DEFENCE CONSTRUCTION CANADA

2020–2021 FIRST QUARTER FINANCIAL REPORT

PERIOD ENDED JUNE 30, 2020

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 first quarter ended June 30, 2020, 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 June 30, 2020. 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, 2020 (the "*Annual Report 2019–2020*"). 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. On March 11, 2020, COVID-19 was characterized as a global pandemic by the World Health Organization. Refer to Note 1.1 of the Financial Statements for details on how the Corporation is dealing with this pandemic.

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

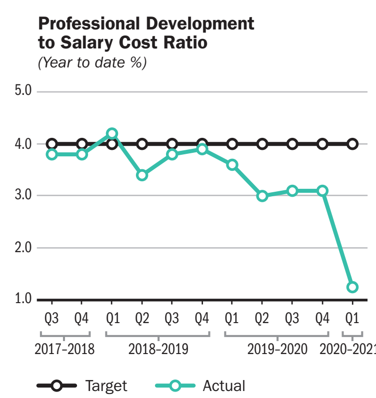
3.1 UTILIZATION RATE

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 first quarter of 2020–21, the Corporation achieved a utilization rate of 78.6%, an increase from the rate of 74.0% for the same period in 2019–20. The increase was mostly due to a larger-than-planned DND program rollout, coupled with the fact that staff took less training and vacation due to the restrictions imposed by the COVID-19 pandemic.

3.2 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

Maintaining a skilled and professional workforce is a key corporate objective. For 2020–21, 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 first quarter of 2020–21, the professional development to salary cost ratio was 1.27% compared to 3.6% for the same period in the prior year. The decrease occurred because staff took less training during the period, due mostly to the restrictions related to COVID-19.

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 2019–2020*.

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 first quarter refer to the three months ended June 30, 2020; references to the previous year's first quarter relate to the three months ended June 30, 2019. All references to the previous year end relate to March 31, 2020.

5.2 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $33.4 million in the first quarter, an increase of $3.7 million or 12% from the same period in the previous year. This was due to an increase of 7.5% in billing rates compounded by an increase in the Client-Partner's demand for services.

CONTRACT MANAGEMENT

Revenue from contract management increased by 2% when compared to the same period in the previous year. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increase), offset partially by lower Client-Partner demand for this service (which decreased the increase by 5.5 percentage points). The lower demand reflects the variability of services used by the Client-Partner as projects move through the various stages from planning and procurement to contract management.

PROJECT PLANNING

Project planning revenue increased by 19% in the first quarter compared to the same period in the previous year. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increase) compounded by higher demand for services related to facility and portfolio management (which accounted for 11.5 percentage points of the increase).

REAL PROPERTY TECHNICAL SUPPORT

Real property technical support revenue increased by 18% compared to the same period in the previous year. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increase) compounded by higher demand for these services (which accounted for 10.5 percentage points of the increase).

CONSTRUCTION TECHNICAL SUPPORT

Revenue from construction technical support increased by 30% in the first quarter compared to the same period in the previous year. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increase) compounded by higher demand for these services (which accounted for 22.5 percentage points of the increase).

PROCUREMENT

Procurement revenue increased by 18% in the first quarter compared to the same period in the previous year. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increase) compounded by higher demand for these services (which accounted for 10.5 percentage points of the increase).

ENVIRONMENTAL TECHNICAL SUPPORT

Environmental technical support revenue increased by 19% in the first quarter. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increase) compounded by higher demand for these services (which accounted for 11.5 percentage points of the increase).

REVENUE, BY ACTIVITY

			Change	
(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	$	%
Contract Management	$ 13,182	$ 12,893	289	2%
Project Planning	9,975	8,351	1,624	19%
Real Property Technical Support	2,961	2,507	454	18%
Construction Technical Support	2,667	2,053	614	30%
Procurement	2,715	2,310	405	18%
Environmental Technical Support	1,929	1,615	314	19%
Total revenue	**$ 33,429**	**$ 29,729**	**3,700**	**12%**

TRAVEL AND DISBURSEMENT REVENUE

Travel and disbursement revenue represents the amount the Corporation recovers from DND for travel and other expenses DCC incurs for work it performs on DND's behalf. Travel and disbursement revenue totalled $174,000 in the first quarter, a decrease of $444,000 or approximately 72% over the same period in the previous year. The variance for this period was due to a decrease in travel due to COVID-19 restrictions.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	Change $	Change %
Travel and disbursement revenue	**$ 174**	**$ 618**	**(444)**	**-72%**

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in its bank account and from investments, decreased in the first quarter by $79,000 or 42% compared to the same period in the previous year. The decrease was due mainly to lower-than-average monthly cash and investment balances, due to the redemption of investments for use in operations during the information technology (IT) disruption in the second half of fiscal 2019–20.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	Change $	Change %
Investment revenue	**$ 108**	**$ 187**	**(79)**	**-42%**

LEASE REVENUE

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

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	Change $	Change %
Lease revenue	**$ 74**	**$ –**	**74**	**100%**

5.3 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $23.5 million in the first quarter, an increase of $1.9 million or approximately 9% over the same period in the previous year. Salary pay rates increased by 3.8% over the same period in the prior year due to a cost of living increase of 1.5% and performance pay increases of 2.3%, on average. The number of full-time equivalents (FTEs) decreased by approximately 4% or 36 FTEs over the same period of the prior year.

For the year-to-date period, employee benefits were $5.6 million, a decrease of $352,000 or approximately 6% from the same period in the prior year. The decrease was due mainly to a decrease in the costs of employee future benefits.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	**Change** $	%
Salaries	$ 23,504	$ 21,622	1,882	9%
Employee benefits	5,643	5,995	(352)	-6%
	$ 29,147	**$ 27,617**	**1,530**	**6%**
Employee benefits as a percentage of salaries	24%	28%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $2.4 million in the first quarter of 2020–21, an increase of $345,000 or 17% over the first quarter of 2019–20. Material variances are shown in the following table.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	**Change** $	%	Variance analysis
Software maintenance	$ 378	$ 291	87	30%	The increase was due to costs incurred to migrate the IT servers to the cloud.
Professional services	351	529	(178)	-34%	The decrease was due to the timing of professional services costs incurred.
Cloud computing services	338	51	287	563%	The increase was due to the migration of the DCC servers to the cloud.
Furniture and equipment	265	12	253	2,108%	The increase was due to the one-time COVID-19 pandemic allowance provided to employees to facilitate their transition to working from home.
Leased location operating costs	256	221	35	16%	The increase was due to higher taxes and operating costs.
Equipment rental	227	48	179	373%	The increase was due to the fact that DCC now leases employee computing devices instead of purchasing and capitalizing them.
Telephone and data communications	213	191	22	12%	The increase was primarily due to a higher number of cellular telephone users.

Table continues on next page

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	Change $	Change %	Variance analysis
Office services, supplies and equipment	117	63	54	86%	The increase was mostly due to the purchase of personal protective equipment related to COVID-19.
Employee training and development	102	322	(220)	-68%	The decrease was due to COVID-19 restrictions on the travel for in-person physical training.
Client services and communications	47	19	28	147%	The increase was due to an increase in communication initiatives.
Computer software	22	3	19	633%	The increase was due to the timing of software purchases.
Hospitality	16	33	(17)	-52%	The decrease was due to a decrease in the number of internal physical meetings, due to COVID-19.
Memberships and subscriptions	15	9	6	67%	The variance was not material.
Printing and stationery	9	15	(6)	-40%	The variance in the last quarter was due to lower printing and stationery requirements due to COVID-19.
Staff relocation	8	38	(30)	-79%	Staff relocation costs decreased due to business requirements.
Postage and freight	6	8	(2)	-25%	The variance was not material.
Other	4	3	1	33%	The variance was not material.
Computer equipment	2	7	(5)	-71%	The variance was not material.
Travel	1	166	(165)	-99%	The decrease occurred because no travel took place in the first quarter due to COVID-19 restrictions.
Recruiting	0	3	(3)	-100%	The variance was not material.
Leasehold improvements	0	0	0	–	No difference.
Total	**$ 2,377**	**$ 2,032**	**345**	**17%**	

TRAVEL AND DISBURSEMENT EXPENSE

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 $174,000 in the first quarter, a decrease of $444,000 or approximately 72% over the same period in the previous year. The variance for this period occurred because travel decreased due to COVID-19 travel restrictions.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	**Change** $	%
Travel and disbursement expenses	**$ 174**	**$ 618**	**(444)**	**-72%**

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 45% or $580,000 in the first quarter. The decrease in depreciation was mostly due to the non-renewal of a co-location lease with the Client-Partner.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	**Change** $	%
Depreciation of right-of-use assets	$ 629	$ 1,151	(522)	-45%
Depreciation of property, plant and equipment	63	120	(57)	-48%
Amortization of intangible assets	20	21	(1)	-5%
Total	**$ 712**	**$ 1,292**	**(580)**	**-45%**

5.4 INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

The Corporation realized a net income and total comprehensive income of $1.5 million for the first quarter compared with a net loss and total comprehensive loss of $453,000 for the same period in the previous year. This was an increase of $1.9 million. The higher net income was mainly due to higher revenue, driven by higher demand for DCC services, along with higher billing rates for the current period.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	**Change** $	%
Net Income (loss) and total comprehensive income (loss)	**$ 1,482**	**$ (453)**	**1,935**	*

* The variance was not meaningful.

5.5 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

DCC's financial and cash management policy is discussed in the *Annual Report 2019–2020*.

CASH AND INVESTMENTS

Cash and investments totalled $30.0 million at June 30, 2020, an increase of $4.7 million from March 31, 2020.

The cash balance at June 30, 2020, was $20.4 million, an increase of $4.7 million or 30% from the 2019–20 year end. In the three-month period after March 31, 2020, the Corporation used $5.1 million in cash for operating activities and spent $0.4 million to meet finance lease obligations.

Investments (both current and long term) at June 30, 2020, totalled $9.6 million, a decrease of $13,000 from the 2019–20 year end. 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 June 30, 2020, the amount of trade receivables was $20.2 million, a decrease of $3.5 million or 15% from March 31, 2020. The decrease was due to the timing of the collection of receivables from DND. DCC expects to collect all amounts.

CURRENT LIABILITIES

Current liabilities were $21.6 million at June 30, 2020, a decrease of $1.4 million or 7% from March 31, 2020. The decrease in current liabilities was primarily due to an increase in the short-term portion of employee benefits.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands of dollars)	As at June 30, 2020	As at March 31, 2020	**Change** $	%
Cash	$ 20,432	$ 15,738	4,694	30%
Investments	9,589	9,602	(13)	0%
Cash and investments	**$ 30,021**	**$ 25,340**	**4,681**	**18%**
Trade receivables	**$ 20,152**	**$ 23,679**	**(3,527)**	**-15%**
Current liabilities	**$ 21,584**	**$ 20,182**	**1,402**	**7%**

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 June 30, 2020, was $31.5 million, an increase of $553,000 or 18% from the 2019–20 year end. The increase reflected the actuary's estimates of accrued benefits for the current fiscal year, minus payments of benefits to retirees.

(in thousands of dollars)	As at June 30, 2020	As at March 31, 2020	Change $	Change %
Current portion	$ 4,672	$ 3,666	1,006	27%
Long-term portion	26,794	27,247	(453)	-17%
Total employee benefits	**$ 31,466**	**$ 30,913**	**553**	**18%**

5.7 RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets comprise office space, IT facilities (data warehouses), 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. DCC has included extension options in the measurements of its lease liability when it is reasonably certain the Corporation will exercise the extension option. During the year, changes to right-of-use assets were as follows.

(in thousands of dollars)	Office space leases	Co-location leases	Data warehouse leases	Total right-of-use assets
Balance as at March 31, 2020	$ 8,855	$ 72	$ 529	9,456
Plus: Additions	–	–	–	–
Less: Amortization	353	72	31	456
Less: Disposals	–	–	–	–
Balance as at June 30, 2020	**$ 8,502**	**$ –**	**$ 498**	**9,000**

5.8 LEASE OBLIGATIONS

The lease obligations relate to the right-of-use assets.

(in thousands of dollars)	
Balance as at March 31, 2020	$ 9,623
Plus: Additions	–
Less: Payments	433
Plus: Interest expense	66
Balance as at June 30, 2020	**$ 9,256**

The following table shows the contractual undiscounted cash flows for lease obligations as at June 30, 2020.

(in thousands of dollars)	
One year or less	$ 1,436
Between one and two years	1,381
Between two and five years	2,954
Over five years	4,797
Total	**$ 10,568**

5.9 CAPITAL EXPENDITURES

There were no capital expenditures in the first quarter of the current year. In the following table, the figure for right-of-use assets in the first quarter of the previous year relates to the adoption of IFRS 16—Leases.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	**Change** $	**Change** %
Right-of-use assets	$ –	$ 8,501	(8,501)	-100%
Intangible assets	–	–	–	–
Computer equipment	–	–	–	–
Furniture and equipment	–	–	–	–
Leasehold improvements	–	–	–	–
	$ –	**$ 8,501**	**(8,501)**	**-100%**

5.10 ACTUAL PERFORMANCE VERSUS PLAN

The Corporation's actual overall performance for the three months ended June 30, 2020, was better than forecasted in the Corporate Plan (the Plan).

Services revenue was 11% higher than projected in the Plan. The increase was due to higher-than-anticipated demand for services from DND.

Travel and disbursement revenue and expenses were 63% lower than projected in the Plan due to the impact of COVID-19 on travel.

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

As a result of adopting IFRS 16—Leases, DCC recorded lease revenue of $74,000, related to subleasing a right-of-use asset, which it recovered from DND.

Salaries and benefits were 11% higher than the amount forecasted in the Plan due to higher-than-expected demand from the Client-Partner.

Operating and administrative costs were 33% lower than projected due to COVID-19's impact on travel and training, and also to the timing of expenditures, such as professional services costs.

Depreciation and amortization were 9% lower than forecasted due to the decrease in capital expenditures.

No capital expenditures have been incurred so far in 2020–21, mostly due to timing.

ACTUAL PERFORMANCE VERSUS PLAN

(in thousands of dollars)	**Actual**	**Plan**	**Change** $	%
Revenue				
Services	$ 33,429	$ 30,088	3,341	11%
Recovered travel and disbursement expenses	174	473	(299)	-63%
Investments revenue	108	125	(17)	-14%
Lease revenue	74	0	74	100%
	$ 33,785	$ **30,686**	**3,099**	**10%**
Expenses				
Salaries and employee benefits	29,147	26,166	2,981	11%
Operating and administrative costs	2,444	3,637	(1,193)	-33%
Recoverable travel and disbursement expenses	174	473	(299)	-63%
Depreciation and amortization	538	590	(52)	-9%
	$ 32,302	**$ 30,866**	**1,436**	**5%**
Loss and total comprehensive income	**$ 1,483**	**$ (180)**	**1,663**	*
Capital expenditures	**$ –**	**$ 284**	**(284)**	**-100%**

* The variance was not meaningful.

5.11 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the three months ended June 30, 2020, decreased by $59.2 million or 30% compared to the same period last year, mostly due to a slower DND program rollout in 2020–21. The DND program for 2020-21 is expected to be consistent with 2019-20.

(in thousands of dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019*	**Change** $	%
Region				
Atlantic Region	$ 15,672	$ 30,909	(15,237)	-49%
Quebec Region	9,440	47,826	(38,386)	-80%
Ontario Region	34,816	44,749	(9,933)	-22%
Western Region	47,498	39,142	8,356	21%
National Capital Region	29,369	33,368	(3,999)	-12%
	$ 136,795	**$ 195,994**	**(59,199)**	**-30%**

* The prior-year figures were changed to conform to the current-year presentation.

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
August 28, 2020

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Unaudited

(in thousands of dollars)	Notes	**As at June 30, 2020**	As at March 31, 2020
Assets			
Cash and cash equivalents		**$ 20,432**	$ 15,738
Investments	7	**1,125**	–
Accrued revenue	8	**2,417**	–
Trade receivables	13	**20,152**	23,679
Prepaids and other current assets		**1,623**	1,342
Other receivables		**3,238**	4,552
Current assets		**48,987**	45,311
Investments	7	**8,464**	9,602
Right-of-use assets	10	**9,000**	9,456
Property, plant and equipment	9	**751**	815
Intangible assets		**44**	63
Non-current assets		**18,259**	19,936
Total assets		**$ 67,246**	$ 65,247
Liabilities			
Trade and other payables		**$ 15,723**	$ 15,393
Current portion: Lease obligations	11	**1,189**	1,123
Current portion: Employee benefits	12	**4,672**	3,666
Current liabilities		**21,584**	20,182
Lease obligations	11	**8,067**	8,500
Employee benefits	12	**26,794**	27,247
Non-current liabilities		**34,861**	35,747
Total liabilities		**56,445**	55,929
Equity			
Share capital—authorized: 1,000 common shares of no par value			
Issued: 32 common shares		**–**	–
Retained earnings		**10,801**	9,318
Total equity		**10,801**	9,318
Total liabilities and equity		**$ 67,246**	$ 65,247

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 June 30, 2020	Three months ended June 30, 2019
Services revenue	13	**$ 33,429**	$ 29,729
Travel and disbursement revenue		**174**	618
Lease revenue		**74**	–
Investment revenue		**108**	188
Total revenue		**33,785**	30,535
Salaries and employee benefits		**29,146**	27,617
Operating and administrative expenses	14	**2,377**	2,032
Travel and disbursement expenses		**174**	618
Depreciation of right-of-use assets	10	**455**	534
Depreciation of property, plant and equipment	9	**63**	120
Depreciation of assets under finance lease		**–**	–
Amortization of intangible assets		**20**	21
Finance costs	11	**67**	46
Total expenses		**32,302**	30,988
Gain (loss) for the period and total comprehensive gain (loss)		**$ 1,483**	$ (453)

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

Unaudited

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at March 31, 2020	$ –	$ 9,318	$ 9,318
Income for the period		1,483	1,483
Balance at June 30, 2020	**$ –**	**$ 10,801**	**$ 10,801**

	Share capital	Retained earnings	Total equity
Balance at March 31, 2019	$ –	$ 11,884	$ 11,884
Loss for the period		(453)	(453)
Balance at June 30, 2019	**$ –**	**$ 11,431**	**$ 11,431**

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 June 30, 2020	Three months ended June 30, 2019
Cash flow from operating activities			
Gain (loss) for the period		**$ 1,483**	$ (453)
Adjustments to reconcile loss for the period to cash provided or used by operating activities			
Employee benefits expensed		**664**	831
Employee benefits paid		**(133)**	(152)
Depreciation of right-of-use assets	10	**455**	534
Depreciation of property, plant and equipment	9	**63**	120
Amortization of intangible assets		**20**	21
Amortization of investment premiums		**14**	22
Interest paid on lease liabilities		**67**	46
Change in non-cash operating working capital			
Trade receivables		**3,527**	(5,150)
Prepaids and other current assets		**(281)**	(63)
Other receivables		**1,315**	43
Trade and other payables		**330**	(440)
Accrued revenue		**(2,417)**	(169)
Net cash flows used in operating activities		**5,107**	(4,810)
Cash flows from investing activities			
Acquisition of investments		**–**	(115)
Redemption of investments		**–**	–
Acquisition of property, plant and equipment	9	**–**	–
Acquisition of right-of-use assets	10	**–**	–
Acquisition of intangible assets		**–**	–
Acquisition of property, plant and equipment		**–**	–
Net cash flows provided by (used in) investing activities		**–**	(115)
Cash flows from financing activities			
Repayment of finance lease obligations		**(413)**	(494)
Additional lease obligations		**–**	–
Net cash flows used in financial activities		**(413)**	(494)
Increase (decrease) in cash during the period		**4,694**	(5,465)
Cash at the beginning of the period		**15,738**	10,066
Cash at the end of the period		**$ 20,432**	$ 4,601

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, 2020, 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: DESCRIPTION OF BUSINESS 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 is the Department of National Defence (DND). The Corporation also provides services to the 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 FAA 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. The Corporation finished aligning its policies with Treasury Board policies on March 31, 2017. The Corporation has subsequently updated its policies to align with revised versions of the Treasury Board policies.

1.1 GLOBAL PANDEMIC

On March 11, 2020, the World Health Organization characterized the COVID-19 outbreak as a global pandemic, and recommended containment and mitigation measures. All levels of government have taken extraordinary measures to help contain and combat the outbreak.

Consistent with government recommendations, DCC went down to minimum staffing of its operations in DCC's physical workspaces. Most employees were able to work from home, and critical employees were able to safely continue visiting sites and fulfilling their obligations to the Client-Partners.

The Corporation is in close contact with DND and other Client-Partners to ensure essential projects continue. DCC is also communicating regularly with industry associations to share information and solicit their collaboration in these unusual circumstances. On the front lines, project teams are on the job at bases and wings across Canada, managing contracts through a combination of remote and critical on-site work, while taking all the necessary precautions.

The Corporation is unable to determine or predict the exact nature and scope of the impact of COVID-19 on its business and operations. However, as of August 28, 2020, DCC believes that its cash reserves, its accounts receivable and the service-level arrangements in place with the Client-Partners would provide sufficient liquidity to fund its operations for at least the next 12 months. The Corporation does not believe any current indications warrants an impairment test of its assets.

NOTE 2: BASIS OF PREPARATION AND PRESENTATION

These interim condensed financial statements were 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, 2020.

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, 2020, except for the application of new standards, amendments and interpretations effective January 1, 2020, as disclosed in Note 5 of these interim condensed 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, 2020.

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

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee have issued certain pronouncements with mandatory effective dates of annual periods beginning on or after January 1, 2020. The Corporation adopted the following standards on April 1, 2020.

STANDARDS, AMENDMENTS AND INTERPRETATIONS IN EFFECT

The following amendments or interpretations issued by the IASB or the IFRS Interpretations Committee came into effect in the current year.

5.1 IAS 1, PRESENTATION OF FINANCIAL STATEMENTS, AND IAS 8, ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 regarding the definition of materiality. The amendments clarify the definition of material, explain how the definition should be applied and improve the explanations accompanying the definition. The amendments also ensure that the definition is consistent across all IFRS standards. The amendments was adopted on April 1, 2020 and had no impact on the Corporation.

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

The Corporation reviews new and revised accounting pronouncements that the IASB has issued but that are not yet effective and that DCC has not adopted early, to determine their impact on the Corporation. The following standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee may affect the Corporation in the future.

6.1 IFRS 16—LEASES

This standard has been revised to incorporate an amendment, COVID-19-Related Rent Concessions, issued by the International Accounting Standards Board (IASB) in May 2020.

Under this amendment, lessees are not required to assess whether particular COVID-19-related rent concessions are lease modifications. Instead, lessees are permitted to account for those rent concessions as if they were not lease modifications. In addition, the amendment to IFRS 16 provides specific disclosure requirements regarding COVID-19-related rent concessions.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at May 28, 2020. The Corporation does not expect any impact from the adoption of this amendment.

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 June 2022 to July 2030 and those of the GICs vary from June 2021 to February 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 June 30, 2020	As at March 31, 2020
Current portion	**$ 1,125**	$ –
Long-term portion	**8,464**	9,602
Total	**$ 9,589**	$ 9,602

	As at June 30, 2020	As at March 31, 2020
Carrying amount at amortized cost:		
Bonds:		
Federal	**$ –**	$ –
Provincial	**3,860**	3,868
Corporate	**854**	859
Total bonds	**4,714**	4,727
Guaranteed investment certificates	**4,875**	4,875
Total	**$ 9,589**	$ 9,602

	As at June 30, 2020	As at March 31, 2020
Fair value		
Bonds		
Federal	**$ –**	$ –
Provincial	**4,311**	4,191
Corporate	**946**	895
Total bonds	**5,257**	5,086
Guaranteed investment certificates	**4,906**	4,909
Total	**$ 10,163**	$ 9,995

NOTE 8: ACCRUED REVENUE

Accrued revenue arises when, at a reporting date, the amount for services delivered through fixed-fee service-level arrangements exceeds the amount of revenue invoiced. For the period ended June 30, 2020, accrued revenue was $2,417. The figure as at March 31, 2020, 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 June 30, 2020	As at March 31, 2020
Cost	$ 4,516	$ 4,545
Less: Accumulated depreciation	3,765	3,730
Net book value	**$ 751**	**$ 815**
Net book value by asset class		
Computer equipment	$ 230	$ 262
Furniture and fixtures	201	221
Leasehold improvements	320	332
Net book value	**$ 751**	**$ 815**

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, 2020	$ 1,630	$ 1,007	$ 1,908	$ 4,545
Plus: Additions	–	–	–	–
Less: Disposals	–	9	20	29
Balance as at June 30, 2020	**$ 1,630**	**$ 998**	**$ 1,888**	**$ 4,516**

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, 2020	$ 1,369	$ 784	$ 1,577	$ 3,730
Plus: Depreciation	31	22	11	64
Less: Disposals	–	9	20	29
Balance as at June 30, 2020	**$ 1,400**	**$ 797**	**$ 1,568**	**$ 3,765**

There was no impairment of property, plant and equipment. There were no proceeds associated with the disposals that occurred during the period.

NOTE 10: RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets comprise office space, facilities for information technology (data warehouses), 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. DCC has included extension options in the measurements of its lease liability when it is reasonably certain the Corporation will exercise the extension option. During the year, changes to right-of-use assets were as follows.

	Office space leases	Co-location leases	Data warehouse leases	Total right-of-use assets
Balance as at March 31, 2020	$ 8,855	$ 72	$ 529	$ 9,456
Plus: Additions	–	–	–	–
Less: Amortization	353	72	31	456
Less: Disposals	–	–	–	–
Balance as at June 30, 2020	**$ 8,502**	**$ –**	**$ 498**	**$ 9,000**

NOTE 11: LEASE OBLIGATIONS

	As at June 30, 2020	As at March 31, 2020
Current portion	$ 1,189	$ 1,123
Long-term portion	8,067	8,500
Total lease obligations	**$ 9,256**	**$ 9,623**

Cost	
Balance as at March 31, 2020	$ 9,623
Plus: Additions	–
Less: Payments	433
Plus: Interest expense	66
Balance as at June 30, 2020	**$ 9,256**

The following table shows the contractual undiscounted cash flows for lease obligations as at June 30, 2020.

One year or less	$ 1,436
Between one and two years	1,381
Between two and five years	2,954
Over five years	4,797
Total	**$ 10,568**

The expense relating to variable lease payments not included in the measurement of lease obligations was $256. This consisted of variable lease payments for operating costs, property taxes and insurance. There were no expenses relating to short-term leases, and expenses relating to leases of low-value assets were immaterial. Total cash outflow for leases was $756 including $433 of principal payments on lease obligations. Income from sub-leasing was $72 for the period.

NOTE 12: EMPLOYEE BENEFITS

12.1 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 June 30, 2020	As at March 31, 2020
Current portion	$ 4,672	$ 3,666
Long-term portion	26,794	27,247
Total employee benefits	**$ 31,466**	**$ 30,913**

The significant actuarial assumptions are disclosed in the *Annual Report 2019–2020*. The measurement date for the last actuarial valuation of the provision for employee benefits was March 31, 2020. The next actuarial valuation is planned for March 2023 or sooner, as required.

NOTE 13: REVENUE RECOGNITION

13.1 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.

13.2 TRAVEL AND DISBURSEMENT REVENUE

The Corporation recovers the cost of travel and disbursements related to service delivery from the Client-Partner as part of the SLAs. No mark-up is added.

13.3 INVESTMENT REVENUE

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

13.4 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 June 30, 2020

	Activites						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 1,959	$ 1,666	$ 397	$ 402	$ 177	$ 272	$ 4,873
Quebec Region	2,342	1,529	355	400	313	375	5,314
National Capital Region	1,148	2,434	1,264	103	103	328	5,380
Ontario Region	3,323	1,755	759	617	1,170	559	8,183
Western Region	4,349	2,502	180	864	504	395	8,794
Head Office	61	89	6	329	400	–	885
Total revenue, by activity	**$ 13,182**	**$ 9,975**	**$ 2,961**	**$ 2,715**	**$ 2,667**	**$ 1,929**	**$ 33,429**

Three months ended June 30, 2019

	Activites						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,293	$ 1,130	$ 328	$ 359	$ 158	$ 289	$ 4,557
Quebec Region	2,446	1,332	365	339	289	298	5,069
National Capital Region	931	2,211	1,248	289	120	279	5,078
Ontario Region	3,316	1,518	410	511	723	451	6,929
Western Region	3,876	2,157	156	732	465	298	7,684
Head Office	31	3	–	80	298	–	412
Total revenue, by activity	**$ 12,893**	**$ 8,351**	**$ 2,507**	**$ 2,310**	**$ 2,053**	**$ 1,615**	**$ 29,729**

The following tables disaggregate revenue by region and contract type.

	Time-based revenue	
Region	Three months ended June 30, 2020	Three months ended June 30, 2019
Atlantic Region	$ 758	$ 1,506
National Capital Region	1,588	1,399
Ontario Region	4,386	5,052
Quebec Region	2,148	1,944
Western Region	2,089	1,773
Head Office	656	369
Total time-based revenue	**$ 11,625**	**$ 12,043**

	Fixed-fee revenue	
Region	Three months ended June 30, 2020	Three months ended June 30, 2019
Atlantic Region	$ 4,115	$ 3,051
National Capital Region	3,726	3,670
Ontario Region	994	26
Quebec Region	6,036	4,985
Western Region	6,704	5,912
Head Office	229	42
Total fixed-fee revenue	**$ 21,804**	**$ 17,686**
Total revenue	**$ 33,429**	**$ 29,729**

NOTE 14: OPERATING AND ADMINISTRATIVE EXPENSES

	Three months ended June 30, 2020	Three months ended June 30, 2019
Software maintenance	**$ 378**	$ 291
Professional services	**351**	529
Cloud computing services	**338**	51
Furniture and equipment	**265**	12
Leased location operating costs	**256**	221
Equipment rental	**227**	48
Telephone and data communications	**213**	191
Office services, supplies and equipment	**117**	63
Employee training and development	**102**	322
Client services and communications	**47**	19
Computer software	**22**	3
Hospitality	**16**	33
Memberships and subscriptions	**15**	9
Printing and stationery	**9**	15
Staff relocation	**8**	38
Postage and freight	**6**	8
Other	**4**	3
Computer equipment	**2**	7
Travel	**1**	166
Recruiting	**–**	3
Leasehold improvements	**–**	–
Total	**$ 2,377**	$ 2,032

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 entire services revenue in the first quarter of 2020–21 totalled $33,429 compared to $29,729 in the first quarter of 2019–20 and was generated from services provided to entities owned by the Government of Canada.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled $130 for the first period of 2020–21 compared to $44 in the same period in 2019–20.

The amounts due to and from related parties are as follows.

	As at June 30, 2020	As at March 31, 2020
Due from:		
Department of National Defence	$ 18,386	$ 21,660
Canadian Forces Housing Agency	1,364	1,600
Communications Security Establishment Canada	372	368
Public Services and Procurement Canada	3	1
Shared Services Canada	27	50
	$ 20,152	**$ 23,679**
Due to:		
Shared 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 June 30, 2020	Three months ended June 30, 2019
Short-term benefits	$ 1,075	$ 984
Post-employment benefits	162	146
	$ 1,237	**$ 1,130**

NOTE 16: CONTINGENT LIABILITIES

16.1 LEGAL CLAIMS

The Corporation's efforts to resolve disputes are reflected in the number and value of claims before the courts. As at June 30, 2020, there were 11 ongoing claims totalling $11,819. These were related to contracts DCC had put in place on behalf of its Client-Partners. These figures can be compared with 10 ongoing claims totalling $10,319 as at March 31, 2020. 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. Therefore, the financial risk associated with settling these contractual claims does not have any financial impact on the Corporation, so DCC does not consider it necessary to record any provision in its financial statements relating to these particular legal claims. In addition, as at June 30, 2020, there may be one ongoing legal claim in relation to a grievance with significant monetary damages. Due to uncertainties surrounding the claim and the early stages of the claim's evaluation, the outcome, timing and extent of the settlement, if any, cannot be determined at this time. No amount for this claim has been recognized as at June 30, 2020.