

the
Churchill
Corporation

ANNUAL REPORT 2011 - PART ONE



The road to
higher value

Churchill creates value from providing construction and industrial services in Western Canada.

GENERAL
CONTRACTING



INDUSTRIAL
SERVICES

COMMERCIAL
SYSTEMS

The thriving economy of Western Canada and our strong relationship-driven business development activities in 2011 drove Churchill's backlog to a record at year-end. Our General Contracting segment's results were dampened by low margin projects secured during the more competitive markets of late 2008, 2009 and early 2010 and unprofitable fixed price projects carried over from the acquisition of Dominion in 2010. Churchill's two other operating segments, Commercial Systems and Industrial Services, produced record results in 2011.

Having broadened our geographic base and product offering, and worked through almost all of the less profitable legacy backlog, **we are well-positioned for a return to higher margins and greater profitability in 2012 and beyond. This is Churchill's road to higher value.**

Forward-Looking Information

This annual report contains certain information that may constitute forward-looking information within the meaning of applicable securities laws. Often, but not always, forward-looking information can be identified by the use of such words as "may", "expect", "believe", "intend", "outlook", "forecast", "should", "anticipate" and other similar terminology, including statements concerning possible or assumed future results. The forward-looking information in this annual report includes, without limitation, statements pertaining to: (a) general economic conditions and the impact those conditions may have on The Churchill Corporation ("Churchill"); (b) the expectation that any of the Churchill's operating companies will improve their business prospects; (c) the growth of Churchill being supported by a combination of cash flow from operations, its credit facility and access to equity markets; (d) backlog additions reflecting resiliency of growth in Churchill's businesses; (e) Churchill having sufficient capital resources and liquidity to meet its commitments, support its operations, finance capital expenditures, support growth strategies and fund dividends; and (f) the ability of Churchill's operating companies to execute upon their strategic plans to expand market share and increase operational scope and customer bases. Forward-looking information is based on management's reasonable assumptions, analysis and estimates as well as other material factors that it considers to be relevant at the time of making such statements. The forward-looking information in this annual report is included for the purpose of assisting investors in understanding Churchill's business as at the date hereof. Forward-looking information involves known and unknown risks and uncertainties, which give rise to the possibility that management's assumptions, analysis and estimates will be incorrect and that Churchill's anticipated results will not be achieved. Such statements should not be interpreted as a guarantee of future performance or results. Forward-looking information is necessarily subject to a number of factors that may cause actual results to differ materially from those results implied by the expectations suggested by such information. Those factors include, without limitation, the risks and uncertainties described in Churchill's Annual Information Form with the securities regulatory authorities in Canada under Churchill's profile at www.sedar.com. The forward-looking information in this annual report is current to the date hereof, and is subject to change following such date. While Churchill may elect to do so, unless required by applicable law, it undertakes no obligation to update this information to reflect new information or circumstances at any particular time.

Non-IFRS Measures

Throughout this annual report 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 Churchill to assist in making operating decisions and assessing performance. They are presented in this annual report to assist readers to assess the performance of Churchill 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 the "Terminology" section of the Management's Discussion and Analysis which can be found under Churchill's profile at www.sedar.com.

OUR
GOAL
PROFITABLE
GROWTH

QUARTERLY
DIVIDEND
\$0.12

Concentrating on continued profitable organic growth across all business segments through:

- Rigorous project selection;
- Profitable execution of backlog;
- Making safety, health and the environment a key priority; and
- Unwavering commitment to exceeding our customers' expectations.

When conditions are right, we will acquire companies that enhance our strategic goals and fit our entrepreneurial culture. For example, we acquired McCaine Electric in April 2011, expanding Canem's footprint into Manitoba.

Growth of our business is supported by our robust cash flow from operations, our \$200 million credit facility and our access to the public equity and debt markets, which is sustained by an active investor outreach program and broad analyst coverage.

Size. Scope. Scale.

We're building value across Western Canada – and beyond.

\$1.41

billion contract revenue in 2011

Revenue increased by 19% in 2011. Stuart Olson Dominion grew its top line by 11%. Canem's revenue grew by 132% including a full year of Canem's results (compared to 5 ½ months in 2010) and the McCain acquisition. Our Industrial Services segment grew its top line by 22% as Broda almost tripled its revenue, and Laird and IHI contributed 9% revenue growth.

\$1.84

billion backlog at year-end 2011

Churchill's successful business development efforts grew backlog by 19% to a record \$1.84 billion in 2011. This backlog provides visibility of future revenue and profit sources, particularly for Stuart Olson Dominion, our General Contracting segment, which contributed \$1.44 billion (78%) of our year-end 2011 backlog.

3,928

employees at year-end 2011

Our 773 salaried employees (444 in Stuart Olson Dominion, 126 in Canem, 157 in the Industrial Services segment, and 46 in the corporate centre) form the core of our operations. In addition, our hourly field personnel (3,155 at 2011 year-end) allow us to right-size our organization to our workload.

Size, scope and scale matter. These traits enable our operating companies to target larger, more profitable projects. In 2011 we bolstered our presence throughout Western Canada and beyond with several major new projects including:

Stuart Olson Dominion

- Three Alberta hospital projects valued at \$315 million, located at Medicine Hat, Lethbridge and Edson, Alberta
- 745 Thurlow, a 25 storey, 400,000 square foot office tower, valued at \$98 million and located at 745 Thurlow Street, Vancouver, British Columbia
- The \$60 million renovation and construction of the Taché Hall Music, Art and Theatre Complex for the University of Manitoba

Broda

- Earth-moving contracts for the Calgary Airport Authority's New Runway Development Program and the City of Calgary's Airport Runway Tunnel project (\$40+ million)

Laird Electric / Insulation Holdings

- 2-year, \$80 million turnaround maintenance contract for an oil sands client in the Fort McMurray, Alberta area

Laird Constructors

- A \$50+ million contract for electrical and mechanical work at a mine in northern Ontario

Canem

- The Shaw Data Centre, an energy efficient, high-technology structure with a \$30 million electrical and data systems budget
- The 443 Maritime Helicopter Squadron facility, a \$104 million (\$11 million electrical and data systems budget), 20,000 square metre hangar being constructed at Victoria International Airport

Three operating segments

Our three operating segments – General Contracting, Commercial Systems, Industrial Services – allow us to benefit from institutional (hospitals, schools, recreation centres, prisons), commercial (office, wholesale, retail) and industrial (oil and gas, mining, utilities) growth throughout our service area.



Terwillegar Community Recreation Centre, Edmonton, Alberta.



Bow Valley College, Calgary, Alberta.

An expanding geographical footprint

Last year saw the expansion of Canem into Manitoba with the McCaine Electric acquisition, Broda into Alberta with the Calgary Airport Runway and Runway Tunnel projects, and Laird into northern Ontario with the establishment of Laird Constructors.

We remain focused primarily on the rapidly growing resource extraction economy of Western Canada, and we will be opportunistic in adjoining regions where our core strengths are a competitive advantage.

Diverse markets with huge opportunities

The growing economy in Western Canada provides a wealth of opportunity for Churchill. Capital construction expenditures in Western Canada were \$126 billion in 2011, and are expected to be \$140 billion in 2012.

(Source: Statistics Canada)



Broda equipment at a northern Saskatchewan mine site.

The oil sands are the largest driver of the economy in Alberta, the most prosperous province in Western Canada. They contain an estimated 170 billion barrels of recoverable oil and produced approximately 1.6 million barrels per day in 2011. By 2020, this output is expected to exceed 5 million barrels per day.

(Source: CAPP)

Margins

Profit margins are a key indicator of the risk/reward profile of our project portfolio. Contract types that place cost and schedule risk on the contractor, such as lump sum/fixed price, tend to be bid at higher margins to compensate for the additional risk. Lower-risk contract types, such as construction management and cost plus, tend to be bid at lower margins but often with bonus incentives to motivate optimal performance.

Margins are...

... important measures of our profitability.

There are several different types. All are calculated as the percentage of revenue that the particular type of profit comprises.

- Contract income margin = Contract income divided by revenue times 100
- EBITDA margin = EBITDA divided by revenue times 100
- Net income margin = Net income divided by revenue times 100

Margins can be volatile...

...if the project portfolio contains a large proportion of higher-risk contracts. This was the case with the legacy project portfolio of Dominion, which we acquired in 2010. It was comprised primarily of lump-sum/fixed-bid contracts, which encountered execution issues and were largely bid at insufficient margins during the very competitive markets of the recent downturn from late 2008 to early 2010.

EBITDA and net income are also important

The margin isn't the only thing that matters. The dollar amount of EBITDA is an indicator of Churchill's ability to cover its cash operating costs and net income is an indicator of overall profitability. Large projects with low margins can still deliver large profits.

And cash is king

Cash flow measurements such as "funds from operations" demonstrate Churchill's ability to generate sufficient cash inflows (collections) to cover its cash outflows. Debt may be used as the buffer that covers timing differences between outflows and collections.

Contract Types

Construction Management (CM)

The contractor is paid a fee to manage the project for the owner. Sub-contracts are held by the owner.

Cost Plus

Sometimes referred to as "time and materials". The contractor is reimbursed for all costs and also receives a fixed fee that may be a certain dollar amount or a percentage of costs. Sub-contracts are held by the contractor.

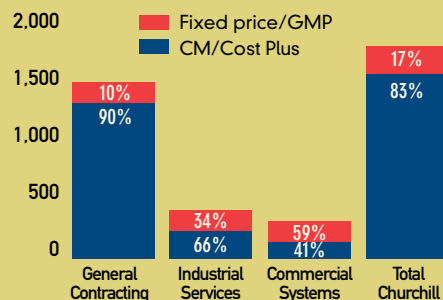
Guaranteed Maximum Price (GMP)

Cost plus with a price cap. The owner and contractor share profits if the contract is delivered below the GMP. The contractor covers costs above the GMP.

Lump Sum/Fixed Price

The contractor performs the required work for a pre-determined fixed price, regardless of actual costs. Sub-contracts are held by the contractor.

Backlog by Contract Type (\$ million)



Contract Risk and Margin



Why Earnings Lag Backlog

As backlog is executed, revenues and costs are recognized – but not in a linear fashion. The outcome of many contracts cannot be estimated reliably in their early stages. So, while contract costs are fully recognized as they are incurred, contract revenue is recognized only to the extent that the costs are reasonably expected to be recoverable, until the contract's overall outcome can be reliably estimated. Thus, earnings (revenue less costs) tend to be lower in the early stages of contracts, and higher as contracts mature, especially for GMP and fixed price contracts.

Growing shareholder value

Churchill is focused on maximizing total shareholder return through profitable growth in all its business segments – General Contracting, Commercial Systems and Industrial Services. Each segment is focused on improving profitability through rigorous project selection, profitable execution of backlog, putting safety first and focusing on meeting customers’ needs and exceeding their expectations.

Unwavering commitment to exceeding our customers’ expectations

Our companies use a holistic, team-based approach that brings clients, contractors and consultants together as equals. We work to understand our customers’ businesses and requirements, to ensure that we know their wants and needs and are able to exceed their expectations. For example, our preferred construction management (CM) methodology allows the owners to collaborate with us (the contractor) and project consultants to optimize project parameters. CM projects may later be negotiated to fixed price if the owners wish to transfer price and schedule risk to the contractor.

Putting safety first

Churchill’s customers and employees have the inherent right to a safe construction job site and workplace. Every one of our business units has an excellent safety record. Our Board of Directors Health, Safety and Environment Committee monitors our health, safety and environmental practices. We also have an operationally integrated health, safety and environment council consisting of senior management and safety representatives to share best practices. In addition, we are working to standardize the safety reporting across all of our business units.

Rigorous project selection

Churchill’s operating companies seek out projects that capitalize on their core strengths, allowing them to perform well for the customer and our shareholders. All of our operating companies have been in existence for 50+ years. All have a significant base of repeat clients and are supported by a strong reputation for a safe, cooperative and efficient work environment. This allows them to narrow their focus to high-quality projects with appropriate risk/reward parameters.

Profitable project execution

Stuart Olson Dominion focuses on relationship-based construction management projects that contain opportunities for innovations to add value and the ability to self-perform sub-contracts, such as concrete work, in order to improve project timing and economics for customers.

Canem uses its proprietary production management module, stand-alone pre-fabrication facilities, in-house technical expertise and integrated technology systems to optimize productivity and procurement.

Laird maximizes earnings per jobsite through a full lifecycle approach. Laird initially provides the temporary power, continues with the permanent electrical installation, follows up with ongoing instrumentation and control calibration, and performs long-term maintenance and upgrades. Laird Constructors also provides mechanical installation and service.

IHI uses leading-edge technology and equipment to conform to any project specification, maintains full fabrication facilities served by experienced technical professionals, and uses systems and programs to ensure that all projects are completed safely, on-budget, and in conformance with regulatory requirements.

Broda uses its in-house repair shop to ensure high-quality equipment maintenance and to drive high reliability and availability of equipment. It has a large major components and parts inventory to improve service turnarounds. And it uses mobile-maintenance and repair vehicles to support onsite maintenance.

OUR DESTINATION

Greater shareholder value driven by profitable growth.

Five Year Summary

The following selected unaudited financial data has been derived from Churchill's consolidated financial statements, which have been audited by Deloitte & Touche LLP, Chartered Accountants. The information set forth below should be read in conjunction with Churchill's 2011 Management's Discussion & Analysis, and Consolidated Financial Statements and Notes.

(\$ thousands, except share and per share data and percentages)	Years ended December 31				
	2011	2010	2009 ⁽¹⁾	2008 ⁽¹⁾	2007 ⁽¹⁾
INCOME STATEMENT DATA					
Contract revenue	\$ 1,409,159	\$ 1,183,876	\$ 601,241	\$ 760,953	\$ 694,021
Contract income	157,940	144,360	91,951	93,879	63,218
Contract income margin (%)	11.2%	12.2%	15.3%	12.3%	9.1%
Earnings before interest, tax depreciation and amortization (EBITDA)	72,044	71,812	51,322	56,186	33,883
Interest expense	12,493	7,498	240	491	665
Depreciation and amortization expense	26,924	15,111	4,435	4,089	2,808
Earnings before taxes	32,627	49,203	46,647	51,606	30,410
Net earnings from continuing operations	24,109	33,125	33,479	35,591	20,682
Net earnings	24,942	34,234	34,817	36,443	21,126
BALANCE SHEET DATA					
Working capital	\$ 86,020	\$ 97,801	\$ 105,202	\$ 61,995	\$ 35,180
Shareholders' equity	309,141	289,348	140,870	105,573	69,678
Convertible debentures (excluding equity portion)	76,691	74,454	-	-	-
Long-term debt (excluding current portion)	60,433	74,112	641	6,787	8,755
PER COMMON SHARE DATA					
Net earnings per common share:					
Basic from continuing operations	\$ 0.99	\$ 1.60	\$ 1.90	\$ 1.98	\$ 1.17
Diluted from continuing operations	0.91	1.50	1.87	1.96	1.15
Basic	1.02	1.66	1.98	2.03	1.19
Diluted	0.94	1.55	1.94	2.01	1.17
Dividends declared	0.36	-	-	-	-
Book value per share	12.70	11.99	8.00	5.92	3.90
OTHER DATA					
Price to earnings multiple (12 month trailing)	11.2	12.9	9.8	3.5	19.1
Return on average shareholders' equity (ROE)	8%	16%	28%	42%	36%
Total shareholder return	(36%)	(5%)	168%	(68%)	275%
Backlog	\$ 1,842,580	\$ 1,555,034	\$ 1,388,624	\$ 1,390,273	\$ 1,333,655
COMMON SHARE INFORMATION					
Weighted average shares outstanding - basic	24,245,025	20,643,343	17,620,454	17,928,037	17,730,644
Weighted average shares outstanding - diluted	32,445,550	23,839,350	17,935,551	18,109,979	17,995,235
Shares outstanding at year-end:					
Basic	24,348,919	24,133,727	17,619,259	17,822,091	17,886,991
Fully diluted	32,500,544	28,395,427	18,832,502	18,099,626	18,204,491
Shares traded	14,177,929	19,809,454	15,729,284	20,315,900	19,195,481
Share price:					
High	\$ 20.79	\$ 22.00	\$ 20.94	\$ 24.49	\$ 29.90
Low	10.01	16.32	6.33	4.45	5.11
Close	11.43	18.29	19.27	7.19	22.50

⁽¹⁾ Amounts for years prior to 2010, except 2009 balance sheet data, are presented as per previous Canadian GAAP prior to the adoption of IFRS. They may not be directly comparable to the amounts reported under IFRS in 2010 and later. Amounts for years prior to 2010 are also reported on a continuing operations basis.

Measuring our performance

Key performance indicators

Revenue provides an indication of Churchill's ability to grow its overall business. Backlog is an indicator of future revenue and earnings sources. EBITDA and EBITDA margin measure profitability of operations. Earnings and earnings per share (EPS) measure the bottom-line profit. Churchill is positioned for gradual improvement in 2012 as the factors that caused EBITDA margin and net earnings declines in 2011 have been dealt with.

1. REVENUE

19% REVENUE GROWTH IN 2011

24% FIVE-YEAR COMPOUND AVERAGE GROWTH

	\$ millions	Growth
07	694.0	45%
08	761.0	10%
09	601.2	-21%
10	1,183.9	97%
11	1,409.2	19%

In 2011 the General Contracting segment increased revenue by \$89.8 million or 11%, the Commercial Systems segment increased revenue by \$109.5 million or 132%, and the Industrial Services segment increased revenue by \$65.8 million or 22%.

Churchill's five-year revenue growth was primarily attributable to the acquisition of Dominion, Canem and Broda in July 2010, to organic growth at Stuart Olson Dominion, Laird and Insulation Holdings, and to the acquisition of McCaine Electric in April 2011.

2. BACKLOG

18% BACKLOG GROWTH IN 2011

LOW OVERALL CONTRACT RISK WITH UPSIDE

	\$ millions	Growth
07	1,333.7	23%
08	1,390.3	4%
09	1,388.6	0%
10	1,555.0	12%
11	1,842.6	18%

The General Contracting segment increased its year-end 2011 backlog by \$193.7 million or 15% over year-end 2010, the Commercial Systems segment increased its backlog by \$5.9 million or 5%, and the Industrial Services segment increased its backlog by \$88.0 million or 50%.

The 2011 year-end backlog consists of 83% construction management, cost-plus and other relatively low-risk contracts, and 17% fixed-price, guaranteed maximum price or other contracts that carry price and schedule risk. Self-performed work provides upside to margins and opportunities to further reduce project risk.

3. EBITDA

EBITDA REMAINS FLAT IN 2011

GRADUAL IMPROVEMENT FORESEEN IN 2012

	\$ millions	Margin
07	33.9	4.9%
08	56.2	7.4%
09	51.3	8.5%
10	71.8	6.1%
11	72.0	5.1%

EBITDA increases in 2011 from the Commercial Systems and Industrial Services segments were driven by organic growth, the inclusion of Canem and Broda for a full year in 2011 versus 5½ months in 2010, and the addition of McCaine Electric to Canem's operations in May 2011. These were largely offset by a decline in General Contracting's EBITDA.

General Contracting (Stuart Olson Dominion) expects to gradually improve its margins in 2012 as lower-margin Dominion backlog and projects secured in the more competitive late 2008 through early 2010 period are replaced by higher-margin projects procured in late 2010 and 2011.

4. NET EARNINGS

2011 NET EARNINGS DECLINE

BASIC EARNINGS PER SHARE

	\$ millions	Basic EPS
07	21.1	\$1.19
08	36.4	\$2.03
09	34.8	\$1.98
10	34.2	\$1.66
11	24.9	\$1.02

Net earnings declined in 2011 as increases in interest, depreciation and amortization, associated mainly with the acquisitions of Dominion, Canem, Broda and McCaine in 2010 and 2011, exceeded the benefit of lower taxes.

The reduction in basic earnings per share in 2011 was driven by reduced earnings and a higher weighted-average number of shares outstanding, associated with the equity raised to finance the 2010 acquisitions.

Expanding our footprint



(Above) Artist's rendering of Investors Group Field in Winnipeg, Manitoba. (L to R) British Columbia Institute of Technology and two IHI projects in northern Alberta.

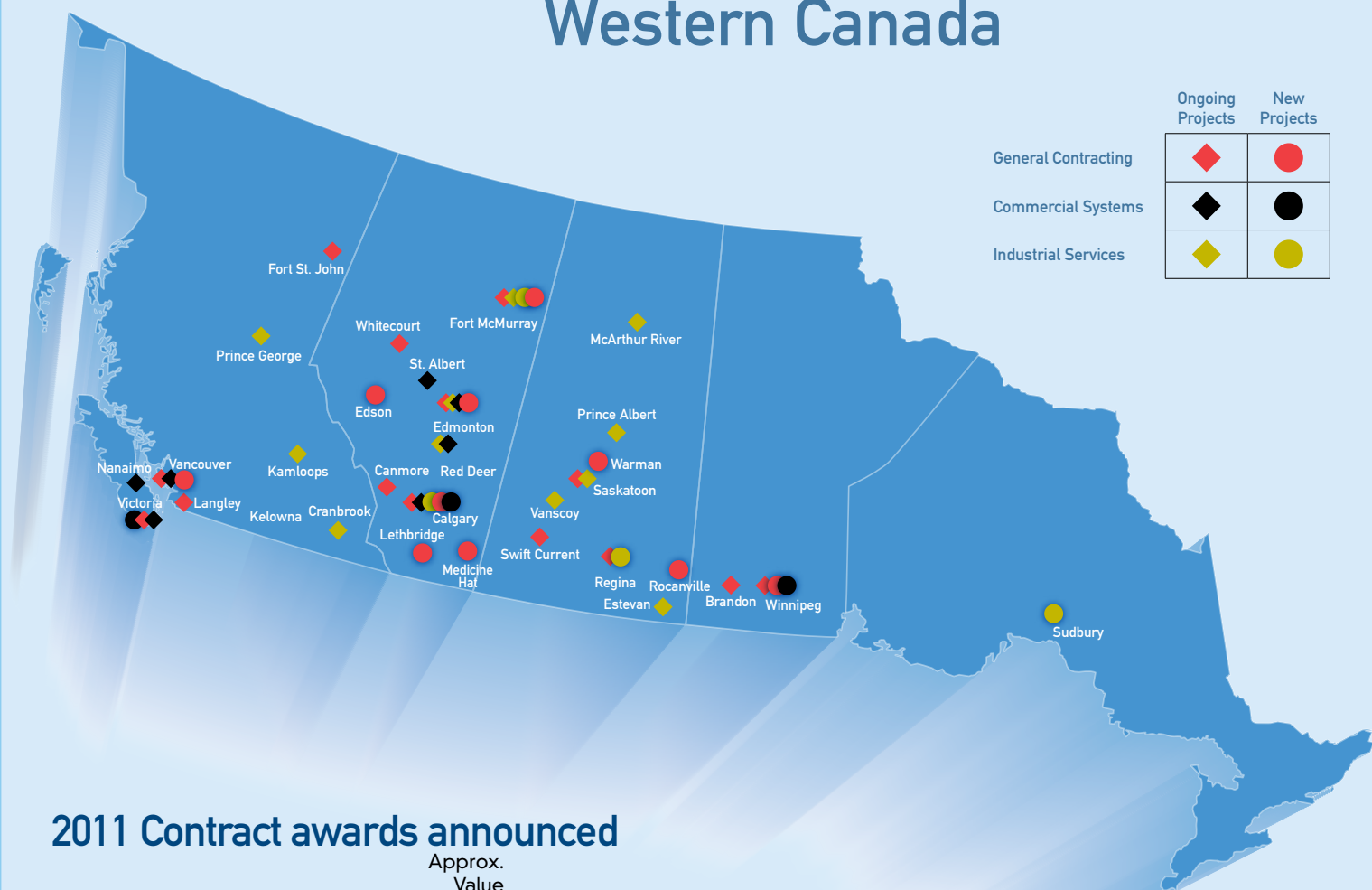
At a glance

In 2011 our Commercial Systems segment, Canem, expanded its footprint into Manitoba with the purchase of McCaine Electric. In our Industrial Services segment, Broda expanded its earth-moving business into Alberta with the Calgary Airport Authority's New Runway Development Program and the construction of the City of Calgary's tunnel under the new runway, and Laird established Laird Constructors in Sudbury, Ontario. As well, Stuart Olson Dominion, our General Contracting segment, gained a foothold in the industrial construction market through its new industrial division.

Overview

Churchill is well-positioned in Western Canada. Stuart Olson Dominion announced backlog additions of nearly \$1 billion in 2011. Its margins are expected to gradually improve in the second half of 2012 as it transitions from lower-margin legacy Dominion backlog and projects procured in the more competitive environment of late 2008 to early 2010, to higher-margin projects recently added to backlog. Canem maintained strong margins throughout 2011 and is expected to continue to do so in 2012. Its April 2011 acquisition of McCaine was immediately accretive. In the Industrial Services segment, Laird and IHI had another strong year as turnaround and maintenance work, largely in Alberta's oil sands, replaced the construction and commissioning work of 2010. Recent backlog additions, including bundled service offerings, signal a strong start to 2012. Broda, after a slow first half due to wet weather, had a strong finish in 2011 and its two Calgary Airport projects provide revenue and earnings visibility into 2012.

Major contracts across Western Canada



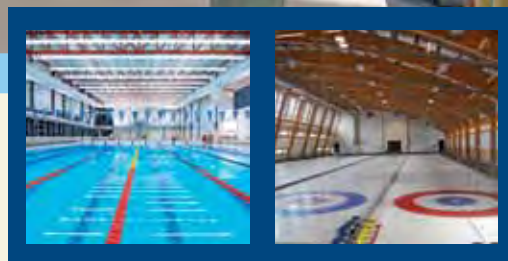
2011 Contract awards announced

Segment	Company	Approx. Value (\$ millions)	Description	Location
General Contracting	Stuart	\$ 145	Medicine Hat hospital	Medicine Hat, Alberta
	Olson	98	745 Thurlow office tower	Vancouver, British Columbia
	Dominion	85	Edson hospital	Edson, Alberta
		85	Lethbridge hospital	Lethbridge, Alberta
		60	Taché Hall Music, Art and Theatre Complex	Winnipeg, Manitoba
		45	Emerald Hills shopping development	Sherwood Park, Alberta
		35	Investors Group Field scope increase	Winnipeg, Manitoba
		30	Westmount 4 office building	Calgary, Alberta
		26	Assiniboine Zoo Exhibit	Winnipeg, Manitoba
		21	Warman Middle School & Recreation Centre	Warman, Saskatchewan
		17	Oil sands industrial building	Ft. McMurray, Alberta
		13	Oil sands industrial building	Ft. McMurray, Alberta
		10	Potash mine building	Rocanville, Saskatchewan
	162	Other		
Commercial Systems	Canem	\$ 30	Shaw Data Centre	Calgary, Alberta
		18	Investors Group Field electrical	Winnipeg, Manitoba
		11	443 Maritime Helicopter Squadron facility	Victoria, British Columbia
Industrial Services	Laird Electric & IHI	\$ 80	Oil sands facility turnaround maintenance	Ft. McMurray, Alberta
		67	Other	
	Laird Constructors	50	Mine construction	Sudbury, Ontario
	Broda	40	Calgary Airport new runway projects	Calgary, Alberta
	12	Other		
		<u>\$ 1,140</u>		

General Contracting



(Above) Artist's rendering of new Jasper Place Library, Edmonton, Alberta. (L to R) Terwillegar Community Recreation Centre, Edmonton, Alberta and The Fenlands Banff Recreation Centre, Banff, Alberta.



At a glance

Stuart Olson Dominion is Churchill's General Contracting segment. Following the acquisition of The Dominion Company Inc. in July 2010, Stuart Olson Constructors Inc. and Dominion were operationally combined. Stuart Olson and Dominion had been general contractors since 1939 and 1911, respectively, and during the last several years both became key players in Western Canada's building markets. Headquartered in Calgary, Alberta, the combined Stuart Olson Dominion constructs commercial, institutional and industrial buildings.

Business drivers

Stuart Olson Dominion has a solid market presence across the four provinces of Western Canada with strong customer relationships in the institutional and commercial construction sectors. Stuart Olson Dominion's \$1.4 billion year-end 2011 backlog consists largely of low-risk construction management projects. Two-thirds of the backlog is institutional contracts, with the balance being primarily commercial buildings. For 2012, the institutional spending outlook in Western Canada remains healthy, partly due to expected provincial and municipal government spending on institutional projects such as hospitals, schools and community centres. For example, the Alberta government's fiscal 2013 budget includes \$5.7 billion for infrastructure-related projects. The municipal, transportation, education, and healthcare sectors continue to dominate provincial infrastructure spending, accounting for 84% of spending in this category, compared to 89% in 2010.

Building momentum

Stuart Olson Dominion focuses its marketing activities on large relationship-based construction management projects that meet acceptable return thresholds and offer higher margin, fee-enhancing opportunities. It has also established an industrial sector presence for building construction. Stuart Olson Dominion's contract income is expected to grow modestly in the second half of 2012 as projects in backlog procured during 2010 and 2011 are expected to generate higher margins.

Commercial Systems



Port Nanaimo Centre, Nanaimo, BC.



At a glance

Canem forms our Commercial Systems segment. It designs, builds, maintains and services electrical and data communication systems for commercial, institutional, light industrial and multi-family residential customers. Canem's services include the design of internal electrical distribution systems, procurement and installation of electrical equipment and materials, on-call service for electrical maintenance and troubleshooting, preventative and scheduled maintenance for critical component installations, budgeting and pre-construction services, and management of regional and national contracts for multi-site installations.

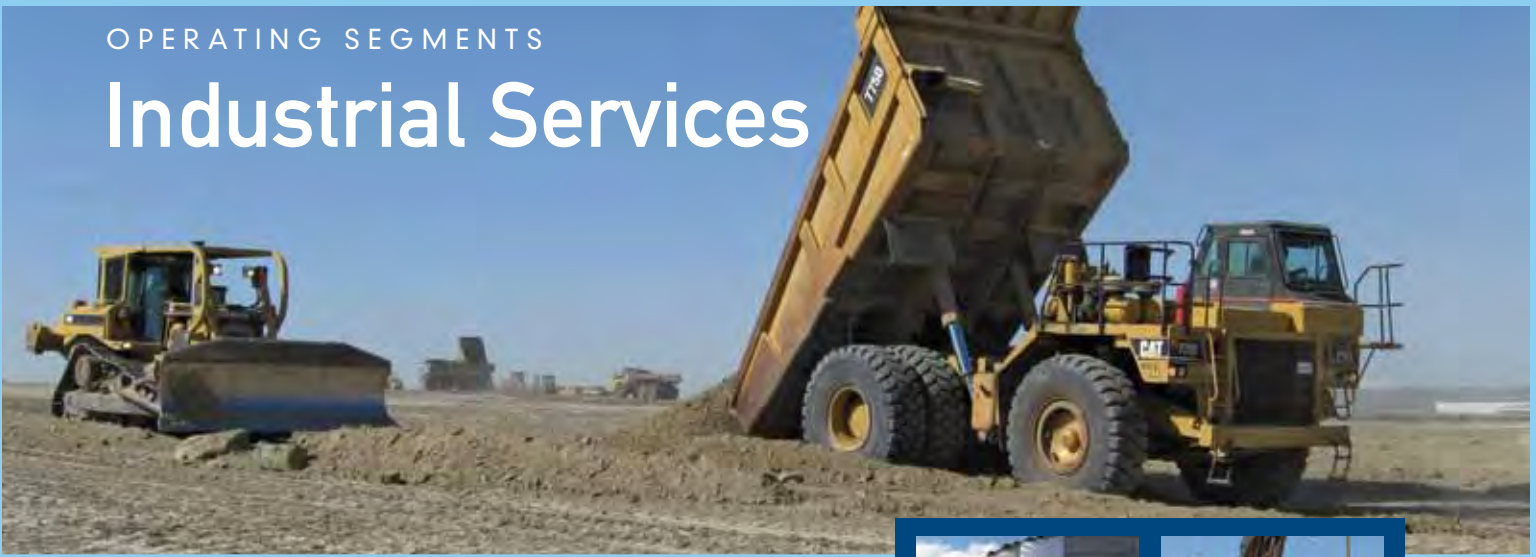
Business drivers

Canem, like Stuart Olson Dominion, competes for business in the institutional and commercial construction sectors, so business drivers for the two companies are similar. The primary difference is that, while Stuart Olson Dominion works principally for project owners, Canem's clients are mainly general contractors, including Stuart Olson Dominion and many of its competitors. Thus, an important factor in Canem's success is its positive reputation with the general contracting community. Canem keeps its contract income margins strong by gaining efficiency from prefabricating work offsite, employing the best people with the best tools, and differentiating itself from competitors with building systems integration solutions to support its core operations. This has allowed Canem to consistently generate double-digit EBITDA margins year after year.

Building momentum

Canem has developed considerable expertise in sustainable buildings and energy efficiency and in 2010 launched its Smart Connected Real Estate Program. One product of this program is the Canem Centre for Building Performance in Richmond, British Columbia. It opened in the summer of 2011 as a permanent training and testing facility for integrated building systems, with the goal of encouraging building owners and developers to adopt new efficiencies and performance in building systems. As well, Canem's Rollout Services strategy is gaining traction, providing clients with rapid service delivery in multiple locations with a similar scope. With multiple installations going on in different regions at any one time, Canem's rollout team serves to ensure that solutions are communicated seamlessly and delivered with maximum efficiency. In turn, clients attain the best possible consistency in their product delivery.

Industrial Services



(Above) Calgary Airport New Runway, Calgary, Alberta.
 (L to R) Northern Industrial Insulation workers installing a pre-insulated tank panel system in northern Alberta and Laird Electric workers installing an electrical distribution line in northern Alberta.



At a glance

Laird Electric, Laird Constructors, Insulation Holdings and Broda make up Churchill's Industrial Services segment. Together they provide electrical construction, mechanical construction, insulation services, siding application, HVAC services, plant maintenance services, aggregate processing, earthworks, civil construction, concrete production and related services. They serve oil sands companies, the oil and natural gas industry, mining and infrastructure organizations, the petrochemical, forest products, power utilities and mining industries, and Canada's two major railways.

Business drivers

Our Industrial Services companies performed well throughout 2011. Their success is largely driven by their reputation for safety, efficiency and quality, which makes them the preferred suppliers on many projects. Going forward, they are expecting continued modest revenue and earnings growth in 2012 with large, sustainable industrial project spending and increased major project activity. Numerous construction project restarts, sanctioning announcements and planned maintenance projects make this segment's outlook positive. While Broda's first quarter will likely show some seasonal weakness, Broda expects to sustain its strong performance through numerous project opportunities in Saskatchewan's industrial and mining markets, plus continuing work on the Calgary airport runway and tunnel projects.

Building Momentum

On January 1, 2012, The Churchill Services Group (CSG) began operating under the leadership of David LeMay, the former President and COO of Laird Electric Inc. CSG combines the services of Churchill's Industrial Services segment and Stuart Olson Dominion's industrial building activities into one powerful service offering. The effectiveness of this approach was recently demonstrated with an \$80 million two-year turnaround maintenance contract with a large oil sands client jointly awarded to Laird and Insulation Holdings.

Corporate & Shareholder Information

Officers

James Houck, B.Sc., MBA
President and Chief Executive Officer

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

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

Gord Broda
President and Chief Operating Officer
Broda Construction Inc.

David LeMay, MBA
President
Churchill Services Group

Al Miller
President
Canem Systems Ltd.

Andrew Apedoe, B.Comm.
Vice President, Investor Relations and
Corporate Secretary

Joette Decore, B.Sc., MBA
Vice President, Corporate Development

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

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

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

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

Directors

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

Wendy L. Hanrahan, CA ^{(1) (2)}

James C. Houck, B.Sc., MBA

Harry A. King, B.A., CA ⁽¹⁾

Carmen R. Loberg ^{(2) (4)}

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

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

Ian M. Reid, B.Comm. ^{(1) (3)}

George M. Schneider ^{(2) (4)}

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

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Human Resources &
Compensation Committee

⁽³⁾ Member of the Corporate Governance &
Nominating Committee

⁽⁴⁾ Member of the Health, Safety and
Environment Committee

Executive Offices

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

Auditors

Deloitte & Touche LLP
Edmonton, Alberta

Principal Bank

HSBC Bank Canada

Bonding and Insurance

Aon Reed Stenhouse Inc.
CNA Financial Corporation
Travelers Guarantee Company

Registrars and Transfer Agents

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

Common Shares:

CIBC Mellon Trust Company
600 The Dome Tower
333 – 7th Avenue SW
Calgary, Alberta T2P 2Z1
Phone: 403 232-2400
Fax: 403 264-2100
Email: inquiries@cibcmellon.ca
Website: www.cibcmellon.ca
Answerline: 1-800-387-0825

Convertible Debentures:

Valiant Trust Company
Suite 310, 606 – 4th Street SW
Calgary, Alberta T2P 1T1
Phone: 403 233-2801
Fax: 403 233-2857
Email: inquiries@valianttrust.com
Website: www.valianttrust.com
Toll-free: 1-866-313-1872

Notice of Annual Meeting

The Annual General Meeting will be held on May 24 at 2:00 p.m. MDT at the Edmonton Petroleum Club, 11110 – 108 Street, Edmonton, Alberta.



Fort St. John Hospital
Fort St. John, British Columbia

Edmonton Remand Centre
Edmonton, Alberta



Key Projects

Calgary Airport New Runway
Calgary, Alberta



Investors Group Field Football Stadium
Winnipeg, Manitoba

the
Churchill
Corporation

400, 4954 Richard Road SW
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