DEFENCE CONSTRUCTION CANADA
CONSTRUCTION DE DÉFENSE CANADA

ANNUAL REPORT 2022–2023

STEADFAST

Exterior construction of Defence Research and Development Canada's new complex at Valcartier, Quebec. A state-of-the-art LEED facility, the $144-million, 31,000-m² complex will house 80 laboratories and is a prototype that is unique in the world. In support of the Federal Sustainable Development Strategy, the building will be LEED (Silver) certified.

CONTENTS

Michael Leitch, Coordinator, Construction Services at DCC Wainwright, Alberta conducts final measures for the new Wainwright Community Centre. Built on the original footprint, the 1,700-m^2 centre offers a significant upgrade and benefits not just CAF members, but also their families.

CORPORATE PROFILE

Defence Construction Canada (DCC, or the Corporation) is a Crown corporation that procures and delivers defence infrastructure and environmental projects. Our principal mandate is to meet the infrastructure, real property and environmental needs of the Department of National Defence and the Canadian Armed Forces (DND/CAF) by advising on, collaboratively planning, procuring and managing defence contracts.

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

We are proud to have worked with DND since 1951, acquiring the specialized expertise and large knowledge base to manage projects at home and abroad, from traditional to innovative, from simple maintenance work to complex construction projects.

Our Projects

- air traffic control towers
- dockyards
- aircraft hangars
- armoured vehicle maintenance facilities
- health care and community centres
- accommodation facilities
- roads and runways
- sewer and water systems

DCC TIMELINE

1951
Defence Construction (1951) Limited created as a full-fledged Crown corporation

1965
Defence Construction (1951) Limited reports to Minister of National Defence

1980
Renamed Defence Construction Canada under Federal Identity Program

1986
Crown corporation status affirmed, now responsible to Minister of Public Works

1997
Fee-for-service approach adopted, so parliamentary appropriations no longer required

2005
Service delivery matrix business model adopted

2011
DCC awards largest public private partnership (P3) in Canadian government history

2015
E-procurement launched—a first for the Canadian federal government

2016
Value of annual contract expenditures reaches $1 billion

2019
DCC makes first federal government use of integrated project delivery (IPD)

2020
DCC exceeds forecasted results despite COVID-19 pandemic

2021
DCC celebrates 70 years of dedicated support and excellence

VISION

To be a knowledgeable, ethical and innovative leader, and employer of choice, valued by the Government of Canada and industry.

MISSION

To provide timely, effective and efficient program management, project delivery and full lifecycle support for infrastructure and environmental assets required for the defence of Canada.

VALUES

Dedication

DCC is dedicated to supporting defence infrastructure and environmental requirements. Since 1951, DCC employees have dependably and diligently carried out that mission for Client-Partners.

Collaboration

DCC is committed to developing collaborative relationships with Client-Partners, industry, employees and other stakeholders. Together, we leverage our shared expertise toward our common goals.

Competence

DCC offers a dynamic and inclusive working environment in which the experience, expertise and diversity of employees enable the development of innovative solutions for Client-Partner needs.

Fairness

DCC engages with everyone in a fair and ethical manner, embraces equity and inclusion, and advocates for mutual respect and professionalism throughout its business.

DCC's service line integration matrix and team approach provide DND with maximized technical expertise and responsiveness whenever needed. The new Pacific Region's regional service line leaders (l to r) Caelieh Bell, Angelica Solyom and Duane Freeman confer with Team Leader, Heidi Johnson on damage caused by flooding at the Slesse Demolition Range at ASU Chilliwack, B.C.

FIVE SERVICE LINES

Contract Services

Planning and procurement for goods and professional, environmental, real property, construction and maintenance services

Contract Management Services

Creation, renovation and maintenance of facilities for DND's IE program and management of complex P3 agreements

Environmental Services

Activities to help DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk

Project and Program Management Services

Advice on matters such as infrastructure requirements, project and program planning, and schedule and document control

Real Property Management Services

Efficient maintenance of DND's infrastructure—from needs planning to facility decommissioning

The best of private and public combined

DCC's everyday operations are like those of an engineering consultancy firm, but we are governed as a Crown corporation by Part X of Schedule III to the *Financial Administration Act*. This means we are innovative and responsive, and have high standards of accountability.

SUPPORTING CANADIAN PUBLIC POLICY

Environmental Sustainability

We support DND's efforts in greening, sustainability, and to reduce greenhouse gas emissions and energy consumption associated with its infrastructure holdings.

A Strong, Secure, Engaged Canada

We ensure adherence to the Policy on Government Security, ensuring that security requirements identified by DND are managed during the procurement and management stages of each contract to protect sensitive or classified information and assets. We also pre-screen contracting and consulting firms' applications for security clearances from the Canadian Industrial Security Directorate.

High Ethical Standards

We conduct all business with high ethical standards and integrity, and we comply with the *Public Servants Disclosure Protection Act* and the *Conflict of Interest Act*.

A Fair and Secure Marketplace

We respect internal and international trade agreements, using sound procurement practices, and ensure competition by providing wide access to government business opportunities.

WORKING WITH CLIENT-PARTNERS

Operationally and administratively, DCC deals with a number of organizations within DND.

- **Infrastructure and Environment (IE) Group at National Defence Headquarters—**This is DCC's principal point of contact for the management of the integrated DND real property portfolio at real property operations sites across Canada. With a single custodian for portfolio management at the national level, regional real property operations offices manage infrastructure requirements at the base and wing level.
- **CAF Operations—**DCC provides support as requested by the Canadian Joint Operations Command.

DCC also contracts and manages construction and environmental services for the following:

- **Communications Security Establishment—**This is a stand-alone agency within the Minister of National Defence portfolio. A public-private partnership project, DCC is involved with the operations and maintenance of the facility as part of a 30-year contract.
- **Canadian Forces Housing Agency—**DCC provides infrastructure-related services that support the construction and maintenance of accommodation for CAF members and their families at military bases and wings across Canada.
- **Canadian Forces Morale and Welfare Services**
- **Shared Services Canada—**DCC is providing services related to the expansion of the Enterprise Data Centre at Canadian Forces Base (CFB) Borden.
- **North Atlantic Treaty Organization (NATO)—**DCC supports Canada's NATO allies with facilities in Canada and overseas.

DCC will respond to requests for support within the scope of our mandate from other organizations within DND.

On August 2, 2022, DCC staff along with military and contractor representatives took part in a ground-breaking ceremony for the new 9 Wing Headquarters building at Gander, Newfoundland and Labrador. The $5.5-million, 784-$m^2$ facility will house Wing Command, comptroller and administrative staff members.

SUPPORTING DND

The Government of Canada's Strong, Secure, Engaged Defence Policy makes modernizing DND infrastructure a priority. DCC may help DND

- divest or demolish underused or obsolete buildings;
- improve facilities, such as housing for military personnel;
- construct infrastructure for the Future Fighter Capability Project; and
- provide new naval infrastructure to support Canada's National Shipbuilding Strategy.

DCC also stands ready to help DND implement its Defence Energy and Environment Strategy by, for example, improving energy efficiency and building sustainable real property at installations across Canada. This task includes supporting the development and construction of net-zero building designs, and the continued procurement and management of energy performance contracts.

DELIVERING VALUE FOR CANADA

DCC focuses on providing the highest value possible to our Client-Partners in our service delivery. When working with DCC, Client-Partners can benefit from the following advantages that DCC provides.

Corporate Performance Management and Measurement

A fee-for-service organization, DCC's billing rates are almost half those of comparable North American private sector engineering firms, according to Deltek's *43rd Annual Clarity Architecture and Engineering Industry Study*. DCC sets a performance target for our cost of service to DND.

Service Delivery Optimization

Risk-based decision-making and a principles-based approach to service delivery and business management activities allow DCC to put efficient and effective solutions in place.

Understanding of the Needs of Client-Partners

DCC understands the special purposes, high security requirements and harsh environmental conditions of our Client-Partners due to expertise developed by working with DND since 1951.

Flexible Procurement Methods

DCC has developed procurement approaches to meet Client-Partners' project needs that leverage industry capabilities, foster collaboration and deliver the best overall value to Canada. Through sound procurement practices, DCC helps create a fair, transparent, open and secure marketplace.

Integrated Service Delivery

A service line integration matrix delivery model allows access to required expertise across all service lines and activities. This holistic approach can put the right solutions in the right place at the right time.

Alignment with Client-Partner Goals

Like our Client-Partners, DCC focuses on delivering projects that meet specifications, on time and on budget, and achieve the best overall value for Canada.

Understanding of the Construction Industry

DCC actively participates in construction industry association activities, and we foster strong relationships with all sectors. This increases supplier engagement in DCC-managed procurements, resulting in increased competitiveness and value for Client-Partners.

~½

DCC billing rates compared to private engineering firms

Innovation

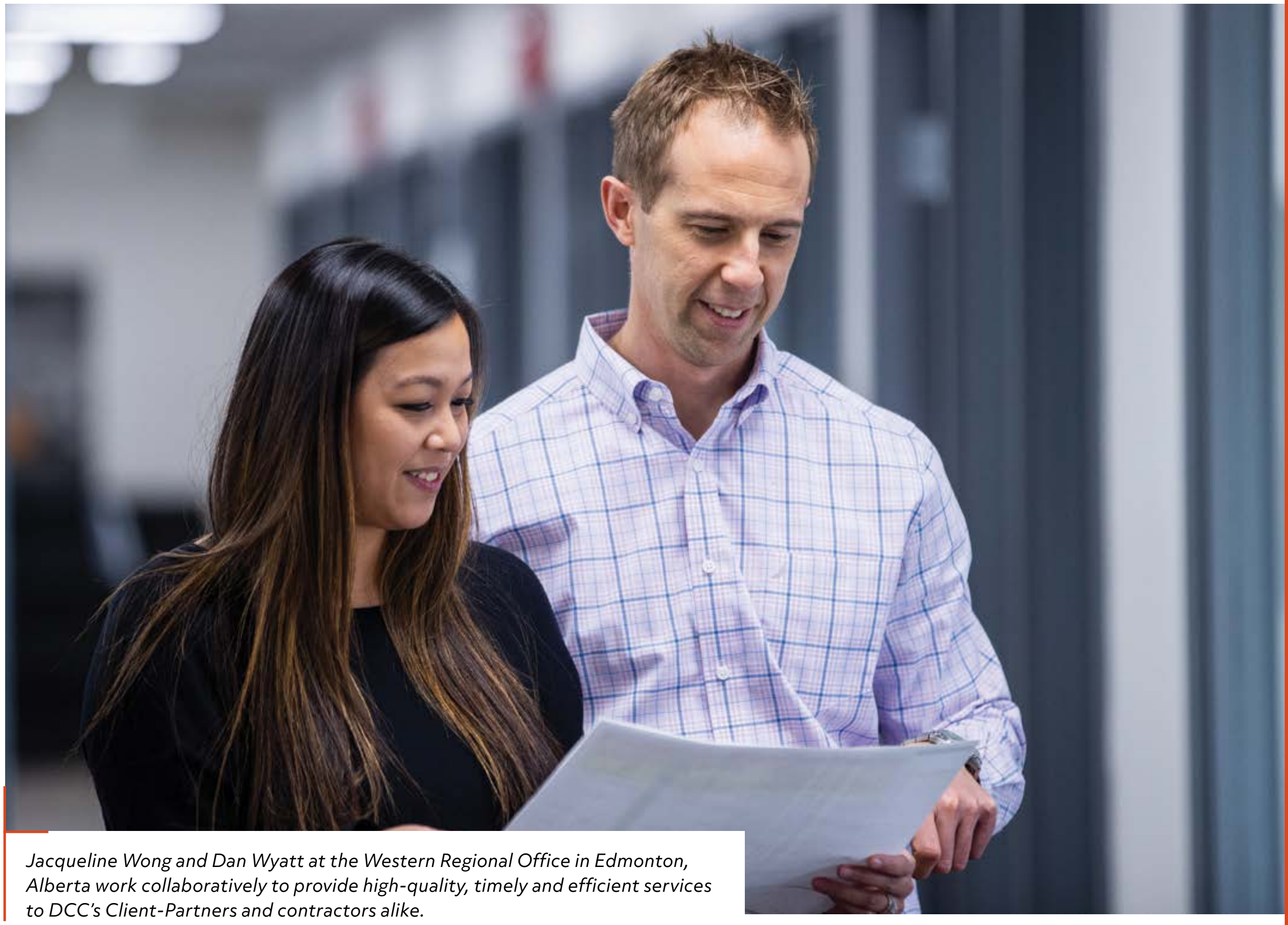
DCC uses innovative procurement models such as public-private partnerships (P3s), energy performance contracts, building information modelling, modified design-build, integrated project delivery and e-procurement. Further, for two decades, the Corporation has taken the lead to ensure delivery of quality work and to achieve value for money through our robust supplier management program. Among our employees, DCC embeds, promotes and inspires innovation with internal programs such as innoviCulture, as well as performance management and leadership programs.

20 years

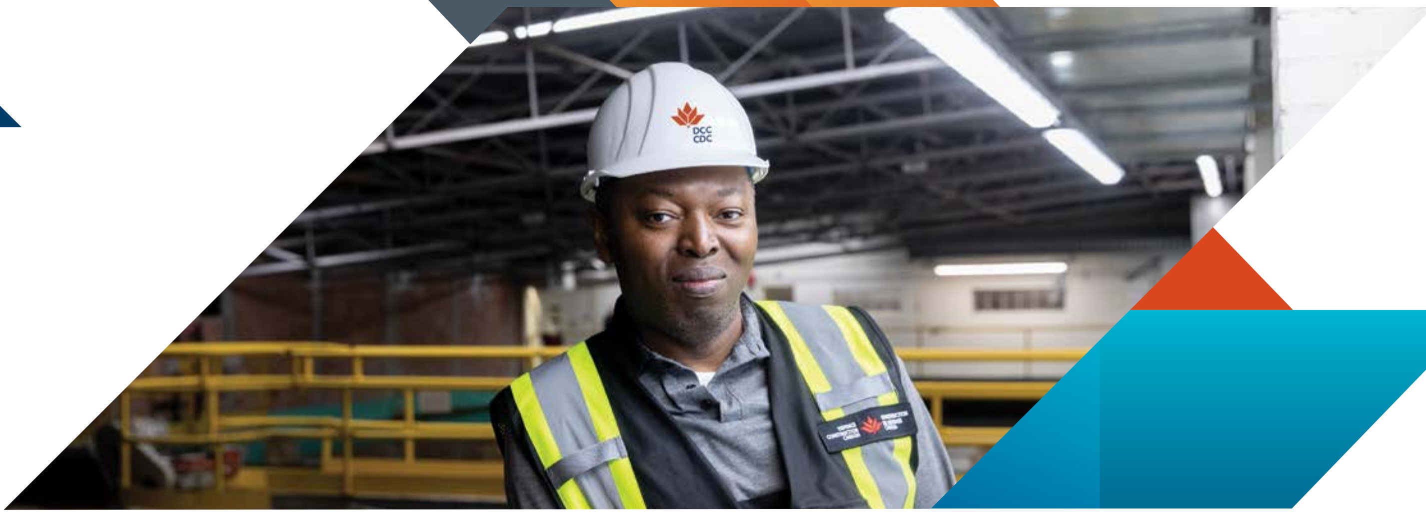
of quality + value assurance through supplier management program

Fairness

DCC settles legal claims and change orders resulting from the third-party contracts we put in place for our Client-Partners. With our experience in the procurement, infrastructure and environmental industries, combined with sound contract management processes, DCC is able to provide significant savings to our Client-Partners, and fair and good value to the Crown. As one of our values, DCC engages externally with our stakeholders and with our employees in a fair and ethical manner, advocating mutual respect and professionalism.



Jacqueline Wong and Dan Wyatt at the Western Regional Office in Edmonton, Alberta work collaboratively to provide high-quality, timely and efficient services to DCC's Client-Partners and contractors alike.



TOGETHER WITH OUR COMMUNITIES

With operations across the country, DCC proudly supports employees as they contribute to their communities through professional and personal volunteerism, workplace giving, and other charitable activities.

Sharing professional insight

DCC team members continually demonstrate their commitment to giving back by volunteering on boards and professional associations. There, they network with other professionals, sharing their own experiences and expertise, and learning new best practices. Many of DCC's senior managers are also involved in construction, real property, and environmental and sustainability programs and initiatives. On a personal level, DCC leaders contribute to associations and networks that promote diversity and inclusion, women in construction, and mental health and wellness, to name a few causes.

Giving generously in the workplace

The national DCC Workplace Charitable Campaign raises funds for the Government of Canada Workplace Charitable Campaign. This year's DCC campaign was highly successful—we raised over $125,000, surpassing our goal of $85,000 by 47%. DCC employees organized a series of fundraising events, including golf tournaments and curling bonspiels, barbecues, games and quizzes, pet shows, bake sales, an online silent auction, a live folk-rock show, and many more.

Volunteering

DCC supports employee efforts to engage in the community. Our personal leave policy includes one day a year to volunteer for a registered charity, non-profit or community organization. Here are some examples of these efforts, among countless others.

Cleaning up the community

Volunteers at the DCC Borden and Kingston sites helped clean up their neighbourhoods by disposing of litter. Staff, family and friends came together to make their communities clean and green.

Steps for Life Walk

Each year, Tracey and Rick Branch at DCC Borden volunteer for the Steps for Life fundraising walk. Proceeds go to Threads of Life, which supports families affected by life-altering workplace injuries, illnesses, and deaths.

Supporting children battling illness

DCC Saint-Jean's Tengfei Xu donated over 50 centimetres of her hair to the Leucan Shaved Head Challenge, raising over $1,000 to provide services to families of children with cancer.

Over the decades, DCC staff have participated in DND-sponsored community events. On January 19, 2023, personnel from the Real Property Operations Unit faced off against employees from DCC, DND's Resource Conservation Division and Valcartier's Defence Research and Development Centre in a friendly hockey game with the goal of raising funds for Bell Let's Talk. The game brought in $1,000 to support mental health.

At DCC Esquimalt, Adrien Richardot's son, Liloo, donated his long locks of hair to Wigs for Kids BC. This organization partners with the BC Children's Hospital Foundation to provide wigs for children in need.

In Kingston, DCC Ontario Region's Michelle McAuley donated to Angel Hair for Kids. This not-for-profit Canadian organization provides wigs to children who have lost their hair through illness, cancer treatments or burns.

DCC Edmonton's annual golf tournament and silent auction raised more than $7,000 for Edmonton's Stollery Children's Hospital in Edmonton.

Helping families put food on the table

Across Canada, many DCCers donate to their local food banks. In 2022, staff at DCC Borden donated 104 kilograms of non-perishable food to the Angus Food Bank. DCC Comox personnel donated to the Comox Valley Food Bank's fundraising drive, which purchases 454 kilograms of food and dry goods for every $500. DCC Goose Bay donated funds to purchase turkeys for the town's hamper program and collected non-perishable items for the food bank. And members of the 1 Canadian Air Division team in Winnipeg sorted food items at Manitoba Harvest.

Building homes in Guatemala

Just before his deployment to Latvia in November 2022, Tim Summers and his wife, Leanne, made a trip to Guatemala—his fifteenth and her eighth—where they helped build a cinder-block home for a single mom and her two children in the rural village of Parramos. The 3.7-metre by 5.8-metre house has a window, a cement floor and a locking door—a first for this family. The Summers also support another Canadian charity, Planting Seeds International. This soccer program in Guatemala City teaches kids skills and encourages them to stay in school. It costs $10,000 a year, so with the help of his colleagues in Petawawa, Tim raises funds all year long.

DCCers hit the ice in support of mental health

On January 19, 2023, employees from DND's Real Property Operations Unit faced off against employees from DCC, DND's Resource Conservation Division and Valcartier Base's Defence Research and Development Centre in a friendly hockey game to raise funds for mental health. The game brought in $1,000 for the Bell Let's Talk fundraiser.

$125,000
total funds raised

147%
of $85,000 goal raised

PERFORMANCE HIGHLIGHTS 2022–2023

$161 M
in services revenue

$668 M
worth of contracts awarded

$1.2 B
in contract payments

95%
satisfaction rating

4,000
Canadian jobs (estimated) created through contracts

$8.9 B
active contract portfolio under DCC management

9.8%
of total contract value awarded to Indigenous businesses (target was 5%)

Angelica Solyom, Regional Service Line Leader, Contract Services is one member of the DCC team who helped coordinate DCC's award submission to the National Procurement Institute. DCC was honoured to win the Achievement of Excellence in Procurement award in 2022 for the ninth year in a row.

SPOTLIGHT ON ACHIEVEMENTS

DCC passes next milestone on Indigenous relations journey

DCC has moved one step closer to achieving Progressive Aboriginal Relations certification after the Canadian Council for Aboriginal Business accepted our Phase 2 submission in January 2023, giving it positive reviews.

DCC's positive impact on Indigenous businesses

Ensuring alignment between DCC and our Client-Partners will not only help us meet the government's target of awarding 5% of contract value to Indigenous businesses annually; it will also help us support the government's efforts toward reconciliation. DND and DCC have developed a Joint Indigenous Procurement Strategy and started connecting with Indigenous businesses directly. As a result, DCC awarded 9.8% of our contract value to Indigenous businesses in 2022–23, for a total of $65.6 million and more than 82 contracts.

Progressive Aboriginal RELATIONS COMMITTED

Canadian Council for Aboriginal Business

Achievement of Excellence In Procurement®

DCC recognized for excellence in procurement

In 2022, for the ninth year in a row, DCC received the prestigious Annual Achievement of Excellence in Procurement from the National Procurement Institute. The AEP Award is earned by organizations that demonstrate a commitment to procurement excellence. This annual program recognizes procurement organizations that embrace innovation, professionalism, productivity, leadership and e-procurement.

2022 Excellence in Procurement Team Award

The Canadian Institute for Procurement and Materiel Management has recognized DCC's innovative procurement approach, the Integrated Project Delivery model. One of the most inclusive contracting models in the construction industry, this collaborative, lean approach underpinned the construction of a new, $70-million Royal Canadian Dragoons armoury and training facilities at CFB Petawawa. It helped ensure the project came in five months ahead of schedule, with savings to the Crown of $4.9 million.

MESSAGE FROM THE CHAIR

As the world has changed dramatically in recent years, DCC has steadily moved forward. DCCers have looked ahead with clear eyes, anticipating and preparing for new challenges and opportunities while providing dedicated service.

For instance, DCC was the first Government of Canada organization to apply the integrated project delivery model. Using this forward-thinking approach, DCC managed the procurement and construction of the Royal Canadian Dragoons facility at CFB Petawawa. The result? The $70-million facility came in under budget and five months ahead of schedule. In June 2022, the Canadian Institute of Procurement and Materiel Management recognized DCC for this government procurement first.

Through our new Indigenous Relations Policy, DCC is building stronger partnerships with Indigenous peoples and creating more opportunities for Indigenous businesses. The Joint Indigenous Procurement Strategy aims to ensure that DCC and DND award a 5% value of all contracts to Indigenous businesses; last year, we surpassed that goal by achieving 9.8%. We also provide bursaries to Indigenous students and recruit Indigenous young people through an Indigenous Student Recruitment Program.

These efforts dovetail with DCC's other work to sustain our culture of diversity and respect. For example, we released our new Accessibility Plan in December 2022 and are on track to finish our new Pay Equity Plan by September 2024.

To help our employees maintain work-life balance, we recently enhanced our workplace wellness and mental health supports. They now include new long-term disability benefits, enhanced sick leave benefits, access to virtual health care, optional compassionate care leave, and a new platform that provides health and wellness advice.

Climate change is one of the greatest challenges facing Canada. And here, too, DCC is stepping up to the plate. We continue to support DND's green defence initiatives, including a green procurement approach, energy performance contracts and net-zero building projects.

These initiatives could not succeed without the steadfast commitment to excellence that I see across DCC. I would like to thank the Board of Directors for your dedicated service, DCC's leadership for your strong guidance, and DCC employees for your optimism and innovation. I look forward to seeing what we will achieve together in the future. I know we have the skills, drive and resilience to handle whatever comes next.

Moreen Miller
Chair of the Board

MESSAGE FROM THE PRESIDENT AND CEO

Ever since joining DCC in 2019, I've been impressed by the agility of the organization and the powerful resolve of all DCCers. As the defence and security environment has swiftly evolved, you've sustained DCC's strong business performance. Here are just a few recent successes.

In the last fiscal year, we established a new Pacific Region, separated out from our Western Regional Office. Not only will that initiative enhance our ability to support DND Real Property Operations in British Columbia; it will also increase the capacity of our Western Regional Office.

In June 2022, I had the pleasure of attending a ground-breaking in Latvia for a new, multi-million-dollar DCC project to improve critical infrastructure at Camp Adazi. This project will support the roughly 1,000 CAF members deployed under Operation Reassurance, part of NATO's collective defence of Central and Eastern Europe.

Here at home, DCC has been preparing for the construction of the modern facilities at 4 Wing Cold Lake and 3 Wing Bagotville for the Future Fighter Capability Project. DCC began this work four years before the final jet supplier was announced, so the CAF would be ready when the jets were delivered.

Our work on green initiatives is similarly forward thinking. At CFB Esquimalt, a recent, award-winning energy performance contract led to 190 energy-efficiency improvements across 70 buildings, reducing annual greenhouse gas emissions by 2,291 tonnes. Cleverly, annual cost savings of $876,000 will be used to pay for the $20.3-million project, resulting in no new costs for taxpayers.

This has been a year of transition for DCC's Executive Management Team. Both Ross Welsman (VP, Operations—Business Management) and Mélinda Nycholat (VP, Operations—Procurement) are retiring after stellar careers. I'd like to thank them for their significant contributions and to welcome DCCer Grant Sayers into Ross's former position. Our Senior Management Group also has many new faces, and now 12 of its 19 members are women.

I am grateful to our leaders and to the Board of Directors for their expert guidance through turbulent times. My heartfelt thanks, as well, to all DCC employees, who continue to excel in serving Canada. The work you do makes me proud to represent this organization.

Derrick Cheung
President and Chief Executive Officer

DEFENCE INFRASTRUCTURE AND ENVIRONMENT PROJECTS

Energy Performance Contracts

DND aims to reduce the greenhouse gas emissions of its real property portfolio by 40% by 2030. DCC has put nine energy performance contracts in place on behalf of DND, with an additional 10 projects currently in various stages of development. In 2022–23, energy performance contracts contributed $15 million in annual savings to DND while reducing emissions by 54,000 metric tonnes of carbon dioxide equivalent (CO_2e).

Deployed Operations

DCC's work in Latvia includes supporting the infrastructure requirements of the Enhanced Forward Presence. DCC is also providing CAF infrastructure support for multiple construction projects and reconnaissance site visits at three Operational Support Hubs: Southwest Asia, located in Kuwait; Latin America and Caribbean, located in Jamaica; and Europe, located in Germany.

VC31 Genet Building

To reduce DND/CAF's energy demand and carbon footprint, the VC31 Genet Building at CFB Kingston was chosen as the test building for an innovative green heating solution to reduce greenhouse gas emissions. Using the Innovation for Defence Excellence and Security (IDEaS) program, DCC is managing the $5.5-million design-build project to design, install, operate and test an integrated, low-cost system for generating and transferring energy.

A/B Jetty Recapitalization

The A/B Jetty will be home to the new Arctic/Offshore Patrol Ship and Joint Support Ship. This $743-million project consists of three contracts to demolish the old jetties and to design and construct the new jetties.

Esquimalt, British Columbia

Northern Facilities

DCC is managing a five-year, $80-million facilities maintenance and support services contract covering 80 buildings in forward-operating locations and communities in Canada's North.

Yellowknife, Northwest Territories

Future Fighter Capability Project

Under this initial $270-million project, two new fighter squadron facilities will be constructed to accommodate Canada's next-generation fighter operations. DCC will use a phased design-build delivery approach to ensure infrastructure is ready for the first aircraft in 2026.

Cold Lake, Alberta, and Bagotville, Quebec

Enterprise Data Centre

The expansion of Shared Services Canada's enterprise data centre at CFB Borden helps to modernize and standardize federal information technology (IT) infrastructure. DCC's second P3 procurement, this $330-million contract supports the design, building, financing, operations and maintenance of the data centre for 25 years.

Borden, Ontario

Edward Drake Building

Built as a landmark public-private partnership (P3) project, the $4.1-billion Edward Drake Building in Ottawa is a modern and efficient facility for Communications Security Establishment. DCC is involved with the operations and maintenance of the facility as part of this 30-year contract.

Ottawa, Ontario

Dwyer Hill Training Centre

DCC awarded the contract to replace the facility's 89 aging buildings with 23 modern, reliable, state-of-the-art ones. Existing facilities will also be renovated. The $1.4-billion project aims to make the Dwyer Hill Training Centre carbon neutral and environmentally friendly. The facility on Ottawa's southwest edge is home to the CAF's Joint Task Force 2 elite unit.

Ottawa, Ontario

Accommodations and Training Quarters

DCC is supporting the construction of a $46.5-million, five-storey facility being built to LEED Silver standards. The new facility features 346 sleeping quarters, common lounge areas, study areas, storage and office space.

Borden, Ontario

Quinte West Training Centre

This $204-million, modified design-build project will provide the necessary infrastructure for full operational capability at 8 Wing Trenton. DCC is contracting for and managing the site development and construction of the new centre. The facility will include office areas, planning areas, technical workshops, vehicle maintenance areas, meeting rooms, a wash bay, training facilities and warehousing.

Trenton, Ontario

Health Services Centre Expansion

DCC awarded the contract for Phase 1 of the expansion of the Health Services Centre at Valcartier Garrison in November 2021. This long-awaited, $34-million project will help to consolidate all dental and medical services into one integrated, central facility.

Valcartier, Quebec

Defence Research and Development Canada Complex

DCC awarded the contract for this $144-million complex in Valcartier. The complex will help the region's scientific community strengthen defence capabilities. The new research and development pavilion will include 25,000 square metres of office, laboratory and support space.

Valcartier, Quebec

Canadian Surface Combatant, Land-Based Test Facility (LBTF)

DCC awarded a modified design-build contract for the construction of the LBTF, which mimics specific combat and platform components of an operational ship for test and evaluation activities of the Royal Canadian Navy. The goal is to achieve LEED Silver certification and net-zero carbon emissions.

Shearwater, Nova Scotia

Allison Brett, Human Resources Business Partner recently joined the DCC Pacific Region to provide guidance, advice and support to managers, supervisors and employees in HR-related functional areas, such as recruitment and selection, performance management, employee relations, pay and benefits, disability management and policy interpretation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.0 Operating Environment and Structure

1.1 External Factors

DCC's operating environment is largely shaped by the priorities and planning of DND, by the size and focus of DND's infrastructure and environment (IE) program, and by the business outlook for the architecture, engineering and construction industry.

Supporting DND Priorities

The volume of business DCC receives under the IE program can change significantly from year to year, depending on DND and Government of Canada priorities. The Government of Canada's Strong, Secure, Engaged Defence Policy makes modernizing DND infrastructure a priority.

Similarly, DCC stands ready to help DND implement its Defence Energy and Environment Strategy. DCC contributes to Canada's long-term environmental sustainability by supporting DND's efforts to reduce greenhouse gas emissions and energy consumption associated with its infrastructure holdings.

Industry Impacts

According to Build Force Canada, construction employment opportunities continue to outpace labour force growth, mainly due to a general increase in infrastructure investment and to the aging of the workforce. This industry labour market pressure is expected to continue until 2025 and to moderate by 2027. Canadian investment in construction increased dramatically as the economy recovered from the pandemic and many older construction workers left the workforce.

The Canadian construction industry, of which DCC is a member, is becoming more complex, with fewer firms, more foreign ownership, more service-integrated firms, quicker adoption of technology and greater third-party involvement in activities traditionally done by construction business owners, such as quality control.

Mergers and acquisitions among small and medium-sized enterprises are decreasing the pool of independently owned businesses eligible and able to bid on DCC contracts. In addition, federal, provincial and municipal governments are all coping with aging infrastructure, which challenges the capacity of industry to respond.

Supply Chain Disruptions

Recent events such as the COVID-19 pandemic, the war in Ukraine and extreme weather have caused some supply chain disruptions. These impacts include escalating costs for some materials, and delays in shipping and receipt of goods and materials.

However, in DCC's experience, these disruptions have been variable, sometimes short and difficult to anticipate, so they have been a challenge to quantify and mitigate. DCC has been monitoring the situation since March 2020. We have found that, at the macro level, competition has remained mostly healthy, pricing has remained largely affordable in the context of historical trends, and disruptions have been localized and unique. Overall, the impact on project schedules has been manageable. DCC continues to monitor disruptions at the macro level and to address situations on a case-by-case basis.

1.2 Internal Factors

DCC operations are affected by factors both established and emerging, including where and how we work, and the ongoing need to recruit and retain talent across our many locations.

Workplace Models and Policies

Up-to-date technology with robust capacity makes the modern hybrid workplace viable. This hybrid approach allows DCC to offer our employees a workplace that fosters work-life balance, good mental health and productivity, while sustaining the Corporation's reputation as a high-quality service provider. In 2022–23, DCC implemented our Flexible Workplace Policy. The policy provides for arrangements that can help employees meet personal needs while continuing to deliver key services to external and internal clients.

Employees, senior managers and external stakeholders expect to be able to conduct business in a well-functioning virtual environment. DCC will sustain our information technology investments to maintain service capability and the organization's viability.

Recruiting and Retaining Talent

Like many other Canadian organizations, DCC faces the ongoing challenges of recruiting and retaining top talent to ensure we can continue to meet Client-Partner needs, while dealing with generational turnover and varying expectations of employees of different ages. Since DCC largely hires from outside government, we will be affected by the anticipated demographic crunch in the construction industry, with over one-fifth of workers on track to retire in 10 years but fewer young people entering the workforce. With a more diverse construction industry, DCC continues our efforts to diversify our workforce in order to compete during a labour shortage.

Moreover, many large construction projects are carried out in remote areas, where younger people are less likely to relocate.

Nonetheless, DCC must continue to be able to adapt the size, location and makeup of our workforce, so we can quickly respond to changes in Client-Partner service delivery requirements and priorities. DCC's status as a non-unionized Crown corporation gives us the flexibility to do this. DCC has a comprehensive Human Resources Strategy that addresses this internal business factor with programs that support employee recruitment and retention.

Operating Across Canada and Anywhere the CAF Deploys

1

Head Office, located in Ottawa

6

regional offices: Pacific, Western, Ontario, National Capital, Quebec and Atlantic

35

site offices at all active CAF bases, wings and area support units

1

Yellowknife office, to support CAF infrastructure requirements in forward-operating locations in the North

1

temporary remote office in the North for the Nanisivik Naval Facility infrastructure project in Nunavut

4

deployed operations in Latvia, Kuwait, Jamaica and Germany

In addition to working in Canada's Far North, DCC has deployed personnel alongside the CAF over the years. In 2022–23, DCC deployed employees to four Operational Support Hubs: Kuwait, to meet CAF infrastructure requirements for Operation Impact; Latvia, to support Operation Reassurance; Jamaica, to provide operational support for humanitarian assistance and disaster relief operations; and Germany, to provide support to CAF requirements.

2.0 Integrity and Ethical Conduct

2.1 Procurement Verification

DCC treats the integrity of the procurement process seriously. Accordingly, the Corporation aligns with Government of Canada contracting regulations ensuring a secure, transparent, efficient and fair process for procuring and managing DND infrastructure projects. DCC's Procurement Code of Conduct (PCC) ensures that DCC's contractors and consultants meet the expected integrity requirements for doing business with the Government of Canada. The PCC brings together in one concise document the ethical responsibilities of contractors who offer goods and services to the Corporation. It ensures transparency, accountability and the highest standards of ethical conduct in DCC's procurement of goods and services.

DCC has a memorandum of understanding with Public Services and Procurement Canada (PSPC) to carry out integrity verifications on winning bidders. This leverages PSPC's resources and avoids duplication of effort, as it means DCC does not need to create our own database.

In 2022–23, DCC awarded 1,413 contracts to contractors, consultants or suppliers. The Corporation aims to verify all firms before awarding contracts to ensure that all contractors and consultants comply with the PCC.

Verifications are not required for contracts whose estimated value is less than $10,000. In 2022–23, DCC made 1,413 verification requests and successfully verified 100% of the successful bidders on applicable contracts.

2.2 Fraud Management

DCC operates in an industry known for fraud. Consequently, fraud detection and awareness are among the Corporation's top priorities. In one of our many efforts to mitigate fraud risk, DCC has been applying internally developed artificial intelligence (AI) algorithms to develop data analytics to detect procurement fraud. The Corporation is working with data science researchers from Carleton University to create new AI algorithms for fraud related to contract management and to broaden data analytics to detect procurement fraud. This work, together with DCC's ongoing collaboration with the Competition Bureau through a memorandum of understanding, is helping mitigate the Government of Canada's risk of procurement fraud.

DCC has ensured that our Integrity Management Framework (comprising the Code of Business Conduct for employees and the PCC for suppliers) aligns with the PSPC counterpart, and that the terms of these codes feature in all DCC contract documents.

1,413
contracts awarded to contractors, consultants or suppliers

1,413
verification requests

3.0 DCC Involvement in Industry Activities

DCC works closely with private sector consultants and contractors, so it is vital that the Corporation stay on top of trends and contribute to the construction industry. We do this in a number of ways, including the following:

formal exchanges with the Canadian Construction Association and its provincial counterparts

strong relationships with professional groups, such as

- **Association of Consulting Engineering Companies Canada**
- **Royal Architectural Institute of Canada**
- **Federal/Industry Real Property Advisory Council (FIRPAC)**
- **Lean Construction Institute—Canada**
- **Canadian Public Procurement Council**
- **Canadian Construction Documents Committee**
- **Canadian Design-Build Institute**

interactions between DCC employees and contractors on job sites every day

relationships with industry organizations for infrastructure services

DCC employee involvement in major industry associations, with a goal of involvement in all of them

DCC employee involvement in professional organizations related to their areas of expertise, such as

- construction
- architecture
- project management
- innovation
- health and safety
- sustainable energy
- fire safety

Caitlin de Goede, Coordinator, Construction Services oversees many of the construction projects at CFB Esquimalt. To ensure compliance with contractual requirements and quality specifications, Caitlin must stay abreast of industry standards and liaise with contractors, consultants and Client-Partners to correctly manage contract documents.

Leadership teams from each of DCC's five service lines meet at least once a year face-to-face to discuss recent initiatives in industry practices and impacts to the service line. Dave Burley, National Director, Contract Management (left) leads the annual Contract Management Services service line meeting at Head Office in Ottawa.

DCC executive involvement on national committees and professional organizations to

- provide opportunities for DCC to be an industry leader
- keep DCC informed of new trends and developments in industry practices
- accept industry feedback on areas for improvement
- strengthen DCC's collaborative relationships with key industry organizations

participation in the semi-annual Canadian Construction Association—Government of Canada joint meeting to discuss current and emerging real property issues of shared interest, such as

- sustainable infrastructure
- workforce recruitment and retention
- diversity, social procurement and accessibility
- Indigenous considerations in procurement
- security clearances on federal projects

efforts to keep up to date with industry innovations and to seek new ways of working for the benefit of our Client-Partners, such as

- involvement in a joint government-industry working group, composed of representatives from PSPC, DCC and the Canadian Construction Association (CCA), related to the prompt payment of federal government construction contracts;
- membership in FIRPAC, where the public and private sectors collaborate on issues pertaining to planning and managing federal real property;
- participation in industry-led working groups on initiatives such as developing guidelines for project management services;
- involvement in the Canadian Construction Documents Committee, which develops, produces and reviews standard Canadian construction contract documents; and
- annual participation in the evaluation of CCA Innovation Award nominations.

Indigenous Relations at DCC

DCC is committed to initiating, growing and sustaining transformative partnerships with Indigenous peoples. Across DCC, we are proud to be taking steps, within the scope of our business operations, to support the Government of Canada's priorities to advance reconciliation and renew relationships with First Nations, Inuit and Métis.

In 2022–23, DCC made great strides in our Indigenous Relations work.

- DCC reached our first significant milestone toward Progressive Aboriginal Relations (PAR) certification by the Canadian Council for Aboriginal Business in 2022, and the verifier accepted DCC's Phase 2 PAR submission in early 2023. Working toward PAR certification is one of the steps DCC is taking to demonstrate to internal and external stakeholders our long-term commitment to reconciliation.
- Members of DCC's PAR Committee met at the Songhees Wellness Centre, located on the Songhees Reserve in greater Victoria, to launch Phase 3 of our work toward PAR certification. Phase 3 places an emphasis on, among other things, building trusting relationships with Indigenous communities. To that end, DCC strives to support Indigenous relations more directly. We have launched a pilot project in the Pacific Region to engage with local Indigenous communities and stakeholders.
- To help employees better understand the historical and cultural experiences of Indigenous peoples, all DCCers are completing NVision Insights' *The Path: Your Journey Through Indigenous Canada*. Further, DCC partnered with NVision Insights to provide *The Path: Building Indigenous Cultural Capacity* (Level 2) training to select groups of DCC employees.

Progressive Aboriginal RELATIONS COMMITTED

Canadian Council for Aboriginal Business

- DCC partnered with Indspire, a national Indigenous charity that invests in the education of First Nations, Inuit and Métis people. In 2022–23, DCC established the DCC Indigenous Bursary Program to support Indigenous students who are pursuing qualifications to enter a career in engineering, planning, environmental sciences, construction, information technology or finance. We awarded the first of these two annual bursaries in 2022.
- DCC is implementing our Indigenous Relations Policy under the three pillars of people, businesses and communities. The policy sets out the following.

Our Commitment to People

- We aim to increase Indigenous representation in our workforce through a national Indigenous Youth Work Experience Program, which offers young Indigenous people meaningful work experiences.
- We ensure that employees have opportunities to gain knowledge about Indigenous cultures and histories, and to build Indigenous cultural competencies.
- We are implementing employment policies and practices to attract and retain a diverse and highly skilled workforce and to help overcome the systemic barriers that Indigenous peoples experience. Our fair and equitable hiring processes include leave for traditional Indigenous practices.

Our Commitment to Businesses

- In 2022–23, DCC awarded 82 direct contracts and recorded an additional 12 subcontracts to Indigenous businesses. Together, they totalled $65.6 million, equivalent to 9.8% of the total value of contract awards. Our target was to award 5% of total contract value to Indigenous companies.
- We conducted outreach sessions with Indigenous businesses to raise awareness of DCC's services and discuss how they could access opportunities. These sessions also included information on how to apply for security clearances and identify project security requirements.
- With DND, we developed the DND—DCC Joint Indigenous Procurement Strategy, which increases opportunities for businesses managed and led by Indigenous people.

Our Commitment to Communities

- Together with DND, DCC will strive to develop relationships with Indigenous communities near their site offices to promote positive dialogue, inform the communities about DCC business and employment programs and opportunities, establish points of contact, and assist DND in sharing information about their projects.
- This community-building work is being undertaken progressively over several years. DCC is currently piloting augmented community outreach in our Pacific region, and this will evolve over time, as we become more familiar with the interests and needs of the communities.

Members of the PAR (Progressive Aboriginal Relations) Committee were in Victoria, B.C. at the Songhees Wellness Centre in February 2023, to plan for Phase 3 of the PAR certification process. Phase 3 emphasizes building trusting relationships with Indigenous partners, so it was fitting that the group held its first in-person meeting located on Indigenous land directly adjacent to DCC's Esquimalt office.

4.0 Strategic Framework

People

Strategic objective: To build and sustain a competent, engaged and diverse workforce

Key Performance Indicators	Performance Target	Results
Investment in training and development: Cost of training and development, as a percentage of base payroll costs	3%	3%
Innovation results: Percentage of employees who participate in the innoviCulture program	10%	39%
Employee retention rate: Percentage of employees who stay with the Corporation from year to year	Minimum of 90%	91%
Employment diversity results: Success in meeting requirements for the four designated groups (women, Indigenous peoples, people with disabilities, visible minorities)	No deficiencies in three of the four categories	Two deficiencies
Recruitment results: Percentage of all job postings filled in the first round of job advertising	85%	87%

Strategic and Operational Performance Indicators

Employees

DCC has a dedicated workforce of professional, technical and administrative people that supports the operations workforce, including specialists in finance, human resources, information technology, communications and administration.

In 2022–23, DCC had 1,156 full-time equivalent (FTE) employees, an increase from 1,079 the previous year. DCC works with DND/CAF not only across Canada, but also around the world. The Corporation stands ready to provide short- and long-term procurement, contract management, and project support services to military operations abroad. This year, 11 DCC employees accepted long-term deployments and five DCC employees volunteered for temporary assignment. Deployments were related to DCC's work in Latvia to support the infrastructure requirements of the Enhanced Forward Presence, and multiple construction projects at the Operational Support Hubs in Kuwait, Jamaica and Germany.

Diversity and Employment Equity

DCC has built our employment equity program on a solid foundation. In year four of the five-year Diversity and Inclusion Strategy, DCC included the development of regional diversity and inclusion plans, launched a Diversity and Inclusion Learning Program, initiated Indigenous cultural awareness training for all employees, and partnered with Indspire to create the DCC Indigenous Bursary Program. DCC also continued our diversity and inclusion book club, bi-monthly newsletter, and activities associated with diversity-related celebrations and recognition.

We also conducted our annual *Count Yourself In!* online employment equity and diversity questionnaire—with 99% participation. Results help us to identify possible barriers in DCC's recruitment, hiring, training, retention and promotion practices.

The Corporation works diligently to enhance our ability to recruit and retain top talent, including members of four employment equity groups and the 2SLGBTQI+ community. Work continues to ensure that DCC's workplace is diverse and inclusive. For example, DCC is developing partnerships with national and local organizations that can help DCC recruit and retain employees who identify as persons with disabilities. Two national organizations— Ready, Willing & Able, and Hire for Talent—are willing to partner with DCC, as are about 25 local organizations across Canada, to help the Corporation build an inclusive workforce.

Diversity of the DCC Employee Population

Employment equity designated group	DCC representation	Labour market availability in the construction industry
Women	43.2%	34.1%
Indigenous peoples	3.8%	3.4%
Visible minorities	14.4%	17.8%
Persons with disabilities	7.5%	8.1%

Employee Wellness

DCC is focused on preventive measures and interventions that reduce employees' health risk factors, as well as on providing a health and wellness program that accommodates employees with physical or mental health challenges. We provide access to benefits and resources, such as lifestyle modification programs, fitness memberships and recreational programs, as well as an employee assistance program, absence support program, flexible working arrangements and compressed workweeks.

Employee Recruitment and Retention

Like many other Canadian organizations, DCC faces the ongoing challenges of recruiting and retaining top talent to ensure we can continue to meet Client-Partner needs. DCC aims to have 85% of all postings filled in the first round of job advertising. In 2022–23, we filled 87%. DCC again surpassed our retention rate target of 90% with a rate of 91%.

Innovation

For over 10 years, DCC has been promoting and inspiring innovation among employees. DCC's innovation program, innoviCulture, encourages and tracks innovation in the workplace. Employees can use an online module called the inCubator to submit their ideas. Tracking showed that employees submitted 440 ideas in 2022–23, and the participation rate was 39%, well above the target rate of 10%. The innoviCulture Committee continued its efforts to upgrade the innovation software and to update its communications strategy with new priorities and targets.

91%

employee rentention exceeding target of 90%

Investment in Training and Development

DCC's ability to serve DND is heavily dependent on the skills of our employees. Maintaining a skilled and professional workforce is a key corporate objective. DCC's performance indicator for training and development is based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development activities, expressed as a percentage of base salary cost. In 2022–23, DCC reduced our annual overall corporate target for spending on training and development from 4% to 3% of base salary costs, due to expected lower travel costs related to training resulting from an expected increase in virtual training.

In 2022–23, the actual percentage was 3%, consistent with the prior year. The amount of training is dependent on the effort required to develop and maintain internal courses, and the time and delivery model for professional development activities in various regions.

Corporate Strategic Initiatives

There were three initiatives for the 2022–23 planning period.

Erica Lyle, Senior Advisor, Communications and long-term DCC employee offers some helpful mentorship to new employee Emilie Dickison, Administrator, Communications. At DCC, mentoring at all levels makes an important contribution to training and development.

Regional Service Line Leader, Environmental Services—Duane Freeman—took advantage of the DCC Wellness Allowance to invest in a new pair of snowshoes. Each year, DCC provides employees with an allowance to a wellness-related program, activity or equipment. DCC is committed to promoting the importance of ongoing wellness activities into the daily lives of their employees.

Implement year four of the five-year Human Resources Strategic Plan, including the updated Diversity and Inclusion Strategy and Workplace Wellness and Mental Health Strategy

The Government of Canada has many ambitious objectives related to its commitment to social and cultural diversity and inclusion. DCC supports these priorities under two strategies that include meaningful activities, milestones and objectives.

Notable actions in 2022–23 under the Diversity and Inclusion Strategy included the development and implementation of regional diversity and inclusion plans; new DI learning and training opportunities for employees; a scholarship opportunity; a new policy on Indigenous relations; and numerous recognition and celebration activities.

DCC also made strides under the Workplace Wellness and Mental Health Strategy. These included a new sick leave, short-term and long-term disability benefits policy that provides employees with expanded and modernized health-related benefits; improvements to the optional supplementary compassionate care and related family leave allowances; provision of mental health first aid training for DCC's health and safety professionals; a new sick leave benefit for temporary and casual employees; an increase to the employee health spending account; and a new platform that provides expert advice on mental health issues and challenges.

Explore opportunities to increase flexibility in work arrangements

Expectations for workplaces have evolved rapidly since the outset of the COVID-19 pandemic. In fall 2022, DCC implemented our Flexible Workplace Policy, along with associated policies that support modern work arrangements. These policies provide for arrangements that can help employees meet personal needs while continuing to deliver key services to external and internal clients.

Develop DCC's Pay Equity Plan

DCC seeks to sustain our culture of diversity and respect by including a broad range of voices in governance and decision-making. In November 2022, DCC formed a Pay Equity Committee, and the Corporation is on target to develop a Pay Equity Plan by September 2024.

Service Delivery

Strategic objective: To deliver innovative, value-added services that meet Client-Partner requirements

Key Performance Indicators	Performance Target	Results
Service delivery rating: Client satisfaction, as measured by the percentage of clients who give DCC an overall rating of three or higher on a five-point scale	Minimum of 95%	95%
Procurement results—Award success: Percentage of procurements that result in a contract award	Minimum of 95%	96%
Procurement results—Procurement competition: Number of bidders or proponents per procurement	Minimum of 4	4
Procurement results—Public access to business opportunities: Percentage of all procurements awarded through public business opportunities	Minimum of 98%	100%
Contract management results: Percentage of all contracts completed by the date scheduled for occupancy and readiness for intended use	Minimum of 85%	96%
Contract management results—Contractor performance evaluation: Percentage of evaluations of contractors that have completed their contracts with DCC	95%	97%

Strategic and Operational Performance Indicators

Service Delivery Rating

As a service delivery organization, DCC wants to ensure our Client-Partners are satisfied with the quality of our work. Consequently, the Corporation tracks client feedback through a service delivery rating system. DCC administers our work with DND/CAF through service level arrangements (SLAs). DCC interviews the primary representative for each significant SLA individually each year.

The representatives rate DCC's performance on five factors—quality of services, value added, timeliness, responsiveness and communications—on a scale from one to five.

95%

of service delivery ratings met or exceeded expectations

The Corporation aims to ensure that 95% of assessments achieve an overall rating of three (met service delivery standards) or higher (exceeded service delivery standards). In 2022–23, DCC conducted 133 service delivery assessments, and 95% of the overall scores met or exceeded expectations.

96%

of procurements had resulted in a contract at end of year

Procurement Results

Procurement Award Success

DCC wants Client-Partners to have a timely procurement experience and does not want to waste industry's time with false starts. DCC works with Client-Partners to make each procurement as viable as possible. The goal is that a minimum of 95% of all procurements result in a contract. At year end, 96% of DCC procurements had resulted in a contract, consistent with last year's result.

Public Access to Business Opportunities

DCC wants to encourage competition and ensure that all enterprises have equal access to DCC procurement opportunities. The goal is to award a minimum of 98% of DCC contracts by value through public opportunities. In 2022–23, DCC awarded 100% of all contract value through public opportunities.

Procurement Competition

DCC wants industry to view us as an attractive organization to work with. That will foster competition and wider access to government opportunities, helping to ensure the Corporation gets the best value possible. DCC tracks the number of bidders per procurement, one indication of our reputation among contractors and consultants. The goal is to have an average of four bidders per procurement. DCC had an average of four bidders per procurement in 2022–23, a decrease from last year's number of five bidders.

Contract Management Results

Timeliness of Construction Contract Completion

Timely completion of projects is a key component of client satisfaction. DCC monitors this and works with clients and contractors to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons, and the Corporation takes all necessary action to minimize the impact on DND. In 2022–23, 96% of construction contracts were completed on time, a three percentage-point increase from last year.

Contractor Performance Evaluations

To satisfy our Client-Partners, DCC wants to have the job done right. To satisfy the industry, DCC wants to provide useful and fair performance feedback to the contractors and consultants that perform the work. For over two decades, DCC has used our contractor performance evaluation report form to ensure delivery of quality work and to achieve value for the Crown. This vendor management tool holds contractors accountable for poor performance or unacceptable behaviour. The goal is to evaluate 95% of all contractors that have completed their contracts with DCC. In 2022–23, 97% of contractors were evaluated.

Indigenous Outreach

When collaborating with the Client-Partner in our procurement planning, DCC continues to consider how to create a positive social impact through purchasing. During 2022–23, DCC helped to strengthen DND's efforts to engage Indigenous businesses, and to support the Government of Canada's focus on providing business opportunities for Indigenous people and companies. In 2022–23, DCC awarded 82 contracts directly to more than 600 Indigenous businesses and recorded an additional 12 subcontracts to Indigenous firms. That resulted in a total of $65.6 million in contract value, equivalent to 9.8% of the total value, going to Indigenous companies—an increase of 2.5 percentage points from the previous year and well above the 5% target.

DCC partnered with other federal government departments and organizations in events to assist Indigenous suppliers find opportunities. At these events, DCC presented information about finding and bidding on our opportunities, and about our approach to increasing Indigenous business participation in our projects.

Corporate Strategic Initiatives

There were four initiatives for the 2022–23 planning period.

Enhance DCC's capabilities to support DND in its program delivery and IE strategic portfolio management

DCC is supporting DND in modernizing its infrastructure in two ways. First, the Corporation supports the development of real property program and procurement plans, and their associated tracking tools, to help our Client-Partners acquire and lease sites and carry out other transactions. Second, DCC works with DND to make requirements for facilities maintenance more consistent, as well as to reform joint procurement methods so that they encourage innovation.

In 2022–23, DCC rolled out a new mobile application across all regions; awarded a contract for the Capital Asset Management Software as a Service; developed a new report to capture program and project financial data that supports DND's increased demand for reporting and digital analytics; and collaborated with DND to develop the processes needed to review DND's facility conditions with assessments being conducted at multiple locations across the country.

Support DND's greening defence initiatives

DND manages one of the largest and most complex infrastructure portfolios in the federal government. As a result, it is the single largest contributor to federal greenhouse gas emissions. DND is aiming to reduce the greenhouse gas emissions of its real property portfolio by 40% from 2005 levels by 2030. DCC supports greening defence directives at the national, regional and site level.

Supporting DND greening defence initiatives. DCC has

- **put nine energy performance contracts in place since 2018 to help DND reduce greenhouse gas emissions to net zero by 2050 (in 2022–23, these contracts contributed $15 million in annual savings to DND while reducing emissions by 54,000 metric tonnes of carbon dioxide equivalent (CO_2e);**
- **supported real property operations that involve SMART building, electric vehicle charging stations and net-zero carbon planning;**
- **developed and refined tools to support lifecycle assessment and carbon management in project planning;**
- **implemented projects involving greening and sustainability-related building standards—such as LEED, Green Globes, Net-Zero Carbon—as well as RETScreen clean energy management software;**
- **initiated a pilot project related to incorporating low-embodied carbon concrete in DND infrastructure projects; and**
- **provided project and program management support to deliver Phase IV of the multi-year Federal Contaminated Sites Action Plan.**

Danielle Keough, Coordinator, Regional Administration, Kenda Levy, Regional Operations Manager, George Theoharopoulos, Regional Director, and Tejeet Sodhi, Manager, Real Property Operations Support and RSLL, PPM, meet at the Atlantic Regional Office in Halifax, Nova Scotia.

An innovative technology solution for green heat is being applied to Building VC31, located at CFB Kingston, Ontario.
Source: *Department of National Defence*

Implement innovative procurement and project delivery options

As part of the federal government's efforts to decrease greenhouse gas emissions, DND identified an opportunity to reduce its environmental footprint: finding a low-carbon energy generation system to heat and cool current buildings, using the Innovation for Defence Excellence and Security (IDEaS) program. This innovative procurement process meant focusing on target outcomes and evaluating technology. Construction began in 2023 and a fully operational system should be ready in 2024. This project may lead to a new solution for DND's many other facilities.

DCC also developed an innovative procurement process to support the SMART building program and other greening and sustainability programs.

Further, to help mitigate the challenges that contractors experience when obtaining appropriate security clearances, DCC developed and implemented a joint DCC-Contract Security Program to provide a more streamlined process for contractors that will minimize potential delays in contract awards.

Leverage technology to better support service delivery

DCC continues to seek ways to better support our service delivery in the areas of mobile applications, new work practices and methods, and industry-specific software, such as that used for business information modelling and digital analytics. Employees expect to be able to use mobile applications, Client-Partners want real-time, accessible data and reports, and industry partners want easy and efficient ways to do business with DCC.

Using mobile applications will help DCC track and monitor contract management more efficiently. The new mobile app that DCC implemented across our regions will increase productivity and enhance communication between service lines and DCC's Client-Partner.

DCC is also including Building Information Modelling evaluation criteria in a number of our requests for proposals.

Business Management

Strategic objective: To develop and maintain responsive, integrated business management structures, tools, teams and practices

Key Performance Indicators	Performance Target	Results
Cost of service—Overall cost of service: DCC's total program related revenues as a percentage of total contract expenditures	Between 9% and 15%	10%
Utilization rate—Corporate utilization rate: Percentage of employees' total payable hours that DCC can bill to the Client-Partner	Minimum of 70%	72%
Financial results—Corporate financial results: Financial results consistent with DCC's Financial Management Policy	Achievement of budgeted gross margin	Achieved

Strategic and Operational Performance Indicators

Cost of DCC Service Delivery

This indicator was initially established to measure the cost of DCC's services in relation to the size of the Client-Partner's IE program delivered by DCC. Typically, DCC expects these costs to fall in the range of 9% to 15% of DND's IE program expenditure. In recent years, DND has requested increased support from DCC for non-program-related services. As a result, DCC has revised our calculation for cost of DCC service delivery. Starting in fiscal 2022–23, that cost includes only service revenue related to program-driven services, including contract management, project and program management, and contract services.

In 2022–23, DCC delivered an increased program size of 2% higher than the prior year. As a result, the cost of service delivery was 10% in both years. The consistent cost of service delivery was due to an increase in support requested from DCC in relation to the increased program.

72%

employee hours recoverable from the Client-Partner

Employee Utilization Rate

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

The Corporation sets a target to recover 70% of employee salaries through our monthly invoices to our Client-Partners. In 2022–23, the utilization rate was 72%—a decrease of one percentage point from the prior year. The utilization rate decreased primarily due to increased vacation leave taken by employees throughout the year, as a result of the lifting of pandemic-related restrictions across Canada, as well as to non-revenue-generating corporate strategic initiatives.

Financial Results

DCC expects to achieve financial results in the year that are consistent with our Financial Management Policy. The objective is to generate and maintain sufficient cash and working capital to meet the Corporation's anticipated operating and capital requirements, to settle financial obligations as they become due, and to meet contingencies that may arise.

As at March 31, 2023, DCC's overall cash balance was lower than our 2022–23 targeted operating reserve level of $35 to $45 million, primarily due to the purchase of bonds and guaranteed investment certificates.

The Corporation adjusts our billing rate annually so that we can support operating costs for subsequent years and achieve our target operating cash and investment balance range, as approved by the Board of Directors in the Corporate Plan. Consistent with the 2022–23 Plan, cash and investments beyond the operating reserve range will accumulate within the range of $47 to $66 million, in order to fund long-term capital projects and the advancement of innovation and research.

Corporate Strategic Initiatives

Under the theme of business management, DCC identified one initiative for the 2022–23 planning period.

Implement the Information Technology Strategic Plan, including the development of a Cyber Security Awareness Program and a Digital Business Capability Project

Like many organizations, DCC aims to have up-to-date, reliable, accurate and efficient systems to manage our business. Robust, dependable and easy-to-use information technology (IT) systems are key to a positive work environment.

DCC updated the IT Strategic Plan in early 2021, with a focus on the Cyber Security Awareness Program and the Digital Business Capability (DBC) Project. In October 2022, DCC launched our cyber security awareness training using a cloud-based platform. All employees learned how to practice cyber security every day to safeguard their data and personal information against theft and loss.

The DBC Project includes improvements to DCC's enterprise resource planning (ERP) system. The project will streamline processes and workflows, enable DCC's future capabilities, improve performance measurement, and provide higher quality service and experiences to our Client-Partners and employees. In 2022–23, DCC completed Phase 1 of the ERP project and workshops are now well underway collecting process requirements.

This plan to modernize DCC's IT infrastructure will ensure that the Corporation keeps pace with our industry and government partners in our use of technology to provide infrastructure and environmental services, as well as to meet employee expectations for a hybrid, virtual work environment.

DCC engaged NATIONAL to assist with the successful rollout of our internal cybersecurity training program. The goal was not just a widespread completion of the training, but to have a lasting impact on the way our employees thought about cybersecurity. This campaign was recognized with the 2023 IABC Gold Quill Award of Merit in the Creative Design Category.

Leadership and Governance

Strategic objective: To provide agile leadership and be responsive to Government of Canada objectives

Key Performance Indicators	Performance Target	Results
Corporate reporting results—Timeliness of corporate reporting: Percentage of corporate reports that are submitted on time	100%	100%
Overall business performance results— Corporate initiatives: Percentage of corporate initiatives identified in the Corporate Plan that DCC has achieved	100%	100%
DCC procurement code of conduct results—Awards: Percentage of contracts awarded to firms without current restrictions under the Public Services and Procurement Canada Integrity Regime	100%	100%
DCC Code of Business Conduct results: Compliance with the DCC Code of Business Conduct	100%	100%
Environmental incidents: Number of environmental incidents per year resulting from DCC management actions	0	0
Health and safety accidents and incidents: Number of hazardous occurrences, accidents and safety incidents involving DCC employees that result in lost work time	0	3
Lost-time hours: Total lost-time hours as a percentage of total employee hours	0.5%	0.003%
Security compromises: Number of corporate security compromises (operational or industrial)	0	4

Strategic and Operational Performance Indicators

Corporate Reporting Results

DCC is accountable to both the federal government and Parliament through Part X of the *Financial Administration Act* (FAA), which outlines the control and accountability framework for Crown corporations. Accordingly, DCC must submit our Corporate Plan, including our operating budget and capital budget, and its Annual Report, as regulations dictate. DCC submitted our 2022–23 Corporate Plan to the Minister of Public Services and Procurement on time, as per sections 122 and 125 of the FAA.

In addition to the FAA, other key pieces of legislation to which DCC is subject include the *Public Servants Disclosure Protection Act*, *Access to Information Act*, *Privacy Act*, *Employment Equity Act*, *Official Languages Act and Canadian Multiculturalism Act*. In 2022–23, DCC complied with all reporting requirements under each of these pieces of legislation.

Separate from DCC corporate reporting requirements, DCC receives a variety of inquiries from our government stakeholders each year. These include order paper questions, constituent inquiries and ministerial questions. DCC responds to all requests in a timely manner. In 2022–23, DCC responded to 42 inquiries. The volume of these requests fluctuates, depending on the current business environment. DCC stands ready to respond to these inquiries in a timely manner.

14
Indigenous students hired across the country

2
Indigenous student bursaries awarded through Indspire

Overall Business Performance Results

In the face of a changing world and an evolving defence and security environment, DCC's service delivery continues to be resilient, and our business performance remains strong. Consistent with government recommendations, DCC integrated COVID-19 protocols into our operations in our physical workspaces and implemented a COVID-19 Vaccination and Prevention Policy for our employees, contractors and consultants who enter DCC and DND workspaces. These measures are considered normal operations, and DCC has continued fulfilling the Corporation's obligations to the Client-Partners without disruption.

DCC Procurement Code of Conduct Results

The Procurement Code of Conduct (PCC) ensures that DCC's industry partners meet the expected integrity requirements for doing business with the Government of Canada. The PCC complements the Code of Business Conduct. In the past, DCC has aimed to verify all firms before awarding contracts, to ensure that all contracts are awarded to firms without prior convictions, and to ensure that all contractors and consultants comply with the PCC. In 2022–23, DCC verified 1,413 firms—100% of the firms that required verification.

DCC Code of Business Conduct Results

DCC's Code of Business Conduct (the Code) outlines expectations for standards of conduct for all DCC employees. The Code covers ethical practices, and compliance with legislation and DCC policies. In 2022–23, 100% of DCC employees responded to the annual requirement to review the Code and all new hires completed the required test related to the Code.

Environmental Results

To mitigate DCC's impact on the environment, DCC's Board of Directors and Senior Management Group are committed to the principles of environmental sustainability and stewardship, including the principles of sustainable development, pollution prevention, environmental protection and enhancement, and due diligence.

The Corporation's operational policies and procedures are designed to minimize environmental impacts on all worksites and to specify the significance of environmental incidents that employees must report. DCC strives to have zero incidents due to the actions of DCC personnel, a goal we met in 2022–23.

DCC is also committed to ensuring environmental protection and sustainability as we deliver infrastructure and environmental projects for the defence of Canada.

In 2022–23, DCC formed our new Greening and Sustainability Working Group, which includes members from all DCC regions and service lines. The group's overall vision is to support the federal government's goal of transitioning to net-zero, climate-sustainable operations by 2050. The working group provides advice, knowledge and guidance on greening and sustainability issues, supports the integration of DCC's services to respond to evolving environmental requirements, engages in intergovernmental and industry-related committees, and ensures DCC continues to be a responsible, resilient and sustainable steward of the environment. It does all this while supporting the Client-Partners in their own sustainability journey.

Health and Safety Results

Occupational and operational health and safety excellence remains a priority for DCC. The Corporation continues to maintain an occupational health and safety program focused on continual improvement to ensure that DCC is taking all reasonable precautions to protect the health and safety of our employees.

DCC employs a network of safety professionals across all regions, including employee representatives at each site, and adheres to the Canada Labour Code by maintaining safety committees at DCC sites with more than 20 employees. DCC also shares best practices and health and safety programs with other Crown corporations and the Client-Partners.

In 2022–23, DCC's four dedicated ergonomic specialists continued to support DCC employees through ergonomic assessments to optimize workspaces and ensure that employees are working efficiently and safely in their work environment. Further, all DCC health and safety professionals participated in mental health first aid training to help break down barriers and improve understanding of mental health among DCC employees. DCC also continues to implement the Canadian Standards Association's psychological safety standard by incorporating psychological safety into DCC's hazard awareness and health and safety programs.

DCC strives to have no lost-time safety accidents or incidents, with the goal to have lost-time hours add up to less than 0.5% of total employee hours. In 2022–23, there were three minor lost-time incidents totalling 10 days, meaning lost-time hours totalled 0.003% of total employee hours.

Security Results

DCC strives to comply with the Policy on Government Security, to protect government information and assets from compromise.

In our Corporate Security Policy, "industrial security requirements" are the Client-Partner's security requirements for a project. DCC ensures these are included in all our procurements and managed appropriately, tracking all instances of non-compliance. When non-compliance occurs, DCC ensures that corrective actions are implemented. DCC coordinates all efforts with applicable stakeholders, such as the deputy corporate security officer, the Canadian Industrial Security Directorate and/or other local security authorities.

"Corporate security requirements" are DCC's internal security requirements for our own corporate information, assets and employees. The Corporation reviews and manages all non-compliance and takes corrective measures, where applicable.

The target is to have no compromises of either industrial or corporate security requirements. In 2022–23, there were 20 industrial security incidents with three compromises (an increase from 18 occurrences in 2021–22) and 11 corporate security incidents with one compromise (one more than in the previous year).

Corporate Strategic Initiatives

Three initiatives were identified for the 2022–23 planning period under the leadership and governance theme.

Strengthen collaborative relationships with Client-Partner leadership

DCC's stable, long-term relationship with DND allows the Corporation to serve as the corporate memory for its client groups, which often undergo frequent staff changes in key positions. DCC follows a stakeholder engagement matrix to ensure regular communications with DND, to keep knowledge of DCC's mandate top of mind among Client-Partner representatives. As such, DCC holds regular executive-level DND-DCC joint planning sessions and senior management forums and workshops to strengthen collaborative relationships and to facilitate integration, planning and issues resolution.

Support the Government of Canada's accessibility objectives

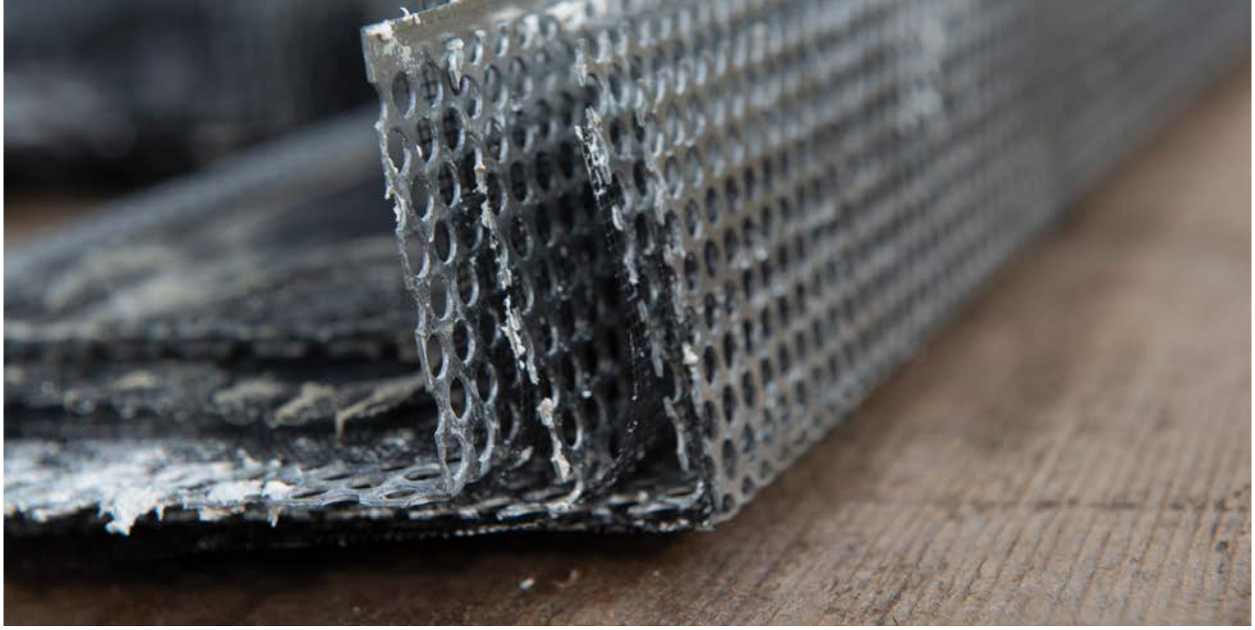
In 2022–23, DCC's Accessibility Plan Working Group continued our work related to DCC's compliance with the *Accessible Canada Act*. DCC and other federally regulated entities must develop a plan to remove barriers and to increase access and opportunities for persons with physical and mental health-related limitations. In December 2022, DCC released our Accessibility Plan in support of the *Accessible Canada Act* and set up a feedback process for the Plan on our corporate website. The Plan reflects DCC's commitment to fostering accessibility and reducing barriers.

Implement DCC's Indigenous Strategic Plan, including a Procurement Strategy and a Recruitment and Retention Strategy

DCC has an ambitious agenda to build strong partnerships with Indigenous peoples and to create more opportunities for Indigenous businesses. The Corporation is implementing our Indigenous Relations Policy, based on the three pillars of people, business and community. In February 2022, DCC and DND signed a new Joint Indigenous Procurement Strategy that guides efforts by DCC and DND to award a 5% value of all contracts to Indigenous businesses. In 2022–23, DCC exceeded these efforts by awarding 9.8% of total contract value to Indigenous businesses, for a total value of $65.6 million.

In 2022–23, DCC successfully managed our Indigenous Student Recruitment Program and national Indigenous Youth Work Experience Program, resulting in the hiring of 14 Indigenous students across the country. Further, to support Canada's commitment toward embracing reconciliation, the Corporation partnered with Indspire, a national Indigenous charity that invests in the education of First Nations, Inuit and Métis people. Accordingly, the DCC Indigenous Bursary Program was established to support Indigenous students who are pursuing qualifications to enter a career in engineering, planning, environmental sciences, construction, information technology or finance. DCC awarded the first two annual bursaries in 2022.

Imad Jaradat, DCC Team Leader, Deployed Operations, and colleagues Samantha Roeske and Trevor Clark visit fellow DCCer Rob Bronson and the Operation IMPACT Engineers on site at Camp Canada, Kuwait, in September 2022.



5.0 Risk Management

A key aspect of DCC's corporate governance is our ability to manage all forms of risk and liability.

Sound Risk Management Practices

DCC has established a comprehensive Corporate Risk Management Framework. It is based on the principles of integrated risk management and is written in accordance with the risk management methodology used by DND and many other government organizations.

Sound risk management practices are already ingrained in DCC's corporate culture, and the framework supports better integration with the Corporation's strategic planning process.

The framework ensures that management's direction on risks is clearly communicated, understood and applied throughout DCC; that risk management is integrated into DCC's existing decision-making and planning tools; and that there is a consistent means to effectively and regularly apply risk management to corporate and project-related activities.

Assessing Risk

Project risk assessments are based on the Project Complexity Risk Assessment process approved by Treasury Board of Canada Secretariat. They are also based on the reputational risk DCC will face if the related contracts are improperly procured or managed, or if the work is not delivered on time or on budget. Risk response strategies can be classified as follows:

- high (mitigate)
- medium (monitor)
- low (accept)

Each risk assessment is based on the likelihood of the risk occurring, and its impact or consequences. These risks include the following:

- circumstances beyond DCC's control that result in project schedule delays;
- uncertainty in government funding that could affect defence and public security infrastructure budgets; and
- industry-related labour issues.

In 2022–23, DCC updated our Corporate Risk Register quarterly and successfully managed all identified risks in accordance with the risk mitigation strategies.

6.0 Financial Performance

6.1 Revenue

Services Revenue

Services revenue for all activities combined was $161 million in 2022–23, an increase of $13 million or approximately 8% from the previous fiscal year. The increase was due to an increase in demand for services from the Client-Partners, combined with a planned billing rate increase for the year.

In general, services revenue directly correlates to DND's spending on infrastructure and environmental projects.

Services revenue increases when the number and dollar value of DND projects increase and decreases when the opposite occurs.

The cyclical nature of DND funding has a direct impact on demand for the Corporation's services and on our services revenue. Payments to project contractors made by DCC on behalf of our Client-Partners were $24 million or 2% higher than forecasted in the 2022–23 Corporate Plan. Forecasts are based on information provided by the Client-Partners at the time of forecasting.

Revenue, by activity *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Contract Management	**$ 66,196**	$ 59,463	$ 6,733	11%
Project and Program Management	**40,512**	40,746	(234)	-1%
Real Property Technical Support	**18,053**	14,232	3,821	27%
Contracting	**12,783**	11,675	1,108	9%
Construction Technical Support	**11,170**	11,956	(786)	-7%
Environmental Technical Support	**11,968**	10,085	1,883	19%
Total services revenue	**$ 160,682**	$ 148,157	$ 12,525	8%

Contract Management

Contract Management revenue increased by 11% over the previous fiscal year. The higher revenue was a result of increased demand from the Client-Partners (which accounted for 8 percentage points of the increase) and the increase in billing rates (which accounted for 3 percentage points of the increase). The higher demand reflected the variability of services used by the Client-Partners as projects moved through the various stages from planning and contracting to contract management.

Project and Program Management

Project and Program Management revenue decreased by 1% in 2022–23. The decrease over the prior fiscal year was due to lower demand from the Client-Partners. The billing rate increase offset the decrease by 3 percentage points.

Real Property Technical Support

Real Property Technical Support revenue increased by 27% in 2022–23, due to increased demand for services related to facility and portfolio management (which accounted for 24 percentage points of the increase) and the increase in billing rates (which accounted for 3 percentage points of the increase).

Contracting

Revenue from Contracting increased by 9% in 2022–23, due to increased demand from the Client-Partners (which accounted for 6 percentage points of the increase) and the increase in billing rates (which accounted for 3 percentage points of the increase).

Construction Technical Support

Revenue from Construction Technical Support in 2022–23 decreased by 7% over the previous fiscal year, due to lower demand from the Client-Partners. The billing rate increase offset the decrease by 3 percentage points.

Environmental Technical Support

Environmental Technical Support revenue increased in 2022–23 by 19% over the previous fiscal year, due to an increase in demand for these services (which accounted for 16 percentage points of the increase) and the increase in billing rates (which accounted for 3 percentage points of the increase).

Investment Revenue

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, increased in 2022–23 by $1.3 million or approximately 264% over the previous fiscal year, due to the purchase of bonds and guaranteed investment certificates to capitalize on market interest rates. The average return on investment generated in 2022–23 from cash and investments was 2% higher than the prior year's average of 1%.

Investment Revenue *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Investment revenue	**$ 1,756**	$ 482	$ 1,274	264%

6.2 Expenses

Salaries and Employee Benefits

Salaries totalled $112 million in 2022–23, an increase of $12 million or approximately 12% over the previous fiscal year. The 12% increase was mainly due to an increase of approximately 7% or 77 full-time equivalents (FTEs) during the year in response to increased demand from the Client-Partners. The remaining increase related to a planned annual increase in salary, related to cost of living and performance pay.

Employee benefits totalled $29 million in 2022–23, an increase of $5 million or approximately 21% over the previous fiscal year. The increase was mainly due to an increase in servicing of the interest on employee future benefits and increased contribution rates for the Canada Pension Plan.

Salaries and Employee Benefits *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Salaries	**$ 111,560**	$ 99,653	$ 11,907	12%
Employee benefits	**29,274**	24,096	5,178	21%
Total salaries and employee benefits	**$ 140,834**	$ 123,749	$ 17,085	14%
Employee benefits as a % of salaries	**26%**	24%	—	—

Operating and Administrative Expenses

Operating and administrative expenses were $12 million in 2022–23, an increase of $2 million or approximately 18% over the previous fiscal year. A variety of factors influenced these expenses.

Operating and Administrative Expenses *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**	**Variance analysis**
Cloud computing services	**$ 2,039**	$ 1,850	$ 189	10%	The increase was due to increased costs associated with managed cloud services and the introduction of mobile contract management software to meet Client-Partner demand.
Software maintenance	**1,582**	1,430	152	11%	The increase was due to workforce expansion to meet increased demand for services from the Client-Partners, and to the purchase of new virtual collaboration tools and engineering design software support.
Professional services	**1,295**	1,478	(183)	-12%	The decrease was due to one-time human resources initiatives completed in the prior year and completion of the mobile contract management software rollout.
Employee training and development	**1,030**	688	342	50%	The increase was due to a gradual return to in-person training activities with the easing of COVID-19 restrictions.

Operating and Administrative Expenses *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**	**Variance analysis**
Leased location operating costs	**960**	855	105	12%	The increase was due to higher rental operating costs as more employees returned to the office with the easing of COVID-19 restrictions.
Equipment rental	**872**	1,063	(191)	-18%	The decrease occurred because the Corporation purchased all computer peripherals previously rented.
Telephone and data communications	**752**	846	(94)	-11%	The decrease was due to lower cellular and landline costs as DCC shifted to virtual meetings and reduced the number of landlines in offices.
Office services, supplies and equipment	**671**	540	131	24%	The increase was related to employees returning to the workplace, as well as to higher property and liability insurance costs.
Computer hardware	**594**	46	548	1,191%	The increase was due to one-time purchases of computer accessories previously rented.
Travel	**558**	26	532	2,046%	The increase occurred as business travel gradually returned to pre-COVID-19 levels.
Client services and communications	**403**	430	(27)	-6%	The decrease was due to lower demand for photography and videography services.
Furniture and equipment	**303**	225	78	35%	The increase was due to the purchase of furniture and equipment in Pacific Region sites.
Recruiting	**252**	105	147	140%	The increase was due to higher demand for external recruiting services as a result of the competitive labour market.
Staff relocation	**191**	170	21	12%	The increase was due mainly to the creation of the new Pacific Region and of key leadership roles in other regions.
Hospitality	**160**	30	130	433%	The increase was due to employees' gradual return to the workplace, which increased in-person collaboration.
Memberships and subscriptions	**91**	94	(3)	-3%	The variance was not material.
Computer software	**81**	135	(54)	-40%	The decrease occurred because DCC purchased additional user ERP licences in the prior year due to the increase in FTEs to meet Client-Partner demand.
Postage and freight	**35**	26	9	35%	The variance was not material.
Other	**27**	21	6	29%	The variance was not material.
Leasehold improvements	**12**	7	5	71%	The variance was not material.
Total operating and administrative expenses	**$ 11,908**	$ 10,065	$ 1,843	18%	—

Depreciation and Amortization

Depreciation and amortization combined decreased by $36,000 over the prior year. The decrease of $56,000 in depreciation of right-of-use assets was mostly due to the termination of copier leases and the amendment of a regional office lease. Depreciation of property, plant and equipment increased by 3% or $11,000 due to the depreciation of new audio-visual equipment. The increase of $9,000 in amortization of intangible assets was mostly due the purchase of additional software.

Depreciation and Amortization *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Depreciation of right-of-use assets	**$ 1,289**	$ 1,345	$ (56)	-4%
Depreciation of property, plant and equipment	**426**	415	11	3%
Amortization of intangible assets	**22**	13	9	69%
Total depreciation and amortization	**$ 1,737**	$ 1,773	$ (36)	-2%

6.3 Net Income and Total Comprehensive Income

The net income in the current period was $8 million compared with a net income of $13 million in the previous fiscal year—a decrease of $5 million. The lower net income in the year was a result of the growth in salaries driven by an increase in FTEs and the annual salary increase, as well as higher operating costs, partially offse by higher demand for DCC's services from the Client-Partners.

Other comprehensive income in 2022–23 was $2 million compared to other comprehensive income of $5 million in 2021–22. The actuarial gain in 2022–23 was lower than in the previous year, mainly due an expected increase in participation by retirees in the company health plan, partially offset by an increase in the discount rate used to estimate employee future benefits.

The total comprehensive income of the Corporation for the year ended March 31, 2023, was $10 million, compared with a total comprehensive income of $18 million in the previous fiscal year—a decrease of $7 million.

Net income and total comprehensive income *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Net income	**$ 7,756**	$ 12,826	$ (5,070)	-40%
Other comprehensive income	—	—	—	—
Actuarial gain on employee benefit obligation	**2,387**	4,680	(2,293)	-49%
Total comprehensive income	**$ 10,143**	$ 17,506	$ (7,363)	-42%

6.4 Liquidity and Capital Resources

DCC's financial management approach is to generate and maintain sufficient cash to meet the Corporation's anticipated operating and capital requirements, to settle our financial obligations as they become due, and to maintain adequate cash reserves to meet contingencies that may arise.

The Corporation operates on a fee-for-service basis and receives no cash funding through government appropriations, nor do we maintain or have access to any lines of credit or other sources of borrowings. Thus, the Corporation's cash is generated solely from fees collected from our Client-Partners, primarily DND, for services provided.

The Corporation's objective is to operate on a slightly better than break-even basis, after adjusting for reserve funds for future capital projects and for innovation and research. The Corporation sets billing rates based on expected program and operating costs. However, unexpected increases in program services provided to DND, as well as DCC's success in achieving our own operating efficiencies, can result in margins that exceed our initial targets. Conversely, unexpected decreases in program services could result in margins that are lower than initial targets. Cash levels are constantly monitored, and any cash surpluses judged to exceed the requirements to fund operating, capital project, and innovation and research expenses are reduced through future operating plans and budgets, particularly through the setting of billing rates for services provided to DND.

The objective of DCC's cash management approach is to keep available sufficient cash reserves to meet DCC's obligations, recognizing the potential for short-term interruptions in collections of receivables. Potential obligations considered include salaries, benefits and other current operating costs; long-term employee benefits; and other obligations that may arise in relation to Government of Canada directives.

The Corporation considers several factors when determining the amount of cash reserves to maintain, including the planning and operating risk inherent in our operations. In particular, the risk associated with potential and unanticipated changes to the amount or timing of DND construction project expenditures has a direct impact on the amount or timing of services DCC provides and on the cash generated.

Although DCC has a secure client base from which we regularly collect receivables, several incidents can affect the timing of those collections. Routine delays in Client-Partners' approvals and processing of invoices can affect some collections from time to time.

There are no restrictions on the use of the Corporation's funds, and no legal or statutory obligations to segregate funds for any current or future liabilities, including future benefits for employees. As such, the Corporation does not have any segregated or restricted funds, and cash in excess of short-term operational and capital requirements is invested in accordance with the Investment Policy approved by the Board of Directors.

Cash Requirements and Uses

Some of the more significant working capital cash requirements include payments for salaries, wages and benefits, leased office space, leased equipment, employee training and development, professional services, telecommunications, office supplies, and business travel. DCC also maintains and uses cash to buy computer hardware and software, as well as office furniture and equipment, and to pay for leasehold improvements.

Cash may also be required for costs associated with workforce adjustments, including relocations, if such adjustments are required due to unexpected fluctuations or changes in DND's IE program.

Cash, Cash Equivalents and Investments

Cash and investments totalled $56 million at March 31, 2023, a decrease of $2 million or 3% from the previous year.

The cash balance at March 31, 2023, was $17 million, a decrease of $20 million or 55% from the previous year. In 2022–23, the Corporation spent $74,000 on operating activities, spent $209,000 on capital expenditures, acquired investments in a net amount of $19 million and paid $1 million for lease obligations.

As at March 31, 2023, DCC's overall cash balance was higher than the 2022–23 targeted reserve level of $35 to $45 million, primarily due to increased demand from the Client-Partners, lower expenses than planned and a higher return on investments.

Investments (both current and long term) at March 31, 2023, were $39 million, an increase of $19 million or 91% from the previous year. The increase was due to the $19-million net acquisition of investments as part of the Corporation's planned reserve requirements to fund long-term capital projects and the advancement of innovation and research. 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 that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

Trade Receivables

Trade receivables are due from the Corporation's clients, mainly DND. At March 31, 2023, trade receivables were $32 million, which represented an increase of $15 million or 92% over the previous fiscal year. The increase was due to an increase in the time needed to collect those receivables and increased revenue from DND. All of the trade receivables were assessed to be fully collectible.

Current Liabilities

Current liabilities were $22 million at March 31, 2023, an increase of $4 million or 19% from March 31, 2022. The increase in current liabilities was due to an increase in the short-term employee benefit obligation and the timing of payments for vendors and employee salaries compared to the prior year.

Liquidity and capital resources *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Cash and cash equivalents	**$ 16,563**	$ 36,918	$ (20,355)	-55%
Investments	**39,373**	20,600	18,773	91%
Cash and cash equivalents and investments	**55,936**	57,518	(1,582)	-3%
Trade receivables	**$ 31,961**	$ 16,676	$ 15,285	92%
Current liabilities	**$ 22,109**	$ 18,593	$ 3,516	19%

6.5 Employee Benefits

The Corporation records a liability for the estimated cost of sick leave and retirement allowance for active employees, and health and dental care and life insurance benefits for our retirees. This estimate is actuarially determined. Beginning in April 2022, the sick leave program was curtailed. Current employees' accumulated sick leave banks were frozen and may be used in the future. Sick leave was replaced by a short-term disability program. The accrual for employee benefits at March 31, 2023, was $34 million, an increase of $590,000 or approximately 2% from the previous fiscal year.

Overall, the liability increased due to the actuarial gain being lower than the current service cost and interest charges net of benefits paid. Current service costs and interest charges for the period were $3 million and benefits paid were $730,700. The actuarial gain was $2 million, due mainly to an increase in the discount rate, partially offset by an expected increase in participation by retirees in the company health plan.

The liability for employee benefits fluctuates from year to year due to a combination of factors, including the inflation rate; the benefit rate; workforce changes; changes in the discount rate, which is determined by reference to market interest rates; changes in the average rate of salary increases; and changes in the average expected remaining service lifetime of active employees, due to changing demographics. Note 12 to the financial statements describes the actuarial assumptions used in determining the liability.
This liability is primarily a non-current one and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, we have sufficient capital resources to meet our employee benefit payment obligations as they become due.

Employee Benefits *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Current portion	**$ 2,403**	$ 1,803	$ 600	33%
Long-term portion	**31,519**	31,529	(10)	-%
Total employee benefits	**$ 33,922**	$ 33,332	$ 590	2%

6.6 Capital Expenditures

The Corporation's capital expenditures for 2022–23 totalled $751,000, a decrease of $204,000 or 21% from the previous fiscal year. The decrease was mainly due to the one-time purchase of an IBM server in the prior year.

Capital Expenditures *(in thousands of dollars)*	**2022–23**	**2021–22**	**Change ($)**	**Change (%)**
Computer equipment	**$ —**	$ 124	$ (124)	-100%
Furniture and equipment	**105**	167	(62)	-37%
Leasehold improvements	**182**	175	7	4%
Intangible assets	**12**	33	(21)	-64%
Right-of-use-assets	**452**	456	(4)	-1%
Total capital expenditures	**$ 751**	$ 955	$ (204)	-21%

6.7 Actual Performance Versus Plan

The following table compares the Corporation's actual performance in 2022–23 with the projections in the Corporate Plan (the Plan). The Corporation's actual performance compared to the Plan was better than anticipated.

Services revenue for the year was 3% lower than projected in the Plan. The decrease was due to labour market shortages and challenges in recruiting to meet increased Client-Partner needs as planned in the Corporate Plan.

Travel and disbursement revenue and expenses were 39% higher than the Plan due to the gradual return of in-person business travel to pre-COVID-19 levels.

Investment revenue was 251% higher than anticipated in the Plan, due to higher interest rates than anticipated on investments and cash reserves.

Salaries and employee benefits were 1% lower than projected in the Plan due to labour market shortages, which resulted in 2% fewer FTEs than planned.

Operating and administrative expenses were 23% lower than projected. The decrease was due mainly to the rescheduling of spending on professional services to the next fiscal year due to changing operational priorities, as well as lower-than-expected levels of employee training and development, and lower-than expected IT expenditures.

Depreciation and amortization were 4% lower than the Plan, mainly due to a later than anticipated start of the lease for the Pacific Regional Office.

Net income was 22% higher than forecasted in the Plan, due to lower-than-expected operating and administrative expenses and a higher return earned on investments, partially offset by lower demand for services.

Cash and investments were higher than anticipated due to the higher-than-expected net income.

Capital expenditures were 200% higher than projected, due to leasehold improvements and furniture purchases in the Pacific region.

Actual Performance Versus Planned *(in thousands of dollars)*	**Actual**	**Corporate Plan**	**Change ($)**	**Change (%)**
Revenue	**—**	—	—	—
Services revenue	**$ 160,682**	$ 165,252	$ (4,570)	-3%
Travel and disbursement revenue	**3,255**	2,344	911	39%
Investment revenue	**1,756**	500	1,256	251%
Total revenue	**$ 165,693**	$ 168,096	$ (2,403)	-1%
Expenses	**—**	—	—	—
Salaries and employee benefits	**140,834**	141,867	(1,033)	-1%
Operating and administrative expenses	**11,908**	15,510	(3,602)	-23%
Travel and disbursement expenses	**3,255**	2,344	911	39%
Depreciation and amortization	**1,737**	1,800	(63)	-4%
Finance costs	**203**	198	5	3%
Total expenses	**$ 157,937**	$ 161,719	$ (3,782)	-2%
Net income	**7,756**	6,377	1,379	22%
Other comprehensive income	**2,387**	—	2,387	-%
Total comprehensive income	**$ 10,143**	$ 6,377	$ 3,766	59%
Capital expenditures	**$ 751**	$ 250	$ 501	200%

CORPORATE GOVERNANCE

The responsibilities of DCC's Board of Directors are found in DCC's Corporate Governance Framework. The Corporation also relies on our by-laws and charters, and the *Financial Administration Act* and other documents, for guidance.

Overview

Pursuant to the *Financial Administration Act* (FAA), DCC's Board of Directors is responsible for the management of the businesses, activities and other affairs of the Corporation. DCC is accountable, through the Minister of Public Services and Procurement (the Minister), to Parliament for the conduct of our affairs. The Government of Canada is the sole shareholder of DCC.

Along with the FAA, DCC is governed by the *Defence Production Act*, and DCC must remain compliant with other federal legislation, such as the *Access to Information Act*, *Accessible Canada Act*, *Canada Labour Code*, *Employment Equity Act*, *Official Languages Act* and *Privacy Act*.

DCC's policies and practices are aligned with Government of Canada priorities and expectations, particularly those articulated in the Mandate Letter from the Minister to the Chair of DCC's Board of Directors.

The Board

- provides input into DCC's strategic direction;
- reviews and assesses the appropriateness of DCC's Risk Management Framework; and
- ensures that DCC continues to demonstrate high ethical standards, openness and transparency in the management of our business affairs.

Governance

The Privy Council Office (PCO) manages all appointments to DCC's Board. PCO is free to use DCC's board profile to identify candidates with the specific characteristics that potential DCC board members should have, including a mix of industry knowledge, skills and experience, and diversity.

Other than the President and CEO, all members of DCC's Board are independent of DCC management. Orientation sessions are given to all DCC board members as soon as possible after they are appointed, and the Board regularly receives opportunities for ongoing training and development.

DCC's auditor is the Office of the Auditor General of Canada (OAG). The OAG audits the Corporation's financial statements annually and carries out a Special Examination at least once every 10 years.

Integrity and Ethics

Expectations and requirements for members of DCC's Board of Directors are set out in the *Conflict of Interest Act*. All board members sign an annual declaration confirming they have read the Act and understand its application to their role. All board members must also comply with DCC's Board of Directors' Code of Conduct (Board Code). This document articulates the standards of conduct that board members are expected to follow in the exercise of their duties.

DCC also has a Code of Business Conduct (the Code) for employees, which specifically incorporates the *Public Servants Disclosure Protection Act*. The Code sets out expected behaviours and processes for disclosing wrongdoing by DCC employees. The Code is a condition of employment for DCC employees. All employees are to review their obligations and responsibilities regularly, and report on any changes in their status as soon as possible. In addition, an annual code review and reporting requirement keeps ethical behaviour top of mind. All new employees must complete mandatory online training on the Code and pass a related test. In 2022, 100% of DCC's employees responded to the annual request for review, and all new hires completed the mandatory module and test.

Strategic Direction

DCC's Board provides input into DCC's planning process, as does our Senior Management Group. As part of an environmental scan, DCC seeks information from various representatives from government and industry. The culmination of DCC's planning process is the creation of a Corporate Plan that includes corporate initiatives, activities and key performance indicators. DCC submits the Corporate Plan to the Minister annually, pursuant to the FAA.

Risk Management

The Board is responsible for ensuring that principal risks related to DCC's business are appropriately identified and prioritized, further to DCC's Corporate Risk Management Framework, and that systems and processes are in place to manage these risks.

Engagement and Communication

Members of the public are invited to participate in DCC's annual public meetings so that they can communicate with and find out about DCC. DCC holds the Annual Public Meeting virtually, and one was held in July 2022.

DCC's Board seeks opportunities to engage with DCC employees at DCC offices across Canada through such activities as presentations on topics of interest, tours of sites and facilities, and innovative information-sharing opportunities. DCC's Board also regularly engages with the stakeholder and other external entities.

Board Committees

In the carrying out of its responsibilities, the Board is supported by two committees: the Audit Committee, and the Governance and Human Resources Committee. Pursuant to the FAA, all Audit Committee members are independent of DCC management.

Each committee has a charter articulating its responsibilities and uses work plans to ensure it identifies and addresses these responsibilities at each meeting. The key activities of these committees in 2022–23 are noted below.

Audit Committee

Chair: Cynthia Ene
Members: Moreen Miller and Angus Watt

The Committee met four times in 2022–23. The work of the Audit Committee is set out in its charter and includes overseeing DCC's financial and management controls, and ensuring that DCC's information systems and management practices are appropriate for the Corporation.

The Audit Committee reviews internal audit plans and receives regular reports on the status of recommendations arising from DCC's internal audits. This committee keeps the Board abreast of the status of audit-related matters and key issues. The Committee holds *in camera* sessions as required.

Key activities reviewed in 2022–23

- DCC's financial results
- DCC's internal audit plan
- Status of recommendations arising from completed internal audits
- OAG's annual audit
- Selection of internal audit services provider
- Work plan

Governance and Human Resources Committee

Chair: Stephen Burbridge
Members: Moreen Miller, Claude Lloyd, Steve Anderson and Derrick Cheung (ex officio).

The Committee met four times in 2022–23. Its charter sets out the duties and responsibilities of the Committee, which include identifying best practices, trends and issues related to governance, and assessing the strategic alignment of DCC's human resources policies with related corporate objectives and initiatives. The Committee holds *in camera* sessions as required.

Key Activities reviewed in 2022–23

- Human Resources Strategic Plan updates
- PCO Performance Management Program CEO performance agreement and evaluation
- Performance review of corporate officers
- Reappointment of corporate officers
- Charter review
- Work plan

Chart 1: Attendance

Attendance	Board	Audit Committee	Governance and Human Resources Committee
Miller, Moreen	7/7	4/5	4/4
Anderson, Steve	7/7	—	4/4
Burbridge, Stephen	7/7	—	3/4
Ene, Cynthia	7/7	5/5	—
Lloyd, Claude	7/7	—	4/4
Watt, Angus	7/7	5/5	—
Cheung, Derrick	6/6	—	4/4

Board of Directors

The following are the members of DCC's Board of Directors. To see their full biographies, please visit the DCC website.

- Moreen Miller, Chair of the Board
- Steve Anderson
- Stephen Burbridge
- Derrick Cheung, DCC President and CEO
- Cynthia Ene
- Claude Lloyd
- Angus Watt

Board Compensation

The Governor in Council established the remuneration regime for members of Boards of Directors for Federal Crown Corporations in 2001. The Chair of the Board receives an annual retainer of between $6,400 to $7,500 and a per diem of between $200 and $300. The remuneration for members of the board includes an annual retainer of between $3,200 and $3,800, and a per diem of between $200 and $300. Per diems are provided for such activities as meetings and special executive, analytical or representational responsibilities. Directors receive only one per diem for each day of work (24 hours), regardless of the number of activities in which they participate.

Executive Management Structure

Executive Team

Made up of the President and CEO and four vice-presidents, the Executive Team meets regularly as the Executive Management Group to review strategic, operational, financial and human resources matters for the Corporation.

President and CEO

Reports to the Board of Directors and is accountable to the Board for the overall management and performance of the Corporation.

Vice-President, Operations—Service Delivery

Is responsible for service delivery for three of DCC's five service lines, plus oversight of the Information Technology Department, and acts as the Corporate Security Officer.

Vice-President, Operations—Business Management

Is responsible for business management in all regions.

Vice-President, Operations—Procurement

Is accountable for the leadership, oversight and delivery of contracting and contract management services across the Corporation.

Vice-President, Finance and Human Resources and Chief Financial Officer

Is responsible for the financial affairs of the Corporation and the executive leadership of DCC's finance and human resources function.

Senior Management Group

Regional Directors

Manage activities in the Pacific, Western, Ontario, National Capital, Quebec and Atlantic regions through regional offices located in Victoria, Edmonton, Kingston, Ottawa, Montréal and Halifax, respectively.

National Directors

Ensure all service line activities meet corporate objectives, and are accountable for the efficiency and quality of service delivery at the national level.

Corporate Services Directors

Are accountable for the corporate leadership and management of the communications, finance, governance and legal affairs, human resources, and information technology functions and groups.

Corporate Secretary

Is responsible for governance-related matters, ensures that DCC is prepared to comply with relevant legislation, regulations, and government policies, supports the Board of Directors, and communicates with the Corporation's stakeholders.

Senior Management Members

The following are members of DCC's Senior Management Group. To see their full biographies, please visit the DCC website.

Executive Team

Derrick Cheung, LL.M., MBA, MA
President and Chief Executive Officer

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

Karl McQuillan, P.Eng.
Vice-President, Operations—Service Delivery
Acting Vice-President, Operations—Procurement

Grant Sayers, C.E.T.
Vice-President, Operations—Business Management

Director Team

Dave Burley, GSC
National Director, Contract Management Services

Marcy Burton, B.Sc., P.Eng.
Regional Director, Ontario

Charles Fuller, B.A.Sc., PMP, PgMP
National Director, Project and Program Management Services

Danny Gruner, B.Sc., MBA
Regional Director, Pacific

Alison Lawford, LLB, LLM
Director, Governance and Legal Affairs, and Corporate Secretary

Elizabeth Mah, P.Eng., GSC, PMP
Regional Director, National Capital Region

Kimberly Morgan, CHRL
Director, Human Resources

Victoria Neary, B.A.
Regional Director, Western

Marco Palmieri, ing, MBA, PMP
Regional Director, Quebec

Marlies Paulhus, CPA, CGA
Director, Finance

Mélanie Pouliot, P.Eng.
National Director, Contract Services

Stephanie Ryan, B.A. (Hons), ABC
Director, Communications

Heather Tesselaar, MBA, P.Eng., PMP
National Director, Real Property Management Services

George Theoharopoulos, P.Eng.
Regional Director, Atlantic

Navpreet Uppal, B.Eng., CGEIT, CRISC
Director, Information Technology

FINANCIAL STATEMENTS

Management Responsibility Statement

The management of Defence Construction Canada is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with International Financial Reporting Standards using management's best estimates and judgements, where appropriate. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and bylaws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled, and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.

original signed by:

Derrick Cheung
President and Chief Executive Officer

original signed by:

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

June 7, 2023

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Public Services and Procurement

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Defence Construction (1951) Limited (the Corporation), which comprise the statement of financial position as at 31 March 2023, and the statement of profit and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of Defence Construction (1951) Limited coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, *the Canada Business Corporations Act*, the articles and by-laws of Defence Construction (1951) Limited, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of Defence Construction (1951) Limited that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Defence Construction (1951) Limited's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Defence Construction (1951) Limited to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Mélanie Cabana, CPA
Principal
for the Auditor General of Canada

Ottawa, Canada
7 June 2023

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Financial Position

As at March 31, 2023

(in thousands of Canadian dollars)	Notes	2023	2022
Assets	—	—	—
Cash and cash equivalents	—	$ **16,563**	$ 36,918
Investments	8, 18	**7,057**	2,134
Trade receivables	5, 18	**31,961**	16,676
Prepaid and other assets	6	**1,366**	1,096
Other receivables	7	**1,607**	1,793
Current assets	—	$ **58,554**	$ 58,617
Investments	8, 18	**32,316**	18,466
Property, plant and equipment	9	**1,925**	2,064
Intangible assets	10	**27**	37
Right-of-use assets	17	**6,196**	7,033
Non-current assets	—	**40,464**	27,600
Total assets	—	$ **99,018**	$ 86,217
Liabilities	—	—	—
Trade and other payables	11, 18	**17,097**	14,227
Deferred revenue	13	**1,299**	1,285
Employee benefits	12	**2,403**	1,803
Lease obligations	17	**1,310**	1,278
Current liabilities	—	$ **22,109**	$ 18,593
Employee benefits	12	**31,519**	31,529
Lease obligations	17	**5,287**	6,135
Non-current liabilities	—	**36,806**	37,664
Total liabilities	—	$ **58,915**	$ 56,257
Equity	—	—	—
Share Capital: Authorized, 1,000 common shares of no par value; Issued, 32 common shares	—	—	—
Retained earnings	—	**40,103**	29,960
Total equity	—	**40,103**	29,960
Total liabilities and equity	—	$ **99,018**	$ 86,217

Commitments: see Note 17. | Contingent liabilities: see Note 21. | The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors on June 7, 2023.

original signed by:
Moreen Miller,
Chair of the Board

original signed by:
Cynthia Ene,
Chair of the Audit Committee

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Profit and Other Comprehensive Income

For the year ended March 31, 2023

(in thousands of Canadian dollars)	Notes	**2023**	2022
Services revenue	13	**$ 160,682**	$ 148,157
Travel and disbursement revenue	—	**3,255**	2,678
Investment revenue	13	**1,756**	482
Total revenue	—	**$ 165,693**	$ 151,317
Salaries and employee benefits	—	**140,834**	123,749
Operating and administrative expenses	14	**11,908**	10,065
Travel and disbursement expenses	—	**3,255**	2,678
Depreciation of property, plant and equipment	9	**426**	415
Depreciation of right-of-use assets	17	**1,289**	1,345
Amortization of intangible assets	10	**22**	13
Finance costs	15	**203**	226
Total expenses	—	**$ 157,937**	$ 138,491
Net income	—	**7,756**	12,826
Other comprehensive income			
Actuarial gain on employee benefit obligation[1]	12	**2,387**	4,680
Total comprehensive income	—	**$ 10,143**	$ 17,506

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

1 This item of other comprehensive income will not be reclassified to net income.

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Changes in Equity

For the year ended March 31, 2023

(in thousands of Canadian dollars)	**Share capital**	**Retained earnings**	**Total equity**
Balance as at March 31, 2021	—	$ 12,454	$ 12,454
Net income	—	12,826	12,826
Other comprehensive income	—	4,680	4,680
Balance as at March 31, 2022	—	$ 29,960	$ 29,960
Net income	—	7,756	7,756
Other comprehensive income	—	2,387	2,387
Balance as at March 31, 2023	**—**	**$ 40,103**	**$ 40,103**

Statement of Cash Flows

For the year ended March 31, 2023

(in thousands of Canadian dollars)	Notes	2023	2022
Cash flow provided by (used in) operating activities	—	—	—
Net income	—	**7,756**	12,826
Adjustments to reconcile net income to cash provided by (used in) operating activities	—	—	—
Employee benefits expensed	12	**3,708**	1,621
Employee benefits paid	12	**(731)**	(706)
Depreciation of property, plant and equipment	9	**426**	415
Depreciation of right-of-use assets	17	**1,289**	1,345
Amortization of intangible assets	10	**22**	13
Amortization of investment premiums	—	**30**	34
Loss on disposal of property, plant and equipment	—	**—**	1
Loss on disposal of right-of-use assets	—	**—**	4
Change in non-cash operating working capital	—	—	—
Trade receivables	—	**(15,285)**	(1,520)
Other receivables	—	**186**	(64)
Prepaids and other assets	—	**(270)**	419
Trade and other payables	—	**2,780**	(1,718)
Deferred revenue	—	**14**	1,285
Net cash flows provided by (used in) operating activities	—	**$ (75)**	$ 13,955
Cash flows provided by (used in) investing activities	—	—	—
Acquisition of investments	—	**(20,940)**	(13,255)
Redemption and disposition of investments	—	**2,137**	2,925
Acquisition of property, plant and equipment	9	**(197)**	(974)
Acquisition of intangible assets	10	**(12)**	(33)
Net cash flows used in investing activities		**$ (19,012)**	$ (11,337)
Cash flows used in financing activities	—	—	—
Repayment of lease obligations	17	**(1,268)**	(1,332)
Net cash flows used in financing activities		**$ (1,268)**	$ (1,332)
Increase (decrease) in cash and cash equivalents during the year	—	**(20,355)**	1,286
Cash and cash equivalents at the beginning of the year	—	**36,918**	35,632
Cash and cash equivalents at the end of the year	—	**$ 16,563**	$ 36,918

Supplemental cash flow information: See note 15.

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

Notes to the Financial Statements

Unless otherwise stated, all amounts are in thousands of Canadian dollars
March 31, 2023

Note 1: description of business and objectives

Defence Construction (1951) Limited (the "Corporation") was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation's Head Office is located at 350 Albert Street, Ottawa, Ontario, Canada. The Corporation is an agent Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act* (FAA). In 1980, under the Federal Identity Program, the Corporation was provided "Defence Construction Canada" as an applied title. Since 1996, responsibility for the Corporation has rested with the Minister of Public Services and Procurement.

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

In July 2015, the Corporation was issued a directive (P.C. 2015–1113) pursuant to section 89 of the *Financial Administration Act* 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 them with revised Treasury Board policies.

Note 2: basis of preparation and presentation

These financial statements are prepared by the Corporation in accordance with the International Financial Reporting Standards (IFRS) issued by the Accounting Standards Board (AcSB). These financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Corporation.

These financial statements have been prepared on a going-concern basis, on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated in these notes.

The significant accounting policies, estimates and judgements that the Corporation applied in preparing these financial statements are in the appropriate sections of these notes. These accounting policies have been used throughout all periods presented in the financial statements.

Under the Corporation's accounting policies described in the notes, management is required to make judgements, 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 these estimates.

The judgements, estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Note 3: standards, amendments and interpretations

3.1 New and amended IFRS accounting standards that are effective for the current year

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, 2022. No new issued or amended standard as of the date of these financial statements has had a material impact on the disclosures or on the amounts reported in these financial statements.

3.2 Standards, amendments and interpretations not yet in effect and not applied

At the date of authorization of these financial statements, the Corporation had not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective: *IAS 1—Presentation of Financial Statements, IFRS Practice Statement 2—Making Materiality Judgements* and *IAS 8—Accounting Policies, Changes in Accounting Estimates and Errors*. These three amendments will require the disclosure of material, rather than significant, accounting policy information; define accounting estimates; and clarify the distinction between changes in accounting policies from changes in accounting estimates. The amendments are effective for the Corporation's annual reporting period beginning on January 1, 2023, with earlier application permitted. The Corporation has concluded its current accounting policies and disclosures are in line with the amended standards and therefore these amendments will have no impact on its financial statements.

Note 4: cash and cash equivalents

Accounting policy

"Cash" refers to cash held in banks. Cash is managed on a fair-value basis and its performance is actively monitored. Cash not immediately required for working capital is invested as per the Corporation's investment policy. There are no restrictions on the use of cash. Cash equivalents include cash investments in interest-bearing accounts and term deposits that can readily be redeemed for cash without penalty or are issued for terms of three months or less from the date of acquisition.

Note 5: trade receivables

Accounting policy

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value. Subsequent measurement of trade receivables is at amortized cost.

Accounting estimates and judgements

The Corporation applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables, as these items do not have a significant financing component. Therefore, the Corporation does not track changes in credit risk, but instead recognizes a loss allowance at an amount equal to the lifetime expected credit losses at each reporting date.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis, as they possess shared credit risk characteristics. They have been grouped based on the days past due, as all trade receivables are receivable from the Government of Canada and deemed recoverable based on the payment profile of the customer.

Supporting information

Trade receivables are due entirely from related parties (see Note 18). The usual credit period for trade receivables is 30 days.

The aging of the trade receivables is as follows.

Trade receivables	2023	2022
Current	$ **16,795**	$ 14,832
Outstanding for 31 to 60 days	**15,006**	1,792
Outstanding for 61 to 90 days	**160**	48
Outstanding for 91 days or more	**—**	4
Total trade receivables	$ **31,961**	$ 16,676

Note 6: prepaid and other assets

The following table is a detailed summary of the items making up prepaids and other assets.

Prepaid and other assets	2023	2022
Prepaid expenses	$ **1,353**	$ 1,086
Travel advances	**3**	4
Employee advances	**10**	6
Total prepaid and other assets	$ **1,366**	$ 1,096

Note 7: other receivables

The following table is a detailed summary of the items making up other receivables. The salary receivables were generated when the Corporation implemented salary payments in arrears in 2015–16 for all employees paid bi-weekly. As a result, a one-time payment was issued to employees who are paid every two weeks on a "current" basis. These payments did not represent a salary expense in 2015–16 and were recorded as a receivable by the Corporation, as they will be recovered from employees in the future.

Other receivables	2023	2022
Salary receivables	$ **1,357**	$ 1,511
Other receivables	**250**	282
Total other receivables	$ **1,607**	$ 1,793

Note 8: investments

Accounting policy

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturities. The Corporation currently holds listed bonds, guaranteed investment certificates (GICs) and mutual fund accounts that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the investment policy approved by the Board of Directors. Interest income is accrued when earned and included in income for the year.

Supporting information

Investments consist of Canadian, provincial and federal bonds with effective interest rates ranging from 0.4% to 4.3% (coupon rates ranging from 0.5% to 4.4%), GICs with interest rates ranging from 0.9% to 4.9%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from June 2023 to April 2028 and those of the GICs vary from June 2023 to March 2028; the Corporation intends to hold all of them to maturity. The mutual fund accounts can be liquidated on demand. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the table below.

The fair value of the investments can be determined by (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The fair values of the investments are not quoted in an active market, but rather are determined from quoted prices from a decentralized, over-the-counter market, which is considered Level 2 in the fair-value hierarchy.

The current portion of investments consists of instruments maturing in the next 12 months.

Investments	2023	2022
Current portion	$ **7,057**	$ 2,134
Long-term portion	**32,316**	18,466
Total investments	$ **39,373**	$ 20,600

Carrying amount at amortized cost	2023	2022
Provincial bonds	$ **9,336**	$ 6,503
Federal bonds (Note 18)	**1,001**	1,001
Guaranteed investment certificates	**29,036**	13,096
Total investments	$ **39,373**	$ 20,600

Fair value	2023	2022
Provincial bonds	$ **9,155**	$ 6,344
Federal bonds (Note 18)	**970**	986
Guaranteed investment certificates	**29,183**	13,155
Total investments	$ **39,308**	$ 20,485

As at March 31, 2023 *Obligations*	Effective interest rate	Coupon interest rate	< 1 year	1 to 5 years	> 5 years	Total
Federal bonds (Note 18)	1.7%	1.8%	$ —	$ 1,001	$ —	$ 1,001
Provincial bonds	0.4%–4.3%	0.5%–4.4%	787	6,536	2,013	9,336
Guaranteed investment certificates	0.9%–4.9%	0.9%–4.9%	6,270	22,766	—	29,036
Total	—	—	$ **7,057**	$ **30,303**	$ **2,013**	$ **39,373**

Note 9: property, plant and equipment

Accounting policy

Computer equipment, furniture and fixtures, and leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized on a straight-line basis to write down the cost less estimated residual value of such assets. Depreciation on assets under construction does not commence until they are complete and available for use. The following useful lives are applied.

Computer equipment	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	remaining length of the lease

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and it is recognized in operating and administrative expenses.

Items of property, plant and equipment measured at cost less depreciation and impairment losses are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. An estimate of the recoverable amount is made when indicators of impairment are present. The recoverable amount is the greater of the fair value less cost to sell and the value in use.

Accounting estimates and judgements

Property, plant and equipment with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgement with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, and obsolescence or physical damage to the asset.

The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs of disposal and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs, or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the financial statements, both in determining the existence of any impairment and in determining the amount of impairment.

Key sources of estimation uncertainty

The following are key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the financial statements within the next 12 months.

- Capital assets—comprising property, plant and equipment, and intangible assets with finite useful lives—are depreciated or amortized over their useful lives.
- Useful lives are based on management's best estimates of the periods of service provided by the assets.
- The appropriateness of useful lives of these assets is assessed annually.
- Changes to useful life estimates would affect future depreciation or amortization expenses, and future carrying values of assets.

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

Property, plant and equipment	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance as at March 31, 2021	$ 672	$ 1,167	$ 1,536	$ 3,375
Additions	124	167	175	466
Disposals	(147)	(7)	—	(154)
Balance as at March 31, 2022	$ 649	$ 1,327	$ 1,711	$ 3,687
Additions	—	105	182	287
Disposals	—	(11)	—	(11)
Balance as at March 31, 2023	**$ 649**	**$ 1,421**	**$ 1,893**	**$ 3,963**
Accumulated depreciation				
Balance as at March 31, 2021	$ 526	$ 683	$ 152	$ 1,361
Depreciation	115	138	162	415
Disposals	(147)	(6)	—	(153)
Balance as at March 31, 2022	$ 494	$ 815	$ 314	$ 1,623
Depreciation	73	147	206	426
Disposals	—	(11)	—	(11)
Balance as at March 31, 2023	**$ 567**	**$ 951**	**$ 520**	**$ 2,038**
Net book value, by asset class				
Net book value as at March 31, 2022	$ 155	$ 512	$ 1,397	$ 2,064
Net book value as at March 31, 2023	**$ 82**	**$ 470**	**$ 1,373**	**$ 1,925**

Proceeds associated with the disposals that occurred in the years ended were immaterial. There was no impairment of property, plant and equipment.

Note 10: intangible assets

Accounting policy

Intangible assets consist of software used in business operations. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted for as an intangible asset. Intangible assets are accounted for using the cost model, whereby capitalized costs are amortized on a straight-line basis over their estimated useful life. The estimated useful life of software is three to 10 years.

Accounting estimates and judgements

Intangible assets are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. An estimate of the recoverable amount is made when indicators of impairment are present. The recoverable amount is the greater of fair value less cost to sell and value in use.

Supporting information

Intangible assets consist of software purchased by the Corporation.

Changes to intangible assets are shown in the following table.

Intangible assets		Total
Cost		
Balance as at March 31, 2021	$	951
Additions		33
Disposals		—
Balance as at March 31, 2022	**$**	**984**
Additions	$	12
Disposals		—
Balance as at March 31, 2023	**$**	**996**
Accumulated amortization		
Balance as at March 31, 2021	$	934
Amortization		13
Disposals		—
Balance as at March 31, 2022	**$**	**947**
Amortization	$	22
Disposals		—
Balance as at March 31, 2023	**$**	**969**
Net book value		
Net book value as at March 31, 2022	$	37
Net book value as at March 31, 2023	**$**	**27**

There was no impairment of intangible assets.

Note 11: trade and other payables

Supporting information

Trade and other payables of the Corporation principally comprise amounts outstanding for purchases relating to corporate activities, accruals for employee vacations and overtime, and payroll and commodity taxes. The usual credit period for trade purchases is 30 days.

Trade and other payables	2023	2022
Accounts payable (Note 18)	**$ 1,043**	$ 788
Accrued vacation and overtime	**7,114**	6,704
Accrued liabilities	**7,463**	5,463
Commodity taxes payable	**1,477**	1,272
Total trade and other payables	**$ 17,097**	$ 14,227

Note 12: employee benefits

Accounting policy

Employees are entitled to specific non-pension, post-employment allowances and benefits. Each year, independent actuaries use the projected unit credit method to actuarially determine the employee benefit expense. To do so, they make assumptions about such factors as the discount rate for obligations, expected mortality, the expected rate of future compensation and the expected health care costs trend rate. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized immediately in other comprehensive income and included in the statement of profit and other comprehensive income.

The Corporation provides post-employment benefits payable after completion of employment. The types of post-employment benefits include extended health care, dental care and paid-up life insurance.

The Corporation provides sick leave as other employee benefits. Sick leave is accumulated by employees and available in case of absence from work. Accumulated sick leave is not paid out when the employee leaves the Corporation. Starting in April 2022, the sick leave program was curtailed. Current employees' accumulated sick leave banks were frozen to be used in the future. Sick leave was replaced by a short-term disability program.

Substantially, all employees of the Corporation are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Under current legislation, the Corporation has no legal or constructive obligation to make further contributions for any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

Accounting estimates and judgements

Post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of the benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs, based on the terms of the plan. The significant actuarial assumptions used by the Corporation in measuring the benefit obligations and enefit costs are discount rates, mortality tables, health care costs trend rates and the inflation rate, which have an impact on the long-term rates of compensation increase. The Corporation consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on defined benefit obligations, funding requirements, and pension, other post-employment and other long-term benefit costs.

Supporting information

12.1 Post-employment and other long-term employee benefits

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

Employee benefits	2023	2022
Current portion	**$ 2,403**	$ 1,803
Long-term portion	**31,519**	31,529
Total employee benefits	**$ 33,922**	$ 33,332

The measurement date for the last actuarial valuation of the provision for employee benefits was March 31, 2023. The next actuarial valuation is planned for March 2026 or sooner, as required.

The significant actuarial assumptions adopted in measuring the Corporation's retirement allowance and non-pension benefits are as follows.

Actuarial assumptions	2023	2022
Discount rate for projected benefit obligation	**4.90%**	4.00%
Rate of general salary increases	**5.50% at March 31, 2024 5.30% at March 31, 2025 5.00% at March 31, 2026 4.80% at March 31, 2027 4.5% thereafter**	3.25%
Initial weighted average health care costs trend rate	**4.70%**	4.80%
Ultimate weighted average health care costs trend rate	**4.00%**	4.00%
Year ultimate health care costs trend rate is reached	**2040**	2040
Mortality rate table	**CPM2014**	CPM2014
Mortality rate table improvement scale	**MI-2017**	MI-2017
Retirement age	**65**	65

Movements in the present value of the defined benefit obligation during the year are as follows.

Employee benefits obligation	2023	2022
Opening value of obligation	**$ 33,332**	$ 37,097
Current service cost	**1,747**	2,034
Interest on present value of obligation	**1,389**	1,318
Actuarial gains	**(1,815)**	(4,831)
Past service cost	**—**	(1,580)
Employee benefit payments	**(731)**	(706)
Closing value of benefit obligation	**$ 33,922**	$ 33,332

Included in the actuarial gains and losses from financial assumptions are the adjustments due to the effect of the discount rate applied to the employee benefit obligation, adjustments to usage trends, participation rates, and changes in premium and drug cost assumptions.

The weighted average duration of the defined benefit obligation is 20 years (2022, 19 years).

Amounts recognized in the Statement of Profit and Other Comprehensive Income for the year in respect of this benefit plan are as follows.

Employee benefits expenses	**2023**		**2022**	
Current service cost	**$**	**1,747**	$	2,034
Interest on present value of obligation		**1,389**		1,318
Actuarial loss (gain) recognized in year		**572**		(151)
Past service cost		**—**		(1,580)
Employee benefits expenses	**$**	**3,708**	$	1,621

The amount recognized in the Statement of Profit and Other Comprehensive Income for the actuarial gain or loss is made up of the following elements.

Actuarial gain (loss) on employee benefit obligation	**2023**		**2022**	
Actuarial gain from financial assumptions	**$**	**1,815**	$	4,831
Less: Actuarial gain (loss) recognized in year		**(572)**		151
Actuarial gain on employee benefit obligation	**$**	**2,387**	$	4,680

12.2 Sensitivity analysis

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the key assumptions shown. If all other assumptions are held constant, a hypothetical increase of one percentage point in the following assumed rates will increase (decrease) the defined benefit obligation by the amounts in the table below. The effect of a hypothetical decrease of one percentage point in the assumed rates will have approximately the opposite result. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining the sensitivity are consistent with those used to determine the benefit obligations.

Effect on defined benefit obligation at fiscal year end	**Increase (decrease) in the benefit obligation**			
	Increase of 1%		Decrease of 1%	
Effect of change on discount rate assumption	$	(6,004)	$	8,024
Effect of change on salary scale assumption	$	182	$	(161)
Effect of change on health care costs trend rate assumption	$	7,540	$	(5,739)

The Corporation expects to expense $3,995 in 2024 for current service costs related to employee benefits.

12.3 Pension benefits

Almost all employees of the Corporation are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefits plan established through legislation and sponsored by the Government of Canada. Employees and the Corporation must both contribute. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was 9.8% (2022, 9.5%). Total contributions of $10,941 (2022, $9,440) were recognized as an expense in the current year.

The Government of Canada has a statutory obligation to pay benefits under the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Quebec Pension Plan benefits and are indexed to inflation.

Note 13: revenue recognition

Accounting policy

Services revenue

The Corporation generates revenue from the delivery of services to its Client-Partners. The six main categories of services that the Corporation delivers are as follows:

- contracting, which is responsible for handling procurement and solicitation planning, preparing tender documents, soliciting and evaluating bids, awarding contracts, and conducting market assessments;
- contract management, which is responsible for contract payment administration, change management, risk management, document and schedule control, quality assurance, quality audit, dispute mitigation and resolution, claims management, performance assessment, and warranty management;
- construction technical support, which is responsible for activities such as commissioning and payment processing services;
- project and program management, which is responsible for services ranging from specific tasks to support DND project managers to turnkey project services and program management;
- environmental technical support, which is responsible for performing activities related to energy performance contracts, environmental assessments, environmental management systems, and work on contaminated sites and sites with unexploded explosive ordnance; and
- real property technical support, which is responsible for operational support functions to ensure the efficient oversight of DND's properties and buildings (this includes the delivery of facility management and technical support services, and real property acquisition and disposal services).

Revenue is recognized after the service is rendered. The Corporation invoices its Client-Partners monthly, as established in service level arrangements (SLAs). SLAs typically have a duration equivalent to the fiscal year or less. All SLAs are renegotiated and signed annually, based on the nature of the funding for the clients. As the need arises during the fiscal year, 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.

Deferred revenue arises when the amount invoiced to the Client-Partners exceeds the services delivered through fixed-fee SLAs. The Corporation has an unconditional right to payment when it has invoiced in accordance with fixed-fee SLAs. The amounts in excess will be recognized in revenue as services are delivered. There are no assets related to performance rendered in advance of payments at year end, as all SLAs are renegotiated annually.

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

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.

Investment revenue

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

Accounting estimates and judgements

Performance obligations are satisfied as the service is rendered to the Client-Partner, which simultaneously receives and consumes the benefits provided. For travel and disbursements, the performance obligations are satisfied as the expenses are incurred. The output method (survey of performance to date) is used to measure the obligation satisfied over time.

The transaction price for services rendered and for travel and disbursements is the hourly rate established by the Corporation annually for services and agreed to with the clients annually for time-based arrangements. Fixed fee-based arrangements are annual agreements and the price for services and for related travel and disbursements is agreed to in the arrangement. There is no variable consideration, and no obligations for returns, refunds or other similar obligations.

When a change is made to the arrangement (changeover or amendment) for price, scope of work, or travel and disbursements, the change will be accounted for as a new arrangement prospectively.

There are no costs to obtain or fulfill a contract with a customer that requires capitalization. There are no sales commissions or other costs that would not already be incurred.

There is no financing component to any revenue arrangement the Corporation enters into with a customer.

Supporting information

13.1 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.

2023	Activity						
Region	Contract Management	Project and Program Management	Real Property Technical Support	Contracting	Construction Technical Support	Environmental Technical Support	Total revenue, by region
Atlantic	$ 10,331	$ 4,433	$ 2,505	$ 1,965	$ 1,609	$ 3,588	$ 24,431
Quebec	11,335	5,410	2,322	1,660	1,368	1,949	24,044
National Capital	7,312	14,419	6,626	634	428	1,947	31,366
Ontario	14,233	5,443	3,427	2,353	4,419	2,465	32,340
Pacific	9,373	4,490	1,013	995	695	821	17,387
Western	12,693	5,944	1,819	3,082	947	1,090	25,575
Head Office	919	373	341	2,094	1,704	108	5,539
Total revenue, by activity	**$ 66,196**	**$ 40,512**	**$18,053**	**$ 12,783**	**$ 11,170**	**$ 11,968**	**$ 160,682**

2022	Activity						
Region	Contract Management	Project and Program Management	Real Property Technical Support	Contracting	Construction Technical Support	Environmental Technical Support	Total revenue, by region
Atlantic	$ 9,727	$ 5,762	$ 1,729	$ 1,766	$ 987	$ 2,503	$ 22,474
Quebec	10,233	5,269	1,659	1,668	1,291	1,744	21,864
National Capital	5,096	13,845	6,613	284	479	1,868	28,185
Ontario	12,944	5,825	2,873	2,284	6,147	2,175	32,248
Pacific*	8,813	3,848	301	883	714	790	15,349
Western*	12,094	6,039	1,034	3,080	847	1,005	24,099
Head Office	556	158	23	1,710	1,491	—	3,938
Total revenue, by activity	**$ 59,463**	**$ 40,746**	**$14,232**	**$ 11,675**	**$ 11,956**	**$ 10,085**	**$ 148,157**

**The Corporation has reclassified comparative information to be consistent with the current-year presentation.*

The following table disaggregates revenue by region and contract type.

Time-based revenue

Region	2023	2022
Atlantic	**$ 5,430**	$ 4,699
Quebec	**7,489**	7,396
National Capital	**26,484**	24,103
Ontario	**8,258**	9,711
Pacific*	**5,573**	5,407
Western*	**5,164**	4,830
Head Office	**2,680**	2,438
Total time-based revenue	**$ 61,078**	$ 58,584

**The Corporation has reclassified comparative information to be consistent with the current-year presentation.*

Fixed-fee revenue

Region		2023		2022
Atlantic	$	**19,001**	$	17,775
Quebec		**16,555**		14,468
National Capital		**4,882**		4,082
Ontario		**24,082**		22,537
Pacific*		**11,814**		9,942
Western*		**20,411**		19,269
Head Office		**2,859**		1,500
Total fixed-fee revenue	**$**	**99,604**	$	89,573
Total revenue	**$**	**160,682**	$	148,157

**The Corporation has reclassified comparative information to be consistent with the current-year presentation.*

As at March 31, 2023, $1,299 (2022, $1,285) in deferred revenue was related to unsatisfied performance obligations. Management expects the balance to be recognized as revenue during the next reporting period. The changes in deferred revenue are shown in the following table.

Deferred revenue		2023		2022
Balance as at the beginning of the year	$	**1,285**	$	—
Recognition of deferred revenue		**(473)**		—
Amounts invoiced and revenue deferred		**487**		1,285
Balance as at the end of the year	**$**	**1,299**	$	1,285

13.2 Investment revenue

Investment revenue is mainly derived from the cash in the bank and investments.

Income from		2023		2022
Bank deposit interest	$	**1,226**	$	231
Investment interest		**519**		239
Other interest		**11**		12
Total investment revenue	**$**	**1,756**	$	482

Note 14: operating and administrative expenses

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

Operating and administrative expenses	2023	2022
Cloud computing services	$ **2,039**	$ 1,850
Software maintenance	**1,582**	1,430
Professional services	**1,295**	1,478
Employee training and development	**1,030**	688
Leased location operating costs	**960**	855
Equipment rental	**872**	1,063
Telephone and data communications	**752**	846
Office services, supplies and equipment	**671**	540
Computer hardware	**594**	46
Travel	**558**	26
Client services and communications	**403**	430
Furniture and equipment	**303**	225
Recruiting	**252**	105
Staff relocation	**191**	170
Hospitality	**160**	30
Memberships and subscriptions	**91**	94
Computer software	**81**	135
Postage and freight	**35**	26
Other	**27**	21
Leasehold improvements	**12**	7
Total operating and administrative expenses	$ **11,908**	$ 10,065

Note 15: supplemental operating cash flow information

Supplemental operating cash flow information	2023	2022
Interest charges on lease obligations	$ **203**	$ 226
Interest received from bank deposits	$ **1,226**	$ 231
Interest received from investments	$ **519**	$ 239
Acquisition of property, plant and equipment not paid	$ **92**	$ 2

Note 16: financial instruments and related risk management

Accounting policy

Recognition and initial measurement

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Classification of financial assets

At inception, a financial asset is classified at amortized cost or fair value.

A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Corporation assesses the business model at an asset level, as this best reflects the way the business is managed, and information is provided to management.

In assessing whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Corporation considers the following:

- management's stated policies and objectives for the asset, and the operation of those policies in practice;
- how management evaluates the performance of the asset;
- the frequency of any expected asset sales; and
- whether assets that are sold are held for an extended period relative to their contractual maturity or are sold shortly after acquisition.

Financial assets held for trading are not held within a business model whose objective is to hold the assets in order to collect contractual cash flows.

Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Classification of financial liabilities

The Corporation classifies its financial liabilities as measured at amortized cost or at fair value through profit and loss (FVTPL).

Financial liabilities are classified at FVTPL when the financial liability either is held for trading or is designated as at FVTPL.

The Corporation has not designated any financial liability as FVTPL as at the end of the reporting period.

A financial liability is classified as held for trading using the same criteria described for a financial asset classified as held for trading.

Financial liabilities at FVTPL are presented at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described below.

Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, are cancelled or expire.

Classification of financial assets and liabilities

The classifications list in the table below remained consistent for the years presented in this financial statement.

Financial assets and liabilities	Classification	Subsequent measurement
Cash and cash equivalents	FVTPL	FVTPL
Investments	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Other assets	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost

Fair value measurement

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Corporation measures the fair value using quoted prices in an active market, when available. If the market is not active, the Corporation establishes fair value using valuation techniques, including recent arm's-length transactions between knowledgeable, willing parties, if available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price—that is, the fair value of consideration given or received. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at that price.

Identification and measurement of impairment

At each reporting date, the Corporation determines whether there is objective evidence that financial assets carried at amortized cost are impaired. A financial asset is impaired when objective evidence demonstrates a loss has occurred after the initial recognition of the asset.

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 expected credit loss (ECL) receivables. The ECL allowance for trade and other receivables is estimated using the simplified approach, which requires the use of lifetime expected credit losses. The Corporation estimates the lifetime expected credit losses from a combination of historical write-off percentages and forward-looking information used to identify a deterioration of credit, either at a company level or a macroeconomic level. The amount of the allowance is the difference between the receivable's gross carrying amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in operating and administrative expenses. The Corporation does not expect credit losses from assets such as trade receivables, as its historical write-offs are $0, and the creditworthiness of the clients is rated as AAA by the rating agency DBRS. Therefore, the Corporation has concluded that no impairment of financial assets has to be recognized in accordance with IFRS 9. The Corporation reviews the expected credit loss provision annually.

Except for investments, the carrying amounts of financial assets and financial liabilities approximate the fair values due to the short term to maturity of the items. Fair value of investments is disclosed in Note 8.

Financial instruments, other than those that are not subsequently measured at fair value and for which fair value approximates carrying value, must be disclosed at their fair value and be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements, as follows:

- Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3—inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement of cash is classified as level 1 of the fair value hierarchy as at March 31, 2023 and 2022.

Supporting information

16.1 Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets subject to credit risk as at March 31, 2023, was $89,517 (as at March 31, 2022, $75,997) and represented the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset. The Corporation minimizes credit risk on cash by depositing the cash only with reputable and high-quality financial institutions. The Corporation has no significant exposure to credit risk on trade receivables, as all of the trade receivables are due from departments of the Government of Canada. The Corporation is exposed to concentration risk of trade receivables with DND as described in Note 18. Based on historic default rates and the aging analysis in Note 5, Trade Receivables, the Corporation evaluates the loss allowance on trade receivables (based on lifetime expected credit loss) to an amount of $nil (March 31, 2022, $nil). Other assets consist of balances related to travel advances to employees and computer loans to employees. Prepaids are not included in other assets.

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

2022	FVTPL	Amortized cost	Total carrying amount
Cash and cash equivalents	$ 36,918	$ —	$ 36,918
Investments	—	20,600	20,600
Trade receivables	—	16,676	16,676
Other receivables	—	1,793	1,793
Other assets	—	10	10
Total financial assets	$ 36,918	$ 39,079	$ 75,997

16.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities for trade and other payables as at March 31, 2023, was $8,506 (2022, $6,251) and represented the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low, since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. All trade and other payables mature within six months or less. Trade and other payables consist of balances owed to suppliers. Commodity taxes payable and accrued vacation and overtime are not included in trade and other payables. In addition, as at March 31, 2023, the Corporation's financial assets exceeded its financial liabilities by $81,011 (2022, $69,746).

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

2023	Carrying amount	Contractual cash flows	< 6 months	> 6 months
Trade and other payables	**$ 8,506**	**$ 8,506**	**$ 8,506**	**$ —**
Financial liabilities	**$ 8,506**	**$ 8,506**	**$ 8,506**	**$ —**

2022	Carrying amount	Contractual cash flows	< 6 months	> 6 months
Trade and other payables	$ 6,251	$ 6,251	$ 6,251	$ —
Financial liabilities	$ 6,251	$ 6,251	$ 6,251	$ —

16.3 Market risk

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

The Corporation is exposed to fluctuations in interest rates on its investments. As at March 31, 2023, all of the investments ($39,373) were in fixed interest-bearing instruments (2022, $20,600). Fluctuations in the interest rate would affect the fair value of the instruments. Management intends to hold these instruments until maturity. The Corporation has determined that the market risk is not significant.

Note 17: leases

Accounting policy

Lessee

At the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component. The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method, as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Corporation is reasonably certain to exercise that option. Lease terms (including renewal options) range from two to 18 years for offices and co-location spaces. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate. The eighted average incremental borrowing rate as of March 31, 2023, was 3.05% (2022, 2.83%).

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate; if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee; if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option; or if there is a change in term. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Lessor

Leases for which the Corporation is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the lessor is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Classification is reassessed if the terms of the lease change.

Accounting estimates and judgements

The Corporation is party to certain arrangements, which requires management to determine whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation determines its incremental borrowing rate by adjusting the risk-free rate to reflect the length of the lease and the regional property yield. The incremental borrowing rate is updated when there are modifications to the lease and is adjusted for each new lease.

17.1 Right-of-use assets

The Corporation's right-of-use assets comprise office space, facilities for information technology (data warehouses), equipment and multifunction copiers. Extension options are included in the measurements of the lease liability when it is reasonably certain the Corporation will exercise the extension option.

The changes in right-of-use assets are shown in the following table.

Right-of-use assets	Office space leases		Data warehouse leases		Total right-of-use assets	
Balance as at March 31, 2021	$	7,574	$	407	$	7,981
Additions		456		—		456
Depreciation		(1,223)		(122)		(1,345)
Disposals		(59)		—		(59)
Balance as at March 31, 2022	**$**	**6,748**	**$**	**285**	**$**	**7,033**
Additions		452		—		452
Depreciation		(1,167)		(122)		(1,289)
Disposals		—		—		—
Balance as at March 31, 2023	**$**	**6,033**	**$**	**163**	**$**	**6,196**

17.2 Lease obligations

Lease obligations	2023		2022	
Current portion	**$**	**1,310**	$	1,278
Long-term portion		**5,287**		6,135
Total lease obligations	**$**	**6,597**	$	7,413

Lease obligations	Total	
Balance as at March 31, 2021	**$**	**8,344**
Additions		456
Disposals		(55)
Payments		(1,558)
Interest expense		226
Balance as at March 31, 2022	**$**	**7,413**
Additions		452
Payments		(1,471)
Interest expense		203
Balance as at March 31, 2023	**$**	**6,597**

The following represents the contractual undiscounted cash flows for lease obligations as at March 31, 2023.

Contractual period	Total	
One year or less	$	1,484
Between one and two years	$	869
Between two and five years	$	2,508
Over five years	$	2,291
Total	**$**	**7,152**

The expense relating to variable lease payments not included in the measurement of lease obligations was $960 (2022, $855). This consisted of variable lease payments for operating costs, property taxes and insurance. There were no expenses relating to short-term leases and expenses relating to leases of low-value assets were immaterial. Total cash outflow for leases was $2,431 (2022, $2,413), including $1,268 (2022, $1,332) of principal payments on lease obligations.

The Corporation signed a lease agreement for its new Pacific regional office on August 30, 2022. Lease improvements are required prior to occupying the facility and are expected to be completed by July 2023. The Corporation has committed to a five-year lease term with an undiscounted cash flow of $591.

Note 18: 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 of $160,682 (2022, $148,157) was generated from services provided to entities owned by the Government of Canada. The amounts due to and from related parties, included in trade receivable and trade and other payables, respectively, are as follows:

Due from / to related-party	2023	2022
Due from: Department of National Defence (DND)	**$ 30,007**	$ 15,423
Canadian Forces Housing Agency	**1,749**	1,045
Communications Security Establishment	**150**	171
Shared Services Canada	**55**	37
Total	**$ 31,961**	$ 16,676
Due to: Shared Services Canada	**4**	7
Department of Justice	**153**	393
Total	**$ 157**	$ 400

The Corporation incurred expenses with other Government of Canada departments. These transactions totalled $920 (2022, $1,321) and no portion of this amount relates to the prior year. Of these expenses, the Corporation recovered $828 (2022, $1,206) from DND.

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

The Corporation purchased a bond on March 2, 2022, for $1,002 issued by the Canadian Mortgage and Housing Corporation. The Corporation earned investment revenue of $18 during the year (2022, $5). Interest receivable of $5 (2022, $5) is included in other receivables.

18.1 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 key management personnel was as follows:

Key Management Compensation	2023	2022
Short-term benefits	$ **5,355**	$ 4,429
Post-employment benefits	**676**	473
Total key management compensation	$ **6,031**	$ 4,902

Note 19: capital management

The Corporation's objectives in managing capital are to safeguard the Corporation's ability to continue as a going concern and fulfill its stated mandate, generate sufficient cash to meet its anticipated operating and capital requirements, and settle its financial obligations as they come due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the planning and operating risks inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by DND. Cash levels are constantly monitored, and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into account in the determination of billing rates for future services. The Corporation's capital consists of its retained earnings.

Note 20: taxation

The Corporation is not subject to corporate taxation under section 149(1)(d) of the *Income Tax Act*.

Note 21: contingent liabilities

Accounting policy

Provisions are liabilities to the Corporation for which the amount or timing is uncertain. Provisions are recognized when (a) the Corporation has a current legal or constructive obligation as a result of past events; (b) an outflow of resources will likely be required to settle the obligation; and (c) the amount can be reliably estimated. If these conditions are not met, no provision shall be recognized, and a contingent liability will be disclosed.

Accounting estimates and judgements

In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgement in assessing whether the Corporation has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation.

In making this determination, management may use experience, prior external precedents, and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is considered to be remote.

When management has determined that the Corporation has a present legal or constructive obligation as a result of a past event, that it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate of the obligation can be made, a provision is accrued.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of outflows, and the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how the Corporation intends to handle the obligation. The actual amount and timing of outflows may deviate from assumptions, and the difference might materially affect future financial statements, with a potentially adverse impact on the results of operations, financial position and liquidity.

21.1 Legal claims

The Corporation's efforts to resolve disputes are reflected in the number and value of claims before the courts. As at March 31, 2023, there were 12 ongoing claims totalling $14,557. These were related to contracts the Corporation had put in place on behalf of its Client-Partners. As at March 31, 2022, there were 15 ongoing claims totalling $21,338.

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 the Corporation does not consider it necessary to record any provision in its financial statements relating to these particular legal claims.

In addition, as at March 31, 2023, there were other ongoing legal claims, not related to DND, for which the outflow of resources to settle the obligations either cannot be estimated or is not probable at this time. No amount for these claims had been recognized as at March 31, 2023.

DEFENCE
CONSTRUCTION
CANADA

CONSTRUCTION
DE DÉFENSE
CANADA

www.dcc-cdc.gc.ca