

DEFENCE CONSTRUCTION CANADA

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# 2020–2021 SECOND QUARTER FINANCIAL REPORT

PERIOD ENDED SEPTEMBER 30, 2020

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



Defence Construction Canada  
Construction de Défense Canada

Canada

## **TABLE OF CONTENTS**

Management's Discussion and Analysis	1
1.0 Materiality	1
2.0 Corporate Profile	1
3.0 Significant Events - COVID 19 Global Pandemic	2
4.0 Operational Performance Indicators	2
5.0 Risk Management	3
6.0 Financial Performance	3
Unaudited Interim Condensed Financial Statements	14

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the second quarter ended September 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 September 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.

### 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 and security requirements. In its history, DCC has provided its services to a variety of Government of Canada Departments and agencies across Canada and internationally. It currently 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 Services Team supports the efficient maintenance of DND's infrastructure by providing strategic and tactical support throughout the entire real property lifecycle.

### **3.0 SIGNIFICANT EVENTS – COVID-19 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.

DCC is taking all necessary precautions to safeguard employees, Client-Partners, and members from industry, while maintaining delivery of services. On March 16, 2020, DCC's President enacted its Business Continuity Plan – Level 3. Since then, consistent with Government of Canada recommendations, DCC is operating at various states of minimum staffing across DCC's physical workspaces across Canada, dependent on public health requirements and advice. Most employees are able to work from home, and critical employees are 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.

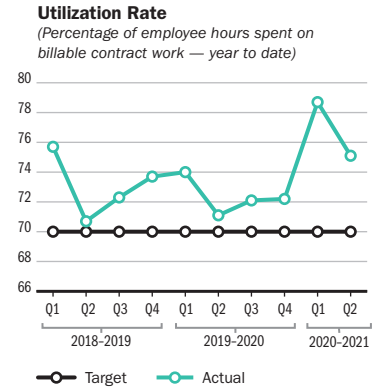
The Corporation is unable to determine or predict the exact nature and scope of the impact of COVID-19 on its business and operations. However, when the Board of Directors approved the attached financial statements, DCC believed that its cash reserves, its accounts receivable and the service-level arrangements in place with the Client-Partners would provide sufficient liquidity to fund its operations for at least the next 12 months after these financial statements were issued.

#### 4.0 OPERATIONAL PERFORMANCE INDICATORS

##### 4.1 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 second quarter of 2020–21, the Corporation achieved a utilization rate of 75%, an increase from the rate of 71.0% for the same period in 2019–20. The increase was mostly due to the Client-Partner requiring more services than anticipated and planned for during this period of time and those services being provided with the workforce initially planned for.



##### 4.2 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 second quarter of 2020–21, the professional development to salary cost ratio was 1.7% compared to 3.0% for the same period in the prior year. The decrease is due to training events being cancelled or deferred combined with lower in-person travel for training during the period, due mostly to the public health restrictions of COVID-19.



#### 5.0 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 2019-20*.

#### 6.0 FINANCIAL PERFORMANCE

##### 6.1 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 second quarter refer to the three months ended September 30, 2020; all references to the year-to-date period refer to the six months ended September 30, 2020. All references to the previous year's second quarter relate to the three months ended September 30, 2019; all references to the previous year-to-date period refer to the six months ended September 30, 2019. All references to the previous year end relate to March 31, 2020.

## 6.2 REVENUE

### *SERVICES REVENUE*

Services revenue for all activities combined was \$30.3 million in the second quarter, an increase of \$3.5 million or 13% from the previous year. For the year-to-date period, services revenue was \$63.7 million, an increase of \$7.2 million or approximately 13% over the previous year. These increases were due to an increase of 7.5% in billing rates, combined with an increase in the Client-Partner's demand for services.

### *CONTRACT MANAGEMENT*

Revenue from contract management increased by 4% in the second quarter and by 3% in the year-to-date period compared to the same periods in the previous year. The higher revenue is a result of the increase in billing rates (which accounted for 7.5 percentage points of the increases), offset partially by lower demand for this service by the Client-Partner (which decreased the total increases by 3.5 and 4.5 percentage points, respectively). The lower demand reflected the variability of services used by the Client-Partner as projects move through various stages, from planning and procurement to contract management.

### *PROJECT PLANNING*

Project planning revenue increased by 18% in the second quarter and by 19% in the year-to-date period compared to the same periods in the previous year. The increases in the second quarter and year-to-date period were due to higher billing rates (7.5 percentage points of the increases), compounded by higher DND demand for this service (which accounted for 10.5 and 11.5 percentage points, respectively, of the increases).

### *REAL PROPERTY TECHNICAL SUPPORT*

Real property technical support revenue increased by 18% in both the second quarter and the year-to-date period compared to the same periods in the previous year. The higher revenues were a result of the increase in billing rates (which accounted for 7.5 percentage points of the increases), compounded by higher demand for these services from the Client-Partner (which accounted for 10.5 percentage points of the increases).

### *CONSTRUCTION TECHNICAL SUPPORT*

Revenue from construction technical support increased by 36% in the second quarter and increased by 33% in the year-to-date period compared to the same periods in the previous year. The higher revenue is 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 from the Client-Partner (which accounted for 28.5 and 25.5 percentage points respectively of the increase).

#### PROCUREMENT

Procurement revenue increased by 27% in the second quarter and by 22% in the year-to-date period compared to the same periods in the previous year. The higher revenue is 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 from the Client-Partner (which accounted for 19.5 and 14.5 percentage point, respectively, of the increase).

#### ENVIRONMENTAL TECHNICAL SUPPORT

Environmental technical support revenue increased by 12% in the second quarter and by 15% in the year-to-date period compared to the same periods in the previous year. The higher revenues were a result of the increase in billing rates (which accounted for 7.5 percentage points of the increases), compounded by higher demand for these services from the Client-Partner (which accounted for 4.5 and 7.5 percentage points, respectively, of the increases).

#### REVENUE, BY ACTIVITY

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Contract Management	\$ 12,461	\$ 11,995	466	4%	\$ 25,643	\$ 24,887	756	3%
Project Planning	8,535	7,239	1,296	18%	18,510	15,590	2,920	19%
Real Property Technical Support	2,678	2,272	406	18%	5,640	4,778	862	18%
Construction Technical Support	2,346	1,719	627	36%	5,015	3,772	1,243	33%
Procurement	2,584	2,038	546	27%	5,299	4,348	951	22%
Environmental Technical Support	1,705	1,529	176	12%	3,631	3,145	486	15%
	<b>\$ 30,309</b>	<b>\$ 26,792</b>	<b>3,517</b>	<b>13%</b>	<b>\$ 63,738</b>	<b>\$ 56,520</b>	<b>7,218</b>	<b>13%</b>

#### TRAVEL AND DISBURSEMENT REVENUE

Travel and disbursement revenue represents the amount the Corporation recovers from DND for travel and other expenses that DCC incurs for work it performs on DND's behalf. Travel and disbursement revenue totalled \$356,000 in the second quarter, a decrease of \$1.1 million, or approximately 76%, over the same period in the previous year. For the year-to-date period, this revenue totalled \$531,000, a decrease of \$1.3 million from the previous year. The decrease in this revenue was due to COVID-19 travel restrictions.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Travel and disbursement revenue	\$ 356	\$ 1,476	(1,120)	-76%	\$ 531	\$ 1,872	(1,341)	-72%

#### INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in its bank account and from investments, increased in the second quarter by \$273,000 or 155% compared to the same period in the previous year. The increase was due mainly to a gain on the sale of investments, done to rebalance DCC's investment portfolio so that it better meets DCC's liquidity requirements. For the year-to-date period, interest revenue increased by \$194,000 or 53% compared to the same period in the prior year. The increase was due to the gain on the sale of investments, offset partially by lower-than-anticipated interest rates.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Investment revenue	\$ 449	\$ 176	273	155%	\$ 557	\$ 363	194	53%

#### LEASE REVENUE

Lease revenue is recognized for the recovery of rent from the Client-Partner due to the adoption of IFRS16—Leases. There was no lease revenue in the second quarter of 2020–21 as the co-location with the Client-Partner was not renewed.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Lease revenue	\$ –	\$ 221	(221)	-100%	\$ 74	\$ 443	(369)	-83%

### 6.3 EXPENSES

#### SALARIES AND EMPLOYEE BENEFITS

Salaries totalled \$20.2 million in the second quarter, an increase of \$460,000 or approximately 2% over the same period in the previous year. For the year-to-date period, salaries totalled \$43.7 million, an increase of \$1.8 million or approximately 4% 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 cost of living increase of 1.5% and performance pay increases of 2.0%, on average. The number of full-time equivalents (FTEs) decreased by approximately 3% or 32 FTEs over the same period in the prior year.

Employee benefits totalled \$5.6 million in the second quarter, an increase of \$77,000 or approximately 1% from the same period in the previous year. For the year-to-date period, employee benefits totalled \$11.3 million, an increase of \$239,000 or approximately 2% from the same period in the prior year. Both increases were due mainly to an increase in benefit costs from the prior year.



	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Salaries	\$ 20,241	\$ 19,781	460	2%	\$ 43,745	\$ 41,915	1,830	4%
Employee benefits	5,616	5,539	77	1%	11,260	11,021	239	2%
	<b>\$ 25,857</b>	<b>\$ 25,320</b>	<b>537</b>	<b>2%</b>	<b>\$ 55,005</b>	<b>\$ 52,936</b>	<b>2,069</b>	<b>4%</b>
Employee benefits as a percentage of salaries	28%	28%			26%	26%		

#### OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were \$2.4 million in the second quarter of 2020–21, a decrease of \$424,000 or 15% over the second quarter of 2019–20. For the year-to-date period, operating and administrative expenses decreased by \$78,000 or 2%. Material variances are shown in the following table.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change		Variance analysis
			\$	%			\$	%	
Cloud computing services	\$ 479	\$ 241	238	99%	\$ 817	\$ 292	525	180%	The increases were due to costs incurred to migrate the information technology (IT) servers to the cloud.
Professional services	471	724	(253)	-35%	822	1,253	(431)	-34%	The decrease was due to lower professional fees related to the migration of the IT servers to the cloud in the current period.
Leased location operating costs	264	249	15	6%	521	469	52	11%	The increases were due to higher taxes and operating costs.
Software maintenance	260	262	(2)	-1%	638	553	85	15%	The year-to-date increase was due to costs incurred to migrate the IT servers to the cloud.
Equipment rental	234	194	40	21%	461	242	219	90%	The increases were due to the fact that DCC now leases more employee computing devices instead of purchasing and capitalizing them.
Telephone and data communications	213	226	(13)	-6%	426	417	9	2%	Variance is immaterial.
Employee training and development	142	162	(20)	-12%	244	484	(240)	-50%	The decreases were due to COVID-19 restrictions on travel for in-person training.
Office services, supplies and equipment	106	100	6	6%	224	163	61	37%	The increases were mostly due to the purchase of personal protective equipment related to COVID-19.
Client services and communications	77	32	45	141%	124	50	74	148%	The increases were due to an increase in communication initiatives.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change		Variance analysis
			\$	%			\$	%	
(in thousands of dollars)									
Furniture and equipment	40	193	(153)	-79%	304	205	99	48%	The year-to-date increase was due to the one-time COVID-19 pandemic allowance provided to employees to facilitate their transition to working from home, which was partially offset by decreased office furniture purchases in the current period.
Memberships and subscriptions	18	21	(3)	-14%	33	30	3	10%	The variances were not material.
Staff relocation	16	192	(176)	-92%	24	230	(206)	-90%	Staff relocation costs decreased due to a high retention rate and resulting decrease in business requirements for relocation of current and new staff.
Computer software	15	5	10	200%	37	9	28	311%	Variance is immaterial.
Printing and stationery	13	19	(6)	-32%	22	34	(12)	-35%	Variance is immaterial.
Other	10	8	2	25%	13	11	2	18%	Variance is immaterial.
Hospitality	6	44	(38)	-86%	22	77	(55)	-71%	The decreases were due to a decrease in the number of internal physical meetings, due to COVID-19.
Postage and freight	5	6	(1)	-17%	10	14	(4)	-29%	Variance is immaterial.
Computer equipment	5	9	(4)	-44%	7	16	(9)	-56%	Variance is immaterial.
Recruiting	5	19	(14)	-74%	5	22	(17)	-77%	Variance is immaterial.
Travel	3	100	(97)	-97%	5	266	(261)	-98%	The decreases were due to restrictions related to COVID-19.
	<b>\$ 2,382</b>	<b>\$ 2,806</b>	<b>(424)</b>	<b>-15%</b>	<b>\$ 4,759</b>	<b>\$ 4,837</b>	<b>(78)</b>	<b>-2%</b>	

TRAVEL AND DISBURSEMENT EXPENSES

Travel and disbursement expenses are the amount the Corporation spends on travel and other expenses related to the work that it performs for DND. Travel and disbursement expenses totalled \$356,000 in the second quarter, a decrease of \$898,000, or approximately 72%, over the same period in the previous year. For the year-to-date period, these expenses totalled \$530,000, a decrease of \$1.3 million from the previous year. The decreases in these expenses were due to COVID-19 travel restrictions.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Travel and disbursement expenses	\$ 356	\$ 1,254	(898)	-72%	\$ 530	\$ 1,872	(1,342)	-72%

#### DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 39% or \$271,000 in the second quarter and by 30% or \$408,000 in the year-to-date period compared to the same period in the previous year. The decrease in depreciation was mostly due to the non-renewal of the lease co-location with the Client-Partner. Items related to assets under finance lease from the prior year are added to depreciation of right-of-use assets.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Depreciation right-of-use assets	\$ 342	\$ 560	(218)	-39%	\$ 797	\$ 1,092	(295)	-27%
Depreciation of property, plant and equipment	63	\$ 116	(53)	-46%	\$ 126	\$ 237	(111)	-47%
Amortization of intangible assets	20	20	0	0%	39	41	(2)	-5%
	\$ 425	\$ 696	(271)	-39%	\$ 962	\$ 1,370	(408)	-30%

#### 6.4 INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

The Corporation realized a net income and total comprehensive income of \$2.0 million for the second quarter compared with a net loss and total comprehensive loss of \$1.5 million for the same period in the previous year. This was an increase of \$3.5 million. For the year-to-date period, the Corporation realized a net income of \$3.5 million compared to a net loss of \$1.9 million in the previous year. The higher net income in both periods was mainly due to increased productivity, driven by higher demand for our services, increase of our billing rates and by reductions of spending related to COVID-19 restrictions.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
<i>(in thousands of dollars)</i>								
Net income (loss) and total comprehensive income (loss)	\$ 2,029	\$ (1,462)	3,491	*	\$ 3,512	\$ (1,915)	\$ 5,427	*

\* The change was not meaningful.

## 6.5 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 \$37.0 million at September 30, 2020, an increase of \$11.7 million from March 31, 2020.

The cash balance at September 30, 2020, was \$26.7 million, an increase of \$11.0 million or 70% from the 2019–20 year end. In the six-month period after March 31, 2020, the Corporation generated \$12.2 million in cash for operating activities and spent \$0.4 million in investment activities and \$0.8 million to meet lease obligations. Cash has increased due to higher revenue, reduced spending, and earlier receipt of trade receivables from the Corporation's Client-Partners than is typical.

Investments (both current and long term) at September 30, 2020, totalled \$10.3 million, an increase of \$0.7 million 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 September 30, 2020, the amount of trade receivables was \$19.0 million, a decrease of \$4.7 million or 20% from March 31, 2020. The decrease was due to the quicker timing of the collection of receivables from DND. All amounts are expected to be collected.

### CURRENT LIABILITIES

Current liabilities were \$22 million at September 30, 2020, an increase of \$1.9 million or 9% from March 31, 2020. The increase in current liabilities was primarily due to an increase in the short-term portion of the employee benefits.

### LIQUIDITY AND CAPITAL RESOURCES

(in thousands of dollars)	As at September 30, 2020	As at March 31, 2020	Change	
			\$	%
Cash	\$ 26,711	\$ 15,738	10,973	70%
Investments	10,311	9,602	709	7%
<b>Cash and investments</b>	<b>\$ 37,022</b>	<b>\$ 25,340</b>	<b>11,682</b>	<b>46%</b>
<b>Trade receivables</b>	<b>\$ 18,974</b>	<b>\$ 23,679</b>	<b>(4,705)</b>	<b>-20%</b>
<b>Current liabilities</b>	<b>\$ 22,046</b>	<b>\$ 20,182</b>	<b>1,864</b>	<b>9%</b>

## 6.6 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 two years, an actuary determines this estimate. The accrued sick leave and other benefits balance as at September 30, 2020, was \$32.1 million, an increase of \$1.1 million or 4% 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

<i>(in thousands of dollars)</i>	As at September 30, 2020	As at March 31, 2020	Change	
			\$	%
Current portion	\$ 3,884	\$ 3,666	218	6%
Long-term portion	28,171	27,247	924	3%
<b>Total employee benefits</b>	<b>\$ 32,055</b>	<b>\$ 30,913</b>	<b>1,142</b>	<b>4%</b>

## 6.7 RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets comprise office space, facilities for IT (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 those options. During the year, changes to DCC's right-of-use assets were as follows.

<i>(in thousands of dollars)</i>	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	664	72	61	797
<b>Balance as at September 30, 2020</b>	<b>\$ 8,191</b>	<b>\$ –</b>	<b>\$ 468</b>	<b>\$ 8,659</b>

## 6.8 LEASE OBLIGATIONS

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

<i>(in thousands of dollars)</i>	
Balance as at March 31, 2020	\$ 9,623
Plus: Additions	–
Less: Payments	811
Plus: Interest expense	132
<b>Balance as at September 30, 2020</b>	<b>\$ 8,944</b>

The following represents the contractual undiscounted cash flows for lease obligations as at September 30, 2020:

(in thousands of dollars)

One year or less	\$	1,441
Between one and two years		1,270
Between two and five years		2,932
Over five years		4,567
<b>Total</b>	<b>\$</b>	<b>10,210</b>

#### 6.9 CAPITAL EXPENDITURES

The capital expenditures in the second quarter of the current year are shown below. The right-of-use assets in the second quarter of the previous year relate to the adoption of IFRS 16—Leases.

(in thousands of dollars)	Three months ended September 30, 2020	Three months ended September 30, 2019	Change		Six months ended September 30, 2020	Six months ended September 30, 2019	Change	
			\$	%			\$	%
Right-of-use assets	\$ –	\$ 675	(675)	-100%	\$ –	\$ 9,175	(9,175)	-100%
Intangible assets	–	–	–	–	–	–	–	–
Computer equipment	–	–	–	–	–	–	–	–
Furniture and equipment	12	–	12	100%	12	–	12	100%
Leasehold improvements	42	209	(167)	-80%	42	209	(167)	-80%
	<b>\$ 54</b>	<b>\$ 884</b>	<b>(830)</b>	<b>-94%</b>	<b>\$ 54</b>	<b>\$ 9,384</b>	<b>(9,330)</b>	<b>-99%</b>

#### 6.10 ACTUAL PERFORMANCE VERSUS PLAN

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

Services revenue was 5% 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 44% lower than projected in the Plan, due to the impact of COVID-19 on travel.

Investment revenue was higher than anticipated in the Plan, due mainly to a gain on the sale of investments, done to rebalance DCC's investment portfolio so that it better meets DCC's liquidity requirements.

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 4% higher than the amount forecasted in the Plan, due to higher-than-expected demand from the Client-Partner.

Operating and administrative costs were 31% lower than projected, due to COVID-19's impact on travel, training and the timing of expenditures, such as professional services costs.

Depreciation and amortization were 14% lower than forecasted, due to the decrease in capital expenditures.

Capital expenditures were 97% lower than projected, due to the timing of recognition of right-of-use assets and of lease-hold renovations.

ACTUAL PERFORMANCE VERSUS PLAN

<i>(in thousands of dollars)</i>	Actual	Plan	Change	
			\$	%
<b>Revenue</b>				
Services	\$ 63,738	\$ 60,555	3,183	5%
Recovered travel and disbursement	531	946	(415)	-44%
Investment revenue	557	250	307	123%
Lease revenue	74	–	74	100%
	<b>64,900</b>	<b>61,751</b>	<b>3,149</b>	<b>5%</b>
<b>Expenses</b>				
Salaries and employee benefits	55,005	52,823	2,182	4%
Operating and administrative costs	4,891	7,092	(2,201)	-31%
Recoverable travel and disbursement	530	946	(416)	-44%
Depreciation and amortization	962	1,119	(157)	-14%
	<b>61,388</b>	<b>61,980</b>	<b>(592)</b>	<b>-1%</b>
<b>Net income (loss) and total comprehensive income (loss)</b>	<b>\$ 3,512</b>	<b>\$ (229)</b>	<b>3,741</b>	<b>*</b>
<b>Capital expenditures</b>	<b>\$ 54</b>	<b>\$ 1,702</b>	<b>(1,648)</b>	<b>-97%</b>

\* The change was not meaningful.

6.11 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the six months ended September 30, 2020, decreased by \$28.1 million or 7% compared to the same period last year.

This decrease was mostly due to a slower DND program rollout in 2020–21. The DND program for 2020–21 is expected to be consistent with that in 2019–20 by the end of this fiscal year.

<i>(in thousands of dollars)</i>	Six months ended September 30, 2020	Six months ended September 30, 2019*	Change	
			\$	%
<b>Region</b>				
Atlantic Region	\$ 47,395	\$ 62,570	(15,175)	-24%
Quebec Region	32,303	79,161	(46,858)	-59%
Ontario Region	98,380	104,759	(6,379)	-6%
Western Region	108,913	79,102	29,811	38%
National Capital Region	79,745	69,249	10,496	15%
	<b>\$ 366,736</b>	<b>\$ 394,841</b>	<b>(28,105)</b>	<b>-7%</b>

\* 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  
November 27, 2020

DEFENCE CONSTRUCTION (1951) LIMITED

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**

**Unaudited**

<i>(in thousands of dollars)</i>	Notes	As at September 30, 2020	As at March 31, 2020
<b>Assets</b>			
Cash and cash equivalents		\$ 26,711	\$ 15,738
Investments	7	1,925	–
Accrued revenue	8	264	–
Trade receivables		18,974	23,679
Prepays and other current assets		1,447	1,342
Other receivables		3,654	4,552
<b>Current assets</b>		<b>52,975</b>	45,311
Investments	7	8,386	9,602
Right-of-use assets	10	8,659	9,456
Property, plant and equipment	9	743	815
Intangible assets		25	63
<b>Non-current assets</b>		<b>17,813</b>	19,936
<b>Total assets</b>		<b>\$ 70,788</b>	\$ 65,247
<b>Liabilities</b>			
Trade and other payables		\$ 16,959	\$ 15,393
Current portion: Lease obligations	11	1,203	1,123
Current portion: Employee benefits	12	3,884	3,666
<b>Current liabilities</b>		<b>22,046</b>	20,182
Lease obligations	11	7,741	8,500
Employee benefits	12	28,171	27,247
<b>Non-current liabilities</b>		<b>35,912</b>	35,747
<b>Total liabilities</b>		<b>57,958</b>	55,929
<b>Equity</b>			
Share capital—authorized: 1,000 common shares of no par value			
Issued: 32 common shares		–	–
Retained earnings		12,830	9,318
<b>Total equity</b>		<b>12,830</b>	9,318
<b>Total liabilities and equity</b>		<b>\$ 70,788</b>	\$ 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

<i>(in thousands of dollars)</i>	Notes	Three months ended September 30, 2020	Three months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2019
Services revenue	13	\$ 30,309	\$ 26,792	\$ 63,738	\$ 56,520
Travel and disbursement revenue		356	1,476	531	1,872
Lease revenue		–	221	74	443
Investment revenue		449	176	557	363
<b>Total revenue</b>		<b>31,114</b>	28,665	<b>64,900</b>	59,198
Salaries and employee benefits		25,857	25,320	55,005	52,937
Operating and administrative expenses	14	2,382	2,806	4,759	4,837
Travel and disbursement expenses		356	1,254	530	1,872
Depreciation of right-of-use assets	10	342	539	797	1,052
Depreciation of property, plant and equipment	9	63	116	126	237
Depreciation of assets under finance lease		–	21	–	40
Amortization of intangible assets		20	20	39	41
Finance costs	11	65	51	132	97
<b>Total expenses</b>		<b>29,085</b>	30,127	<b>61,388</b>	61,113
<b>Gain (loss) for the period and total comprehensive gain (loss)</b>		<b>\$ 2,029</b>	\$ (1,462)	<b>\$ 3,512</b>	\$ (1,915)

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

DEFENCE CONSTRUCTION (1951) LIMITED

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**

Unaudited

<i>(in thousands of dollars)</i>	Share capital	Retained earnings	Total equity
Balance at June 30, 2020	\$ –	\$ 10,801	\$ 10,801
Income for the period		2,029	2,029
<b>Balance at September 30, 2020</b>	<b>\$ –</b>	<b>\$ 12,830</b>	<b>\$ 12,830</b>
	Share capital	Retained earnings	Total equity
Balance at June 30, 2019	\$ –	\$ 11,431	\$ 11,431
Loss for the period		(1,462)	(1,462)
<b>Balance at September 30, 2019</b>	<b>\$ –</b>	<b>\$ 9,969</b>	<b>\$ 9,969</b>
	Share capital	Retained earnings	Total equity
Balance at March 31, 2020	\$ –	\$ 9,318	\$ 9,318
Income for the period		3,512	3,512
<b>Balance at September 30, 2020</b>	<b>\$ –</b>	<b>\$ 12,830</b>	<b>\$ 12,830</b>
	Share capital	Retained earnings	Total equity
Balance at March 31, 2019	\$ –	\$ 11,884	\$ 11,884
Loss for the period		(1,915)	(1,915)
<b>Balance at September 30, 2019</b>	<b>\$ –</b>	<b>\$ 9,969</b>	<b>\$ 9,969</b>

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

DEFENCE CONSTRUCTION (1951) LIMITED

**INTERIM CONDENSED STATEMENT OF CASH FLOWS**

Unaudited

<i>(in thousands of dollars)</i>	Notes	Three months ended September 30, 2020	Three months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2019
<b>Cash flow from (used in) operating activities</b>					
Gain (loss) for the period		\$ 2,029	\$ (1,462)	\$ 3,512	\$ (1,915)
<b>Adjustments to reconcile loss for the period to cash provided or used by operating activities</b>					
Employee benefits expensed		727	831	1,454	1,662
Employee benefits paid		(138)	(170)	(312)	(322)
Depreciation of right-of-use assets	10	342	559	797	1,093
Depreciation of property, plant and equipment	9	63	116	126	236
Amortization of intangible assets		20	20	39	41
Amortization of investment premiums		3	21	18	43
Interest paid on lease liabilities		65	51	132	97
<b>Change in non-cash operating working capital</b>					
Trade receivables		804	2,067	4,331	(3,083)
Prepays and other current assets		177	108	(104)	45
Other receivables		(416)	38	898	81
Deferred revenue (cost)		-	1,230	-	1,061
Trade and other payables		1,236	787	1,566	347
Accrued revenue		2,153	-	(264)	-
<b>Net cash flows provided by (used in) operating activities</b>		<b>7,065</b>	<b>4,196</b>	<b>12,193</b>	<b>(614)</b>
<b>Cash flows from (used in) investing activities</b>					
Acquisition of investments		(3,600)	-	(3,600)	(115)
Redemption of investments		3,600	1,824	3,600	1,824
Gain on disposal of investments		(355)	-	(355)	-
Acquisition of property, plant and equipment	9	(54)	(209)	(54)	(209)
Acquisition of right-of-use assets	10	-	(675)	-	(675)
<b>Net cash flows provided by (used in) investing activities</b>		<b>(409)</b>	<b>940</b>	<b>(409)</b>	<b>825</b>
<b>Cash flows from financing activities</b>					
Repayment of lease obligations		(377)	(562)	(811)	(1,102)
Additional lease obligations		-	675	-	675
<b>Net cash flows used in financial activities</b>		<b>(377)</b>	<b>113</b>	<b>(811)</b>	<b>(427)</b>
Increase (decrease) in cash during the period		6,279	5,249	10,973	(216)
Cash at the beginning of the period		20,432	4,601	15,738	10,066
<b>Cash at the end of the period</b>		<b>\$ 26,711</b>	<b>\$ 9,850</b>	<b>\$ 26,711</b>	<b>\$ 9,850</b>

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: SUMMARY OF BUSINESS AUTHORITY AND OBJECTIVES

Defence Construction (1951) Limited (the “Corporation”) was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation’s Head Office is located at 350 Albert Street, Ottawa, Ontario, Canada. The Corporation is an agent Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act* (FAA). Since 1996, responsibility for the Corporation has rested with the Minister of Public Services and Procurement.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation’s services 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, when the Board of Directors approved these financial statements, DCC believed 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 after these financial statements were issued. The Corporation does not believe any current indications warrant an impairment test of its assets.

**NOTE 2: BASIS OF PREPARATION AND PRESENTATION**

The Corporation prepared these interim condensed financial statements 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: STANDARDS, AMENDMENTS AND INTERPRETATIONS**

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 were adopted on April 1, 2020 and have not had an 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 3% (coupon rates ranging from 2.85% to 4.4%), guaranteed investment certificates (GICs) with fixed interest rates ranging from 0.68% to 2.82%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from June 2022 to September 2025 and those of GICs vary from June 2021 to July 2025, 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 September 30, 2020	As at March 31, 2020
Current portion	\$ 1,925	\$ -
Long-term portion	8,386	9,602
<b>Total</b>	<b>\$ 10,311</b>	<b>\$ 9,602</b>

	As at September 30, 2020	As at March 31, 2020
Carrying amount at amortized cost:		
Bonds:		
Provincial	\$ 1,836	\$ 3,868
Corporate	-	859
<b>Total bonds</b>	<b>1,836</b>	<b>4,727</b>
Guaranteed investment certificates	8,475	4,875
<b>Total</b>	<b>\$ 10,311</b>	<b>\$ 9,602</b>

	As at September 30, 2020	As at March 31, 2020
Fair value		
Bonds		
Federal	\$ -	\$ -
Provincial	1,993	4,191
Corporate	-	895
<b>Total bonds</b>	<b>1,993</b>	<b>5,086</b>
Guaranteed investment certificates	8,543	4,909
<b>Total</b>	<b>\$ 10,536</b>	<b>\$ 9,995</b>



**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 September 30, 2020, accrued revenue was \$264. 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 September 30, 2020	As at March 31, 2020
Cost	\$ 4,570	\$ 4,545
Less: Accumulated depreciation	3,827	3,730
<b>Net book value</b>	<b>\$ 743</b>	<b>\$ 815</b>
<b>Net book value by asset class</b>		
Computer equipment	\$ 200	\$ 262
Furniture and fixtures	190	221
Leasehold improvements	353	332
<b>Net book value</b>	<b>\$ 743</b>	<b>\$ 815</b>

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

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
<b>Cost</b>				
Balance as at March 31, 2020	\$ 1,630	\$ 1,007	\$ 1,908	\$ 4,545
Plus: Additions	-	12	42	54
Less: Disposals	-	9	20	29
<b>Balance as at September 30, 2020</b>	<b>\$ 1,630</b>	<b>\$ 1,010</b>	<b>\$ 1,930</b>	<b>\$ 4,570</b>

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

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
<b>Accumulated depreciation</b>				
Balance as at March 31, 2020	\$ 1,369	\$ 784	\$ 1,577	\$ 3,730
Plus: Depreciation	61	45	20	126
Less: Disposals	-	9	20	29
<b>Balance as at September 30, 2020</b>	<b>\$ 1,430</b>	<b>\$ 820</b>	<b>\$ 1,577</b>	<b>\$ 3,827</b>

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 those options. During the year, changes to DCC's 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	664	72	61	797
Less: Disposals	–	–	–	–
<b>Balance as at September 30, 2020</b>	<b>\$ 8,191</b>	<b>\$ –</b>	<b>\$ 468</b>	<b>\$ 8,659</b>

**NOTE 11: LEASE OBLIGATIONS**

	As at September 30, 2020	As at March 31, 2020
Current portion	\$ 1,203	\$ 1,123
Long-term portion	7,741	8,500
<b>Total lease obligations</b>	<b>\$ 8,944</b>	<b>\$ 9,623</b>

**Cost**

Balance as at March 31, 2020	\$ 9,623
Plus: Additions	–
Less: Payments	811
Plus: Interest expense	132
<b>Balance as at September 30, 2020</b>	<b>\$ 8,944</b>

The following represents the contractual undiscounted cash flows for lease obligations as at September 30, 2020.

One year or less	\$ 1,441
Between one and two years	1,270
Between two and five years	2,932
Over five years	4,567
<b>Total</b>	<b>\$ 10,210</b>

The expense relating to variable lease payments not included in the measurement of lease obligations was \$521. 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 \$1,464, including \$811 for principal payments on lease obligations. Income from sub-leasing was \$74 for the period.

**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 September 30, 2020	As at March 31, 2020
Current portion	\$ 3,884	\$ 3,666
Long-term portion	28,171	27,247
<b>Total employee benefits</b>	<b>\$ 32,055</b>	<b>\$ 30,913</b>

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 SERVICES 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, 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 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 tables disaggregate revenue by major sources and by region.

Three months ended September 30, 2020

Region	Activity							Total revenue, by region
	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support		
Atlantic Region	\$ 1,966	\$ 1,351	\$ 341	\$ 421	\$ 157	\$ 300	\$ 4,536	
Quebec Region	2,108	1,297	346	348	348	306	4,753	
National Capital Region	1,121	2,256	1,309	79	111	288	5,164	
Ontario Region	3,186	1,370	545	550	1,036	450	7,137	
Western Region	4,035	2,173	137	898	413	361	8,017	
Head Office	45	88	–	288	281	–	702	
Total revenue, by activity	\$ 12,461	\$ 8,535	\$ 2,678	\$ 2,584	\$ 2,346	\$ 1,705	\$ 30,309	

Six months ended September 30, 2020

Region	Activity							Total revenue, by region
	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support		
Atlantic Region	\$ 3,925	\$ 3,017	\$ 738	\$ 823	\$ 335	\$ 571	\$ 9,409	
Quebec Region	4,450	2,825	701	749	661	681	10,067	
National Capital Region	2,270	4,690	2,573	181	214	616	10,544	
Ontario Region	6,509	3,125	1,305	1,167	2,206	1,009	15,321	
Western Region	8,384	4,675	317	1,762	917	754	16,809	
Head Office	105	178	6	617	682	–	1,588	
Total revenue, by activity	\$ 25,643	\$ 18,510	\$ 5,640	\$ 5,299	\$ 5,015	\$ 3,631	\$ 63,738	

Three months ended September 30, 2019

Region	Activity							Total revenue, by region
	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support		
Atlantic Region	\$ 2,212	\$ 861	\$ 300	\$ 284	\$ 148	\$ 291	\$ 4,096	
Quebec Region	1,912	1,119	292	315	209	294	4,141	
National Capital Region	1,033	1,972	1,149	109	64	243	4,570	
Ontario Region	3,157	1,355	388	467	767	384	6,518	
Western Region	3,649	1,931	143	676	327	317	7,043	
Head Office	32	1	-	187	204	-	424	
<b>Total revenue, by activity</b>	<b>\$ 11,995</b>	<b>\$ 7,239</b>	<b>\$ 2,272</b>	<b>\$ 2,038</b>	<b>\$ 1,719</b>	<b>\$ 1,529</b>	<b>\$ 26,792</b>	

Six months ended September 30, 2019

Region	Activity							Total revenue, by region
	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support		
Atlantic Region	\$ 4,504	\$ 1,991	\$ 628	\$ 643	\$ 305	\$ 580	\$ 8,652	
Quebec Region	4,359	2,451	656	653	498	593	9,210	
National Capital Region	1,964	4,183	2,398	398	184	522	9,649	
Ontario Region	6,472	2,873	798	978	1,490	835	13,446	
Western Region	7,524	4,088	298	1,409	793	615	14,727	
Head Office	62	4	-	267	502	-	836	
<b>Total revenue, by activity</b>	<b>\$ 24,887</b>	<b>\$ 15,590</b>	<b>\$ 4,778</b>	<b>\$ 4,348</b>	<b>\$ 3,772</b>	<b>\$ 3,145</b>	<b>\$ 56,520</b>	

The following tables disaggregate revenue by region and contract type.

Region	Time-based revenue			
	Three months ended September 30, 2020	Three months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2019
Atlantic Region	\$ 679	\$ 1,208	\$ 1,437	\$ 2,714
Quebec Region	1,515	1,290	3,103	2,689
National Capital Region	4,286	4,499	8,672	9,552
Ontario Region	1,918	1,840	4,066	3,783
Western Region	2,043	1,475	4,132	3,249
Head Office	506	341	1,163	710
<b>Total time-based revenue</b>	<b>\$ 10,947</b>	<b>\$ 10,653</b>	<b>\$ 22,573</b>	<b>\$ 22,697</b>

<b>Fixed-fee revenue</b>				
Region	Three months ended September 30, 2020	Three months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2019
Atlantic Region	\$ 3,857	\$ 2,888	\$ 7,972	\$ 5,938
Quebec Region	3,238	2,851	6,964	6,521
National Capital Region	878	71	1,872	97
Ontario Region	5,219	4,678	11,255	9,663
Western Region	5,974	5,568	12,677	11,478
Head Office	196	83	425	126
<b>Total fixed-fee revenue</b>	<b>\$ 19,362</b>	<b>\$ 16,139</b>	<b>\$ 41,165</b>	<b>\$ 33,823</b>
<b>Total revenue</b>	<b>\$ 30,309</b>	<b>\$ 26,792</b>	<b>\$ 63,738</b>	<b>\$ 56,520</b>

**NOTE 14: OPERATING AND ADMINISTRATIVE EXPENSES**

	Three months ended September 30, 2020	Three months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2019
Cloud computing services	\$ 479	\$ 241	\$ 817	\$ 292
Professional services	471	724	822	1,253
Leased location operating costs	264	249	521	469
Software maintenance	260	262	638	553
Equipment rental	234	194	461	242
Telephone and data communications	213	226	426	417
Employee training and development	142	162	244	484
Office services, supplies and equipment	106	100	224	163
Client services and communications	77	32	124	50
Furniture and equipment	40	193	304	205
Memberships and subscriptions	18	21	33	30
Staff relocation	16	192	24	230
Computer software	15	5	37	9
Printing and stationery	13	19	22	34
Other	10	8	13	11
Hospitality	6	44	22	77
Postage and freight	5	6	10	14
Computer equipment	5	9	7	16
Recruiting	5	19	5	22
Travel	3	100	5	266
<b>Total</b>	<b>\$ 2,382</b>	<b>\$ 2,806</b>	<b>\$ 4,759</b>	<b>\$ 4,837</b>

**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 the 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 second quarter of 2020–21 totalled \$30,309 compared to \$26,792 in the second quarter of 2019–20 and was generated from services provided to entities owned by the Government of Canada. For the year-to-date period ending September 30, 2020, this revenue totalled \$63,738 compared to \$56,520 for the comparable prior-year period.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled \$368 for the year-to-date period of 2020–21 compared to \$104 in the same period in 2019–20.

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

	As at September 30, 2020	As at March 31, 2020
Due from		
Department of National Defence	\$ 17,716	\$ 21,660
Canadian Forces Housing Agency	1,014	1,600
Communications Security Establishment	225	368
Public Services and Procurement Canada	–	1
Shared Services Canada	19	50
	<b>\$ 18,974</b>	<b>\$ 23,679</b>
Due to		
Shared Services Canada	\$ -	\$ 2
Department of Justice	54	0
	<b>\$ 54</b>	<b>\$ 2</b>

**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 September 30, 2020	Three months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2019
Short-term benefits	\$ 983	\$ 884	\$ 2,058	\$ 1,761
Post-employment benefits	120	127	282	284
<b>Total</b>	<b>\$ 1,103</b>	<b>\$ 1,011</b>	<b>\$ 2,340</b>	<b>\$ 2,045</b>

**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 September 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 September 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 September 30, 2020.

**NOTE 17: ASSETS HELD FOR SALE**

Data centre assets at the Corporation's Head Office had reached the end of their useful lives (carrying amount of \$0). An agreement was entered into with a vendor to decommission these assets for proceeds of \$4,000. The sale was completed on October 9, 2020.