DEFENCE CONSTRUCTION CANADA

2019–2020 SECOND QUARTER FINANCIAL REPORT

PERIOD ENDED SEPTEMBER 30, 2019

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

DCC·CDC

Defence Construction Canada
Construction de Défense Canada

Canada

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) outlines the financial results and operational changes for the second quarter ended September 30, 2019, 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, 2019. 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, 2019 (the "*Annual Report 2018–2019*"). Financial results reported in the MD&A are rounded to the nearest thousand. Related percentages are based on numbers rounded to the nearest thousand. DCC management is responsible for the information presented in the MD&A and unaudited interim condensed financial statements.

1.0 MATERIALITY

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

2.0 CORPORATE PROFILE

Defence Construction (1951) Limited, operating as Defence Construction Canada (DCC), is a Crown corporation that provides innovative and cost-effective contracting, construction, contract management, infrastructure and environmental, and lifecycle support services for Canada's defence 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, and the management of public-private partnership (P3) agreements for CSE and Shared Services Canada.

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

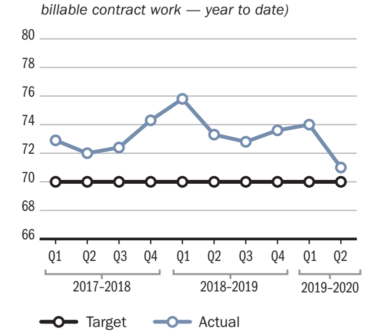
The Real Property Management Service Team supports the efficient maintenance of DND's infrastructure by providing strategic and tactical support throughout the entire real property lifecycle.

3.0 OPERATIONAL PERFORMANCE INDICATORS

3.1 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%.

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

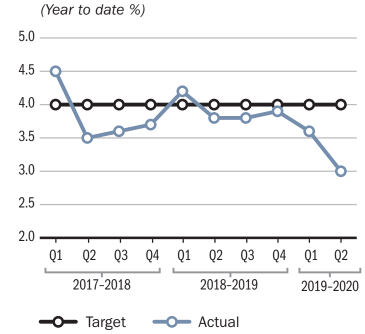


For the second quarter of 2019–20, the Corporation achieved a utilization rate of 71%, a decrease from the rate of 73.2% for the same period in 2018–19. The decrease is mostly due to a slower DND program rollout than planned and an IT disruption in the month of September 2019, which resulted in lost productivity.

3.2 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

Maintaining a skilled and professional workforce is a key corporate objective. For 2019–20 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.

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



For the second quarter of 2019–20, the professional development to salary cost ratio was 3.0% compared to 3.4% for the same period in the prior year. The decrease is due to the timing of internal training.

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 2018–2019*.

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, 2019; all references to the year-to-date period refer to the six months ended September 30, 2019. All references to the previous year's second quarter relate to the three months ended September 2018; all references to the previous year-to-date period refer to the six months ended September 30, 2018. All references to the previous year's end relate to March 31, 2019.

5.2 REVENUE

SERVICES REVENUE

Services revenue for all activities combined was $26.8 million in the second quarter, an increase of $279,000 or approximately 1% from the previous year. For the year-to-date period, services revenue was $56.5 million, an increase of $2 million or approximately 4% over the previous year. These increases in the second quarter resulted from a 3.5% increase in billing rates for all service lines compared to the prior year and from varying DND demand for certain services.

CONTRACT MANAGEMENT SERVICES

Revenue from contract management services increased by 2% in the second quarter and by 4% 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 offset by varying demand from Client–Partners. Fluctuations in the DND program have a direct impact on the revenue this activity generates.

PROJECT AND PROGRAM MANAGEMENT SERVICES

Project and Program Management Services revenue increased by 5% in the second quarter and by 7% 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 MANAGEMENT SERVICES

Real Property Management Services revenue decreased by 6% in the second quarter and by 2% in the year-to-date period compared to the same periods in the previous year. The decreases were the result of lower demand for this service compared to the same periods in the previous year offset by higher billing rates.

CONTRACT SERVICES

Contract Services revenue decreased by 5% in the second quarter and increased by 4% in the year-to-date period compared to the same periods in the previous year. The decrease in the second quarter was due to lower demand from DND partially offset by higher billing rates. The increase in the year-to-date period was due to higher billing rates.

CONSTRUCTION TECHNICAL SUPPORT

Revenue from construction technical support decreased by 7% in the second quarter and by 3% in the year-to-date period compared to the same periods in the previous year. The decreases were the result of lower demand for this service compared to the same period in the previous year.

ENVIRONMENTAL SERVICES

Environmental Services revenue increased by 5% in the second quarter and by 5% in the year-to-date period compared to the same periods in the previous year. This increase was due to increases in billing rates and to higher demand from DND for this service. Fluctuations in the DND program have a direct impact on the revenue this activity generates.

REVENUE, BY ACTIVITY

			Change				**Change**	
(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	$	%	Six months ended September 30, 2019	Six months ended September 30, 2018	$	%
Contract Management	$ 11,995	$ 11,727	268	2%	$ 24,887	$ 23,990	897	4%
Project and Program Management	7,239	6,908	331	5%	15,590	14,526	1,064	7%
Real Property Management	2,272	2,424	(152)	-6%	4,778	4,896	(118)	-2%
Construction Technical Support	1,719	1,849	(130)	-7%	3,772	3,871	(99)	-3%
Contract Services	2,038	2,154	(116)	-5%	4,348	4,189	159	4%
Environmental services	1,529	1,451	78	5%	3,145	2,994	151	5%
	$ 26,792	**$ 26,513**	**279**	**1%**	**$ 56,520**	**$ 54,466**	**2,054**	**4%**

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 $1.5 million in the second quarter, an increase of $465,000, or approximately 46%, over the same period in the previous year. For the year-to-date period, revenue totalled $1.9 million, an increase of $30,000 from the previous year. These variances are 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, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %
Travel and disbursement revenue	**$ 1,476**	**$ 1,011**	**465**	**46%**	**$ 1,872**	**$ 1,842**	**30**	**2%**

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 $31,000 or 21% compared to the same period in the previous year. The increase was due to higher interest rates and higher average monthly cash balances for cash held in the corporate account compared to the prior year.

For the year-to-date period, interest revenue increased by $63,000 or 21% compared to the same period in the prior year. The increase was due to higher interest rates and to higher average monthly cash balances for cash held in the corporate account compared to the prior year.

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %
Investment revenue	**$ 176**	**$ 145**	**31**	**21%**	**$ 363**	**$ 300**	**63**	**21%**

LEASE REVENUE

Lease revenue is recognized for the recovery of rent from the Client due to the adoption of IFRS16–Leases, effective April 1, 2019.

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %
Lease revenue	**$ 221**	**$ 0**	**221**	**100%**	**$ 443**	**$ 0**	**443**	**100%**

5.3 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $19.8 million in the second quarter, an increase of $391,000 or approximately 2% over the same period in the previous year. For the year-to-date period, salaries totalled $41.9 million, an increase of $2.4 million or approximately 6% over the same period in the previous year. Salary pay rates increased by 3.5% over the same period in the prior year due to a cost of living increase of 1.5% and average performance pay increases of 2%. Additionally, the number of full-time equivalents (FTEs) increased by approximately 2% or 17 FTEs over the end of the prior year.

Employee benefits were $5.5 million in the second quarter, an increase of $513,000 or approximately 10% from the same period in the previous year. The increase was due mainly to an increase in benefit costs.

For the year-to-date period, employee benefits were $11 million, an increase of $406,000 or approximately 4% from the same period in the prior year. The increase was due mainly to an increase in benefit costs from the prior year.

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %
Salaries	$ 19,781	$ 19,390	391	2%	$ 41,915	$ 39,459	2,456	6%
Employee benefits	5,539	5,026	513	10%	11,021	10,615	406	4%
	$ 25,320	**$ 24,416**	**904**	**4%**	**$ 52,936**	**$ 50,074**	**2,862**	**6%**
Employee benefits as a percentage of salaries	28%	26%			26%	27%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $2.8 million in the second quarter of 2019–20, an increase of $1.0 million or 53% over the second quarter of 2018–19. For the year-to-date period, operating and administrative expense increased by $1.1 million or approximately 29%. Material variances are shown in the following table.

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %	Variance analysis
Professional services	$ 724	$ 189	535	283%	$ 1,253	$ 401	852	212%	The increases in both periods were due to costs incurred to migrate the information technology (IT) servers to the cloud in 2019–20.
Employee training and development	162	257	(95)	-37%	484	551	(67)	-12%	The decreases in both periods were due to the timing of training expenses incurred.
Software maintenance	262	334	(72)	-22%	553	679	(126)	-19%	The decreases in both periods were due to DCC reclassifying cloud computing to a separate expense category.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %	Variance analysis
Leased location operating costs	249	–	249	100%	469	–	469	100%	With the adoption of IFRS 16–Leases, accounting for rent and operating costs for 2019–2020 changed. Rent expense in prior years included basic rent plus operating costs and taxes. For the current year, basic rent is now accounted for as a right-of-use asset with a corresponding liability. The asset is depreciated and no longer included in operating and administrative expenses. The only portion in operating and administrative expenses are operating costs and taxes.
Rent	–	460	(460)	-100%	–	883	(883)	-100%	
Telephone and data communications	226	176	50	28%	417	373	44	12%	The increases in both periods were due to the increased number of users of cellular phones.
Travel	100	73	27	37%	266	238	28	12%	The increases in both periods were due to the timing of travel requirements.
Office services, supplies and equipment	100	62	38	61%	163	114	49	43%	The increases in both periods were due to higher requirements for offices services, supplies and equipment than in the prior year.
Cloud computing services	241	26	215	827%	292	26	266	1023%	The increases in both periods occurred because DCC began reporting cloud computing services separately from software maintenance contracts and the transition of IT servers to the cloud.
Equipment rental	194	29	165	569%	242	32	210	656%	The increases in both periods occurred because DCC now leases employee computing devices instead of purchasing and capitalizing them.
Staff relocation	192	39	153	392%	230	54	176	326%	The increases in both periods were due to DCC relocating staff to temporary or permanent assignments to meet client demand.
Hospitality	44	33	11	33%	77	82	(5)	-6%	The variances in both periods were due to the timing of internal meetings where hospitality was provided.
Client services and communications	32	31	1	3%	50	60	(10)	-17%	The variances in both periods were due to the timing of communications expenses incurred.
Printing and stationery	19	24	(5)	-21%	34	37	(3)	-8%	The decreases in both periods were due to the lower printing and stationery requirements.

OPERATING AND ADMINISTRATIVE EXPENSES (continued)

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %	Variance analysis
Furniture and fixtures	193	27	166	615%	205	48	157	327%	The increases in both periods were primarily due to the purchase of new furniture for the Western and Ontario Regional offices.
Memberships and subscriptions	21	13	8	62%	30	30	–	0%	The variance in the second quarter was due to the timing of memberships and subscriptions expenses incurred.
Computer equipment	9	28	(19)	-68%	16	34	(18)	-53%	The variance in both periods were due to lower hardware requirements due to DCC leasing computers.
Postage and freight	6	9	(3)	-33%	14	15	(1)	-7%	The variance was not material.
Computer software	5	20	(15)	-75%	9	37	(28)	-76%	The decreases in both periods occurred because DCC now leases most employee computing devices, which includes software costs.
Recruiting	19	6	13	217%	22	33	(11)	-33%	The increase in the second quarter is due to the timing of recruiting expenses incurred. The decrease for the year-to-date period was due to lower demand of external recruiting services.
Other	8	4	4	100%	11	19	(8)	-42%	The increase in the second quarter was due to leasehold improvement expenses. The decrease in the year-to-date period is due to disposition costs of computer assets related to the introduction of the lease program for computing devices.
	$ 2,806	**$ 1,840**	**966**	**53%**	**$ 4,837**	**$ 3,746**	**1,091**	**29%**	

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 $1.3 million in the second quarter, an increase of $243,000, or approximately 24%, over the same period in the previous year. For the year-to-date period, expenses totalled $1.9 million, an increase of $30,000 from the prior year, or approximately 2%. 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, 2019	Three months ended September 30, 2018	$	%	Six months ended September 30, 2019	Six months ended September 30, 2018	$	%
Travel and disbursement expenses	**$ 1,254**	**$ 1,011**	**243**	**24%**	**$ 1,872**	**$ 1,842**	**30**	**2%**

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by 132% or $396,000 in the second quarter and by 121% or $751,000 in the year-to-date period compared to the same period in the previous year. The increase in depreciation was due to the addition of right-of-use assets related to the adoption of IFRS 16–Leases, effective April 1, 2019, which was offset by lower depreciation of property, plant and equipment. That 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.

			Change				**Change**	
(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	$	%	Six months ended September 30, 2019	Six months ended September 30, 2018	$	%
Depreciation right-of-use assets	$ 539	$ –	539	100%	$ 1,052	$ –	1,052	100%
Depreciation of property, plant and equipment	116	$ 242	(126)	-52%	$ 237	$ 501	(264)	-53%
Depreciation of assets under finance lease	21	23	(2)	9%	40	47	(7)	15%
Amortization of intangible assets	20	35	(15)	-43%	41	71	(30)	-42%
	$ 696	**$ 300**	**396**	**132%**	**$ 1,370**	**$ 619**	**751**	**121%**

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

The Corporation realized a net loss and total comprehensive loss of $1.5 million for the second quarter compared with an income and total comprehensive income of $101,000 for the same period in the previous year. This was a decrease of 1348%. For the year-to-date period, the Corporation realized a net loss of $1.9 million compared to a net income of $325,000 in the previous year. The losses in both periods were a result of lower utilization of personnel due to a slower program implementation by DND and loss of productivity related to the September IT disruption which increased overhead salaries. Operating and administration costs also increased over the same periods in the prior year.

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	**Change** $	**Change** %	Six months ended September 30, 2019	Six months ended September 30, 2018	**Change** $	**Change** %
Net income (loss) and total comprehensive income	**$ (1,462)**	**$ 101**	**(1,361)**	**-1,348%**	**$ (1,915)**	**$ 325**	**$ (1,590)**	**-489%**

5.5 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL AND CASH MANAGEMENT

DCC's financial and cash management policy is discussed in the *Annual Report 2018–2019*.

CASH AND INVESTMENTS

Cash and investments totalled $26.2 million at September 30, 2019, a decrease of $2 million from March 31, 2019. The decrease is due in part to an increase in trade receivables and timing of receipt of payment from Client–Partners.

The cash balance at September 30, 2019, was $9.8 million, a decrease of $216,000 or 2% from the 2018–19 year end. In the six-month period after March 31, 2019, the Corporation used $613,000 in cash for operating activities, spent $883,000 on capital assets, redeemed $1.7 million in investments and spent $1.1 million to meet finance lease obligations.

Investments (both current and long-term) at September 30, 2019, totalled $16.4 million, a decrease of $1.8 million from the 2018–19 year-end. The decrease was due mainly to the redemption of investments for use to fund 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, 2019, the amount of trade receivables was $24.4 million, an increase of $3.1 million or 14% from March 31, 2019. The increase was due to the timing of the collection of receivables from DND. All amounts are expected to be collected.

CURRENT LIABILITIES

Current liabilities were $19.2 million at September 30, 2019, an increase of $2.6 million or 16% from March 31, 2019. The increase in current liabilities was primarily due to the implementation of IFRS16–Leases and the amount recognized for the current lease liability obligation, and due to an increase in accounts payable related to the timing of payments. The recognition of deferred revenues on fixed-fee contract also plays a factor on the increase.

LIQUIDITY AND CAPITAL EXPENSES

(in thousands of dollars)	As at September 30, 2019	As at March 31, 2019	**Change** $	**Change** %
Cash	$ 9,850	$ 10,066	(216)	-2%
Investments	16,352	18,104	(1,752)	-10%
Cash and investments	**$ 26,202**	**$ 28,170**	**(1,968)**	**-7%**
Trade receivables	**$ 24,404**	**$ 21,321**	**3,083**	**14%**
Current liabilities	**$ 19,205**	**$ 16,607**	**2,598**	**16%**

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, 2019, was $29.5 million, an increase of $1.3 million or 5% from the 2018–19 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, 2019	As at March 31, 2019	**Change** $	**Change** %
Current portion	$ 2,954	$ 2,863	91	3%
Long-term portion	26,585	25,335	1,250	5%
Total employee benefits	**$ 29,539**	**$ 28,198**	**1,341**	**5%**

5.7 RIGHT-OF-USE ASSETS

The Corporation leases office space, facilities for IT equipment and multifunctional copiers. Assets under finance lease were reclassified to right-of-use assets as at April 1, 2019. The decrease from April 1, 2019 was depreciation.

(in thousands of dollars)

Right-of-use assets – IFRS 16–Lease adoption	$	8,501
Existing assets under finance lease		141
Opening balance: Right-of-use assets, April 1, 2019	**$**	**8,642**
Plus: Additions		675
Less: Depreciation		(1,093)
Ending balance at September 30, 2019	**$**	**8,224**

5.8 LEASE LIABILITY

The lease liability relates to the right-of-use assets and the finance lease obligation.

(in thousands of dollars)

Lease obligation – IFRS 16–Leases adoption	$	8,501
Existing finance lease obligation reclassified		147
Opening balance: Lease obligation April 1, 2019	**$**	**8,648**
Less: Payment in the period		(1,102)
Plus: Addition of right-of-use asset		675
Plus: Interest on liability		97
Ending balance at September 30, 2019	**$**	**8,318**

MONTHLY ANALYSIS

(in thousands of dollars)

1 year or less	$	1,048
Between 1–2 years		810
Between 2–5 years		3,679
Over 5 years		2,781
Total	**$**	**8,318**

5.9 CAPITAL EXPENDITURES

The Corporation's capital activity in the second quarter was related to the addition of a right-of-use assets. Refer to Note 5 in the financial statements for more details regarding the adoption of IFRS 16–Leases. Also, the increase of capital expenditures is due to leasehold improvements costs for the Ontario regional office.

(in thousands of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	Change $	Change %	Six months ended September 30, 2019	Six months ended September 30, 2018	Change $	Change %
Right-of-use assets	$ 675	$ –	675	100%	$ 9,175	$ –	9,175	100%
Intangible assets	–	13	(13)	-100%	–	13	(13)	-100%
Computer equipment	–	–	–	0%	–	–	–	0%
Furniture and equipment	–	–	–	0%	–	4	(4)	-100%
Leasehold improvements	209	–	209	100%	209	–	209	100%
	$ 884	**$ 13**	**871**	**99%**	**$ 9,384**	**$ 17**	**9,367**	**99%**

5.10 ACTUAL PERFORMANCE VERSUS PLAN

The Corporation's actual overall performance for the six months ended September 30, 2019, was lower than forecasted in the Corporate Plan (the Plan).

Services revenue was 9% lower than projected in the Plan. The decrease is due to lower demand for services from DND than anticipated in the Plan and a partial decrease related to the September IT disruption.

Travel and disbursement revenue and expenses were 45% higher than projected in the Plan due to the timing of expenses for travel and disbursements related to work the Corporation performed on DND's behalf.

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

Lease revenue is recorded from subleasing a right-of-use asset of $443,000 which is recovered from DND due to the adoption of IFRS16–Leases.

Salaries and benefits were 5% lower with the amount forecasted in the Plan due to lower demand.

Operating and administrative costs were 26% lower than projected due to the timing of expenditures related to the transition of IT servers to the cloud and the adoption of IFRS16–Leases.

Depreciation and amortization was 225% higher than forecasted due to the adoption of IFRS16–Leases.

Capital expenditures were 20% lower than projected, mainly due to the adoption of IFRS 16–Leases and a delay in head office leasehold renovations. The amount capitalized for leases was less than the amount anticipated in the Plan. Also, the decrease was due to the Corporation leasing employee computing devices rather than buying them.

ACTUAL PERFORMANCE VERSUS PLAN

			Change	
(in thousands of dollars)	**Actual**	**Plan**	$	%
Revenue				
Services	$ 56,520	$ 62,101	(5,581)	-9%
Recovered travel and disbursement	1,872	1,294	578	45%
Investment revenue	363	325	38	12%
Lease revenue	443	–	443	100%
	59,198	**63,720**	**(4,522)**	**-7%**
Expenses				
Salaries and employee benefits	52,937	55,782	(2,845)	-5%
Operating and administrative costs	4,837	6,562	(1,725)	-26%
Recoverable travel and disbursement	1,872	1,294	578	45%
Depreciation and amortization	1,467	451	1,016	225%
	61,113	**64,089**	**(2,976)**	**-5%**
Loss and total comprehensive income	**$ (1,915)**	**$ (369)**	**(1,546)**	**419%**
Capital expenditures	**$ 9,384**	**$ 11,678**	**(2,294)**	**-20%**

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY STATEMENT

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

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

Original signed by:
Derrick Cheung
President and Chief Executive Officer

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

Ottawa, Canada
January 10, 2020

DEFENCE CONSTRUCTION (1951) LIMITED

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Unaudited

(in thousands of dollars)	Notes	**As at September 30, 2019**	As at March 31, 2019
Assets			
Cash		**$ 9,850**	$ 10,066
Investments	7	**2,381**	2,502
Trade receivables		**24,404**	21,321
Prepaids and other current assets		**1,442**	1,487
Other receivables		**1,724**	1,805
Current assets		**39,801**	37,181
Investments	7	**13,971**	15,602
Right-of-use assets	10	**8,123**	–
Property, plant and equipment	9	**811**	838
Intangible assets		**90**	131
Assets under finance lease		**101**	141
Non-current assets		**23,096**	16,712
Total assets		**$ 62,897**	$ 53,893
Liabilities			
Trade and other payables		**$ 14,009**	$ 13,664
Deferred revenue	8	**1,062**	–
Current portion: Right-of-use lease liability	11	**1,100**	–
Current portion: Finance lease obligation		**80**	80
Current portion: Employee benefits	12	**2,954**	2,863
Current liabilities		**19,205**	16,607
Right-of-use lease liability	11	**7,111**	–
Finance lease obligation		**27**	67
Employee benefits	12	**26,585**	25,335
Non-current liabilities		**33,723**	25,402
Total liabilities		**52,928**	42,009
Equity			
Share capital: Authorized—1,000 common shares of no par value			
Issued: 32 common shares		**–**	–
Retained earnings		**9,969**	11,884
Total equity		**9,969**	11,884
Total liabilities and equity		**$ 62,897**	$ 53,893

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, 2019	Three months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2018
Services revenue	13	**$ 26,792**	$ 26,513	**$ 56,520**	$ 54,466
Travel and disbursement revenue		**1,476**	1,011	**1,872**	1,842
Lease revenue		**221**	–	**443**	–
Investment revenue		**176**	145	**363**	300
Total revenue		**28,665**	27,669	**59,198**	56,608
Salaries and employee benefits		**25,320**	24,416	**52,937**	50,074
Operating and administrative expenses	14	**2,806**	1,840	**4,837**	3,746
Travel and disbursement expenses		**1,254**	1,011	**1,872**	1,842
Depreciation of right-of-use assets	10	**539**	–	**1,052**	–
Depreciation of property, plant and equipment	9	**116**	242	**237**	501
Depreciation of assets under finance lease		**21**	23	**40**	47
Amortization of intangible assets		**20**	35	**41**	71
Finance costs	11	**51**	1	**97**	2
Total expenses		**30,127**	27,568	**61,113**	56,283
Gain (loss) for the period and total comprehensive gain (loss)		**$ (1,462)**	$ 101	**$ (1,915)**	$ 325

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, 2019	$ –	$ 11,431	$ 11,431
Loss for the period		(1,462)	(1,462)
Balance at September 30, 2019	**$ –**	**$ 9,969**	**$ 9,969**

	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**

(in thousands of dollars)	Share capital	Retained earnings	Total equity
Balance at March 31, 2019	$ –	$ 11,884	$ 11,884
Loss for the period		(1,915)	(1,915)
Balance at September 30, 2019	**$ –**	**$ 9,969**	**$ 9,969**

	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**

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, 2019	Three months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2018
Cash flow from (used in) operating activities					
Gain (loss) for the period		**$ (1,462)**	$ 101	**$ (1,915)**	$ 325
Adjustments to reconcile loss for the period to cash provided or used by operating activities					
Employee benefits expensed		**831**	967	**1,662**	1,934
Employee benefits paid		**(170)**	(149)	**(322)**	(326)
Depreciation of right-of-use assets	10	**559**	23	**1,093**	47
Depreciation of property, plant and equipment	9	**116**	242	**236**	501
Amortization of intangible assets		**20**	35	**41**	71
Amortization of investment premiums		**21**	23	**43**	53
Interest paid on lease obligations		**51**	–	**97**	–
Change in non-cash operating working capital					
Trade receivables		**2,067**	(1,807)	**(3,083)**	(3,515)
Prepaids and other current assets		**108**	225	**45**	1,268
Other receivables		**38**	49	**81**	97
Trade and other payables		**787**	1,252	**347**	(408)
Deferred revenue (cost)		**1,230**	2,786	**1,061**	1,559
Net cash flows from (used in) operating activities		**4,196**	3,747	**(614)**	1,606
Cash flows provided by (used in) investing activities					
Acquisition of investments		**–**	(98)	**(115)**	(898)
Redemption of investments		**1,824**	1,048	**1,824**	1,686
Acquisition of property, plant and equipment	9	**(209)**	–	**(209)**	(4)
Acquisition of right-of-use assets	10	**(675)**	–	**(675)**	–
Acquisition of intangible assets		**–**	(13)	**–**	(13)
Disposal of right-of-use assets		**–**	–	**–**	–
Net cash flows provided by (used in) investing activities		**940**	937	**825**	771
Cash flows from financing activities					
Repayment of lease obligations		**(562)**	(22)	**(1,102)**	(42)
Additional lease obligations		**675**	–	**675**	–
Net cash flows used in financial activities		**113**	(22)	**(427)**	(42)
Decrease in cash during the period		**5,249**	4,662	**(216)**	2,335
Cash at the beginning of the period		**4,601**	1,645	**10,066**	3,972
Cash at the end of the period		**$ 9,850**	$ 6,307	**$ 9,850**	$ 6,307

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, 2019, 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 is 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, 2019.

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, 2019, except for the application of new standards, amendments and interpretations effective January 1, 2019, 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, 2019.

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

IFRS 16–LEASES: The Corporation has applied IFRS 16–Leases with the initial application of April 1, 2019 using the modified retrospective approach. Under this method, the Corporation applied the standard retrospectively only to the most current period presented in the interim condensed financial statements and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening statement of financial position on April 1, 2019. Therefore, the comparative information for 2018–19 presented in the interim condensed financial statements for the six months ended September 30, 2018, have not been restated, and leases continued to be reported under the accounting policies disclosed in Note 17 of the Corporation's annual audited financial statements for the year ended March 31, 2019.

The Corporation's leasing activities relate mainly to office space and multifunction copiers.

As a lessee, the Corporation previously classified leases as operating or finance based on its assessment of whether the lease significantly transferred all of the risk and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most of its leases.

At transition, the Corporation had leases for multifunction copiers classified as finance leases under the previous lease standard, IAS 17. The Corporation measured the lease liability for existing operating leases, other than short-term or low-level leases, at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at April 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, any lease incentives, any initial direct cost incurred, and any estimated costs to be incurred in restoring the sire or dismantling and removing the underlying asset.

By electing to use the modified retrospective method, the Corporation calculated the lease liability using its incremental borrowing rate of between approximately 3% to 3.16% as at April 1, 2019.

The Corporation used the following practical expedients when applying IFRS 16 to leases previously classified as operating lease under IAS 17:

- applying a single discount rate to a portfolio of leases with similar characteristics;
- applying the exception not to recognize right-of-use assets and liabilities with less than 12 months of lease term;
- applying the exception not to recognize right-of-use assets and liabilities for low value leases with individual asset value under $5,000; and,
- using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a lessor, the Corporation will continue to classify subleases as operating or finance after reassessing the nature of subleases as part of the IFRS 16 transition. Under IFRS 16, this classification is determined with reference to the right-of-use asset rather than the underlying asset. Lessor accounting has also remained substantially unchanged from IAS17, and the Corporation will continue to record lease income from operating leases.

As at April 1, 2019, the impact of adopting IFRS 16 on the interim condensed financial statements of the Corporation was to recognize right-of-use assets and liabilities of $8.5 million. Due to the adoption of IFRS 16, the Corporation's interest and depreciation have increased, while rent expense has decreased to reflect only the operating expenses of the leases related to office space.

The following table shows the changes from March 31, 2019, to April 1, 2019:

	As at March 31, 2019	IFRS 16 adjustment	As at April 1, 2019
Assets			
Current assets	**$ 37,181**	**$ –**	**$ 37,181**
Right-of-use assets	–	8,501	8,501
Non-current assets	16,712	8,501	25,213
Total assets	**$ 53,893**	**$ 8,501**	**$ 62,394**
Liabilities			
Current portion: Right-of-use lease liability	$ –	$ 1,779	$ 1,779
Current liabilities	**$ 16,607**	**1,779**	**18,386**
Right-of-use lease liability	–	6,772	6,722
Non-current liabilities	25,402	6,772	32,124
Total liabilities	**$ 42,009**	**$ 8,551**	**$ 50,510**
Equity			
Retained earnings	$ 11,884	$ –	$ 11,884
Total equity	11,884	–	11,884
Total liabilities and equity	**$ 53,893**	**$ 8,501**	**$ 62,394**

The amount for commitments related to operating leases for office space has been eliminated because they are all considered leases under IFRS 16 and are presented in the interim condensed statement of financial position.

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

During the quarter, there were no new standards, amendments or interpretations issued by the IASB or the IFRS Interpretations Committee that may affect the Corporation in the future.

NOTE 7: INVESTMENTS

Investments consist of federal, provincial (including regional and municipal) 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 1.81% to 2.82%, 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, 2019	As at March 31, 2019
Current portion	**$ 2,381**	$ 2,502
Long-term portion	**13,971**	15,602
Total	**$ 16,352**	$ 18,104

	As at September 30, 2019	As at March 31, 2019
Carrying amount at amortized cost:		
Bonds:		
Federal	**$ –**	$ 502
Provincial	**6,654**	6,972
Corporate	**2,708**	3,755
Total bonds	**9,362**	11,229
Guaranteed investment certificates	**6,875**	6,875
Mutual funds	**115**	–
Total	**$ 16,352**	$ 18,104

	As at September 30, 2019	As at March 31, 2019
Fair value		
Bonds		
Federal	**$ –**	$ 510
Provincial	**7,071**	7,332
Corporate	**3,155**	3,977
Total bonds	**10,226**	11,819
Guaranteed investment certificate	**6,962**	6,912
Mutual funds	**115**	–
Total	**$ 17,303**	$ 18,731

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, 2019, deferred revenue was $1,062. The figure as at March 31, 2019, 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, 2019	As at March 31, 2019
Cost	$ 5,367	$ 5,158
Less: Accumulated depreciation	4,556	4,320
Net book value	**$ 811**	**$ 838**
Net book value by asset class		
Computer equipment	$ 400	$ 590
Furniture and fixtures	200	239
Leasehold improvements	211	9
Net book value	**$ 811**	**$ 838**

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, 2019	$ 2,643	$ 953	$ 1,562	$ 5,158
Plus: Additions	–	–	209	209
Less: Disposals	–	–	–	–
Balance as at September 30, 2019	**$ 2,643**	**$ 953**	**$ 1,771**	**$ 5,367**

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, 2019	$ 2,053	$ 714	$ 1,553	$ 4,320
Plus: Depreciation	190	39	7	236
Less: Disposals	–	–	–	–
Balance as at September 30, 2019	**$ 2,243**	**$ 753**	**$ 1,560**	**$ 4,556**

There was no impairment of property, plant and equipment.

NOTE 10: RIGHT-OF-USE ASSETS

The Corporation's right-of-use assets are comprised of office space, facilities for IT equipment and multifunction copiers. Items related to assets under finance lease from the prior year are added to the opening balance and are included in the total. New additions as of April 1, 2019, are $8,501, related to IFRS16–Leases, as per Note 5, plus assets under finance lease reclassified to right-of-use assets of $141, for a total of $8,642.

	As at September 30, 2019	As at April 1, 2019
Cost	$ 9,223	$ 8,642
Plus: Disposal		
Less: Accumulated amortization	(999)	–
Net book value	**$ 8,224**	**$ 8,642**

Cost	
Balance as at April 1, 2019	$ 8,642
Plus: Additions	675
Less: Disposals	(94)
Balance as at September 30, 2019	**$ 9,223**

Accumulated amortization	
Balance as at April 1, 2019	$ –
Plus: Amortization	1,093
Less: Disposals	(94)
Balance as at September 30, 2019	**$ 999**

NOTE 11: RIGHT-OF-USE LEASE LIABILITY

	As at September 30, 2019	As at April 1, 2019
Current portion	$ 1,180	$ 1,859
Long-term portion	7,138	6,789
Net book value	**$ 8,318**	**$ 8,648**

Balance as at April 1, 2019	**$ 8,648**
Less: Payment in the period	(1,102)
Plus: Addition of right-of-use asset	675
Plus: Interest expense	97
Ending balance at September 30, 2019	**$ 8,318**

NOTE 12: EMPLOYEE BENEFITS

POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

	As at September 30, 2019	As at March 31, 2019
Current portion of employee benefits	$ 2,954	$ 2,863
Long-term portion of employee benefits	26,585	25,335
Total employee benefits	**$ 29,539**	**$ 28,198**

The significant actuarial assumptions are disclosed in the *Annual Report 2018–2019*. 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 13: 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.

13.1 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.

13.2 INVESTMENT REVENUE

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

13.3 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, 2019

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
	Activity						
Atlantic Region	$ 2,212	$ 861	$ 300	$ 284	$ 148	$ 291	**$ 4,096**
Quebec Region	1,912	1,119	292	315	209	294	**4,141**
National Capital Region	1,033	1,972	1,149	109	64	243	**4,570**
Ontario Region	3,157	1,355	388	467	767	384	**6,518**
Western Region	3,649	1,931	143	676	327	317	**7,043**
Head Office	32	1	–	187	204	–	**424**
Total revenue, by activity	**$ 11,995**	**$ 7,239**	**$ 2,272**	**$ 2,038**	**$ 1,719**	**$ 1,529**	**$ 26,792**

Six months ended September 30, 2019

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
	Activity						
Atlantic Region	$ 4,504	$ 1,991	$ 628	$ 643	$ 305	$ 580	**$ 8,652**
Quebec Region	4,359	2,451	656	653	498	593	**9,210**
National Capital Region	1,964	4,183	2,398	398	184	522	**9,649**
Ontario Region	6,472	2,873	798	978	1,490	835	**13,446**
Western Region	7,524	4,088	298	1,409	793	615	**14,727**
Head Office	62	4	–	267	502	–	**836**
Total revenue, by activity	**$ 24,887**	**$ 15,590**	**$ 4,778**	**$ 4,348**	**$ 3,772**	**$ 3,145**	**$ 56,520**

Three months ended September 30, 2018

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
			Activity				
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

Region	Contract management	Project planning	Real property technical support	Procurement	Construction technical support	Environmental technical support	Total revenue, by region
			Activity				
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	–	–	16	513	–	608
Total revenue, by activity	$ 23,990	$ 14,526	$ 4,896	$ 4,189	$ 3,871	$ 2,994	$ 54,466

The following table disaggregates revenue by region and contract type.

Region	Three months ended September 30, 2019	Three months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2018
Time-based revenue				
Atlantic Region	$ 1,208	$ 1,343	$ 2,714	$ 2,675
Quebec Region	1,290	953	2,689	2,062
National Capital Region	4,499	4,352	9,552	8,738
Ontario Region	1,840	1,629	3,783	3,430
Western Region	1,475	1,559	3,249	3,246
Head Office	341	269	710	558
Total time-based revenue	**$ 10,653**	**$ 10,105**	**$ 22,697**	**$ 20,709**
Fixed-fee revenue				
Region	Three months ended September 30, 2019	Three months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2018
Atlantic Region	$ 2,888	$ 2,843	$ 5,938	$ 5,900
Quebec Region	2,851	3,414	6,521	7,294
National Capital Region	71	95	97	261
Ontario Region	4,678	4,665	9,663	9,488
Western Region	5,568	5,367	11,478	10,764
Head Office	83	24	126	50
Total fixed-fee revenue	**$ 16,139**	**$ 16,408**	$ **33,823**	$ **33,757**
Total revenue	**$ 26,792**	**$ 26,513**	**$ 56,520**	**$ 54,466**

NOTE 14: OPERATING AND ADMINISTRATIVE EXPENSES

	Three months ended September 30, 2019	Three months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2018
Professional services	$ **724**	$ 189	$ **1,253**	$ 401
Employee training and development	**162**	257	**484**	551
Software maintenance	**262**	334	**553**	679
Leased location operating costs	**249**	–	**469**	–
Telephone and data communications	**226**	176	**417**	373
Travel	**100**	73	**266**	238
Office services, supplies and equipment	**100**	62	**163**	114
Cloud computing services	**241**	26	**292**	26
Equipment rental	**194**	29	**242**	32
Staff relocation	**192**	39	**230**	54
Hospitality	**44**	33	**77**	82
Client services and communications	**32**	31	**50**	60
Printing and stationery	**19**	24	**34**	37
Furniture and fixtures	**193**	27	**205**	48
Memberships and subscriptions	**21**	13	**30**	30
Computer equipment	**9**	28	**16**	34
Postage and freight	**6**	9	**14**	15
Computer software	**5**	20	**9**	37
Recruiting	**19**	6	**22**	33
Rent	**–**	460	**–**	883
Other	**8**	4	**11**	19
Total	**$ 2,806**	**$ 1,840**	**$ 4,837**	**$ 3,746**

NOTE 15: RELATED-PARTY TRANSACTIONS AND BALANCES

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at fair value, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue, and travel and disbursement revenue, in the second quarter of 2019–20 totalled $28,268 compared with $27,524 in the second quarter of 2018–19. For the year-to-date period ending September 30, 2019, these revenues totaled $58,392 compared to $56,308 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, Public Services and Procurement Canada and Shared Services Canada.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totalled $104 for the year-to-date period of 2019–20 compared with $8 in the same period in 2018–19.

	As at September 30, 2019	As at March 31, 2019
Due from		
Department of National Defence	$ 22,514	$ 19,522
Canadian Forces Housing Agency	1,625	1,667
Communication Security Establishment Canada	237	137
Shared Services Canada	26	(6)
Public Services and Procurement Canada	2	1
	$ 24,404	**$ 21,321**
Due to		
Shares Services Canada	$ 10	$ 5
Department of Justice	94	3
	$ 104	**$ 8**

15.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2018
Short-term benefits	$ 884	$ 884	$ 1,761	$ 1,763
Post-employment benefits	127	111	284	251
Total	**$ 1,011**	**$ 995**	**$ 2,045**	**$ 2,014**

NOTE 16: CONTINGENT LIABILITIES

16.1 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, 2019, there were 12 ongoing contract claims totaling $10,373, all of which related to DND. These figures can be compared with 13 ongoing claims totaling $10,418 as at March 31, 2019, all of which related to DND.

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.