards of integrity, fiscal prudence, accountability, transparency, and values and ethics. DCC's Board of Directors ensured that this directive was implemented appropriately.

To comply fully with this directive, DCC reviewed and compared its Travel Policy and other relevant documentation with those of the Treasury Board of Canada Secretariat (TBS), including the National Joint Council Travel Directive. Officials from Public Services and Procurement Canada assisted DCC in the application of this Directive and provided guidance.

DCC completed the implementation of its new and revised policies by March 31, 2017. DCC's travel, hospitality, conference and event expenditures continue to be managed with prudence and probity, and represent the most economic and efficient use of funds.

GOVERNANCE

Further to the *Defence Production Act*, the Office of the Auditor General of Canada (OAG) is DCC's auditor. The OAG also audits the Corporation's financial statements annually.

In 2016, the OAG conducted a Special Examination of DCC as required by section 138 of the FAA. The Report of the OAG is posted on both the OAG and DCC's websites. The objective of this audit was to determine whether the systems and practices selected by the OAG for examination were providing DCC with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. On the basis of the OAG's assessment of risks, the OAG selected systems and practices in two key areas: corporate management practices, and management of contracts and services. The selected systems and practices and the criteria used to assess these key areas are outlined in the OAG's Report on this Special Examination (report). As part of the audit of DCC's corporate management practices, the OAG Special Examination covered systems and practices related to corporate governance at DCC.

In the report the OAG specifically stated that they found that the Corporation had in place the elements of good governance. The OAG also set out the following key findings.

- Roles and responsibilities of the Board and its committees were clearly defined.
- The structure of the Board, including its two committees, reflected the nature and complexity of the Corporation's business and responsibilities.
- The Board assessed its performance and that of its committees and members at least once every two years.
- The Board used a transparent mechanism to report the assessment results among board members.
- The Board functioned independently of management in its decision making.
- The Corporation had a conflict of interest code that applied to board members, who were also informed of their obligations under the *Conflict of Interest Act*.
- The Board's interpretation of the mandate was consistent with the mandate set down in the enabling legislation and letters patent, which are the written orders used for the creation of the Corporation, defining its purpose and objectives.
- The Corporation's strategic objectives were clearly linked to the legislative mandate and were included in the Corporate Plan.
- The Board was active in setting up annual objectives for its CEO that aligned with the strategic direction and the corporate objectives.
- The Board was active in conducting the annual assessment of the CEO's performance.
- The Board
  - had embedded risk management into its governance processes;
  - monitored risk management through regularly scheduled briefings; and
  - had appropriate and timely information that demonstrated that it was achieving its duty of care in key areas, such as financial performance and risk management.
- Board members made decisions, questioned information, offered direction, and followed up on actions taken.
- There was a protocol for communication between the Corporation and its stakeholders and shareholder.
- The Corporation communicated relevant information with its shareholder, stakeholders, and the public in a timely manner.
- The Board had profiled the skills and expertise needed to be a director of the Corporation.
- There had been periodic assessments to determine whether the Board was made up of people who had the appropriate skills and knowledge.
- The Corporation provided new board members with a comprehensive orientation program.
- The Board had access to outside expertise, but had not deemed such access necessary for the past two years.
- The Corporation undertook succession planning for senior management and other critical positions, and developed strategies to address impending retirements and departures.

In fulfilling its obligations under the FAA, the Board of Directors oversees DCC's management of such matters as integrity, values and ethics, strategic planning, and risk management. Further, the Board ensures that DCC's business practices foster openness, transparency, integrity and ethics; provides guidance on the Corporation's strategic direction; and assesses the appropriateness of DCC's Risk Management Framework.

The Board is made up of seven members, all of whom are independent of DCC management, except for DCC's President and CEO. In 2016–17, no new appointments were made. As per the FAA, board members may hold office for up to four years. Should they wish to remain on the Board after the end of their term, they may do so until a successor is appointed. Both the Chair of the Board and the President and CEO are appointed by the Governor in Council for such terms as the Governor in Council considers appropriate. All board members are participating, as appropriate, in the new appointments process recently implemented by the Privy Council Office (PCO).

DCC's Board of Directors Profile (Board Profile) states that the Board should include a mix of individuals with professional qualifications or senior level business experience relevant to the roles of the Board. The Board Profile sets out what is expected of DCC's board members and defines the optimal mix of specific skills, knowledge and experience needed for the Board to remain fully functional. The Board Profile articulates the unique requirements that at least one member of the Board should possess. For example, regarding professional or managerial qualifications, there should be a mix of experience in the following:

- senior management of corporations (chief executive officer or vice-president level);
- human resources management, strategic planning, corporate governance, business development and/or information technology;
- financial management—the Chair of the Audit Committee should be a financial expert (hold a recognized accounting designation); finance, controls and/or audit (chief financial officer accounting practice);
- construction, engineering, consulting engineering architectural;
- project management;
- legal practice; or
- experience generally on boards of directors.

The Board used PCO's document *Building a Crown Corporation Director Profile* to establish its Board Profile. Along with the other governance-related documentation, this profile identifies and clarifies the expectations, roles and responsibilities of the Board as well as its committees.

In addition to representation in terms of industry knowledge and experience, the Board strives to remain diverse and representative of Canada's population, specifically in relation to gender, language, employment equity and Canada's geographic regions. The Board currently consists of five male and two female members.

Each time new members are appointed to the Board, they receive a detailed orientation session on how the Corporation operates, along with information about their roles, their responsibilities and what is expected of them as a member of the Board. This orientation is provided by DCC representatives. Board members are also encouraged to seek board governance related educational and training opportunities, especially those related to Federal Crown Corporations, and to keep abreast of matters of particular relevance to the Corporation. DCC is a member of the Institute of Corporate Directors (ICD) and all board members are able to attend ICD workshops and conferences in their home province.

All board members regularly assess the Board's performance. DCC's Board Effectiveness Assessment Questionnaire gives all members an opportunity to examine how the Board is operating, and to suggest improvements to any aspect of board operations and governance. This questionnaire also asks board members to rate their own performance, as well as that of the Board Chair. All results are tabulated and provided to the Governance and Human Resources Committee. This committee is responsible for implementing recommendations, as appropriate. DCC also provides an analysis of this assessment to the Minister of Public Services and Procurement.

INTEGRITY AND ETHICS

The *Conflict of Interest Act* applies to members of the Board. Once a year, members must sign a declaration confirming they have read this Act and understand its application to their role. As part of this declaration, board members also confirm they have made the appropriate declarations and have taken mitigation measures, if necessary, to comply with this Act. Board members are also subject to a Directors Code of Conduct (Board Code). This document outlines the standards of conduct all board members are expected to meet as they exercise their duties as directors of DCC. The Board Code is supplemental to and is read together with the *Conflict of Interest Act.*

To ensure that DCC conducts all business with high ethical standards and integrity, and to assist the Board in its responsibilities, DCC has systems and practices in place to support the Corporation's expectations related thereto. For example, the Board monitors DCC's frameworks and policies related to values and ethics, including DCC's Integrity Management Framework, which comprises DCC's Code of Business Conduct for employees and Procurement Code of Conduct (PCC) for suppliers.

DCC's Code of Business Conduct is for all employees. It outlines expectations, incorporates the *Public Servants Disclosure Protection Act* and sets out procedures for disclosing wrongdoing under that Act. DCC employees are required to review their obligations and responsibilities under the Code annually. This process is done electronically, with each employee receiving an email reminder. Responses are tracked using an automated system which ensures that DCC is able to keep accurate records and to take appropriate follow-up action. Shortly after they are hired, all new employees must pass an online test regarding the Code. In 2016–17, 100% of DCC's employees responded to the annual request for review and all new hires completed the required test.

The Corporation uses the PCC to set out expectations of suppliers in terms of how to respond to bid solicitations in an honest, fair and comprehensive manner. Suppliers are to comply with DCC's PCC not only during the procurement process, but also as they carry out their work. To make this easier, PCC clauses have been incorporated into DCC's contract documentation. The Board receives regular reports from the President and CEO on matters arising out of the PCC and on employee compliance with DCC's Integrity Management Framework. This ensures that DCC is able to maintain its best practices regarding integrity, ethics and values.

STRATEGIC DIRECTION

Pursuant to the FAA, DCC must submit a Corporate Plan on an annual basis. To ensure that it identifies and addresses all key areas during the corporate planning process, DCC uses a strategic and corporate planning process chart. This chart sets out a timeline, as well as key activities and deliverables. At each board meeting, board members discuss DCC's strategic initiatives and industry trends. The Board regularly dedicates specific time on its agendas specifically to discuss board members' perspectives on strategic issues facing the Corporation. The Board also selects one member to participate in DCC's annual strategic planning session along with the Corporation's entire senior management group. DCC also invites stakeholder representatives, including those from government and industry, to this annual session. Previous invitees have included the Assistant Deputy Minister (Infrastructure and Environment), DND; the Assistant Deputy Minister (Real Property), Public Services and Procurement Canada (PSPC); the President of the Canadian Construction Association; and the President of the Association of Consulting Engineering Companies Canada.

The Board specifically advises on, reviews and approves DCC's Corporate Plan. For the 2017–18 to 2021–22 planning period, the Board began its discussions in June 2016 with a Board strategic session. One board member participated in DCC's September strategic planning session. Then all board members reviewed and approved the draft 2017–18 to 2021–22 Corporate Plan in December 2016.

The Board specifically ensured that DCC's 2017–18 to 2021–22 Corporate Plan appropriately addressed the government's priorities and expectations. The Board ensured that DCC continued to provide services efficiently, that these services were held to a high standard, and that DCC's procurement processes reflected both modern best practices and public expectations around transparency, openness and fairness.

RISK MANAGEMENT

DCC management provides the Board with information on its risk management practices. The Board is responsible for ensuring that principal risks to DCC's business have been identified and prioritized, and that appropriate systems are in place to manage these risks. The Board reviews and approves DCC's Risk Management Framework and discusses risks at each meeting. The Board performs regular due diligence by assessing risks and by monitoring DCC's financial and corporate performance against targets set for corporate initiatives.

ENGAGEMENT AND COMMUNICATION

At each meeting, the Board engages with DCC staff. It also engages with external stakeholders at least annually at DCC's Annual Public Meeting (APM). In addition, the Chair of the Board seeks opportunities to communicate with government stakeholders, including the Minister of Public Services and Procurement. To encourage open dialogue, a DCC representative makes a presentation on one or more subjects to board members at each board meeting. In 2016–17, vice-presidents, regional directors and other DCC staff members provided such presentations. Also, at each meeting, board members are encouraged to meet with DCC staff informally.

To ensure that the Board fully appreciates the work that DCC is involved in in support of its Client-Partners, the Board holds at least two meetings per cycle in different regional offices across Canada—Atlantic, Quebec, Ontario, National Capital or Western. In April 2016, it met at 19 Wing Comox; in September 2016, it met at 5 Canadian Division Support Base Gagetown; and in March 2017, it met at the Montreal Garrison.

DCC held its 2016 APM on June 6, 2016, after posting a notice on DCC's website 30 days earlier. To encourage collaboration with stakeholders, the heads and members of industry associations were invited to participate in this event. All DCC employees were also encouraged to attend. The Chair of DCC's Board of Directors, board members, and DCC's President and CEO were available at the APM to answer questions. The Chair and the President and CEO provided information on DCC's activities and financial results, and sought feedback from all attendees. A summary of the proceedings of this meeting is available on DCC's website.

CEO PERFORMANCE

The objectives of PCO's Performance Management Program for Chief Executive Officers of Crown Corporations are as follows:

- to encourage excellent performance by setting clear objectives that are linked to corporate plans, government objectives and leadership competencies and rigorously evaluating the achievement of results;
- to recognize and reward strong performance and identify under-performance; and
- to provide a framework within which a consistent and equitable approach to performance management can be applied.

The Chair of DCC's Board follows PCO's guidance and, together with members of the Governance and Human Resources Committee and board members, ensures that clear objectives are set for DCC's President and CEO that are linked to DCC's Corporate Plan and to the government's objectives.

BOARD COMMITTEES

The Board has two committees: the Audit Committee, and the Governance and Human Resources Committee. All Audit Committee members are independent of DCC management in that none of them are officers or employees of DCC, as per the FAA. These committees rely on their respective charters and work plans to ensure that they identify and address all of their responsibilities at each meeting. The key activities of these committees in 2016–17 are noted below.

Audit Committee

Chair: Lori O'Neill
Members: Paul Cataford, Shirley McClellan and Marc Ouellet
The Committee met six times in 2016–17.

In assisting the Board of Directors in the fulfillment of its oversight responsibilities, pursuant to its Charter, DCC's Audit Committee oversees DCC management's maintenance of appropriate financial and management control and information systems and management practices and that related records and systems are kept in such a way that they will provide reasonable assurance that DCC's assets are safeguarded and controlled, DCC's transactions are in accordance with the FAA and its regulations, DCC's By-laws and any Directive given to the Corporation.

Further to the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*, the Chair of this Committee is a financial expert who holds a recognized accounting designation, and members are financially literate. At each meeting, the Audit Committee holds an *in camera* session for committee members only, as well as separate sessions with representatives from the Office of the Auditor General (OAG), DCC's internal auditors, the Chief Financial Officer (CFO), as well as the Chief Executive Officer (CEO). Before each meeting, the Chair of the Committee conducts individual teleconferences with a representative of the OAG, the internal auditors, DCC's CFO, and the CEO.

The Audit Committee receives regular reports from DCC's internal auditor, including all internal audit reports, as well as details on the implementation and status of recommendations. The Committee then notifies the Board of the status of audit-related matters and any key issues.

KEY ACTIVITIES

In 2016–17, the Audit Committee focused on the OAG's Special Examination of DCC. It reviewed the OAG's Special Examination plan, participated in this activity, and received the final report. Also in 2016–17, the Audit Committee reviewed its charter and work plan; received and approved the internal audit plan; reviewed the results of the previous year's OAG annual audit; reviewed and approved revisions to DCC's Financial Management Policy; and participated in the recruitment of DCC's new CFO. The Committee ensured that DCC met the FAA requirement for quarterly financial reporting and the TBS Standard on Quarterly Financial Reports for Crown Corporations.

Governance and Human Resources Committee

Chair: John Boyd
Members: Robert Presser, Marc Ouellet and James Paul (*ex officio*)
The Committee met three times in 2016–17.

Pursuant to its charter, the Governance and Human Resources Committee is responsible for three key areas: governance, human resources and nominations. This committee assists the Board in its responsibilities by, for example, doing the following:

- evaluating and recommending to the Board corporate governance practices applicable to the Corporation;
- ensuring that DCC management has established appropriate policies and procedures relating to DCC's Code of Business Conduct, in that they follow appropriate best practices, respect the spirit and intent of relevant

government guidance and initiatives, and comply with applicable legislation; and

- ensuring that DCC's core human resources policies are sound, that they follow appropriate Government of Canada guidance and that they comply with applicable legislation.

The Committee holds an *in camera* session at each meeting.

KEY ACTIVITIES

In 2016–17, the Governance and Human Resources Committee reviewed its charter and work plan; prepared for the new PCO appointment process by, in particular, assessing the membership requirements of the Board pursuant to the Board Profile; ensured that all Board member appointment-related documentation was up to date and available on DCC's website, including the Notice of Opportunity(ies); assessed the succession planning for certain DCC positions; and assisted in the recruitment of DCC's new CFO.

Attendance: Chart 1 notes committee members' attendance at committee meetings. It does not show the attendance of board members who attend committee meetings as observers.

Compensation: Chart 2 shows board compensation. Guidance for retainer and per diem amounts for Crown corporation board members is set out in the PCO document *Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations*, dated October 2000. In PCO's November 2016 document, *Performance Management Program Guidelines—Chief Executive Officers of Crown Corporations*, DCC is listed in Group 3. The compensation for DCC's board members is set by an overarching Order in Council.

CHART 1

	BOARD	AUDIT COMMITTEE	GOVERNANCE AND HUMAN RESOURCES
Presser, Robert	5/5	—	3/3
Boyd, John	5/5	—	3/3
Cataford, Paul	5/5	6/6	—
McClellan, Shirley	5/5	6/6	—
O'Neill, Lori	5/5	6/6	—
Ouellet, Marc	5/5	6/6	3/3
Paul, James	5/5	—	3/3

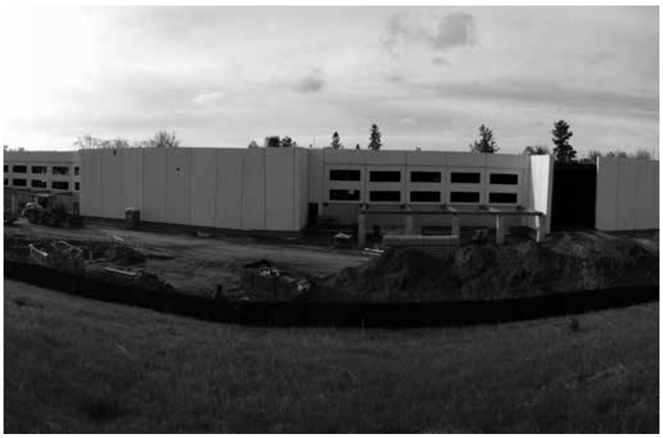
CHART 2

	ANNUAL RETAINER ($)	PER DIEM ($)
Presser, Robert	7,500	300
Boyd, John	3,800	300
Cataford, Paul	3,800	300
McClellan, Shirley	3,800	300
O'Neill, Lori	3,800	300
Ouellet, Marc	3,800	300

PROJECT HIGHLIGHTS 2016–17

North Park Armoury Rehabilitation and Fit-Up

The North Park Armoury is a federally-designated heritage building and National Historic Site of Canada. This rehabilitation and fit-up project will provide facilities to meet the operational requirements of two Canadian Army Reserve units.

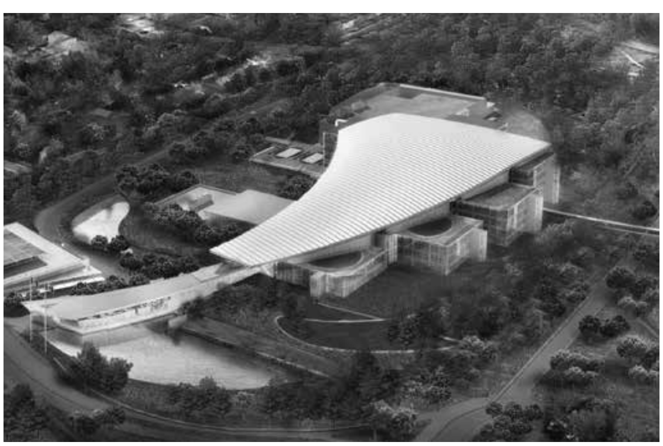


Shared Services Data Centre, Borden, Ontario

Exterior of the Shared Services electronic data centre at CFB Borden. The project is to expand the government data centre to accommodate greater volumes of data and increased storage capacity. Using a P3 procurement approach, the 25-year agreement includes the design, construction, financing, operation and maintenance of the data centre.

AB Jetty Recapitalization Project, Esquimalt, B.C.

This $743-million project to replace aging 70-year-old jetties consists of three contracts. The first contract valued at $55.5 million was awarded on January 11, 2017. This portion of the multi-year project involves extending the utility corridor, dredging the seabed, demolishing B Jetty, preparing the site, building a new seawall and relocating several elements of the Oily Water Waste Treatment Plant.



Communications Security Establishment Long-Term Accommodation Project, Ottawa, Ontario

Built using a public-private partnership, the $4.1-billion CSE LTAP facility spans more than 72,000 m^2. The associated design-build-finance-maintain contract included unique security, infrastructure and financing arrangements. DCC is involved with the operations and maintenance of the facility as part of the 30-year contract.

Board of Directors

ROBERT PRESSER, CHAIR OF THE BOARD

Mr. Presser has experience in mergers and acquisitions with large Canadian corporations, as well as extensive knowledge of corporate governance practices. He is Vice-President of Acme Engineering Products Ltd. in Montréal and serves as Chair of Sofame Technologies Inc.'s board.

JOHN BOYD

Following a 35-year career in the consulting engineering business, Mr. Boyd currently provides training and consulting advice regarding the management of engineering consultancies. He is also a regular guest speaker on issues related to the role of engineers in society. Mr. Boyd has held numerous board and committee positions.

PAUL CATAFORD

Mr. Cataford is President and CEO of Zephyr Sleep Technologies Inc. He serves as a director of a number of public and private companies, and has held several senior management positions in various financial and investment firms.

SHIRLEY MCCLELLAN

After serving six terms in office over 20 years with the Government of Alberta, Ms. McClellan was a distinguished scholar in residence at the University of Alberta. She currently serves on numerous boards and is the Chief Executive Officer of Horse Racing Alberta.

LORI O'NEILL

Ms. O'Neill is a corporate director and independent financial and governance consultant. Following a 24-year career as a partner of a global professional services firm, she chairs the audit committees of numerous boards including public and private companies.

MARC OUELLET

Following a 32-year career in the Royal Canadian Air Force, during which he held several command appointments, Mr. Ouellet is now an aerospace and security consultant with CIRRUS Research Associates Inc. He has been an associate faculty member of the Centre for Civil-Military Relations of Monterey, California, since 2006.

JAMES PAUL

Mr. Paul has over 30 years of business and corporate governance experience with a variety of international companies. He has a Common Law degree from the University of Ottawa. Prior to his appointment with DCC, he served as President of a Canadian technology company and as Chair of the Canada Science and Technology Museum Corporation's Board of Trustees.

Executive Team

JAMES PAUL, J.D.

President and Chief Executive Officer

Mr. Paul was appointed to the position of President and CEO in September 2009. His career has spanned over 30 years and includes senior management roles in large Canadian technology firms. He has managed major infrastructure projects in the civilian, government and defence sectors. Prior to 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's Board of Trustees. He holds a Common Law degree from the University of Ottawa.

DANIEL BENJAMIN, P.ENG., ING.

Vice-President, Operations—Service Delivery and Corporate Planning

Mr. Benjamin joined DCC in September 2011 after a 35-year career with the Canadian Armed Forces (CAF). He attained the position of Chief Military Engineer for the CAF and Chief of Staff (Infrastructure and Environment). He was involved in the design and construction of infrastructure and facility management for 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 of Canada and is DCC's representative on the Federal Industry Real Property Advisory Council.

MÉLINDA NYCHOLAT, P.ENG.

Vice-President, Operations—Procurement

Ms. Nycholat joined DCC in 1988 and has held various positions in the Western and Atlantic regions and Head Office. She holds a Bachelor of Civil Engineering degree from Université Laval. Ms. Nycholat sits on the board of directors of the Canadian Public Procurement Council, is an owner representative on the Canadian Construction Documents Committee, sits on the steering committee of the Institute for Building Information Modelling in Canada and is a member of the Treasury Board Advisory Committee for Contracts.

ROSS WELSMAN, P.ENG.

Vice-President, Operations—Business Management

Mr. Welsman holds a Bachelor of Science in Mathematics degree and a Bachelor of Engineering (Civil) degree from Memorial University of Newfoundland. Following 15 years in the private sector, he joined DCC as the Area Engineer for the Atlantic Region. He was appointed Regional Director of the Atlantic Region in 2006 and transferred to Ottawa in July 2011. Mr. Welsman was promoted to VP, Operations—Business Management in November 2015 and currently sits on the board of Canadian Construction Innovations.

JULIET WOODFIELD, CPA, CA

Vice-President, Finance & Human Resources and Chief Financial Officer

Ms. Woodfield joined DCC's Executive Management Team in September 2016. With more than 20 years of public and private sector experience, she has worked with a variety of government organizations and has also served as the Deputy Chief Financial Officer of the North Atlantic Treaty Organization (NATO) Security Investment Program in Brussels, Belgium. She is a Chartered Professional Accountant and holds a Bachelor of Commerce degree from the University of Calgary.

Senior Management Team

DAVID BURLEY, GSC

National Service Line Leader, Contract Management and Real Property Management Services

Mr. Burley joined DCC in Kingston in 2002 and transferred to Ottawa in 2012 in his role as National Service Line Leader (NSLL) for Contract Management Services. He subsequently assumed the role of NSLL for Real Property Management Services. He is a civil engineering technologist and holds a Canadian Construction Association Gold Seal Certified designation. Mr. Burley is a board member for the Real Property Institute of Canada and a council member of the Lean Construction Institute—Canada.

RICHARD M. DANIS, CPA, CA

Director, Finance

Mr. Danis holds a Bachelor of Commerce degree from Laurentian University and an MBA from the University of Ottawa. He joined DCC in 2009 from the private sector, where he held positions in auditing and as Director of Finance for 10 years. He is a member of the Chartered Professional Accountants of Ontario.

DAN FORTIER

Director, Information Technology

With more than 20 years as an information technology professional, Mr. Fortier joined DCC in 2016 as Director, Information Technology. His work experience includes 15 years in various high technology companies, most recently in a not-for-profit organization that operates a payment clearing and settlement system in Canada. Mr. Fortier obtained a professional certificate in Management Skills from the Sprott School of Business at Carleton University in 2009 and has a certificate in Law and Security from Algonquin College.

JOHN GRAHAM, P.ENG., PMP

Regional Director, Ontario

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 Regional Director, Ontario, in 2009.

STEPHEN KARPYSHIN, P.ENG.

Regional Director, Western

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 Engineers Geoscientists Manitoba, the Association of Professional Engineers and Geoscientists of Alberta, and the Alberta Federal Council.

ALISON LAWFORD, LL.B., LL.M.

Director, Governance and Legal Affairs, and Corporate Secretary

Ms. Lawford joined DCC in 2008 as Corporate Secretary and is also DCC's Access to Information and Privacy Coordinator. She has a Law degree and Master of Laws degree from the University of Ottawa. Before coming to DCC, she was the Compliance Officer at Export Development Canada and practiced law with a national law firm.

ELIZABETH MAH, P.ENG., GSC, PMP

Regional Director, National Capital Region

Following her graduation from the University of Manitoba with a Bachelor of Science Civil Engineering degree, Ms. Mah joined DCC in 1998. After working at the DCC Edmonton and Esquimalt site offices, she transferred to Ottawa in 2011. She was promoted to Regional Director for the National Capital Region in November 2015. Ms. Mah holds a Project Management Professional certificate and a Canadian Construction Association Gold Seal Certified designation.

STEPHANIE RYAN, B.A. (HONS.), ABC

Director, Communications

Following a 12-year private sector career in marketing communications, Ms. Ryan joined DCC in 2002. Before coming to DCC, she spent three years with a national magazine publishing firm and nine years with a life sciences business. She holds a Bachelor of Arts (Honours) degree from the University of Ottawa and the designation of Accredited Business Communicator (ABC), and is an accredited TESL Ontario language instructor.

GRANT SAYERS, CET

Regional Director, Quebec

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 Leader for Real Property in Edmonton. He is a Certified Engineering Technologist with a mechanical background.

GEORGE THEOHAROPOULOS, P.ENG.

Regional Director, Atlantic

Mr. Theoharopoulos became Regional Director in the 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.

ELAINE WARREN, CHRL

Director, Human Resources

Ms. Warren joined DCC in 1998 following a 14-year career in the infrastructure and service industries. She earned a Business Administration, Human Resources diploma from Algonquin College, and in 2006 obtained her executive certificate in Strategic Human Resources Leadership from the Sprott School of Business at Carleton University. She holds a Certified Human Resources Leader (CHRL) designation from the Canadian Council of Human Resources.

Matthew Mackenzie, Coordinator, Construction Services at CFB Halifax, Nova Scotia near the site where DCC is providing contract management of Jetty NJ, a new full-service berthing for the Canadian Arctic Offshore Patrol Ships.

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 Armed Forces (CAF) operations, both domestic and overseas. DCC is accountable to Parliament through the Minister of Public Services and Procurement.

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, the Canadian Embassy in Kabul, Afghanistan, and the military camp at Erbil in Iraq.

1.2 Mission, Vision and Values

Mission: To provide timely, effective and efficient project delivery and full lifecycle support for infrastructure and environmental assets required for the defence of Canada.

Vision: To be a knowledgeable, ethical and innovative leader, and employer of choice, valued by the Government of Canada and industry.

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

Dedication: DCC is dedicated to supporting DND's infrastructure and environment requirements. For more than 65 years, DCC employees have dependably and diligently carried out that mission for Client-Partners.

Collaboration: DCC is committed to developing collaborative relationships with Client-Partners, industry, employees and other stakeholders. Together, we leverage our shared expertise toward our common goals.

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

Fairness: DCC deals with Client-Partners, industry, employees and other stakeholders in a fair and ethical manner, advocating mutual respect and professionalism.

1.3 Operating Structure

DCC maintains site offices at all active CAF establishments in Canada and abroad, as required. Its Head Office is located in Ottawa. The Corporation maintains five regional offices (Western, Ontario, National Capital, Quebec and Atlantic), as well as 31 site offices located at CAF bases, wings and area support units. DCC also maintains a temporary remote office in Nanisivik, as required for the Nanisivik Naval Facility infrastructure project in Nunavut. In addition to working in Canada's Far North, DCC has deployed personnel alongside the CAF over the years. In the past year, DCC has deployed employees to Iraq in support of Operation Impact. Following the work in Iraq, the DCC team supported three additional projects at the Operational Support Hub in Kuwait. The success of this work in Iraq and Kuwait has recently led to additional overseas support in Latvia supporting the CAF infrastructure requirements for Operation Reassurance.

1.4 DCC'S Client-Partners

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 management of the integrated DND real property portfolio at real property operations sites across Canada. With a single custodian for portfolio management at the national level, the regional Real Property Operations offices manage the infrastructure requirements at the base and wing level. Also included in the infrastructure portfolio are real property operations for the Canadian Forces Housing Agency and Defence Research and Development Canada. DCC supports CAF operations as requested by the Canadian Joint Operations Command (CJOC).

Other organizations for which DCC also contracts for—and manages—construction and environmental services include the Communications Security Establishment (CSE), a stand-alone agency within the Minister of National Defence portfolio; and the Canadian Forces Personnel Support Agency. The Corporation also has a memorandum of understanding with Shared Services Canada relating to the expansion of the data centre at CFB Borden. Additionally, DCC 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 organizations within DND.

1.5 Contractors and Consultants

As outlined in the governance section, DCC treats the integrity of the procurement process seriously. Accordingly, the Corporation complies fully with Government of Canada contracting regulations that ensure a secure, efficient and fair process for procuring and managing DND infrastructure projects. DCC's Procurement Code of Conduct (PCC) ensures that DCC's contractors and consultants meet the expected integrity requirements for doing business with the Government of Canada. The PCC brings together in one concise document the ethical responsibilities of contractors who offer goods and services to the Corporation. It ensures transparency, accountability and the highest standards of ethical conduct in DCC's procurement of goods and services.

DCC has a memorandum of understanding with Public Services and Procurement Canada (PSPC) to carry out integrity verifications on winning bidders. This leverages PSPC's resources and avoids duplication of effort, as it means DCC does not need to create its own database. These verifications involve searching a database of provincial records and other publicly available data to see whether the firms or any of their officers have been convicted of fraud or related offences.

In January 2017, DCC completed its review of the PCC to ensure it is aligned with the changes made to the Government of Canada's Integrity Regime. In 2016–17, DCC awarded 1,949 contracts to contractors, consultants or suppliers. The Corporation aims to verify all firms before awarding contracts to ensure that all contractors and consultants comply with the PCC. However, verifications are not required for contracts whose estimated value is less than $10,000 or if standing offers are in place from a supplier source list. As a result, in 2016–17, DCC made 1,480 verification requests and successfully verified 100% of the successful bidders on contracts, as per its procurement process.

Because DCC works closely with private sector consultants and contractors, it is vital that the Corporation stay abreast of trends and contribute to the construction industry. In addition to maintaining formal exchanges with the Canadian Construction Association and its provincial counterparts, DCC employees interact with contractors on job sites every day. These discussions, along with participation in a number of association committees, help keep DCC informed of industry developments and provide a useful forum through which the Corporation connects with its industry partners. DCC maintains relations with other groups, such as the Association of Consulting Engineering Companies Canada, the Royal Architectural Institute of Canada, the Federal/Industry Real Property Advisory Council, the Lean Construction Institute—Canada, the Canadian Public Procurement Council, the Canadian Construction Industry Consultative Committee, and the Canadian Design-Build Institute, as well as industry organizations for a variety of infrastructure services.

2.0 DELIVERING VALUE FOR CANADA

DCC focuses on providing the highest value possible to its Client-Partners in its service delivery. When working with DCC, Client-Partners can benefit from the following advantages that DCC provides.

Corporate performance management and measurement: This approach includes targeted cost of service delivery levels and industry benchmarking. It ensures cost-effective service delivery.

Service delivery optimization: DCC relies on risk-based decision making and a principles-based approach to service delivery and business management activities. This ensures that Client-Partner requirements are met.

Understanding of the needs of Client-Partners: DCC understands the special purposes, high security requirements and harsh environmental conditions of its Client-Partners. It uses this knowledge every day in selecting and managing the best approaches to service delivery.

Flexible procurement methods: DCC has developed a variety of procurement approaches to best meet Client-Partners' project needs. DCC is flexible in adapting these to specific situations or opportunities, as required. They are specifically tailored to defence and security project needs, and time-sensitive requirements.

Integrated service delivery: DCC uses a service line integration matrix delivery model to access required expertise across all service lines and activities. This model enables DCC's activity-based costing by DND program type, fitting with DND's Program Alignment Architecture. This holistic approach can put the right solutions in the right place at the right time.

Alignment with Client-Partner goals: Like its Client-Partners, DCC focuses on delivering projects that meet specifications, on time and on budget.

Understanding of the construction industry: DCC is a knowledgeable owner and an active participant in construction industry association activities, and fosters strong relationships with all sectors. This increases supplier engagement in DCC-managed procurements, resulting in increased competitiveness and value for Client-Partners.

Innovation: DCC is an industry leader and innovates in many areas that increase value for Client-Partners. These include innovative procurement models such as public-private partnerships, building information modelling, integrated project delivery and e-procurement, which enhances industry access, increases competitiveness and permits better integrity monitoring.

Fairness: DCC settles legal claims and change orders resulting from the third-party contracts it puts in place for its Client-Partners. With its experience in the infrastructure and environmental industry, combined with sound contract management processes, DCC is able to provide significant savings to its Client-Partners, and fair and good value to the Crown.

3.0 STRATEGIC INITIATIVES

DCC has built its business strategy on four planning themes: Business Management, Service Delivery, People, and Leadership and Governance. DCC's strategic priorities under those themes are to have robust business management tools, meet Client-Partner requirements, engage the workforce and demonstrate strong leadership. The following is a summary of DCC's progress in 2016–17 on initiatives under these themes.

Theme: Business Management

Objective: To develop and maintain responsive, integrated business management structures, tools, teams and practices.

A third-party auditor regularly conducts internal audits to foster continuous improvement. Last year, one initiative was to respond to any recommendations arising from the business planning and resource management internal audit. This audit, which was done in the second half of 2015–16, assessed the adequacy and effectiveness of business management systems and processes to ensure that they are reliable, up to date and efficient, and that they allow DCC to manage its business efficiently.

In June 2016, the internal auditor had no recommendations for action, as DCC's governance structure, business planning and resource management processes, ability to manage unexpected business events, and structures for corporate performance management were found to operate effectively. The Corporation has processes and procedures in place to ensure that corporate initiatives and operational plans are aligned to defined strategic objectives, and that progress against plans is monitored on a regular basis to identify optimization measures.

DCC has evolved and improved its methods for resource management and planning, including the development and application of its own internal digital analytics tool. To complement this initiative, DCC successfully adapted a cloud-based solution that unifies its resource planning, analysis and reporting in an intuitive and efficient manner. This contributes to better business forecasting and efficient operations, and it ensures DCC's business practices are kept up-to-date.

Theme: Service Delivery

Objective: To meet Client-Partner requirements and to demonstrate value for money.

For the 2016–17 planning period, the management group identified three initiatives under the Service Delivery theme:

DCC will support DND in its defence infrastructure renewal initiatives; continue implementing e-procurement; and support the Client-Partners' implementation of and industry's compliance with the new security requirements.

DCC continues to aid the defence infrastructure renewal initiative by providing support for the following activities: developing portfolio and real property management plans; developing and implementing procurement strategies by groups of services—such as infrastructure maintenance services, architectural and engineering services, and environmental services—for enhanced service delivery; and improving real property project delivery, a task that includes developing a preferred procurement methodology. Specifically, DCC is supporting work for the Infrastructure Environment Business Modernization (IEBM) project. When it is completed, there will be a centralized hub for all of DND's records for real property maintenance, portfolio and investment planning, spatial integration, and reporting. DCC supported the IEBM project throughout the latter part of 2016–17, including a pilot of the solution at CFB Borden and subsequent rollout to all DND sites across Canada, and establishing a co-located DND and DCC IEBM Team office in Ottawa.

DCC delivered the balance of projects funded under the Federal Infrastructure Investments Program (FIIP) to DND, as well as infrastructure investment projects funded under Budget 2016. At March 31, 2017, DCC had spent 100% of its planned target of $243 million of DND's 2016–17 FIIP-related funding. Budget 2016 provided $264 million for defence infrastructure. At March 31, 2017, DCC had spent 100% of its planned target of $20.7 million of Budget 2016-related funding for 2016–17. DCC expects that, by the end of 2017–18, it will have spent $238 million of this amount on behalf of DND. The FIIP and Budget 2016 expenditures are in addition to DND's regular annual infrastructure and environment program funding.

DCC collaborated with industry and DND to adapt a new construction delivery process called Integrated Project Delivery (IPD). IPD could significantly increase efficiencies, improve value and cost certainty, reduce the cost of risk management, and decrease the probability of disputes. The Corporation is working with DND to test this approach in the coming year.

In 2016–17, the Corporation continued to implement the e-procurement initiative, which proved to be an open, secure, fair and transparent option for administering DCC's tender calls and contract awards. In August 2016, as part of this initiative, DCC launched e-bonding. It allows prime contractors bidding on construction work worth more than $100,000 to submit the required security through an electronic bond or wire transfer. Contractor training on the new e-procurement process has been conducted across Canada. Industry feedback on the transition has been extremely positive. DCC now electronically closes all construction contract tenders valued under $1 million across the country. In the coming year, the Corporation is considering the feasibility of extending e-procurement to larger construction contracts, as well as other non-professional services.

DCC also supports the Client-Partners' implementation of and industry's compliance with the new security requirements by pre-screening contracting and consulting firms' applications for security clearances. Prime contractors and their sub-contractors need security clearances from the Canadian and International Industrial Security Directorate (CISD) before being awarded a job. In 2016–17, DCC's industrial security team helped industry obtain the necessary security clearances from CISD. DCC's assistance under its Industrial Security Program has shortened the wait time from six months to four for Designated Organization Screening clearance, and from 12 months to eight months for Facility Security Clearance. Of the 1,172 applications initiated in 2016–17, 1,003 or 86% of clearances were granted to firms sponsored by DCC. Effective February 1, 2017, the Royal Canadian Mounted Police introduced a new process that includes a mandatory electronic fingerprint requirement for all Canadians who need a minimum reliability security clearance. DCC is meeting this new requirement for its internal personnel security clearances and has integrated the obligation into its support to industry.

Theme: People

Objective: To recruit, develop, support and retain a competent, engaged and diverse workforce.

For the 2016–17 planning period, there were two initiatives under the People theme: implement internal communications initiatives; and promote awareness of employee diversity and inclusion, and workplace wellness and mental health. Work has progressed steadily on both of these initiatives throughout 2016–17.

DCC has launched new standards, workflow and archiving for issuing internal communications such as memos and bulletins. This work addressed issues such as inconsistent distribution of information relevant to operations and training on how to develop content. The Corporation monitored these new processes throughout the last half of 2016–17. It also updated online training modules for both employee and manager communications. Both courses provide a basic foundation for communications at DCC and complement the online communications courses available in DCC's Leadership Development Program. All DCC employees have access to these training modules. DCC will continue to promote internal communications tools and resources in 2017–18 to ensure that employees have the resources they need to be strong communicators.

The Human Resources (HR) Department allocated resources, reviewed its HR-related policies and programs, and developed a Diversity and Inclusion (DI) Strategy and a Workplace Wellness and Mental Health (WWMH) Strategy. It hired two additional employees—one for the diversity and inclusion program, and the other for the workplace wellness and mental health program. The Department also conducted a workplace wellness and mental health survey in November 2016 to find out how DCC could further support the workplace wellness and mental health of its employees. The findings of the survey were very positive with an overall score of 86%, benchmarked against comparative results from a national public opinion survey. Findings are considered a relative strength when there is a score between 85% and 100%.

DCC plans to launch the DI and WWMH strategies, and to establish a DI Committee and WWMH Focus Group with employee representatives, in the first quarter of 2017–18. Developmental opportunities identified through the policy review and survey will be incorporated into three-year DI and WWMH action plans. These two strategic efforts are part of an overall five-year human resources strategic plan that the Human Resources Department is developing for DCC's people during 2017–18.

Theme: Leadership and Governance

Objective: To provide strong leadership and be responsive to Government of Canada requirements.

For the 2016–17 planning period, the management group identified four initiatives under the Leadership and Governance theme. DCC will continue to demonstrate value, integrity and innovation to stakeholders and Client-Partners; it will support the Office of the Auditor General in its Special Examination of DCC; it will comply with the Government of Canada's directive related to travel and other expenditure policies; and, finally, it will respond to the recommendations arising from the internal audit of values and ethics.

The Corporation continued its stakeholder relations and outreach efforts throughout the year. This task included supporting Government of Canada priorities related to building a healthy and respectful workplace; ensuring openness, transparency and environmental sustainability; and meeting the Client-Partners' security obligations. The task also included managing Client-Partner relationships and building working relationships with the Minister's office. As well, outreach to local industry at DCC sites across Canada, particularly for e-procurement, involved holding 54 public orientation and industry training sessions.

The Office of the Auditor General (OAG) conducted a Special Examination of DCC, starting in late 2015–16. The OAG issued a final report in December 2016 and found that the Corporation had in place the elements of good governance. The report made four recommendations in two areas: corporate management practices; and management of contracts and services.

The first recommendation was related to corporate management practices. The OAG recommended that DCC better define fraud risks, and put in place systems and processes to better assess, monitor and address these risks. DCC agreed to cover all relevant aspects of the management of the risk of fraud (including fraud identification and assessment). Although DCC already takes a number of steps to prevent fraud, DCC created an action plan that will put in place the systems and processes needed to assess, monitor and address fraud-related risks more proactively. In 2017–18, the Corporation will begin to improve its responses to this potential risk through enhanced data analysis. The Corporation will adopt the use of a business intelligence software that can better detect patterns of suspicious procurement activity.

The following three recommendations were related to management of contracts and services in the areas of document input, service line verifications and employee training tracking. DCC agreed to complete its transition to a new electronic document management system and is refining the standards for its file naming convention to reduce its complexity and improve its ease of use. Once complete, employees will have the opportunity for training on this updated procedure. In 2016–17, DCC conducted an internal verification of the Contract Services service line that covered the past two fiscal years. The Corporation intends to amend its verification reporting format to more clearly document conclusions, recommendations and actions taken. DCC is finalizing the development and implementation of a new electronic training tracker, an online tool which is an employee-specific registry of all required and completed training. Both employees and managers will be able to use this to manage individual training records consistently and accurately.

DCC completed the alignment of its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of Treasury Board, in a manner consistent with its legal obligations as a Crown corporation.

At the working level, DCC conducted research and a comparative analysis of its current travel policy relative to the TBS guidelines. It also consulted with industry and government stakeholders, including Public Services and Procurement Canada, to benefit from their advice and experience in implementing this policy. As a result, the Executive Management Group and the Board of Directors approved five documents related to this initiative, including a new directive on travel, hospitality, training, and conference and event expenditures; a new policy on conferences and events; and three updated policies on travel, hospitality and training.

The directive and policies became effective on March 31, 2017, and apply to all DCC employees. The directive, combined with the four policies, provides the approval authority for each type of expense. Together, the directive and policies outline the new mandatory travel, hospitality, training, and conferences and events pre-approval authority and process. All expenses related to travel, hospitality, training, and conferences and events must be pre-approved by the appropriate authority prior to the expenses being incurred.

DCC's expenditures are managed with prudence and probity and represent the most economic and efficient use of funds. DCC's new directive falls within DCC's Financial Management Policy and includes oversight mechanisms, accountabilities and controls for managing these expenditures appropriately. DCC's travel expenditures are focused on its core mandate activities. Where travel is required, DCC works to minimize expenditures.

Three recommendations emerged from an internal audit on values and ethics: to improve awareness and training activities, augment a follow-up process for employee disclosure, and expand related performance measurement for values and ethics training. In 2016–17, DCC developed enhanced content for its training materials and implemented a new communications workflow for its employee disclosure process. This updated values and ethics training will be added to DCC's training register, a mechanism that tracks employee-specific required and completed training.

4.0 STRATEGIC AND OPERATIONAL PERFORMANCE INDICATORS

4.1 Operational Results and Performance Measures

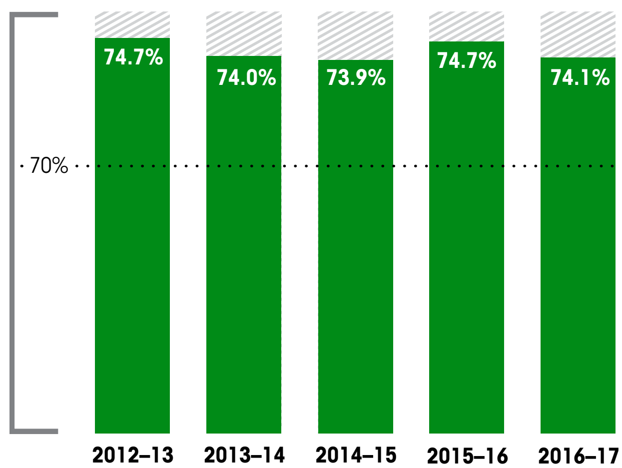
EMPLOYEE UTILIZATION RATE

The utilization rate indicates the hours spent directly on service delivery functions that are billable to the client, as opposed to hours spent on administrative functions that are considered overhead support and on compensated leave. It is an important performance indicator for efficiency and effectiveness, and a key financial management tool. DCC's target utilization rate is 70%. In 2016–17, the Corporation achieved a utilization rate of 74.1%, a decrease of 0.6 percentage points from last year's rate of 74.7%.

UTILIZATION RATE

(percentage of employee hours spent on billable contract work)

TARGET = 70%

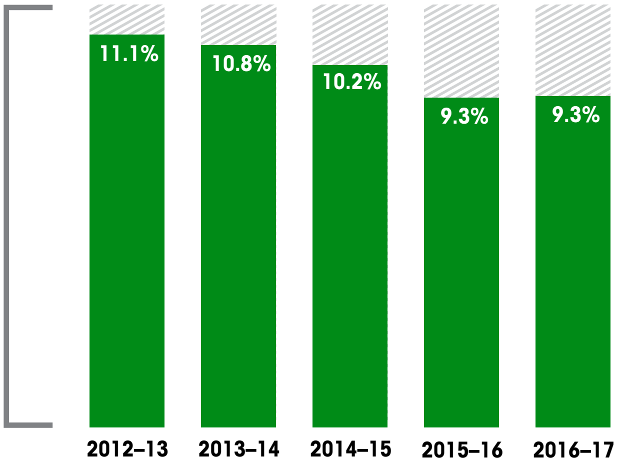


COST OF DCC SERVICES

The indicator of overall costs of DCC services to DND reflects how much of DND's Infrastructure and Environment (IE) program budget is spent on DCC's services—or, in other words, how much DCC services cost DND's IE community. Typically, DCC expects these costs to fall in the range of 10% to 15% of DND's IE program budget. In 2016–17, the cost of service delivery was 9.3%, consistent with the percentage from 2015–16.

COST OF SERVICE DELIVERY

(services revenue as a percentage of contract payments)



FINANCIAL RESULTS

DCC expects to achieve financial results each year that are consistent with its Financial Management Policy. The objective is to generate and maintain sufficient cash to meet the Corporation's anticipated operating and capital requirements, to settle financial obligations as they become due, and to meet contingencies that may arise. As at March 31, 2017, DCC's financial results were consistent with the forecast for this period. DCC's cash management approach is to maintain its cash levels at $21 million to $24 million. At year end, DCC's cash and investments were approximately $27.3 million.

To help bring its cash reserve closer to the targeted level by the end of 2017–18, DCC paid a dividend of $8.5 million to the Receiver General for Canada in the last quarter of 2016–17. The Corporation has also resumed the yearly increase of billing rates, as planned and communicated to our Client-Partner, in alignment with its Financial Management Policy.

4.2 Service Delivery

SERVICE DELIVERY RATING

As a service delivery organization, DCC wants to ensure its Client-Partners are satisfied with the quality of its work. Consequently, the Corporation tracks client feedback through a service delivery rating (SDR) system. DCC administers its work with DND/CAF through service level arrangements (SLAs). Each SLA may comprise many projects, and there is one primary DND representative for each SLA. DCC interviews these representatives 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.

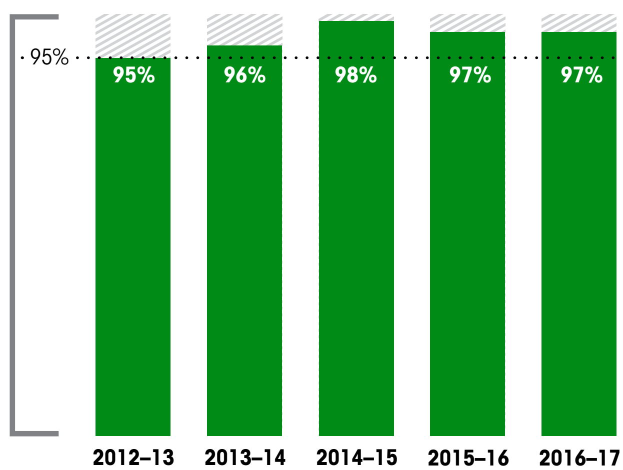
The representatives rate DCC's performance on five factors—quality of services, value added, timeliness, responsiveness and communications—on a scale from one to five. The primary objective is an overall SDR of three or higher. A score of three indicates that DCC "met service delivery standards" and a score of four or five indicates that the Corporation "exceeded service delivery standards." Scores are weighted according to the value of each SLA. DCC defines satisfactory service delivery as an overall rating of three or higher.

In 2016–17, DCC conducted 94 service delivery assessments. The Corporation aims to ensure that 95% of assessments achieve an overall rating of three or higher. DCC has met or exceeded that target for each of the past five fiscal years, with a rating of 97% in 2016–17. Of those 94 assessments, 91 met or exceeded service delivery standards, and three received a less than satisfactory score. Typically, issues relate to specific incidents that fall into one of several categories, such as communications issues, administrative problems or staffing concerns. DCC responds to all concerns about its service and addresses each in a timely manner.

SERVICE DELIVERY RATING

(client satisfaction)

TARGET = 95%



DCC INVOLVEMENT IN INDUSTRY ACTIVITIES

DCC monitors employee involvement in all major industry associations. The goal is to have a DCC representative involved in each relevant association and to act on industry feedback to ensure DCC policies and practices meet industry needs.

In addition, DCC is a founding member of the Institute for Building Information Modelling in Canada (IBC) which is developing tools and standards to facilitate the coordinated use of BIM in Canada. DCC is also a founding member of

Canadian Construction Innovations (CCI), a relatively new institute focusing on industry-driven research and innovation to solve industry problems. DCC is working with CCI to promote innovation in the construction industry. In 2016–17, the government defined its plan to make Canada a centre of global innovation and reaffirmed its commitment to skills and innovation in the 2017 Budget. DCC supports this commitment by keeping up to date with industry innovations and seeking new ways of working for the benefit of its Client-Partners.

For example, the Federal/Industry Real Property Advisory Council (FIRPAC)—of which DCC is a member—is looking at ways Canadian industry can apply building information modelling, similar to the ways other countries do. DCC is currently involved in a joint government-industry working group—composed of Public Services and Procurement Canada (PSPC), DCC and the Canadian Construction Association (CCA)—related to the public disclosure of contractor payments. DCC also participates in additional industry-led working groups on initiatives such as quality of documents and guidelines for project management services. DCC sits on the Canadian Construction Documents Committee (CCDC), which develops, produces and reviews standard Canadian construction contract documents. This national joint committee has almost finished developing a model contract for a new method of project delivery.

Across Canada, DCC employees are involved at all levels of professional organizations related to their areas of expertise, from construction and architecture to project management, innovation, health and safety, sustainable energy, and fire safety. At the national level, DCC executives are active on national committees and professional organizations involved with construction, architecture, real property, consulting engineering, procurement and building information modelling, to name a few areas. This involvement helps keep DCC informed of new trends and developments in industry practices; provides opportunities for DCC to be an industry leader; and strengthens DCC's collaborative relationships with key industry organizations.

PROCUREMENT RESULTS

Procurement Award Success

DCC wants Client-Partners to have a timely procurement experience and does not want to waste industry's time with false starts. DCC works with Client-Partners to make each procurement as viable as possible. The goal is that a minimum of 95% of all procurements result in a contract. At year end, 96.3% of DCC tender calls had resulted in a contract, a slight decrease from last year's rate of 97.1%.

Public Access to Business Opportunities

DCC wants to encourage competition and ensure that all enterprises have equal access to DCC procurement opportunities. The goal is to award a minimum of 98% of DCC contracts through public opportunities. In 2016–17, DCC awarded 99.5% of all contract value through public opportunities.

Procurement Competition

DCC wants industry to view it as an attractive company to work with, so that there are always varied bidders competing for work. This helps ensure that the Corporation gets the best value possible. The Corporation tracks the number of bidders per procurement, one indication of its reputation among contractors and consultants. The goal is to have an average of four bidders per procurement. DCC had an average of 5.1 bidders per procurement in 2016–17, consistent with the previous fiscal year.

CONTRACT MANAGEMENT RESULTS

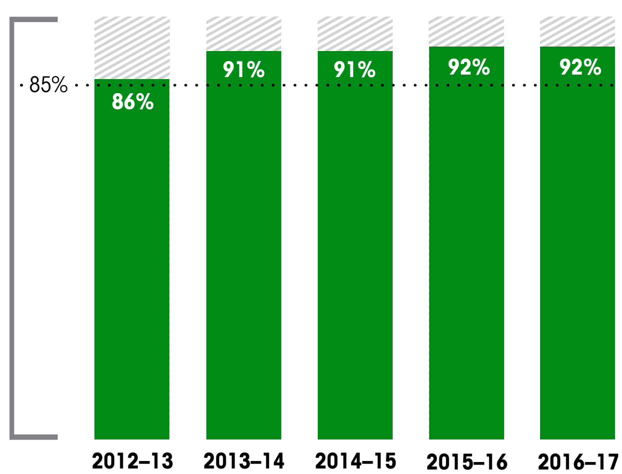
Timeliness of Construction Contract Completion

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 2016–17, 92% of construction contracts were completed on time, consistent with the previous year.

TIMELINESS OF CONSTRUCTION CONTRACT COMPLETION

(jobs completed on time)

TARGET = 85%



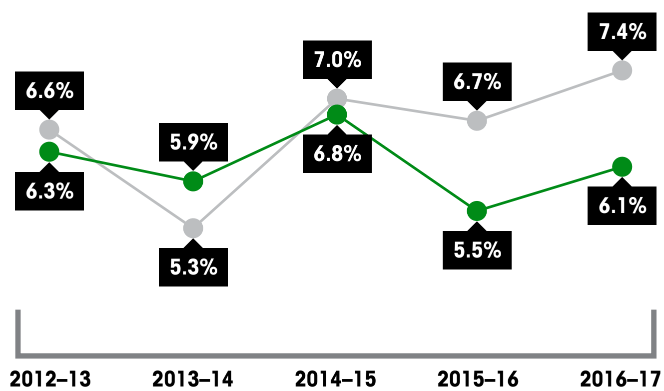
Construction Change Order Values

The change in construction award value for 2016–17 was 13.5%, an increase from the 2015–16 figure of 12.2%. Of the 13.5% change in value, 7.4 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 to inform the client about project and budget status. Additionally, this information helps both DCC and the client monitor the impact of scheduling risks associated with construction.

CHANGE ORDER VALUES

(proportion of total award value)

- Attributable to design changes
- Attributable to site condition changes



Negotiated Cost Savings for Contract Changes

During the lifecycle of a project, a request for work to be added or deleted from the original scope of work of the contract can occur. The most common reasons for a change order are changes to the original design or changes due to unforeseen site conditions. Depending on the volume, scope and cost of change orders, the original contract amount and completion date can be altered. DCC negotiates requests for change orders with contractors. The cost associated with the change order is verified to determine whether the request is within the scope of the contract or if it is, in fact, a change. In 2016–17, DCC reviewed 14,470 requests for contract change orders by contractors. The Corporation negotiated with contractors, and the difference between the original quoted amounts and the final settlement amounts totalled $29.9 million—including $29.7 million in settlements due to contract management changes and $200,000 in legal claim settlements.

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, 2017, there were eight ongoing claims totalling $1.94 million. These figures compare with the previous year of 11 ongoing claims totalling $2.13 million, including 10 claims relating to DND totalling $2.08 million and one claim relating to the Corporation totalling $47,000, for which no provision has been provided.

In accordance with the memorandum of understanding 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 DCC. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims.

4.3 People

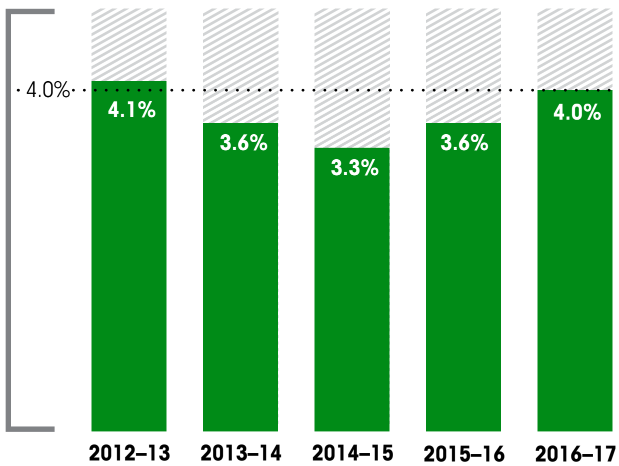
INVESTMENT IN TRAINING AND DEVELOPMENT

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. DCC's performance indicator for training and development is 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 activities, expressed as a percentage of base salary cost. In 2016–17, DCC established an annual overall corporate target for spending on training and development of 4.0% of base salary costs.

In 2016–17, the actual percentage increased by 0.4 percentage points to 4.0%, from 3.6% in 2015–16. The amount spent on training and development fluctuates from year to year. The amount of training is dependent on the effort required to develop and maintain internal courses, and the timing of professional development activities in various regions. DCC had expected the amount spent on professional development to increase from the prior year, due to the increase in work volume associated with the FIIP program and the related increase in the workforce, which resulted in more employees taking training, such as the mandatory three-hour Government of Canada security awareness training module.

PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

TARGET = 4.0%



INNOVATION RESULTS

The innoviCulture program is DCC's means of encouraging and tracking innovation in the workplace. To get a sense of the level of employee engagement in the program, DCC tracks employee participation in it. In February 2017, DCC's innoviCulture committee launched a new online module called the inCubator. This system tracks ideas submitted by employees, from evaluation through implementation. Since its launch, employees have submitted 108 ideas and feedback has been positive. Work to streamline the process will be undertaken in 2017–18.

The committee aimed to have 5% of all employees use this system. At fiscal year end, the participation rate was 8.1%. DCC also introduced a quarterly newsletter called *innoviNews*, featuring news about innovation and ideas from across the country. *innoviNews* is an important part of DCC's ongoing efforts to promote and foster a culture of innovation.

EMPLOYEE WELLNESS

DCC's value as an employer lies in its people. The organization is strongly committed to encouraging its employees to incorporate wellness into their daily routine and promoting work-life balance. The Corporation is focused on preventive measures and interventions that reduce employees' health risk factors, as well as on providing a health and wellness program that accommodates employees with physical or mental health challenges. DCC demonstrates its commitment to wellness by providing financial assistance; access to benefits and resources, such as lifestyle modification programs; fitness memberships and recreational programs; an employee assistance program; an absence support program; flexible working arrangements; and compressed workweeks. Having employees who are healthy, on the job every day and able to fulfill their duties is important to DCC's success.

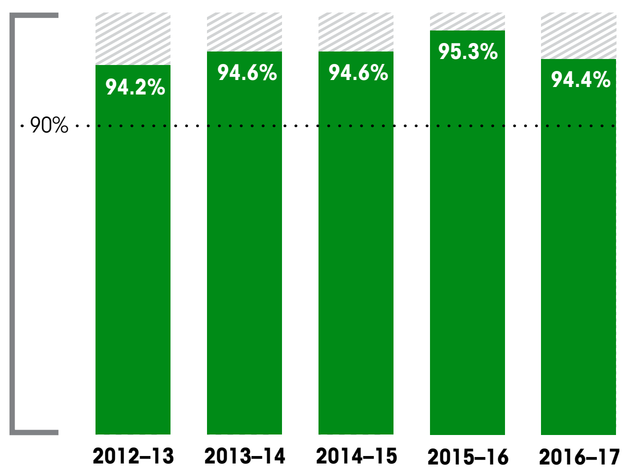
During the year, DCC reported an average of 43.6 sick leave hours (5.81 days) per full-time equivalent (FTE), an increase from 38.6 sick leave hours (5.15 days) per FTE in the previous year.

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. DCC again surpassed its target of 90% in 2016–17, with a retention rate of 94.4%. DCC has surpassed its target in each of the past five years.

RETENTION RATE

TARGET = 90%



DIVERSITY AND EMPLOYMENT EQUITY

Under the *Employment Equity Act*, federally regulated employers, such as DCC, analyze their workforce to determine the degree of under-representation of designated groups in each occupational group. Each employer reports annually on its progress in achieving a workforce that is representative of the designated groups.

In 2015–16, Employment and Social Development Canada (ESDC) modified its requirements for reporting on performance in the area of diversity and employment equity. ESDC now collects employment equity information through its new program, the Employment Equity Achievement Awards. DCC made a submission to this program in 2016–17 and will report on those results when they become available.

In Canadian Heritage's *Annual Report on the Operation of the Canadian Multiculturalism Act 2015–16*, DCC was included in a list of only eight institutions that reported providing training to meet the goal of a workplace free of harassment and discrimination, and characterized by respect for diversity, fairness and tolerance. Each year, all DCC employees complete a comprehensive refresher course on workplace violence and harassment awareness.

DCC continues to work steadily to improve the diversity of its employee population and the inclusivity of its workplace. In the last quarter of 2016–17, DCC launched its Diversity and Inclusion Strategy to help the organization meet its commitment to having a diverse workforce that reflects the communities where we work, and to provide equal opportunities for all employees. The strategy focuses on the principles and pillars under which we will work to achieve a diverse workforce and inclusive workplace. Upcoming actions include developing a diversity and inclusion action plan, which will include developing tools and training materials for hiring managers.

LEADERSHIP DEVELOPMENT RESULTS

DCC has a leadership development program to groom employees with high potential to be the DCC leaders of tomorrow. To keep the Corporation viable, DCC must consistently cultivate quality leadership. It strives to foster the performance, competencies and skills of strong leaders.

To that end, the Leadership Development Program (LDP) consists of a series of online modules, combined with an in-person forum held once every two years. It is expected that participating employees complete the LDP within five years. To be considered on track to complete the program, they are expected to complete at least six of the online modules in one fiscal year. At year end, 69% of the 168 employees enrolled in the LDP were on track to complete the program within the five-year window.

4.4 Leadership and Governance

CORPORATE REPORTING RESULTS

DCC is accountable to both the federal government and Parliament through Part X of the *Financial Administration Act* (FAA), which outlines the control and accountability framework for Crown corporations. Accordingly, DCC must submit its Corporate Plan, including its operating budget and capital budget, and its Annual Report, as regulations dictate. DCC submitted its 2017–18 Corporate Plan to the Minister of Public Services and Procurement on time, as per sections 122 and 125 of the FAA.

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*, *Privacy Act*, *Employment Equity Act*, *Official Languages Act* and *Canadian Multiculturalism Act*. In 2016–17, DCC complied with all reporting requirements under each of these pieces of legislation.

OVERALL BUSINESS PERFORMANCE RESULTS

DCC's business results have been positive in an environment of fluctuating Client-Partner program volume and evolving business circumstances. As at March 31, 2017, DCC had been able to increase the volume of projects delivered to its main Client-Partner at no additional cost of service and with no compromises in project quality. This is indicative of DCC's strong management capability and leadership.

DCC CODE OF BUSINESS CONDUCT RESULTS

As mentioned previously in the Governance section of this report (page 25), DCC's Code of Business Conduct (the Code) outlines expectations for standards of conduct for all DCC employees. The Code covers ethical practices, and compliance with legislation and DCC policies. In 2016–17, 100% of DCC employees responded to the annual requirement to review the Code and all new hires completed the required test related to the Code.

DCC PROCUREMENT CODE OF CONDUCT RESULTS

The Procurement Code of Conduct (PCC) ensures that DCC's industry partners meet the expected integrity requirements for doing business with the Government of Canada. The PCC complements the Code of Business Conduct. In the past, DCC has aimed to verify all firms before awarding contracts, to ensure that all contracts are awarded to firms without prior convictions, and to ensure that all contractors and consultants comply with the PCC. In 2016–17, DCC verified 100% of the firms that required verification and aligned the PCC with PSPC's revised Integrity Regime. As discussed earlier, PSPC no longer requires DCC to verify firms that bid on contracts valued less than $10,000.

ENVIRONMENTAL RESULTS

To mitigate DCC's impact on the environment, DCC's Board of Directors and Senior Management Team are committed to the principles of sound environmental stewardship. The Corporation's operational policies and procedures are designed to minimize environmental impacts on all worksites and to specify the significance of environmental incidents that employees must report.

DCC strives to have zero incidents due to the actions of DCC personnel. In 2016–17 there were no worksite environmental incidents resulting from DCC personnel actions to report. Although seven environmental incidents were reported involving buried drums, leaks, spills, dredging release and a faulty valve, none occurred as a result of DCC activities. DCC employees reported all seven incidents in a timely manner and appropriate follow-up action was taken. This number of incidents was consistent with the number of environmental incidents that occurred in previous years, with seven occurring in 2015–16 and three in 2014–15. DCC continues to align its environmental responsibilities to reflect government legislation, such as new asbestos regulations.

In 2016–17, the Environmental Services service line prepared to launch its corporate Environmental Management Framework. The framework describes DCC's environmental management principles, policies and key processes, and provides all DCC employees with strategic direction related to managing the environmental aspects of the Corporation's day-to-day business activities. DCC will provide corporate environmental awareness training for all DCC employees in 2017–18.

HEALTH AND SAFETY RESULTS

Occupational and operational health and safety are primary concerns, both in the workplace and on job sites. The Corporation has developed and maintains a strong, agile, and effective health and safety program to ensure proper training and reporting, and to provide accessible information and resources to employees. DCC's focus is on continually improving the health and safety program to ensure the Corporation is protecting the health and safety of its employees.

A network of certified professionals and health and safety representatives in DCC offices nationwide manages and supports this program. They meet monthly by teleconference to review collective compliance and reporting requirements and to share lessons learned from events that have occurred. DCC continues to collaborate with other Crown corporations and the Client-Partners to share best practices and health and safety programs. In 2016–17, DCC hosted a facilitated discussion with 42 delegates from other federal employers that focused on the oversight of contractor safety. This collaboration is an example of the Corporation's commitment to continuous improvement of DCC's health and safety program. A similar discussion to exchange ideas, best practices and lessons learned is planned for 2017–18.

In 2016–17, the health and safety team continued to promote ergonomics in the workplace and conducted a workstation self-assessment among sit/stand workstation participants. Additional sit/stand workstations were distributed to help prevent ergonomic injuries in the workplace.

DCC strives to have no lost-time safety accidents or incidents. In 2016–17, the number of lost-time injuries was three, one less than in the previous year. The three incidents resulted in injuries that accounted for a total of 13 days of lost time, a decrease of 2.5 days from the time lost in 2015–16.

Canadian Occupational Safety, an industry magazine, recently recognized DCC as Canada's safest employer in the public/non-profit sector. DCC's Hazard Awareness and Health and Safety Program won the Gold Award. This award program recognizes organizations from across Canada with outstanding accomplishments in promoting the health and safety of their workers.

SECURITY RESULTS

DCC strives to comply with the Policy on Government Security, to protect government information and assets from compromise. In its Corporate Security Policy, DCC refers to industrial security and corporate security requirements.

"Industrial security requirements" are a Client-Partner's security requirements for a project, which it communicates to DCC during the procurement-planning phase. DCC ensures that these requirements are met and managed appropriately. The Corporation tracks all instances of non-compliance. When non-compliance occurs, DCC ensures that corrective actions are implemented. DCC coordinates all efforts with applicable stakeholders, such as the Deputy Corporate Security Officer, the Canadian Industrial Security Directorate and/or other local security authorities, as appropriate.

"Corporate security requirements" are DCC's internal security requirements for its own corporate information, assets and employees. The Corporation reviews and manages all non-compliance and takes corrective measures, where applicable.

The target is to have no compromises of either corporate or industrial security requirements. In 2016–17, there were six occurrences related to DCC's corporate security requirements, with no compromise in security—an increase from three occurrences in 2015–16, due to increased cyber-security monitoring. Regarding industrial security, there were eight occurrences without compromise, an increase from two occurrences in 2015–16, due to an increase in contracts that include security requirements.

5.0 RISK MANAGEMENT

A key aspect of DCC's corporate governance is its ability to manage all forms of risk and liability. Under the direction of the Board of Directors, senior management has established a comprehensive Corporate Risk Management Framework. The 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.

Sound risk management practices are already ingrained in DCC's corporate culture, and the framework supports better integration with the Corporation's strategic planning process.

The Corporate Risk Management Framework ensures that management's direction on risks is clearly communicated, understood and applied throughout DCC; that risk management is integrated into DCC's existing decision-making and planning tools; and that there is a consistent means to effectively and regularly apply risk management to corporate and project-related activities.

DCC's strategic-level corporate risks, identified in its risk register, relate to factors that could hamper its ability to deliver services to its Client-Partners. These include circumstances beyond DCC's control that result in project schedule delays; uncertainty in government funding that could affect defence and public security infrastructure budgets; and industry-related labour issues.

DCC classifies risks as high, medium or low. Each risk assessment is based on the likelihood of the risk occurring, and its impact or consequences. Classified risk response strategies can be summarized as follows: high (mitigate), medium (monitor) and low (accept). In 2016–17, DCC regularly updated the risk register and successfully managed all identified risks in accordance with the risk mitigation strategies.

6.0 FINANCIAL PERFORMANCE

6.1 Revenue

SERVICES REVENUE

Services revenue for all activities combined was $93.7 million in 2016–17, an increase of $8.8 million or approximately 10% from the previous fiscal year. The increase was related to the increase in business volume, due to higher client demand for services related to the Federal Infrastructure Investments Program (FIIP) and Budget 2016. In general, services revenue has a direct correlation to DND's spending on infrastructure and environmental projects. Services revenue increases when the number and dollar value of DND projects increase, and decreases when the opposite occurs. The cyclical nature of DND funding has a direct impact on demand for the Corporation's services and its services revenue. Billing rates, which remained unchanged from the previous year, had no impact on the increase.

Contract Management

Revenue from Contract Management in 2016–17 represented 47% of total revenue. Contract Management revenue increased by 19% over the previous fiscal year due to higher demand for contract management services, mainly related to delivering contracts under FIIP and Budget 2016.

REVENUE, BY ACTIVITY

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Contract Management	$ 43,866	$ 36,801	7,065	19%
Project Planning	22,944	22,402	542	2%
Real Property Technical Support	8,003	7,685	318	4%
Construction Technical Support	6,873	6,696	177	3%
Procurement	6,610	6,487	123	2%
Environmental Technical Support	5,415	4,834	581	12%
	$93,711	**$84,905**	**8,806**	**10%**

Project Planning

Project Planning revenue increased by 2% in 2016–17. The increase over the prior fiscal year was due to higher DND demand for this service.

Real Property Technical Support

Real Property Technical Support revenue increased by 4% in 2016–17, due to higher demand for services related to facility and portfolio management.

Construction Technical Support

Revenue from Construction Technical Support in 2016–17 increased by 3% over the previous fiscal year, due to higher demand from DND for these services.

Procurement

Revenue from Procurement increased in 2016–17 by 2% over the previous fiscal year, as the dollar value of contracts awarded in 2017–18 rose. The overall number of contracts decreased in 2016–17 over the prior fiscal year.

Environmental Technical Support

Environmental Technical Support revenue increased in 2016–17 by 12% over the previous fiscal year, driven by an increase in demand for these services.

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, decreased in 2016–17 by $48,000 or approximately 6% over the previous fiscal year. The average rate of return generated in 2016–17 from cash and investments was 2.0%, which was comparable to that in the prior fiscal year. The average monthly bank balance in 2016–17 was $17.4 million, a decrease of $2.4 million compared to the prior fiscal year.

INVESTMENT REVENUE

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Investment revenue	$740	$788	(48)	-6%

6.2 Expenses

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $72.3 million in 2016–17, an increase of $8.1 million or approximately 13% over the previous fiscal year. The 13% increase can be explained by an increase in the number of full-time equivalents (FTEs), due to higher levels of business activity, which led to an increase in salaries of approximately 10 percentage points; salary increases, employee mix and offsetting the effects of efficiencies in service delivery contributed to the remaining 3-percentage-point increase.

Employee benefits totalled $19.0 million in 2016–17, an Increase of $1.2 million or approximately 7% over the previous fiscal year. This increase was not proportional to the increase in salaries, because employee benefits as a percentage of salaries dropped to 26.3% in 2016–17 from 27.6% in 2015–16. This decline was due to two factors: lower health care benefit costs due to a change in benefit provider; and a change in eligibility for new hires under the Public Service Pension Plan, resulting in a lower employer cost of benefits.

SALARIES AND EMPLOYEE BENEFITS

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Salaries	$72,341	$64,248	8,093	13%
Employee benefits	18,996	17,759	1,237	7%
	$91,337	$82,007	9,330	11%
Employee benefits as a percentage of salaries	26.3%	27.6%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $7.7 million in 2016–17, an increase of $925,000 or approximately 14% over the previous fiscal year. A variety of factors influenced these expenses.

OPERATING AND ADMINISTRATIVE EXPENSES

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %	VARIANCE ANALYSIS
Rent	$1,824	$1,651	173	10%	The increase was due to the increased cost for space in the National Capital Regional office.
Training and development	1,168	995	173	17%	The increase was due to the timing of training activities and the increase in staff due to FIIP and Budget 2016.
Information technology (IT) maintenance agreements	1,052	899	153	17%	The increase in software maintenance was due to higher use of tools to increase employee productivity and cyber-security.
Professional services	931	832	99	12%	The increase was attributable to the increase in spending for IT professional services, translation costs and governance expenses, and the implementation of a new budgeting solution.

OPERATING AND ADMINISTRATIVE EXPENSES

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %	VARIANCE ANALYSIS
Telephone and communications	805	830	(25)	-3%	The decrease was due to lower costs related to cellular use and landlines during the year.
Travel	529	394	135	34%	The increase was due to greater demand for support by Client-Partners.
Office supplies	461	340	121	36%	The increase was due to the increase in staff related to FIIP and to the purchase of ergonomic office equipment.
Relocation	261	201	60	30%	The increase was due to the movement of senior staff to fill vacancies.
Communications	132	146	(14)	-10%	The decrease was due to decreased costs related to printing corporate materials.
IT hardware	130	67	63	94%	The increase was due to an increase in purchases below the $1,000 capitalization threshold.
Printing and stationery	102	96	6	6%	The variance was not material.
Office furniture and equipment	64	101	(37)	-37%	The decrease was due to fewer purchases of furniture and equipment below the $1,000 capitalization threshold.
IT software	55	6	49	817%	The increase was due to an increase in purchases below the $1,000 capitalization threshold.
Recruiting	49	70	(21)	-30%	The decrease was due to lower costs of attracting employees, due to changing economic conditions.
Subscriptions	42	36	6	17%	The increase was due to higher demand for industry information.
Postage, freight and courier	36	45	(9)	-20%	The decrease was due to increased use of electronic means to communicate information and pay vendors.
Hospitality	31	22	9	41%	The increase was due to an increase in meetings to meet client demands.
Other	37	53	(16)	-30%	The decrease was due to lower expenses for disposed assets that had not been fully depreciated.
	$7,709	**$6,784**	**925**	**14%**	

DEPRECIATION AND AMORTIZATION

Depreciation and amortization combined increased by a total of 6% or $76,000 in 2016–17. Depreciation of property, plant and equipment increased by 8% or $70,000 due to increased acquisitions of computer equipment, needed because DCC hired more people to meet FIIP and Budget 2016 requirements. The decrease in depreciation of assets under finance lease occurred because DCC replaced some of the leased asset fleet with less expensive units. The increase in amortization of intangible assets was due to the increased investment in productivity software for the document management system.

DEPRECIATION AND AMORTIZATION

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Depreciation of property, plant and equipment	$ 982	$ 912	70	8%
Depreciation of assets under finance lease	106	110	(4)	-4%
Amortization of intangible assets	236	226	10	4%
	$1,324	**$1,248**	**76**	**6%**

6.3 Total Comprehensive Income (Loss)

The total comprehensive loss of the Corporation for the year ended March 31, 2017, was $5.6 million, compared with a total comprehensive loss of $451,000 in the previous fiscal year—an increase of 1,132% or $5.1 million.

The increase in net loss of $1.6 million or 36% was due mainly to the billing rate freeze that the Corporation continued in 2016–17 for the fifth straight year. The increase in net loss was consistent with the Corporation's policy of managing its cash reserves at a level appropriate to meet current and future requirements.

Other comprehensive income dropped from a gain of $3.9 million in 2015–16 to a gain of $371,000 in 2016–17. The gain in 2016–17 was mainly due to actuarial gain related to changes in the discount rate. The gain in 2015–16 was mainly due to an actuarial gain related to changes in financial assumptions related to medical and dental premiums for retirees, and a change in the discount rate. The premiums for retiree medical and dental plans decreased due to lower premium costs with a new benefit provider.

TOTAL COMPREHENSIVE INCOME (LOSS)

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Net loss	$(5,927)	$(4,357)	(1,570)	36%
Other comprehensive income				
Actuarial gain on employee benefit obligations	371	3,906	(3,535)	-91%
Total comprehensive loss	**$(5,556)**	**$ (451)**	**(5,105)**	**1,132%**

6.4 Liquidity and Capital Resources

DCC's financial management approach is to generate and maintain sufficient cash to meet the Corporation's anticipated operating and capital requirements, to settle its financial obligations as they become due, and to maintain adequate cash reserves to meet contingencies that may arise.

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 DND for services provided.

The intent of the Corporation is to operate on a slightly better than break-even basis. 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 success in achieving its own operating efficiencies, can result in margins that exceed its initial targets. Cash levels are constantly monitored and any cash surpluses judged to exceed operating requirements are reduced through future operating plans and budgets, particularly through the setting of billing rates for services provided to DND.

The objective of DCC's cash management approach is to keep available sufficient cash reserves to meet DCC's obligations, recognizing the potential for short-term interruptions in collections of receivables. Potential obligations considered include salaries, benefits and other current operating costs; long-term employee benefits; and other obligations that may arise in relation to Government of Canada directives.

The Corporation considers several factors when determining the amount of cash reserves to maintain, 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 DND construction project expenditures has a direct impact on the amount or timing of services DCC provides and on the cash generated.

Although DCC has a secure client base from which it regularly collects receivables, several incidents can affect the timing of those collections. Routine delays in Client-Partners' approvals and processing of invoices can affect some collections from time to time.

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 future benefits for employees. As such, the Corporation does not have any segregated or restricted funds, and cash in excess of short-term operational 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. DCC also maintains and uses cash to buy computer hardware and software, as well as office furniture and equipment, and to pay for leasehold improvements.

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 and Environment program.

CASH AND INVESTMENTS

Cash and investments totalled $27.3 million at March 31, 2017, a decrease of $10.9 million or 29% from the previous year.

The cash balance at March 31, 2017, was $7.0 million, a decrease of $11.4 million or 62% from the previous year. In 2016–17, the Corporation used $1.3 million in cash in operating activities, spent $895,000 on capital expenditures, invested a net amount of $559,000, paid $112,000 on finance lease obligations, and paid a dividend to the Government of Canada of $8.5 million.

Investments (both current and long term) at March 31, 2017, were $20.2 million, an increase of $440,000 or 2% 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.

As at March 31, 2017, DCC's overall cash balance exceeded its targeted reserve level of $21 to $24 million. The remaining excess cash balance will be used to support operating costs in subsequent years as the Corporation achieves its target cash balance range.

TRADE RECEIVABLES

Trade receivables are due from the Corporation's clients, mainly DND. At March 31, 2017, trade receivables were $18.6 million, which represented an increase of $2.6 million or 16% over the previous fiscal year. The increase was due to higher revenue in 2016–17 and to the timing of receipts. All of the trade receivables are assessed to be fully collectible.

CURRENT LIABILITIES

Current liabilities were $15.7 million at March 31, 2017, an increase of $4.3 million or 37% from March 31, 2016. The increase in current liabilities was due to the increase in accounts payable at year end, related to payroll deduction remittances, year-end payroll expense accruals, the vacation and overtime accrual, and the timing of payments of accounts payable.

LIQUIDITY AND CAPITAL RESOURCES

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Cash	$ 7,022	$18,378	(11,356)	-62%
Investments	20,230	19,790	440	2%
Cash and investments	**27,252**	**38,168**	**(10,916)**	**-29%**
Trade receivables	**18,596**	**15,966**	**2,630**	**16%**
Current liabilities	**$15,721**	**$11,443**	**4,278**	**37%**

6.5 Employee Benefits

The Corporation records a liability for the estimated cost of sick leave and retirement allowance for active employees, and health and dental care and life insurance benefits for its retirees. This estimate is actuarially determined. The accrual for employee benefits at March 31, 2017, was $22.7 million, an increase of $2.8 million or approximately 14% from the previous fiscal year.

The balance increased due to a number of factors, including an increase in current service costs of $1.4 million; an increase of $844,000 in the interest on the current value of the obligation; less benefits paid of $397,000; and an actuarial loss of $966,000. Regarding the actuarial loss of $966,000 for the year, $1.3 million related mainly to the changes in methodology for sick leave; this amount was offset by an actuarial gain of $371,000 recognized in other comprehensive income on health, dental and life benefits.

The liability for employee benefits fluctuates from year to year due to a combination of factors, including the inflation rate; the benefit 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 15 to the financial statements describes the actuarial assumptions used in determining the liability. 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.

EMPLOYEE BENEFITS

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Less: Current portion	$ 2,277	$ 946	1,331	141%
Long-term portion	20,433	18,933	1,500	8%
Total employee benefits	**$22,710**	**$19,879**	**2,831**	**14%**

6.6 Capital Expenditures

The Corporation's capital expenditures for 2016–17 totalled $895,000, a decrease of $523,000 or 37% from the previous fiscal year. The decrease was mainly due to a reduction in capital purchases of intangible assets, computer equipment, and leasehold improvements. The furniture and equipment category increased due to refits in several DCC site offices to accommodate the increased number of employees at certain sites.

The reduction in spending on intangible assets occurred because the Corporation re-evaluated the IT environment and only purchased the assets needed to maintain the usability of current technology. The reduction in computer equipment purchases was due mainly to the replacement schedule for existing equipment. DCC did not need to replace many personal computing devices or much data centre technology during the fiscal year. DCC did not make any capitalized leasehold improvements to existing space.

CAPITAL EXPENDITURES

(IN THOUSANDS OF $)	2016–17	2015–16	CHANGE $	CHANGE %
Intangible assets	$ 33	$ 270	(237)	-88%
Computer equipment	687	1,049	(362)	-35%
Furniture and equipment	175	46	129	280%
Leasehold improvements	—	53	(53)	-100%
	$895	**$1,418**	**(523)**	**-37%**

6.7 Actual Performance Versus Plan

The following table compares the Corporation's actual performance in 2016–17 with the projections in the Corporate Plan (the Plan).

Services revenue was $1.6 million or 2% above the Plan, due mainly to the higher-than-anticipated demand for services related mainly to FIIP and Budget 2016. In addition, the Corporation's staff achieved a higher utilization rate than the rate forecasted in the Plan.

Travel and disbursement expenses are recovered from the Client-Partner at no markup. Travel and disbursement revenue and expenses were $531,000 or 31% above the Plan. The increases were due to higher travel and disbursement costs for service delivery to Client-Partners.

Investment revenue was $90,000 or 14% above the Plan. This variance was primarily due to a higher-than-forecasted cash balance at certain points throughout the year, which led to higher-than-expected returns on investments.

Salaries and employee benefits were $2.4 million or 3% higher than the Plan. This increase was largely the result of higher-than-planned staff growth linked to the higher-than-planned service requirements of Client-Partners.

Operating and administrative expenses were $206,000 or 3% below the Plan. The decrease was largely the result of lower expenses related to office rent. In 2016–17, the Corporation received rebates from several landlords based on successful appeals of property taxes. The rebate related to prior years and was recognized in the current year.

Depreciation and amortization were $299,000 or 29% higher than the Plan, due to the timing of acquisitions in 2016–17.

The variance in the loss for the year of $805,000 was due to higher spending on salaries and benefits, offset by lower operating and administrative costs. Total comprehensive loss for the year varied 8% from the Plan due to the accounting gain on employee benefit obligations.

Capital expenditures were $30,000 or 3% below the Plan, which is not significant.

ACTUAL PERFORMANCE VERSUS PLAN

(IN THOUSANDS OF $)	ACTUAL	PLAN	CHANGE $	CHANGE %
Revenue				
Services revenue	$ 93,711	$92,123	1,588	2%
Travel and disbursement revenue	2,234	1,703	531	31%
Investment revenue	740	650	90	14%
	96,685	**94,476**	**2,209**	**2%**
Expenses				
Salaries and employee benefits	91,337	88,947	2,390	3%
Operating and administrative expenses	7,717	7,923	(206)	-3%
Travel and disbursement expenses	2,234	1,703	531	31%
Depreciation and amortization	1,324	1,025	299	29%
	102,612	**99,598**	**3,014**	**3%**
Profit (loss) for the year	(5,927)	(5,122)	(805)	16%
Items of other comprehensive income	371	—	371	100%
Total comprehensive income (loss)	**$ (5,556)**	**$(5,122)**	**(434)**	**8%**
Capital expenditures	**$ 895**	**$ 925**	**(30)**	**-3%**

FIVE-YEAR SUMMARY FINANCIAL INFORMATION

(IN THOUSANDS OF $)	2016–17	2015–16	2014–15	2013–14	2012–13
Revenue					
Services revenue	$ 93,711	$ 84,905	$ 80,531	$ 92,909	$114,541
Travel and disbursement revenue	2,234	2,278	2,052	2,882	3,117
Investment revenue	740	788	780	641	598
	96,685	**87,971**	**83,363**	**96,432**	**118,256**
Expenses					
Salaries and employee benefits	91,337	82,007	77,294	85,288	99,262
Operating and administrative expenses	7,709	6,784	6,172	7,054	8,868
Travel and disbursement expenses	2,234	2,277	2,052	2,882	3,117
Depreciation and amortization	1,324	1,248	1,111	1,321	1,350
Finance costs	8	12	17	20	23
	102,612	**92,328**	**86,646**	**96,565**	**112,620**
Profit (loss) for the year	**(5,927)**	**(4,357)**	**(3,283)**	**(133)**	**5,636**
Other comprehensive income (loss)	371	3,906	(2,551)	1,322	1,627
Total comprehensive income (loss)	**$ (5,556)**	**$ (451)**	**$ (5,834)**	**$ 1,189**	**$ 7,263**
Retained earnings, beginning of the year	30,555	31,006	36,840	35,651	28,388
Dividend	(8,500)				
Retained earnings, end of the year	**$ 16,499**	**$30,555**	**$31,006**	**$36,840**	**$ 35,651**
Assets					
Cash	$ 7,022	$ 18,378	$ 19,630	$ 29,568	$ 25,829
Investments	20,230	19,790	19,256	10,420	10,114
Trade receivables, prepaids and advances	20,547	17,433	16,499	17,234	22,405
Other receivables	2,124	2,263	—	—	—
Property, plant and equipment, and assets under finance lease	2,551	2,662	2,412	1,806	2,275
Intangible assets	398	601	557	559	560
	$ 52,872	**$61,127**	**$58,354**	**$59,587**	**$ 61,183**
Liabilities					
Trade and other payables	$ 13,349	$ 10,404	$ 5,454	$ 6,900	$ 10,623
Finance lease obligation	314	289	242	255	344
Employee benefits	22,710	19,879	21,652	15,592	14,565
	36,373	30,572	27,348	22,747	25,532
Equity					
Share capital	—	—	—	—	—
Retained earnings	16,499	30,555	31,006	36,840	35,651
	16,499	30,555	31,006	36,840	35,651
	$ 52,872	**$61,127**	**$58,354**	**$59,587**	**$ 61,183**
Cash flows from (used in):					
Operating activities	$ (1,290)	$ 972	$ 785	$ 5,095	$ 6,610
Acquisition of property, plant and equipment, and intangibles	(895)	(1,418)	(1,605)	(803)	(1,134)
Acquisition of investments	(1,059)	(1,668)	(10,458)	(1,299)	(880)
Redemption of investments	500	1,000	1,500	900	500
Financial activities	(112)	(138)	(160)	(154)	(136)

FIVE-YEAR SUMMARY FINANCIAL INFORMATION

(IN THOUSANDS OF $)	2016–17	2015–16	2014–15	2013–14	2012–13
Dividend paid	(8,500)	—	—	—	—
Increase (decrease) in cash during the year	(11,356)	(1,252)	(9,938)	3,739	4,960
Cash, beginning of the year	18,378	19,630	29,568	25,829	20,869
Cash, end of the year	**$ 7,022**	**$18,378**	**$19,630**	**$29,568**	**$ 25,829**

7.0 OUTLOOK

DCC will continue to make positive contributions to Canada's economic growth, the environment, security and defence, and to the openness and transparency of Canada's government. The Corporation will handle procurement and contract management for some very high-profile DND projects over the next year. These include maintaining the Communications Security Establishment (CSE) Long-Term Accommodation Project in Ottawa, Ontario; building the new NJ Jetty in Halifax, Nova Scotia, and AB Jetty in Esquimalt, British Columbia; completing the Fleet Maintenance Facility Cape Breton Shop Consolidation Project in Esquimalt, British Columbia; and constructing the new naval facility in Nanisivik, Nunavut, 700 kilometres north of the Arctic Circle.

DCC is supporting the design, building, financing, operations and maintenance of the Shared Services Data Centre at CFB Borden, a public-private partnership (P3) project valued at $330 million. This building has unique security requirements and it is located on a military site. This factor, combined with DCC's successful experience in overseeing the CSE P3 project in Ottawa, positioned DCC as the service provider of choice to deliver this project.

DCC will continue to be involved with several major projects that help DND preserve and sustain Canada's environment. These include cleaning up contaminated sites at 5 Wing Goose Bay in Newfoundland and Labrador via the $239-million Goose Bay Remediation Project; carrying out the ongoing Unexploded Explosive Ordnance and Legacy Sites Program at DND sites across Canada, at an estimated cost of $10 million; and delivering the $100-million program to clean up Esquimalt Harbour, which is also linked to the AB Jetty Recapitalization Project.

The Federal Sustainable Development Strategy requires DND to reduce its greenhouse gas emissions by 40% for its real property portfolio by 2025. DCC expects to support this effort throughout the planning period. Already, DCC is helping bases and wings nationwide improve their energy efficiency, by helping DND meet its target to establish several energy performance contracts in 2017–18.

DCC has often supported Canada's defence and security needs by providing its expertise to Canadian Armed Forces (CAF) deployed operations. DCC provided such support to Operation Impact in Iraq where it oversaw a $2.2-million construction contract to build accommodations, office buildings, workshops, a medical station and a power generation station. Additional overseas support has led DCC to deploy staff to Kuwait and to Latvia, supporting the CAF infrastructure requirements for Operation Reassurance.

DCC will use its Corporate Performance Management Framework to support its performance management approach, which is aligned with the concept of deliverology, introduced by the Government of Canada this year. Ongoing initiatives relate to supporting Canada's defence infrastructure renewal and DND's industrial security directives; expanding the scope of e-procurement beyond construction services; promoting a healthy and inclusive workplace; developing a reputation as an employer of choice; and demonstrating DCC's value proposition to its stakeholders.

In the coming year, DCC will respond to the recommendations arising out of the Office of the Auditor General's Special Examination conducted in 2016–17. They relate to focusing on fraud awareness, detection and prevention; streamlining DCC's system for online document management; maintaining a standard frequency of internal service line verifications; and completing an online register and archive for tracking employee training.

As part of a legislatively required five-year planning cycle, there are initiatives to update two key internal strategies that affect DCC's daily business: the Information Technology Strategic Plan and the Human Resources Strategic Plan. To ensure DCC is seen as an employer of choice, the Corporation has committed to conducting an employee engagement survey in 2017–18, and continuing to promote awareness of employee diversity, workplace mental health and wellness, and the importance of a respectful and inclusive workplace.

7.1 Financial Outlook

The Corporation has traditionally taken a conservative approach to forecasting future growth. Its latest Corporate Plan shows an increase in services revenue of approximately 13% in 2017–18, driven by an anticipated 8.5% revenue increase related to business volume, due to DND's plans to spend more on infrastructure, and a 4.5% increase in billing rates for 2017–18.

For the remaining plan years, revenue is forecasted to increase each year. The following table shows the annual changes to the billing rates and in revenue related to business volumes anticipated from 2017–18 to 2021–22. Billing rate increases continue to the end of the planning period. Business volumes will fluctuate over the planning period, based on anticipated demand. (See Table 1)

Salary and benefits expenses for 2017–18 are forecasted to increase by approximately 9.5%, due to a number of factors, including the expected 8.5% increase in revenue related to volume, along with inflation and performance-based merit increases. These increases will be offset by efficiency gains and by the fact that new employees often start at the bottom of the salary range. The expected increases in salary and benefits expenses in 2018–19, 2019–20, 2020–21 and 2021–22 are 1%, 4%, 1% and 3%, respectively. They are due to a combination of factors, including expected increases related to inflation and merit pay, and expected increases and decreases in the workforce, in line with projected changes in demand for services over the planning period.

Operating and administrative expenses for 2017–18 are projected to increase by 47% from those in 2016–17. This increase includes increases related to significant IT initiatives to strengthen the Corporation's IT and cyber strategies, as well as increases related to inflation and ongoing corporate initiatives. There are also higher costs for items such as rent, training and development, and professional services. Operating and administrative expenses are forecasted to increase by 1% for 2018–19. For 2019–20 and 2020–21, operating expenses are expected to decrease, as the implementation of the IT and cyber strategies are completed. The increase in the last year of the plan is related to inflation.

Depreciation and amortization are expected to increase by 10% in 2017–18 over the prior fiscal year. This is due to purchases in 2016–17 related the IT strategy. 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.

A loss of $6.4 million is forecasted for 2017–18, an increase of 8% from the loss of $5.9 million in 2016–17. The increase in loss is due to the fact that DCC is recovering from the billing rates freeze from 2011–12 to 2016–17, which decreased the amount

TABLE 1

	PLANNED				
	2017–18	2018–19	2019–20	2020–21	2021–22
Revenue change related to volume change	8.5%	-3.5%	1.0%	-4.0%	-0.5%
Billing rate change	4.5%	5.5%	5.3%	5.0%	5.0%
Total anticipated revenue increase	**13.0%**	**2.0%**	**6.3%**	**1.0%**	**4.5%**

of revenue earned to cover costs. Also, salary and benefits expenses, and operating and administrative expenses, are expected to increase over the prior year. The loss is expected to drop to $5.6 million in 2018–19 and change to a profit of $680,000 by the end of the planning period. The losses were planned as a way to reduce cash and investments to the optimal level, based on the Corporation's cash management objectives. The objective of the current plan is to return to a near break-even operating level.

Over the past several years, DCC's cash reserves have exceeded their targeted level. DCC paid a dividend of $8.5 million to the Receiver General for Canada in March 2017 to manage this situation. Further, DCC is adopting a new approach to its ongoing fee arrangements to ensure that it manages its new cash levels within targeted levels going forward.

FINANCIAL OUTLOOK

	ACTUAL	PLANNED				
(IN THOUSANDS OF $)	**2016–17**	**2017–18**	**2018–19**	**2019–20**	**2020–21**	**2021–22**
Services revenue	**$ 93,711**	$105,908	$108,027	$114,779	$115,927	$121,144
Travel and disbursement revenue	**2,234**	2,051	2,072	2,092	2,113	2,134
Investment revenue	**740**	475	380	330	340	350
Total revenue	**96,685**	**108,434**	**110,479**	**117,201**	**118,380**	**123,628**
Salaries and employee benefits	**91,337**	99,991	101,025	105,265	106,005	109,349
Operating and administrative expenses	**7,709**	11,323	11,435	10,548	10,153	10,253
Travel and disbursement revenue	**2,234**	2,051	2,072	2,092	2,113	2,134
Depreciation of property, plant and equipment	**982**	1,055	1,123	1,134	911	877
Depreciation of assets under finance lease	**106**	180	185	190	195	200
Amortization of intangible assets	**236**	215	218	221	120	100
Finance costs	**8**	28	30	32	33	35
Total expense	**102,612**	114,843	116,088	119,482	119,530	122,948
Loss for the year	**(5,927)**	(6,409)	(5,609)	(2,281)	(1,150)	680
Other comprehensive income	**371**	—	—	—	—	—
Total comprehensive loss	**$ (5,556)**	**$ (6,409)**	**$ (5,609)**	**$ (2,281)**	**$ (1,150)**	**$ 680**
Capital expenditures	**$ 895**	**$ 1,933**	**$ 1,225**	**$ 1,225**	**$ 1,025**	**$ 1,025**

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

Juliet Woodfield, CPA, CA
Vice-President, Finance & Human Resources and
Chief Financial Officer

June 7, 2017

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Public Services and Procurement

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Defence Construction (1951) Limited, which comprise the statement of financial position as at 31 March 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 audit. I conducted my audit 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 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 2017, and its financial performance and its cash flows for the year then ended 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 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 audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, the articles and by-laws of Defence Construction (1951) Limited, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

Marise Bédard

Marise Bédard, CPA, CA
Principal for the Auditor General of Canada

7 June, 2017
Ottawa, Canada

Statement of Financial Position

AS AT MARCH 31, 2017

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTES	2017	2016
Assets			
Cash	5	**$ 7,022**	$ 18,378
Investments	13	**3,100**	560
Trade receivables	5, 8, 18	**18,596**	15,966
Other receivables	9	**2,124**	2,263
Prepaid and other current assets	10	**1,951**	1,467
Current Assets		**32,793**	38,634
Investments	13	**17,130**	19,230
Property, plant and equipment	11	**2,242**	2,383
Intangible assets	12	**398**	601
Assets under finance lease		**309**	279
Non-current assets		**20,079**	22,493
Total Assets		**$ 52,872**	$ 61,127
Liabilities			
Trade and other payables	14	**$ 13,349**	$ 10,404
Current portion—finance lease obligation		**95**	93
Current portion—employee benefits	15	**2,277**	946
Current Liabilities		**15,721**	11,443
Finance lease obligation		**219**	196
Employee benefits	15	**20,433**	18,933
Non-current liabilities		**20,652**	19,129
Total Liabilities		**36,373**	30,572
Equity			
Share Capital—Authorized—1,000 common shares of no par value—Issued, 32 common shares		**—**	—
Retained earnings		**16,499**	30,555
Total Equity		**16,499**	30,555
Total Liabilities and Equity		**$52,872**	$ 61,127

Commitments: see note 17
Contingent liabilities: see note 20
The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors on June 7, 2017

Lori O'Neill, Chair of the Audit Committee

Robert Presser, Chair of the Board

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Profit and Loss and Other Comprehensive Income

FOR THE YEAR ENDED MARCH 31, 2017

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTES	2017	2016
Services revenue	18	**$ 93,711**	$ 84,905
Travel and disbursement revenue		**2,234**	2,278
Investment revenue	6	**740**	788
Total Revenue		**96,685**	87,971
Salaries and employee benefits		**91,337**	82,007
Operating and administrative expenses	7	**7,709**	6,784
Travel and disbursement expenses		**2,234**	2,277
Depreciation of property, plant and equipment	11	**982**	912
Depreciation of assets under finance lease		**106**	110
Amortization of intangible assets	12	**236**	226
Finance costs	16	**8**	12
Total Expenses		**102,612**	92,328
Loss for the year		**(5,927)**	(4,357)
Other comprehensive income			
Actuarial gain on employee benefit obligation[1]	15	**371**	3,906
Total Comprehensive Income		**$ (5,556)**	**$ (451)**

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

[1] *This item of other comprehensive income will not be reclassified to profit (loss).*

Statement of Changes in Equity

FOR THE YEAR ENDED MARCH 31, 2017

(IN THOUSANDS OF CANADIAN DOLLARS)	SHARE CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
Balance as at March 31, 2016	$ —	$ 30,555	$ 30,555
Loss for the year		(5,927)	(5,927)
Actuarial gain on employee benefit obligation	—	371	371
Total comprehensive income		(5,556)	(5,556)
Dividend		(8,500)	(8,500)
Balance as at March 31, 2017	**$ —**	**$16,499**	**$16,499**

(IN THOUSANDS OF CANADIAN DOLLARS)	SHARE CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
Balance as at March 31, 2015	$ —	$ 31,006	$ 31,006
Loss for the year		(4,357)	(4,357)
Actuarial gain on employee benefit obligation	—	3,906	3,906
Total comprehensive income		(451)	(451)
Balance as at March 31, 2016	**$ —**	**$30,555**	**$30,555**

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, 2017

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTES	2017	2016
Cash flow from (used in) operating activities			
Loss for the year		**$ (5,927)**	$ (4,357)
Adjustments to reconcile loss for the year to cash provided by operating activities			
Employee benefits expensed		**3,599**	2,489
Employee benefits paid		**(397)**	(356)
Depreciation of property, plant and equipment	11	**982**	912
Depreciation of assets under finance lease		**106**	110
Amortization of intangible assets	12	**236**	226
Amortization of investment premiums		**119**	134
Loss on disposal of property, plant and equipment		**21**	38
Loss on disposal of assets under finance lease		**1**	23
Change in non-cash operating working capital			
Trade receivables		**(2,630)**	(793)
Other receivables		**139**	(2,263)
Prepaids and other current assets		**(484)**	(141)
Trade and other payables		**2,945**	4,950
Net cash flows provided by (used in) operating activities		**(1,290)**	972
Cash flows from (used in) investing activities			
Acquisition of investments		**(1,059)**	(1,668)
Redemption of investments		**500**	1,000
Acquisition of property, plant and equipment	11	**(862)**	(1,148)
Acquisition of intangible assets	12	**(33)**	(270)
Net cash flows used in investing activities		**(1,454)**	(2,086)
Cash flows used in financing activities			
Dividend paid		**(8,500)**	—
Repayment of finance lease obligations		**(112)**	(138)
Net cash flows used in financial activities		**(8,612)**	(138)
Decrease in cash during the year		**(11,356)**	(1,252)
Cash at the beginning of the year		**18,378**	19,630
Cash at the end of the year		**$ 7,022**	$ 18,378

Supplemental Cash Flow information: see note 16
The accompanying notes are an integral part of these financial statements.

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

March 31, 2017

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* (FAA). Since 1996, responsibility for the Corporation has rested with the Minister of Public Services and Procurement.

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 (DND). The Corporation also provides services to Canadian Forces Housing Agency, Communications Security Establishment, Shared Services Canada and Public Services and Procurement Canada. Revenue is generated from fees charged for specific services provided.

In July 2015, the Corporation was issued a directive (P.C. 2015-1113) pursuant to Section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. During the 2016–17 year, the Corporation completed the implementation of aligning the Corporation's policies to Treasury Board policies and reported on the implementation of this directive in the Corporate Plan. The implementation date of the aligned policies was March 31, 2017.

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). These financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Corporation.

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

3.1 Overall Considerations

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. They have also been prepared using accounting policies specified by IFRS that were in effect at the end of the reporting period (March 31, 2017).

These accounting policies have been used throughout all periods presented in the financial statements.

3.2 Financial Assets and Financial Liabilities

RECOGNITION AND INITIAL MEASUREMENT

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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.

DERECOGNITION OF FINANCIAL ASSETS

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

CLASSIFICATION OF FINANCIAL LIABILITIES

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

Financial liabilities are classified at fair value through profit and loss when the financial liability is either held for trading or it is designated as at fair value through profit and loss.

The Corporation has not designated any financial liability as fair value through profit and loss as at the end of the reporting period.

A financial liability is classified as held for trading using the same criteria described for a financial asset classified as held for trading.

Financial liabilities at fair value through profit and loss are presented at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described below.

DERECOGNITION OF FINANCIAL LIABILITIES

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at 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.

3.3 Cash

Cash is cash held in banks. Cash is managed on a fair value basis and its performance is actively monitored. Cash not immediately required for working capital is invested as per the Corporation's investment policy. There are no restrictions on the use of cash.

3.4 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 investment policy approved by the Board of Directors. Interest income is accrued when earned and included in income for the year.

3.5 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 is at amortized cost.

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

3.6 Intangible Assets

Intangible assets consist of 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. Intangible assets 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 3 to 10 years.

Intangible assets are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. An estimate of the recoverable amount is made when indicators of impairment are present. The recoverable amount is the greater of fair value less cost to sell and value in use.

3.7 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 accumulated 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	length of the lease
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.

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 losses are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. An estimate of the recoverable amount is made when indicators of impairment are present. The recoverable amount is the greater of the fair value less cost to sell and the value in use.

3.8 Leases

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 lessee) are recognized in the statement of profit and loss and other 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.

3.9 Trade and Other Payables

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

3.10 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 recognized and a contingent liability will be disclosed in Note 20.

3.11 Employee Benefits

Employees are entitled to specific non-pension post-employment allowances and benefits. Each year, independent actuaries use the projected unit credit method to actuarially determine the employee benefit 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 profit and loss and other comprehensive income.

The Corporation provides post-employment benefits payable after completion of employment. The types of post-employment benefits include extended health care and paid-up life insurance.

The Corporation provides sick leave as other employee benefits. 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.

3.12 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.

3.13 Revenue Recognition

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

SERVICE REVENUE

The Corporation derives its revenue from the delivery of services related to contract management, project planning, procurement, and real property management activities. Revenue is recognized after the service is rendered. The Corporation receives payments from its clients based on a monthly billing cycle, as established in service level arrangements (SLAs). All SLAs have a duration equivalent to the fiscal year and are renegotiated and signed annually based on the nature of the funding for the clients. As the need arises during the fiscal year, the SLAs can be modified and new SLAs signed.

SLAs can be on a time-based fee or fixed fee basis. For time-based SLAs, the clients and the Corporation agree to a number of service hours that the Corporation's personnel will perform over the year. On a monthly basis, services for the month are invoiced to the client using actual time and the agreed billing rates in the SLAs. For fixed-fee SLAs, a fixed amount is invoiced to the client on a monthly basis as agreed in the SLAs.

As there are new SLAs annually, there are no liabilities related to payments received in advance of performance or assets related to performance rendered in advance of payments. There is no collection uncertainty with the amounts billed to the client as they are for services already performed under the SLA and as government entities are required to pay under the *Financial Administration Act* for all valid services invoiced.

TRAVEL AND DISBURSEMENT REVENUE

The Corporation recovers the cost of travel and disbursements related to service delivery from the client as part of the SLAs. The costs incurred for these expenses are recovered at cost and no mark-up is added.

INVESTMENT REVENUE

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

ACCOMMODATIONS

As per the memorandum of understanding between DND and the Corporation, DND provides the Corporation with office accommodations free of charge for personnel at DND-owned bases and wings and other locations. Where space is not provided, the Corporation has established hourly billing rates to recover the accommodation charge. If the accommodation cost is recovered as an out-of-pocket reimbursement, the disbursement reduces the charged amount.

3.14 Taxation

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

3.15 Application of New and Revised International Financial Reporting Standards

3.15.1 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE APRIL 1, 2016

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that were mandatory for accounting periods beginning on or after April 1, 2016 that affect the Corporation's financial statements.

There are no new or revised IFRS issued and that became effective for the annual periods beginning on or after April 1, 2016 that affected amounts reported or disclosed in the financial statements.

3.15.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET IN EFFECT

The Corporation reviews new and revised accounting pronouncements that have been issued by the International Accounting Standards Board (IASB) but are not yet effective and have not been early adopted, to determine the impact on the Corporation. Based on our review to date, none of the standards issued are expected to have a material impact on the financial statements of the Corporation except for IFRS 16 "Leases" which is expected to add a significant asset and liability on the statement of financial position. The Corporation will adopt the new standards when they are required. The standards reviewed were:

IFRS 16 "Leases", effective for reporting periods on or after January 1, 2019, requires that leases be brought onto companies' statement of financial position, increasing the visibility of their assets and liabilities. IFRS removes the classification of leases for lessees as either operating leases or finance leases, treating all leases as finance leases. The Corporation is currently evaluating the impact of IFRS 16 on its financial statements.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15), effective for reporting periods on or after January 1, 2018, specifies how and when revenue will be recognized, as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. Entities can elect to use either a full or modified retrospective approach when adapting the standard. The Corporation is currently evaluating the impact of IFRS 15 on its financial statements.

IFRS 9 "Financial Instruments" (IFRS 9), effective for reporting periods on or after January 1, 2018, incorporates the classification and measurement, impairment and hedge accounting phases of the project to replace the existing standards under IAS 39 "Financial Instruments: Recognition and Measurement." The Corporation is currently evaluating the impact of IFRS 9 on its financial statements.

NOTE 4: CRITICAL ACCOUNTING JUDGMENTS AND 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 judgments, estimates and 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.

(a) Critical judgments: The following are critical judgments, apart from those involving estimations (see (b) below), that management has made in the process of applying the Corporation's accounting policies and that have the most significant effects on amounts recognized in the financial statements.

(a.1) Capital assets: Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset and obsolescence or physical damage to the asset.

(a.2) Provisions and contingent liabilities: In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgment in assessing whether the Corporation has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation.

In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is considered to be remote.

(a.3) Leases: The Corporation is party to certain leasing arrangements, which requires management to determine whether the lease is a finance lease or an operating lease by assessing if substantially all the risks and rewards of ownership have passed to the Corporation. Factors used by management in determining whether a lease is a finance or an operating lease include, but are not limited to, whether there is a transfer of ownership at the end of the lease term, whether the lease term is for the major part of the economic life of the leased asset and whether at the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset.

(b) Key sources of estimation uncertainty: The following are key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the financial statements within the next 12 months.

(b.1) Capital assets, comprising of property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's best estimates of the periods of service provided by the assets, and are included in Note 3.7. The appropriateness of useful lives of these assets is assessed annually. Changes to useful life estimates would affect future depreciation or amortization expenses and future carrying values of assets.

Capital assets are tested for impairment as described in Note 3.7. The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs of disposal and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the financial statements, both in determining the existence of any impairment and in determining the amount of impairment.

(b.2) Post-employment and other long-term benefit plans: Post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of the benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs based on the terms of the plan. The significant actuarial assumptions used by the Corporation in measuring the benefit obligations and benefit costs are the discount rates, mortality tables, health care costs trend rates and inflation rate, which has an impact on the long-term rates of compensation increase. The Corporation consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on defined benefit obligations, funding requirements and pension, other post-employment and other long-term benefit costs.

For a description of the pension, other post-employment and other long-term benefit plans, and a sensitivity analysis of significant assumptions, see Note 15.

(b.3) Provisions: When it has been determined by management that the Corporation has a present legal or constructive obligation as a result of a past event, that it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate of the obligation can be made, a provision is accrued.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of outflows, as well as the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how the Corporation intends to handle the obligation. The actual amount and timing of outflows may deviate from assumptions, and the difference might materially affect future financial statements, with a potentially adverse impact on the results of operations, financial position and liquidity. A description of the Corporations contingent liabilities is included in Note 20.

NOTE 5: FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Except for investments, the carrying amounts financial assets and financial liabilities approximate the fair values due to the short term to maturity of the items. Fair value for investments is disclosed in Note 13.

Financial instruments, other than those that are not subsequently measured at fair value and for which fair value approximates carrying value, must be disclosed at their fair value and be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair value measurement of cash is classified as level 1 of the fair value hierarchy as at March 31, 2017 and 2016.

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, 2017, was $47,978 (as at March 31, 2016, it was $56,413) 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 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 as in Note 18, there is no concentration of trade receivables with any one customer. Based on historic default rates and the aging analysis in Note 8, Trade Receivables, the Corporation 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.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

AS AT MARCH 31, 2017

	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	AMORTIZED COST	TOTAL CARRYING AMOUNT
Cash	$ 7,022	$ —	$ —	$ 7,022
Investments	—	—	20,230	20,230
Trade receivables	—	—	18,596	18,596
Other receivables	—	—	2,124	2,124
Other current assets	—	—	6	6
Total Financial Assets	**7,022**	**—**	**40,956**	**47,978**
Accounts payable	—	—	2,048	2,048
Accrued liabilities			7,019	7,019
Total Financial Liabilities	**$ —**	**$ —**	**$ 9,067**	**$ 9,067**

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

AS AT MARCH 31, 2016

	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	AMORTIZED COST	TOTAL CARRYING AMOUNT
Cash	$18,378	$ —	$ —	$18,378
Investments	—	—	19,790	19,790
Trade receivables	—	—	15,966	15,966
Other receivables	—	—	2,263	2,263
Other current assets	—	—	16	16
Total Financial Assets	**18,378**	**—**	**38,035**	**56,413**
Accounts payable	—	—	1,601	1,601
Accrued liabilities	—	—	5,023	5,023
Total Financial Liabilities	**$ —**	**$ —**	**$ 6,624**	**$ 6,624**

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 for trade and other payables as at March 31, 2017, was $9,067 (as at March 31, 2016, it was $6,624) 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. Refer to the maturity analysis for accounts payable in Note 14. In addition, as at March 31, 2017, the Corporation's financial assets exceeded its financial liabilities by $38,911 (as at March 31, 2016, its financial assets exceeded its financial liabilities by $49,789).

Refer to table in Note 5.3 for the contractual maturities of financial liabilities, including estimated interest payments.

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 financial liabilities are not exposed to fluctuations in currency risk and other price risk, given their underlying nature and characteristics.

The Corporation is exposed to fluctuations in interest rates on its investments. As at March 31, 2017, all of the investments ($20,230) were in fixed interest-bearing instruments (as at March 31, 2016, the comparable figure was $19,790). Fluctuations in the interest rate would affect the fair value of the instruments. Management intends to hold these instruments until maturity. The Corporation has determined that the risk is not significant.

AS AT MARCH 31, 2017

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	6 MONTHS OR LESS	MORE THAN 6 MONTHS
Accounts payable	$2,048	$2,048	$2,048	$ —
Accrued liabilities	7,019	7,019	7,019	—
Financial Liabilities	**$9,067**	**$9,067**	**$9,067**	**$ —**

AS AT MARCH 31, 2016

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	6 MONTHS OR LESS	MORE THAN 6 MONTHS
Accounts payable	$ 1,601	$ 1,601	$ 1,601	$ —
Accrued liabilities	5,023	5,023	5,023	—
Financial Liabilities	**$6,624**	**$6,624**	**$6,624**	**$ —**

NOTE 6: INVESTMENT REVENUE

	2017	2016
Interest from:		
Bank deposits	**$156**	$204
Investments	**567**	570
Other interest	**17**	14
	$740	$788

NOTE 7: OPERATING AND ADMINISTRATIVE EXPENSES

	2017	2016
Rent	**$1,824**	$1,651
Training and development	**1,168**	995
Information technology (IT) maintenance agreements	**1,052**	899
Professional services	**931**	832
Telephone and communications	**805**	830
Travel	**529**	394
Office supplies	**461**	340
Relocation	**261**	201
Communications	**132**	146
IT hardware	**130**	67
Printing and stationery	**102**	96
Office furniture and equipment	**64**	101
IT software	**55**	6
Recruiting	**49**	70
Subscriptions	**42**	36
Postage, freight and courier	**36**	45
Hospitality	**31**	22
Other	**37**	53
	$7,709	$6,784

NOTE 8: TRADE RECEIVABLES

Trade receivables are due entirely from related parties (see Note 18).

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Trade Receivables	$18,596	$15,966

The aging of the trade receivables was as follows:

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Current	**$ 8,965**	$ 7,747
Past due 0–30 days	**9,582**	7,940
Past due 31–60 days	**30**	—
Past due 61–90 days	**—**	258
Past due 91 plus days	**19**	21
	$18,596	$15,966

NOTE 9: OTHER RECEIVABLES

The Corporation implemented salary payments in arrears in 2015–2016 for all employees paid on a bi-weekly basis. As a result, a one-time payment was issued to employees who are paid every two weeks on a "current" basis. These payments did not represent a salary expense in 2015–2016 and were recorded as a receivable by the Corporation considering they will be recovered from employees in the future.

NOTE 10: PREPAID AND OTHER CURRENT ASSETS

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Prepaid expenses	**$1,675**	$1,184
Other receivables	**270**	266
Employee advances	**6**	10
Travel advances	**—**	7
	$1,951	$1,467

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Cost	**$ 7,208**	$7,268
Less: Accumulated depreciation	**4,966**	4,885
Net Book Value	**$2,242**	$2,383

Net book value by asset class		
Computer equipment	**$ 1,979**	$2,218
Furniture and fixtures	**209**	77
Leasehold improvements	**54**	88
Net Book Value	**$2,242**	$2,383

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 March 31, 2015	$ 4,150	$ 640	$ 1,971	$ 6,761
Plus: Additions	1,049	46	53	1,148
Less: Disposals	627	14	—	641
Balance as at March 31, 2016	$ 4,572	$ 672	$ 2,024	$ 7,268
Plus: Additions	687	175	—	862
Less: Disposals	864	58	—	922
Balance as at March 31, 2017	**$4,395**	**$789**	**$2,024**	**$7,208**

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

	COMPUTER EQUIPMENT	FURNITURE AND FIXTURES	LEASEHOLD IMPROVEMENTS	TOTAL
Accumulated depreciation				
Balance as at March 31, 2015	$ 2,119	$ 560	$ 1,897	$ 4,576
Plus: Depreciation	826	47	39	912
Less: Disposals	591	12	—	603
Balance as at March 31, 2016	$ 2,354	$ 595	$ 1,936	$ 4,885
Plus: Depreciation	905	43	34	982
Less: Disposals	843	58	—	901
Balance as at March 31, 2017	**$2,416**	**$580**	**$1,970**	**$4,966**

There is no impairment of property, plant and equipment.

NOTE 12: INTANGIBLE ASSETS

Intangible assets consist of software purchased by the Corporation.

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Cost	$ 1,396	$ 1,398
Less: Accumulated amortization	998	797
Net Book Value	**$ 398**	$ 601

Changes to intangible assets are detailed in the following table:

	TOTAL
Cost	
Balance as at March 31, 2015	$1,175
Plus: Additions	270
Less: Disposals	47
Balance as at March 31, 2016	$1,398
Plus: Additions	33
Less: Disposals	35
Balance as at March 31, 2017	**$1,396**

Changes to accumulated amortization are detailed in the following table:

	TOTAL
Accumulated amortization	
Balance as at March 31, 2015	$618
Plus: Amortization	226
Less: Disposals	47
Balance as at March 31, 2016	$797
Plus: Amortization	236
Less: Disposals	35
Balance as at March 31, 2017	**$998**

There is no impairment of intangible assets.

NOTE 13: INVESTMENTS

Investments consist of Canadian, provincial and corporate bonds with fixed interest rates ranging from 2.85% to 7.22%, guaranteed investment certificates (GIC) ranging from 1.7% to 2.1%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from 2017 to 2031 and GIC vary from 2017 to 2021 and are intended to be held to maturity. 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 (i.e. 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 not quoted in an active market, but rather are determined from quoted prices from a decentralized, over the counter market, which is considered Level 2 in the fair value hierarchy.

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

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Current portion	**$ 3,100**	$ 560
Long-term portion	**17,130**	19,230
	$20,230	$ 19,790

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Carrying amount at amortized cost:		
Bonds		
Federal	**$ 506**	$ 508
Provincial	**9,086**	9,657
Corporate	**4,321**	4,366
Total bonds	**$13,913**	$ 14,531
Guaranteed Investment Certificate	**5,925**	5,200
Mutual funds	**392**	59
	$20,230	$ 19,790

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Fair value:		
Bonds		
Federal	**$ 539**	$ 554
Provincial	**9,583**	10,290
Corporate	**4,540**	4,486
Total bonds	**$14,662**	$15,330
Guaranteed Investment Certificate	**5,947**	5,212
Mutual funds	**392**	58
	$21,001	$20,600

(See Table 2)

NOTE 14: TRADE AND OTHER PAYABLES

Trade and other payables of the Corporation principally comprise amounts outstanding for 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, 2017	AS AT MARCH 31, 2016
Accounts payable	**$ 2,048**	$ 1,601
Accrued vacation and overtime	**3,632**	3,259
Accrued liabilities	**7,019**	5,023
Commodity taxes payable	**650**	521
	$13,349	$10,404

TABLE 2: RATE AND MATURITY DATES

AS AT MARCH 31, 2017

	EFFECTIVE INTEREST RATE	LESS THAN ONE YEAR	LATER THAN ONE YEAR AND NOT LATER THAN FIVE YEARS	LATER THAN FIVE YEARS	TOTAL
Bonds					
Federal	3.75%	$ —	$ 506	$ —	$ 506
Provincial	2.85% to 6.6%	1,508	1,830	5,748	9,086
Corporate	3.00% to 7.22%	—	843	3,478	4,321
Guaranteed Investment Certificate	1.7% to 2.1%	1,200	4,725	—	5,925
Mutual funds	1.00%	392	—	—	392
		$3,100	**$7,904**	**$9,226**	**$20,230**

The following is an aged analysis of the accounts payable.

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Less than 1 month	**$2,029**	$1,554
1 to 3 months	**11**	27
3 to 6 months	**8**	20
	$2,048	$1,601

Accounts payable include balances with related parties (see also Note 18).

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Third-party balances	**$2,036**	$1,585
Related-party balances	**12**	16
	$2,048	$1,601

NOTE 15: EMPLOYEE BENEFITS

15.1 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, retirement allowance for certain employees at retirement as well as health, dental 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, 2017	AS AT MARCH 31, 2016
Long-term portion employee benefits	**$20,433**	$18,933
Current portion employee benefits	**2,277**	946
Total Employee Benefits	**$22,710**	$19,879

The measurement date for the last actuarial valuation of the provision for employee benefits was March 31, 2017. The next actuarial valuation is planned for March 2020 or sooner as required.

The significant actuarial assumptions adopted in measuring the Corporation's retirement allowance and non-pension benefits are as follows:

	2017	2016
Discount rate for projected benefit obligation	**3.80%**	4.00%
Rate of general salary increases	**3.25%**	3.25%
Initial weighted average health care cost trend rate	**5.40%**	5.50%
Ultimate weighted average health care cost trend rate	**4.50%**	4.50%
Year ultimate health care cost trend rate is reached	**2029**	2029
Mortality rate table	**CPM2014**	CPM2014
Mortality rate table improvement scale	**CPM-B**	CPM-B
Retirement age	**62**	62

Movements in the present value of the defined benefits obligation during the year are as follows:

	2017	2016
Opening value of obligation	**$19,879**	$21,652
Current service cost	**1,418**	1,640
Interest on present value of obligation	**844**	878
Actuarial loss (gains)	**966**	(3,935)
Employee benefit payments	**(397)**	(356)
Closing Value of Benefits Obligation	**$22,710**	$19,879

Included in the actuarial gains and losses from financial assumptions are the adjustments due to the effect of the discount rate applied to the employee benefits obligation, adjustments to usage trends and changes in premium and drug cost assumptions.

Amounts recognized in profit and loss for the year in respect of this benefit plan are as follows:

	2017	2016
Current service cost	**$1,418**	$1,640
Interest on present value of obligation	**844**	878
Actuarial loss (gain) recognized in year	**1,337**	(29)
Past service cost	**—**	—
Employee Benefit Expenses	**$3,599**	$2,489

The amount recognized in other comprehensive income for the actuarial gain or loss is made up of the following elements:

	2017	2016
Actuarial gains (losses) from financial assumptions	**$ (966)**	$3,935
Less: Actuarial gain (loss) recognized in year	**1,337**	(29)
Actuarial Gain (Loss) on Employee Benefit Obligation	**$ 371**	$3,906

SENSITIVITY ANALYSIS

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the key assumptions shown. If all other assumptions are held constant, a hypothetical increase of one percentage point in the following assumed rates will increase (decrease) the defined benefit obligation by the amount in the table below. The effect of a hypothetical decrease of one percentage point in the assumed rates will have approximately the opposite result. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining the sensitivity are consistent with those used to determine the benefit obligations and with the methods used in 2017 at our last full actuarial valuation.

EFFECT ON DEFINED BENEFIT OBLIGATION AT FISCAL YEAR END	INCREASE (DECREASE) IN THE BENEFIT OBLIGATION	
	Increase of 1%	Decrease of 1%
Effect of change in discount rate assumption	$(4,134)	$ 5,593
Effect of change in salary scale assumption	$ 179	$ (161)
Effect of change in health care cost trend rate assumption	$ 5,091	$(3,835)

The Corporation expects to expense $2,922 in 2018 for current service costs related to employee benefits.

15.2 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 10.35% (2016—11.10%). Total contributions of $7,435 (2016—$7,131) 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 16: SUPPLEMENTAL OPERATING CASH FLOW INFORMATION

	2017	2016
Interest charges on finance leases	$ 8	$ 12
Interest received from bank deposits	$156	$204
Interest received from investments	$685	$668
Income taxes	$ —	$ —

NOTE 17: LEASE COMMITMENTS

The Corporation leases office space for its operations to meet client requirements. The Corporation has also entered into leases for the co-location of DND and Corporation staff to jointly deliver services. These co-location leases are recoverable from DND. The tables show the future minimum lease payments.

AS AT MARCH 31, 2017

LEASE PERIOD	CORPORATION LEASES	CO-LOCATION LEASES	TOTAL
April 1, 2017 to March 31, 2018	$ 2,080	$ 1,668	$ 3,748
April 1, 2018 to March 31, 2019	1,188	139	1,327
April 1, 2019 to March 31, 2020	303	—	303
April 1, 2020 to March 31, 2021	92	—	92
After April 1, 2021	46	—	46
	$3,709	**$1,807**	**$5,516**

AS AT MARCH 31, 2016

LEASE PERIOD	CORPORATION LEASES	CO-LOCATION LEASES	TOTAL
April 1, 2016 to March 31, 2017	$ 1,993	$ 1,941	$ 3,934
April 1, 2017 to March 31, 2018	1,817	1,793	3,610
April 1, 2018 to March 31, 2019	866	149	1,015
April 1, 2019 to March 31, 2020	53	—	53
After April 1, 2020	—	—	—
	$4,729	**$3,883**	**$8,612**

NOTE 18: 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. The Corporation's entire services revenue of $93,711 (2016—$84,905) was generated from services provided to entities owned by the Government of Canada. The amounts due to and from related parties are as follows:

	AS AT MARCH 31, 2017	AS AT MARCH 31, 2016
Due from:		
Department of National Defence	**$17,325**	$14,595
Canadian Forces Housing Agency	**1,087**	1,202
Shares Services Canada	**119**	109
Communications Security Establishment Canada	**65**	58
Public Services and Procurement Canada	**—**	2
	$18,596	$15,966
Due to:		
Shared Services Canada	**$ 12**	$ 14
Department of National Defence	**—**	1
Canada School of Public Service	**—**	1
	$ 12	$ 16

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled $131 (2016—$119).

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.

18.1 Compensation of Key Management Personnel

Key management personnel are those persons (including members of the Board of Directors) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The remuneration of key management personnel was as follows:

	2017	2016
Short-term benefits	**$2,839**	$3,097
Post-employment benefits	**424**	450
	$3,263	$3,547

NOTE 19: 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 retained earnings.

On June 7, 2016, the Board of Directors approved the payment of dividends in the amount of $8.5 million to the shareholder of the Corporation which was paid in March 2017. The amount has been included in the Statement of Changes in Equity and the Statement of Cash Flows for the period ended March 31, 2017.

NOTE 20: CONTINGENT LIABILITIES

20.1 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, 2017, there were eight ongoing claims totaling $1,944. As at March 31, 2016, these figures compare with 11 ongoing claims totalling $2,126, including ten claims relating to DND totalling $2,079 and one claim relating to the Corporation totalling $47 for which no provision has been provided.

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.