DEFENCE CONSTRUCTION CANADA

2018–2019 SECOND QUARTER FINANCIAL REPORT

PERIOD ENDED SEPTEMBER 30, 2018

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

Defence Construction Canada
Construction de Défense Canada

Canada

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60 YEARS ANS
DCC | CDC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the second quarter ended September 30, 2018, for Defence Construction (1951) Limited (the "Corporation" or "DCC"). This discussion should be read in conjunction with the unaudited interim condensed financial statements for the period ended September 30, 2018. These statements were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and are reported in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's MD&A and annual financial statements for the year ended March 31, 2018 (the "*Annual Report 2017–2018*"). Financial results reported in the MD&A are rounded to the nearest thousand. Related percentages are based on numbers rounded to the nearest thousand. DCC management is responsible for the information presented in the MD&A and unaudited interim condensed financial statements.

1.0 MATERIALITY

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

2.0 CORPORATE PROFILE

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

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

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

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

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

PROJECT AND PROGRAM MANAGEMENT SERVICES

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

REAL PROPERTY MANAGEMENT SERVICES

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

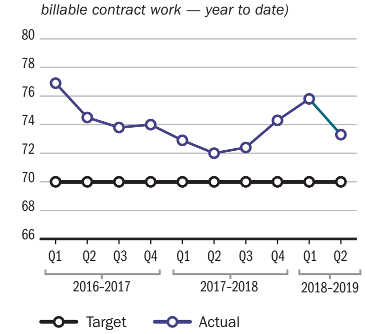
3.0 OPERATIONAL PERFORMANCE INDICATORS

3.1 UTILIZATION RATE

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

For the second quarter of 2018–19, the Corporation achieved a utilization rate of 70.9%, consistent with the rate of 71% for the same period in 2017–18. For the year-to-date period of 2018–19, the Corporation achieved a utilization rate of 73.2%, an increase from the rate of 71.9% for the same period in 2017–18. This increase occurred because DND planned its procurement activities in the fourth quarter of 2017–18, so that projects would be ready to implement in the first half of 2018–19.

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

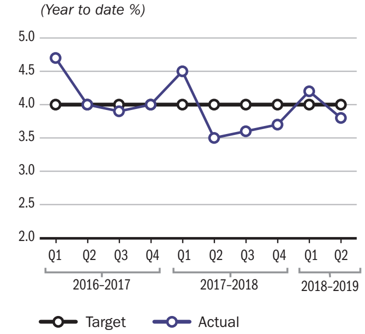


3.2 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

Maintaining a skilled and professional workforce is a key corporate objective. For 2018–19, DCC has established an annual overall corporate target for spending on training and development of 4% of base salary costs. This target encompasses all costs associated with training and development activities, including internal employee time and third-party costs.

For the second quarter of 2018–19, the professional development to salary cost ratio was 3.4%, an increase from 2.5% in the comparable period last year. For the year-to-date period of 2018–19, the professional development to salary cost ratio was 3.8%, an increase from 3.5% in the comparable period last year. The increases were due to the timing of staff training compared to the prior year.

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



4.0 RISK MANAGEMENT

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

5.0 FINANCIAL PERFORMANCE

5.1 BASIS OF PRESENTATION

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

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

In the following analysis, all references to the second quarter refer to the three months ended September 30, 2018; all references to the year-to-date period refer to the six months ended September 30, 2018. All references to the previous year's second quarter relate to the three months ended September 30, 2017; all references to the previous year's year-to-date period refer to the six months ended September 30, 2017. All references to the previous year's end relate to March 31, 2018.

5.2 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $26.5 million in the second quarter, an increase of $2.7 million or approximately 11% from the previous year. For the year-to-date period, services revenue was $54.5 million, an increase of $5.8 million or approximately 12% over the previous year. These increases in the second quarter and year-to-date period resulted from a 4.5% increase in billing rates for all service lines compared to the prior year and from higher DND demand for services.

CONTRACT MANAGEMENT

Revenue from contract management increased by 6% in the second quarter and 8% in the year-to-date period compared to the same periods in the previous year. The increases in the second quarter and year-to-date period reflected an increase in billing rates and increased demand from Client-Partners. Fluctuations in the DND program have a direct impact on the revenue this activity generates.

PROJECT PLANNING

Project planning revenue increased by 18% in the second quarter and 19% in the year-to-date period compared to the same periods in the previous year. The increases in the second quarter and year-to-date period were due to higher billing rates and higher DND demand for this service.

REAL PROPERTY TECHNICAL SUPPORT

Real property technical support revenue increased by 20% in the second quarter and by 17% in the year-to-date period compared to the same periods in the previous year. The increases in the second quarter and year-to-date period were due to an increase in billing rates and higher DND demand for this activity.

PROCUREMENT

Procurement revenue increased by 26% in the second quarter and by 24% in the year-to-date period compared to the same periods in the previous year. The increases in the second quarter and year-to-date period were due to higher billing rates and increased DND demand.

CONSTRUCTION TECHNICAL SUPPORT

Revenue from construction technical support increased by 3% in both the second quarter and the year-to-date period compared to the same periods in the previous year. The increases were the result of an increase in billing rates, as demand for this service was consistent with that in the prior year.

ENVIRONMENTAL TECHNICAL SUPPORT

Environmental technical support revenue increased by 2% in the second quarter and by 3% in the year-to-date period compared to the same periods in the previous year. These increases were due to increases in billing rates, as DND demand for this service was slightly lower than in the prior year. Fluctuations in the DND program have a direct impact on the revenue this activity generates.

REVENUE, BY ACTIVITY

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	**Change** $	**Change** %	Six months ended September 30, 2018	Six months ended September 30, 2017	**Change** $	**Change** %
Contract management	$ 11,727	$ 11,046	681	6%	$ 23,990	$ 22,279	1,711	8%
Project planning	6,908	5,858	1,050	18%	14,526	12,187	2,339	19%
Real property technical support	2,424	2,024	400	20%	4,896	4,185	711	17%
Procurement	2,154	1,714	440	26%	4,189	3,388	801	24%
Construction technical support	1,849	1,789	60	3%	3,871	3,755	116	3%
Environmental technical support	1,451	1,424	27	2%	2,994	2,909	85	3%
	$ 26,513	**$ 23,855**	**2,658**	**11%**	**$ 54,466**	**$ 48,703**	**5,763**	**12%**

TRAVEL AND DISBURSEMENT REVENUE

Travel and disbursement revenue represents the amount the Corporation recovered from DND for travel and other expenses DCC incurred for work it performed on DND's behalf. Travel and disbursement revenue totalled $1 million in the second quarter, an increase of $534,000, or approximately 112%, over the same period in the previous year. For the year-to-date period, revenue totalled $1.8 million, an increase of $1 million from the prior year, or approximately 122%. The variances were a result of the timing of travel and other expenses related to the work the Corporation performed for DND.

			Change				Change	
(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	$	%	Six months ended September 30, 2018	Six months ended September 30, 2017	$	%
Investment revenue	**$ 1,011**	**$ 477**	**534**	**112%**	**$ 1,842**	**$ 828**	**1,014**	**122%**

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in its bank account and from investments, increased in the second quarter by $12,000 or 9% compared to the same period in the previous year. The increase was due to higher interest rates on the cash balance held in the corporate account compared to the prior year.

For the year-to-date period, interest revenue decreased by $14,000 or 4% compared to the same period in the prior year. The decrease was primarily the result of a shift in investments. As bonds have matured, the Corporation has reinvested the funds in guaranteed investment certificates, which pay less interest and are shorter term investments than bonds, to meet anticipated cash requirements in the next few years.

			Change				Change	
(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	$	%	Six months ended September 30, 2018	Six months ended September 30, 2017	$	%
Travel and disbursement revenue	**$ 145**	**$ 133**	**12**	**9%**	**$ 300**	**$ 314**	**(14)**	**-4%**

5.3 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $19.4 million in the second quarter, an increase of $1.6 million or approximately 9% over the same period in the previous year. The number of full-time equivalents (FTEs) increased by approximately 4% or 35 FTEs over the end of the prior year. Salary pay rates increased by 3.25% over the same period in the prior year due to a cost of living increase of 1.5% and performance pay increases of 1.75%.

For the year-to-date period, salaries totalled $39.5 million, an increase of $1.6 million or approximately 4%. The increase is due to cost of living and performance increases to salaries totalling 3.25% and to higher staff levels.

Employee benefits were $5.0 million in the second quarter, an increase of $301,000 or approximately 6% from the same period in the previous year. The increase was due mainly to the increased costs of extended health care benefits, which rose at renewal in late 2017–18. These higher costs also increased the accrual for employee future benefits. In the second quarter, employee benefits as a percentage of salaries were consistent with the prior year.

For the year-to-date period, employee benefits were $10.6 million, an increase of $939,000 or approximately 10% from the same period in the prior year. The increase was due mainly to the increased costs of extended health care benefits, which rose at renewal in late 2017–18.

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	**Change** $	**Change** %	Six months ended September 30, 2018	Six months ended September 30, 2017	**Change** $	**Change** %
Salaries	$ 19,390	$ 17,833	1,557	9%	$ 39,459	$ 37,812	1,647	4%
Employee benefits	5,026	4,725	301	6%	10,615	9,676	939	10%
	$ 24,416	**$ 22,558**	**1,858**	**8%**	**$ 50,074**	**$ 47,488**	**2,586**	**5%**
Employee benefits as a percentage of salaries	26%	26%			27%	26%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $1.8 million in the second quarter of 2018–19, a decrease of $218,000 or 11% over the second quarter of 2017–18. For the year-to-date period, operating and administrative expenses decreased by $320,000 or approximately 8%. Material variances are shown in the following table.

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	**Change** $	**Change** %	Six months ended September 30, 2018	Six months ended September 30, 2017	**Change** $	**Change** %	Variance analysis
Rent	$ 460	$ 431	29	7%	$ 883	$ 912	(29)	-3%	The variances in both periods were due to the timing of refunds from the landlord related to a real estate tax reassessment in the current and prior years.
Software maintenance	334	486	(152)	-31%	679	877	(198)	-23%	The decreases in both periods occurred because DCC negotiated lower rates for certain maintenance contracts related to productivity software and because it began classifying cloud services separately from software maintenance.
Employee training and development	257	163	94	58%	551	475	76	16%	The increases in both periods were due to the timing of training and development activities.
Professional services	189	283	(94)	-33%	401	505	(104)	-21%	The decreases in both periods were primarily due to lower costs for information technology (IT) services.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

			Change				**Change**		
(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	$	%	Six months ended September 30, 2018	Six months ended September 30, 2017	$	%	Variance analysis
Telephone and data communications	176	255	(79)	-31%	373	457	(84)	-18%	The decreases in both periods were primary due to a refund for past services received in the current period and to lower negotiated telecom costs.
Travel	73	67	6	9%	238	204	34	17%	The increases in both periods were due to the timing of travel requirements.
Office services, supplies and equipment	62	72	(10)	-14%	114	134	(20)	-15%	The decreases in both periods were due to lower requirements for office services, supplies and equipment than in the prior year.
Staff relocation	39	47	(8)	-17%	54	103	(49)	-48%	The decreases in both periods were due to the timing of activities related to staff relocation.
Hospitality	33	47	(14)	-30%	82	74	8	11%	The variances in both periods were due to the timing of internal meetings where hospitality was provided.
Client services and communications	31	62	(31)	-50%	60	99	(39)	-39%	The decreases in both periods were due to lower costs associated with the development of the intranet.
Equipment rental	29	(7)	36	514%	32	(12)	44	367%	The increases in both periods were due to DCC starting to lease personal computing devices in the current year instead of purchasing and capitalizing them.
Computer equipment	28	54	(26)	-48%	34	78	(44)	-56%	The decreases in both periods occurred because DCC purchased less equipment, due to the adoption of a lease program for computers.
Furniture and fixtures	27	28	(1)	-4%	48	36	12	33%	The variance in the second quarter was not material. The increase in the year-to-date period was due to increased purchases of ergonomic and security equipment in the first quarter.
Cloud computing services	26	–	26	100%	26	–	26	100%	The increases in both periods occurred because DCC began reporting cloud computing services separately from software maintenance contracts in the second quarter of the current year.
Printing and stationery	24	18	6	33%	37	30	7	23%	The increases in both periods were due to higher use of printing and stationery in operations as a result of an increase in staff.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	Change $	Change %	Six months ended September 30, 2018	Six months ended September 30, 2017	Change $	Change %	Variance analysis
Computer software	20	17	3	18%	37	31	6	19%	The increases in both periods were due to more purchases of productivity software below the capitalization threshold.
Memberships and subscriptions	13	12	1	8%	30	30	-	0%	The variances were not material.
Postage and freight	9	9	–	0%	15	14	1	7%	The variances were not material.
Recruiting	6	10	(4)	-40%	33	10	23	230%	The variances in both periods were due to fluctuating demand for recruiting services.
Other	4	4	–	0%	19	9	10	111%	The variance in the second quarter was not material. The increase in the year-to-date period was due to increased costs related to bank charges and the disposal of fixed assets.
	$ 1,840	**$ 2,058**	**(218)**	**-11%**	**$ 3,746**	**$ 4,066**	**(320)**	**-8%**	

TRAVEL AND DISBURSEMENT EXPENSE

Travel and disbursement expenses are the amount the Corporation spends on travel and other expenses related to the work it performs for DND. Travel and disbursement expenses totalled $1 million in the second quarter, an increase of $534,000, or approximately 112%, over the same period in the previous year. For the year-to-date period, expenses totalled $1.8 million, an increase of $1 million from the prior year, or approximately 122%. The variances were a result of the timing of travel and other expenses related to the work the Corporation performed for DND.

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	Change $	Change %	Six months ended September 30, 2018	Six months ended September 30, 2017	Change $	Change %
Travel and disbursement revenue	**$ 1,011**	**$ 477**	**534**	**112%**	**$ 1,842**	**$ 828**	**1,014**	**122%**

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 12% or $39,000 in the second quarter and 7% or $45,000 in the year-to-date period compared to the prior year. The decrease in depreciation of property, plant and equipment occurred because the Corporation adopted a leasing model for computing devices, which reduced the capital expenditures for this type of asset. The decrease in amortization of intangible assets occurred because the Corporation now favours software-as-a-service over capital purchases.

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	Change $	Change %	Six months ended September 30, 2018	Six months ended September 30, 2017	Change $	Change %
Depreciation of property, plant and equipment	$ 242	$ 263	(21)	-8%	$ 501	$ 513	(12)	-2%
Depreciation of assets under finance lease	23	25	(2)	-8%	47	49	(2)	-4%
Amortization of intangible assets	35	51	(16)	-31%	71	102	(31)	-30%
	$ 300	**$ 339**	**(39)**	**-12%**	**$ 619**	**$ 664**	**(45)**	**-7%**

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

The Corporation realized a net income and total comprehensive income of $101,000 for the second quarter compared with a loss and total comprehensive loss of $969,000 for the same period in the previous year. This was an increase of 110%. For the year-to-date period, the Corporation realized a net income and total comprehensive income of $325,000 compared to a loss of $3.2 million in the prior year. The increases from a loss to a gain in the second quarter and year to date period were due to a 4.5% increase in billing rates and to higher staff utilization. These increases led to a higher gross margin, which was required to ensure that the Corporation operates at a slightly better than break-even margin.

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	Change $	Change %	Six months ended September 30, 2018	Six months ended September 30, 2017	Change $	Change %
Gain (loss) and total comprehensive income (loss)	**$ 101**	**$ (969)**	**1,070**	**110%**	**$ 325**	**$ (3,205)**	**3,530**	**110%**

5.5 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

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

CASH AND INVESTMENTS

Cash and investments totalled $24.2 million at September 30, 2018, an increase of $1.5 million from March 31, 2018.

The cash balance at September 30, 2018, was $6.3 million, an increase of $2.3 million or 59% from the 2017–18 year end. In the six-month period after March 31, 2018, the Corporation generated $1.6 million in cash for operating activities, spent $17,000 on capital expenditures, redeemed $788,000 in investments and spent $42,000 to meet finance lease obligations.

Investments (both current and long term) at September 30, 2018, totalled $17.9 million, a decrease of $841,000 from the 2017–18 year end. The decrease was due mainly to the redemption of investments for use in operations. Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity. The Corporation currently invests in listed bonds, guaranteed investment certificates and mutual funds, which are recorded at cost and amortized using the effective interest method. The investments held meet the requirements of the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

TRADE RECEIVABLES

Trade receivables are due mainly from one of the Corporation's Client-Partners, DND. At September 30, 2018, the amount of trade receivables was $25.7 million, an increase of $3.5 million or 16% from March 31, 2018. The increase was due to the timing of the collection of receivables from DND.

CURRENT LIABILITIES

Current liabilities were $17.1 million at September 30, 2018, an increase of $1.2 million or 7% from March 31, 2018. The increase in current liabilities was primarily due to an increase in accounts payable related to the timing of payments.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands of dollars)	As at September 30, 2018	As at March 31, 2018	Change $	Change %
Cash	$ 6,307	$ 3,972	2,335	59%
Investments	17,888	18,729	(841)	-4%
Cash and investments	**$ 24,195**	**$ 22,701**	**1,494**	**7%**
Trade receivables	**$ 25,711**	**$ 22,196**	**3,515**	**16%**
Current liabilities	**$ 17,143**	**$ 15,992**	**1,151**	**7%**

5.6 EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave for employees, and health, dental and life insurance benefits for retirees. Every three years, an actuary determines this estimate. The accrued sick leave and other benefits balance as at September 30, 2018, was $34.1 million, an increase of $1.6 million or 5% from the 2017–18 year end. The increase reflected the actuary's estimates of accrued benefits for the current fiscal year, minus payments of benefits to retirees.

(in thousands of dollars)	As at September 30, 2018	As at March 31, 2018	Change $	Change %
Current portion	$ 2,502	$ 2,502	–	0%
Long-term portion	31,571	29,963	1,608	5%
Total employee benefits	**$ 34,073**	**$ 32,465**	**1,608**	**5%**

5.7 ASSETS UNDER FINANCE LEASE AND FINANCE LEASE OBLIGATION

The Corporation leases multifunctional devices for copying, scanning and faxing. At the end of the second quarter, the value of assets under finance lease had decreased by $50,000 or 21% since the 2017–18 year end. The decrease was the result of depreciation of $47,000 and the removal of a device before the end of its term, which resulted in a decrease of $3,000.

(in thousands of dollars)	As at September 30, 2018	As at March 31, 2018	Change $	Change %
Assets under finance lease	**$ 185**	**$ 235**	**(50)**	**-21%**

The finance lease obligation at the end of the second quarter decreased by $45,000, or 19%, from the 2017–18 year end, due to payments of $42,000 and the removal of a device before the end of its term, which resulted in a decrease of $3,000.

(in thousands of dollars)	As at September 30, 2018	As at March 31, 2018	Change $	Change %
Current portion	$ 96	$ 96	–	0%
Long-term portion	102	147	(45)	-31%
Finance lease obligation	**$ 198**	**$ 243**	**(45)**	**-19%**

5.8 CAPITAL EXPENDITURES

The Corporation's capital expenditures for the second quarter totalled $13,000, a decrease of $172,000 or 93% from the same period in the previous year. For the year-to-date period, expenditures totalled $17,000, a decrease of $237,000 or 93% over the same period last year. The decreases in both periods occurred because the Corporation began to lease personal computing devices for employees instead of purchasing such devices.

(in thousands of dollars)	Three months ended September 30, 2018	Three months ended September 30, 2017	Change $	Change %	Six months ended September 30, 2018	Six months ended September 30, 2017	Change $	Change %
Intangible assets	$ 13	$ –	13	100%	$ 13	$ 2	11	550%
Computer equipment	–	58	(58)	-100%	–	118	(118)	-100%
Furniture and equipment	–	55	(55)	-100%	4	62	(58)	-94%
Leasehold improvements	–	72	(72)	-100%	–	72	(72)	-100%
	$ 13	**$ 185**	**(172)**	**-93%**	**$ 17**	**$ 254**	**(237)**	**-93%**

5.9 ACTUAL PERFORMANCE VERSUS PLAN

The Corporation's actual overall performance for the six months ended September 30, 2018, was better than forecasted in the Corporate Plan (the Plan).

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

Travel and disbursement revenue and expenses were 75% higher than projected in the Corporate Plan, due to the timing of expenses for travel and disbursements related to work the Corporation performed on DND's behalf.

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

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

Operating and administrative costs were 40% lower than projected, due to the timing of expenditures related to the implementation of the Corporation's cyber strategy and the timing of other operating expenses, primarily training, development and travel costs.

Depreciation and amortization was 33% lower than forecasted due to lower capital expenditures.

Capital expenditures were 98% lower than projected, because the Corporation started leasing personal computing devices for employees rather than buying such devices.

ACTUAL PERFORMANCE VERSUS PLAN

			Change	
(in thousands of dollars)	**Actual**	**Plan**	$	%
Revenue				
Services revenue	$ 54,466	$ 54,853	(387)	-1%
Recovered travel and disbursement expenses	1,842	1,053	789	75%
Investment revenue	300	250	50	20%
	56,608	**56,156**	**452**	**1%**
Expenses				
Salaries and employee benefits	50,074	50,609	(535)	-1%
Operating and administrative costs	3,748	6,227	(2,479)	-40%
Recoverable travel and disbursement expenses	1,842	1,053	789	75%
Depreciation and amortization	619	930	(311)	-33%
	56,283	**58,819**	**(2,536)**	**-4%**
Loss and total comprehensive income	**$ 325**	**$ (2,662)**	**2,987**	**112%**
Capital expenditures	**$ 17**	**$ 862**	**(845)**	**-98%**

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY STATEMENT

Management is responsible for the preparation and fair presentation of these unaudited interim condensed financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, and the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations. Management is also responsible for such internal controls as it determines are necessary to enable the preparation of unaudited interim condensed financial statements that are free from material misstatement. In addition, management is responsible for ensuring that all other information in this quarterly financial report is consistent, as appropriate, with the unaudited interim condensed financial statements.

Based on our knowledge, these unaudited interim condensed financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed financial statements.

James S. Paul
President and Chief Executive Officer, Acting CFO

Richard M. Danis, CPA, CA
Director, Finance

Ottawa, Canada
November 29, 2018

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Unaudited

(in thousands of dollars)	Notes	**As at September 30, 2018**	As at March 31, 2018
Assets			
Cash		**$ 6,307**	$ 3,972
Investments	7	**2,089**	2,178
Trade receivables	13	**25,711**	22,196
Prepaids and other current assets		**1,071**	2,339
Other receivables		**1,857**	1,954
Current assets		**37,035**	32,639
Investments	7	**15,799**	16,551
Property, plant and equipment	9	**1,126**	1,623
Intangible assets		**194**	252
Assets under finance lease		**185**	235
Non-current assets		**17,304**	18,661
Total assets		**$ 54,339**	$ 51,300
Liabilities			
Trade and other payables		**$ 12,986**	$ 13,394
Deferred revenue	8	**1,559**	–
Current portion: Finance lease obligation		**96**	96
Current portion: Employee benefits	10	**2,502**	2,502
Current liabilities		**17,143**	15,992
Finance lease obligation		**102**	147
Employee benefits	10	**31,571**	29,963
Non-current liabilities		**31,673**	30,110
Total liabilities		**48,816**	46,102
Equity			
Share capital—authorized—1,000 common shares of no par value			
Issued—32 common shares		**–**	–
Retained earnings		**5,523**	5,198
Total equity		**5,523**	5,198
Total liabilities and equity		**$ 54,339**	$ 51,300

Contingent liabilities (Note 14)

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Unaudited

(in thousands of dollars)	Notes	Three months ended September 30, 2018	Three months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2017
Services revenue		**$ 26,513**	$ 23,855	**$ 54,466**	$ 48,703
Travel and disbursement revenue		**1,011**	477	**1,842**	828
Investment revenue		**145**	133	**300**	314
Total revenue		**27,669**	24,465	**56,608**	49,845
Salaries and employee benefits		**24,416**	22,558	**50,074**	47,488
Operating and administrative expenses	12	**1,840**	2,058	**3,746**	4,066
Travel and disbursement expenses		**1,011**	477	**1,842**	828
Depreciation of property, plant and equipment	9	**242**	263	**501**	513
Depreciation of assets under finance lease		**23**	25	**47**	49
Amortization of intangible assets		**35**	51	**71**	102
Finance costs		**1**	2	**2**	4
Total expenses		**27,568**	25,434	**56,283**	53,050
Gain (loss) for the period and total comprehensive gain (loss)		**$ 101**	$ (969)	**$ 325**	$ (3,205)

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

Unaudited

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at June 30, 2018	$ –	$ 5,422	$ 5,422
Gain for the period		101	101
Balance at September 30, 2018	**$ –**	**$ 5,523**	**$ 5,523**
	Share capital	Retained earnings	Total equity
Balance at June 30, 2017	$ –	$ 14,263	$ 14,263
Loss for the period		(969)	(969)
Balance at September 30, 2017	**$ –**	**$ 13,294**	**$ 13,294**

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at March 31, 2018	$ –	$ 5,198	$ 5,198
Gain for the period		325	325
Balance at September 30, 2018	**$ –**	**$ 5,523**	**$ 5,523**
	Share capital	Retained earnings	Total equity
Balance at March 31, 2017	$ –	$ 16,499	$ 16,499
Loss for the period		(3,205)	(3,205)
Balance at September 30, 2017	**$ –**	**$ 13,294**	**$ 13,294**

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

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF CASH FLOWS

Unaudited

(in thousands of dollars)	Notes	Three months ended September 30, 2018	Three months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2017
Cash flow from (used in) operating activities					
Gain (loss) for the period		**$ 101**	$ (969)	**$ 325**	$ (3,205)
Adjustments to reconcile loss for the period to cash provided or used by operating activities					
Employee benefits expensed		**967**	731	**1,934**	1,461
Employee benefits paid		**(149)**	(104)	**(326)**	(206)
Depreciation of property, plant and equipment	9	**242**	263	**501**	513
Depreciation of assets under finance lease		**23**	25	**47**	49
Amortization of intangible assets		**35**	51	**71**	102
Amortization of investment premiums		**23**	26	**53**	53
Change in non-cash operating working capital					
Trade receivables		**(1,807)**	2,837	**(3,515)**	(1,204)
Prepaids and other current assets		**225**	48	**1,268**	84
Other receivables		**49**	334	**97**	515
Trade and other payables		**1,252**	(15)	**(408)**	(1,811)
Deferred revenue (cost)		**2,786**	1,160	**1,559**	1,392
Net cash flows provided by (used in) operating activities		**3,747**	4,387	**1,606**	(2,257)
Cash flows provided by (used in) investing activities					
Acquisition of investments		**(98)**	(257)	**(898)**	(258)
Disposition of investments		**1,048**	700	**1,686**	1,200
Acquisition of property, plant and equipment	9	**–**	(185)	**(4)**	(252)
Acquisition of intangible assets		**(13)**	–	**(13)**	(2)
Net cash flows provided by (used in) investing activities		**937**	258	**771**	688
Cash flows from financing activities					
Repayment of finance lease obligations		**(22)**	(25)	**(42)**	(48)
Net cash flows used in financial activities		**(22)**	(25)	**(42)**	(48)
Decrease in cash during the period		**4,662**	4,620	**2,335**	(1,617)
Cash at the beginning of the period		**1,645**	785	**3,972**	7,022
Cash at the end of the period		**$ 6,307**	$ 5,405	**$ 6,307**	$ 5,405

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

NOTICE TO READERS

These interim condensed financial statements have not been audited or reviewed by an external auditor and must be read in conjunction with the most recent financial statements for the year ended March 31, 2018, and with the MD&A included in this quarterly financial report.

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

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

NOTE 1: SUMMARY OF BUSINESS AUTHORITY AND OBJECTIVES

Defence Construction (1951) Limited (the "Corporation" or "DCC") was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation's Head Office is located at 350 Albert Street, Ottawa, Ontario, Canada. DCC is an agent Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act*. Responsibility for the Corporation rests with the Minister of Public Services and Procurement. The Corporation is not subject to income taxes.

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

NOTE 2: BASIS OF PREPARATION AND PRESENTATION

These interim condensed financial statements are prepared by the Corporation in accordance with International Accounting Standard 34 (IAS 34), Interim Financial Reporting, as issued by the Accounting Standards Board, and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada. As permitted under IAS 34, these interim condensed financial statements do not include all of the disclosures required for annual financial statements and should be read in conjunction with the Corporation's audited financial statements for its fiscal year ended March 31, 2018.

The interim condensed financial statements have been prepared according to the International Financial Reporting Standards (IFRS) effective when these statements were prepared.

The statements have been prepared on a historical cost basis, except as permitted by the IFRS and as otherwise indicated in these notes.

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

These interim condensed financial statements follow the same accounting policies and methods of computation described in the notes to the Corporation's audited financial statements for the year ended March 31, 2018, except for the application of new standards, amendments and interpretations effective January 1, 2018, disclosed in Note 5 of these interim condensed consolidated financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES

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

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised, when the revision affects only that period, or in the period of the revision and future periods, when the revision affects both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in the notes to the Corporation's annual financial statements for the year ended March 31, 2018.

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

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee have issued certain pronouncements with mandatory effective dates of annual periods beginning on or after January 1, 2018. The Corporation adopted the following standards on April 1, 2018.

5.1 IFRS 9, FINANCIAL INSTRUMENTS

In the current period ending September 30, 2018, the Corporation has applied IFRS 9, *Financial Instruments* (as revised in July 2014). IFRS 9 introduces new requirements for the following: the classification and measurement of financial assets and liabilities; impairment of financial assets; and hedge accounting. This section describes these new requirements, as well as their impact on the Corporation's financial statements.

FINANCIAL ASSETS: CLASSIFICATION AND MEASUREMENT

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

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

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

FINANCIAL LIABILITIES: CLASSIFICATION AND MEASUREMENT

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

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

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

5.2 IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

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

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

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

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

6.1 IFRS 16, *LEASES*

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

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

NOTE 7: INVESTMENTS

Investments consist of Canadian, provincial and corporate bonds with effective interest rates ranging from 2.65% to 4.92% (coupon rates ranging from 2.85% to 7.22%), guaranteed investment certificates (GICs) with fixed interest rates ranging from 1.8% to 2.6%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from 2019 to 2031, and those of the GICs vary from 2019 to 2023, and the Corporation intends to hold all of them to maturity. The mutual funds can be liquidated on demand. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following table.

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

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

	As at September 30, 2018	As at March 31, 2018
Current portion	**$ 2,089**	$ 2,178
Long-term portion	**15,799**	16,551
Total	**$ 17,888**	$ 18,729

	As at September 30, 2018	As at March 31, 2018
Carrying amount at amortized cost:		
Bonds:		
Federal	**$ 503**	$ 504
Provincial	**6,998**	8,032
Corporate	**3,765**	4,290
Total bonds	**11,266**	12,826
Guaranteed investment certificates	**6,525**	5,725
Mutual funds	**97**	178
Total	**$ 17,888**	$ 18,729

	As at September 30, 2018	As at March 31, 2018
Fair value		
Bonds		
Federal	**$ 511**	$ 519
Provincial	**7,088**	8,283
Corporate	**3,827**	4,423
Total bonds	**11,426**	13,225
Guaranteed investment certificates	**6,594**	5,744
Mutual funds	**97**	178
Total	**$ 18,117**	$ 19,147

NOTE 8: DEFERRED REVENUE

Deferred revenue arises when, at a reporting date, the amount invoiced exceeds the services delivered through fixed-fee service-level arrangements. For the period ended September 30, 2018, deferred revenue was $1,559. The figure as at March 31, 2018, was $0. Timing differences on fixed-fee service-level arrangements can occur during the reporting periods of the fiscal year but are reconciled and reduced to $0 by the year-end reporting date.

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	As at September 30, 2018	As at March 31, 2018
Cost	$ 6,944	$ 6,940
Less: Accumulated depreciation	5,818	5,317
Net book value	**$ 1,126**	**$ 1,623**
Net book value by asset class		
Computer equipment	$ 886	$ 1,317
Furniture and fixtures	210	240
Leasehold improvements	30	66
Net book value	**$ 1,126**	**$ 1,623**

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

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance as at March 31, 2018	$ 4,497	$ 886	$ 1,557	$ 6,940
Plus: Additions	–	4	–	4
Less: Disposals	–	–	–	–
Balance as at September 30, 2018	**$ 4,497**	**$ 890**	**$ 1,557**	**$ 6,944**

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

	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Accumulated depreciation				
Balance as at March 31, 2018	$ 3,180	$ 646	$ 1,491	$ 5,317
Plus: Depreciation	431	34	36	501
Less: Disposals	–	–	–	–
Balance as at September 30, 2018	**$ 3,611**	**$ 680**	**$ 1,527**	**$ 5,818**

There was no impairment of property, plant and equipment.

NOTE 10: EMPLOYEE BENEFITS

POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

	As at September 30, 2018	As at March 31, 2018
Current portion of employee benefits	$ 2,502	$ 2,502
Long-term portion of employee benefits	31,571	29,963
Total employee benefits	**$ 34,073**	**$ 32,465**

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

NOTE 11: REVENUE RECOGNITION

SERVICE REVENUE

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

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

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

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

11.1 TRAVEL AND DISBURSEMENT REVENUE

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

11.2 INVESTMENT REVENUE

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

11.3 ACCOMMODATIONS

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

11.4 SEGMENTED AND DISAGGREGATED REVENUE INFORMATION

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

Three months ended September 30, 2018			Activity				
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,178	$ 983	$ 286	$ 331	$ 171	$ 237	**$ 4,186**
Quebec Region	1,876	1,062	388	378	329	334	**4,367**
National Capital Region	807	1,774	1,180	288	120	277	**4,446**
Ontario Region	3,274	1,272	276	542	554	376	**6,294**
Western Region	3,551	1,817	294	605	432	227	**6,926**
Head Office	41	–	–	10	243	–	**294**
Total revenue, by activity	**$ 11,727**	**$ 6,908**	**$ 2,424**	**$ 2,154**	**$ 1,849**	**$ 1,451**	**$ 26,513**

Six months ended September 30, 2018			Activity				
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 4,497	$ 2,045	$ 539	$ 678	$ 348	$ 468	**$ 8,575**
Quebec Region	4,021	2,382	845	749	679	680	**9,356**
National Capital Region	1,513	3,660	2,373	608	266	579	**8,999**
Ontario Region	6,783	2,563	557	1,007	1,237	771	**12,918**
Western Region	7,097	3,876	582	1,131	828	496	**14,010**
Head Office	79	0	–	16	513	–	**608**
Total revenue, by activity	**$ 23,990**	**$ 14,526**	**$ 4,896**	**$ 4,189**	**$ 3,871**	**$ 2,994**	**$ 54,466**

Three months ended September 30, 2017			Activity				
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 2,279	$ 722	$ 340	$ 265	$ 170	$ 189	**$ 3,965**
Quebec Region	1,969	946	387	277	210	281	**4,070**
National Capital Region	612	1,543	730	353	152	297	**3,687**
Ontario Region	3,076	1,015	268	356	630	394	**5,739**
Western Region	3,081	1,632	286	447	433	263	**6,142**
Head Office	29	–	13	16	194	–	**252**
Total revenue, by activity	**$ 11,046**	**$ 5,858**	**$ 2,024**	**$ 1,714**	**$ 1,789**	**$ 1,424**	**$ 23,855**

Six months ended September 30, 2017	Activity						
Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
Atlantic Region	$ 4,436	$ 1,522	$ 751	$ 533	$ 325	$ 365	$ **7,932**
Quebec Region	4,063	2,057	782	617	418	525	**8,462**
National Capital Region	1,181	3,159	1,525	623	292	663	**7,443**
Ontario Region	6,179	2,064	512	713	1,365	815	**11,648**
Western Region	6,352	3,385	601	879	931	541	**12,689**
Head Office	68	–	14	23	424	–	**529**
Total revenue, by activity	**$ 22,279**	**$ 12,187**	**$ 4,185**	**$ 3,388**	**$ 3,755**	**$ 2,909**	**$ 48,703**

The following table disaggregates revenue by region and contract type.

	Time-based revenue			
Region	Three months ended September 30, 2018	Three months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2017
Atlantic Region	$ 1,343	$ 1,578	$ 2,675	$ 3,026
Quebec Region	953	1,142	2,062	2,383
National Capital Region/Head Office	4,621	3,757	9,296	7,623
Ontario Region	1,629	1,879	3,430	3,831
Western Region	1,559	1,776	3,246	3,541
Total time-based revenue	**$ 10,105**	**$ 10,132**	**$ 20,709**	**$ 20,404**

	Fixed-fee revenue			
Region	Three months ended September 30, 2018	Three months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2017
Atlantic Region	$ 2,843	$ 2,387	$ 5,900	$ 4,906
Quebec Region	3,414	2,920	7,294	6,079
National Capital Region/Head Office	119	180	311	349
Ontario Region	4,665	3,860	9,488	7,817
Western Region	5,367	4,366	10,764	9,148
Total time-based revenue	**$ 16,408**	**$ 13,723**	$ 33,757	$ 28,299
Total revenue	**$ 26,513**	**$ 23,855**	**$ 54,466**	**$ 48,703**

NOTE 12: OPERATING AND ADMINISTRATIVE EXPENSES

	Three months ended September 30, 2018	Three months ended September 30, 2017	Six months ended September 30, 2018	Six months ended September 30, 2017
Rent	$ 460	$ 431	$ 883	$ 912
Software maintenance	334	486	679	877
Employee training and development	257	163	551	475
Professional services	189	283	401	505
Telephone and data communications	176	255	373	457
Travel	73	67	238	204
Office services, supplies and equipment	62	72	114	134
Staff relocation	39	47	54	103
Hospitality	33	47	82	74
Client services and communications	31	62	60	99
Equipment rental	29	(7)	32	(12)
Computer equipment	28	54	34	78
Furniture and fixtures	27	28	48	36
Cloud computing services	26	–	26	–
Printing and stationery	24	18	37	30
Computer software	20	17	37	31
Memberships and subscriptions	13	12	30	30
Postage and freight	9	9	15	14
Recruiting	6	10	33	10
Other	4	4	19	9
Total	**$ 1,840**	**$ 2,058**	**$ 3,746**	**$ 4,066**

NOTE 13: RELATED-PARTY TRANSACTIONS AND BALANCES

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at fair value, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue, and travel and disbursement revenue, in the second quarter of 2018–19 totalled $27,524 compared with $24,332 in the second quarter of 2017–18. For the year-to-date period ending September 30, 2018, these revenues totalled $56,308 compared to $49,531 for the comparable prior year period. These revenues were generated from services provided to DND (including the Canadian Forces Housing Agency), the Communications Security Establishment and Shared Services Canada.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled $27 for the year-to-date period of 2018–19 compared with $47 in the same period of 2017–18.

		As at September 30, 2018		As at March 31, 2018
Due from				
Department of National Defence	$	23,603	$	20,186
Canadian Forces Housing Agency		1,810		1,702
Shares Services Canada		104		100
Communications Security Establishment Canada		193		210
Public Services and Procurement Canada		1		(2)
	$	**25,711**	**$**	**22,196**
Due to				
Shares Services Canada	$	–	$	9
Department of Justice		–		130
	$	**–**	**$**	**139**

13.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

		Three months ended September 30, 2018		Three months ended September 30, 2017		Six months ended September 30, 2018		Six months ended September 30, 2017
Short-term benefits	$	884	$	824	$	1,763	$	1,677
Post-employment benefits		111		103		251		195
	$	**995**	**$**	**927**	**$**	**2,014**	**$**	**1,872**

NOTE 14: CONTINGENT LIABILITIES

14.1 LEGAL CLAIMS

The Corporation's efforts to resolve contract disputes are reflected in the number and value of contract claims before the courts. As at September 30, 2018, there were 12 ongoing claims totalling $10,364. As at March 31, 2018, there were eight ongoing claims totalling $2,259.

In accordance with the memorandum of understanding between the Corporation and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by the Corporation. Thus, the financial risk associated with settling these contractual claims does not have any financial impact on the Corporation. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims from third-party contracts.