DEFENCE CONSTRUCTION CANADA

2020–2021 THIRD QUARTER FINANCIAL REPORT

PERIOD ENDED DECEMBER 31, 2020

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

DCC·CDC
Defence Construction Canada
Construction de Défense Canada

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, 2020, for Defence Construction (1951) Limited (the "Corporation" or "DCC"). This discussion should be read in conjunction with the unaudited interim condensed financial statements for the period ended December 31, 2020. These statements were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and are reported in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's MD&A and annual financial statements for the year ended March 31, 2020 (the "*Annual Report 2019–2020*"). Financial results reported in the MD&A are rounded to the nearest thousand. Related percentages are based on numbers rounded to the nearest thousand. DCC management is responsible for the information presented in the MD&A and unaudited interim condensed financial statements.

1.0 MATERIALITY

In assessing what information is to be provided in the MD&A, management applies the materiality principle. Management considers information to be "material" when it is probable that its omission or misstatement would influence decisions that users make based on the financial information.

2.0 CORPORATE PROFILE

Defence Construction (1951) Limited, operating as Defence Construction Canada (DCC), is a Crown corporation that provides innovative and cost-effective contracting, construction, contract management, infrastructure and environmental, and lifecycle support services for Canada's defence and security requirements. In its history, DCC has provided its services to a variety of Government of Canada departments and agencies across Canada and internationally. It currently has two primary Client-Partners: the Infrastructure and Environment (IE) community at the Department of National Defence (DND), and the Communications Security Establishment (CSE). The Corporation also provides services to Shared Services Canada related to the expansion of the electronic data centre at CFB Borden.

From project needs planning to facility decommissioning, DCC's work covers a broad spectrum of activities. DCC's resources are divided among five service lines.

CONTRACT SERVICES

The Contract Services Team oversees the procurement of goods and professional, construction and maintenance services to fulfill Canada's domestic and international defence infrastructure needs.

CONTRACT MANAGEMENT SERVICES

The Contract Management Services Team supports the creation, renovation and maintenance of facilities for DND's IE program.

ENVIRONMENTAL SERVICES

The Environmental Services Team helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk.

PROJECT AND PROGRAM MANAGEMENT SERVICES

The Project and Program Management Services Team advises on matters such as infrastructure requirements, program planning, and schedule and document control.

REAL PROPERTY MANAGEMENT SERVICES

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

3.0 SIGNIFICANT EVENTS – COVID-19 GLOBAL PANDEMIC

On March 11, 2020, the World Health Organization characterized the COVID-19 outbreak as a global pandemic, and recommended containment and mitigation measures. All levels of government have taken extraordinary measures to help contain and combat the outbreak.

DCC is taking all necessary precautions to safeguard employees, Client-Partners and members from industry, while continuing to deliver services. On March 16, 2020, DCC's President enacted its Business Continuity Plan—Level 3. Since then, consistent with Government of Canada recommendations, DCC has been operating at various states of minimum staffing in DCC's physical workspaces across Canada, dependent on public health requirements and advice. Most employees are able to work from home, and critical employees are able to safely continue visiting sites and fulfilling their obligations to the Client-Partners.

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

The Corporation is unable to determine or predict the exact nature and scope of the impact of COVID-19 on its business and operations. As at December 31, 2020, DCC believes that its cash reserves, its accounts receivable and the service-level arrangements in place with the Client-Partners will provide sufficient liquidity to fund its operations for at least the next 12 months.

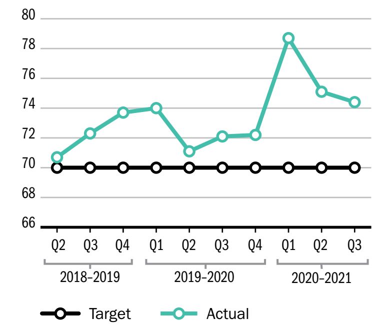
4.0 OPERATIONAL PERFORMANCE INDICATORS

4.1 UTILIZATION RATE

The utilization rate indicates the hours spent directly on service delivery functions that are billable to the Client-Partners, as opposed to administrative functions that are considered overhead support. This rate is an important indicator of efficiency and effectiveness, and a key financial management tool. A higher utilization rate is a positive indicator that DCC is using its resources more for revenue-generating activities and less for overhead administrative functions. DCC's target utilization rate is 70%.

For the third quarter of 2020–21, the Corporation achieved a utilization rate of 74.5%, an increase from the rate of 72.1% for the same period in 2019–20. The increase occurred mainly because the Client-Partner required more services than anticipated during this period and those services were provided by the workforce initially planned for the expected work volume.

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

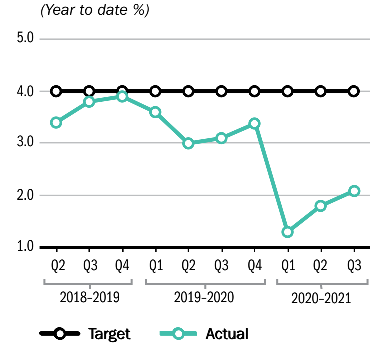


4.2 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

Maintaining a skilled and professional workforce is a key corporate objective. For 2020–21, DCC has established an annual overall corporate target for spending on training and development of 4% of base salary costs. This target encompasses all costs associated with training and development activities, including internal employee time and third-party costs.

For the third quarter of 2020–21, the professional development to salary cost ratio was 2.1% compared to 3.1% for the same period in the prior year. The decrease occurred because training events were cancelled or deferred, and because there was less in-person travel for training during the period, due mostly to public health restrictions related to COVID-19.

Professional Development to Salary Cost Ratio
(Year to date %)



5.0 RISK MANAGEMENT

There have been no material changes to the corporate risks identified by management and discussed in section 5.0, Risk Management, of the MD&A in DCC's *Annual Report 2019–2020*.

6.0 FINANCIAL PERFORMANCE

6.1 BASIS OF PRESENTATION

The Corporation prepared this quarterly report as per the requirements of the *Financial Administration Act*. This statute requires all federal Crown corporations to prepare and make public a report within 60 days of the end of each fiscal quarter.

This quarterly financial report was prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations.

In the following analysis, all references to the third quarter refer to the three months ended December 31, 2020; all references to the year-to-date period refer to the nine months ended December 31, 2020. All references to the previous year's third quarter relate to the three months ended December 31, 2019; all references to the previous year-to-date period refer to the nine months ended December 31, 2019. All references to the previous year end relate to March 31, 2020.

6.2 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $29.7 million in the third quarter, an increase of $1.7 million or 6% from the same period in the previous year. For the year-to-date period, services revenue was $93.5 million, an increase of $8.9 million or approximately 11% over the same period in the previous year. These increases were due to a 7.5% increase in billing rates, combined with an increase in the Client-Partner's demand for services.

CONTRACT MANAGEMENT

Revenue from contract management services was flat in the third quarter and increased by 2% in the year-to-date period compared to the same periods in the previous year. The year-to-date increase was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increase), offset partially by lower demand for this service by the Client-Partner (which decreased the total increase by 5.5 percentage points).The lower demand reflected the variability of services used by the Client-Partner as projects move through the various stages, from planning and procurement to contract management.

PROJECT PLANNING

Project planning revenue increased by 6% in the third quarter and by 14% in the year-to-date period compared to the same periods in the previous year. The increase in the third quarter was due to a 7.5% increase in billing rates, partially offset by lower demand for this service by the Client-Partner in this period (which decreased the rise by 1.5 percentage points). The increase in the year-to-date period was due to the 7.5% increase in billing rates, compounded by higher DND demand for this service (which accounted for 6.5 percentage points of the increase).

REAL PROPERTY TECHNICAL SUPPORT

Real property technical support revenue increased by 10% in the third quarter and by 15% in the year-to-date period compared to the same periods in the previous year. The higher revenues were a result of the increase in billing rates (which accounted for 7.5 percentage points of the increases), compounded by higher demand for these services from the Client-Partner (which accounted for 2.5 and 7.5 percentage points of the increases, respectively).

CONSTRUCTION TECHNICAL SUPPORT

Revenue from construction technical support increased by 20% in the third quarter and by 28% in the year-to-date period compared to the same periods in the previous year. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increases), compounded by higher demand for these services from the Client-Partner (which accounted for 12.5 and 20.5 percentage points of the increases, respectively).

PROCUREMENT

Procurement revenue increased by 22% in both the third quarter and the year-to-date period compared to the same periods in the previous year. The higher revenue was a result of the increase in billing rates (which accounted for 7.5 percentage points of the increases), compounded by higher demand for these services from the Client-Partner (which accounted for 14.5 percentage points of the increases).

ENVIRONMENTAL TECHNICAL SUPPORT

Environmental technical support revenue increased by 10% in the third quarter and by 14% in the year-to-date period compared to the same periods in the previous year. The higher revenues were a result of the increase in billing rates (which accounted for 7.5 percentage points of the increases) compounded by higher demand for these services from the Client-Partner (which accounted for 2.5 and 6.5 percentage points of the increases, respectively).

REVENUE, BY ACTIVITY

			Change				**Change**	
(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	$	%	Nine months ended December 31, 2020	Nine months ended December 31, 2019	$	%
Contract Management	$ 12,580	$ 12,535	45	0%	$ 38,224	$ 37,423	801	2%
Project Planning	7,933	7,515	418	6%	26,443	23,103	3,340	14%
Real Property Technical Support	2,649	2,410	239	10%	8,289	7,189	1,100	15%
Construction Technical Support	2,479	2,069	410	20%	7,492	5,841	1,651	28%
Procurement	2,339	1,917	422	22%	7,639	6,266	1,373	22%
Environmental Technical Support	1,765	1,605	160	10%	5,396	4,749	647	14%
	$ 29,745	**$ 28,051**	**1,694**	**6%**	**$ 93,483**	**$ 84,571**	**8,912**	**11%**

TRAVEL AND DISBURSEMENT REVENUE

Travel and disbursement revenue represents the amount the Corporation recovers from DND for travel and other expenses DCC incurs for work it performs on DND's behalf. Travel and disbursement revenue totalled $451,000 in the third quarter, a decrease of $309,000, or approximately 41%, over the same period in the previous year. For the year-to-date period, this revenue totalled $982,000, a decrease of $1.7 million from the previous year. The decreases were due to COVID-19 travel restrictions.

			Change				**Change**	
(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	$	%	Nine months ended December 31, 2020	Nine months ended December 31, 2019	$	%
Travel and disbursement revenue	**$ 451**	**$ 760**	**(309)**	**-41%**	**$ 982**	**$ 2,632**	**(1,650)**	**-63%**

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in its bank account and from investments, decreased in the third quarter by $78,000 or 55% compared to the same period in the previous year. The decrease was due mainly to lower interest rates. For the year-to-date period, interest revenue increased by $116,000 or 23% compared to the same period in the prior year. The increase was due to a gain on the sale of investments done to rebalance DCC's investment portfolio so that it better meets DCC's liquidity requirements, offset partially by lower-than-anticipated interest rates

			Change				**Change**	
(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	$	%	Nine months ended December 31, 2020	Nine months ended December 31, 2019	$	%
Investment revenue	**$ 63**	**$ 141**	**(78)**	**-55%**	**$ 620**	**$ 504**	**116**	**23%**

LEASE REVENUE

Lease revenue is recognized for the recovery of rent from the Client-Partner due to the adoption of IFRS16—Leases. There was no lease revenue in the third quarter of 2020–21 as the co-location arrangement with the Client-Partner was not renewed in 2020–21.

			Change				**Change**	
(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	$	%	Nine months ended December 31, 2020	Nine months ended December 31, 2019	$	%
Lease revenue	**$ –**	**$ 221**	**(221)**	**-100%**	**$ 74**	**$ 664**	**(590)**	**-89%**

6.3 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $23.1 million in the third quarter, an increase of $830,000 or approximately 4% over the same period in the previous year. For the year-to-date period, salaries totalled $66.9 million, an increase of $2.7 million or approximately 4% over the same period in the previous year. Salary rates increased by 3.5% over the same period in the prior year due to a cost of living increase of 1.5% and performance pay increases of 2.0%, on average. The number of full-time equivalents (FTEs) decreased by approximately 2% or 17 FTEs over the same period in the prior year.

For the year-to-date period, employee benefits totalled $16.5 million, an increase of $184,000 or approximately 1% from the same period in the prior year. The increase was due mainly to an increase in benefit costs.

(in thousands of dollars)		Three months ended December 31, 2020		Three months ended December 31, 2019	**Change** $	%		Nine months ended December 31, 2020		Nine months ended December 31, 2019	**Change** $	%
Salaries	$	23,148	$	22,318	830	4%	$	66,894	$	64,233	2,661	4%
Employee benefits		5,220		5,272	(52)	-1%		16,478		16,294	184	1%
	$	**28,368**	**$**	**27,590**	**778**	**3%**	**$**	**83,372**	**$**	**80,527**	**2,845**	**4%**
Employee benefits as a percentage of salaries		23%		24%				25%		25%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $2.2 million in the third quarter of 2020–21, a decrease of $346,000 or 14% over the third quarter of 2019–20. For the year-to-date period, operating and administrative expenses decreased by $424,000 or 6%. Material variances are shown in the following table.

(in thousands of dollars)		Three months ended December 31, 2020		Three months ended December 31, 2019	**Change** $	%		Nine months ended December 31, 2020		Nine months ended December 31, 2019	**Change** $	%	Variance analysis
Cloud computing services	$	441	$	95	346	364%	$	1,258	$	387	871	225%	The increases were due to higher monthly managed cloud service costs after full migration of the information technology (IT) servers to the cloud.
Software maintenance		322		307	15	5%		960		860	100	12%	The year-to-date increase was due to timing of maintenance contracts and additional cyber security support.
Leased location operating costs		266		266	0	0%		786		735	51	7%	The year-to-date increase was due to higher taxes and operating costs.
Professional services		266		564	(298)	-53%		1,088		1,817	(729)	-40%	The decreases were due to the completion of the migration of the IT servers to the cloud resulting in lower related professional services.
Equipment rental		231		213	18	8%		692		453	239	53%	The increases were due to the fact that DCC now leases more employee computing devices instead of purchasing and capitalizing them.
Telephone and data communications		210		215	(5)	-2%		636		632	4	1%	The variance was immaterial.
Employee training and development		158		307	(149)	-49%		401		792	(391)	-49%	The decreases were due to COVID-19 restrictions on travel related to in-person training.
Client services and communications		73		48	25	52%		197		98	99	101%	The increases were due to an increase in communications initiatives.
Office services, supplies and equipment		63		95	(32)	-34%		287		257	30	12%	The year-to-date increase was mostly due to the purchase of personal protective equipment related to COVID-19.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	Change $	Change %	Nine months ended December 31, 2020	Nine months ended December 31, 2019	Change $	Change %	Variance analysis
Furniture and equipment	38	17	21	124%	343	222	121	55%	The year-to-date increase was due to support provided to employees to facilitate their transition to working from home.
Printing and stationery	26	23	3	13%	48	57	(9)	-16%	The variances were not material.
Staff relocation	20	67	(47)	-70%	44	297	(253)	-85%	Staff relocation costs decreased due to a high retention rate and a resulting decrease in business requirements to relocate current and new staff.
Computer software	19	17	2	12%	56	26	30	115%	The variance was immaterial.
Memberships and subscriptions	14	12	2	17%	48	42	6	14%	The variance was immaterial.
Travel	11	153	(142)	-93%	16	420	(404)	-96%	The decreases were due to travel restrictions related to COVID-19.
Hospitality	5	77	(72)	-94%	27	154	(127)	-82%	The decreases were due to a decrease in the number of internal physical meetings due to COVID-19.
Postage and freight	5	12	(7)	-58%	15	26	(11)	-42%	The variance was immaterial.
Recruiting	3	19	(16)	-84%	8	41	(33)	-80%	The variance was immaterial.
Other	2	5	(3)	-60%	15	17	(2)	-12%	The variance was immaterial.
Computer equipment	0	7	(7)	-100%	7	23	(16)	-70%	The variance was immaterial.
	$ 2,173	**$ 2,519**	**(346)**	**-14%**	**$ 6,932**	**$ 7,356**	**(424)**	**-6%**	

TRAVEL AND DISBURSEMENT EXPENSES

Travel and disbursement expenses are the amount the Corporation spends on travel and other expenses related to the work it performs for DND. Travel and disbursement expenses totalled $451,000 in the third quarter, a decrease of $309,000, or approximately 41%, over the same period in the previous year. For the year-to-date period, these expenses totalled $982,000, a decrease of $1.7 million from the previous year. The decreases in these expenses were due to COVID-19 travel restrictions.

(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	Change $	Change %	Nine months ended December 31, 2020	Nine months ended December 31, 2019	Change $	Change %
Travel and disbursement expenses	**$ 451**	**$ 760**	**(309)**	**-41%**	**$ 982**	**$ 2,632**	**(1,650)**	**-63%**

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 41% or $288,000 in the third quarter and by 34% or $695,000 in the year-to-date period compared to the same periods in the previous year. The decreases in depreciation were mostly due to the non-renewal of the lease co-location with the Client-Partner. Items related to assets under finance lease from the prior year are added to depreciation of right-of-use assets.

(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	Change $	Change %	Nine months ended December 31, 2020	Nine months ended December 31, 2019	Change $	Change %
Depreciation right-of-use assets	$ 339	$ 564	(225)	-40%	$ 1,136	$ 1,657	(521)	-31%
Depreciation of property, plant and equipment	62	$ 114	(52)	-46%	$ 188	$ 351	(163)	-46%
Amortization of intangible assets	11	22	(11)	-50%	50	61	(11)	-18%
	$ 412	**$ 700**	**(288)**	**-41%**	**$ 1,374**	**$ 2,069**	**(695)**	**-34%**

6.4 NET INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

The Corporation realized a net loss and total comprehensive loss of $1.2 million in the third quarter compared with a net loss and total comprehensive loss of $2.5 million in the same period in the previous year. This was a decrease of $1.2 million or 51%. For the year-to-date period, the Corporation realized a net income of $2.3 million compared to a net loss of $4.4 million in the previous year. The higher net income in the year-to-date period was due mainly to increased productivity, driven by higher demand for our services, as well as the billing rate increase and spending reductions related to COVID-19 restrictions.

(in thousands of dollars)	Three months ended December 31, 2020	Three months ended December 31, 2019	Change $	Change %	Nine months ended December 31, 2020	Nine months ended December 31, 2019	Change $	Change %
Net income (loss) and total comprehensive income (loss)	**$ (1,208)**	**$ (2,457)**	**1,249**	**-51%**	**$ 2,304**	**$ (4,372)**	**$ 6,676**	*****

* The change was not meaningful.

6.5 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

DCC's financial and cash management policy is discussed in the *Annual Report 2019–2020*.

CASH AND INVESTMENTS

Cash and investments totalled $42.5 million at December 31, 2020, an increase of $17.1 million from March 31, 2020.

The cash balance at December 31, 2020, was $32.1 million, an increase of $16.4 million or 104% from the 2019–20 year end. In the nine-month period after March 31, 2020, the Corporation generated $18.1 million in cash for operating activities and spent $0.5 million on investment activities and $1.2 million to meet lease obligations. Cash has increased due to higher revenue, reduced spending and earlier receipt of trade receivables from the Corporation's Client-Partners than is typical.

Investments (both current and long term) at December 31, 2020, totalled $10.3 million, an increase of $0.7 million from the 2019–20 year end. 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 meet the requirements of 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 mainly from one of the Corporation's Client-Partners, DND. At December 31, 2020, the amount of trade receivables was $16.4 million, a decrease of $7.2 million or 31% from March 31, 2020. The decrease was due to the quicker collection of receivables from DND. The Corporation expects to collect all amounts.

CURRENT LIABILITIES

Current liabilities were $23.7 million at December 31, 2020, an increase of $3.5 million or 18% from March 31, 2020. The increase in current liabilities was primarily due to an increase in trade and other payables.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands of dollars)	As at December 31, 2020	As at March 31, 2020	**Change** $	**Change** %
Cash	$ 32,146	$ 15,738	16,408	104%
Investments	10,307	9,602	705	7%
Cash and investments	**$ 42,453**	**$ 25,340**	**17,113**	**68%**
Trade receivables	**$ 16,432**	**$ 23,679**	**(7,247)**	**-31%**
Current liabilities	**$ 23,727**	**$ 20,182**	**3,545**	**18%**

6.6 EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave for employees, and health, dental and life insurance benefits for retirees. Every two years, an actuary determines this estimate. The accrued sick leave and other benefits balance as at December 31, 2020, was $32.6 million, an increase of $1.7 million or 6% from the 2019-20 year end. The increase reflected the actuary's estimates of accrued benefits for the current fiscal year, minus payments of benefits to retirees.

(in thousands of dollars)		As at December 31, 2020		As at March 31, 2020	**Change** $	**Change** %
Current portion	$	3,946	$	3,666	280	8%
Long-term portion		28,688		27,247	1,441	5%
Total employee benefits	**$**	**32,634**	**$**	**30,913**	**1,721**	**6%**

6.7 RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets comprise office space, facilities for IT (data warehouses), equipment and multifunction copiers. Items related to assets under finance lease from the prior year are added to the opening balance and are included in the total. DCC has included extension options in the measurements of its lease liability when it is reasonably certain the Corporation will exercise those options. During the year, changes to DCC's right-of-use assets were as follows.

(in thousands of dollars)		Office space leases		Co-location leases		Data warehouse leases		Total right-of-use assets
Balance as at March 31, 2020	$	8,855	$	72	$	529	$	9,456
Plus: Additions		–		–		–		–
Less: Amortization		972		72		92		1,136
Balance as at December 31, 2020	**$**	**7,883**	**$**	–	**$**	**437**	**$**	**8,320**

6.8 LEASE OBLIGATIONS

The lease obligations relate to the right-of-use assets.

(in thousands of dollars)		
Balance as at March 31, 2020	$	9,623
Plus: Additions		–
Less: Payments		1,189
Plus: Interest expense		195
Balance as at December 31, 2020	**$**	**8,629**

The following represents the contractual undiscounted cash flows for lease obligations as at December 31, 2020.

(in thousands of dollars)		
One year or less	$	1,447
Between one and two years		1,159
Between two and five years		2,911
Over five years		4,336
Total	**$**	**9,853**

6.9 CAPITAL EXPENDITURES

The capital expenditures in the third quarter of the current year are shown below. The right-of-use assets in the third quarter of the previous year relate to the adoption of IFRS 16—Leases.

					Change						**Change**	
(in thousands of dollars)		Three months ended December 31, 2020		Three months ended December 31, 2019	$	%		Nine months ended December 31, 2020		Nine months ended December 31, 2019	$	%
Right-of-use assets	$	–	$	48	(48)	-100%	$	–	$	9,223	(9,223)	-100%
Intangible assets		–		–	–	–		–		–	–	–
Computer equipment		–		127	(127)	-100%		–		127	(127)	-100%
Furniture and equipment		–		–	–	0%		12		–	12	100%
Leasehold improvements		113		38	75	197%		155		247	(92)	-37%
	$	**113**	**$**	**213**	**(100)**	**-47%**	**$**	**167**	**$**	**9,597**	**(9,430)**	**-98%**

6.10 ACTUAL PERFORMANCE VERSUS PLAN

The Corporation's actual overall performance for the nine months ended December 31, 2020, was better than forecasted in the Corporate Plan (the Plan).

Services revenue was 3% higher than projected in the Plan. The increase was due to higher-than-anticipated demand for services from DND.

Travel and disbursement revenue and expenses were 31% lower than projected in the Plan, due to the impact of COVID-19 on travel.

Investment revenue was higher than anticipated in the Plan, due mainly to a gain on the sale of investments, done to rebalance DCC's investment portfolio so that it better meets DCC's liquidity requirements.

As a result of adopting IFRS 16—Leases, DCC recorded lease revenue of $74,000 related to subleasing a right-of-use asset, which it recovered from DND.

Salaries and benefits were 5% higher than the amount forecasted in the Plan, due to higher-than-expected demand from the Client-Partner.

Operating and administrative costs were 33% lower than projected, due to the impact of COVID-19. The pandemic has restricted travel and training and delayed the timing of certain expenditures, such as professional services costs.

Depreciation and amortization were 15% lower than forecasted, due to the decrease in capital expenditures.

Capital expenditures were 93% lower than projected, due to the timing of recognition of right-of-use assets and timing of leasehold renovations at our Head Office location.

ACTUAL PERFORMANCE VERSUS PLAN

(in thousands of dollars)	Actual	Plan	Change $	Change %
Revenue				
Services	$ 93,483	$ 90,755	2,728	3%
Recovered travel and disbursement expenses	982	1,419	(437)	-31%
Investment revenue	620	375	245	65%
Lease revenue	74	–	74	100%
	95,159	**92,549**	**2,610**	**3%**
Expenses				
Salaries and employee benefits	83,372	79,072	4,300	5%
Operating and administrative costs	7,127	10,569	(3,442)	-33%
Recoverable travel and disbursement expenses	982	1,419	(437)	-31%
Depreciation and amortization	1,374	1,617	(243)	-15%
	92,855	**92,677**	**178**	**0%**
Net income (loss) and total comprehensive income (loss)	**$ 2,304**	**$ (128)**	**2,432**	*****
Capital expenditures	**$ 167**	**$ 2,553**	**(2,386)**	**-93%**

* The change was not meaningful.

6.11 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the nine months ended December 31, 2020, increased by $23.6 million or 4% compared to the same period as last year. This increase was mostly due to increased demand from the Client-Partner.

(in thousands of dollars)	Nine months ended December 31, 2020	Nine months ended December 31, 2019*	Change $	Change %
Region				
Atlantic Region	$ 103,721	$ 107,852	(4,131)	-4%
Quebec Region	76,454	125,725	(49,271)	-39%
Ontario Region	190,341	181,871	8,470	5%
Western Region	195,447	145,305	50,142	35%
National Capital Region	124,323	105,965	18,358	17%
	$ 690,286	**$ 666,718**	**23,568**	**4%**

* The prior-year figures were changed to conform to the current-year presentation.

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY STATEMENT

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

Based on our knowledge, these unaudited interim condensed 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 interim condensed financial statements.

Original signed by

Derrick Cheung
President and Chief Executive Officer

Original signed by

Juliet S. Woodfield, FCPA, FCA
Vice-President, Finance & Human Resources, and Chief Financial Officer

Ottawa, Canada
February 26, 2021

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Unaudited

(in thousands of dollars)	Notes	**As at December 31, 2020**	As at March 31, 2020
Assets			
Cash and cash equivalents		**$ 32,146**	$ 15,738
Investments	7	**1,925**	–
Trade receivables		**16,432**	23,679
Prepaids and other current assets		**1,343**	1,342
Other receivables		**2,092**	4,552
Current assets		**53,938**	45,311
Investments	7	**8,382**	9,602
Right-of-use assets	10	**8,320**	9,456
Property, plant and equipment	9	**794**	815
Intangible assets		**14**	63
Non-current assets		**17,510**	19,936
Total assets		**$ 71,448**	$ 65,247
Liabilities			
Trade and other payables		**$ 18,071**	$ 15,393
Deferred revenue	8	**492**	–
Current portion: Lease obligations	11	**1,218**	1,123
Current portion: Employee benefits	12	**3,946**	3,666
Current liabilities		**23,727**	20,182
Lease obligations	11	**7,411**	8,500
Employee benefits	12	**28,688**	27,247
Non-current liabilities		**36,099**	35,747
Total liabilities		**59,826**	55,929
Equity			
Share capital—authorized: 1,000 common shares of no par value			
Issued: 32 common shares		**–**	–
Retained earnings		**11,622**	9,318
Total equity		**11,622**	9,318
Total liabilities and equity		**$ 71,448**	$ 65,247

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Unaudited

(in thousands of dollars)	Notes	Three months ended December 31, 2020	Three months ended December 31, 2019	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Services revenue	13	**$ 29,745**	$ 28,051	**$ 93,483**	$ 84,571
Travel and disbursement revenue		**451**	760	**982**	2,632
Lease revenue		**–**	221	**74**	664
Investment revenue		**63**	141	**620**	504
Total revenue		**30,259**	29,173	**95,159**	88,371
Salaries and employee benefits		**28,368**	27,590	**83,372**	80,527
Operating and administrative expenses	14	**2,173**	2,519	**6,932**	7,356
Travel and disbursement expenses		**451**	760	**982**	2,632
Depreciation of right-of-use assets	10	**339**	564	**1,136**	1,657
Depreciation of property, plant and equipment	9	**62**	114	**188**	351
Amortization of intangible assets		**11**	22	**50**	61
Finance costs	11	**63**	61	**195**	159
Total expenses		**31,467**	31,630	**92,855**	92,743
Gain (loss) for the period and total comprehensive gain (loss)		**$ (1,208)**	$ (2,457)	**$ 2,304**	$ (4,372)

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

Unaudited

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at September 30, 2020	$ –	$ 12,830	$ 12,830
Loss for the period		(1,208)	(1,208)
Balance at December 31, 2020	**$ –**	**$ 11,622**	**$ 11,622**

	Share capital	Retained earnings	Total equity
Balance at September 30, 2019	$ –	$ 9,969	$ 9,969
Loss for the period		(2,457)	(2,457)
Balance at December 31, 2019	**$ –**	**$ 7,512**	**$ 7,512**

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at March 31, 2020	$ –	$ 9,318	$ 9,318
Income for the period		2,304	2,304
Balance at December 31, 2020	**$ –**	**$ 11,622**	**$ 11,622**

	Share capital	Retained earnings	Total equity
Balance at March 31, 2019	$ –	$ 11,884	$ 11,884
Loss for the period		(4,372)	(4,372)
Balance at December 31, 2019	**$ –**	**$ 7,512**	**$ 7,512**

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF CASH FLOWS

Unaudited

(in thousands of dollars)	Notes	Three months ended December 31, 2020	Three months ended December 31, 2019	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Cash flow from (used in) operating activities					
Gain (loss) for the period		**$ (1,208)**	$ (2,457)	**$ 2,304**	$ (4,372)
Adjustments to reconcile loss for the period to cash provided or used by operating activities					
Employee benefits expensed		**727**	832	**2,181**	2,494
Employee benefits paid		**(146)**	(132)	**(458)**	(454)
Depreciation of right-of-use assets	10	**339**	564	**1,136**	1,657
Depreciation of property, plant and equipment	9	**62**	114	**188**	351
Amortization of intangible assets		**11**	22	**50**	61
Amortization of investment premiums		**4**	11	**22**	54
Gain on sale of equipment		**(4)**	-	**(4)**	-
Interest paid on lease liabilities		**63**	61	**195**	159
Change in non-cash operating working capital used in					
Trade receivables		**2,542**	214	**7,247**	(2,869)
Prepaids and other current assets		**104**	(1,775)	**(1)**	(1,730)
Other receivables		**1,562**	45	**2,460**	126
Deferred revenue (cost)		**492**	(448)	**492**	613
Trade and other payables		**1,114**	(472)	**2,307**	(125)
Accrued revenue		**264**	–	–	–
Net cash flows provided by (used in) operating activities		**5,926**	(3,421)	**18,119**	(4,035)
Cash flows from (used in) investing activities					
Acquisition of investments		–	–	**(3,600)**	(115)
Redemption of investments		–	4,928	**3,600**	6,752
Gain on disposal of investments		–	–	**(355)**	–
Acquisition of property, plant and equipment	9	**(113)**	(165)	**(167)**	(374)
Acquisition of right-of-use assets	10	–	(48)	–	(723)
Net cash flows provided by (used in) investing activities		**(113)**	4,715	**(522)**	5,540
Cash flows from financing activities					
Repayment of lease obligations		**(378)**	(588)	**(1,189)**	(1,690)
Additional lease obligations		–	48	–	723
Net cash flows used in financing activities		**(378)**	(540)	**(1,189)**	(967)
Increase (decrease) in cash during the period		**5,435**	754	**16,408**	538
Cash at the beginning of the period		**26,711**	9,850	**15,738**	10,066
Cash at the end of the period		**$ 32,146**	$ 10,604	**$ 32,146**	$ 10,604

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

NOTICE TO READERS

These interim condensed 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, 2020, and with the management's discussion and analysis (MD&A) included in this quarterly financial report.

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

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

NOTE 1: SUMMARY OF BUSINESS AUTHORITY AND OBJECTIVES

Defence Construction (1951) Limited (the "Corporation") was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation's Head Office is located at 350 Albert Street, Ottawa, Ontario, Canada. The Corporation is an agent Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act* (FAA). Since 1996, responsibility for the Corporation has rested with the Minister of Public Services and Procurement.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services is the Department of National Defence (DND). The Corporation also provides services to the Canadian Forces Housing Agency, Communications Security Establishment, Shared Services Canada, and Public Services and Procurement Canada. Revenue is generated from fees charged for specific services provided.

In July 2015, the Corporation received a directive (P.C. 2015-1113) pursuant to section 89 of the FAA to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation finished aligning its policies with Treasury Board policies on March 31, 2017. The Corporation has subsequently updated its policies to align with revised versions of Treasury Board policies.

1.1 GLOBAL PANDEMIC

On March 11, 2020, the World Health Organization characterized the COVID-19 outbreak as a global pandemic, and recommended containment and mitigation measures. All levels of government have taken extraordinary measures to help contain and combat the outbreak.

Consistent with government recommendations, DCC went down to minimum staffing of its operations in DCC's physical workspaces. Most employees were able to work from home, and critical employees were able to safely continue visiting sites and fulfilling their obligations to the Client-Partners.

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

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

NOTE 2: BASIS OF PREPARATION AND PRESENTATION

The Corporation prepared these interim condensed financial statements in accordance with International Accounting Standard 34 (IAS 34), Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB), and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada. As permitted under IAS 34, these interim condensed 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, 2020, and the current quarter's MD&A.

The interim condensed 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.

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

These interim condensed 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, 2020, except for the application of new standards, amendments and interpretations effective January 1, 2020, as disclosed in Note 5 of these interim condensed financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

NOTE 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, 2020.

NOTE 5: STANDARDS, AMENDMENTS AND INTERPRETATIONS

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee have issued certain pronouncements with mandatory effective dates of annual periods beginning on or after January 1, 2020. The Corporation adopted the following standards on April 1, 2020.

STANDARDS, AMENDMENTS AND INTERPRETATIONS IN EFFECT

The following amendments or interpretations issued by the IASB or the IFRS Interpretations Committee came into effect in the current year.

5.1 IAS 1, PRESENTATION OF FINANCIAL STATEMENTS, AND IAS 8, ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 regarding the definition of materiality. The amendments clarify the definition of material, explain how the definition should be applied and improve the explanations accompanying the definition. The amendments also ensure that the definition is consistent across all IFRS standards. The amendments were adopted on April 1, 2020, and have not had an impact on the Corporation.

NOTE 6: NEW AND REVISED IFRS ISSUED BUT NOT YET EFFECTIVE

The Corporation reviews new and revised accounting pronouncements that the IASB has issued but that are not yet effective and that DCC has not adopted early, to determine their impact on the Corporation. The following standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee may affect the Corporation in the future.

6.1 IFRS 16—LEASES

This standard has been revised to incorporate an amendment, COVID-19-Related Rent Concessions, issued by the International Accounting Standards Board (IASB) in May 2020.

Under this amendment, lessees are not required to assess whether particular COVID-19-related rent concessions are lease modifications. Instead, lessees are permitted to account for those rent concessions as if they were not lease modifications. In addition, the amendment to IFRS 16 provides specific disclosure requirements regarding COVID-19-related rent concessions.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at May 28, 2020. The Corporation does not expect any impact from the adoption of this amendment.

6.2 IFRS 9 AND IFRS 16—INTEREST RATE BENCHMARK REFORM

Financial regulators have been reforming interest rate benchmarks for the past several years. Part of this reform involves replacing some interbank rates with alternative benchmark rates. According to the existing guidance in IFRS 9, changes in interest rates are a modification of a financial contract that may result in the recognition of a significant gain or loss in the statement of profit and loss and other comprehensive income. However, a practical expedient has been introduced. Under this expedient, the entity will account for changes in the interest rate by updating the effective interest rate. The entity does not have to recognize a gain or loss in the statement of profit and loss and other comprehensive income. This expedient can be used only if the changes in the financial contract result directly from interbank offered rate (IBOR) reform and the change occurs on an economically equivalent basis.

When lease payments are based on an interest rate benchmark, and the benchmark is changed as a result of IBOR reform, a practical expedient exists under IFRS 16. This expedient can be used if the benchmark is changed on an economically equivalent basis. The practical expedient allows the entity to account for the change in the interest rate by prospectively applying IFRS 16.42.

These amendments are effective for annual reporting periods beginning on or after January 1, 2021. The Corporation does not expect any impact from the adoption of these amendments.

NOTE 7: INVESTMENTS

Investments consist of Canadian provincial and corporate bonds with effective interest rates ranging from 2.65% to 3% (coupon rates ranging from 2.85% to 4.4%), guaranteed investment certificates (GICs) with fixed interest rates ranging from 0.68% to 2.82%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from June 2022 to September 2025 and those of GICs vary from June 2021 to July 2025, and the Corporation intends to hold all of them to maturity. The mutual funds can be liquidated on demand. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following table.

The fair values 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., prices) or indirectly (i.e., derived from prices) (Level 2); or (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The fair values of DCC's investments are not quoted in an active market, but rather are determined from quoted prices in a decentralized, over-the-counter market, which is considered Level 2 in the fair value hierarchy.

The “current portion” of the Corporation's investments consists of instruments maturing in the next 12 months.

	As at December 31, 2020	As at March 31, 2020
Current portion	**$ 1,925**	$ –
Long-term portion	**8,382**	9,602
Total	**$ 10,307**	$ 9,602

	As at December 31, 2020	As at March 31, 2020
Carrying amount at amortized cost:		
Bonds:		
Provincial	**$ 1,832**	$ 3,868
Corporate	**–**	859
Total bonds	**1,832**	4,727
Guaranteed investment certificates	**8,475**	4,875
Total	**$ 10,307**	$ 9,602

	As at December 31, 2020	As at March 31, 2020
Fair value:		
Bonds:		
Federal	**$ –**	$ –
Provincial	**1,987**	4,191
Corporate	**–**	895
Total bonds	**1,987**	5,086
Guaranteed investment certificates	**8,582**	4,909
Total	**$ 10,569**	$ 9,995

NOTE 8: ACCRUED REVENUE

Deferred revenue arises when, at a reporting date, the amount of revenue invoiced exceeds the services delivered through fixed-fee service-level arrangements. For the period ended December 31, 2020, deferred revenue was $492. The figure as at March 31, 2020, was $0. Timing differences on fixed-fee service-level arrangements can occur during the reporting periods of the fiscal year but are reconciled and reduced to $0 by the year-end reporting date.

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2020	As at March 31, 2020
Cost	$ 4,389	$ 4,545
Less: Accumulated depreciation	3,595	3,730
Net book value	**$ 794**	**$ 815**
Net book value by asset class		
Computer equipment	$ 169	$ 262
Furniture and fixtures	168	221
Leasehold improvements	457	332
Net book value	**$ 794**	**$ 815**

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

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance as at March 31, 2020	$ 1,631	$ 1,006	$ 1,908	$ 4,545
Plus: Additions	–	12	155	167
Less: Disposals	296	8	19	323
Balance as at December 31, 2020	**$ 1,335**	**$ 1,010**	**$ 2,044**	**$ 4,389**

The changes in accumulated depreciation are shown in the table below.

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Accumulated depreciation				
Balance as at March 31, 2020	$ 1,369	$ 785	$ 1,576	$ 3,730
Plus: Depreciation	93	65	30	188
Less: Disposals	296	8	19	323
Balance as at December 31, 2020	**$ 1,166**	**$ 842**	**$ 1,587**	**$ 3,595**

There was no impairment of property, plant and equipment. There were proceeds of $4 associated with the data centre decommissioning that occurred during the period.

NOTE 10: RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets comprise office space, facilities for information technology (data warehouses), equipment and multifunction copiers. Items related to assets under finance lease from the prior year are added to the opening balance and are included in the total. DCC has included extension options in the measurements of its lease liability when it is reasonably certain the Corporation will exercise those options. During the year, changes to DCC's right-of-use assets were as follows.

	Office space leases	Co-location leases	Data warehouse leases	Total right-of-use assets
Balance as at March 31, 2020	$ 8,855	$ 72	$ 529	$ 9,456
Plus: Additions	–	–	–	–
Less: Amortization	972	72	92	1,136
Less: Disposals	–	–	–	–
Balance as at December 31, 2020	**$ 7,883**	**$ –**	**$ 437**	**$ 8,320**

NOTE 11: LEASE OBLIGATIONS

	As at December 31, 2020	As at March 31, 2020
Current portion	$ 1,218	$ 1,123
Long-term portion	7,411	8,500
Total lease obligations	**$ 8,629**	**$ 9,623**

Cost	
Balance as at March 31, 2020	$ 9,623
Plus: Additions	–
Less: Payments	1,189
Plus: Interest expense	195
Balance as at December 31, 2020	**$ 8,629**

The following represents the contractual undiscounted cash flows for lease obligations as at December 31, 2020.

One year or less	$ 1,447
Between one and two years	1,159
Between two and five years	2,911
Over five years	4,336
Total	**$ 9,853**

The expense relating to variable lease payments not included in the measurement of lease obligations was $786. This consisted of variable lease payments for operating costs, property taxes and insurance. There were immaterial expenses relating to short-term leases and leases of low-value assets. Total cash outflow for leases was $2,170, including $1,189 for principal payments on lease obligations. Income from sub-leasing was $74 for the period.

NOTE 12: EMPLOYEE BENEFITS

POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

	As at December 31, 2020	As at March 31, 2020
Current portion	$ 3,946	$ 3,666
Long-term portion	28,688	27,247
Total employee benefits	**$ 32,634**	**$ 30,913**

The significant actuarial assumptions are disclosed in the *Annual Report 2019–2020*. The measurement date for the last actuarial valuation of the provision for employee benefits was March 31, 2020. The next actuarial valuation is planned for March 2023 or sooner, as required.

NOTE 13: REVENUE RECOGNITION

13.1 SERVICES REVENUE

The Corporation derives its revenue from the delivery of services related to contract management, project planning, procurement and real property management. Revenue is recognized after the service is rendered. The Corporation receives payments from its clients based on a monthly billing cycle, as established in service-level arrangements (SLAs). All SLAs have a duration equivalent to the fiscal year and are renegotiated and signed annually, based on the nature of the funding for the clients. As the need arises during the fiscal year, the SLAs can be modified, and new SLAs signed.

SLAs can be on a time-based or fixed-fee basis. For time-based SLAs, the clients and the Corporation agree to a number of service hours that the Corporation's personnel will provide over the year. Each month, services for the month are invoiced to the client using actual time and the agreed billing rates in the SLAs. For fixed-fee SLAs, a fixed amount is invoiced to the client each month as agreed in the SLAs. Most SLAs have standard 30-day payment terms.

As there are new SLAs annually, there are no liabilities related to payments received in advance of performance, nor assets related to performance rendered in advance of payments. There is no risk of bad debt because, under the SLAs, the Corporation bills the client for services already performed, and the *Financial Administration Act* requires government entities to pay for all valid services invoiced.

The Corporation does not generate any of its revenue from the sale of goods, from dividends or from royalties.

13.2 TRAVEL AND DISBURSEMENT REVENUE

The Corporation recovers the cost of travel and disbursements related to service delivery from the client as part of the SLAs. No mark-up is added.

13.3 INVESTMENT REVENUE

Investment revenue is recognized on an accrual basis using the effective interest method.

13.4 SEGMENTED AND DISAGGREGATED REVENUE INFORMATION

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

Three months ended December 31, 2020 — **Activity**

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,064	$ 1,284	$ 372	$ 444	$ 179	$ 356	**$ 4,699**
Quebec Region	2,242	1,210	376	328	309	357	**4,822**
National Capital Region	1,108	2,194	1,253	36	125	357	**5,073**
Ontario Region	3,044	1,203	534	481	1,124	421	**6,807**
Western Region	4,082	1,978	114	735	401	274	**7,584**
Head Office	40	64	–	315	341	–	**760**
Total revenue, by activity	**$ 12,580**	**$ 7,933**	**$ 2,649**	**$ 2,339**	**$ 2,479**	**$ 1,765**	**$ 29,745**

Nine months ended December 31, 2020 — **Activity**

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 5,989	$ 4,301	$ 1,110	$ 1,268	$ 514	$ 928	**$ 14,110**
Quebec Region	6,692	4,035	1,076	1,076	970	1,038	**14,887**
National Capital Region	3,378	6,884	3,826	217	338	973	**15,616**
Ontario Region	9,553	4,328	1,839	1,648	3,330	1,429	**22,127**
Western Region	12,467	6,653	431	2,497	1,318	1,028	**24,394**
Head Office	145	242	7	933	1,022	–	**2,349**
Total revenue, by activity	**$ 38,224**	**$ 26,443**	**$ 8,289**	**$ 7,639**	**$ 7,492**	**$ 5,396**	**$ 93,483**

Three months ended December 31, 2019 — **Activity**

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,231	$ 977	$ 311	$ 277	$ 167	$ 284	$ 4,247
Quebec Region	2,051	1,314	319	325	243	279	4,531
National Capital Region	1,094	2,006	1,089	105	92	301	4,687
Ontario Region	3,281	1,269	570	428	898	395	6,841
Western Region	3,835	1,949	119	606	356	346	7,211
Head Office	43	–	2	176	313	–	534
Total revenue, by activity	**$ 12,535**	**$ 7,515**	**$ 2,410**	**$ 1,917**	**$ 2,069**	**$ 1,605**	**$ 28,051**

Nine months ended December 31, 2019				**Activity**			
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 6,736	$ 2,968	$ 939	$ 920	$ 472	$ 865	$ 12,900
Quebec Region	6,411	3,764	976	978	740	872	13,741
National Capital Region	3,058	6,189	3,487	503	276	823	14,336
Ontario Region	9,753	4,141	1,368	1,406	2,391	1,231	20,290
Western Region	11,360	6,037	417	2,016	1,147	958	21,935
Head Office	105	4	2	443	815	–	1,369
Total revenue, by activity	**$ 37,423**	**$ 23,103**	**$ 7,189**	**$ 6,266**	**$ 5,841**	**$ 4,749**	**$ 84,571**

The following tables disaggregate revenue by region and contract type.

		Time-based revenue		
Region	Three months ended December 31, 2020	Three months ended December 31, 2019	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Atlantic Region	$ 817	$ 1,345	$ 2,254	$ 4,058
Quebec Region	1,669	1,482	4,772	4,171
National Capital Region	4,542	4,692	13,214	14,245
Ontario Region	2,230	1,918	6,296	5,702
Western Region	2,256	1,494	6,388	4,742
Head Office	561	423	1,724	1,132
Total time-based revenue	**$ 12,075**	**$ 11,354**	**$ 34,648**	**$ 34,050**

		Fixed-fee revenue		
Region	Three months ended December 31, 2020	Three months ended December 31, 2019	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Atlantic Region	$ 3,883	$ 2,904	$ 11,854	$ 8,842
Quebec Region	3,153	3,049	10,116	9,570
National Capital Region	530	-	2,402	91
Ontario Region	4,576	4,926	15,831	14,589
Western Region	5,329	5,708	18,006	17,193
Head Office	199	110	626	236
Total fixed-fee revenue	**$ 17,670**	**$ 16,697**	$ **58,835**	$ **50,521**
Total revenue	**$ 29,745**	**$ 28,051**	**$ 93,483**	**$ 84,571**

NOTE 14: OPERATING AND ADMINISTRATIVE EXPENSES

	Three months ended December 31, 2020	Three months ended December 31, 2019	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Cloud computing services	$ 441	$ 95	$ 1,258	$ 387
Software maintenance	322	307	960	860
Leased location operating costs	266	266	786	735
Professional services	266	564	1,088	1,817
Equipment rental	231	213	692	453
Telephone and data communications	210	215	636	632
Employee training and development	158	307	401	792
Client services and communications	73	48	197	98
Office services, supplies and equipment	63	95	287	257
Furniture and equipment	38	17	343	222
Printing and stationery	26	23	48	57
Staff relocation	20	67	44	297
Computer software	19	17	56	26
Memberships and subscriptions	14	12	48	42
Travel	11	153	16	420
Hospitality	5	77	27	154
Postage and freight	5	12	15	26
Recruiting	3	19	8	41
Other	2	5	15	17
Computer equipment	0	7	7	23
Total	**$ 2,173**	**$ 2,519**	**$ 6,932**	**$ 7,356**

NOTE 15: 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 entire services revenue in the third quarter of 2020–21 totalled $29,745 compared to $28,051 in the third quarter of 2019–20 and was generated from services provided to entities owned by the Government of Canada. For the year-to-date period ending December 31, 2020, this revenue totalled $93,483 compared to $84,571 for the comparable prior-year period.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled $651 for the year-to-date period of 2020–21 compared to $48 in the same period in 2019–20.

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

	As at December 31, 2020	As at March 31, 2020
Due from		
Department of National Defence	$ 14,467	$ 21,660
Canadian Forces Housing Agency	1,726	1,600
Communications Security Establishment	225	368
Public Services and Procurement Canada	–	1
Shared Services Canada	14	50
	$ 16,432	**$ 23,679**
Due to		
Shared Services Canada	$ –	$ 2
Department of Justice	–	0
	$ 54	**$ 2**

15.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are those persons (including members of the Board of Directors) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The remuneration of DCC's key management personnel is shown in the following table.

	Three months ended December 31, 2020	Three months ended December 31, 2019	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Short-term benefits	$ 1,088	$ 1,361	$ 3,146	$ 3,122
Post-employment benefits	139	63	421	347
Total	**$ 1,227**	**$ 1,424**	**$ 3,567**	**$ 3,469**

NOTE 16: CONTINGENT LIABILITIES

16.1 LEGAL CLAIMS

The Corporation's efforts to resolve disputes are reflected in the number and value of claims before the courts. As at December 31, 2020, there were 12 ongoing claims totalling $15,819. These were related to contracts DCC had put in place on behalf of its Client-Partners. These figures can be compared with 10 ongoing claims totalling $10,319 as at March 31, 2020. In accordance with the memorandum of understanding between the Corporation and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by the Corporation. Therefore, the financial risk associated with settling these contractual claims does not have any financial impact on the Corporation, so DCC does not consider it necessary to record any provision in its financial statements relating to these particular legal claims. In addition, as at December 31, 2020, there was one ongoing legal claim, not related to DND, in relation to a grievance with significant monetary damages. Due to uncertainties surrounding the claim and the early stages of the claim's evaluation, the outcome, timing and extent of the settlement, if any, cannot be determined at this time. No amount for this claim has been recognized as at December 31, 2020.