DEFENCE CONSTRUCTION CANADA

# 2023–2024 THIRD QUARTER FINANCIAL REPORT

PERIOD ENDED DECEMBER 31, 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 third quarter ended December 31, 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 December 31, 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 third quarter refer to the three months ended December 31, 2023. All references to the previous year's third quarter relate to the three months ended December 31, 2022. All references to the year-to-date period refer to the nine months ended December 31, 2023. All references to the previous year-to-date period refer to the nine months ended December 31, 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

DCC 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 Canadian Forces Base 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 12%, consistent with the same period in 2022–2023.

### 3.2 EMPLOYEE UTILIZATION RATE

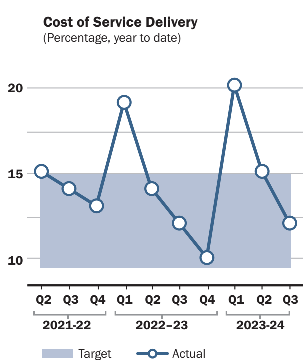
The employee utilization rate indicates the hours spent directly on service delivery functions that are billable to the Client-Partners, as opposed to the hours spent on corporate strategic initiatives and administrative functions that are considered overhead support, and on compensated leave. The utilization rate is an important indicator of efficiency and effectiveness, and a key financial management tool.

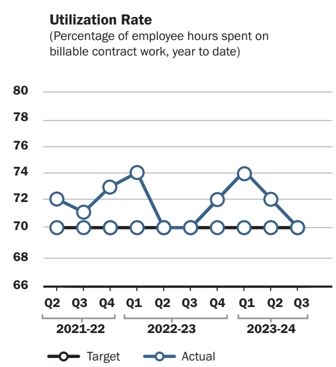
The Corporation sets a target to recover 70% of employee hours from the Client-Partners. For the year-to-date, the utilization rate was 70%— consistent with the same period in 2022–2023.

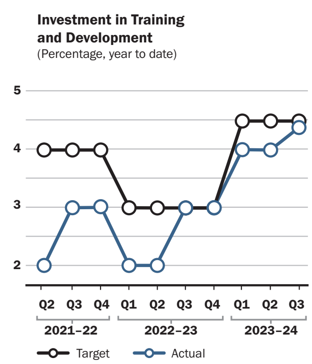
## 3.3 INVESTMENT IN TRAINING AND DEVELOPMENT

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 4.4%, an increase of one percentage point 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.




## 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 third quarter, an increase of $5 million or approximately 12% from the same period in 2022–2023. For the year-to-date period, services revenue was $132 million, an increase of $16 million or approximately 14% 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 December 31** | | **Change** | | **Nine months ended December 31** | | **Change** | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | **$** | **%** | **2023** | 2022 | **$** | **%** |
| Contract Management | **$ 17,595** | $ 15,682 | 1,913 | 12% | **$ 54,813** | $ 48,373 | 6,440 | 13% |
| Project and Program Management | **10,931** | 9,745 | 1,186 | 12% | **32,984** | 28,657 | 4,327 | 15% |
| Real Property Technical Support | **4,624** | 4,304 | 320 | 7% | **14,443** | 13,097 | 1,346 | 10% |
| Contracting | **3,338** | 3,013 | 325 | 11% | **10,255** | 9,288 | 967 | 10% |
| Construction Technical Support | **3,436** | 2,916 | 520 | 18% | **9,719** | 7,964 | 1,755 | 22% |
| Environmental Technical Support | **3,089** | 2,782 | 307 | 11% | **9,737** | 8,552 | 1,185 | 14% |
| **Total services revenue** | **$ 43,013** | $ 38,442 | 4,571 | 12% | **$ 131,951** | $ 115,931 | 16,020 | 14% |

*Contract Management*

Contract Management revenue increased by 12% in the third quarter and 13% 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 9.5 percentage points, respectively, of the increases) and the increase in billing rates (which accounted for 3.5 percentage points of each increase).

*Project and Program Management*

Project and Program Management revenue increased by 12% in the third quarter and 15% 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 8.5 and 11.5 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 7% in the third quarter and 10% in 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 3.5 and 6.5 percentage points, respectively, of the increases) and the billing rate increase (which accounted for 3.5 percentage points of each increase).

*Contracting*

Contracting revenue increased by 11% in the third quarter and 10% in 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 7.5 and 6.5 percentage points, respectively, of the increases) and the increase in billing rates (which accounted for 3.5 percentage points of each increase).

*ConstructionTechnical Support*

Construction Technical Support revenue increased by 18% in the third quarter and 22% 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 14.5 and 18.5 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 11% in the third quarter and 14% 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 7.5 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).

*INVESTMENT REVENUE*

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, increased in the third quarter by $189,000 or approximately 36% when compared to the previous year's third quarter. For the year-to-date period, investment revenue increased by $784,000 or 68% 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 higher 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 December 31, 2023, was 92% higher than as at December 31, 2022, while the cash balance was 26% lower for the same period).

| | **Three months ended December 31** | | **Change** | | **Nine months ended December 31** | | **Change** | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | **$** | **%** | **2023** | 2022 | **$** | **%** |
| Investment revenue | **$ 713** | $ 524 | 189 | 36% | **$ 1,931** | $ 1,147 | 784 | 68% |

## 5.2 EXPENSES

### *SALARIES AND EMPLOYEE BENEFITS*

Salaries totalled $31 million in the third quarter, an increase of $3 million or approximately 10% over the previous year's third quarter. For the year-to-date period, salaries totalled $92 million, an increase of $8 million or approximately 9% over the same period in the previous year. The increases were mainly due to an increase of approximately 8% (or 93) 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 third quarter totalled $7 million, an increase of $153,000 or approximately 2% from the previous year's third quarter. For the year-to-date period, employee benefits totalled $24 million, an increase of $3 million or approximately 13% 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 December 31** | | **Change** | | **Nine months ended December 31** | | **Change** | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | **$** | **%** | **2023** | 2022 | **$** | **%** |
| Salaries | **$ 31,140** | $ 28,403 | 2,737 | 10% | **$ 91,986** | $ 84,469 | 7,517 | 9% |
| Employee benefits | **7,364** | 7,211 | 153 | 2% | **24,242** | 21,445 | 2,797 | 13% |
| **Total salaries and employee benefits** | **$ 38,504** | $ 35,614 | 2,890 | 8% | **$ 116,228** | $ 105,914 | 10,314 | 10% |
| **Employee benefits as a % of salaries** | **24%** | 25% | | | **26%** | 25% | | |

### *OPERATING AND ADMINISTRATIVE EXPENSES*

Operating and administrative expenses were $3 million in the third quarter, an increase of approximately 1% over the previous year's third quarter. For the year-to-date period, operating and administrative expenses totalled $10 million, an increase of approximately 17% from the previous year-to-date period. A variety of factors influenced these expenses.

| | **Three months ended December 31** | | **Change** | | **Nine months ended December 31** | | **Change** | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | **$** | **%** | **2023** | 2022 | **$** | **%** | **Variance analysis** |
| Employee training and development | **$ 525** | $ 330 | 195 | 59% | **$ 1,199** | $ 620 | 579 | 93% | The increases were due to a leadership training initiative and the return of in-person regional forums. |
| Cloud computing services | **478** | 511 | (33) | -6% | **1,600** | 1,411 | 189 | 13% | The decrease in the third quarter was due to a drop in the number of user licences for mobile contract management software, compared to the previous year. The increase in the year-to-date period was due to higher costs for an online learning platform, the replacement of the intranet and higher subscription costs for the resource planning software. |
| Software maintenance | **456** | 418 | 38 | 9% | **1,375** | 1,242 | 133 | 11% | The increases were due to inflation in per-user costs and a higher head count required to meet increased demand for services from the Client-Partners. |
| Leased location operating costs | **291** | 260 | 31 | 12% | **805** | 688 | 117 | 17% | The increases were due to the opening of the new Pacific Regional Office. In the year-to-date period, the increase was also a result of a one-time operating cost recovery in the previous year-to-date period. |
| Professional services | **284** | 199 | 85 | 43% | **1,108** | 906 | 202 | 22% | The increases were due to expenses for technical consulting services to support the replacement of the enterprise resource planning system, as well as for human resources initiatives, such as pay equity support services and the development of training materials. |
| Travel | **263** | 193 | 70 | 36% | **633** | 416 | 217 | 52% | The increases were due to a higher number of in-person meetings in the current year. |
| Equipment rental | **261** | 139 | 122 | 88% | **733** | 688 | 45 | 7% | The increases were due to computer equipment leases for new employees. |

*OPERATING AND ADMINISTRATIVE EXPENSES (CONTINUED)*

| | Three months ended December 31 | | Change | | Nine months ended December 31 | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | **$** | **%** | **2023** | 2022 | **$** | **%** | **Variance analysis** |
| Office services, supplies and equipment | **206** | 185 | 21 | 11% | **514** | 490 | 24 | 5% | The increases were due to higher cybersecurity insurance costs, slightly offset by the carryover of costs from the 70th anniversary in 2021 in the previous year. |
| Telephone and data communications | **176** | 166 | 10 | 6% | **511** | 565 | (54) | -10% | The variance in the third quarter was not material. The decrease in the year-to-date period was due to the purchase of encryption licences for secure communications in the previous year. |
| Client services and communications | **133** | 92 | 41 | 45% | **350** | 320 | 30 | 9% | The increases were due to higher demand for videography, photography, editing, linguistic, public relations and digital asset management services. |
| Hospitality | **96** | 56 | 40 | 71% | **200** | 101 | 99 | 98% | The increases were due to additional training initiatives and in-person meetings. |
| Furniture and equipment | **80** | 115 | (35) | -30% | **331** | 140 | 191 | 136% | The decrease in the third quarter was due to the purchase of workstations in the previous year. The increase in the year-to-date period was due to the purchase of furniture and equipment for the new Pacific Regional Office. |
| Recruiting | **59** | 96 | (37) | -39% | **276** | 161 | 115 | 71% | The decrease in the third quarter was due to a one-time payment in the previous year for the placement of an employee. The increase in the year-to-date period was due to higher demand for external recruiting services, given the competitive labour market. |
| Staff relocation | **57** | 60 | (3) | -5% | **166** | 174 | (8) | -5% | The variances were not material. |
| Computer hardware | **51** | 556 | (505) | -91% | **138** | 581 | (443) | -76% | The decreases were due to one-time purchases in the previous year's third quarter of computer accessories that were previously rented. |
| Memberships and subscriptions | **27** | 22 | 5 | 23% | **85** | 68 | 17 | 25% | The increases were due to higher monthly subscription costs and an increase in the number of subscriptions. |
| Postage and freight | **10** | 8 | 2 | 25% | **27** | 21 | 6 | 29% | The variances were not material. |

### *OPERATING AND ADMINISTRATIVE EXPENSES (CONTINUED)*

| | Three months ended December 31 | | Change | | Nine months ended December 31 | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | $ | % | **2023** | 2022 | $ | % | **Variance analysis** |
| Computer software | **7** | 3 | 4 | 133% | **110** | 74 | 36 | 49% | The variance in the third quarter was not material. The increase in the year-to-date period was due to the purchase of additional software licences. |
| Other | **7** | 9 | (2) | -22% | **30** | 17 | 13 | 76% | The variance in the third quarter was not material. The increase in the year-to-date period was due to one-time expenditures and to a new initiative to support next-generation jobs in the industry. |
| Leasehold improvements | **1** | 1 | — | 0% | **1** | 12 | (11) | -92% | The variance in the third quarter was not material. The decrease in the year-to-date period was due to renovations at a regional office in the previous year. |
| **Total operating and administrative expenses** | **$ 3,468** | $ 3,419 | 49 | 1% | **$ 10,192** | $ 8,695 | 1,497 | 17% | |

### *DEPRECIATION AND AMORTIZATION*

Depreciation and amortization combined increased by 5% or $20,000 in the third quarter and decreased by 2% or $27,000 in the year-to-date period, compared to the previous year. Depreciation of right-of-use assets decreased by 3% or $11,000 in the third quarter and decreased by 6% or $61,000 in the year-to-date period, compared to the previous year, mostly due to amendments to the Head Office lease, offset in part by the new Pacific Regional Office lease. Depreciation of property, plant and equipment increased by 28% or $30,000 in the third quarter and increased by 11% or $35,000 in the year-to-date period, compared to the previous year, mostly due to leasehold improvement costs at the new Pacific Regional Office. Amortization of intangible assets increased by 17% or $1,000 in the third quarter and decreased by 6% or $1,000 in the year-to-date period, compared to the previous year.

| | Three months ended December 31 | | Change | | Nine months ended December 31 | | Change | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | $ | % | **2023** | 2022 | $ | % |
| Depreciation of right-of-use assets | **$ 320** | $ 331 | (11) | -3% | **$ 931** | $ 992 | (61) | -6% |
| Depreciation of property, plant and equipment | **136** | 106 | 30 | 28% | **354** | 319 | 35 | 11% |
| Amortization of intangible assets | **7** | 6 | 1 | 17% | **16** | 17 | (1) | -6% |
| **Total depreciation and amortization** | **$ 463** | $ 443 | 20 | 5% | **$ 1,301** | $ 1,328 | (27) | -2% |

## 5.3 NET INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

The net income and total comprehensive income in the current quarter was $1 million, compared to a net loss of $558,000 in the previous year's third quarter. For the year-to-date period, the Corporation realized a net income of $6 million, compared to a net income of $1 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 December 31** | | **Change** | | **Nine months ended December 31** | | **Change** | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | **$** | **%** | **2023** | 2022 | **$** | **%** |
| Net income (loss) and comprehensive income (loss) | **$ 1,226** | $ (558) | 1,784 | * | **$ 5,980** | $ 992 | 4,988 | 503% |

**The change was not meaningful.*

## 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 $68 million as at December 31, 2023, an increase of $12 million or 21% from March 31, 2023.

The cash and cash equivalents balance as at December 31, 2023, was $28 million, an increase of $11 million or 69% from March 31, 2023. In the nine-month period after March 31, 2023, the Corporation generated $14 million in cash through operating activities, spent $1 million on capital expenditures, spent $294,000 on net acquisitions of investments and paid $1 million for lease obligations.

As at December 31, 2023, DCC's overall cash balance was within its 2023–2024 targeted operating cash reserve of $26 to $34 million.

Investments (both current and long term) as at December 31, 2023, were $40 million, an increase of $404,000 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 had 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. As at December 31, 2023, trade receivables were $31 million, which represented a decrease of $1 million or 4% from March 31, 2023. The decrease was mostly due to lower revenue from Client-Partners in December 2023 ($12 million), compared to March 2023 ($17 million), partially offset by an increase in the time needed to collect receivables. All of the trade receivables were assessed to be fully collectible.

### *CURRENT LIABILITIES*

Current liabilities were $28 million as at December 31, 2023, an increase of $6 million or 28% 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)* | **December 31, 2023** | March 31, 2023 | **$** | **%** |
| Cash and cash equivalents | **$ 27,917** | $ 16,563 | 11,354 | 69% |
| Investments | **39,777** | 39,373 | 404 | 1% |
| **Cash and cash equivalents and investments** | **$ 67,694** | $ 55,936 | 11,758 | 21% |
| **Trade receivables** | **$ 30,532** | $ 31,961 | (1,429) | -4% |
| **Current liabilities** | **$ 28,253** | $ 22,109 | 6,144 | 28% |

## 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 for 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 December 31, 2023, was $36 million, an increase of $3 million or approximately 7% from March 31, 2023.

Overall, the liability increased because the current service cost ($2 million) and the interest on the present value of the obligation ($1 million) were higher than the employee benefit premiums ($491,000).

| | **As at** | | **Change** | |
|---|---|---|---|---|
| *(in thousands of dollars)* | **December 31, 2023** | March 31, 2023 | **$** | **%** |
| Current portion | **$ 2,478** | $ 2,403 | 75 | 3% |
| Long-term portion | **33,949** | 31,519 | 2,430 | 8% |
| **Total employee benefits** | **$ 36,427** | $ 33,922 | 2,505 | 7% |

## 5.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for the third quarter totalled $390,000, an increase of $289,000 or 284% from the previous year's third quarter. The increase was mainly due to the acquisition of new software and to amendments to agreements for the Western Regional Office lease and DCC's data warehouse 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 existing leases.

| | **Three months ended December 31** | | **Change** | | **Nine months ended December 31** | | **Change** | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | **2023** | 2022 | **$** | **%** | **2023** | 2022 | **$** | **%** |
| Furniture and equipment | **$ 29** | 12 | 17 | 132% | **$ 36** | 72 | (37) | -50% |
| Leasehold improvements | **(55)** | 82 | (137) | -167% | **882** | 82 | 800 | 976% |
| Intangible assets | **145** | — | 145 | 0% | **145** | 12 | 133 | 1,108% |
| Right-of-use-assets | **271** | 7 | 264 | 3,771% | **1,436** | 7 | 1,429 | 20,414% |
| **Total capital expenditures** | **$ 390** | $ 101 | 289 | 284% | **$ 2,499** | $ 173 | 2,326 | 1340% |

## 5.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in the year-to-date period 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 1% lower than projected in the Plan. The decrease was due to lower-than-anticipated demand for services from the Client-Partners. Services revenue is expected to meet or exceed the Corporate Plan by the end of the fiscal year.

Travel and disbursement revenue and expenses were both 174% higher than indicated in the Plan, due to the return of in-person business travel to pre-COVID-19 levels.

Investment revenue was 36% higher than anticipated in the Plan, due to the increase in the investment balance and higher interest rates.

Salaries and employee benefit costs were 1% higher than projected in the Plan, due to the higher-than-planned cost of employee benefits and higher-than-planned salaries due to the competitive labour market.

Operating and administrative expenses were 18% 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 14% 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 $1 million higher than forecasted in the Plan, mainly due to lower-than-planned operating and administrative expenses. This was partially countered by higher-than-expected salaries and employee benefits.

Capital expenditures were 1% lower than projected, due to lower-than-expected leasehold improvement costs for the new Pacific Regional Office.

| | **Nine months ended December 31, 2023** | | **Change** | |
|---|---|---|---|---|
| *(in thousands of dollars)* | **Actual** | Corporate Plan | **$** | **%** |
| **Revenue** | | | | |
| Services revenue | **$ 131,951** | $ 132,849 | (898) | -1% |
| Travel and disbursement revenue | **3,014** | 1,098 | 1,916 | 174% |
| Investment revenue | **1,931** | 1,419 | 512 | 36% |
| **Total revenue** | **136,896** | 135,366 | 1,530 | 1% |
| **Expenses** | | | | |
| Salaries and employee benefits | **116,228** | 115,147 | 1,081 | 1% |
| Operating and administrative expenses | **10,192** | 12,386 | (2,194) | -18% |
| Travel and disbursement expenses | **3,014** | 1,098 | 1,916 | 174% |
| Depreciation and amortization | **1,301** | 1,505 | (204) | -14% |
| Finance costs | **181** | 164 | 17 | 10% |
| **Total expenses** | **130,916** | 130,300 | 616 | 0% |
| **Net income and comprehensive income** | **5,980** | 5,066 | 914 | 18% |
| **Capital expenditures** | **$ 2,499** | $ 2,531 | -32 | -1% |

## 5.8 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the nine months ended December 31, 2023, increased by $122 million or 17% 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 in 2022–2023.

| *(in thousands of dollars)* | **Nine months ended December 31** | | **Change** | |
|---|---|---|---|---|
| **Region** | **2023** | 2022 | **$** | **%** |
| Ontario | **$ 176,960** | $ 144,959 | 32,001 | 22% |
| National Capital | **171,318** | 127,886 | 43,432 | 34% |
| Quebec | **162,491** | 122,728 | 39,763 | 32% |
| Western | **116,965** | 106,732 | 10,233 | 10% |
| Pacific | **107,314** | 105,662 | 1,652 | 2% |
| Atlantic | **105,823** | 111,018 | (5,195) | -5% |
| **Total contract expenditures** | **$ 840,871** | $ 718,985 | 121,886 | 17% |

## 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 and Human Resources, and Chief Financial Officer*

Ottawa, Canada
February 26, 2024

# CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

| *(in thousands of dollars)* | Notes | As at December 31, 2023 | As at March 31, 2023 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **$ 27,917** | $ 16,563 |
| Investments | 6, 14 | **7,692** | 7,057 |
| Accrued revenue | 9 | **3,386** | — |
| Trade receivables | 14 | **30,532** | 31,961 |
| Prepaid and other assets | | **1,551** | 1,366 |
| Other receivables | | **2,167** | 1,607 |
| **Current assets** | | **73,245** | 58,554 |
| | | | |
| Investments | 6, 14 | **32,085** | 32,316 |
| Property, plant and equipment | 7 | **2,489** | 1,925 |
| Intangible assets | | **156** | 27 |
| Right-of-use assets | 13 | **6,701** | 6,196 |
| **Non-current assets** | | **41,431** | 40,464 |
| **Total assets** | | **$ 114,676** | $ 99,018 |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | 14 | **$ 19,541** | $ 17,097 |
| Deferred revenue | 9 | **5,587** | 1,299 |
| Employee benefits | 8 | **2,478** | 2,403 |
| Lease obligations | 13 | **647** | 1,310 |
| **Current liabilities** | | **28,253** | 22,109 |
| | | | |
| Employee benefits | 8 | **33,949** | 31,519 |
| Lease obligations | 13 | **6,391** | 5,287 |
| **Non-current liabilities** | | **40,340** | 36,806 |
| **Total liabilities** | | **68,593** | 58,915 |
| | | | |
| **Equity** | | | |
| Share capital: Authorized (1,000 common shares of no par value); issued (32 common shares) | | **—** | — |
| Retained earnings | | **46,083** | 40,103 |
| **Total equity** | | **46,083** | 40,103 |
| **Total liabilities and equity** | | **$ 114,676** | $ 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

| *(in thousands of dollars)* | Notes | Three months ended December 31 **2023** | Three months ended December 31 2022 | Nine months ended December 31 **2023** | Nine months ended December 31 2022 |
|---|---|---|---|---|---|
| Services revenue | 9 | **$ 43,013** | $ 38,442 | **$ 131,951** | $ 115,931 |
| Travel and disbursement revenue | | **1,008** | 719 | **3,014** | 2,264 |
| Investment revenue | | **713** | 524 | **1,931** | 1,147 |
| **Total revenue** | | **44,734** | 39,685 | **136,896** | 119,342 |
| Salaries and employee benefits | | **38,504** | 35,614 | **116,228** | 105,914 |
| Operating and administrative expenses | 10 | **3,468** | 3,419 | **10,192** | 8,695 |
| Travel and disbursement expenses | | **1,008** | 719 | **3,014** | 2,264 |
| Depreciation of right-of-use assets | 13 | **320** | 331 | **931** | 992 |
| Depreciation of property, plant and equipment | 7 | **136** | 106 | **354** | 319 |
| Amortization of intangible assets | | **7** | 6 | **16** | 17 |
| Finance costs | 13 | **65** | 48 | **181** | 149 |
| **Total expenses** | | **43,508** | 40,243 | **130,916** | 118,350 |
| **Net income (loss) and comprehensive income (loss)** | | **$ 1,226** | $ (558) | **$ 5,980** | $ 992 |

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

# CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

| *(in thousands of dollars)* | Three months ended December 31 **2023** | Three months ended December 31 2022 | Nine months ended December 31 **2023** | Nine months ended December 31 2022 |
|---|---|---|---|---|
| **Share capital** | **$ —** | $ — | **$ —** | $ — |
| **Retained earnings** | | | | |
| Balance as at the beginning of the period | **44,857** | 31,510 | **40,103** | 29,960 |
| Net income (loss) and comprehensive income (loss) | **1,226** | (558) | **5,980** | 992 |
| **Balance as at the end of the period** | **$ 46,083** | $ 30,952 | **$ 46,083** | $ 30,952 |
| **Equity** | **$ 46,083** | $ 30,952 | **$ 46,083** | $ 30,952 |

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

| (in thousands of dollars) | Notes | Three months ended December 31 2023 | Three months ended December 31 2022 | Nine months ended December 31 2023 | Nine months ended December 31 2022 |
|---|---|---|---|---|---|
| **Cash flow provided by (used in) operating activities** | | | | | |
| Net income (loss) | | **$ 1,226** | $ (558) | **$ 5,980** | $ 992 |
| **Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities** | | | | | |
| Employee benefits expensed | 8 | **999** | 785 | **2,996** | 2,354 |
| Employee benefits paid | 8 | **(130)** | (116) | **(491)** | (500) |
| Depreciation of property, plant and equipment | 7 | **136** | 106 | **354** | 319 |
| Depreciation of right-of-use assets | 13 | **320** | 331 | **931** | 992 |
| Amortization of intangible assets | | **7** | 6 | **16** | 17 |
| Accretion of investment premiums | | **(55)** | — | **(152)** | — |
| Amortization of investment premiums | | **12** | 12 | **42** | 37 |
| **Change in non-cash operating working capital** | | | | | |
| Trade receivables | | **4,641** | (9,197) | **1,429** | (12,013) |
| Other receivables | | **(281)** | (317) | **(560)** | (135) |
| Prepaid and other assets | | **177** | 431 | **(185)** | (223) |
| Accrued revenue | | **(397)** | (180) | **(3,386)** | (1,261) |
| Trade and other payables | | **(171)** | 3,470 | **2,536** | 6,095 |
| Deferred revenue | | **1,440** | 104 | **4,288** | 5,215 |
| **Net cash flows provided by (used in) operating activities** | | **7,924** | (5,123) | **13,798** | 1,889 |
| **Cash flows provided by (used in) investing activities** | | | | | |
| Acquisition of investments | | **—** | — | **(2,400)** | (1,200) |
| Redemption and disposition of investments | | **—** | — | **2,106** | 1,020 |
| Acquisition of property, plant and equipment | 7 | **(43)** | (82) | **(1,010)** | (144) |
| Acquisition of intangible assets | | **(145)** | — | **(145)** | (12) |
| **Net cash flows used in investing activities** | | **(188)** | (82) | **(1,449)** | (336) |
| **Cash flows used in financing activities** | | | | | |
| Repayment of lease obligations | 13 | **(339)** | (321) | **(995)** | (953) |
| **Net cash flows used in financing activities** | | **(339)** | (321) | **(995)** | (953) |
| Increase in cash and cash equivalents during the period | | **7,397** | (5,526) | **11,354** | 600 |
| Cash and cash equivalents at the beginning of the period | | **20,520** | 43,044 | **16,563** | 36,918 |
| **Cash and cash equivalents at the end of the period** | | **$ 27,917** | $ 37,518 | **$ 27,917** | $ 37,518 |

*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*. 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, the 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 | |
|---|---|---|
| | **December 31, 2023** | March 31, 2023 |
| Current portion | **$ 7,692** | $ 7,057 |
| Long-term portion | **32,085** | 32,316 |
| **Total investments** | **$ 39,777** | $ 39,373 |

| | As at | |
|---|---|---|
| **Carrying amount at amortized cost** | **December 31, 2023** | March 31, 2023 |
| Provincial bonds | **$ 9,660** | $ 9,336 |
| Federal bonds (Note 14) | **1,001** | 1,001 |
| Guaranteed investment certificates | **29,116** | 29,036 |
| | **$ 39,777** | $ 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** | **December 31, 2023** | March 31, 2023 |
| Provincial bonds | **$ 9,504** | $ 9,155 |
| Federal bonds (Note 14) | **975** | 970 |
| Guaranteed investment certificates | **29,886** | 29,183 |
| | **$ 40,365** | $ 39,308 |

| | As at December 31, 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% | 1,456 | 8,204 | **9,660** |
| Guaranteed investment certificates | 0.9% – 5.1% | 0.9% – 5.1% | 5,236 | 23,880 | **29,116** |
| | | | **$ 7,693** | **$ 32,084** | **$ 39,777** |

## 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 | — | 36 | 882 | 918 |
| **Balance as at December 31, 2023** | **$ 649** | **$ 1,457** | **$ 2,775** | **$ 4,881** |
| **Accumulated depreciation** | | | | |
| Balance as at March 31, 2023 | $ 567 | $ 951 | $ 520 | $ 2,038 |
| Depreciation | 52 | 116 | 186 | 354 |
| **Balance as at December 31, 2023** | **$ 619** | **$ 1,067** | **$ 706** | **$ 2,392** |
| **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 December 31, 2023** | **$ 30** | **$ 390** | **$ 2,069** | **$ 2,489** |

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 | | | |
|---|---|---|---|---|
| | December 31, 2023 | | March 31, 2023 | |
| Current portion | $ | 2,478 | $ | 2,403 |
| Long-term portion | | 33,949 | | 31,519 |
| **Total employee benefits** | $ | 36,427 | $ | 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 | | 1,679 |
| Interest on present value of obligation | | 1,317 |
| Employee benefit premiums | | (491) |
| **Balance as at December 31, 2023** | $ | 36,427 |

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 December 31 | | | | Nine months ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | 2023 | | 2022 | |
| Current service cost | $ | 560 | $ | 437 | $ | 1,679 | $ | 1,310 |
| Interest on present value of obligation | | 439 | | 348 | | 1,317 | | 1,044 |
| **Employee benefit expenses** | $ | 999 | $ | 785 | $ | 2,996 | $ | 2,354 |

## 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 December 31, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Activity | | | | | | |
| **Region** | **Contract Management** | **Project and Program Management** | **Real Property Technical Support** | **Contracting** | **Construction Technical Support** | **Environmental Technical Support** | **Total revenue, by region** |
| Atlantic | $ 2,696 | $ 1,047 | $ 454 | $ 465 | $ 449 | $ 789 | **$ 5,900** |
| Quebec | 3,097 | 1,491 | 692 | 483 | 501 | 521 | **6,785** |
| National Capital | 2,233 | 4,439 | 1,578 | 167 | 172 | 440 | **9,029** |
| Ontario | 3,648 | 1,297 | 873 | 623 | 1,369 | 703 | **8,513** |
| Western | 3,475 | 1,344 | 551 | 712 | 380 | 272 | **6,734** |
| Pacific | 2,375 | 1,293 | 338 | 327 | 206 | 364 | **4,903** |
| Head Office | 71 | 20 | 138 | 561 | 359 | — | **1,149** |
| **Total revenue, by activity** | **$ 17,595** | **$ 10,931** | **$ 4,624** | **$ 3,338** | **$ 3,436** | **$ 3,089** | **$ 43,013** |

| | Three months ended December 31, 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 | $ 2,439 | $ 1,144 | $ 581 | $ 471 | $ 569 | $ 893 | $ 6,097 |
| Quebec | 2,804 | 1,418 | 615 | 383 | 370 | 452 | 6,042 |
| National Capital | 1,729 | 3,504 | 1,520 | 137 | 118 | 427 | 7,435 |
| Ontario | 3,336 | 1,143 | 794 | 556 | 1,099 | 578 | 7,506 |
| Western | 3,028 | 1,361 | 500 | 735 | 206 | 233 | 6,063 |
| Pacific | 2,273 | 1,161 | 239 | 260 | 173 | 198 | 4,304 |
| Head Office | 73 | 14 | 55 | 471 | 381 | 1 | 995 |
| Total revenue, by activity | $ 15,682 | $ 9,745 | $ 4,304 | $ 3,013 | $ 2,916 | $ 2,782 | $ 38,442 |

| | Nine months ended December 31, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Activity | | | | | | |
| **Region** | **Contract Management** | **Project and Program Management** | **Real Property Technical Support** | **Contracting** | **Construction Technical Support** | **Environmental Technical Support** | **Total revenue, by region** |
| Atlantic | $ 8,113 | $ 3,305 | $ 1,473 | $ 1,538 | $ 1,464 | $ 2,609 | **$ 18,502** |
| Quebec | 9,274 | 4,260 | 1,952 | 1,395 | 1,380 | 1,600 | **19,861** |
| National Capital | 6,987 | 13,068 | 5,206 | 468 | 514 | 1,327 | **27,570** |
| Ontario | 11,966 | 4,206 | 2,817 | 1,939 | 3,632 | 2,250 | **26,810** |
| Western | 10,608 | 4,399 | 1,627 | 2,292 | 966 | 841 | **20,733** |
| Pacific | 7,661 | 3,653 | 957 | 1,023 | 605 | 1,110 | **15,009** |
| Head Office | 204 | 93 | 411 | 1,600 | 1,158 | — | **3,466** |
| **Total revenue, by activity** | **$ 54,813** | **$ 32,984** | **$ 14,443** | **$ 10,255** | **$ 9,719** | **$ 9,737** | **$ 131,951** |

| | Nine months ended December 31, 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 | $ 7,743 | $ 3,291 | $ 1,827 | $ 1,463 | $ 1,136 | $ 2,544 | $ 18,004 |
| Quebec | 8,299 | 3,783 | 1,623 | 1,205 | 1,028 | 1,345 | 17,283 |
| National Capital | 5,312 | 10,535 | 4,948 | 428 | 271 | 1,481 | 22,975 |
| Ontario | 10,471 | 3,667 | 2,595 | 1,710 | 3,240 | 1,860 | 23,543 |
| Western | 9,411 | 4,120 | 1,263 | 2,317 | 684 | 768 | 18,563 |
| Pacific | 6,893 | 3,229 | 681 | 754 | 477 | 553 | 12,587 |
| Head Office | 244 | 32 | 160 | 1,411 | 1,128 | 1 | 2,976 |
| Total revenue, by activity | $ 48,373 | $ 28,657 | $ 13,097 | $ 9,288 | $ 7,964 | $ 8,552 | $ 115,931 |

The following tables disaggregate revenue by region and contract type.

| **Time-based revenue** | **Three months ended December 31** | | **Nine months ended December 31** | |
|---|---|---|---|---|
| **Region** | **2023** | 2022 | **2023** | 2022 |
| Atlantic | **$ 1,364** | $ 1,407 | **$ 4,158** | $ 4,097 |
| Quebec | **2,331** | 1,955 | **6,466** | 5,311 |
| National Capital | **7,668** | 6,191 | **23,462** | 19,547 |
| Ontario | **2,206** | 2,010 | **6,568** | 6,331 |
| Western | **1,359** | 1,279 | **3,954** | 3,761 |
| Pacific | **1,214** | 1,320 | **3,716** | 4,181 |
| Head Office | **710** | 628 | **2,181** | 1,893 |
| **Total time-based revenue** | **$ 16,852** | $ 14,790 | **$ 50,505** | $ 45,121 |

| Fixed-fee revenue | Three months ended December 31 | | | | Nine months ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| **Region** | | **2023** | | 2022 | | **2023** | | 2022 |
| Atlantic | **$** | **4,536** | $ | 4,690 | **$** | **14,344** | $ | 13,907 |
| Quebec | | **4,454** | | 4,087 | | **13,395** | | 11,972 |
| National Capital | | **1,361** | | 1,244 | | **4,108** | | 3,428 |
| Ontario | | **6,307** | | 5,496 | | **20,242** | | 17,212 |
| Western | | **5,375** | | 4,784 | | **16,779** | | 14,802 |
| Pacific | | **3,689** | | 2,984 | | **11,293** | | 8,406 |
| Head Office | | **439** | | 367 | | **1,285** | | 1,083 |
| **Total fixed-fee revenue** | **$** | **26,161** | $ | 23,652 | **$** | **81,446** | $ | 70,810 |
| **Total revenue** | **$** | **43,013** | $ | 38,442 | **$** | **131,951** | $ | 115,931 |

As at December 31, 2023, $5,587 (March 31, 2023, $1,299) in deferred revenue was related to performance obligations that had not yet been satisfied. Management expects the balance to be recognized as revenue by March 31, 2024. The changes in deferred revenue for the nine-month period are shown in the following table.

| | **December 31, 2023** | | March 31, 2023 | |
|---|---|---|---|---|
| Balance as at the beginning of the period | **$** | **1,299** | $ | 1,285 |
| Recognition of deferred revenue | | **(322)** | | (473) |
| Amounts invoiced and revenue deferred | | **4,610** | | 487 |
| **Balance as at the end of the period** | **$** | **5,587** | $ | 1,299 |

## 10. OPERATING AND ADMINISTRATIVE EXPENSES

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

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Employee training and development | **$ 525** | $ 330 | **$ 1,199** | $ 620 |
| Cloud computing services | **478** | 511 | **1,600** | 1,411 |
| Software maintenance | **456** | 418 | **1,375** | 1,242 |
| Leased location operating costs | **291** | 260 | **805** | 688 |
| Professional services | **284** | 199 | **1,108** | 906 |
| Travel | **263** | 193 | **633** | 416 |
| Equipment rental | **261** | 139 | **733** | 688 |
| Office services, supplies and equipment | **206** | 185 | **514** | 490 |
| Telephone and data communications | **176** | 166 | **511** | 565 |
| Client services and communications | **133** | 92 | **350** | 320 |
| Hospitality | **96** | 56 | **200** | 101 |
| Furniture and equipment | **80** | 115 | **331** | 140 |
| Recruiting | **59** | 96 | **276** | 161 |
| Staff relocation | **57** | 60 | **166** | 174 |
| Computer hardware | **51** | 556 | **138** | 581 |
| Memberships and subscriptions | **27** | 22 | **85** | 68 |
| Postage and freight | **10** | 8 | **27** | 21 |
| Computer software | **7** | 3 | **110** | 74 |
| Other | **7** | 9 | **30** | 17 |
| Leasehold improvements | **1** | 1 | **1** | 12 |
| **Total operating and administrative expenses** | **$ 3,468** | $ 3,419 | **$ 10,192** | $ 8,695 |

## 11. SUPPLEMENTAL OPERATING CASH FLOW INFORMATION

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Interest received from bank deposits | **$ 375** | $ 404 | **$ 967** | $ 826 |
| Interest received from investments | **$ 331** | $ 121 | **$ 951** | $ 321 |
| Interest charges on lease obligations | **$ 65** | $ 48 | **$ 181** | $ 149 |
| Acquisition of property, plant and equipment not paid | **$ (69)** | $ 12 | **$ —** | $ 12 |

## 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 December 31, 2023, was $100,400 (March 31, 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 December 31, 2023** | | |
|---|---|---|---|
| | **FVTPL** | **Amortized cost** | **Total carrying amount** |
| Cash and cash equivalents | $ 27,917 | $ — | $ 27,917 |
| Investments | — | 39,777 | 39,777 |
| Trade receivables | — | 30,532 | 30,532 |
| Other receivables | — | 2,167 | 2,167 |
| Other assets | — | 7 | 7 |
| **Total financial assets** | **$ 27,917** | **$ 72,483** | **$ 100,400** |

| | 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 December 31, 2023, was $10,587 (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 December 31, 2023, the Corporation's financial assets exceeded its financial liabilities by $89,813 (March 31, 2023, $81,011).

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

| | **As at December 31, 2023** | | |
|---|---|---|---|
| | **Carrying amount** | **Contractual cash flows** | **Maturing within six months or less** |
| Trade and other payables | $ 10,587 | $ 10,587 | $ 10,587 |
| **Financial liabilities** | **$ 10,587** | **$ 10,587** | **$ 10,587** |

| | 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 December 31, 2023, all of the investments ($39,777) 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 | — | 1,017 |
| Modifications | 205 | 214 | 419 |
| Depreciation | (839) | (92) | (931) |
| **Balance as at December 31, 2023** | **$ 6,416** | **$ 71** | **$ 6,701** |

### 13.2 LEASE OBLIGATIONS

| | As at | |
|---|---|---|
| | **December 31, 2023** | March 31, 2023 |
| Current portion | **$ 647** | $ 1,310 |
| Long-term portion | **6,391** | 5,287 |
| **Total lease obligations** | **$ 7,038** | $ 6,597 |

| | |
|---|---|
| Balance as at March 31, 2023 | $ 6,597 |
| Additions | 1,017 |
| Modifications | 419 |
| Payments | (1,176) |
| Interest expense | 181 |
| **Balance as at December 31, 2023** | **$ 7,038** |

The following table shows the contractual undiscounted cash flows for lease obligations as at December 31, 2023.

| | |
|---|---|
| One year or less | $ 888 |
| Between one and two years | $ 718 |
| Between two and five years | $ 2,098 |
| Over five years | $ 4,562 |
| **Total** | **$ 8,266** |

The following table shows the breakdown of lease payments for the period ended December 31, 2023. Variable lease payments consist of amounts 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.

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Variable lease payments | **$ 291** | $ 260 | **$ 805** | $ 688 |
| Total cash outflow for leases | **$ 695** | $ 629 | **$ 1,981** | $ 1,790 |
| Principal repayment on lease obligations | **$ 339** | $ 321 | **$ 995** | $ 953 |

## 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 third quarter totalled $43,013, compared to $38,442 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 $131,951, compared to $115,931 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 | |
|---|---|---|
| | **December 31, 2023** | March 31, 2023 |
| **Due from:** | | |
| Department of National Defence (DND) | **$ 28,113** | $ 30,007 |
| Canadian Forces Housing Agency | **2,119** | 1,749 |
| Communications Security Establishment | **275** | 150 |
| Shared Services Canada | **25** | 55 |
| | **$ 30,532** | $ 31,961 |
| **Due to:** | | |
| Shared Services Canada | **25** | 4 |
| Department of Justice Canada | **59** | 153 |
| | **$ 84** | $ 157 |

The Corporation incurs expenses with other Government of Canada departments. These transactions totalled $130 for the third quarter, compared to $310 in the same period in 2022–2023. The transactions totalled $611 for the year-to-date period, compared to $731 in the same period in 2022–2023. Of these expenses, the Corporation recovered $111 from Client-Partners in the third quarter and $563 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 was $1,001 as at December 31, 2023. As at March 31, 2023, the carrying value was $1,001. The Corporation earned investment revenue of $5 from the bond during the third quarter and $14 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 December 31, 2023, there were 13 ongoing claims totalling $10,945. 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 December 31, 2023, there was one ongoing legal claim, not related to DND, for which the outflow of resources to settle the obligation either could not be estimated or was not probable at that time. No amount for this claim had been recognized as at December 31, 2023.