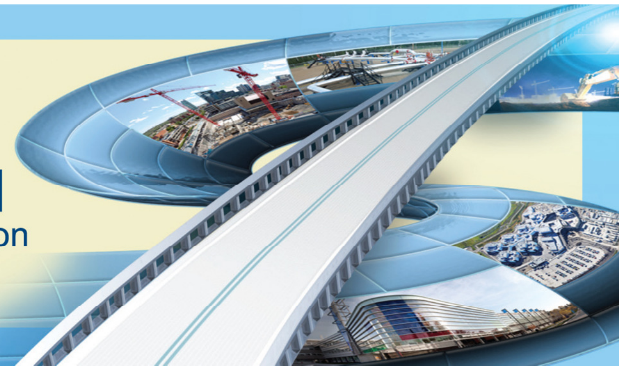
The road
to higher value

the Churchill Corporation



Q1 **FIRST QUARTER INTERIM REPORT**
For the three months ended March 31, 2012

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation ("Churchill" or the "Corporation"), for the three months ended March 31, 2012, contains information current to May 8, 2012 and should be read in conjunction with the March 31, 2012 Condensed Consolidated Interim Financial Statements and related notes thereto. Unless otherwise specified all amounts are expressed in Canadian dollars.

On January 1, 2011, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, became the Canadian generally accepted accounting principles ("GAAP") for the basis of preparation of financial statements for publicly accountable enterprises. The information presented in this MD&A, including information relating to comparative periods in 2011, is presented in accordance with IFRS unless otherwise noted as being presented under previous Canadian GAAP and not IFRS.

## Forward-Looking Information

Certain information contained in this MD&A may constitute forward-looking information. This information relates to future events or the Corporation's future performance. All statements, other than statements of historical fact, may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Corporation believes that the expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon by investors as actual results may vary. This information speaks only as of the date of this MD&A and is expressly qualified, in its entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking information, pertaining to the following:

- The Board's confidence in the Corporation's ability to generate sufficient operating cash flows to support management's business plans and its intention to continue to pay a quarterly dividend;
- The expectation that any of the Corporation's operating companies will improve or maintain their business prospects, maintain project schedules or continue to grow their revenue, earnings and backlog in any manner whatsoever including, without limitation, through margin expansion, organic growth, geographic expansion or productivity efficiencies;
- Backlog additions reflecting resiliency of growth in resource extraction industries and the possible implications of such growth;
- Expectations regarding the ability of any of the Corporation's operating companies to add to or execute upon work-in-hand or active backlog;

- Management's belief that the Corporation either has or has access to sufficient capital resources and liquidity to meet its commitments, support its operations, finance capital expenditures, support growth strategies and fund dividends;
- Expectations as to future general economic conditions and the impact those conditions may have on the Corporation and its businesses including, without limitation, the discussion under the heading entitled "Outlook" pertaining to the strength of commodity prices, government and institutional spending in Western Canada, margin expansion in certain of the Corporation's operating companies, the possibility of available acquisition targets and the ability of the Corporation to compete for projects;
- The Corporation's projected use of cash resources including, without limitation, its capital expenditures and its plans to pay down its indebtedness; and
- The ability of the Corporation's operating companies to execute upon their strategic and annual operating plans to expand geographically, capture or maintain market share and increase operational scope and customer bases.

With respect to forward-looking information listed above and contained in this MD&A, the Corporation has made assumptions regarding, among other things:

- The expected performance of the global and Canadian economies and the effects thereof on the Corporation's businesses;
- The ability of the Corporation to attract future debt and/or equity investors;
- The impact of increasing competition;
- The global demand for oil and the effect on oil and natural gas projects in Western Canada; and
- Government policies.

The Corporation's actual results could differ materially from those anticipated in this forward-looking information as a result of the risk factors set forth below:

- General global economic and business conditions including the effect, if any, of a further economic slowdown in the U.S. and/or Canada;
- Weak capital and/or credit markets;
- Fluctuations in currency and interest rates;
- Changes in laws and regulations;
- Timing of completion of client's capital or maintenance projects;
- Competition and pricing pressures;
- Delays and/or terminations of projects;
- Action or non-action of customers, suppliers and/or partners;
- Unpredictable weather conditions; and
- Those other risk factors described in the Corporation's most recent Annual Information Form filed under the Corporation's System for Electronic Document Analysis and Retrieval ("SEDAR") profile at www.sedar.com.

The forward-looking information contained in this MD&A is current to the date hereof and the Corporation undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

## Non-IFRS Measures

Throughout this MD&A certain measures are used that, while common in the construction industry, are not recognized measures under IFRS. The measures used are "contract income margin percentage", "work-in-hand", "backlog", "working capital", "EBITDA", "EBT", "funds from operations", "funds from operations per share" and "book value per share". These measures are used by management of the Corporation to assist in making operating decisions and assessing performance. They are presented in this MD&A to assist readers to assess the performance of the Corporation and its operating companies. While Churchill calculates these measures consistently from period to period, they likely will not be directly comparable to similar measures used by other companies because they do not have standardized meanings prescribed by IFRS. Please review the discussion of these measures in “Terminology” below.

## Additional Information

Additional information regarding Churchill, including the Corporation’s current Annual Information Form and other required securities filings, is available on Churchill’s website at www.churchillcorporation.com and under Churchill’s SEDAR profile at www.sedar.com.

## Overview of Business and Strategy

Churchill is a dividend paying Canadian corporation that provides institutional, commercial and industrial construction and maintenance services. It is headquartered in Calgary, Alberta and, as of March 31, 2012, had 3,654 employees (793 salaried employees and 2,861 hourly employees). Churchill is focused on growing revenue and earnings through organic growth and expanded geographical presence (primarily in Western Canada) in all of its operating segments, accelerating growth in its higher margin Industrial Services and Commercial Systems segments, and client leverage through integrating the industrial services of its operating companies

### Vision

To be the most admired construction and industrial services company in Canada.

### Core Values

- Acting with INTEGRITY;
- Respecting and trusting PEOPLE;
- Striving for EXCELLENCE in an exciting TEAM environment;
- Demonstrating INNOVATION and ENTREPRENEURIAL spirit; and
- Making SAFETY, HEALTH and the ENVIRONMENT a key priority in all we do.

### Mission

- Creating value for our shareholders, clients, employees and partners;
- Attracting, retaining and developing the best people;
- Exceeding customer expectations by being results driven;
- Achieving sustainable growth through continuous improvement;
- Delivering consistently superior operating and financial results; and
- Contributing positively to the community in which we work, live and play.

### Strategy

- Hire the best people and ensure that they have the best tools;
- Emphasize value added construction and other partnering methods of project delivery;
- Maintain a strong balance sheet to support growth objectives;
- Expand geographically to create value;
- Improve diversity of product and service lines; and
- Target contracts for larger, more complex projects.

### Declaration of Common Share Dividend

On May 8, 2012 Churchill's Board of Directors declared a common share dividend of $0.12 per share. The dividend is designated as an eligible dividend under the *Income Tax Act* (Canada) and is payable July 17, 2012 to shareholders of record on June 29, 2012. The ex-dividend date is June 27, 2012. The declaration of this dividend reflects the confidence of Churchill's Board of Directors in the ability of the Corporation to generate ongoing cash flows adequate to support management's plans to grow Churchill's operations while providing a certain amount of income to its shareholders. The Board's intention is to continue to pay a quarterly dividend that rewards existing shareholders and allows new investors with an income mandate to invest in the Corporation's common shares.

The Corporation has in place a dividend reinvestment plan ("DRIP"), for which details are available on Churchill's website (www.churchillcorporation.com).

Future dividend levels may vary depending on a variety of factors and conditions existing from time-to-time, including debt service requirements, operating costs and other factors affecting cash sources and uses.

## Reporting by Segment

The Corporation reports its results under four business segments: General Contracting, Commercial Systems, Industrial Services, and Corporate and Other. The Corporation regularly analyzes the results of these categories independently as they serve different end-markets, generate different gross margin yields and have different risk profiles. The evaluation of results by segment and by individual operating entity is consistent with the way in which management performance is assessed. In order to understand more clearly the operating results for the Corporation, the discussion of business results within this MD&A will be focused mainly at the business segment level.

Stuart Olson Dominion Construction Ltd. ("SODCL"), Churchill's largest operating company, forms the General Contracting segment. Canem Holdings Ltd. ("Canem") forms the Commercial Systems segment. Each of these companies generated greater than 10% of the consolidated earnings of the Corporation in 2011 and each is of a size that justifies separate disclosure under *IFRS 8, Operating Segments.* Although both of these companies serve the institutional/commercial construction market, they operate independently and provide different products and services to different classes of customers, in that SODCL's customers are primarily project owners and Canem typically subcontracts to general contractors.

In December 2011, Churchill announced an organizational realignment of its Industrial Services segment, to better meet the needs of industrial customers and deliver accelerated growth and business performance. On January 1, 2012, The Churchill Services Group Inc. ("CSG") began operating under the leadership of David LeMay, the former President and COO of Laird Electric Inc. ("Laird Electric"). CSG, which provides fully integrated industrial services allowing the pursuit of larger projects and contracts, has three divisions: Laird Electric, Laird Constructors Inc. ("Laird Constructors") and Insulation Holdings Inc. ("Insulation Holdings"). CSG and Broda Construction Inc. ("Broda") collectively form the Industrial Services segment. Churchill reports these companies within the Industrial Services segment on the basis that they have similar economic characteristics and are similar in terms of services provided, production processes, customer base, methods of service delivery and the regulatory environment in which they operate.

## General Contracting

General Contracting consists of SODCL. Following the acquisition of The Dominion Company Inc. ("Dominion") in July 2010, Stuart Olson Constructors Inc. ("Stuart Olson") and Dominion were operationally combined to form SODCL. Headquartered in Calgary, Alberta, SODCL constructs commercial, institutional and industrial buildings. Stuart Olson and Dominion have been general contractors since 1939 and 1911, respectively, and during the last several years both have become key players in Western Canada's building markets. SODCL has branch offices in Richmond, British Columbia; Kelowna, British Columbia; Whitehorse, Yukon; Calgary, Alberta; Edmonton, Alberta; Saskatoon, Saskatchewan; Regina, Saskatchewan; and Winnipeg, Manitoba.

For the first quarter of 2012, SODCL comprised 56% of Churchill's consolidated revenue (excluding intersegment eliminations), 30% of earnings from continuing operations before interest, taxes, depreciation and amortization ("EBITDA") (excluding intersegment eliminations and the expenses of the Corporate and Other segment), and 74% of total backlog. SODCL is expected to continue to be the largest single operating company contributor to the Corporation's revenue, earnings and backlog for the remainder of 2012.

## Commercial Systems

Commercial Systems is comprised of Canem, which designs, builds, maintains and services electrical and data communication systems for commercial, institutional, light industrial and multi-family residential customers. With its head office in Richmond, British Columbia, its services include the design of electrical distribution systems within a building or complex; procurement and installation of electrical equipment and materials; on-call service for electrical maintenance and troubleshooting; preventative and scheduled maintenance for critical component installations; budgeting and pre-construction services; and management of regional and national contracts for multi-site installations. Canem's acquisition of McCaine Electric Ltd. ("McCaine"), which closed on April 29, 2011, expanded Canem's Western Canadian footprint into Manitoba.

For the first quarter of 2012, Canem comprised 14% of Churchill's consolidated revenue (excluding intersegment eliminations), 28% of EBITDA (excluding intersegment eliminations and the expenses of the Corporate and Other segment) and 12% of total backlog. Canem is expected to maintain its contribution to the Corporation's revenue, earnings and backlog for the balance of 2012.

## Industrial Services

Industrial Services consists of CSG and Broda. CSG has three divisions: Laird Electric, Laird Constructors and Insulation Holdings.

- Laird Electric is headquartered in Edmonton, Alberta and provides electrical, instrumentation and power-line construction and maintenance services to resource and industrial clients, primarily in the oil and gas industry in the Fort McMurray and greater Edmonton regions.
- Laird Constructors is headquartered in Sudbury, Ontario and is a multi-trade contractor providing electrical, instrumentation, power-line, mechanical and structural construction and maintenance services to resource and industrial clients, primarily in the mining industry in Ontario, Manitoba and Saskatchewan.
- Insulation Holdings is headquartered in Edmonton, Alberta. It has two operating companies, Fuller Austin Inc. and Northern Insulation Contracting Inc., serving industrial clients with insulation, asbestos abatement, siding application, heating, ventilation and air conditioning (HVAC), and plant maintenance services. Its clients are in the oil sands, oil and natural gas, petrochemical, forest products, power utilities and mining industries.

- Broda is headquartered in Prince Albert, Saskatchewan, providing aggregate processing, earthwork, civil construction, concrete production and related services to mining and infrastructure organizations and Canada’s two major railway corporations.

CSG and Broda have many similarities, including common customers such as Saskatchewan’s major potash and uranium mining organizations.

In the first quarter of 2012, Industrial Services comprised 30% of Churchill’s consolidated revenue (excluding intersegment eliminations), 42% of EBITDA (excluding intersegment eliminations and the expenses of the Corporate and Other segment) and 14% of total backlog. Industrial Services’ contribution to the Corporation’s revenue, earnings and backlog for 2012 is expected to grow along with industrial and resource extraction activity in Western Canada and northern Ontario.

### Corporate and Other

The Corporate and Other business segment includes Corporate Centre staff functions of accounting, treasury, human resources, information technology services, corporate development, investor relations, legal, internal audit and the office of the Chief Executive Officer. The costs of some functions, such as information services, are allocated directly to the other business segments, and others remain in Corporate and Other. The Corporate Centre provides strategic direction, operating oversight, financing, infrastructure services and management of public company requirements to each of the operating business segments.

Additionally, the Corporation reports certain assets-held-for-sale that formerly formed part of its previously divested Industrial General Contracting segment in the Corporate and Other segment as discontinued operations. Agricultural land located near Lamont, Alberta formed the discontinued operations included in assets-held-for-sale at March 31, 2012.

## Selected Interim Financial Information

Set out below is selected quarterly financial information, which has been prepared in accordance with IFRS.

| | Three months ended March 31 | |
|---|---|---|
| **($millions, except per share amounts)** | **2012** | **2011** |
| Contract revenue | $ 333.2 | $ 304.7 |
| Contract income | 35.7 | 36.6 |
| EBITDA from continuing operations(1) | 13.9 | 17.2 |
| Net earnings from continuing operations | 3.1 | 5.8 |
| Net earnings from discontinued operations | 0.1 | - |
| Net earnings | 3.2 | 5.8 |
| Earnings per common share from continuing operations | | |
| - Basic | $ 0.13 | $ 0.24 |
| - Diluted | 0.13 | 0.24 |
| Net earnings per common shares | | |
| - Basic | 0.13 | 0.24 |
| - Diluted | 0.13 | 0.24 |
| Funds from operations(1) | $ 15.6 | $ 18.9 |
| Funds from operations per common shares - Basic(1) | $ 0.64 | $ 0.78 |

| | **March 31, 2012** | **December 31, 2011** |
|---|---|---|
| Backlog(1) | $ 1,751.5 | $ 1,842.6 |
| Working capital(1) | 102.6 | 86.0 |
| Long-term debt (excluding current portion) | 65.5 | 60.4 |
| Convertible debentures (excluding equity portion) | 77.3 | 76.7 |
| Total assets | 856.4 | 888.5 |

Note: (1) *"EBITDA" is earnings from continuing operations before interest, taxes, depreciation and amortization; "Funds from Operations" is net cash generated by (used in) operating activities before interest, taxes and changes in employee benefits, provisions and non-cash working capital. Working capital is current assets less current liabilities (all non-IFRS measures). Backlog is also a non-IFRS measure. Refer to "Terminology" for definitions of non-IFRS measures.*

## Overview

The Corporation has historically generated virtually all of its revenues from the four Western Canadian provinces of Manitoba, Saskatchewan, Alberta and British Columbia. In 2011, with the establishment of Laird Constructors, a division of CSG headquartered in Sudbury, Ontario, the Corporation took steps to grow its business east of Manitoba. The following table sets out selected interim results by operating segment:

| ($millions, except margin percent) | First Quarter, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total | General Contracting | Commercial Systems | Industrial Services | Corporate and Other | Intersegment Eliminations |
| Contract revenue | $ 333.2 | $ 194.2 | $ 46.6 | $ 104.9 | $ - | $ (12.5) |
| Contract income | 35.7 | 13.0 | 10.5 | 10.6 | - | 1.6 |
| Contract income margin | 10.7% | 6.7% | 22.5% | 10.1% | - | - |
| Indirect & administrative expense | 26.4 | 9.6 | 6.1 | 5.4 | 5.3 | - |
| EBITDA(1) | 13.9 | 5.3 | 4.9 | 7.3 | (5.3) | 1.6 |
| EBITDA margin | 4.2% | 2.7% | 10.6% | 6.9% | - | - |
| EBT(1) | 4.3 | 4.4 | 4.3 | 5.4 | (11.4) | 1.5 |
| Backlog(1) | $ 1,751.5 | $ 1,307.6 | $ 204.4 | $ 239.5 | $ - | $ - |
| | First Quarter, 2011 | | | | | |
| | Total | General Contracting | Commercial Systems | Industrial Services | Corporate and Other | Intersegment Eliminations |
| Contract revenue | $ 304.7 | $ 207.7 | $ 41.3 | $ 64.2 | $ - | $ (8.7) |
| Contract income | 36.6 | 14.8 | 11.8 | 10.2 | - | (0.1) |
| Contract income margin | 12.0% | 7.1% | 28.4% | 15.9% | - | - |
| Indirect & administrative expense | 22.0 | 7.3 | 5.7 | 4.7 | 4.3 | - |
| EBITDA(1) | 17.2 | 9.0 | 6.2 | 6.3 | (4.3) | (0.1) |
| EBITDA margin | 5.6% | 4.4% | 15.1% | 9.8% | - | - |
| EBT(1) | 8.2 | 8.2 | 5.9 | 5.2 | (10.9) | (0.2) |
| Backlog(1)(2) | $ 1,842.6 | $ 1,445.3 | $ 133.3 | $ 264.0 | $ - | $ - |

Note: *(1) "EBT" is earnings from continuing operations before income tax. EBT, EBITDA and backlog are non-IFRS measures. Refer to "Terminology" for definitions of non-IFRS measures.*
*(2) As of December 31, 2011.*

For the three months ended March 31, 2012, consolidated contract revenue was $333.2 million, compared to $304.7 million in the first quarter of 2011, a 9% increase. The General Contracting segment's revenue decreased by $13.5 million or 7%, the Commercial Systems segment increased revenue by $5.3 million or 13%, and the Industrial Services segment increased revenue by $40.7 million or 63%.

Contract income decreased from $36.6 million (12.0% of revenue) in the first quarter of 2011 to $35.7 million (10.7% of revenue) in the three months ended March 31, 2012. The $0.9 million decrease in contract income is made up of decreases in the General Contracting and Commercial Systems operating segments of $1.8 million (12%) and $1.3 million (11%) respectively, partly offset by an increase in the contracting income of the Industrial Services segment of $0.4 million (4%) and an increase in the intersegment elimination of $1.7 million.

Indirect and administrative expenses for the first quarter of 2012 amounted to $26.4 million (7.9% of revenue) compared to $22.0 million (7.2% of revenue) in the three months ended March 31, 2011. Indirect and administrative expenses increased by $2.3 million (32%) in the General Contracting segment, $0.4 million (7%) in the Commercial Systems segment, $0.7 million (15%) in the Industrial

Services segment, and $1.0 million (23%) in the Corporate and Other segment (no change in the intersegment elimination).

The net impact of the aforementioned decrease in contract income and increase in indirect and administrative expenses and a $2.0 million increase in other income was a $3.3 million decrease in first quarter EBITDA to $13.9 million versus $17.2 million in 2011.

For explanations of these changes, please refer to the discussion of segmented results which follows.

Intangible assets relate to the design and implementation of the Corporation's enterprise resource planning ("ERP") system, and assets acquired in conjunction with the purchase of other businesses, for which Churchill used the fair value method. These assets resulted in an amortization charge of $3.5 million in the first quarter of 2012. The assets acquired relate to the acquisition of Dominion, Canem and Broda in 2010 and McCaine in 2011 (refer to *Note 4* to the Condensed Consolidated Interim Financial Statements). The comparable charge in the first quarter of 2011 was $3.3 million. The backlog and agency intangibles are amortized based on management's expectation of when the related revenues will be earned. The net book value of intangible assets as at March 31, 2012 was $70.3 million (December 31, 2011 - $72.1 million).

EBT for the first quarter of 2012 was $4.3 million compared to $8.2 million in the first quarter of 2011 (decrease of $3.9 million). This decline reflects the $3.3 million decrease in EBITDA described above as well as an increase in interest expense of $0.2 million and an increase in depreciation and amortization of $0.4 million due to growth of Broda's fleet of equipment.

The Corporation's consolidated net earnings from continuing operations for the first quarter of 2012 were $3.1 million compared to net earnings from continuing operations of $5.8 million in the same period in 2011, a $2.7 million decrease, resulting from the $3.9 million decrease in EBT partly offset by a reduction in tax expense of $1.2 million, from $2.4 million to $1.2 million.

Churchill's consolidated net earnings for the first quarter of 2012 were $3.2 million, including net earnings from discontinued operations of $0.1 million, compared to net earnings of $5.8 million in the first quarter of 2011.

In the three months ended March 31, 2012, funds from operations of $15.6 million decreased by $3.3 million (17%) from $18.9 million in the first quarter of 2011. Funds from operations are discussed in the Capital Resources and Liquidity - Summary of Cash Flows section that follows.

Churchill's backlog, including work-in-hand, at March 31, 2012 was $1,751.5 million, compared to a record $1,842.6 million at December 31, 2011, a $91.1 million or 5% decrease. The Corporation's backlog consists of work-in-hand of $801.0 million (December 31, 2011 – $901.1 million) and active backlog of $950.5 million (December 31, 2011 – $941.5 million). The backlog contains 85% construction management, cost plus and other relatively low risk projects, and 15% fixed price, guaranteed maximum price and other types of contracts that carry price and schedule risk. On a segmented basis, backlog at March 31, 2012 was $1307.6 million in General Contracting (December 31, 2011 – $1,445.3 million), $204.4 million in Commercial Systems (December 31, 2011 – $133.3 million) and $239.5 million in the Industrial Services segment (December 31, 2011 – $264.0 million). New contract awards and net increases in contract value of $246.8 million were added to work-in-hand in the first quarter of 2012.

## Assets Held for Sale

Tables that set out the net assets held for sale are included in *Note 12* to the Condensed Consolidated Interim Financial Statements. These amounts are associated with agricultural lands located near Lamont, Alberta and a commercial yard in Edmonton, Alberta, which are no longer required by the Corporation.

## Interim Results of Operations

### *General Contracting (SODCL)*

For the three months ended March 31, 2012, SODCL's revenue was $194.2 million, compared to $207.7 million in the first three months of 2011. This $13.5 million or 7% decrease is primarily attributable to being in the early stages of construction on several new projects, and delays in procuring and executing backlog. For example, construction of three Alberta hospitals that were announced in July 2011 is early stage, with initial work started in September 2011 for the Edson hospital, in January 2012 for the Lethbridge hospital, and in February 2012 for the Medicine Hat hospital.

SODCL's contract income in the first quarter of 2012 decreased by $1.8 million (12%) to $13.0 million, from $14.8 million for the three months ended March 31, 2011. The 2012 first quarter contract income margin was 6.7% compared to 7.1% in the first quarter of 2011. Most of the decline in contract income related to underperforming fixed price legacy Dominion contracts, which recorded a net loss of $2.2 million in the quarter. Remaining legacy Dominion projects in backlog, excluding the Investors Group Field football stadium in Winnipeg, as of March 31, 2012, were valued at $25.0 million, consisting of $10.7 million of fixed price projects and $14.3 million of construction management projects. The Investors Group Field project is progressing well and is on schedule for SODCL's contracted completion date of September 2012.

SODCL's indirect and administration expenses were $9.6 million (4.9% of revenue) in the three months ended March 31, 2012 compared to $7.3 million (3.5% of revenue) in the first quarter of 2011. The $2.3 million (32%) increase is primarily related to training and recruiting costs, professional fees, and costs related to optimization of the company's SAP-based ERP system.

EBITDA for SODCL in the first three months of 2012 was $5.3 million compared to $9.0 million in the first quarter of 2011. This $3.7 million (41%) decrease was mainly due to the aforementioned decrease in contract income and increase in indirect and administrative expenses, and a $0.3 million increase in other income, from $1.0 million in the first quarter of 2011 to $1.3 million in the three months ended March 31, 2012. SODCL gained $1.3 million of other income in the quarter due to the sale of a commercial building in Edmonton, Alberta that was previously occupied by SODCL. The other income in the first quarter of 2011 was primarily the result of claim settlements.

SODCL had backlog of $1,307.6 million as at March 31, 2012, compared to backlog of $1,445.3 million at December 31, 2011, a $137.7 million (10%) decrease. At March 31, 2012, approximately 97% of SODCL's backlog was composed of construction management assignments, which do not carry the price and schedule risk of fixed price (hard-bid) projects. The March 31, 2012 backlog consisted of $535.6 million of work-in-hand and $772.0 million of active backlog, whereas the December 31, 2011 backlog was made up of $586.2 million of work-in hand, with the remaining $859.1 million being active backlog. The segment began the first quarter of 2012 with $586.2 million of work-in-hand, contracted $143.6 million of additional work-in-hand during the quarter and executed $194.2 million of construction activity. The General Contracting segment expects to execute approximately $591 million of its March 31, 2012 backlog during the balance of 2012. Additional projects added throughout the remainder of the year are expected to add to the amount of work executed by SODCL in 2012.

### *Commercial Systems (Canem)*

The Commercial Systems segment's first quarter 2012 revenue was $46.6 million, compared to $41.3 million in the three months ended March 31, 2011. This $5.3 million or 13% increase is primarily attributable to increased contracting activity and the inclusion of McCaine's results in the quarter. McCaine was included in Churchill's financial results after April 29, 2011.

Canem's contract income in the first three months of 2012 decreased by $1.3 million (11%) to $10.5 million, from $11.8 million for the first quarter of 2011. Canem's first quarter 2012 contract income margin was 22.5% compared to 28.4% in the first three months of 2011. The reduced margin is partly attributable to the inclusion of McCaine's results in the first three months of 2012 and execution of lower margin projects.

Canem's indirect and administration expenses were $6.1 million (13.0% of revenue) in the first quarter of 2012 compared to $5.7 million (13.7% of revenue) in the three months ended March 31, 2011. The increase is largely related to the inclusion of McCaine's results in the first quarter of 2012.

EBITDA for Canem in the first quarter of 2012 was $4.9 million compared to $6.2 million for the first three months of 2011. This $1.3 million (21%) decrease was due to the aforementioned decrease in contract income and increase in indirect and administrative expenses, partly offset by a $0.4 million increase in other income, from $nil in the first quarter of 2011 to $0.4 million in the three months ended March 31, 2012. The other income related to an undetermined liability that existed at the date of acquisition of McCaine and which is expected to be recovered through the escrow funds provided for in the agreement.

Canem had total backlog of $204.4 million as at March 31, 2012, compared to total backlog of $133.3 million at December 31, 2011 (a $71.1 million or 53% increase), consisting of work-in-hand of $125.4 million and active backlog of $79.0 million. The increase results primarily from new projects brought into active backlog in the first quarter. The backlog consists of 29% relatively low risk construction management projects, and 71% fixed price and guaranteed maximum price projects, which carry more price and schedule risk. The segment began the first quarter of 2011 with $133.3 million of work-in-hand, contracted $38.7 million of additional work-in-hand during the quarter and executed $46.6 million of work-in-hand. Canem expects to execute approximately $106.4 million of its March 31, 2012 work-in-hand and active backlog during the remainder of 2012. Additional short-duration projects, building maintenance and tenant improvement work, which is often performed under open work orders, is expected to supplement Canem's 2012 revenue.

### *Industrial Services (CSG and Broda)*

For the Industrial Services segment, first quarter 2012 revenue increased by $40.7 million (63%) to $104.9 million from $64.2 million for the first three months of 2011. This was a first quarter record and has only been exceeded by the segment's revenue in the fourth quarter of 2011. The revenue increase was due to organic growth as CSG benefited from growing oil sands and mining activities and Broda's results were bolstered by a relatively mild winter in southern Alberta, which permitted continued work on its Calgary airport projects.

Industrial Services' contract income in the three months ended March 31, 2012 increased by $0.4 million (4%) to $10.6 million from $10.2 million for the first quarter of 2011. Contract income margins were lower at 10.1% in the three months ended March 31, 2012 versus 15.9% in the first quarter of 2011 when the segment benefitted from additional gross margin related to the resolution of a number of issues on a project nearing completion.

The Industrial Services segment's indirect and administration expenses were $5.4 million (5.1% of revenue) in the first quarter of 2012 compared to $4.7 million (7.3% of revenue) in the first quarter of 2011. The increase is largely related to increased business activity.

EBITDA for the Industrial Services segment increased by $1.0million (16%) to $7.3 million for the three months ended March 31, 2012 from $6.3 million in the first quarter of 2011. The increase in EBITDA resulted from the aforementioned higher contract income, a $0.6 million increase in other income in the three months ended March 31, 2012, from $nil in the first quarter of 2011, and a $0.6 million increase in indirect depreciation (which is included in contract income but excluded from EBITDA), from $0.9 million in the first quarter of 2011 to $1.5 million in the three months ended March 31, 2012. These amounts were partly offset by the higher indirect and administration costs described above.

Industrial Services had backlog of $239.5 million as at March 31, 2012, compared to backlog of $264.0 million at December 31, 2011. The March 31, 2012 backlog consisted of $140.0 million of work-in-hand and $99.5 million of active backlog. The backlog consists of 70% cost plus, time and materials and other relatively low risk projects, and 30% fixed price, guaranteed maximum price and other projects that carry price and schedule risk. The Industrial Services segment started the fourth quarter with $181.6 million of work-in-hand, contracted $64.4 million of additional work-in-hand during the quarter and executed $106.0 million of work-in-hand, ending the first quarter with $140.0 million of work-in-hand. The segment is expected to execute approximately $188 million of its March 31, 2012 backlog during the remainder of 2012. Additional short-duration projects, scope changes and industrial maintenance work are expected to supplement the segment's 2012 revenue.

### *Corporate and Other*

The Corporate and Other segment's indirect and administration expenses, excluding depreciation and amortization, were $5.3 million in the first quarter of 2012 compared to $4.3 million in the first three months of 2011, a $1.0 million (23%) increase. The increase is primarily related to at-risk, equity-based compensation expenses and increased resources at the corporate centre to support the SAP-based ERP system. Changes in the fair value of Performance Share Units ("PSUs") and Deferred Share Units ("DSUs") after the initial grant date are recognized in each reporting period as a compensation expense. This accounted for a $2.1 million increase in indirect and administration expenses in the first quarter of 2012, compared to $0.9 million in the first three months of 2011, as Churchill's total shareholder return over the vesting period of certain PSUs improved relative to a comparator group of companies. Refer to the "Share-based Compensation" section below for further information.

Corporate and Other's finance costs were $2.8 million in the first quarter of 2012 compared to $2.6 million in the three months ended March 31, 2011, a $0.2 million increase. The increase in finance costs related to a modest increase in outstanding long term debt during the period, primarily to finance working capital.

The Corporate and Other segment's depreciation and amortization expense was $3.3 million in the three months ended March 31, 2012 compared to $4.0 million in the first quarter of 2011, a $0.7 million decrease. The 2011 amount includes amortization of intangible assets acquired on July 13, 2010 with the acquisition of Dominion, Canem and Broda, and amortization of the implemented portion of the Corporation's new SAP-based ERP system. The 2012 amount also includes amortization of intangible assets acquired in the acquisition of McCaine on April 29, 2011 and is reduced somewhat by the lengthening of the amortization period for the ERP system, from 10 years to 12 years. Amortization of backlog and agency intangible assets is dependent on management's expectations of when the related revenue will be earned. This can result in variable amortization charges depending on the period.

In the first quarter of 2012, the Corporate and Other segment incurred a net loss before tax of $11.4 million compared to a net loss before tax of $10.9 million in the first three months of 2011. Increases in indirect and administration expenses and finance costs were partly offset by reduced depreciation and amortization expenses.

## Quarterly Financial Information

The following table sets out selected quarterly financial information of the Corporation for the most recent eight quarters:

| ($millions, except per share data and percentages) | 2012 Quarter Ended: | 2011 Quarter ended: | | | | 2010 Quarter ended: | | |
|---|---|---|---|---|---|---|---|---|
| | Mar. 31 | Dec. 31 | Sep. 30 | Jun. 30 | Mar. 31 | Dec. 31 | Sep. 30 | Jun. 30 |
| Contract revenue | $ 333.2 | $ 384.3 | $ 379.3 | $ 340.9 | $ 304.7 | $ 391.4 | $ 386.6 | $ 223.4 |
| Contract income | 35.7 | 45.1 | 40.5 | 35.7 | 36.6 | 50.0 | 44.6 | 26.0 |
| Contract income margin (1) | 10.7% | 11.7% | 10.7% | 10.5% | 12.0% | 12.8% | 11.5% | 11.6% |
| Continuing operations: | | | | | | | | |
| EBITDA(1) | $ 13.9 | $ 19.6 | $ 18.3 | $ 17.0 | $ 17.2 | $ 28.2 | $ 15.9 | $ 14.6 |
| EBT(1) | 4.3 | 9.3 | 8.2 | 7.0 | 8.2 | 18.2 | 5.9 | 13.3 |
| Net earnings | 3.1 | 7.3 | 6.2 | 4.8 | 5.8 | 10.6 | 3.1 | 9.4 |
| EPS - basic | 0.13 | 0.30 | 0.25 | 0.20 | 0.24 | 0.52 | 0.13 | 0.53 |
| EPS - diluted | 0.13 | 0.27 | 0.24 | 0.20 | 0.24 | 0.47 | 0.13 | 0.51 |
| Net earnings | $ 3.2 | $ 7.3 | $ 6.1 | $ 5.8 | $ 5.8 | $ 11.5 | $ 3.1 | $ 9.5 |
| EPS - basic | 0.13 | 0.30 | 0.25 | 0.24 | 0.24 | 0.55 | 0.13 | 0.54 |
| EPS - diluted | 0.13 | 0.27 | 0.24 | 0.23 | 0.24 | 0.49 | 0.13 | 0.51 |
| Funds from operations(1) | $ 15.6 | $ 19.6 | $ 18.3 | $ 15.3 | $ 19.0 | $ 29.7 | $ 17.9 | $ 15.6 |
| Funds from operations per share (1) - basic | 0.64 | 0.81 | 0.75 | 0.63 | 0.79 | 1.42 | 0.78 | 0.89 |
| Backlog(1) | $ 1,751.5 | $ 1,842.6 | $ 1,840.1 | $ 1,705.6 | $ 1,577.4 | $ 1,555.0 | $ 1,835.7 | $ 1,182.2 |
| Working capital(1) | 102.6 | 86.0 | 99.6 | 115.5 | 99.7 | 97.8 | 91.5 | 199.8 |
| Shareholders' equity | 308.5 | 309.1 | 302.5 | 301.3 | 295.9 | 289.3 | 273.6 | 166.8 |
| Book value ($ per basic share)(1) | 12.68 | 12.72 | 12.45 | 12.45 | 12.28 | 11.99 | 11.35 | 9.46 |

Note: *(1) Contract income margin, EBITDA, EBT, working capital, book value and backlog are non-IFRS measures. Refer to "Terminology" for definitions of non-IFRS measures.*

The Corporation's revenue, backlog and shareholders' equity were increased in 2010 with the closing of a major acquisition, which included Dominion, Canem and Broda. Net income in 2010 declined under IFRS reporting standards as Churchill's post acquisition restructuring costs and transaction costs in respect of this major acquisition were expensed. These costs were previously capitalized under Canadian GAAP.

Revenue and net income declined in the first quarter of 2011, compared to the fourth quarter of 2010, due to the impact of a particularly severe winter on construction operations and profit margin pressure due to the impact of the inclusion of legacy Dominion lower margin projects since July 2010, a decline in legacy Stuart Olson's margins on projects secured in the more competitive markets of late 2008, 2009 and early 2010, lower amounts of self-performed work in the winter, and being in the early phases of construction on several new projects.

Revenue improved in the second quarter of 2011, compared to the first quarter of 2011, largely due to the seasonal nature of the Industrial Services segment, but margin pressure across all segments continued, particularly in SODCL, largely driven by underperforming fixed price projects. As well, an unusually wet spring season, administrative project delays and fires in Northern Alberta negatively impacted second quarter revenue.

Revenue improved in the third quarter of 2011, compared to the second quarter of 2011, partly due to improved weather conditions. In the fourth quarter of 2011, revenue declined, compared to the third quarter of 2011, due to being in the early phases of construction on several new projects and delays in procuring and executing backlog. In both quarters, the negative impact on EBITDA of underperforming fixed price projects at SODCL was partly offset by growth delivered by the Commercial Systems and Industrial Services segments

The reader is referred to the Corporation's 2010 and 2011 annual and interim reports for a more detailed discussion and analysis of the results of the quarters preceding January 1, 2012.

## Capital Resources and Liquidity

### Cash and Debt Balances

Cash and cash equivalents at March 31, 2012 were $28.6 million, compared to $59.4 million at December 31, 2011, a $30.9 million decrease that was invested in non-cash working capital to support operations.

Long-term indebtedness at March 31, 2012, excluding the $1.1 million current portion of long-term debt, amounted to $142.8 million compared to $137.1 million at December 31, 2011, a net increase of $5.7 million. This amount consisted of $77.3 million (March 31, 2011 - $76.7 million) of the debt portion of convertible debentures and $65.5 million (March 31, 2011 - $60.4 million) drawn on Churchill's $200 million, four-year senior revolving credit facility (the "Revolver").

The Revolver was originally secured on July 12, 2010, with a syndicate of chartered banks (the "Syndicate"), and improved terms and conditions were negotiated on July 13, 2011, including a 100 basis point reduction in the applicable interest rate, relaxation or elimination of certain financial covenants, an increase in the term from 3 years to 4 years (new maturity date of July 12, 2015), and additional flexibility on consents regarding dividends and acquisitions. The Syndicate remained the same and the Revolver continued to include a $75 million accordion feature. The amount of the revolver will fluctuate from quarter to quarter as it is drawn to finance working capital requirements and acquisitions, and as it is paid with funds from operations. For additional information refer to *Note 24(a)* to the Condensed Consolidated Interim Financial Statements.

On June 15, 2010, the Corporation closed a convertible debentures financing in the principal amount of $86.3 million, including the exercise by the underwriters of the over-allotment option. Upon closing, the debentures became an obligation of the Corporation. For accounting purposes, the equity conversion rights of the convertible debentures were assigned a value of $9.5 million (net of $0.5 million of transaction costs) which was included in shareholders' equity, and $73.3 million was assigned to the long-term debt component (net of $2.9 million of transaction costs). For additional information refer to *Note 25* to the Condensed Consolidated Interim Financial Statements.

### Hedging Agreements

On August 8, 2011, the Corporation entered into derivative financial instruments with a financial institution designed to lock in the fuel price economics of a multi-year construction project for Broda. The financial instruments are not accounted for as designated accounting hedges because their effectiveness is hindered by inherent risk related to location, basis, foreign exchange and quantity. Therefore, the statement of earnings will reflect the fair market adjustments from period to period. In the first quarter of

2012 this resulted in an unrealized gain of $0.5 million included in Other Income, described in *Note 29(b)* to the Condensed Consolidated Interim Financial Statements.

### Summary of Cash Flows

Funds from operations for the first three months of 2012 were $15.6 million compared to $18.9 million in the first quarter of 2011. The $3.3 million decrease is largely due to a $4.3 million increase in indirect and administrative expenses and a $0.1 million decrease in contract income excluding a $0.8 million increase in indirect depreciation. The increase in indirect and administrative expenses was largely due to the inclusion of McCaine's results in the first quarter of 2012, new leased office space and equity-based compensation expenses.

Cash generated from (used in) operations in the quarter was $(28.8) million (first quarter 2011 - $10.3 million) after accounting for a change in share-based payment liability of $(3.0) million (first quarter 2011 - $nil), a change in provisions of $(1.4) million (first quarter 2011 - $(1.0) million), and a change in non-cash operating working capital of $(40.0) million (first quarter 2011 - $(7.6) million). Working capital requirements have been growing with the business, primarily in the Industrial Services segment as expanding operations have caused receivables to grow faster than payables.

Finance costs of $0.6 million (first quarter 2011 – $0.4 million) were largely offset by a tax credit of $0.5 million (first quarter 2011 – payment of $9.1 million) causing net cash generated by (used in) operations to be $(28.9) million on March 31, 2012 (March 31, 2011 - $0.8 million). The reduction in net tax cash paid for the first quarter of 2012 was primarily due to lower taxable earnings in the quarter.

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| **($millions, except shares and per share amounts)** | | **2,012** | | **2,011** |
| Net cash generated by (used in) operating activities | $ | (28.9) | $ | 0.8 |
| Add: | | | | |
| Income taxes paid (received) | | (0.5) | | 9.1 |
| Interest paid (received) | | 0.6 | | 0.4 |
| Cash generated from (used in) operations | $ | (28.8) | $ | 10.3 |
| Change in share-based payment liability | | 3.0 | - | |
| Change in provisions | | 1.4 | | 1.0 |
| Change in non-cash working capital balances relating to operations | | 40.0 | | 7.6 |
| Funds from operations | $ | 15.6 | $ | 18.9 |
| Weighted average common shares - basic (millions) | | 24.3 | | 24.1 |
| Funds from operations per common share - basic | $ | 0.64 | $ | 0.78 |

Investing activities resulted in a net use of cash of $3.4 million during the first quarter of 2012, which compares with net cash used of $4.2 million in the first three months of 2011. The difference is primarily attributable to additions to intangible assets, property and equipment partly offset by proceeds on disposal of equipment and assets held for sale.

During the first quarter of 2012, net cash generated by financing activities amounted to $1.4 million, related primarily to a net increase in long term debt partly offset by the payment of dividends. This amount compares to net cash used in financing activities of $13.5 million in the three months ended March 31, 2011 related primarily to net repayment of long-term debt.

As at March 31, 2012, Churchill had working capital of $102.7 million, compared to $86.0 million at December 31, 2011.

Scheduled debt principal repayments within one year at March 31, 2012 were $1.1 million, compared to $1.9 million at March 31, 2011. Finance contracts and finance lease obligations are secured by construction and automotive equipment and are more fully described in *Note 24* to the Condensed Consolidated Interim Financial Statements.

The Corporation remains a partner in five joint ventures, one of which is a public-private partnership ("P3") project being constructed by SODCL with its partner ACCIONA, a large international energy, water services and infrastructure company headquartered in Spain. For this project, the Fort St. John hospital in Fort St. John, British Columbia, the Corporation has provided a joint and several guarantee, increasing the maximum potential exposure to the full value of the work remaining under the contract. As of March 31, 2012, the project remained ahead of schedule and was 94% complete. P3 infrastructure projects may expose the Corporation to financial penalties and/or liquidated damages for project delays. P3 projects also require security in the form of letters of credit to support the Corporation's obligations. Refer to *Note 6* to the Condensed Consolidated Interim Financial Statements for additional details.

In the first quarter of 2012, the Corporation's capital expenditures totalled $6.1 million including $2.3 million for construction equipment, $3.2 million for computer equipment and software, $0.5 million for vehicles, and $0.1 million for tenant improvements, furniture and equipment. Increased capital expenditures are associated with the Corporation's need to support the growth in size and scope of its operations, the optimization of Churchill's new SAP-based ERP system, and the need for heavy construction equipment at Broda to support its work on larger projects. All capital spending is being closely monitored by management. For the remainder of 2012, the Corporation anticipates that it will require approximately $26 million to fund its planned capital expenditures.

Management believes that the Corporation has the capital resources and liquidity necessary to meet its commitments, support its operations, finance capital expenditures, support growth strategies and fund declared dividends. In addition to the Corporation's cash and cash equivalents, ability to generate cash from operations, and the undrawn portion of its $200 million credit facility ($132.9 million as of March 31, 2012) plus its $75 million accordion feature, the Corporation believes that it has access to further debt and/or equity through the capital markets.

Shareholders' equity was $308.5 million at March 31, 2012 compared to $309.1 million at December 31, 2011. Retained earnings decreased from $165.0 million at December 31, 2011 to $163.3 million at March 31, 2012, reflecting the addition of $3.2 million of net earnings for the first quarter of 2012, less dividends declared of $2.9 million, normal course issuer bid share purchases of $0.2 million and other comprehensive income (defined benefit plan actuarial losses net of tax) of $1.8 million.

### Share Data

The Corporation has an Employee Share Purchase Plan ("ESPP") available to all full-time employees. At March 31, 2012, the ESPP held 1,007,692 common shares for employees. Under the ESPP, common shares are acquired in the open market.

On January 17, 2012 and April 17, 2012, the Corporation issued 67,807 and 46,098 common shares, respectively, pursuant to its DRIP.

As at May 8, 2012, the Corporation had 24,380,924 common shares issued and outstanding and 2,047,628 options convertible into common shares upon exercise (December 31, 2011 – 24,348,919 common shares and 1,542,783 options). Refer to *Note 26* to the Condensed Consolidated Interim Financial Statements for further detail.

As well, the Corporation has 6% convertible debentures outstanding in the principal amount of $86.3 million, convertible into 3,791,205 common shares. Refer to *Note 25* to the Condensed Consolidated Interim Financial Statements for further detail.

Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding, plus the number of additional common shares that would have been outstanding if the dilutive potential common shares associated with the outstanding stock options and the convertible debentures had been issued. The calculation of the diluted weighted average number of shares outstanding of 24,520,029 (March 31, 2011 – 24,504,979) is set out in *Note 14* to the Condensed Consolidated Interim Financial Statements.

- At March 31, 2012, 797,511 (March 31, 2011 – 158,916) options were excluded from the diluted weighted average number of common share calculations as their effect would have been anti-dilutive. The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

- At March 31, 2012, no incremental shares related to the convertible debentures are included in the diluted share calculation. In determining the diluted earnings per share, the Corporation determined the impact of normalizing earnings by adding back related interest, accretion and amortization costs of the convertible debentures to net earnings from continuing operations. This outweighed the effect of the related incremental shares, making the calculation anti-dilutive. The incremental shares included in the dilutive weighted average number of shares was determined using the Corporation's share price at March 31, 2012 of $15.29 (March 31, 2011 - $20.05).

### Share-based Compensation

Share-based compensation is a non-cash expense driven in part by the number, fair value and vesting rights of options, DSUs and PSUs granted. The share-based compensation expense was $3.3 million during the first quarter of 2012 and $1.8 million for the three months ended March 31, 2011.

During the first quarter of 2012, the Corporation granted 12,052 DSUs (first quarter 2011 – 9,310 DSUs) to directors as part of their annual remuneration. In addition, during the first three months of 2012, directors and employees voluntarily elected to purchase or accept in lieu of cash 1,380 DSUs (first quarter 2011 – 2,167 DSUs) by deferring compensation related to retainers, meeting fees, base salary and/or cash bonus, as applicable. These DSU grants and elections totalling 18,253 DSUs (first quarter 2011 – 11,477 DSUs) resulted in $0.7 million of share-based compensation expense for the first quarter of 2012 (first quarter 2011 - $0.3 million). The amounts recorded are based on changes in fair value and grants of DSUs. The Corporation carries the obligation as a payable on its statement of financial position as the DSUs are structured under the current plan to be paid in cash, upon the employee or director ceasing service with the Corporation.

During the first quarter of 2012, the Corporation recorded compensation expenses (income) for PSUs granted to employees of $2.1 million, compared to $0.9 million in the first three months of 2011. The amounts recorded are based on the sum of changes in fair value and grants of PSUs. During the three months ended March 31, 2012, the Corporation cancelled 2,967 PSUs due to forfeiture. As at March 31, 2012, the Corporation had 356,172 PSUs outstanding, compared to 340,055 PSUs at December 31, 2011. The PSUs are structured under the current plan to be settled in cash at the time of vesting, if certain performance objectives for shareholder value creation relative to a comparator group of companies are met, at the Board's discretion. The PSUs granted in 2009 vested in February 2012 and the payout amounted to $3.0 million.

Refer to *Note 27* to the Condensed Consolidated Interim Financial Statements for further detail.

## Supplemental Disclosures

### Off-Balance-Sheet Arrangements

The Corporation had no off-balance sheet arrangements in place at March 31, 2012.

### Related-Party Transactions

During the first quarter of 2012, the Corporation incurred facility costs of $166 thousand (first quarter 2011 – $141 thousand) relating to the rental of two buildings, one of which is owned 50% by Schneider Investments Inc., a company owned by George Schneider, a director of the Corporation. The other building is owned by Broda Holdings (2009) Inc., a company owned by Gord Broda, the president of Broda. One of the rented buildings is the operations base for CSG in Fort McMurray. The other rented building is the head office, maintenance facility and operations base for Broda in Prince Albert, Saskatchewan. For both buildings, the lease rates are comparable or below market rates of similar properties. At March 31, 2012, there was $29 thousand of this amount included in accounts payable (March 31, 2011 – $29 thousand).

Refer to *Note 32* to the Condensed Consolidated Interim Financial Statements.

## Outlook

Churchill is well positioned in Western Canada to compete for projects through its three operating business segments.

- Margins for SODCL, Churchill's General Contracting segment, are expected to gradually improve in the second half of 2012 as several large projects near completion and as the company transitions from lower margin legacy Dominion backlog and projects procured in the more competitive environment of late 2008, 2009 and early 2010, to new higher-margin projects recently added to backlog. Additional detail is included in the General Contracting section below.
- Canem, the Commercial Systems segment, experienced some margin weakness in the first quarter of 2012 largely due to the inclusion of McCaine's operations and the deferral of several large projects which remain to be executed in the remainder of 2012 and 2013. Canem's outlook is positive, since those projects have not been cancelled but are just proceeding at a slower pace, while other projects are experiencing scope increases. Additional detail is included in the Commercial Systems section below.
- Within the Industrial Services segment, CSG had a strong quarter as turnaround and maintenance work, largely in Alberta's oil sands, continued. Recent backlog additions, including bundled service offerings, provided a strong start to 2012. Broda, as expected, showed a loss in the first quarter as it took advantage of the relatively slow winter season to do corrective and preventative maintenance on its fleet of equipment. This practice improves the performance and availability of the equipment during the balance of the year. Going forward, CSG is expecting continued growth in the remainder of 2012 and Broda also expects strong performance in 2012, Additional detail is included in the Industrial Services section below.

The Corporation intends to reduce debt with operating cash flow, unless corporate development initiatives necessitate deployment of that cash in an alternative manner. Churchill is continuing to explore adding complementary lines of business through “tuck-in” acquisitions. Churchill may also consider more impactful acquisitions where the price is reasonable and there is a clear opportunity to enhance the business model and create shareholder value.

Sovereign debt concerns in Europe and the United States continue to trouble the capital markets and have continued to cause significant volatility in the first quarter of 2012. Prices of commodities such as crude oil and natural gas have also been volatile. Oil prices have been strong with the West Texas Intermediate spot price averaging US$102.88 per barrel in the first quarter of 2012, and forecast by the U.S. Department of Energy’s Energy Information Administration to average approximately US$106 per barrel on an annual basis in 2012. Natural gas prices, on the other hand, are expected to continue to remain low with an average Henry Hub spot price of US$2.45 per million British thermal units (“MMBtu”) in the first quarter of 2012 and a forecasted average spot price of $2.51 per MMBtu on an annual basis in 2012. It is management’s intention to continue to monitor these developments very closely and to remain in close communication with customers to ensure that the Corporation is positioned to react should a severe market correction occur. In the recessionary period of late 2008 and 2009, there were no significant delays in the Corporation’s backlog with the exception of the Lethbridge Hospital project, which was subsequently re-awarded to SODCL, as announced on July 6, 2011. Churchill’s backlog remains approximately 60% institutionally levered, so management expects limited impact on the backlog should Western Canada experience an economic slowdown. Also, during the previous recession, Churchill actually delivered strong financial performance as a result of right-sizing its industrial organization to adjust to the prevailing economic environment and from executing its higher margin, multi-year General Contracting backlog.

### General Contracting

SODCL is well established in Western Canada in the institutional and commercial construction market sectors. SODCL’s $1.3 billion backlog is 97% relatively low-risk construction management projects and remains institutionally levered, with three Alberta hospital projects and several educational facilities added to backlog in 2011. As well, there are many project opportunities in SODCL’s prospect inventory. The institutional spending outlook in Western Canada is healthy, partly due to expected provincial and municipal government spending on institutional projects such as schools and community centres. For example, the Alberta government’s 2012/2013 fiscal year budget calls for the government to spend $5.7 billion on infrastructure-related projects. Although this represents a 9% year-over-year decline from the $6.3 billion spent during the previous term, the capital plan will average $5.5 billion per year, which is more than 30% higher than the annual average since 2001. The municipal infrastructure, transportation, education, and healthcare sectors continue to dominate provincial spending initiatives accounting for 84% of total spending, compared to 89% last year.

The non-residential private sector spending outlook is continuing to improve as a result of generally strong commodity prices, particularly oil prices, and favourable financing and construction costs. This is expected to support backlog additions for SODCL. Margin pressure is expected to continue in the second quarter of 2012 as the segment works through the remaining lower margin legacy Dominion backlog and projects secured in the more competitive late 2008, 2009 and early 2010 environment. SODCL intends to partially offset this margin pressure by focusing its marketing activities on large relationship-based construction management projects that are expected to provide margin upside, and establishing an industrial sector presence for building construction. To date, SODCL’s industrial division has established a foothold with three industrial buildings with a combined value of $40 million. SODCL’s EBITDA margins are expected to marginally improve in the second half of 2012 as projects procured over the 2010 and 2011 period and some projects nearing completion are expected to generate higher margins. SODCL expects to complete the remaining $25 million of legacy Dominion projects in the second quarter of 2012 and will continue to focus on attaining projects that meet acceptable return thresholds and offer higher margin, fee-enhancing opportunities.

Current SODCL projects include:

- The Edmonton Remand Centre, a $523 million, 57,000-square-metre facility in Edmonton, Alberta scheduled for completion of the capital construction phase in the fall of 2012;
- Three Alberta hospital projects valued at $315 million, located at Medicine Hat, Lethbridge and Edson, Alberta;
- The Fort St. John Hospital, a $298 million, 15,000-square-metre P3 project in Fort St. John, British Columbia scheduled for completion in the first half of 2012;
- Investors Group Field, a $170 million, 33,000-seat football facility in Winnipeg, Manitoba, scheduled for completion in the fall of 2012;
- 745 Thurlow, a 25 storey, 400,000 square foot office tower, valued at $100 million and located at 745 Thurlow Street, Vancouver; and
- Renovation and construction of the Tache Hall Music, Art and Theatre Complex for the University of Manitoba, originally budgeted at $60 million.

### Commercial Systems

The outlook for Canem during 2012 is positive. Although some of Canem's commercial projects such as the Shaw Data Centre in Calgary, the Central Alberta Cancer Centre in Red Deer and Investors Group Field football stadium in Winnipeg, have been proceeding slower than originally planned, others, such as the New Remand Centre in Edmonton and Bow Valley College in Calgary, are experiencing scope increases. Canem's contract income margin of 22.5% in the first quarter of 2012 was strong, but lower than the first quarter of 2011 when the company was completing a number of high margin projects.

Canem expects contract and EBITDA margins to weaken slightly from their current levels for the remainder of 2012. Canem is working to offset margin pressure by improving operational efficiencies and by differentiating itself from the competition with building systems integration solutions to support its core operations. Canem has developed considerable expertise in sustainable buildings and energy efficiency and in 2010 launched its Smart Connected Real Estate Program. One product of this program is the Canem Centre for Building Performance in Richmond, British Columbia, which opened in the summer of 2011 as a permanent training and testing facility for integrated building systems, with the goal of encouraging building owners and developers to adopt new efficiencies and performance in buildings systems.

Current projects include:

- The Edmonton Remand Centre, a $523 million ($80 million electrical and data systems budget), 57,000-square-metre facility being built by SODCL in Edmonton, Alberta and scheduled for completion in the fall of 2012;
- The Shaw Data Centre, an energy efficient, high-technology structure with a $30 million electrical and data systems budget being built by Ledcor Construction Limited in Calgary, Alberta;
- Investors Group Field, a $170 million ($18 million electrical and data systems budget), 33,000-seat football facility being built by SODCL in Winnipeg, Manitoba and scheduled for completion in the fall of 2012;
- The 443 Maritime Helicopter Squadron facility, a $103.9 million ($11 million electrical and data systems budget), 20,000 square metre hangar being constructed at Victoria International Airport

in Victoria, British Columbia by Knappett Projects Inc. and scheduled for completion in the first quarter of 2014; and

- 745 Thurlow, a 25 storey, 400,000 square foot office tower, valued at $100 million ($5 million electrical and data systems budget) and located at 745 Thurlow Street, Vancouver.

### Industrial Services

CSG and Broda continued to perform well, generating near record combined revenue for the segment in the first quarter of 2012. Success for these businesses is largely driven by their reputation for safety and quality, which enables them to be the preferred suppliers on many projects. Margins were strong, although less than in the first quarter of 2011, which benefitted from the resolution of issues on an oil sands project nearing completion.

Going forward, CSG is expecting continued growth in the remainder of 2012 as it executes on strategic plans to expand market share and increase its operations footprint and customer base, after record years in 2010 and 2011. Margins are expected to gradually increase in the last three quarters of 2012 with a large sustainable industrial project spend and increased major project activity, particularly in Alberta's oil sands. The economic outlook for the oil sands remains optimistic in spite of recent pipeline approval delays. The players in this market are evolving to more senior exploration and development companies, foreign national oil companies, and integrated oil companies. Due to numerous project restarts and sanctioning announcements (e.g. Kearl, Firebag, Sunrise, Surmont, Jackfish 2, Christina Lake Phase 2), the outlook is positive for CSG's operations. In addition, planned turnarounds are continuing to provide opportunities for additional work. In the first quarter of 2012, CSG and Broda secured approximately $82 million of new contract awards and scope increases.

Broda expects a strong performance in 2012 in spite of intense competition in the Western Canada civil construction market. Broda has numerous project opportunities in Saskatchewan's industrial and mining markets, expects healthy ballast sales to Canada's two major railways in 2012, and is continuing work on the Calgary airport runway and tunnel projects,

CSG and Broda had combined backlog at March 31, 2012 of $239.5 million, compared to $264.0 million at December 31, 2011.

## Critical Accounting Estimates

The key assumptions and basis for the estimates that management has made under IFRS and their impact on the amounts reported in the Condensed Consolidated Interim Financial Statements and notes thereto, are contained in *Note 2* to the Condensed Consolidated Interim Financial Statements.

Churchill's financial statements include estimates and assumptions made by management in respect of operating results, financial condition, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the more significant estimates that have an impact on Churchill's financial condition and results of operations:

- Revenue recognition and contract cost estimates;
- Goodwill impairment assessment;
- Depreciation and amortization;
- Income tax provisions;
- Provisions for warranty work and legal contingencies;
- Valuation of stock options and intangible assets;

- Accounts receivable collectability; and
- Valuation of defined benefit pension plans.

### Revenue Recognition and Contract Cost Estimates

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract at the end of the reporting period. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction. The stage of completion may also be assessed by reference to survey of work performed. Where there is uncertainty that the economic benefits associated with the contract will flow to the entity or where the contract costs cannot be identified and measured, revenue is recognized only to the extent of contract costs incurred where it is probable those costs will be recoverable.

During the early stages of significant multi-year contracts, if the outcome of the contract cannot be estimated reliably, contract revenue is recognized only to the extent contract costs are incurred and expected to be recoverable until such time that the outcome of the contract can be reliably estimated.

Contract costs include costs that relate directly to a specific contract, costs that are attributable to contract activity in general and can be allocated to individual contracts, and such other costs as are specifically chargeable to the customer under the terms of the contract. Contract costs exclude general administration costs (unless reimbursement is specified in the construction contract), selling costs, research and development costs (unless reimbursement is specified in the construction contract), and depreciation of idle equipment and equipment not used on a project. Contract costs are recognized as expenses in the period in which they are incurred.

Where current estimates indicate that total contract costs will exceed total contract revenue, the full amount of the expected loss is recognized immediately.

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the contract at the reporting date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract. Revenue from time and material contracts is recognized at the contractual rates as labour hours and direct expenses are incurred.

### Goodwill Impairment Assessment

Goodwill impairment incorporates, at a minimum, an annual assessment of the value of Churchill's goodwill by applying a fair value-based test to each segment of goodwill. Each fair value test may incorporate estimates such as normalized earnings, future earnings, price to earnings multiples, future cash flows, discount rate, and terminal values. The goodwill amount of $234.3 million on the Consolidated Statement of Financial Position as at March 31, 2012 arose from the acquisition of Laird Electric Inc. in February 2003, Dominion, Canem and Broda in July 2010, and McCaine in April 2011. A significant portion of the valuation of goodwill is related to future earnings, which are estimated and uncertain. Any significant reduction in these estimates could result in an impairment of goodwill. As of December 31, 2011, Churchill's goodwill was assessed to be unimpaired and the value-in-use over the carrying amount of goodwill was determined to be $541 million.

### Depreciation and Amortization

Effective January 1, 2010, the Corporation changed its method of depreciating certain classes of property and equipment from declining-balance to straight-line in order to reflect the true consumption of the asset. The effect of this change did not have a material impact on the Condensed Consolidated Interim Financial Statements. Refer to *Note 10* to the Condensed Consolidated Interim Financial Statements for further detail.

### Income Tax Provisions

Income tax provisions, including deferred income tax assets and liabilities, may require estimates and interpretations of federal and provincial tax rules and regulations, and judgments as to their interpretation and application to Churchill's specific situation. Income tax provisions are estimated each quarter, updated each year-end to reflect actual differences and the impact of revenue recognition estimates, and then finalized during the preparation of the tax returns. Any changes between the quarterly estimates, the year-end provision, and the final filing position, may impact the income tax expense category, as well as the deferred income tax asset and liability categories.

### Accounts Receivable Collectability

Accounts receivable collectability may require an assessment and estimation of the creditworthiness of the client, the interpretation of specific contract terms, the strength of any security that Churchill may have, and the timing of collection. An allowance would be provided against any amount estimated to be uncollectible, and reflected as a bad debt expense.

### Valuation of Defined Benefit Pension Plans

Fluctuations in the valuation of the Corporation's defined benefit pension plans expose the Corporation to additional risk. Economic factors such as expected long-term rate-of-return on plan assets, discount rates and future salary and bonus increases will cause volatility in the accrued benefit obligation.

All estimates are updated each reporting period to reflect actual activity as well as incorporate all relevant information that has come to the attention of management. Given the nature of construction, with numerous contracts in progress at any given time, the impact of these critical accounting estimates on the results of operations is significant. Activities or information received subsequent to the date of this MD&A may cause actual results to vary, which will be reflected in the results of subsequent reporting periods.

## Financial Instruments

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings and any other amounts that will result in future cash outlays. The fair value of Churchill's short-term financial assets and liabilities approximates their respective carrying amounts on the statement of financial position because of the short-term maturity of those instruments. The fair value of the Corporation's interest-bearing financial liabilities, including capital leases, financed contracts and the revolving credit facility, also approximates their respective carrying amounts due to the floating-rate nature of the debt. The fair value of the liability component of the convertible debentures of $81.5 million at March 31, 2012 ($81.5 million at December 31, 2011) is based on an average market yield rate of 8% determined from marketable debentures traded with similar terms. The fair value of the fuel derivative instrument asset was $0.5 million at March 31, 2012 (December 31, 2011 – $21 thousand), which is calculated using common pricing methodology for instruments of this type that makes reference to current and future pricing information obtained from market sources. It is recorded within prepaid expenses on the statements of financial position and in other income in the statements of earnings and comprehensive income.

The financial instruments used by the Corporation expose Churchill to credit, interest rate and liquidity risks. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework and reviews corporate policies on an ongoing basis.

The Corporation is exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographical centres. The Corporation further mitigates this risk by performing an assessment of its customers as part of its work procurement process, including an evaluation of financial capacity.

Allowances are provided for potential project losses as at the statement of financial position date. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation takes into consideration the customer's payment history, creditworthiness and the current economic environment in which the customer operates to assess impairment.

The Corporation accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable. The provision for doubtful accounts has been included in general and administration expenses in the Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at March 31, 2012 was $1.5 million (December 31, 2011 – $2.0 million).

In determining the quality of trade receivables, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Corporation had $14.2 million of trade receivables which were greater than 90 days past due and not provided for as at March 31, 2012 (December 31, 2011 – $14.4 million). Of the total, $3.3 million (23%) was concentrated in two customer accounts, and this amount remained outstanding as of May 8, 2012. The related customers are all considered to be credit-worthy, and there are presently no concerns regarding collectability of these accounts.

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to this risk. At March 31, 2012, the increase or decrease in quarterly net earnings for each 100 basis point change in interest rates on floating rate debt would be approximately $0.2 million (December 31, 2011 - $0.4 million) related to financial assets and by $0.5 million (December 31, 2011 - $0.4 million) related to financial liabilities.

The Corporation invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Corporation invests its cash and cash equivalents with counterparties that are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Corporation does not expect any counterparties to fail to meet their obligations.

Under the Corporation's risk management policy, derivative financial instruments are used only for risk management purposes and not for generating trading profits. From an accounting perspective, the financial instruments are considered unlikely to be effective because they contain risk related to location, basis, foreign exchange and quantity. Therefore, the instruments are not accounted for as designated hedges and volatility in the value of the instruments will impact earnings.

Refer to *Note 29* to the Condensed Consolidated Interim Financial Statements for further detail.

## Changes in Accounting Policies

The Corporation's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2012 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board, and using the accounting policies under IFRS for interim financial information. See *Note 2* to the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2012 for more information regarding the basis of presentation and significant accounting policies used to prepare the financial statements are included in the Notes to the December 31, 2011 Consolidated Annual Financial Statements.

## Future Changes in Accounting Standards

Churchill has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and has determined that certain of them may have an impact on the Corporation's consolidated financial statements. Please refer to *Note 3* to the Condensed Consolidated Interim Financial Statements for further information.

## Risks and Uncertainties

Risks and uncertainties affecting the Corporation are described in the Corporation's most recent Annual Information Form under the heading "Risk Factors", which is incorporated by reference herein.

## Controls and Procedures

All of the controls and procedures set out below encompass all Churchill companies except for the legacy McCaine entity, as permitted by the Canadian Securities Administrators' National Instrument 52-109 for 365 days following an acquisition.

### Disclosure Controls & Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis, so that appropriate decisions can be made regarding public disclosure. The CEO and CFO together are responsible for establishing and maintaining the Corporation's disclosure controls and procedures. They are assisted in this responsibility by the Disclosure Committee which is composed of senior management members of the Corporation.

An evaluation of the effectiveness of the design of the Corporation's disclosure controls and procedures was carried out under the supervision of Churchill's management, including the CEO and CFO, with oversight by the Board of Directors and its Audit Committee as of March 31, 2012. Based on this evaluation, the CEO and CFO have concluded that the design of the Corporation's disclosure controls and procedures as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, was effective as at March 31, 2012.

### Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of inherent limitations in all control systems, absolute assurance cannot be provided that all misstatements have been detected. Management is responsible for establishing and maintaining adequate internal controls appropriate to the nature and size of the business, to provide reasonable assurance regarding the reliability of financial reporting for the Corporation.

Under the oversight of the Board of Directors and its Audit Committee, management, with the participation of the Corporation's CEO and CFO, evaluated the design of the Corporation's internal controls over financial reporting using the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework. The evaluation included documentation review, enquiries, testing and other procedures considered by management to be appropriate in the circumstances. As at March 31, 2012, the CEO and CFO have concluded that the design of the internal controls over financial reporting was effective.

## Terminology

Throughout this MD&A, management refers to certain terms when explaining its financial results that do not have any standardized meaning under IFRS as set out in the CICA Handbook. Specifically, the terms "Contract Income Margin", "Work-In-Hand", "Backlog", "Working Capital", "EBITDA", "EBT", "Funds from Operations", "Funds from Operations per Share" and "Book Value per Share" have been defined as:

### Contract Income Margin

Contract income margin is the percentage derived by dividing contract income by contract revenue. Contract income is calculated by deducting all associated direct and indirect costs from contract revenue in the period.

### Work-In-Hand

Work-in-hand is the unexecuted portion of work that has been contractually awarded for construction to the Corporation. It includes an estimate of the revenue to be generated from maintenance contracts during the shorter of (a) 12 months, or (b) the remaining life of the contract.

### Backlog

Backlog means the total value of work, including work-in-hand, that has not yet been completed that (a) is assessed by the Corporation as having high certainty of being performed by the Corporation or its subsidiaries by either the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to the Corporation or its subsidiaries, as evidenced by an executed binding or non-binding letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work currently assessed by the Corporation as being reasonably assured. Active backlog is the portion of backlog that is not work-in-hand (has not been contractually awarded to the Corporation). The Corporation provides no assurance that clients will not choose to defer or cancel their projects in the future.

| As at: | March 31, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| ($millions) | Work-in-hand | Active Backlog | Total Backlog | Work-in-hand | Active Backlog | Total Backlog |
| | $ 801.0 | $ 950.5 | $ 1,751.5 | $ 901.1 | $ 941.5 | $ 1,842.6 |

### Working Capital

Working capital is current assets less current liabilities. The calculation of working capital is provided in the table below:

| As at ($millions) | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Current assets | $ 449.8 | $ 481.5 |
| Current liabilities | 347.1 | 395.5 |
| Working capital | $ 102.7 | $ 86.0 |

### EBITDA and EBT

EBITDA (earnings before interest, taxes, depreciation and amortization) is a common financial measure widely used by investors to facilitate an "enterprise level" valuation of an entity. The Corporation follows the standardized definition of EBITDA. Standardized EBITDA represents an indication of the Corporation's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, standardized EBITDA comprises revenues less operating cost before interest expense, capital asset amortization and impairment charges, and income taxes. This measure as reported by the Corporation may not be comparable to similar measures presented by other reporting issuers. EBT is earnings before taxes. The following is a reconciliation of net earnings to EBITDA and EBT for each of the periods presented in this MD&A in accordance with IFRS.

| ($millions) | Three months ended March 31 | |
|---|---|---|
| | 2012 | 2011 |
| Net earnings from continuing operations | $ 3.1 | $ 5.8 |
| Add: | | |
| Income tax | 1.2 | 2.4 |
| EBT from continuing operations | $ 4.3 | $ 8.2 |
| Add: | | |
| Depreciation and amortization (indirect cost) | 2.3 | 1.5 |
| Depreciation and amortization (general and administrative) | 4.4 | 4.8 |
| Interest expense | 2.9 | 2.7 |
| EBITDA from continuing operations | $ 13.9 | $ 17.2 |

### Funds from Operations and Funds from Operations per Share (basic)

Funds from Operations are net cash generated by (used in) operating activities before interest, taxes, and changes in share-based payment liabilities, provisions and non-cash working capital. Funds from Operations per Share are Funds from Operations divided by weighted average basic shares outstanding in the period. Refer to the *Summary of Cash Flows* section of this MD&A for a detailed reconciliation.

### Book Value per Share

Book value per share is the value of shareholders' equity less the value of preferred share divided by basic shares outstanding at the end of the period.

the

**Churchill**

Corporation

Three month periods ending March 31, 2012 and 2011

Condensed Consolidated Financial Statements

(unaudited)

*In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the periods ended March 31, 2012 and 2011.*

**THE CHURCHILL CORPORATION**
**Condensed Consolidated Statements of Earnings and Comprehensive Income**
**For the three month periods ended March 31, 2012 and 2011**
**(in thousands of Canadian dollars, except share and per share amounts)**
**(unaudited)**

| | | Three months ended | |
|---|---|---|---|
| | Note | **March 31, 2012** | March 31, 2011 |
| Contract revenue | 7 | **$ 333,216** | $ 304,660 |
| Contract costs | | **297,549** | 268,065 |
| Contract income | | **35,667** | 36,595 |
| Other income | 8 | **2,186** | 876 |
| Finance income | 9 | **121** | 177 |
| Administrative costs | | **(30,824)** | (26,773) |
| Finance costs | 9 | **(2,867)** | (2,694) |
| Earnings from continuing operations before tax | | **4,283** | 8,181 |
| Income tax (expense) recovery | | | |
| Current income tax | | **6,855** | (6,436) |
| Deferred income tax | | **(8,013)** | 4,054 |
| | | **(1,158)** | (2,382) |
| Net earnings from continuing operations | | **3,125** | 5,799 |
| Net earnings from discontinued operations | 12 | **87** | (35) |
| **Net earnings** | | **$ 3,212** | $ 5,764 |
| Other comprehensive income | | | |
| Defined benefit plan actuarial (losses) gains | 13 | **(2,342)** | 559 |
| Deferred tax recovery (expense) on other comprehensive income | 13 | **585** | (140) |
| | | **(1,757)** | 419 |
| **Total comprehensive income** | | **$ 1,455** | $ 6,183 |
| Earnings per share: | | | |
| Basic from continuing operations | | **$ 0.13** | $ 0.24 |
| Basic from discontinued operations | | **$ -** | $ - |
| Basic earnings per share | 14 | **$ 0.13** | $ 0.24 |
| Diluted from continuing operations | | **$ 0.13** | $ 0.24 |
| Diluted from discontinued operations | | **$ -** | $ - |
| Diluted earnings per share | 14 | **$ 0.13** | $ 0.24 |
| Weighted average common shares: | | | |
| Basic | 14 | **24,324,749** | 24,133,727 |
| Diluted | 14 | **24,520,029** | 24,504,979 |

See accompanying notes to the consolidated financial statements.

**THE CHURCHILL CORPORATION**
**Condensed Consolidated Statements of Financial Position**
**As at March 31, 2012 and December 31, 2011**
**(in thousands of Canadian dollars)**
**(unaudited)**

| | Note | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 15 | $ | **28,596** | $ | 59,445 |
| Trade and other receivables | 16 | | **325,327** | | 345,772 |
| Inventory | | | **13,274** | | 12,762 |
| Prepaid expenses | | | **4,583** | | 4,377 |
| Costs in excess of billings | 17 | | **50,838** | | 33,738 |
| Income taxes recoverable | | | **25,520** | | 23,377 |
| Current portion of long-term receivable | | | **100** | | 534 |
| Assets held-for-sale | 12 | | **1,528** | | 1,488 |
| | | | **449,766** | | 481,493 |
| Service provider deposit | 18 | | **6,650** | | 6,066 |
| Long-term receivable | | | **200** | | 300 |
| Deferred tax asset | | | **12,531** | | 11,745 |
| Property and equipment | 19 | | **82,717** | | 82,526 |
| Goodwill | 20 | | **234,256** | | 234,256 |
| Intangible assets | 21 | | **70,286** | | 72,096 |
| | | $ | **856,406** | $ | 888,482 |
| **LIABILITIES** | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 22 | $ | **256,316** | $ | 283,857 |
| Contract advances and unearned income | 17 | | **82,060** | | 97,657 |
| Current portion of provisions | 23 | | **6,693** | | 7,294 |
| Income taxes payable | | | **938** | | 5,262 |
| Current portion of long-term debt | 24 | | **1,138** | | 1,403 |
| | | | **347,145** | | 395,473 |
| Employee benefits | 13 | | **10,214** | | 8,315 |
| Provisions | 23 | | **5,049** | | 5,875 |
| Long-term debt | 24 | | **65,531** | | 60,433 |
| Convertible debentures | 25 | | **77,275** | | 76,691 |
| Deferred tax liability | | | **38,678** | | 30,493 |
| Share-based payments | 27 (f) | | **3,971** | | 2,061 |
| | | | **547,863** | | 579,341 |
| **EQUITY** | | | | | |
| Share capital | 26 | | **124,828** | | 124,290 |
| Preferred share reserve | 26 | | **5,128** | | 5,128 |
| Convertible debentures | 25 | | **7,100** | | 7,100 |
| Share-based payment reserve | 27 (c) | | **8,166** | | 7,636 |
| Retained earnings | | | **163,321** | | 164,987 |
| | | | **308,543** | | 309,141 |
| | | $ | **856,406** | $ | 888,482 |

See accompanying notes to the consolidated financial statements.

## THE CHURCHILL CORPORATION
## Condensed Consolidated Statements of Changes in Equity
## For the three month period ended March 31, 2012 and 2011
## (in thousands of Canadian dollars)
## (unaudited)

| | Note | Share capital | Preferred share reserve | Convertible debentures | Share-based payment reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2011** | | $ 124,290 | $ 5,128 | $ 7,100 | $ 7,636 | $ 164,987 | 309,141 |
| Net earnings | | | | | | 3,212 | 3,212 |
| Other comprehensive income: | | | | | | | |
| Defined benefit plan actuarial losses, net of tax | 13 | | | | | (1,757) | (1,757) |
| Total comprehensive income | | | | | | 1,455 | 1,455 |
| *Transactions recorded directly to equity* | | | | | | | |
| Share-based payment transactions | 27 | | | | 530 | | 530 |
| Dividends | 26 | 717 | | | | (2,920) | (2,203) |
| Normal course issuer bid | 26 | (179) | | | | (201) | (380) |
| **Balance at March 31, 2012** | | $ 124,828 | $ 5,128 | $ 7,100 | $ 8,166 | $ 163,321 | $ 308,543 |

| | Note | Share capital | Preferred share reserve | Convertible debentures | Share-based payment reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2010** | | $ 120,757 | $ 5,128 | $ 7,100 | $ 4,860 | $ 151,503 | $ 289,348 |
| Net earnings | | | | | | 5,764 | 5,764 |
| Other comprehensive income: | | | | | | | |
| Defined benefit plan actuarial gains, net of tax | 13 | | | | | 419 | 419 |
| Total comprehensive income | | | | | | 6,183 | 6,183 |
| *Transactions recorded directly to equity* | | | | | | | |
| Share-based payment transactions | 27 | | | | 501 | | 501 |
| **Balance at March 31, 2011** | | $ 120,757 | $ 5,128 | $ 7,100 | $ 5,361 | $ 157,686 | $ 296,032 |

See accompanying notes to the consolidated financial statements.

## THE CHURCHILL CORPORATION
## Condensed Consolidated Statements of Cash Flow
## For the three month periods ended March 31, 2012 and 2011
## (in thousands of Canadian dollars)
## (unaudited)

| | Note | March 31, 2012 | March 31, 2011 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net earnings from continuing operations | | $ **3,125** | $ 5,799 |
| Net earnings from discontinued operations | | **87** | (35) |
| Depreciation and amortization | 10 | **6,731** | 6,310 |
| Loss on disposal of equipment | | **13** | - |
| Gain on disposal of assets held-for-sale | 12 | **(1,259)** | - |
| Gain on settlement of liabilities related to discontinued operations | 12 | **99** | - |
| Share-based compensation expense | 27 | **3,285** | 1,781 |
| Gain on derivative instrument | | **(491)** | - |
| Income tax expense | | **1,158** | 2,382 |
| Income tax expense (recovery) on discontinued operations | 12 | **(11)** | (13) |
| Finance costs | 9 | **2,867** | 2,694 |
| | | **15,604** | 18,918 |
| Payment of share-based payment liability | | **(2,958)** | - |
| Change in provisions | | **(1,427)** | (987) |
| Change in non-cash working capital balances relating to operations | 28 | **(40,041)** | (7,600) |
| Cash generated from (used in) operations | | **(28,822)** | 10,331 |
| Interest paid | | **(551)** | (381) |
| Income taxes paid | | **470** | (9,139) |
| Net cash generated by (used in) general operating activities | | **(28,903)** | 811 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from long-term receivable | | **381** | - |
| Proceeds on disposal of equipment | | **282** | - |
| Proceeds on disposal of assets held-for-sale | 12 | **2,050** | - |
| Additions to intangible assets | | **(1,741)** | (2,957) |
| Additions to property and equipment | | **(4,362)** | (1,219) |
| Net cash used in investing activities | | **(3,390)** | (4,176) |
| **FINANCING ACTIVITIES** | | | |
| Increase in service provider deposit | 18 | **(584)** | (143) |
| Proceeds of long-term debt | | **159,000** | 93,000 |
| Repayment of long-term debt | | **(154,388)** | (106,363) |
| Share purchase under normal course issuer bid | 26 | **(380)** | - |
| Dividend paid | 26 | **(2,204)** | - |
| Net cash generated by (used in) financing activities | | **1,444** | (13,506) |
| Decrease in cash and cash equivalents during the period | | **(30,849)** | (16,871) |
| Cash and cash equivalents, beginning of period | 15 | **59,445** | 70,848 |
| Cash and cash equivalents, end of period | 15 | $ **28,596** | $ 53,977 |

See accompanying notes to the consolidated financial statements.

## 1. REPORTING ENTITY

The Churchill Corporation was incorporated on August 31, 1981 in Canada under the Companies act of Alberta and was continued under the Business Corporations Act (Alberta) on July 30, 1985. The principal activities of The Churchill Corporation and its subsidiaries (collectively the "Corporation") are to provide building construction, commercial electrical and data systems contracting, industrial insulation contracting, industrial electrical and instrumentation contracting, civil construction and related services within Canada.

The address of the Corporation's head office and its principal address is #400, 4954 Richard Road S.W., Calgary, Alberta, Canada, T3E 6L1. The registered and records office is located at #3700, 400 – 3rd Avenue, S.W., Calgary, Alberta, Canada, T2P 4H2.

## 2. BASIS OF PRESENTATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of Compliance

These unaudited condensed consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") and using the accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. The same accounting policies and principles were followed in respect of the preparation of these unaudited condensed consolidated financial statements as were followed in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2011.

These unaudited condensed consolidated interim financial statements were approved by the Corporation's Board of Directors on May 8, 2012.

### (b) Summary of Significant Accounting Policies

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Corporation for the year ended December 31, 2011. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, "Presentation of Financial Statements" ("IAS 1"). Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011.

## 3. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The standards and interpretations in issue but not yet adopted by the Corporation have been disclosed in the audited annual financial statements at December 31, 2011. There have been no new standards and interpretations issued in the first quarter that have an impact on the Corporation.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 4. ACQUISITION

On April 29, 2011, one of the Corporation's subsidiaries, Canem Holdings Ltd. ("Canem"), acquired 100% of the outstanding share capital of McCaine Electric Ltd. ("McCaine"). Founded in 1918, McCaine was a privately held electrical contractor headquartered in Winnipeg, Manitoba. The primary purpose of the acquisition was to support Canem's business plan, which calls for geographic expansion into the Manitoba market.

The Corporation paid total consideration of $11,500 in cash and common shares. On April 29, 2011, $7,000 was paid to the vendors and an additional $2,000 holdback was placed into escrow as security for the representations and warranties provided by McCaine. The Corporation issued 126,974 common shares from treasury; the equivalent of $2,500 which was the fair value of the shares at the transaction date.

The acquisition was accounted for using the purchase method and the results from operations are included from the date of the acquisition. The total consideration transferred as part of the acquisition was $12,507, including the assumption of McCaine's indebtedness. Details of how the acquisition was funded are as follows:

| | | |
|---|---|---|
| Cash consideration | $ | **7,000** |
| Cash in escrow | | **2,000** |
| Share consideration | | **2,500** |
| Fair value of earn-out payment (Note 23) | | **322** |
| Working capital adjustment (Note 23) | | **685** |
| **Total consideration transferred** | **$** | **12,507** |

Identifiable assets acquired and liabilities assumed:

| | | |
|---|---|---|
| Trade and other receivables | $ | **8,089** |
| Inventory | | **258** |
| Prepaid expenses | | **112** |
| Costs in excess of billings | | **1,202** |
| Property and equipment | | **781** |
| Goodwill | | **5,633** |
| Intangible assets | | **5,300** |
| **Total assets** | | **21,375** |
| Less: | | |
| Bank indebtedness | $ | **743** |
| Trade and other payables | | **3,668** |
| Contract advances and unearned revenue | | **2,319** |
| Income taxes payable | | **106** |
| Deferred income taxes | | **2,032** |
| **Total liabilities** | | **8,868** |
| **Net assets acquired** | **$** | **12,507** |

**4. ACQUISITION (continued)**

The purchase price adjustment (“PPA”) was finalized at December 31, 2011.

*Transaction costs*

The Corporation incurred acquisition costs of $80 relating to external legal fees which are included in administrative expenses in the fiscal 2011 consolidated statements of earnings and comprehensive income.

*Goodwill*

The $5,633 of goodwill arising from the McCaine acquisition consists largely of the assembled workforce and anticipated synergies from project management processes. None of the goodwill from the McCaine acquisition is expected to be deductible for income tax purposes.

**5. SEGMENTS**

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides its operations into four reporting segments and reports its results under the categories of: General Contracting, Industrial Services, Commercial Systems and Corporate and Other. The accounting policies and practices for each of the segments listed below are the same as those described in the consolidated audited annual financial statements of the Corporation at December 31, 2011.

For the three months ended March 31, 2012, revenue from a significant customer was $33,009, which represents approximately 10% of contract revenue earned (March 31, 2011 - $33,975). This revenue was earned in the general contracting segment.

***General Contracting*** - General Contracting consists of Stuart Olson Dominion Construction Ltd. (“SODCL”). SODCL is headquartered in Calgary, Alberta, and constructs commercial, institutional, light-industrial and multi-unit residential buildings. SODCL has branch offices in Richmond, British Columbia; Kelowna, British Columbia; Whitehorse, Yukon; Calgary, Alberta; Edmonton, Alberta; Saskatoon, Saskatchewan; Regina, Saskatchewan; and Winnipeg, Manitoba.

***Industrial Services*** - Industrial Services consists of Churchill Services Group (“CSG”), Laird Electric Inc. (“Laird”), Laird Constructors Inc. (“Laird Constructors”), Fuller Austin Inc. (“Fuller Austin”), Northern Insulation Contracting Inc. (“Northern Insulation”) and Broda Construction Inc. (“Broda”). The Corporation reports these companies within the Industrial Services segment on the basis that they have similar economic characteristics and are similar in terms of services provided, production processes, customer base, methods of service delivery and the regulatory environment in which they operate.

- CSG allows an offering of integrated services from multi-disciplinary trades under the umbrella of one industrial organization.

- Laird Electric is headquartered in Edmonton, Alberta, and provides electrical, instrumentation and power-line construction and maintenance services to resource and industrial clients, primarily in the Fort McMurray and greater Edmonton regions.

## 5. SEGMENTS (continued)

***Industrial Services (continued)***

- Laird Constructors is headquartered in Sudbury, Ontario and provides electrical, instrumentation, power-line and mechanical construction and maintenance services to resource and industrial clients, primarily in the mining industry in Ontario, Manitoba and Saskatchewan.

- Fuller Austin and Northern Insulation are headquartered in Edmonton, Alberta serving industrial clients with insulation, asbestos abatement, siding application, heating, ventilation and air conditioning, and plant maintenance services. Its clients are in the oil sands, oil and natural gas, petrochemical, forest products, power utilities and mining industries.

- Broda is headquartered in Prince Albert, Saskatchewan, providing aggregate processing, earthwork, civil construction, concrete production and related services to mining and infrastructure organizations and Canada’s two major railway corporations.

***Commercial Systems -*** Commercial Systems consists of Canem and McCaine (Note 4). Canem, with its head office located in Richmond, British Columbia, designs, builds, maintains and services electrical and data communication systems for institutional, commercial, light industrial and multi-family residential customers. Its services include the design of electrical distribution systems within a building or complex; procurement and installation of electrical equipment and materials; on-call service for electrical maintenance and troubleshooting; preventative and scheduled maintenance for critical component installations; budgeting and pre-construction services; and management of regional and national contracts for multi-site installations.

***Corporate and Other*** – Corporate and Other include corporate costs not allocated directly to another reporting segment. This segment provides strategic direction, operating advice, financing, infrastructure services and management of public company requirements to each of its business segments.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 5. SEGMENTS (continued)

| March 31, 2012 | General Contracting | Industrial Services | Commercial Systems | Corporate and Other | Intersegment Eliminations | Total |
|---|---|---|---|---|---|---|
| **Contract revenue** | **$ 194,219** | **$ 104,870** | **$ 46,644** | **$ -** | **$ (12,517)** | **$ 333,216** |
| **EBITDA [1]** | **5,335** | **7,250** | **4,944** | **(5,263)** | **1,615** | **13,881** |
| **Depreciation and amortization** | **935** | **1,768** | **597** | **3,312** | **119** | **6,731** |
| **Finance costs** | **3** | **33** | **-** | **2,831** | **-** | **2,867** |
| **Earnings (loss) before tax** | **$ 4,397** | **$ 5,449** | **$ 4,347** | **$ (11,406)** | **$ 1,496** | **$ 4,283** |
| **Income taxes** | | | | | | **(1,158)** |
| **Net earnings from continuing operations** | | | | | | **$ 3,125** |
| **Goodwill and intangible assets** | **$ 130,395** | **$ 24,489** | **$ 130,221** | **$ 19,437** | **$ -** | **$ 304,542** |
| **Capital and intangible expenditures** | **$ 1,790** | **$ 2,160** | **$ 210** | **$ 1,943** | **$ -** | **$ 6,103** |
| **Total assets** | **$ 432,073** | **$ 210,754** | **$ 192,689** | **$ 34,303** | **$ (13,413)** | **$ 856,406** |
| **Total liabilities** | **$ 283,892** | **$ 66,910** | **$ 39,229** | **$ 171,329** | **$ (13,497)** | **$ 547,863** |

| March 31, 2011 | General Contracting | Industrial Services | Commercial Systems | Corporate and Other | Intersegment Eliminations | Total |
|---|---|---|---|---|---|---|
| Contract revenue | $ 207,730 | $ 64,237 | $ 41,343 | $ - | $ (8,650) | $ 304,660 |
| EBITDA [1] | 9,038 | 6,322 | 6,227 | (4,278) | (124) | 17,185 |
| Depreciation and amortization | 806 | 1,111 | 305 | 3,972 | 116 | 6,310 |
| Finance costs | (1) | 60 | 3 | 2,632 | - | 2,694 |
| Earnings (loss) before tax | $ 8,233 | $ 5,151 | $ 5,919 | $ (10,882) | $ (240) | $ 8,181 |
| Income taxes | | | | | | (2,382) |
| Net earnings from continuing operations | | | | | | $ 5,799 |
| Goodwill and intangible assets | $ 130,994 | $ 21,550 | $ 129,224 | $ 15,043 | $ - | $ 296,811 |
| Capital and intangible expenditures | $ 259 | $ 842 | $ 71 | $ 3,004 | $ - | $ 4,176 |
| Total assets | $ 461,738 | $ 169,424 | $ 185,205 | $ 33,533 | $ (5,008) | $ 844,892 |
| Total liabilities | $ 324,579 | $ 39,999 | $ 23,526 | $ 162,897 | $ (1,966) | $ 549,035 |

(1) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 6. JOINT VENTURES

The Corporation and its subsidiaries have the following significant interests in joint ventures:

Acciona Joint Venture - 50%
Stuart Olson/Conforte JV - 50%
Ninety North Partnership JV - 50%
Kwanlin Dun First Nation - Yukon Corrections Institution JV - 90%
Kwanlin Dun First Nation - Whitehorse Cultural Centre JV - 51%

There have been no changes in the Corporation's ownership or voting interests in these joint ventures during the period ended March 31, 2012.

These consolidated financial statements include the proportionate share of assets, liabilities, revenue, expenses, net income and cash flow of these joint ventures as follows:

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Current assets | **$ 35,711** | $ 33,757 |
| Current liabilities | **21,433** | 22,382 |

| | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| Contract income | **$ 11,570** | $ 17,311 |
| Expenses | **8,667** | 15,498 |

| | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| Cash flow provided by operating activities | **$ (1,865)** | $ (1,447) |

## 7. REVENUE

| | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| Construction contract revenue | **$ 293,326** | $ 264,580 |
| Service contract revenue | **39,278** | 39,583 |
| Sales of goods | **612** | 497 |
| Total revenue | **$ 333,216** | $ 304,660 |

The amount of revenue recognized results from the construction of assets and the provision of construction management services and includes materials that are fabricated to customer specifications under specifically negotiated contracts. Service contracts represent maintenance and other services and are determined based on the percentage of completion method.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 8. OTHER INCOME

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Gain on sale of assets | **$** | **1,311** | $ | - |
| Discounts | | **19** | | 10 |
| Claim settlements | | **-** | | 866 |
| Gain on fuel derivative instrument | | **492** | | - |
| Recovery from escrow related to McCaine acquisition | | **364** | | - |
| Other income | **$** | **2,186** | **$** | **876** |

The recovery related to an undetermined liability existing at the date of acquisition of McCaine which is expected to be recovered through the escrow funds provided for in the agreement (Note 4).

The gain on sale of assets relates to land and a building that was sold during the period which was previously included as assets held-for-sale (Note 12).

## 9. FINANCE INCOME AND COSTS

The finance income and costs recognized in profit or loss consist of the following:

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Finance income on loans and receivables | **$** | **1** | $ | 23 |
| Finance income on cash and cash equivalents | | **87** | | 147 |
| Other | | **33** | | 7 |
| Finance income | **$** | **121** | $ | 177 |
| Finance costs on revolving credit facility | **$** | **726** | $ | 495 |
| Other finance costs | | **41** | | 65 |
| Amortization of deferred financing fees on revolving credit facility | | **223** | | 311 |
| Finance costs on convertible debentures | | **1,294** | | 1,294 |
| Accretion on convertible debentures | | **449** | | 410 |
| Amortization of deferred financing fees on convertible debentures | | **134** | | 119 |
| Finance costs | **$** | **2,867** | $ | 2,694 |

The above finance income and finance costs include the following interest income and expenses in respect of assets and liabilities not at fair value through profit or loss:

| | | | | |
|---|---|---|---|---|
| Total finance income on financial assets | **$** | **121** | $ | 177 |
| Total finance costs on financial liabilities | **$** | **2,061** | $ | 1,854 |

*(in thousands of Canadian dollars, except share and per share amounts)*

## 10. DEPRECIATION AND AMORTIZATION

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Depreciation of property and equipment | **$** | **3,180** | $ | 3,089 |
| Amortization of intangible assets | | **3,551** | | 3,221 |
| Total depreciation and amortization expense | **$** | **6,731** | $ | 6,310 |

Of the depreciation of property and equipment during the period ended March 31, 2012 of $3,180 (March 31, 2011 - $3,089), $2,276 (March 31, 2011 - $1,503) has been included in contract costs and the remainder in administrative costs in the consolidated statements of earnings and comprehensive income. Amortization of intangible assets is included in administrative expense in the statements of earnings and comprehensive income.

## 11. PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Short-term employee benefits | **$** | **105,539** | $ | 84,277 |
| Employee share purchase plan expenses (Note 13) | | **1,148** | | 989 |
| Employee retirement matching contributions (Note 13) | | **819** | | 780 |
| Defined benefit and defined contribution pension plan expense | | **414** | | 165 |
| Equity-settled share-based payment transactions | | **1,233** | | 533 |
| Cash-settled share-based payment transactions | | **2,052** | | 934 |
| Total personnel expenses and employee benefits | **$** | **111,205** | $ | 87,678 |

Of the personnel expenses and employee benefits in the table above, $93,182 was included in contract costs (March 31, 2011 - $73,341) and $18,023 in administrative costs (March 31, 2011 - $14,337) for the period ended March 31, 2012.

Key management personnel consists of Churchill's named executive officers. Their remuneration during the period was as follows:

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Short-term benefits | **$** | **817** | $ | 992 |
| Share-based payments [1] | | **1,491** | | 671 |
| | **$** | **2,308** | $ | 1,663 |

[1] Share-based payments include equity-settled and cash-settled share-based payments.

The remuneration of key management is determined by the Human Resources and Compensation Committee ("HRCC") and recommended to the Board for approval, considering the performance of individuals, their business units and the Corporation. Utilizing an outside independent consultant, the HRCC also considers prevailing market and competitive conditions along with retention and strategic objectives.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 12. ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

During the current period, the Corporation sold land and a building located in Edmonton, Alberta, Canada, which was previously occupied by SODCL. As such, the gain on sale this asset is included in other income (Note 8). The Corporation received cash proceeds on the sale of $2,050 less commissions of $94, which was used to reduce debt on the revolving credit facility. Assets held-for-sale at March 31, 2012, include agricultural lands and a commercial yard.

The assets held-for-sale are available for immediate sale in their present condition and the sale is highly probable. The commercial yard recently met these conditions and was added to assets-held-for sale in the current quarter.

The following table presents summary statements of financial position and statements of earnings of the discontinued operations included in the consolidated financial statements.

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Property and equipment | **$ 1,306** | $ 1,238 |
| Deferred income taxes | **222** | 250 |
| Net assets held-for-sale | **$ 1,528** | $ 1,488 |

| | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| Gain on settlement of liabilities | **$ 99** | $ - |
| Administrative costs | **(23)** | (48) |
| Current income tax | **11** | 13 |
| Net earnings from discontinued operations | **$ 87** | $ (35) |

## 13. EMPLOYEE BENEFITS

### (a) Short-term employee benefits

The Corporation has an Employee Share Purchase Plan ("ESPP") which permits certain employees to voluntarily contribute up to 10% of their gross base salary. The Corporation matches all contributions by the employees up to a maximum of 5% of the gross base salary. The combined contributions are invested by the plan in common shares of the Corporation purchased in the open market. Contributions made by the Corporation during the period ended March 31, 2012 to the ESPP were $1,148 (March 31, 2011 - $989) (Note 11).

## 13. EMPLOYEE BENEFITS (continued)

### (b) Post-employment benefits

*Registered Retirement Savings Plan*

The Corporation has a Registered Retirement Savings Plan ("RRSP") which permits certain employees to voluntarily contribute up to 5% of their gross base salary. The Corporation matches all contributions made by the employees. The combined contributions are invested by the individual employees, at their discretion, in any of several mutual funds offered by the plan. Contributions made by the Corporation during the period ended March 31, 2012 to the RRSP were $819 (March 31, 2011 - $780) (Note 11).

*Defined Contribution Pension Plans*

The Corporation also maintains three non-contributory defined contribution pension plans ("DC") that cover salaried employees for two operating entities. Two of the DC plans provide participants with an annual contribution of 3% to 7% of annual base salary and bonuses based on a participant's age and service. Upon acquisition, the Corporation halted new membership to the DC plan in Dominion; however, the DC plan in Canem continues to accept the entrance of new employees. The Corporation also acquired a third DC plan with the McCaine acquisition (Note 4). It differs from the other two plans in that employer contributions ranging between 3% to 5% are based on the employee's position in the company. In addition, the earnings base excludes bonuses.

The total expense recognized in the consolidated Statement of Earnings and Comprehensive Income for the period ended March 31, 2012 of $77 (March 31, 2011 - $121) represents contributions to these plans by the Corporation at rates specified in the rules of the plans. As at March 31, 2012, contributions of $nil (December 31, 2011 - $nil) were due in respect of the 2012 (2011) reporting period.

*Defined Benefit Pension Plans*

The Corporation maintains two non-contributory defined benefit pension plans ("DB") that cover salaried employees for two operating entities. New members are no longer accepted into either DB plan. Annual employer contributions to the DB, which are actuarially determined by an independent actuary, are made on the basis of being not less than the minimum amounts required by provincial pension supervisory authorities. The benefits provided by the defined benefit provision of the pension plans are based on years of service and final average earnings of the employees who are members of the plans.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 13. EMPLOYEE BENEFITS (continued)

### (b) Post-employment benefits (continued)

*Expense recognized*

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Current service cost | **$** | **260** | $ | 270 |
| Interest cost | | **339** | | 384 |
| Expected return on plan assets | | **(330)** | | (374) |
| | **$** | **269** | $ | 280 |

*Actuarial gains and losses recognized in other comprehensive income*

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Cumulative amount, beginning of period | **$** | **(1,026)** | $ | 2,206 |
| Recognized during the period [1] | | **(2,342)** | | 559 |
| Cumulative amount, end of period | **$** | **(3,368)** | $ | 2,765 |

[1] Actuarial loss gives rise to a deferred income tax recovery in 2012 of $585 and deferred income tax expense of $140 in 2011.

For the period ended March 31, 2012, an amount of $2,342 (March 31, 2011 – $559 credit), before tax, was debited to other comprehensive income in relation to defined benefit plans. This loss relates to a change in the discount rates and a change in the market value of the assets, which are both as at March 31, 2012.

*Actuarial assumptions*

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Discount rate on benefit obligations | **4.3%** | 5.0% |
| Discount rate on benefit costs | **5.0%** | 5.5% |
| Expected long-term rate of return on plan assets | **6.8%** | 6.8% |
| Rate of compensation increase for 15 years | **3.5%** | 3.5% |
| Inflation rate | **2.3%** | 2.3% |

The yield curve used to establish the pension obligation is based on AA-rated corporate bonds for maturities up to 10 years. This yield curve is then extrapolated by using Canadian provincial bonds rated AA with maturities greater than 10 years with a spread adjustment to reflect the additional credit risk of AA-rated corporate bonds.

The Corporation uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The Corporation completed actuarial valuations for accounting purposes for both SODCL and Canem as at December 31, 2011. The next annual actuarial valuation for Canem for funding purposes will be completed in 2012 and SODCL's next actuarial valuation for funding purposes will be completed as of December 31, 2013.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 14. EARNINGS PER SHARE

### (a) Basic earnings per share

| | | March 31, 2012 | | March 31, 2011 |
|---|---|---|---|---|
| Net earnings from continuing operations attributable to common shareholders (basic) | **$** | **3,125** | $ | 5,799 |
| Net earnings from discontinued operations attributable to common shareholders (basic) | | **87** | | (35) |
| | | **3,212** | | 5,764 |

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| Issued common shares at beginning of period | **24,300,019** | 24,133,727 |
| Effect of shares repurchased under NCIB | **(31,154)** | - |
| Effect of shares issued related to DRIP | **55,884** | - |
| Weighted average number of common shares for the period | **24,324,749** | 24,133,727 |

### (b) Diluted earnings per share

The weighted average number of shares outstanding is calculated as follows:

| | | March 31, 2012 | | March 31, 2011 |
|---|---|---|---|---|
| Net earnings from continuing operations attributable to common shareholders (basic) | **$** | **3,125** | $ | 5,799 |
| Net earnings from discontinued operations attributable to common shareholders (basic) | **$** | **87** | $ | (35) |
| Net earnings attributable to common shareholders (diluted) | **$** | **3,212** | $ | 5,764 |
| | | | | |
| Weighted average number of common shares (basic) | | **24,324,749** | | 24,133,727 |
| Incremental shares - stock options | | **195,280** | | 371,252 |
| Weighted average number of common shares for the period (diluted) | | **24,520,029** | | 24,504,979 |

At March 31, 2012, 797,511 options (March 31, 2011 – 158,916) were excluded from the diluted weighted average number of common share calculations as their effect would have been anti-dilutive. There were no incremental shares related to the convertible debentures included in the weighted average calculation, as the impact of the normalization of earnings (interest, accretion and amortization add-back) outweighed the effect of the related incremental shares and therefore the convertible debentures were anti-dilutive.

The incremental shares included in the dilutive weighted average number of shares has been determined using the Corporation's share price at March 31, 2012 of $15.29 (March 31, 2011 - $20.05).

***(in thousands of Canadian dollars, except share and per share amounts)***

## 15. CASH AND CASH EQUIVALENTS

| | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Cash | **$** | **27,762** | $ | 58,613 |
| Short-term investments | | **834** | | 832 |
| | **$** | **28,596** | $ | 59,445 |

Included in the cash and cash equivalents balance is $12,983 (December 31, 2011 - $14,847) held in joint venture bank accounts. Short-term investments include cash that was deposited as collateral for letters of credit issued by the Corporation. As such, these investments are not available for general operating purposes.

## 16. TRADE AND OTHER RECEIVABLES

| | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Trade receivables | **$** | **200,251** | $ | 234,272 |
| Construction holdbacks, due within one business cycle | | **104,957** | | 105,318 |
| Other receivables | | **20,119** | | 6,182 |
| | **$** | **325,327** | $ | 345,772 |

The average credit period is 40 days for maintenance contracts and 52 days for significant construction contracts. Other receivables includes the Corporation’s allowance for doubtful accounts.

At March 31, 2012, holdbacks of $104,957 (December 31, 2011 - $105,318) are recoverable within the normal operating cycle of the Corporation ranging from 30 days to 3 years, depending on the nature of services being provided. The range is dependent on the type of project and duration of the work.

Other receivables consist primarily of the Corporation’s proportionate share of joint venture trade and other receivables (Note 6).

*(in thousands of Canadian dollars, except share and per share amounts)*

## 17. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

### Contracts in progress:

| | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Construction costs incurred plus recognized profits less recognized losses to date | $ | 3,908,324 | $ | 3,802,663 |
| Less: progress billings | | (3,941,409) | | (3,871,178) |
| Net over on construction contracts | | (33,085) | | (68,515) |
| Non-construction costs incurred plus recognized profits less recognized losses to date | $ | 240,346 | $ | 201,415 |
| Less: progress billings | | (238,483) | | (196,819) |
| Net under on non-construction contracts | | 1,863 | | 4,596 |
| Total net contract position | $ | (31,222) | $ | (63,919) |

### Recognized and included in the consolidated statements of financial position as amounts due:

| | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Costs in excess of billings - Construction contracts | $ | 43,018 | $ | 28,038 |
| Costs in excess of billings - Non-construction contracts | | 7,820 | | 5,700 |
| Total costs in excess of billings | | 50,838 | | 33,738 |
| Contract advances and unearned income - Construction contracts | $ | (80,326) | $ | (96,561) |
| Contract advances and unearned income - Non-construction contracts | | (1,734) | | (1,096) |
| Total contract advances and unearned income | | (82,060) | | (97,657) |
| Total net contract position | $ | (31,222) | $ | (63,919) |

At March 31, 2012, retentions held by customers for contract work amounted to $110,313 (December 31, 2011 - $111,187). Advances received from customers for contract work amounted to $72,458 (December 31, 2011 - $96,930).

## 18. SERVICE PROVIDER DEPOSIT

Service provider deposit relates to the general contracting segment's subguard program, representing an agreement with Zurich Insurance Corporation ("Zurich") that establishes a pre-funded deductible/co-pay insurance program. The funds provided to Zurich as at March 31, 2012, amounted to $6,650 (December 31, 2011 - $6,066) and are presented as a service provider deposit on the consolidated statements of financial position.

This deposit is classified as non-current as management does not anticipate any claim payments exceeding the deductible amounts within the next twelve months.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 19. PROPERTY AND EQUIPMENT

| **2012** | **Land and Improvements** | **Buildings and Improvements** | **Leasehold Improvements** | **Construction and Automotive Equipment** | **Computer Hardware** | **Office Furniture and Equipment** | **Assets under Construction** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as at December 31, 2011 | **$ 1,165** | **$ 4,835** | **$ 8,301** | **$ 84,581** | **$ 6,478** | **$ 4,174** | **$ 4,231** | **$ 113,765** |
| Additions, including finance leases | **-** | **-** | **74** | **2,758** | **376** | **48** | **1,143** | **4,399** |
| Disposal | **(207)** | **(1,313)** | **(827)** | **(281)** | **(145)** | **(38)** | **11** | **(2,800)** |
| Assets held-for-sale | **(657)** | **98** | **483** | **-** | **-** | **8** | **-** | **(68)** |
| Balance at March 31, 2012 | **$ 301** | **$ 3,620** | **$ 8,031** | **$ 87,058** | **$ 6,709** | **$ 4,192** | **$ 5,385** | **$ 115,296** |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | |
| Balance as at December 31, 2011 | **$ -** | **$ 3,129** | **$ 2,429** | **$ 18,943** | **$ 4,618** | **$ 2,120** | **$ -** | **$ 31,239** |
| Depreciation expense | **-** | **25** | **432** | **2,292** | **302** | **129** | **-** | **3,180** |
| Disposal of assets | **-** | **(1,215)** | **(334)** | **(204)** | **(61)** | **(26)** | **-** | **(1,840)** |
| Balance at March 31, 2012 | **$ -** | **$ 1,939** | **$ 2,527** | **$ 21,031** | **$ 4,859** | **$ 2,223** | **$ -** | **$ 32,579** |
| **Carrying amounts** | | | | | | | | |
| **at December 31, 2011** | **$ 1,165** | **$ 1,706** | **$ 5,872** | **$ 65,638** | **$ 1,860** | **$ 2,054** | **$ 4,231** | **$ 82,526** |
| **at March 31, 2012** | **$ 301** | **$ 1,681** | **$ 5,504** | **$ 66,027** | **$ 1,850** | **$ 1,969** | **$ 5,385** | **$ 82,717** |

| 2011 | Land and Improvements | Buildings and Improvements | Leasehold Improvements | Construction and Automotive Equipment | Computer Hardware | Office Furniture and Equipment | Assets under Construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as at December 31, 2010 | $ 1,372 | $ 5,067 | $ 8,785 | $ 74,620 | $ 8,106 | $ 4,265 | $ - | $ 102,215 |
| Additions, including finance leases | - | - | 2,823 | 23,282 | 979 | 812 | 4,231 | 32,127 |
| Disposal | - | (123) | (674) | (2,518) | (591) | (222) | - | (4,128) |
| Acquisition (Note 4) | - | (11) | (2,144) | (10,803) | (2,016) | (673) | - | (15,647) |
| Assets held-for-sale | (207) | (98) | (489) | - | - | (8) | - | (802) |
| Balance at December 31, 2011 | $ 1,165 | $ 4,835 | $ 8,301 | $ 84,581 | $ 6,478 | $ 4,174 | $ 4,231 | $ 113,765 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | |
| Balance as at December 31, 2010 | $ - | $ 2,966 | $ 4,140 | $ 24,140 | $ 5,973 | $ 2,513 | $ - | $ 39,732 |
| Depreciation expense | - | 174 | 1,334 | 7,710 | 1,252 | 553 | - | 11,023 |
| Disposal of assets | - | - | (667) | (1,702) | (591) | (120) | - | (3,080) |
| Balance at December 31, 2011 | $ - | $ 3,129 | $ 2,429 | $ 18,943 | $ 4,618 | $ 2,120 | $ - | $ 31,239 |
| **Carrying amounts** | | | | | | | | |
| **at December 31, 2010** | $ 1,372 | $ 2,101 | $ 4,645 | $ 50,480 | $ 2,133 | $ 1,752 | $ - | $ 62,483 |
| **at December 31, 2011** | $ 1,165 | $ 1,706 | $ 5,872 | $ 65,638 | $ 1,860 | $ 2,054 | $ 4,231 | $ 82,526 |

*(in thousands of Canadian dollars, except share and per share amounts)*

## 19. PROPERTY AND EQUIPMENT (continued)

Included in construction and automotive equipment is $3,271 (December 31, 2011 - $7,241) of assets relating to finance leases and $630 (December 31, 2011 - $1,046) of accumulated depreciation, for a net carrying value of $2,640 (December 31, 2011 - $6,195).

Included in office furniture and equipment is $61 (December 31, 2011 - $61) of assets relating to finance leases and $34 (December 31, 2011 - $31) of accumulated depreciation, for a net carrying value of $37 (December 31, 2011 - $30).

Included in leasehold improvements is $285 (December 31, 2011 - $285) of assets relating to finance leases and $119 (December 31, 2011 - $73) of accumulated depreciation, for a net carrying value of $166 (December 31, 2011 - $212).

Assets with a carrying value of $2,843 (December 31, 2011 - $6,437) are pledged as security for the finance lease obligations disclosed in Note 24(c).

## 20. GOODWILL

Goodwill arose on the acquisition of McCaine in 2011, Dominion, Canem and Broda in 2010, and Laird in 2003.

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| SODCL | **$ 114,078** | $ 114,078 |
| Laird | **7,315** | 7,315 |
| Broda | **11,840** | 11,840 |
| Canem | **101,023** | 101,023 |
| | **$ 234,256** | $ 234,256 |

## 21. INTANGIBLE ASSETS

Intangible assets relate to the design and implementation of the Corporation's computer systems (ERP assets), computer software and the assets acquired as part of previous acquisitions (Note 4). The backlog and agency intangibles are amortized based on management's expectation of when the related revenues will be earned.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 21. INTANGIBLE ASSETS (continued)

| **2012** | **ERP assets** | **Backlog and Agency Contracts** | **Customer Relationships and Tradename** | **Computer Software** | **Total** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, December 31, 2011 | **$ 20,342** | **$ 20,600** | **$ 54,410** | **$ 3,605** | **$ 98,957** |
| Additions - externally acquired | **1,561** | **-** | **-** | **180** | **1,741** |
| Balance, March 31, 2012 | **21,903** | **20,600** | **54,410** | **3,785** | **100,698** |
| **Accumulated amortization** | | | | | |
| Balance, December 31, 2011 | **$ 1,249** | **$ 14,252** | **$ 8,074** | **$ 3,286** | **$ 26,861** |
| Amortization expense | **374** | **1,707** | **1,365** | **105** | **3,551** |
| Balance, March 31, 2012 | **1,623** | **15,959** | **9,439** | **3,391** | **30,412** |
| Carrying amounts, December 31, 2011 | **$ 19,093** | **$ 6,348** | **$ 46,336** | **$ 319** | **$ 72,096** |
| Carrying amounts, March 31, 2012 | **$ 20,280** | **$ 4,641** | **$ 44,971** | **$ 394** | **$ 70,286** |

| **2011** | ERP assets | Backlog and Agency Contracts | Customer Relationships and Tradename | Computer Software | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, December 31, 2010 | $ 11,914 | $ 19,200 | $ 50,510 | $ 3,144 | $ 84,768 |
| Additions - externally acquired | 8,428 | - | - | 461 | 8,889 |
| Acquisition (Note 4) | - | 1,400 | 3,900 | - | 5,300 |
| Balance, December 31, 2011 | 20,342 | 20,600 | 54,410 | 3,605 | 98,957 |
| **Accumulated amortization** | | | | | |
| Balance, December 31, 2010 | $ 36 | $ 5,908 | $ 2,731 | $ 2,290 | $ 10,965 |
| Amortization expense | 1,213 | 8,344 | 5,343 | 996 | 15,896 |
| Balance, December 31, 2011 | 1,249 | 14,252 | 8,074 | 3,286 | 26,861 |
| Carrying amounts, December 31, 2010 | $ 11,878 | $ 13,292 | $ 47,779 | $ 854 | $ 73,803 |
| Carrying amounts, December 31, 2011 | $ 19,093 | $ 6,348 | $ 46,336 | $ 319 | $ 72,096 |

## 22. TRADE AND OTHER PAYABLES

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Trade payables | **$ 135,481** | $ 158,214 |
| Holdbacks and accrued liabilities | **101,069** | 111,709 |
| Short-term employee benefits | **17,132** | 11,111 |
| Due to related parties | **42** | 7 |
| Other | **2,592** | 2,816 |
| | **$ 256,316** | $ 283,857 |

The Corporation’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 29 - Financial Instruments.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 23. PROVISIONS

Provisions are recognized when the Corporation has a settlement amount as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate of the obligation can be made. Reversal of provisions are made when new information arises in the period.

| | Warranties | Restructuring costs | Claims and disputes | Subcontractor default | Acquisition purchase price payment (Note 4) | Total |
|---|---|---|---|---|---|---|
| Balance as December 31, 2010 | $ 5,485 | $ 4,386 | $ 3,005 | $ 3,600 | $ - | $ 16,476 |
| Provisions made during the period | 5,206 | 906 | 550 | 2,077 | 1,209 | 9,948 |
| Provisions used during the period | (420) | (1,903) | (14) | (1,216) | (685) | (4,238) |
| Provisions reversed in the period | (4,448) | (1,787) | (580) | (2,000) | (202) | (9,017) |
| Balance at December 31, 2011 | $ 5,823 | $ 1,602 | $ 2,961 | $ 2,461 | $ 322 | $ 13,169 |
| | | | | | | |
| Balance at December 31, 2011 | $ 5,823 | $ 1,602 | $ 2,961 | $ 2,461 | $ 322 | $ 13,169 |
| Provisions made during the period | 833 | - | 712 | 724 | - | 2,269 |
| Provisions used during the period | (139) | (566) | (668) | (55) | - | (1,428) |
| Provisions reversed in the period | (2,174) | - | (94) | - | - | (2,268) |
| **Balance at March 31, 2012** | **$ 4,343** | **$ 1,036** | **$ 2,911** | **$ 3,130** | **$ 322** | **$ 11,742** |

The provisions are presented on the statements of financial position as follows:

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Current portion of long-term provisions | **$ 6,693** | $ 7,294 |
| Long-term provisions | **5,049** | 5,875 |
| Total provisions | **$ 11,742** | $ 13,169 |

The following table represents the expected outflow of resources by category:

| **Expected outflow of resources** | Warranties | Restructuring costs | Claims and disputes | Subcontractor default | Acquisition purchase price payment (Note 4) | Total |
|---|---|---|---|---|---|---|
| 2012 | $ 4,213 | $ 571 | $ 1,079 | $ 830 | $ - | $ 6,693 |
| 2013 | 130 | 112 | 1,130 | - | 322 | 1,694 |
| 2014 | - | 115 | 702 | - | - | 817 |
| 2015 | - | 124 | - | - | - | 124 |
| 2016 | - | 114 | - | - | - | 114 |
| Thereafter | - | - | - | 2,300 | - | 2,300 |
| | $ 4,343 | $ 1,036 | $ 2,911 | $ 3,130 | $ 322 | $ 11,742 |

***(in thousands of Canadian dollars, except share and per share amounts)***

## 24. LONG-TERM DEBT

| | | **March 31, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| **Current portion of long-term debt** | | | | |
| Finance contracts (b) | **$** | **549** | $ | 598 |
| Finance lease obligations (c) | | **589** | | 805 |
| | **$** | **1,138** | $ | 1,403 |
| **Non-current** | | | | |
| Revolving credit facility (a) | **$** | **64,850** | $ | 59,628 |
| Finance contracts (b) | | **7** | | 10 |
| Finance lease obligations (c) | | **674** | | 795 |
| | **$** | **65,531** | $ | 60,433 |

### (a) Revolving credit facility

The terms and conditions of the revolving credit facility remain unchanged from those disclosed in the audited financial statements as at December 31, 2011. There were no changes to the credit facility during the quarter ended March 31, 2012.

The revolving credit facility includes a swingline loan of $10,000 that entitles the Corporation to enter into an overdraft position. This drawdown must be repaid within seven days of the drawdown date and is therefore classified as current. At March 31, 2012, there was no drawdown on the swingline.

Total finance costs on the revolving credit facility for the period ended March 31, 2012 is $949 (March 31, 2011 – $806). These finance costs represent the interest paid on the debt and amortization of the deferred financing charges of $223 for the period ended March 31, 2012 (March 31, 2011 – $311) (Note 9).

### (b) Finance contracts

Finance contracts relate to construction and automotive equipment and mature between April 2012 and September 2013 and bear interest at rates between 0.0% and 6.25%, with a weighted average effective interest rate on the contracts of 5.83% per annum (December 31, 2011 – 5.83%). Finance contracts are secured by various construction and automotive equipment with a carrying value of $3,759 (December 31, 2011 - $5,528).

### (c) Finance lease obligations

Finance leases relate to construction, automotive, and office equipment and mature between April 2012 and December 2015 and bear interest at rates between 0.0% and 10%, with a weighted average effective interest rate on the contracts of 5.83% per annum (December 31, 2011 – 5.66%). The Corporation has the option to purchase the equipment under lease at the conclusion of the lease agreements. Finance lease obligations are secured by construction, automotive, and office equipment with a net book value of $2,834 (December 31, 2011 - $6,437) and the lessors' title to the leased asset (Note 19).

***(in thousands of Canadian dollars, except share and per share amounts)***

## 24. LONG-TERM DEBT (continued)

### (c) Finance lease obligations (continued)

Principal payments for finance contracts and finance lease obligations are due as follows:

| | | |
|---|---|---|
| Not later than one year | $ | **1,138** |
| More than 1 year but not later than 5 years | | **681** |
| | $ | **1,819** |

## 25. CONVERTIBLE DEBENTURES

There were no changes to the terms and conditions of the convertible debentures during the quarter ended March 31, 2012.

| | | **March 31, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| Principal amount - debt component | **$** | **76,691** | $ | 74,454 |
| Accretion on convertible debentures (Note 9) | | **449** | | 1,724 |
| Amortization of deferred financing fees (Note 9) | | **135** | | 513 |
| Balance at the end of the period | **$** | **77,275** | $ | 76,691 |

| | | **March 31, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| Principal amount - equity component | **$** | **7,100** | $ | 7,100 |
| Financing fees | | **-** | | - |
| Balance at the end of the period | **$** | **7,100** | $ | 7,100 |

## 26. SHARE CAPITAL AND PREFERRED SHARE RESERVE

### Common shares and preferred shares

The Corporation's common shares have no par value and the authorized share capital is comprised of an unlimited number of common shares and an unlimited number of preferred shares issuable in series with rights set by the directors.

| | **March 31, 2012** | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | **Shares** | **Share Capital** | | Shares | Share Capital | |
| **Common Shares** | | | | | | |
| Issued, beginning of period | **24,300,019** | **$** | **124,290** | 24,133,727 | $ | 120,757 |
| Dividend reinvestment plan | **67,807** | | **717** | 92,718 | | 1,293 |
| Repurchased in the period | **(35,000)** | | **(179)** | (53,400) | | (274) |
| Issued in the period | **-** | | **-** | 126,974 | | 2,514 |
| Issued, end of period | **24,332,826** | **$** | **124,828** | 24,300,019 | $ | 124,290 |

*(in thousands of Canadian dollars, except share and per share amounts)*

## 26. SHARE CAPITAL AND PREFERRED SHARE RESERVE (continued)

### (a) Common shares and dividends

The holders of common shares are entitled to receive dividends if, as and when declared by the Directors of the Corporation, entitled to receive notice of, to attend and to one vote per share at all meetings of the shareholders of the Corporation, and are entitled to share equally in the remaining property of the Corporation upon liquidation, dissolution or wind-up of the Corporation.

On May 25, 2011, Churchill announced that it was implementing a dividend policy. The Corporation declared its fourth quarterly dividend of $0.12 per share, payable on April 17, 2012 to shareholders of record on March 30, 2012.

In conjunction with the dividend policy, the Corporation implemented a Dividend Reinvestment Plan ("DRIP"). The DRIP allows eligible shareholders to direct that cash dividends payable on their common shares of the Corporation be reinvested in additional common shares which, when issued from treasury, will be issued at 95% of the weighted average market price of all common shares traded on the Toronto Stock Exchange on the ten trading days preceding the dividend payment date. Deferred share unit ("DSU") holders' accounts are adjusted for the Corporation's declared dividends, which are credited to the holders' DSU accounts.

As at March 31, 2012, trade and other payables includes $2,920 (December 31, 2011 - $2,923) related to the declared but as yet unpaid dividend, of which $608 (December 31, 2011 - $717) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

| | **March 31, 2012** | | **December 31, 2011** | |
|---|---|---|---|---|
| | **Per Share** | **Total** | Per Share | Total |
| Dividend payable, beginning of period | **$ 0.12** | **$ 2,923** | $ - | $ - |
| Total dividends declared during the period | **0.12** | **2,920** | 0.36 | 8,749 |
| Total dividends paid during the period [1] | **(0.12)** | **(2,923)** | (0.24) | (5,826) |
| Dividend payable, end of period | **$ 0.12** | **$ 2,920** | $ 0.12 | $ 2,923 |

[1] Includes DRIP non-cash payments totaling $717 (December 31, 2011 - $1,293) which are recorded through share capital.

The Corporation amended and restated its shareholder rights plan in May 2010. The plan grants shareholders, other than the acquiring person, the right to purchase from the Corporation three times the market price of shares for one times the market price of consideration. Such rights can only be exercised on the occurrence of a triggering event, which is defined as a person acquiring, or publicly announcing their intention to acquire 20% or more of the common shares, other than by an acquisition pursuant to a takeover bid permitted by the plan.

## 26. SHARE CAPITAL AND PREFERRED SHARE RESERVE (continued)

### (b) Preferred share reserve

No preferred shares are currently issued. Preferred shares may be issued from time to time in one or more series with the designation, rights, privileges, restrictions and conditions to be attached to that series of preferred shares, including the rate or amount of any dividends, the method of calculating the dividends, the dates of payment of dividends, the redemption, purchase and conversion prices and terms and conditions of redemption, purchase and/or conversion, and any sinking fund or other provisions.

The preferred shares of each series are entitled to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, rank on parity with the preferred shares of every other series and are entitled to preference over the common shares and over other shares of the Corporation ranking junior to the preferred shares.

If any cumulative dividends or amounts payable on the return of capital in respect of a series of preferred shares are not paid in full, all series of preferred shares shall participate ratably in respect of accumulated dividends and return of capital.

Unless otherwise determined by the directors in the articles of amendment designating a series of preferred shares, the holder of each share of a series of preferred shares shall not be entitled to receive notice of or vote at any meeting of shareholders.

The preferred share reserve included in the statements of changes in equity arose in 1997 when the Corporation acquired and cancelled all of its issued Series A first and second preferred shares. Accumulated dividend entitlements were eliminated by the cancellation of the shares.

### (c) Normal course issuer bid

On November 25, 2011, the Corporation received the approval of the Toronto Stock Exchange to purchase common shares under a normal course issuer bid (“NCIB”). The Corporation is entitled to purchase, for cancellation, up to 1,217,671 common shares under the NCIB which commenced on November 30, 2011 and continues until the earlier of November 29, 2012 or the date by which the Corporation has acquired the maximum number of common shares which may be purchased under the NCIB.

During the period ended March 31, 2012, 35,000 (December 31, 2011 – 53,400) common shares were purchased under the Corporation’s NCIB for a total of $380 (December 31, 2011 – $585) or $10.84 per share (December 31, 2011 - $10.96 per share).

Of the common shares repurchased during the period, 35,000 were cancelled resulting in the average carrying value of $179 being allocated as a reduction in equity and $201 representing the consideration in excess of the assigned value being charged to retained earnings during the period. These shares have been excluded from the calculation of the weighted average common shares outstanding for the period ended March 31, 2012.

## 27. SHARE-BASED PAYMENTS

### (a) Description of share-based payment arrangements

As at March 31, 2012, the Corporation has the following share-based payment arrangements:

(i) Stock options

The Corporation amended its stock option plan in March 2010 to permit unexercised vested options to be surrendered in exchange for the fair market value of common shares less the option exercise price, or the net settlement. The net settlement value reduced by estimated income taxes required to be withheld can be paid out in either common shares or cash and is at the sole discretion of the Board of Directors. There is no accounting impact of this amendment on prior periods. Options issued under the plan for employees vest one-third each on the anniversary of the award date in each of the subsequent three years. All stock options awarded to date must be exercised over specified periods not to exceed five years from the date granted.

(ii) Performance share units ("PSUs")

PSUs are phantom shares that provide eligible participants with an equivalent cash value of common shares. Each grant has a cliff vesting of three years, subject to certain performance criteria. The Corporation has set the PSU performance criteria as comparative Total Shareholder Return ("TSR") relative to a competitive peer group. When each grant vests at three years, payout can be between 0% and 150% of the vested units, depending on the Corporation's relative positioning with respect to TSR at the end of the three year period. Each grant of PSUs is evaluated regularly with regard to vesting and payout assumptions.

The Corporation will settle the PSUs in cash within 90 days after actual results are determined and reported. The original cost of the PSU is equal to the fair market value at the date of grant. Changes in the amount of the liability due to fair value changes after the initial grant date at each reporting period are recognized as a compensation expense of the period in which the changes occur.

(iii) Deferred share units

The Corporation has a DSU plan under which plan participants may invest up to 25% of their annual remuneration (employees and non-employee Directors), retainer and meeting fees (non-employee Directors), or the Corporation's cash bonus plan (employees). DSUs are phantom shares which provide the holder with the right to receive a cash payment equal to the value of a common share. DSUs are cash settled only when an employee or Director ceases to be an employee or Director. The terms of the plan allow for discretionary grants by the Board of Directors. Discretionary grants vest immediately. As DSUs are awarded, a liability is established and compensation expense is recognized in earnings upon grant. Changes in the amount of the liability due to fair value changes after the initial grant date are recognized as a compensation expense in the period in which the changes occur. DSUs are also adjusted for corporate dividends as they are paid.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 27. SHARE-BASED PAYMENTS (continued)

### (b) Terms and conditions for share-based payment arrangements

The terms and conditions relating to the grants of the share option program are as follows:

| Option series | | Options Outstanding | Expiry Date | Exercise Price | Fair Value At Grant Date | Options Exercisable |
|---|---|---|---|---|---|---|
| (1) | Issued on October 3, 2007 | 37,000 | 03-Oct-12 | 18.26 | 6.06 | 37,000 |
| (2) | Issued on March 17, 2008 | 85,828 | 17-Mar-13 | 16.05 | 6.26 | 85,828 |
| (3) | Issued on August 14, 2008 | 56,845 | 14-Aug-13 | 16.50 | 6.53 | 56,845 |
| (4) | Issued on November 19, 2008 | 89,496 | 19-Nov-13 | 6.43 | 2.89 | 71,597 |
| (5) | Issued on January 4, 2009 | 233,334 | 04-Jan-14 | 7.29 | 3.44 | 233,334 |
| (6) | Issued on March 24, 2009 | 90,472 | 24-Mar-14 | 8.08 | 3.89 | 90,472 |
| (7) | Issued on August 21, 2009 | 292,416 | 24-Mar-14 | 13.15 | 6.50 | 159,749 |
| (8) | Issued on July 9, 2009 | 1,978 | 09-Jul-14 | 10.68 | 5.21 | 1,319 |
| (9) | Issued on March 22, 2010 | 152,447 | 22-Mar-15 | 19.63 | 7.62 | 100,905 |
| (10) | Issued on July 20, 2010 | 65,000 | 20-Jul-15 | 18.34 | 8.96 | 21,667 |
| (11) | Issued on December 10, 2010 | 15,000 | 10-Dec-15 | 17.60 | 8.12 | 5,000 |
| (12) | Issued on January 10, 2011 | 2,353 | 10-Jan-16 | 17.78 | 8.50 | 784 |
| (13) | Issued on March 22, 2011 | 364,038 | 22-Mar-16 | 19.32 | 7.59 | 121,346 |
| (14) | Issued on August 29, 2011 | 10,000 | 29-Aug-16 | 13.98 | 5.37 | - |
| (15) | Issued on September 12, 2011 | 9,000 | 12-Sep-16 | 14.32 | 5.47 | - |
| (16) | Issued on December 13, 2011 | 30,000 | 13-Dec-16 | 10.46 | 3.63 | - |
| (17) | Issued on March 19, 2012 | 514,421 | 19-Mar-17 | 15.48 | 5.03 | - |
| As at March 31, 2012 | | 2,049,628 | | | | 985,846 |

The terms and conditions relating to the grants of the PSUs are as follows:

| PSUs | | Performance Units Outstanding | Vesting Date | Fair Value At Grant Date |
|---|---|---|---|---|
| (1) | Issued March 22, 2010 | 60,372 | 22-Mar-13 | 19.63 |
| (2) | Issued July 20, 2010 | 10,800 | 20-Jul-13 | 18.34 |
| (3) | Issued March 22, 2011 | 90,790 | 22-Mar-14 | 19.32 |
| (4) | Issued March 19, 2012 | 194,210 | 19-Mar-15 | 15.48 |
| As at March 31, 2012 (1) | | 356,172 | | |

(1) Of the PSU's outstanding, none of them were vested as of March 31, 2012.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 27. SHARE-BASED PAYMENTS (continued)

### (c) Share options

*Movement during the periods*

| | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of Share Options** | **Weighted Average Exercise Price** | Number of Share Options | Weighted Average Exercise Price |
| Outstanding, beginning of the period | **1,542,783** | **$ 14.34** | 1,131,172 | $ 12.81 |
| Granted | **514,421** | **15.48** | 424,011 | 18.45 |
| Forfeited | **(7,576)** | **19.40** | (8,657) | 18.41 |
| Surrendered | **-** | **-** | (3,743) | 8.50 |
| Outstanding, end of period | **2,049,628** | **$ 14.60** | 1,542,783 | $ 14.34 |

The options outstanding at March 31, 2012 have an exercise price in the range of $6.43 to $19.63 (March 31, 2011 - $6.43 to $19.63) and a weighted average contractual life of 5 years (March 31, 2011 - 5 years).

*Inputs for measurement of grant date fair value*

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The amounts computed, using the Black-Scholes model, may not be indicative of the actual values realized upon the exercise of these options by the holders. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

| **Option Series** | **Weighted average share price** | **Exercise price** | **Expected volatility** | **Option life** | **Dividend yield** | **Risk-free interest rate** | **Forfeiture rate** |
|---|---|---|---|---|---|---|---|
| Issued on January 10, 2011 | 17.78 | 17.78 | 60.91% | 5 | 0.0% | 2.22% | 6% |
| Issued on March 22, 2011 | 19.32 | 19.32 | 47.58% | 5 | 0.0% | 2.29% | 6% |
| Issued on August 29, 2011 | 13.98 | 13.98 | 57.84% | 5 | 2.4% | 1.45% | 6% |
| Issued on September 12, 2011 | 14.32 | 14.32 | 57.95% | 5 | 2.4% | 1.20% | 6% |
| Issued on December 13, 2011 | 10.46 | 10.46 | 52.20% | 5 | 2.4% | 1.10% | 6% |
| Issued on March 19, 2012 | 15.48 | 15.48 | 50.32% | 5 | 3.0% | 1.50% | 4.9% |

Compensation costs are recognized over the vesting period as share-based compensation expense and an increase to the share-based payment reserve. When options are exercised, the fair value amount in the share-based payment reserve is credited to share capital. The following table illustrates the movement to the share-based payment reserve:

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Balance, beginning of the period | **$ 7,636** | $ 4,860 |
| Share-based compensation expense | **530** | 2,818 |
| Share options surrendered | **-** | (42) |
| Balance, end of period | **$ 8,166** | $ 7,636 |

*(in thousands of Canadian dollars, except share and per share amounts)*

## 27. SHARE-BASED PAYMENTS (continued)

### (d) Performance share units

*Movement during the periods*

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| | **Number of Performance Share Units** | Number of Performance Share Units |
| Outstanding, beginning of the period | **340,055** | 291,291 |
| Granted | **194,210** | 94,177 |
| Forfeited | **(2,967)** | (1,805) |
| Vested and paid | **(175,126)** | (43,608) |
| Outstanding, end of period | **356,172** | 340,055 |

### (e) Deferred share units

*Movement during the periods*

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| | **Number of Deferred Share Units** | Number of Deferred Share Units |
| Outstanding, beginning of the period | **165,434** | 97,283 |
| Granted | **18,253** | 68,151 |
| Outstanding, end of period | **183,687** | 165,434 |

### (f) Share-based payment liability

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Carrying amount of liabilities for cash-settled arrangements | | |
| - current portion | **$ 618** | $ 1,881 |
| - long-term portion | **3,971** | 2,061 |
| Total carrying amount | **$ 4,589** | $ 3,942 |
| | | |
| Total intrinsic value of liability for vested benefits | **$ 2,815** | $ 1,753 |

The PSUs issued in 2009 vested on March 15, 2012 and were paid to unit holders at a payout ratio of 109%, totaling $2,958. Included in trade and other payables in the consolidated statements of financial position is the current portion of the PSUs to be paid out within the next twelve months. The long-term portion of PSUs and DSUs of $3,971 at March 31, 2012 (December 31, 2011 - $2,061) is classified as share-based payments. The total intrinsic value reflects all of the DSUs outstanding, as none of the PSUs have vested.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 27. SHARE-BASED PAYMENTS (continued)

### (g) Share-based compensation expense

| | | March 31, 2012 | | March 31, 2011 |
|---|---|---|---|---|
| Share-based compensation expense on share options | **$** | **530** | $ | 533 |
| Effects of changes in fair value and grants for PSUs | | **2,052** | | 934 |
| Effects of changes in fair value and grants for DSUs | | **703** | | 314 |
| | **$** | **3,285** | $ | 1,781 |

## 28. CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATING TO OPERATIONS

| | | March 31, 2012 | | March 31, 2011 |
|---|---|---|---|---|
| Trade and other receivables | **$** | **20,445** | $ | 12,398 |
| Inventory | | **(512)** | | (1,948) |
| Prepaid expenses | | **264** | | (743) |
| Costs in excess of billings | | **(17,100)** | | (6,265) |
| Trade and other payables | | **(27,541)** | | 2,107 |
| Contract advances and unearned income | | **(15,597)** | | (13,149) |
| | **$** | **(40,041)** | $ | (7,600) |

## 29. FINANCIAL INSTRUMENTS

### (a) Carrying values

| | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| *Financial assets:* | | | | |
| Cash and cash equivalents | **$** | **28,596** | $ | 59,445 |
| Trade and other receivables | | **325,327** | | 345,772 |
| Service provider deposit | | **6,650** | | 6,066 |
| Long-term receivable | | **200** | | 300 |
| | | | | |
| *Financial liabilities:* | | | | |
| Trade and other payables | **$** | **256,316** | $ | 283,857 |
| Long-term debt including current portion | | **66,669** | | 61,836 |
| Convertible debentures - debt component | | **77,275** | | 76,691 |

### (b) Fair values

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as trade and other payables, short-term borrowings and any other amounts that will result in future cash outlays.

## 29. FINANCIAL INSTRUMENTS (continued)

### (b) Fair values (continued)

The Corporation has determined that the fair value of its financial assets, including cash and cash equivalents, trade and other receivables, service provider deposit and long-term receivable and financial liabilities, including the trade and other payables, approximates their respective carrying amounts as at the statement of financial position dates, because of the short-term maturity of those instruments. The fair values of the Corporation's interest-bearing financial liabilities, including the revolving credit facility, finance leases and finance contracts, also approximates their respective carrying amounts due to the floating rate nature of the debt.

The fair value of the liability component of the convertible debentures is $81,458 at March 31, 2012, which is based on an average market yield rate of 8% determined from marketable debentures traded with similar terms.

The fair value of the fuel derivative instrument asset was $491 at March 31, 2012 (December 31, 2011 – $21), which is calculated using common pricing methodology for instruments of this type that reference current and future pricing information obtained from market sources. Changes in the value of the fuel derivative instrument and is recorded within prepaid expenses in the statements of financial position and other income in the statements of earnings and comprehensive income.

*Fair value hierarchy*

The Corporation values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Corporation exercises Level 2 valuations for its fair value determination of the derivative instruments and the liability portion of its convertible debentures.

### (c) Financial risk management

The Corporation has exposure to credit, interest rate and liquidity risks. The Corporation is not exposed to any direct foreign currency risk. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework and reviews the corporate policies on an ongoing basis.

(i) Credit risk

The Corporation invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Corporation invests its cash and cash equivalents with counterparties that are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Corporation does not expect any counterparties holding these cash equivalents to fail to meet their obligations.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 29. FINANCIAL INSTRUMENTS (continued)

### (c) Financial risk management (continued)

(i) Credit risk (continued)

The Corporation assesses trade and other receivables for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation takes into consideration the customer's payment history, credit worthiness and the current economic environment in which the customer operates to assess impairment. Prior to accepting new customers, the Corporation assesses the customer's credit quality and establishes the customer's credit limit. The Corporation accounts for specific bad debt provisions when management considers that the expected recovery is less than the actual amount of the accounts receivable.

The provision for doubtful accounts has been included in administrative costs in the consolidated statements of earnings and comprehensive income and is net of any recoveries that were provided for in a prior period. The following table represents the movement in the allowance for doubtful accounts:

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Balance at beginning of the period | $ 1,993 | $ 3,685 |
| Impairment losses recognized on receivables | 119 | 143 |
| Amounts written off during the period as uncollectible | 374 | (319) |
| Amounts received during the period | (958) | (1,340) |
| Impairment losses reversed | - | (176) |
| Balance at the end of the period | $ 1,528 | $ 1,993 |

Trade receivables disclosed in Note 16 include the following amounts that are current and past due at the end of the reporting period. The Corporation does not hold any collateral over these balances and does not have a legal right of offset against any amounts owed by the Corporation to the counterparty. The terms and conditions established with individual customers establishes whether or not the receivable is past due.

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| 0-30 days | 151,019 | 173,958 |
| 31-90 days | 33,461 | 43,962 |
| 91-120 days | 7,888 | 6,665 |
| More than 120 days | 7,883 | 9,687 |
| | $ 200,251 | $ 234,272 |

In determining the quality of trade receivables, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Corporation had $14,243 of trade receivables which were greater than 90 days past due and not provided for at March 31, 2012 (December 31, 2011 - $14,359). Of the total, $3,278 (23%) was concentrated in two customer accounts, and of this amount, $3,278 remained outstanding as of May 8, 2012. The related customers are considered to be credit-worthy and there are presently no concerns regarding collectability of these accounts.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 29. FINANCIAL INSTRUMENTS (continued)

### (c) Financial risk management (continued)

(ii) Interest rate risk

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in the interest rates and the degree of volatility of these rates. The Corporation is exposed to interest rate risk on its revolving credit facility with payment terms as disclosed in Note 24. The Corporation does not use derivative instruments to reduce its exposure to this risk.

At the reporting date, the interest rate profile of the Corporation's interest-bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| | **March 31, 2012** | December 31, 2011 |
| *Fixed rate instruments* | | |
| Financial assets | **$ -** | $ - |
| Financial liabilities | **77,275** | 76,691 |
| *Variable rate instruments* | | |
| Financial assets | **$ 28,596** | $ 59,445 |
| Financial liabilities | **66,669** | 61,836 |

*Fixed rate sensitivity*

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

*Variable rate sensitivity*

A change of 100 basis points in interest rates at the reporting date would have increased or decreased equity and profit or loss by $206 (December 31, 2011 - $422) related to financial assets and by $480 (December 31, 2011 - $439) related to financial liabilities.

(iii) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages this risk through cash and debt management. In managing liquidity risk, the Corporation has access to committed short and long-term debt facilities as well as equity markets, the availability of which is dependent on market conditions. The Corporation believes it has sufficient funding through the use of these facilities to meet foreseeable financial liability obligations.

The following are the contractual obligations, including interest payments as at March 31, 2012, in respect of the financial obligation of the Corporation. Interest payments on the revolving credit facility have not been included in the table below since they are subject to variability based upon outstanding balances at various points throughout the year.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 29. FINANCIAL INSTRUMENTS (continued)

### (c) Financial risk management (continued)

(iii) Liquidity risk (continued)

| | **Carrying amount** | Contractual cash flows | 0 - 6 months | 6 - 12 months | 12 - 24 months | After 24 months |
|---|---|---|---|---|---|---|
| Trade and other payables | **$ 256,316** | $ 256,316 | $ 256,316 | $ - | $ - | $ - |
| Provisions including current portion | **11,742** | 11,742 | 3,347 | 3,347 | 1,694 | 3,355 |
| Convertible debentures | **77,275** | 104,363 | 2,588 | 2,587 | 5,175 | 94,013 |
| Long-term debt including current portion | **66,669** | 66,322 | 372 | 372 | 182 | 65,395 |
| Fuel derivative [(1)] | **491** | 4,668 | 4,282 | 386 | - | - |
| Lease commitments | **47,283** | 47,283 | 2,766 | 2,766 | 5,369 | 36,382 |
| | **$ 459,776** | $ 490,695 | $ 269,671 | $ 9,458 | $ 12,421 | $ 199,145 |

[(1)] The asset related to the fuel consumption derivative is not recorded until the related fuel is delivered.

(iv) Fuel price risk management

The Corporation is exposed to the risk of volatile diesel fuel prices on large projects. To mitigate the risk of sudden and substantial movements in fuel prices causing volatility in project margins and profitability, the Corporation may enter into derivative instrument contracts.

On August 8, 2011, the Corporation entered into heating oil financial derivative contracts to help manage the volatility of diesel fuel costs for a multi-year project where significant consumption of diesel fuel is required. The contracts require the Corporation to pay fixed prices between $0.7563 per litre and $0.7727 per litre and receive the floating market price at each settlement date from the counterparty on 6,105,000 litres of heating oil. The contracts expire between May 2012 and October 2012.

## 30. CAPITAL MANAGEMENT

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth and expansion strategy, and the payment of dividends, while taking a prudent approach towards financial leverage and management of financial risk.

The Corporation's capital is composed of equity and long-term indebtedness. The Corporation's primary uses of capital are to finance its growth strategies and capital expenditure programs.

The Corporation intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, raise debt or refinance existing debt with different characteristics.

The primary non-IFRS measures used by the Corporation to monitor its financial leverage are its ratios of long-term indebtedness to capitalization and long-term indebtedness to EBITDA. For the purposes of capital management, long-term indebtedness includes long-term debt and the debt component of convertible debentures, both net of deferred financing charges.

***(in thousands of Canadian dollars, except share and per share amounts)***

## 30. CAPITAL MANAGEMENT (continued)

Over the long-term, the Corporation strives to maintain a target long-term indebtedness to capitalization percentage in the range of 20 to 40 percent, calculated as follows:

| | | **March 31, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| Long-term indebtedness: | | | | |
| Long-term debt, excluding current portion net of deferred financing fees | **$** | **65,531** | $ | 60,433 |
| Convertible debentures - debt component net of deferred financing fees | | **77,275** | | 76,691 |
| Total long-term indebtedness | | **142,806** | | 137,124 |
| Total equity | | **308,543** | | 309,141 |
| Total capitalization | **$** | **451,349** | $ | 446,265 |
| Indebtedness to capitalization percentage | | **32%** | | 31% |

The Corporation targets a long-term indebtedness to EBITDA ratio of 1.5x to 3x over a three to five-year planning horizon. At March 31, 2012, the long-term indebtedness to EBITDA was 2.12x (March 31, 2011 – 1.78x) calculated on a trailing twelve-month basis as follows:

| | | **March 31, 2012** | | March 31, 2011 |
|---|---|---|---|---|
| Total long-term indebtedness | **$** | **142,806** | $ | 136,486 |
| Net earnings and comprehensive income | **$** | **20,214** | $ | 31,536 |
| Add: | | | | |
| Finance costs | | **12,666** | | 10,135 |
| Income tax expense | | **7,294** | | 14,842 |
| Depreciation and amortization | | **27,345** | | 20,208 |
| EBITDA | **$** | **67,519** | $ | 76,721 |
| Long-term indebtedness to EBITDA ratio | | **2.12x** | | 1.78x |

The Corporation also manages its capital through a rolling forecast of financial position and expected operating results. In addition, the Corporation establishes and reviews operating and capital budgets and cash flow forecasts in order to manage overall capital with respect to financial covenants. The Corporation's revolving credit facility is subject to the covenants described below. The Corporation was in full compliance with its credit facility covenants at March 31, 2012 and December 31, 2011.

- Working capital – Working capital represents total current assets less total current liabilities as classified on the consolidated statements of financial position.
- Interest coverage – Interest coverage represents the ratio of EBITDA to interest expense for the 12 months ending as at the end of the fiscal quarter. EBITDA represents earnings or loss before interest, income taxes, depreciation and amortization.
- Debt to EBITDA – Debt represents total indebtedness and total obligations of the Corporation and its subsidiaries, excluding convertible debentures.
- Senior debt to EBITDA – Senior debt represents all debt other than subordinated or unsecured debt.

*(in thousands of Canadian dollars, except share and per share amounts)*

## 31. PRINCIPAL SUBSIDIARIES

Details of the Corporation's principal operating subsidiaries at March 31, 2012, are as follows:

| Name of subsidiary | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held |
|---|---|---|---|
| Stuart Olson Construction Ltd. | Building construction | Alberta | 100% |
| Churchill Services Group Inc. | Corporate | Alberta | 100% |
| 411007 Alberta Ltd. | Corporate | Alberta | 100% |
| TCC Holdings Inc. | Corporate | Alberta | 100% |
| Broda Construction Inc. | Civil construction | Saskatchewan | 100% |
| Canem Holdings Ltd. | Electrical contracting | British Columbia | 100% |

## 32. RELATED PARTY TRANSACTIONS

Balances and transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

The Corporation incurred facility costs during the period ended March 31, 2012 of $166 (March 31, 2011- $141) related to the rental of two buildings, one of which is owned 50% by Schneider Investments Inc., a company owned by George Schneider, a director of the Corporation, and the other owned by Broda Holdings (2009) Inc., a company owned by the President of Broda. At March 31, 2012, $29 is included in trade payables (March 31, 2012 - $29).

## 33. OPERATING LEASE ARRANGEMENTS

The Corporation leases certain construction equipment, vehicles, office premises and equipment under operating leases. Future minimum lease payments over the next five years and thereafter are as follows:

Non-cancellable operating lease commitments:

| | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| Not later than 1 year | **$ 5,532** | $ 3,763 |
| Later than 1 year and not later than 5 years | **21,477** | 21,172 |
| Later than 5 years | **20,274** | 21,545 |
| | **$ 47,283** | $ 46,480 |

Payments recognized as expense:

| | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| Minimum lease payments | **$ 1,381** | $ 1,315 |
| Sub-lease payments received | **(127)** | (153) |
| | **$ 1,254** | $ 1,162 |

## 34. CONTINGENCIES, COMMITMENTS AND GUARANTEES

### (a) Contingencies

At March 31, 2012, the Corporation was involved in various legal claims arising in the normal course of operations. Management believes that it has adequately provided for these legal claims and that the results of these actions will not have any material effect on the financial position of the Corporation.

Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts as well as obligations of associates in certain joint ventures.

### (b) Commitments and guarantees

The Corporation has a $300 non-discretionary commitment to Southern Alberta Institute of Technology (“SAIT”) Polytechnic which is included in accrued liabilities at March 31, 2012.

The Corporation is a participant in joint ventures for which it has provided joint and several guarantees, increasing the maximum potential payment to the full value of the work remaining under the contract. The Corporation has issued several parental guarantees in support of significant projects being undertaken by the general contracting and industrial services segments.

Furthermore, there are various outstanding parental guarantees provided by the Corporation in respect of the obligations and performance of the Corporation’s operating segments.

### (c) Letters of credit

The Corporation has provided several letters of credit in the amount of $26,802 in connection with various projects and joint ventures (December 31, 2011 - $23,926). These letters of credit are issued utilizing the credit facilities of the Corporation and reduce the maximum availability under the revolving credit facility.

## 35. EVENTS AFTER THE REPORTING PERIOD

On May 8, 2012, the Corporation’s Board of Directors declared a common share dividend of $0.12 per share. The dividend is designated as an eligible dividend under the Income Tax Act (Canada) and is payable July 17, 2012 to shareholders of record on June 29, 2012. The ex-dividend date is June 27, 2012.