DEFENCE CONSTRUCTION CANADA

2018–2019 THIRD QUARTER FINANCIAL REPORT

PERIOD ENDED DECEMBER 31, 2018

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

Defence Construction Canada
Construction de Défense Canada

Canada

TABLE OF CONTENTS

60 YEARS ANS

DCC | CDC

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, 2018, 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, 2018. 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, 2018 (the "*Annual Report 2017–2018*"). 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 on the basis of 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 requirements. It 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 relating 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

From needs planning to facility decommissioning, the Real Property Management Services team supports the efficient operation of DND's infrastructure.

3.0 OPERATIONAL PERFORMANCE INDICATORS

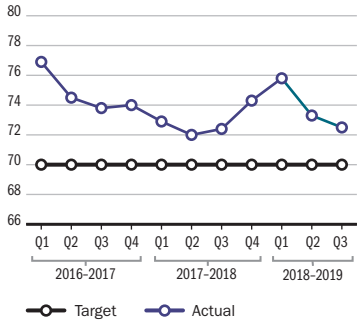
3.1 UTILIZATION RATE

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 2018–19, the Corporation achieved a utilization rate of 72.4%, a decrease from the rate of 73.3% for the same period in 2017–18. The decrease was due to higher use of vacation in the third quarter than the prior year.

For the year-to-date period of 2018–19, the Corporation achieved a utilization rate of 72.9%, an increase from the rate of 72.3% for the same period in 2017–18. This increase occurred because DND planned its procurement activities in the fourth quarter of 2017–18, so that projects would be ready to implement in the first half of 2018–19.

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

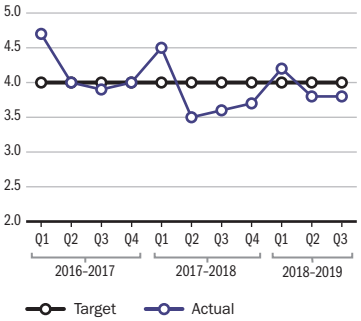


3.2 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

Maintaining a skilled and professional workforce is a key corporate objective. For 2018–19, 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 2018–19 and the comparable period last year, the professional development to salary cost ratio was 3.8%. For the year-to-date period of 2018–19, the professional development to salary cost ratio was 3.8%, an increase from 3.6% in the comparable period last year. The increases were due to the timing of staff training compared to the prior year.

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



4.0 RISK MANAGEMENT

There have been no material changes to the corporate risks identified by management and discussed in Section 5.0, Risk Management, of the MD&A in DCC's *Annual Report 2017–2018*.

5.0 FINANCIAL PERFORMANCE

5.1 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, 2018; all references to the year-to-date period refer to the nine months ended December 31, 2018. All references to the previous year's third quarter relate to the three months ended December 31, 2017; all references to the previous year's year-to-date period refer to the nine months ended December 31, 2017. All references to the previous year's end relate to March 31, 2018.

5.2 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $28.1 million in the third quarter, an increase of $3.5 million or approximately 14% from the previous year. For the year-to-date period, services revenue was $82.6 million, an increase of $9.3 million or approximately 13% over the previous year. These increases in the third quarter and year-to-date period resulted from a 4.5% increase in billing rates for all service lines compared to the prior year and from higher DND demand for services.

CONTRACT MANAGEMENT

Revenue from contract management increased by 13% in the third quarter and 9% in the year-to-date period compared to the same periods in the previous year. The increases in the third quarter and year-to-date period reflected an increase in billing rates and increased demand from Client-Partners. Fluctuations in the DND program have a direct impact on the revenue this activity generates.

PROJECT PLANNING

Project planning revenue increased by 19% in the third quarter and 19% in the year-to-date period compared to the same periods in the previous year. The increases in the third quarter and year-to-date period were due to higher billing rates and higher DND demand for this service.

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 increases in the third quarter and year-to-date period were due to an increase in billing rates and higher DND demand for this activity.

PROCUREMENT

Procurement revenue increased by 21% in the third quarter and by 23% in the year-to-date period compared to the same periods in the previous year. The increases in the third quarter and year-to-date period were due to higher billing rates and increased DND demand.

CONSTRUCTION TECHNICAL SUPPORT

Revenue from construction technical support increased by 9% in the third quarter and by 5% the year-to-date period compared to the same periods in the previous year. The increases were the result of an increase in billing rates, as demand for this service was consistent with that in the prior year.

ENVIRONMENTAL TECHNICAL SUPPORT

Environmental technical support revenue increased by 9% in the third quarter and by 5% in the year-to-date period compared to the same periods in the previous year. These increases were due to increases in billing rates, as DND demand for this service was slightly lower than in the prior year. Fluctuations in the DND program have a direct impact on the revenue this activity generates.

REVENUE, BY ACTIVITY

			Change				**Change**	
(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	$	%	Nine months ended December 31, 2018	Nine months ended December 31, 2017	$	%
Contract management	$ 12,578	$ 11,165	1,413	13%	$ 36,568	$ 33,444	3,124	9%
Project planning	7,502	6,284	1,218	19%	22,028	18,471	3,557	19%
Real property technical support	2,307	2,090	217	10%	7,203	6,275	928	15%
Procurement	2,123	1,751	372	21%	6,312	5,139	1,173	23%
Construction technical support	1,959	1,791	168	9%	5,830	5,546	284	5%
Environmental technical support	1,642	1,510	132	9%	4,636	4,419	217	5%
	$ 28,111	**$ 24,591**	**3,520**	**14%**	**$ 82,577**	**$ 73,294**	**9,283**	**13%**

TRAVEL AND DISBURSEMENT REVENUE

Travel and disbursement revenue represents the amount the Corporation recovered from DND for travel and other expenses DCC incurred for work it performed on DND's behalf. Travel and disbursement revenue totalled $991,000 in the third quarter, an increase of $51,000, or approximately 5%, over the same period in the previous year. For the year-to-date period, revenue totalled $2.8 million, an increase of $1.1 million from the prior year, or approximately 60%. The variances were a result of the timing of travel and other expenses related to the work the Corporation performed for DND.

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %
Travel and disbursement revenue	**$ 991**	**$ 940**	**51**	**5%**	**$ 2,833**	**$ 1,768**	**1,065**	**60%**

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in its bank account and from investments, increased in the third quarter by $11,000 or 8% compared to the same period in the previous year. The increase was due to higher interest rates on the cash balance held in the corporate account compared to the prior year.

For the year-to-date period, interest revenue decreased by $3,000 or 1% compared to the same period in the prior year. The decrease was primarily the result of a shift in investments. As bonds have matured, the Corporation has reinvested the funds in guaranteed investment certificates, which pay less interest and are shorter term investments than bonds, to meet anticipated cash requirements in the next few years.

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %
Investment revenue	**$ 151**	**$ 140**	**11**	**8%**	**$ 451**	**$ 454**	**(3)**	**-1%**

5.3 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $21.9 million in the third quarter, an increase of $1.7 million or approximately 8% over the same period in the previous year. The number of full-time equivalents (FTEs) increased by approximately 4.7% or 43 FTEs over the end of the prior year. Salary pay rates increased by 3.3% over the same period in the prior year due to a cost of living increase of 1.5% and performance pay increases of 1.8%.

For the year-to-date period, salaries totalled $61.3 million, an increase of $3.3 million or approximately 6%. The increase is due to cost of living and performance increases to salaries totalling 3.25% and to higher staff levels.

Employee benefits were $5.4 million in the third quarter, an increase of $974,000 or approximately 22% from the same period in the previous year. The increase was due mainly to the increased costs of extended health care benefits, which rose at renewal in late 2017–18. These higher costs also increased the accrual for employee future benefits. In the third quarter, employee benefits as a percentage of salaries were consistent with the prior year.

For the year-to-date period, employee benefits were $16 million, an increase of $1.9 million or approximately 14% from the same period in the prior year. The increase was due mainly to the increased costs of extended health care benefits, which rose at renewal in late 2017–18.

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %
Salaries	$ 21,862	$ 20,177	1,685	8%	$ 61,321	$ 57,989	3,332	6%
Employee benefits	5,370	4,396	974	22%	15,985	14,072	1,913	14%
	$ 27,232	**$ 24,573**	**2,659**	**11%**	**$ 77,306**	**$ 72,061**	**5,245**	**7%**
Employee benefits as a percentage of salaries	25%	22%			26%	24%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $2.5 million in the third quarter of 2018–19, an increase of $344,000 or 16% over the third quarter of 2017–18. For the year-to-date period, operating and administrative expenses decreased by $24,000 or approximately 0%. Material variances are shown in the following table.

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %	Variance analysis
Software maintenance	$ 497	$ 218	279	128%	$ 1,176	$ 1,095	81	7%	The increase in both periods is due to the renewal of maintenance agreements related to office productivity software.
Rent	482	492	(10)	-2%	1,365	1,404	(39)	-3%	The decrease in both periods is due to refunds from the landlord related to a real estate tax reassessment in the current and prior years.
Professional services	341	395	(54)	-14%	742	900	(158)	-18%	The decreases in both periods were primarily due to lower costs for IT services.
Employee training and development	313	300	13	4%	864	775	89	11%	The increases in both periods were due to timing of training and development activities.
Telephone and data	224	226	(2)	-1%	597	683	(86)	-13%	The decreases in both periods were primarily due to a refund for past services received in the current period and lower negotiated telecom costs.
Travel	178	171	7	4%	416	375	41	11%	The increases in both periods were due to timing of travel requirements.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

			Change				Change		
(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	$	%	Nine months ended December 31, 2018	Nine months ended December 31, 2017	$	%	Variance analysis
Office services, supplies and equipment	70	65	5	8%	184	199	(15)	-8%	The increase in the third quarter was due to timing of expenses. The decreases in the year to date period was due to lower requirements for office services, supplies and equipment than in the prior year.
Hospitality	66	58	8	14%	148	132	16	12%	The increases in both periods were due to timing of internal meetings where hospitality is provided.
Client services and communications	55	37	18	49%	115	136	(21)	-15%	The variances in both periods were due to timing of communications activities.
Furniture and fixtures	46	29	17	59%	94	65	29	45%	The increases in both periods were due to increased purchases of ergonomic and security equipment.
Staff relocation	41	35	6	17%	95	138	(43)	-31%	The variances in both periods were due to timing of activities related to staff relocation.
Cloud computing services	36	–	36	100%	62	–	62	100%	The increases in both periods were due to reporting cloud computing services separately from software maintenance contracts beginning in the second quarter of the current year.
Equipment rental	28	10	18	180%	60	(2)	62	-3100%	The increases in both periods were due to DCC starting to lease personal computing devices in the current year instead of purchasing and capitalizing them.
Printing and stationery	21	33	(12)	-36%	58	63	(5)	-8%	The decreases in both periods were due to lower usage of printing and stationary purchases in the third quarter.
Computer software	19	15	4	27%	56	46	10	22%	The increases in both periods were due to more purchases of productivity software that were below the capitalization threshold.
Memberships and subscriptions	18	5	13	260%	48	35	13	37%	The increases in both periods were due to timing of purchases of memberships and subscriptions.
Computer equipment	15	25	(10)	-40%	49	103	(54)	-52%	The decreases in both periods were due to DCC purchasing fewer computing items due to the adoption of a lease program for computers.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %	Variance analysis
Postage and freight	6	8	(2)	-25%	21	22	(1)	-5%	The variances were not material.
Recruiting	4	3	1	33%	37	13	24	185%	The increases in both periods were due to higher demand for recruiting services.
Other	14	5	9	180%	33	14	19	136%	The increases in both periods were due to increased costs related to disposal of fixed assets and bank charges.
	$ 2,474	**$ 2,130**	**344**	**16%**	**$ 6,220**	**$ 6,196**	**24**	**0%**	

TRAVEL AND DISBURSEMENT EXPENSE

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 $991,000 in the third quarter, an increase of $51,000, or approximately 5%, over the same period in the previous year. For the year-to-date period, expenses totalled $2.8 million, an increase of $1.1 million from the prior year, or approximately 60%. The variances were a result of the timing of travel and other expenses related to the work the Corporation performed for DND.

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %
Travel and disbursement expenses	**$ 991**	**$ 940**	**51**	**5%**	**$ 2,833**	**$ 1,768**	**1,065**	**60%**

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 19% or $62,000 in the third quarter and 11% or $107,000 in the year-to-date period compared to the prior year. The decrease in depreciation of property, plant and equipment occurred because the Corporation adopted a leasing model for computing devices, which reduced the capital expenditures for this type of asset. The decrease in amortization of intangible assets occurred because the Corporation now favours software-as-a-service over capital purchases.

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %
Depreciation of property, plant and equipment	$ 214	$ 258	(44)	-17%	$ 715	$ 771	(56)	-7%
Depreciation of assets under finance lease	22	25	(3)	-12%	69	74	(5)	-7%
Amortization of intangible assets	35	50	(15)	-30%	106	152	(46)	-30%
	$ 271	**$ 333**	**(62)**	**-19%**	**$ 890**	**$ 997**	**(107)**	**-11%**

5.4 INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

The Corporation realized a net loss and total comprehensive loss of $1.7 million for the third quarter compared with a loss and total comprehensive loss of $2.3 million for the same period in the previous year. This was a decrease of 26%. For the year-to-date period, the Corporation realized a loss and total comprehensive loss of $1.4 million compared to a loss of $5.5 million in the prior year. The reduction of the losses in the third quarter and year-to-date period were due to a 4.5% increase in billing rates and to higher staff utilization. These increases led to a higher gross margin, which was required to ensure that the Corporation achieves a slightly better than break-even gross margin.

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %
Net Income (loss) and total comprehensive income (loss)	**$ (1,717)**	**$ (2,307)**	**590**	**-26%**	**$ (1,392)**	**$ (5,512)**	**4,120**	**-75%**

5.5 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

DCC's financial and cash management policy is discussed in the *Annual Report 2017–2018*.

CASH AND INVESTMENTS

Cash and investments totalled $25.2 million at December 31, 2018, an increase of $2.5 million from March 31, 2018.

The cash balance at December 31, 2018, was $7.3 million, an increase of $3.4 million or 85% from the 2017–18 year end. In the nine-month period after March 31, 2018, the Corporation generated $2.7 million in cash for operating activities, spent $29,000 on capital expenditures, redeemed $788,000 in investments and spent $68,000 to meet finance lease obligations.

Investments (both current and long-term) at December 31, 2018, totalled $17.9 million, a decrease of $859,000 from the 2017–18 year end. The decrease was due mainly to the redemption of investments for use in operations. 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 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, 2018, the amount of trade receivables was $23.5 million, an increase of $1.3 million or 6% from March 31, 2018. The increase was due to the timing of the collection of receivables from DND.

CURRENT LIABILITIES

Current liabilities were $17.0 million at December 31, 2018, an increase of $1.0 million or 6% from March 31, 2018. The increase in current liabilities was primarily due to an increase in accounts payable related to the timing of payments.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands of dollars)	As at December 31, 2018	As at March 31, 2018	Change $	Change %
Cash	$ 7,336	$ 3,972	3,364	85%
Investments	17,870	18,729	(859)	-5%
Cash and investments	**$ 25,206**	**$ 22,701**	**2,505**	**11%**
Trade receivables	**$ 23,526**	**$ 22,196**	**1,330**	**6%**
Current liabilities	**$ 16,993**	**$ 15,992**	**1,001**	**6%**

5.6 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 three years, an actuary determines this estimate. The accrued sick leave and other benefits balance as at December 31, 2018, was $34.9 million, an increase of $2.4 million or 7% from the 2017–18 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, 2018	As at March 31, 2018	Change $	Change %
Current portion	$ 2,502	$ 2,502	–	0%
Long-term portion	32,359	29,963	2,396	8%
Total employee benefits	**$ 34,861**	**$ 32,465**	**2,396**	**7%**

5.7 ASSETS UNDER FINANCE LEASE AND FINANCE LEASE OBLIGATION

The Corporation leases multifunctional devices for copying, scanning and faxing. At the end of the third quarter, the value of assets under finance lease had decreased by $73,000 or 31% since the 2017–18 year end. The decrease was the result of depreciation of $69,000 and the removal of a device before the end of its term, which resulted in a decrease of $4,000.

(in thousands of dollars)	As at December 31, 2018	As at March 31, 2018	Change $	Change %
Assets under finance lease	**$ 162**	**$ 235**	**(73)**	**-31%**

The finance lease obligation at the end of the third quarter decreased by $68,000, or 28%, from the 2017–18 year end, due to payments of $68,000.

(in thousands of dollars)	As at December 31, 2018	As at March 31, 2018	Change $	Change %
Current portion	$ 87	$ 96	(9)	-9%
Long-term portion	88	147	(59)	-40%
Finance lease obligation	**$ 175**	**$ 243**	**(68)**	**-28%**

5.8 CAPITAL EXPENDITURES

The Corporation's capital expenditures for the third quarter totalled $12,000, a decrease of $38,000 or 76% from the same period in the previous year. For the year-to-date period, expenditures totalled $29,000, a decrease of $275,000 or 90% over the same period last year. The decreases in both periods occurred because the Corporation began to lease personal computing devices for employees instead of purchasing such devices..

(in thousands of dollars)	Three months ended December 31, 2018	Three months ended December 31, 2017	Change $	Change %	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change $	Change %
Intangible assets	$ –	$ –	–	100%	$ 13	$ 2	11	550%
Computer equipment	7	29	(22)	-76%	7	147	(140)	-95%
Furniture and equipment	–	21	(21)	-100%	6	83	(77)	-93%
Leasehold improvements	5	–	5	100%	5	72	(67)	93%
	$ 12	**$ 50**	**(38)**	**-76%**	**$ 31**	**$ 304**	**(273)**	**90%**

5.9 ACTUAL PERFORMANCE VERSUS PLAN

The Corporation's actual overall performance for the nine months ended December 31, 2018, was better than forecasted in the Corporate Plan (the Plan).

Services revenue was consistent with the amount forecasted in the Plan.

Travel and disbursement revenue and expenses were 79% higher than projected in the Plan due to the timing of expenses for travel and disbursements related to work the Corporation performed on DND's behalf.

Investment revenue was higher than anticipated in the Plan due to a higher than expected return on investment.

Salaries and benefits were consistent with the amount forecasted in the Plan.

Operating and administrative costs were 33% lower than projected due to the timing of expenditures related to the implementation of the Corporation's cyber strategy and the timing of other operating expenses, primarily training, development and travel costs.

Depreciation and amortization was 36% lower than forecasted due to lower capital expenditures.

Capital expenditures were 97% lower than projected, because the Corporation started

ACTUAL PERFORMANCE VERSUS PLAN

					Change	
(in thousands of dollars)		**Actual**		**Plan**	$	%
Revenue						
Services	$	82,577	$	82,966	(389)	0%
Recovered travel and disbursement		2,833		1,580	1,253	79%
Investment		451		375	76	20%
		85,861		**84,921**	**940**	**1%**
Expenses						
Salaries and employee benefits		77,306		76,375	931	1%
Operating and administrative costs		6,224		9,340	(3,116)	-33%
Recoverable travel and disbursement		2,833		1,580	1,253	79%
Depreciation and amortization		890		1,397	(507)	-36%
		87,253		**88,692**	**(1,439)**	**-2%**
Loss and total comprehensive income	**$**	**(1,392)**	**$**	**(3,771)**	**2,379**	**-63%**
Capital expenditures	**$**	**31**	**$**	**862**	**831**	**-96%**

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:

James S. Paul
President and Chief Executive Officer

Original signed by:

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

Ottawa, Canada
February 28, 2019

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Unaudited

(in thousands of dollars)	Notes	**As at December 31, 2018**	As at March 31, 2018
Assets			
Cash		**$ 7,336**	$ 3,972
Investments	7	**2,000**	2,178
Trade receivables	13	**23,526**	22,196
Prepaids and other current assets		**1,425**	2,339
Other receivables		**1,844**	1,954
Current assets		**36,131**	32,639
Investments	7	**15,870**	16,551
Property, plant and equipment	9	**923**	1,623
Intangible assets		**160**	252
Assets under finance lease		**162**	235
Non-current assets		**17,115**	18,661
Total assets		**$ 53,246**	$ 51,300
Liabilities			
Trade and other payables		**$ 12,909**	$ 13,394
Deferred revenue	8	**1,495**	–
Current portion: Finance lease obligation		**87**	96
Current portion: Employee benefits	10	**2,502**	2,502
Current liabilities		**16,993**	15,992
Finance lease obligation		**88**	147
Employee benefits	10	**32,359**	29,963
Non-current liabilities		**32,447**	30,110
Total liabilities		**49,440**	46,102
Equity			
Share capital—authorized—1,000 common shares of no par value			
Issued—32 common shares		**–**	–
Retained earnings		**3,806**	5,198
Total equity		**3,806**	5,198
Total liabilities and equity		**$ 53,246**	$ 51,300

Contingent liabilities (Note 14)

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, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Services revenue		**$ 28,111**	$ 24,591	**$ 82,577**	$ 73,294
Travel and disbursement revenue		**991**	940	**2,833**	1,768
Investment revenue		**151**	140	**451**	454
Total revenue		**29,253**	25,671	**85,861**	75,516
Salaries and employee benefits		**27,232**	24,573	**77,306**	72,061
Operating and administrative expenses	12	**2,474**	2,130	**6,220**	6,196
Travel and disbursement expenses		**991**	940	**2,833**	1,768
Depreciation of property, plant and equipment	9	**214**	258	**715**	771
Depreciation of assets under finance lease		**22**	25	**69**	74
Amortization of intangible assets		**35**	50	**106**	152
Finance costs		**2**	2	**4**	6
Total expenses		**30,970**	27,978	**87,253**	81,028
Loss for the period and total comprehensive loss		**$ (1,717)**	$ (2,307)	**$ (1,392)**	$ (5,512)

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, 2018	$ –	$ 5,523	$ 5,523
Gain for the period		(1,717)	(1,717)
Balance at December 31, 2018	**$ –**	**$ 3,806**	**$ 3,806**

	Share capital	Retained earnings	Total equity
Balance at September 30, 2017	$ –	$ 13,294	$ 13,294
Loss for the period		(2,307)	(2,307)
Balance at December 31, 2017	**$ –**	**$ 10,987**	**$ 10,987**

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at March 31, 2018	$ –	$ 5,198	$ 5,198
Gain for the period		(1,392)	(1,392)
Balance at December 31, 2018	**$ –**	**$ 3,806**	**$ 3,806**

	Share capital	Retained earnings	Total equity
Balance at March 31, 2017	$ –	$ 16,499	$ 16,499
Loss for the period		(5,512)	(5,512)
Balance at December 31, 2017	**$ –**	**$ 10,987**	**$ 10,987**

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, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Cash flow from (used in) operating activities					
Loss for the period		**$ (1,717)**	$ (2,307)	**$ (1,392)**	$ (5,512)
Adjustments to reconcile loss for the period to cash provided or used by operating activities					
Employee benefits expensed		**967**	730	**2,901**	2,191
Employee benefits paid		**(179)**	(224)	**(505)**	(430)
Depreciation of property, plant and equipment	9	**214**	258	**715**	771
Depreciation of assets under finance lease		**22**	25	**69**	74
Amortization of intangible assets		**35**	50	**106**	152
Amortization of investment premiums		**18**	21	**71**	74
Change in non-cash operating working capital					
Trade receivables		**2,185**	(695)	**(1,330)**	(1,899)
Prepaids and other current assets		**(354)**	46	**914**	130
Other receivables		**13**	63	**110**	578
Trade and other payables		**(77)**	9	**(485)**	(1,802)
Deferred revenue		**(64)**	133	**1,495**	1,525
Net cash flows provided by (used in) operating activities		**1,063**	(1,891)	**2,669**	(4,148)
Cash flows provided by (used in) investing activities					
Acquisition of investments		**–**	(1)	**(898)**	(259)
Disposition of investments		**–**	–	**1,686**	1,200
Acquisition of property, plant and equipment	9	**(11)**	(50)	**(15)**	(302)
Acquisition of intangible assets		**(1)**	–	**(14)**	(2)
Loss of disposal of assets under finance lease		**4**	–	**4**	–
Net cash flows provided by (used in) investing activities		**(8)**	(51)	**763**	637
Cash flows from financing activities					
Repayment of finance lease obligations		**(26)**	(24)	**(68)**	(72)
Net cash flows used in financial activities		**(26)**	(24)	**(68)**	(72)
Decrease in cash during the period		**1,029**	(1,966)	**3,364**	(3,583)
Cash at the beginning of the period		**6,307**	5,405	**3,972**	7,022
Cash at the end of the period		**$ 7,336**	$ 3,439	**$ 7,336**	$ 3,439

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, 2018, and with the 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" or "DCC") 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. DCC is an agent Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act*. Responsibility for the Corporation rests with the Minister of Public Services and Procurement. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction contract management, professional, operations and full lifecycle infrastructure support for the defence and security of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence (DND). Other government departments and agencies that play a role in Canada's defence and security may also avail themselves of DCC's services. Revenue is generated from fees charged for specific services provided.

NOTE 2: BASIS OF PREPARATION AND PRESENTATION

These interim condensed financial statements are prepared by the Corporation in accordance with International Accounting Standard 34 (IAS 34), Interim Financial Reporting, as issued by the Accounting Standards Board, 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, 2018.

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, 2018, except for the application of new standards, amendments and interpretations effective January 1, 2018, disclosed in Note 5 of these interim condensed consolidated 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, 2018.

NOTE 5: APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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, 2018. The Corporation adopted the following standards on April 1, 2018.

5.1 IFRS 9, FINANCIAL INSTRUMENTS

In the current period ending December 31, 2018, the Corporation has applied IFRS 9, *Financial Instruments* (as revised in July 2014). IFRS 9 introduces new requirements for the following: the classification and measurement of financial assets and liabilities; impairment of financial assets; and hedge accounting. This section describes these new requirements, as well as their impact on the Corporation's financial statements.

FINANCIAL ASSETS: CLASSIFICATION AND MEASUREMENT

IFRS 9 replaces the classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model. In that single model, financial assets are classified and measured at amortized cost, at fair value through profit or loss (FVTPL), or at fair value through other comprehensive income (FVTOCI). This classification is based on a business model in which a financial asset is managed by its contractual cash flows characteristics and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale. The adoption of IFRS 9 did not change the measurement base of the Corporation's financial assets.

The impairment of financial assets under IFRS 9 is based on an expected credit loss (ECL) model, as opposed to the incurred credit loss model used under IAS 39. IFRS 9 applies to financial assets measured at amortized cost and to contract assets, and requires the Corporation to consider factors such as historical, current and forward-looking information when measuring ECL. The Corporation uses the simplified approach for measuring losses based on lifetime ECL for trade and other receivables.

The Corporation does not expect credit losses from assets such as trade receivables, as all of its revenue is derived from Government of Canada entities. The Corporation concluded that no impairment of financial assets is required by IFRS 9. The Corporation will review the expected credit loss provision annually.

FINANCIAL LIABILITIES: CLASSIFICATION AND MEASUREMENT

IFRS 9 introduced the classification and measurement of financial liabilities to account for changes in the fair value of a financial liability designated as at FVTPL that are attributable to changes in the credit risk of the issuer.

The Corporation's financial assets and financial liabilities were classified and subsequently measured as follows in the *Annual Report 2017–2018*, as at March 31, 2018.

	Classification	Subsequent measurement
Cash	FVTPL	FVTPL
Investments	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Other current assets	Amortized cost	Amortized cost
Accounts Payable	Amortized cost	Amortized cost
Accrued liabilities	Amortized cost	Amortized cost

5.2 IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

In the current period, the Corporation has applied IFRS 15, *Revenue From Contracts With Customers*. The standard specifies how and when revenue should be recognized and requires entities to provide more informative and relevant disclosures to users. The standard—which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and a number of revenue-related interpretations—applies to nearly all contracts with customers, unless the contracts are within the scope of other IFRS, such as IFRS 16, *Leases*.

IFRS 15 introduces a five-step approach to revenue recognition. The Corporation has applied IFRS 15 in accordance with the fully retrospective transitional approach.

Under the basic principle of IFRS 15, for a corporation to recognize revenue, it must identify when it provides the goods or services promised to customers, and describe what amount of consideration the entity expects to receive in exchange for such goods or services. In particular, the standard proposes a five-step model for recognizing revenue: identifying contracts with a customer; identifying obligation in the contract; determining the transaction price; allocating transaction price between the various contractual obligations; and recognizing revenue when the entity has fulfilled a performance obligation.

Under IFRS 15, the Corporation recognizes revenue when a benefit obligation is fulfilled (or as it is met)—that is, when control of the underlying goods or services covered by this obligation of service is transferred to the client.

The Corporation's accounting policies for its revenue streams are disclosed in detail in Note 11. Apart from providing more extensive disclosures regarding the Corporation's revenue transactions, the application of IFRS 15 has no significant impact on the financial position and/or financial performance of the Corporation and requires no adjustments to comparative periods.

The Corporation has disaggregated revenue recognized from contracts with customers into categories that identify the nature of the services rendered. Refer to Note 11 for disclosure of disaggregated revenue.

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

6.1 IFRS 16, *LEASES*

In January 2016, the IASB published a new standard—IFRS 16, *Leases*—to replace IAS 17, *Leases.* The new standard requires leases to be reported on a lessee's balance sheet as assets and liabilities, provides more transparency, and improves comparability between corporations. Lessor accounting remains similar to current practice—i.e., lessors continue to classify leases as finance and operating leases.

This standard is effective for periods beginning on or after January 1, 2019, with early application permitted for corporations that also apply IFRS 15, *Revenue From Contracts With Customers*. The Corporation does not intend to apply IFRS 16 early. The Corporation is currently assessing the impact of applying this standard on its financial statements. An initial scoping of the Corporation's lease agreements identified approximately seven leases for office space that must be analyzed. The Corporation has begun this analysis and will continue it in 2018–19.

NOTE 7: INVESTMENTS

Investments consist of Canadian, provincial and corporate bonds with effective interest rates ranging from 2.65% to 4.92% (coupon rates ranging from 2.85% to 7.22%), guaranteed investment certificates (GICs) with fixed interest rates ranging from 1.8% to 2.6%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from 2019 to 2031, and those of the GICs vary from 2019 to 2023, 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, 2018	As at March 31, 2018
Current portion	**$ 2,000**	$ 2,178
Long-term portion	**15,870**	16,551
Total	**$ 17,870**	$ 18,729

	As at December 31, 2018	As at March 31, 2018
Carrying amount at amortized cost:		
Bonds:		
Federal	**$ 502**	$ 504
Provincial	**6,987**	8,032
Corporate	**3,758**	4,290
Total bonds	**11,247**	12,826
Guaranteed investment certificates	**6,525**	5,725
Mutual funds	**98**	178
Total	**$ 17,870**	$ 18,729

	As at December 31, 2018	As at March 31, 2018
Fair value:		
Bonds		
Federal	**$ 516**	$ 519
Provincial	**7,140**	8,283
Corporate	**3,886**	4,423
Total bonds	**11,542**	13,225
Guaranteed investment certificates	**6,929**	5,744
Mutual funds	**98**	178
Total	**$ 18,569**	$ 19,147

NOTE 8: DEFERRED REVENUE

Deferred revenue arises when, at a reporting date, the amount invoiced exceeds the services delivered through fixed-fee service-level arrangements. For the period ended December 31, 2018, deferred revenue was $1,495. The figure as at March 31, 2018, 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, 2018	As at March 31, 2018
Cost	$ 6,955	$ 6,940
Less: Accumulated depreciation	6,032	5,317
Net book value	**$ 923**	**$ 1,623**
Net book value by asset class		
Computer equipment	$ 713	$ 1,317
Furniture and fixtures	193	240
Leasehold improvements	17	66
Net book value	**$ 923**	**$ 1,623**

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, 2018	$ 4,497	$ 886	$ 1,557	$ 6,940
Plus: Additions	7	4	6	17
Less: Disposals	2	–	–	2
Balance as at December 31, 2018	**$ 4,502**	**$ 890**	**$ 1,563**	**$ 6,955**

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, 2018	$ 3,180	$ 646	$ 1,491	$ 5,317
Plus: Depreciation	609	51	55	715
Less: Disposals	–	–	–	–
Balance as at December 31, 2018	**$ 3,789**	**$ 697**	**$ 1,546**	**$ 6,032**

There was no impairment of property, plant and equipment.

NOTE 10: 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, 2018	As at March 31, 2018
Current portion of employee benefits	$ 2,502	$ 2,502
Long-term portion of employee benefits	32,359	29,963
Total employee benefits	**$ 34,861**	**$ 32,465**

The significant actuarial assumptions are disclosed in the *Annual Report 2017–2018*. The measurement date for the last actuarial valuation of the provision for employee benefits was April 1, 2017. The next actuarial valuation is planned for April 2020.

NOTE 11: REVENUE RECOGNITION

SERVICE 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.

11.1 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.

11.2 INVESTMENT REVENUE

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

11.3 ACCOMMODATIONS

As per the memorandum of understanding between DND and the Corporation, DND provides the Corporation with office accommodations free of charge for personnel at DND-owned bases and wings, and at other locations. Where space is not provided, the Corporation has established hourly billing rates to recover the accommodation cost. If the accommodation cost is recovered as an out-of-pocket reimbursement, the disbursement reduces the charged amount.

11.4 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 table disaggregates revenue by major sources and by region.

Three months ended December 31, 2018

	Activity						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,330	$ 924	$ 277	$ 330	$ 155	$ 270	**$ 4,286**
Quebec Region	2,304	1,225	374	397	282	309	**4,891**
National Capital Region	830	2,009	1,100	288	130	361	**4,718**
Ontario Region	3,329	1,281	316	486	649	446	**6,507**
Western Region	3,750	2,063	239	583	490	256	**7,381**
Head Office	35	–	1	39	253	–	**328**
Total revenue, by activity	**$ 12,578**	**$ 7,502**	**$ 2,307**	**$ 2,123**	**$ 1,959**	**$ 1,642**	**$ 28,111**

Nine months ended December 31, 2018

	Activity						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 6,827	$ 2,969	$ 814	$ 1,008	$ 503	$ 739	**$ 12,860**
Quebec Region	6,326	3,607	1,219	1,145	961	989	**14,247**
National Capital Region	2,344	5,669	3,474	896	396	939	**13,718**
Ontario Region	10,110	3,844	873	1,493	1,886	1,219	**19,425**
Western Region	10,847	5,939	821	1,714	1,318	752	**21,391**
Head Office	114	–	2	56	766	(2)	**936**
Total revenue, by activity	**$ 36,568**	**$ 22,028**	**$ 7,203**	**$ 6,312**	**$ 5,830**	**$ 4,636**	**$ 82,577**

Three months ended December 31, 2017

	Activity						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 1,973	$ 995	$ 288	$ 294	$ 178	$ 287	$ 4,015
Quebec Region	2,165	983	384	273	207	288	4,300
National Capital Region	602	1,681	846	325	146	280	3,880
Ontario Region	3,173	1,094	269	408	647	402	5,993
Western Region	3,223	1,531	300	447	387	250	6,138
Head Office	29	–	3	4	226	3	265
Total revenue, by activity	$ 11,165	$ 6,284	$ 2,090	$ 1,751	$ 1,791	$ 1,510	$ 24,591

Nine months ended December 31, 2017	Activity						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 6,409	$ 2,516	$ 1,039	$ 827	$ 503	$ 652	$ 11,946
Quebec Region	6,228	3,040	1,166	890	624	814	12,762
National Capital Region	1,783	4,840	2,371	948	439	942	11,323
Ontario Region	9,352	3,158	780	1,121	2,012	1,218	17,641
Western Region	9,576	4,916	902	1,326	1,317	791	18,828
Head Office	96	1	17	27	651	2	794
Total revenue, by activity	$ 33,444	$ 18,471	$ 6,275	$ 5,139	$ 5,546	$ 4,419	$ 73,294

The following table disaggregates revenue by region and contract type.

	Time-based revenue			
Region	Three months ended December 31, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Atlantic Region	$ 1,413	$ 1,622	$ 4,088	$ 4,648
Quebec Region	1,228	1,311	3,290	3,694
National Capital Region/Head Office	4,871	3,942	14,167	11,566
Ontario Region	1,845	1,918	5,275	5,749
Western Region	1,644	1,727	4,890	5,268
Total time-based revenue	**$ 11,001**	**$ 10,520**	**$ 31,710**	**$ 30,925**

	Fixed-fee revenue			
Region	Three months ended December 31, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Atlantic Region	$ 2,873	$ 2,393	$ 8,772	$ 7,298
Quebec Region	3,663	2,989	10,957	9,068
National Capital Region/Head Office	175	203	487	551
Ontario Region	4,662	4,075	14,150	11,892
Western Region	5,737	4,411	16,501	13,560
Total fixed-fee revenue	**$ $17,110**	**$ $14,071**	**$ 50,867**	**$ 42,369**
Total revenue	**$ 28,111**	**$ 24,591**	**$ 82,577**	**$ 73,294**

NOTE 12: OPERATING AND ADMINISTRATIVE EXPENSES

	Three months ended December 31, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Software maintenance	$ 497	$ 218	$ 1,176	$ 1,095
Rent	482	492	1,365	1,404
Professional services	341	395	742	900
Employee training and development	313	300	864	775
Telephone and data communications	224	226	597	683
Travel	178	171	416	375
Office services, supplies and equipment	70	65	184	199
Hospitality	66	58	148	132
Client services and communications	55	37	115	136
Furniture and fixtures	46	29	94	65
Staff relocation	41	35	95	138
Cloud computing services	36	–	62	-
Equipment rental	28	10	60	(2)
Printing and stationery	21	33	58	63
Computer software	19	15	56	46
Memberships and subscriptions	18	5	48	35
Computer equipment	15	25	49	103
Postage and freight	6	8	21	22
Recruiting	4	3	37	13
Other	14	5	33	14
Total	**$ 2,474**	**$ 2,130**	**$ 6,220**	**$ 6,196**

NOTE 13: 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, and travel and disbursement revenue, in the third quarter of 2018–19 totalled $28,111 compared with $24,591 in the third quarter of 2017–18. For the year-to-date period ending December 31, 2018, these revenues totalled $82,577 compared to $73,294 for the comparable prior year period. These revenues were generated from services provided to DND (including the Canadian Forces Housing Agency), the Communications Security Establishment and Shared Services Canada.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled $44 for the year-to-date period of 2018–19 compared with $61 in the same period of 2017–18.

	As at December 31, 2018	As at March 31, 2018
Due from		
Department of National Defence	$ 21,445	$ 20,186
Canadian Forces Housing Agency	1,758	1,702
Communications Security Establishment Canada	262	210
Shares Services Canada	59	100
Public Services and Procurement Canada	2	(2)
	$ 23,526	**$ 22,196**
Due to		
Shares Services Canada	$ –	$ 9
Department of Justice	–	130
	$ –	**$ 139**

13.1 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, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Short-term benefits	$ 993	$ 1,032	$ 2,756	$ 2,709
Post-employment benefits	112	122	363	317
Total	**$ 1,105**	**$ 1,154**	**$ 3,119**	**$ 3,026**

NOTE 14: CONTINGENT LIABILITIES

14.1 LEGAL CLAIMS

The Corporation's efforts to resolve contract disputes are reflected in the number and value of contract claims before the courts. As at December 31, 2018, there were 11 ongoing claims totalling $9,715. As at March 31, 2018, there were eight ongoing claims totalling $2,259.

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. Thus, the financial risk associated with settling these contractual claims does not have any financial impact on the Corporation. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims from third-party contracts.