DEFENCE CONSTRUCTION CANADA

2024–2025 FIRST QUARTER FINANCIAL REPORT

PERIOD ENDED JUNE 30, 2024

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 first quarter ended June 30, 2024, 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 June 30, 2024.

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's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports 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, 2024 (the "*Annual Report 2023–2024*"). DCC management is responsible for the information presented in the MD&A and unaudited condensed interim financial statements.

In the following analysis, all references to the first quarter refer to the three months ended June 30, 2024. All references to the previous year's first quarter relate to the three months ended June 30, 2023. All references to the previous year end relate to March 31, 2024.

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 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 first quarter of 2024–2025, the cost of service delivery for program-driven services was 17%, down three percentage points from 2023–2024. This decrease was due to a faster DND program rollout. The cost of service is typically higher than the targeted range at the beginning of the year, due to the timing of IE contract expenditures, and moves within range as the year progresses and contract expenditures are incurred.

3.2 EMPLOYEE UTILIZATION RATE

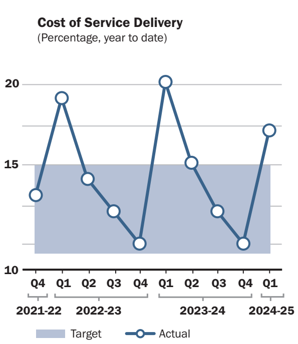
The employee utilization rate indicates the hours spent directly on service delivery functions that are billable to the Client-Partners, as opposed to the hours spent on corporate strategic initiatives and administrative functions that are considered overhead support, and on compensated leave. The utilization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

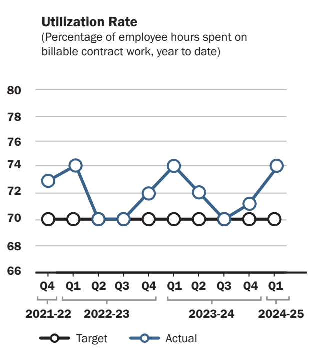
The Corporation sets a target to recover 70% of employee hours from the Client-Partners. For the first quarter of 2024–2025, the utilization rate was 74%, consistent with the same period in 2023–2024.

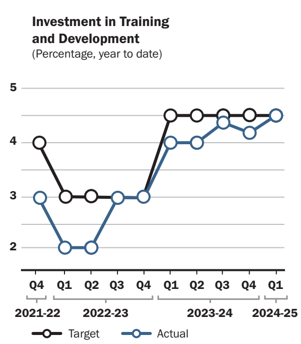
3.3 INVESTMENT IN TRAINING AND DEVELOPMENT

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. DCC has established an annual overall corporate target for spending on training and development of 4.5% of base salary costs.

For the first quarter of 2024–2025, the actual percentage was 4.5%, an increase of 0.5 percentage points from the same period in 2023–2024. 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's first quarter related to a regional collaboration forum that was held during the first quarter.







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 2023–2024*.

5.0 FINANCIAL PERFORMANCE

5.1 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $51 million in the first quarter, an increase of $6 million or approximately 13% from the same period in 2023–2024. The increase was due to an increase in demand for services from the Client-Partners, combined with a planned billing rate increase for the year.

In general, services revenue directly correlates with DND's spending on IE 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 June 30**		**Change**	
(in thousands of dollars)	**2024**	2023	**$**	**%**
Contract Management	**$ 20,753**	$ 19,326	1,427	7%
Project and Program Management	**12,795**	11,336	1,459	13%
Real Property Technical Support	**5,918**	4,955	963	19%
Contracting	**3,837**	3,550	287	8%
Construction Technical Support	**4,144**	3,059	1,085	35%
Environmental Technical Support	**3,847**	3,341	506	15%
Total services revenue	**$ 51,294**	$ 45,567	5,727	13%

Contract Management

Contract Management revenue increased by 7% over the previous year's first quarter. This was a result of increased demand from the Client-Partners (which accounted for 3.75 percentage points of the increase) and the increase in billing rates (which accounted for 3.25 percentage points of the increase).

Project and Program Management

Project and Program Management revenue increased by 13% in the first quarter over the previous year's first quarter. The higher revenue was a result of an increase in demand from the Client-Partners (which accounted for 9.75 percentage points of the increase) and the billing rate increase (which accounted for 3.25 percentage points of the increase).

Real Property Technical Support

Real Property Technical Support revenue increased by 19% in the first quarter over the previous year's first quarter. This was due to increased demand for services related to facility and portfolio management (which accounted for 15.75 percentage points of the increase) and the billing rate increase (which accounted for 3.25 percentage points of the increase).

Contracting
Contracting revenue increased by 8% in the first quarter over the previous year's first quarter. This was due to increased demand from the Client-Partners (which accounted for 4.75 percentage points of the increase) and the increase in billing rates (which accounted for 3.25 percentage points of the increase).

ConstructionTechnical Support
Construction Technical Support revenue increased by 35% in the first quarter over the previous year's first quarter. The higher revenue was a result of an increase in demand from the Client-Partners (which accounted for 31.75 percentage points of the increase) and the billing rate increase (which accounted for 3.25 percentage points of the increase).

Environmental Technical Support
Environmental Technical Support revenue increased by 15% in the first quarter over the previous year's first quarter. This was due to an increase in demand (which accounted for 11.75 percentage points of the increase) and the increase in billing rates (which accounted for 3.25 percentage points of the increase).

INVESTMENT REVENUE
Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, increased in the first quarter by $226,000 or approximately 40% when compared to the previous year's first quarter. The increase over the previous year's first quarter was due to two factors: a higher rate of return, as long-term investments matured and were replaced by investments with higher interest rates; and a higher cash and investment balance compared to the previous year's first quarter. The investment balance as at June 30, 2024, was 10% higher than at June 30, 2023, while the cash balance was 27% higher for the same period.

	Three months ended June 30		**Change**	
(in thousands of dollars)	**2024**	2023	**$**	**%**
Investment revenue	$ **795**	$ 569	226	40%

5.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS
Salaries totalled $36 million in the first quarter, an increase of $4 million or approximately 12% over the previous year's first quarter. The increase was mainly due to an increase of approximately 8% (or 99) 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 first quarter totalled $10 million, an increase of $1 million or approximately 13% from the previous year's first quarter. The increase was due to growth in the Corporation's workforce and an increase in the cost of employee future benefits.

	Three months ended June 30		Change	
(in thousands of dollars)	**2024**	2023	$	%
Salaries	**$ 35,596**	$ 31,718	3,878	12%
Employee benefits	**9,957**	8,799	1,158	13%
Total salaries and employee benefits	**$ 45,553**	$ 40,517	5,036	12%
Employee benefits as a % of salaries	**28%**	28%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $4 million in the first quarter, an increase of approximately 11% over the previous year's first quarter. A variety of factors influenced these expenses.

	Three months ended June 30		Change		
(in thousands of dollars)	**2024**	2023	$	%	**Variance analysis**
Professional services	**$ 590**	$ 441	149	34%	The increase was due to expenses for technical consulting services to support the replacement of the enterprise resource planning system, as well as for internal audit services.
Cloud computing services	**545**	550	(5)	-1%	The variance was not material.
Software maintenance	**517**	447	70	16%	The increase was due to a higher headcount required to meet increased demand for services from the Client-Partners.
Employee training and development	**443**	349	94	27%	The increase was due to a regional service line forum held in the first quarter.
Leased location operating costs	**294**	270	24	9%	The increase was due to the opening of the new Pacific Regional Office in July 2023.
Equipment rental	**281**	210	71	34%	The increase was due to computer equipment leases for new employees required due to the increased demand from Client-Partners.
Travel	**181**	214	(33)	-15%	The decrease was due to an active effort to reduce travel costs by reducing the number of in-person meetings and moving to a hybrid approach.
Office services, supplies and equipment	**164**	149	15	10%	The increase was due to the purchase of computer peripherals.
Telephone and data communications	**147**	165	(18)	-11%	The decrease was due to a one-time purchase of Internet accessories in the previous year's first quarter.
Client services and communications	**113**	99	14	14%	The increase was due to increased attendance at regional Pride events.
Recruiting	**95**	142	(47)	-33%	The decrease was due to an employer branding initiative, and a one-time payment for the placement of an employee, in the previous year's first quarter.
Hospitality	**86**	64	22	34%	The increase was due to an increase in training initiatives completed in the first quarter and to inflationary increases in food and beverage costs.

OPERATING AND ADMINISTRATIVE EXPENSES (CONTINUED)

	Three months ended June 30		**Change**		
(in thousands of dollars)	**2024**	2023	**$**	**%**	**Variance analysis**
Computer software	**70**	66	4	6%	The variance was not material
Memberships and subscriptions	**31**	25	6	24%	The variance was not material.
Staff relocation	**26**	29	(3)	-10%	The variance was not material.
Furniture and equipment	**24**	30	(6)	-20%	The variance was not material.
Computer hardware	**16**	16	—	0%	The variance was not material.
Other	**8**	6	2	33%	The variance was not material.
Postage and freight	**5**	5	—	0%	The variance was not material.
Total operating and administrative expenses	**$ 3,636**	$ 3,277	359	11%	

DEPRECIATION AND AMORTIZATION

Depreciation and amortization combined increased by 11% or $47,000 compared to the previous year's first quarter. Depreciation of right-of-use assets increased by 2% or $6,000 compared to the previous year's first quarter, mostly due to the Pacific Regional Office lease that began in July 2023, partially offset by leasehold improvement allowances for the Head Office and Pacific Regional Office leases. Depreciation of property, plant and equipment increased by 27% or $29,000 compared to the previous year's first quarter, mostly due to leasehold improvements at the new Pacific Regional Office. Amortization of intangible assets increased by 240% or $12,000 compared to the previous year's first quarter, due to the purchase of access to information and privacy (ATIP) software.

	Three months ended June 30		**Change**	
(in thousands of dollars)	**2024**	2023	**$**	**%**
Depreciation of right-of-use assets	**$ 305**	$ 299	6	2%
Depreciation of property, plant and equipment	**135**	106	29	27%
Amortization of intangible assets	**17**	5	12	240%
Total depreciation and amortization	**$ 457**	$ 410	47	11%

5.3 NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income in the current quarter was $2 million, an increase of $496,000 or 26% from the previous year's first quarter. The higher net income in the first quarter 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 June 30		Change	
(in thousands of dollars)	**2024**	2023	$	%
Net income and comprehensive income	**$ 2,376**	$ 1,880	496	26%

5.4 LIQUIDITY AND CAPITAL RESOURCES

DCC's financial and cash management policy is discussed in the *Annual Report 2023–2024.*

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments totalled $69 million at June 30, 2024, a decrease of $1 million or 1% from March 31, 2024.

The cash and cash equivalents balance at June 30, 2024, was $25 million, a decrease of $1 million or 3% from March 31, 2024. In the three-month period after March 31, 2024, the Corporation spent $368,000 in cash for operating activities, spent $85,000 on capital expenditures and paid $232,000 for lease obligations.

As at June 30, 2024, DCC's overall cash balance was within its 2024–2025 targeted operating cash reserves of $22 to $30 million.

Investments (both current and long term) at June 30, 2024, were $43 million, an increase of $54,000 from the 2023–2024 year end. The increase was due to accretion of bonds held.

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 DCC's Client-Partners, mainly DND. At June 30, 2024, trade receivables were $38 million, which represented an increase of $3 million or 9% from

March 31, 2024. The increase was due to increased revenue from Client-Partners, due to the increase in billing rates and volume and to a slight increase in the time needed to collect those receivables compared to March 2024. All of the trade receivables were assessed to be fully collectible.

CURRENT LIABILITIES

Current liabilities were $29 million at June 30, 2024, an increase of $3 million or 13% from March 31, 2024. 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)		**June 30, 2024**		March 31, 2024	**$**	**%**
Cash and cash equivalents	$	**25,484**	$	26,169	(685)	-3%
Investments		**43,428**		43,374	54	0%
Cash and cash equivalents and investments	$	**68,912**	$	69,543	(631)	-1%
Trade receivables	$	**38,272**	$	35,194	3,078	9%
Current liabilities	$	**28,785**	$	25,581	3,204	13%

5.5 EMPLOYEE BENEFITS

DCC 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 June 30, 2024, was $40 million, an increase of $1 million or approximately 3% from March 31, 2024.

Overall, the liability increased because the current service cost ($612,000) and the interest on the present value of the obligation ($503,000) were higher than the employee benefit premiums paid ($135,000).

	As at				**Change**	
(in thousands of dollars)		**June 30, 2024**		March 31, 2024	**$**	**%**
Current portion	$	**841**	$	781	60	8%
Long-term portion		**39,005**		38,085	920	2%
Total employee benefits	$	**39,846**	$	38,866	980	3%

5.6 CAPITAL EXPENDITURES

The Corporation recorded negative capital expenditures of $69,000 for the first quarter, compared to expenditures of $675,000 in the previous year's first quarter. The decrease was mainly due to a leasehold improvement allowance secured in the first quarter, reducing the total payments on the lease, and to leasehold construction costs at a regional office during the previous year's first quarter.

	Three months ended June 30		Change	
(in thousands of dollars)	**2024**	2023	$	%
Furniture and equipment	$ **34**	$ —	34	—
Leasehold improvements	**—**	524	(524)	-100%
Right-of-use assets	**(103)**	151	(254)	*
Total capital expenditures	**$ (69)**	$ 675	(744)	*

**The change was not meaningful.*

5.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in the first quarter 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 7% higher than projected in the Plan. The increase was due to higher-than-anticipated demand for services from Client-Partners.

Travel and disbursement revenue and expenses were both 9% lower than indicated in the Plan, due to a reduction in business travel requirements.

Investment revenue was 18% higher than anticipated in the Plan, due to a higher cash and investment balance than planned.

Salaries and employee benefit costs were 7% higher than projected in the Plan. Salaries were higher than planned due to a higher-than-expected number of new FTEs. The higher-than-planned cost of employee benefits is expected to align to the planned benefit rate by the end of the fiscal year.

Operating and administrative expenses were 10% lower than projected. The decrease was due mainly to the timing of expenditures on employee training and development, furniture and equipment, and cloud computing services.

Depreciation and amortization were 24% lower than forecasted in the Plan. Computer hardware purchases were primarily operating expense components rather than capital components, as initially planned. That change reduced capital expenditures by $2 million. As a result, depreciation is expected to be lower than planned for the full year.

Net income was $1 million higher than forecasted in the Plan, mainly due to higher demand, and lower-than-planned operating and administrative expenses. This was partially countered by higher-than-expected salaries and employee benefits.

Capital expenditures were 103% lower than projected, because planned computer hardware purchases were primarily operating expenditures rather than capital expenditures and cost less.

	Three months ended June 30, 2024		**Change**	
(in thousands of dollars)	**Actual**	Corporate Plan	**$**	**%**
Revenue				
Services revenue	**$ 51,294**	$ 47,805	3,489	7%
Travel and disbursement revenue	**719**	786	(67)	-9%
Investment revenue	**795**	672	123	18%
Total revenue	**$ 52,808**	$ 49,263	3,545	7%
Expenses				
Salaries and employee benefits	**$ 45,553**	$ 42,681	2,872	7%
Operating and administrative expenses	**3,636**	4,048	(412)	-10%
Travel and disbursement expenses	**719**	786	(67)	-9%
Depreciation and amortization	**457**	600	(143)	-24%
Finance costs	**67**	64	3	5%
Total expenses	**$ 50,432**	$ 48,179	2,253	5%
Net income and comprehensive income	**$ 2,376**	$ 1,084	1,292	119%
Capital expenditures	**$ (69)**	$ 2,511	(2,580)	-103%

5.8 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the first quarter increased by $49 million or 28% when compared to the previous year's first quarter. This increase was mostly due to a faster DND program rollout, compared to the previous year's first quarter. The DND program in 2024–2025 is expected to be similar to that of 2023–2024.

(in thousands of dollars)	**Three months ended June 30**		**Change**	
Region	**2024**	2023	**$**	**%**
National Capital	**$ 60,953**	$ 34,390	26,563	77%
Quebec	**50,690**	34,549	16,141	47%
Ontario	**34,683**	43,699	(9,016)	-21%
Atlantic	**30,533**	17,185	13,348	78%
Western	**29,333**	21,123	8,210	39%
Pacific	**15,110**	21,407	(6,297)	-29%
Total contract expenditures	**$ 221,302**	$ 172,353	48,949	28%

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
August 26, 2024

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

		As at			
(in thousands of dollars)	Notes		**June 30, 2024**		March 31, 2024
Assets					
Cash and cash equivalents		**$**	**25,484**	$	26,169
Investments	6, 14		**6,455**		5,740
Accrued revenue	9		**2,716**		—
Trade receivables	14		**38,272**		35,194
Prepaid and other assets			**2,975**		1,300
Other receivables			**1,840**		1,887
Current assets		**$**	**77,742**	$	70,290
Investments	6, 14		**36,973**		37,634
Property, plant and equipment	7		**2,519**		2,620
Intangible assets			**144**		161
Right-of-use assets	13		**6,086**		6,494
Non-current assets		**$**	**45,722**	$	46,909
Total assets		**$**	**123,464**	$	117,199
Liabilities					
Trade and other payables	14	**$**	**24,449**	$	22,907
Deferred revenue	9		**2,622**		920
Employee benefits	8		**841**		781
Lease obligations	13		**873**		973
Current liabilities		**$**	**28,785**	$	25,581
Employee benefits	8		**39,005**		38,085
Lease obligations	13		**6,033**		6,268
Non-current liabilities		**$**	**45,038**	$	44,353
Total liabilities		**$**	**73,823**	$	69,934
Equity					
Share capital: Authorized (1,000 common shares of no par value); issued (32 common shares)			**—**		—
Retained earnings			**49,641**		47,265
Total equity		**$**	**49,641**	$	47,265
Total liabilities and equity		**$**	**123,464**	$	117,199

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 June 30	
(in thousands of dollars)	Notes	**2024**	2023
Services revenue	9	**$ 51,294**	$ 45,567
Travel and disbursement revenue		**719**	1,151
Investment revenue		**795**	569
Total revenue		**$ 52,808**	$ 47,287
Salaries and employee benefits		**45,553**	40,517
Operating and administrative expenses	10	**3,636**	3,277
Travel and disbursement expenses		**719**	1,151
Depreciation of right-of-use assets	13	**305**	299
Depreciation of property, plant and equipment	7	**135**	106
Amortization of intangible assets		**17**	5
Finance costs	13	**67**	52
Total expenses		**$ 50,432**	$ 45,407
Net income and comprehensive income		**$ 2,376**	$ 1,880

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

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Three months ended June 30	
(in thousands of dollars)	**2024**	2023
Share capital	**$ —**	$ —
Retained earnings		
Balance as at the beginning of the period	**47,265**	40,103
Net income and comprehensive income	**2,376**	1,880
Balance as at the end of the period	**$ 49,641**	$ 41,983
Equity	**$ 49,641**	$ 41,983

CONDENSED INTERIM STATEMENT OF CASH FLOWS

(in thousands of dollars)	Notes	**Three months ended June 30** **2024**	2023
Cash flow provided by operating activities			
Net income		**$ 2,376**	$ 1,880
Adjustments to reconcile net income to cash provided by (used in) operating activities			
Employee benefits expensed	8	**1,115**	999
Employee benefits paid	8	**(135)**	(230)
Depreciation of right-of-use assets	13	**305**	299
Depreciation of property, plant and equipment	7	**135**	106
Amortization of intangible assets		**17**	5
Accretion of investment premiums		**(66)**	(42)
Amortization of investment premiums		**12**	18
Change in non-cash operating working capital			
Trade receivables		**(3,078)**	(3,754)
Other receivables		**47**	(344)
Prepaid and other assets		**(1,675)**	(685)
Accrued revenue		**(2,716)**	(2,470)
Trade and other payables		**1,593**	7,082
Deferred revenue		**1,702**	1,621
Net cash flows provided by (used in) operating activities		**$ (368)**	$ 4,485
Cash flows provided by (used in) investing activities			
Acquisition of property, plant and equipment	7	**(85)**	(392)
Acquisition of investments		**—**	(1,400)
Redemption and disposition of investments		**—**	1,186
Net cash flows used in investing activities		**$ (85)**	$ (606)
Cash flows used in financing activities			
Repayment of lease obligations	13	**(232)**	(321)
Net cash flows used in financing activities		**$ (232)**	$ (321)
Increase (decrease) in cash and cash equivalents during the period		**(685)**	3,558
Cash and cash equivalents at the beginning of the period		**26,169**	16,563
Cash and cash equivalents at the end of the period		**$ 25,484**	$ 20,121

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, 2024, 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, 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, 2024, 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, 2024. 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, 2024.

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, 2024.

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 July 2024 to March 2029, 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	
	June 30, 2024	March 31, 2024
Current portion	**$ 6,455**	$ 5,740
Long-term portion	**36,973**	37,634
Total investments	**$ 43,428**	$ 43,374

	As at	
Carrying amount at amortized cost	**June 30, 2024**	March 31, 2024
Provincial bonds	**$ 10,762**	$ 10,707
Federal bonds (Note 14)	**1,000**	1,000
Guaranteed investment certificates	**31,666**	31,667
	$ 43,428	$ 43,374

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	**June 30, 2024**	March 31, 2024
Provincial bonds	**$ 10,585**	$ 10,491
Federal bonds (Note 14)	**988**	984
Guaranteed investment certificates	**32,116**	31,848
	$ 43,689	$ 43,323

	As at June 30, 2024				
	Effective interest rate	**Coupon interest rate**	**Less than one year**	**One to five years**	**Total**
Obligations					
Federal bonds (Note 14)	1.7%	1.8%	$ 1,000	$ —	**$ 1,000**
Provincial bonds	1.2% – 4.6%	2.3% – 4.6%	1,769	8,993	**10,762**
Guaranteed investment certificates	0.9% – 5.1%	0.9% – 5.1%	3,686	27,980	**31,666**
			$ 6,455	**$ 36,973**	**$ 43,428**

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, 2024	$ 700	$ 1,490	$ 2,773	$ 4,963
Additions	—	34	—	34
Balance as at June 30, 2024	**$ 700**	**$ 1,524**	**$ 2,773**	**$ 4,997**
Accumulated depreciation				
Balance as at March 31, 2024	$ 637	$ 926	$ 780	$ 2,343
Depreciation	10	49	76	135
Balance as at June 30, 2024	**$ 647**	**$ 975**	**$ 856**	**$ 2,478**
Net book value, by asset class				
Net book value as at March 31, 2024	$ 63	$ 564	$ 1,993	$ 2,620
Net book value as at June 30, 2024	**$ 53**	**$ 549**	**$ 1,917**	**$ 2,519**

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 2023–2024*. 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	
	June 30, 2024	March 31, 2024
Current portion	**$ 841**	$ 781
Long-term portion	**39,005**	38,085
Total employee benefits	**$ 39,846**	$ 38,866

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

Balance as at March 31, 2024	$	**38,866**
Current service cost		**612**
Interest on present value of obligation		**503**
Employee benefit premiums		**(135)**
Balance as at June 30, 2024	**$**	**39,846**

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

	Three months ended June 30			
		2024		2023
Current service cost	**$**	**612**	$	565
Interest on present value of obligation		**503**		434
Employee benefit expenses	**$**	**1,115**	$	999

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 June 30, 2024						
	Activity						
Region	**Contract Management**	**Project and Program Management**	**Real Property Technical Support**	**Contracting**	**Construction Technical Support**	**Environmental Technical Support**	**Total revenue, by region**
Atlantic	$ 3,099	$ 1,426	$ 516	$ 544	$ 643	$ 904	**$ 7,132**
Quebec	3,515	1,655	770	553	655	630	**7,778**
National Capital	3,125	5,211	1,955	151	174	649	**11,265**
Ontario	4,187	1,576	1,315	775	1,415	949	**10,217**
Western	3,908	1,512	749	857	493	248	**7,767**
Pacific	2,877	1,390	404	382	251	467	**5,771**
Head Office	42	25	209	575	513	—	**1,364**
Total revenue, by activity	**$ 20,753**	**$ 12,795**	**$ 5,918**	**$ 3,837**	**$ 4,144**	**$ 3,847**	**$ 51,294**

	Three months ended June 30, 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	$ 2,699	$ 1,209	$ 601	$ 588	$ 505	$ 894	$ 6,496
Quebec	3,312	1,461	648	470	438	600	6,929
National Capital	2,310	4,208	1,843	147	162	453	9,123
Ontario	4,531	1,502	858	654	1,024	765	9,334
Western	3,531	1,643	561	813	267	286	7,101
Pacific	2,862	1,263	304	353	187	343	5,312
Head Office	81	50	140	525	476	—	1,272
Total revenue, by activity	$ 19,326	$ 11,336	$ 4,955	$ 3,550	$ 3,059	$ 3,341	$ 45,567

The following tables disaggregate revenue by region and contract type.

Time-based revenue	**Three months ended June 30**	
Region	**2024**	2023
Atlantic	**$ 1,953**	$ 1,287
Quebec	**2,483**	2,194
National Capital	**9,400**	7,780
Ontario	**2,851**	2,148
Western	**1,652**	1,284
Pacific	**1,577**	1,331
Head Office	**876**	824
Total time-based revenue	**$ 20,792**	$ 16,848

Fixed-fee revenue	**Three months ended June 30**	
Region	**2024**	2023
Atlantic	**$ 5,179**	$ 5,209
Quebec	**5,295**	4,735
National Capital	**1,865**	1,343
Ontario	**7,366**	7,186
Western	**6,115**	5,817
Pacific	**4,194**	3,981
Head Office	**488**	448
Total fixed-fee revenue	**$ 30,502**	$ 28,719
Total revenue	**$ 51,294**	$ 45,567

As at June 30, 2024, $2,622 (March 31, 2024, $920) 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, 2025. The changes in deferred revenue for the three-month period are shown in the following table.

	June 30, 2024	March 31, 2024
Balance as at the beginning of the period	**$ 920**	$ 1,299
Recognition of deferred revenue	**(6)**	(749)
Amounts invoiced and revenue deferred	**1,708**	370
Balance as at the end of the period	**$ 2,622**	$ 920

10. OPERATING AND ADMINISTRATIVE EXPENSES

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

	Three months ended June 30	
	2024	2023
Professional services	**$ 590**	$ 441
Cloud computing services	**545**	550
Software maintenance	**517**	447
Employee training and development	**443**	349
Leased location operating costs	**294**	270
Equipment rental	**281**	210
Travel	**181**	214
Office services, supplies and equipment	**164**	149
Telephone and data communications	**147**	165
Client services and communications	**113**	99
Recruiting	**95**	142
Hospitality	**86**	64
Computer software	**70**	66
Memberships and subscriptions	**31**	25
Staff relocation	**26**	29
Furniture and equipment	**24**	30
Computer hardware	**16**	16
Other	**8**	6
Postage and freight	**5**	5
Total operating and administrative expenses	**$ 3,636**	$ 3,277

11. SUPPLEMENTAL OPERATING CASH FLOW INFORMATION

	Three months ended June 30	
	2024	2023
Interest received from bank deposits	**$ 414**	$ 274
Interest received from investments	**$ 377**	$ 292
Interest charges on lease obligations	**$ 67**	$ 52
Acquisition of property, plant and equipment not paid	**$ —**	$ 224

12. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

12.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets subject to credit risk as at June 30, 2024, was $109,036 (March 31, 2024, $106,629) 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 June 30, 2024		
	FVTPL	**Amortized cost**	**Total carrying amount**
Cash and cash equivalents	$ 25,484	$ —	$ 25,484
Investments	—	43,428	43,428
Trade receivables	—	38,272	38,272
Other receivables	—	1,840	1,840
Other assets	—	12	12
Total financial assets	**$ 25,484**	**$ 83,552**	**$ 109,036**

	As at March 31, 2024		
	FVTPL	Amortized cost	Total carrying amount
Cash and cash equivalents	$ 26,169	$ —	$ 26,169
Investments	—	43,374	43,374
Trade receivables	—	35,194	35,194
Other receivables	—	1,887	1,887
Other assets	—	5	5
Total financial assets	$ 26,169	$ 80,460	$ 106,629

12.2 LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities for trade and other payables as at June 30, 2024, was $13,575 (March 31, 2024, $13,469) and was equal to the contractual cash flows representing the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low, since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. All trade and other payables mature within six months or less. Trade and other payables consist of balances owed to suppliers. Commodity taxes payable and accrued vacation and overtime are not included in trade and other payables. In addition, as at June 30, 2024, the Corporation's financial assets exceeded its financial liabilities by $95,461 (March 31, 2024, $93,160).

The Corporation's financial liabilities, including estimated interest payments, were due to mature entirely within six months or less as at June 30, 2024.

12.3 MARKET RISK

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

The Corporation is exposed to fluctuations in interest rates on its investments. As at June 30, 2024, all of the investments ($43,428) were in fixed interest-bearing instruments (March 31, 2024, $43,374). 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, 2024	$	6,239	$	255	$	6,494
Modifications		(103)		—		(103)
Depreciation		(274)		(31)		(305)
Balance as at June 30, 2024	**$**	**5,862**	**$**	**224**	**$**	**6,086**

13.2 LEASE OBLIGATIONS

	As at			
		June 30, 2024		March 31, 2024
Current portion	**$**	**873**	$	973
Long-term portion		**6,033**		6,268
Total lease obligations	**$**	**6,906**	$	7,241

Balance as at March 31, 2024	$	7,241
Modifications		(103)
Payments		(299)
Interest expense		67
Balance as at June 30, 2024	**$**	**6,906**

The following table shows the contractual undiscounted cash flows for lease obligations as at June 30, 2024.

One year or less	$	1,087
Between one and two years	$	802
Between two and five years	$	2,186
Over five years	$	4,139
Total	**$**	**8,214**

The following table shows the breakdown of lease payments for the period ended June 30, 2024. 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 June 30	
	2024	2023
Variable lease payments	**$ 294**	$ 270
Total cash outflow for leases	**$ 593**	$ 643
Principal repayment on lease obligations	**$ 232**	$ 321

14. RELATED-PARTY TRANSACTIONS AND BALANCES

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at fair value, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue in the first quarter totalled $51,294, compared to $45,567 in the same period in 2023–2024, and was generated from services provided to entities owned by the Government of Canada. The amounts due to and from related parties are included in trade receivables and in trade and other payables, respectively, and are shown in the following table.

	As at	
	June 30, 2024	March 31, 2024
Due from:		
Department of National Defence (DND)	**$ 35,224**	$ 32,955
Canadian Forces Housing Agency	**2,622**	1,844
Communications Security Establishment	**401**	361
Shared Services Canada	**25**	34
	$ 38,272	$ 35,194
Due to:		
Department of Justice Canada	**73**	32
Public Services and Procurement Canada	**—**	113
Shared Services Canada	**—**	2
	$ 73	$ 147

The Corporation incurs expenses with other Government of Canada departments. These transactions totalled $124 for the first quarter, compared to $294 in the same period in 2023–2024. Of these expenses, the Corporation recovered $120 from Client-Partners in the first quarter.

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

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 $1,000 as at June 30, 2024. As at March 31, 2024, the carrying value was $1,000. The Corporation earned investment revenue of $5 from the bond during the first quarter, consistent with the same period in 2023–2024.

15. CONTINGENT LIABILITIES

The Corporation's efforts to resolve disputes are reflected in the number and value of claims before the courts. As at June 30, 2024, there were 15 ongoing claims totalling $17,767. These were related to contracts the Corporation had put in place on behalf of its Client-Partners. As at March 31, 2024, there were 12 ongoing claims totalling $10,659.

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.