DEFENCE CONSTRUCTION CANADA

2019–2020 THIRD QUARTER FINANCIAL REPORT

PERIOD ENDED DECEMBER 31, 2019

Management's Discussion and Analysis, and Unaudited Interim Condensed Financial Statements

DCC·CDC
Defence Construction Canada
Construction de Défense Canada

Canada

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the third quarter ended December 31, 2019, for Defence Construction (1951) Limited (the "Corporation" or "DCC"). This discussion should be read in conjunction with the unaudited interim condensed financial statements for the period ended December 31, 2019. These statements were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and are reported in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's MD&A and annual financial statements for the year ended March 31, 2019 (the "*Annual Report 2018–2019*"). Financial results reported in the MD&A are rounded to the nearest thousand. Related percentages are based on numbers rounded to the nearest thousand. DCC management is responsible for the information presented in the MD&A and unaudited interim condensed financial statements.

1.0 MATERIALITY

In assessing what information is to be provided in the MD&A, management applies the materiality principle. Management considers information to be "material" when it is probable that its omission or misstatement would influence decisions that users make based on the financial information.

2.0 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, and lifecycle support services 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

The Real Property Management Service Team supports the efficient maintenance of DND's infrastructure by providing strategic and tactical support throughout the entire real property lifecycle.

3.0 OPERATIONAL PERFORMANCE INDICATORS

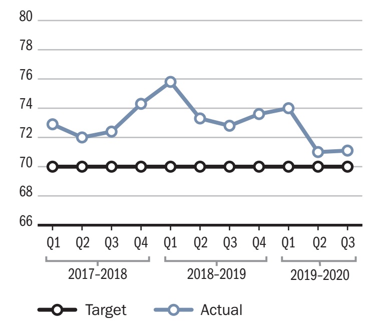
3.1 UTILIZATION RATE

The utilization rate indicates the hours spent directly on service delivery functions that are billable to the Client-Partners, as opposed to administrative functions that are considered overhead support. This rate is an important indicator of efficiency and effectiveness, and a key financial management tool. A higher utilization rate is a positive indicator that DCC is using its resources more for revenue-generating activities and less for overhead administrative functions. DCC's target utilization rate is 70%.

For the third quarter of 2019–20, the Corporation achieved a utilization rate of 72.05%, a decrease from the rate of 72.9% for the same period in 2018–19. The decrease is mostly due to a slower DND program rollout than planned and an information technology (IT) disruption from September until mid-November.

For the year-to-date period of 2019-20, the Corporation achieved a utilization rate of 71.4%, a decrease from the rate of 72.9% for the same period in 2018-19. This decrease occurred due to a slower DND program rollout than planned.

Utilization Rate
(Percentage of employee hours spent on billable contract work — year to date)

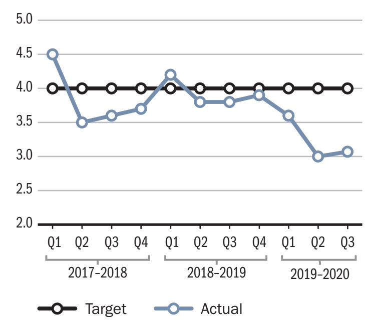


3.2 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

Maintaining a skilled and professional workforce is a key corporate objective. For 2019–20, DCC has established an annual overall corporate target for spending on training and development of 4% of base salary costs. This target encompasses all costs associated with training and development activities, including internal employee time and third-party costs.

For the third quarter of 2019–20, the professional development to salary cost ratio was 3.1% compared to 3.8% for the same period in the prior year. The decrease is due to the timing of internal training.

Professional Development to Salary Cost Ratio
(Year to date %)



4.0 RISK MANAGEMENT

There have been no material changes to the corporate risks identified by management and discussed in Section 5.0, Risk Management, of the MD&A in DCC's *Annual Report 2018-2019*.

5.0 FINANCIAL PERFORMANCE

5.1 BASIS OF PRESENTATION

The Corporation prepared this quarterly report as per the requirements of the *Financial Administration Act*. This statute requires all federal Crown corporations to prepare and make public a report within 60 days of the end of each fiscal quarter.

This quarterly financial report was prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations.

In the following analysis, all references to the third quarter refer to the three months ended December 31, 2019; all references to the year-to-date period refer to the nine months ended December 31, 2019. All references to the previous year's third quarter relate to the three months ended December 31, 2018; all references to the previous year's year-to-date period refer to the nine months ended December 31, 2018. All references to the previous year end relate to March 31, 2019.

5.2 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $28.1 million in the third quarter, a decrease of $60,000 or less than 1% from the previous year. This was due to higher billing rates, which were countered by a slower-than-planned DND program rollout and an IT disruption in the Q2–Q3 period. For the year-to-date period, services revenue was $84.6 million, an increase of $2 million or approximately 2% over the previous year. This was due to higher billing rates, which were partially offset by a reduced and slower-than-planned DND program rollout and the Q2–Q3 IT disruption.

CONTRACT MANAGEMENT SERVICES

Revenue from Contract Management Services was flat in the third quarter and increased by 2% in the year-to-date period compared to the same periods in the previous year. The year-to-date increase was due to higher billing rates, which were partially countered by lower program demand from DND and by the IT disruption. Fluctuations in the DND program have a direct impact on the revenue this activity generates.

PROJECT AND PROGRAM MANAGEMENT SERVICES

Project and Program Management Services revenue increased by less than 1% in the third quarter and by 5% in the year-to-date period compared to the same periods in the previous year. The increases in the third quarter and year-to-date period were due to higher billing rates and higher DND demand for this service. These were partially offset by the IT disruption.

REAL PROPERTY MANAGEMENT SERVICES

Real Property Management Services revenue increased by 4% in the third quarter and decreased by less than 1% in the year-to-date period compared to the same periods in the previous year. The increase in the third quarter was the result of higher billing rates, coupled with slightly higher demand for this service than during the same period in the prior year. The decrease in the year-to-date period was due to slightly lower demand from DND.

CONSTRUCTION TECHNICAL SUPPORT

Revenue from construction technical support increased by 6% in the third quarter and by less than 1% in the year-to-date period compared to the same periods in the previous year. These increases were due to increased billing rates and higher demand from DND for this service compared to the prior year.

CONTRACT SERVICES

Contract Services revenue decreased by 10% in the third quarter and by 1% in the year-to-date period compared to the same periods in the previous year. The decrease in the third quarter was due to lower demand from DND, which was partially offset by higher billing rates. The slight decrease in the year-to-date period was driven by lower demand from DND, which was partially offset by higher billing rates.

ENVIRONMENTAL SERVICES

Environmental Services revenue decreased by 2% in the third quarter and increased by 2% in the year-to-date period compared to the same periods in the previous year. The decrease in the third quarter was due to lower demand from DND during this period, which was partially countered by higher billing rates. The increase in the year-to-date period was due to increases in billing rates.

REVENUE, BY ACTIVITY

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %
Contract Management	$ 12,535	$ 12,578	(43)	0%	$ 37,423	$ 36,568	855	2%
Project and Program Management	7,515	7,502	13	0%	23,103	22,028	1,075	5%
Real Property Management	2,410	2,307	103	4%	7,189	7,203	(14)	0%
Construction Technical Support	2,069	1,959	110	6%	5,841	5,830	11	0%
Contract Services	1,917	2,123	(206)	-10%	6,266	6,312	(46)	-1%
Environmental Services	1,605	1,642	(37)	-2%	4,749	4,636	113	2%
	$ 28,051	**$ 28,111**	**(60)**	**0%**	**$ 84,571**	**$ 82,577**	**1,994**	**2%**

TRAVEL AND DISBURSEMENT REVENUE

Travel and disbursement revenue represents the amount the Corporation recovered from DND for travel and other expenses DCC incurred for work it performed on DND's behalf. Travel and disbursement revenue totalled $760,000 in the third quarter, a decrease of $231,000 or approximately 23% over the same period in the previous year. For the year-to-date period, revenue totalled $2.6 million, a decrease of $201,000 from the prior year. The variances for both periods were due to DCC moving lease revenue into a separate account and to the timing of travel and other expenses related to the work the Corporation performed for DND.

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %
Travel and disbursement revenue	**$ 760**	**$ 991**	**(231)**	**-23%**	**$ 2,632**	**$ 2,833**	**(201)**	**-7%**

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in its bank account and from investments, decreased in the third quarter by $10,000 or 7% compared to the same period in the previous year. The decrease was due mainly to lower-than-average monthly cash balances, due to the redemption of investments for use in operations during the IT disruption.

For the year-to-date period, interest revenue increased by $53,000 or 12% compared to the same period in the prior year. The increase was due to higher interest rates and higher average monthly cash balances for cash held in the corporate account in the first two quarters.

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %
Investment revenue	**$ 141**	**$ 151**	**(10)**	**-7%**	**$ 504**	**$ 451**	**53**	**12%**

LEASE REVENUE

Lease revenue is recognized for the recovery of rent from the Client-Partner due to the adoption of IFRS16—Leases, effective April 1, 2019.

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %
Lease revenue	**$ 221**	**$ –**	**221**	**100%**	**$ 664**	**$ –**	**664**	**100%**

5.3 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $22.3 million in the third quarter, an increase of $456,000 or approximately 2% over the same period in the previous year. For the year-to-date period, salaries totalled $64.2 million, an increase of $2.9 million or approximately 5% over the same period in the previous year. Salary pay rates increased by 3.5% over the same period in the prior year due to a planned cost of living increase of 1.5% and performance pay increases of 2% on average. The number of full-time equivalents (FTEs) increased by approximately 1% or six FTEs over the end of the prior year.

For the year-to-date period, employee benefits were $16.3 million, an increase of $309,000 or approximately 2% from the same period in the prior year. The increase was due mainly to the increase in salaries from the prior year.

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %
Salaries	$ 22,318	$ 21,862	456	2%	$ 64,233	$ 61,321	2,912	5%
Employee benefits	5,272	5,370	(98)	-2%	16,294	15,985	309	2%
	$ 27,590	**$ 27,232**	**358**	**1%**	**$ 80,527**	**$ 77,306**	**3,221**	**4%**
Employee benefits as a percentage of salaries	24%	25%			25%	26%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $2.5 million in the third quarter of 2019–20, an increase of $45,000 or 2% over the third quarter of 2018–19. For the year-to-date period, operating and administrative expenses increased by $1.1 million or approximately 18%. Material variances are shown in the following table.

			Change				**Change**		
(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	$	%	Nine months ended December 31, 2019	Nine months ended December 31, 2018	$	%	Variance analysis
Professional services	$ 564	$ 341	223	65%	$ 1,817	$ 742	1,075	145%	The increases in both periods were due to costs incurred to migrate the IT servers to the cloud.
Employee training and development	307	313	(6)	-2%	791	864	(73)	-8%	The decreases in both periods were due to the timing of training expenses incurred.
Software maintenance	307	497	(190)	-38%	860	1,176	(316)	-27%	The decreases in both periods were due to DCC reclassifying cloud computing to a separate expense category.
Leased location operating costs	266	–	266	100%	735	–	735	100%	With the adoption of IFRS 16—Leases, accounting for rent and operating costs for 2019–20 changed. Rent expense in prior years included basic rent plus operating costs and taxes. Starting with the current year, basic rent is accounted for as a right-of-use asset with a corresponding liability. The asset is depreciated and no longer included in operating and administrative expenses. The only portions in operating and administrative expenses are operating costs and taxes.
Rent	–	482	(482)	-100%	–	1,365	(1,365)	-100%	
Telephone and data communications	215	224	(9)	-4%	632	597	35	6%	The increase for the year-to-date was due to a higher number of cellular phone users.
Travel	153	178	(25)	-14%	419	416	3	1%	The variances in both periods were due to the timing of travel requirements.
Office services, supplies and equipment	95	70	25	36%	258	184	74	40%	The increases in both periods were due to higher requirements for office services, supplies and equipment.
Cloud computing services	95	36	59	164%	387	62	325	524%	The increases in both periods occurred because DCC began reporting cloud computing services separately from software maintenance contracts.
Equipment rental	213	28	185	661%	455	60	395	658%	The increases in both periods occurred because DCC now leases employee computing devices instead of purchasing and capitalizing them.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %	Variance analysis
Staff relocation	67	41	26	63%	297	95	202	213%	The increases in both periods were due to DCC relocating staff to temporary or permanent assignments to meet client demand.
Hospitality	77	66	11	17%	154	148	6	4%	The increases in both periods were due to the timing of internal meetings where hospitality was provided.
Client services and communications	48	55	(7)	-13%	98	115	(17)	-15%	The decreases in both periods were due to the timing of communications expenses incurred.
Printing and stationery	23	21	2	10%	57	58	(1)	-2%	The variance in the last quarter was due to higher printing and stationery requirements.
Furniture and equipment	17	46	(29)	-63%	222	94	128	136%	The increase in the year-to-date period is due to the purchase of new furniture for the Western and Ontario regional offices.
Memberships and subscriptions	12	18	(6)	-33%	42	48	(6)	-13%	The decreases in both periods were due to the timing of memberships and subscription expenses incurred.
Computer equipment	7	15	(8)	-53%	23	49	(26)	-53%	The decreases in both periods were due to lower hardware requirements, since DCC is now leasing computers.
Postage and freight	12	6	6	100%	26	21	5	24%	The variances were not material.
Computer software	17	19	(2)	-11%	26	56	(30)	-54%	The decreases in both periods occurred because DCC now leases most employee computing devices, which are pre-loaded with software.
Recruiting	19	4	15	375%	41	37	4	11%	The increases in both periods were due to the timing of recruiting expenses incurred.
Other	5	14	(9)	-64%	16	33	(17)	-52%	The decreases in both periods were due to disposition costs for computer assets after DCC started leasing computing devices, offset by an increase in leasehold improvement expenses in the previous fiscal year.
	$ 2,519	**$ 2,474**	**45**	**2%**	**$ 7,356**	**$ 6,220**	**1,136**	**18%**	

TRAVEL AND DISBURSEMENT EXPENSES

Travel and disbursement expenses are the amount the Corporation spends on travel and other expenses related to the work it performs for DND. Travel and disbursement expenses totalled $760,000 in the third quarter, a decrease of $231,000 or approximately 23% over the same period in the previous year. For the year-to-date period, expenses totalled $2.6 million, a decrease of $201,000 from the prior year or approximately 7%. The variances were a result of the timing of travel and other expenses related to the work the Corporation performed for DND.

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %
Travel and disbursement expenses	**$ 760**	**$ 991**	**(231)**	**-23%**	**$ 2,632**	**$ 2,833**	**(201)**	**-7%**

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by 158% or $429,000 in the third quarter and by 132% or $1.2 million in the year-to-date period compared to the prior year. The increases in depreciation were due to the addition of right-of-use assets related to the adoption of IFRS 16—Leases. They were offset by lower depreciation of property, plant and equipment, because the Corporation adopted a leasing model for computing devices, which reduced the capital expenditures for those assets. The decrease in amortization of intangible assets occurred because the Corporation now favours software-as-a-service over capital purchases.

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	**Change** $	**Change** %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	**Change** $	**Change** %
Depreciation of right-of-use assets	564	$ –	564	100%	$ 1,657	$ –	1,657	100%
Depreciation of property, plant and equipment	114	$ 214	(100)	-47%	$ 351	$ 715	(364)	-51%
Depreciation of assets under finance lease	–	22	(22)	-100%	–	69	(69)	-100%
Amortization of intangible assets	22	35	(13)	-37%	61	106	(45)	-42%
	$ 700	**$ 271**	**429**	**158%**	**$ 2,069**	**$ 890**	**1,179**	**132%**

5.4 NET LOSS AND TOTAL COMPREHENSIVE LOSS

The Corporation realized a net loss and total comprehensive loss of $2.5 million for the third quarter compared with a net loss and total comprehensive loss of $1.7 million for the same period in the previous year. This was an inrease of 43%. For the year-to-date period, the Corporation realized a net loss and total comprehensive loss of $4.4 million compared to a net loss and total comprehensive loss of $1.4 million in the previous year. The losses in both periods were a result of lower utilization of personnel, due to slower program implementation and lost productivity related to the autumn IT disruption, which increased overhead salaries. As planned, operating and administrative costs also increased over the same periods in the prior year.

			Change				**Change**	
(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	$	%	Nine months ended December 31, 2019	Nine months ended December 31, 2018	$	%
Net income (loss) and total comprehensive income	**$ (2,457)**	**$ (1,717)**	**(740)**	**43%**	**$ (4,372)**	**$ (1,392)**	**(2,980)**	**214%**

5.5 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

DCC's financial and cash management policy is discussed in the *Annual Report 2018–2019*.

CASH AND INVESTMENTS

Cash and investments totalled $22.0 million at December 31, 2019, a decrease of $6.2 million from March 31, 2019.

The cash balance at December 31, 2019, was $10.6 million, an increase of $538,000 or 5% from the 2018–19 year end. In the nine-month period after March 31, 2019, the Corporation used $4 million in cash for operating activities, spent $0.4 million on capital assets, redeemed $6.7 million in investments and spent $1.7 million to meet finance lease obligations.

Investments (both current and long term) at December 31, 2019, totalled $11.4 million, a decrease of $6.7 million from the 2018–19 year end. The decrease was due mainly to the redemption of investments for use in operations. 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, which are recorded at cost and amortized using the effective interest method. The investments held meet the requirements of the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

TRADE RECEIVABLES

Trade receivables are due mainly from one of the Corporation's Client-Partners, DND. At December 31, 2019, the amount of trade receivables was $24.2 million, an increase of $2.9 million or 13% from March 31, 2019. The increase was due to the timing of the collection of receivables from DND. All amounts are expected to be collected.

CURRENT LIABILITIES

Current liabilities were $18.5 million at December 31, 2019, an increase of $1.9 million or 11% from March 31, 2019. The increase in current liabilities was primarily due to the implementation of IFRS 16—Leases and the amount recognized for the current lease liability obligation. The recognition of deferred revenues on fixed-fee contracts also played a role in the increase.

LIQUIDITY AND CAPITAL EXPENSES

					Change	
(in thousands of dollars)		As at December 31, 2019		As at March 31, 2019	$	%
Cash	$	10,604	$	10,066	538	5%
Investments		11,410		18,104	(6,694)	-37%
Cash and investments	**$**	**22,014**	**$**	**28,170**	**(6,156)**	**-22%**
Trade receivables	**$**	**24,190**	**$**	**21,321**	**2,869**	**13%**
Current liabilities	**$**	**18,490**	**$**	**16,607**	**1,883**	**11%**

5.6 EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave for employees, and health, dental and life insurance benefits for retirees. Every three years, an actuary determines this estimate. The accrued sick leave and other benefits balance as at December 31, 2019, was $30.2 million, an increase of $2 million or 7% from the 2018–19 year end. The increase reflected the actuary's estimates of accrued benefits for the current fiscal year, minus payments of benefits to retirees.

					Change	
(in thousands of dollars)		As at December 31, 2019		As at March 31, 2019	$	%
Current portion	$	2,863	$	2,863	–	0%
Long-term portion		27,375		25,335	2,040	8%
Total employee benefits	**$**	**30,238**	**$**	**28,198**	**2,040**	**7%**

5.7 RIGHT-OF-USE ASSETS

The Corporation leases office space, facilities for IT equipment and multifunctional copiers. Assets under finance lease were reclassified to right-of-use assets as at April 1, 2019. The decrease from April 1, 2019, was due to depreciation.

(in thousands of dollars)

Right-of-use assets due to adopting IFRS 16—Leases	$	8,501
Existing assets under finance lease		141
Opening balance: Right-of-use assets, April 1, 2019	**$**	**8,642**
Plus: Additions		723
Minus: Depreciation		(1,657)
Ending balance at December 31, 2019	**$**	**7,708**

5.8 LEASE LIABILITY

The lease liability relates to the right-of-use assets and the finance lease obligation.

(in thousands of dollars)

Lease obligation due to adopting IFRS 16—Leases	$	8,501
Existing finance lease obligation (reclassified)		147
Opening balance: Lease obligation April 1, 2019	**$**	**8,648**
Minus: Payment in the period		(1,690)
Plus: Addition of right-of-use asset		723
Plus: Interest on liability		159
Ending balance at December 31, 2019	**$**	**7,840**

MATURITY ANALYSIS

(in thousands of dollars)

One year or less	$	1,475
Between one and two years		1,006
Between two and five years		5,034
Over five years		325
Total	**$**	**7,840**

5.9 CAPITAL EXPENDITURES

The Corporation's capital activity for the third quarter was related to the addition of a right-of-use asset. Refer to Note 5 in the financial statements for more details regarding the adoption of IFRS 16—Leases. The increase in capital expenditures was also due to leasehold improvement costs for the Ontario regional office.

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	Change $	Change %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	Change $	Change %
Right-of-use assets	$ 48	$ –	48	100%	$ 9,223	$ –	9,223	100%
Intangible assets	–	–	–	–	–	13	(13)	-100%
Computer equipment	127	7	120	1,714%	127	7	120	1,714%
Furniture and equipment	–	–	–	0%	–	6	(6)	-100%
Leasehold improvements	38	5	33	660%	247	5	242	4,840%
	$ 213	**$ 12**	**201**	**1,675%**	**$ 9,597**	**$ 31**	**9,566**	**30,858%**

5.10 ACTUAL PERFORMANCE VERSUS PLAN

The Corporation's actual overall performance for the nine months ended December 31, 2019, was lower than forecasted in the Corporate Plan (the Plan).

Services revenue was 9% lower than projected in the Plan. The decrease was due to lower-than-anticipated demand for services from DND, coupled with a decrease related to the IT disruption (approximately $1 million) in the fall.

Travel and disbursement revenue and expenses were 36% higher than projected in the Plan, due to the timing of expenses for travel and disbursements related to work the Corporation performed on DND's behalf.

Investment revenue was higher than anticipated in the Plan due to a higher-than-expected return on cash held in the account.

As a result of adopting IFRS 16—Leases, DCC recorded lease revenue of $664,000, related to subleasing a right-of-use asset, which it recovered from DND.

Salaries and benefits were 4% lower than the amount forecasted in the Plan, due to lower-than-expected demand from the Client-Partner.

Operating and administrative costs were 6% lower than projected due to the timing of expenditures related to the transition of IT servers to the cloud and the adoption of IFRS 16—Leases.

Depreciation and amortization were 1% higher than forecasted due to the increase in capital expenditures.

Capital expenditures were 10% higher than projected due to the adoption of IFRS 16—Leases; the amount capitalized for leases was higher than the amount anticipated in the Plan. The costs of purchasing IT equipment and of making leasehold improvements to the Ontario and Western regional offices also contributed to the increase.

ACTUAL PERFORMANCE VERSUS PLAN

(in thousands of dollars)	Actual	Plan	Change $	Change %
Revenue				
Services	$ 84,571	$ 93,405	(8,834)	-9%
Recovered travel and disbursement	2,632	1,940	692	36%
Investment revenue	504	488	16	3%
Lease revenue	664	–	664	100%
	88,371	**95,833**	**(7,462)**	**-8%**
Expenses				
Salaries and employee benefits	80,527	83,773	(3,246)	-4%
Operating and administrative costs	7,356	9,030	(1,674)	-19%
Recoverable travel and disbursement	2,632	1,940	692	36%
Depreciation and amortization	2,228	1,470	758	52%
	92,743	**96,213**	**(3,470)**	**-4%**
Loss and total comprehensive loss	**$ (4,372)**	**$ (380)**	**(3,992)**	**-1,051%**
Capital expenditures	**$ 9,597**	**$ 8,759**	**838**	**10%**

5.11 DND CONTRACT EXPENDITURES

The Corporation's contract expenditures through the DND program for the three months ended December 31, 2019, decreased compared to the same period last year by $129.8 million or 37%. Year-to-date expenditures compared to last year decreased by $173,9 million or 22%. This decrease was mostly due to a reduced and slower-than-planned DND program rollout.

CONTRACT EXPENDITURE, BY REGION

(in thousands of dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	Change $	Change %	Nine months ended December 31, 2019	Nine months ended December 31, 2018	Change $	Change %
Atlantic Region	$ 39,213	$ 66,150	(26,937)	-41%	$ 97,990	$ 130,920	(32,930)	-25%
Quebec Region	39,423	65,119	(25,696)	-39%	118,009	140,259	(22,250)	-16%
National Capital Region	22,961	51,966	(29,005)	-56%	92,500	117,724	(25,224)	-21%
Ontario Region	63,097	82,226	(19,129)	-23%	167,752	182,787	(15,035)	-8%
Western Region	58,738	87,812	(29,074)	-33%	136,589	215,072	(78,483)	-36%
	$ 223,432	**$ 353,273**	**(129,841)**	**-37%**	**$ 612,840**	**$ 786,762**	**(173,922)**	**-22%**

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY STATEMENT

Management is responsible for the preparation and fair presentation of these unaudited interim condensed financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations. Management is also responsible for such internal controls as it determines are necessary to enable the preparation of unaudited interim condensed financial statements that are free from material misstatement. In addition, management is responsible for ensuring that all other information in this quarterly financial report is consistent, as appropriate, with the unaudited interim condensed financial statements.

Based on our knowledge, these unaudited interim condensed financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed financial statements.

Original signed by:
Derrick Cheung
President and Chief Executive Officer

Original signed by:
Juliet S. Woodfield, FCPA, FCA
Vice-President, Finance & Human Resources, and Chief Financial Officer

Ottawa, Canada
February 28, 2020

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Unaudited

(in thousands of dollars)	Notes	**As at December 31 2019**	As at March 31, 2019
Assets			
Cash		**$ 10,604**	$ 10,066
Investments	7	**2,110**	2,502
Trade receivables	13	**24,190**	21,321
Prepaids and other current assets		**3,217**	1,487
Other receivables		**1,679**	1,805
Current assets		**41,800**	37,181
Investments	7	**9,300**	15,602
Right-of-use assets	10	**7,708**	–
Property, plant and equipment	9	**861**	838
Intangible assets		**73**	131
Assets under finance lease		**–**	141
Non-current assets		**17,942**	16,712
Total assets		**$ 59,742**	$ 53,893
Liabilities			
Trade and other payables		**$ 13,539**	$ 13,664
Deferred revenue	8	**613**	–
Current portion: Right-of-use lease liability	11	**1,475**	–
Current portion: Finance lease obligation		**–**	80
Current portion: Employee benefits	12	**2,863**	2,863
Current liabilities		**18,490**	16,607
Right-of-use lease liability	11	**6,365**	–
Finance lease obligation		**–**	67
Employee benefits	12	**27,375**	25,335
Non-current liabilities		**33,740**	25,402
Total liabilities		**52,230**	42,009
Equity			
Share capital: Authorized—1,000 common shares of no par value			
Issued: 32 common shares		**–**	–
Retained earnings		**7,512**	11,884
Total equity		**7,512**	11,884
Total liabilities and equity		**$ 59,742**	$ 53,893

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Unaudited

(in thousands of dollars)	Notes	Three months ended December 31, 2019	Three months ended December 31, 2018	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Services revenue	13	**$ 28,051**	$ 28,111	**$ 84,571**	$ 82,577
Travel and disbursement revenue		**760**	991	**2,632**	2,833
Lease revenue		**221**	–	**664**	–
Investment revenue		**141**	151	**504**	451
Total revenue		**29,173**	29,253	**88,371**	85,861
Salaries and employee benefits		**27,590**	27,232	**80,527**	77,306
Operating and administrative expenses	14	**2,519**	2,474	**7,356**	6,220
Travel and disbursement expenses		**760**	991	**2,632**	2,833
Depreciation of right-of-use assets	10	**564**	–	**1,657**	–
Depreciation of property, plant and equipment	9	**114**	214	**351**	715
Depreciation of assets under finance lease		**–**	22	**–**	69
Amortization of intangible assets		**22**	35	**61**	106
Finance costs	11	**61**	2	**159**	4
Total expenses		**31,630**	30,970	**92,743**	87,253
Gain (loss) for the period and total comprehensive gain (loss)		**$ (2,457)**	$ (1,717)	**$ (4,372)**	$ (1,392)

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

Unaudited

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at September 30, 2019	$ –	$ 9,969	$ 9,969
Loss for the period		(2,457)	(2,457)
Balance at December 31, 2019	**$ –**	**$ 7,512**	**$ 7,512**

	Share capital	Retained earnings	Total equity
Balance at September 30, 2018	$ –	$ 5,523	$ 5,523
Loss for the period		(1,717)	(1,717)
Balance at December 31, 2018	**$ –**	**$ 3,806**	**$ 3,806**

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at March 31, 2019	$ –	$ 11,884	$ 11,884
Loss for the period		(4,372)	(4,372)
Balance at December 31, 2019	**$ –**	**$ 7,512**	**$ 7,512**

	Share capital	Retained earnings	Total equity
Balance at March 31, 2018	$ –	$ 5,198	$ 5,198
Loss for the period		(1,392)	(1,392)
Balance at December 31, 2018	**$ –**	**$ 3,806**	**$ 3,806**

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF CASH FLOWS

Unaudited

(in thousands of dollars)	Notes	Three months ended December 31, 2019	Three months ended December 31, 2018	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Cash flow from (used in) operating activities					
Gain (loss) for the period		**$ (2,457)**	$ (1,717)	**$ (4,372)**	$ (1,392)
Adjustments to reconcile loss for the period to cash provided or used by operating activities					
Employee benefits expensed		**832**	967	**2,494**	2,901
Employee benefits paid		**(132)**	(179)	**(454)**	(505)
Depreciation of right-of-use assets	10	**564**	–	**1,657**	–
Depreciation of assets under finance lease		**–**	22	**–**	69
Depreciation of property, plant and equipment	9	**114**	214	**351**	715
Amortization of intangible assets		**22**	35	**61**	106
Amortization of investment premiums		**11**	18	**54**	71
Interest paid on right-of-use obligations		**61**	–	**159**	–
Change in non-cash operating working capital					
Trade receivables		**214**	2,185	**(2,869)**	(1,330)
Prepaids and other current assets		**(1,775)**	(354)	**(1,730)**	914
Other receivables (salary receivables)		**45**	13	**126**	110
Trade and other payables		**(472)**	(77)	**(125)**	(485)
Deferred revenue (cost)		**(448)**	(64)	**613**	1,495
Net cash flows provided by (used in) operating activities		**(3,421)**	1,063	**(4,035)**	2,669
Cash flows from (used in) investing activities					
Acquisition of investments		**–**	–	**(115)**	(898)
Redemption of investments		**4,928**	–	**6,752**	1,686
Acquisition of property, plant and equipment	9	**(165)**	(11)	**(374)**	(15)
Acquisition of right-of-use assets	10	**(48)**	–	**(723)**	–
Acquisition of intangible assets		**–**	(1)	**–**	(14)
Disposal of right-of-use assets		**–**	4	**–**	4
Net cash flows provided by (used in) investing activities		**4,715**	(8)	**5,540**	763
Cash flows from financing activities					
Repayment of lease obligations		**(588)**	(26)	**(1,690)**	(68)
Additional lease obligations		**48**	–	**723**	–
Net cash flows used in financial activities		**(540)**	(26)	**(967)**	(68)
Increase in cash during the period		**754**	1,029	**538**	3,364
Cash at the beginning of the period		**9,850**	6,307	**10,066**	3,972
Cash at the end of the period		**$ 10,604**	$ 7,336	**$ 10,604**	$ 7,336

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

NOTICE TO READERS

These interim condensed financial statements have not been audited or reviewed by an external auditor and must be read in conjunction with the most recent financial statements for the year ended March 31, 2019, and with the MD&A included in this quarterly financial report.

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

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

NOTE 1: SUMMARY OF BUSINESS AUTHORITY AND OBJECTIVES

Defence Construction (1951) Limited (the "Corporation" or "DCC") 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. DCC is an agent Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act*. Responsibility for the Corporation rests with the Minister of Public Services and Procurement. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction contract management, professional, operations and full lifecycle infrastructure support for the defence and security of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence (DND). Other government departments and agencies that play a role in Canada's defence and security may also avail themselves of DCC's services. Revenue is generated from fees charged for specific services provided.

NOTE 2: BASIS OF PREPARATION AND PRESENTATION

These interim condensed financial statements are prepared by the Corporation in accordance with International Accounting Standard 34 (IAS 34), Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB), and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada. As permitted under IAS 34, these interim condensed financial statements do not include all of the disclosures required for annual financial statements and should be read in conjunction with the Corporation's audited financial statements for its fiscal year ended March 31, 2019.

The interim condensed financial statements have been prepared according to the International Financial Reporting Standards (IFRS) effective when these statements were prepared.

The statements have been prepared on a historical cost basis, except as permitted by the IFRS and as otherwise indicated in these notes.

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

These interim condensed financial statements follow the same accounting policies and methods of computation described in the notes to the Corporation's audited financial statements for the year ended March 31, 2019, except for the application of new standards, amendments and interpretations effective January 1, 2019, disclosed in Note 5 of these interim condensed consolidated financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES

Under the Corporation's accounting policies, 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 the judgments, estimates and assumptions.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised, when the revision affects only that period, or in the period of the revision and future periods, when the revision affects both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in the notes to the Corporation's annual financial statements for the year ended March 31, 2019.

NOTE 5: APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 16—Leases: The Corporation initially applied IFRS 16—Leases, as of April 1, 2019, using the modified retrospective approach. Under this method, the Corporation applied the standard retrospectively only to the most current period presented in the interim condensed financial statements and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening statement of financial position on April 1, 2019. Therefore, the comparative information for 2018–19 presented in the interim condensed financial statements for the nine months ended December 31, 2018, was not restated and leases continued to be reported under the accounting policies disclosed in Note 17 to the Corporation's annual audited financial statements for the year ended March 31, 2019.

The Corporation's leasing activities mainly relate to office space and multifunction copiers.

As a lessee, the Corporation previously classified leases as operating or finance, based on its assessment of whether the lease significantly transferred all of the risk and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognized right-of-use assets and lease liabilities for most of its leases.

At transition, the Corporation had leases classified as finance leases under the previous lease standard, IAS 17, for multi-use copiers. For the leases classified as operating leases, the lease liability for existing operating leases, other than short-term or low-value leases, was measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at April 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, any lease incentives, any initial direct cost incurred, and any estimated costs to be incurred in restoring the site or dismantling and removing the underlying asset.

By electing to use the modified retrospective method, the Corporation calculated the lease liability using its incremental borrowing rate of between approximately 3% to 3.16% as at April 1, 2019.

The Corporation used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exception not to recognize right-of-use assets and liabilities with lease terms of fewer than 12 months;
- applied the exception not to recognize right-of-use assets and liabilities for low-value leases with individual asset values of under $5,000; and
- used hindsight when determining the lease term if the contract contained options to extend or terminate the lease.

As a lessor, the Corporation will continue to classify subleases as operating or finance, after reassessing the nature of subleases as part of the IFRS 16 transition. Under IFRS 16, this classification is determined with reference to the right-of-use asset rather than the underlying asset. Lessor accounting has also remained substantially unchanged from IAS 17, and the Corporation will continue to record lease income from operating leases.

As at April 1, 2019, the impact of adopting IFRS 16 on the interim condensed financial statements of the Corporation was to recognize right-of-use assets and liabilities of $8.5 million. Due to the adoption of IFRS 16, the Corporation's interest and depreciation have increased, while rent expense has decreased to reflect only the operating expenses of the leases related to office space.

The following table shows the changes from March 31, 2019, to April 1, 2019:

	As at March 31, 2019	IFRS 16 adjustment	As at April 1, 2019
Assets			
Current assets	**$ 37,181**	**$ –**	**$ 37,181**
Right-of-use assets	–	8,501	8,501
Non-current assets	16,712	8,501	25,213
Total assets	**$ 53,893**	**$ 8,501**	**$ 62,394**
Liabilities			
Current portion: Right-of-use lease liability	$ –	$ 1,779	$ 1,779
Current liabilities	**16,607**	**1,779**	**18,386**
Right-of-use lease liability	–	6,722	6,722
Non-current liabilities	25,402	6,722	32,124
Total liabilities	**$ 42,009**	**$ 8,501**	**$ 50,510**
Equity			
Retained earnings	$ 11,884	$ –	$ 11,884
Total equity	11,884	–	11,884
Total liabilities and equity	**$ 53,893**	**$ 8,501**	**$ 62,394**

The amount for commitments related to operating leases for office space are all considered leases under IFRS 16 and are presented in the interim condensed statement of financial position.

NOTE 6: NEW AND REVISED IFRS ISSUED BUT NOT YET EFFECTIVE

During the quarter, there were no new standards, amendments or interpretations issued by the IASB or the IFRS Interpretations Committee that would have a possible effect on the Corporation in the future.

NOTE 7: INVESTMENTS

Investments consist of Canadian, provincial and corporate bonds with effective interest rates ranging from 2.65% to 4.92% (coupon rates ranging from 2.85% to 7.22%), guaranteed investment certificates (GICs) with fixed interest rates ranging from 1.81% to 2.82%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from 2019 to 2030, and those of the GICs vary from 2019 to 2024, and the Corporation intends to hold all of them to maturity. The mutual funds 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 values 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., prices) or indirectly (i.e., derived from prices) (Level 2); or (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The fair values of DCC's investments are not quoted in an active market, but rather are determined from quoted prices in a decentralized, over-the-counter market, which is considered Level 2 in the fair value hierarchy.

The "current portion" of the Corporation's investments consists of instruments maturing in the next 12 months.

	As at December 31, 2019	As at March 31, 2019
Current portion	**$ 2,110**	$ 2,502
Long-term portion	**9,300**	15,602
Total	**$ 11,410**	$ 18,104

	As at December 31, 2019	As at March 31, 2019
Carrying amount at amortized cost:		
Bonds:		
Federal	**$ –**	$ 502
Provincial	**3,558**	6,972
Corporate	**867**	3,755
Total bonds	**4,425**	11,229
Guaranteed investment certificates	**6,875**	6,875
Mutual funds	**110**	–
Total	**$ 11,410**	$ 18,104

	As at December 31, 2019	As at March 31, 2019
Fair value		
Bonds		
Federal	**$ –**	$ 510
Provincial	**4,086**	7,332
Corporate	**1,051**	3,977
Total bonds	**5,137**	11,819
Guaranteed investment certificates	**6,903**	6,912
Mutual funds	**100**	–
Total	**$ 12,140**	$ 18,731

NOTE 8: DEFERRED REVENUE

Deferred revenue arises when, at a reporting date, the amount invoiced exceeds the services delivered through fixed-fee service-level arrangements. For the period ended December 31, 2019, deferred revenue was $613,000. The figure as at March 31, 2019, was $0. Timing differences on fixed-fee service-level arrangements can occur during the reporting periods of the fiscal year but are reconciled and reduced to $0 by the year-end reporting date.

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2019	As at March 31, 2019
Cost	$ 5,532	$ 5,158
Less: Accumulated depreciation	4,671	4,320
Net book value	**$ 861**	**$ 838**
Net book value by asset class		
Computer equipment	$ 439	$ 590
Furniture and fixtures	181	239
Leasehold improvements	241	9
Net book value	**$ 861**	**$ 838**

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, 2019	$ 2,643	$ 953	$ 1,562	$ 5,158
Plus: Additions	127	–	247	374
Less: Disposals	–	–	–	–
Balance as at December 31, 2019	**$ 2,770**	**$ 953**	**$ 1,809**	**$ 5,532**

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

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Accumulated depreciation				
Balance as at March 31, 2019	$ 2,053	$ 714	$ 1,553	$ 4,320
Plus: Depreciation	278	58	15	351
Less: Disposals	–	–	–	–
Balance as at December 31, 2019	**$ 2,331**	**$ 772**	**$ 1,568**	**$ 4,671**

There was no impairment of property, plant and equipment.

NOTE 10: RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets comprise office space, facilities for information technology (IT) equipment and multifunction copiers. Items related to assets under finance lease from the prior year are added to the opening balance and are included in the total. New additions as of April 1, 2019, are $8,501, related to IFRS 16—Leases, as per Note 5, plus assets under finance lease reclassified to right-of-use assets of $141, for a total of $8,642.

		As at December 31, 2019		As at April 1, 2019
Cost	$	9,271	$	8,642
Less: Accumulated amortization		(1,563)		–
Net book value	**$**	**7,708**	**$**	**8,642**

Cost		
Balance as at April 1, 2019	$	8,642
Plus: Additions		723
Less: Disposals		(94)
Balance as at December 31, 2019	**$**	**9,271**
Accumulated amortization		
Balance as at April 1, 2019	$	–
Plus: Amortization		1,657
Less: Disposals		(94)
Balance as at December 31, 2019	**$**	**1,563**

NOTE 11: RIGHT-OF-USE LEASE LIABILITY

		As at December 31, 2019		As at April 1, 2019
Current portion	$	1,475	$	1,859
Long-term portion		6,365		6,789
Net book value	**$**	**7,840**	**$**	**8,648**

Cost		
Balance as at April 1, 2019	$	8,648
Plus: Additions		723
Less: Payments		(1,690)
Plus: Interest expense		159
Balance as at September 30, 2019	**$**	**7,840**
Maturity analysis		
One year or less	$	1,475
Between one and two years		1,006
Between two and five years		5,034
Over five years		325
Total	**$**	**7,840**

NOTE 12: EMPLOYEE BENEFITS

POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Post-employment and other long-term employee benefits represent the Corporation's estimated costs of sick leave for employees, and health, dental and life insurance benefits for 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 December 31, 2019	As at March 31, 2019
Current portion of employee benefits	$ 2,863	$ 2,863
Long-term portion of employee benefits	27,375	25,335
Total employee benefits	**$ 30,238**	**$ 28,198**

The significant actuarial assumptions are disclosed in the *Annual Report 2018–2019*. The measurement date for the last actuarial valuation of the provision for employee benefits was April 1, 2017. The next actuarial valuation is planned for April 2020.

NOTE 13: REVENUE RECOGNITION

SERVICE REVENUE

The Corporation derives its revenue from the delivery of services related to contract management, project planning, procurement and real property management. 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 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 provide over the year. Each month, 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 each month as agreed in the SLAs. Most SLAs have standard 30-day payment terms.

As there are new SLAs annually, there are no liabilities related to payments received in advance of performance, nor assets related to performance rendered in advance of payments. There is no risk of bad debt because, under the SLAs, the Corporation bills the client for services already performed, and the *Financial Administration Act* requires government entities to pay for all valid services invoiced.

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

13.1 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. No mark-up is added.

13.2 INVESTMENT REVENUE

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

13.3 SEGMENTED AND DISAGGREGATED REVENUE INFORMATION

In reviewing the performance of the Corporation, management analyzes revenue by region, by activity and by type of contract (fixed-fee vs. time-based). The following table disaggregates revenue by major sources and by region.

Three months ended December 31, 2019			**Activity**				
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,231	$ 977	$ 311	$ 277	$ 167	$ 284	**$ 4,247**
Quebec Region	2,051	1,314	319	325	243	279	**4,531**
National Capital Region	1,094	2,006	1,089	105	92	301	**4,687**
Ontario Region	3,281	1,269	570	428	898	395	**6,841**
Western Region	3,835	1,949	119	606	356	346	**7,211**
Corporate Services	43	–	2	176	313	–	**534**
Total revenue, by activity	**$ 12,535**	**$ 7,515**	**$ 2,410**	**$ 1,917**	**$ 2,069**	**$ 1,605**	**$ 28,051**

Nine months ended December 31, 2019			**Activity**				
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 6,736	$ 2,968	$ 939	$ 920	$ 472	$ 865	**$ 12,900**
Quebec Region	6,411	3,764	976	978	740	872	**13,741**
National Capital Region	3,058	6,189	3,487	503	276	823	**14,336**
Ontario Region	9,753	4,141	1,368	1,406	2,391	1,231	**20,290**
Western Region	11,360	6,037	417	2,016	1,147	958	**21,935**
Corporate Services	105	4	2	443	815	–	**1,369**
Total revenue, by activity	**$ 37,423**	**$ 23,103**	**$ 7,189**	**$ 6,266**	**$ 5,841**	**$ 4,749**	**$ 84,571**

Three months ended December 31, 2018

	Activity						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,330	$ 924	$ 277	$ 330	$ 155	$ 270	$ 4,286
Quebec Region	2,304	1,225	374	397	282	309	4,891
National Capital Region	830	2,009	1,100	288	130	361	4,718
Ontario Region	3,329	1,281	316	486	649	446	6,507
Western Region	3,750	2,063	239	583	490	256	7,381
Head Office	35	–	1	39	253	–	328
Total revenue, by activity	$ 12,578	$ 7,502	$ 2,307	$ 2,123	$ 1,959	$ 1,642	$ 28,111

Nine months ended December 31, 2018

	Activity						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 6,827	$ 2,969	$ 814	$ 1,008	$ 503	$ 739	$ 12,860
Quebec Region	6,326	3,607	1,219	1,145	961	989	14,247
National Capital Region	2,344	5,669	3,474	896	396	939	13,718
Ontario Region	10,110	3,844	873	1,493	1,886	1,219	19,425
Western Region	10,847	5,939	821	1,714	1,318	752	21,391
Head Office	114	–	2	56	766	(2)	936
Total revenue, by activity	$ 36,568	$ 22,028	$ 7,203	$ 6,312	$ 5,830	$ 4,636	$ 82,577

The following tables disaggregate revenue by region and contract type.

	Time-based revenue			
Region	Three months ended December 31, 2019	Three months ended December 31, 2018	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Atlantic Region	$ 1,345	$ 1,413	$ 4,058	$ 4,088
Quebec Region	1,482	1,228	4,171	3,290
National Capital Region	4,692	4,576	14,245	13,314
Ontario Region	1,918	1,845	5,702	5,275
Western Region	1,494	1,644	4,742	4,890
Head Office	423	295	1,132	853
Total time-based revenue	**$ 11,354**	**$ 11,001**	**$ 34,050**	**$ 31,710**

	Fixed-fee revenue			
Region	Three months ended December 31, 2019	Three months ended December 31, 2018	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Atlantic Region	$ 2,904	$ 2,873	$ 8,842	$ 8,772
Quebec Region	3,049	3,663	9,570	10,957
National Capital Region	–	142	91	404
Ontario Region	4,926	4,662	14,589	14,150
Western Region	5,708	5,737	17,193	16,501
Head Office	110	33	236	83
Total fixed-fee revenue	**$ 16,697**	**$ 17,110**	$ **50,521**	$ **50,867**
Total revenue	**$ 28,051**	**$ 28,111**	**$ 84,571**	**$ 82,577**

NOTE 14: OPERATING AND ADMINISTRATIVE EXPENSES

	Three months ended December 31, 2019	Three months ended December 31, 2018	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Professional services	$ 564	$ 341	$ 1,817	$ 742
Employee training and development	307	313	792	864
Software maintenance	307	497	860	1,176
Leased location operating costs	266	–	735	–
Telephone and data communications	215	224	632	597
Travel	153	178	420	416
Office services, supplies and equipment	95	70	257	184
Cloud computing services	95	36	387	62
Equipment rental	213	28	453	60
Staff relocation	67	41	297	95
Hospitality	77	66	154	148
Client services and communications	48	55	98	115
Printing and stationery	23	21	57	58
Furniture and fixtures	17	46	222	94
Memberships and subscriptions	12	18	42	48
Computer equipment	7	15	23	49
Postage and freight	12	6	26	21
Computer software	17	19	26	56
Recruiting	19	4	41	37
Rent	–	482	–	1,365
Other	5	14	17	33
Total	**$ 2,519**	**$ 2,474**	**$ 7,356**	**$ 6,220**

NOTE 15: 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 fair value, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue, and travel and disbursement revenue, in the third quarter of 2019–20 totalled $28,811 compared to $29,102 in the third quarter of 2018–19. For the year-to-date period ending December 31, 2019, these revenues totalled $87,203 compared to $85,410 for the comparable prior-year period. These revenues were generated from services provided to DND (including the Canadian Forces Housing Agency), the Communications Security Establishment, Public Services and Procurement Canada, and Shared Services Canada.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled $48 for the year-to-date period of 2019–20 compared to $44 in the same period in 2018–19.

	As at December 31, 2019		As at March 31, 2019	
Due from				
Department of National Defence	$	22,435	$	19,522
Canadian Forces Housing Agency		1,390		1,667
Communication Security Establishment Canada		292		137
Shared Services Canada		71		(6)
Public Services and Procurement Canada		2		1
	$ $	**24,190**	**$**	**21,321**
Due to				
Shares Services Canada	$	–	$	5
Department of Justice		–		3
	$	–	**$**	8

15.1 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 DCC's key management personnel is shown in the following table.

	Three months ended December 31, 2019		Three months ended December 31, 2018		Nine months ended December 31, 2019		Nine months ended December 31, 2018	
Short-term benefits	$	1,361	$	993	$	3,122	$	2,756
Post-employment benefits		63		112		347		363
Total	**$**	**1,424**	**$**	**1,105**	**$**	**3,469**	**$**	**3,119**

NOTE 16: CONTINGENT LIABILITIES

16.1 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 December 31, 2019, there were 12 ongoing contracts claims totalling $13,873, all of which related to DND. These figures can be compared with 13 ongoing claims totalling $10,418 as at March 31, 2019, all of which related to DND.

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 the Corporation. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims.