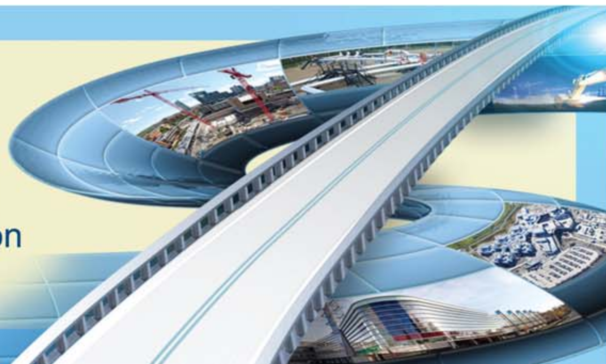
The road to higher value

the Churchill Corporation

Q3 **THIRD QUARTER INTERIM REPORT**
For the three and nine months ended September 30, 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 and nine months ended September 30, 2012, contains information current to November 4, 2012 and should be read in conjunction with the September 30, 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 stability, expansion or reduction in certain of the Corporation's operating companies, backlog execution 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., Canada and/or other countries;
- 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;
- Insufficient credit capacity;
- Inability to fund working capital;
- 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 September 30, 2012, had 3,741 employees (778 salaried employees and 2,963 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 November 4, 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 January 15, 2013 to shareholders of record on December 28, 2012. The ex-dividend date is December 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 payments 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.

Senior Management Changes

On July 31, 2012, Churchill announced the appointment of David LeMay to the position of President and Acting Chief Executive Officer, effective immediately. On August 9, 2012, Churchill announced the appointment of Doug Haughey to the position of Chief Executive Officer at which time Mr. Lemay was appointed President and Chief Operating Officer.

On October 10, 2012, Churchill announced that Don Pearson, President of Stuart Olson Dominion Construction Ltd. ("Stuart Olson Dominion"), would continue to serve as President rather than retiring as per the Corporation's June 8, 2012 press release.

The Corporation also confirmed that Ron Martineau, interim President of Churchill Services Group ("CSG") would remain in this role, until an appropriate successor is named.

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 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 types of customers, in that Stuart Olson Dominion'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, CSG began providing fully integrated industrial services, allowing the pursuit of larger projects and contracts. CSG has three divisions: Laird Electric Inc. ("Laird Electric"), Laird Constructors Inc. ("Laird Constructors") and Specialty Services (Fuller Austin Inc. and Northern Industrial Insulation Contractors Inc.). CSG and Broda Construction Inc. ("Broda") collectively form the Industrial Services segment. Churchill reports these companies collectively within the Industrial Services segment on the basis that they have similar economic characteristics and are similar in terms of services provided, production processes, customers, methods of service delivery and the regulatory environment in which they operate.

General Contracting

General Contracting consists of Stuart Olson Dominion. Following the acquisition of The Dominion Company Inc. ("Dominion") in July 2010, Stuart Olson Constructors Inc. and Dominion were operationally combined to form Stuart Olson Dominion. Headquartered in Calgary, Alberta, Stuart Olson Dominion 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. Stuart Olson Dominion has branch offices in Richmond, British Columbia; Calgary, Alberta; Edmonton, Alberta; Saskatoon, Saskatchewan; Regina, Saskatchewan; and Winnipeg, Manitoba.

Stuart Olson Dominion's preferred operating methodology is Integrated Project Delivery, which includes, at a minimum, tight collaboration between the owner, architect/engineers and the builder ultimately responsible for construction of the project from early design to project handover. As construction manager and a member of the project team, Stuart Olson Dominion has the opportunity to provide significant cost, schedule, and constructability input into the design. Integrated projects may take the form of Construction Management at Risk ("CM"); meaning Stuart Olson Dominion works in a consultative way on a cost-plus fee basis for the design phase of the project and converts the arrangement to a fixed price contract for the construction phase. This is a value-added form of project delivery which differentiates Stuart Olson Dominion from other general contractors who prefer to perform tendered (hard-bid) projects. The construction manager generally mitigates price and schedule risk by entering into fixed price contracts, with defined scope and timeline, with the subcontractors that it selects to build the project. Most of Stuart Olson Dominion's clients prefer this form of project delivery.

For the first nine months of 2012, Stuart Olson Dominion comprised 56% of Churchill's consolidated revenue (excluding intersegment eliminations), 13% of earnings before interest, taxes, depreciation and amortization ("EBITDA") (excluding the Corporate and Other segment and intersegment eliminations), and 65% of total backlog.

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. Churchill's acquisition of McCaine Electric Ltd. ("McCaine"), which closed on April 29, 2011, expanded Canem's Western Canadian footprint into Manitoba.

For the first nine months of 2012, Canem comprised 14% of Churchill's consolidated revenue (excluding intersegment eliminations), 29% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations), and 11% of total backlog.

Industrial Services

Industrial Services consists of CSG and Broda.

CSG has three divisions: Laird Electric, Laird Constructors and Specialty Services.

- 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 and power generation industries in Ontario, Manitoba and Saskatchewan.
- Specialty Services is headquartered in Edmonton, Alberta. It has two operating companies, Fuller Austin Inc. and Northern Industrial Insulation Contractors 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 nine months of 2012, Industrial Services comprised 30% of Churchill's consolidated revenue (excluding intersegment eliminations), 58% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations), and 24% of total backlog.

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 and internal audit. 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, which at September 30, 2012 includes agricultural lands located near Lamont, Alberta.

Selected Interim Financial Information

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

($millions, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Contract revenue	$ 303.2	$ 379.3	$ 932.2	$ 1,024.8
Contract income	27.7	40.5	89.2	112.8
EBITDA from continuing operations[(1)]	12.1	18.3	30.6	52.5
Net earnings from continuing operations	1.8	6.2	0.7	16.8
Net earnings (loss) from discontinued operations	-	(0.1)	0.1	0.9
Net earnings	1.8	6.1	0.8	17.7
Net earnings per common share from continuing operations				
- Basic	$ 0.07	$ 0.26	$ 0.03	$ 0.69
- Diluted	0.07	0.24	0.03	0.66
Net earnings per common share				
- Basic	0.07	0.26	0.03	0.73
- Diluted	0.07	0.24	0.03	0.69
Funds from operations[(1)]	$ 12.1	$ 18.8	$ 32.2	$ 55.0
Funds from operations per common shares - Basic[(1)]	$ 0.50	$ 0.77	$ 1.32	$ 2.27
			September 30, 2012	December 31, 2011
Backlog[(1)]			$ 1,731.0	$ 1,842.6
Working capital[(1)]			99.9	86.0
Long-term debt (excluding current portion)			68.5	60.4
Convertible debentures (excluding equity portion)			78.5	76.7
Total assets			850.6	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 revenue 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)	Three months ended September 30, 2012					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 303.2	$ 168.1	$ 45.7	$ 97.7	$ -	$ (8.3)
Contract income	27.7	6.7	6.5	13.4	-	1.0
Contract income margin	9.1%	4.0%	14.2%	13.8%	-	-
Administrative expenses	19.6	8.8	5.2	4.3	1.3	-
EBITDA[1]	12.1	(0.2)	1.5	11.1	(1.3)	1.0
EBITDA margin	4.0%	-0.1%	3.2%	11.3%	-	-
EBT[1]	2.5	(1.2)	0.8	9.1	(7.1)	0.9
Backlog[1]	$ 1,731.0	$ 1,119.2	$ 198.1	$ 413.8	$ -	$ -
	Three months ended September 30, 2011					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 379.3	$ 246.7	$ 49.5	$ 99.9	$ -	$ (16.9)
Contract income	40.5	15.6	10.3	14.3	-	0.2
Contract income margin	10.7%	6.3%	20.8%	14.3%	-	-
Administrative expenses	24.5	10.9	5.5	5.0	2.6	0.5
EBITDA[1]	18.3	5.8	5.0	10.4	(2.5)	(0.3)
EBITDA margin	4.8%	2.3%	10.0%	10.4%	-	-
EBT[1]	8.2	4.7	4.3	8.9	(9.4)	(0.4)
Backlog[1][2]	$ 1,842.6	$ 1,445.3	$ 133.3	$ 264.0	$ -	$ -

Notes: *(1) "EBT" is earnings (loss) 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 September 30, 2012, consolidated contract revenue was $303.2 million, compared to $379.3 million in the third quarter of 2011, a 20% decrease. The General Contracting segment's revenue decreased by $78.7 million or 32%, the Commercial Systems segment's revenue decreased by $3.8 million or 8%, and the Industrial Services segment revenue decreased by $2.2 million or 2%.

Contract income decreased from $40.5 million (10.7% of revenue) in the third quarter of 2011 to $27.7 million (9.1% of revenue) in the three months ended September 30, 2012. The $12.8 million decrease in contract income is made up of decreases in the General Contracting, Commercial Systems and Industrial Services operating segments of $8.9 million (57%), $3.8 million (37%) and $0.9 million (6%) respectively, partly offset by an increase in the intersegment elimination of $0.8 million.

Administrative expenses for the third quarter of 2012 amounted to $19.6 million (6.5% of revenue) compared to $24.5 million (6.5% of revenue) in the three months ended September 30, 2011. Administrative expenses decreased by $2.1 million (19%) in the General Contracting segment, $0.3 million (5%) in the Commercial Systems segment, and $0.7 million (14%) in the Industrial Services

segment. Administrative expenses decreased by $1.3 million (51%) in the Corporate and Other segment ($0.5 million decrease in the intersegment elimination).

The net impact of the aforementioned decrease in contract income and decrease in administrative expenses, as well as a $1.4 million net increase in finance and other income, was a $6.2 million decrease in third quarter EBITDA to $12.1 million versus $18.3 million in the three months ended September 30, 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 $3.6 million in the third quarter of 2012. The assets acquired relate to the acquisition of Dominion, Canem and Broda in 2010 and McCaine in 2011. The comparable charge in the third quarter of 2011 was $4.0 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 September 30, 2012 was $65.4 million (December 31, 2011 - $72.1 million). Refer to *Note 13* to the Condensed Consolidated Interim Financial Statements for additional information.

EBT for the third quarter of 2012 was $2.5 million compared to $8.2 million in the third quarter of 2011 (decrease of $5.7 million). This decline reflects the $6.2 million decrease in EBITDA described above partly offset by a $0.7 million reduction in depreciation expense. Income tax expense was $0.7 million in the third quarter of 2012 compared to $1.9 million in Q3 2011.

The Corporation's consolidated net earnings from continuing operations for the third quarter of 2012 was $1.8 million compared to net earnings from continuing operations of $6.2 million in the same period in 2011, a $4.4 million decrease. Net earnings for the third quarter of 2012 were $1.8 million, compared to net earnings of $6.1 million in the third quarter of 2011, including a net loss from discontinued operations of $0.1 million.

In the three months ended September 30, 2012, funds from operations of $10.8 million decreased by $8.0 million (73%) from $18.8 million in the third quarter of 2011. Funds from operations are discussed in the Capital Resources and Liquidity - Summary of Cash Flows section that follows.

($millions, except margin percent)	Nine months ended September 30, 2012					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 932.2	$ 539.6	$ 138.8	$ 287.3	$ -	$ (33.6)
Contract income	89.2	28.2	26.6	30.2	-	4.3
Contract income margin	9.6%	5.2%	19.2%	10.5%	-	-
Administrative expenses	69.3	28.5	17.5	15.0	8.5	(0.1)
EBITDA[1]	30.6	4.5	9.9	20.3	(8.4)	4.3
EBITDA margin	3.3%	0.8%	7.2%	7.0%	-	-
EBT[1]	1.3	1.5	8.1	14.5	(26.7)	3.9
Backlog[1]	$ 1,731.0	$ 1,119.2	$ 198.1	$ 413.8	$ -	$ -
	Nine months ended September 30, 2011					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 1,024.8	$ 670.4	$ 136.9	$ 257.3	$ -	$ (39.8)
Contract income	112.8	45.7	32.6	34.0	-	0.4
Contract income margin	11.0%	6.8%	23.8%	13.2%	-	-
Administrative expenses	66.9	26.5	16.9	14.8	9.1	(0.4)
EBITDA[1]	52.5	22.4	16.5	21.9	(9.0)	0.7
EBITDA margin	5.1%	3.3%	12.1%	8.5%	-	-
EBT[1]	23.3	19.6	15.0	18.1	(29.7)	0.4
Backlog[1][2]	$ 1,842.6	$ 1,445.3	$ 133.3	$ 264.0	$ -	$ -

Notes: *(1) "EBT" is earnings (loss) 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 nine months ended September 30, 2012, consolidated contract revenue was $932.2 million, compared to $1,024.8 million in the first nine months ended September 30, 2011, a 9% decrease. Contract income decreased from $112.8 million, or 11.0% of revenue, in the first nine months of 2011 to $89.2 million, or 9.6% of revenue, in the nine months ended September 30, 2012. Of the $23.6 million decrease in contract income, the General Contracting segment reported a decrease of $17.5 million, while the Commercial Systems and Industrial Services segments reported decreases of $6.1 million and $3.8 million, respectively (change in the intersegment elimination of $3.8 million). EBITDA in the first nine months of 2012 decreased by 42% compared to the first nine months of 2011 (first nine months of 2012 - $30.6 million, first nine months of 2011 - $52.5 million). EBT for the first nine months of 2012 was $1.3 million compared to $23.3 million in the first nine months of 2011. The Corporation's consolidated net earnings from continuing operations for the first nine months of 2012 was $0.7 million compared to net earnings from continuing operations of $16.8 million in the same period of 2011. Net earnings for the nine months ended September 30, 2012, was $0.8 million, compared to net earnings of $17.7 million in the first nine months of 2011, which included net earnings from discontinued operations of $0.9 million.

Churchill's backlog, including work-in-hand, at September 30, 2012 was $1,731.0 million, compared to a record $1,842.6 million at December 31, 2011, a $111.6 million or 6% decrease. The Corporation's backlog consists of work-in-hand of $931.2 million (December 31, 2011 – $901.1 million) and active backlog of $799.8 million (December 31, 2011 – $941.5 million). The backlog is made up of approximately 38% cost-plus arrangements, 38% CM projects, (combined total of 76% CM and cost-plus) and 24% tendered (hard bid) work. Tendered projects tend to carry the largest amount of price and schedule risk because the competitive tender process forces contractors to be the lowest bidder. CM projects tend to carry less price and schedule risk than tendered projects because the price and schedule setting process is collaborative, rather than competitive. Only under cost-plus contracts does the contractor not carry price and schedule risk. On a segmented basis, backlog at September 30, 2012 was $1,119.2 million in General Contracting (December 31, 2011 – $1,445.3 million), $198.1 million in

Commercial Systems (December 31, 2011 – $133.3 million) and $413.8 million in the Industrial Services segment (December 31, 2011 – $264.0 million). New contract awards and net increases in contract value of $336.7 million were added to work-in-hand in the third quarter of 2012.

Assets Held for Sale

Tables that set out the net assets held for sale are included in *Note 10* to the Condensed Consolidated Interim Financial Statements. These amounts are associated with agricultural lands located near Lamont, Alberta, which are no longer required by the Corporation.

Interim Results of Operations

General Contracting (Stuart Olson Dominion)

For the three months ended September 30, 2012, Stuart Olson Dominion's revenue was $168.1 million, compared to $246.7 million in the third quarter of 2011. This $78.6 million or 32% decrease is primarily attributable to being in the early stages of construction on several new projects, and delays in executing backlog, pushing revenue into 2013 on a number of projects.

Stuart Olson Dominion's contract income in the third quarter of 2012 decreased by $8.9 million (57%) to $6.7 million, from $15.6 million for the three months ended September 30, 2011. The 2012 third quarter contract income margin was 4.0% compared to 6.3% in the third quarter of 2011. The decline in contract income is primarily related to increases in the estimated costs to complete the Investors Group Field stadium project in Winnipeg, Manitoba. Construction delays in completing structural steel work resulted in modifications to project schedule and execution, causing additional costs to be incurred and the profitability of the project to be reassessed. Stuart Olson Dominion will be pursuing a claim against the structural steel subcontractor in an effort to recover these additional costs.

Remaining Dominion projects in backlog as of September 30, 2012, excluding Investors Group Field, were valued at $9.8 million, including $2.1 million of tendered projects.

Stuart Olson Dominion's administrative expenses were $8.8 million (5.2% of revenue) in the three months ended September 30, 2012 compared to $10.9 million (4.4% of revenue) in the third quarter of 2011. The $2.1 million (19%) decrease is primarily related to reduced staffing and compensation expenses.

EBITDA for Stuart Olson Dominion in the third quarter of 2012 was $(0.2) million compared to $5.8 million in the third quarter of 2011. This $6.0 million decrease was mainly due to the aforementioned decrease in revenues and contract income, partly offset by a $2.1 million decrease in administrative expenses and an increase in other income. The other income in the third quarter of 2012 related to the sale of assets held-for-sale.

For the nine months ended September 30, 2012, Stuart Olson Dominion's revenue was $539.6 million, compared to $670.4 million in the first nine months of 2011. Stuart Olson Dominion's contract income in the first nine months of 2012 decreased by $17.5 million, or 38%, to $28.2 million from $45.7 million for the first nine months of 2011. The contract income margin for the first nine months of 2012 was 5.2% compared to 6.8% in the first nine months of 2011. Administrative expenses were $28.5 million (5.3% of revenue) in the nine months ended September 30, 2012 as compared to $26.5 million (4.0% of revenue) for the third quarter of 2011. The year-over-year increase primarily related to tenant improvement expenses, training and recruiting costs, professional fees and costs related to the optimization of the company's SAP-based ERP system. EBITDA for Stuart Olson Dominion in the first nine months of 2012 was $4.5 million compared to $22.4 million in the same period of 2011.

Stuart Olson Dominion had backlog of $1,119.2 million as at September 30, 2012, compared to backlog of $1,445.3 million at December 31, 2011, a $326.1 million (23%) decrease. At September 30, 2012, approximately 41% of Stuart Olson Dominion's backlog was composed of CM assignments, 55% was cost-plus projects (combined total of 96% CM and cost-plus) and 4% were tendered projects. The September 30, 2012 backlog consisted of $527.0 million of work-in-hand and $592.2 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 third quarter of 2012 with $587.7 million of work-in-hand, contracted $107.3 million of additional work-in-hand during the quarter and executed $168.1 million of construction activity.

Commercial Systems (Canem)

The Commercial Systems segment's third quarter 2012 revenue was $45.7 million, compared to $49.5 million in the three months ended September 30, 2011, a $3.8 million (8%) decrease. The impact of project delays, which are pushing revenue into 2013, was partially offset by short-duration projects secured during the quarter.

Canem's contract income in the third quarter of 2012 decreased to $6.5 million, from $10.3 million in the third quarter of 2011. Canem's third quarter 2012 contract income margin was 14.2% compared to 20.8% in the third quarter of 2011. The reduced margin is attributable to the execution of generally lower margin projects and issues impacting the profitability on certain projects in Q3, 2012.

Canem's administration expenses were $5.2 million (11.4% of revenue) in the third quarter of 2012 compared to $5.5 million (11.1% of revenue) in the three months ended September 30, 2011.

EBITDA for Canem in the third quarter of 2012 was $1.5 million (a 3.2% EBITDA margin) compared to $5.0 million (a 10% EBITDA margin) for the third quarter of 2011. This $3.5 million (70%) decrease was due to the aforementioned decrease in contract income, partly offset by the reduction in administrative expense.

For the first nine months of 2012, Canem's revenue was $138.8 million, compared to $136.9 million in the first nine months of 2011. Canem's contract income for the first nine months of 2012 was $26.6 million or 19.2% of revenue, versus $32.6 million or 23.8% of revenue in the first nine months of 2011. Canem's administrative expenses were $17.5 million (12.6% of revenue) in the first nine months of 2012, whereas they were $16.9 million (12.3% of revenue) in the first nine months of 2011. Canem reported EBITDA for the first nine months of 2012 of $9.9 million or 7.2% of revenue, compared to $16.5 million or 12.1% of revenue in the first nine months of 2011.

Canem had total backlog of $198.1 million as at September 30, 2012, compared to total backlog of $133.3 million at December 31, 2011 (a $64.8 million or 49% increase), consisting of work-in-hand of $134.2 million and active backlog of $63.9 million. The increase results primarily from new projects brought into active backlog in the first nine months of 2012. The backlog consists of 14% cost-plus projects, 20% CM projects (combined total of 34% CM and cost-plus) and 66% tendered projects. Canem, as a subcontractor, has project scopes that are more defined and specific and is not subject to the total project risk of a general contractor, and thus is able to bear a larger proportion of tendered projects. The segment began the third quarter of 2012 with $114.9 million of work-in-hand, contracted $65.0 million of additional work-in-hand during the quarter and executed $45.7 million of work-in-hand.

Industrial Services (CSG and Broda)

For the Industrial Services segment, third quarter 2012 revenue decreased by $2.2 million (2%) to $97.7 million from $99.9 million for the third quarter of 2011. The modest revenue decrease was due to some scope reductions and project delays on existing projects.

Industrial Services' contract income for the three months ended September 30, 2012 decreased by $0.9 million (6%) to $13.4 million from $14.3 million for the third quarter of 2011. Contract income margins were lower at 13.8% in the three months ended September 30, 2012 versus 14.3% in the third quarter of 2011. This decrease is attributable to the project mix executed during the current quarter.

The Industrial Services segment's administrative expenses were $4.3 million (4.4% of revenue) in the third quarter of 2012 compared to $5.0 million (5.0% of revenue) in the third quarter of 2011.

EBITDA for the Industrial Services segment increased by $0.7 million (7%) to $11.1 million (a 11.3% EBITDA margin) for the three months ended September 30, 2012 from $10.4 million in the third quarter of 2011. The increase in EBITDA resulted from the favourable administrative expense variance in the three months ended September 30, 2012.

For the nine months ended September 30, 2012, the Industrial Services segment's revenue was $287.3 million, compared to $257.3 million in the first nine months of 2011, a 12% increase. The segment's contract income in the first nine months of 2012 decreased by $3.8 million, or 11%, to $30.2 million from $34.0 million for the first nine months of 2011. In the first nine months of 2012, contract income margin was 10.5% compared to 13.2% in the first nine months of 2011. Administrative expenses were $15.0 million (5.2% of revenue) in the first nine months of 2012 compared to $14.8 million (5.8% of revenue) in the comparable period of 2011. EBITDA for Industrial Services in the first nine months of 2012 was $20.3 million (a 7.0% EBITDA margin) compared to $21.9 million (a 8.5% EBITDA margin) in the same period of 2011. The decline in profitability was largely due to the lower contract income.

Industrial Services had backlog of $413.8 million as at September 30, 2012, compared to backlog of $264.0 million at December 31, 2011. The September 30, 2012 backlog consisted of $270.1 million of work-in-hand and $143.7 million of active backlog. The backlog consists of 43% cost-plus projects and 57% tendered projects. The Industrial Services segment started the third quarter with $204.2 million of work-in-hand, contracted $164.5 million of additional work-in-hand during the quarter and executed $98.5 million of work-in-hand, including $0.8 million intersegment revenue.

Corporate and Other

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were $1.3 million in the third quarter of 2012 compared to $2.6 million in the third quarter of 2011, a $1.3 million (50%) decrease. The decrease is primarily related to lower amounts accrued for short-term incentive compensation and at-risk, equity-based compensation expenses. 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. The change in fair value of the PSUs and DSUs is included in the $0.5 million of share-based compensation expense in the third quarter of 2012 and the $0.3 million share-based compensation expense in the third quarter of 2011. Refer to the "Share-based Compensation" section below for further information.

Corporate and Other's finance costs were $2.9 million in the third quarter of 2012 compared to $3.2 million in the three months ended September 30, 2011, a $0.3 million decrease. The decrease in finance costs related to lower interest rate pricing on the outstanding long term debt during the period.

The Corporate and Other segment's depreciation and amortization expense was $2.9 million in the three months ended September 30, 2012 compared to $3.8 million in the third quarter of 2011, a $0.9 million decrease. The current and comparative period amounts include amortization of intangible assets acquired with the acquisition of Dominion, Canem, Broda and McCaine, and amortization of the implemented portion of the Corporation's new SAP-based ERP system. 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 third quarter of 2012, the Corporate and Other segment incurred a net loss before tax of $7.1 million compared to a net loss before tax of $9.4 million in the third quarter of 2011. Decreases in administration expenses, finance costs and reduced depreciation and amortization expenses contributed to the $2.3 million improvement.

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:
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
Contract revenue	$ 303.2	$ 295.8	$ 333.2	$ 384.3	$ 379.3	$ 340.9	$ 304.7	$ 391.4
Contract income	27.7	25.9	35.7	45.1	40.5	35.7	36.6	50.0
Contract income margin[1]	9.1%	8.7%	10.7%	11.7%	10.7%	10.5%	12.0%	12.8%
Continuing operations:								
EBITDA[1]	$ 12.1	$ 4.6	$ 13.9	$ 19.6	$ 18.3	$ 17.0	$ 17.2	$ 28.2
EBT[1]	2.5	(5.4)	4.3	9.3	8.2	7.0	8.2	18.2
Net earnings (loss)	1.8	(4.2)	3.1	7.3	6.2	4.8	5.8	10.6
EPS - basic	0.07	(0.17)	0.13	0.30	0.26	0.20	0.24	0.52
EPS - diluted	0.07	(0.17)	0.13	0.27	0.24	0.19	0.24	0.47
Net earnings (loss)	$ 1.8	$ (4.2)	$ 3.2	$ 7.3	$ 6.1	$ 5.8	$ 5.8	$ 11.5
EPS - basic	0.07	(0.17)	0.13	0.30	0.26	0.24	0.24	0.55
EPS - diluted	0.07	(0.17)	0.13	0.27	0.24	0.22	0.24	0.49
Funds from operations[1]	$ 12.1	$ 4.6	$ 15.6	$ 19.6	$ 18.3	$ 15.3	$ 19.0	$ 29.7
Funds from operations per share[1] - basic	0.50	0.19	0.64	0.81	0.75	0.63	0.79	1.42
Backlog[1]	$ 1,731.0	$ 1,570.4	$ 1,751.5	$ 1,842.6	$ 1,840.1	$ 1,705.6	$ 1,577.4	$ 1,555.0
Working capital[1]	99.9	95.7	102.6	86.0	99.6	115.5	99.7	97.8
Shareholders' equity	299.5	301.4	308.5	309.1	302.5	301.3	295.9	289.3
Book value ($ per basic share)[1]	12.25	12.36	12.68	12.72	12.45	12.45	12.28	11.99

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 increased subsequent to July 2010 with the closing of a major acquisition, which included Dominion, Canem and Broda. Under IFRS reporting standards, acquisition restructuring costs and transaction expenses in respect of this major acquisition were expensed. These costs were previously capitalized under Canadian GAAP. Reported net earnings in 2010 under IFRS were lower than those reported under Canadian GAAP.

Revenue and net earnings 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, 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 Stuart Olson Dominion, 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 and fourth quarter of 2011, compared to the second quarter of 2011, partly due to improved weather conditions and increased activity in the Commercial Systems and Industrial Services segment. In both quarters, the negative impact on EBITDA of underperforming fixed price projects at Stuart Olson Dominion was partly offset by growth delivered by the Commercial Systems and Industrial Services segments.

Revenue and net earnings declined in the first quarter of 2012, compared to the fourth quarter of 2011, due partly to the seasonal nature of construction operations in Western Canada. Consolidated revenue declined primarily due to reduced activity levels within the General Contracting segment. Lower EBITDA from the Industrial Services segment due to the seasonal nature of their operations was a drag on earnings.

Revenue and net earnings in the second quarter of 2012 decreased compared to the first quarter of 2012 as wet weather impacted Broda's productivity on its Calgary Airport project and Stuart Olson Dominion recorded a significant margin reversal on large Manitoba based-project.

The reader is referred to the Corporation's 2010 and 2011 annual and interim reports and 2012 First and Second Quarter Report for a more detailed discussion and analysis of the results of the quarters preceding June 30, 2012.

Capital Resources and Liquidity

Cash and Debt Balances

Cash and cash equivalents at September 30, 2012 were $30.5 million, compared to $59.4 million at December 31, 2011, a $28.9 million decrease that was invested in non-cash working capital to support operations.

Long-term indebtedness at September 30, 2012, excluding the $1.1 million current portion of long-term debt, amounted to $147.0 million compared to $137.1 million at December 31, 2011, a net increase of $9.9 million. This amount consisted of $78.5 million (December 31, 2011 - $76.7 million) of the debt portion of convertible debentures and $68.5 million (December 31, 2011 - $60.4 million) drawn on Churchill's $200 million, four-year senior revolving credit facility (the "Revolver").

The Revolving Credit Facility (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 and again on July 12, 2012. The most recent improvements include a reduction in the applicable interest rate, a one-year extension of the facility (new maturity date of July 12, 2016), and additional flexibility on consents regarding dividends and acquisitions. The Revolver requires the Corporation to comply with normal financial covenants, including maintaining each of: (a) a working capital ratio of not less than 1.1:1; (b) an interest coverage ratio of at least 3:1; (c) a total debt to EBITDA ratio of not more than 2.5:1; and (d) a senior debt to EBITDA ratio of not more than 2:1. For the purposes of the Revolver, EBITDA is

defined as earnings or loss before interest, income taxes, depreciation and amortization, non-cash gains and losses from financial instruments, stock based compensation and non-recurring gains and losses. The Syndicate remains the same and the Revolver continues to include a $75 million accordion feature. As at September 30, 2012, the Corporation was in full compliance with its covenants and had additional borrowing capacity of approximately $30 million available to it under the Revolver.

The amount of the Revolver will fluctuate from quarter to quarter as it is drawn to finance working capital requirements, capital expenditures and acquisitions, and as it is paid with funds from operations. For instance, in October 2012, the Corporation provided three separate letters of credit totalling $6.5 million and undertook to provide an additional letter of credit of $1 million in as late as January 2013 as partial security for a lien bond of approximately $15.5 million issued by the Corporation's surety providers. The lien bond relates to the removal of a lien that was filed by the structural steel subcontractor on Stuart Olson Dominion's Investors Group Field stadium project in Winnipeg, Manitoba. The face value of these letters of credit reduces the Corporation's borrowing capacity under the Revolver by an equal amount. For additional information refer to *Note 15* 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 16* 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 third quarter of 2012 this resulted in an unrealized gain of $0.18 million included in Other Income (Cost). During the period the hedge was in force, the hedge limited exposure to fuel price volatility given the underlying commodity closely correlated with experienced fuel price fluctuations. For additional information refer to *Note 20(b)* and *Note 20(c)(iv)* to the Condensed Consolidated Interim Financial Statements.

Summary of Cash Flows

Funds from operations for the third quarter of 2012 were $12.1 million compared to $18.8 million in the third quarter of 2011. The $6.7 million decrease is due to a $12.8 million decrease in contract income, offset by a $4.9 million decrease in administrative expenses.

Cash generated from (used in) operations in the quarter was $13.4 million (third quarter 2011 - $(1.4) million) after accounting for a change in share-based payment liability of $nil (third quarter 2011 - $nil million), a change in provisions of $(0.5) million (third quarter 2011 - $1.2 million), and a change in non-cash operating working capital of $(0.8) million (third quarter 2011 - $19.0 million). Working capital requirements have been growing within the business, primarily in the Industrial Services segment as expanding operations have caused receivables to grow faster than payables.

Interest paid of $0.9 million (third quarter 2011 – $1.1 million) and taxes received of $(0.8) million (third quarter 2011 – tax paid of $0.5 million) resulted in net cash generated by (used in) operating activities of $13.3 million on September 30, 2012 (September 30, 2011 - $(3.1) million). The taxes received for the third quarter of 2012 was due to refunds received related to 2011 tax filings.

Funds from operations for the first nine months of 2012 were $32.2 million compared to $55.0 million in the first nine months of 2011. Cash generated from (used in) operations in the nine months ended September 30, 2012, was $(25.8) million (first nine months 2011 - $18.0 million) after accounting for a change in share-based payment liability of $3.0 million (first nine months 2011 - $0.8 million), a change in provisions of $2.8 million (first nine months 2011 - $6.2 million), and a change in non-cash operating working capital of $52.2 million (first nine months 2011 - $30.0 million). Interest paid of $4.9 million (first nine months 2011 – $5.7 million) was offset by a tax recovery of $(10.7) million (first nine months 2011 – tax paid of $5.2 million) resulting in net cash generated by (used in) operations to be $(20.0) million on September 30, 2012 (September 30, 2011 - $7.1 million).

	Three months ended September 30		Nine months ended September 30	
($millions, except shares and per share amounts)	**2012**	**2011**	**2012**	**2011**
Net cash generated by (used in) operating activities	$ 13.3	$ (3.1)	$ (20.0)	$ 7.1
Add:				
Income taxes paid (received)	(0.8)	0.5	(10.7)	5.2
Interest paid (received)	0.9	1.1	4.9	5.7
Cash generated from (used in) operations	$ 13.4	$ (1.4)	$ (25.8)	$ 18.0
Change in share-based payment liability	-	-	3.0	0.8
Change in provisions	(0.5)	1.2	2.8	6.2
Change in non-cash working capital balances relating to operations	(0.8)	19.0	52.2	30.0
Funds from operations	$ 12.1	$ 18.8	$ 32.2	$ 55.0
Weighted average common shares - basic (millions)	24.4	24.3	24.4	24.2
Funds from operations per common share - basic	$ 0.50	$ 0.77	$ 1.32	$ 2.27

Investing activities resulted in a net use of cash of $3.4 million during the third quarter of 2012, which compares with net cash used of $6.4 million in the third quarter of 2011. The difference is primarily attributable to decreased investment of $0.9 million associated with the Corporation's ERP system, and a $1.9 million decrease in additions to property and equipment in 2012.

Investing activities resulted in a net use of cash of $10.8 million during the first nine months of 2012, which compares with net cash used of $32.4 million in the first nine months of 2011. This $21.6 difference in expenditures stemmed primarily from the $9.7 million used to acquire McCaine Electric in 2011, $1.6 million less in proceeds from receivables, equipment and asset sales, and $10.3 million greater investment in the Corporation's ERP system and equipment purchases during 2011.

During the third quarter of 2012, net cash used by financing activities amounted to $0.9 million, related primarily to a net repayment in long term debt and issue costs, the payment of dividends, cash payment related to option surrenders, offset by receipt of a service provider deposit. This amount compares to net cash used in financing activities of $26.8 million in the three months ended September 30, 2011, which related primarily to a net repayment of long-term debt.

During the first nine months of 2012, net cash generated by financing activities amounted to $1.9 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 $12.7 million in the nine months ended September 30, 2011, related to net proceeds of long-term debt.

As at September 30, 2012, Churchill had working capital of $99.9 million, compared to $86.0 million at December 31, 2011.

Scheduled debt principal repayments due within one year at September 30, 2012 were $1.1 million, compared to $1.4 million at December 31, 2011. Finance contracts and finance lease obligations are secured by construction and automotive equipment and are more fully described in *Note 15* 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 Stuart Olson Dominion 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 provided a joint and several guarantee, increasing the maximum potential exposure to the full value of the work remaining under the contract. On July 12, 2012 the hospital was officially opened to the public, so the Corporation's exposure to financial penalties and/or liquidated damages for project delays was eliminated. P3 projects also require security in the form of letters of credit to support the Corporation's obligations. Refer to *Note 5 and Note 23* to the Condensed Consolidated Interim Financial Statements for additional details.

In the first nine months of 2012, the Corporation's capital expenditures totalled $15.8 million (first nine months 2011 - $26.7 million) including $5.9 million for construction equipment, $4.5 million for computer equipment and software, $2.2 million for vehicles, $2.6 million for tenant improvements, and $0.7 million for furniture and equipment. Capital expenditures are associated with the Corporation's need to support the growth in size and scope of its operations and the need for heavy construction equipment at Broda. For the remainder of 2012, the Corporation anticipates that it will require approximately $1.0 million to fund its capital expenditures. Management's preliminary estimate of its 2013 capital budget is approximately $20 million; however this is subject to completion of the annual budgeting process, including board approval.

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, because the Corporation has adequate cash and cash equivalents, the ability to generate cash from operations, and an undrawn portion of its revolving credit facility.

Shareholders' equity was $299.5 million at September 30, 2012 compared to $309.1 million at December 31, 2011. Retained earnings decreased from $165.0 million at December 31, 2011 to $152.3 million at September 30, 2012. The $12.7 million reduction in retained earnings resulted from net earnings of $0.8 million for the first nine months of 2012, dividend payments of $8.8 million, normal course issuer bid share purchases of $0.2 million, option surrenders of $0.3 million and defined benefit plan actuarial losses, net of tax, of $4.3 million.

Share Data

The Corporation has an Employee Share Purchase Plan ("ESPP") available to all full-time employees. At September 30, 2012, the ESPP held 1,128,841 common shares for employees. Under the ESPP, common shares are acquired in the open market.

On January 17, April 17, July 17, and October 17, 2012, the Corporation issued 67,807, 46,098, 64,313 and 52,664 common shares, respectively, pursuant to its DRIP.

As at November 2, 2012, the Corporation had 24,493,462 common shares issued and outstanding and 1,922,592 options convertible into common shares upon exercise (December 31, 2011 – 24,348,919 common shares and 1,542,783 options). Refer to *Note 17(a) and Note 18* 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 16* 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 for the three months ended September 30, 2012 was 24,472,660 (September 30, 2011 – 31,586,741) is set out in *Note 8(b)* to the Condensed Consolidated Interim Financial Statements.

- At September 30, 2012, 1,604,348 options (September 30, 2011 – 639,561) 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 September 30, 2012, no incremental shares related to the convertible debentures are included in the diluted share calculation (September 30, 2011 – 7,034,623). 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 September 28, 2012 of $9.87 (September 30, 2011 - $13.09).

Share-based Compensation

Share-based compensation is an expense driven in part by the number, fair value and vesting rights of options, deferred share units ("DSUs") and performance share units ("PSUs") granted. The share-based compensation expense was $0.2 million during the third quarter of 2012 and $0.5 million for the three months ended September 30, 2011. The share-based compensation expense was $4.1 million during the first nine months of 2012 and $2.4 million for the first nine months of 2011.

During the three and nine months ended September 30, 2012, the Corporation granted 163,071 and 190,463 DSUs, respectively (three and nine months ended September 30, 2011 – 13,889 and 34,232 DSUs, respectively) to directors and executives as part of their remuneration. The majority of the CEO's compensation package is in the form of DSUs. In addition, during the quarter and nine months ended September 30, 2012, directors and employees voluntarily elected to purchase or accept in lieu of cash 6,979 and 19,817 DSUs, respectively, (three and nine months ended September 30, 2011 – 3,597 and 11,077 DSUs, respectively) by deferring compensation related to retainers, meeting fees, base salary and/or cash bonus, as applicable. These DSU grants and elections totalling 170,050 and 210,280 DSUs (three and nine months ended September 30, 2011 – 17,486 and 45,309 DSUs) resulted in $(0.1) million and $0.4 million of share-based compensation expense (income) for the third quarter and first nine months of 2012, respectively (third quarter 2011 - $(0.1) million; first nine months of 2011 - $0.1 million. The amounts recorded are based on the sum of 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 three and nine months ended September 30, 2012, the Corporation recorded compensation expenses (income) for PSUs granted to employees of $(0.5) million and $1.7 million, respectively, compared to $(0.2) million and $0.3 million in the third quarter and first nine months of 2011. The amounts recorded are based on the sum of changes in fair value and grants of PSUs. During the three and nine months ended September 30, 2012, the Corporation cancelled 1,650 and 4,617 PSUs, respectively, due to forfeiture. On September 30, 2012, the Corporation had 357,097 PSUs outstanding, compared to 340,055 PSUs on 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 first vesting was in February 2011 for 43,608 PSUs and payout was in April 2011 for PSUs granted in 2008, and amounted to $0.8 million. The vesting of 175,126 PSUs granted in 2009 was in February 2012 and the payout amounted to $3.0 million.

Refer to *Note 17* to the Condensed Consolidated Interim Financial Statements.

Supplemental Disclosures

Off-Balance-Sheet Arrangements

The Corporation had no off-balance sheet arrangements in place at September 30, 2012.

Related-Party Transactions

During the third quarter of 2012, the Corporation incurred facility costs of $136 thousand (third quarter 2011 – $150 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. For the nine months ended September 30, 2012, these facility costs were $437 thousand (nine months ended September 30, 2011 - $434 thousand). At September 30, 2012, there was $41 thousand included in accounts payable (September 30, 2011 – $nil).

Refer to *Note 22* 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 Stuart Olson Dominion are expected to gradually improve in 2013 as recently awarded projects transition from design to the tendering and construction phase. Additional detail is included in the General Contracting section below.
- Canem expects revenue levels in 2013 to be consistent with 2012 levels; however annualized EBITDA margins will be lower as a result of more competitive go-in fees and executing lower margin work.
- Within the Industrial Services segment, CSG expects to continue delivering strong revenues and modestly softer margins into 2013. Additional detail is included in the Industrial Services section below.

General Contracting

Stuart Olson Dominion is well established in Western Canada's institutional and commercial construction market sectors. The institutional spending outlook in Western Canada while healthy is undergoing a period of retrenchment as governments in Alberta and British Columbia have recently announced project delays, cancellations or capital expenditure reductions moving forward. The non-residential private sector spending outlook is reasonably strong as new commercial projects continue to be advanced in Alberta and industrial projects continue front-end engineering.

Stuart Olson Dominion's $1.1 billion backlog remains institutionally levered, and the market continues to present business development opportunities. Construction margins are expected to marginally improve in 2013 as new higher-margin projects recently added to backlog begin and project execution issues experienced in 2011/12 are put behind the company.

The General Contracting segment expects to execute approximately $153.5 million of its September 30, 2012 backlog during the remainder of 2012.

Commercial Systems

The outlook for Canem has become more challenging in recent quarters as project delays at the owner and general contractor levels and competitive pressures are expected to continue affecting margins in the near-to-medium term. Canem expects revenue levels in 2013 to be consistent with 2012 levels; however EBITDA margins will be lower as a result of more competitive go-in fees and executing lower margin work. Canem is working to offset this margin pressure by improving operational efficiencies and by differentiating itself from the competition with building systems integration solutions to support its core operations.

Canem expects to execute approximately $47.6 million of its September 30, 2012 work-in-hand and active backlog during the remainder of 2012. Additional short-duration projects, building maintenance and tenant improvement work are expected to supplement Canem's 2012 revenue.

Industrial Services

Going forward, CSG is expecting to maintain strong revenue and earnings in the last quarter of 2012 and into 2013 as industrial construction and maintenance projects continue, particularly in Alberta's oil sands. Competitive pressures and a higher proportion of low-risk, cost-plus maintenance work in 2013 are expected to modestly decrease CSG margins. Broda is expected to refocus its operations on Saskatchewan mining related projects in 2013, where weather related project challenges occur less frequently, which should result in stronger operational results.

CSG and Broda expect to execute approximately $75.8 million of their September 30, 2012 backlog during the remainder of 2012. Additional short-duration projects, scope changes and industrial maintenance work are expected to supplement the segment's fourth quarter 2012 revenue.

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 Consolidated Annual 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.

A detailed discussion and analysis of these factors is available in the Corporation's Annual MD&A.

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 debt component of the convertible debentures of $81.5 million at September 30, 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 $0.1 million at September 30, 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 September 30, 2012 was $1.7 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 $17.4 million of trade receivables which were greater than 90 days past due and not provided for as at September 30, 2012 (December 31, 2011 – $14.4 million). Of the total, $9.5 million (50%) was concentrated in five customer account and $8.8 million remained outstanding as of November 2, 2012. The related customers are 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 September 30, 2012, the increase or decrease in quarterly net earnings and equity for each 100 basis point change in interest rates on floating rate debt would have been approximately $0.2 million (December 31, 2011 - $0.4 million) related to financial assets and by $0.3 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 20* 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 and nine months ended September 30, 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 and nine months ended September 30, 2012 for more information regarding the basis of presentation. The 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. Please refer to *Note 3* to the Consolidated Annual 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.

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 September 30, 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 September 30, 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 September 30, 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:	**September 30, 2012**			**December 31, 2011**		
($millions)	Work-in-hand	Active backlog	Total backlog	Work-in-hand	Active backlog	Total backlog
	$ 931.2	$ 799.8	$ 1,731.0	$ 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)**	**September 30, 2012**	**December 31, 2011**
Current assets	$ 453.0	$ 481.5
Current liabilities	353.1	395.5
Working capital	$ 99.9	$ 86.0

EBITDA and EBT

EBITDA (earnings (loss) 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 (loss) 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 September 30				Nine months ended September 30			
		2012		2011		2012		2011
Net earnings from continuing operations	$	1.8	$	6.2	$	0.7	$	16.8
Add:								
Income tax expense		0.7		1.9		0.6		6.5
EBT from continuing operations	$	2.5	$	8.1	$	1.3	$	23.3
Add:								
Depreciation and amortization (indirect cost)		2.4		2.0		7.2		5.1
Depreciation and amortization (general and administrative)		4.3		5.0		13.3		14.6
Interest expense		2.9		3.2		8.8		9.5
EBITDA from continuing operations	$	12.1	$	18.3	$	30.6	$	52.5

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.

Three and nine month periods ending September 30, 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 September 30, 2012 and 2011.

THE CHURCHILL CORPORATION
Condensed Consolidated Statements of Earnings and Comprehensive Earnings (Loss)
For the three and nine month periods ended September 30, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

		Three months ended		Nine months ended	
	Note	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Contract revenue	6	**$ 303,173**	$ 379,274	**$ 932,166**	$ 1,024,839
Contract costs		**275,482**	338,821	**842,951**	912,048
Contract income		**27,691**	40,453	**89,215**	112,791
Other income		**1,422**	188	**3,148**	954
Finance income		**101**	209	**333**	595
Administrative costs		**(23,821)**	(29,467)	**(82,604)**	(81,511)
Finance costs		**(2,918)**	(3,225)	**(8,753)**	(9,487)
Earnings from continuing operations before tax		**2,475**	8,158	**1,339**	23,342
Income tax (expense) recovery					
Current income tax		**(3,244)**	814	**(179)**	2,419
Deferred income tax		**2,590**	(2,742)	**(422)**	(8,958)
	7	**(654)**	(1,928)	**(601)**	(6,539)
Net earnings from continuing operations		**1,821**	6,230	**738**	16,803
Net earnings (loss) from discontinued operations		**(13)**	(84)	**63**	860
Net earnings		**$ 1,808**	$ 6,146	**$ 801**	$ 17,663
Other comprehensive loss					
Defined benefit plan actuarial losses		**(1,508)**	(4,348)	**(5,696)**	(5,021)
Deferred tax recovery on other comprehensive income		**381**	1,101	**1,429**	1,279
		(1,127)	(3,247)	**(4,267)**	(3,742)
Total comprehensive (loss) income		**$ 681**	$ 2,899	**$ (3,466)**	$ 13,921
Earnings per share:					
Basic from continuing operations		**$ 0.07**	$ 0.26	**$ 0.03**	$ 0.69
Basic from discontinued operations		**$ -**	$ -	**$ -**	$ 0.04
Basic earnings per share	8	**$ 0.07**	$ 0.26	**$ 0.03**	$ 0.73
Diluted from continuing operations		**$ 0.07**	$ 0.24	**$ 0.03**	$ 0.66
Diluted from discontinued operations		**$ -**	$ -	**$ -**	$ 0.03
Diluted earnings per share	8	**$ 0.07**	$ 0.24	**$ 0.03**	$ 0.69
Weighted average common shares:					
Basic	8	**24,429,551**	24,289,893	**24,379,229**	24,214,726
Diluted	8	**24,472,660**	31,586,741	**24,524,262**	31,589,866

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Condensed Consolidated Statements of Financial Position
As at September 30, 2012 and December 31, 2011
(in thousands of Canadian dollars)
(unaudited)

	Note	September 30, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents		**$ 30,518**	$ 59,445
Trade and other receivables		**357,516**	345,772
Inventory		**11,131**	12,762
Prepaid expenses		**5,731**	4,377
Costs in excess of billings	9	**33,012**	33,738
Income taxes recoverable		**14,269**	23,377
Current portion of long-term receivable		**100**	534
Assets held-for-sale	10	**720**	1,488
		452,997	481,493
Service provider deposit	11	**3,490**	6,066
Long-term receivable		**200**	300
Deferred tax asset		**11,109**	11,745
Property and equipment	12	**83,165**	82,526
Goodwill		**234,256**	234,256
Intangible assets	13	**65,370**	72,096
		$ 850,587	$ 888,482
LIABILITIES			
Current liabilities			
Trade and other payables		**$ 249,606**	$ 283,857
Contract advances and unearned income	9	**91,967**	97,657
Current portion of provisions	14	**3,717**	7,294
Income taxes payable		**6,705**	5,262
Current portion of long-term debt	15	**1,113**	1,403
		353,108	395,473
Employee benefits		**12,279**	8,315
Provisions	14	**6,654**	5,875
Long-term debt	15	**68,459**	60,433
Convertible debentures	16	**78,509**	76,691
Deferred tax liability		**28,884**	30,493
Share-based payments	17 (d)	**3,237**	2,061
		551,130	579,341
EQUITY			
Share capital	18	**126,163**	124,290
Preferred share reserve		**5,128**	5,128
Convertible debentures	16	**7,100**	7,100
Share-based payment reserve	17 (a)	**8,805**	7,636
Retained earnings		**152,261**	164,987
		299,457	309,141
		$ 850,587	$ 888,482

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Condensed Consolidated Statements of Changes in Equity
For the three and nine month periods ended September 30, 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						801	801
Other comprehensive loss:							
Defined benefit plan actuarial losses, net of tax						(4,267)	(4,267)
Total comprehensive loss						(3,466)	(3,466)
Transactions recorded directly to equity							
Share-based payment transactions	17				1,169	(276)	893
Dividends	18	2,065				(8,778)	(6,713)
Normal course issuer bid	18	(192)				(206)	(398)
Balance at September 30, 2012		$ 126,163	$ 5,128	$ 7,100	$ 8,805	$ 152,261	$ 299,457
Balance at December 31, 2010		$ 120,757	$ 5,128	$ 7,100	$ 4,860	$ 151,503	$ 289,348
Net earnings						17,663	17,663
Other comprehensive income:							
Defined benefit plan actuarial loss, net of tax						(3,742)	(3,742)
Total comprehensive income						13,921	13,921
Transactions recorded directly to equity							
Share-based payment transactions					1,991		1,991
Issued in the period		2,500					2,500
Dividends		578			-	(5,826)	(5,248)
Balance at September 30, 2011		$ 123,835	$ 5,128	$ 7,100	$ 6,851	$ 159,598	$ 302,512

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Condensed Consolidated Statements of Cash Flow
For the nine month periods ended September 30, 2012 and 2011
(in thousands of Canadian dollars)
(unaudited)

	Note	Nine months ended September 30, 2012	September 30, 2011
OPERATING ACTIVITIES			
Net earnings from continuing operations		**$ 738**	$ 16,803
Net earnings from discontinued operations		**63**	860
Depreciation and amortization		**20,423**	19,672
(Gain) loss on disposal of assets		**(64)**	326
Gain on disposal of assets held-for-sale		**(2,485)**	(1,215)
Loss on settlement of liabilities related to discontinued operations		**62**	-
Share-based compensation expense	17	**4,081**	2,361
Gain on derivative instrument		**24**	134
Income tax expense		**601**	6,539
Income tax (recovery) expense on discontinued operations		**(15)**	27
Finance costs		**8,753**	9,487
		$ 32,181	$ 54,994
Payment of share-based payment liability		**(2,958)**	(825)
Change in provisions		**(2,798)**	(6,211)
Change in non-cash working capital balances relating to operations	19	**(52,230)**	(29,973)
Cash generated from (used in) operations		**$ (25,805)**	$ 17,985
Interest paid		**(4,885)**	(5,694)
Income taxes received (paid)		**10,690**	(5,162)
Net cash (used in) generated by general operating activities		**$ (20,000)**	$ 7,129
INVESTING ACTIVITIES			
Acquisition, net of cash and cash equivalents acquired		**-**	(9,743)
Proceeds from long-term receivable		**381**	(112)
Proceeds on disposal of assets		**497**	514
Proceeds on disposal of assets held-for-sale		**4,150**	3,059
Additions to intangible assets		**(3,608)**	(7,135)
Additions to property and equipment		**(12,221)**	(19,010)
Net cash used in investing activities		**$ (10,801)**	$ (32,427)
FINANCING ACTIVITIES			
Decrease (increase) in service provider deposit		**2,576**	(859)
Proceeds of long-term debt		**433,734**	297,949
Repayment of long-term debt		**(426,377)**	(307,456)
Issue costs of long-term debt		**(200)**	-
Share purchase under normal course issuer bid	18	**(398)**	-
Options surrendered		**(758)**	-
Dividend paid	18	**(6,703)**	(2,333)
Net cash generated by (used in) financing activities		**$ 1,874**	$ (12,699)
Increase (decrease) in cash and cash equivalents during the period		**$ (28,927)**	$ (37,997)
Cash and cash equivalents, beginning of period		**$ 59,445**	$ 70,848
Cash and cash equivalents, end of period		**$ 30,518**	$ 32,851

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 November 4, 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 third quarter that have an impact on the Corporation.

4. SEGMENTS

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides and reports its operations under four reporting segments: 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 nine months ended September 30, 2012, there were no customers that represented 10% or more of contract revenue earned.

THE CHURCHILL CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the three and nine month periods ended September 30, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

Three month period ended September 30, 2012	**General Contracting**	**Industrial Services**	**Commercial Systems**	**Corporate and Other**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 168,063**	**$ 97,690**	**$ 45,700**	**$ -**	**$ (8,280)**	**$ 303,173**
EBITDA [1]	**(162)**	**11,067**	**1,473**	**(1,271)**	**956**	**12,063**
Depreciation and amortization	**1,073**	**1,953**	**660**	**2,899**	**85**	**6,670**
Finance costs	**4**	**26**	**-**	**2,888**	**-**	**2,918**
Earnings (loss) from continuing operations before tax	**$ (1,239)**	**$ 9,088**	**$ 813**	**$ (7,058)**	**$ 871**	**$ 2,475**
Income tax expense from continuing operations						**(654)**
Net earnings from continuing operations						**$ 1,821**
Goodwill and intangible assets	**$ 128,826**	**$ 24,346**	**$ 126,519**	**$ 19,935**	**$ -**	**$ 299,626**
Capital expenditures	**$ 502**	**$ 1,643**	**$ 530**	**$ 846**	**$ 27**	**$ 3,548**
Total assets	**$ 408,161**	**$ 211,349**	**$ 199,280**	**$ 47,890**	**$ (16,093)**	**$ 850,587**
Total liabilities	**$ 290,095**	**$ 64,220**	**$ 44,668**	**$ 172,273**	**$ (20,126)**	**$ 551,130**

Three month period ended September 30, 2011	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	$ 246,747	$ 99,929	$ 49,529	$ -	$ (16,931)	$ 379,274
EBITDA [1]	5,774	10,359	4,973	(2,513)	(278)	18,315
Depreciation and amortization	1,035	1,360	667	3,749	121	6,932
Finance costs	(5)	55	-	3,175	-	3,225
Earnings (loss) from continuing operations before tax	$ 4,744	$ 8,944	$ 4,306	$ (9,437)	$ (399)	$ 8,158
Income tax expense from continuing operations						(1,928)
Net earnings from continuing operations						$ 6,230
Goodwill and intangible assets	$ 132,930	$ 21,455	$ 136,086	$ 18,207	$ -	$ 308,678
Capital expenditures	$ 845	$ 3,421	$ 199	$ 1,921	$ -	$ 6,386
Total assets	$ 464,456	$ 207,249	$ 200,284	$ 36,807	$ (14,567)	$ 894,229
Total liabilities	$ 329,348	$ 58,040	$ 38,917	$ 169,414	$ (4,002)	$ 591,717

[1] EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

Nine month period ended September 30, 2012	**General Contracting**	**Industrial Services**	**Commercial Systems**	**Corporate and Other**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 539,612**	**$ 287,337**	**$ 138,774**	**$ -**	**$ (33,557)**	**$ 932,166**
EBITDA [1]	**4,501**	**20,255**	**9,948**	**(8,444)**	**4,255**	**30,515**
Depreciation and amortization	**2,961**	**5,665**	**1,870**	**9,590**	**337**	**20,423**
Finance costs	**7**	**103**	**-**	**8,643**	**-**	**8,753**
Earnings (loss) from continuing operations before tax	**$ 1,533**	**$ 14,487**	**$ 8,078**	**$ (26,677)**	**$ 3,918**	**$ 1,339**
Income tax expense from continuing operations						**(601)**
Net earnings from continuing operations						**$ 738**
Goodwill and intangible assets	**$ 128,826**	**$ 24,346**	**$ 126,519**	**$ 19,935**	**$ -**	**$ 299,626**
Capital and intangible expenditures	**$ 4,139**	**$ 6,875**	**$ 927**	**$ 3,835**	**$ 53**	**$ 15,829**
Total assets	**$ 408,161**	**$ 211,349**	**$ 199,280**	**$ 47,890**	**$ (16,093)**	**$ 850,587**
Total liabilities	**$ 290,095**	**$ 64,220**	**$ 44,668**	**$ 172,273**	**$ (20,126)**	**$ 551,130**

Nine month period ended September 30, 2011	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	$ 670,418	$ 257,292	$ 136,889	$ -	$ (39,760)	$ 1,024,839
EBITDA [1]	22,363	21,895	16,532	(9,010)	727	52,508
Depreciation and amortization	2,806	3,608	1,518	11,376	370	19,678
Finance costs	6	167	4	9,310	-	9,487
Earnings (loss) from continuing operations before tax	$ 19,551	$ 18,120	$ 15,010	$ (29,696)	$ 357	$ 23,342
Income tax expense from continuing operations						(6,539)
Net earnings from continuing operations						$ 16,803
Goodwill and intangible assets	$ 132,930	$ 21,455	$ 136,086	$ 18,207	$ -	$ 308,678
Capital and intangible expenditures	$ 3,257	$ 15,547	$ 462	$ 6,878	$ 1	$ 26,145
Total assets	$ 464,456	$ 207,249	$ 200,284	$ 36,807	$ (14,567)	$ 894,229
Total liabilities	$ 329,348	$ 58,040	$ 38,917	$ 169,414	$ (4,002)	$ 591,717

[1] EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

5. 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 September 30, 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:

	September 30, 2012	December 31, 2011
Current assets	**$ 12,021**	$ 33,757
Current liabilities	**5,311**	22,382

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Contract income	**$ 1,882**	$ 17,625	**$ 21,966**	$ 56,099
Expenses	**1,040**	15,792	**15,260**	50,168

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Cash flow provided (used) by operating activities	**$ 2,038**	$ 7,738	**$ 5,940**	$ (768)

6. REVENUE

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Construction contract revenue	**$ 254,526**	$ 326,784	**$ 819,946**	$ 871,540
Service contract revenue	**40,894**	45,877	**100,156**	142,163
Sales of goods	**7,753**	6,613	**12,064**	11,136
Total revenue	**$ 303,173**	$ 379,274	**$ 932,166**	$ 1,024,839

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.

7. INCOME TAXES

The Corporation's consolidated income tax expense differs from the provision computed at the statutory rates as follows:

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Earnings from continuing operations before tax	**$ 2,475**	$ 8,158	**$ 1,339**	$ 23,342
Income tax at statutory rate of 25.0% (2011 - 26.5%)	**(619)**	(2,162)	**(335)**	(6,186)
Statutory and other rate differences	**(100)**	(258)	**(56)**	(696)
Non-deductible expenses	**41**	564	**(319)**	428
Other	**24**	(72)	**109**	(85)
Income tax expense from continuing operations	**$ (654)**	$ (1,928)	**$ (601)**	$ (6,539)

8. EARNINGS PER SHARE

(a) Basic earnings per share

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Net earnings from continuing operations attributable to common shareholders (basic)	**$ 1,821**	$ 6,230	**$ 738**	$ 16,803
Net earnings (loss) from discontinued operations attributable to common shareholders (basic)	**(13)**	(84)	**63**	860
	$ 1,808	$ 6,146	**$ 801**	$ 17,663
Issued common shares at beginning of period	**24,378,924**	24,260,701	**24,300,019**	24,133,727
Effect of shares issued related to a business combination	**-**	-	**-**	71,160
Effect of shares repurchased under NCIB	**(1,803)**	-	**(34,328)**	-
Effect of shares issued related to DRIP	**52,430**	29,192	**113,538**	9,837
Weighted average number of common shares for the period	**24,429,551**	24,289,893	**24,379,229**	24,214,725

(b) Diluted earnings per share

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

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Net earnings from continuing operations attributable to common shareholders (basic)	**$ 1,821**	$ 6,230	**$ 738**	$ 16,803
Interest, accretion and amortization of deferred financing fees, net of tax	**-**	1,434	**-**	3,985
Net earnings (loss) from discontinued operations attributable to common shareholders (basic)	**(13)**	(84)	**63**	860
Net earnings attributable to common shareholders (diluted)	**$ 1,808**	$ 7,580	**$ 801**	$ 21,648
Weighted average number of common shares (basic)	**24,429,551**	24,289,893	**24,379,229**	24,214,726
Incremental shares - stock options	**43,109**	262,225	**145,033**	340,517
Incremental shares - convertible debentures	**-**	7,034,623	**-**	7,034,623
Weighted average number of common shares for the period (diluted)	**24,472,660**	31,586,741	**24,524,262**	31,589,866

At September 30, 2012, 1,604,348 options (September 30, 2011 – 639,561) 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 in 2012, 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 closing share price at September 28, 2012 of $9.87 (September 30, 2011 - $13.09).

9. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

Contracts in progress:

		September 30, 2012		December 31, 2011
Construction costs incurred plus recognized profits less recognized losses to date	**$**	**4,446,707**	$	3,802,663
Less: progress billings		**(4,514,464)**		(3,871,178)
Net over billings on construction contracts		**(67,757)**		(68,515)
Non-construction costs incurred plus recognized profits less recognized losses to date	**$**	**233,594**	$	201,415
Less: progress billings		**(224,792)**		(196,819)
Net under billings on non-construction contracts		**8,802**		4,596
Total net contract position	**$**	**(58,955)**	$	(63,919)

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

		September 30, 2012		December 31, 2011
Costs in excess of billings - Construction contracts	**$**	**24,073**	$	28,038
Costs in excess of billings - Non-construction contracts		**8,939**		5,700
Total costs in excess of billings		**33,012**		33,738
Contract advances and unearned income - Construction contracts	**$**	**(91,831)**	$	(96,561)
Contract advances and unearned income - Non-construction contracts		**(136)**		(1,096)
Total contract advances and unearned income		**(91,967)**		(97,657)
Total net contract position	**$**	**(58,955)**	$	(63,919)

At September 30, 2012, retentions held by customers for contract work amounted to $109,773 (December 31, 2011 - $111,187). Advances received from customers for contract work amounted to $82,358 (December 31, 2011 - $96,930).

10. ASSETS HELD-FOR-SALE

The asset held-for-sale at September 30, 2012 includes agricultural lands.

The asset held-for-sale is available for immediate sale in its present condition and the sale is highly probable. In the third quarter, a storage yard held by the General Contracting segment that previously met these conditions was sold and removed from assets held-for-sale.

		September 30, 2012		December 31, 2011
Property and equipment	**$**	**436**	$	1,238
Deferred income taxes		**284**		250
Net assets held-for-sale	**$**	**720**	$	1,488

11. 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. During the third quarter, Zurich provided their consent to the release of a portion of the deposit as the pre-funded deductible program was in an over-funded position. The resulting receivable due from Zurich was reclassified as a current asset. $4,378 is the current portion of the service provider deposit included in accounts receivable (December 31, 2011 – $nil) and the remaining long-term portion is $3,490 (December 31, 2011 - $6,066).

12. 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	-	-	2,627	8,097	635	642	220	12,221
Disposal	(864)	(1,619)	(774)	(1,255)	(266)	(49)	(5)	(4,832)
Reclassifications and transfers	-	-	3,708			-	(3,708)	-
Balance at September 30, 2012	$ 301	$ 3,216	$ 13,862	$ 91,423	$ 6,847	$ 4,767	$ 738	$ 121,154
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	-	16	1,448	7,239	886	500	-	10,089
Disposal of assets	-	(1,619)	(687)	(895)	(105)	(33)	-	(3,339)
Balance at September 30, 2012	$ -	$ 1,526	$ 3,190	$ 25,287	$ 5,399	$ 2,587	$ -	$ 37,989
Carrying amounts at December 31, 2011	$ 1,165	$ 1,706	$ 5,872	$ 65,638	$ 1,860	$ 2,054	$ 4,231	$ 82,526
at September 30, 2012	$ 301	$ 1,690	$ 10,672	$ 66,136	$ 1,448	$ 2,180	$ 738	$ 83,165

13. 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. The backlog and agency intangibles are amortized based on management's expectation of when the related revenues will be earned.

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	**3,264**	**-**	**-**	**344**	**3,608**
Balance, September 30, 2012	**23,606**	**20,600**	**54,410**	**3,949**	**102,565**
Accumulated amortization					
Balance, December 31, 2011	**$ 1,249**	**$ 14,252**	**$ 8,074**	**$ 3,286**	**$ 26,861**
Amortization expense	**1,284**	**4,600**	**4,096**	**354**	**10,334**
Balance, September 30, 2012	**2,533**	**18,852**	**12,170**	**3,640**	**37,195**
Carrying amounts, September 30, 2012	**$ 21,073**	**$ 1,748**	**$ 42,240**	**$ 309**	**$ 65,370**
Carrying amounts, December 31, 2011	**$ 19,093**	**$ 6,348**	**$ 46,336**	**$ 319**	**$ 72,096**

14. 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	Total
Balance at December 31, 2011	$ 5,823	$ 1,602	$ 2,961	$ 2,461	$ 322	$ 13,169
Provisions made during the period	2,075	-	2,349	2,216	-	6,640
Provisions used during the period	(412)	(1,003)	(690)	(88)	-	(2,193)
Provisions reversed in the period	(3,672)	(118)	(955)	(2,500)	-	(7,245)
Balance at September 30, 2012	**$ 3,814**	**$ 481**	**$ 3,665**	**$ 2,089**	**$ 322**	**$ 10,371**

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

	September 30, 2012	December 31, 2011
Current portion of provisions	**$ 3,717**	$ 7,294
Long-term provisions	**6,654**	5,875
Total provisions	**$ 10,371**	$ 13,169

15. LONG-TERM DEBT

	September 30, 2012	December 31, 2011
Current portion of long-term debt		
Finance contracts	**$ 288**	$ 598
Finance lease obligations	**825**	805
	$ 1,113	$ 1,403
Non-current		
Revolving credit facility	**$ 68,008**	$ 59,628
Finance contracts	**-**	10
Finance lease obligations	**451**	795
	$ 68,459	$ 60,433

On July 12, 2012, the Corporation entered into an agreement amending the terms and conditions for its $200,000 senior secured revolving credit facility. The syndicate of lenders remains the same and the revolving credit facility continues to include a $75,000 accordion feature. Changes to the revolving credit facility, which became effective on July 12, 2012, include a 25 basis point reduction in the applicable interest rate, a one-year extension of the facility with a new maturity date of July 12, 2016, an increase in the swingline loan from $10,000 to $15,000 and additional flexibility on consents regarding dividends and acquisitions.

The revolving credit facility includes a swingline loan of $15,000 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 September 30, 2012, there was no drawdown on the swingline (December 31, 2011 - $nil).

16. CONVERTIBLE DEBENTURES

There were no changes to the terms and conditions of the convertible debentures during the quarter ended September 30, 2012.

	September 30, 2012	December 31, 2011
Principal amount - debt component	**$ 76,691**	$ 74,454
Accretion on convertible debentures	**1,400**	1,724
Amortization of deferred financing fees	**418**	513
Balance at the end of the period	**$ 78,509**	$ 76,691
Principal amount - equity component, end of the period	**$ 7,100**	$ 7,100

17. SHARE-BASED PAYMENTS

(a) Share options

Movement during the periods

	September 30, 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	**630,161**	**14.14**	424,011	18.45
Forfeited	**(7,576)**	**19.40**	(8,657)	18.41
Surrendered	**(242,776)**	**7.32**	(3,743)	8.50
Outstanding, end of period	**1,922,592**	**$ 15.14**	1,542,783	$ 14.34

The options outstanding at September 30, 2012 have an exercise price in the range of $6.43 to $19.63 (September 30, 2011 - $6.43 to $19.63) and a weighted average contractual life of 5 years (September 30, 2011 - 5 years).

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:

	September 30, 2012	December 31, 2011
Balance, beginning of the period	**$ 7,636**	$ 4,860
Share-based compensation expense	**2,031**	2,818
Share options surrendered	**(862)**	(42)
Balance, end of period	**$ 8,805**	$ 7,636

(b) Performance share units (PSUs)

Movement during the periods

	September 30, 2012	December 31, 2011
	Number of Performance Share Units	Number of Performance Share Units
Outstanding, beginning of the period	**340,055**	291,291
Granted	**196,785**	94,177
Forfeited	**(4,617)**	(1,805)
Vested and paid	**(175,126)**	(43,608)
Outstanding, end of period	**357,097**	340,055

(c) Deferred share units (DSUs)

Movement during the periods

	September 30, 2012	December 31, 2011
	Number of Deferred Share Units	Number of Deferred Share Units
Outstanding, beginning of the period	**165,434**	97,283
Granted	**210,655**	68,151
Vested and paid	**(376)**	-
Outstanding, end of period	**375,713**	165,434

(d) Share-based payment liability

	September 30, 2012	December 31, 2011
Carrying amount of liabilities for cash-settled arrangements		
- current portion	**$ 73**	$ 1,881
- long-term portion	**3,237**	2,061
Total carrying amount	**$ 3,310**	$ 3,942
Total intrinsic value of liability for vested benefits	**$ 2,431**	$ 1,753

The PSUs issued in 2009 vested on March 15, 2012 and were paid to unit holders at a payout ratio of 109%, totalling $2,958 in Q1. 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 $3,237 at September 30, 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.

(e) Share-based compensation expense

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Share-based compensation expense on share options	**$ 746**	$ 774	**$ 2,031**	$ 2,033
Effects of changes in fair value and grants for PSUs	**(450)**	(151)	**1,700**	255
Effects of changes in fair value and grants for DSUs	**(93)**	(123)	**350**	73
	$ 203	$ 500	**$ 4,081**	$ 2,361

18. SHARE CAPITAL

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.

	September 30, 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	**178,218**		**2,065**	92,718		1,293
Repurchased in the period	**(37,439)**		**(192)**	(53,400)		(274)
Issued in the period	**-**		**-**	126,974		2,514
Issued, end of period	**24,440,798**	**$**	**126,163**	24,300,019	$	124,290

(a) Common shares and dividends

On May 25, 2011, Churchill announced that it was implementing a dividend policy. The Corporation declared its sixth quarterly dividend of $0.12 per share, which was paid on October 16, 2012 to shareholders of record on September 28, 2012.

As at September 30, 2012, trade and other payables includes $2,933 (December 31, 2011 - $2,923) related to the declared but as yet unpaid dividend, of which $439 (December 31, 2011 - $717) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

	September 30, 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		**0.36**		**8,778**		0.36		8,749
Total dividends paid during the period [(1)]		**(0.36)**		**(8,768)**		(0.24)		(5,826)
Dividend payable, end of period	**$**	**0.12**	**$**	**2,933**	$	0.12	$	2,923

[(1)] Includes DRIP non-cash payments totaling $2,065 (December 31, 2011 - $1,293) which are recorded through share capital.

(b) Normal course issuer bid

During the nine month period ended September 30, 2012, 37,439 (December 31, 2011 – 53,400) common shares were purchased under the Corporation's NCIB for a total of $398 (December 31, 2011 – $585) or $10.67 per share (December 31, 2011 - $10.96 per share).

Of the common shares repurchased during the period, 37,439 were cancelled, resulting in the average carrying value of $192 being allocated as a reduction in equity and $206 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 September 30, 2012.

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

	Nine months ended	
	September 30, 2012	September 30, 2011
Trade and other receivables	**$ (11,744)**	$ (23,510)
Inventory	**1,631**	(716)
Prepaid expenses	**(1,354)**	1,110
Current portion of long-term receivable	**-**	1,078
Costs in excess of billings	**726**	(10,099)
Trade and other payables	**(32,091)**	4,104
Contract advances and unearned income	**(9,398)**	(1,940)
	$ (52,230)	$ (29,973)

20. FINANCIAL INSTRUMENTS

(a) Carrying values

	September 30, 2012	December 31, 2011
Financial assets:		
Cash and cash equivalents	**$ 30,518**	$ 59,445
Trade and other receivables	**357,516**	345,772
Service provider deposit - long-term portion	**3,490**	6,066
Long-term receivable	**200**	300
Financial liabilities:		
Trade and other payables	**$ 249,606**	$ 283,857
Long-term debt including current portion	**69,572**	61,836
Convertible debentures - debt component	**78,509**	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.

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 September 30, 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 $74 at September 30, 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 is recorded within accrued liabilities or 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

(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.

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:

	September 30, 2012	December 31, 2011
Balance at beginning of the period	**$ 1,993**	$ 3,685
Impairment losses recognized on receivables	**159**	143
Amounts written off during the period as uncollectible	**725**	(319)
Amounts received during the period	**(536)**	(1,340)
Impairment losses reversed	**(654)**	(176)
Balance at the end of the period	**$ 1,687**	$ 1,993

Trade receivables shown on the statement of financial position 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.

	September 30, 2012	December 31, 2011
0-30 days	**$ 175,839**	$ 173,958
31-90 days	**58,290**	43,962
91-120 days	**4,990**	6,665
More than 120 days	**14,062**	9,687
	$ 253,181	$ 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 $17,365 of trade receivables which were greater than 90 days past due and not provided for at September 30, 2012 (December 31, 2011 - $14,359). Of the total, $9,508 (50%) was concentrated in five customer accounts and $8,752 remained outstanding as of November 2, 2012. The related customers are considered to be credit-worthy and there are presently no concerns regarding collectability of these accounts. Trade receivables are included in trade and other receivables on the statements of financial position.

(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 variable interest rate risk on its revolving credit facility. 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	
	September 30, 2012	December 31, 2011
Fixed rate instruments		
Financial liabilities	**78,509**	76,691
Variable rate instruments		
Financial assets	**$ 30,518**	$ 59,445
Financial liabilities	**69,572**	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 $168 (December 31, 2011 - $422) related to financial assets and by $383 (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 September 30, 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.

	Carrying amount	Contractual cash flows	0 - 6 months	6 - 12 months	12 - 24 months	After 24 months
Trade and other payables	**$ 249,606**	$ 249,606	$ 249,606	$ -	$ -	$ -
Provisions including current portion	**10,371**	10,371	1,859	1,859	3,213	3,440
Convertible debentures	**78,509**	101,778	2,588	2,587	5,175	91,429
Long-term debt including current portion	**69,572**	69,444	374	374	172	68,524
Fuel derivative [(1)]	**(74)**	386	386	-	-	-
Lease commitments	**62,295**	62,295	3,765	3,765	6,640	48,126
	$ 470,279	$ 493,880	$ 258,578	$ 8,584	$ 15,200	$ 211,519

[(1)] Cash inflows related to the fuel derivative are not reported in the maturity analysis. If these cash inflows were also recognized, the cash outflow presented would be substantially lower, if not nil.

(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 remaining contract requires the Corporation to pay a fixed price of $0.7727 per litre and receive the floating market price at the settlement date from the counterparty on 500,000 litres of heating oil. The contract expires in October 2012.

21. 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.

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:

	September 30, 2012	December 31, 2011
Long-term indebtedness:		
Long-term debt, excluding current portion net of deferred financing fees	**$ 68,459**	$ 60,433
Convertible debentures - debt component net of deferred financing fees	**78,509**	76,691
Total long-term indebtedness	**146,968**	137,124
Total equity	**299,457**	309,141
Total capitalization	**$ 446,425**	$ 446,265
Indebtedness to capitalization percentage	**33%**	31%

The Corporation targets a long-term indebtedness to EBITDA ratio of 1.5x to 3.0x over a three to five-year planning horizon. At September 30, 2012, the long-term indebtedness to EBITDA was 2.93x (September 30, 2011 – 1.73x) calculated on a trailing twelve-month basis as follows:

		September 30, 2012		September 30, 2011
Total long-term indebtedness	**$**	**146,968**	$	142,726
Net earnings and comprehensive income	**$**	**8,080**	$	31,005
Add:				
Finance costs		**11,759**		13,063
Income tax expense		**2,580**		12,221
Depreciation and amortization		**27,734**		26,139
EBITDA	**$**	**50,153**	$	82,428
Long-term indebtedness to EBITDA ratio		**2.93x**		1.73x

Notwithstanding the Corporation's current long-term indebtedness to EBITDA ratio being close to the target, management has reviewed the target range and considers it appropriate over the three to five-year horizon.

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 covenants listed below are measured each period on March 31, June 30, September 30 and December 31. The Corporation was in full compliance with its credit facility covenants at September 30, 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. The Corporation's working capital ratio cannot be less than 1.1:1.
- 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. For the purposes of the revolving credit facility, EBITDA is defined as earnings or loss before interest, income taxes, depreciation and amortization, non-cash gains and losses from financial instruments, stock based compensation and non-recurring gains and losses. The Corporation's interest coverage ratio must exceed 3:1.
- Debt to EBITDA – Debt represents total indebtedness and total obligations of the Corporation and its subsidiaries, excluding convertible debentures. The Corporation's total debt to EBITDA ratio cannot exceed 2.5:1.
- Senior Debt to EBITDA – Senior Debt represents all debt other than subordinated or unsecured debt. The Corporation's senior debt to EBITDA cannot exceed 2:1.

22. 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 three months ended September 30, 2012 of $136 (September 30, 2011 - $150) 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. For the nine months ended September 30, 2012 these facility costs were $437 (September 30, 2011 - $434). At September 30, 2012, $41 is included in trade payables (September 30, 2011 - $nil).

23. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Corporation has provided several letters of credit in the amount of $10,645 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.

24. EVENTS AFTER THE REPORTING PERIOD

In October 2012, the Corporation provided three letters of credit totalling $6,500 associated with a lien bond on a project.

On November 4, 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 January 15, 2013 to shareholders of record on December 31, 2012. The ex-dividend date is December 27, 2012.

Corporate & Shareholder Information

Officers

Doug Haughey, B.Admin., MBA
Chief Executive Officer

David LeMay, MBA
President and Chief Operating Officer

Daryl Sands, B.Comm., CA
Executive Vice President, Finance and Chief Financial Officer

Don Pearson, B.Sc., P.Eng.
President and Chief Operating Officer
Stuart Olson Dominion Construction Ltd.

Gord Broda
President and Chief Operating Officer
Broda Construction Inc.

Ron Martineau
President
Churchill Services Group

Al Miller
President
Canem Systems Ltd.

Andrew Apedoe, B.Comm.
Vice President, Investor Relations

Joette Decore, BSc., MBA
Vice President, Corporate Development

Amy Gaucher, B.Comm., CA
Vice President, Finance and Administration

Jack Jenkins, B.Sc., MBA
Vice President, Human Resources and Strategic Planning

Evan Johnston, L.L.B., CFA
Vice President, General Counsel and Corporate Secretary

Barrie Stanton, B.A.
Vice President, Business Applications and Information Technology

Directors

Albrecht W.A. Bellstedt, B.A., J.D., Q.C.
Chair

Wendy L. Hanrahan, CA (1) (2)

Harry A. King, B.A., CA (1)

Carmen R. Loberg (2) (4)

Allister J. McPherson, B.Sc., M.Sc. (1) (3)

Henry R. Reid, B.ASc., MBA, P.Eng. (4)

Ian M. Reid, B.Comm. (1) (3)

George M. Schneider (2) (4)

Brian W. L. Tod, B.A., LL.B., Q.C. (2) (3)

(1) Member of the Audit Committee
(2) Member of the Human Resources & Compensation Committee
(3) Member of the Corporate Governance & Nominating Committee
(4) Member of the Health, Safety and Environment Committee

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HSBC Bank Canada

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Aon Reed Stenhouse Inc.
CNA Financial Corporation
Travelers Guarantee Company

Registrars and Transfer Agents

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