DEFENCE CONSTRUCTION CANADA

2021–2022 SECOND QUARTER FINANCIAL REPORT

PERIOD ENDED SEPTEMBER 30, 2021

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

DEFENCE CONSTRUCTION CANADA

CONSTRUCTION DE DÉFENSE CANADA

Canada

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise stated, all amounts are in Canadian dollars.

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the second quarter ended September 30, 2021, for Defence Construction (1951) Limited (the "Corporation" or "DCC"). This discussion should be read in conjunction with the unaudited condensed interim financial statements for the period ended September 30, 2021.

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, 2021 (the "*Annual Report 2020–2021*"). 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 condensed interim 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 70-year 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 related to the expansion of the enterprise data centre at Canadian Forces Base 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 EVENT: 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.

Consistent with government recommendations, DCC introduced essential staffing of operations in its physical workspaces. Most employees have been able to work from home and critical employees have been able to safely continue visiting sites and fulfilling their obligations to the Client-Partners. The level of on-site staffing has varied across the country based on the public health measures in effect at DCC's various workplaces. DCC continues to follow the announcements of governments across the country regarding their re-opening plans as the fourth wave of the COVID-19 pandemic recedes and more Canadians are vaccinated. In line with Government of Canada requirements for its workforce and the federally regulated transportation sector, DCC is implementing a mandatory COVID-19 vaccination requirement for its workforce and service providers. The Corporation has also been seeking updates from the Client-Partners on their local approaches to returning to the workplace and is formulating its plans accordingly.

Throughout the pandemic, the Corporation has been keeping business as close to usual as possible, aligning operations with local public health authorities' requirements. The number of new tenders the Corporation has issued and closed during the pandemic has remained steady.

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

While the Corporation is unable to predict the exact nature and scope of the impact of COVID-19 on its business and operations, it believes at the time of this filing that its cash reserves, its accounts receivable and the service level arrangements in place with its Client-Partners will provide sufficient liquidity to fund its operations.

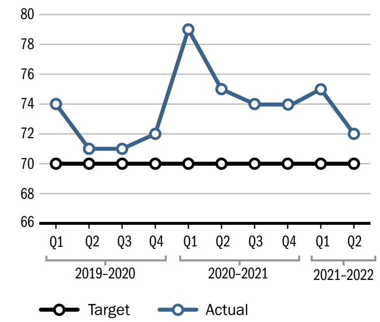
4.0 OPERATIONAL PERFORMANCE INDICATORS

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 hours spent on corporate strategic initiatives and administrative functions that are considered overhead support, and on compensated leave. It is an important indicator for efficiency and effectiveness, and a key financial management tool. The Corporation sets a target to recover 70% of employee salaries through its monthly invoices to its Client-Partners.

For the second quarter of 2021–22, the utilization rate was 72%, a decrease of 3 percentage points from the same period in 2020–21, marking a return to a more sustainable pace for DCC's workforce. The utilization rate decreased primarily because employees took more training and vacation, due to the lifting of pandemic-related restrictions in some locations.

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

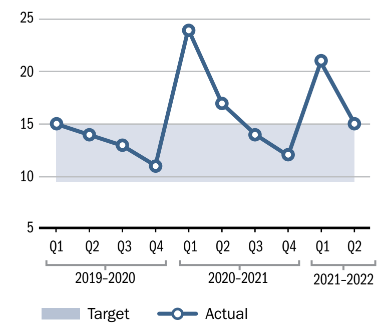


4.2 COST OF SERVICE

This indicator reflects how much of its IE program budget DND spends on DCC's services. Typically, DCC expects this cost to fall in the range of 9% to 15% of DND's IE program budget.

For the second quarter of 2021–22, the cost of service was 15%, a decrease of 2 percentage points from 17% in the same period in 2020–21. The cost of service is typically higher than the targeted range earlier in the year, due to the timing of IE contract expenditures, and moves within range as the year progresses and contract expenditures are incurred.

Cost of Service
(Percentage, year to date)

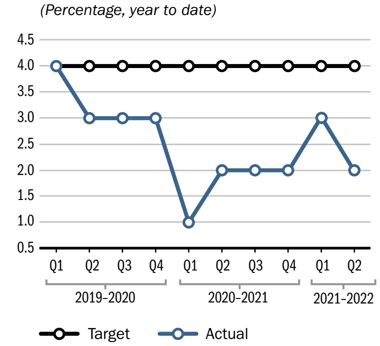


4.3 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

DCC's performance indicator for training and development is based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development activities, expressed as a percentage of base salary cost. DCC has established an annual overall corporate target for spending on training and development of 4% of base salary costs.

For the second quarter of 2021–22, and the same period in 2020–21, the professional development to salary cost ratio was 2%. The professional development to salary cost ratio is typically lower earlier in the year due to the timing of events. Pandemic-related travel restrictions during the past two fiscal years have also decreased this ratio.

Professional Development to Salary Cost Ratio
(Percentage, year to date)



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 2020–2021*.

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, 2021. All references to the previous year's second quarter relate to the three months ended September 30, 2020. All references to the year-to-date period refer to the six months ended September 30, 2021. All references to the previous year-to-date period refer to the six months ended September 30, 2020. All references to the previous year end relate to March 31, 2021.

6.2 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $35.1 million in the second quarter, an increase of $4.8 million or approximately 16% from the previous year's second quarter. For the year-to-date period, services revenue was $72.1 million, an increase of $8.4 million or approximately 13% over the previous year-to-date period. The increases were due to an increase in demand for services from the Client-Partner combined with a planned billing rate increase for the year.

In general, services revenue correlates directly to DND's spending on IE projects. Services revenue increases when the number and dollar value of DND projects increase and decreases when the opposite occurs.

CONTRACT MANAGEMENT

Revenue from Contract Management increased by 15% in the second quarter and 13% in the year-to-date period when compared to the same periods in the previous year. The higher revenue resulted from the increase in billing rates (which accounted for 4.5 percentage points of each increase) and increased demand from the Client-Partner (which accounted for 10.5 and 8.5 percentage points, respectively, of the increases).

PROJECT PLANNING

Project Planning revenue increased by 12% in the second quarter and 8% in the year-to-date period when compared to the same periods in the prior year. The higher revenue was due to the increase in billing rates (which accounted for 4.5 percentage points of each rise) and increased demand from the Client-Partner (which accounted for 7.5 and 3.5 percentage points, respectively, of the increases).

REAL PROPERTY TECHNICAL SUPPORT

Real Property Technical Support revenue increased by 27% in the second quarter and 24% in the year-to-date period when compared to the same periods in the prior year, due to the billing rate increase (which accounted for 4.5 percentage points of each rise) and increased demand for services related to facility and portfolio management (which accounted for 22.5 and 19.5 percentage points, respectively, of the increases).

PROCUREMENT

Revenue from Procurement increased by 8% in the second quarter and 12% in the year-to-date period when compared to the same periods in the prior year, due to the billing rate increase (which accounted for 4.5 percentage points of each rise) and increased demand from the Client-Partner (which accounted for 3.5 and 7.5 percentage points, respectively, of the increases).

CONSTRUCTION TECHNICAL SUPPORT

Revenue from Construction Technical Support increased by 16% in the second quarter and 13% in the year-to-date period compared to the same periods in the prior year, due to the billing rate increase (which accounted for 4.5 percentage points of each increase) and an increase in demand for these services from DND (which accounted for 11.5 and 8.5 percentage points, respectively, of the increases).

ENVIRONMENTAL TECHNICAL SUPPORT

Environmental Technical Support revenue increased by 31% in the second quarter and 23% in the year-to-date period compared to the same periods in the prior year. The higher revenue was a result of the increase in billing rates (which accounted for 4.5 percentage points of each increase) and an increase in demand for these services (which accounted for 26.5 and 18.5 percentage points, respectively, of the increases).

REVENUE, BY ACTIVITY

	Three months ended September 30		**Change**		**Six months ended September 30**		**Change**	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Contract Management	$ 14,311	$ 12,461	1,850	15%	$ 29,003	$ 25,643	3,360	13%
Project Planning	9,593	8,535	1,058	12%	20,083	18,510	1,573	8%
Real Property Technical Support	3,412	2,678	734	27%	7,014	5,640	1,374	24%
Procurement	2,798	2,584	214	8%	5,923	5,299	624	12%
Construction Technical Support	2,731	2,346	385	16%	5,654	5,015	639	13%
Environmental Technical Support	2,230	1,705	525	31%	4,458	3,631	827	23%
Total revenue	**$ 35,075**	$ 30,309	4,766	16%	**$ 72,135**	$ 63,738	8,397	13%

TRAVEL AND DISBURSEMENT REVENUE

Travel and disbursement revenue is the amount the Corporation recovers from DND for travel and expenses DCC incurs for work it does on DND's behalf. The amount varies, depending on the nature of the work the Corporation is performing for the Client-Partner. Travel and disbursement revenue totalled $671,000 in the second quarter, an increase of $314,000, or approximately 88%, compared to the previous year's second quarter. For the year-to-date period, this revenue totalled $947,000, an increase of $416,000 from the same period in the previous year. The increases were due to a reduction in COVID-19 travel restrictions.

	Three months ended September 30		**Change**		**Six months ended September 30**		**Change**	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Travel and disbursement revenue	**$ 671**	$ 357	314	88%	**$ 947**	$ 531	416	78%

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, decreased in the second quarter by $335,000 or 75% compared to the previous year's second quarter. The decrease in investment revenue was mainly due to lower interest rates and lower investment balances. For the year-to-date period, interest revenue decreased by $338,000 or 61% compared to the same period in the prior year. The decrease was due to lower interest rates and lower investment balances.

	Three months ended September 30		**Change**		**Six months ended September 30**		**Change**	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Investment revenue	**$ 114**	$ 449	(335)	-75%	**$ 219**	$ 557	(338)	-61%

6.3 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $24.3 million in the second quarter, an increase of $3.6 million or approximately 17% over the previous year's second quarter. For the year-to-date period, salaries totalled $50.0 million, an increase of $6.0 million or approximately 14% over the same period in the previous year. Salary rates increased by 3.6% compared to the same period in the prior year due to a cost-of-living increase of 1% and performance pay increases of 2.6%, on average. The number of full-time equivalents increased by approximately 13% or 121 full-time equivalents over the same period of the prior year in response to Client-Partner demands for service.

In the second quarter, employee benefits totalled $6.1 million, an increase of $924,000 or 18% from the same period in the prior year. For the year-to-date period, employee benefits totalled $13.0 million, an increase of $1.9 million or approximately 18% from the same period in the prior year. Both increases were due mainly to an increase in benefit costs from the prior year and growth of the Corporation's workforce.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Salaries	$ 24,258	$ 20,694	3,564	17%	$ 49,963	$ 43,976	5,987	14%
Employee benefits	6,087	5,163	924	18%	12,961	11,029	1,932	18%
	$ 30,345	$ 25,857	4,488	17%	**$ 62,924**	$ 55,005	7,919	14%
Employee benefits as a percentage of salaries	25%	25%			26%	25%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $2.2 million in the second quarter, a decrease of $209,000 or 9% over the second quarter of 2020–21. For the year-to-date period, operating and administrative expenses decreased by $304,000 or 6%. Material variances are shown in the following table.

	Three months ended September 30		Change		Six months ended September 30		Change		
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%	Variance analysis
Cloud computing services	$ 483	$ 479	4	1%	$ 917	$ 817	100	12%	The increases were due to higher monthly managed cloud service costs due to an increased scope of services.
Software maintenance	337	260	77	30%	655	638	17	3%	The increases were due to a higher number of information technology (IT) maintenance contracts.
Professional services	273	471	(198)	-42%	591	822	(231)	-28%	The decreases were due to the e-procurement project and the cyber incident review completed in the prior period.
Equipment rental	265	234	31	13%	509	461	48	10%	The increases were due to an increase in rental equipment stemming from the increase in the number of employees compared to the prior period.
Telephone and data communications	200	213	(13)	-6%	389	426	(37)	-9%	The decreases were due to a reduction in data and teleconferencing systems usage due to the ongoing COVID-19 pandemic restrictions for workplaces.
Leased location operating costs	176	264	(88)	-33%	424	521	(97)	-19%	The decreases were due to lower rental operating costs and parking costs.
Office services, supplies and equipment	88	119	(31)	-26%	156	246	(90)	-37%	The decreases were mostly due to a reduction in personal protective equipment purchases related to COVID-19, due to eased restrictions and the fact that many employees were working from home.
Client services and communications	72	77	(5)	-6%	220	124	96	77%	The increase in the year-to-date period was due to a higher number of communication initiatives completed in the first quarter. The second quarter was comparable to the same period in the prior year.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

	Three months ended September 30		**Change**		**Six months ended September 30**		**Change**		
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%	Variance analysis
Employee training and development	66	142	(76)	-54%	203	244	(41)	-17%	The decreases were due to the rollout of the Indigenous awareness initiative in the prior year.
Furniture and equipment	49	40	9	23%	91	304	(213)	-70%	The decrease in the year-to-date period was due to the pandemic allowance provided to employees to facilitate their transition to working from home in the prior year. The increase in the second quarter was due to the purchase of Head Office furnishings.
Staff relocation	47	16	31	194%	87	24	63	263%	The increases were due to increased business requirements to relocate current and new staff.
Computer software	46	15	31	207%	58	37	21	57%	The increases were due to the purchase of additional software licences related to the increase in full-time equivalents.
Recruiting	25	5	20	400%	50	5	45	900%	The increases were due to higher demand for external recruiting services.
Memberships and subscriptions	15	18	(3)	-17%	53	33	20	61%	The increase in the year-to-date period was due to a higher volume of annual subscriptions. The variance in the second quarter was not material.
Postage and freight	10	5	5	100%	14	10	4	40%	The increases were related to shipping new employee welcome kits to multiple sites.
Computer hardware	7	5	2	40%	7	7	–	–	The variances were not material.
Travel	6	3	3	100%	6	5	1	20%	The increase in the second quarter was due to the reduction in COVID-19 travel restrictions. The variance was not material in the year-to-date period.
Hospitality	5	6	(1)	-17%	11	22	(11)	-50%	The decrease in the year-to-date period was due to a decrease in the number of internal physical meetings. The variance in the second quarter was not material.
Other	3	10	(7)	-70%	7	13	(6)	-46%	The decreases were due to insignificant remaining IT disruption-related costs in the prior periods.
Leasehold improvements	–	–	–	–	7	–	7	–	The increase in the year-to-date period was due to leasehold improvements at a regional office.
	$ 2,173	$ 2,382	(209)	-9%	**$ 4,455**	$ 4,759	(304)	-6%	

TRAVEL AND DISBURSEMENT EXPENSES

Travel and disbursement expenses are incurred by the Corporation for work it performs on DND's behalf. DCC recovers these expenses by billing the Client-Partner at no mark-up. Travel and disbursement expenses totalled $671,000 in the second quarter, an increase of $315,000, or approximately 88%, over the previous year's second quarter. For the year-to-date period, these expenses totalled $947,000, an increase of $417,000 from the previous year. The increases in these expenses were due to the easing of COVID-19 travel restrictions.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Travel and disbursement expenses	**$ 671**	$ 356	315	88%	**$ 947**	$ 530	417	79%

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by 7% or $31,000 in the second quarter and decreased by 10% or $101,000 in the year-to-date period compared to the same periods in the previous year. The increase in the second quarter was due to the depreciation of new furniture and leasehold improvement costs related to the Head Office renovations. The decrease in the year-to-date period was mostly due to the non-renewal of a co-location lease in the previous year's first quarter.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Depreciation of right-of-use assets	$ 337	$ 342	(5)	-1%	$ 680	$ 797	(117)	-15%
Depreciation of property, plant and equipment	117	62	55	89%	178	126	52	41%
Amortization of intangible assets	2	21	(19)	-90%	4	40	(36)	-90%
Total	**$ 456**	$ 425	31	7%	**$ 862**	$ 963	(101)	-10%

6.4 NET INCOME AND TOTAL COMPREHENSIVE INCOME

The net income and total comprehensive income in the current quarter was $2.2 million, compared with a net income and total comprehensive income of $2.0 million in the previous year's second quarter. For the year-to-date period, the Corporation realized a net income of $4.0 million compared to a net income of $3.5 million in the previous year. The higher net income in both periods was driven by higher demand for DCC's services, as well as a planned billing rate increase. These were compounded by spending reductions related to the completion of the e-procurement project and cyber incident review in the prior period, as well as a spending reduction related to COVID-19. These were partially countered by lower interest income resulting from lower interest rates.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Net income and total comprehensive income	**$ 2,157**	$ 2,028	129	6%	**$ 3,996**	$ 3,511	485	14%

6.5 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

DCC's financial and cash management policy is discussed in the *Annual Report 2020–2021*.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments totalled $48.2 million at September 30, 2021, an increase of $2.3 million from March 31, 2021.

The cash balance at September 30, 2021, was $33.9 million, a decrease of $1.7 million or 5% from March 31, 2021. In the six-month period after March 31, 2021, the Corporation generated $3.2 million in cash through operating activities, spent $4.3 million on investment activities and paid $702,000 for lease obligations.

Investments (both current and long term) at September 30, 2021, totalled $14.3 million, an increase of $4.0 million or 39% from the 2020–21 year end. The increase was due to the acquisition of provincial bonds and guaranteed investment certificates in the second quarter.

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity. The Corporation currently invests in listed bonds, guaranteed investment certificates and mutual funds, which are recorded at cost and amortized using the effective interest method. The investments held are consistent with 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 from the Corporation's Client-Partners, mainly DND. At September 30, 2021, trade receivables were $19.2 million, which represented an increase of $4.1 million or 27% from March 31, 2021. The increase was due to the increased revenue from DND offset by a reduction in the time to collect those receivables. All of the trade receivables were assessed to be fully collectible.

CURRENT LIABILITIES

Current liabilities were $25.2 million at September 30, 2021, an increase of $3.9 million or 18% from March 31, 2021. The increase in current liabilities was primarily due to the timing of payments from suppliers and an increase in deferred revenue.

LIQUIDITY AND CAPITAL RESOURCES

	As at		Change	
(in thousands of dollars)	September 30, 2021	March 31, 2021	$	%
Cash and cash equivalents	$ 33,894	$ 35,632	(1,738)	-5%
Investments	14,310	10,304	4,006	39%
Cash, cash equivalents and investments	**$ 48,204**	$ 45,936	2,268	5%
Trade receivables	**$ 19,234**	$ 15,156	4,078	27%
Current liabilities	**$ 25,217**	$ 21,352	3,865	18%

6.6 EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave and retirement allowance for active employees, and health and dental care and life insurance benefits for retirees. This estimate is actuarially determined. The accrual for employee benefits at September 30, 2021, was $38.6 million, an increase of $1.5 million or 4% from March 31, 2021. Overall, the liability increased because current service costs and interest charges were higher than the benefit payments. Current service costs and interest charges for the period were $1.7 million and benefits paid were $197,000.

	As at		Change	
(in thousands of dollars)	September 30, 2021	March 31, 2021	$	%
Long-term portion	$ 34,856	$ 33,430	1,426	4%
Current portion	3,719	3,667	52	1%
Total employee benefits	**$ 38,575**	$ 37,097	1,478	4%

6.7 CAPITAL EXPENDITURES

The capital expenditures in the six months ended September 30, 2021, are shown in the following table.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	2021	2020	$	%	2021	2020	$	%
Computer equipment	$ –	$ –	–	–	$ 124	$ –	124	100%
Furniture and equipment	–	12	(12)	-100%	111	12	99	825%
Leasehold improvements	52	42	10	24%	179	42	137	326%
Right-of-use assets	–	–	–	–	457	–	457	100%
Total capital expenditures	**$ 52**	$ 54	(2)	-4%	**$ 871**	$ 54	817	1,513%

6.8 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance for the year-to-date period with the projections in the Corporate Plan (the Plan). The Corporation's actual performance compared to the Plan was better than anticipated. The Corporate Plan was developed prior to the federal budget tabled in 2021.

Services revenue was 9% 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 7% higher than projected in the Plan, due to the reduction of COVID-19 travel restrictions.

Investment revenue was lower than anticipated in the Plan, due to lower-than-expected interest rates on new investments.

Salaries and employee benefits were 9% higher than projected in the Plan, due to higher-than-expected demand from the Client-Partner, which resulted in 4% more full-time equivalents than planned.

Operating and administrative costs were 35% lower than projected. The decrease was due mainly to the timing of professional services and IT expenditures, and COVID-19's impact on travel and training.

Depreciation and amortization were 9% lower than anticipated in the Plan, mainly due to delays in the 2020–21 Head Office renovations as a result of the COVID-19 pandemic.

Income for the year-to-date period was $3.2 million higher than forecasted in the Plan, due to higher demand for services and lower-than-anticipated operating and administrative expenses.

Capital expenditures were 336% higher than anticipated in the Plan, due to the unplanned renewal of a lease and to the fact that certain expected 2020–21 expenditures for Head Office leasehold renovations occurred in 2021–22, due to the aforementioned renovation delays.

ACTUAL PERFORMANCE VERSUS PLAN

	Six months ended September 30, 2021		Change	
(in thousands of dollars)	**Actual**	**Plan**	$	%
Services revenue	$ 72,135	$ 66,267	5,868	9%
Travel and disbursement revenue	947	886	61	7%
Investment revenue	219	350	(131)	-37%
Total revenue	**$ 73,301**	$ 67,503	5,798	9%
Salaries and employee benefits	62,924	57,922	5,002	9%
Operating and administrative expenses	4,455	6,809	(2,354)	-35%
Travel and disbursement expenses	947	886	61	7%
Finance costs	117	132	(15)	-11%
Depreciation and amortization	862	948	(86)	-9%
Total expenses	**$ 69,305**	$ 66,697	2,608	4%
Net income and other comprehensive income	**$ 3,996**	$ 806	3,190	396%
Capital expenditures	**$ 871**	$ 200	671	336%

6.9 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the six months ended September 30, 2021, increased by $100.2 million or 27% compared to the same period last year. This increase was mostly due to a quicker DND program rollout compared to the previous year's year-to-date period. The DND program in 2021–22 is expected to be similar to that in 2020–21.

	Six months ended September 30		Change	
(in thousands of dollars)	2021	2020	$	%
Region				
Western	$ 141,117	$ 108,913	32,204	30%
Ontario	118,800	97,882	20,918	21%
Atlantic	75,668	47,394	28,274	60%
National Capital	73,053	80,244	(7,191)	-9%
Quebec	58,264	32,304	25,960	80%
	$ 466,902	$ 366,737	100,165	27%

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

Unless otherwise stated, all amounts are in Canadian dollars.

MANAGEMENT RESPONSIBILITY STATEMENT

Management is responsible for the preparation and fair presentation of these condensed interim 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 condensed interim 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 condensed interim financial statements.

Based on our knowledge, these condensed interim 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 condensed interim 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 26, 2021

DEFENCE CONSTRUCTION (1951) LIMITED

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)	Notes	As at September 30, 2021	March 31, 2021
Assets			
Cash and cash equivalents		**$ 33,894**	$ 35,632
Investments	6	**2,021**	2,925
Accrued revenue	10	**1,067**	–
Trade receivables	13	**19,234**	15,156
Prepaids and other assets		**1,223**	1,515
Other receivables		**3,621**	1,729
Current assets		**61,060**	56,957
Investments	6	**12,289**	7,379
Property, plant and equipment	7	**2,250**	2,014
Intangible assets		**13**	17
Right-of-use assets	8	**7,758**	7,981
Non-current assets		**22,310**	17,391
Total assets		**$ 83,370**	$ 74,348
Liabilities			
Trade and other payables	13	**$ 14,154**	$ 16,453
Deferred revenue	10	**6,092**	–
Employee benefits	9	**3,719**	3,667
Lease obligations	8	**1,252**	1,232
Current liabilities		**25,217**	21,352
Employee benefits	9	**34,856**	33,430
Lease obligations	8	**6,847**	7,112
Non-current liabilities		**41,703**	40,542
Total liabilities		**66,920**	61,894
Equity			
Share capital—authorized: 1,000 common shares of no par value			
Issued: 32 common shares		**–**	–
Retained earnings		**16,450**	12,454
Total equity		**16,450**	12,454
Total liabilities and equity		**$ 83,370**	$ 74,348

Commitments: See note 8. Contingent liabilities: See note 14.
The accompanying notes are an integral part of these condensed interim financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

CONDENSED INTERIM STATEMENT OF PROFIT AND OTHER COMPREHENSIVE INCOME

		Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	Notes	2021	2020	2021	2020
Services revenue	10	**$ 35,075**	$ 30,309	**$ 72,135**	$ 63,738
Travel and disbursement revenue		**671**	357	**947**	531
Investment revenue		**114**	449	**219**	557
Lease revenue		**–**	–	**–**	74
Total revenue		**35,860**	31,115	**73,301**	64,900
Salaries and employee benefits		**30,345**	25,859	**62,924**	55,005
Operating and administrative expenses	11	**2,173**	2,382	**4,455**	4,759
Travel and disbursement expenses		**671**	356	**947**	530
Depreciation of property, plant and equipment	7	**117**	62	**178**	126
Depreciation of right-of-use assets	8	**337**	342	**680**	797
Amortization of intangible assets		**2**	21	**4**	40
Finance costs	8	**58**	65	**117**	132
Total expenses		**33,703**	29,087	**69,305**	61,389
Net income and other comprehensive income		**$ 2,157**	$ 2,028	**$ 3,996**	$ 3,511

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

DEFENCE CONSTRUCTION (1951) LIMITED

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	2021	2020	2021	2020
Share capital	**$ –**	$ –	**$ –**	$ –
Retained earnings				
Balance at the beginning of the period	**14,293**	10,801	**12,454**	9,318
Net income and other comprehensive income	**2,157**	2,028	**3,996**	3,511
Balance at the end of the period	**16,450**	12,829	**16,450**	12,829
Equity	**$ 16,450**	$ 12,829	**$ 16,450**	$ 12,829

DEFENCE CONSTRUCTION (1951) LIMITED

CONDENSED INTERIM STATEMENT OF CASH FLOWS

		Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	Notes	2021	2020	2021	2020
Cash flow from operating activities					
Net income and other comprehensive income		**$ 2,157**	$ 2,028	**3,996**	3,511
Adjustments to reconcile income and other comprehensive income to cash provided by operating activities					
Employee benefits expensed		**838**	727	**1,675**	1,412
Employee benefits paid		**(13)**	(138)	**(197)**	(270)
Gain on disposition of investments		**–**	(359)	**–**	(359)
Depreciation of property, plant and equipment	7	**117**	62	**178**	126
Depreciation of right-of-use assets	8	**337**	342	**680**	797
Amortization of intangible assets		**2**	21	**4**	40
Amortization of investment premiums		**8**	5	**11**	18
Change in non-cash operating working capital					
Trade receivables		**(1,609)**	1,178	**(4,078)**	4,705
Other receivables		**(289)**	(416)	**(1,892)**	898
Prepaids and other assets		**275**	176	**292**	(105)
Accrued revenue		**(160)**	1,090	**(1,067)**	(2,050)
Trade and other payables		**(5,552)**	1,234	**(2,465)**	1,565
Deferred revenue		**3,232**	1,063	**6,092**	1,786
Net cash flows provided by operating activities		**(657)**	7,013	**3,229**	12,074
Cash flows from investing activities					
Acquisition of investments		**(5,942)**	(3,600)	**(5,942)**	(3,600)
Redemption and disposition of investments		**800**	3,232	**1,925**	3,232
Acquisition of property, plant and equipment	7	**(137)**	(54)	**(248)**	(54)
Net cash flows provided by in investing activities		**(5,279)**	(422)	**(4,265)**	(422)
Cash flows used in financing activities					
Repayment of lease obligations	8	**(392)**	(312)	**(702)**	(679)
Net cash flows used in financing activities		**(392)**	(312)	**(702)**	(679)
Increase (decrease) in cash during the period		**(6,328)**	6,279	**(1,738)**	10,973
Cash at the beginning of the period		**40,222**	20,432	**35,632**	15,738
Cash and cash equivalents at the end of the period		**$ 33,894**	$ 26,711	**33,894**	26,711
Supplemental operating cash flow information					
Interest charges on lease obligations		**$ 58**	$ 65	**117**	132
Interest received from bank deposits		**53**	35	**106**	64
Interest received from investments		**59**	154	**110**	231
Acquisition of property, plant and equipment not paid		**(85)**	–	**166**	–

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

NOTICE TO READERS

These condensed interim 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, 2021, and with the management's discussion and analysis (MD&A) included in this quarterly financial report.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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

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, the Communications Security Establishment, Shared Services Canada, and the Department of Public Services and Procurement Canada. Revenue is generated from fees charged for specific services provided.

In July 2015, the Corporation received 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 the 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 began minimum staffing of its operations in its physical workspaces. Most employees were able to work from home, and critical staff members were able to safely continue visiting sites and fulfilling their obligations to the Client-Partners. DCC continues to follow the announcements of governments across the country regarding their re-opening plans as the fourth wave of the COVID-19 pandemic recedes and more Canadians are vaccinated. In line with Government of Canada requirements for its workforce and the federally regulated transportation sector, DCC is implementing a mandatory COVID-19 vaccination requirement for its workforce and service providers. The Corporation has also been seeking updates from the Client-Partners on their local approaches to returning to the workplace and is formulating its plans accordingly.

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. They are taking all necessary precautions and complying with local public health authorities' requirements across Canada and in locations abroad where DCC works.

The Corporation cannot predict the exact nature of COVID-19's impact on its business. However, when the Board of Directors approved these financial statements, DCC believed its cash reserves, accounts receivable and service level arrangements with its Client-Partners would provide sufficient liquidity to fund its operations for at least the next 12 months. The Corporation does not believe there are any current indications that would warrant an impairment test of its assets.

2. BASIS OF PREPARATION AND PRESENTATION

The Corporation prepared these condensed interim 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 condensed interim 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, 2021, and the current quarter's MD&A.

The condensed interim 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.

3. SUMMARY OF ACCOUNTING POLICIES

These condensed interim 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, 2021, except for the application of new standards, amendments and interpretations effective January 1, 2021, as disclosed in Note 5 of these condensed interim financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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, 2021.

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS

5.1 CURRENT ACCOUNTING CHANGES

The Corporation actively monitors new standards and amendments to existing standards that have been issued by the IASB. There were no new or amended standards issued by the IASB that had an impact on the Corporation's condensed interim financial statements.

5.2 FUTURE ACCOUNTING CHANGES

The IASB has not issued any new standards or amendments to existing standards that would affect the Corporation in the future other than those disclosed in Note 3 of the Corporation's annual financial statements for the year ended March 31, 2021.

6. INVESTMENTS

Investments consist of Canadian provincial bonds with effective interest rates ranging from 0.43% to 3% (coupon rates ranging from 0.45% to 4.4%), guaranteed investment certificates (GICs) with effective interest rates ranging from 0.8% to 2.82%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from June 2022 to June 2027 and those of the GICs vary from March 2022 to July 2026, and the Corporation intends to hold all of them to maturity. The mutual fund accounts can be liquidated on demand and are classified as "Cash and cash equivalents" in the condensed interim financial statements. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following table.

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

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

	As at	
	September 30, 2021	March 31, 2021
Current portion	$ 2,021	$ 2,925
Long-term portion	12,289	7,379
Total	**$ 14,310**	$ 10,304

	As at	
	September 30, 2021	March 31, 2021
Carrying amount at amortized cost		
Provincial bonds	$ 5,514	$ 1,829
Guaranteed investment certificates	8,796	8,475
	$ 14,310	$ 10,304
Fair value		
Provincial bonds	$ 5,592	$ 1,951
Guaranteed investment certificates	8,860	8,531
	$ 14,452	$ 10,482

7. PROPERTY, PLANT AND EQUIPMENT

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

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance as at March 31, 2021	$ 672	$ 1,167	$ 1,536	$ 3,375
Additions	124	111	179	414
Disposals	(147)	–	–	(147)
Balance as at September 30, 2021	**$ 649**	**$ 1,278**	**$ 1,715**	**$ 3,642**

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Accumulated depreciation				
Balance as at March 31, 2021	$ 526	$ 683	$ 152	$ 1,361
Depreciation	60	63	55	178
Disposals	(147)	–	–	(147)
Balance as at September 30, 2021	**$ 439**	**$ 746**	**$ 207**	**$ 1,392**

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Net book value, by asset class				
Net book value as at March 31, 2021	$ 146	$ 484	$ 1,384	$ 2,014
Net book value as at September 30, 2021	210	532	1,508	2,250

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

8. LEASES

8.1 RIGHT-OF-USE ASSETS

The changes in right-of-use assets are shown in the following table.

	Office space leases	Data warehouse leases	Total right-of-use assets
Balance as at March 31, 2021	$ 7,574	$ 407	$ 7,981
Additions	457	–	457
Depreciation	(619)	(61)	(680)
Disposals	–	–	–
Balance as at September 30, 2021	**$ 7,412**	**$ 346**	**$ 7,758**

8.2 LEASE OBLIGATIONS

	As at	
	September 30, 2021	March 31, 2021
Current portion	$ 1,252	$ 1,232
Long-term portion	6,847	7,112
Total	**$ 8,099**	$ 8,344

The changes in lease obligations are shown in the following table.

Balance as at March 31, 2021	$	8,344
Additions		457
Payments		(819)
Interest expense		117
Balance as at September 30, 2021	**$**	**8,099**

The following table shows the contractual undiscounted cash flows for lease obligations as at September 30, 2021.

One year or less	$	1,460
Between one and two years		2,230
Between two and five years		2,654
Over five years		2,719
Total	**$**	**9,063**

The expense relating to variable lease payments not included in the measurement of lease obligations was $424. This consisted of variable lease payments for operating costs, property taxes and insurance. There were immaterial expenses relating to short-term leases, and leases of low-value assets. Total cash outflow for leases was $1,243, including $702 for principal payments on lease obligations.

9. 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, 2021		March 31, 2021	
Current portion	$	3,719	$	3,667
Long-term portion		34,856		33,430
Total employee benefits	**$**	**38,575**	**$**	37,097

The significant actuarial assumptions are disclosed in the *Annual Report 2020–2021*. 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.

Balance as at March 31, 2021	**$**	37,097
Current service cost		1,016
Interest on the present value of the obligation		659
Employee benefit payments		(197)
Balance as at September 30, 2021	**$**	**38,575**

	Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	2021	2020	2021	2020
Current service cost	$ 509	$ 420	$ 1,016	$ 841
Interest on the present value of the obligation	329	307	659	614
Employee benefit expenses	**$ 838**	$ 727	**$ 1,675**	$ 1,455

10. REVENUE FROM SERVICES

10.1 ACCOUNTING POLICY

Accrued revenue arises when, at a reporting date, the services delivered through fixed-fee service level arrangements exceed the amount of revenue invoiced.

Deferred revenue arises when the amount invoiced to the Client-Partners exceeds the services delivered through fixed-fee service level arrangements. The Corporation has an unconditional right to payment when it has invoiced in accordance with fixed-fee service level arrangements. The amounts in excess will be recognized in revenue as services are delivered.

10.2 SEGMENTED REVENUE

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, 2021

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total, by region
	Activites						
Atlantic	$ 2,320	$ 1,311	$ 374	$ 380	$ 222	$ 492	$ 5,099
Quebec	2,419	1,134	385	373	290	364	4,965
National Capital	1,163	3,565	1,626	67	134	437	6,992
Ontario	3,170	1,392	714	555	1,371	519	7,721
Western	5,208	2,181	312	1,048	371	418	9,538
Head Office	31	10	1	375	343	–	760
Total revenue, by activity	**$ 14,311**	**$ 9,593**	**$ 3,412**	**$ 2,798**	**$ 2,731**	**$ 2,230**	**$ 35,075**

Six months ended September 30, 2021

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total, by region
	Activites						
Atlantic	$ 4,630	$ 3,024	$ 810	$ 873	$ 462	$ 972	$ 10,771
Quebec	5,067	2,476	795	774	618	752	10,482
National Capital	2,281	6,823	3,341	145	245	863	13,698
Ontario	6,713	2,947	1,352	1,186	2,753	1,076	16,027
Western	10,248	4,781	715	2,148	807	795	19,494
Head Office	64	32	1	797	769	–	1,663
Total revenue, by activity	**$ 29,003**	**$ 20,083**	**$ 7,014**	**$ 5,923**	**$ 5,654**	**$ 4,458**	**$ 72,135**

Three months ended September 30, 2020

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total, by region
	Activites						
Atlantic	$ 1,966	$ 1,351	$ 341	$ 421	$ 157	$ 300	$ 4,536
Quebec	2,108	1,297	346	348	348	306	4,753
National Capital	1,121	2,256	1,309	79	111	288	5,164
Ontario	3,186	1,370	545	550	1,036	450	7,137
Western	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						
	Activites						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total, by region
Atlantic	$ 3,925	$ 3,017	$ 738	$ 823	$ 335	$ 571	$ 9,409
Quebec	4,450	2,825	701	749	661	681	10,067
National Capital	2,270	4,690	2,573	181	214	616	10,544
Ontario	6,509	3,125	1,305	1,167	2,206	1,009	15,321
Western	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

The following tables disaggregate revenue by region and contract type.

Time-based revenue

	Three months ended September 30		Six months ended September 30	
Region	2021	2020	2021	2020
Atlantic	$ 1,016	$ 679	$ 2,108	$ 1,437
Quebec	1,726	1,515	3,599	3,103
National Capital	5,887	4,286	11,436	8,672
Ontario	2,556	1,918	4,926	4,066
Western	2,432	2,043	4,991	4,132
Head Office	509	506	1,091	1,163
Total time-based revenue	**$ 14,126**	$ 10,947	**$ 28,151**	$ 22,573

Fixed-fee revenue

	Three months ended September 30		Six months ended September 30	
Region	2021	2020	2021	2020
Atlantic	$ 4,083	$ 3,857	$ 8,663	$ 7,972
Quebec	3,239	3,238	6,883	6,964
National Capital	1,105	878	2,262	1,872
Ontario	5,165	5,219	11,101	11,255
Western	7,106	5,974	14,503	12,677
Head Office	251	196	572	425
Total fixed-fee revenue	**$ 20,949**	$ 19,362	**$ 43,984**	$ 41,165
Total services revenue	**$ 35,075**	$ 30,309	**$ 72,135**	$ 63,738

11. OPERATING AND ADMINISTRATIVE EXPENSES

	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Cloud computing services	$ 483	$ 479	$ 917	$ 817
Software maintenance	337	260	655	638
Professional services	273	471	591	822
Equipment rental	265	234	509	461
Telephone and data communications	200	213	389	426
Leased location operating costs	176	264	424	521
Office services, supplies and equipment	88	119	156	246
Client services and communications	72	77	220	124
Employee training and development	66	142	203	244
Furniture and equipment	49	40	91	304
Staff relocation	47	16	87	24
Computer software	46	15	58	37
Recruiting	25	5	50	5
Memberships and subscriptions	15	18	53	33
Postage and freight	10	5	14	10
Computer hardware	7	5	7	7
Travel	6	3	6	5
Hospitality	5	6	11	22
Other	3	10	7	13
Leasehold improvements	–	–	7	–
Total	**$ 2,173**	$ 2,382	**$ 4,455**	$ 4,759

12. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

12.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets subject to credit risk as at September 30, 2021, was $72,133 (as at March 31, 2021, it was $62,827) and represented DCC's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset.

DCC minimizes credit risk on cash by depositing the cash only with reputable and high-quality financial institutions. The Corporation has no significant exposure to credit risk on trade receivables, as all of the trade receivables are due from the Government of Canada. The Corporation is exposed to concentration risk of trade receivables with DND, as described in Note 13. Based on historical default rates and the aging analysis, the Corporation believes there are no requirements for an expected credit loss (ECL).

Other assets consist of balances related to travel advances to employees and computer loans to employees. Prepaids are not included in other assets. Trade and other payables consist of balances owed to suppliers. Commodity taxes payable and accrued vacation and overtime are not included in trade and other payables.

	As at September 30, 2021		
	Fair value through profit and loss	Amortized cost	Carrying amount
Cash and cash equivalents	$ 33,894	$ –	$ 33,894
Investments	–	14,310	14,310
Trade receivables	–	19,234	19,234
Other receivables	–	3,621	3,621
Other assets	–	7	7
Accrued revenue	–	1,067	1,067
Total financial assets	**$ 33,894**	**$ 38,239**	**$ 72,133**
Trade and other payables	$ –	$ 7,502	$ 7,502
Total financial liabilities	**$ –**	**$ 7,502**	**$ 7,502**

	As at March 31, 2021		
	Fair value through profit and loss	Amortized cost	Carrying amount
Cash and cash equivalents	$ 35,632	$ –	$ 35,632
Investments	–	10,304	10,304
Trade receivables	–	15,156	15,156
Other receivables	–	1,729	1,729
Other assets	–	6	6
Total financial assets	$ 35,632	$ 27,195	$ 62,827
Trade and other payables	$ –	$ 9,756	$ 9,756
Total financial liabilities	$ –	$ 9,756	$ 9,756

12.2 LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of DCC's financial liabilities for trade and other payables as at September 30, 2021, was $7,502 (as at March 31, 2021, it was $9,756) and represented the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low, since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. All trade and other payables mature within six months or less. In addition, as at September 30, 2021, the Corporation's financial assets exceeded its financial liabilities by $64,631 (as at March 31, 2021, the figure was $53,071).

	As at September 30, 2021			
	Carrying amount	Contractual cash flows	Six months or less	Over six months
Trade and other payables	$ 7,502	$ 7,502	$ 7,502	$ –
Total financial liabilities	**$ 7,502**	**$ 7,502**	**$ 7,502**	**$ –**

	As at March 31, 2021			
	Carrying amount	Contractual cash flows	Six months or less	Over six months
Trade and other payables	$ 9,756	$ 9,756	$ 9,756	$ –
Total financial liabilities	$ 9,756	$ 9,756	$ 9,756	$ –

12.3 MARKET RISK

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

The Corporation is exposed to fluctuations in interest rates on its investments. As at September 30, 2021, all of the investments ($14,310) were in fixed interest-bearing instruments (as at March 31, 2021, the figure was $10,304). Fluctuations in the interest rate would affect the fair value of the instruments. Management intends to hold these instruments until maturity. The Corporation has determined that the market risk is not significant.

13. 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 consideration given or received for the services provided. The Corporation's services revenue in the second quarter of 2021–22 totalled $35,075 compared to $30,309 in the same period in 2020–21 and was generated from services provided to entities owned by the Government of Canada. For the year-to-date period ending September 30, 2021, this revenue totalled $72,135 compared to $63,738 for the comparable prior-year period.

The Corporation incurred expenses with other Government of Canada entities. These transactions totalled $336 for the second quarter of 2021–22 compared to $22 in the same period in 2020–21. The transactions totalled $406 for the year-to-date period of 2021–22 compared to $152 in the same period in 2020–21. Of these expenses, the Corporation recovered $322 from DND in the second quarter, and $378 in the year-to-date period.

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

	As at			
	September 30, 2021		March 31, 2021	
Due from:				
Department of National Defence (DND)	$	17,817	$	13,987
Canadian Forces Housing Agency		1,199		1,016
Communications Security Establishment		199		133
Shared Services Canada		19		20
	$	**19,234**	**$**	15,156
Due to:				
Shared Services Canada	$	–	$	17
Department of Justice		80		86
	$	**80**	**$**	103

13.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are those persons (including members of the Board of Directors) who have 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				**Six months ended September 30**			
	2021		2020		2021		2020	
Short-term benefits	$	881	$	817	$	2,191	$	1,972
Post-employment benefits		111		113		299		267
Total	**$**	**992**	$	930	**$**	**2,490**	$	2,239

14. CONTINGENT LIABILITIES

The Corporation's efforts to resolve disputes are reflected in the number and value of claims before the courts. As at September 30, 2021, there were 14 ongoing claims totalling $21,061. These were related to contracts DCC had put in place on behalf of its Client-Partners. These figures can be compared with 13 ongoing claims totalling $19,538 as at March 31, 2021. 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, 2021, there was one other ongoing legal claim, not related to DND, in relation to a grievance with significant monetary damages. Due to uncertainties surrounding the claim and the early stage 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, 2021.

15. COMPARATIVE FIGURES

The Corporation has reclassified comparative information in the condensed interim statement of financial position and condensed interim statement of cash flows to be consistent with current period presentation.