DEFENCE CONSTRUCTION CANADA

2022–2023 FIRST QUARTER FINANCIAL REPORT

PERIOD ENDED JUNE 30, 2022

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 thousands of Canadian dollars.

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the first quarter ended June 30, 2022, 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 June 30, 2022.

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. 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, 2022 (the "*Annual Report 2021–2022*"). 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.

In the following analysis, all references to the first quarter refer to the three months ended June 30, 2022. All references to the previous year's first quarter relate to the three months ended June 30, 2021. All references to the previous year end relate to March 31, 2022.

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 Canada (DCC, or the Corporation) is a Crown corporation that procures and delivers defence infrastructure and environmental projects. Our principal mandate is to meet the infrastructure, real property and environmental needs of the Department of National Defence and the Canadian Armed Forces (DND/CAF) by advising on, collaboratively planning, procuring and managing defence contracts.

Throughout our history, DCC has supported the Government of Canada, including its departments and agencies both at home and abroad. We currently have two primary Client-Partners: the infrastructure and environment (IE) community at DND, and the Communications Security Establishment. We also provide services to Shared Services Canada for its Enterprise Data Centre at CFB Borden.

We are proud to have worked with DND since 1951, acquiring the specialized expertise and large knowledge base to manage projects at home and abroad, from traditional to innovative, from simple maintenance work to complex construction projects. 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 handles planning and contracting for goods and for professional, environmental, real property, construction and maintenance services.

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.

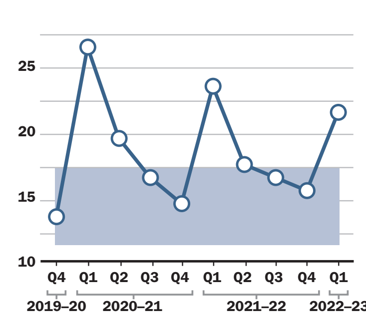
REAL PROPERTY MANAGEMENT SERVICES
The Real Property Management Services Team supports the efficient maintenance of DND's infrastructure by providing strategic and tactical support throughout the entire real property lifecycle.

3.0 OPERATIONAL PERFORMANCE INDICATORS

3.1 COST OF DCC SERVICE DELIVERY

This indicator was initially established to measure the cost of DCC's services to its Client-Partners, in relation to the size of the infrastructure and environmental program delivered by DCC. In recent years, DND has requested increased support from DCC in non-program-related services. As a result, DCC has revised its cost of DCC service delivery, commencing in fiscal 2022–23, to include only service revenue related to program-driven services, which includes Contract Management, Project and Program Management, and Contract services. DCC expects these costs to continue to fall in the range of 9% to 15% of its Client-Partner's actual program expenditures. For the first quarter of 2022–23, the cost of service delivery was 19%, an increase of three percentage points from 16% in 2021–22. This increase was due to a slower DND program rollout than that in the previous year's first quarter, along with a planned billing rate increase and higher demand for services, which led to higher revenue. The cost of service delivery is typically higher than the targeted range at the beginning of the fiscal year, due to the timing of IE contract expenditures, and moves within the expected range as the year progresses and contract expenditures are incurred.

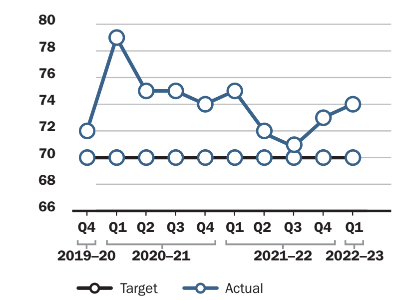
Cost of Service Delivery
(Percentage, year to date)



3.2 EMPLOYEE UTILIZATION RATE

The employee 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 performance indicator for efficiency and effectiveness, and a key financial management tool. The Corporation sets a target to recover 70% of employee hours from the Client-Partners. For the first quarter of 2022–23, the utilization rate was 74%—a decrease of one percentage point from the same period in 2021–22. The utilization rate decreased primarily due to increased vacation taken by employees during this period, as a result of the lifting of pandemic-related restrictions in some locations, as well as to non-revenue-generating corporate strategic initiatives in progress.

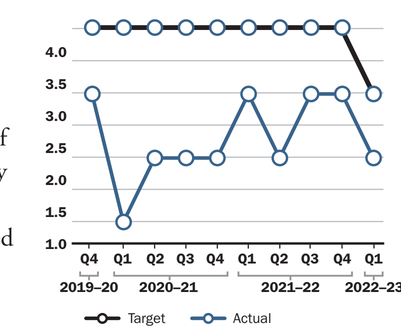
Utilization Rate
(Percentage of employee hours spent on billable contract work, year to date)



3.3 INVESTMENT IN TRAINING AND DEVELOPMENT

DCC's ability to serve DND is heavily dependent on the skills of its employees, and maintaining a skilled and professional workforce is a key corporate objective. DCC's performance indicator for training and development is based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development activities, expressed as a percentage of base salary cost. In 2022–23, DCC reduced its annual overall corporate target for spending on training and development from 4% to 3% of base salary costs, due to expected lower travel costs related to training from an expected increase in virtual training.

Investment in Training and Development
(Percentage, year to date)



For the first quarter of 2022–23, the actual percentage was 2%, a decrease from 3% in the same period in 2021–22. The amount of training is dependent on the effort required to develop and maintain internal courses, and the timing and delivery model of professional development activities in various regions. The increase in the previous year occurred because training initiatives that had been deferred due to COVID-19 pandemic restrictions took place. In the current period, training activities are returning to normal as pandemic restrictions continue to be lifted.

4.0 RISK MANAGEMENT

There have been no material changes to the corporate risks identified by management and discussed in section 5.0, Risk Management, of the MD&A in DCC's *Annual Report 2021–2022*.

5.0 FINANCIAL PERFORMANCE

5.1 REVENUE

SERVICES REVENUE
Services revenue for all activities combined was $40 million in the first quarter, an increase of $3 million or approximately 8% from the same period in 2021–22. The increase was due to

an increase in demand for services from the Client-Partners, combined with a planned billing rate increase for the year.

In general, services revenue directly correlates with DND's spending on infrastructure and environmental projects. Services revenue increases when the number and dollar value of DND projects increase and decreases when the opposite occurs. The cyclical nature of DND funding has a direct impact on demand for the Corporation's services and its services revenue. Payments to project contractors made by DCC on behalf of its Client-Partners totalled $157 million, or 10% less in the first quarter of 2022–23 than in the same period in 2021–22.

REVENUE, BY ACTIVITY

	Three months ended June 30		Change	
(in thousands of dollars)	**2022**	2021	**$**	%
Contract Management	**$ 16,706**	$ 14,692	$ 2,014	14%
Project and Program Management	**9,977**	10,490	(513)	–5%
Real Property Technical Support	**4,450**	3,602	848	24%
Contracting	**3,211**	3,125	86	3%
Construction Technical Support	**2,742**	2,923	(181)	–6%
Environmental Technical Support	**3,057**	2,228	829	37%
Total services revenue	**$ 40,143**	$ 37,060	$ 3,083	8%

CONTRACT MANAGEMENT

Contract Management revenue increased by 14% over the previous year's first quarter. The higher revenue was a result of increased demand from the Client-Partners (which accounted for 11 percentage points of the increase) and the increase in billing rates (which accounted for 3 percentage points of the increase). The higher demand reflected the variability of services used by the Client-Partners as projects moved through the various stages from planning and contracting to contract management.

PROJECT AND PROGRAM MANAGEMENT

Project and program management revenue decreased by 5% over the previous year's first quarter. The decrease over the over the previous year's first quarter was due to lower demand from the Client-Partners (which accounted for 8 percentage points of the decrease), offset by the planned billing rate increase of 3%.

REAL PROPERTY TECHNICAL SUPPORT

Real Property Technical Support revenue increased by 24% over the previous year's first quarter, due to the billing rate increase of 3%, and increased demand for services related to facility and portfolio management (which accounted for 21 percentage points of the increase).

CONTRACTING

Revenue from Contracting increased by 3% over the previous year's first quarter, due to the billing rate increase of 3%.

CONSTRUCTION TECHNICAL SUPPORT

Revenue from Construction Technical Support decreased by 6% over the previous year's first quarter, due to lower demand from the Client-Partners (which accounted for 9 percentage points of the decrease), offset by the billing rate increase of 3%.

ENVIRONMENTAL TECHNICAL SUPPORT

Environmental Technical Support revenue increased by 37% over the previous year's first quarter, due to the billing rate increase (which accounted for 3 percentage points of the increase) and an increase in demand for these services (which accounted for 34 percentage points of the increase).

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, increased in 2022–23 by $124,000 or approximately 118% over the previous fiscal year. The increase was due to a 5% rate of return, which was higher than the 2% rate of return in the prior period.

	Three months ended June 30		Change	
(in thousands of dollars)	**2022**	2021	**$**	%
Investment revenue	**$ 229**	$ 105	124	118%

5.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $29 million in the first quarter, an increase of $3 million or approximately 13% over the previous year's first quarter. The 13% increase was mainly due to an increase of approximately 8% or 86 full-time equivalents (FTEs) over the same period in the previous year, in response to increased demand from the Client-Partners. The remaining increase related to a planned annual increase in salary, related to cost of living and performance pay.

In the first quarter, employee benefits totalled $8 million, an increase of $653,000 or approximately 9% from the same period in the prior year. The increase was mainly due to a growth in the Corporation's workforce, slightly offset by a decrease in the cost of employee future benefits.

	Three months ended June 30		Change	
(in thousands of dollars)	**2022**	2021	**$**	%
Salaries	**$ 29,093**	$ 25,705	$ 3,388	13%
Employee benefits	**7,527**	6,874	653	9%
Total salaries and employee benefits	**$ 36,620**	$ 32,579	$ 4,041	12%
Employee benefits as a % of salaries	**26%**	27%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $3 million in the first quarter, an increase of $362,000 or approximately 16% over the previous year's first quarter. A variety of factors influenced these expenses.

	Three months ended June 30		Change		
(in thousands of dollars)	**2022**	2021	$	%	**Variance analysis**
Cloud computing services	**$ 477**	$ 434	$ 13	3%	The increase was due to the introduction of mobile contract man-agement software.
Software maintenance	**438**	318	120	38%	Software maintenance costs increased due to a higher headcount and the purchase of new software licences requiring support.
Professional services	**360**	318	42	13%	The increase was due to a higher number of information technology (IT) initiatives, which required the hiring of IT consultants.
Equipment rental	**259**	244	15	6%	Equipment rental costs increased because DCC rented additional laptops due to a headcount increase.
Leased location operating costs	**247**	248	(1)	0%	The variance was not material.
Telephone and data communications	**181**	189	(8)	–4%	The decrease arose from a reduction in data and teleconferencing systems usage due to the transition to a hybrid work environment and the increased use of Microsoft Teams as a virtual collaborative platform.
Office services, supplies and equipment	**173**	68	105	154%	The increase was due to the over-flow of 70th anniversary costs into the current period, as well as to an increase in insurance costs and increased costs related to more employees returning to the work-place.
Employee training and development	**136**	137	(1)	–1%	The variance was not material.
Client services and communications	**112**	148	(36)	–24%	The decrease was due to 70th anniversary events in the prior period.
Travel	**106**	–	106	100%	Travel costs rose because travel increased, due to the easing of COVID-19 pandemic restrictions.
Computer software	**60**	12	48	400%	The increases were due to the purchase of additional software licences related to the increase in FTEs.
Staff relocation	**40**	40	–	0%	No variance.
Memberships and subscriptions	**28**	38	(10)	–26%	The variance was due to the timing of annual subscriptions.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

	Three months ended June 30		Change		
(in thousands of dollars)	**2022**	2021	$	%	**Variance analysis**
Hospitality	**20**	6	14	233%	The increase was due to the easing of COVID-19 pandemic restrictions, resulting in an increase in the number of in-person events.
Recruiting	**11**	25	(14)	–56%	The decrease was due to lower demand for recruiting services in the current period.
Computer hardware	**8**	–	8	100%	The increase was due to one-time purchases of computer accessories in the current period.
Furniture and equipment	**7**	42	(35)	–83%	The decrease was due to the completion of the office renovations in the prior period.
Postage and freight	**7**	4	3	75%	Postage costs increased due to the mailing of DCC's 70th anniversary material to sites across the country.
Other	**4**	4	–	0%	No variance.
Leasehold improvements	**–**	7	(7)	–100%	The decrease was due to the com-pletion of office renovations in the prior period.
Total operating and administrative expenses	**$ 2,644**	$ 2,282	$ 362	16%	

DEPRECIATION AND AMORTIZATION

Depreciation and amortization combined increased by $35,000 over the prior year. Depreciation of property, plant and equipment increased by 74% or $45,000 due to the depreciation of new furniture and leasehold improvement costs related to the Head Office renovations. The decrease of $13,000 in depreciation of right-of-use assets was mostly due to various copier leases terminated in the last quarter of 2021–22. The increase in amortization of intangible assets was due to the purchase of additional software.

	Three months ended June 30		Change	
(in thousands of dollars)	**2022**	2021	$	%
Depreciation of right-of-use assets	**$ 330**	$ 343	$ (13)	–4%
Depreciation of property, plant and equipment	**106**	61	45	74%
Amortization of intangible assets	**5**	2	3	150%
Total depreciation and amortization	**$ 441**	$ 406	$ 35	9%

5.3 NET INCOME AND TOTAL COMPREHENSIVE INCOME

The net income and total comprehensive income in the current period was $615,000 compared with a net income of $2 million in the previous fiscal year's first quarter—a decrease of $1 million. The lower net income in the period was caused by the increase in salaries driven by an increase in FTEs and the annual salary increase, as well as higher operating costs. There were increased costs for software maintenance, office requirements and travel, which were related to the increase in FTEs as well as the easing of COVID-19 restrictions.

	Three months ended June 30		Change	
(in thousands of dollars)	**2022**	2021	**$**	%
Net income and other comprehensive income	**$ 615**	$ 1,839	$ (1,224)	–67%

5.4 LIQUIDITY AND CAPITAL RESOURCES

DCC's financial and cash management policy is discussed in the *Annual Report 2021–2022*.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments totalled $62 million at June 30, 2022, an increase of $5 million or 9% from March 31, 2022.

The cash and cash equivalents balance at June 30, 2022, was $42 million, an increase of $5 million or 14% from March 31, 2022. In the three-month period after March 31, 2022, the Corporation generated $5 million in cash through operating activities, spent $14,000 on capital expenditures, generated $320,000 from the redemption of investments and paid $315,000 for lease obligations.

As at June 30, 2022, DCC's overall cash balance was higher than its 2022–23 targeted operating cash reserves of $26 to $34 million, primarily due to a faster collection of trade receivables from the Client-Partners.

Investments (both current and long term) at June 30, 2022, were $20 million, a decrease of $333,000 or 2% from the 2021–22 year end. The decrease was due to the redemption of investments that reached maturity.

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity. The Corporation currently invests in listed bonds, guaranteed investment certificates and mutual funds that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

TRADE RECEIVABLES

Trade receivables are due from the Corporation's Client-Partners, mainly DND. At June 30, 2022, trade receivables were $20 million, which represented an increase of $3 million or 19% from March 31, 2022. The increase was mostly due to increased revenue from DND, partially offset by a reduction in the time needed to collect those receivables. All of the trade receivables were assessed to be fully collectible.

CURRENT LIABILITIES

Current liabilities were $29 million at June 30, 2022, an increase of $10 million or 56% from March 31, 2022. 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)	**June 30, 2022**	March 31, 2022	**$**	%
Cash and cash equivalents	**$ 42,162**	$ 36,918	$ 5,244	14%
Investments	**20,267**	20,600	(333)	–2%
Cash and cash equivalents and Investments	**$ 62,429**	$ 57,518	$ 4,911	9%
Trade receivables	**$ 19,820**	$ 16,676	$ 3,144	19%
Current liabilities	**$ 28,970**	$ 18,593	$ 10,377	56%

5.5 EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave and retirement allowance for active employees, and health and dental care and life insurance benefits for its retirees. This estimate is actuarially determined. Effective April 2022, the sick leave program was curtailed. Current employees' accumulated sick leave banks were frozen and may be used in the future. Sick leave has been replaced by a short-term disability program. The accrual for employee benefits at June 30, 2022, was $34 million, an increase of $555,000 or approximately 2% from March 31, 2022.

Overall, the liability increased because the current service cost ($437,000) and the interest on the present value of the obligation ($348,000) were higher than the employee benefit payments ($230,000).

	As at		Change	
(in thousands of dollars)	**June 30, 2022**	March 31, 2022	**$**	%
Current portion	**$ 2,089**	$ 1,803	$ 286	16%
Long-term portion	**31,798**	31,529	269	1%
Total employee benefits	**$ 33,887**	$ 33,332	$ 555	2%

5.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for the first quarter totalled $72,000, a decrease of $747,000 or 91% from the previous year's first quarter. The decrease was mainly due to the one-time leasehold improvement costs incurred in 2021–22 related to the Head Office renovations and the renewal of one of the regional office leases in the prior period.

(in thousands of dollars)	Three months ended June 30, 2022 **2022**	2021	Change $	%
Computer equipment	**$ –**	$ 124	$ (124)	–100%
Furniture and equipment	**60**	111	(51)	–46%
Leasehold improvements	**–**	127	(127)	–100%
Intangible assets	**12**	–	12	100%
Right-of-use assets	**–**	457	(457)	–100%
Total capital expenditures	**$ 72**	$ 819	$ (747)	–91%

5.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in the first quarter of 2022–23 with the projections in the Corporate Plan (the Plan). The Corporation's actual performance compared to the Plan was lower than anticipated. Services revenue for the period was 3% lower than projected in the Plan. The decrease was due to lower-than-anticipated demand for services from DND.

Travel and disbursement revenue and expenses were 22% higher than in the Plan, due to the reduction in COVID-19 restrictions.

Investment revenue was 83% higher than anticipated in the Plan, due to a higher bank and investment balance and higher interest rates than anticipated.

Salaries and employee benefits were 3% higher than projected in the Plan, due to timing of employee vacations. This was partially countered by lower-than-planned FTEs in the first quarter.

Operating and administrative expenses were 31% lower than projected. The decrease was due mainly to the timing of professional services, training and development, and cloud services costs.

Depreciation and amortization were 3% lower than the Plan, due to the timing of signing the Pacific regional office lease. Net income was $1 million lower than forecasted in the Plan, due to lower demand for services, and higher-than-expected salary and benefits costs.

Capital expenditures were 71% lower than projected, due to the signing of the Pacific regional office lease.

ACTUAL PERFORMANCE VERSUS PLAN

(in thousands of dollars)	Three months ended June 30, 2022 **Actual**	Corporate Plan	Change $	%
Revenue				
Services revenue	**$ 40,143**	$ 41,508	$ (1,365)	–3%
Travel and disbursement revenue	**711**	584	127	22%
Investment revenue	**229**	125	104	83%
Total revenue	**41,083**	42,217	(1,134)	–3%
Expenses				
Salaries and employee benefits	**36,620**	35,568	1,052	3%
Operating and administrative expenses	**2,644**	3,843	(1,199)	–31%
Travel and disbursement expenses	**711**	584	127	22%
Depreciation and amortization	**441**	454	(13)	–3%
Finance costs	**52**	50	2	4%
Total expenses	**40,468**	40,499	(31)	0%
Net income and other comprehensive income	**615**	1,718	(1,103)	–64%
Capital expenditures	**$ 72**	$ 250	$ (178)	–71%

5.8 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the three months ended June 30, 2022, decreased by $18 million or 10% compared to the same period last year. This decrease was mostly due to a slower DND program rollout compared to the previous year-to-date period. The DND program in 2022–23 is expected to be similar to that of 2021–22.

(in thousands of dollars)	Three months ended June 30 **2022**	2021	Change $	%
Ontario	**$ 32,418**	$ 47,834	$ (15,416)	–32%
Quebec	**29,343**	21,794	7,549	35%
National Capital	**26,720**	29,054	(2,334)	–8%
Pacific	**24,651**	26,031	(1,380)	–5%
Western	**23,007**	22,572	435	2%
Atlantic	**20,947**	27,329	(6,382)	–23%
Total contract expenditures	**$ 157,086**	$ 174,614	$ (17,528)	–10%

6.0 DCC FUTURE OUTLOOK

6.1 NORMAL BUSINESS OPERATIONS DURING THE PANDEMIC

The Corporation's operations have not been significantly impacted by COVID-19. As the COVID-19 pandemic continues to evolve, there is still uncertainty about future waves of infection and government interventions, but the Corporation does not believe there will be a negative impact on operations, as DCC has navigated the COVID-19 pandemic with minimal disruptions and its financial position has remained strong.

6.2 MONITORING THE WAR IN UKRAINE

On February 24, 2022, Russian troops started invading Ukraine. The ongoing military attack continues to lead to significant casualties, dislocation of the population, damage to infrastructure and disruption of economic activity in Ukraine. In response, multiple jurisdictions, including Canada, have imposed tranches of economic sanctions on Russia.

While the Corporation is unable to determine or predict the duration and impact of the war in Ukraine, it continues to monitor its operations and stays ready to provide any incremental support required by DND. Although the Corporation has incurred minimal increases in pricing of its goods and services, it continues to monitor closely the wider effects of the war—including increasing inflationary pressures and supply-chain disruptions—on its operations. The surge in inflation in the first half of 2022 increased uncertainty around our inflation assumptions for future salary increases and long-term assumptions for our employee benefit plan—even though we have not changed our assumptions from 2021–22, as our long-term view of inflation has not changed.

DEFENCE CONSTRUCTION CANADA
2022–2023 FIRST QUARTER FINANCIAL REPORT
> *MANAGEMENT'S DISCUSSION AND ANALYSIS*

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

Unless otherwise stated, all amounts are in thousands of 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

Kevin Petit-Frère, CPA, CA
Acting Vice-President,
Finance and Chief Financial Officer

Ottawa, Canada
August 29, 2022

DEFENCE CONSTRUCTION (1951) LIMITED

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)	Notes	As at June 30, 2022	March 31, 2022
Assets			
Cash and cash equivalents		**$ 42,162**	$ 36,918
Investments	6	**3,006**	2,134
Accrued revenue	9	**3,053**	–
Trade receivables	14	**19,820**	16,676
Prepaids and other assets		**1,486**	1,096
Other receivables		**1,713**	1,793
Current assets		**71,240**	58,617
Investments	6	**17,261**	18,466
Property, plant and equipment	7	**2,018**	2,064
Intangible assets		**44**	37
Right-of-use assets	13	**6,703**	7,033
Non-current assets		**26,026**	27,600
Total assets		**$ 97,266**	$ 86,217
Liabilities			
Trade and other payables	14	**$ 20,566**	$ 14,227
Deferred revenue	9	**5,140**	1,285
Employee benefits	8	**2,089**	1,803
Lease obligations	13	**1,175**	1,278
Current liabilities		**28,970**	18,593
Employee benefits	8	**31,798**	31,529
Lease obligations	13	**5,923**	6,135
Non-current liabilities		**37,721**	37,664
Total liabilities		**66,691**	56,257
Equity			
Share capital—authorized: 1,000 common shares of no par value; issued: 32 common shares		**–**	–
Retained earnings		**30,575**	29,960
Total equity		**30,575**	29,960
Total liabilities and equity		**$ 97,266**	$ 86,217

Commitments: See note 13. Contingent liabilities: See note 15.

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 June 30	
(in thousands of dollars)	Notes	**2022**	2021
Services revenue	9	**$ 40,143**	$ 37,060
Travel and disbursement revenue		**711**	276
Investment revenue		**229**	105
Total revenue		**41,083**	37,441
Salaries and employee benefits		**36,620**	35,579
Operating and administrative expenses	10	**2,644**	2,282
Travel and disbursement expenses		**711**	276
Depreciation of property, plant and equipment	7	**106**	61
Depreciation of right-of-use assets	13	**330**	343
Amortization of intangible assets		**5**	2
Finance costs	13	**52**	59
Total expenses		**40,468**	35,602
Net income and other comprehensive income		**$ 615**	$ 1,839

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

DEFENCE CONSTRUCTION (1951) LIMITED

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Three months ended June 30	
(in thousands of dollars)	**2022**	2021
Share capital	**$ –**	$ –
Retained earnings		
Balance as at the beginning of the period	**29,960**	12,454
Net income and other comprehensive income	**615**	1,839
Balance as at the end of the period	**$ 30,575**	$ 14,293
Equity	**$ 30,575**	$ 14,293

DEFENCE CONSTRUCTION (1951) LIMITED

CONDENSED INTERIM STATEMENT OF CASH FLOWS

(in thousands of dollars)	Notes	Three months ended June 30 2022	2021
Cash flow provided by operating activities			
Net income		**$ 615**	$ 1,839
Adjustments to reconcile income to cash provided by (used in) operating activities			
Employee benefits expensed	8	**785**	837
Employee benefits paid	8	**(230)**	(184)
Depreciation of property, plant and equipment	7	**106**	61
Depreciation of right-of-use assets	13	**330**	343
Amortization of intangible assets		**5**	2
Amortization of investment premiums		**13**	3
Change in non-cash operating working capital			
Trade receivables		**(3,144)**	(2,469)
Other receivables		**80**	(1,603)
Prepaids and other assets		**(390)**	17
Accrued revenue		**(3,053)**	(907)
Trade and other payables		**6,281**	3,087
Deferred revenue		**3,855**	2,860
Net cash flows provided by operating activities		**5,253**	3,886
Cash flows provided by (used in) investing activities			
Redemption and disposition of investments		**320**	1,125
Acquisition of property, plant and equipment	7	**(2)**	(111)
Acquisition of intangible assets		**(12)**	–
Net cash flows used in investing activities		**306**	1,014
Cash flows used in financing activities			
Repayment of lease obligations	13	**(315)**	(310)
Net cash flows used in financing activities		**(315)**	(310)
Increase in cash and cash equivalents during the period		**5,244**	4,590
Cash and cash equivalents at the beginning of the period		**36,918**	35,632
Cash and cash equivalents at the end of the period		**$ 42,162**	$ 40,222

Supplemental cash flow information: See note 11.

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

DEFENCE CONSTRUCTION CANADA
2022–2023 FIRST QUARTER FINANCIAL REPORT
> *UNAUDITED 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, 2022, 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, Communications Security Establishment, Shared Services Canada, and Public Services and Procurement Canada. Revenue is generated from fees charged for specific services provided.

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, 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, 2022, 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, 2022, except for the application of new standards, amendments and interpretations effective January 1, 2022, 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, 2022.

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, 2022.

6. INVESTMENTS

Investments consist of Canadian, provincial and federal bonds with effective interest rates ranging from 0.4% to 3% (coupon rates ranging from 0.5% to 4.4%), guaranteed investment certificates (GICs) ranging from 0.8% to 2.8%, and mutual funds with variable interest rates.

The maturity dates of the bonds vary from March 2023 to June 2027 and those of the GICs vary from July 2022 to March 2027, and the Corporation intends to hold all of them to maturity. The mutual fund accounts can be liquidated on demand. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following table.

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

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

	As at	
	June 30, 2022	March 31, 2022
Current portion	**$ 3,006**	$ 2,134
Long-term portion	**17,261**	18,466
	$ 20,267	$ 20,600

	As at	
	June 30, 2022	March 31, 2022
Carrying amount at amortized cost		
Provincial bonds	**$ 6,170**	$ 6,503
Federal bonds (Note 14)	**1,001**	1,001
Guaranteed investment certificates	**13,096**	13,096
	$ 20,267	$ 20,600

	As at	
	June 30, 2022	March 31, 2022
Fair value		
Provincial bonds	**$ 5,905**	$ 6,344
Federal bonds (Note 14)	**965**	986
Guaranteed investment certificates	**13,205**	13,155
	$ 20,075	$ 20,485

			As at June 30, 2022			
	Effective interest rate	**Coupon interest rate**	**Less than one year**	**One to five years**	**More than five years**	**Total**
Obligations						
Federal bonds (Note 14)	1.7%	1.8%	$ –	$ 1,001	$ –	**$ 1,001**
Provincial bonds	0.4%–3%	0.5%–4.4%	1,907	4,263	–	**6,170**
Guaranteed investment certificates	0.8%–2.8%	0.8%–2.8%	1,100	11,996	–	**13,096**
			$ 3,007	**$ 17,260**	**$ –**	**$ 20,267**

7. PROPERTY, PLANT AND EQUIPMENT

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

		Computer equipment		Furniture and fixtures		Leasehold improvements		Total
Cost								
Balance as at March 31, 2022	$	649	$	1,327	$	1,711	$	3,687
Additions		–		60		–		60
Disposals		–		–		–		–
Balance as at June 30, 2022	**$**	**649**	**$**	**1,387**	**$**	**1,711**	**$**	**3,747**
Accumulated depreciation								
Balance as at March 31, 2022	$	494	$	815	$	314	$	1,623
Depreciation		19		36		51		106
Disposals		–		–		–		–
Balance as at June 30, 2022	**$**	**513**	**$**	**851**	**$**	**365**	**$**	**1,729**
Net book value, by asset class								
Net book value as at March 31, 2022	$	155	$	512	$	1,397	$	2,064
Net book value as at June 30, 2022	**$**	**136**	**$**	**536**	**$**	**1,346**	**$**	**2,018**

Proceeds associated with the disposals that occurred in the years ended March 31st were immaterial. There was no impairment of property, plant and equipment.

8. EMPLOYEE BENEFITS

8.1 POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Post-employment and other long-term employee benefits represent the Corporation's liability for the estimated costs of sick leave for employees, retirement allowance for certain employees at retirement, and health, dental and life insurance benefits for its retirees. The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

	As at			
		June 30, 2022		March 31, 2022
Current portion	**$**	**2,089**	$	1,803
Long-term portion		**31,798**		31,529
Total employee benefits	**$**	**33,887**	$	33,332

The significant actuarial assumptions are disclosed in the *Annual Report 2021–2022*. 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.

Movements in the present value of the defined benefits obligation during the year were as follows.

Balance as at March 31, 2022	**$**	**33,332**
Current service cost		**437**
Interest on present value of obligation		**348**
Employee benefits payments		**(230)**
Balance as at June 30, 2022	**$**	**33,887**

Amounts recognized in the Condensed Interim Statement of Profit and Comprehensive Income for the period in respect of this benefit plan are as follows.

	Three months ended June 30			
		2022		2021
Current service cost	**$**	**437**	$	507
Interest on present value of obligation		**348**		330
Employee benefit expenses	**$**	**785**	$	837

9. REVENUE RECOGNITION

9.1 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.

9.2 SEGMENTED AND DISAGGREGATED REVENUE INFORMATION

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

Three months ended June 30, 2022

	Activity						
Region	**Contract management**	**Project and program management**	**Real property technical support**	**Contracting**	**Construction technical support**	**Environmental technical support**	**Total revenue, by region**
Atlantic	$ 2,749	$ 1,122	$ 649	$ 535	$ 276	$ 797	**$ 6,128**
Quebec	2,883	1,274	499	443	344	554	**5,997**
National Capital	1,777	3,668	1,757	151	80	617	**8,050**
Ontario	3,552	1,407	937	585	1,209	676	**8,366**
Pacific	2,410	1,006	209	242	150	178	**4,195**
Western	3,222	1,492	355	806	255	235	**6,365**
Head Office	113	8	44	449	428	–	**1,042**
Total revenue, by activity	**$ 16,706**	**$ 9,977**	**$ 4,450**	**$ 3,211**	**$ 2,742**	**$ 3,057**	**$ 40,143**

Three months ended June 30, 2021

	Activity						
Region	Contract management	Project and program management	Real property technical support	Contracting	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic	$ 2,310	$ 1,713	$ 436	$ 493	$ 240	$ 480	$ 5,672
Quebec	2,648	1,342	410	401	328	388	5,517
National Capital	1,118	3,258	1,715	78	111	426	6,706
Ontario	3,543	1,555	638	631	1,382	557	8,306
Pacific*	2,095	981	55	266	193	183	3,773
Western*	2,945	1,619	348	834	243	194	6,183
Head Office	33	22	–	422	426	–	903
Total revenue, by activity	$ 14,692	$ 10,490	$ 3,602	$ 3,125	$ 2,923	$ 2,228	$ 37,060

**The Corporation has reclassified comparative information to be consistent with current year presentation.*

The following table disaggregates revenue by region and contract type.

Time-based revenue

	Three months ended June 30	
Region	**2022**	2021
Atlantic	**$ 1,236**	$ 1,092
Quebec	**1,598**	1,873
National Capital	**6,549**	5,549
Ontario	**2,181**	2,370
Pacific*	**1,422**	1,287
Western*	**1,148**	1,272
Head Office	**615**	582
Total time-based revenue	**$ 14,749**	$ 14,025

Fixed-fee revenue

	Three months ended June 30	
Region	**2022**	2021
Atlantic	**$ 4,892**	$ 4,580
Quebec	**4,400**	3,644
National Capital	**1,500**	1,157
Ontario	**6,185**	5,936
Pacific*	**2,773**	2,486
Western*	**5,216**	4,911
Head Office	**428**	321
Total fixed-fee revenue	**$ 25,394**	$ 23,035
Total revenue	**$ 40,143**	$ 37,060

**The Corporation has reclassified comparative information to be consistent with current year presentation.*

As at June 30, 2022, $5,140 (March 31, 2022, $1,285) in deferred revenue related to unsatisfied performance obligations. Management expects the balance to be recognized as revenue during the next reporting period. The changes in deferred revenue for the three-month period are shown in the following table.

	Three months ended June 30	
	2022	2021
Balance as at the beginning of the period	**$ 1,285**	$ –
Recognition of deferred revenue	**(3)**	–
Amounts invoiced and revenue deferred	**3,858**	1,285
Balance as at the end of the period	**$ 5,140**	$ 1,285

10. OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses for the year are detailed in the following table.

	Three months ended June 30	
	2022	2021
Cloud computing services	**$ 447**	$ 434
Software maintenance	**438**	318
Professional services	**360**	318
Equipment rental	**259**	244
Leased location operating costs	**247**	248
Telephone and data communications	**181**	189
Office services, supplies and equipment	**173**	68
Employee training and development	**136**	137
Client services and communications	**112**	148
Travel	**106**	–
Computer software	**60**	12
Staff relocation	**40**	40
Memberships and subscriptions	**28**	38
Hospitality	**20**	6
Recruiting	**11**	25
Computer hardware	**8**	–
Furniture and equipment	**7**	42
Postage and freight	**7**	4
Other	**4**	4
Leasehold improvements	**–**	7
	$ 2,644	$ 2,282

11. SUPPLEMENTAL OPERATING CASH FLOW INFORMATION

	Three months ended June 30	
	2022	2021
Interest charges on lease obligations	**$ 52**	$ 59
Interest received from bank deposits	**$ 135**	$ 53
Interest received from investments	**$ 94**	$ 51
Acquisition of property, plant and equipment not paid	**$ 60**	$ 251

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 June 30, 2022, was $83,979 (March 2022, $75,997) and represented the Corporation's maximum exposure to credit risk.

The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset. The Corporation minimizes credit risk on cash by depositing the cash only with reputable and high-quality financial institutions.

The Corporation has no significant exposure to credit risk on trade receivables, as all of the trade receivables are due from departments of the Government of Canada. The Corporation is exposed to concentration risk in relation to trade receivables with DND, as described in Note 14. Based on historic default rates and the aging analysis, the Corporation believes that there are no requirements for an expected credit loss.

Other assets consist of balances related to travel advances to employees and computer loans to employees. Prepaids are not included in other assets.

The following table shows the fair value through profit or loss (FVTPL) of the financial assets subject to credit risk.

	As at June 30, 2022		
	FVTPL	**Amortized cost**	**Total carrying amount**
Cash and cash equivalents	$ 42,162	$ –	$ 42,162
Investments	–	20,267	20,267
Trade receivables	–	19,820	19,820
Other receivables	–	1,713	1,713
Other assets	–	17	17
Total financial assets	**$ 42,162**	**$ 41,817**	**$ 83,979**

	As at March 31, 2022		
	FVTPL	Amortized cost	Total carryiing amount
Cash	$ 36,918	$ –	$ 36,918
Investments	–	20,600	20,600
Trade receivables	–	16,676	16,676
Other receivables	–	1,793	1,793
Other assets	–	10	10
Total financial assets	$ 36,918	$ 39,079	$ 75,997

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 financial liabilities for trade and other payables as at June 30, 2022, was $11,641 (March 31, 2022, $6,251) 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. 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. In addition, as at June 30, 2022, the Corporation's financial assets exceeded its financial liabilities by $72,338 (March 31, 2022, $69,746).

The contractual maturities of financial liabilities, including estimated interest payments, are shown in the following table.

	As at June 30, 2022			
	Carrying amount	**Contractual cash flows**	**Less or equal to six months**	**More than six months**
Trade and other payables	$ 11,641	$ 11,641	$ 11,641	$ –
Financial liabilities	**$ 11,641**	**$ 11,641**	**$ 11,641**	**$ –**

	As at March 31, 2022			
	Carrying amount	Contractual cash flows	Less or equal to six months	More than six months
Trade and other payables	$ 6,251	$ 6,251	$ 6,251	$ –
Financial liabilities	$ 6,251	$ 6,251	$ 6,251	$ –

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 June 30, 2022, all of the investments ($20,267) were in fixed interest-bearing instruments (March 31, 2022, $20,600). 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. LEASES

13.1 RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets comprise office space, facilities for information technology (data warehouses), equipment and multifunction copiers. The Corporation has included extension options in the measurements of its lease liability when it is reasonably certain it will exercise the extension option.

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, 2022	$ 6,748	$ 285	$ 7,033
Additions	–	–	–
Depreciation	(300)	(30)	(330)
Disposals	–	–	–
Balance as at June 30, 2022	**$ 6,448**	**$ 255**	**$ 6,703**

13.2 LEASE OBLIGATIONS

	As at	
	June 30, 2022	March 31, 2022
Current portion	**$ 1,175**	$ 1,278
Long-term portion	**5,923**	6,135
Total	**$ 7,098**	$ 7,413

Balance as at March 31, 2022	$ 7,413
Additions	–
Disposals	–
Payments	(367)
Interest expense	52
Balance as at June 30, 2022	**$ 7,098**

The following table shows the contractual undiscounted cash flows for lease obligations as at June 30, 2022.

One year or less	$ 1,359
Between one and two years	$ 1,014
Between two and five years	$ 2,663
Over five years	$ 2,933
Total	**$ 7,969**

For the first quarter of 2022–23, the expense relating to variable lease payments not included in the measurement of lease obligations was $247, while the same expense in the same period in 2021–22, was $248. This amount consists 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 $614 (the amount for the same period in 2021–22 was $617), including $315 for principal payments on lease obligations (the amount for the same period in 2021–22 was $310).

14. RELATED-PARTY TRANSACTIONS AND BALANCES

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at fair value, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue in the first quarter of 2022–23 totalled $40,143 compared to $37,060 in the same period in 2021–22 and was generated from services provided to entities owned by the Government of Canada. The amounts due to and from related parties are included in trade receivables and trade and other payables, respectively, and are shown in the following table.

	As at			
		June 30, 2022		March 31, 2022
Due from				
Department of National Defence (DND)	**$**	**18,172**	$	15,423
Canadian Forces Housing Agency		**1,365**		1,045
Communications Security Establishment		**251**		171
Shared Services Canada		**32**		37
	$	**19,820**	$	16,676
Due to				
Shared Services Canada	**$**	**3**	$	7
Public Services and Procurement Canada		**9**		–
Department of Justice		**238**		393
	$	**250**	$	400

The Corporation incurs expenses with other Government of Canada departments. These transactions totalled $174 for the first quarter of 2022–23 compared to $70 in the same period in 2021–22. Of these expenses, the Corporation recovered $155 from DND in the first quarter.

In accordance with the Memorandum of Understanding between DND and the Corporation, DND is to provide office accommodations free of charge to the Corporation's service delivery personnel at DND-owned bases and wings and at other locations. Where office space is not provided, and for the Corporation's service delivery personnel who cannot be accommodated at a DND-owned facility, accommodation costs are recovered either as an out-of-pocket reimbursable disbursement or through the hourly billing rates established for the services provided.

The Corporation purchased a bond on March 2, 2022, for $1,002 issued by the Canadian Mortgage and Housing Corporation (CMHC). The Corporation earned investment revenue of $5 on it during the first quarter of the current year.

14.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Three months ended June 30			
		2022		2021
Short-term benefits	**$**	**1,204**	$	1,108
Post-employment benefits		**182**		178
	$	**1,386**	$	1,286

15. CONTINGENT LIABILITIES

The Corporation's efforts to resolve disputes are reflected in the number and value of claims before the courts. As at June 30, 2022, there were 12 ongoing claims totalling $18,178. These were related to contracts DCC had put in place on behalf of its Client-Partners. These figures can be compared with 15 ongoing claims totalling $21,338 as at March 31, 2022.

In accordance with the Memorandum of Understanding between the Corporation and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by the Corporation. Therefore, the financial risk associated with settling these contractual claims does not have any financial impact on the Corporation, so DCC does not consider it necessary to record any provision in its financial statements relating to these particular legal claims.

In addition, as at June 30, 2022, there were other ongoing legal claims, not related to DND, for which the outflow of resources to settle the obligation either cannot be estimated or is not at this time. No amount for these claims has been recognized as at June 30, 2022.