Q2

SECOND QUARTER INTERIM REPORT
For the three and six months ended June 30, 2013

the Churchill Corporation

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 six months ended June 30, 2013, contains information current to August 12, 2013 and should be read in conjunction with the June 30, 2013 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 2012, is presented in accordance with IFRS unless otherwise noted.

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:

- Management's views as to the factors on which Churchill's performance depends as referenced in the statements under the heading entitled "Key Performance Drivers and Capabilities";
- 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;

- Management's 2013 capital expenditure and EBITDA projections including, without limitation, a 2013 full year EBITDA forecast between $42 million and $47 million, and the expectation of continued improvement in Churchill's financial results in the third and fourth quarter of 2013;

- The expectation that any of the Corporation's operating companies will improve or maintain their business prospects or continue to grow their revenue, earnings and backlog in any manner whatsoever including, without limitation, through margin expansion, organic growth, new project awards or productivity efficiencies;

- 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 competition, government and institutional spending in Western Canada, margin expansion in certain of the Corporation's operating companies, and the ability of the Corporation to compete for projects;

- The Corporation's projected use of cash resources; and

- The ability of the Corporation's operating companies to execute upon their strategic and annual operating plans to expand geographically, target larger projects, hire talented employees, 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 on the Corporation of competition;

- The global demand for oil and natural gas, its impact on commodity prices and its related effect on capital investment 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 slowdown in western Canada and/or a further slowdown in the U.S.;
- Weak capital and/or credit markets;
- Fluctuations in currency and interest rates;
- Changes in laws and regulations;
- Limited geographical scope of operations;
- Timing of client's capital projects or maintenance spending;
- Dependence on the public sector;
- Competition and pricing pressures;
- Unexpected adjustments and cancellations of projects;
- Action or non-action of customers, suppliers and/or partners;
- Inadequate project execution;
- Unpredictable weather conditions;
- Erroneous or incorrect cost estimates;
- Adverse outcomes from current or pending litigation;
- Interruption of information technology systems; and
- Those other risk factors described in the Corporation's most recent Annual Information Form filed under the Corporation's SEDAR profile at www.sedar.com.

The forward-looking statements contained in this MD&A are made as of 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.

Executive Summary

Core Business and Strategy

The Corporation provides general contracting and electrical contracting and data systems in the institutional and commercial markets, and general contracting, electrical, mechanical, earthmoving, insulation and specialty trade services in the industrial construction market.

Key Performance Drivers and Capabilities

Our performance depends upon, among other things, our ability to maintain a strong safety program; attract and retain qualified people; strong project and financial reporting systems to manage projects and costs efficiently; increasing backlog by exceeding customer expectations and earning repeat business; adequate liquidity to fund working capital and a balance sheet which allows us to pursue growth initiatives, such as geographic and service expansion.

Results

- In Q2 2013, our EBITDA increased by 109% to $9.2 million, compared to $4.4 million in Q2 2012. Net earnings improved to $0.5 million in Q2 2013 from a loss of $4.3 million in Q2 2012, primarily due to strong project execution within the Industrial Services segment. Diluted earnings per share of $0.02 in Q2 2013 compared favourably to diluted loss per share of $0.18 in Q2 2012.
- As at June 30, 2013, the Corporation was in full compliance with its covenants, had available cash of $30.8 million and had additional borrowing capacity of $38.6 million.

Declaration of Common Share Dividend

On August 12, 2013 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 October 15, 2013 to shareholders of record on September 30, 2013. 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 maintain 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 overall profitability, debt service requirements, operating costs and other factors affecting cash sources and uses.

Outlook

Our second quarter 2013 EBITDA was ahead of our expectations as the favourable resolution of project contingencies, high activity levels and strong project execution in the Industrial Services segment boosted our financial performance. We are revising our 2013 guidance range to $42 to $47 million of EBITDA, based on our outlook for the remainder of the year. The outlook for each segment ranges from stable in our Commercial Systems and Industrial Services segments to improving in the General Contracting segment. Our expectations are for a sequential improvement in EBITDA during the third and fourth quarters of 2013.

Risks

Various factors could cause our actual results to differ materially from those anticipated in our forward-looking statements and are described in this document and the “Risk Factors” section of Churchill’s Annual Information Form.

Core Business and Strategy

Churchill provides institutional, commercial and industrial construction and maintenance services. As of June 30, 2013, Churchill had 3,437 employees (704 salaried employees and 2,733 hourly employees). Churchill is focused on growing revenue and earnings through organic growth and an expanded geographical presence, accelerating the growth of its higher margin Industrial Services segment, and leveraging client relationships through integrating the services of its industrial operating companies.

Strategy

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

Business Segments

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, require different execution skill sets, generate different gross margin yields and have different risk profiles. The evaluation of results by segment and by individual operating entity is consistent with the way in which management performance is assessed. In order to understand more clearly the operating results for the Corporation, the discussion of business results within this MD&A will be focused mainly at the business segment level.

Stuart Olson Dominion Construction Ltd. ("Stuart Olson Dominion"), forms the General Contracting segment. Canem Holdings Ltd. ("Canem") forms the Commercial Systems segment. Both of these companies have revenue and earnings in excess of 10% of the consolidated revenue and earnings of the Corporation, thus justifying separate disclosure under *IFRS 8, Operating Segments.* Although both of these companies serve the institutional/commercial construction market, they operate independently and provide different products and services to different classes of customers, in that Stuart Olson Dominion's customers are primarily project owners and Canem typically subcontracts to general contractors.

Churchill Services Group Inc. ("CSG") forms our Industrial Services segment. CSG has four divisions: Broda Construction Inc. ("Broda"), Laird Electric Inc. ("Laird Electric"), Laird Constructors Inc. ("Laird Constructors") and Specialty Services (being Fuller Austin Inc. ("Fuller Austin") and Northern Industrial Insulation Contractors Inc. ("Northern")). These divisions 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. Headquartered in Calgary, Alberta, Stuart Olson Dominion constructs commercial, institutional and industrial buildings. Stuart Olson Dominion has been a general contractor since 1911 and has branch offices in Richmond, British Columbia; Calgary and Edmonton, Alberta; Saskatoon and Regina, Saskatchewan; Winnipeg, Manitoba and Mississauga, Ontario.

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 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.

During the first six months of 2013, Stuart Olson Dominion delivered 45% of Churchill's consolidated revenue (excluding intersegment eliminations), (3%) of earnings before interest, taxes, depreciation and amortization ("EBITDA") (excluding the Corporate and Other segment and intersegment eliminations) and 68% of total backlog. During the first six months of 2012, Stuart Olson Dominion comprised 57% of consolidated revenue, 21% of EBITDA and 68% 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, B.C., its services include: (a) design of electrical distribution systems within a building or complex; (b) procurement and installation of electrical equipment and materials; (c) on-call service for electrical maintenance and troubleshooting; (d) preventative and scheduled maintenance for critical component installations; (e) budgeting and pre-construction services; and (f) management of regional and national contracts for multi-site installations.

For the first six months of 2013, Canem provided 18% of Churchill's consolidated revenue (excluding intersegment eliminations), 37% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations) and 10% of total backlog. During the first six months of 2012, Canem represented 14% of consolidated revenue, 38% of EBITDA and 14% of total backlog.

Industrial Services

The Industrial Services segment consists of CSG. CSG has four divisions, being Broda, Laird Electric, Laird Constructors and Specialty Services.

- Broda is headquartered in Prince Albert, Saskatchewan, providing aggregate processing, earthwork, civil construction, concrete production and related services to mining and infrastructure organizations, as well as providing ballast to Canada's two major railway corporations.
- 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 within 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 and consists of Fuller Austin and Northern. It serves 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.

The industrial services divisions have the ability to contract with clients jointly or independently. Management believes that offering fully integrated industrial services through CSG has allowed, and will continue to allow Churchill to pursue larger projects and contracts within the industrial environment.

In the first six months of 2013, Industrial Services constituted 37% of Churchill's consolidated revenue (excluding intersegment eliminations), 66% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations) and 22% of total backlog. During the first six months of 2012, Industrial Services amounted to 29% of consolidated revenue, 41% of EBITDA and 18% of total backlog.

Corporate and Other

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

Additionally, the Corporation reports certain assets held-for-sale, which at June 30, 2013 consisted of agricultural land located near Lamont, Alberta.

Key Performance Drivers and Capabilities

Our performance depends upon, among other things, our ability to maintain a strong safety program; attract and retain qualified people; strong project and financial reporting systems to manage projects and costs efficiently; increasing backlog by exceeding customer expectations and earning repeat business; and adequate liquidity to fund working capital and pursue growth initiatives, such as geographic and service expansion.

Safety

A focused safety culture and strong safety program is of the highest importance in our operating companies. To reinforce our focus on a safety culture, the executive leadership team at Churchill participates directly via the Health, Safety and Environment ("HS&E") Council and the HS&E Committee of Churchill's Board of Directors. A focused safety culture and an excellent safety record is an essential organizational fundamental for success. It is also a critical element in pre-qualifying for projects and in our ability to recruit the best employees across the entire organization.

People

To attract and retain qualified staff we offer market-competitive compensation and benefits, including referral bonuses, year-end bonuses and a share purchase plan available to all employees; matching contributions into a Registered Retirement Savings Plan ("RRSP") or enrolment in a defined-contribution pension plan.

We engage in company-wide town hall meetings to promote engagement and a link to the other organizations under the Churchill Group of Companies. We offer leadership and career development opportunities. To measure our success in attracting and retaining staff, we use tools such as onboarding and exit interviews. We also track turnover rates for our staff through our human resources department.

Systems

We have invested heavily in technology to put the best tools in the hands of our employees so they can be successful in delivering projects.

Operational Excellence

Successful project delivery is at the core of operational excellence. It's required for Churchill to retain its client's and secure new ones. Successful project delivery includes meeting targets for health and safety performance, budget, schedule, quality of work and client satisfaction.

Backlog

Procuring quality new work is a function of the economy and markets we operate within. While we are always seeking ways to identify and procure new clients, a significant proportion of our projects are awarded to us from repeat clients. Competition from Canadian and foreign entities, along with consultant and client procurement strategies can sometimes impede our ability to replace backlog.

Liquidity

Maintaining a strong financial position is important to demonstrate to shareholders, creditors and clients that the company is sufficiently capitalized to deliver on its commitments. It also allows the company to support existing operations and plan for its future growth.

Geographic and Service Expansion

Expansion of geographic coverage, product and service will be important to our success. Accessing new markets and offering new product and services provides opportunities for organic growth. In recent years Churchill has expanded into Saskatchewan, Manitoba, Northern Ontario and the Greater Toronto Area ("GTA") market through acquisition and organic means.

Selected Interim Financial Information

($millions, except per share amounts)	Three months ended June 30 2013	Three months ended June 30 2012[1]	Six months ended June 30 2013	Six months ended June 30 2012[1]
Contract revenue	$ 277.8	$ 295.8	$ 514.7	$ 629.0
Contract income[2]	26.0	23.8	48.1	57.8
EBITDA from continuing operations[3]	9.2	4.4	16.0	18.1
Net earnings (loss) from continuing operations	0.5	(4.3)	(0.7)	(1.3)
Net earnings (loss) from discontinued operations	-	-	-	0.1
Net earnings (loss)	0.5	(4.3)	(0.7)	(1.2)
Net earnings (loss) per common share from continuing operations				
- Basic	$ 0.02	$ (0.17)	$ (0.03)	$ (0.04)
- Diluted	0.02	(0.17)	(0.03)	(0.04)
Net earnings (loss) per common share				
- Basic	0.02	(0.17)	(0.03)	(0.04)
- Diluted	0.02	(0.17)	(0.03)	(0.04)

	June 30, 2013	December 31, 2012
Backlog[3]	$ 1,809.8	$ 1,690.5
Working capital[3]	92.6	79.2
Long-term debt (excluding current portion)	69.7	51.9
Convertible debentures (excluding equity portion)	80.4	79.2
Total assets	691.3	742.4

Note: (1) *Refer to Note 6 to the notes to the consolidated financial statements for retrospecitve adoption of IAS 19.*
(2) *Includes reclassification of costs between contract costs and administrative costs. The amount of reclassification for the three and six month periods ending June 30, 2012 was $2,063 and $3,756, respectively.*
(3) *"EBITDA" is earnings from continuing operations before interest, taxes, depreciation and amortization. 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 generates the majority of its revenues from the four Western Canadian provinces of Manitoba, Saskatchewan, Alberta and British Columbia. In 2011, with the establishment of Laird Constructors, headquartered in Sudbury, Ontario, the Corporation established an industrial presence in northern Ontario. In May 2013, the Corporation opened a general contracting office in the GTA. The following tables sets out selected interim results by operating segment:

($millions, except margin percent)	Three months ended June 30, 2013 Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 277.8	$ 120.8	$ 46.8	$ 115.8	$ -	$ (5.6)
Contract income	26.0	7.2	6.9	11.5	-	0.4
Contract income margin	9.4%	6.0%	14.9%	9.9%	-	-
Administrative costs	19.9	8.2	3.0	5.2	3.5	-
EBITDA(3)	9.2	(0.1)	4.3	8.3	(3.5)	0.4
EBITDA margin	3.3%	-0.1%	9.1%	7.1%	-	-
EBT(3)	0.6	(1.1)	3.9	6.1	(8.5)	0.3
Backlog(3)	$ 1,809.8	$ 1,224.6	$ 186.7	$ 398.5	$ -	$ -

	Three months ended June 30, 2012(1) Total	General Contracting	Commercial Systems(2)	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 295.8	$ 177.3	$ 46.4	$ 84.8	$ -	$ (12.8)
Contract income	23.8	8.5	7.5	6.1	-	1.7
Contract income margin	8.0%	4.8%	16.2%	7.2%	-	-
Administrative costs	21.4	10.0	4.2	5.2	2.1	(0.1)
EBITDA(3)	4.4	(0.7)	3.5	1.9	(2.1)	1.7
EBITDA margin	1.5%	-0.4%	7.6%	2.3%	-	-
EBT(3)	(5.6)	(1.7)	2.8	(0.1)	(8.2)	1.6
Backlog(3)(4)	$ 1,690.5	$ 1,115.8	$ 194.3	$ 380.4	$ -	$ -

Notes:
(1) Refer to Note 6 to the notes to the consolidated financial statements for retrospecitve adoption of IAS 19.
(2) Includes reclassification of costs between contract costs and administrative costs. The amount of reclassification for the three month period ending June 30, 2012 was $2,063.
(3) "EBT" is earnings (loss) from continuing operations before income tax. EBT, EBITDA and backlog are non-IFRS Refer to "Terminology" for definitions of non-IFRS measures.
(4) As of December 31, 2012.

For the three months ended June 30, 2013, consolidated contract revenue was $277.8 million, compared to $295.8 million in 2012, a 6% decrease. The General Contracting segment's revenue decreased by $56.5 million or 32%, the Commercial Systems segment's revenue increased by $0.3 million or 1%, and the Industrial Services segment revenue increased by $31.0 million or 37%. Intersegment revenue during the second quarter of 2013 was $5.6 million, a decrease of $7.2 million compared to the second quarter of 2012, primarily resulting from less intercompany activity between the Commercial Systems and General Contracting segments.

Contract income increased from $23.8 million (8.0% of revenue) in the second quarter of 2012 to $26.0 million (9.4% of revenue) in the second quarter of 2013. The $2.2 million year-over-year increase in contract income is made up of an increase in the Industrial Services segment of $5.4 million (88%) offset by decreases in the General Contracting segment of $1.3 million

(15%), $0.6 million (8%) within the Commercial Systems segment, and a decrease in the intersegment elimination of $1.3 million (79%).

Administrative expenses for the second quarter of 2013 amounted to $19.9 million (7.1% of revenue) compared to $21.4 million (7.2% of revenue) in the second quarter of 2012. Administrative expenses decreased by $1.9 million (19%) in the General Contracting segment, $1.2 million (29%) in the Commercial Systems segment, and $0.04 million (1%) in the Industrial Services segment. Administrative expenses increased by $1.4 million (70%) in the Corporate and Other segment from the impact of marking-to-market stock-based compensation.

The net impact of the aforementioned differences in revenue, contract income and administrative expense was a $4.8 million increase in second quarter 2013 EBITDA to $9.2 million as compared to $4.4 million in 2012.

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. The assets acquired relate to the acquisition of Dominion, Canem and Broda in 2010 and McCaine Electric Ltd. in 2011. These assets resulted in an amortization charge of $1.8 million in the second quarter of 2013. The comparable charge in the second quarter of 2012 was $3.6 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 June 30, 2013 was $55.5 million (December 31, 2012 - $58.7 million).

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

Earnings before tax for the second quarter of 2013 was $0.6 million compared to a loss before tax of $5.6 million in the second quarter of 2012 (increase of $6.2 million), primarily as a result of the $4.8 million increase in second quarter 2013 EBITDA.

The Corporation's consolidated net earnings for the second quarter of 2013 was $0.5 million compared to a net loss of $4.3 million in the same period of 2012, a $4.8 million increase, consistent with the aforementioned increase in EBT partly offset by a $1.4 million increase in income tax expense.

($millions, except margin percent)	Six months ended June 30, 2013 Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 514.7	$ 237.8	$ 94.4	$ 195.4	$ -	$ (12.8)
Contract income	48.1	13.3	14.2	20.2	-	0.4
Contract income margin	9.3%	5.6%	15.1%	10.3%	-	-
Administrative expenses	37.7	15.4	6.4	9.5	6.4	-
EBITDA(3)	16.0	(0.6)	8.2	14.4	(6.4)	0.4
EBITDA margin	3.1%	-0.3%	8.7%	7.4%	-	-
EBT(3)	(0.8)	(2.7)	7.4	10.2	(16.0)	0.3
Backlog(3)	$ 1,809.8	$ 1,224.6	$ 186.7	$ 398.5	$ -	$ -

	Six months ended June 30, 2012(1) Total	General Contracting	Commercial Systems(2)	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 629.0	$ 371.5	$ 93.1	$ 189.6	$ -	$ (25.3)
Contract income	57.8	21.5	16.3	16.7	-	3.3
Contract income margin	9.2%	5.8%	17.5%	8.8%	-	-
Administrative expenses	46.3	19.7	8.5	10.7	7.5	(0.1)
EBITDA(3)	18.1	4.7	8.5	9.2	(7.5)	3.3
EBITDA margin	2.9%	1.3%	9.1%	4.8%	-	-
EBT(3)	(1.5)	2.6	7.1	5.4	(19.6)	3.0
Backlog(3)(4)	$ 1,690.5	$ 1,115.8	$ 194.3	$ 380.4	$ -	$ -

Notes:

(1) Refer to Note 6 to the notes to the consolidated financial statements for retrospecitve adoption of IAS 19.

(2) Includes reclassification of costs between contract costs and administrative costs. The amount of reclassification for the six month period ending June 30, 2012 was $3,756.

(3) "EBT" is earnings (loss) from continuing operations before income tax. EBT, EBITDA and backlog are non-IFRS Refer to "Terminology" for definitions of non-IFRS measures.

(4) As of December 31, 2012.

For the six months ended June 30, 2013, consolidated contract revenue was $514.7 million, compared to $629.0 million in the first half of 2012, an 18% decrease. The General Contracting segment's revenue decreased by $133.8 million or 36%, the Commercial Systems segment's revenue increased by $1.3 million or 1%, and the Industrial Services segment revenue increased by $5.7 million or 3%. Intersegment revenue during the first six months of 2013 was $12.8 million, a decrease of $12.4 million compared to the first half of 2012, primarily resulting from less intercompany activity between the Commercial Systems and General Contracting segments.

Contract income decreased from $57.8 million, or 9.2% of revenue, in the first half of 2012 to $48.1 million, or 9.3% of revenue, in the six months ended June 30, 2013. Of the $9.7 million decrease in contract income, the Industrial Services segment reported an increase of $3.5 million, offset by a decrease of $8.2 million from the General Contracting segment, a decrease of $2.1 million from the Commercial Systems segment, and the intersegment elimination resulted in a $2.9 million decrease in contract income.

Administrative expenses for the first half of 2013 amounted to $37.7 million (7.3% of revenue) compared to $46.3 million (7.4% of revenue) in the first half of 2012. Administrative expenses decreased by $4.3 million (22%) in the General Contracting segment, $2.1 million (25%) in the Commercial Systems segment, and $1.2 million (11%) in the Industrial Services segment. Administrative expenses decreased by $1.1 million (15%) in the Corporate and Other segment from the impact of marking-to-market stock-based compensation.

Amortization expense associated with intangible assets in the first half of 2013 was $3.9 million compared to $7.2 million in the first six months of 2012.

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

EBITDA in the first half of 2013 decreased by $2.1 million or 12%, compared to the first half of 2012 (first six months of 2013 - $16.0 million, first six months of 2012 - $18.1 million). Earnings (loss) before tax during the first half of 2013 was $(0.8) million, compared to $(1.5) million in the first six months of 2012. The net loss for the six months ended June 30, 2013, was $0.7 million, compared to a net loss of $1.2 million (including net earnings from discontinued operations of $0.1 million) in the first six months of 2012.

In the six months ended June 30, 2013, funds from operations of $18.4 million decreased 8% from $20.1 million in the second half of 2012. Funds from operations are discussed in the Capital Resources and Liquidity - Summary of Cash Flows section that follows.

Churchill's backlog, including work-in-hand, at June 30, 2013 was $1,809.8 million, compared to $1,690.5 million at December 31, 2012, a $119.3 million or 7% increase. The Corporation's backlog consists of work-in-hand of $1,082.7 million (December 31, 2012 – $964.5 million) and active backlog of $727.1 million (December 31, 2012 – $726.0 million). The backlog consists of approximately 49% CM, 32% cost-plus arrangements (combined total of 81% CM and cost-plus) and 19% tendered (hard-bid) work. Tendered projects tend to carry the largest amount of price and schedule risk because the competitive process forces contractors to be the lowest bidder. CM projects tend to carry less schedule and price 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 June 30, 2013 was $1,224.6 million in General Contracting (December 31, 2012 – $1,115.8 million), $186.7 million in Commercial Systems (December 31, 2012 – $194.3 million) and $398.5 million in the Industrial Services segment (December 31, 2012 – $380.4 million). New contract awards and net increases in contract value of $415.5 million were added to work-in-hand in the second quarter of 2013 (December 31, 2012 – $246.8 million).

Results of Operations

General Contracting

For the three months ended June 30, 2013, Stuart Olson Dominion's revenue was $120.8 million, compared to $177.3 million in the three months ended June 30, 2012. This $56.5 million or 32% decrease was primarily attributable to being in the pre-construction and early construction stages on several new projects.

Stuart Olson Dominion's contract income in the second quarter of 2013 decreased by 15%, to $7.2 million, from $8.5 million for the three months ended June 30, 2012. The second quarter of 2013 decrease in the value of contract income generated resulted from the lower volume of project work executed notwithstanding the improved contract income margin realized on executed project work. The contract income margin was 6.0% in Q2 2013 compared to 4.8% in the second quarter of 2012.

Stuart Olson Dominion's administrative expense was $8.2 million (6.8% of revenue) in the three months ended June 30, 2013 compared to $10.0 million (5.7% of revenue) in the second quarter of 2012. The $1.8 million or 18% decrease is primarily related to a leaner organizational structure and related compensation expense.

EBITDA for Stuart Olson Dominion in the three months ended June 30, 2013 was $(0.1) million compared to $(0.7) million in the second quarter of 2012. This $0.6 million or 83% improvement in EBITDA was mainly due to the aforementioned $1.8 million decrease in administrative expense partly offset by the decrease in contract income.

For the six months ended June 30, 2013, Stuart Olson Dominion's revenue was $237.8 million, compared to $371.5 million in the first half of 2012. Stuart Olson Dominion's contract income in the first half of 2013 decreased by $8.2 million, or 38%, to $13.3 million from $21.5 million for the first six months of 2012. The contract income margin for the first half of 2013 was 5.6% compared to 5.8% in the first half of 2012. Administrative expense was $15.4 million (6.5% of revenue) during the first six months of 2013, as compared to $19.7 million (5.3% of revenue) during the first half of 2012. EBITDA for Stuart Olson Dominion in the first half of 2013 was $(0.6) million compared to $4.7 million in the same period of 2012.

Stuart Olson Dominion had backlog of $1,224.6 million as at June 30, 2013, compared to backlog of $1,115.8 million at December 31, 2012, a $108.8 million or 10% increase. As at June 30, 2013 approximately 65% of Stuart Olson Dominion's backlog was composed of CM assignments, 29% was cost-plus projects (combined total of 94% CM and cost-plus) and 6% were tendered projects. The June 30, 2013 backlog consisted of $656.2 million of work-in-hand and $568.4 million of active backlog, compared to $575.6 million of work-in hand and $540.2 million of active backlog as at December 31, 2012. In respect of work-in-hand, the segment contracted $239.7 million of new awards and scope increases during the quarter and executed $120.8 million of contract revenue.

Commercial Systems

The Commercial Systems segment's second quarter 2013 revenue was $46.8 million, compared to $46.4 million in the three months ended June 30, 2012. This $0.4 million or 1% increase was primarily attributable to increased revenue from the Manitoba and British Columbia regions, partly offset by lower revenue from Alberta operations.

Contract income in the second quarter of 2013 decreased by $0.6 million, or 8%, to $6.9 million from $7.5 million during the second quarter of 2012. This resulted in a contract income margin of 14.9% for the second quarter of 2013 compared to 16.2% in the second quarter of 2012. The reduced margin is attributable to the execution of lower margin projects in 2013 and competitive market conditions.

Canem's administrative expense was $3.0 million (6.3% of revenue) in the second quarter of 2013 compared to $4.2 million (9.0% of revenue) in the three months ended June 30, 2012.

EBITDA for Canem in the second quarter of 2013 was $4.3 million (9.1% EBITDA margin) compared to $3.5 million (7.6% EBITDA margin) for the second quarter of 2012. This $0.8 million (23%) increase was due to the reduction in administrative expenses, offset by the aforementioned decrease in contract income.

For the first half of 2013, Canem's revenue was $94.4 million, compared to $93.1 million in the first half of 2012. Canem's contract income for the first six months of 2013 was $14.2 million or 15.1% of revenue, versus $16.3 million or 17.5% of revenue in the first six months of 2012. Canem's administrative expenses were $6.4 million (6.8% of revenue) in the first half of 2013, whereas they were $8.5 million (9.2% of revenue) in the first half of 2012. Canem reported EBITDA for the first half of 2013 of $8.2 million or 8.7% of revenue, compared to $8.5 million or 9.1% of revenue in the first half of 2012.

Canem had total backlog of $186.7 million as at June 30, 2013, compared to total backlog of $194.3 million at December 31, 2012 (a $7.6 million or 4% decrease). As at June 30, 2013 approximately 46% of Canem's backlog was composed of CM and cost-plus projects and 54% tendered projects. Canem as a subcontractor, has project scopes that are well defined and specific and is not subject to the total project risk of a general contractor, and therefore is able to bear a larger proportion of tendered projects. The June 30, 2013 backlog consisted of $154.6 million of work-in-hand and $32.1 million of active backlog compared to $127.1 million of work-in-hand and $67.2 million of active backlog at December 31, 2012. In respect of work-in-hand, the segment contracted $71.8 million of new awards and increases in contract value during the quarter and executed $46.8 million of construction activity.

Industrial Services

For the Industrial Services segment, second quarter 2013 revenue increased by $31.0 million, or 37%, to $115.8 million from $84.8 million for the second quarter of 2012. The revenue increase in 2013 was due to the execution of a large turnaround contract in the Alberta oil sands.

Industrial Services' contract income in the three months ended June 30, 2013 increased by 88%, to $11.5 million from $6.1 million for the second quarter of 2012. Contract income margins were higher at 9.9% in the three months ended June 30, 2013 as compared to 7.2% in the second quarter of 2012, primarily as a result of the improvement in contract income at Broda in 2013 compared to the negative contract income generated by Broda in 2012.

The Industrial Services segment's administrative expenses were $5.2 million (4.5% of revenue) in the second quarter of 2013 compared to $5.2 million (6.1% of revenue) in the second quarter of 2012. The decrease on a percentage basis is entirely related to the increased business activity within the industrial services segment.

EBITDA for the Industrial Services segment increased by $6.4 million, or 326%, to $8.3 million (7.2% EBITDA margin) for the three months ended June 30, 2013 from $1.9 million (2.3% EBITDA margin) in the second quarter of 2012. The increase in EBITDA resulted from a combination of greater profitability from services work and the positive swing in EBITDA of Broda on a year-over-year basis.

For the six months ended June 30, 2013, the Industrial Services segment's revenue was $195.4 million, compared to $189.6 million in the first half of 2012, a 3% increase. The segment's contract income in the first half of 2013 increased by $3.5 million, or 21%, to $20.2 million from $16.7 million for the first six months of 2012. In the first half 2013, contract income margin was 10.3% compared to 8.8% in the first half of 2012. The Industrial Services segment's administrative expenses were $9.5 million (4.9% of revenue) in the first half of 2013 compared to $10.7 million (5.6% of revenue) in the same period of 2012. EBITDA for Industrial Services in the first half of 2013 was $14.4 million compared to $9.2 million in the same period of 2012. The increase in profitability was largely due to the greater revenue and increase in contract income margins.

Industrial Services had backlog of $398.5 million as at June 30, 2013, compared to backlog of $380.4 million at December 31, 2012, a $18.0 million or 5% increase. As at June 30, 2013 approximately 59% of the Industrial Services backlog consisted of cost plus projects and 41% tendered projects. The June 30, 2013 backlog consisted of $271.8 million of work-in-hand and $126.6 million of active backlog, compared to $261.8 million of work-in-hand and $118.6 million of active backlog at December 31, 2012. In respect of work-in-hand, the Industrial Services segment contracted $103.9 million of new awards and scope increases during the quarter and executed $115.8 million of construction activity.

Corporate and Other

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were $3.5 million in the second quarter of 2013 compared to $2.1 million in the second quarter of 2012, a $1.5 million (70%) increase. The increase is primarily related to the timing of payments related to incentive compensation and the impact of mark-to-market pricing on stock-based compensation expense during the second quarter of 2013.

The Corporate and Other's segment finance costs were $3.1 million in the second quarter of 2013 compared to $2.9 million in the three months ended June 30, 2012, a $0.2 million (7%) increase. The increase in finance costs related to higher interest rates on borrowing during the period.

The Corporate and Other segment's depreciation and amortization expense was $1.9 million in the three months ended June 30, 2013 compared to $3.4 million in the second quarter of 2012, a $1.5 million (44%) decrease. These amounts reflect the amortization of the unamortized balances associated with intangible assets acquired with the acquisition of Dominion, Canem, Broda and McCaine and the amortization of the Corporation's SAP-based ERP system. Of the $1.5 million decline, $1.2 million of this difference resulted from the having fully amortized Dominion's backlog and agency intangibles and having significantly amortized Canem's backlog and agency intangibles.

In the second quarter of 2013, the Corporate and Other segment incurred a loss before tax of $8.5 million compared to a loss before tax of $8.2 million in the second quarter of 2012 primarily as a result of the increase in finance costs; as the increase in administrative expenses was completely offset by the decrease in depreciation and amortization expense.

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were $6.4 million in the first half of 2013 compared to $7.5 million in the six months ended June 30, 2012, a $1.1 million (15%) decrease. The decrease is primarily related to the lower incentive compensation payments and a greater recovery related to stock-based compensation expense during the six months ended June 30, 2013.

The Corporate and Other's segment finance costs were $5.8 million in the six months ended June 2013 compared to $5.8 million in the six months ended June 30, 2012. The similar finance cost in both periods resulted from an average balance of outstanding long-term debt interest rates during the two periods that were essentially the same. Finance costs are expected to increase in Q3 2013 in conjunction with an expected higher debt to trailing 12 month EBITDA ratio, resulting in a higher interest rate on the long-term debt balance.

The Corporate and Other segment's depreciation and amortization expense was $3.8 million in the six months ended June 30, 2013 compared to $6.7 million in the first half of 2012, a $2.9 million (43%) decrease. These amounts reflect the amortization of the unamortized balances associated with intangible assets acquired with the acquisition of Dominion, Canem, Broda and McCaine and the amortization of the Corporation's SAP-based ERP system. Of the $2.9 million decline, the majority of this decrease is from having amortized all of the Dominion and the majority of the Canem backlog and agency intangibles at the end of 2012.

In the first half of 2013, the Corporate and Other segment incurred a loss before tax of $16.0 million compared to a loss before tax of $19.6 million in the first half of 2012 primarily as a result of the decrease in depreciation and amortization costs.

Capital Resources and Liquidity

Cash and Debt Balances

Cash and cash equivalents at June 30, 2013 were $30.8 million, compared to $33.8 million at December 31, 2012, a $3.0 million decrease resulting from a $13.4 million increase in the Corporation's working capital.

Long-term indebtedness at June 30, 2013, excluding the $1.9 million current portion of long-term debt, amounted to $150.2 million compared to $131.1 million at December 31, 2012, a net increase of $19.1 million. This amount consisted of $80.4 million (December 31, 2012 - $79.2 million) of the debt portion of convertible debentures and $69.7 million (December 31, 2012 - $51.9 million) drawn on Churchill's $200 million, four-year senior revolving credit facility (the "Revolver").

The Revolver was originally secured on July 12, 2010, with a syndicate of chartered banks and terms and conditions have subsequently been renegotiated effective the annual anniversary dates in 2011 and 2012, on December 21, 2012 and July 12, 2013. The financial covenants embodied in the Revolver agreement, include 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 by Oct 31, 2013; (c) a total debt to EBITDA ratio of not more than 3:1; and (d) a senior debt to EBITDA ratio of not more than 2.5:1 by January 1, 2014. 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, non-recurring gains and losses and any other non-cash items deducted in the calculation of net earnings. The syndicate of lenders remains the same and the Revolver continues to include a $75 million accordion feature. As at June 30, 2013, the Corporation was in full compliance with its covenants and had additional borrowing capacity of $38.6 million available to it under the Revolver. For additional information refer to *Note 14* of the Condensed Consolidated Interim Financial Statements.

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.

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).

Summary of Cash Flows

	Six months ended June 30	
($millions, except shares and per share amounts)	**2013**	**2012**
Net cash generated by (used in) operating activities	$ (8.0)	$ (33.3)
Add:		
Income taxes paid (received)	(2.4)	(9.9)
Interest paid (received)	4.1	4.0
Cash generated from (used in) operations	$ (6.3)	$ (39.2)
Change in share-based payment liability	1.3	3.0
Change in provisions	(0.2)	3.3
Change in non-cash working capital balances relating to operations	23.6	53.0
Funds from operations	$ 18.4	$ 20.1
Weighted average common shares - basic (millions)	24.6	24.3
Funds from operations per common share - basic	$ 0.75	$ 0.83

The net cash generated (used in) operations in the six months ended June 30, 2013, was $(8.0) million (first half 2012 - $(33.3) million). Interest payments of $4.1 million (first half 2012 – $4.0 million) and tax refunds received of $2.4 million (first half 2012 – $9.9 million) resulted in cash generated from (used in) operations in the first half of 2013 of $(6.3) million (first half 2012 - $(39.2) million). After accounting for the change in share-based payment liability of $1.3 million (first half 2012 - $3.0 million), a change in provisions of $(0.2) million (first half 2012 - $3.3 million), and a change in non-cash operating working capital of $23.6 million (first half 2012 - $53.0 million), funds from operations for the first half of 2013 were $18.4 million (first half 2012 - $20.1 million).

Investing activities resulted in a net use of cash of $6.3 million during the first six months of 2013, which compares with net cash used of $7.3 million in the first half of 2012.

During the first six months of 2013, net cash generated by financing activities amounted to $11.3 million, related primarily to a net increase in long term debt partly offset by the payment of dividends. This amount compares to net cash generated by financing activities of $2.7 million in the six months ended June 30, 2012, related to net proceeds of long-term debt, partly offset by the payment of dividends.

Working Capital

As at: **($millions)**	**June 30, 2013**	**December 31, 2012**
Current assets	$ 355.9	$ 407.5
Current liabilities	263.3	328.3
Working capital	$ 92.6	$ 79.2

As at June 30, 2013, Churchill had working capital of $92.6 million, compared to $79.2 million at December 31, 2012. Working capital increased primarily due to the relative change in payables as compared to the change in accounts receivable during the six month period.

Capital Management

The Corporation's objectives in managing its capital are to ensure that there is sufficient liquidity to pursue its growth objectives and maintain the payment of its dividend, while maintaining a prudent amount of financial leverage.

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

In the second quarter of 2013, the Corporation's capital expenditures totalled $4.7 million compared to $6.1 million in the three months ended June 30, 2012. Capital expenditures during the second quarter of 2013 consisted of $3.5 million for construction and automotive equipment, $0.4 million for computer hardware and software, $0.3 million for tenant improvements, $0.4 million for furniture and equipment and $0.1 million for land and buildings.

In the first half of 2013, the Corporation's capital expenditures totalled $8.1 million compared to $12.3 million in the first six months of 2012. Expenditures included $4.4 million for construction and automotive equipment, $0.9 million for computer equipment and software, $1.8 million for tenant improvements, $0.9 million for furniture and equipment and $0.1 million for land and buildings.

Capital expenditures are associated with the Corporation's need to maintain and support its existing operations. Management now projects a 2013 capital spending program totalling $15.0 million for the full year, revised downwards from its previous forecast of $17.8 million.

On the basis of its current cash and cash equivalents, the ability to generate cash from operations and the undrawn portion of its Revolver, 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.

Shareholders' equity was $232.5 million at June 30, 2013 compared to $235.1 million at December 31, 2012. This resulted from a net loss of $0.7 million for the first half of 2013, a $2.4 million defined benefit plan actuarial gain net of tax, cash dividend payments of $5.1 million, a $0.8 million share capital increase related to the DRIP and share based payment transactions of $0.7 million.

Refer to *Note 14* to the Condensed Consolidated Interim Financial Statements for additional information regarding the Corporation's management of its capital.

Contractual Obligations

The following are the contractual obligations, including interest payments as at June 30, 2013, in respect of the financial obligations of the Corporation. Interest payments on the Revolver have not been included in the table below since they are subject to variability based upon outstanding balances at various points throughout the period. Further information is included in *Note 13(b)(iii)* to the Condensed Consolidated Interim Financial Statements.

	Carrying amount	Contractual cash flows	0 - 6 months	6 - 12 months	12 - 24 months	After 24 months
Trade and other payables	**$ 178,154**	$ 178,154	$ 178,154	$ -	$ -	$ -
Provisions including current portion	**11,079**	11,079	3,614	3,614	570	3,281
Convertible debentures	**80,444**	96,600	2,588	2,587	91,425	-
Long-term debt including current portion	**71,668**	71,668	974	973	74	69,647
Lease commitments	**66,342**	66,342	3,854	3,853	6,353	52,282
	$ 407,687	$ 423,843	$ 189,184	$ 11,027	$ 98,422	$ 125,210

Scheduled debt principal repayments within one year at June 30, 2013 were $1.9 million, compared to $0.8 million at December 31, 2012.

Share Data

The Corporation encourages its employees to invest in its shares by offering an Employee Share Purchase Plan ("ESPP") available to all full-time employees. At June 30, 2013, the ESPP held 1,465,044 common shares for employees (June 30, 2012 – 1,099,680 common shares). Under the ESPP, common shares are acquired in the open market.

On January 15, 2013, April 16, 2013, and July 16, 2013, the Corporation issued 54,073, 56,659 and 46,540 common shares, respectively, pursuant to its DRIP.

As at August 12, 2013, the Corporation had 24,650,734 common shares issued and outstanding and 1,991,510 options convertible into common shares upon exercise (December 31, 2012 – 24,493,462 common shares and 1,379,981 options). Refer to *Notes 10 and 11* of 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.

Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding, plus the number of additional common shares that would have been outstanding if the dilutive potential common shares associated with the outstanding stock options and the convertible debentures had been issued. The calculation of the diluted weighted average number of shares outstanding for the quarter ending June 30, 2013 of 24,642,193 (June 30, 2012 – 24,556,143) is set out in *Note 7(b)* to the Condensed Consolidated Interim Financial Statements.

- For the three and six month periods ended June 30, 2013, 1,297,498 and 1,991,510 options (June 30, 2012 – 1,604,348 options) were excluded from the diluted weighted average number of common share calculations as their effect would have been anti-dilutive. The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

- At June 30, 2013, no incremental shares related to the convertible debentures are included in the diluted share calculation (June 30, 2012 – nil). 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 June 30, 2013 of $8.31 (June 30, 2012 - $12.00).

Share-based Payments

Stock-based compensation is an expense driven in part by the number, fair value and vesting rights of options, deferred share units ("DSUs"), performance share units ("PSUs"), bridging restricted share units ("BRSUs") and restricted share units ("RSUs") granted. The PSUs, BRSUs, and RSUs are issued substantially in accordance with the Amended 2008 Executive Share Unit Plan as part of the corporation's medium term incentive plan ("MTIPs"). The stock-based compensation expense was $2.4 million during the first six months of 2013 compared to $3.9 million for the six months ended June 30, 2012.

In the fourth quarter of 2012, the Corporation decided to remove employees as eligible participants in its DSU plan, effective January 1, 2013. DSUs previously acquired prior to January 1, 2013 would continue to be held in a notional account for employees and accrue dividends as per the DSU plan administrative guidelines but employees are no longer eligible to defer salary or bonus into DSUs in the future. The comparative data for 2012 which follows includes DSUs granted to directors and employees. Year-to-date, the Corporation has granted 48,041 DSUs, (June 30, 2012 – 30,411 DSUs) to directors as part of their remuneration. In addition, during the first six months of 2013, directors voluntarily elected to purchase or accept in lieu of cash 4,148 DSUs (June 30, 2012 – 5,574 DSUs) by deferring compensation related to retainers and meeting fees. Dividends on DSUs resulted in the issuance of 13,557 units (June 30, 2012 – 10,785 units). These DSU grants, elections and dividends totalling 65,746 DSUs (June 30, 2012 – 40,606 DSUs) resulted in $0.7 million of stock-based compensation expense (income) for the six months ended June 30, 2013, (six months ended June 30, 2012 - $0.4 million). During the six months ended June 30, 2013, the Corporation cancelled 14,407 DSUs, due to forfeiture (June 30, 2012 – nil), 151,020 DSUs were settled (June 30, 2012 – 746) and 30,963 DSUs vested (June 30, 2012 – nil).The amounts recorded are based on the sum of the changes in fair value and grants of DSUs. The Corporation carries the obligation as a payable on its statement of financial position as the DSUs are structured under the current plan to be paid in cash, upon the employee or director ceasing service with the Corporation.

During the first six months of 2013, the Corporation recorded compensation expenses for MTIPs granted to employees of $0.9 million compared to $2.2 million in six months ended June 30, 2012. The amounts recorded are based on the sum of changes in fair value and grants of MTIPs. During the six months ended June 30, 2013, the Corporation granted 318,002 PSUs, (June 30, 2012 – 196,785). During the six months ended June 30, 2013, the Corporation cancelled 16,407 PSUs, due to forfeiture (June 30, 2012 – 82,267). During the six months ended June 30, 2013, 42,896 PSUs vested and were paid to participants (June 30, 2012 – 175,126). As at June 30, 2013, the Corporation had outstanding 538,146 PSUs compared to 279,447 PSUs at June 30, 2012. In April 2013, the Corporation issued 295,109 BRSUs (June 30, 2012 – nil) and 164,792 RSUs (June 30, 2012 – nil) to eligible participants. During the six months ended June 30, 2013, the Corporation cancelled 10,322 BRSUs and 6,466 RSUs, due to forfeiture (June 30, 2012 – nil).

Refer to *Note 10* to the Condensed Consolidated Interim Financial Statements for further detail.

Supplemental Disclosures

Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet arrangements in place at June 30, 2013.

Related Party Transactions

During the second quarter of 2013, the Corporation incurred facility costs of $0.1 million (second quarter 2012 – $0.04 million) for the rental of a building that is 50% owned by Schneider Investments Inc., a company owned by George Schneider, a director of the Corporation. The rented building is the operations base for Churchill Services Group in Fort McMurray. The rental charge is comparable to the market rate of similar properties. For the six months ended June 30, 2013, these facility costs were $0.2 million (June 30, 2012 - $0.1 million). A new lease with Schneider Investments was entered into during the year. Beginning in 2013, lease costs will now include building operating expenses. At June 30, 2013, there was $0.04 million of this amount included in accounts payable (June 30, 2012 – $nil).

During the second quarter of 2013, the Corporation incurred facility costs of $0.1 million (second quarter 2012 – $0.1 million) relating to the rental of a building owned by Broda Holdings (2009) Inc., a company owned by the president of Broda. The rented building is the head office, maintenance facility and operations base for Broda in Prince Albert, Saskatchewan. The rental charge is comparable to the market rate of similar properties. For the six months ended June 30, 2013, these facility costs were $0.2 million (June 30, 2012 - $0.2 million). At June 30, 2013, there was $0.03 million included in accounts payable (June 30, 2012 – $0.06 million).

Outlook

Churchill is well positioned in Western Canada to compete for projects through its three operating business segments. The outlook for Churchill's three operating business segments is described below:

- EBITDA margins for Stuart Olson Dominion are expected to turn positive during the remainder of 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 continues to expect modest revenue growth during 2013. EBITDA margins will likely range from flat year-over-year to a modest increase as a result of more competitive go-in fees and the scheduling of project execution in 2013. Additional detail is included in the Commercial Systems section below.
- Within the Industrial Services segment, CSG & Broda expect to continue delivering strong revenues at comparable to slightly higher EBITDA margins than their consolidated full year 2012 results. Additional detail is included in the Industrial Services section below.

General Contracting

The institutional spending outlook in Western Canada, while reasonably healthy is undergoing a period of retrenchment as governments in Alberta and British Columbia have recently reduced their capital spending intentions for the next three year cycle. The non-residential private sector spending outlook remains reasonably strong as new commercial projects continue to be advanced in Alberta and industrial projects continue front-end engineering.

Stuart Olson Dominion's $1.2 billion backlog remains institutionally levered, and the market continues to present business development opportunities. Construction margins are expected to marginally improve during the third and fourth quarters of 2013, as secured higher-margin projects begin construction.

Stuart Olson Dominion expects to execute approximately $309 million of its June 30, 2013 backlog during the remainder of 2013. New project awards are expected to modestly impact the amount of work executed by Stuart Olson Dominion during the remainder of 2013.

Commercial Systems

The outlook for Canem remains unchanged from 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 modest revenue growth in 2013; with EBITDA margins likely remaining flat year-over-year to a modest increase as a result of more competitive go-in fees and the scheduling of project execution. Canem is working to offset this margin pressure by improving operational efficiencies and by differentiating itself from the competition by providing building systems integration solutions to support its operations.

Canem expects to execute $95 million of its June 30, 2013 backlog during the remainder of 2013. New awards, short-duration projects, building maintenance and tenant improvement work are expected to make up the balance of Canem's 2013 revenue.

Industrial Services

Going forward, the industrial segment is expecting to maintain strong revenues and earnings in 2013 as industrial construction and maintenance projects continue, particularly in Alberta's oil sands and Saskatchewan's mining district. Competitive pressures and a higher proportion of low-risk, cost-plus maintenance work in 2013 are expected to modestly decrease margins. Industrial Services results are expected to peak in Q3 2013 before exhibiting some seasonal weakness in the fourth quarter of 2013.

The industrial segment is expected to execute $266 million of their contracted backlog during the remainder of 2013. New contract awards, additional short-duration projects, scope changes and industrial maintenance work are expected to supplement the segment's 2013 revenue.

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)	2013 Quarter ended:		2012(1)(2) Quarter ended:				2011 Quarter ended:	
	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
Contract revenue	$ 277.8	$ 236.8	$ 289.9	$ 303.2	$ 295.8	$ 333.2	$ 384.3	$ 379.3
Contract income	26.0	22.0	32.6	27.7	25.9	35.7	45.1	40.5
Contract income margin(3)	9.4%	9.3%	11.3%	9.1%	8.7%	10.7%	11.7%	10.7%
Continuing operations:								
EBITDA(3)	$ 9.2	$ 6.8	$ 9.0	$ 12.1	$ 4.6	$ 13.9	$ 19.6	$ 18.3
EBT(3)	0.6	(1.4)	(65.2)	2.3	(5.6)	4.1	9.3	8.2
Net earnings (loss)	0.5	(1.2)	(62.7)	1.7	(4.3)	3.0	7.3	6.2
EPS - basic	0.02	(0.05)	(2.56)	0.07	(0.17)	0.13	0.30	0.26
EPS - diluted	0.02	(0.05)	(2.56)	0.07	(0.17)	0.13	0.27	0.24
Net earnings (loss)	$ 0.5	$ (1.2)	$ (62.7)	$ 1.7	$ (4.3)	$ 3.0	$ 7.3	$ 6.1
EPS - basic	0.02	(0.05)	(2.56)	0.07	(0.17)	0.13	0.30	0.26
EPS - diluted	0.02	(0.05)	(2.56)	0.07	(0.17)	0.13	0.27	0.24
Backlog(3)	$ 1,809.8	$ 1,713.9	$ 1,690.5	$ 1,731.0	$ 1,570.4	$ 1,751.5	$ 1,842.6	$ 1,840.1
Working capital(3)	92.6	89.8	79.2	99.9	95.7	102.6	86.0	99.6
Shareholders' equity	232.5	232.8	235.1	299.5	301.4	308.5	309.1	302.5
Book value ($ per basic share)(3)	9.45	9.48	9.60	12.25	12.36	12.68	12.72	12.45

Note: *(1) Refer to Note 6 to the notes to the consolidated financial statements for retrospecitve adoption of IAS 19.*
(2) Includes reclassification of costs between contract costs and administrative costs.
(3) Contract income margin, EBITDA, EBT, working capital, book value and backlog are non-IFRS measures. Refer to "Terminology" for definitions of non-IFRS measures.

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 second 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 first quarter of 2012 decreased compared to the second quarter of 2012 as wet weather impacted earthmoving productivity on the Calgary Airport project and Stuart Olson Dominion recorded a significant margin reversal on a large Manitoba-based project.

Revenue in the third quarter of 2012 decreased compared to the second quarter of 2012 as the General Contracting segment was in the early stages of construction on several new projects, experienced construction delays and had backlog pushed into 2013 on a number of projects. Additionally, lower contract income margins in the General Contracting and Commercial Systems segments contributed to lower EBITDA and net earnings.

Revenue in the fourth quarter of 2012 decreased compared to the third quarter of 2012 as the General Contracting segment was in the early stages of construction on several new projects, experienced construction delays and had backlog pushed into 2013 on a number of projects. The lower contract revenue in the General Contracting segment in combination with lower contract income margins from the Commercial Systems segment were the material contributors to lower EBITDA and net earnings.

Results in the first quarter of 2013 decreased compared to the fourth quarter of 2012 as the General Contracting segment delivered lower revenues and contract margins, results from the commercial systems segment were lower as result of a lower contract income margins and lower revenues were generated by the industrial services segment.

All financial results in the second quarter of 2013 increased compared to the first quarter of 2013 as modestly better General Contracting segment results, consistent results from the Commercial Systems segment and strong operational results from the Industrial Services segment lifted revenues and earnings.

The reader is referred to the Corporation's 2012 and 2011 Annual and Interim Reports for a more detailed discussion and analysis of the results of the quarters preceding June 30, 2013.

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 3* to the 2012 Audited 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, property and equipment and intangibles impairment assessment;
- Estimates related to the useful lives and residual value of property and equipment;
- Income tax provisions;
- Provisions for warranty work and legal contingencies;
- Assumptions used in share-based payment arrangements;
- Accounts receivable collectability; and

- Valuation of defined benefit pension plans.

Revenue Recognition and Contract Cost Estimates

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

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

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

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

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

Revenue from services rendered where the final outcome of the contract can be estimated reliably is recognized in profit or loss in proportion to the stage of completion of the contract at the reporting date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract. Revenue from time and material contracts where the work scope is not definitive is recognized at the contractual rates as labour hours and direct expenses are incurred.

Goodwill Impairment Assessment

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested annually in the fourth quarter or more frequently if events or changes in circumstances indicate that an asset may be impaired. Goodwill arose during multiple past acquisitions. Goodwill associated with the Stuart Olson Dominion, Broda and Canem cash generating units ("CGUs") arose from the Seacliff acquisition in 2010. Additional goodwill was attributed to the Canem CGU through the McCaine acquisition in 2011. CSG's goodwill stems from the Laird acquisition of 2003. Goodwill recognized on all of these acquisitions was attributable mainly to the synergies achieved from the integration of the acquired company into existing construction, commercial and industrial services. The Corporation's annual goodwill impairment test in 2012 resulted in a non-cash impairment charge to the goodwill of Broda and Canem and a non-cash impairment charge against the intangible assets of Broda and other construction equipment. Any significant future reduction in these estimates could result in an additional impairment of goodwill, intangible and/or construction equipment.

Income Tax Provisions

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

Accounts Receivable Collectability

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

Valuation of Defined Benefit Pension Plans

Fluctuations in the valuation of the Corporation's defined benefit pension plans expose the Corporation to additional risk. Economic factors such as expected long-term rate-of-return on plan assets, discount rates and future salary and bonus increases will cause volatility in the accrued benefit obligation. Refer to *Note 6* to the Condensed Consolidated Interim Financial Statements for further information.

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

Financial Instruments

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings and any other amounts that will result in future cash outlays. The fair value of Churchill's short-term financial assets and liabilities approximates their respective carrying amounts on the statement of financial position because of the short-term maturity of those instruments. The fair value of the Corporation's interest-bearing financial liabilities, including capital leases, financed contracts and the revolving credit facility, also approximates their respective carrying amounts due to the floating-rate nature of the debt.

The 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 administrative expenses in the Consolidated Statements of Earnings (Loss) and Comprehensive Earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at June 30, 2013 was $0.5 million (December 31, 2012 – $1.6 million).

In determining the quality of trade receivables, the Corporation considers any change in credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The Corporation had $26.2 million of trade receivables which were greater than 90 days past due with $25.7 million not provided for as at June 30, 2013 (December 31, 2012 – $28.2 million). Of the total, $19.1 million (72%) was concentrated in four customer accounts, and of this amount, $19.1 million remained outstanding as of August 12, 2013. 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.

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 June 30, 2013, the increase or decrease in annual net earnings for each 100 basis point change in interest rates on floating rate debt would have been approximately $0.2 million (December 31, 2012 - $0.3 million) related to financial assets and by $0.5 million (December 31, 2012 - $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.

Refer to *Note 13(b)(ii)* to the Condensed Consolidated Interim Financial Statements for further detail.

Changes in Accounting Policies

The Corporation's Condensed Consolidated Interim Financial Statements for the three months ended June 30, 2013 have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board (See *Note 2).* IAS 19 (2011) *Post-employment Benefits* became effective on January 1, 2013 and was applied retrospectively and did not have a material impact on the Corporation's consolidated financial statements. See *Note 6* to the Condensed Consolidated Interim Financial Statements for the three months ended June 30, 2013 for more information regarding the impact of the revised standard. IFRS 11 Joint Arrangements also became effective on January 1, 2013. The adoption of this standard did not have a material impact on Corporation's consolidated financial statements for the amounts reported in the current and prior periods. In addition, Contract costs and Administrative costs have been reclassified in the comparative figures, resulting in an increase in contract costs and an offsetting decrease in administrative costs of $2,063 and $3,756 for the three and six month periods ended June 30, 2012, respectively.

Future Changes in Accounting Standards

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. See *Note 3* to the Audited Consolidated Annual Financial Statements at December 31, 2012 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 members of senior management 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 June 30, 2013. 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 June 30, 2013.

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, including 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 June 30, 2013, the CEO and CFO have concluded that the design of the internal controls over financial reporting was effective.

Material Changes to Internal Controls over Financial Reporting

There were no changes to the Corporation's internal controls over financial reporting and the environment in which they operate during the period beginning on January 1, 2013 and ending on June 30, 2013 that have materially affected or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

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:	**June 30, 2013**			**December 31, 2012**		
($millions)	Work-in-hand	Active backlog	Total backlog	Work-in-hand	Active backlog	Total backlog
	$ 1,082.7	$ 727.1	$ 1,809.8	$ 964.5	$ 726.0	$ 1,690.5

Working Capital

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

As at: ($millions)	June 30, 2013	December 31, 2012
Current assets	$ 355.9	$ 407.5
Current liabilities	263.3	328.3
Working capital	$ 92.6	$ 79.2

EBITDA and EBT

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

	Three months ended June 30		Six months ended June 30	
($millions)	2013	2012(1)	2013	2012
Net earnings from continuing operations	$ 0.5	$ (4.3)	$ (0.7)	$ (1.1)
Add:				
Income tax expense	0.1	(1.2)	-	(0.1)
EBT from continuing operations	$ 0.6	$ (5.5)	$ (0.7)	$ (1.1)
Add:				
Depreciation and amortization (indirect cost)	2.5	2.3	5.0	4.7
Depreciation and amortization (general and administrative)	3.0	4.6	5.9	9.0
Finance costs	3.1	3.0	5.9	5.8
EBITDA from continuing operations	$ 9.2	$ 4.4	$ 16.0	$ 18.5

Note: *(1) Refer to Note 6 to the notes to the consolidated financial statements for retrospecitve adoption of IAS 19.*

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 shares divided by basic shares outstanding at the end of the period.

Three and six month periods ending June 30, 2013 and 2012

Condensed Consolidated Interim 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 June 30, 2013 and 2012.

THE CHURCHILL CORPORATION

Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

For the three and six month periods ended June 30, 2013 and 2012

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

(unaudited)

	Note	Three months ended		Six months ended	
		June 30, 2013	June 30, 2012 (Note 6)	**June 30, 2013**	June 30, 2012 (Note 6)
Contract revenue		**$ 277,808**	$ 295,777	**$ 514,652**	$ 628,993
Contract costs		**251,762**	271,983	**466,601**	571,225
Contract income		**26,046**	23,794	**48,051**	57,768
Other income (expense)		**467**	(460)	**574**	1,726
Finance income		**63**	111	**134**	232
Administrative costs		**(22,818)**	(26,056)	**(43,628)**	(55,347)
Finance costs		**(3,149)**	(2,968)	**(5,887)**	(5,835)
Earnings (loss) from continuing operations before tax		**609**	(5,579)	**(756)**	(1,456)
Income tax (expense) recovery					
Current income tax		**(736)**	(3,790)	**(1,118)**	3,065
Deferred income tax		**612**	5,041	**1,161**	(2,932)
	5	**(124)**	1,251	**43**	133
Net earnings (loss) from continuing operations		**485**	(4,328)	**(713)**	(1,323)
Net earnings (loss) from discontinued operations		**-**	(11)	**-**	76
Net earnings (loss)		**$ 485**	$ (4,339)	**(713)**	$ (1,247)
Other comprehensive earnings (loss)					
Defined benefit plan actuarial gains (losses)		**1,833**	(1,686)	**3,251**	(3,868)
Deferred tax (expense) recovery on other comprehensive earnings		**(463)**	423	**(821)**	968
		1,370	(1,263)	**2,430**	(2,900)
Total comprehensive earnings (loss)		**$ 1,855**	$ (5,602)	**$ 1,717**	$ (4,147)
Earnings (loss) per share:					
Basic from continuing operations		**$ 0.02**	$ (0.18)	**$ (0.03)**	$ (0.05)
Basic from discontinued operations		**$ -**	$ -	**$ -**	$ -
Basic earnings (loss) per share	7	**$ 0.02**	$ (0.18)	**$ (0.03)**	$ (0.05)
Diluted earnings (loss) per share from continuing operations		**$ 0.02**	$ (0.18)	**$ (0.03)**	$ (0.05)
Diluted earnings (loss) per share from discontinued operations		**$ -**	$ -	**$ -**	$ -
Diluted earnings (loss) per share	7	**$ 0.02**	$ (0.18)	**$ (0.03)**	$ (0.05)
Weighted average common shares:					
Basic	7	**24,594,855**	24,370,819	**24,567,143**	24,347,784
Diluted	7	**24,642,193**	24,556,143	**24,567,143**	24,537,554

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Consolidated Statements of Financial Position
As at June 30, 2013 and December 31, 2012
(in thousands of Canadian dollars)
(unaudited)

	Note	June 30, 2013	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		**$ 30,831**	$ 33,774
Trade and other receivables	13	**264,443**	309,097
Inventory		**10,728**	11,521
Prepaid expenses		**2,905**	3,850
Costs in excess of billings	8	**42,417**	39,100
Income taxes recoverable		**3,888**	9,505
Current portion of long-term receivable		**225**	225
Assets held-for-sale		**436**	436
		355,873	407,508
Service provider deposit		**4,848**	4,008
Long-term receivable		**50**	50
Deferred tax asset		**18,227**	15,383
Property and equipment		**77,838**	77,781
Goodwill		**179,016**	179,016
Intangible assets		**55,473**	58,695
		$ 691,325	$ 742,441
LIABILITIES			
Current liabilities			
Trade and other payables		**$ 178,154**	$ 233,442
Contract advances and unearned income	8	**72,989**	82,590
Current portion of provisions	9	**7,227**	6,492
Income taxes payable		**2,987**	4,991
Current portion of long-term debt		**1,947**	828
		263,304	328,343
Employee benefits	6	**6,742**	10,820
Provisions	9	**3,852**	4,407
Long-term debt		**69,721**	51,909
Convertible debentures		**80,444**	79,151
Deferred tax liability		**31,470**	28,927
Share-based payments	10(d)	**3,245**	3,734
		458,778	507,291
EQUITY			
Share capital	11(a)	**127,432**	126,602
Preferred share reserve		**5,128**	5,128
Convertible debentures		**7,100**	7,100
Share-based payment reserve	10(a)	**7,919**	7,171
Retained earnings		**84,968**	89,149
		232,547	235,150
		$ 691,325	742,441

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Consolidated Statements of Changes in Equity
For the three and six month periods ended June 30, 2013 and 2012
(in thousands of Canadian dollars)
(unaudited)

	Note	Share capital	Preferred share reserve	Convertible debentures	Share-based payment reserve	Retained earnings (Note 6)	Total equity
Balance at December 31, 2012		$ 126,602	$ 5,128	$ 7,100	$ 7,171	$ 89,149	$ 235,150
Net loss						(713)	(713)
Other comprehensive gain:							
Defined benefit plan actuarial gain, net of tax	6					2,430	2,430
Total comprehensive earnings						1,717	1,717
Transactions recorded directly to equity							
Share-based payment transactions	10(a)				748		748
Dividends	11(a,b)	830				(5,898)	(5,068)
Balance at June 30, 2013		$ 127,432	$ 5,128	$ 7,100	$ 7,919	$ 84,968	$ 232,547
Balance at December 31, 2011		$ 124,290	$ 5,128	$ 7,100	$ 7,636	$ 164,987	$ 309,141
Net loss						(1,247)	(1,247)
Other comprehensive loss:							
Defined benefit plan actuarial loss, net of tax						(2,900)	(2,900)
Total comprehensive loss						(4,147)	(4,147)
Transactions recorded directly to equity							
Share-based payment transactions					1,276		1,276
Dividends		1,325				(5,845)	(4,520)
Normal course issuer bid		(179)				(201)	(380)
Balance at June 30, 2012		$ 125,436	$ 5,128	$ 7,100	$ 8,912	$ 154,794	$ 301,370

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Consolidated Statements of Cash Flow
For the six month periods ended June 30, 2013 and 2012
(in thousands of Canadian dollars)
(unaudited)

	Note	Six months ended June 30, 2013	Six months ended June 30, 2012 (Note 6)
OPERATING ACTIVITIES			
Net (loss) earnings from continuing operations		**$ (713)**	$ (1,323)
Net earnings from discontinued operations		**-**	76
Depreciation and amortization		**10,869**	13,754
Gain on disposal of equipment		**(6)**	(1,276)
Gain on disposal of assets held-for-sale		**-**	(1,259)
Gain on settlement of liabilities related to discontinued operations		**-**	84
Non-cash increase in administrative expense	6	**-**	320
Share-based compensation expense	10(e)	**2,417**	3,878
Gain on derivative instrument		**-**	155
Income tax (recovery) expense	5	**(43)**	(133)
Income tax expense on discontinued operations		**-**	(14)
Finance costs		**5,887**	5,835
		18,411	20,097
Share-based payment liability	10(d)	**(86)**	(2,958)
Employee benefits		**(843)**	-
Cash settlement of DSU		**(1,230)**	-
Change in provisions	9	**180**	(3,288)
Change in non-cash working capital balances relating to operations	12	**(22,685)**	(52,998)
Cash used in operations		**(6,253)**	(39,147)
Interest paid		**(4,053)**	(4,006)
Income taxes received (paid)		**2,351**	9,872
Net cash used in general operating activities		**(7,955)**	(33,281)
INVESTING ACTIVITIES			
Proceeds from long-term receivable		**-**	381
Proceeds on disposal of assets		**218**	2,530
Proceeds on disposal of assets held-for-sale		**-**	2,050
Additions to intangible assets		**(672)**	(2,677)
Additions to property and equipment		**(5,821)**	(9,604)
Net cash used in investing activities		**(6,275)**	(7,320)
FINANCING ACTIVITIES			
Increase in service provider deposit		**(840)**	(1,328)
Proceeds of long-term debt		**123,500**	339,734
Repayment of long-term debt		**(106,318)**	(330,769)
Share purchase under normal course issuer bid		**-**	(380)
Dividend paid	11(b)	**(5,055)**	(4,516)
Net cash financing activities		**11,287**	2,741
Decrease in cash and cash equivalents during the period		**(2,943)**	(37,860)
Cash and cash equivalents, beginning of period		**33,774**	59,445
Cash and cash equivalents, end of period		**$ 30,831**	$ 21,585

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 interim 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. 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, 2012, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which were applicable from January 1, 2013. The adoption of these amendments and standards have not had a material impact on the accounting policies, methods of computation or presentation applied by the Corporation, with the exception of IAS 19 (2011), “Employee Benefits” for which the effects of adoption are included in Note 6. In addition, Contract costs and Administrative costs have been reclassified in the comparative figures, resulting in an increase in contract costs and an offsetting decrease in administrative costs of $2,063 and $3,756 for the three and six month periods ended June 30, 2012, respectively.

These unaudited condensed consolidated interim financial statements were approved by the Corporation’s Board of Directors on August 12, 2013.

(b) Summary of Significant Accounting Policies

The following standards have been adopted by the Corporation effective January 1, 2013:

(i) IAS 19 (2011) – *Post-employment Benefits*

The amendment requires all actuarial gains and losses to be immediately recognized in other comprehensive (loss) income rather than profit and loss and requires expected returns on plan assets recognized in profit or loss to be calculated based on the rate used to discount the defined benefit obligation. Note 6 contains explanations of the effect of the retrospective application of the amended standard on the Corporation’s financial position and comprehensive earnings.

(ii) IFRS 11 – *Joint Arrangements*

IFRS 11, "Joint arrangements" was issued by the IASB in May 2011 and supersedes IAS 31, "Interest in joint ventures" and Standing Interpretations Committee (SIC) 13, "Jointly controlled entities – non-monetary contributions by venturers". The impact of IFRS 11 is to remove the option to account for joint ventures using proportionate consolidation and require equity accounting in most circumstances. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The adoption of this standard did not have a material impact on the Corporations consolidated financial statements for the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

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, 2012. There have been no new standards and interpretations issued year to date that have a material impact on the Corporation.

4. SEGMENTS

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides its operations into four reporting segments and reports its results under the categories of: General Contracting, Industrial Services, Commercial Systems, and Corporate and Other. The accounting policies and practices for each of the segments are the same as those described in Note 3 of the audited annual consolidated financial statements for the year ended December 31, 2012.

For the period ended June 30, 2013, revenue from a significant customer was $88,579, which represented greater than 10% or more of contract revenue earned (June 30, 2012 - $nil). This revenue was earned in the industrial services segment.

THE CHURCHILL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and six month periods ended June 30, 2013 and 2012
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

Three month period ended June 30, 2013	**General Contracting**	**Industrial Services**	**Commercial Systems**	**Corporate and Other**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 120,805**	**$ 115,801**	**$ 46,755**	**$ -**	**$ (5,553)**	**$ 277,808**
EBITDA [1]	**(113)**	**8,252**	**4,266**	**(3,526)**	**356**	**9,235**
Depreciation and amortization	**970**	**2,145**	**407**	**1,903**	**53**	**5,478**
Finance costs	**43**	**11**	**-**	**3,094**	**-**	**3,148**
Earnings (loss) from continuing operations before tax	**$ (1,126)**	**$ 6,096**	**$ 3,859**	**$ (8,523)**	**$ 303**	**$ 609**
Income tax expense						**(124)**
Net earnings from continuing operations						**$ 485**
Goodwill and intangible assets	**$ 127,468**	**$ 7,750**	**$ 79,065**	**$ 20,206**	**$ -**	**$ 234,489**
Capital expenditures	**$ 329**	**$ 3,791**	**$ 190**	**$ 250**	**$ -**	**$ 4,560**
Total assets	**$ 334,006**	**$ 176,878**	**$ 106,819**	**$ 414,148**	**$ (340,526)**	**$ 691,325**
Total liabilities	**$ 206,048**	**$ 65,725**	**$ 36,620**	**$ 171,929**	**$ (21,544)**	**$ 458,778**

Three month period ended June 30, 2012	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	$ 177,330	$ 84,777	$ 46,430	$ -	$ (12,760)	$ 295,777
EBITDA [1] [2]	(764)	1,938	3,462	(1,910)	1,686	4,412
Depreciation and amortization	953	1,945	613	3,379	133	7,023
Finance costs	-	44	-	2,924	-	2,968
(Loss) earnings from continuing operations before tax [2]	$ (1,717)	$ (51)	$ 2,849	$ (8,213)	$ 1,553	$ (5,579)
Income tax recovery from continuing operations [2]						1,251
Net loss from continuing operations [2]						$ (4,328)
Goodwill and intangible assets	$ 129,329	$ 24,420	$ 128,366	$ 19,738	$ -	$ 301,853
Capital expenditures	$ 1,847	$ 3,072	$ 187	$ 1,044	$ 28	$ 6,178
Total assets	$ 414,241	$ 203,387	$ 190,927	$ 25,227	$ (16,060)	$ 817,722
Total liabilities	$ 272,006	$ 57,487	$ 35,190	$ 171,507	$ (19,838)	$ 516,352

(1) EBITDA represents earnings before interest expense, capital asset amortization and impairment charges, and income taxes.
(2) Restated under IAS 19 (2011). Under the old IAS 19, EBITDA, loss from continuing operations before tax, income tax recovery from continuing operations, and net loss from continuing operations were $4,572, ($5,419), $1,211, and ($4,208), respectively.

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

Six month period ended June 30, 2013	**General Contracting**	**Industrial Services**	**Commercial Systems**	**Corporate and Other**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 237,754**	**$ 195,363**	**$ 94,383**	**$ -**	**$ (12,848)**	**$ 514,652**
EBITDA [1]	**(645)**	**14,431**	**8,216**	**(6,374)**	**372**	**16,000**
Depreciation and amortization	**1,962**	**4,163**	**818**	**3,820**	**106**	**10,869**
Finance costs	**84**	**23**	**-**	**5,780**	**-**	**5,887**
Earnings (loss) from continuing operations before tax	**$ (2,691)**	**$ 10,245**	**$ 7,398**	**$ (15,974)**	**$ 266**	**$ (756)**
Income tax recovery						**43**
Net loss						**$ (713)**
Goodwill and intangible assets	**$ 127,468**	**$ 7,750**	**$ 79,065**	**$ 20,206**	**$ -**	**$ 234,489**
Capital and intangible expenditures	**$ 893**	**$ 5,975**	**$ 381**	**$ 667**	**$ -**	**$ 7,916**
Total assets	**$ 334,006**	**$ 176,878**	**$ 106,819**	**$ 414,148**	**$ (340,526)**	**$ 691,325**
Total liabilities	**$ 206,048**	**$ 65,725**	**$ 36,620**	**$ 171,929**	**$ (21,544)**	**$ 458,778**

Six month period ended June 30, 2012	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	$ 371,549	$ 189,647	$ 93,074	$ -	$ (25,277)	$ 628,993
EBITDA [1] [2]	4,480	9,188	8,337	(7,173)	3,301	18,133
Depreciation and amortization	1,888	3,713	1,210	6,691	252	13,754
Finance costs	3	77	-	5,755	-	5,835
(Loss) earnings from continuing operations before tax [2]	$ 2,589	$ 5,398	$ 7,127	$ (19,619)	$ 3,049	$ (1,456)
Income tax recovery from continuing operations [2]						133
Net loss from continuing operations [2]						$ (1,323)
Goodwill and intangible assets	$ 129,329	$ 24,420	$ 128,366	$ 19,738	$ -	$ 301,853
Capital and intangible expenditures	$ 3,637	$ 5,232	$ 397	$ 2,988	$ 27	$ 12,281
Total assets	$ 414,241	$ 203,387	$ 190,927	$ 25,227	$ (16,060)	$ 817,722
Total liabilities	$ 272,006	$ 57,487	$ 35,190	$ 171,507	$ (19,838)	$ 516,352

(1) EBITDA represents earnings before interest expense, capital asset amortization and impairment charges, and income taxes.
(2) Restated under IAS 19 (2011). Under the old IAS 19, loss from continuing operations before tax, income tax recovery from continuing operations, and net loss from continuing operations were $18,453, ($1,136), $53, and ($1,083), respectively.

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

5. INCOME TAXES

Income tax recognized per consolidated statements of earnings (loss):

	Three months ended		Six months ended	
	June 30 2013	June 30 2012 [1]	**June 30 2013**	June 30 2012 [1]
Earnings (loss) from continuing operations before tax	**$ 609**	$ (5,579)	**$ (756)**	$ (1,456)
Income tax at statutory rate of 25.3% (2012 - 25.0%)	**$ (154)**	$ 1,395	**$ 191**	$ 364
Statutory and other rate differences	**88**	73	**38**	44
Non-deductible expenses	**(210)**	(267)	**(360)**	(361)
Other	**152**	50	**174**	86
Income tax recovery (expense) from continuing operations	**$ (124)**	$ 1,251	**$ 43**	$ 133

[1] Restated under IAS 19 (2011). Under the old IAS 19, loss from continuing operations before tax for the three and six month periods endeds June 30, 2012 was $5,419 and $1,136, respectively.

6. EMPLOYEE BENEFITS

(a) Retrospective application of IAS 19

Note 8(a) of the unaudited condensed consolidated interim financial statements for the period ending March 31, 2013 describes the Corporation's retrospective application of IAS 19 (2011).

Reconciliations have been prepared to illustrate the effects of the retrospective application of this standard to the Corporation's condensed consolidated financial statements. As there were no changes in the statements of financial position under the new standard, reconciliations of the statement of financial position at January 1, 2012 and December 31, 2012 have not been provided.

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

(i) Reconciliation of consolidated Statements of Loss and Comprehensive Loss for the three months period ended June 30, 2012

	Previously reported June 30, 2012	Transition to IAS 19	**Restated June 30, 2012**
	Three months ended		
Contract revenue	$ 295,777	$ -	**$ 295,777**
Contract costs [1]	271,983	-	**271,983**
Contract income	23,794	-	**23,794**
Other income	(460)	-	**(460)**
Finance income	111	-	**111**
Administrative costs [1]	(25,896)	(160)	**(26,056)**
Finance costs	(2,968)	-	**(2,968)**
(Loss) earnings from continuing operations before tax	(5,419)	(160)	**(5,579)**
Income tax (expense) recovery			
Current income tax	(3,790)	-	**(3,790)**
Deferred income tax	5,001	40	**5,041**
	1,211	40	**1,251**
Net loss from continuing operations	(4,208)	(120)	**(4,328)**
Net earnings from discontinued operations	(11)	-	**(11)**
Net loss earnings	(4,219)	(120)	**(4,339)**
Other comprehensive loss			
Defined benefit plan actuarial gains (losses)	(1,846)	160	**(1,686)**
Deferred tax (expense) recovery on other comprehensive earnings	463	(40)	**423**
Total comprehensive loss	$ (5,602)	$ -	**$ (5,602)**
Loss per share:			
Basic	$ (0.17)	$ (0.01)	$ (0.18)
Diluted	$ (0.17)	$ (0.01)	$ (0.18)

[1] Contract costs and administrative costs have been reclassified in the comparative figures, resulting in an increase in contract costs and an offsetting decrease in administrative costs of $2,063 in the three month period ended June 30, 2012.

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

(ii) Reconciliation of consolidated Statements of Loss and Comprehensive Loss for the six month period ended June 30, 2012

	Previously reported June 30, 2012	Transition to IAS 19	**Restated June 30, 2012**
	Six months ended		
Contract revenue	$ 628,993	$ -	**$ 628,993**
Contract costs [1]	571,225	-	**571,225**
Contract income	57,768	-	**57,768**
Other income	1,726	-	**1,726**
Finance income	232	-	**232**
Administrative costs [1]	(55,027)	(320)	**(55,347)**
Finance costs	(5,835)	-	**(5,835)**
(Loss) earnings from continuing operations before tax	(1,136)	(320)	**(1,456)**
Income tax (expense) recovery			
Current income tax	3,065	-	**3,065**
Deferred income tax	(3,012)	80	**(2,932)**
	53	80	**133**
Net loss from continuing operations	(1,083)	(240)	**(1,323)**
Net earnings from discontinued operations	76	-	**76**
Net loss earnings	(1,007)	(240)	**(1,247)**
Other comprehensive loss			
Defined benefit plan actuarial gains (losses)	(4,188)	320	**(3,868)**
Deferred tax (expense) recovery on other comprehensive earnings	1,048	(80)	**968**
Total comprehensive loss	$ (4,147)	$ -	**$ (4,147)**
Loss per share:			
Basic	$ (0.04)	$ (0.01)	$ (0.05)
Diluted	$ (0.04)	$ (0.01)	$ (0.05)

[1] Contract costs and administrative costs have been reclassified in the comparative figures, resulting in an increase in contract costs and an offsetting decrease in administrative costs of $3,756 in the six month period ended June 30, 2012.

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

(iii) Reconciliations of the balance of retained earnings for the periods ended June 30, 2012 and December 31, 2012

	Previously reported	Transition to IAS 19	**Restated**
Retained earnings, balance at December 31, 2011	$ 164,987	$ -	**$ 164,987**
Net earnings	(1,007)	(240)	**(1,247)**
Other comprehensive loss:			**-**
Defined benefit plan actuarial loss, net of tax	(3,140)	240	**(2,900)**
Total comprehensive earnings	(4,147)	-	**(4,147)**
Transactions recorded directly to equity			
Dividends	(5,845)	-	**(5,845)**
Normal course issuer bid	(201)	-	**(201)**
Retained earnings, balance at June 30, 2012	$ 154,794	$ -	**$ 154,794**

	Previously reported	Transition to IAS 19	**Restated**
Retained earnings, balance at December 31, 2011	$ 164,987	$ -	**$ 164,987**
Net loss	(61,862)	(478)	**(62,340)**
Other comprehensive loss:			**-**
Defined benefit plan actuarial loss, net of tax	(3,571)	478	**(3,093)**
Total comprehensive loss	(65,433)	-	**(65,433)**
Transactions recorded directly to equity			
Share-based payment transactions	1,521	-	**1,521**
Dividends	(11,718)	-	**(11,718)**
Normal course issuer bid	(208)	-	**(208)**
Retained earnings, balance at December 31, 2012	$ 89,149	$ -	**$ 89,149**

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

(iv) Reconciliation of consolidated Statements of Cash Flow for the six month period ended June 30, 2012

	Previously reported June 30, 2012	Transition to IAS 19	**Restated June 30, 2012**
OPERATING ACTIVITIES			
Net loss from continuing operations	$ (1,083)	$ (240)	**$ (1,323)**
Net earnings from discontinued operations	76	-	**76**
Depreciation and amortization	13,754	-	**13,754**
Gain on disposal of assets	(1,276)	-	**(1,276)**
Gain on disposal of assets held-for-sale	(1,259)	-	**(1,259)**
Loss on settlement of liabilities related to discontinued operations	84	-	**84**
Non-cash increase in administrative expense	-	320	**320**
Share-based compensation expense	3,878	-	**3,878**
Loss on derivative instrument	155	-	**155**
Income tax recovery	(53)	(80)	**(133)**
Income tax recovery on discontinued operations	(14)	-	**(14)**
Finance costs	5,835	-	**5,835**
	20,097	-	**20,097**
Share-based payment liability	(2,958)	-	**(2,958)**
Change in provisions	(3,288)	-	**(3,288)**
Change in non-cash working capital balances relating to operations	(52,998)	-	**(52,998)**
Cash used in operations	(39,147)	-	**(39,147)**
Interest paid	(4,006)	-	**(4,006)**
Income taxes received	9,872	-	**9,872**
Net cash used in general operating activities	(33,281)	-	**(33,281)**
INVESTING ACTIVITIES			
Proceeds from long-term receivable	381	-	**381**
Proceeds on disposal of assets	2,530	-	**2,530**
Proceeds on disposal of assets held-for-sale	2,050	-	**2,050**
Additions to intangible assets	(2,677)	-	**(2,677)**
Additions to property and equipment	(9,604)	-	**(9,604)**
Net cash used in investing activities	(7,320)	-	**(7,320)**
FINANCING ACTIVITIES			
Increase in service provider deposit	(1,328)	-	**(1,328)**
Proceeds of long-term debt	339,734	-	**339,734**
Repayment of long-term debt	(330,769)	-	**(330,769)**
Share purchase under normal course issuer bid	(380)	-	**(380)**
Dividend paid	(4,516)	-	**(4,516)**
Net cash financing activities	2,741	-	**2,741**
Decrease in cash and cash equivalents during the period	(37,860)	-	**(37,860)**
Cash and cash equivalents, beginning of period	59,445	-	**59,445**
Cash and cash equivalents, end of period	$ 21,585	$ -	**$ 21,585**

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

(b) Employee benefits activity for the period

Movement during the periods

		June 30, 2013		December 31, 2012 (1)
Balance, beginning of the period	**$**	**10,820**	$	8,315
Expense recognized in profit or loss		**800**		1,716
(Gain) Loss recognized in other comprehensive earnings		**(3,251)**		4,138
Company contributions		**(1,627)**		(3,349)
Balance, end of the period	**$**	**6,742**	$	10,820

(1) Restated under IAS 19 (2011). Under the old IAS 19, the expense recognized in the statement of loss was $1,076, and the loss recognized in other comprehensive income was $4,778 for the year ended December 31, 2012. The ending balance of employee benefits for the year ended December 31, 2012 was the same under both standards.

Expenses recognized

	Three months ended				Six months ended			
		June 30, 2013		June 30, 2012 (1)		**June 30, 2013**		June 30, 2012 (1)
Current service cost	**$**	**245**	$	260	**$**	**490**	$	520
Administrative cost		**48**		73		**95**	$	146
Interest cost on the defined benefit obligation		**370**		339		**645**	$	678
Interest income on plan assets		**(216)**		(243)		**(430)**		(486)
	$	**447**	$	429	**$**	**800**	$	858

(1) Restated under IAS 19 (2011). Under the old IAS 19, the expense recognized in the statement of loss for the three and six month periods ended June 30, 2012 was $269 and $538, respectively.

Actuarial gains recognized in other comprehensive earnings

		June 30, 2013		December 31, 2012 (1)
Cumulative amount, beginning of period	**$**	**(5,164)**	$	(1,026)
Gain (loss) recognized during the period (2)		**3,251**		(4,138)
Cumulative amount, end of period	**$**	**(1,913)**	$	(5,164)

(1) Restated under IAS 19 (2011). Under the old IAS 19, the loss recognized in other comprehensive income for the period ended December 31, 2012 was $4,778.

(2) Actuarial gain (loss) gives rise to a deferred income tax expense for the period ended June 30, 2013 of $821 (restated tax recovery at December 31, 2012 - $1,045).

The actuarial gain recognized in other comprehensive earnings for the period ended June 30, 2013 resulted from an increase in the discount rate from 3.80% as at December 31, 2012 to 4.50% at June 30, 2013.

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

7. EARNINGS (LOSS) PER SHARE

(a) Basic earnings (loss) per share

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012 [1]	**June 30, 2013**	June 30, 2012 [1]
Net earnings (loss) from continuing operations attributable to common shareholders (basic)	**$ 485**	$ (4,328)	**$ (713)**	$ (1,323)
Net earnings (loss) from discontinued operations attributable to common shareholders (basic)	**-**	(11)	**-**	76
Net earnings (loss) attributable to common shareholders (basic)	**$ 485**	$ (4,339)	**$ (713)**	$ (1,247)
Issued common shares at beginning of period	**24,547,535**	24,332,826	**24,493,462**	24,300,019
Effect of shares repurchased under NCIB	**-**	-	**-**	(33,077)
Effect of shares issued related to DRIP	**47,320**	37,993	**73,681**	80,842
Weighted average number of common shares for the period	**24,594,855**	24,370,819	**24,567,143**	24,347,784
Basic earnings per share	**$ 0.02**	$ (0.18)	**$ (0.03)**	$ (0.05)

(1) Restated under IAS 19 (2011). Under the old IAS 19, loss from continuing operations attributable to common shareholders (basic) for the three and six month periods ended June 30, 2012 was ($4,208) and ($1,083), respectively; and basic loss per share for the three and six month periods ended June 30, 2012 was ($0.17), and ($0.04).

(b) Diluted (loss) earnings per share

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012 [1]	**June 30, 2013**	June 30, 2012 [1]
Net earnings (loss) from continuing operations attributable to common shareholders (basic)	**$ 485**	$ (4,328)	**$ (713)**	$ (1,323)
Net earnings (loss) from discontinued operations attributable to common shareholders (basic)	-	(11)	-	76
Net earnings (loss) attributable to common shareholders (diluted)	**$ 485**	$ (4,339)	**$ (713)**	$ (1,247)
Weighted average number of common shares (basic)	**24,594,855**	24,370,819	**24,567,143**	24,347,784
Incremental shares - stock options	**47,338**	185,324	**-**	189,770
Weighted average number of common shares for the period (diluted)	**24,642,193**	24,556,143	**24,567,143**	24,537,554
Diluted earnings per share	**$ 0.02**	$ (0.18)	**$ (0.03)**	$ (0.05)

(1) Restated under IAS 19 (2011). Under the old IAS 19, loss from continuing operations attributable to common shareholders (basic) for the three and six month periods ended June 30, 2012 was ($4,208) and ($1,083), respectively; and diluted loss per share for the three and six month periods ended June 30, 2012 was ($0.17), and ($0.04).

For the three and six month periods ended June 30, 2013, the number of options excluded from the diluted weighted average number of common share calculations was 1,297,498 and 1,991,510 (three and six month periods ended June 30, 2012 – 1,604,348), respectively, as their effect would have been anti-dilutive. There were no incremental shares related to the convertible debentures included in the weighted average calculation at June 30, 2013 as the impact of the normalization of earnings (interest, accretion and amortization add-back) outweighed the effect of the related incremental shares and therefore the convertible debentures were anti-dilutive.

The incremental shares included in the dilutive weighted average number of shares has been determined using the Corporation's share price at June 30, 2013 of $8.31 (June 30, 2012 - $12.00).

As the Corporation incurred a net loss during the six month period ended June 30, 2013, the basic and diluted loss per common share are the same amount.

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

8. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

Contracts in progress:

		June 30, 2013		December 31, 2012
Construction costs incurred plus recognized profits less recognized losses to date	**$**	**4,073,283**	$	4,698,839
Less: progress billings		**(4,116,011)**		(4,752,342)
Net over billings on construction contracts		**(42,728)**		(53,503)
Non-construction costs incurred plus recognized profits less recognized losses to date	**$**	**279,032**	$	254,061
Less: progress billings		**(266,876)**		(244,048)
Net under billings on non-construction contracts		**12,156**		10,013
Total net contract position	**$**	**(30,572)**	$	(43,490)

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

		June 30, 2013		December 31, 2012
Costs in excess of billings - Construction contracts	**$**	**30,187**	$	28,978
Costs in excess of billings - Non-construction contracts		**12,230**		10,122
Total costs in excess of billings		**42,417**		39,100
Contract advances and unearned income - Construction contracts	**$**	**(72,913)**	$	(82,483)
Contract advances and unearned income - Non-construction contracts		**(76)**		(107)
Total contract advances and unearned income		**(72,989)**		(82,590)
Total net contract position	**$**	**(30,572)**	$	(43,490)

At June 30, 2013, retentions held by customers for contract work amounted to $53,040 (December 31, 2012 - $98,439). Advances received from customers for contract work amounted to $63,174 (December 31, 2012 - $71,536).

9. 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. Reversals of provisions are made when new information arises in the period.

		Warranties		**Restructuring costs**		**Claims and disputes**		**Subcontractor default**		**Total**
Balance at December 31, 2012	$	4,203	$	636	$	3,588	$	2,472	**$**	**10,899**
Provisions made during the period		2,162		-		3,250		1,108		**6,520**
Provisions used during the period		(460)		(56)		(1,640)		(798)		**(2,954)**
Provisions reversed in the period		(2,528)		(150)		(708)		-		**(3,386)**
Balance at June 30, 2013	**$**	**3,377**	**$**	**430**	**$**	**4,490**	**$**	**2,782**	**$**	**11,079**

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

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

		June 30, 2013		December 31, 2012
Current portion of provisions	**$**	**7,227**	$	6,492
Long-term provisions		**3,852**		4,407
Total provisions	**$**	**11,079**	$	10,899

10. SHARE-BASED PAYMENTS

(a) Stock options

Movement during the periods

	June 30, 2013			December 31, 2012		
	Number of Stock Options		**Weighted Average Exercise Price**	Number of Stock Options		Weighted Average Exercise Price
Outstanding, beginning of the period	**1,379,981**	**$**	**14.76**	1,542,783	$	14.34
Granted	**756,719**		**7.69**	630,161		14.14
Forfeited	**(59,362)**		**10.76**	(513,187)		16.00
Surrendered	**-**		**-**	(242,776)		7.32
Expired	**(85,828)**		**16.05**	(37,000)		18.26
Outstanding, end of period	**1,991,510**	**$**	**12.14**	1,379,981	$	14.76

The options outstanding at June 30, 2013 have an exercise price in the range of $6.43 to $19.63 (June 30, 2012 - $6.43 to $19.63) and lives of 5 and 10 years (June 30, 2012 - 5 years).The options granted on April 1, 2013 differ from previous grants in that they have a contractual life of 10 years.

Compensation costs are recognized over the vesting period as stock-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 in the share-based payment reserve:

		June 30, 2013		December 31, 2012
Balance, beginning of the period	**$**	**7,171**	$	7,636
Stock compensation expense		**748**		2,192
Stock options forfeited		**-**		(1,795)
Stock options surrendered		**-**		(862)
Balance, end of period	**$**	**7,919**	$	7,171

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

(b) Medium Term Incentive Plan (MTIP)

In April 2013, the Corporation issued three types of medium term share-based awards. These awards were issued substantially in accordance with the Amended 2008 Executive Share Unit Plan and are classified as Bridging Restricted Share Units (BRSU), Restricted Share Units (RSU) and Performance Share Units (PSU).

The fair value of the amount payable with respect to BRSU, RSU and PSUs, for which the participants are eligible to receive an equivalent cash value of the common shares at a future date, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees provide the related service. The liability related to these share-based payments is re-measured at each reporting date and each settlement date. Any changes in the fair value of the liability are recognized as compensation expense in profit or loss.

(i) BRSUs

BRSUs are units that track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant vests 20% in the first, 30% in the second, and the remaining 50% in the third year.

Movement during the periods

	June 30, 2013	December 31, 2012
	Number of BRSUs	Number of BRSUs
Outstanding, beginning of the period	**-**	-
Granted	**295,109**	-
Forfeited	**(10,322)**	-
Outstanding, end of period	**284,787**	-

(ii) RSUs

RSUs are units that track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years.

Movement during the periods

	June 30, 2013	December 31, 2012
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	**-**	-
Granted	**164,792**	-
Forfeited	**(6,466)**	-
Outstanding, end of period	**158,326**	-

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

(iii) PSUs

PSUs are units that track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years, subject to certain performance criteria. The performance criteria for the PSUs granted before April 2013 are the same as those described in Note 28(a)(ii) of the audited annual consolidated financial statements for the year ended December 31, 2012. The PSUs granted on April 1, 2013 differ from previous grants in that the maximum performance payout factor has been increased to 200%. In addition, the composition of the competitive peer group against which Churchill's Total Shareholder Return (TSR) is compared, has been modified.

Movement during the periods

	June 30, 2013	December 31, 2012
	Number of PSUs	Number of PSUs
Outstanding, beginning of the period	**279,447**	340,055
Granted	**318,002**	196,785
Forfeited	**(16,407)**	(82,267)
Vested and paid	**(42,896)**	(175,126)
Outstanding, end of period	**538,146**	279,447

(c) Deferred share units (DSU)

Movement during the periods

	June 30, 2013	December 31, 2012
	Number of DSUs	Number of DSUs
Outstanding, beginning of the period	**407,575**	165,434
Granted	**65,746**	242,921
Cancelled	**(14,407)**	-
Settled	**(151,020)**	(780)
Vested	**(30,501)**	-
Outstanding, end of period	**277,393**	407,575

(d) Stock-based payment liability

	June 30, 2013	December 31, 2012
Carrying amount of liabilities for cash-settled arrangements		
- current portion	**$ 924**	$ 53
- long-term portion	**3,245**	3,734
Total carrying amount	**$ 4,169**	$ 3,787
Total intrinsic value of liability for vested benefits	**$ 2,545**	$ 2,274

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

The PSUs issued in 2010 vested on March 22, 2013 and were paid to unit holders at a payout ratio of 27.3% totalling $86 in April 2013. Included in trade and other payables in the consolidated statements of financial position is the current portion of the MTIPs to be paid out within the next twelve months. MTIPs include BRSU, RSU, and PSUs. The long-term portion of MTIPs and DSUs of $3,245 at June 30, 2013 (December 31, 2012 - $3,374) is classified as share-based payments. The total intrinsic value reflects all of the outstanding DSUs, as none of the MTIPs have vested.

(e) Stock compensation expense

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
Stock compensation expense on stock options	**$ 494**	$ 755	**$ 748**	$ 1,285
Effects of changes in fair value and grants for MTIPs	**844**	98	**940**	2,150
Effects of changes in fair value and grants for DSUs	**755**	(260)	**729**	443
	$ 2,093	$ 593	**$ 2,417**	$ 3,878

11. SHARE CAPITAL

(a) 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.

	June 30, 2013		December 31, 2012	
	Shares	**Share Capital**	Shares	Share Capital
Common Shares				
Issued, beginning of period	**24,493,462**	**$ 126,602**	24,300,019	$ 124,290
Dividend reinvestment plan	**110,732**	**830**	230,882	2,503
Repurchased in the period	**-**	**-**	(37,439)	(191)
Issued, end of period	**24,604,194**	**$ 127,432**	24,493,462	$ 126,602

(b) Common shares and dividends

As at June 30, 2013, trade and other payables includes $2,953 (December 31, 2012 - $2,940) related to the dividend payable on July 16, 2013, of which $367 (December 31, 2012 - $437) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

	June 30, 2013		December 31, 2012	
	Per Share	**Total**	Per Share	Total
Dividend payable, beginning of period	**$ 0.12**	**$ 2,940**	$ 0.12	$ 2,923
Total dividends declared during the period	**0.24**	**5,898**	0.48	11,718
Total dividends paid during the period [1]	**(0.24)**	**(5,885)**	(0.48)	(11,701)
Dividend payable, end of period	**$ 0.12**	**$ 2,953**	$ 0.12	$ 2,940

[1] Includes DRIP non-cash payments totaling $830 (December 31, 2012 - $2,503) which are recorded through share capital.

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

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

		Six months ended		
		June 30, 2013		June 30, 2012
Trade and other receivables	**$**	**44,654**	$	18,386
Inventory		**793**		(260)
Prepaid expenses		**945**		(1,214)
Costs in excess of billings		**(3,317)**		3,749
Trade and other payables		**(56,159)**		(54,107)
Contract advances and unearned income		**(9,601)**		(19,552)
	$	**(22,685)**	$	(52,998)

13. FINANCIAL INSTRUMENTS

(a) Carrying values

		June 30, 2013		December 31, 2012
Financial assets:				
Cash and cash equivalents	**$**	**30,831**	$	33,774
Trade and other receivables		**264,443**		309,097
Service provider deposit		**4,848**		4,008
Long-term receivable, including current portion		**275**		275
Financial liabilities:				
Trade and other payables	**$**	**178,154**	$	233,442
Long-term debt, including current portion		**71,668**		52,737
Convertible debentures - debt component		**80,444**		79,151

(b) 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 it believes 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.

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

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 (loss) 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:

		June 30, 2013		December 31, 2012
Balance at beginning of the period	**$**	**1,589**	$	1,993
Impairment losses recognized on receivables		**3**		877
Amounts written off during the period as uncollectible		**(252)**		(898)
Amounts recovered during the year		**(809)**		51
Impairment losses reversed		**-**		(434)
Balance at the end of the period	**$**	**531**	$	1,589

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. The terms and conditions established with individual customers establish whether or not the receivable is past due.

		June 30, 2013		December 31, 2012
Current	**$**	**128,896**	$	91,727
1-60 days past due		**50,168**		77,119
61-90 days past due		**7,533**		17,078
More than 90 days past due		**26,212**		29,822
	$	**212,809**	$	215,746

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 $26,212 of trade receivables which were greater than 90 days past due with $25,681 not provided for as at June 30, 2013 (December 31, 2012 - $28,233). Of the total, $19,085 (72%) was concentrated in four customer accounts and of this amount $19,076 remained outstanding as of August 12, 2013. The four 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.

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

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

		June 30, 2013		December 31, 2012
Fixed rate instruments				
Financial liabilities	**$**	**80,444**	$	79,151
Variable rate instruments				
Financial assets	**$**	**30,831**	$	33,774
Financial liabilities		**71,668**		52,737

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 $231 (December 31, 2012 - $252) related to financial assets and by $538 (December 31, 2012 - $393) 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 June 30, 2013, 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 period.

	Carrying amount	Contractual cash flows	0 - 6 months	6 - 12 months	12 - 24 months	After 24 months
Trade and other payables	**$ 178,154**	$ 178,154	$ 178,154	$ -	$ -	$ -
Provisions including current portion	**11,079**	11,079	3,614	3,614	570	3,281
Convertible debentures	**80,444**	96,600	2,588	2,587	91,425	-
Long-term debt including current portion	**71,668**	71,668	974	973	74	69,647
Lease commitments	**66,342**	66,342	3,854	3,853	6,353	52,282
	$ 407,687	$ 423,843	$ 189,184	$ 11,027	$ 98,422	$ 125,210

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

14. CAPITAL MANAGEMENT

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:

	June 30, 2013	December 31, 2012
Long-term indebtedness:		
Long-term debt, excluding current portion net of deferred financing fees	$ 69,721	$ 51,909
Convertible debentures - debt component net of deferred financing fees	80,444	79,151
Total long-term indebtedness	150,165	131,060
Total equity	232,547	235,150
Total capitalization	$ 382,712	$ 366,210
Indebtedness to capitalization percentage	39%	36%

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 June 30, 2013, the long-term indebtedness to EBITDA was 4.09x (June 30, 2012 – 2.72x) calculated on a last twelve-month basis as follows:

	June 30, 2013	June 30, 2012 (1)
Total long-term indebtedness	$ 150,165	$ 147,529
Net (loss) earnings	$ (61,806)	$ 10,541
Add:		
Finance costs	11,629	12,066
Income tax expense	(1,960)	3,774
Depreciation and amortization	24,284	27,950
Impairment loss	64,600	-
EBITDA	$ 36,747	$ 54,331
Long-term indebtedness to EBITDA ratio	4.09x	2.72x

(1) Restated under IAS 19 (2011). Under the old IAS 19, the last twelve-month EBITDA was $56,288.

Notwithstanding the Corporation's current long-term indebtedness to EBITDA ratio exceeding the target range, 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 in the consolidated audited annual financial statements of the Corporation at December 31, 2012. The covenants are measured each quarter on March 31, June 30, September 30 and December 31. The Corporation was in full compliance with its credit facility covenants at June 30, 2013 and December 31, 2012.

15. 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 June 30, 2013 of $110 (June 30, 2012 – $35) for the rental of a building that is 50% owned by Schneider Investments Inc., a company owned by George Schneider, a Director of the Corporation. For the six months ended June 30, 2013, these facility costs were $186 (June 30, 2012 - $71). A new lease with Schneider Investments was entered into during the year. Beginning in 2013, lease costs will now include building operating expenses. At June 30, 2013, $39 is included in trade payables (June 30, 2012 - $0).

The Corporation incurred facility costs during the three months ended June 30, 2013 of $101 (June 30, 2012 – $101) for the rental of a building owned by Broda Holdings (2009) Inc., a company owned by the president of Broda. For the six months ended June 30, 2013, these facility costs were $202 (June 30, 2012 - $230). At June 30, 2013, $29 is included in trade payables (June 30, 2012 - $58).

16. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Corporation has provided several letters of credit in the amount of $13,624 in connection with various projects and joint ventures (December 31, 2012 - $15,646), of which $7,500 are financial letters of credit (December 31, 2012 - $6,500). These letters of credit are issued utilizing the credit facilities of the Corporation; however, only the financial letters of credit reduce the maximum availability under the revolving credit facility.

The Corporation has made various donations in support of local communities. The planned payments related to these commitments are $195 in the upcoming 12 month period, and a total of $295 in the next three years

17. EVENTS AFTER THE REPORTING PERIOD

On July 12, 2013, the Corporation renewed 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. The one-year extension of the revolving credit facility results in a new maturity date of July 12, 2017.

On August 12, 2013, 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 October 15, 2013 to shareholders of record on September 30, 2013.

Corporate & Shareholder Information

Officers

David LeMay, MBA
President and Chief Executive 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.

Allan Tarasuk, P.Eng., STS
President
Churchill Services Group

Al Miller
President
Canem Systems Ltd.

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

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

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

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

Directors

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

Richard T. Ballantyne, P.Eng [1] [4]

Rod Graham, CFA, MBA [1] [4]

Wendy L. Hanrahan, CA [1] [2]

Harry A. King, B.A., CA [1] [3]

Carmen R. Loberg [2] [4]

Allister J. McPherson, B.Sc., M.Sc. [1] [3]

Ian M. Reid, B.Comm. [2] [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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Auditors

Deloitte & Touche LLP
Edmonton, Alberta

Principal Bank

HSBC Bank Canada

Bonding and Insurance

Aon Reed Stenhouse Inc.
Federal Insurance Company
Liberty Mutual Insurance Company

Registrars and Transfer Agents

Inquiries regarding change of address, registered holdings, transfers, duplicate mailings and lost certificates should be directed to:

Common Shares:

CIBC Mellon Trust Company [1]
600 The Dome Tower
333 – 7th Avenue SW
Calgary, Alberta T2P 2Z1
Phone: 403 776-3900
Fax: 403 776-3916
Email: inquiries@canstockta.com
Website: www.canstockta.com
Answerline: 1-800-387-0825

Convertible Debentures:

Valiant Trust Company
Suite 310, 606 – 4th Street SW
Calgary, Alberta T2P 1T1
Phone: 403 233-2801
Fax: 403 233-2857
Email: inquiries@valianttrust.com
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[1] Canadian Stock Transfer Company Inc. acts as the Administrative Agent for CIBC Mellon Trust Company

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