Q3

the Churchill Corporation

THIRD QUARTER INTERIM REPORT
For the three and nine months ended September 30, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation ("Churchill" or the "Corporation"), for the three and nine months ended September 30, 2013, dated November 5, 2013 should be read in conjunction with the September 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.

# 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.

### Results

- In Q3 2013, our EBITDA increased by 3% to $12.3 million, compared to $11.9 million in Q3 2012. Net earnings improved to $2.6 million in Q3 2013 from a $1.7 million in Q3 2012, primarily due to positive contributions from the general contracting segment, combined with solid commercial systems and industrial services results. Q3 2013 fully diluted earnings per share of $0.10 compare favourably to diluted earnings per share of $0.07 in Q3 2012.
- As at September 30, 2013, the Corporation was in full compliance with its covenants under its long-term debt, had available cash of $37.3 million and had additional borrowing capacity of $49.5 million.

### Declaration of Common Share Dividend

On November 5, 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 January 14, 2014 to shareholders of record on December 31, 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 third quarter 2013 EBITDA was slightly below our expectations as revenues in our General Contracting segment did not meet forecasted activity levels, but were partly offset by improved general contracting margins and strong project execution in the Commercial Systems and Industrial Services segments. Despite the fact that these results were only slightly below our expectations, we are reducing our 2013 EBITDA guidance to $40 to $42 million to take into account current information with respect to project execution schedules. The revision to project schedules takes into account delays arising from expanded scopes of work, architectural and engineering drawings, permitting and other factors. The consequence of these revised schedules is that the corresponding revenues and associated margins will be recognized in future reporting periods.

## CORE BUSINESS AND STRATEGY

Churchill provides institutional, commercial and industrial construction and maintenance services. As of September 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.

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”)).

The Corporate and Other segment includes Churchill’s corporate centre which provides strategic direction, operating oversight, legal services, financing, infrastructure services and management of public company requirements to each of Churchill’s business segments. 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.

Additionally, the Corporation reports certain assets held-for-sale, which at September 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; utilize strong project and financial reporting systems to manage projects and costs efficiently; increase backlog by exceeding customer expectations and earning repeat business; and maintain 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 are an essential organizational characteristic and 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 employee referral bonuses, year-end cash bonuses, an employee share purchase plan, and 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.

# RESULTS OF OPERATIONS

## Selected Interim Financial Information

| ($millions, except per share amounts) | Three months ended September 30 2013 | Three months ended September 30 2012[1] | Nine months ended September 30 2013 | Nine months ended September 30 2012[1] |
|---|---|---|---|---|
| Contract revenue | $ 294.8 | $ 303.2 | $ 809.5 | $ 932.2 |
| Contract income[2] | 30.4 | 25.9 | 78.4 | 83.7 |
| EBITDA from continuing operations[3] | 12.3 | 11.9 | 28.3 | 30.1 |
| Net earnings from continuing operations | 2.6 | 1.7 | 1.8 | 0.4 |
| Net earnings from discontinued operations | - | - | - | 0.1 |
| Net earnings | 2.6 | 1.7 | 1.8 | 0.4 |
| Net earnings per common share from continuing operations | | | | |
| - Basic | $ 0.10 | $ 0.07 | $ 0.07 | $ 0.02 |
| - Diluted | 0.10 | 0.07 | 0.07 | 0.02 |
| Net earnings per common share | | | | |
| - Basic | 0.10 | 0.07 | 0.07 | 0.02 |
| - Diluted | 0.10 | 0.07 | 0.07 | 0.02 |
| | | | September 30, 2013 | December 31, 2012 |
| Backlog[3] | | | $ 2,115.9 | $ 1,690.5 |
| Working capital[3] | | | 96.7 | 79.2 |
| Long-term debt (excluding current portion) | | | 70.4 | 51.9 |
| Convertible debentures (excluding equity portion) | | | 81.1 | 79.2 |
| Total assets | | | 720.3 | 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 nine month periods ending September 30, 2012 was $1.8 and $5.6, respectively.*

(3) *"EBITDA" is earnings from continuing operations before interest, taxes, depreciation and amortization. Working capital is current assets less current liabilities. EBITDA, Working capital and backlog are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these items.*

For the three months ended September 30, 2013, consolidated contract revenue was $294.8 million, compared to $303.2 million in 2012, a 3% decrease. The General Contracting segment's revenue decreased by $34.6 million or 21%, the Commercial Systems segment's revenue increased by $13.3 million or 29%, and the Industrial Services segment revenue increased by $11.1 million or 11%. Intersegment revenue during the third quarter of 2013 was $6.5 million, a decrease of $1.8 million or 21% compared to the third quarter of 2012, primarily resulting from slightly less intercompany activity between the company's business segments.

Contract income increased from $25.9 million (8.5% of revenue) in the third quarter of 2012 to $30.4 million (10.3% of revenue) in the third quarter of 2013. The $4.5 million year-over-year increase in contract income is made up of a $2.5 million (36%) increase and $3.4 million (72%) increase in the General Contracting and Commercial Systems segments respectively, offset by a $0.4 million (3%) and $1.0 million (100%) decrease in the Industrial Services and intersegment segment elimination, respectively.

Administrative expenses for the third quarter of 2013 amounted to $21.0 million (7.1% of revenue) compared to $18.0 million (5.9%) of revenue in the third quarter of 2012. Administrative expenses decreased by $1.8 million (20%) in the General Contracting segment and $0.3 million (10%) in the

Commercial Systems segment, offset by increases in administrative expenses in the remaining business segments.

The net impact of the aforementioned differences in revenue, contract income and administrative expense was a $0.4 million (3%) increase in third quarter 2013 EBITDA to $12.3 million as compared to $11.9 million in Q3 2012.

The Corporation's consolidated net earnings for the third quarter of 2013 were $2.6 million compared to net earnings of $1.7 million in the same period of 2012, a $0.9 million increase, consisting of a $1.6 million increase in earnings before tax ("EBT") partly offset by a $0.7 million increase in income tax expense.

For the nine months ended September 30, 2013, consolidated contract revenue was $809.5 million, compared to $932.2 million in the nine months ended September 30, 2012, a 13% decrease. The General Contracting segment's revenue decreased by $168.4 million or 31%, the Commercial Systems segment's revenue increased by $14.7 million or 11%, and the Industrial Services segment revenue increased by $16.8 million or 6%. Intersegment revenue during the first nine months of 2013 was $19.4 million, a decrease from the $33.6 million of intersegment revenue for the nine months ended September 30, 2012, primarily resulting from less intercompany activity between the Commercial Systems and General Contracting segments.

Contract income decreased from $83.7 million, or 9.0% of revenue, in the nine months ended September 30, 2012 to $78.4 million, or 9.7% of revenue, in the nine months ended September 30, 2013. Of the $5.2 million decrease in contract income, the Industrial Services segment reported an increase of $3.1 million; the Commercial Systems segment increased its margin by $1.3 million, offset by decreases from the General Contracting segment, and intersegment elimination of $5.7 million and $3.9 million, respectively.

Administrative expenses for the nine months ended September 30, 2013 amounted to $58.6 million (7.2% of revenue) compared to $64.2 million (6.9% of revenue) in the same period of 2012. Year to date, administrative expenses are reduced across all operating business segments, but are $3.6 million higher in the corporate segment primarily as a result of accruing incentive compensation for all business units within the corporate and other segment rather than at the operating company level. Year over year, the amount the Corporation is accruing for incentive compensation is expected to be similar.

EBITDA in the nine months ended September 30, 2013 decreased by $1.8 million or 6%, compared to the nine months ended September 30, 2012 (September 30, 2013 - $28.3 million, September 30, 2012 - $30.1 million). EBT during the nine months ended September 30, 2013 was $3.2 million, compared to $0.9 million in the first nine months of 2012. Net earnings for the nine months ended September 30, 2013, was $1.8 million, compared to net earnings of $0.4 million (including net earnings from discontinued operations of $0.1 million) in the first nine months of 2012.

Churchill's backlog, including work-in-hand, at September 30, 2013 was $2,115.9 million, compared to $1,690.5 million at December 31, 2012, a $425.4 million or 25% increase. The Corporation's backlog

consists of work-in-hand of $1,105.4 million (December 31, 2012 – $964.5 million) and active backlog of $1,010.5 million (December 31, 2012 – $726.0 million). The backlog consists of approximately 55% CM, 29% cost-plus arrangements (combined total of 84% construction management ("CM") and cost-plus) and 16% tendered (hard-bid) work. New contract awards and net increases in contract value of $323.3 million were added to work-in-hand in the third quarter of 2013 (third quarter of 2012 – $336.7 million).

## Results of Operations by Segment

The following tables set out selected interim results by operating segment:

| ($millions, except margin percent) | Three months ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total | General Contracting | Commercial Systems | Industrial Services | Corporate and Other | Intersegment Eliminations |
| Contract revenue | $ 294.8 | $ 133.5 | $ 59.0 | $ 108.8 | $ - | $ (6.5) |
| Contract income | 30.4 | 9.2 | 8.1 | 13.1 | - | (0.0) |
| Contract income margin | 10.3% | 6.9% | 13.8% | 12.0% | - | - |
| Administrative costs | 21.0 | 7.1 | 3.2 | 5.0 | 5.7 | - |
| EBITDA[3] | 12.3 | 2.7 | 5.3 | 10.1 | (5.7) | (0.0) |
| EBITDA margin | 4.2% | 2.0% | 8.9% | 9.3% | - | - |
| EBT | 3.9 | 1.7 | 4.9 | 7.8 | (10.3) | (0.1) |
| Backlog[3] | $ 2,115.9 | $ 1,539.3 | $ 186.3 | $ 390.3 | $ - | $ - |
| | Three months ended September 30, 2012[1] | | | | | |
| | Total | General Contracting | Commercial Systems[2] | Industrial Services | Corporate and Other | Intersegment Eliminations |
| Contract revenue | $ 303.2 | $ 168.1 | $ 45.7 | $ 97.7 | $ - | $ (8.3) |
| Contract income | 25.9 | 6.7 | 4.7 | 13.4 | - | 1.0 |
| Contract income margin | 8.5% | 4.0% | 10.3% | 13.8% | - | - |
| Administrative costs | 18.0 | 8.9 | 3.5 | 4.3 | 1.3 | - |
| EBITDA[3] | 11.9 | (0.3) | 1.4 | 11.1 | (1.3) | 1.0 |
| EBITDA margin | 3.9% | -0.2% | 3.1% | 11.3% | - | - |
| EBT | 2.3 | (1.3) | 0.7 | 9.1 | (7.1) | 0.9 |
| 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 the three month period ending September 30, 2012 was $1.8.*

*(3) "EBT" is earnings from continuing operations before income tax. EBITDA, EBITDA margin and backlog are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these items.*

*(4) As of December 31, 2012.*

| ($millions, except margin percent) | Nine months ended September 30, 2013 Total | General Contracting | Commercial Systems | Industrial Services | Corporate and Other | Intersegment Eliminations |
|---|---|---|---|---|---|---|
| Contract revenue | $ 809.5 | $ 371.3 | $ 153.4 | $ 304.1 | $ - | $ (19.4) |
| Contract income | 78.4 | 22.5 | 22.3 | 33.3 | - | 0.4 |
| Contract income margin | 9.7% | 6.1% | 14.6% | 10.9% | - | - |
| Administrative expenses | 58.6 | 22.5 | 9.5 | 14.5 | 12.1 | - |
| EBITDA[3] | 28.3 | 2.0 | 13.5 | 24.5 | (12.1) | 0.4 |
| EBITDA margin | 3.5% | 0.6% | 8.8% | 8.1% | - | - |
| EBT | 3.2 | (1.0) | 12.3 | 18.0 | (26.3) | 0.2 |
| Backlog[3] | $ 2,115.9 | $ 1,539.3 | $ 186.3 | $ 390.3 | $ - | $ - |

| | Nine months ended September 30, 2012[1] Total | General Contracting | Commercial Systems[2] | Industrial Services | Corporate and Other | Intersegment Eliminations |
|---|---|---|---|---|---|---|
| Contract revenue | $ 932.2 | $ 539.6 | $ 138.8 | $ 287.3 | $ - | $ (33.6) |
| Contract income | 83.7 | 28.2 | 21.0 | 30.2 | - | 4.3 |
| Contract income margin | 9.0% | 5.2% | 15.1% | 10.5% | - | - |
| Administrative expenses | 64.2 | 28.8 | 12.2 | 15.0 | 8.5 | (0.1) |
| EBITDA[3] | 30.1 | 4.2 | 9.7 | 20.3 | (8.4) | 4.3 |
| EBITDA margin | 3.2% | 0.8% | 7.0% | 7.0% | - | - |
| EBT | 0.9 | 1.3 | 7.9 | 14.5 | (26.7) | 3.9 |
| 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 the nine month period ending September 30, 2012 was $5.6.*
*(3) "EBT" is earnings from continuing operations before income tax. EBITDA, EBITDA margin and backlog are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these items.*
*(4) As of December 31, 2012.*

## General Contracting

For the three months ended September 30, 2013, Stuart Olson Dominion's revenue was $133.5 million, compared to $168.1 million in the three months ended September 30, 2012. This $34.6 million or 21% decrease in the third quarter of 2013 was primarily attributable to being in the pre-construction and early construction stages on several new projects during the period and activity not meeting forecasted levels.

Stuart Olson Dominion's contract income in the third quarter of 2013 increased by 37%, to $9.2 million, from $6.7 million for the three months ended September 30, 2012. The increase in contract income resulted from the stronger embedded margins in the backlog and improved project execution. The contract income margin was 6.9% in Q3 2013 compared to 4.0% in the third quarter of 2012.

EBITDA for Stuart Olson Dominion in the three months ended September 30, 2013 was $2.7 million compared to $(0.3) million in the third quarter of 2012. This $3.0 million improvement in EBITDA was mainly due to the aforementioned increase in contract income.

For the nine months ended September 30, 2013, Stuart Olson Dominion's revenue was $371.3 million, compared to $539.6 million in the nine months ended September 30, 2012. This $168.3 million or 31% decrease in the first nine months of 2013 was primarily attributable to being in the pre-construction and

early construction stages on several new projects during the period and activity not meeting forecasted levels.

As a result of these lower activity levels, Stuart Olson Dominion's contract income in the nine months ended September 30, 2013 decreased by $5.7 million, or 20%, to $22.5 million from $28.2 million for the first nine months of 2012. The contract income margin for the nine months ended September 30, 2013 was 6.1% compared to 5.2% in the nine months ended September 30, 2012. The increase in contract income margins resulted from the stronger embedded margins in the backlog and improved project execution.

EBITDA for Stuart Olson Dominion in the nine months ended September 30, 2013 was $2.0 million compared to $4.2 million in the same period of 2012. This reduction in year to date EBITDA resulted from the lower volume of activity.

Stuart Olson Dominion had backlog of $1,539.3 million as at September 30, 2013, compared to backlog of $1,115.8 million at December 31, 2012, a $423.5 million or 38% increase. As at September 30, 2013 approximately 72% of Stuart Olson Dominion's backlog was composed of CM assignments, 24% was cost-plus projects (combined total of 96% CM and cost-plus) and 4% were tendered projects. The September 30, 2013 backlog consisted of $653.3 million of work-in-hand and $886.0 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 $130.3 million of new awards and scope increases during the quarter and executed $133.5 million of contract revenue.

### Commercial Systems

The Commercial Systems segment's third quarter 2013 revenue was $59.0 million, compared to $45.7 million in the three months ended September 30, 2012. This $13.3 million or 29% 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 third quarter of 2013 increased by $3.4 million, or 72%, to $8.1 million from $4.7 million during the third quarter of 2012. This resulted in a contract income margin of 13.8% for the third quarter of 2013 compared to 10.3% in the third quarter of 2012. The increased margin is attributable to the execution of higher margin projects during the third quarter of 2013.

EBITDA for Canem in the third quarter of 2013 was $5.3 million (8.9% EBITDA margin) compared to $1.4 million (3.1% EBITDA margin) for the third quarter of 2012. This $3.9 million (279%) increase was due to the aforementioned increase in contract income.

For the nine months ended September 30, 2013, Canem's revenue was $153.4 million, compared to $138.8 million in the nine months ended September 30, 2012. This $14.6 million or 11% increase was primarily attributable to increased revenue from the Manitoba and British Columbia regions, partly offset by lower revenue from Alberta operations.

Canem's contract income for the first nine months of 2013 was $22.3 million or 14.6% of revenue, versus $21.0 million or 15.1% of revenue in the first nine months of 2012. Contract income growth during the first nine months of 2013 was attributable to the growth in revenue during the period.

Canem reported EBITDA for the nine months ended September 30, 2013 of $13.5 million or 8.8% of revenue, compared to $9.7 million or 7.0% of revenue in the nine months ended September 30, 2012. This $3.8 million (39%) increase was due to the growth in EBITDA during the third quarter of 2013.

Canem had total backlog of $186.3 million as at September 30, 2013, compared to total backlog of $194.3 million at December 31, 2012, an $8.0 million or 4% decrease. As at September 30, 2013 Canem's backlog was composed of approximately 30% of CM and cost-plus projects and 70% tendered projects. The September 30, 2013 backlog consisted of $158.7 million of work-in-hand and $27.6 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 $63.1 million of new awards and increases in contract value during the quarter and executed $59.0 million of construction activity.

### Industrial Services

For the Industrial Services segment, third quarter 2013 revenue increased by $11.1 million, or 11%, to $108.8 million from $97.7 million for the third quarter of 2012. The revenue increase in 2013 was due to strong levels of activity in Alberta's oil sands and Saskatchewan's mining sector.

Industrial Services' contract income in the three months ended September 30, 2013 decreased by 3%, to $13.1 million from $13.4 million for the third quarter of 2012. Contract income margins were lower at 12.0% in the three months ended September 30, 2013 as compared to 13.8% in the third quarter of 2012, primarily as a result of the project mix being made up of lower risk, lower margins projects.

EBITDA for the Industrial Services segment decreased by $1.0 million, or 9%, to $10.1 million (9.3% EBITDA margin) for the three months ended September 30, 2013 from $11.1 million (11.3% EBITDA margin) in the third quarter of 2012. The decrease in EBITDA resulted from the combination of lower contract income and higher administrative expenses on a year-over-year basis.

For the nine months ended September 30, 2013, the Industrial Services segment's revenue was $304.1 million, compared to $287.3 million in the nine months ended September 30, 2012, a 6% increase. The revenue increase in 2013 was due to strong levels of maintenance and turnaround activity in Alberta's oil sands.

The segment's contract income in the nine months ended September 30, 2013 increased by $3.1 million, or 10%, to $33.3 million from $30.2 million for the first nine months of 2012. In the nine months ended 2013, contract income margin was 10.9% compared to 10.5% in the nine months ended September 30, 2012. Higher levels of activity in conjunction with solid project execution contributed to contract income growth.

EBITDA for Industrial Services in the nine months ended September 30, 2013 was $24.5 million compared to $20.3 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 $390.3 million as at September 30, 2013, compared to backlog of $380.4 million at December 31, 2012, a $9.9 million or 3% increase. As at September 30, 2013, 60% of the Industrial Services backlog consisted of cost plus projects and the remaining 40% were tendered projects. The September 30, 2013 backlog consisted of $293.5 million of work-in-hand and $96.9 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 $129.9 million of new awards and scope increases during the quarter and executed $108.8 million of construction activity.

### Corporate and Other

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were $5.7 million in the third quarter of 2013 compared to $1.3 million in the third quarter of 2012, a $4.4 million (338%) increase. The increase is primarily related to accruals related to incentive compensation being booked at the corporate level rather than the operating segment level and the impact of mark-to-market pricing on stock-based compensation expense during the third quarter of 2013. Year over year, the amount the Corporation is accruing for incentive compensation is expected to be similar.

The Corporate and Other's segment finance costs were $2.7 million in the third quarter of 2013 compared to $2.9 million in the three months ended September 30, 2012, a $0.2 million (7%) decrease. The decrease in finance costs was due to a lower average debt balance during the period despite borrowing at higher interest rates during the period.

The Corporate and Other segment's depreciation and amortization expense was $1.9 million in the three months ended September 30, 2013 compared to $2.9 million in the third quarter of 2012, a $1.0 million (33%) 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 enterprise resource planning ("ERP") system. Of the $1.0 million decline, the majority of this difference resulted from having fully amortized Dominion's backlog and agency intangibles and having significantly amortized Canem's backlog and agency intangibles.

In the third quarter of 2013, the Corporate and Other segment incurred a loss before tax of $10.3 million compared to a loss before tax of $7.1 million in the third quarter of 2012 primarily as a result of the increase in administrative expenses.

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were $12.1 million in the nine months ended September 30, 2013 compared to $8.5 million in the nine months ended September 30, 2012, a $3.6 million (42%) increase. The increase is primarily related to accruals related to incentive compensation for all business segments being recorded at the corporate segment as opposed to the operating segment and the impact of stock-based compensation during the

nine months ended September 30, 2013. Year over year, the amount the Corporation is accruing for incentive compensation is expected to be the same.

The Corporate and Other's segment finance costs were $8.5 million in the nine months ended September 2013 compared to $8.6 million in the nine months ended September 30, 2012. The similar finance cost in both periods resulted from a similar average balance of outstanding long-term debt and similar interest rates during the two periods.

The Corporate and Other segment's depreciation and amortization expense was $5.7 million in the nine months ended September 30, 2013 compared to $9.6 million in the nine months ended September 30, 2012, a $3.9 million (41%) 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 $3.9 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 nine months ended September 30, 2013, the Corporate and Other segment incurred a loss before tax of $26.3 million compared to a loss before tax of $26.7 million in the nine months ended September 30, 2012 primarily as a result of the Corporate segment accruing the incentive compensation for the entire company in 2013 and the decrease in depreciation and amortization costs.

# LIQUIDITY

### Cash and Debt Balances

Cash and cash equivalents at September 30, 2013 were $37.3 million, compared to $33.8 million at December 31, 2012, a $3.5 million increase resulting from working capital management.

Long-term indebtedness at September 30, 2013, excluding the $1.7 million current portion of long-term debt, amounted to $151.6 million compared to $131.1 million at December 31, 2012, a net increase of $20.5 million. This amount consisted of $81.2 million (December 31, 2012 - $79.2 million) of the debt portion of convertible debentures and $70.4 million (December 31, 2012 - $51.9 million) drawn on Churchill's $200 million, four-year senior revolving credit facility (the "Revolver"). As at September 30, 2013, the Corporation was in full compliance with its covenants and had additional borrowing capacity of $49.5 million available to it under the Revolver.

| Ratio | Covenant | Actual as at Sept. 30, 2013 |
|---|---|---|
| Current | > 1.10:1.00 | 1.33:1.00 |
| Interest Coverage | > 2.75:1.00 | 3.51:1.00 |
| Total Debt / EBITDA | < 3:00:1.00 | 1.84:1.00 |
| Senior debt / EBITDA | < 3.00:1.00 | 1.78:1.00 |

The amount of the Revolver will fluctuate from quarter to quarter as it is drawn to finance working capital requirements, capital expenditures and asset acquisitions, and as it is repaid with funds from operations.

### Summary of Cash Flows

| ($millions) | Nine months ended September 30 | |
|---|---|---|
| | 2013 | 2012 |
| Operating activities | $ 3.7 | $ (20.0) |
| Investing activities | (8.4) | (10.8) |
| Financing activities | 8.2 | 1.9 |
| Increase (decrease) in cash | $ 3.5 | $ (28.9) |
| Cash and cash equivalents, beginning of period | 33.8 | 59.4 |
| Cash and cash equivalents, end of period | $ 37.3 | $ 30.5 |

During the nine month period ended September 30, 2013, cash generated from operating activities was $3.7 million compared to cash invested in operations of $20.0 million during the same period of 2012. The increase in cash generated from operations was a result of changes in non-cash working capital balances.

During the nine month period ended September 30, 2013, investing activities used $8.4 million of cash compared to $10.8 million in the same period of 2012. Net additions to property, equipment and intangibles were lower during 2013 than in the comparable period of 2012.

During the first nine months of 2013, net cash provided from financing activities amounted to $8.2 million, primarily from $17.3 million in proceeds from long term debt offset by dividend payments of $7.6 million. This amount compares to net cash provided from financing activities of $1.9 million in the nine months ended September 30, 2012, primarily from $7.3 million in net proceeds of long-term debt, offset by dividend payments of $6.7 million.

## CAPITAL RESOURCES

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 third quarter of 2013, the Corporation's capital expenditures totalled $2.7 million compared to $4.1 million in the three months ended September 30, 2012. Capital expenditures during the third quarter of 2013 consisted of $1.9 million for construction and automotive equipment, $0.5 million for computer hardware and software, $0.3 million for tenant improvements and $0.1 million for furniture and equipment.

In the nine months ended September 30, 2013, the Corporation's capital expenditures totalled $10.8 million compared to $15.4 million in the first nine months of 2012. Expenditures included $6.3 million for construction and automotive equipment, $1.4 million for computer equipment and software, $2.0 million for tenant improvements, $1.0 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 continues to project a 2013 capital spending program totalling $15.0 million for the full year.

### Working Capital

As at September 30, 2013, Churchill had working capital of $96.7 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 nine month period.

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.

Refer to *Note 15* 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 September 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 14(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 | **$ 194,608** | $ 194,608 | $ 194,608 | $ - | $ - | $ - |
| Provisions including current portion | **13,610** | 13,610 | 4,202 | 4,202 | 969 | 4,237 |
| Convertible debentures (debt portion) | **81,149** | 96,600 | 2,588 | 2,587 | 91,425 | - |
| Long-term debt including current portion | **72,129** | 72,129 | 853 | 852 | 171 | 70,253 |
| Lease commitments | **64,596** | 64,596 | 3,825 | 3,825 | 6,284 | 50,662 |
| | **$ 426,092** | $ 441,543 | $ 206,076 | $ 11,466 | $ 98,849 | $ 125,152 |

Scheduled debt principal repayments within one year at September 30, 2013 were $1.7 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 September 30, 2013, the ESPP held 1,522,944 common shares for employees (September 30, 2012 – 1,128,841 common shares). Under the ESPP, common shares are acquired in the open market.

On January 15, 2013, April 16, 2013, July 16, 2013 and October 15, 2013, the Corporation issued 54,073, 56,659, 46,540 and 51,948 common shares, respectively, pursuant to its DRIP.

As at November 5, 2013, the Corporation had 24,771,525 common shares issued and outstanding and 1,870,022 options convertible into common shares upon exercise (December 31, 2012 – 24,493,462 common shares and 1,379,981 options). Refer to *Note 12* 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.

Shareholders' equity was $234.0 million at September 30, 2013 compared to $235.1 million at December 31, 2012. This resulted from net earnings of $1.8 million for the nine months ended September 30, 2013, a $3.0 million defined benefit plan actuarial gain net of tax, cash dividend payments of $7.7 million, a $1.2 million share capital increase related to the DRIP and share based payment transactions of $1.7 million.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## RELATED PARTY TRANSACTIONS

During the third quarter of 2013, the Corporation incurred facility costs of $0.1 million (third 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 nine months ended September 30, 2013, these facility costs were $0.3 million (September 30, 2012 - $0.1 million). A new lease with Schneider Investments Inc. was entered into during the year. Beginning in 2013, lease costs now include building operating expenses. At September 30, 2013, there was no outstanding accounts payable (September 30, 2012 – $0.01).

During the third quarter of 2013, the Corporation incurred facility costs of $0.1 million (third 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 nine months ended September 30, 2013, these facility costs were $0.3 million (September 30, 2012 - $0.3 million). At September 30, 2013, there was $0.04 million included in accounts payable (September 30, 2012 – $0.03 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:

- Stuart Olson Dominion's EBITDA margins are expected to continue to improve gradually during the remainder of 2013, as 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 as compared to 2012, along with improved full year EBITDA margins as a result of its project mix in 2013 and efforts to lower administrative expenses. Additional detail is included in the Commercial Systems section below.
- The Industrial Services segment is expected to continue delivering strong revenues at comparable to slightly lower EBITDA margins than their consolidated full year 2012 results. Additional detail is included in the Industrial Services section below.

### General Contracting

Stuart Olson Dominion expects to execute approximately $135 million of its September 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. Construction margins are expected to marginally improve during the fourth quarter of 2013 as a number of longer term projects near completion and as secured higher-margin projects begin construction.

The provincial spending outlook by governments across Western Canada is expected to remain in decline during this next three year cycle. However, 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 and design.

Our marketing and business development efforts have been extremely successful year-to-date and we continue to identify additional business development opportunities which may add to Stuart Olson Dominion's record $1.5 billion backlog. This backlog provides significant visibility to future revenue increases that, with solid execution, can lead to improved profitability within this segment. The offset to this backlog growth is the required investment in indirect costs and human resources to support the pre-construction delivery of these projects, which will result in higher administrative expenses in the near-term, until these projects are well advanced into construction.

### Commercial Systems

Canem expects to execute $52 million of its September 30, 2013 backlog during the remainder of 2013. New awards, short-duration projects, building maintenance and tenant improvement work may modestly increase the amount of work executed by Canem during the remainder of 2013.

Therefore the outlook for Canem remains unchanged from recent quarters as competitive pressures continue to impact margins in the near-to-medium term. Canem expects modest revenue growth during 2013 and improved full year EBITDA margins, as a result of administrative cost management and project mix, despite these competitive bidding conditions. 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 more traditional operations.

### Industrial Services

The industrial segment is expected to execute $94 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 fourth quarter revenue. Industrial Services results are expected to exhibit some seasonal weakness in the fourth quarter of 2013.

Activity levels in Alberta's oil sands, Saskatchewan and Ontario mining districts continue to provide numerous industrial construction and maintenance opportunities. Competitive pressures and a higher proportion of low-risk, cost-plus maintenance work will result in future margins comparable to the recent past.

## 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: |
|---|---|---|---|---|---|---|---|---|
| | Sep. 30 | Jun. 30 | Mar. 31 | Dec. 31 | Sep. 30 | Jun. 30 | Mar. 31 | Dec. 31 |
| Contract revenue | $ 294.8 | $ 277.8 | $ 236.8 | $ 289.9 | $ 303.2 | $ 295.8 | $ 333.2 | $ 384.3 |
| Continuing operations: | | | | | | | | |
| EBITDA[(3)] | $ 12.3 | $ 9.2 | $ 6.8 | $ 9.0 | $ 12.1 | $ 4.6 | $ 13.9 | $ 19.6 |
| Net earnings (loss) | 2.6 | 0.5 | (1.2) | (62.7) | 1.7 | (4.3) | 3.0 | 7.3 |
| EPS - basic | 0.10 | 0.02 | (0.05) | (2.56) | 0.07 | (0.17) | 0.13 | 0.30 |
| EPS - diluted | 0.10 | 0.02 | (0.05) | (2.56) | 0.07 | (0.17) | 0.13 | 0.27 |
| Net earnings (loss) | $ 2.6 | $ 0.5 | $ (1.2) | $ (62.7) | $ 1.7 | $ (4.3) | $ 3.0 | $ 7.3 |
| EPS - basic | 0.10 | 0.02 | (0.05) | (2.56) | 0.07 | (0.17) | 0.13 | 0.30 |
| EPS - diluted | 0.10 | 0.02 | (0.05) | (2.56) | 0.07 | (0.17) | 0.13 | 0.27 |

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) EBITDA is a non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of this item.*

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

Revenue and net earnings in the second quarter of 2012 decreased compared to the first 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 grew modestly during the third quarter of 2012 compared to the second quarter of 2012. Additionally, the absence of major project difficulties resulted in stronger earnings during the period.

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. While lower contract revenue in the General Contracting segment, and lower contract income margins from the Commercial Systems segment were notable operational metrics, the most significant development during the quarter was a $64.6 million asset impairment charge resulting in a net loss for the period and the year.

Results in the first quarter of 2013 decreased compared to the fourth quarter of 2012 as all business segments experienced some form of lower revenues and/or lower contract margins from operations during the period.

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.

A positive contribution from the General Contracting segment, along with strong results from the Commercial Systems and Industrial Services segment resulted in all key financial metrics in the third quarter of 2013 increasing relative to the second quarter of 2013 results.

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 September 30, 2013.

## CRITICAL ACCOUNTING ESTIMATES

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.

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 the 2012 Annual Report, Management's Discussion and Analysis.

# CHANGES IN ACCOUNTING POLICIES

The Corporation's Condensed Consolidated Interim Financial Statements for the three and nine months ended September 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 or business. See *Note 6* to the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 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 the Corporation's consolidated financial statements for the amounts reported in the current and prior periods or business. To ensure consistency of accounting policy application across each segment, 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 $1.8 million and $5.5 million for the three and nine month periods ended September 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. There have been no new standards and interpretations issued year to date that have a material impact on the Corporation.

# 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 revolver, 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 and Comprehensive Earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at September 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 $29.3 million of trade receivables (December 31, 2012 – $29.8 million) which were greater than 90 days past due with $28.8 million not provided for as at September 30, 2013 (December 31, 2012 – $28.2 million). Of the total, $19.6 million (67%) was concentrated in five customer accounts, and of this amount, $16.8 million remained outstanding as of November 5, 2013. The five 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 September 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 $0.3 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.

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial obligations. The Corporation manages this risk through cash and debt management. 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. 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.

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

### 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 September 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 September 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 September 30, 2013, the CEO and CFO have concluded that the design of the internal controls over financial reporting as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings 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 September 30, 2013 that have materially affected or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

## 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”, “EBITDA margin”, and “EBT”. 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 below.

### Contract Income Margin

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

### Work-In-Hand

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

### Backlog

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

| **As at:** | **September 30, 2013** | | | **December 31, 2012** | | |
|---|---|---|---|---|---|---|
| **($millions)** | Work-in-hand | Active backlog | Total backlog | Work-in-hand | Active backlog | Total backlog |
| | $ 1,105.4 | $ 1,010.5 | $ 2,115.9 | $ 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:<br>($millions) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Current assets | $ 388.3 | $ 407.5 |
| Current liabilities | 291.6 | 328.3 |
| Working capital | $ 96.7 | $ 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 Handbook. 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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| ($millions) | 2013 | 2012[(1)] | 2013 | 2012[(1)] |
| Net earnings from continuing operations | $ 2.5 | $ 1.7 | $ 1.8 | $ 0.4 |
| Add: | | | | |
| Income tax expense | 1.4 | 0.6 | 1.3 | 0.5 |
| EBT from continuing operations | $ 3.9 | $ 2.3 | $ 3.1 | $ 0.9 |
| Add: | | | | |
| Depreciation and amortization (indirect cost) | 2.6 | 2.4 | 7.6 | 7.2 |
| Depreciation and amortization (general and administrative) | 3.0 | 4.3 | 8.9 | 13.3 |
| Finance costs | 2.8 | 2.9 | 8.7 | 8.8 |
| EBITDA from continuing operations | $ 12.3 | $ 11.9 | $ 28.3 | $ 30.1 |

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

## EBITDA Margin

EBITDA margin is percentage derived from dividing EBITDA by contract revenue**.**

## 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 while providing a certain amount of income to shareholders and its intention to continue to pay a quarterly dividend;
- Management's 2013 capital expenditure and EBITDA projections including, without limitation, the expectation of continued modest improvement in Churchill's financial results in the fourth quarter of 2013; and specifically the segment discussion on revenue and EBITDA margins under the heading "Outlook";
- 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 or maintenance projects;
- 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.

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.

### 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.

Three and nine month periods ended September 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 September 30, 2013 and 2012.*

**THE CHURCHILL CORPORATION**
**Consolidated Statements of Earnings and Comprehensive Earnings (Loss)**
**For the three and nine month periods ended September 30, 2013 and 2012**
**(in thousands of Canadian dollars, except share and per share amounts)**
**(unaudited)**

| | Note | Three months ended | | Nine months ended | |
|---|---|---|---|---|---|
| | | **September 30, 2013** | September 30, 2012 (Note 6) | **September 30, 2013** | September 30, 2012 (Note 6) |
| Contract revenue | | **$ 294,826** | $ 303,173 | **$ 809,478** | $ 932,166 |
| Contract costs | | **264,452** | 277,279 | **731,053** | 848,504 |
| Contract income | | **30,374** | 25,894 | **78,425** | 83,662 |
| Other income | | **199** | 1,422 | **773** | 3,148 |
| Finance income | | **60** | 101 | **194** | 333 |
| Administrative costs | | **(23,914)** | (22,184) | **(67,542)** | (77,531) |
| Finance costs | | **(2,799)** | (2,918) | **(8,686)** | (8,753) |
| Earnings from continuing operations before tax | | **3,920** | 2,315 | **3,164** | 859 |
| Income tax (expense) recovery | | | | | |
| Current income tax | | **(4,036)** | (3,244) | **(5,154)** | (179) |
| Deferred income tax | | **2,666** | 2,630 | **3,827** | (302) |
| | 5 | **(1,370)** | (614) | **(1,327)** | (481) |
| Net earnings from continuing operations | | **2,550** | 1,701 | **1,837** | 378 |
| Net earnings (loss) from discontinued operations | | **-** | (13) | **-** | 63 |
| **Net earnings** | | **$ 2,550** | $ 1,688 | **1,837** | $ 441 |
| Other comprehensive earnings (loss) | | | | | |
| Defined benefit plan actuarial gains (losses) | | **727** | (1,348) | **3,978** | (5,216) |
| Deferred tax (expense) recovery on other comprehensive earnings | | **(183)** | 341 | **(1,004)** | 1,309 |
| | | **544** | (1,007) | **2,974** | (3,907) |
| **Total comprehensive earnings (loss)** | | **$ 3,094** | $ 681 | **$ 4,811** | $ (3,466) |
| Earnings per share: | | | | | |
| Basic from continuing operations | | **$ 0.10** | $ 0.07 | **$ 0.07** | $ 0.02 |
| Basic from discontinued operations | | **$ -** | $ - | **$ -** | $ - |
| Basic earnings per share | 7 | **$ 0.10** | $ 0.07 | **$ 0.07** | $ 0.02 |
| Diluted earnings per share from continuing operations | | **$ 0.10** | $ 0.07 | **$ 0.07** | $ 0.02 |
| Diluted earnings per share from discontinued operations | | **$ -** | $ - | **$ -** | $ - |
| Diluted earnings per share | 7 | **$ 0.10** | $ 0.07 | **$ 0.07** | $ 0.02 |
| Weighted average common shares: | | | | | |
| Basic | 7 | **24,653,622** | 24,429,551 | **24,596,286** | 24,379,229 |
| Diluted | 7 | **24,806,143** | 24,472,660 | **24,653,029** | 24,524,262 |

See accompanying notes to the consolidated financial statements.

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

| | Note | September 30, 2013 | December 31, 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | | $ **37,273** | $ 33,774 |
| Trade and other receivables | | **292,661** | 309,097 |
| Inventory | | **10,509** | 11,521 |
| Prepaid expenses | | **2,929** | 3,850 |
| Costs in excess of billings | 8 | **39,665** | 39,100 |
| Income taxes recoverable | | **4,772** | 9,505 |
| Current portion of long-term receivable | | **75** | 225 |
| Assets held-for-sale | | **436** | 436 |
| | | **388,320** | 407,508 |
| Service provider deposit | | **5,720** | 4,008 |
| Long-term receivable | | **200** | 50 |
| Deferred tax asset | | **16,653** | 15,383 |
| Property and equipment | | **76,563** | 77,781 |
| Goodwill | | **179,016** | 179,016 |
| Intangible assets | | **53,799** | 58,695 |
| | | $ **720,271** | $ 742,441 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Trade and other payables | | $ **194,608** | $ 233,442 |
| Contract advances and unearned income | 8 | **79,485** | 82,590 |
| Current portion of provisions | 9 | **8,404** | 6,492 |
| Income taxes payable | | **7,363** | 4,991 |
| Current portion of long-term debt | 10 | **1,705** | 828 |
| | | **291,565** | 328,343 |
| Employee benefits | 6 | **5,755** | 10,820 |
| Provisions | 9 | **5,206** | 4,407 |
| Long-term debt | 10 | **70,424** | 51,909 |
| Convertible debentures | | **81,149** | 79,151 |
| Deferred tax liability | | **27,413** | 28,927 |
| Share-based payments | 11(d) | **4,797** | 3,734 |
| | | **486,309** | 507,291 |
| **EQUITY** | | | |
| Share capital | 12(a) | **128,441** | 126,602 |
| Preferred share reserve | | **5,128** | 5,128 |
| Convertible debentures | | **7,100** | 7,100 |
| Share-based payment reserve | 11(a) | **8,197** | 7,171 |
| Retained earnings | | **85,096** | 89,149 |
| | | **233,962** | 235,150 |
| | | $ **720,271** | 742,441 |

See accompanying notes to the consolidated financial statements.

**THE CHURCHILL CORPORATION**
**Consolidated Statements of Changes in Equity**
**For the three and nine month periods ended September 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 earnings | | | | | | 1,837 | 1,837 |
| Other comprehensive gain: | | | | | | | |
| Defined benefit plan actuarial gain, net of tax | 6 | | | | | 2,974 | 2,974 |
| Total comprehensive earnings | | | | | | 4,811 | 4,811 |
| *Transactions recorded directly to equity* | | | | | | | |
| Share-based payment transactions | 12 (a), 11(a) | 642 | | | 1,026 | | 1,668 |
| Dividends | 12(a,b) | 1,197 | | | | (8,864) | (7,667) |
| **Balance at September 30, 2013** | | $ 128,441 | $ 5,128 | $ 7,100 | $ 8,197 | $ 85,096 | $ 233,962 |
| | | | | | | | |
| **Balance at December 31, 2011** | | $ 124,290 | $ 5,128 | $ 7,100 | $ 7,636 | $ 164,987 | $ 309,141 |
| Net earnings | | | | | | 441 | 441 |
| Other comprehensive loss: | | | | | | | |
| Defined benefit plan actuarial loss, net of tax | | | | | | (3,907) | (3,907) |
| Total comprehensive loss | | | | | | (3,466) | (3,466) |
| *Transactions recorded directly to equity* | | | | | | | |
| Share-based payment transactions | | | | | 1,169 | (276) | 893 |
| Dividends | | 2,065 | | | | (8,778) | (6,713) |
| Normal course issuer bid | | (192) | | | | (206) | (398) |
| **Balance at September 30, 2012** | | $ 126,163 | $ 5,128 | $ 7,100 | $ 8,805 | $ 152,261 | $ 299,457 |

See accompanying notes to the consolidated financial statements.

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

| | Note | Nine months ended | |
|---|---|---|---|
| | | **September 30, 2013** | September 30, 2012 (Note 6) |
| **OPERATING ACTIVITIES** | | | |
| Net earnings from continuing operations | | **$ 1,837** | $ 378 |
| Net earnings from discontinued operations | | **-** | 63 |
| Depreciation and amortization | | **16,495** | 20,423 |
| Gain on disposal of equipment | | **(72)** | (64) |
| Gain on disposal of assets held-for-sale | | **-** | (2,485) |
| Gain on settlement of liabilities related to discontinued operations | | **-** | 62 |
| Non-cash increase in administrative expense | 6 | **-** | 480 |
| Share-based compensation expense | 11(e) | **4,323** | 4,081 |
| Gain on derivative instrument | | **-** | 24 |
| Income tax expense | 5 | **1,327** | 481 |
| Income tax recovery on discontinued operations | | **-** | (15) |
| Finance costs | | **8,686** | 8,753 |
| | | **32,596** | 32,181 |
| Employee benefits | | **(1,103)** | - |
| Cash settlement of MTIPs | | **(126)** | (2,958) |
| Cash settlement of DSUs | | **(1,235)** | - |
| Change in provisions | 9 | **2,711** | (2,798) |
| Change in non-cash working capital balances relating to operations | 13 | **(26,144)** | (52,230) |
| Cash used in operations | | **6,699** | (25,805) |
| Interest paid | | **(4,652)** | (4,885) |
| Income taxes received | | **1,618** | 10,690 |
| Net cash used in general operating activities | | **3,665** | (20,000) |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from long-term receivable | | **-** | 381 |
| Proceeds on disposal of assets | | **348** | 497 |
| Proceeds on disposal of assets held-for-sale | | **-** | 4,150 |
| Additions to intangible assets | | **(985)** | (3,608) |
| Additions to property and equipment | | **(7,766)** | (12,221) |
| Net cash used in investing activities | | **(8,403)** | (10,801) |
| **FINANCING ACTIVITIES** | | | |
| Increase in service provider deposit | | **(1,712)** | 2,576 |
| Proceeds of long-term debt | | **204,500** | 433,734 |
| Repayment of long-term debt | | **(187,158)** | (426,377) |
| Issue costs of long-term debt | | **(240)** | (200) |
| Issuance of common shares | | **487** | - |
| Share purchase under normal course issuer bid | | **-** | (398) |
| Options surrendered | | **-** | (758) |
| Dividend paid | 12(b) | **(7,640)** | (6,703) |
| Net cash from financing activities | | **8,237** | 1,874 |
| Decrease in cash and cash equivalents during the period | | **3,499** | (28,927) |
| Cash and cash equivalents, beginning of period | | **33,774** | 59,445 |
| Cash and cash equivalents, end of period | | **$ 37,273** | $ 30,518 |

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 $1,797 and $5,553 for the three and nine month periods ended September 30, 2012, respectively.

These unaudited condensed consolidated interim financial statements were approved by the Corporation's Board of Directors on November 5, 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 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 Corporation's 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.

A significant customer is one that represents greater than 10% or more of contract revenue earned during the period. For the period ended September 30, 2013, revenue from one significant customer in the industrial services segment was $92,570. For the period ended September 30, 2012, there were no significant customers.

| **Three month period ended September 30, 2013** | **General Contracting** | **Industrial Services** | **Commercial Systems** | **Corporate and Other** | **Intersegment Eliminations** | **Total** |
|---|---|---|---|---|---|---|
| Contract revenue | **$ 133,505** | **$ 108,785** | **$ 59,047** | **$ -** | **$ (6,511)** | **$ 294,826** |
| EBITDA [1] | **2,688** | **10,094** | **5,260** | **(5,684)** | **(13)** | **12,345** |
| Depreciation and amortization | **964** | **2,301** | **402** | **1,906** | **53** | **5,626** |
| Finance costs | **50** | **15** | **-** | **2,734** | **-** | **2,799** |
| Earnings (loss) from continuing operations before tax | **$ 1,674** | **$ 7,778** | **$ 4,858** | **$ (10,324)** | **$ (66)** | **$ 3,920** |
| Income tax expense | | | | | | **(1,370)** |
| Net earnings from continuing operations | | | | | | **$ 2,550** |
| Goodwill and intangible assets | **$ 126,956** | **$ 7,851** | **$ 78,200** | **$ 19,808** | **$ -** | **$ 232,815** |
| Capital and intangible expenditures | **$ 306** | **$ 1,894** | **$ 267** | **$ 276** | **$ -** | **$ 2,743** |
| Total assets | **$ 336,356** | **$ 188,757** | **$ 122,864** | **$ 422,204** | **$ (349,910)** | **$ 720,271** |
| Total liabilities | **$ 206,296** | **$ 69,826** | **$ 47,526** | **$ 177,693** | **$ (15,032)** | **$ 486,309** |

| **Three month period ended September 30, 2012** | General Contracting | Industrial Services | Commercial Systems | Corporate and Other | Intersegment Eliminations | Total |
|---|---|---|---|---|---|---|
| Contract revenue | $ 168,063 | $ 97,690 | $ 45,700 | $ - | $ (8,280) | $ 303,173 |
| EBITDA [1] [2] | (253) | 11,067 | 1,404 | (1,271) | 956 | 11,903 |
| Depreciation and amortization | 1,073 | 1,953 | 660 | 2,899 | 85 | 6,670 |
| Finance costs | 4 | 26 | - | 2,888 | - | 2,918 |
| (Loss) earnings from continuing operations before tax [2] | $ (1,330) | $ 9,088 | $ 744 | $ (7,058) | $ 871 | $ 2,315 |
| Income tax expense from continuing operations [2] | | | | | | (614) |
| Net earnings from continuing operations [2] | | | | | | $ 1,701 |
| Goodwill and intangible assets | $ 128,826 | $ 24,346 | $ 126,519 | $ 19,935 | $ - | $ 299,626 |
| Capital and intangible expenditures | $ 502 | $ 1,643 | $ 530 | $ 846 | $ 27 | $ 3,548 |
| Total assets | $ 408,161 | $ 211,349 | $ 199,280 | $ 47,890 | $ (16,093) | $ 850,587 |
| Total liabilities | $ 290,095 | $ 64,220 | $ 44,668 | $ 172,273 | $ (20,126) | $ 551,130 |

[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, earnings from continuing operations before tax, income tax expense from continuing operations, and net earnings from continuing operations were $12,063, $2,475, $654, and $1,821, respectively.

| **Nine month period ended September 30, 2013** | **General Contracting** | **Industrial Services** | **Commercial Systems** | **Corporate and Other** | **Intersegment Eliminations** | **Total** |
|---|---|---|---|---|---|---|
| Contract revenue | **$ 371,259** | **$ 304,148** | **$ 153,430** | **$ -** | **$ (19,359)** | **$ 809,478** |
| EBITDA [1] | **2,043** | **24,525** | **13,476** | **(12,058)** | **359** | **28,345** |
| Depreciation and amortization | **2,926** | **6,464** | **1,220** | **5,726** | **159** | **16,495** |
| Finance costs | **134** | **38** | **-** | **8,514** | **-** | **8,686** |
| Earnings (loss) from continuing operations before tax | **$ (1,017)** | **$ 18,023** | **$ 12,256** | **$ (26,298)** | **$ 200** | **$ 3,164** |
| Income tax expense | | | | | | **(1,327)** |
| Net earnings from continuing operations | | | | | | **$ 1,837** |
| Goodwill and intangible assets | **$ 126,956** | **$ 7,851** | **$ 78,200** | **$ 19,808** | **$ -** | **$ 232,815** |
| Capital and intangible expenditures | **$ 1,199** | **$ 7,869** | **$ 648** | **$ 943** | **$ -** | **$ 10,659** |
| Total assets | **$ 336,356** | **$ 188,757** | **$ 122,864** | **$ 422,204** | **$ (349,910)** | **$ 720,271** |
| Total liabilities | **$ 206,296** | **$ 69,826** | **$ 47,526** | **$ 177,693** | **$ (15,032)** | **$ 486,309** |

| **Nine month period ended September 30, 2012** | General Contracting | Industrial Services | Commercial Systems | Corporate and Other | Intersegment Eliminations | Total |
|---|---|---|---|---|---|---|
| Contract revenue | $ 539,612 | $ 287,337 | $ 138,774 | $ - | $ (33,557) | $ 932,166 |
| EBITDA [1] [2] | 4,228 | 20,255 | 9,741 | (8,444) | 4,255 | 30,035 |
| Depreciation and amortization | 2,961 | 5,665 | 1,870 | 9,590 | 337 | 20,423 |
| Finance costs | 7 | 103 | - | 8,643 | - | 8,753 |
| Earnings (loss) from continuing operations before tax [2] | $ 1,260 | $ 14,487 | $ 7,871 | $ (26,677) | $ 3,918 | $ 859 |
| Income tax expense from continuing operations [2] | | | | | | (481) |
| Net earnings from continuing operations [2] | | | | | | $ 378 |
| Goodwill and intangible assets | $ 128,826 | $ 24,346 | $ 126,519 | $ 19,935 | $ - | $ 299,626 |
| Capital and intangible expenditures | $ 4,139 | $ 6,875 | $ 927 | $ 3,835 | $ 53 | $ 15,829 |
| Total assets | $ 408,161 | $ 211,349 | $ 199,280 | $ 47,890 | $ (16,093) | $ 850,587 |
| Total liabilities | $ 290,095 | $ 64,220 | $ 44,668 | $ 172,273 | $ (20,126) | $ 551,130 |

[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, earnings from continuing operations before tax, income tax expense from continuing operations, and net earnings from continuing operations were $30,515, $1,339, $601, and $738, respectively.

## 5. INCOME TAXES

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 30, 2013** | September 30, 2012 [1] | **September 30, 2013** | September 30, 2012 [1] |
| Earnings from continuing operations before tax | **$ 3,920** | $ 2,315 | **$ 3,164** | $ 859 |
| Income tax at statutory rate of 25.2% (2012 - 25.0%) | **$ (988)** | $ (579) | **$ (797)** | $ (215) |
| Statutory and other rate differences | **(171)** | (100) | **(133)** | (56) |
| Non-deductible expenses | **(203)** | 41 | **(563)** | (319) |
| Other | **(8)** | 24 | **166** | 109 |
| Income tax expense from continuing operations | **$ (1,370)** | $ (614) | **$ (1,327)** | $ (481) |

[1] Restated under IAS 19 (2011). Under the old IAS 19, earnings from continuing operations before tax for the three and nine month periods ended September 30, 2012 was $2,475 and $1,339, 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.

(i) Reconciliation of Consolidated Statements of Earnings and Comprehensive Earnings for the three months period ended September 30, 2012

| | Previously reported September 30, 2012 | Transition to IAS 19 | **Restated September 30, 2012** |
|---|---|---|---|
| | Three months ended | | |
| Contract revenue | $ 303,173 | $ - | **$ 303,173** |
| Contract costs [1] | 277,279 | - | **277,279** |
| Contract income | 25,894 | - | **25,894** |
| Other income | 1,422 | - | **1,422** |
| Finance income | 101 | - | **101** |
| Administrative costs [1] | (22,024) | (160) | **(22,184)** |
| Finance costs | (2,918) | - | **(2,918)** |
| Earnings from continuing operations before tax | 2,475 | (160) | **2,315** |
| Income tax (expense) recovery | | | |
| Current income tax | (3,244) | - | **(3,244)** |
| Deferred income tax | 2,590 | 40 | **2,630** |
| | (654) | 40 | **(614)** |
| Net earnings from continuing operations | 1,821 | (120) | **1,701** |
| Net loss from discontinued operations | (13) | - | **(13)** |
| **Net earnings** | 1,808 | (120) | **1,688** |
| Other comprehensive loss | | | |
| Defined benefit plan actuarial (losses) gains | (1,508) | 160 | **(1,348)** |
| Deferred tax recovery (expense) on other comprehensive earnings | 381 | (40) | **341** |
| **Total comprehensive earnings** | $ 681 | $ - | **$ 681** |
| Earnings per share: | | | |
| Basic | $ 0.07 | $ - | $ 0.07 |
| Diluted | $ 0.07 | $ - | $ 0.07 |

[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 $1,797 in the three month period ended September 30, 2012.

(ii) Reconciliation of Consolidated Statements of Earnings and Comprehensive Loss for the nine month period ended September 30, 2012

| | Previously reported September 30, 2012 | Transition to IAS 19 | **Restated September 30, 2012** |
|---|---|---|---|
| | Nine months ended | | |
| Contract revenue | $ 932,166 | $ - | **$ 932,166** |
| Contract costs [1] | 848,504 | - | **848,504** |
| Contract income | 83,662 | - | **83,662** |
| Other income | 3,148 | - | **3,148** |
| Finance income | 333 | - | **333** |
| Administrative costs [1] | (77,051) | (480) | **(77,531)** |
| Finance costs | (8,753) | - | **(8,753)** |
| Earnings from continuing operations before tax | 1,339 | (480) | **859** |
| Income tax (expense) recovery | | | |
| Current income tax | (179) | - | **(179)** |
| Deferred income tax | (422) | 120 | **(302)** |
| | (601) | 120 | **(481)** |
| Net earnings from continuing operations | 738 | (360) | **378** |
| Net earnings from discontinued operations | 63 | - | **63** |
| **Net earnings** | 801 | (360) | **441** |
| Other comprehensive loss | | | |
| Defined benefit plan actuarial (losses) gains | (5,696) | 480 | **(5,216)** |
| Deferred tax recovery (expense) on other comprehensive earnings | 1,429 | (120) | **1,309** |
| **Total comprehensive loss** | $ (3,466) | $ - | **$ (3,466)** |
| Earnings (loss) per share: | | | |
| Basic | $ 0.03 | $ (0.01) | $ 0.02 |
| Diluted | $ 0.03 | $ (0.01) | $ 0.02 |

[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 $5,553 in the nine month period ended September 30, 2012.

(iii) Reconciliations of the balance of retained earnings for the periods ended September 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 | 801 | (360) | **441** |
| Other comprehensive loss: | | | **-** |
| Defined benefit plan actuarial loss, net of tax | (4,267) | 360 | **(3,907)** |
| Total comprehensive loss | (3,466) | - | **(3,466)** |
| *Transactions recorded directly to equity* | | | |
| Share-based payment transactions | (276) | | **(276)** |
| Dividends | (8,778) | - | **(8,778)** |
| Normal course issuer bid | (206) | - | **(206)** |
| **Retained earnings, balance at September 30, 2012** | $ 152,261 | $ - | **$ 152,261** |

| | 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** |

(iv) Reconciliation of Consolidated Statements of Cash Flow for the nine month period ended September 30, 2012

| | Previously reported September 30, 2012 | Transition to IAS 19 | **Restated September 30, 2012** |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net earnings from continuing operations | $ 738 | $ (360) | **$ 378** |
| Net earnings from discontinued operations | 63 | - | **63** |
| Depreciation and amortization | 20,423 | - | **20,423** |
| Gain on disposal of assets | (64) | - | **(64)** |
| Gain on disposal of assets held-for-sale | (2,485) | - | **(2,485)** |
| Loss on settlement of liabilities related to discontinued operations | 62 | - | **62** |
| Non-cash increase in administrative expense | - | 480 | **480** |
| Share-based compensation expense | 4,081 | - | **4,081** |
| Loss on derivative instrument | 24 | - | **24** |
| Income tax expense | 601 | (120) | **481** |
| Income tax recovery on discontinued operations | (15) | - | **(15)** |
| Finance costs | 8,753 | - | **8,753** |
| | 32,181 | - | **32,181** |
| Share-based payment liability | (2,958) | - | **(2,958)** |
| Change in provisions | (2,798) | - | **(2,798)** |
| Change in non-cash working capital balances relating to operations | (52,230) | - | **(52,230)** |
| Cash used in operations | (25,805) | - | **(25,805)** |
| Interest paid | (4,885) | - | **(4,885)** |
| Income taxes received | 10,690 | - | **10,690** |
| Net cash used in operating activities | (20,000) | - | **(20,000)** |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from long-term receivable | 381 | - | **381** |
| Proceeds on disposal of assets | 497 | - | **497** |
| Proceeds on disposal of assets held-for-sale | 4,150 | - | **4,150** |
| Additions to intangible assets | (3,608) | - | **(3,608)** |
| Additions to property and equipment | (12,221) | - | **(12,221)** |
| Net cash used in investing activities | (10,801) | - | **(10,801)** |
| **FINANCING ACTIVITIES** | | | |
| Increase in service provider deposit | 2,576 | - | **2,576** |
| Proceeds of long-term debt | 433,734 | - | **433,734** |
| Repayment of long-term debt | (426,377) | - | **(426,377)** |
| Issue costs of long-term debt | (200) | - | **(200)** |
| Share purchase under normal course issuer bid | (398) | - | **(398)** |
| Options surrendered | (758) | - | **(758)** |
| Dividend paid | (6,703) | - | **(6,703)** |
| Net cash from financing activities | 1,874 | - | **1,874** |
| Decrease in cash and cash equivalents during the period | (28,927) | - | **(28,927)** |
| Cash and cash equivalents, beginning of period | 59,445 | - | **59,445** |
| Cash and cash equivalents, end of period | $ 30,518 | $ - | **$ 30,518** |

### (b) Employee benefits activity for the period

*Movement during the periods*

| | September 30, 2013 | December 31, 2012 [1] |
|---|---|---|
| Balance, beginning of the period | $ 10,820 | $ 8,315 |
| Expense recognized in profit or loss | 1,191 | 1,716 |
| (Gain) Loss recognized in other comprehensive earnings | (3,978) | 4,138 |
| Company contributions | (2,278) | (3,349) |
| Balance, end of the period | $ 5,755 | $ 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 | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2013 | September 30, 2012 [1] | September 30, 2013 | September 30, 2012 [1] |
| Current service cost | $ 245 | $ 260 | $ 735 | $ 780 |
| Administrative cost | 48 | 73 | 143 | $ 219 |
| Interest cost on the defined benefit obligation | 314 | 339 | 959 | $ 1,017 |
| Interest income on plan assets | (216) | (243) | (646) | (729) |
| | $ 391 | $ 429 | $ 1,191 | $ 1,287 |

[1] Restated under IAS 19 (2011). Under the old IAS 19, the expense recognized in the statement of loss for the three and nine month periods ended September 30, 2012 was $269 and $807, respectively.

*Actuarial gains recognized in other comprehensive earnings*

| | September 30, 2013 | December 31, 2012 [1] |
|---|---|---|
| Cumulative amount, beginning of period | $ (5,164) | $ (1,026) |
| Gain (loss) recognized during the period [2] | 3,978 | (4,138) |
| Cumulative amount, end of period | $ (1,186) | $ (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 September 30, 2013 of $1,004 (restated tax recovery at December 31, 2012 - $1,045).

The actuarial gain recognized in other comprehensive earnings for the period ended September 30, 2013 resulted from an increase in the discount rate from 3.80% as at December 31, 2012 to 4.60% at September 30, 2013.

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 30, 2013** | September 30, 2012 (1) | **September 30, 2013** | September 30, 2012 (1) |
| Net earnings from continuing operations attributable to common shareholders (basic) | **$ 2,550** | $ 1,701 | **$ 1,837** | $ 378 |
| Net earnings (loss) from discontinued operations attributable to common shareholders (basic) | **-** | (13) | **-** | 63 |
| Net earnings attributable to common shareholders (basic) | **$ 2,550** | $ 1,688 | **$ 1,837** | $ 441 |
| Issued common shares at beginning of period | **24,604,194** | 24,378,924 | **24,493,462** | 24,300,019 |
| Effect of shares repurchased under NCIB | **-** | (1,803) | **-** | (34,328) |
| Effect of shares issued related to DRIP | **38,952** | 52,430 | **99,294** | 113,538 |
| Effect of shares issued on exercise of stock options | **10,476** | - | **3,530** | - |
| Weighted average number of common shares for the period | **24,653,622** | 24,429,551 | **24,596,286** | 24,379,229 |
| Basic earnings per share | **$ 0.10** | $ 0.07 | **$ 0.07** | $ 0.02 |

(1) Restated under IAS 19 (2011). Under the old IAS 19, earnings from continuing operations attributable to common shareholders (basic) for the three and nine month periods ended September 30, 2012 was $1,821 and $738, respectively; and basic earnings per share for the nine month period ended September 30, 2012 was $0.03. The basic earnings per share for the three month period ended September 30, 2012 was the same amount under both standards.

### (b) Diluted earnings per share

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 30, 2013** | September 30, 2012 (1) | **September 30, 2013** | September 30, 2012 (1) |
| Net earnings from continuing operations attributable to common shareholders (basic) | **$ 2,550** | $ 1,701 | **$ 1,837** | $ 378 |
| Net earnings (loss) from discontinued operations attributable to common shareholders (basic) | - | (13) | - | 63 |
| Net earnings attributable to common shareholders (diluted) | **$ 2,550** | $ 1,688 | **$ 1,837** | $ 441 |
| Weighted average number of common shares (basic) | **24,653,622** | 24,429,551 | **24,596,286** | 24,379,229 |
| Incremental shares - stock options | **152,521** | 43,109 | **56,743** | 145,033 |
| Weighted average number of common shares for the period (diluted) | **24,806,143** | 24,472,660 | **24,653,029** | 24,524,262 |
| Diluted earnings per share | **$ 0.10** | $ 0.07 | **$ 0.07** | $ 0.02 |

(1) Restated under IAS 19 (2011). Under the old IAS 19, earnings from continuing operations attributable to common shareholders (basic) for the three and nine month periods ended September 30, 2012 was $1,821 and $738, respectively; and diluted earnings per share for the nine month period ended September 30, 2012 was $0.03. The diluted earnings per share for the three month period ended September 30, 2012 was the same amount under both standards.

For the three and nine month periods ended September 30, 2013, the number of options excluded from the diluted weighted average number of common share calculations was 929,952 and 1,164,686, respectively (three and nine month periods ended September 30, 2012 – 1,402,992 and 1,604,348), 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 September 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 have been determined using the Corporation’s weighted average share price for the three and nine month periods ended September 30, 2013.

## 8. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

Contracts in progress:

| | | **September 30, 2013** | | December 31, 2012 |
|---|---|---|---|---|
| Construction costs incurred plus recognized profits less recognized losses to date | **$** | **4,354,863** | $ | 4,698,839 |
| Less: progress billings | | **(4,406,474)** | | (4,752,342) |
| Net over billings on construction contracts | | **(51,611)** | | (53,503) |
| | | | | |
| Non-construction costs incurred plus recognized profits less recognized losses to date | **$** | **274,468** | $ | 254,061 |
| Less: progress billings | | **(262,677)** | | (244,048) |
| Net under billings on non-construction contracts | | **11,791** | | 10,013 |
| Total net contract position | **$** | **(39,820)** | $ | (43,490) |

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

| | | **September 30, 2013** | | December 31, 2012 |
|---|---|---|---|---|
| Costs in excess of billings - Construction contracts | **$** | **27,860** | $ | 28,978 |
| Costs in excess of billings - Non-construction contracts | | **11,805** | | 10,122 |
| Total costs in excess of billings | | **39,665** | | 39,100 |
| | | | | |
| Contract advances and unearned income - Construction contracts | **$** | **(79,472)** | $ | (82,483) |
| Contract advances and unearned income - Non-construction contracts | | **(13)** | | (107) |
| Total contract advances and unearned income | | **(79,485)** | | (82,590) |
| Total net contract position | **$** | **(39,820)** | $ | (43,490) |

At September 30, 2013, retentions held by customers for contract work amounted to $56,508 (December 31, 2012 - $98,439). Advances received from customers for contract work amounted to $79,485 (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 | **$** | **10,899** |
| Provisions made during the period | | 3,205 | | - | | 4,214 | | 2,240 | | **9,659** |
| Provisions used during the period | | (460) | | (86) | | (1,700) | | (909) | | **(3,155)** |
| Provisions reversed in the period | | (2,935) | | (150) | | (708) | | - | | **(3,793)** |
| **Balance at September 30, 2013** | **$** | **4,013** | **$** | **400** | **$** | **5,394** | **$** | **3,803** | **$** | **13,610** |

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

| | | September 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| Current portion of provisions | **$** | **8,404** | $ | 6,492 |
| Long-term provisions | | **5,206** | | 4,407 |
| Total provisions | **$** | **13,610** | $ | 10,899 |

## 10. LONG-TERM DEBT

| | | September 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| **Current portion of long-term debt** | | | | |
| Finance lease obligations | | **1,705** | | 828 |
| | **$** | **1,705** | $ | 828 |
| **Non-current** | | | | |
| Revolving credit facility | **$** | **69,739** | $ | 51,596 |
| Finance lease obligations | | **685** | | 313 |
| | **$** | **70,424** | $ | 51,909 |

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.

## 11. SHARE-BASED PAYMENTS

### (a) Stock options

*Movement during the periods*

| | **September 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 |
| Exercised | **(68,843)** | | **6.43** | - | | - |
| Surrendered | **-** | | **-** | (242,776) | | 7.32 |
| Expired | **(138,473)** | | **16.22** | (37,000) | | 18.26 |
| Outstanding, end of period | **1,870,022** | **$** | **12.22** | 1,379,981 | $ | 14.76 |

The options outstanding at September 30, 2013 have an exercise price in the range of $6.43 to $19.63 (September 30, 2012 - $6.43 to $19.63) and lives of 5 and 10 years (September 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. During the period, 68,843 stock options were exercised at a price of $6.43.

The following table illustrates the movement in the share-based payment reserve:

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Balance, beginning of the period | **$ 7,171** | $ 7,636 |
| Stock compensation expense | **1,226** | 2,192 |
| Stock options exercised | **(200)** | - |
| Stock options forfeited | **-** | (1,795) |
| Stock options surrendered | **-** | (862) |
| Balance, end of period | **$ 8,197** | $ 7,171 |

**(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*

| **Number of BRSUs** | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Outstanding, beginning of the period | **-** | - |
| Granted | **295,109** | - |
| Forfeited | **(18,606)** | - |
| Vested and paid | **(2,655)** | - |
| Outstanding, end of period | **273,848** | - |

(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*

| **Number of RSUs** | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Outstanding, beginning of the period | **-** | - |
| Granted | **164,792** | - |
| Forfeited | **(9,721)** | - |
| Vested and paid | **(5,355)** | - |
| Outstanding, end of period | **149,716** | - |

(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*

| **Number of PSUs** | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Outstanding, beginning of the period | **279,447** | 340,055 |
| Granted | **318,002** | 196,785 |
| Forfeited | **(19,512)** | (82,267) |
| Vested and paid | **(60,323)** | (175,126) |
| Outstanding, end of period | **517,614** | 279,447 |

### (c) Deferred share units (DSU)

*Movement during the periods*

| **Number of DSUs** | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Outstanding, beginning of the period | **407,575** | 165,434 |
| Granted | **93,943** | 242,921 |
| Cancelled | **(14,407)** | - |
| Settled | **(151,608)** | (780) |
| Vested | **(30,963)** | - |
| Outstanding, end of period | **304,540** | 407,575 |

### (d) Stock-based payment liability

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Carrying amount of liabilities for cash-settled arrangements | | |
| - current portion | **$ 769** | $ 53 |
| - long-term portion | **4,797** | 3,734 |
| Total carrying amount | **$ 5,566** | $ 3,787 |
| | | |
| Total intrinsic value of liability for vested benefits | **$ 3,053** | $ 2,274 |

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. The long-term portion of MTIPs and DSUs of $4,797 at September 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 | | Nine months ended | |
|---|---|---|---|---|
| | **September 30, 2013** | September 30, 2012 | **September 30, 2013** | September 30, 2012 |
| Stock compensation expense on stock options | **$ 478** | $ 746 | **$ 1,226** | $ 2,031 |
| Effects of changes in fair value and grants for MTIPs | **969** | (450) | **1,909** | 1,700 |
| Effects of changes in fair value and grants for DSUs | **459** | (93) | **1,188** | 350 |
| | **$ 1,906** | $ 203 | **$ 4,323** | $ 4,081 |

## 12. 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.

| | **September 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 | **157,272** | **1,197** | 230,882 | 2,503 |
| Repurchased in the period | **-** | **-** | (37,439) | (191) |
| Issued in the period | **68,843** | **642** | - | - |
| Issued, end of period | **24,719,577** | **$ 128,441** | 24,493,462 | $ 126,602 |

### (b) Common shares and dividends

As at September 30, 2013, trade and other payables includes $2,967 (December 31, 2012 - $2,940) related to the dividend payable on October 15, 2013, of which $441 (December 31, 2012 - $437) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

| | September 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 | **0.36** | **8,864** | 0.48 | 11,718 |
| Total dividends paid during the period [1] | **(0.36)** | **(8,837)** | (0.48) | (11,701) |
| Dividend payable, end of period | **$ 0.12** | **$ 2,967** | $ 0.12 | $ 2,940 |

[1] Includes DRIP non-cash payments totaling $1,197 (December 31, 2012 - $2,503) which are recorded through share capital.

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

| | Nine months ended | |
|---|---|---|
| | **September 30, 2013** | September 30, 2012 |
| Trade and other receivables | **$ 16,436** | $ (11,744) |
| Inventory | **1,012** | 1,631 |
| Prepaid expenses | **921** | (1,354) |
| Costs in excess of billings | **(565)** | 726 |
| Trade and other payables | **(40,843)** | (32,091) |
| Contract advances and unearned income | **(3,105)** | (9,398) |
| | **$ (26,144)** | $ (52,230) |

## 14. FINANCIAL INSTRUMENTS

### (a) Carrying values

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| *Financial assets:* | | |
| Cash and cash equivalents | **$ 37,273** | $ 33,774 |
| Trade and other receivables | **292,661** | 309,097 |
| Service provider deposit | **5,720** | 4,008 |
| Long-term receivable, including current portion | **275** | 275 |
| *Financial liabilities:* | | |
| Trade and other payables | **$ 194,608** | $ 233,442 |
| Long-term debt, including current portion | **72,129** | 52,737 |
| Convertible debentures - debt component | **81,149** | 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.

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:

| | **September 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 | **(209)** | (898) |
| Amounts recovered during the year | **(868)** | 51 |
| Impairment losses reversed | **-** | (434) |
| Balance at the end of the period | **$ 515** | $ 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.

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Current | **$ 135,929** | $ 91,727 |
| 1-60 days past due | **61,177** | 77,119 |
| 61-90 days past due | **8,499** | 17,078 |
| More than 90 days past due | **29,307** | 29,822 |
| | **$ 234,912** | $ 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 $29,307 of trade receivables (December 31, 2012 – $29,822) which were greater than 90 days past due with $28,794 not provided for as at September 30, 2013 (December 31, 2012 - $28,233). Of the total, $19,626 (67%) was concentrated in five customer accounts and of this amount $16,756 remained outstanding as of November 5, 2013. The five customers are considered to be credit-worthy and there are presently no concerns regarding collectability of these accounts. Trade receivables are included in trade and other receivables on the statements of financial position.

(ii) Interest rate risk

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

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

| | Carrying amount | |
|---|---|---|
| | **September 30, 2013** | December 31, 2012 |
| *Fixed rate instruments* | | |
| Financial liabilities | **$ 81,149** | $ 79,151 |
| *Variable rate instruments* | | |
| Financial assets | **$ 37,273** | $ 33,774 |
| Financial liabilities | **72,129** | 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 $280 (December 31, 2012 - $252) related to financial assets and by $541 (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 September 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 | **$ 194,608** | $ 194,608 | $ 194,608 | $ - | $ - | $ - |
| Provisions including current portion | **13,610** | 13,610 | 4,202 | 4,202 | 969 | 4,237 |
| Convertible debentures (debt portion) | **81,149** | 96,600 | 2,588 | 2,587 | 91,425 | - |
| Long-term debt including current portion | **72,129** | 72,129 | 853 | 852 | 171 | 70,253 |
| Lease commitments | **64,596** | 64,596 | 3,825 | 3,825 | 6,284 | 50,662 |
| | **$ 426,092** | $ 441,543 | $ 206,076 | $ 11,466 | $ 98,849 | $ 125,152 |

## 15. 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:

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Long-term indebtedness: | | |
| Long-term debt, excluding current portion net of deferred financing fees | **$ 70,424** | $ 51,909 |
| Convertible debentures - debt component net of deferred financing fees | **81,149** | 79,151 |
| Total long-term indebtedness | **151,573** | 131,060 |
| Total equity | **233,962** | 235,150 |
| Total capitalization | **$ 385,535** | $ 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 September 30, 2013, the long-term indebtedness to EBITDA was 4.08x (September 30, 2012 – 3.07x) calculated on a last twelve-month basis as follows:

| | September 30, 2013 | September 30, 2012 [1] |
|---|---|---|
| Total long-term indebtedness | **$ 151,573** | $ 147,529 |
| Net (loss) earnings | **$ (60,944)** | $ 6,083 |
| Add: | | |
| Finance costs | **11,510** | 11,759 |
| Income tax (recovery) expense | **(1,204)** | 2,460 |
| Depreciation and amortization | **23,200** | 27,694 |
| Impairment loss | **64,600** | - |
| EBITDA | **$ 37,162** | $ 47,996 |
| Long-term indebtedness to EBITDA ratio | **4.08x** | 3.07x |

[1] Restated under IAS 19 (2011). Under the old IAS 19, the last twelve-month EBITDA was $50,153.

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 September 30, 2013 and December 31, 2012.

## 16. RELATED PARTY TRANSACTIONS

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

The Corporation incurred facility costs during the three months ended September 30, 2013 of $95 (September 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 nine months ended September 30, 2013, these facility costs were $285 (September 30, 2012 - $106). A new lease with Schneider Investments Inc. was entered into during the year. Beginning in 2013, lease costs now include building operating expenses. At September 30, 2013, $nil is included in trade payables (September 30, 2012 - $12).

The Corporation incurred facility costs during the three months ended September 30, 2013 of $107 (September 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 nine months ended September 30, 2013, these facility costs were $309 (September 30, 2012 - $331). At September 30, 2013, $35 is included in trade payables (September 30, 2012 - $29).

## 17. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Corporation has provided several letters of credit in the amount of $4,624 in connection with various projects and joint ventures (December 31, 2012 - $15,646), of which $nil are financial letters of credit (December 31, 2012 - $6,500). During the quarter, $7,500 of the financial letters of credit that were outstanding at June 30, 2013 expired; resulting in an uplift to the Corporation's borrowing capacity by the same amount.

The Corporation has made various donations in support of local communities. Over the next three years, the Corporation has committed to pay $1,408, of which $1,238 is to be paid out in the upcoming 12 month period.

## 18. EVENTS AFTER THE REPORTING PERIOD

On November 5, 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 January 14, 2014 to shareholders of record on December 31, 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

## Executive Offices

400, 4954 Richard Road SW
Calgary, AB T3E 6L1
Phone: (403) 685-7777
Fax: (403) 685-7770
Email: inquiries@churchill-cuq.com
Website: www.churchillcorporation.com

## 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
Website: www.valianttrust.com
Toll-free: 1-866-313-1872

[1] Canadian Stock Transfer Company Inc. acts as the Administrative Agent for CIBC Mellon Trust Company

the

**Churchill**

Corporation


*400, 4954 Richard Road*
*Calgary, Alberta T3E 6L1*
*Phone: 403 685-7777*
*Fax: 403 685-7770*

*www.churchillcorporation.com*