

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation ("Churchill" or the "Corporation"), for the year ended December 31, 2012, contains information current to March 17, 2013 and should be read in conjunction with the December 31, 2012 Audited Consolidated Annual Financial Statements and related notes thereto. Unless otherwise specified all amounts are expressed in Canadian dollars.

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

Forward-Looking Information

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

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

- The Board's confidence in the Corporation's ability to generate sufficient operating cash flows to support management's business plans and its intention to continue to pay a quarterly dividend;
- Management's 2013 EBITDA projections and capital expenditure plans;

- 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 or productivity efficiencies;
- Backlog additions reflecting resiliency of growth in resource extraction industries and the possible implications of such growth;
- Expectations regarding the ability of any of the Corporation's operating companies to add to or execute upon work-in-hand or active backlog;
- Management's belief that the Corporation either has or has access to sufficient capital resources and liquidity to meet its commitments, support its operations, finance capital expenditures, support growth strategies and fund dividends;
- Expectations as to future general economic conditions and the impact those conditions may have on the Corporation and its businesses including, without limitation, the discussion under the heading entitled "Outlook" pertaining to the strength of commodity prices, 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, 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 increasing competition;
- The global demand for oil and natural gas and the effect of that demand on 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 filed under the Corporation's SEDAR profile at www.sedar.com.

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

Non-IFRS Measures

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

Additional Information

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

Executive Summary

Core Business and Strategy

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

Our goal is to be the most admired construction and industrial services company in Canada.

Key Performance Drivers and Capabilities

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

Results

- In 2012, our EBITDA decreased by 45% to \$39.6 million, compared to \$72.0 million in 2011. Net earnings fell from \$24.9 million in 2011 to a net loss of \$61.9 million in 2012 primarily due to operational challenges within the general contracting segment and Broda business unit, lower margins within the commercial systems segment and a \$64.6 million impairment of goodwill, equipment and intangible assets. Diluted loss per share for 2012 was \$2.54 compared to diluted earnings per share of \$0.94 in 2011.
- Our balance sheet remains solid. In December 2012, the Corporation renegotiated the terms and conditions of its Revolving Credit Facility (the “Revolver”) to amend the financial covenants. As at December 31, 2012, the Corporation was in full compliance with its covenants and had additional borrowing capacity of \$72.4 million.

Declaration of Common Share Dividend

On March 17, 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 April 16, 2013 to shareholders of record on March 28, 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 continue to pay a quarterly dividend that rewards existing shareholders and allows new investors with an income mandate to invest in the Corporation’s common shares.

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

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

Outlook

Our guidance for 2013 is an EBITDA range of \$45 to \$55 million. The outlook for each segment ranges from stable in our Commercial Systems and Industrial Services segments to improving in the General Contracting segment.

Management is also reiterating its first quarter 2013 net earnings expectation of breakeven to a modest loss driven by normal seasonal factors in Churchill's earthmoving business, as well as a ramp-up of new building construction projects during the quarter. However, operational and financial results are expected to improve substantially beginning with Q2/13 results.

Risks

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

Core Business and Strategy

Churchill provides institutional, commercial and industrial construction and maintenance services. As of December 31, 2012, Churchill had 3,239 employees (674 salaried employees and 2,565 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, 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”), Churchill’s largest operating company, forms the General Contracting segment. Canem Holdings Ltd. (“Canem”) forms the Commercial Systems segment. Both of these companies have revenue and earnings in excess of 10% of the consolidated revenue and earnings of the Corporation, thus justifying separate disclosure under *IFRS 8, Operating Segments*. Although both of these companies serve the institutional/commercial construction market, they operate independently and provide different products and services to different classes of customers, in that Stuart Olson Dominion’s customers are primarily project owners and Canem typically subcontracts to general contractors.

On December 5, 2011, Churchill announced a realignment of its Industrial Services segment in order to better meet the needs of industrial customers. Effective as of January 1, 2012, Insulation Holdings and Churchill Industrial Services Group were amalgamated to form Churchill Services Group Inc. (“CSG”). CSG began providing fully integrated industrial services, allowing the pursuit of larger projects and contracts. CSG has three divisions: Laird Electric Inc. (“Laird Electric”), Laird Constructors Inc. (“Laird Constructors”) and Specialty Services (Fuller Austin Inc. (“Fuller Austin”) and Northern Industrial Insulation Contractors Inc. (“Northern”). CSG and

Broda Construction Inc. (“Broda”) now collectively form the Industrial Services segment on the basis that they have similar economic characteristics and are similar in terms of services provided, production processes, customers, methods of service delivery and the regulatory environment in which they operate.

General Contracting

General Contracting consists of Stuart Olson Dominion. Following the acquisition of The Dominion Company Inc. (“Dominion”) in July 2010, Stuart Olson Constructors Inc. (“Stuart Olson”) and Dominion were operationally combined to form Stuart Olson Dominion. Headquartered in Calgary, Alberta, Stuart Olson Dominion constructs commercial, institutional and industrial buildings. Stuart Olson and Dominion have been general contractors since 1939 and 1911, respectively. Stuart Olson Dominion has branch offices in Richmond, British Columbia; Calgary and Edmonton, Alberta; Saskatoon and Regina, Saskatchewan; and Winnipeg, Manitoba.

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

For 2012, Stuart Olson Dominion comprised 55% of Churchill’s consolidated revenue (excluding intersegment eliminations), 13% of earnings before interest, taxes, depreciation and amortization (“EBITDA”) (excluding the Corporate and Other segment and intersegment eliminations) and 66% of total backlog. In 2011, Stuart Olson Dominion comprised 64% of consolidated revenue, 36% of EBITDA and 78% of total backlog.

Commercial Systems

Commercial Systems is comprised of Canem, which designs, builds, maintains and services electrical and data communication systems for commercial, institutional, light industrial and multi-family residential customers. With its head office in Richmond, B.C., its services include: (a) design of electrical distribution systems within a building or complex; (b) procurement and installation of electrical equipment and materials; (c) on-call service for electrical maintenance and troubleshooting; (d) preventative and scheduled maintenance for critical component installations; (e) budgeting and pre-construction services; and (f) management of regional and

national contracts for multi-site installations. Canem's acquisition of McCaine Electric Ltd. ("McCaine"), which closed on April 29, 2011, expanded Canem's footprint into Manitoba.

For 2012, Canem comprised 15% of Churchill's consolidated revenue (excluding intersegment eliminations), 26% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations) and 11% of total backlog. In 2011, Canem comprised 14% of consolidated revenue, 33% of EBITDA and 7% of total backlog.

Industrial Services

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

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

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

CSG and Broda have many similarities, including common customers such as Saskatchewan's major potash and uranium mining organizations. Management believes that offering fully integrated industrial services through CSG has allowed, and will continue to allow Churchill to pursue larger projects and contracts within the industrial environment.

In 2012, Industrial Services comprised 30% of Churchill's consolidated revenue (excluding intersegment eliminations), 61% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations) and 23% of total backlog. In 2011, Industrial Services comprised 26% of consolidated revenue, 46% of EBITDA and 15% of total backlog.

Corporate and Other

The Corporate and Other business segment includes Churchill's corporate and staff functions of accounting, treasury, human resources, information technology services, corporate development, investor relations, legal services and internal audit. The costs of some functions,

such as information services, are allocated proportionately to the other business segments, and other costs remain in Corporate and Other. The corporate centre provides strategic direction, operating oversight, legal services, financing, infrastructure services and management of public company requirements to each of Churchill's business segments.

Additionally, the Corporation reports certain assets held-for-sale, which at December 31, 2012 consisted of agricultural land located near Lamont, Alberta.

Key Performance Drivers and Capabilities

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

Safety

Safety in our operating companies is very important. It receives the attention of the leadership team at Churchill via the Health, Safety and Environment ("HS&E") Council and the HS&E Committee of Churchill's Board of Directors. An excellent safety record and culture is a critical element in pre-qualifying for industrial work and in recruiting employees across the entire organization.

People

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

We engage in company-wide conference calls and 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 and Northern Ontario markets through acquisition and organic means.

Selected Annual Financial Information

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

(\$millions, except per share amounts)	12 Months Ended Dec. 31		
	2012	2011	2010
Contract revenue	\$ 1,222.1	\$ 1,409.2	\$ 1,183.9
Contract income	121.8	157.9	144.4
EBITDA from continuing operations	39.6	72.0	71.8
Net earnings (loss) ⁽¹⁾ from continuing operations	(61.9)	24.1	33.1
Net earnings (loss) from discontinued operations	-	0.8	1.1
Net earnings (loss)	(61.9)	24.9	34.2
Earnings (loss) per common share from continuing operations - Basic	(2.54)	0.99	1.60
- Diluted	(2.54)	0.91	1.50
Net earnings (loss) per common share - Basic ⁽¹⁾	(2.54)	1.02	1.66
- Diluted ⁽¹⁾	(2.54)	0.94	1.55
Funds from operations	41.8	74.0	76.4
Funds from operations per common share - Basic	1.71	3.06	3.71
Backlog	\$ 1,690.5	\$ 1,842.6	\$ 1,555.0
Long-term debt (excluding current portion)	51.9	60.4	74.1
Convertible debentures	79.2	76.7	74.5
Total assets	742.4	888.5	871.8

Notes: (1) Net earnings, basic earnings per share and diluted earnings per share would have been \$0.4 million, \$0.02 and \$0.02, respectively without the \$64.6 million goodwill, equipment and intangible asset impairment charge recorded in 2012. EBITDA is earnings from continuing operations before interest, taxes, depreciation and amortization and impairment charges.

On July 13, 2010, the Corporation acquired, by way of a plan of arrangement, all of the issued and outstanding shares of Seaciff Construction Corp. (“Seaciff”) for total consideration of \$381.8 million, including the assumption of liabilities. This acquisition was financed by drawing down \$80 million of the Corporation’s \$200 million Revolver, applying net proceeds from the issuance of 6,324,500 common shares for proceeds of \$105.9 million and from a convertible debenture financing of \$86.3 million, and utilizing \$109.6 million of Churchill and Seaciff’s combined cash.

The Corporation’s consolidated net earnings from continuing operations for 2010 were \$34.2 million. Corporate profitability was immediately impacted by the inclusion of Dominion’s lower margin operations in the last 5½ months of 2010 and a gradual softening of Stuart Olson’s margins from projects secured in the more competitive markets of 2008 and 2009, lower amounts of self-performed work, and being in the early phases of construction on several new projects.

Churchill’s financial results in 2011 were hindered by Stuart Olson Dominion’s performance and to a lesser extent weather related issues which impacted Broda’s returns on the Calgary Airport project. Stuart Olson Dominion’s performance was hurt by the inclusion of low and loss margin projects from Dominion, project execution issues, lower amounts of self-performed work and being in the early phases of construction on new projects.

Churchill's financial returns in 2012 were again hindered by operational challenges within its general contracting, commercial systems and to a lesser extent industrial services segments. General contracting revenues decreased year-over-year due to Stuart Olson Dominion executing a lower volume of Dominion projects. Stuart Olson Dominion also struggled to perform due to low margins associated with Dominion projects, project challenges on the Investor's Group Field project, lower amounts of self-performed work and being in the early phases of construction on new projects. Canem experienced competitive pressures on bid margins and project delays which resulted in an erosion of margins. Churchill's industrial segment generally performed strongly, however weather related issues in its Broda business and difficult conditions on its Calgary Airport project resulted in lower margins and profitability.

Notwithstanding the competitive market conditions, project execution issues and weaker financial results of the past two years, Churchill has still made progress on reducing the long-term debt associated with its Revolver.

Annual Performance Overview

(\$millions, except per share amounts)	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Contract revenue	\$ 289.9	\$ 384.3	\$ 1,222.1	\$ 1,409.2
Contract income	32.6	45.1	121.8	157.9
EBITDA from continuing operations ⁽¹⁾	9.0	19.6	39.6	72.0
Net earnings (loss) from continuing operations	(62.6)	7.3	(61.9)	24.1
Net earnings (loss) from discontinued operations	-	-	-	0.8
Net earnings (loss)	(62.6)	7.3	(61.9)	24.9
Net earnings (loss) per common share from continuing operations				
- Basic	\$ (2.56)	\$ 0.30	\$ (2.54)	\$ 0.99
- Diluted	(2.56)	0.27	(2.54)	0.91
Net earnings (loss) per common share				
- Basic	(2.56)	0.31	(2.54)	1.02
- Diluted	(2.56)	0.27	(2.54)	0.94
Funds from operations ⁽¹⁾	\$ 9.7	\$ 19.6	\$ 41.8	\$ 74.0
Funds from operations per common shares - Basic ⁽¹⁾	\$ 0.40	\$ 0.81	\$ 1.71	\$ 3.06
			December 31, 2012	December 31, 2011
Backlog ⁽¹⁾			\$ 1,690.5	\$ 1,842.6
Working capital ⁽¹⁾			79.2	86.0
Long-term debt (excluding current portion)			51.9	60.4
Convertible debentures (excluding equity portion)			79.2	76.7
Total assets			742.4	888.5

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

The Corporation generates the majority of its revenues from the four Western Canadian provinces of Manitoba, Saskatchewan, Alberta and British Columbia. In 2011, with the establishment of Laird Constructors headquartered in Sudbury, Ontario, the Corporation took steps to grow its business east of Manitoba.

For the 12 months ended December 31, 2012, consolidated contract revenue was \$1,222.1 million, compared to \$1,409.2 million in 2011, a 13% decrease. The General Contracting segment's revenue decreased by \$215.0 million or 24%, the Commercial Systems segment's revenue decreased by \$4.5 million or 2%, and the Industrial Services segment revenue increased by \$16.6 million or 5%. Intersegment revenue during 2012 was \$41.8 million, a decrease of \$15.8 million or 27% compared to 2011, primarily resulting from less intercompany activity between the commercial systems and general contracting segments.

Contract income decreased from \$157.9 million (11.2% of revenue) in 2011 to \$121.8 million (10.0% of revenue) in 2012. The \$36.2 million year-over-year decrease in contract income is made up of decreases in the General Contracting, Commercial Systems and Industrial Services segments of \$22.9 million (37%), \$11.9 million (26%) and \$6.4 million (13%), respectively, which is modestly offset by an increase in the intersegment elimination of \$4.9 million.

Administrative expenses for 2012 amounted to \$95.4 million (7.8% of revenue) compared to \$95.2 million (6.8% of revenue) in 2011. Administrative expenses decreased by \$1.7 million

(4%) in the General Contracting segment, \$0.3 million (1%) in the Commercial Systems segment, and \$0.1 million (1%) in the Industrial Services segment. Administrative expenses increased by \$1.7 million (14%) in the Corporate and Other segment accompanied by a \$0.5 million increase in the intersegment elimination year-over-year.

The net impact of the aforementioned decrease in revenue and contract income in conjunction with an increase in administrative expenses was a \$32.4 million decrease in 2012 EBITDA to \$39.6 million as compared to \$72.0 million in 2011.

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

Intangible assets relate to the design and implementation of the Corporation's enterprise resource planning ("ERP") system, and assets acquired in conjunction with the purchase of other businesses, for which Churchill used the fair value method. The assets acquired relate to the acquisition of Dominion, Canem and Broda in 2010 and McCaine in 2011. These assets resulted in an amortization charge of \$13.5 million in 2012. The comparable charge in 2011 was \$15.9 million. The backlog and agency intangibles are amortized based on management's expectation of when the related revenues will be earned. Refer to *Note 11* to the Audited Consolidated Annual Financial Statements.

As a result of the Corporation's annual goodwill impairment test, the Corporation recorded a \$55.2 million non-cash goodwill impairment charge to the Statement of Comprehensive Loss against the goodwill allocated to Broda and Canem. Additionally, a \$9.4 million non-cash impairment charge to the Statement of Comprehensive Loss was recognized against the intangible assets of Broda and other construction equipment. The net book value of intangible assets as at December 31, 2012 was \$58.7 million (December 31, 2011 - \$72.1 million). Refer to *Note 21, 22 and 23* to the Audited Consolidated Annual Financial Statements for additional detail.

EBT for 2012 was (\$63.8) million compared to \$32.6 million in 2011 (decrease of \$96.4 million), as a result of the \$32.4 million decrease in 2012 EBITDA and the \$64.6 million goodwill, equipment and intangible asset impairment described above.

The Corporation's consolidated net loss from continuing operations for 2012 was \$61.9 million compared to net earnings from continuing operations of \$24.1 million in 2011, an \$86.0 million decrease, reflecting the \$96.4 million decrease in EBT partly offset by an increase in income tax recovery of \$10.4 million.

Churchill's net loss for 2012 was \$61.9 million compared to net earnings of \$24.9 million, including net earnings from discontinued operations of \$0.8 million in 2011.

In 2012, funds from operations of \$41.8 million decreased from \$74.0 million in 2011. Funds from operations are discussed in the Capital Resources and Liquidity - Summary of Cash Flows section that follows.

Churchill's backlog, including work-in-hand, at December 31, 2012 was \$1,690.5 million, compared to \$1,842.6 million at December 31, 2011, a \$152.1 million or 8% decrease. The Corporation's backlog consists of work-in-hand of \$964.5 million (2011 – \$901.1 million) and active backlog of \$726.0 million (2011 – \$941.5 million). The backlog consists of approximately 46% CM, 39% cost-plus arrangements (combined total of 85% CM and cost-plus) and 15% tendered (hard-bid) work. Tendered projects tend to carry the largest amount of price and schedule risk because the competitive tender process forces contractors to be the lowest bidder. CM projects tend to carry less schedule and price risk than tendered projects because the price and schedule setting process is collaborative, rather than competitive. Only under cost-plus contracts does the contractor not carry price and schedule risk. On a segmented basis, backlog at year-end 2012 was \$1,115.8 million in General Contracting (2011 – \$1,445.3 million), \$194.3 million in Commercial Systems (2011 – \$133.3 million) and \$380.4 million in the Industrial Services segment (2011 – \$264.0 million). New contract awards and net increases in contract value of \$334.8 million were added to work-in-hand in the fourth quarter of 2012 (2011 – \$305.1 million).

Assets held-for-sale

The net assets held for sale and related details are included in *Note 14* to the Audited Consolidated Annual Financial Statements. The asset held-for-sale consists of agricultural land no longer required by the Corporation.

Results of Operations

(\$millions, except margin percent)	Year ended December 31, 2012					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 1,222.1	\$ 692.0	\$ 188.2	\$ 383.7	\$ -	\$ (41.8)
Contract income	121.8	39.3	34.3	43.1	-	5.0
Contract income margin	10.0%	5.7%	18.3%	11.2%	-	-
Administrative expenses	95.4	38.3	22.8	20.5	13.8	(0.1)
EBITDA ⁽¹⁾	39.6	6.5	12.5	29.4	(13.8)	5.1
EBITDA margin	3.2%	0.9%	6.7%	7.7%	-	-
EBT ⁽¹⁾	(63.7)	2.4	10.0	18.5	(97.1)	2.4
Backlog ⁽¹⁾	\$ 1,690.5	\$ 1,115.8	\$ 194.3	\$ 380.4	\$ -	\$ -
	Year ended December 31, 2011					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 1,409.2	\$ 907.0	\$ 192.7	\$ 367.0	\$ -	\$ (57.5)
Contract income	157.9	62.2	46.2	49.5	-	0.1
Contract income margin	11.2%	6.9%	24.0%	13.5%	-	-
Administrative expenses	95.2	40.1	23.2	20.4	12.1	(0.6)
EBITDA ⁽¹⁾	72.0	26.2	24.0	33.4	(12.1)	0.5
EBITDA margin	5.1%	2.9%	12.4%	9.1%	-	-
EBT ⁽¹⁾	32.6	22.5	21.8	27.8	(39.5)	0.1
Backlog ⁽¹⁾	\$ 1,842.6	\$ 1,445.3	\$ 133.3	\$ 264.0	\$ -	\$ -

Notes: (1) "EBT" is earnings (loss) from continuing operations before income tax. EBT, EBITDA and backlog are non-IFRS measures. Refer to "Terminology" for definitions of non-IFRS measures.

General Contracting

For the 12 months ended December 31, 2012, Stuart Olson Dominion's revenue was \$692.0 million, compared to \$907.0 million in 2011. This \$215.0 million or 24% decrease is primarily attributable to executing a lower volume of Dominion work in 2012, being in the pre-construction phase and early construction stage on several new projects and delays in executing backlog, delaying revenue into 2013 on a number of projects.

Stuart Olson Dominion's contract income in 2012 decreased by \$22.9 million, or 37%, to \$39.3 million, from \$62.2 million for 2011. The 2012 contract income margin was 5.7% compared to 6.9% in 2011. The decline in contract income generally resulted from the recognition of \$14.2 million of project losses associated with the execution of Dominion backlog and lower volume of project work executed.

Stuart Olson Dominion's administrative expense was \$38.3 million (5.5% of revenue) in 2012 compared to \$40.1 million (4.4% of revenue) in 2011. The \$1.7 million (4%) decrease is primarily related to lower staffing levels and related compensation expense.

EBITDA for Stuart Olson Dominion in 2012 was \$6.5 million compared to \$26.2 million in 2011. This \$19.7 million, or 75% decrease was mainly due to the aforementioned decrease in revenues and contract income, partly offset by the \$1.7 million decrease in administrative expense and a \$1.3 million increase in other income, from divestitures of assets held-for-sale.

Stuart Olson Dominion had backlog of \$1,115.8 million as at December 31, 2012, compared to backlog of \$1,445.3 million at December 31, 2011, a \$329.5 million or 23% decrease. As at December 31, 2012 approximately 63% of Stuart Olson Dominion's backlog was composed of CM assignments, 33% was cost-plus projects (combined total of 96% CM and cost-plus) and 4% were tendered projects. The December 31, 2012 backlog consisted of \$575.6 million of work-in-hand and \$540.2 million of active backlog, whereas the December 31, 2011 backlog was made up of \$586.2 million of work-in hand, with the remaining \$859.1 million being active backlog. The segment began the fourth quarter of 2012 with \$527.0 million of work-in-hand, contracted \$198.9 million of additional work-in-hand during the quarter and executed \$150.3 million of construction activity.

Commercial Systems

The Commercial Systems segment's 2012 revenue was \$188.2 million, compared to \$192.7 million in 2011. This \$4.5 million or 2% decrease is primarily attributable to the impact of project delays which pushed revenue into 2013.

Canem's contract income decreased during 2012 by \$11.9 million (26%) to \$34.3 million, from \$46.2 million in 2011. This resulted in a contract income margin of 18.3% for calendar 2012 compared to 24.0% in 2011. The reduced margin is attributable to the execution of lower margin projects in 2012, field installation delays resulting in margin reforecast and competitive market conditions.

Canem's administrative expense was \$22.8 million (12.1% of revenue) in 2012 compared to \$23.2 million (12.0% of revenue) in 2011.

EBITDA for Canem in 2012 was \$12.5 million (a 6.7% EBITDA margin) compared to \$24.0 million (a 12.4% EBITDA margin) for 2011. This \$11.5 million (48%) decrease was due to the aforementioned decrease in contract income, partly offset by the reduction in administrative expenses.

Canem had total backlog of \$194.3 million as at December 31, 2012, compared to total backlog of \$133.3 million at December 31, 2011 (a \$61.0 million or 46% increase). Canem's \$194.3 million backlog consisted of work-in-hand of \$127.1 million and active backlog of \$67.2 million. The backlog consists of 37% CM projects and 63% tendered projects. Canem as a subcontractor, has project scopes that are more defined and specific and is not subject to the total project risk of a general contractor, and therefore is able to bear a larger proportion of tendered projects. The segment began the fourth quarter of 2012 with \$134.8 million of work-in-hand, contracted \$44.5 million of new awards and increases in contract value during the quarter and executed \$52.2 million of construction activity (including intersegment revenue).

Industrial Services

For the Industrial Services segment, 2012 revenue increased by \$16.7 million (5%) to \$383.7 million from \$367.0 million for 2011. The revenue increase was due to greater activity levels associated with maintenance and turnaround projects in the oil sands and at petrochemical refineries in Alberta and Saskatchewan.

Industrial Services' contract income decreased by \$6.4 million, or 13%, to \$43.1 million from \$49.5 million for 2011. Contract income margins were lower at 11.2% in 2012 as compared to 13.5% in 2011, primarily as a result of the lower contract income generated at Broda compared to results in 2011. Less impactful were the influence of the competition on margins and the proportion of maintenance and turnaround projects executed during 2012.

The Industrial Services segment's administrative expenses were \$20.5 million (5.3% of revenue) in 2012 compared to \$20.4 million (5.6% of revenue) in 2011. The percentage decrease is largely related to increased business activity within CSG.

EBITDA for the Industrial Services segment decreased by \$4.0 million, or 12%, to \$29.4 million (a 7.7% EBITDA margin) for 2012 from \$33.4 million (a 9.1% EBITDA margin) in 2011. The decrease in EBITDA resulted primarily from lower contract income margins.

Industrial Services had backlog of \$380.4 million as at December 31, 2012, compared to backlog of \$264.0 million at December 31, 2011. The December 31, 2012 backlog consisted of \$261.8 million of work-in-hand and \$118.6 million of active backlog. The backlog consists of 78% cost plus projects, and 22% tendered projects. The Industrial Services segment started the fourth quarter with \$270.1 million of work-in-hand, contracted \$91.4 million of new awards and scope increases during the quarter and executed \$99.6 million of construction activity.

Corporate and Other

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were \$13.8 million in 2012 compared to \$12.1 million in 2011, a \$1.7 million (14%) increase. The increase is primarily related to a greater amount accrued for incentive compensation and a lower recovery related to stock-based compensation expense during 2012.

Corporate and Other's finance costs were \$11.4 million in 2012 compared to \$12.2 million in 2011, a \$0.8 million (7%) decrease. The decrease in finance costs related to lower interest rate pricing on the outstanding long-term debt during the period. Finance costs are expected to increase in 2013 in conjunction with expected higher debt to EBITDA metrics.

The Corporate and Other segment's depreciation and amortization expense was \$12.5 million in 2012 compared to \$15.2 million in 2011, a \$2.7 million (18%) decrease. The current and comparative period amounts include amortization of intangible assets acquired with the acquisition of Dominion, Canem, Broda and McCaine, and amortization of the Corporation's SAP-based ERP system. Amortization of backlog and agency intangible assets is dependent on management's expectations of when the related revenue will be earned. This can result in variable amortization charges depending on the period.

In 2012, the Corporate and Other segment incurred a net loss before tax of \$97.1 million compared to a net loss before tax of \$39.5 million in 2011 primarily as a result of recording \$61.6 million of the aforementioned \$64.6 million asset impairment charge in the corporate and other segment, a decrease in finance, depreciation and amortization expenses partially offset by the increase in administrative expenses. The remaining \$3.0 million asset impairment charge was recorded in the Industrial Services segment.

Capital Resources and Liquidity

Cash and Debt Balances

Cash and cash equivalents at December 31, 2012 were \$33.8 million, compared to \$59.4 million at December 31, 2011, a \$25.6 million decrease resulting from the Corporation's commitment to reducing its long-term debt and investments in non-cash working capital to support operations.

Long-term indebtedness at December 31, 2012, excluding the \$0.8 million current portion of long-term debt, amounted to \$131.1 million compared to \$137.1 million at December 31, 2011, a net decrease of \$6.0 million. This amount consisted of \$79.2 million (December 31, 2011 - \$76.7 million) of the debt portion of convertible debentures and \$51.9 million (December 31, 2011 - \$60.4 million) drawn on Churchill's \$200 million, four year senior revolving credit facility.

The Revolver was originally secured on July 12, 2010, with a syndicate of chartered banks (the "Syndicate"), and terms and conditions have subsequently been renegotiated effective the annual anniversary dates in 2011, 2012 and December 21, 2012. The July 2012 amendment to the agreement included a reduction in pricing, an extension of the facility (new maturity date of July 12, 2016), an increase in the swingline loan from \$10.0 million to \$15.0 million and additional flexibility on consents regarding dividends and acquisitions. The December 2012 amending agreement to the Revolver modifies the financial covenants, including maintaining each of: (a) a working capital ratio of not less than 1.1:1; (b) an interest coverage ratio of at least 3:1 by Oct 31, 2013; (c) a total debt to EBITDA ratio of not more than 3:1; and (d) a senior debt to EBITDA ratio of not more than 2.5:1 by January 1, 2014. For the purposes of the Revolver, EBITDA is defined as earnings or loss before interest, income taxes, depreciation and amortization, non-cash gains and losses from financial instruments, stock based compensation, non-recurring gains and losses and any other non-cash items deducted in the calculation of net earnings. The Syndicate remains the same and the Revolver continues to include a \$75 million accordion feature. As at December 31, 2012, the Corporation was in full compliance with its covenants and had additional borrowing capacity of \$72.4 million available to it under the Revolver. For additional information refer to *Note 26* of the Audited Consolidated Annual Financial Statements.

The amount of the Revolver will fluctuate from quarter to quarter as it is drawn to finance working capital requirements, capital expenditures and acquisitions, and as it is paid with funds from operations. For instance, in October 2012, the Corporation provided three separate letters of credit totalling \$6.5 million and undertook to provide an additional letter of credit of \$1 million in as late as January 2013 as partial security for a lien bond of approximately \$15.5 million issued by the Corporation's surety providers. The lien bond relates to the removal of a lien that was filed by the structural steel subcontractor on Stuart Olson Dominion's Investors Group Field stadium project in Winnipeg, Manitoba. The face value of these letters of credit reduces the Corporation's borrowing capacity under the Revolver by an equal amount. For additional information refer to *Note 36* to the Audited Consolidated Annual Financial Statements.

On June 15, 2010, the Corporation closed a convertible debentures financing in the principal amount of \$86.3 million, including the exercise by the underwriters of the over-allotment option.

Upon closing, the debentures became an obligation of the Corporation. For accounting purposes, the equity conversion rights of the convertible debentures were assigned a value of \$9.5 million (net of \$0.5 million of transaction costs) which was included in shareholders' equity, and \$73.3 million was assigned to the long-term debt component (net of \$2.9 million of transaction costs). For additional information refer to *Note 27* to the Audited Consolidated Annual Financial Statements.

Summary of Cash Flows

(\$millions, except shares and per share amounts)	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Net cash generated by operating activities	\$ 26.5	\$ 51.2	\$ 6.5	\$ 57.5
Add:				
Income taxes paid (received)	(1.2)	(0.9)	(11.9)	4.3
Interest paid	3.5	4.1	8.4	9.1
Cash generated from operations	\$ 28.9	\$ 54.4	\$ 3.0	\$ 70.9
Payment of share-based payment liability	0.0	-	3.0	0.8
Cash settlement of stock options	1.2	-	1.2	-
Employee benefits	2.3	-	2.3	-
Change in provisions	(0.5)	0.1	2.3	3.1
Change in non-cash working capital balances relating to operations	(22.2)	(34.8)	30.0	(0.8)
Funds from operations	\$ 9.7	\$ 19.6	\$ 41.8	\$ 74.0
Weighted average common shares - basic (millions)	24.4	24.2	24.4	24.2
Funds from operations per common share - basic	\$ 0.40	\$ 0.81	\$ 1.71	\$ 3.06

The net cash generated by operating activities during the fourth quarter of 2012 was \$26.5 million (fourth quarter 2011 - \$51.2 million). Interest payments of \$3.5 million (fourth quarter 2011 - \$4.1 million) and taxes received of \$1.2 million (fourth quarter 2011 - \$0.9 million) resulted in cash generated from operations in the fourth quarter of 2012 of \$28.9 million (fourth quarter 2011 - \$54.4 million). After accounting for the cash surrender of stock options of \$1.2 million (fourth quarter 2011 - \$nil), pension related benefits of \$2.3 million (fourth quarter 2011 - \$nil), a change in provisions of \$(0.5) million (fourth quarter 2011 - \$0.1 million), and a change in non-cash operating working capital of \$(22.2) million (fourth quarter 2011 - \$(34.8) million), funds from operations for the fourth quarter of 2012 were \$9.7 million (fourth quarter 2011 - \$19.6 million). Working capital is being utilized within the business, primarily in the Industrial Services segment as expanding operations have caused receivables to grow faster than payables.

The net cash generated by operating activities in 2012 was \$6.5 million (2011 - \$57.5 million). Interest payments of \$8.4 million (2011 - \$9.1 million) and taxes paid (received) of \$(11.9) million (2011 - \$4.3 million), resulted in cash generated from operations for the year ended December 31, 2012 of \$3.0 million compared to cash generated in 2011 of \$70.9 million. After accounting for payments associated with share-based payment liabilities of \$3.0 million (2011 - \$0.8 million), the cash surrender of stock options of \$1.2 million (fourth quarter 2011 - \$nil), pension related benefits of \$2.3 million (fourth quarter 2011 - \$nil), a change in provisions of \$2.3 million (2011 - \$3.1 million), and a change in non-cash operating working capital of \$30.0 million (2011 - \$(0.8) million), funds from operations for 2012 were \$41.8 million (2011 - \$74.0 million). Efforts to manage working capital more effectively proved to be impactful on a full year

basis. The tax recovery for the full year 2012 was due to refunds received related to 2011 tax filings.

Investing activities resulted in a net use of cash of \$14.1 million during 2012, which compares with net cash used of \$46.7 million in 2011. The \$32.6 million difference in expenditures is primarily attributable to \$17.5 million less invested in property and equipment purchases in 2012, \$9.7 million invested to acquire McCaine Electric in 2011 and \$4.7 million lower investment associated with additions to the Corporation's ERP system.

During 2012, net cash used in financing activities totalled \$18.1 million. The major financing activities during 2012 were the \$10.6 million net repayment of long term debt and the payment of \$9.2 million in cash dividends compared to \$4.5 million in cash dividend payments during 2011. Less significant financing activities in 2012 related to the receipt of a service provider deposit, costs related to issuing long-term debt, share repurchases under the Corporation's normal course issuer bid and the surrender of stock options. The net cash used by financing activities totalled \$22.1 million in 2011, related to a net repayment of long-term debt, share repurchases under the Corporation's normal course issuer bid, and the payment of dividends.

Working Capital

As at: (\$millions)	December 31, 2012	December 31, 2011
Current assets	\$ 407.5	\$ 481.5
Current liabilities	328.3	395.5
Working capital	\$ 79.2	\$ 86.0

As at December 31, 2012, Churchill had working capital of \$79.2 million, compared to \$86.0 million at December 31, 2011. Working capital declined from the prior year as cash was used for financing capital expenditures and debt repayment.

Capital Management

The Corporation's objectives in managing its capital is to ensure that there is sufficient liquidity to pursue its growth, 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 its growth strategies and capital expenditure programs.

In 2012, the Corporation's capital expenditures totalled \$20.4 million including \$9.1 million for construction and automotive equipment, \$7.6 million for computer hardware and software, \$3.0 million for tenant improvements and \$0.7 million for furniture and equipment. Capital expenditures are associated with the Corporation's need to maintain and support its existing operations. Management's budget for 2013 anticipates capital expenditures of \$19.5 million.

Management believes that the Corporation has the capital resources and liquidity necessary to meet its commitments, support its operations, finance capital expenditures, support growth

strategies and fund declared dividends, because the Corporation has adequate cash and cash equivalents, ability to generate cash from operations, and an undrawn portion of its Revolver.

Shareholders' equity was \$235.1 million at December 31, 2012 compared to \$309.1 million at December 31, 2011. This resulted from a net loss of \$61.9 million during 2012, a \$3.6 million defined benefit plan actuarial loss, cash dividend payments of \$9.2 million, normal course issuer bid share purchases of \$0.4 million and share based payment transactions of \$(1.1) million.

Refer to *Note 32* to the Audited Consolidated Annual Financial Statements for additional information regarding the Corporation's management of its capital.

Contractual Obligations

	December 31, 2012	December 31, 2011
Current portion of long-term debt		
Finance contracts	\$ -	\$ 598
Finance lease obligations	828	805
	\$ 828	\$ 1,403
Non-current		
Revolving credit facility	\$ 51,596	\$ 59,628
Finance contracts	-	10
Finance lease obligations	313	795
	\$ 51,909	\$ 60,433

Scheduled debt principal repayments within one year at December 31, 2012 were \$0.8 million, compared to \$1.4 million at December 31, 2011. Finance contracts and finance lease obligations are secured by construction and automotive equipment and are more fully described in *Note 26* to the Audited Consolidated Annual Financial Statements.

The following are the contractual obligations, including interest payments as at December 31, 2012, 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 year. Further information is included in *Note 31(c)(iii)* to the Audited Consolidated Annual Financial Statements.

	Carrying amount	Contractual cash flows	0 - 6 months	6 - 12 months	12 - 24 months	After 24 months
Trade and other payables	\$ 233,442	\$ 233,442	\$ 233,442	\$ -	\$ -	\$ -
Provisions including current portion	10,899	10,899	3,246	3,246	961	3,446
Convertible debentures	79,151	99,188	2,588	2,588	5,175	88,838
Long-term debt including current portion	52,737	52,773	427	427	81	51,839
Lease commitments	68,515	68,515	2,992	2,992	7,543	54,987
	\$ 444,744	\$ 464,816	\$ 242,696	\$ 9,253	\$ 13,760	\$ 199,109

The Corporation maintains operating leases with regard to certain construction equipment, vehicles, office premises and equipment. They are described in the tables which follow and in *Note 35* to the Audited Consolidated Annual Financial Statements.

Non-cancellable operating lease commitments:

	December 31, 2012	December 31, 2011
Not later than 1 year	\$ 8,044	\$ 5,438
Later than 1 year and not later than 5 years	26,496	22,829
Later than 5 years	36,034	21,238
	\$ 70,574	\$ 49,505

Payments recognized as expense:

	December 31, 2012	December 31, 2011
Minimum lease payments	\$ 6,950	\$ 4,350
Sub-lease payments received	(448)	(228)
	\$ 6,502	\$ 4,122

The Corporation remains a partner in five joint ventures, one of which is a public-private partnership (“P3”) project being constructed by Stuart Olson Dominion with its partner Acciona, a large international energy, water services and infrastructure company headquartered in Spain. For this project, the Fort St. John Hospital in Fort St. John, British Columbia, the Corporation provided a joint and several guarantee, increasing the maximum potential exposure to the full value of the work remaining under the contract. On July 12, 2012, the hospital was officially opened to the public, so the Corporation’s exposure to financial penalties and/or liquidated damages was eliminated. P3 projects also require security in the form of letters of credit to support the Corporation’s obligations. Refer to *Note 7* to the Audited Consolidated Annual Financial Statements for additional details.

Financial Instruments

On August 8, 2011, the Corporation entered into derivative financial instruments with a financial institution designed to lock in the fuel price economics of a multi-year construction project for Broda. The financial instruments are not accounted for as designated accounting hedges because their effectiveness is hindered by inherent risk related to location, basis, foreign exchange and quantity. Therefore, the statement of earnings will reflect the fair market adjustments from period to period. In 2012, this resulted in neither a gain nor a loss (2011 - \$21 thousand) included in Other Income (Cost). During the period the hedge was in force, the hedge limited exposure to fuel price volatility given the underlying commodity closely correlated with experienced fuel price fluctuations. For additional information refer to *Note 31(c)(iv)* to the Audited Consolidated Annual Financial Statements.

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 December 31, 2012, the ESPP held 1,314,029 common shares for employees (December 31, 2011 – 951,925 common shares). Under the ESPP, common shares are acquired in the open market.

On January 17, April 17, July 17 and October 16, 2012, the Corporation issued 67,807, 46,098, 64,313 and 52,664 common shares, respectively, pursuant to its DRIP. On January 15, 2013, the Corporation issued 54,073 common shares, pursuant to its DRIP.

As at March 15, 2013, the Corporation had 24,547,535 common shares issued and outstanding and 1,498,975 options convertible into common shares upon exercise (December 31, 2012 – 24,493,462 common shares and 1,379,981 options). Refer to *Notes 28(b)(c) and 29* to the Audited Consolidated Annual Financial Statements for further detail.

As well, the Corporation has 6% convertible debentures outstanding in the principal amount of \$86.3 million, convertible into 3,791,205 common shares. Refer to *Note 27* to the Audited Consolidated Annual Financial Statements for further detail.

Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding, plus the number of additional common shares that would have been outstanding if the dilutive potential common shares associated with the outstanding stock options and the convertible debentures had been issued. The calculation of the diluted weighted average number of shares outstanding for the year ending December 31, 2012 of 24,402,974 (December 31, 2011 – 32,445,550) is set out in *Note 16* to the Audited Consolidated Annual Financial Statements.

- At December 31, 2012, 1,379,981 options (December 31, 2011 – 809,587 options) were excluded from the diluted weighted average number of common share calculations as their effect would have been anti-dilutive. The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.
- At December 31, 2012, no incremental shares related to the convertible debentures are included in the diluted share calculation (December 31, 2011 – 7,943,086). In determining the diluted earnings per share, the Corporation determined the impact of normalizing earnings by adding back related interest, accretion and amortization costs of the convertible debentures to net earnings from continuing operations. This outweighed the effect of the related incremental shares, making the calculation anti-dilutive. The incremental shares included in the dilutive weighted average number of shares was determined using the Corporation's share price at December 31, 2012 of \$8.70 (December 31, 2011 - \$11.43).

Share-based Payments

Stock-based compensation is an expense driven in part by the number, fair value and vesting rights of options, deferred share units ("DSUs") and performance share units ("PSUs") granted. The stock-based compensation expense was \$4.7 million for 2012 compared to \$3.2 million for 2011.

During the 12 months ended December 31, 2012, the Corporation granted 219,966 DSUs, (December 31, 2011 - 52,351 DSUs) to directors and employees as part of their remuneration. In addition, during the year ended December 31, 2012, directors and employees voluntarily

elected to purchase or accept in lieu of cash 22,955 DSUs (December 31, 2011 - 15,800 DSUs) by deferring compensation related to retainers, meeting fees, base salary and/or cash bonus, as applicable. These DSU grants and elections totalling 242,921 DSUs (December 31, 2011 – 68,151 DSUs) resulted in \$0.9 million of stock-based compensation expense for 2012, respectively (2011 - \$0.1 million). The amounts recorded are based on the sum of the changes in fair value and grants of DSUs. The Corporation carries the obligation as a payable on its statement of financial position as the DSUs are structured under the current plan to be paid in cash, upon the employee or director ceasing service with the Corporation.

During the 12 months ended December 31, 2012, the Corporation recorded compensation expenses for PSUs granted to employees of \$1.6 million compared to \$0.3 million in 12 months ended December 31, 2011. The amounts recorded are based on the sum of changes in fair value and grants of PSUs. During the 12 months ended December 31, 2012, the Corporation cancelled 82,267 PSUs, due to forfeiture (December 31, 2011 – 1,805). As at December 31, 2012, the Corporation had outstanding 279,447 PSUs compared to 340,055 PSUs at December 31, 2011. The PSUs are structured under the current plan to be settled in cash at the time of vesting, if certain performance objectives for shareholder value creation relative to a comparator group of companies are met. The first vesting was in February 2011 for 43,608 PSUs granted in 2008 and the payout in April 2011 amounted to \$0.8 million. The vesting of 175,126 PSUs granted in 2009 was in February 2012 and the payout in April 2012 amounted to \$3.0 million.

Refer to *Note 28* to the Audited Consolidated Annual Financial Statements for further detail.

Supplemental Disclosures

Off-Balance Sheet Arrangements

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

Related Party Transactions

During 2012, the Corporation incurred facility costs of \$136 thousand (12 months ended December 31, 2011 – \$155 thousand) 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. At December 31, 2012, there was \$nil of this amount included in accounts payable (December 31, 2011 – \$nil).

During 2012, the Corporation incurred facility costs of \$432 thousand (12 months ended December 31, 2011 – \$424 thousand) 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. At December 31, 2012, there was \$29 thousand included in accounts payable (December 31, 2011 – \$7 thousand).

Refer to *Note 34* to the Audited Consolidated Annual Financial Statements.

Outlook

The outlook for Churchill's three operating business segments is described below:

- Margins for Stuart Olson Dominion are expected to gradually improve in 2013 as recently awarded projects transition from design, to the tendering and construction phase. Additional detail is included in the General Contracting section below.
- During 2013, Canem expects modest revenue growth but EBITDA margins to be flat year-over-year; as a result of more competitive go-in fees and the timing of project phases in 2013. Additional detail is included in the Commercial Systems section below.
- Within the Industrial Services segment, CSG & Broda expect to continue delivering strong revenues at comparable EBITDA margins to consolidated 2012 results. Additional detail is included in the Industrial Services section below.

General Contracting

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

Stuart Olson Dominion's \$1.1 billion backlog remains institutionally levered, and the market continues to present business development opportunities. Construction margins are expected to marginally improve in 2013 in conjunction with resolution of the project challenges experienced in 2011 and 2012 and as new higher-margin projects recently added to backlog begin construction.

Stuart Olson Dominion expects to execute approximately \$523.0 million of its December 31, 2012 backlog during 2013. New awards are expected to supplement the amount of work executed by Stuart Olson Dominion during 2013.

Commercial Systems

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

Canem expects to execute \$144.6 million of its backlog during 2013. New awards, short-duration projects, building maintenance and tenant improvement work are expected to make up the balance of Canem's 2013 revenue.

Industrial Services

Going forward, CSG and Broda are expecting to maintain strong revenues and earnings in 2013 as industrial construction and maintenance projects continue, particularly in Alberta's oil sands and Saskatchewan's mining district. Competitive pressures and a higher proportion of low-risk, cost-plus maintenance work in 2013 are expected to modestly decrease CSG margins; however by Broda's renewed focus on Saskatchewan mining related projects in 2013, where weather related project challenges occur less frequently, should result in stronger operational results.

CSG and Broda expect to execute \$246.2 million of their contracted backlog during 2013. New contract awards, additional short-duration projects, scope changes and industrial maintenance work are expected to supplement the segment's 2013 revenue.

Fourth Quarter Overview

The following table sets out selected fourth quarter results by operating segment:

(\$millions, except margin percent)	Three months ended December 31, 2012					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 289.9	\$ 152.4	\$ 49.4	\$ 96.3	\$ -	\$ (8.2)
Contract income	32.6	11.0	7.8	13.0	-	0.8
Contract income margin	11.3%	7.2%	15.7%	13.5%	-	-
Administrative expenses	26.1	9.9	6.3	5.5	4.5	-
EBITDA ⁽¹⁾	9.0	2.0	1.7	9.1	(4.5)	0.7
EBITDA margin	3.1%	1.3%	3.4%	9.5%	-	-
EBT ⁽¹⁾	(65.1)	0.9	1.0	4.1	(69.5)	(1.5)
Backlog ⁽¹⁾	\$ 1,690.5	\$ 1,115.8	\$ 194.3	\$ 380.4	\$ -	\$ -
	Three months ended December 31, 2011					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 384.3	\$ 236.5	\$ 55.8	\$ 109.7	\$ -	\$ (17.8)
Contract income	45.2	16.4	13.6	15.5	-	(0.3)
Contract income margin	11.7%	6.9%	24.3%	14.1%	-	-
Administrative expenses	28.3	13.6	6.3	5.6	3.0	(0.2)
EBITDA ⁽¹⁾	19.6	3.9	7.5	11.5	(3.1)	(0.1)
EBITDA margin	5.1%	1.6%	13.4%	10.5%	-	-
EBT ⁽¹⁾	9.3	2.9	6.8	9.7	(9.8)	(0.3)
Backlog ⁽¹⁾	\$ 1,842.6	\$ 1,445.3	\$ 133.3	\$ 264.0	\$ -	\$ -

Notes: (1) "EBT" is earnings (loss) from continuing operations before income tax. EBT, EBITDA and backlog are non-IFRS measures. Refer to "Terminology" for definitions of non-IFRS measures.

For the three months ended December 31, 2012, consolidated contract revenue was \$289.9 million, compared to \$384.3 million in the fourth quarter of 2011, a 25% decrease. The General Contracting segment's revenue decreased by \$84.1 million or 36%, the Commercial Systems segment revenue declined by \$6.4 million or 12% and the Industrial Services segment revenue contracted by \$13.4 million or 12%. The intersegment elimination decreased by \$9.6 million year-over-year.

Contract income declined from \$45.2 million, (11.7% of revenue) in the fourth quarter of 2011 to \$32.5 million, (11.2% of revenue) in the three months ended December 31, 2012. The \$12.7

million, or 28% decrease in contract income consists of decreases in the General Contracting, Commercial Systems and Industrial Services operating segments of \$5.4 million (33%), \$5.8 million (43%) and \$2.5 million (16%) respectively, partly offset by an increase in the intersegment elimination of \$1.1 million.

Administrative expenses for the fourth quarter of 2012 amounted to \$26.1 million, (9.0% of revenue), compared to \$28.3 million (7.4% of revenue) in the three months ended December 31, 2011, an 8% decrease. Administrative expenses decreased by \$3.7 million (27%), \$0.0 million (0%) and \$0.1 million (2%) in the General Contracting, Commercial Systems and Industrial Services segments respectively. These savings were partly offset by an increase in administrative expenses within the Corporate and Other segment of \$1.5 million (50%) and an increase in the intersegment elimination of \$0.2 million.

The net impact of the aforementioned decrease in contract income and administrative expenses was a \$10.6 million or 54% decrease in fourth quarter EBITDA to \$9.0 million compared to \$19.6 million in the three months ended December 31, 2011.

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

Intangible assets resulted in an amortization charge of \$3.1 million in the fourth quarter of 2012. The comparable charge in the fourth quarter of 2011 was \$4.2 million. The net book value of these assets as at December 31, 2012 was \$58.7 million, of which \$1.7 million is expected to be amortized in each quarter of 2013.

EBT for the fourth quarter of 2012 was a loss of \$65.1 million compared to earnings before tax of \$9.3 million in the fourth quarter of 2011 (decrease of \$74.4 million). This decline reflects the \$10.6 million decrease in EBITDA described above, the previously discussed \$64.6 million asset impairment partly offset by a decrease in interest expense of \$0.9 million.

The Corporation's consolidated net loss from continuing operations for the fourth quarter of 2012 was \$62.6 million compared to net earnings from continuing operations of \$7.3 million in the fourth quarter of 2011.

In the three months ended December 31, 2012, funds from operations were \$9.7 million compared to \$19.6 million in the fourth quarter of 2011.

Fourth Quarter Results of Operations

General Contracting

For the three months ended December 31, 2012, Stuart Olson Dominion's revenue was \$152.4 million, compared to \$236.5 million in the fourth quarter of 2011. This \$84.1 million or 36% decrease is primarily attributable to being in the pre-construction phase and early construction stage on several new projects and delays in executing backlog, delaying revenue into 2013 on a number of projects.

Stuart Olson Dominion's contract income in the fourth quarter of 2012 decreased by \$5.4 million, or 33% to \$11.0 million, from \$16.4 million for the three months ended December 31, 2011. The decline in contract income resulted from the lower level of construction activity. The fourth quarter 2012 contract income margin was 7.2% compared to 6.9% in the fourth quarter of 2011.

Stuart Olson Dominion's administrative expense was \$9.9 million (6.5% of revenue) in the three months ended December 31, 2012 compared to \$13.6 million (5.7% of revenue) in the fourth quarter of 2011. The \$3.7 million (27%) decrease is primarily related to lower staffing levels and related compensation expense.

EBITDA for Stuart Olson Dominion in the fourth quarter of 2012 was \$2.0 million compared to \$3.9 million in the fourth quarter of 2011. This \$1.9 million (49%) decrease was mainly due to the aforementioned decrease in revenue and contract income, partly offset by the \$3.7 million decrease in administrative expense.

Commercial Systems

The Commercial Systems segment's fourth quarter 2012 revenue was \$49.4 million, compared to \$55.8 million in the three months ended December 31, 2011. This \$6.4 million or 11% revenue decrease resulted from project delays pushing revenue into 2013, which was partially offset by short-duration projects secured during the fourth quarter.

Canem's contract income decreased to \$7.8 million in the fourth quarter of 2012, from \$13.6 million, in the fourth quarter of 2011, a \$5.8 million, or 43% decline. As a result, Canem's fourth quarter 2012 contract income margin was 15.7% compared to 24.3% in the third quarter of 2011. The reduced margin is attributable to the execution of lower margin projects in the fourth quarter of 2012 and project execution delays resulting in margin reforecast.

Canem's administrative expense was \$6.3 million (12.7% of revenue) in the fourth quarter of 2012 compared to \$6.3 million (11.3% of revenue) in the three months ended December 31, 2011. The increase as a percentage of revenue is a function of the lower revenue base.

EBITDA for Canem in the fourth quarter of 2012 was \$1.7 million (a 3.4% EBITDA margin) compared to \$7.5 million (a 13.4% EBITDA margin) in the fourth quarter of 2011. This \$5.8 million, or 77% decrease was due to the aforementioned decrease in contract income.

Industrial Services

For the Industrial Services segment, fourth quarter revenue decreased by \$13.4 million, or 12% to \$96.3 million from \$109.7 million for the three months ended December 31, 2011. The revenue decrease was primarily due to lower activity levels associated with new construction projects in the oil sands and mining projects in Alberta and Ontario.

Industrial Services' contract income for the three months ended December 31, 2012 decreased by \$2.5 million, or 16% to \$13.0 million from \$15.5 million for the fourth quarter of 2011. Contract income margins were lower at 13.5% in the fourth quarter of, 2012 versus 14.1% in the

three months ended December 31, 2011, as a result of an increased proportion of lower margin maintenance and turnaround in the projects mix.

The Industrial Services segment's administrative expense were \$5.5 million (5.7% of revenue) in the fourth quarter of 2012 compared to \$5.6 million (5.1% of revenue) in the three months ended December 31, 2011. The increase as a percentage of revenue resulted from the lower activity levels.

EBITDA for the Industrial Services segment decreased by \$2.4 million, or 21% to \$9.1 million (a 9.5% EBITDA margin) for the fourth quarter of 2012 from \$11.5 million (a 10.5% EBITDA margin) in the three months ended December 31, 2011. The decrease in EBITDA resulted from the reduction in contract income during the fourth quarter partially offset by the improvement in administrative cost control.

Corporate and Other

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were \$4.5 million in the fourth quarter of 2012 compared to \$3.0 million in the three months ended December 31, 2011, an increase of \$1.5 million, or 50%. The increase is primarily related to amounts accrued for both short and long-term compensation expense.

The Corporate and Other segment's finance costs were \$2.8 million in the fourth quarter of 2012 compared to \$2.9 million in the three months ended December 31, 2011.

The Corporate and Other segment's depreciation and amortization expense was \$2.9 million in the fourth quarter of 2012 compared to \$3.8 million in the three months ended December 31, 2011, a \$0.9 million, or 24% decrease. The current and comparative period amounts include amortization of intangible assets acquired with the acquisition of Dominion, Canem, Broda and McCaine, and amortization of the implemented portion of the Corporation's SAP-based ERP system. Amortization of backlog and agency intangible assets is dependent on management's expectations of when the related revenue will be earned. This can result in variable amortization charges depending on the period.

In the fourth quarter of 2012, the Corporate and Other segment incurred a net loss before tax of \$69.5 million compared to a net loss before tax of \$9.8 million. The increase in net loss before tax was driven primarily by the \$61.6 million asset impairment recorded in the Corporate and Other segment during the fourth quarter of 2012. Additionally, higher administrative expenses were partly offset by the reduction in finance costs and depreciation and amortization expense.

Quarterly Financial Information

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

(\$millions, except per share data and percentages)	2012 Quarter ended:				2011 Quarter ended:			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Contract revenue	\$ 289.9	\$ 303.2	\$ 295.8	\$ 333.2	\$ 384.3	\$ 379.3	\$ 340.9	\$ 304.7
Contract income	32.6	27.7	25.9	35.6	45.1	40.5	35.7	36.6
Contract income margin ⁽¹⁾	11.3%	9.1%	8.7%	10.7%	11.7%	10.7%	10.5%	12.0%
Continuing operations:								
EBITDA ⁽¹⁾	\$ 9.0	\$ 12.1	\$ 4.6	\$ 13.9	\$ 19.6	\$ 18.3	\$ 17.0	\$ 17.1
EBT ⁽¹⁾	(65.1)	2.5	(5.4)	4.3	9.3	8.2	7.0	8.2
Net earnings (loss)	(62.6)	1.8	(4.2)	3.1	7.3	6.2	4.8	5.8
EPS - basic	(2.56)	0.07	(0.17)	0.13	0.30	0.26	0.20	0.24
EPS - diluted	(2.56)	0.07	(0.17)	0.13	0.27	0.24	0.19	0.24
Net earnings (loss)	\$ (62.6)	\$ 1.8	\$ (4.2)	\$ 3.2	\$ 7.3	\$ 6.1	\$ 5.8	\$ 5.8
EPS - basic	(2.56)	0.07	(0.17)	0.13	0.30	0.26	0.24	0.24
EPS - diluted	(2.56)	0.07	(0.17)	0.13	0.27	0.24	0.22	0.24
Funds from operations ⁽¹⁾	\$ 9.7	\$ 12.1	\$ 4.6	\$ 15.6	\$ 19.6	\$ 18.8	\$ 17.3	\$ 18.9
Funds from operations per share ⁽¹⁾ - basic	0.40	0.50	0.19	0.64	0.81	0.77	0.71	0.78
Backlog ⁽¹⁾	\$ 1,690.5	\$ 1,731.0	\$ 1,570.4	\$ 1,751.5	\$ 1,842.6	\$ 1,840.1	\$ 1,705.6	\$ 1,577.4
Working capital ⁽¹⁾	79.2	99.9	95.7	102.6	86.0	99.6	115.5	99.7
Shareholders' equity	235.1	299.5	301.4	308.5	309.1	302.5	301.3	295.9
Book value (\$ per basic share) ⁽¹⁾	9.60	12.25	12.36	12.68	12.72	12.45	12.45	12.28

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

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

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

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

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

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

Revenue in the third quarter of 2012 decreased compared to the third quarter of 2011 as the General Contracting segment was in the early stages of new construction on several new projects, experienced construction delays and had backlog pushed into 2013 on a number of projects. Additionally, lower contract income margins in the General Contracting and Commercial Systems segments contributed to lower EBITDA and net earnings.

Revenue in the fourth quarter of 2012 decreased compared to the fourth quarter of 2011 as the General Contracting segment was in the early stages of new construction on several new projects, experienced construction delays and had backlog pushed into 2013 on a number of projects. The lower contract revenue in the General Contracting segment in combination with lower contract income margins from the Commercial Systems segment were the material contributors to lower EBITDA and net earnings.

A comprehensive analysis of the operating results for each of the first three quarters of 2012 was included in the MD&A for each quarter. The reader is referred to the Corporation's 2011 Annual Report for a more detailed discussion and analysis of the results of the quarters preceding January 1, 2012.

Critical Accounting Estimates

The key assumptions and basis for the estimates that management has made under IFRS and their impact on the amounts reported in the Audited Consolidated Annual Financial Statements and notes thereto, are contained in *Note 3* to the Audited Consolidated Annual Financial Statements.

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

- Revenue recognition and contract cost estimates;
- Goodwill, property and equipment and intangibles impairment assessment;
- Estimates related to the useful lives and residual value of property and equipment;
- Income tax provisions;

- Provisions for warranty work and legal contingencies;
- Assumptions used in share-based payment arrangements;
- Accounts receivable collectability; and
- Valuation of defined benefit pension plans.

Revenue Recognition and Contract Cost Estimates

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

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

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

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

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

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

Goodwill Impairment Assessment

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested annually in the fourth quarter or more frequently if events or changes in circumstances indicate that an asset may be impaired. Goodwill arose during multiple past acquisitions. Goodwill associated with the Stuart Olson Dominion, Broda and Canem CGUs arose from the Seacliff acquisition in 2010. Additional goodwill was attributed to the Canem CGU through the McCaine acquisition in 2011 (Note 5). CSG's goodwill stems from the Laird acquisition of 2003. Goodwill recognized on all of these acquisitions was attributable mainly to the synergies achieved from the integration of acquired company into existing construction, commercial and industrial services. Any significant reduction in these estimates could result in an impairment of goodwill. As of December 31, 2012, Churchill's goodwill was assessed to be impaired by \$55.2 million and a non-cash charge was recorded to the statement of comprehensive loss.

During the fourth quarter, the Corporation performed its annual goodwill impairment test. The calculated Business Enterprise Value for each of the CGUs incorporated the financial projections set out in the respective CGU's strategic plan approved by the Board of Directors in December 2012. The financial projections of the Broda CGU and Canem CGU reflected lower future EBITDA than previous projections as a result of current economic conditions impacting revenues and margins. The impairment testing indicated that the recoverable amount of these CGUs was less than their carrying amount. As a result, the Corporation recorded an impairment loss of \$64.6 million on the statement of comprehensive loss comprised of a \$55.2 million non-cash goodwill impairment, a \$5.2 million property and equipment impairment (Note 22) and a \$4.1 million intangible asset impairment (Note 23). Goodwill impairment charges are non-cash charges that do not have any adverse effect on respective cash flows from operating activities and will not have an impact on the CGUs' future operations.

If the impairment loss resulting from the comparison of the recoverable amount of the CGU to carrying amount exceeds the goodwill allocated to the CGU, then the impairment loss is allocated to certain other assets of the CGU on a pro rata basis of the carrying amount of each asset in the unit. In the Broda CGU, the impairment loss exceeded the carrying amount of goodwill, resulting in impairment losses allocated to property and equipment (Note 22) and intangible assets (Note 23). The entire amount of impairment in the Canem CGU was fully applied to goodwill and did not extend to other assets of that entity.

The recoverable amount of the CGUs' assets was determined based on a value in use calculation. There is a significant amount of uncertainty with respect to the estimates of the recoverable amounts of the CGUs' assets given the necessity of making key economic assumptions about the future. The value in use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows, present and future discount rates, growth assumptions, including economic risk assumptions and estimates of achieving key operating metrics and drivers. Management uses its best estimate to determine which key assumptions to use in the analysis.

Key Assumptions

The key assumptions in the value in use calculations to determine the recoverable amounts by CGU have been prepared using a five year discounted cash flow analysis with a terminal value. The financial projections used for the discounted cash flow analysis were derived from the Corporation's 2012 Strategic Plan which was approved by management and the Board of Directors in December 2012.

A five year period for the discounted cash flow analysis was used since financial projections beyond a five year time period are generally best represented by a terminal value. This period is appropriate given the timing of the backlog projects and the predictability of CGU cash flows. Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium to long term. These cash flows require assumptions to be made regarding the likelihood of projects progressing and the future economics of those projects.

The terminal value was calculated using a discount rate of 12% (2011 – 10%) and a steady annual growth of 1.5% (2011 – 2.0%) in the terminal year. The same discount rate was used in each of the Corporation's CGUs given that each entity has access to the same source of debt and each CGU is ultimately governed by management at the parent Company. In addition, entity specific risks were separately factored into each CGU forecast. They take into consideration market rates of return, capital structure, company size, industry risk and after-tax cost of debt and equity.

Sensitivity of assumptions

Stuart Olson Dominion and CSG: Management and the Board of Directors believe that any reasonable change to the key assumptions on which the recoverable amounts are based would not cause the Stuart Olson Dominion or CSG recoverable amounts to exceed their respective carrying amounts.

Canem: A 2.0% increase in the discount rate would increase the impairment charge approximately \$16.0 million. A decrease in growth rate of 0.5% would increase the impairment charge by approximately \$3.0 million.

Broda: A 2.0% increase in the discount rate would increase the impairment charge approximately \$6.9 million. A decrease in growth rate of 0.5% would increase the impairment charge by approximately \$1.3 million.

Income Tax Provisions

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

position, may impact the income tax expense category, as well as the deferred income tax asset and liability categories.

Accounts Receivable Collectability

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

Valuation of Defined Benefit Pension Plans

Fluctuations in the valuation of the Corporation's defined benefit pension plans expose the Corporation to additional risk. Economic factors such as expected long-term rate-of-return on plan assets, discount rates and future salary and bonus increases will cause volatility in the accrued benefit obligation. Refer to *Note 3(f) and 15* to the Audited Consolidated Annual Financial Statements for further information.

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

Financial Instruments

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings and any other amounts that will result in future cash outlays. The fair value of Churchill's short-term financial assets and liabilities approximates their respective carrying amounts on the statement of financial position because of the short-term maturity of those instruments. The fair value of the Corporation's interest-bearing financial liabilities, including capital leases, financed contracts and the revolving credit facility, also approximates their respective carrying amounts due to the floating-rate nature of the debt. The fair value of the liability component of the convertible debentures was \$79.7 million at December 31, 2012 (\$81.5 million at December 31, 2011) is based on an average market yield rate of 9.7% determined from marketable debentures traded with similar terms. The fair value of the fuel derivative instrument asset was \$nil at December 31, 2012 (December 31, 2011 – \$21 thousand), because the derivative instrument contracts expired in October 2012. The fuel derivative instruments were recorded within prepaid expenses on the statements of financial position and in other income in the statements of (loss) earnings and comprehensive (loss) income.

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

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

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

The Corporation accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable. The provision for doubtful accounts has been included in general and administration expenses in the Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at December 31, 2012 was \$1.6 million (December 31, 2011 – \$2.0 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 \$29.8 million of trade receivables which were greater than 90 days past due with \$28.2 million not provided for as at December 31, 2012 (December 31, 2011 – \$9.7 million). Of the total, \$20.7 million (69%) was concentrated in six customer accounts, and of this amount, \$18.7 million remained outstanding as of March 17, 2013. The related customers are considered to be credit-worthy, and there are presently no concerns regarding collectability of these accounts.

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to this risk. At December 31, 2012, 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, 2011 - \$0.4 million) related to financial assets and by \$0.4 million (December 31, 2011 - \$0.4 million) related to financial liabilities.

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

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

Refer to *Note 31* to the Audited Consolidated Annual Financial Statements for further detail.

Changes in Accounting Policies

The Corporation's Audited Consolidated Annual Financial Statements for the year ended December 31, 2012 have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. See *Notes 2 and 3* to the Audited Consolidated Annual Financial Statements for the year ended December 31, 2012 for more information regarding the basis of presentation and significant accounting policies used to prepare the financial statements.

Future Changes in Accounting Standards

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. See *Notes 4* to the Audited Consolidated Annual Financial Statements for the year ended December 31, 2012 for more information.

Risks and Uncertainties

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

Controls and Procedures

All of the controls and procedures set out below encompass all Churchill companies.

Disclosure Controls & Procedures

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

An evaluation of the effectiveness of the design and operation 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 December 31, 2012. Based on this evaluation, the CEO and CFO have concluded that the design and operation 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 December 31, 2012.

Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of inherent limitations in all control

systems, absolute assurance cannot be provided that all misstatements have been detected. Management is responsible for establishing and maintaining adequate internal controls appropriate to the nature and size of the business, to provide reasonable assurance regarding the reliability of financial reporting for the Corporation.

Under the oversight of the Board of Directors and its Audit Committee, management, including the Corporation's CEO and CFO, evaluated the design and operation 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 December 31, 2012, the CEO and CFO have concluded that the design and operation of the internal controls over financial reporting were effective.

Material Changes to Internal Controls over Financial Reporting

There were no changes to the Corporation's internal controls over financial reporting during the period beginning on January 1, 2012 and ending on December 31, 2012 that have materially affected or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

Terminology

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

Contract Income Margin

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

Work-In-Hand

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

Backlog

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

As at: (\$millions)	December 31, 2012			December 31, 2011		
	Work-in-hand	Active backlog	Total backlog	Work-in-hand	Active backlog	Total backlog
	\$ 963.5	\$ 727.0	\$ 1,690.5	\$ 901.1	\$ 941.5	\$ 1,842.6

Working Capital

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

As at: (\$millions)	December 31, 2012	December 31, 2011
Current assets	\$ 407.5	\$ 481.5
Current liabilities	328.3	395.5
Working capital	\$ 79.2	\$ 86.0

EBITDA and EBT

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

(\$millions)	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Net earnings (loss) from continuing operations	\$ (62.6)	\$ 7.3	\$ (61.9)	\$ 24.1
Add:				
Income tax expense	(2.5)	2.0	(1.9)	8.5
EBT from continuing operations	\$ (65.1)	\$ 9.3	\$ (63.8)	\$ 32.6
Add:				
Depreciation and amortization (indirect cost)	2.5	2.2	9.7	7.3
Depreciation and amortization (general and administrative)	4.2	5.1	17.5	19.7
Impairment loss	64.6	-	64.6	-
Interest expense	2.8	3.0	11.6	12.4
EBITDA from continuing operations	\$ 9.0	\$ 19.6	\$ 39.6	\$ 72.0

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

Funds from Operations are net cash generated by (used in) operating activities before interest, taxes, and changes in share-based payment liabilities, provisions and non-cash working capital. Funds from Operations per Share are Funds from Operations divided by weighted average

basic shares outstanding in the period. Refer to the *Summary of Cash Flows* section of this MD&A for a detailed reconciliation.

Book Value per Share

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