DEFENCE CONSTRUCTION CANADA

CONSTRUCTION DE DÉFENSE CANADA

2022–2023

THIRD QUARTER FINANCIAL REPORT

PERIOD ENDED DECEMBER 31, 2022

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

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the third quarter ended December 31, 2022, for Defence Construction Canada (the "Corporation" or "DCC"). This discussion should be read in conjunction with the unaudited condensed interim financial statements for the period ended December 31, 2022.

The Corporation prepared this quarterly report as per the requirements of the *Financial Administration Act*. This statute requires all federal Crown corporations to prepare and make public a report within 60 days of the end of each fiscal quarter. These statements were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and are reported in Canadian dollars. The Corporation also recommends that this information be read in conjunction with the Corporation's MD&A and annual financial statements for the year ended March 31, 2022 (the "*Annual Report 2021–2022*"). Financial results reported in the MD&A are rounded to the nearest thousand. Related percentages are based on numbers rounded to the nearest thousand. DCC management is responsible for the information presented in the MD&A and unaudited condensed interim financial statements.

In the following analysis, all references to the third quarter refer to the three months ended December 31, 2022. All references to the previous year's third quarter relate to the three months ended December 31, 2021. All references to the year-to-date period refer to the nine months ended December 31, 2022. All references to the previous year-to-date period refer to the nine months ended December 31, 2021. All references to the previous year end relate to March 31, 2022.

1.0 MATERIALITY

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

2.0 CORPORATE PROFILE

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

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

DCC is proud to have worked with DND since 1951, acquiring the specialized expertise and large knowledge base to manage projects at home and abroad, from traditional to innovative, from simple maintenance work to complex construction projects. From project needs planning to facility decommissioning, DCC's work covers a broad spectrum of activities. DCC's resources are divided among five service lines.

Contract Services

The Contract Services Team handles planning and contracting for goods and for professional, environmental, real property, construction and maintenance services.

Contract Management Services

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

Environmental Services

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

Project and Program Management Services

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

Real Property Management Services

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

3.0 OPERATIONAL PERFORMANCE INDICATORS

3.1 COST OF DCC SERVICE DELIVERY

This indicator was initially established to measure the cost of DCC's services to its Client-Partners, in relation to the size of the infrastructure and environmental program delivered by DCC. In recent years, DND has requested increased support from DCC in non-program-related services. As a result, DCC has revised its cost of DCC service delivery. Starting in fiscal 2022–2023, that cost only includes service revenue related to program-driven services, including Contract Management, Project and Program Management, and Contract services. DCC expects these costs to continue to fall in the range of 9% to 15% of its Client-Partners' actual program expenditures.

For the year-to-date period, the cost of service delivery for program-driven services was 12%, up one percentage point from 2021–2022. This increase was due to a slower DND program rollout than that in the previous year to date, along with a planned billing rate increase and higher demand for program-driven services, which led to higher revenue.

3.2 EMPLOYEE UTILIZATION RATE

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

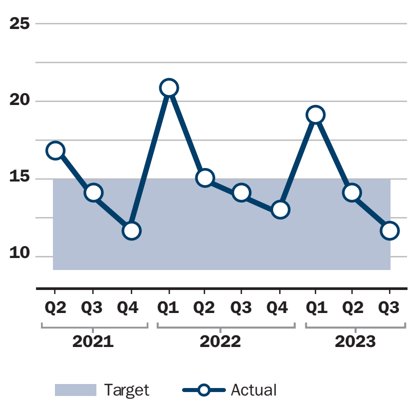
The Corporation sets a target to recover 70% of employee hours from the Client-Partners. For the year-to-date period, the utilization rate was 70%—a decrease of one percentage point from the same period in 2021–2022. The utilization rate decreased primarily due to increased vacation taken by employees during this period, as a result of the lifting of pandemic-related restrictions across Canada, as well as to non-revenue-generating corporate strategic initiatives.

3.3 INVESTMENT IN TRAINING AND DEVELOPMENT

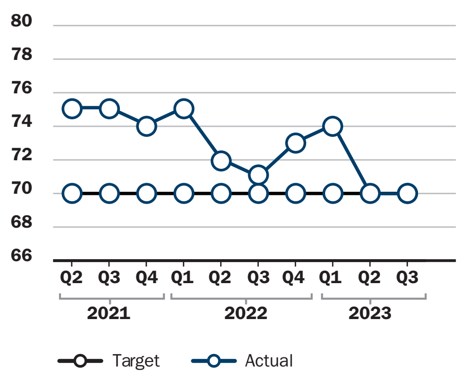
DCC's ability to serve DND is heavily dependent on the skills of its employees, and maintaining a skilled and professional workforce is a key corporate objective. DCC's performance indicator for training and development is based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development activities, expressed as a percentage of base salary cost. In 2022–2023, DCC reduced its 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.

For the year-to-date period, the actual percentage was 3%, consistent with the same period in 2021–2022. The amount of training is dependent on the effort required to develop and maintain internal courses, and the timing and delivery of professional development activities in various regions. In the current period, training activities returned to normal, as pandemic restrictions were lifted and delivery shifted to a hybrid model.

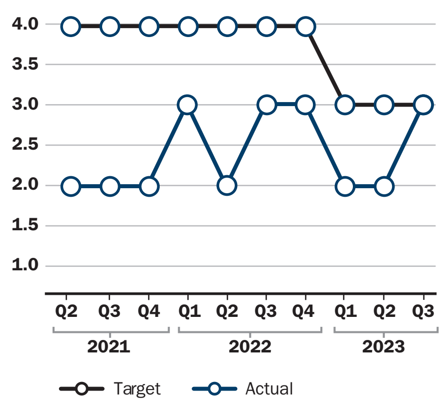
Cost of Service Delivery
(Percentage, year to date)



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



Investment in Training and Development
(Percentage, year to date)



4.0 RISK MANAGEMENT

There have been no material changes to the corporate risks identified by management and discussed in Section 5.0, Risk Management, of the MD&A in DCC's *Annual Report 2021–2022*.

5.0 FINANCIAL PERFORMANCE

5.1 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $38 million in the third quarter, an increase of $2 million or approximately 6% from the same period in 2021–2022. For the year-to-date period, services revenue was $116 million, an increase of $7 million or approximately 7% over the previous year-to-date period. The increases were due to an increase in demand for services from the Client-Partners, combined with a planned billing rate increase for the year.

In general, services revenue directly correlates with DND's spending on infrastructure and environmental projects. Services revenue increases when the number and dollar value of DND projects increase and decreases when the opposite occurs. The cyclical nature of DND funding has a direct impact on demand for the Corporation's services and its services revenue. DCC's payments to project contractors on behalf of its Client-Partners totalled $719 million in the year-to-date period, 6% less than in the same period in 2021–2022. The DND program in 2022–2023 is expected to be similar to that in 2021–2022.

Revenue, by activity	**Three months ended December 31**		**Change**		**Nine months ended December 31**		**Change**	
(in thousands of dollars)	**2022**	2021	**$**	**%**	**2022**	2021	**$**	**%**
Contract Management	**$ 15,682**	$ 14,639	1,043	7%	**$ 48,373**	$ 43,642	4,731	11%
Project and Program Management	**9,745**	9,815	(70)	−1%	**28,657**	29,898	(1,241)	−4%
Real Property Technical Support	**4,304**	3,452	852	25%	**13,097**	10,466	2,631	25%
Contracting	**3,013**	2,882	131	5%	**9,288**	8,805	483	5%
Construction Technical Support	**2,916**	3,061	(145)	−5%	**7,964**	8,715	(751)	−9%
Environmental Technical Support	**2,782**	2,572	210	8%	**8,552**	7,030	1,522	22%
Total services revenue	**$ 38,442**	$ 36,421	2,021	6%	**$ 115,931**	$ 108,556	7,375	7%

Contract Management

Contract Management revenue increased by 7% in the third quarter and 11% in the year-to-date period when compared to the same periods in the previous year. The higher revenue was a result of increased demand from the Client-Partners (which accounted for 4 and 8 percentage points, respectively, of the increases) and the increase in billing rates (which accounted for 3 percentage points of each increase). The higher demand reflected the variability of services used by the Client-Partners as projects moved from the Project and Program Management and Contracting to Contract Management phases.

Project and Program Management

Project and Program Management revenue decreased by 1% in the third quarter and 4% in the year-to-date period when compared to the same periods in the prior year. The decreases over the prior periods were due to lower demand from the Client-Partners, partially offset by the billing rate increase (which accounted for 3 percentage points of each decrease).

Real Property Technical Support

Real Property Technical Support revenue increased by 25% in both the third quarter and the year-to-date period when compared to the same periods in the prior year. This was due to increased demand for services related to facility and portfolio management (which accounted for 22 percentage points of each increase) and the billing rate increase (which accounted for 3 percentage points of each increase).

Contracting

Contracting revenue increased by 5% in both the third quarter and the year-to-date period when compared to the same periods in the prior year. This was due to the increase in billing rates (which accounted for 3 percentage points of each increase) and the increased demand from the Client-Partners (which accounted for 2 percentage points of each increase).

Construction Technical Support

Construction Technical Support revenue decreased by 5% in the third quarter and 9% in the year-to-date period when compared to the same periods in the prior year. This was due to lower demand from the Client-Partners, partially offset by the billing rate increase (which accounted for 3 percentage points of each decrease).

Environmental Technical Support

Environmental Technical Support revenue increased by 8% in the third quarter and 22% in the year-to-date period when compared to the same periods in the prior year. The higher revenue was a result of an increase in demand (which accounted for 5 and 19 percentage points, respectively, of the increases) and the increase in billing rates (which accounted for 3 percentage points of each increase).

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, increased in the third quarter by $401,000, or approximately 326%, when compared to the previous year's third quarter. For the year-to-date period, investment revenue increased by $805,000 or 235% when compared to the same period in the prior year. The increases in both periods were due to a higher rate of return in the current period due to rising interest rates.

	Three months ended December 31		**Change**		**Nine months ended December 31**		**Change**	
(in thousands of dollars)	**2022**	2021	**$**	**%**	**2022**	2021	**$**	**%**
Investment revenue	**$ 524**	$ 123	401	326%	**$ 1,147**	$ 342	805	235%

5.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $28 million in the third quarter, an increase of $2 million or approximately 6% over the previous year's third quarter. For the year-to-date period, salaries totalled $84 million, an increase of $8 million or approximately 10% over the same period in the previous year. The increases were mainly due to an increase of approximately 7% (or 79) in full-time equivalents (FTEs) over the same period in the previous year, in response to increased demand from the Client-Partners. The remaining increase related to a planned annual increase in salaries, related to cost of living and performance pay.

In the third quarter, employee benefits totalled $7 million, an increase of $577,000 or approximately 9% from the same period in the prior year. For the year-to-date period, employee benefits totalled $21 million, an increase of $2 million or approximately 9% from the same period in the prior year. The increases were due to growth in the Corporation's workforce, slightly offset by a decrease in the cost of employee future benefits.

	Three months ended December 31		**Change**		**Nine months ended December 31**		**Change**	
(in thousands of dollars)	**2022**	2021	**$**	**%**	**2022**	2021	**$**	**%**
Salaries	**$ 28,403**	$ 26,670	1,733	6%	**$ 84,469**	$ 76,633	7,836	10%
Employee benefits	**7,211**	6,634	577	9%	**21,445**	19,595	1,850	9%
Total salaries and employee benefits	**$ 35,614**	$ 33,304	2,310	7%	**$ 105,914**	$ 96,228	9,686	10%
Employee benefits as a % of salaries	**25%**	25%			**25%**	26%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $3 million in the third quarter, an increase of $777,000 or approximately 29% over the previous year's third quarter. For the year-to-date period, operating and administrative expenses totalled $9 million, an increase of $2 million or 23%. A variety of factors influenced these expenses.

(in thousands of dollars)	Three months ended December 31 2022	Three months ended December 31 2021	Change $	Change %	Nine months ended December 31 2022	Nine months ended December 31 2021	Change $	Change %	Variance analysis
Computer hardware	**$ 556**	$ 19	537	2,826%	**$ 581**	$ 26	555	2,135%	The increases were due to one-time purchases of computer accessories previously rented.
Cloud computing services	**511**	477	34	7%	**1,411**	1,394	17	1%	The increases were due to increased costs associated with managed cloud services and the introduction of mobile contract management software to meet Client-Partner demand.
Software maintenance	**418**	303	115	38%	**1,242**	958	284	30%	The increases were due to a higher head count as a result of increased demand for services from the Client-Partners and the purchase of new virtual collaboration tools and engineering design software support.
Employee training and development	**330**	221	109	49%	**620**	424	196	46%	The increases were due to a gradual return to in-person training activities with the easing of COVID-19 restrictions.
Leased location operating costs	**260**	251	9	4%	**688**	675	13	2%	The increases were due to higher rental operating costs as a result of more employees returning to the office with the easing of COVID-19 restrictions.
Professional services	**199**	468	(269)	−57%	**906**	1,059	(153)	−14%	The decreases were due to one-time human resource initiatives completed in the prior period.
Travel	**193**	13	180	1,385%	**416**	19	397	2,089%	The increases were a result of business travel gradually returning to pre-COVID-19 levels.

(CONT'D)									
	Three months ended December 31		**Change**		**Nine months ended December 31**		**Change**		
(in thousands of dollars)	**2022**	2021	**$**	**%**	**2022**	2021	**$**	**%**	**Variance analysis**
Office services, supplies and equipment	**185**	148	37	25%	**490**	304	186	61%	The increases were related to employees returning to the workplace, as well as to higher property and liability insurance costs.
Telephone and data communications	**166**	200	(34)	−17%	**565**	589	(24)	−4%	The decreases were due to lower cellular and landline costs as a result of shifting to virtual meetings and reducing the number of landlines in offices.
Equipment rental	**139**	298	(159)	−53%	**688**	807	(119)	−15%	The decreases were due to the Corporation purchasing all computer peripherals previously rented.
Furniture and equipment	**115**	67	48	72%	**140**	158	(18)	−11%	The increase in the third quarter was due to purchasing additional workstations and upgrading the conference room at one regional office and the team collaboration facilities at a second. The decrease in the year-to-date period was due to the completion of office renovations in the prior period.
Recruiting	**96**	11	85	773%	**161**	61	100	164%	The increases were due to higher demand for external recruiting services.
Client services and communications	**92**	61	31	51%	**320**	281	39	14%	The increases were due to more communications initiatives being completed and to additional Indigenous branding initiatives, including the development of the Progressive Aboriginal Relations visual identity.

(CONT'D)

(in thousands of dollars)	Three months ended December 31 **2022**	2021	Change $	Change %	Nine months ended December 31 **2022**	2021	Change $	Change %	Variance analysis
Staff relocation	**60**	22	38	173%	**174**	109	65	60%	The increases were due mainly to the creation of the new Pacific Region and of key leadership roles in other regions.
Hospitality	**56**	12	44	367%	**101**	23	78	339%	The increases were due to employees' gradual return to the workplace, which increased in-person collaboration.
Memberships and subscriptions	**22**	18	4	22%	**68**	71	(3)	−4%	The variances were not material.
Other	**9**	7	2	29%	**17**	14	3	21%	The variances were not material.
Postage and freight	**8**	6	2	33%	**21**	20	1	5%	The variances were not material.
Computer software	**3**	40	(37)	−93%	**74**	98	(24)	−24%	The decreases were due to a lower demand for software licences.
Leasehold improvements	**1**	—	1	—	**12**	7	5	71%	The increases were due to renovations at a regional office.
Total operating and administrative expenses	**$ 3,419**	$ 2,642	777	29%	**$ 8,695**	$ 7,097	1,598	23%	

DEPRECIATION AND AMORTIZATION

Depreciation and amortization combined decreased by 4% or $20,000 in the third quarter and increased by 0.2% or $3,000 in the year-to-date period compared to the previous year. Depreciation of property, plant and equipment decreased by 14% or $17,000 in the third quarter and increased by 6% or $18,000 in the year-to-date period compared to the previous year. The decrease in depreciation of property, plant and equipment in the third quarter was due to certain items being disposed of in the prior year. Depreciation of right-of-use assets decreased by 1% or $4,000 in the third quarter and decreased by 2% or $23,000 in the year-to-date period compared to the previous year, mostly due to termination of copier leases in the last quarter of 2021–2022. The decrease in the year-to-date period was also due to the depreciation of renovation costs incurred in the prior period. Amortization of intangible assets increased by 20% or $1,000 in the third quarter and increased by 89% or $8,000 in the year-to-date period, due to the purchase of additional software.

	Three months ended December 31		Change		Nine months ended December 31		Change	
(in thousands of dollars)	**2022**	2021	**$**	**%**	**2022**	2021	**$**	**%**
Depreciation of right-of-use assets	**$ 331**	$ 335	(4)	−1%	**$ 992**	$ 1,015	(23)	−2%
Depreciation of property, plant and equipment	**106**	123	(17)	−14%	**319**	301	18	6%
Amortization of intangible assets	**6**	5	1	20%	**17**	9	8	89%
Total depreciation and amortization	**$ 443**	$ 463	(20)	−4%	**$ 1,328**	$ 1,325	3	0%

5.3 NET INCOME AND TOTAL COMPREHENSIVE INCOME

The net loss and total comprehensive loss in the current quarter was $558,000 compared to a net income of $80,000 in the previous third quarter. For the year-to-date period, the Corporation realized a net income of $1 million, compared to a net income of $4 million in the previous year-to-date period. The lower net income in both periods resulted from higher operating costs, as well as the growth in salaries driven by an increase in FTEs and the annual salary increase, partially offset by higher revenue due to rising demand from the Client-Partners. Higher costs for travel, software maintenance, computer hardware and office requirements were related to the increase in FTEs, as well as the easing of COVID-19 restrictions.

	Three months ended December 31		Change		Nine months ended December 31		Change	
(in thousands of dollars)	**2022**	2021	**$**	**%**	**2022**	2021	**$**	**%**
Net income (loss) and comprehensive income (loss)	**$ (558)**	$ 80	(638)	*	**$ 992**	$ 4,076	(3,084)	−76%

**The change was not meaningful.*

5.4 LIQUIDITY AND CAPITAL RESOURCES

DCC's financial and cash management policy is discussed in the *Annual Report 2021–2022*.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments totalled $58 million at December 31, 2022, an increase of $1 million or 1% from March 31, 2022.

The cash and cash equivalents balance at December 31, 2022, was $38 million, an increase of $1 million or 2% from March 31, 2022. In the nine-month period after March 31, 2022, the Corporation generated $2 million in cash through operating activities, spent $156,000 on capital expenditures, generated $1 million from the redemption of investments, reinvested $1 million to acquire new investments and paid $953,000 for lease obligations.

As at December 31, 2022, DCC's overall cash balance was higher than its 2022–2023 targeted operating cash reserves of $26 to $34 million, due to increased demand from the Client-Partners and lower expenses than planned.

Investments (both current and long term) at December 31, 2022, were $21 million, an increase of $143,000 or 1% from the 2021–2022 year end. The increase was due to the acquisition of a guaranteed investment certificate, offset by redemption of investments that reached maturity.

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity. The Corporation currently invests in listed bonds, guaranteed investment certificates and mutual funds, which are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

TRADE RECEIVABLES

Trade receivables are due from the Corporation's Client-Partners, mainly DND. At December 31, 2022, trade receivables were $29 million, which represented an increase of $12 million or 72% from March 31, 2022. The increase was mostly due to increased revenue from DND and an increase in the time needed to collect those receivables. All of the trade receivables were assessed to be fully collectible.

CURRENT LIABILITIES

Current liabilities were $30 million at December 31, 2022, an increase of $11 million or 60% from March 31, 2022. The increase in current liabilities was primarily due to the increase in deferred revenue and the timing of payments to suppliers.

Liquidity and capital resources *(in thousands of dollars)*	**As at**				**Change**	
	December 31, 2022		March 31, 2022		**$**	**%**
Cash and cash equivalents	**$**	**37,518**	$	36,918	600	2%
Investments		**20,743**		20,600	143	1%
Cash and cash equivalents and investments	**$**	**58,261**	$	57,518	743	1%
Trade receivables	**$**	**28,689**	$	16,676	12,013	72%
Current liabilities	**$**	**29,700**	$	18,593	11,107	60%

5.5 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 its retirees. This estimate is actuarially determined. Effective 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 has been replaced by a short-term disability program. The accrual for employee benefits at December 31, 2022, was $35 million, an increase of $2 million or approximately 6% from March 31, 2022.

Overall, the liability increased because the current service cost ($1 million) and the interest on the present value of the obligation ($1 million) were higher than the employee benefit premiums ($500,000).

	As at		**Change**	
(in thousands of dollars)	**December 31, 2022**	March 31, 2022	**$**	**%**
Current portion	**$ 1,900**	$ 1,803	97	5%
Long-term portion	**33,286**	31,529	1,757	6%
Total employee benefits	**$ 35,186**	$ 33,332	1,854	6%

5.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for the third quarter totalled $101,000, an increase of $68,000 or 206% from the previous year's third quarter. The increase was mainly due to the commencement of leasehold construction at a regional office, the annual remeasurement of right-of-use assets and the purchase of audiovisual equipment. In the year-to-date period, capital expenditures totalled $173,000, a decrease of 80% or $695,000, mainly due to two major expenses incurred in 2021–2022: the one-time leasehold improvement costs for Head Office renovations and the renewal of a regional office lease.

	Three months ended December 31		**Change**		**Nine months ended December 31**		**Change**	
(in thousands of dollars)	**2022**	2021	**$**	**%**	**2022**	2021	**$**	**%**
Computer equipment	**$ —**	$ —	—	—	**$ —**	$ 124	(124)	−100%
Furniture and equipment	**12**	—	12	—	**72**	104	(32)	−31%
Leasehold improvements	**82**	—	82	—	**82**	151	(69)	−46%
Intangible assets	**—**	33	(33)	−100%	**12**	33	(21)	−64%
Right-of-use-assets	**7**	—	7	—	**7**	456	(449)	−98%
Total capital expenditures	**$ 101**	$ 33	68	206%	**$ 173**	$ 868	(695)	−80%

5.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in the third quarter of 2022–2023 with the projections in the Corporate Plan (the Plan). The Corporation's actual performance compared to that given in the Plan was lower than anticipated.

Services revenue for the period was 7% lower than projected in the Plan. The decrease was due to lower-than-anticipated demand for services from DND.

Travel and disbursement revenue and expenses were both 28% higher than indicated in the Plan, due to the gradual return of in-person business travel to pre-COVID-19 levels.

Investment revenue was 206% higher than anticipated in the Plan, due to higher interest rates and a higher cash and cash equivalents balance than anticipated.

Salaries and employee benefit costs were 1% lower than projected in the Plan, due to the lower-than-planned cost of employee benefits.

Operating and administrative expenses were 25% lower than projected. The decrease was due mainly to lower-than-expected levels of employee training and development, and the timing of professional services and cloud computing services.

Depreciation and amortization were 2% lower than given in the Plan, due to a delay in signing the Pacific Regional Office lease.

Net income was $4 million lower than forecasted in the Plan, mainly due to lower demand for services. This was partially countered by lower-than-expected salaries and operating and administrative expenses.

Capital expenditures were 31% lower than projected, due to a variety of factors: extended negotiations of the Pacific Regional Office lease, extended local government timelines and the office fit-up contractor project schedule.

	Nine months ended December 31		Change	
(in thousands of dollars)	**Actual**	**Corporate Plan**	**$**	**%**
Revenue				
Services revenue	**$ 115,931**	$ 124,858	(8,927)	−7%
Travel and disbursement revenue	**2,264**	1,769	495	28%
Investment revenue	**1,147**	375	772	206%
Total revenue	**119,342**	127,002	(7,660)	−6%
Expenses				
Salaries and employee benefits	**105,914**	107,171	(1,257)	−1%
Operating and administrative expenses	**8,695**	11,576	(2,881)	−25%
Travel and disbursement expenses	**2,264**	1,769	495	28%
Depreciation and amortization	**1,328**	1,354	(26)	−2%
Finance costs	**149**	149	—	—
Total expenses	**118,350**	122,019	(3,669)	−3%
Net income and comprehensive income	**992**	4,983	(3,991)	−80%
Capital expenditures	**$ 173**	$ 250	(77)	−31%

5.8 CONTRACT EXPENDITURES, BY REGION

The Corporation's contract expenditures through the DND program for the nine months ended December 31, 2022, decreased by $49 million or 6% when compared to the same period last year. This decrease was mostly due to a slower DND program rollout, compared to the previous year-to-date period. The DND program in 2022–2023 is expected to be similar to that of 2021–2022.

(in thousands of dollars)	Nine months ended December 31		Change	
Region	**2022**	2021	**$**	**%**
Ontario	**$ 144,959**	$ 190,112	(45,153)	−24%
Quebec	**127,886**	106,215	21,671	20%
National Capital	**122,728**	108,433	14,295	13%
Pacific	**111,018**	124,094	(13,076)	−11%
Western	**106,732**	109,226	(2,494)	−2%
Atlantic	**105,662**	130,239	(24,577)	−9%
Total contract expenditures	**$ 718,985**	$ 768,319	(49,334)	−6%

6.0 DCC FUTURE OUTLOOK

6.1 NORMAL BUSINESS OPERATIONS DURING THE PANDEMIC

COVID-19 has not significantly affected the Corporation's operations. As the pandemic continues to evolve, uncertainty about future waves of infection and government interventions remains. However, the Corporation does not believe there will be a negative impact on operations, since DCC has navigated the COVID-19 pandemic with minimal disruptions and maintained its strong financial position.

6.2 MONITORING THE WAR IN UKRAINE

On February 24, 2022, Russian troops started invading Ukraine. The ongoing military attack continues to lead to significant casualties, dislocation of the population, damage to infrastructure and disruption of economic activity in Ukraine. In response, multiple jurisdictions, including Canada, have imposed economic sanctions on Russia.

While DCC cannot predict the duration and impact of the war in Ukraine, it continues to monitor its operations and stays ready to provide any incremental support that DND requires. Although the Corporation has seen minimal increases in the prices of the goods and services it buys, it continues to monitor closely the wider effects of the war—including increasing inflationary pressures and supply-chain disruptions—on its operations. The surge in inflation in the first half of 2022 increased uncertainty around inflation assumptions for future salary increases, billing rate increases for Client-Partners and long-term assumptions for the employee benefit plan. However, DCC has not changed its assumptions from 2021–2022, since its long-term view of inflation has not changed.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY STATEMENT

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations. Management is also responsible for such internal controls as it determines are necessary to enable the preparation of condensed interim financial statements that are free from material misstatement. In addition, management is responsible for ensuring that all other information in this quarterly financial report is consistent, as appropriate, with the condensed interim financial statements. Based on our knowledge, these condensed interim financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the condensed interim financial statements.

Original signed by

Derrick Cheung
President and Chief Executive Officer

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

Ottawa, Canada
March 1, 2023

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

		As at	
(in thousands of dollars)	Notes	**December 31, 2022**	March 31, 2022
Assets			
Cash and cash equivalents		**$ 37,518**	$ 36,918
Investments	6, 14	**3,225**	2,134
Accrued revenue		**1,261**	—
Trade receivables	14	**28,689**	16,676
Prepaid and other assets		**1,319**	1,096
Other receivables		**1,928**	1,793
Current assets		**73,940**	58,617
Investments	6, 14	**17,518**	18,466
Property, plant and equipment	7	**1,899**	2,064
Intangible assets		**32**	37
Right-of-use assets	13	**6,048**	7,033
Non-current assets		**25,497**	27,600
Total assets		**$ 99,437**	$ 86,217
Liabilities			
Trade and other payables	14	**$ 20,332**	$ 14,227
Deferred revenue	9	**6,500**	1,285
Employee benefits	8	**1,900**	1,803
Lease obligations	13	**968**	1,278
Current liabilities		**29,700**	18,593
Employee benefits	8	**33,286**	31,529
Lease obligations	13	**5,499**	6,135
Non-current liabilities		**38,785**	37,664
Total liabilities		**68,485**	56,257
Equity			
Share capital: Authorized (1,000 common shares of no par value); issued (32 common shares)		**—**	—
Retained earnings		**30,952**	29,960
Total equity		**30,952**	29,960
Total liabilities and equity		**$ 99,437**	$ 86,217

Commitments: See Note 13. Contingent liabilities: See Note 15.

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

CONDENSED INTERIM STATEMENT OF PROFIT AND OTHER COMPREHENSIVE INCOME

		Three months ended December 31		Nine months ended December 31	
(in thousands of dollars)	Notes	**2022**	2021	**2022**	2021
Services revenue	9	**$ 38,442**	$ 36,421	**$ 115,931**	$ 108,556
Travel and disbursement revenue		**719**	735	**2,264**	1,682
Investment revenue		**524**	123	**1,147**	342
Total revenue		**39,685**	37,279	**119,342**	110,580
Salaries and employee benefits		**35,614**	33,304	**105,914**	96,228
Operating and administrative expenses	10	**3,419**	2,642	**8,695**	7,097
Travel and disbursement expenses		**719**	735	**2,264**	1,682
Depreciation of property, plant and equipment	7	**106**	123	**319**	301
Depreciation of right-of-use assets	13	**331**	335	**992**	1,015
Amortization of intangible assets		**6**	5	**17**	9
Finance costs	13	**48**	55	**149**	172
Total expenses		**40,243**	37,199	**118,350**	106,504
Net income (loss) and comprehensive income (loss)		**$ (558)**	$ 80	**$ 992**	$ 4,076

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

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Share capital	**$ —**	—	**$ —**	—
Retained earnings				
Balance as at the beginning of the period	**31,510**	16,450	**29,960**	12,454
Net income (loss) and comprehensive income (loss)	**(558)**	80	**992**	4,076
Balance as at the end of the period	**$ 30,952**	$ 16,530	**$ 30,952**	$ 16,530
Equity	**$ 30,952**	$ 16,530	**$ 30,952**	$ 16,530

CONDENSED INTERIM STATEMENT OF CASH FLOWS

(in thousands of dollars)	Notes	Three months ended December 31 **2022**	Three months ended December 31 2021	Nine months ended December 31 **2022**	Nine months ended December 31 2021
Cash flow provided by (used in) operating activities					
Net income (loss)		**$ (558)**	$ 80	**$ 992**	$ 4,076
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities					
Employee benefits expensed	8	**785**	839	**2,354**	2,514
Employee benefits paid	8	**(116)**	(94)	**(500)**	(291)
Depreciation of property, plant and equipment	7	**106**	123	**319**	301
Depreciation of right-of-use assets	13	**331**	335	**992**	1,015
Amortization of intangible assets		**6**	5	**17**	9
Amortization of investment premiums		**12**	12	**37**	23
Loss on disposal of property, plant and equipment		**—**	1	**—**	1
Change in non-cash operating working capital					
Trade receivables		**(9,197)**	2,184	**(12,013)**	(1,894)
Other receivables		**(317)**	1,731	**(135)**	(161)
Prepaid and other assets		**431**	119	**(223)**	411
Accrued revenue		**(180)**	(269)	**(1,261)**	(1,336)
Trade and other payables		**3,470**	4,802	**6,095**	2,337
Deferred revenue		**104**	(649)	**5,215**	5,443
Net cash flows provided by (used in) operating activities		**(5,123)**	9,219	**1,889**	12,448
Cash flows provided by (used in) investing activities					
Acquisition of investments		**—**	—	**(1,200)**	(5,942)
Redemption and disposition of investments		**—**	—	**1,020**	1,925
Acquisition of property, plant and equipment	7	**(82)**	(66)	**(144)**	(314)
Acquisition of intangible assets		**—**	(33)	**(12)**	(33)
Net cash flows used in investing activities		**(82)**	(99)	**(336)**	(4,364)
Cash flows used in financing activities					
Repayment of lease obligations	13	**(321)**	(309)	**(953)**	(1,011)
Net cash flows used in financing activities		**(321)**	(309)	**(953)**	(1,011)
Increase (decrease) in cash and cash equivalents during the period		**(5,526)**	8,811	**600**	7,073
Cash and cash equivalents at the beginning of the period		**43,044**	33,894	**36,918**	35,632
Cash and cash equivalents at the end of the period		**$ 37,518**	$ 42,705	**$ 37,518**	$ 42,705

Supplemental cash flow information: See Note 11.

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

NOTICE TO READERS

These condensed interim financial statements have not been audited or reviewed by an external auditor and must be read in conjunction with the most recent financial statements for the year ended March 31, 2022, and with the management's discussion and analysis (MD&A) included in this quarterly financial report.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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

1. DESCRIPTION OF BUSINESS AND OBJECTIVES

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

2. BASIS OF PREPARATION AND PRESENTATION

The Corporation prepared these condensed interim financial statements in accordance with International Accounting Standard 34 (IAS 34), Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), and the Standard on Quarterly Financial Reports for Crown Corporations, issued by the Treasury Board of Canada. As permitted under IAS 34, these condensed interim financial statements do not include all of the disclosures required for annual financial statements and should be read in conjunction with the Corporation's audited financial statements for its fiscal year ended March 31, 2022, and the current quarter's MD&A.

The condensed interim financial statements have been prepared according to the International Financial Reporting Standards (IFRS) effective when these statements were prepared. The statements have been prepared on a historical cost basis, except as permitted by the IFRS and as otherwise indicated in these notes.

3. SUMMARY OF ACCOUNTING POLICIES

These condensed interim financial statements follow the same accounting policies and methods of computation described in the notes to the Corporation's audited financial statements for the year ended March 31, 2022, except for the application of new standards, amendments and interpretations effective January 1, 2022, as disclosed in Note 5 to these condensed interim financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

4. CRITICAL ACCOUNTING ESTIMATES

Under the Corporation's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. Actual results may differ from the judgments, estimates and assumptions.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised, when the revision affects only that period, or in the period of the revision and future periods, when the revision affects both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in the notes to the Corporation's annual financial statements for the year ended March 31, 2022.

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS

5.1 CURRENT ACCOUNTING CHANGES

The Corporation actively monitors new and amended IASB standards. The IASB did not issue any such standards that had an impact on the Corporation's condensed interim financial statements.

5.2 FUTURE ACCOUNTING CHANGES

The IASB has not issued any new or amended standards that would affect the Corporation in the future, other than those disclosed in Note 3 to the Corporation's annual financial statements for the year ended March 31, 2022.

6. INVESTMENTS

Investments consist of Canadian provincial and federal bonds with effective interest rates ranging from 0.4% to 3% (coupon rates ranging from 0.5% to 4.4%) and guaranteed investment certificates (GICs) ranging from 0.9% to 4.5%.

The maturity dates of the bonds vary from March 2023 to June 2027, and of the GICs from June 2023 to March 2027, and the Corporation intends to hold all of them to maturity. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following tables:

	As at	
	December 31, 2022	March 31, 2022
Current portion	**$ 3,225**	$ 2,134
Long-term portion	**17,518**	18,466
Total investments	**$ 20,743**	$ 20,600

	As at	
CARRYING AMOUNT AT AMORTIZED COST	**December 31, 2022**	March 31, 2022
Provincial bonds	**$ 6,146**	$ 6,503
Federal bonds *(Note 14)*	**1,001**	1,001
Guaranteed investment certificates	**13,596**	13,096
	$ 20,743	$ 20,600

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.

FAIR VALUE	As at **December 31, 2022**	March 31, 2022
Provincial bonds	**$ 5,875**	$ 6,344
Federal bonds *(Note 14)*	**957**	986
Guaranteed investment certificates	**13,787**	13,155
	$ 20,619	$ 20,485

As at December 31, 2022	**Effective interest rate**	**Coupon interest rate**	**< One year**	**One to five years**	**Total**
Obligations					
Federal bonds *(Note 14)*	1.7%	1.8%	$ —	$ 1,001	**$ 1,001**
Provincial bonds	0.4%–3%	0.5%–4.4%	1,905	4,241	**6,146**
Guaranteed investment certificates	0.9%–4.5%	0.9%–4.5%	1,320	12,276	**13,596**
			$ 3,225	**$ 17,518**	**$ 20,743**

7. PROPERTY, PLANT AND EQUIPMENT

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

Cost	**Computer equipment**	**Furniture and fixtures**	**Leasehold improvements**	**Total**
Balance as at March 31, 2022	$ 649	$ 1,327	$ 1,711	$ 3,687
Additions	—	72	82	154
Balance as at December 31, 2022	**$ 649**	**$ 1,399**	**$ 1,793**	**$ 3,841**
Accumulated depreciation				
Balance as at March 31, 2022	$ 494	$ 815	$ 314	$ 1,623
Depreciation	56	109	154	319
Balance as at December 31, 2022	**$ 550**	**$ 924**	**$ 468**	**$ 1,942**
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 December 31, 2022	**$ 99**	**$ 475**	**$ 1,325**	**$ 1,899**

There was no impairment of property, plant and equipment.

8. EMPLOYEE BENEFITS

8.1 POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

	As at			
	December 31, 2022		March 31, 2022	
Current portion	**$**	**1,900**	$	1,803
Long-term portion		**33,286**		31,529
Total employee benefits	**$**	**35,186**	$	33,332

The significant actuarial assumptions are disclosed in the *Annual Report 2021–2022*. The measurement date for the last actuarial valuation of the provision for employee benefits was March 31, 2020. The next actuarial valuation is planned for March 2023.

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

Balance as at March 31, 2022	**$**	**33,332**
Current service cost		1,310
Interest on present value of obligation		1,044
Employee benefit premiums		(500)
Balance as at December 31, 2022	**$**	**35,186**

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

	Three months ended December 31				Nine months ended December 31			
	2022		2021		**2022**		2021	
Current service cost	**$**	**437**	$	509	**$**	**1,310**	$	1,525
Interest on present value of obligation		**348**		330		**1,044**		989
Employee benefit expenses	**$**	**785**	$	839	**$**	**2,354**	$	2,514

9. REVENUE RECOGNITION

9.1 ACCOUNTING POLICY

Accrued revenue arises when, at a reporting date, the services delivered through fixed-fee service-level arrangements exceed the amount of revenue invoiced.

Deferred revenue arises when the amount invoiced to the Client-Partners exceeds the services delivered through fixed-fee service-level arrangements. The Corporation has an unconditional right to payment when it has invoiced in accordance with fixed-fee service-level arrangements. The amounts in excess will be recognized in revenue as services are delivered.

9.2 SEGMENTED AND DISAGGREGATED REVENUE INFORMATION

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

Three months ended December 31, 2022							
	Activity						
Region	**Contract Management**	**Project and Program Management**	**Real Property Technical Support**	**Contracting**	**Construction Technical Support**	**Environmental Technical Support**	**Total revenue, by region**
Atlantic	$ 2,439	$ 1,144	$ 581	$ 471	$ 569	$ 893	**$ 6,097**
Quebec	2,804	1,418	615	383	370	452	**6,042**
National Capital	1,729	3,504	1,520	137	118	427	**7,435**
Ontario	3,336	1,143	794	556	1,099	578	**7,506**
Pacific*	2,273	1,161	239	260	173	198	**4,304**
Western*	3,028	1,361	500	735	206	233	**6,063**
Head Office	73	14	55	471	381	1	**995**
Total revenue, by activity	**$ 15,682**	**$ 9,745**	**$ 4,304**	**$ 3,013**	**$ 2,916**	**$ 2,782**	**$ 38,442**

Three months ended December 31, 2021							
	Activity						
Region	Contract Management	Project and Program Management	Real Property Technical Support	Contracting	Construction Technical Support	Environmental Technical Support	Total revenue, by region
Atlantic	$ 2,435	$ 1,304	$ 415	$ 432	$ 244	$ 681	$ 5,511
Quebec	2,598	1,276	378	442	336	411	5,441
National Capital	1,305	3,371	1,675	78	114	444	6,987
Ontario	3,143	1,368	708	571	1,632	539	7,961
Pacific*	2,132	1,022	50	199	200	210	3,812
Western*	2,984	1,419	226	732	201	287	5,850
Head Office	42	55	—	428	334	—	859
Total revenue, by activity	$ 14,639	$ 9,815	$ 3,452	$ 2,882	$ 3,061	$ 2,572	$ 36,421

Nine months ended December 31, 2022							
	Activity						
Region	**Contract Management**	**Project and Program Management**	**Real Property Technical Support**	**Contracting**	**Construction Technical Support**	**Environmental Technical Support**	**Total revenue, by region**
Atlantic	$ 7,743	$ 3,291	$ 1,827	$ 1,463	$ 1,136	$ 2,544	**$ 18,004**
Quebec	8,299	3,783	1,623	1,205	1,028	1,345	**17,283**
National Capital	5,312	10,535	4,949	428	271	1,481	**22,975**
Ontario	10,471	3,667	2,595	1,710	3,240	1,860	**23,543**
Pacific*	6,893	3,229	681	754	477	553	**12,587**
Western*	9,411	4,120	1,262	2,317	684	768	**18,563**
Head Office	244	32	160	1,411	1,128	1	**2,976**
Total revenue, by activity	**$ 48,373**	**$ 28,657**	**$ 13,097**	**$ 9,288**	**$ 7,964**	**$ 8,552**	**$ 115,931**

Nine months ended December 31, 2021														
	Activity													
Region	Contract Management		Project and Program Management		Real Property Technical Support		Contracting		Construction Technical Support		Environmental Technical Support		Total revenue, by region	
Atlantic	$	7,065	$	4,328	$	1,225	$	1,305	$	706	$	1,653	$	16,282
Quebec		7,665		3,752		1,173		1,216		954		1,163		15,923
National Capital		3,586		10,194		5,016		223		359		1,307		20,685
Ontario		9,856		4,315		2,060		1,757		4,385		1,615		23,988
Pacific*		6,466		2,825		157		690		550		588		11,276
Western*		8,898		4,397		834		2,389		658		704		17,880
Head Office		106		87		1		1,225		1,103		—		2,522
Total revenue, by activity	$	43,642	$	29,898	$	10,466	$	8,805	$	8,715	$	7,030	$	108,556

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

The following tables disaggregate revenue by region and contract type:

TIME-BASED REVENUE	Three months ended December 31				Nine months ended December 31			
Region	**2022**		2021		**2022**		2021	
Atlantic	**$**	**1,407**	$	1,256	**$**	**4,097**	$	3,364
Quebec		**1,955**		1,967		**5,311**		5,566
National Capital		**6,191**		6,264		**19,547**		17,700
Ontario		**2,010**		2,432		**6,331**		7,358
Pacific*		**1,320**		1,375		**4,181**		3,980
Western*		**1,279**		1,187		**3,761**		3,573
Head Office		**628**		638		**1,893**		1,729
Total time-based revenue	**$**	**14,790**	$	15,119	**$**	**45,121**	$	43,270

FIXED-FEE REVENUE	Three months ended December 31				Nine months ended December 31			
Region	**2022**		2021		**2022**		2021	
Atlantic	**$**	**4,690**	$	4,255	**$**	**13,907**	$	12,918
Quebec		**4,087**		3,474		**11,972**		10,357
National Capital		**1,244**		723		**3,428**		2,985
Ontario		**5,496**		5,529		**17,212**		16,630
Pacific*		**2,984**		2,438		**8,406**		7,297
Western*		**4,784**		4,662		**14,802**		14,306
Head Office		**367**		221		**1,083**		793
Total fixed-fee revenue	**$**	**23,652**	$	21,302	**$**	**70,810**	$	65,286
Total revenue	**$**	**38,442**	$	36,421	**$**	**115,931**	$	108,556

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

As at December 31, 2022, $6,500 (March 31, 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 for the nine-month period are shown in the following table:

	Nine months ended December 31	
	2022	2021
Balance as at the beginning of the period	**$ 1,285**	$ —
Recognition of deferred revenue	**(12)**	—
Amounts invoiced and revenue deferred	**5,227**	1,285
Balance as at the end of the period	**$ 6,500**	$ 1,285

10. OPERATING AND ADMINISTRATIVE EXPENSES

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

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Computer hardware	**$ 556**	$ 19	**$ 581**	$ 26
Cloud computing services	**511**	477	**1,411**	1,394
Software maintenance	**418**	303	**1,242**	958
Employee training and development	**330**	221	**620**	424
Leased location operating costs	**260**	251	**688**	675
Professional services	**199**	468	**906**	1,059
Travel	**193**	13	**416**	19
Office services, supplies and equipment	**185**	148	**490**	304
Telephone and data communications	**166**	200	**565**	589
Equipment rental	**139**	298	**688**	807
Furniture and equipment	**115**	67	**140**	158
Recruiting	**96**	11	**161**	61
Client services and communications	**92**	61	**320**	281
Staff relocation	**60**	22	**174**	109
Hospitality	**56**	12	**101**	23
Memberships and subscriptions	**22**	18	**68**	71
Other	**9**	7	**17**	14
Postage and freight	**8**	6	**21**	20
Computer software	**3**	40	**74**	98
Leasehold improvements	**1**	—	**12**	7
Total operating and administrative expenses	**$ 3,419**	$ 2,642	**$ 8,695**	$ 7,097

11. SUPPLEMENTAL OPERATING CASH FLOW INFORMATION

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Interest charges on lease obligations	**$ 48**	$ 55	**$ 149**	$ 172
Interest received from bank deposits	**$ 404**	$ 58	**$ 826**	$ 164
Interest received from investments	**$ 121**	$ 62	**$ 321**	$ 172
Acquisition of property, plant and equipment not paid	**$ 12**	$ (101)	**$ 12**	$ 65

12. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

12.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets subject to credit risk as at December 31, 2022, was $88,895 (March 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, since all of the trade receivables are due from departments of the Government of Canada. The Corporation is exposed to concentration risk in relation to trade receivables with DND, as described in Note 14. Based on historic default rates and the aging analysis, the Corporation believes that there are no requirements for an expected credit loss.

Other assets consist of balances related to travel advances to employees and computer loans to employees. Prepaids are not included in other assets.

The following table shows the fair value through profit or loss (FVTPL) of the financial assets subject to credit risk:

As at December 31, 2022	FVTPL	Amortized cost	Total carrying amount
Cash and cash equivalents	**$ 37,518**	**$ —**	**$ 37,518**
Investments	**—**	**20,743**	**20,743**
Trade receivables	**—**	**28,689**	**28,689**
Other receivables	**—**	**1,928**	**1,928**
Other assets	**—**	**17**	**17**
Total financial assets	**$ 37,518**	**$ 51,377**	**$ 88,895**

As at March 31, 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

12.2 LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities for trade and other payables as at December 31, 2022, was $12,322 (March 31, 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 December 31, 2022, the Corporation's financial assets exceeded its financial liabilities by $76,573 (March 31, 2022, $69,746).

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

As at December 31, 2022	**Carrying amount**	**Contractual cash flows**	**≤ Six months**
Trade and other payables	$ 12,322	$ 12,322	$ 12,322
Financial liabilities	**$ 12,322**	**$ 12,322**	**$ 12,322**

As at March 31, 2022	Carrying amount	Contractual cash flows	≤ Six months
Trade and other payables	$ 6,251	$ 6,251	$ 6,251
Financial liabilities	$ 6,251	$ 6,251	$ 6,251

12.3 MARKET RISK

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

The Corporation is exposed to fluctuations in interest rates on its investments. As at December 31, 2022, all of the investments ($20,743) were in fixed interest-bearing instruments (March 31, 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.

13. LEASES

13.1 RIGHT-OF-USE ASSETS

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

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

	Office space leases		Data warehouse leases		Total	
Balance as at March 31, 2022	$	6,748	$	285	$	7,033
Additions		7		—		7
Depreciation		(962)		(30)		(992)
Balance as at December 31, 2022	**$**	**5,793**	**$**	**255**	**$**	**6,048**

13.2 LEASE OBLIGATIONS

	As at			
	December 31, 2022		March 31, 2022	
Current portion	**$**	**968**	$	1,278
Long-term portion		**5,499**		6,135
Total lease obligations	**$**	**6,467**	$	7,413

Balance as at March 31, 2022	$	7,413
Additions		7
Payments		(1,102)
Interest expense		149
Balance as at December 31, 2022	**$**	**6,467**

The following table shows the contractual undiscounted cash flows for lease obligations as at December 31, 2022:

One year or less	$	1,053
Between one and two years	$	938
Between two and five years	$	2,489
Over five years	$	2,578
Total	**$**	**7,058**

For the third quarter, the expense relating to variable lease payments not included in the measurement of lease obligations was $260, while the same expense in the previous third quarter was $251. The expense in the year-to-date period was $688, while the same expense in the same period in 2021–2022 was $675. This amount consists 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 $629 for the third quarter (the amount for the same period in 2021–2022 was $615). This included $321 for principal payments on lease obligations (the amount for the same period in 2021–2022 was $309). Total cash outflow for leases was $1,790 for the year-to-date period (the amount for the same period in 2021–2022 was $1,858). This included $953 for principal payments on lease obligations (the amount for the same period in 2021–2022 was $1,011).

The Corporation signed a lease agreement for its new Pacific Regional Office on August 30, 2022. The lease has not yet commenced due to the renovations required prior to occupying the facility. The Corporation has committed to a five-year lease term with an undiscounted cash flow of $591.

14. RELATED-PARTY TRANSACTIONS AND BALANCES

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at fair value, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue in the third quarter totalled $38,442, compared to $36,421 in the same period in 2021–2022, and was generated from services provided to entities owned by the Government of Canada. For the year-to-date period, this revenue totalled $115,931, compared to $108,556 for the previous year-to-date period. The amounts due to and from related parties are included in trade receivables and trade and other payables, respectively, and are shown in the following table:

	As at			
	December 31, 2022		March 31, 2022	
Due from:				
Department of National Defence (DND)	**$**	**26,591**	$	15,423
Canadian Forces Housing Agency		**1,857**		1,045
Communications Security Establishment		**218**		171
Shared Services Canada		**23**		37
	$	**28,689**	$	16,676
Due to:				
Shared Services Canada		**—**		7
Department of Justice		**268**		393
	$	**268**	$	400

The Corporation incurs expenses with other Government of Canada departments. These transactions totalled $310 for the third quarter, compared to $403 in the same period in 2021–2022. The transactions totalled $731 for the year-to-date period of 2022–2023, compared to $809 for the same period in 2021–2022. Of these expenses, the Corporation recovered $304 from DND in the third quarter and $651 in the year-to-date period.

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

On March 2, 2022, the Corporation purchased a bond for $1,002 issued by the Canadian Mortgage and Housing Corporation. The Corporation earned investment revenue of $5 during the third quarter and $14 during the year-to-date from the bond.

14.1 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.

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Short-term benefits	**$ 959**	$ 1,004	**$ 3,643**	$ 3,195
Post-employment benefits	**124**	129	**499**	428
	$ 1,083	$ 1,133	**$ 4,142**	$ 3,623

15. CONTINGENT LIABILITIES

The Corporation's efforts to resolve disputes are reflected in the number and value of claims before the courts. As at December 31, 2022, 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, and the Corporation does not consider it necessary to record any provision in its financial statements relating to these particular legal claims.

In addition, as at December 31, 2022, there were other ongoing legal claims, not related to DND, for which the outflow of resources to settle the obligation either cannot be estimated or is not probable at this time. No amount for these claims had been recognized as at December 31, 2022.