DEFENCE CONSTRUCTION CANADA

2023–2024 SECOND QUARTER FINANCIAL REPORT

PERIOD ENDED SEPTEMBER 30, 2023

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

DEFENCE CONSTRUCTION CANADA

CONSTRUCTION DE DÉFENSE CANADA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the second quarter ended September 30, 2023, for Defence Construction Canada (the "Corporation" or "DCC"). This discussion should be read in conjunction with the unaudited condensed interim financial statements for the period ended September 30, 2023.

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. The Corporation also recommends that this information be read in conjunction with the Corporation's MD&A and annual financial statements for the year ended March 31, 2023 (the "*Annual Report 2022–2023*"). 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 second quarter refer to the three months ended September 30, 2023. All references to the previous year's second quarter relate to the three months ended September 30, 2022. All references to the year-to-date period refer to the six months ended September 30, 2023. All references to the previous year-to-date period refer to the six months ended September 30, 2022. All references to the previous year end relate to March 31, 2023.

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

DCC is 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 measures the cost of DCC's program-driven services, including Contract Management, Project and Program Management, and Contract Services, in relation to the size of the infrastructure and environmental program delivered by DCC. The Corporation expects these costs to fall in the range of 9% to 15% of its Client-Partners' actual program expenditures. For the year-to-date period, the cost of service delivery for program-driven services was 15%, up one percentage point from 2022–2023. This increase was due to a planned billing rate increase and higher demand for program-driven services, which led to higher revenue.

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 the hours spent on corporate strategic initiatives and administrative functions that are considered overhead support, and on compensated leave. The utilization rate is an important indicator of efficiency and effectiveness, and a key financial management tool.

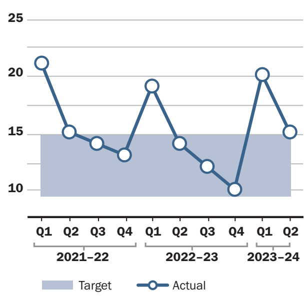
The Corporation sets a target to recover 70% of employee hours from the Client-Partners. For the year-to-date, the utilization rate was 72%— an increase of two percentage points from the same period in 2022–2023. The utilization rate increased primarily because the Client-Partners required more services than anticipated.

3.3 INVESTMENT IN TRAINING AND DEVELOPMENT

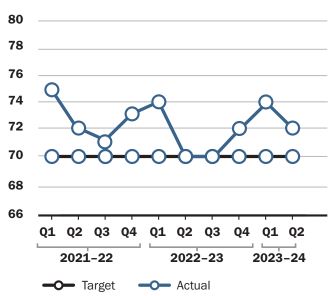
DCC's ability to serve DND is heavily dependent on the skills of its employees, and maintaining a skilled and professional workforce is a key corporate objective. DCC's performance indicator for training and development is based on the total annual investment in professional development, defined as the 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 2023–2024, DCC increased its annual overall corporate target for spending on training and development from 3% to 4.5% of base salary costs to better align with training and development industry trends and best practices for similar-sized organizations. The increase has allowed DCC to fund new national training and development initiatives and to better support in-person training and development activities and related travel following the lifting of COVID-19 measures.

For the year-to-date period, the actual percentage was 4%, an increase of two percentage points from the same period in 2022–2023. The amount of investment in training depends on the effort required to develop and maintain internal courses, and the timing and delivery of professional development activities in various regions. The increase over the previous year-to-date period related to in-person leadership and regional forums held in 2023–2024.

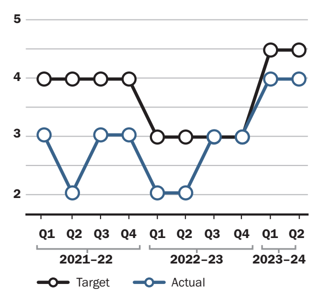
Cost of Service Delivery
(Percentage, year to date)



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



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



4.0 RISK MANAGEMENT

There have been no material changes to the corporate risks identified by management and discussed in Section 5.0, Risk Management, of the MD&A in DCC's *Annual Report 2022–2023*.

5.0 FINANCIAL PERFORMANCE

5.1 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $43 million in the second quarter, an increase of $6 million or approximately 16% from the same period in 2022–2023. For the year-to-date period, services revenue was $89 million, an increase of $11 million or approximately 15% over the previous year-to-date period. The increases were 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.

Revenue, by Activity	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	**2023**	2022	$	%	**2023**	2022	$	%
Contract Management	**$ 17,891**	$ 15,985	1,906	12%	**$ 37,218**	$ 32,691	4,527	14%
Project and Program Management	**10,717**	8,935	1,782	20%	**22,053**	18,912	3,141	17%
Real Property Technical Support	**4,864**	4,343	521	12%	**9,819**	8,793	1,026	12%
Contracting	**3,367**	3,064	303	10%	**6,917**	6,275	642	10%
Construction Technical Support	**3,224**	2,306	918	40%	**6,283**	5,048	1,235	24%
Environmental Technical Support	**3,307**	2,713	594	22%	**6,648**	5,770	878	15%
Total services revenue	**$ 43,371**	$ 37,346	6,025	16%	**$ 88,938**	$ 77,489	11,449	15%

Contract Management

Contract Management revenue increased by 12% in the second quarter and 14% in the year-to-date period when compared to the same periods in the previous year. This was a result of increased demand from the Client-Partners (which accounted for 8.5 and 10.5 percentage points, respectively, of the increases) and the increase in billing rates (which accounted for 3.5 percentage points of each increase). The higher demand reflected the variability of services used by the Client-Partners as projects moved from the Project and Program Management and Contracting stages to the Contract Management stage.

Project and Program Management

Project and Program Management revenue increased by 20% in the second quarter and 17% in the year-to-date period when compared to the same periods in the previous year. The higher revenue was a result of an increase in demand from the Client-Partners (which accounted for

16.5 and 13.5 percentage points, respectively, of the increases) and the billing rate increase (which accounted for 3.5 percentage points of each increase).

Real Property Technical Support

Real Property Technical Support revenue increased by 12% in both the second quarter and the year-to-date period when compared to the same periods in the previous year. This was due to increased demand for services related to facility and portfolio management (which accounted for 8.5 percentage points of each increase) and the billing rate increase (which accounted for 3.5 percentage points of each increase).

Contracting

Contracting revenue increased by 10% in both the second quarter and the year-to-date period when compared to the same periods in the previous year. This was due to increased demand from the Client-Partners (which accounted for 6.5 percentage points of each increase) and the increase in billing rates (which accounted for 3.5 percentage points of each increase).

ConstructionTechnical Support

Construction Technical Support revenue increased by 40% in the second quarter and 24% in the year-to-date period when compared to the same periods in the previous year. The higher revenue was a result of an increase in demand from the Client-Partners (which accounted for 36.5 and 20.5 percentage points, respectively, of the increases) and the billing rate increase (which accounted for 3.5 percentage points of each increase).

Environmental Technical Support

Environmental Technical Support revenue increased by 22% in the second quarter and 15% in the year-to-date period when compared to the same periods in the previous year. This was due to an increase in demand (which accounted for 18.5 and 11.5 percentage points, respectively, of the increases) and the increase in billing rates (which accounted for 3.5 percentage points of each increase).

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, increased in the second quarter by $255,000 or approximately 65% when compared to the previous year's second quarter. For the year-to-date period, investment revenue increased by $595,000 or 96% when compared to the same period in the previous year. The increases in both periods were due to a higher rate of return as a result of rising interest rates and the investment of a greater amount of cash not immediately required for operational purposes than in the same periods in the previous year (the investment balance as at September 30, 2023 was 91% higher than September 30, 2022, while the cash balance was 52% lower for the same period).

	Three months ended September 30		**Change**		**Six months ended September 30**		**Change**	
(in thousands of dollars)	**2023**	2022	**$**	**%**	**2023**	2022	**$**	**%**
Investment revenue	**$ 649**	$ 394	255	65%	**$ 1,218**	$ 623	595	96%

5.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $29 million in the second quarter, an increase of $2 million or approximately 9% over the previous year's second quarter. For the year-to-date period, salaries totalled $62 million, an increase of $5 million or approximately 10% over the same period in the previous year. The increases were mainly due to an increase of approximately 8% (or 90) in full-time equivalents (FTEs) when compared to 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 salaries, related to economic factors and performance pay.

Employee benefits in the second quarter totalled $8 million, an increase of $1 million or approximately 16% from the previous year's second quarter. For the year-to-date period, employee benefits totalled $16 million, an increase of $2 million or approximately 14% from the same period in the previous year. The increases were due to growth in the Corporation's workforce and an increase in the cost of employee future benefits.

	Three months ended September 30		**Change**		**Six months ended September 30**		**Change**	
(in thousands of dollars)	**2023**	2022	**$**	**%**	**2023**	2022	**$**	**%**
Salaries	**$ 29,433**	$ 26,973	2,460	9%	**$ 61,528**	$ 56,066	5,462	10%
Employee benefits	**7,774**	6,707	1,067	16%	**16,196**	14,234	1,962	14%
Total salaries and employee benefits	**$ 37,207**	$ 33,680	3,527	10%	**$ 77,724**	$ 70,300	7,424	11%
Employee benefits as a % of salaries	**26%**	25%			**26%**	25%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $3 million in the second quarter, an increase of $815,000 or approximately 31% over the previous year's second quarter. For the year-to-date period, operating and administrative expenses totalled $7 million, an increase of 27% from the previous year. A variety of factors influenced these expenses.

	Three months ended September 30		**Change**		**Six months ended September 30**		**Change**		
(in thousands of dollars)	**2023**	2022	**$**	**%**	**2023**	2022	**$**	**%**	**Variance analysis**
Cloud computing services	**$ 572**	$ 453	119	26%	**$ 1,122**	$ 900	222	25%	The increases were due to increased costs associated with managed cloud services, the replacement of the intranet and the introduction of mobile contract management software to meet Client-Partner demand.
Software maintenance	**472**	386	86	22%	**919**	824	95	12%	The increases were due to a higher head count required to meet increased demand for services from the Client-Partners.

OPERATING AND ADMINISTRATIVE EXPENSES (CONTINUED)

	Three months ended September 30		Change		Six months ended September 30		Change		
(in thousands of dollars)	**2023**	2022	**$**	**%**	**2023**	2022	**$**	**%**	**Variance analysis**
Professional services	**383**	347	36	10%	**824**	707	117	17%	The increases were due to human resources initiatives, such as pay equity and diversity and inclusion initiatives, and to information technology (IT) initiatives, such as information management process reviews and the intranet replacement.
Employee training and development	**325**	154	171	111%	**674**	290	384	132%	The increases were due to a national leadership training initiative and the return of in-person regional forums.
Equipment rental	**262**	290	(28)	-10%	**472**	549	(77)	-14%	The decreases were due to the purchase of computer peripherals in the third quarter of 2022 that had been rental items in the previous year's second quarter and year-to-date periods.
Leased location operating costs	**244**	181	63	35%	**514**	428	86	20%	The increases were due to a one-time operating cost recovery in the previous year and the commencement of the new Pacific Regional Office lease.
Furniture and equipment	**221**	18	203	1128%	**251**	25	226	904%	The increases were due to the purchase of furniture and equipment for the new Pacific Regional Office.
Telephone and data communications	**170**	218	(48)	-22%	**335**	399	(64)	-16%	The decreases were due to optimization efforts that reduced the number of landlines in regional and site offices.
Office services, supplies and equipment	**159**	132	27	20%	**308**	305	3	1%	The increases were due to higher cybersecurity insurance costs, slightly offset by the carryover of 70th anniversary costs in the previous year.
Travel	**156**	117	39	33%	**370**	223	147	66%	The increases were a result of business travel returning to pre-COVID-19 levels.
Client services and communications	**118**	116	2	2%	**217**	228	(11)	–5%	The variance in the second quarter was not material. The decrease in the year-to-date period occurred because the Corporation incurred one-time costs for DCC brand promotional items and for Progressive Aboriginal Relations and Indigenous visual identity work in the previous year.
Staff relocation	**80**	74	6	8%	**109**	114	(5)	-4%	The variances were not material.

OPERATING AND ADMINISTRATIVE EXPENSES (CONTINUED)

	Three months ended September 30		Change		Six months ended September 30		Change		
(in thousands of dollars)	**2023**	2022	$	%	**2023**	2022	$	%	**Variance analysis**
Recruiting	**75**	54	21	39%	**217**	65	152	234%	The increases were due to higher demand for external recruiting services, given the competitive labour market.
Computer hardware	**71**	17	54	318%	**87**	25	62	248%	The increases were due to the purchase of computer accessories.
Hospitality	**40**	25	15	60%	**104**	45	59	131%	The increases were due to additional training initiatives and in-person meetings.
Computer software	**37**	11	26	236%	**103**	71	32	45%	The increases were due to the purchase of additional software licences.
Memberships and subscriptions	**33**	18	15	83%	**58**	46	12	26%	The increases were due to higher monthly subscription costs and an increase in the number of subscriptions.
Other	**17**	4	13	325%	**23**	8	15	188%	The increases were due to one-time expenditures and to a new initiative to support next-generation jobs in the industry.
Postage and freight	**12**	6	6	100%	**17**	13	4	31%	The variances were not material.
Leasehold improvements	**—**	11	(11)	–100%	**—**	11	(11)	–100%	The decreases were due to renovations at a regional office in the previous year.
Total operating and administrative expenses	**$ 3,447**	$ 2,632	815	31%	**$ 6,724**	$ 5,276	1,448	27%	

DEPRECIATION AND AMORTIZATION

Depreciation and amortization combined decreased by 4% or $16,000 in the second quarter and decreased by 5% or $47,000 in the year-to-date period compared to the previous year. Depreciation of right-of-use assets decreased by 6% or $19,000 in the second quarter and decreased by 8% or $50,000 in the year-to-date period compared to the previous year, mostly due to amendments to the Head Office lease. Depreciation of property, plant and equipment in the second quarter and the year-to-date periods increased by $5,000 in each period compared to the same periods in the previous year. Amortization of intangible assets in the second quarter and the year-to-date periods decreased by $2,000 in each period compared to the same periods in the previous year.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	**2023**	2022	**$**	**%**	**2023**	2022	**$**	**%**
Depreciation of right-of-use assets	**$ 312**	$ 331	(19)	-6%	**$ 611**	$ 661	(50)	-8%
Depreciation of property, plant and equipment	**112**	107	5	5%	**218**	213	5	2%
Amortization of intangible assets	**4**	6	(2)	-33%	**9**	11	(2)	-18%
Total depreciation and amortization	**$ 428**	$ 444	(16)	-4%	**$ 838**	$ 885	(47)	-5%

5.3 NET INCOME AND TOTAL COMPREHENSIVE INCOME

The net income and total comprehensive income in the current quarter was $3 million, compared to a net income of $1 million in the previous year's second quarter. For the year-to-date period, the Corporation realized a net income of $5 million, compared to a net income of $2 million in the previous year-to-date period. 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 partially offset by higher operating costs, as well as the growth in salaries driven by an increase in FTEs and the annual salary increase.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	**2023**	2022	**$**	**%**	**2023**	2022	**$**	**%**
Net income and comprehensive income	**$ 2,874**	$ 935	1,939	207%	**$ 4,754**	$ 1,550	3,204	207%

5.4 LIQUIDITY AND CAPITAL RESOURCES

DCC's financial and cash management policy is discussed in the *Annual Report 2022–2023.*

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments totalled $60 million at September 30, 2023, an increase of $4 million or 8% from March 31, 2023.

The cash and cash equivalents balance at September 30, 2023, was $21 million, an increase of $4 million or 24% from March 31, 2023. In the six-month period after March 31, 2023, the Corporation generated $6 million in cash through operating activities, spent $1 million on capital expenditures, spent $294,000 on net acquisitions of investments and paid $656,000 for lease obligations.

As at September 30, 2023, DCC's overall cash balance was lower than its 2023–2024 targeted operating cash reserves of $26 to $34 million, due to the unplanned purchase of a new provincial bond and a guaranteed investment certificate.

Investments (both current and long term) at September 30, 2023, were $40 million, an increase of $361,000 or 1% from the 2022–2023 year end. The increase was due to the acquisition of a guaranteed investment certificate and a provincial bond, offset by 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, 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, 2023, trade receivables were $35 million, which represented an increase of $3 million or 10% from March 31, 2023. The increase was mostly due to increased revenue from Client-Partners and an increase in the time needed to collect those receivables. All of the trade receivables were assessed to be fully collectible.

CURRENT LIABILITIES

Current liabilities were $27 million at September 30, 2023, an increase of $5 million or 23% from March 31, 2023. The increase in current liabilities was primarily due to the increase in deferred revenue and the timing of payments to suppliers.

Liquidity and Capital Resources	**As at**				**Change**	
(in thousands of dollars)	**September 30, 2023**		March 31, 2023		**$**	**%**
Cash and cash equivalents	**$**	**20,520**	$	16,563	3,957	24%
Investments		**39,734**		39,373	361	1%
Cash and cash equivalents and investments	**$**	**60,254**	$	55,936	4,318	8%
Trade receivables	**$**	**35,173**	$	31,961	3,212	10%
Current liabilities	**$**	**27,246**	$	22,109	5,137	23%

5.5 EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave remaining for a curtailed sick leave program (which has been replaced by a short-term disability program), as well as a retirement allowance for active employees, and health and dental care and life insurance benefits for DCC retirees. This estimate is actuarially determined. The accrual for employee benefits as at September 30, 2023, was $36 million, an increase of $2 million or approximately 5% from March 31, 2023.

Overall, the liability increased because the current service cost ($1 million) and the interest on the present value of the obligation ($878,000) were higher than the employee benefit premiums ($361,000).

	As at		Change	
(in thousands of dollars)	**September 30, 2023**	March 31, 2023	$	%
Current portion	**$ 2,471**	$ 2,403	68	3%
Long-term portion	**33,087**	31,519	1,568	5%
Total employee benefits	**$ 35,558**	$ 33,922	1,636	5%

5.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for the second quarter totalled $1 million. There were no capital expenditures in the second quarter of the previous year. The increase was mainly due to leasehold construction at a regional office and the amendment of the Head Office lease. In the year-to-date period, capital expenditures totalled $2 million, mainly due to the commencement of the new Pacific Regional Office lease, leasehold improvements at this new office and the amendment of an existing lease.

	Three months ended September 30		Change		Six months ended September 30		Change	
(in thousands of dollars)	**2023**	2022	$	%	**2023**	2022	$	%
Furniture and equipment	**$ 7**	$ —	7	—	**$ 7**	$ 60	(53)	–88%
Leasehold improvements	**413**	—	413	—	**937**	—	937	—
Intangible assets	**—**	—	—	—	**—**	12	(12)	–100%
Right-of-use-assets	**1,014**	—	1,014	—	**1,165**	—	1,165	—
Total capital expenditures	**$ 1,434**	$ —	1,434	—	**$ 2,109**	$ 72	2,037	2829%

5.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in the second quarter of 2023–2024 with the projections in the Corporate Plan (the Plan). The Corporation's actual performance compared to that forecasted in the Plan was generally better than anticipated.

Services revenue for the period was 2% 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 both 174% higher than indicated in the Plan, due to the gradual return of in-person business travel to pre-COVID-19 levels.

Investment revenue was 29% higher than anticipated in the Plan, due to the increase in the investment balance and higher interest rates.

Salaries and employee benefit costs were 2% higher than projected in the Plan, due to the higher-than-planned cost of employee benefits and an unplanned increase in FTEs due to higher demand from the Client-Partners.

Operating and administrative expenses were 19% lower than projected. The decrease was due mainly to the timing of expenditures on professional services and cloud computing services, and to lower-than-expected levels of employee training and development.

Depreciation and amortization were 16% lower than forecasted in the Plan, due to prolonged construction timelines for the Pacific Regional Office and to the amendment of the Head Office lease. The latter lowered costs to DCC over the renewed term, reducing the amount of depreciation.

Net income was $2 million higher than forecasted in the Plan, mainly due to higher demand for services and lower-than-planned operating and administrative expenses. This was partially countered by higher-than-expected salaries and employee benefits.

Capital expenditures were 17% lower than projected, due to the timing of the renewal of an existing regional office lease, the timing of furniture and equipment purchases, and lower-than-expected leasehold improvement costs for the new Pacific Regional Office.

	Six months ended September 30		Change	
(in thousands of dollars)	**Actual**	Corporate Plan	$	%
Revenue				
Services revenue	$ **88,938**	$ 87,515	1,423	2%
Travel and disbursement revenue	**2,006**	732	1,274	174%
Investment revenue	**1,218**	946	272	29%
Total revenue	**92,162**	89,193	2,969	3%
Expenses				
Salaries and employee benefits	**77,724**	75,908	1,816	2%
Operating and administrative expenses	**6,724**	8,296	(1,572)	–19%
Travel and disbursement expenses	**2,006**	732	1,274	174%
Depreciation and amortization	**838**	999	(161)	–16%
Finance costs	**116**	112	4	4%
Total expenses	**87,408**	86,047	1,361	2%
Net income and comprehensive income	**4,754**	3,146	1,608	51%
Capital expenditures	$ **2,109**	$ 2,531	(422)	-17%

5.8 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the six months ended September 30, 2023, increased by $42 million or 10% when compared to the same period last year. This increase was mostly due to a faster DND program rollout, compared to the previous year-to-date period. The DND program in 2023–2024 is expected to be similar to that of 2022–2023.

(in thousands of dollars)	Six months ended September 30		Change	
Region	**2023**	2022	**$**	**%**
Ontario	$ **99,243**	$ 84,262	14,981	18%
National Capital	**95,026**	71,268	23,758	33%
Quebec	**85,874**	67,861	18,013	27%
Western	**59,415**	64,829	(5,414)	-8%
Pacific	**58,623**	65,297	(6,674)	-10%
Atlantic	**55,302**	58,403	(3,101)	-5%
Total contract expenditures	$ **453,483**	$ 411,920	41,563	10%

6.0 DCC FUTURE OUTLOOK

6.1 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 economic sanctions on Russia.

While DCC cannot predict the duration and impact of the war in Ukraine, it continues to monitor its operations and stays ready to provide any incremental support that DND requires. Although the Corporation has seen minimal increases in the prices of the goods and services it buys, 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 that began in the first half of 2022 increased uncertainty around inflation assumptions related to future salary increases, billing rate increases for Client-Partners and long-term planning for the employee benefit plan. However, DCC has not changed its assumptions from 2022–2023, since its long-term view of inflation has not changed.

6.2 EXPANSION OF OPERATION REASSURANCE

On July 10, 2023, Prime Minister Justin Trudeau announced a $2.6-billion funding commitment to renew and expand Operation REASSURANCE. That operation includes Canada's support for NATO's Enhanced Forward Presence in Latvia, where Canada acts as the Framework Nation leading the multinational battle group. DCC supports DND/CAF in Latvia and is working with its Client-Partner to understand the additional service requirements.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

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

Marie-Josée Lacombe, CPA
Vice-President, Finance &
Human Resources and,
Chief Financial Officer

Ottawa, Canada
November 29, 2023

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

		As at	
(in thousands of dollars)	Notes	**September 30, 2023**	March 31, 2023
Assets			
Cash and cash equivalents		**$ 20,520**	$ 16,563
Investments	6, 14	**6,693**	7,057
Accrued revenue	9	**2,989**	—
Trade receivables	14	**35,173**	31,961
Prepaid and other assets		**1,728**	1,366
Other receivables		**1,886**	1,607
Current assets		**68,989**	58,554
Investments	6, 14	**33,041**	32,316
Property, plant and equipment	7	**2,651**	1,925
Intangible assets		**18**	27
Right-of-use assets	13	**6,750**	6,196
Non-current assets		**42,460**	40,464
Total assets		**$ 111,449**	$ 99,018
Liabilities			
Trade and other payables	14	**$ 19,781**	$ 17,097
Deferred revenue	9	**4,147**	1,299
Employee benefits	8	**2,471**	2,403
Lease obligations	13	**847**	1,310
Current liabilities		**27,246**	22,109
Employee benefits	8	**33,087**	31,519
Lease obligations	13	**6,259**	5,287
Non-current liabilities		**39,346**	36,806
Total liabilities		**66,592**	58,915
Equity			
Share capital: Authorized (1,000 common shares of no par value); issued (32 common shares)		**—**	—
Retained earnings		**44,857**	40,103
Total equity		**44,857**	40,103
Total liabilities and equity		**$ 111,449**	$ 99,018

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

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

CONDENSED INTERIM STATEMENT OF PROFIT AND OTHER COMPREHENSIVE INCOME

		Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	Notes	**2023**	2022	**2023**	2022
Services revenue	9	**$ 43,371**	$ 37,346	**$ 88,938**	$ 77,489
Travel and disbursement revenue		**855**	834	**2,006**	1,545
Investment revenue		**649**	394	**1,218**	623
Total revenue		**44,875**	38,574	**92,162**	79,657
Salaries and employee benefits		**37,207**	33,680	**77,724**	70,300
Operating and administrative expenses	10	**3,447**	2,632	**6,724**	5,276
Travel and disbursement expenses		**855**	834	**2,006**	1,545
Depreciation of right-of-use assets	13	**312**	331	**611**	661
Depreciation of property, plant and equipment	7	**112**	107	**218**	213
Amortization of intangible assets		**4**	6	**9**	11
Finance costs	13	**64**	49	**116**	101
Total expenses		**42,001**	37,639	**87,408**	78,107
Net income and comprehensive income		**$ 2,874**	$ 935	**$ 4,754**	$ 1,550

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

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	**2023**	2022	**2023**	2022
Share capital	**$ —**	$ —	**$ —**	$ —
Retained earnings				
Balance as at the beginning of the period	**41,983**	30,575	**40,103**	29,960
Net income and comprehensive income	**2,874**	935	**4,754**	1,550
Balance as at the end of the period	**$ 44,857**	$ 31,510	**$ 44,857**	$ 31,510
Equity	**$ 44,857**	$ 31,510	**$ 44,857**	$ 31,510

CONDENSED INTERIM STATEMENT OF CASH FLOWS

		Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	Notes	**2023**	2022	**2023**	2022
Cash flow provided by (used in) operating activities					
Net income		**$ 2,874**	$ 935	**$ 4,754**	$ 1,550
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities					
Employee benefits expensed	8	**998**	784	**1,997**	1,569
Employee benefits paid	8	**(131)**	(154)	**(361)**	(384)
Depreciation of property, plant and equipment	7	**112**	107	**218**	213
Depreciation of right-of-use assets	13	**312**	331	**611**	661
Amortization of intangible assets		**4**	6	**9**	11
Accretion of investment premiums		**(55)**	—	**(97)**	—
Amortization of investment premiums		**12**	12	**30**	25
Change in non-cash operating working capital					
Trade receivables		**542**	328	**(3,212)**	(2,816)
Other receivables		**65**	102	**(279)**	182
Prepaid and other assets		**323**	(264)	**(362)**	(654)
Accrued revenue		**(519)**	1,972	**(2,989)**	(1,081)
Trade and other payables		**(4,375)**	(3,656)	**2,707**	2,625
Deferred revenue		**1,227**	1,256	**2,848**	5,111
Net cash flows provided by (used in) operating activities		**1,389**	1,759	**5,874**	7,012
Cash flows provided by (used in) investing activities					
Acquisition of investments		**(1,000)**	(1,200)	**(2,400)**	(1,200)
Redemption and disposition of investments		**920**	700	**2,106**	1,020
Acquisition of property, plant and equipment	7	**(575)**	(60)	**(967)**	(62)
Acquisition of intangible assets		**—**	—	**—**	(12)
Net cash flows used in investing activities		**(655)**	(560)	**(1,261)**	(254)
Cash flows used in financing activities					
Repayment of lease obligations	13	**(335)**	(317)	**(656)**	(632)
Net cash flows used in financing activities		**(335)**	(317)	**(656)**	(632)
Increase in cash and cash equivalents during the period		**399**	882	**3,957**	6,126
Cash and cash equivalents at the beginning of the period		**20,121**	42,162	**16,563**	36,918
Cash and cash equivalents at the end of the period		**$ 20,520**	$ 43,044	**$ 20,520**	$ 43,044

Supplemental cash flow information: See Note 11.

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, 2023, 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). In 1980, under the Federal Identity Program, the Corporation was provided "Defence Construction Canada" as an applied title. 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, 2023, 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, 2023. 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, 2023.

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS

5.1 CURRENT ACCOUNTING CHANGES

The Corporation actively monitors new and amended IASB standards. The IASB did not issue any such standards that had an impact on the Corporation's condensed interim financial statements.

5.2 FUTURE ACCOUNTING CHANGES

The IASB has not issued any new or amended standards that would affect the Corporation in the future, other than those disclosed in Note 3 to the Corporation's annual financial statements for the year ended March 31, 2023.

6. INVESTMENTS

Investments consist of Canadian provincial and federal bonds with effective interest rates ranging from 1.2% to 4.6% (coupon rates ranging from 1.8% to 4.6%) and guaranteed investment certificates (GICs) with effective interest rates ranging from 0.9% to 5.1% (coupon rates ranging from 0.9% to 5.1%).

The maturity dates of the bonds vary from September 2024 to April 2028, and those of the GICs from February 2024 to August 2028, and the Corporation intends to hold all of them to maturity. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following table.

	As at	
	September 30, 2023	March 31, 2023
Current portion	**$ 6,693**	$ 7,057
Long-term portion	**33,041**	32,316
Total investments	**$ 39,734**	$ 39,373

	As at	
Carrying amount at amortized cost	**September 30, 2023**	March 31, 2023
Provincial bonds	**$ 9,617**	$ 9,336
Federal bonds (Note 14)	**1,001**	1,001
Guaranteed investment certificates	**29,116**	29,036
	$ 39,734	$ 39,373

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	
Fair value	**September 30, 2023**	March 31, 2023
Provincial bonds	**$ 9,167**	$ 9,155
Federal bonds (Note 14)	**966**	970
Guaranteed investment certificates	**29,635**	29,183
	$ 39,768	$ 39,308

	As at September 30, 2023				
	Effective interest rate	**Coupon interest rate**	**Less than one year**	**One to five years**	**Total**
Obligations					
Federal bonds (Note 14)	1.7%	1.8%	$ —	$ 1,001	**$ 1,001**
Provincial bonds	1.2% – 4.6%	2.3% – 4.6%	1,458	8,159	**9,617**
Guaranteed investment certificates	0.9% – 5.1%	0.9% – 5.1%	5,236	23,880	**29,116**
			$ 6,694	**$ 33,040**	**$ 39,734**

7. PROPERTY, PLANT AND EQUIPMENT

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

Cost	**Computer equipment**	**Furniture and fixtures**	**Leasehold improvements**	**Total**
Balance as at March 31, 2023	$ 649	$ 1,421	$ 1,893	$ 3,963
Additions	—	7	937	944
Balance as at September 30, 2023	**$ 649**	**$ 1,428**	**$ 2,830**	**$ 4,907**
Accumulated depreciation				
Balance as at March 31, 2023	$ 567	$ 951	$ 520	$ 2,038
Depreciation	34	76	108	218
Balance as at September 30, 2023	**$ 601**	**$ 1,027**	**$ 628**	**$ 2,256**
Net book value, by asset class				
Net book value as at March 31, 2023	$ 82	$ 470	$ 1,373	$ 1,925
Net book value as at September 30, 2023	**$ 48**	**$ 401**	**$ 2,202**	**$ 2,651**

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 retirees. The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

The significant actuarial assumptions are disclosed in the *Annual Report 2022–2023*. The measurement date for the last actuarial valuation of the provision for employee benefits was March 31, 2023. The next actuarial valuation is planned for March 2026 or sooner, as required.

	As at	
	September 30, 2023	March 31, 2023
Current portion	**$ 2,471**	$ 2,403
Long-term portion	**33,087**	31,519
Total employee benefits	**$ 35,558**	$ 33,922

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

Balance as at March 31, 2023	**$ 33,922**
Current service cost	**1,119**
Interest on present value of obligation	**878**
Employee benefit premiums	**(361)**
Balance as at September 30, 2023	**$ 35,558**

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 September 30		Six months ended September 30	
	2023	2022	**2023**	2022
Current service cost	**$ 554**	$ 436	**$ 1,119**	$ 873
Interest on present value of obligation	**444**	348	**878**	696
Employee benefit expenses	**$ 998**	$ 784	**$ 1,997**	$ 1,569

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.

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 (time based vs. fixed fee). The following tables disaggregate revenue by major activity and by region.

Three months ended September 30, 2023

Region	Contract Management	Project and Program Management	Real Property Technical Support	Contracting	Construction Technical Support	Environmental Technical Support	Total revenue, by region
	Activity						
Atlantic	$ 2,718	$ 1,049	$ 418	$ 485	$ 510	$ 926	**$ 6,106**
Quebec	2,865	1,308	612	442	441	479	**6,147**
National Capital	2,444	4,421	1,785	154	180	434	**9,418**
Ontario	3,786	1,407	1,085	663	1,239	782	**8,963**
Western	3,601	1,412	515	767	320	283	**6,898**
Pacific	2,424	1,097	315	343	212	402	**4,794**
Head Office	52	23	133	514	323	—	**1,045**
Total revenue, by activity	**$ 17,891**	**$ 10,717**	**$ 4,864**	**$ 3,367**	**$ 3,224**	**$ 3,307**	**$ 43,371**

Three months ended September 30, 2022

Region	Contract Management	Project and Program Management	Real Property Technical Support	Contracting	Construction Technical Support	Environmental Technical Support	Total revenue, by region
	Activity						
Atlantic	$ 2,555	$ 1,025	$ 597	$ 457	$ 291	$ 854	$ 5,779
Quebec	2,612	1,091	509	379	314	339	5,244
National Capital	1,806	3,363	1,671	140	73	437	7,490
Ontario	3,583	1,117	864	569	932	606	7,671
Western	3,161	1,267	408	776	223	300	6,135
Pacific	2,210	1,062	233	252	154	177	4,088
Head Office	58	10	61	491	319	—	939
Total revenue, by activity	$ 15,985	$ 8,935	$ 4,343	$ 3,064	$ 2,306	$ 2,713	$ 37,346

Six months ended September 30, 2023

Region	Contract Management	Project and Program Management	Real Property Technical Support	Contracting	Construction Technical Support	Environmental Technical Support	Total revenue, by region
	Activity						
Atlantic	$ 5,417	$ 2,258	$ 1,019	$ 1,073	$ 1,015	$ 1,820	**$ 12,602**
Quebec	6,177	2,769	1,260	912	879	1,079	**13,076**
National Capital	4,754	8,629	3,628	301	342	887	**18,541**
Ontario	8,318	2,909	1,944	1,316	2,263	1,547	**18,297**
Western	7,133	3,055	1,076	1,580	586	569	**13,999**
Pacific	5,286	2,360	619	696	399	746	**10,106**
Head Office	133	73	273	1,039	799	—	**2,317**

Total revenue, by activity	**$ 37,218**	**$ 22,053**	**$ 9,819**	**$ 6,917**	**$ 6,283**	**$ 6,648**	**$ 88,938**

	Six months ended September 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	$ 5,304	$ 2,147	$ 1,246	$ 992	$ 567	$ 1,651	$ 11,907
Quebec	5,495	2,365	1,008	822	658	893	11,241
National Capital	3,583	7,031	3,428	291	153	1,054	15,540
Ontario	7,135	2,524	1,801	1,154	2,141	1,282	16,037
Western	6,383	2,759	763	1,582	478	535	12,500
Pacific	4,620	2,068	442	494	304	355	8,283
Head Office	171	18	105	940	747	—	1,981
Total revenue, by activity	$ 32,691	$ 18,912	$ 8,793	$ 6,275	$ 5,048	$ 5,770	$ 77,489

The following tables disaggregate revenue by region and contract type.

Time-based revenue	**Three months ended September 30**		**Six months ended September 30**	
Region	**2023**	2022	**2023**	2022
Atlantic	**$ 1,507**	$ 1,454	**$ 2,794**	$ 2,690
Quebec	**1,941**	1,758	**4,135**	3,356
National Capital	**8,014**	6,807	**15,794**	13,356
Ontario	**2,214**	2,140	**4,362**	4,321
Western	**1,311**	1,334	**2,595**	2,482
Pacific	**1,171**	1,439	**2,502**	2,861
Head Office	**647**	650	**1,471**	1,265
Total time-based revenue	**$ 16,805**	$ 15,582	**$ 33,653**	$ 30,331

Fixed-fee revenue	**Three months ended September 30**		**Six months ended September 30**	
Region	**2023**	2022	**2023**	2022
Atlantic	**$ 4,599**	$ 4,325	**$ 9,808**	$ 9,217
Quebec	**4,206**	3,485	**8,941**	7,885
National Capital	**1,404**	684	**2,747**	2,184
Ontario	**6,749**	5,531	**13,935**	11,716
Western	**5,587**	4,802	**11,404**	10,018
Pacific	**3,623**	2,649	**7,604**	5,422
Head Office	**398**	288	**846**	716
Total fixed-fee revenue	**$ 26,566**	$ 21,764	**$ 55,285**	$ 47,158
Total revenue	**$ 43,371**	$ 37,346	**$ 88,938**	$ 77,489

As at September 30, 2023, $4,147 (March 31, 2023, $1,299) in deferred revenue was related to performance obligations that have not yet been satisfied. Management expects the balance to be recognized as revenue by March 31, 2024. The changes in deferred revenue for the three-month period are shown in the following table.

	September 30, 2023	March 31, 2023
Balance as at the beginning of the period	**$ 1,299**	$ 1,285
Recognition of deferred revenue	**(248)**	(473)
Amounts invoiced and revenue deferred	**3,096**	487
Balance as at the end of the period	**$ 4,147**	$ 1,299

10. OPERATING AND ADMINISTRATIVE EXPENSES

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

	Three months ended September 30		**Six months ended September 30**	
	2023	2022	**2023**	2022
Cloud computing services	**$ 572**	$ 453	**$ 1,122**	$ 900
Software maintenance	**472**	386	**919**	824
Professional services	**383**	347	**824**	707
Employee training and development	**325**	154	**674**	290
Equipment rental	**262**	290	**472**	549
Leased location operating costs	**244**	181	**514**	428
Furniture and equipment	**221**	18	**251**	25
Telephone and data communications	**170**	218	**335**	399
Office services, supplies and equipment	**159**	132	**308**	305
Travel	**156**	117	**370**	223
Client services and communications	**118**	116	**217**	228
Staff relocation	**80**	74	**109**	114
Recruiting	**75**	54	**217**	65
Computer hardware	**71**	17	**87**	25
Hospitality	**40**	25	**104**	45
Computer software	**37**	11	**103**	71
Memberships and subscriptions	**33**	18	**58**	46
Other	**17**	4	**23**	8
Postage and freight	**12**	6	**17**	13
Leasehold improvements	**—**	11	**—**	11
Total operating and administrative expenses	**$ 3,447**	$ 2,632	**$ 6,724**	$ 5,276

11. SUPPLEMENTAL OPERATING CASH FLOW INFORMATION

	Three months ended September 30				Six months ended September 30			
	2023		2022		**2023**		2022	
Interest received from investments	**$**	**328**	$	106	**$**	**620**	$	200
Interest received from bank deposits	**$**	**318**	$	287	**$**	**592**	$	422
Interest charges on lease obligations	**$**	**64**	$	49	**$**	**116**	$	101
Acquisition of property, plant and equipment not paid	**$**	**(155)**	$	(60)	**$**	**69**	$	—

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, 2023, was $97,319 (March 2023, $89,517) 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, since 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 September 30, 2023					
		FVTPL		**Amortized cost**		**Total carrying amount**
Cash and cash equivalents	$	20,520	$	—	$	20,520
Investments		—		39,734		39,734
Trade receivables		—		35,173		35,173
Other receivables		—		1,886		1,886
Other assets		—		6		6
Total financial assets	**$**	**20,520**	**$**	**76,799**	**$**	**97,319**

	As at March 31, 2023		
	FVTPL	Amortized cost	Total carrying amount
Cash and cash equivalents	$ 16,563	$ —	$ 16,563
Investments	—	39,373	39,373
Trade receivables	—	31,961	31,961
Other receivables	—	1,607	1,607
Other assets	—	13	13
Total financial assets	$ 16,563	$ 72,954	$ 89,517

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 September 30, 2023, was $11,694 (March 31, 2023, $8,506) 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 September 30, 2023, the Corporation's financial assets exceeded its financial liabilities by $85,625 (March 31, 2023, $81,011).

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

	As at September 30, 2023		
	Carrying amount	**Contractual cash flows**	**Maturing within six months or less**
Trade and other payables	$ 11,694	$ 11,694	$ 11,694
Financial liabilities	**$ 11,694**	**$ 11,694**	**$ 11,694**

	As at March 31, 2023		
	Carrying amount	Contractual cash flows	Maturing within six months or less
Trade and other payables	$ 8,506	$ 8,506	$ 8,506
Financial liabilities	$ 8,506	$ 8,506	$ 8,506

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, 2023, all of the investments ($39,734) were in fixed interest-bearing instruments (March 31, 2023, $39,373). 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 and facilities for information technology (data warehouses). 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
Balance as at March 31, 2023	$ 6,033	$ 163	$ 6,196
Additions	1,017	—	1,165
Modifications	148	—	148
Depreciation	(550)	(61)	(611)
Balance as at September 30, 2023	**$ 6,648**	**$ 102**	**$ 6,750**

13.2 LEASE OBLIGATIONS

	As at	
	September 30, 2023	March 31, 2023
Current portion	**$ 847**	$ 1,310
Long-term portion	**6,259**	5,287
Total lease obligations	**$ 7,106**	$ 6,597

Balance as at March 31, 2023	$ 6,597
Additions	1,017
Modifications	148
Payments	(772)
Interest expense	116
Balance as at September 30, 2023	**$ 7,106**

The following table shows the contractual undiscounted cash flows for lease obligations as at September 30, 2023.

One year or less	$	1,085
Between one and two years	$	672
Between two and five years	$	2,066
Over five years	$	4,734
Total	**$**	**8,557**

For the second quarter, the expense relating to variable lease payments not included in the measurement of lease obligations was $244, while the same expense in the previous second quarter was $181. The expense in the year-to-date period was $514, while the same expense in the same period in 2022–2023 was $428. 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 $643 for the second quarter; the amount for the same period in 2022–2023 was $547. This included $335 for principal payments on lease obligations; the amount for the same period in 2022–2023 was $317. Total cash outflow for leases was $1,286 for the year-to-date period; the amount for the same period in 2022–2023 was $1,161. This included $656 for principal payments on lease obligations; the amount for the same period in 2022–2023 was $632.

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 second quarter totalled $43,371, compared to $37,346 in the same period in 2022–2023, and was generated from services provided to entities owned by the Government of Canada. For the year-to-date period, this revenue totalled $88,938, compared to $77,489 for the previous year-to-date period. The amounts due to and from related parties are included in trade receivables and in trade and other payables, respectively, and are shown in the following table.

	As at			
	September 30, 2023		March 31, 2023	
Due from:				
Department of National Defence (DND)	**$**	**32,586**	$	30,007
Canadian Forces Housing Agency		**2,253**		1,749
Communications Security Establishment		**297**		150
Shared Services Canada		**37**		55
	$	**35,173**	$	31,961
Due to:				
Shared Services Canada		**4**		4
Department of Justice Canada		**75**		153
	$	**79**	$	157

The Corporation incurs expenses with other Government of Canada departments. These transactions totalled $187 for the second quarter, compared to $247 in the same period in 2022–2023. The transactions totalled $481 for the year-to-date period of 2023–2024, compared to $421 in the same period in 2022–2023. Of these expenses, the Corporation recovered $162 from DND in the second quarter and $452 in the year-to-date period.

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.

On March 2, 2022, the Corporation purchased a bond for $1,002 issued by the Canada Mortgage and Housing Corporation. The carrying amount of the bond is $1,001 as at September 30, 2023. As at March 31, 2023, the carrying value was $1,001. The Corporation earned investment revenue of $4 from the bond during the second quarter and $9 during the year-to-date period, consistent with the same periods in 2022–2023.

15. 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, 2023, there were 12 ongoing claims totalling $14,557. These were related to contracts the Corporation had put in place on behalf of its Client-Partners. As at March 31, 2023, there were 12 ongoing claims totalling $14,557.

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, and the Corporation 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, 2023, there was one ongoing legal claim, not related to DND, for which the outflow of resources to settle the obligation either cannot be estimated or is not probable at this time. No amount for this claim has been recognized as at September 30, 2023.