

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.

MANAGEMENT'S REPORT

Management's Responsibility for the Financial Statements

The management of The Churchill Corporation is responsible for the preparation of the consolidated financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect management's best judgment.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board fulfills its responsibility in this regard principally through its Audit Committee. The Audit Committee is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with Management, the internal auditors and the external auditors to review the consolidated financial statements, the management's discussion and analysis, auditing matters, financial reporting issues, the appropriateness of the accounting policies, significant estimates and judgments, to discuss the internal controls over financial reporting process and to oversee the discharge of responsibilities of the respective parties. The Audit Committee reports its findings to the Board of Directors for consideration when it approves the consolidated financial statements.

Deloitte & Touche LLP, whose report follows, were appointed as independent, external auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

The Audit Committee has recommended, and the Board of Directors has approved the information contained in the consolidated financial statements.



Douglas Haughey, MBA
Chief Executive Officer



Daryl E. Sands, CA
Executive Vice President Finance
& Chief Financial Officer

March 17, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of The Churchill Corporation

We have audited the accompanying consolidated financial statements of The Churchill Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of (loss) earnings and comprehensive (loss) earnings, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Churchill Corporation as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
Edmonton, Canada
March 17, 2013

THE CHURCHILL CORPORATION
Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Earnings
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)

	Note	December 31, 2012	December 31, 2011
Contract revenue	8	\$ 1,222,056	\$ 1,409,159
Contract costs		1,100,299	1,251,219
Contract income		121,757	157,940
Other income	9	3,099	1,352
Finance income	10	417	727
Administrative costs		(112,845)	(114,899)
Finance costs	10	(11,578)	(12,493)
Impairment losses	21, 22, 23	(64,600)	-
(Loss) earnings from continuing operations before tax		(63,750)	32,627
Income tax (expense) recovery			
Current income tax		(1,956)	(4,680)
Deferred income tax		3,844	(3,838)
	13	1,888	(8,518)
Net (loss) earnings from continuing operations		(61,862)	24,109
Net earnings from discontinued operations	14	-	833
Net (loss) earnings		(61,862)	24,942
Other comprehensive (loss) recovery			
Defined benefit plan actuarial losses	15	(4,778)	(3,232)
Deferred tax recovery on other comprehensive income	15	1,207	835
		(3,571)	(2,397)
Total comprehensive (loss) earnings		\$ (65,433)	\$ 22,545
(Loss) earnings per share:			
Basic from continuing operations		\$ (2.54)	\$ 0.99
Basic from discontinued operations		\$ -	\$ 0.03
Basic (loss) earnings per share	16	\$ (2.54)	\$ 1.02
Diluted (loss) earnings per share from continuing operations		\$ (2.54)	\$ 0.91
Diluted (loss) earnings per share from discontinued operations		\$ -	\$ 0.03
Diluted (loss) earnings per share	16	\$ (2.54)	\$ 0.94
Weighted average common shares:			
Basic	16	24,402,974	24,245,025
Diluted	16	24,402,974	32,445,550

See accompanying notes to the consolidated financial statements.

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

	Note	December 31, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	17	\$ 33,774	\$ 59,445
Trade and other receivables	18	309,097	345,772
Inventory		11,521	12,762
Prepaid expenses		3,850	4,377
Costs in excess of billings	19	39,100	33,738
Income taxes recoverable		9,505	23,377
Current portion of long-term receivable		225	534
Assets held-for-sale	14	436	1,488
		407,508	481,493
Service provider deposit	20	4,008	6,066
Long-term receivable		50	300
Deferred tax asset	13	15,383	11,745
Property and equipment	22	77,781	82,526
Goodwill	21	179,016	234,256
Intangible assets	23	58,695	72,096
		\$ 742,441	\$ 888,482
LIABILITIES			
Current liabilities			
Trade and other payables	24	\$ 233,442	\$ 283,857
Contract advances and unearned income	19	82,590	97,657
Current portion of provisions	25	6,492	7,294
Income taxes payable		4,991	5,262
Current portion of long-term debt	26	828	1,403
		328,343	395,473
Employee benefits	15	10,820	8,315
Provisions	25	4,407	5,875
Long-term debt	26	51,909	60,433
Convertible debentures	27	79,151	76,691
Deferred tax liability	13	28,927	30,493
Share-based payments	28(f)	3,734	2,061
		507,291	579,341
EQUITY			
Share capital	29	126,602	124,290
Preferred share reserve	29(b)	5,128	5,128
Convertible debentures	27	7,100	7,100
Share-based payment reserve	28(c)	7,171	7,636
Retained earnings		89,149	164,987
		235,150	309,141
		\$ 742,441	\$ 888,482

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:



Albrecht W.A. Bellstedt, QC
Chairperson



Allister J. McPherson
Director

THE CHURCHILL CORPORATION
Consolidated Statements of Changes in Equity
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Note	Share capital	Preferred share reserve	Convertible debentures	Share-based payment reserve	Retained earnings	Total equity
Balance at December 31, 2010		\$ 120,757	\$ 5,128	\$ 7,100	\$ 4,860	\$ 151,503	\$ 289,348
Net earnings						24,942	24,942
Other comprehensive loss:							
Defined benefit plan actuarial loss, net of tax						(2,397)	(2,397)
Total comprehensive income						22,545	22,545
<i>Transactions recorded directly to equity</i>							
Issued in the period	29	2,514					2,514
Share-based payment transactions	28				2,776		2,776
Dividends	29	1,292				(8,749)	(7,457)
Normal course issuer bid	29	(273)				(312)	(585)
Balance at December 31, 2011		\$ 124,290	\$ 5,128	\$ 7,100	\$ 7,636	\$ 164,987	\$ 309,141
Net loss						(61,862)	(61,862)
Other comprehensive loss:							
Defined benefit plan actuarial loss, net of tax						(3,571)	(3,571)
Total comprehensive loss						(65,433)	(65,433)
<i>Transactions recorded directly to equity</i>							
Share-based payment transactions	28				(465)	1,521	1,056
Dividends	29	2,504				(11,718)	(9,214)
Normal course issuer bid	29	(192)				(208)	(400)
Balance at December 31, 2012		\$ 126,602	\$ 5,128	\$ 7,100	\$ 7,171	\$ 89,149	\$ 235,150

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Consolidated Statements of Cash Flow
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Note	December 31, 2012	December 31, 2011
OPERATING ACTIVITIES			
Net (loss) earnings from continuing operations		\$ (61,862)	\$ 24,109
Net earnings from discontinued operations		-	833
Depreciation and amortization	11	27,170	26,924
Loss on disposal of assets		181	270
Gain on disposal of assets held-for-sale	14	(2,485)	(1,215)
Recovery on other long-term receivables	14	(147)	-
Impairment losses	21, 22, 23	64,600	-
Share-based compensation expense	28(g)	4,678	3,176
Gain on derivative instrument		-	(21)
Income tax (recovery) expense	13	(1,888)	8,518
Income tax expense on discontinued operations	13	-	67
Income tax recovery recorded in indirect costs	13	-	(1,106)
Finance costs	10	11,578	12,493
		41,825	74,048
Payment of share-based payment liability	28(f)	(2,963)	(825)
Employee benefits	15	(2,273)	-
Cash settlement of stock options		(1,230)	-
Change in provisions	25	(2,270)	(3,105)
Change in non-cash working capital balances relating to operations	30	(29,991)	826
Cash generated from operations		3,098	70,944
Interest paid	10	(8,411)	(9,188)
Income taxes received (paid)	13	11,859	(4,288)
Net cash generated by general operating activities		6,546	57,468
INVESTING ACTIVITIES			
Acquisition, net of cash and cash equivalents acquired		-	(9,743)
Proceeds from long-term receivable		406	966
Proceeds on disposal of assets		982	770
Proceeds on disposal of assets held-for-sale	14	4,150	3,059
Additions to intangible assets	23	(4,198)	(8,893)
Additions to property and equipment	22	(15,458)	(32,908)
Net cash used in investing activities		(14,118)	(46,749)
FINANCING ACTIVITIES			
Decrease (increase) in service provider deposit	20	2,058	(1,287)
Proceeds of long-term debt	26	516,000	473,407
Repayment of long-term debt	26	(526,562)	(489,124)
Share purchase under normal course issuer bid	29(c)	(398)	(585)
Dividend paid	29(a)	(9,197)	(4,533)
Net cash financing activities		(18,099)	(22,122)
Decrease in cash and cash equivalents during the year		(25,671)	(11,403)
Cash and cash equivalents, beginning of year		59,445	70,848
Cash and cash equivalents, end of year		\$ 33,774	\$ 59,445

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)

1. REPORTING ENTITY

The Churchill Corporation was incorporated on August 31, 1981 in Canada under the Companies Act of Alberta and was continued under the Business Corporations Act (Alberta) on July 30, 1985. The principal activities of The Churchill Corporation and its subsidiaries (collectively, the "Corporation") are to provide building construction, commercial electrical and data systems contracting, industrial insulation contracting, industrial electrical and instrumentation contracting, civil construction and related services within Canada.

The address of the Corporation's head office and its principal address is #400, 4954 Richard Road S.W., Calgary, Alberta, Canada, T3E 6L1. The registered and records office is located at #3700, 400 – 3rd Avenue, S.W., Calgary, Alberta, Canada, T2P 4H2.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were approved by the Corporation's Board of Directors on March 17, 2013.

(b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. Unless otherwise indicated all financial information presented has been rounded to the nearest thousand.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

- Financial instruments at fair value through profit or loss measured at fair value;
- Available-for-sale financial assets are measured at fair value; and
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

These consolidated financial statements were prepared on a going concern basis.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

THE CHURCHILL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Uncertainty is inherent in estimating the cost of completing construction projects, percentage of revenue earned, the estimated useful life and residual value of property and equipment and corresponding depreciation rates, the useful life of intangible assets and corresponding amortization rates, allowances for doubtful accounts receivable, deferred income taxes, employee benefits, provision for warranty work and legal contingencies, valuation of share-based payments and the recoverable amount of intangible assets including goodwill, and other financial instruments. The impact on the consolidated financial statements of future changes in such estimates could be material within the next financial year.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in note 27 – classification of debt and equity components of convertible debentures.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments within the next financial year is related to:

- Revenue recognition – estimates used to determine percentage of completion for construction contracts, specifically related to estimated costs to complete included in the various construction projects
- Measurement of defined benefit pension obligations (Note 15)
- Property and equipment – estimates related to the useful lives and residual values of assets (Note 22)
- Estimates in impairment of goodwill, property and equipment, and intangibles (Note 21, 22, and 23)
- Provisions – estimates associated with amounts and timing (Note 25)
- Assumptions used in share-based payment arrangements (Note 28)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and entities controlled by the Corporation (its subsidiaries). All subsidiary companies are wholly owned and inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. The Corporation proportionately consolidates its interests in joint ventures. Accounting policies have been applied consistently by the subsidiaries of the Corporation.

(i) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Corporation, liabilities incurred by the Corporation to the former owners of the acquiree and the equity interests issued or cash

THE CHURCHILL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
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paid by the Corporation in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred, unless related to issuance of debt or equity.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Corporation entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment*, at the acquisition date; and
- Assets that are classified as held-for-sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

The Corporation measures goodwill as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests, and the fair value of the acquirer's previously held interest in the acquiree, if any, over the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Corporation has joint control, established by contractual agreements. Joint ventures are accounted for using the proportionate consolidation method as follows:

- The statements of financial position include the Corporation's share of the assets that it controls jointly and the liabilities for which it is jointly responsible;
- The consolidated statements of (loss) earnings and comprehensive (loss) income include the Corporation's share of the income and expenses of the jointly controlled entity; and
- Gains and losses on the transactions between the Corporation and its joint ventures are eliminated to the extent of the Corporation's interest in the joint ventures. Losses are recognized in full where the transactions provide evidence of impairment of the asset transferred.

(b) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues or incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. Operating segments are identified on the basis of internal reports about components of the Corporation that are regularly reviewed by the Executive Management Team acting as the key decision maker in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

THE CHURCHILL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)

(c) Revenue recognition

(i) Construction contracts

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 Corporation or where the total 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 always be estimated reliably. In those circumstances where the outcome cannot be reliably estimated, 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, and research and development costs (unless reimbursement is specified in the construction contract). 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.

(ii) Service contracts

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.

THE CHURCHILL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)

(iii) Sale of goods

The Corporation recognizes revenue on the supply of ballast inventory when the material is taken by the customer and invoiced. Undelivered ballast is accounted for as inventory on the consolidated statements of financial position. Sale of goods revenue also includes materials that are fabricated to customer specifications under specifically negotiated contracts.

(d) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of assets, classified by their nature as financial assets, at fair value through profit or loss. Interest income is recognized using the effective interest method as it accrues.

Finance costs comprise interest expense on borrowings, the unwinding of the discount on any provisions, changes in the fair value of financial assets classified as fair value through profit or loss and impairment losses recognized on financial assets.

(e) Income taxes

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in profit or loss except to the extent that it relates to assets acquired and liabilities assumed in a business combination or items recognized directly in equity or other comprehensive (loss) income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to tax payable in respect of previous years.

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred tax is recognized on any temporary difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive (loss) income or in equity depending on the item to which the adjustment relates.

Deferred tax is recognized on temporary differences arising from investments in subsidiaries, and interests in joint ventures, except in the case where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

THE CHURCHILL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or the initial recognition of other assets and liabilities in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting net earnings nor taxable earnings.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis or the tax assets and liabilities will be realized simultaneously.

The Corporation recognizes income tax benefits or liabilities related to uncertain tax positions to the extent they are more likely than not to be realized or settled.

(f) Employee benefits

(i) Short-term employee benefits

The Corporation has an Employee Share Purchase Plan (“ESPP”). The Corporation contributes to the plan based on the amount of employee contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided.

Short-term compensation includes an annual employee cash bonus. A liability is recognized for the amount expected to be paid under short-term cash bonuses or profit-sharing plans if the Corporation believes it may have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Post-employment benefits

The Corporation has a Registered Retirement Savings Plan (“RRSP”). The Corporation contributes to the plan based on the amount of employee contributions. Similar to the ESPP, the related obligation of RRSPs are measured on an undiscounted basis and are expensed as the related services are provided.

The Corporation maintains two non-contributory defined benefit pension plans (“DB”) that cover salaried employees for two of the operating entities. Annual employer contributions to the DB, which are actuarially determined by an independent actuary, are made on the basis of being not less than the minimum amounts required by provincial pension supervisory authorities.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Pension costs are based on management’s best estimate of expected plan performance, salary escalation and retirement age of employees. The Corporation’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any recognized past service costs and the fair value of any plan assets are deducted. The discount rate used to establish the pension obligation is based on a yield curve using AA-rated Canadian corporate bonds for

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maturities up to 10 years. This discount rate is then extrapolated with a spread adjustment to reflect the additional credit risk of AA-rated corporate bonds. The calculation is performed annually at December 31st by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan within the Corporation. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

The pension deficit or surplus is adjusted on a quarterly basis for any material changes in underlying assumptions. The Corporation recognizes all actuarial gains and losses arising from the defined benefit plans in other comprehensive (loss) income in the period in which they occur.

When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average service period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Unlike the defined benefit plan, there is no obligation recorded for the defined contribution plans. The contributions made by the Corporation are measured on an undiscounted basis and are expensed as the related services are provided.

(iii) Share-based payments

The grant date fair value of share-based payment awards, or stock options, granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees and directors in respect of performance share units (“PSUs”) and deferred shared units (“DSUs”), for which the participants are eligible to receive an equivalent cash value of the common shares at a future date, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees and directors unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as compensation expense in profit or loss. The PSUs are subject to achieving certain performance vesting conditions. DSUs vest immediately upon grant.

(g) Earnings per share

The Corporation presents basic and diluted earnings per share (“EPS”) for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to the common shareholders of the Corporation by the weighted average number of ordinary shares outstanding during the period, adjusted for the Corporation’s own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to the common shareholders and the weighted average number of

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ordinary shares outstanding for the effects of all dilutive potential common shares, including share options granted to employees and directors and shares related to convertible debentures, assuming that all of the debenture holders converted as allowed.

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.

(h) Financial instruments

Under the Corporation's risk management policy, fuel derivative financial instruments are used only for risk management purposes and not for generating trading profits. The financial instruments that the Corporation uses are unlikely to meet hedge effectiveness criteria 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 are recorded through the consolidated statements of (loss) earnings.

Financial assets and liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument or derivative contract. Financial instruments are required to be initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

(i) Financial assets

The Corporation has the following classifications by nature of the non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. Loans and receivables are initially recognized on the date they originated. All other classifications of financial assets are recognized on the trade date at which the Corporation becomes party to the contractual provisions of the instrument.

From time to time, the Corporation will use financial derivatives, which are comprised of contracts where the Corporation pays a fixed price to mitigate floating price risks on notional quantities of refined products.

Derivative instruments are recorded on the consolidated statements of financial position at fair value with both realized and unrealized changes in fair value recognized immediately in other income in the consolidated statements of (loss) earnings. These fuel derivative contracts are included in prepaid expenses and trade and other payables based on the terms of the contractual agreements. As at December 31, 2012, the Corporation did not have any financial derivatives outstanding (Note 31).

All cash flows associated with purchasing derivatives are classified as operating cash flows in the consolidated statements of cash flow.

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Financial assets are derecognized when the contractual cash flows from the asset expire or when the Corporation transfers the right to receive the contractual cash flows of the asset in a transaction whereby all risks and rewards of the financial asset are transferred. Any retained interest in the financial asset transferred is recognized as a separate financial asset or liability.

Financial assets and liabilities are offset and presented net in the statements of financial position only when a legal right of offset in the amounts exists and the Corporation intends to settle the transaction on a net basis or realize the asset and the liability simultaneously.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are classified as held for trading if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy and have been acquired principally for the purpose of selling in the near term. A financial asset is classified at fair value through profit or loss if it is a derivative that is not designated and effective as a hedging instrument. Financial assets classified as held for trading or designated at fair value through profit or loss are measured at fair value with changes recognized in profit or loss.

Transaction costs associated with assets classified as fair value through profit or loss are recognized as incurred through profit or loss.

Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Corporation has the positive intent and the ability to hold the asset to maturity. Held-to-maturity financial assets are initially recognized at fair value plus any transaction costs directly attributable to the asset. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment losses. Effective interest method is defined as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The sale or reclassification of more than an insignificant amount of held-to-maturity investments prior to maturity will result in the held-to-maturity portfolio being considered tainted and result in the reclassification of all held-to-maturity investments as available-for-sale. Furthermore, the Corporation will be prevented from classifying financial assets as held-to-maturity for the current and following two financial years.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

Loans and receivables

Financial assets with fixed or determinable payments that are not derivatives and are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value plus any transaction costs directly attributable to the asset. Loans and

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receivables are subsequently measured at amortized costs using the effective interest method, less any impairment losses. Loans and receivables are generally comprised of trade and other receivables and cash and cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets represent those non-derivative financial assets that are designated as available-for-sale, or are not classified as loans and receivables or held-to-maturity investment, are not held-for-trading, and are not designated as fair value through profit or loss on initial recognition. Available-for-sale financial assets are initially measured at fair value plus any transaction costs directly attributable to the asset. Subsequent fair value gains or losses are recognized in other comprehensive (loss) income, except for impairment. For interest bearing available-for-sale financial assets, interest calculated using the effective interest method and any foreign exchange gains and losses on monetary available-for-sale financial assets are recognized in profit or loss. Available-for-sale financial assets include service provider deposits.

(ii) Financial liabilities

The Corporation has the following non-derivative financial liabilities: trade and other payables, current and long-term debt and convertible debentures. The Corporation initially recognizes debt securities issued at the date they originate. All other financial liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognized at fair value plus any transaction costs directly attributable to the liability except for financial liabilities classified as fair value through profit or loss. Financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method. Financial liabilities are derecognized when their contractual obligations are discharged, cancelled or have expired.

The Corporation has the following financial assets and liabilities:

	Classification	Measurement
Financial asset		
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Service provider deposit	Available-for-sale	Fair value
Current and long-term receivable	Loans and receivables	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value
Financial liabilities		
Trade and other payables	Other liabilities	Amortized cost
Current and long-term debt	Other liabilities	Amortized cost
Convertible debentures - liability component	Other liabilities	Amortized cost

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(iii) Share capital

Common shares

Common shares are classified as equity. Transaction costs that are incremental and directly attributable to the issue of common shares are recognized as a deduction from equity net of any tax effects.

Repurchase of share capital (treasury shares) under normal course issuer bid (“NCIB”)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Cancelled shares are classified as treasury shares and are presented as a component within total equity. When treasury shares are issued, the amount received is recognized as an increase in equity, and any resulting surplus (deficit) on the transaction is transferred to (from) retained earnings.

Dividend reinvestment plan (“DRIP”)

When dividends are declared during a period, the DRIP allows eligible shareholders to direct cash dividends payable on common shares into additional common shares. The portion of shares related to the DRIP plan, as determined by the share transfer agent, is calculated using the dividend per share for all DRIP shares divided by 95% of the weighted average closing share price for the 10 days preceding the dividend payment date. This value is recorded as a payable in that period with the offset recorded to retained earnings. Once the dividend is paid, the amount of DRIP shares issued is recorded as an increase to share capital with a decrease to the dividend payable.

(iv) Compound financial instruments

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability component are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

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(i) Inventory

The Corporation produces ballast through rock crushing services undertaken by Broda Construction Inc. ("Broda"), a wholly owned subsidiary. Ballast inventory is measured using the lower of cost of production, consisting primarily of equipment costs and labour, and net realizable value. The cost of ballast inventory does not include profit margins or non-attributable overheads. During the year, the Corporation expensed \$7,090 (2011 - \$7,284) of inventory through contract costs.

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is determined on a first in, first out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expenses.

(j) Costs in excess of billings, contract advances and unearned income

Costs in excess of billings represent unbilled amounts expected to be collected from customers for contract work performed to date. The amount is measured at costs plus profit recognized to date less progress billings and recognized losses. Costs include all expenditures directly related to specific projects. Costs in excess of billings are presented as a current asset in the consolidated statements of financial position for all contracts in which costs incurred plus recognized profits exceeds the progress billings and the amounts are expected to be billed and recovered within twelve months. If progress billings exceed costs incurred plus recognized profits, the difference represents amounts collected in advance for contract work yet to be performed and is presented as contract advances and unearned income in the statements of financial position.

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010 are also capitalized as part of property and equipment.

The Corporation recognizes major long-term component spare parts as property and equipment when the parts and equipment are significant and are expected to be used over a period of time greater than a year, or when the part can only be used in connection with an item of property and equipment.

Borrowing costs that are directly attributable to the acquisition and construction or production of a qualifying asset form part of the costs of the asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss.

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Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Corporation and its cost can be reliably measured. The carrying amount of the part replaced is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss when incurred.

(iii) Depreciation

Depreciation is calculated based on the cost of an asset (or deemed cost) less its residual value. Depreciation is recognized for each significant component of an item of property and equipment.

Depreciation is recognized in the statements of (loss) earnings on a straight-line basis over the estimated useful life of each asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives, unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. The method of depreciation has been selected based on the expected pattern of consumption of the economic benefits of the asset.

The estimated useful lives are as follows:

Asset	Basis	Useful life
Land improvements	Straight-line	30 years
Buildings and improvements	Straight-line	10 to 25 years
Leasehold improvements	Straight-line	Lesser of estimated useful life or lease term
Construction equipment	Straight-line	10 to 20 years
Automotive equipment	Straight-line	5 years
Office furniture and equipment	Straight-line	3 to 5 years
Computer hardware	Straight-line	1 to 3 years
Equipment components	Straight-line	1.5 to 3 years

Depreciation commences when the asset is available for use and ceases on the earliest of when the asset is derecognized or classified as held for sale. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted where appropriate.

(I) Goodwill

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 allocated as of the date of the business combination. Goodwill is not amortized and is tested for impairment annually in the fourth

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quarter, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

(m) Intangible assets

Intangible assets include Enterprise Resource Planning (“ERP”) assets, backlog and agency contracts, customer relationships, tradenames and computer software. These intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is calculated using the cost of the asset. Amortization commences once the asset is available for use and is recognized in profit or loss on a straight-line basis over the estimated useful life. The method of amortization has been selected based on the expected pattern of consumption of the economic benefits of the asset. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted where appropriate.

Intangible Asset	Basis	Useful life
Enterprise Resource Planning assets	Straight-line	12 years
Backlog and agency contracts	As related revenue is earned	2 to 3 years
Customer relationships	Straight-line	5 to 15 years
Tradenames	Straight-line	5 to 15 years
Computer software	Straight-line	1 year

(n) Impairment

(i) Financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event will have a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not otherwise consider, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security classified as available-for-sale, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

The Corporation considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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In assessing collective impairment the Corporation uses historical trends of probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets for which separate processes apply, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have an indefinite useful life or intangible assets that are not yet available for use, the recoverable amount is estimated each year in the fourth quarter.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). For the purpose of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying

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amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Assets held-for-sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. This criterion is considered to be met when the assets are available for immediate sale in their present condition and the sale is highly probable. Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Corporation's accounting policies. Thereafter generally the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss, unless sold for more than carrying value.

(p) Provisions

Provisions are recognized when the Corporation has a present obligation as a result of a past event, it is probable that the Corporation will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties that surround the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, the carrying amount reflects the present value of that cash flow.

A provision for onerous contracts is recognized when the expected benefit from a contract is lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Impairment losses on assets associated with the onerous contract are recognized prior to the provision being established.

The Corporation has several classes of provisions including:

(i) Warranties

Provisions for the expected cost of construction warranty obligations under construction contracts are recognized upon completion or substantial performance under the construction contract and represent the best estimate of the expenditure required to settle the Corporation's obligation.

(ii) Restructuring

Restructuring provisions relate to both ongoing operations and acquisitions and are accrued when the Corporation demonstrates its commitment to implement a detailed restructuring plan. The amounts provided represent management's best estimate of the costs for restructuring.

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(iii) Claims and disputes

Provisions related to claims and disputes arising on contracts of the Corporation are included in this category. The timing and measurement of the related cash flows are by nature uncertain and the amounts recorded reflect the best estimate of the expenditure required to settle the obligations.

(iv) Subcontractor default

The Corporation maintains subcontractor default insurance, which provides general contractors with more comprehensive coverage in respect of subcontractor default on projects. The liabilities on the consolidated statements of financial position relate to management's best estimate of exposures and costs associated with prior or existing subcontractor performance and the risk of potential default. Management conducts a thorough review of the liability every reporting period and takes into consideration the Corporation's experience to date with those subcontractors that are enrolled in the program and the changes to factors that tend to affect the construction sector. The current portion of the subcontractor default liability represents the risk related to payments not covered by the insurance deductible.

(q) Leases

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value at the inception of the lease and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability to the lessor is included in the consolidated statements of financial position as long term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

All other leases are operating leases, whereby the leased assets are not recognized in the Corporation's statements of financial position. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(r) Accumulated other comprehensive (loss) income and retained earnings

The Corporation applies the standard for reporting and displaying other comprehensive (loss) income, defined as revenue, expenses, and gains and losses which, in accordance with primary sources of IFRS, are recognized in comprehensive (loss) income but excluded from net earnings. Items that would be reclassified into profit or loss in the future, if certain conditions are met, are presented separately.

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4. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

(a) IFRS 7 – *Financial Instruments: Disclosures*

IFRS 7, “Financial instruments: disclosure” was amended by the International Accounting Standards Board (“IASB”) in December 2011. The amendment contains new disclosure requirements for financial assets and financial liabilities that are offset in the statements of financial position or subject to master netting arrangements or similar agreements. These new disclosure requirements will enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles (“GAAP”). IFRS 7 is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect the impact of this standard to be material to its consolidated financial statements.

(b) IFRS 10 – *Consolidated Financial Statements*

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes International Accounting Standard (“IAS”) 27, *Consolidated and Separate Financial Statements* and Standing Interpretations Committee (“SIC”) 12 *Consolidation – Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect the impact of this standard to be material to its consolidated financial statements.

(c) IFRS 11 – *Joint Arrangements*

IFRS 11, “Joint arrangements” was issued by the IASB in May 2011 and supersedes IAS 31, “Interest in joint ventures” and SIC 13, “Jointly controlled entities – non-monetary contributions by venturers”. The impact of IFRS 11 is to remove the option to account for joint ventures using proportionate consolidation and require equity accounting in most circumstances. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect the impact of this standard to be material to its consolidated financial statements.

(d) IFRS 12 – *Disclosure of Interests in Other Entities*

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associated and unconsolidated structured entities. It is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect the impact of this standard to be material to its consolidated financial statements.

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(e) IFRS 13 – Fair Value Measurements

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies to different IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. The Corporation does not expect the impact of this standard to be material to its consolidated financial statements.

(f) IAS 19 (amendments) – Post-employment Benefits

An amendment to IAS 19, “Employee benefits” (IAS 19) was issued by the IASB in June 2011. The amendment requires all actuarial gains and losses to be immediately recognized in other comprehensive (loss) income rather than profit and loss and requires expected returns on plan assets recognized in profit or loss to be calculated based on the rate used to discount the defined benefit obligation. The amended standard is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect the impact of this standard to be material to its consolidated financial statements.

(g) IAS 28 (2011) – Investments in Associates and Joint Ventures

IAS 28 was amended in 2011 which prescribes the accounting for investments in associates and sets out the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect the impact of this standard to be material on its consolidated financial statements.

(h) IAS 32 - Financial Instruments: Presentation

IAS 32, “Financial instruments: presentation” was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

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(i) IFRS 9 – Financial Instruments

IFRS 9, “Financial instruments” was issued by the IASB in November 2009 and will replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that defer the mandatory effective date to annual periods beginning on or after January 1, 2015. Earlier adoption is permitted. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

5. ACQUISITIONS

The Corporation did not acquire any businesses in 2012.

On April 29, 2011, one of the Corporation’s subsidiaries, Canem Holdings Ltd. (“Canem”), acquired 100% of the outstanding share capital of McCaine Electric Ltd. (“McCaine”). Founded in 1918, McCaine was a privately held electrical contractor headquartered in Winnipeg, Manitoba. The primary purpose of the acquisition was to support Canem’s business plan, which calls for geographic expansion into the Manitoba market.

The total consideration transferred was \$12,507 including the assumption of McCaine’s indebtedness as follows:

Cash consideration	\$ 7,000
Cash in escrow	2,000
Share consideration	2,500
Fair value of earn-out payment (Note 25)	322
Working capital adjustment	685
Total consideration transferred	\$ 12,507

The acquisition was accounted for using the purchase method and the results from operations are included from the date of the acquisition and the purchase price allocation was finalized as at December 31, 2011.

The holdback payments in escrow are being released to the vendors in four equal tranches: 6, 12, 18 and 24 months after the closing date, provided there has not been a breach of the representation and warranties provided by McCaine. As at December 31, 2012, the remaining holdback is \$500 (2011 - \$1,500).

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A maximum of \$1,000 in cash is subject to earn-out conditions based on targets on earnings before interest expense, capital asset amortization and impairment charges, and income taxes (“EBITDA”) in fiscal 2012 and 2013. If this EBITDA target is not met in either year, then no earn-out is paid. The measurement of EBITDA is not a measure that has any standardized meaning prescribed by IFRS and is considered to be a non-IFRS measure. Therefore, this measure may not be comparable to similar measures presented by other companies. As at December 31, 2012, this EBITDA target was not achieved and earn-out was not paid.

Identifiable assets acquired and liabilities assumed:

Trade and other receivables	\$ 8,089
Inventory	258
Prepaid expenses	112
Costs in excess of billings	1,202
Property and equipment	781
Goodwill	5,633
Intangible assets	5,300
Total assets	21,375
Less:	
Bank indebtedness	743
Trade and other payables	3,668
Contract advances and unearned revenue	2,319
Income taxes payable	106
Deferred income taxes	2,032
Total liabilities	8,868
Net assets acquired	\$ 12,507

From the date of the acquisition to December 31, 2011, McCaine’s revenues and earnings totaled \$22,107 and \$664, respectively. If the date of the acquisition had been January 1, 2011, pro forma consolidated revenues and earnings of the Corporation would have been \$1,418,145 and \$25,667, respectively. These pro forma amounts are estimates derived from the financial information of McCaine and do not necessarily reflect what results would have actually been had the acquisition occurred on January 1, 2011.

Transaction costs

The Corporation incurred acquisition costs of \$80 relating to external legal fees which are included in administrative expenses in the consolidated statements of (loss) earnings.

Goodwill

The \$5,633 of goodwill arising from the McCaine acquisition consists largely of the assembled workforce and anticipated synergies from project management processes. None of the goodwill from the acquisition is expected to be deductible for income tax purposes. As McCaine forms part of the Canem CGU, the goodwill that arose from the McCaine acquisition is evaluated annually for impairment in combination with goodwill attributed to Canem.

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6. SEGMENTS

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides its operations into four reporting segments and reports its results under the categories of: General Contracting, Industrial Services, Commercial Systems, and Corporate and Other. The accounting policies and practices for each of the segments listed below are the same as those described in Note 3. Segment capital expenditures are the total cost incurred during the period to acquire property and equipment and intangible assets.

For the year ended December 31, 2012, there were no customers that represented 10% or more of contract revenue earned (2011 - \$112,743).

General Contracting - General Contracting consists of Stuart Olson Dominion Construction Ltd. ("SODCL"). SODCL is headquartered in Calgary, Alberta, and constructs commercial, institutional light-industrial and multi-unit residential buildings and is a general contractor in Western Canada's building markets.

Industrial Services - Industrial Services consists of Churchill Services Group ("CSG") and Broda. CSG has three divisions: Laird Electric Inc., Laird Constructors Inc. (collectively, "Laird") and Specialty Services. Laird Electric is headquartered in Edmonton, Alberta and provides electrical, instrumentation and power-line construction and maintenance services to resource and industrial clients, primarily in the oil and gas industry in the Fort McMurray and greater Edmonton regions. Laird Constructors is headquartered in Sudbury, Ontario and is a multi-trade contractor providing electrical, instrumentation, power-line, mechanical and structural construction and maintenance services to resource and industrial clients, primarily in the mining and power generation industries in Ontario, Manitoba and Saskatchewan. Specialty Services is headquartered in Edmonton, Alberta. It has two operating companies, Fuller Austin Inc. and Northern Industrial Insulation Contractors Inc., serving industrial clients with insulation, asbestos abatement, siding application, heating, ventilation and air conditioning ("HVAC"), and plant maintenance services. Its clients are in the oil sands, oil and natural gas, petrochemical, forest products, power utilities and mining industries. Broda is headquartered in Prince Albert, Saskatchewan, providing aggregate processing, earthwork, civil construction, concrete production and related services to mining and infrastructure organizations, and Canada's two major railway corporations. The civil construction industry in Canada is seasonal in nature for companies like Broda, which does a significant portion of its work outdoors, particularly road construction. As a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, Broda has historically experienced a seasonal pattern in its operating results with the first half of the year and particularly the first quarter generating lower revenues and profits than the second half of the year. Therefore results in any one quarter are not necessarily indicative of results in any other quarter, or for the year as a whole.

Commercial Systems - Commercial Systems consists of Canem and McCaine (Note 5). Canem, with its head office located in Richmond, B.C., designs, builds, maintains and services electrical and data communication systems for institutional, commercial, light industrial and multi-family residential customers. Its services include the design of electrical distribution systems within a building or complex; procurement and installation of electrical equipment and materials; on-call service for electrical maintenance and troubleshooting; preventative and

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scheduled maintenance for critical component installations; budgeting and pre-construction services; and management of regional and national contracts for multi-site installations.

Corporate and Other – Corporate and Other include corporate costs not allocated directly to another reporting segment as well as any miscellaneous investments. This segment provides strategic direction, operating advice, financing, infrastructure services and management of public company requirements to each of its business segments.

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2012	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	\$ 691,987	\$ 383,669	\$ 188,152	\$ -	\$ (41,752)	\$ 1,222,056
EBITDA ⁽¹⁾	6,456	29,362	12,539	(13,816)	5,057	39,598
Depreciation and amortization	3,994	7,688	2,503	12,485	500	27,170
Finance costs	44	119	-	11,415	-	11,578
Impairment losses	-	3,010	-	59,412	2,178	64,600
Loss before tax	\$ 2,418	\$ 18,545	\$ 10,036	\$ (97,128)	\$ 2,379	\$ (63,750)
Income tax expense						1,888
Net loss						\$ (61,862)
Goodwill and intangible assets	\$ 128,309	\$ 7,766	\$ 81,051	\$ 20,585	\$ -	\$ 237,711
Impairment losses related to each segment	\$ -	\$ 21,200	\$ 43,400	\$ -	\$ -	\$ 64,600
Capital and intangible expenditures	\$ 6,841	\$ 8,157	\$ 974	\$ 4,451	\$ -	\$ 20,423
Total assets	\$ 396,356	\$ 159,529	\$ 106,836	\$ 405,759	\$ (326,039)	\$ 742,441
Total liabilities	\$ 268,179	\$ 58,341	\$ 45,077	\$ 158,183	\$ (22,489)	\$ 507,291

2011	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	\$ 906,959	\$ 367,030	\$ 192,688	\$ -	\$ (57,518)	\$ 1,409,159
EBITDA ^{(1),(2)}	26,215	33,429	23,984	(12,092)	508	72,044
Depreciation and amortization	3,747	5,367	2,187	15,204	419	26,924
Finance costs	17	254	4	12,219	(1)	12,493
Earnings (loss) from continuing operations before tax	\$ 22,451	\$ 27,807	\$ 21,793	\$ (39,515)	\$ 90	\$ 32,627
Income tax expense from continuing operations						(8,518)
Net earnings from continuing operations						\$ 24,109
Goodwill and intangible assets	\$ 131,476	\$ 21,782	\$ 134,186	\$ 18,908	\$ -	\$ 306,352
Capital and intangible expenditures	\$ 7,706	\$ 22,988	\$ 1,359	\$ 8,754	\$ 994	\$ 41,801
Total assets	\$ 441,255	\$ 196,628	\$ 198,424	\$ 68,680	\$ (16,505)	\$ 888,482
Total liabilities	\$ 321,637	\$ 58,759	\$ 39,930	\$ 165,563	\$ (6,548)	\$ 579,341

⁽¹⁾ EBITDA represents earnings before interest expense, capital asset amortization and impairment charges, and income taxes.

⁽²⁾ EBITDA for the year ended December 31, 2011 excludes earnings from discontinued operations of \$833.

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7. JOINT VENTURES

The Corporation and its subsidiaries have the following significant interests in joint ventures:

- Acciona Joint Venture - 50%
- Stuart Olson/Conforte JV - 50%
- Ninety North Partnership JV - 50%
- Kwanlin Dun First Nation - Yukon Corrections Institution JV - 90%
- Kwanlin Dun First Nation - Whitehorse Cultural Centre JV - 51%

There have been no changes in the Corporation's ownership or voting interests in these joint ventures during the year ended December 31, 2012.

These consolidated financial statements include the proportionate share of assets, liabilities, revenue, expenses, net income and cash flow of these joint ventures as follows:

	December 31,	December 31,
	2012	2011
Current assets	\$ 5,190	\$ 33,757
Current liabilities	3,240	22,382
Year ended		
	December 31,	December 31,
	2012	2011
Contract income	\$ 22,787	\$ 66,020
Expenses	16,240	60,653
Year ended		
	December 31,	December 31,
	2012	2011
Cash flow provided (used) by operating activities	\$ 5,329	\$ (7,031)

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8. REVENUE

	December 31,	December 31,
	2012	2011
Construction contract revenue	\$ 1,064,904	\$ 1,224,343
Service contract revenue	141,187	168,368
Sales of goods	15,965	16,448
Total revenue	\$ 1,222,056	\$ 1,409,159

Construction contract revenue is the amount of revenue recognized from the construction of assets and the provision of construction management services. Service contract revenue includes maintenance and other services recognized based on the percentage of completion method, and time and material contracts recognized at contractual rates as labour hours and direct expenses are incurred. Revenue recognized from the sale of goods includes materials that are fabricated to customer specifications under specifically negotiated contracts.

9. OTHER INCOME

	December 31,	December 31,
	2012	2011
Gain (loss) on sale of assets	\$ 2,304	\$ (129)
Discounts	54	45
Claims and settlements	741	1,436
Other income	\$ 3,099	\$ 1,352

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10. FINANCE INCOME AND COSTS

The finance income and costs recognized in profit or loss consists of the following:

	December 31,	December 31,
	2012	2011
Finance income on loans and receivables	\$ 9	\$ 25
Finance income on cash and cash equivalents	407	629
Other	1	73
Finance income	\$ 417	\$ 727
Finance costs on revolving credit facility	\$ 3,013	\$ 3,695
Other finance costs	223	318
Amortization of deferred financing fees on revolving credit facility	707	1,068
Finance costs on convertible debentures	5,175	5,175
Accretion on convertible debentures	1,894	1,724
Amortization of deferred financing fees on convertible debentures	566	512
Finance costs	\$ 11,578	\$ 12,493

The above finance income and finance costs include the following interest income and expenses in respect of assets and liabilities not at fair value through profit or loss:

Total finance income on financial assets	\$ 417	\$ 727
Total finance costs on financial liabilities	\$ 8,411	\$ 9,188

11. DEPRECIATION AND AMORTIZATION

	December 31,	December 31,
	2012	2011
Depreciation of property and equipment	\$ 13,712	\$ 11,023
Amortization of intangible assets	13,458	15,901
Total depreciation and amortization expense	\$ 27,170	\$ 26,924

Of the depreciation of property and equipment during the year ended December 31, 2012, \$9,670 (2011 - \$7,334) has been included in contract costs and the remainder in administrative costs in the consolidated statements of (loss). Amortization of intangible assets is included in administrative expense in the consolidated statements of (loss) earnings.

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12. PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

	December 31,	December 31,
	2012	2011
Short-term employee benefits	\$ 377,822	\$ 363,913
Employee share purchase plan expenses (Note 15)	4,604	2,808
Employee retirement matching contributions (Note 15)	3,105	3,046
Defined benefit and defined contribution pension plan expense	1,590	2,021
Equity-settled share-based payment transactions	2,192	2,795
Cash-settled share-based payment transactions	1,589	276
Total personnel expenses and employee benefits	\$ 390,902	\$ 374,859

Of the personnel expenses and employee benefits in the table above, \$338,170 was included in contract costs (2011 - \$319,792) and \$52,732 in administrative costs (2011 - \$55,067) for the year ended December 31, 2012.

Key management personnel consists of Churchill's named executive officers. Their remuneration during the year was as follows:

	December 31,	December 31,
	2012	2011
Short-term benefits	\$ 2,847	\$ 3,257
Share-based payments ⁽¹⁾	2,167	2,451
	\$ 5,014	\$ 5,708

⁽¹⁾ Share-based payments include equity-settled and cash-settled share-based payments.

The remuneration of key management is determined by the Human Resources and Compensation Committee of the Board of Directors ("HRCC") and recommended to the full Board for approval, considering the performance of individuals, their business units and the Corporation. Utilizing an outside independent consultant, the HRCC also considers prevailing market and competitive conditions along with retention and strategic objectives.

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13. INCOME TAXES

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

	December 31, 2012	December 31, 2011
Current income tax expense		
Current period	\$ (1,773)	\$ (7,709)
Adjustment relating to prior periods	(183)	3,029
	(1,956)	(4,680)
Deferred income tax recovery (expense)		
Origination and reversal of temporary differences	3,868	(2,492)
Impact of changes in tax rates	98	1,227
Adjustment relating to prior periods	(36)	(2,652)
Change in unrecognized deductible temporary differences	(86)	79
	3,844	(3,838)
Income tax recovery (expense) from continuing operations	\$ 1,888	\$ (8,518)

Reconciliation of effective tax rate:

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

	December 31 2012	December 31 2011
(Loss) earnings from continuing operations before tax	\$ (63,750)	\$ 32,627
Income tax at statutory rate of 25.4% (2011 - 27.5%)	\$ 16,193	\$ (8,972)
Statutory and other rate differences	98	1,227
Non-taxable accounting income	614	-
Non-deductible expenses	(898)	(1,033)
Goodwill impairment	(13,810)	-
Change in unrecognized deductible temporary differences	(86)	79
Other	(223)	181
Income tax recovery (expense) from continuing operations	\$ 1,888	\$ (8,518)

The Corporation's statutory tax rate of 25.4% in 2012 (2011 - 27.5%) is the combined Canadian federal and provincial tax rates in the jurisdictions in which the Corporation operates. The rate decline for 2012 is due to a reduction in the Federal income tax rate from 16.5% to 15.0% for 2012, combined with an increased proportion of the year's (loss) earnings in provinces with lower corporate tax rates.

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The deferred tax asset and liability are comprised of the following:

	December 31, 2012	December 31, 2011
<i>Deferred tax assets</i>		
Tax loss carry forwards	\$ 1,386	\$ 786
Equipment and other assets	(53)	(187)
Intangible assets	11	6
Pension and other compensation	1,582	1,899
Unrecognized deductible temporary difference	(348)	(66)
Unbilled work-in-progress and holdback receivables	10,782	7,936
Provisions	1,867	1,222
Other	156	149
	15,383	11,745
<i>Deferred tax liabilities</i>		
Tax loss carry forwards	7,444	2,204
Equipment and other assets	(7,095)	(8,424)
Intangible assets	(14,022)	(16,719)
Pension and other compensation	2,065	1,863
Unrecognized deductible temporary difference	(272)	(73)
Unbilled work-in-progress and holdback receivables	(17,710)	(11,001)
Provisions	1,010	1,689
Other	(347)	(32)
	(28,927)	(30,493)
Net deferred income tax liability	\$ (13,544)	\$ (18,748)

All deferred tax asset positions recognized by the Corporation are supported by either the reversal of existing taxable temporary differences or forecasted future taxable earnings in excess of the deductible temporary difference. The Corporation has unrecognized non-capital loss carryforwards of \$1,394 (December 31, 2011 - \$nil) for which no deferred income tax asset could be recognized, but remain available to reduce future taxable income.

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A continuity of the net deferred tax asset (liability) is as follows:

2012	Asset January 1, 2012	Recovery (expense) recognized in profit or loss	Recovery (expense) recognized in equity	Recovery (expense) recognized in OCI	Asset (liability) recognized from held for sale	Asset (liability) acquired in a business combination	Asset (liability) December 31, 2012
Tax loss carry forwards	\$ 2,990	\$ 5,687	\$ -	\$ -	\$ 153	\$ -	\$ 8,830
Equipment and other assets	(8,611)	1,463	-	-	-	-	(7,148)
Intangible assets	(16,713)	2,702	-	-	-	-	(14,011)
Pension and other compensation	3,762	(1,322)	-	1,207	-	-	3,647
Unrecognized deductible temporary difference	(139)	(481)	-	-	-	-	(620)
Unbilled work-in-progress and holdback receivables	(3,065)	(3,863)	-	-	-	-	(6,928)
Provisions	2,911	(34)	-	-	-	-	2,877
Other	117	(308)	-	-	-	-	(191)
	\$ (18,748)	\$ 3,844	\$ -	\$ 1,207	\$ 153	\$ -	\$ (13,544)

2011	Asset (liability) January 1, 2011	Recovery (expense) recognized in profit or loss	Recovery (expense) recognized in equity	Recovery (expense) recognized in OCI	Liability (asset) recognized as held for sale	Asset (liability) acquired in a business combination	Asset (liability) December 31, 2011
Tax loss carry forwards	\$ 4,880	\$ (1,890)	\$ -	\$ -	\$ -	\$ -	\$ 2,990
Equipment and other assets	(7,854)	(784)	-	-	34	(7)	(8,611)
Intangible assets	(15,526)	252	-	-	-	(1,439)	(16,713)
Pension and other compensation	2,868	59	-	835	-	-	3,762
Unrecognized deductible temporary difference	(289)	150	-	-	-	-	(139)
Unbilled work-in-progress and holdback receivables	(3,318)	839	-	-	-	(586)	(3,065)
Provisions	5,235	(2,324)	-	-	-	-	2,911
Other	495	(140)	(238)	-	-	-	117
	\$ (13,509)	\$ (3,838)	\$ (238)	\$ 835	\$ 34	\$ (2,032)	\$ (18,748)

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The Corporation has accumulated non-capital losses for income tax purposes of \$33,154 (December 31, 2011 - \$11,246) related to continuing operations, which expire as follows:

Accumulated non-capital losses:	
2014	\$ 203
2025	199
2026	422
2027	417
2028	159
2030	174
2031	8,107
2032	23,473
	\$ 33,154

14. ASSETS HELD-FOR-SALE

During the year, the Corporation sold two properties previously occupied by SODCL located in Edmonton, Alberta for combined proceeds of \$4,150 and a net book value of \$1,665, resulting in a gain on sale of \$2,485. This gain on sale is recorded in other income (Note 9).

As at December 31, 2012, the asset held-for-sale of \$436 (2011 - \$1,488) consists of agricultural land. This land is available for immediate sale in its present condition and the sale is highly probable.

15. EMPLOYEE BENEFITS

(a) Short-term employee benefits

The Corporation has an Employee Share Purchase Plan (“ESPP”) which permits certain employees to voluntarily contribute up to 10% of their gross base salary. The Corporation matches all contributions by the employees up to a maximum of 5% of the gross base salary. The combined contributions are invested by the plan in common shares of the Corporation purchased on the retail market. Contributions made by the Corporation during the year ended December 31, 2012 to the ESPP were \$4,604 (2011 - \$2,808) (Note 12).

(b) Post-employment benefits

Registered Retirement Savings Plan

The Corporation has a Registered Retirement Savings Plan (“RRSP”) which permits certain employees to voluntarily contribute up to 5% of their gross base salary. The Corporation matches all contributions made by the employees. The combined contributions are invested by the individual employees, at their discretion, in any of several mutual funds offered by the plan. Contributions made by the Corporation during the year ended December 31, 2012 to the RRSP were \$3,105 (2011 - \$3,046) (Note 12).

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Defined Contribution Pension Plans

The Corporation also maintains three non-contributory defined contribution pension plans (“DC”) that cover salaried employees for two operating entities. Two of the DC plans provide participants with an annual contribution of 3% to 7% of annual base salary and bonuses based on a participant’s age and length of service. As of July 13, 2010, the Corporation halted new membership to the DC plan in SODCL; however, the DC plan in Canem continues to accept the entrance of new employees. The Corporation also acquired a third DC plan with the McCaine acquisition (Note 5). It differs from the other two plans in that employer contributions ranging between 3% to 5% are based on the employee’s position in the company. In addition, the earnings base excludes bonuses. As of June 7, 2012, the DC plan with McCaine was terminated and contributions have been transferred to the Canem plan.

The total expense recognized in the consolidated statements of (loss) earnings and comprehensive (loss) income of \$512 (2011 - \$485) represents contributions payable to these plans by the Corporation at rates specified in the rules of the plans. As at December 31, 2012, contributions of \$30 (2011 – \$nil) were due in respect of the current reporting year and were paid after year end.

Defined Benefit Pension Plans

The Corporation maintains two non-contributory defined benefit pension plans (“DB”) that cover salaried employees for two of the operating entities. Annual employer contributions to the DB, which are actuarially determined by an independent actuary, are made on the basis of being not less than the minimum amounts required by provincial pension supervisory authorities. The benefits provided by the defined benefit provision of the pension plans are based on years of service and final average earnings of the employees who are members of the plans.

Future benefits

	December 31, 2012	December 31, 2011
Wholly or partially funded defined benefit obligation	\$ 32,746	\$ 27,037
Fair value of plan assets	21,926	18,722
Recognized liability for defined benefit obligations	\$ 10,820	\$ 8,315

Plan assets comprise:

	December 31, 2012	December 31, 2011
Equity securities	31%	74%
Debt securities	54%	23%
Short-term	15%	3%
	100%	100%

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Fair market value of plan assets:

	December 31, 2012	December 31, 2011
Equity securities	\$ 6,841	\$ 13,786
Debt securities	11,802	4,359
Short-term	3,283	577
	\$ 21,926	\$ 18,722

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. An internal committee comprised of senior management ("Pension Committee") assessed the expected return based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligations.

	December 31, 2012	December 31, 2011
Accrued benefit obligation		
Balance, beginning of year	\$ 27,037	\$ 27,727
Benefit payments	(1,973)	(3,592)
Current service cost	1,040	1,080
Interest cost	1,356	1,536
Employee contributions	139	35
Actuarial loss in other comprehensive income	5,147	251
Balance, end of year	\$ 32,746	\$ 27,037

	December 31, 2012	December 31, 2011
Fair value of plan assets		
Balance, beginning of year	\$ 18,722	\$ 20,855
Employer contributions	3,405	2,856
Employee contributions	83	88
Benefit payments	(1,973)	(3,592)
Expected return on plan assets	1,320	1,496
Actuarial gain (loss) in other comprehensive income	369	(2,981)
Balance, end of year	\$ 21,926	\$ 18,722

	December 31, 2012	December 31, 2011
Net pension liability	\$ 10,820	\$ 8,315
Funded status - deficit	\$ 10,820	\$ 8,315

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Historical information on accrued benefit obligation, fair value of plan assets, and plan deficit:

	December 31, 2012	December 31, 2011	December 31, 2010
Accrued benefit obligation	\$ 32,746	\$ 27,037	\$ 27,727
Fair value of plan assets	21,926	18,722	20,855
Plan deficit	\$ 10,820	\$ 8,315	\$ 6,872

Expense recognized:

	December 31, 2012	December 31, 2011
Current service cost	\$ 1,040	\$ 1,080
Interest cost	1,356	1,536
Expected return on plan assets	(1,320)	(1,496)
	\$ 1,076	\$ 1,120

Actuarial gains and losses recognized in other comprehensive loss:

	December 31, 2012	December 31, 2011
Cumulative amount, beginning of year	\$ (1,026)	\$ 2,206
Recognized during the year ⁽¹⁾	(4,778)	(3,232)
Cumulative amount, end of year	\$ (5,804)	\$ (1,026)

⁽¹⁾ Actuarial loss gives rise to a deferred income tax recovery in 2012 of \$1,207 (2011 - \$835).

For the year ended December 31, 2012, an amount of \$4,778 (2011 – \$3,232), before tax, was recorded in other comprehensive loss in relation to defined benefit plans. This loss relates to a change in the discount rates and a change in the market value of the assets, which are both as at December 31, 2012.

The expense is recognized in the following line items in the consolidated statements of (loss) earnings and comprehensive (loss) income:

	December 31, 2012	December 31, 2011
Administrative expenses	\$ 355	\$ 474
Actual return (loss) on plan assets	\$ 1,689	\$ (1,485)

Actuarial assumptions:

	December 31, 2012	December 31, 2011
Discount rate on benefit obligations	3.8%	5.0%
Expected long-term rate of return on plan assets	6.3%	6.8%
Rate of compensation increase for 15 years	3.5%	3.5%
Inflation rate	2.3%	2.3%

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The discount rate used to establish the pension obligation is based on a yield curve using AA-rated Canadian corporate bonds for maturities up to 10 years. This discount rate is then extrapolated with a spread adjustment to reflect the additional credit risk of AA-rated corporate bonds.

The Corporation uses actuarial valuation reports prepared by independent actuaries for both SODCL and Canem. As at December 31, 2012, the actuaries prepared a valuation for financial reporting which will be filed with the regulators in 2013. Actuarial valuations for funding purposes are prepared annually for Canem with the next one due as at December 31, 2013. SODCL's next actuarial valuation for funding purposes will also be prepared as at December 31, 2013; however, the report for SODCL is prepared only once every three years.

16. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share

	December 31, 2012	December 31, 2011
Net (loss) earnings from continuing operations attributable to common shareholders (basic)	\$ (61,862)	\$ 24,109
Net earnings from discontinued operations attributable to common shareholders (basic)	-	833
	\$ (61,862)	\$ 24,942
Issued common shares at beginning of year	24,300,019	24,133,727
Effect of shares issued related to a business combination	-	85,229
Effect of shares repurchased under NCIB	(35,110)	(2,583)
Effect of shares issued related to DRIP	138,065	28,652
Weighted average number of common shares for the year	24,402,974	24,245,025
Basic earnings per share	\$ (2.54)	\$ 1.02

(b) Diluted (loss) earnings per share

	December 31, 2012	December 31, 2011
Net (loss) earnings from continuing operations attributable to common shareholders (basic)	\$ (61,862)	\$ 24,109
Interest, accretion and amortization of deferred financing fees, net of tax	-	5,477
Net earnings from discontinued operations attributable to common shareholders (basic)	-	833
Net (loss) earnings attributable to common shareholders (diluted)	\$ (61,862)	\$ 30,419
Weighted average number of common shares (basic)	24,402,974	24,245,025
Incremental shares - stock options	-	257,439
Incremental shares - convertible debentures	-	7,943,086
Weighted average number of common shares for the period (diluted)	24,402,974	32,445,550
Diluted earnings per share	\$ (2.54)	\$ 0.94

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At December 31, 2012, 1,379,981 options (2011 – 809,587) were excluded from the diluted weighted average number of common share calculations as their effect would have been anti-dilutive. There were no incremental shares related to the convertible debentures included in the weighted average calculation at December 31, 2012 as the impact of the normalization of earnings (interest, accretion and amortization add-back) outweighed the effect of the related incremental shares and therefore the convertible debentures were anti-dilutive.

The incremental shares included in the dilutive weighted average number of shares has been determined using the Corporation's share price at December 31, 2012 of \$8.70 (2011 - \$11.43).

As the Corporation incurred a net loss during the year ended December 31, 2012, the basic and diluted loss per common share is the same amount.

17. CASH AND CASH EQUIVALENTS

	December 31,	
	2012	December 31, 2011
Cash	\$ 33,774	\$ 58,613
Short-term investments	-	832
	\$ 33,774	\$ 59,445

Included in the cash and cash equivalents balance is \$4,205 (2011 - \$14,847) held in joint venture bank accounts. The short term investments in 2011 include cash that was deposited as collateral for letters of credit issued by the Corporation.

18. TRADE AND OTHER RECEIVABLES

	December 31,	
	2012	December 31, 2011
Trade receivables	\$ 215,746	\$ 234,272
Construction holdbacks, due within one business cycle	92,308	105,318
Other receivables	1,043	6,182
	\$ 309,097	\$ 345,772

The average credit period is 45 days for maintenance contracts and 50 days for significant construction contracts. Other receivables include the Corporation's allowance for doubtful accounts.

At December 31, 2012, holdbacks of \$92,308 (2011 - \$105,318) are recoverable within the normal operating cycle of the Corporation ranging from 30 days to 3 years, depending on the nature of services being provided. The range is dependent on the type of project and duration of the work.

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19. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

Contracts in progress:

	December 31, 2012	December 31, 2011
Construction costs incurred plus recognized profits less recognized losses to date	\$ 4,698,839	\$ 3,802,663
Less: progress billings	(4,752,342)	(3,871,178)
Net over billings on construction contracts	(53,503)	(68,515)
Non-construction costs incurred plus recognized profits less recognized losses to date	\$ 254,061	\$ 201,415
Less: progress billings	(244,048)	(196,819)
Net under billings on non-construction contracts	10,013	4,596
Total net contract position	\$ (43,490)	\$ (63,919)

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

	December 31, 2012	December 31, 2011
Costs in excess of billings - Construction contracts	\$ 28,978	\$ 28,038
Costs in excess of billings - Non-construction contracts	10,122	5,700
Total costs in excess of billings	39,100	33,738
Contract advances and unearned income - Construction contracts	\$ (82,483)	\$ (96,561)
Contract advances and unearned income - Non-construction contracts	(107)	(1,096)
Total contract advances and unearned income	(82,590)	(97,657)
Total net contract position	\$ (43,490)	\$ (63,919)

At December 31, 2012, retentions held by customers for contract work amounted to \$98,439 (2011 - \$111,187). Advances received from customers for contract work amounted to \$71,536 (2011 - \$96,930).

20. SERVICE PROVIDER DEPOSIT

Service provider deposit relates to the General Contracting segment's Subguard program representing an agreement with Zurich Insurance Corporation ("Zurich") that establishes a pre-funded deductible/co-pay insurance program. The funds held by Zurich as at December 31, 2012, amounted to \$4,008 (2011 - \$6,066) and are presented as service provider deposit on the consolidated statements of financial position.

This deposit is classified as non-current as management does not anticipate any claim payments exceeding the deductible amounts within the next twelve months.

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21. GOODWILL

	December 31, 2012	December 31, 2011
Goodwill, beginning of the year	\$ 234,256	\$ 228,623
Current year acquisitions	-	5,633
Impairment losses recognized in the year	(55,240)	-
	\$ 179,016	\$ 234,256

Goodwill arose during multiple past acquisitions. Goodwill associated with the SODCL, 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 companies into existing construction, commercial and industrial services.

The Corporation has allocated its goodwill to its CGUs as follows:

	December 31, 2012	December 31, 2011
SODCL	\$ 114,078	\$ 114,078
CSG	7,315	7,315
Broda	-	11,840
Canem	57,623	101,023
	\$ 179,016	\$ 234,256

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 \$64,600 on the statement of comprehensive loss comprised of \$55,240 of non-cash goodwill impairment, \$5,219 of property and equipment impairment (Note 22), and \$4,141 of 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. In the Broda CGU, the impairment loss exceeded the carrying amount of goodwill of \$11,840, resulting in impairment losses allocated to property and equipment of \$5,219 (Note 22) and intangible assets of \$4,141 (Note 23). The entire amount of \$43,400 of impairment in the Canem CGU was fully applied to goodwill and did not extend to other assets of that entity.

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The recoverable amounts of the CGUs' assets were 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

SODCL 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 SODCL or CSG carrying amounts to exceed their respective recoverable amounts.

Canem: A 2.0% increase in the discount rate would increase the impairment charge approximately \$16,000. A decrease in growth rate of 0.5% would increase the impairment charge by approximately \$3,000.

Broda: A 2.0% increase in the discount rate would increase the impairment charge approximately \$6,900. A decrease in growth rate of 0.5% would increase the impairment charge by approximately \$1,300.

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22. PROPERTY AND EQUIPMENT

Included in construction and automotive equipment is \$988 (2011 - \$7,241) of assets relating to finance leases and \$160 (2011 - \$1,046) of accumulated depreciation, for a net carrying value of \$828 (2011 - \$6,195).

Included in office furniture and equipment is \$61 (2011 - \$61) of assets relating to finance leases and \$43 (2011 - \$31) of accumulated depreciation, for a net carrying value of \$18 (2011 - \$30).

In the year ended December 31, 2012, there were nil assets related to finance leases recorded in leasehold improvements as these were fully depreciated (2011 - \$285 of assets, with \$73 of accumulated depreciation, for a net carrying value of \$212).

Assets with a carrying value of \$846 (2011 - \$6,437) are pledged as security for the finance lease obligations disclosed in Note 26(c).

As discussed in Note 21, during the fourth quarter, the Corporation recorded an impairment loss of \$5,219 related to construction and automotive equipment.

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2012	Land and Improvements	Buildings and Improvements	Leasehold Improvements	Construction and Automotive Equipment	Computer Hardware	Office Furniture and Equipment	Assets Under Construction	Total
Cost								
Balance as at December 31, 2011	\$ 1,165	\$ 4,835	\$ 8,301	\$ 84,581	\$ 6,478	\$ 4,174	\$ 4,231	\$ 113,765
Additions, including finance leases	-	-	3,005	9,083	654	689	2,794	16,225
Disposal	(864)	(1,619)	(1,166)	(1,940)	(939)	(371)	-	(6,899)
Reclassifications and transfers	-	-	3,707	-	-	-	(3,707)	-
Balance at December 31, 2012	\$ 301	\$ 3,216	\$ 13,847	\$ 91,724	\$ 6,193	\$ 4,492	\$ 3,318	\$ 123,091
Accumulated Depreciation and Impairment Losses								
Balance as at December 31, 2011	\$ -	\$ 3,130	\$ 2,429	\$ 18,943	\$ 4,618	\$ 2,120	\$ -	\$ 31,240
Depreciation expense	-	22	2,025	9,846	1,139	680	-	13,712
Disposal of assets	-	(1,619)	(911)	(1,226)	(768)	(337)	-	(4,861)
Impairment losses recognized in the year	-	-	-	5,219	-	-	-	5,219
Balance at December 31, 2012	\$ -	\$ 1,533	\$ 3,543	\$ 32,782	\$ 4,989	\$ 2,463	\$ -	\$ 45,310
Carrying amounts at December 31, 2012	\$ 301	\$ 1,683	\$ 10,304	\$ 58,942	\$ 1,204	\$ 2,029	\$ 3,318	\$ 77,781
2011								
2011	Land and Improvements	Buildings and Improvements	Leasehold Improvements	Construction and Automotive Equipment	Computer Hardware	Office Furniture and Equipment	Assets under Construction	Total
Cost								
Balance as at December 31, 2010	\$ 1,372	\$ 5,056	\$ 6,407	\$ 63,415	\$ 6,090	\$ 3,439	\$ -	\$ 85,779
Additions, including finance leases	-	-	2,823	23,282	979	812	4,231	32,127
Disposal	-	(123)	(674)	(2,510)	(591)	(222)	-	(4,120)
Acquisition (Note 4)	-	-	234	394	-	153	-	781
Assets held-for-sale	(207)	(98)	(489)	-	-	(8)	-	(802)
Balance at December 31, 2011	\$ 1,165	\$ 4,835	\$ 8,301	\$ 84,581	\$ 6,478	\$ 4,174	\$ 4,231	\$ 113,765
Accumulated Depreciation and Impairment Losses								
Balance as at December 31, 2010	\$ -	\$ 2,955	\$ 1,762	\$ 12,935	\$ 3,957	\$ 1,687	\$ -	\$ 23,296
Depreciation expense	-	174	1,334	7,710	1,252	553	-	11,023
Disposal of assets	-	-	(667)	(1,702)	(591)	(120)	-	(3,080)
Balance at December 31, 2011	\$ -	\$ 3,130	\$ 2,429	\$ 18,943	\$ 4,618	\$ 2,120	\$ -	\$ 31,240
Carrying amounts at December 31, 2011	\$ 1,165	\$ 1,706	\$ 5,872	\$ 65,638	\$ 1,860	\$ 2,054	\$ 4,231	\$ 82,526

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23. INTANGIBLE ASSETS

As discussed in Note 21, during the fourth quarter, the Corporation recorded an impairment loss of \$4,141 related to customer relationships and tradename.

2012	ERP assets	Backlog and Agency Contracts	Customer Relationships and Tradename	Computer Software	Total
Cost					
Balance, December 31, 2011	\$ 20,342	\$ 20,600	\$ 54,410	\$ 3,605	\$ 98,957
Additions - externally acquired	3,844	-	13	341	4,198
Balance, December 31, 2012	24,186	20,600	54,423	3,946	103,155
Accumulated amortization					
Balance, December 31, 2011	1,249	14,252	8,074	3,286	26,861
Amortization expense	1,741	5,768	5,496	453	13,458
Impairment losses recognized in the year	-	-	4,141	-	4,141
Balance, December 31, 2012	2,990	20,020	17,711	3,739	44,460
Carrying amounts, December 31, 2012	\$ 21,196	\$ 580	\$ 36,712	\$ 207	\$ 58,695

2011	ERP assets	Backlog and Agency Contracts	Customer Relationships and Tradename	Computer Software	Total
Cost					
Balance, December 31, 2010	\$ 11,914	\$ 19,200	\$ 50,510	\$ 3,139	\$ 84,763
Additions - externally acquired	8,428	-	-	466	8,894
Acquisition (Note 5)	-	1,400	3,900	-	5,300
Balance, December 31, 2011	20,342	20,600	54,410	3,605	98,957
Accumulated amortization					
Balance, December 31, 2010	\$ 36	\$ 5,908	\$ 2,731	\$ 2,285	\$ 10,960
Amortization expense	1,213	8,344	5,343	1,001	15,901
Balance, December 31, 2011	1,249	14,252	8,074	3,286	26,861
Carrying amounts, December 31, 2011	\$ 19,093	\$ 6,348	\$ 46,336	\$ 319	\$ 72,096

24. TRADE AND OTHER PAYABLES

	December 31, 2012	December 31, 2011
Trade payables	\$ 133,210	\$ 158,230
Holdbacks and accrued liabilities	81,914	107,484
Short-term employee benefits	12,125	12,397
Dividend payable	2,940	2,923
Due to related parties	29	7
Other	3,224	2,816
	\$ 233,442	\$ 283,857

The Corporation's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 31 - Financial Instruments.

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25. PROVISIONS

Provisions are recognized when the Corporation has a settlement amount as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate of the obligation can be made. Reversals of provisions are made when new information arises in the year.

	Warranties	Restructuring costs	Claims and disputes	Subcontractor default	Acquisition purchase price provision	Total
Balance as December 31, 2010	\$ 5,485	\$ 4,386	\$ 3,005	\$ 3,600	\$ -	\$ 16,476
Provisions made during the year	5,206	906	549	2,077	1,209	9,947
Provisions used during the year	(420)	(1,903)	(14)	(1,216)	(685)	(4,238)
Provisions reversed in the year	(4,448)	(1,787)	(580)	(2,000)	(202)	(9,017)
Other	-	-	1	-	-	1
Balance at December 31, 2011	\$ 5,823	\$ 1,602	\$ 2,961	\$ 2,461	\$ 322	\$ 13,169
Balance at December 31, 2011	\$ 5,823	\$ 1,602	\$ 2,961	\$ 2,461	\$ 322	\$ 13,169
Provisions made during the year	3,006	150	2,212	3,309	-	8,677
Provisions used during the year	(524)	(1,116)	(729)	(798)	-	(3,167)
Provisions reversed in the year	(4,102)	-	(856)	(2,500)	(322)	(7,780)
Balance at December 31, 2012	\$ 4,203	\$ 636	\$ 3,588	\$ 2,472	\$ -	\$ 10,899

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

	December 31, 2012	December 31, 2011
Current portion of provisions	\$ 6,492	\$ 7,294
Long-term provisions	4,407	5,875
Total provisions	\$ 10,899	\$ 13,169

The following table represents the expected outflow of resources by category:

Expected outflow of resources	Warranties	Restructuring costs	Claims and disputes	Subcontractor default	Total
2013	\$ 4,203	\$ 266	\$ 2,023	\$ -	\$ 6,492
2014	-	177	783	-	960
2015	-	166	782	-	948
2016	-	27	-	-	27
2017	-	-	-	-	-
Thereafter	-	-	-	2,472	2,472
	\$ 4,203	\$ 636	\$ 3,588	\$ 2,472	\$ 10,899

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The following table represents the outflow of resources on a discounted basis using a rate between 1.17% to 1.77%:

Expected outflow of resources (DISCOUNTED)	Warranties	Restructuring costs	Claims and disputes	Subcontractor default	Total
2013	\$ 4,155	\$ 263	\$ 2,000	\$ -	\$ 6,418
2014	-	173	765	-	938
2015	-	161	756	-	917
2016	-	25	-	-	25
2017	-	-	-	-	-
Thereafter	-	-	-	2,074	2,074
	\$ 4,155	\$ 622	\$ 3,521	\$ 2,074	\$ 10,372

26. LONG-TERM DEBT

	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

(a) Revolving credit facility

On July 12, 2010, the Corporation obtained a \$200,000, senior secured revolving credit facility with a syndicate of chartered banks. On July 12, 2012, the Corporation entered into an agreement amending the terms and conditions for its credit facility. Changes to the credit facility, which became effective on July 12, 2012, include a 25 basis point reduction in the applicable interest rate, a one-year extension of the facility with a new maturity date of July 12, 2016, an increase in the swingline loan from \$10,000 to \$15,000 and additional flexibility on consents regarding dividends and acquisitions.

In December 2012, the Corporation entered into an amending agreement for the credit facility. Changes to the credit facility, which became effective on December 21, 2012, modified the financial covenant levels with respect to the Corporation's secured leverage, total leverage and interest coverage as follows:

- Increase in Debt to EBITDA covenant ratio to 3:1;
- Increase in Senior Debt to EBITDA covenant ratio to 3:1 for each quarter ending December 31, 2012, March 31, 2013, June 30, 2013 and September 30, 2013; 2.75:1 for the quarter ending December 31, 2013 and 2.5:1 on each quarter thereafter; and
- A decrease in the Interest Coverage ratio to 2.5:1 for each quarter ending December 31, 2012, March 31, 2013 and June 30, 2013; 2.75:1 for the quarter ending September 30, 2013 and 3:1 for each quarter thereafter.

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During the 90 day period before each anniversary date, the Corporation may extend the credit facility for an additional year. As such, there is no current portion of long-term debt related to the credit facility. The credit facility is supported by a comprehensive security package that includes all the present and after acquired assets of the Corporation. Interest is charged at a rate per annum equal to the Canadian prime rate, LIBOR rate or Bankers' Acceptance rate as applicable and in effect during the interest period, plus additional interest based on a pricing rate schedule. The additional interest per the pricing rate schedule depends upon the Debt to EBITDA ratio and ranges from a low of 75 basis points for Canadian prime rate loans to a high of 300 basis points for LIBOR and Bankers' Acceptances. The credit facility contains provisions for stamping fees on Bankers' Acceptances and LIBOR loans and standby fees on unutilized credit lines that vary depending on certain consolidated financial ratios.

Included as part of the credit facility is a swingline loan of \$15,000 that entitles the Corporation to enter into an overdraft position. This drawdown must be repaid within seven days of the drawdown date and is therefore classified as current. At December 31, 2012, there was no drawdown on the swingline.

Total finance costs on the credit facility for the year ended December 31, 2012 were \$3,720 (2011 – \$4,763). These finance costs represent the interest paid on the debt and amortization of the deferred financing charges of \$707 for the year ended December 31, 2012 (2011 – \$1,068) (Note 10).

(b) Finance contracts

The Corporation did not hold any finance contracts as at December 31, 2012. The previously held finance contracts related to construction and automotive equipment matured within 2012 and bore interest rates between 0.0% and 8.3%, with a weighted average effective interest rate on the contracts of 5.83% per annum. The previously held finance contracts were secured by various construction and automotive equipment with a carrying value of \$5,528 at December 31, 2011.

(c) Finance lease obligations

Finance leases relate to construction, automotive, and office equipment, and mature between September 2013 and December 2015 and bear interest at rates between 0.0% and 8.0%, with a weighted average effective interest rate on the contracts of 3.52% per annum (2011 – 5.66%). The Corporation has the option to purchase the equipment under lease at the conclusion of the lease agreements. Finance lease obligations are secured by construction and automotive equipment with a net book value of \$846 (2011 - \$6,437) and the lessors' title to the leased asset (Note 22).

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	Future Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31,	December 31,	December 31,	December 31,
	2012	2011	2012	2011
Not later than one year	\$ 853	\$ 779	\$ 828	\$ 739
More than 1 year but not later than 5 years	323	718	313	656
Later than five years	-	-	-	-
	\$ 1,177	\$ 1,497	\$ 1,141	\$ 1,395

	Interest	
	December 31,	December 31,
	2012	2011
Not later than one year	\$ 25	\$ 40
More than 1 year but not later than 5 years	10	62
Later than five years	-	-
	\$ 35	\$ 102

27. CONVERTIBLE DEBENTURES

On June 15, 2010, the Corporation issued an aggregate of \$75,000 principal amount of 6% convertible extendible unsecured subordinated debentures of the Corporation at a price of one thousand dollars per debenture. On June 15, 2010, an additional \$11,250 of the convertible debentures was issued pursuant to the exercise of the underwriters' over-allotment option. Total gross proceeds from the offering amounted to \$86,250. Net proceeds of the offering, after payment of the underwriters' fee and other expenses of the offering of \$3,401, were approximately \$82,849.

The maturity date of the debentures is June 30, 2015. The debentures bear interest at an annual rate of 6% payable in equal installments semi-annually in arrears on December 31 and June 30 in each year, commencing December 31, 2010. Each debenture is convertible into common shares of the Corporation at the option of the holder at any time after July 13, 2010 and prior to the earlier of the maturity date and the date of redemption of the debenture, at an initial conversion price of \$22.75 per common share, or a conversion rate of approximately 43.956 common shares per one thousand dollar principal amount of debentures. The Corporation has reserved 3,791,205 common shares for issuance upon conversion of the debentures.

From June 30, 2013 and at any time prior to the final maturity date, the Corporation may, at its discretion, redeem the debentures, in whole or in part from time to time, provided that the current market price is at least 125% of the conversion price or \$28.44 per common share, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Corporation may, at its discretion, elect to satisfy its obligation to pay the principal amount of the debentures by issuing and delivering common shares. The Corporation may also elect to satisfy its obligation to pay interest on the debentures by delivering common shares. The number of any shares issued will be determined based on market prices at the time of issuance. In the event of a change of control, the Corporation shall be required to offer to purchase all of the outstanding debentures on the date that is 30 business days after the date that such offer is delivered, at a purchase price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest to the purchase date.

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The Corporation presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the debentures, the Corporation recorded a liability of \$76,250, less related offering costs of \$2,945. Total finance costs for the year ended December 31, 2012, on \$86,250 of debentures were \$7,635 (2011 - \$7,412). These finance costs represent the 6% coupon on the debentures, accretion related to the portion of the debentures recorded in equity and amortization of deferred financing charges calculated using the effective interest method (Note 10). The residual amount of the equity component at the time of issuance was \$10,000 and is included in equity, net of its pro rata share of financing charges and deferred income tax amounts due to the difference between the accounting and tax basis of the liability portion.

	December 31,	
	2012	December 31, 2011
Principal amount - debt component	\$ 76,691	\$ 74,454
Accretion on convertible debentures	1,894	1,724
Amortization of deferred financing fees	566	512
Balance at the end of the period	\$ 79,151	\$ 76,691
<hr/>		
Principal amount - equity component, end of the period	\$ 7,100	\$ 7,100

28. SHARE-BASED PAYMENTS

(a) Description of share-based payment arrangements

As at December 31, 2012, the Corporation has the following share-based payment arrangements:

(i) Stock options

The Corporation's stock option plan permits unexercised vested options to be surrendered in exchange for the fair market value of common shares less the option exercise price, or the net settlement. The net settlement value, reduced by estimated income taxes required to be withheld, can be paid out in either common shares or cash and is at the sole discretion of the Board of Directors. Options issued under the plan for employees vest one-third each on the anniversary of the award date in each of the subsequent three years. All stock options awarded to date must be exercised over specified periods not to exceed five years from the date granted.

(ii) Performance share units ("PSUs")

PSUs are phantom shares that provide eligible participants with an equivalent cash value of common shares. Each grant has a cliff vesting of three years, subject to certain performance criteria. The Corporation has set the PSU performance criteria as comparative Total Shareholder Return ("TSR") relative to a competitive peer group. When each grant vests at three years, payout can be between 0% and 150% of the vested units, depending on the Corporation's relative positioning of TSR at December 31st, just prior to the end of the three year period. Each grant of PSUs is individually evaluated regularly with regard to vesting and payout assumptions.

The Corporation will settle the PSUs in cash within 90 days after actual results are determined and reported. The original cost of the PSU is equal to the fair market value at the date of grant.

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Changes in the amount of the liability due to fair value changes after the initial grant date at each reporting period are recognized as a compensation expense of the period in which the changes occur.

(iii) Deferred share units (“DSUs”)

The Corporation has a DSU plan under which plan participants may invest up to 100% of their annual remuneration (employees and non-employee Directors), retainer and meeting fees (non-employee Directors), or the Corporation’s cash bonus plan (employees). As of January 1, 2013, employees are no longer able to contribute under the DSU plan. DSUs are phantom shares which provide the holder with the right to receive a cash payment equal to the five-day weighted average of the value of the common shares at the payout date. DSUs are cash settled only when an employee or Director ceases to be an employee or Director. The terms of the plan allow for discretionary grants by the Board of Directors. Discretionary grants vest immediately. As DSUs are awarded, a liability is established and compensation expense is recognized in earnings upon grant. Changes in the amount of the liability due to fair value changes after the initial grant date are recognized as a compensation expense in the period in which the changes occur. DSUs are also adjusted for corporate dividends as they are paid.

(b) Terms and conditions for stock-based payment arrangements

The terms and conditions related to the grants of the stock option program are as follows:

Option series	Options Outstanding	Options Expiry Date	Exercise Price	Fair Value At Grant Date	Options Exercisable
(1) Issued on March 17, 2008	85,828	17-Mar-13	\$ 16.05	\$ 6.26	85,828
(2) Issued on August 14, 2008	52,645	14-Aug-13	16.50	6.53	52,645
(3) Issued on November 19, 2008	89,496	19-Nov-13	6.43	2.89	89,496
(4) Issued on March 24, 2009	80,167	24-Mar-14	8.08	3.89	80,167
(5) Issued on July 9, 2009	1,978	09-Jul-14	10.68	5.21	1,978
(6) Issued on August 21, 2009	86,858	24-Mar-14	13.15	6.50	86,858
(7) Issued on March 22, 2010	107,427	22-Mar-15	19.63	7.62	71,255
(8) Issued on July 20, 2010	65,000	20-Jul-15	18.34	8.96	43,333
(9) Issued on December 10, 2010	15,000	10-Dec-15	17.60	8.12	10,000
(10) Issued on January 10, 2011	2,353	10-Jan-16	17.78	8.50	784
(11) Issued on March 22, 2011	226,286	22-Mar-16	19.32	7.59	75,429
(12) Issued on August 29, 2011	10,000	29-Aug-16	13.98	5.37	3,333
(13) Issued on September 12, 2011	9,000	12-Sep-16	14.32	5.47	3,000
(14) Issued on December 13, 2011	30,000	13-Dec-16	10.46	3.63	10,000
(15) Issued on March 19, 2012	402,203	19-Mar-17	15.48	5.03	-
(16) Issued on August 17, 2012	115,740	17-Aug-17	8.19	2.16	-
As at December 31, 2012	1,379,981				614,106

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The terms and conditions related to the grants of the PSUs are as follows:

PSUs		Outstanding Units	Vesting Date	Fair Value At Grant Date
(1)	Issued March 22, 2010	42,896	22-Mar-13	\$ 19.63
(2)	Issued July 20, 2010	10,800	20-Jul-13	18.34
(3)	Issued March 22, 2011	67,729	22-Mar-14	19.32
(4)	Issued March 19, 2012	158,022	19-Mar-15	15.50
As at December 31, 2012 ⁽¹⁾		279,447		

⁽¹⁾ Of the PSUs outstanding, none of them were vested as of December 31, 2012.

(c) Stock options

Movement during the years

	December 31, 2012		December 31, 2011	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of the year	1,542,783	\$ 14.34	1,131,172	\$ 12.81
Granted	630,161	14.14	424,011	18.45
Forfeited	(513,187)	16.00	(8,657)	18.41
Surrendered	(242,776)	7.32	(3,743)	8.50
Expired	(37,000)	18.26	-	-
Outstanding, end of year	1,379,981	\$ 14.76	1,542,783	\$ 14.34

The options outstanding at December 31, 2012 have an exercise price in the range of \$6.43 to \$19.63 (2011 - \$6.43 to \$19.63) and a contractual life of 5 years (2011 - 5 years).

Inputs for measurement of grant date fair value

The grant date fair value of stock option plans was measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The amounts computed, using the Black-Scholes model, may not be indicative of the actual values realized upon the exercise of these options by the holders. The inputs used in the measurement of the fair values at grant date of the stock option payment plans are the following:

Option Series	Weighted average share price	Exercise price	Expected volatility	Option life	Dividend yield	Risk-free interest rate	Forfeiture rate
Issued on January 10, 2011	\$ 17.78	\$ 17.78	60.91%	5	0.0%	2.22%	6%
Issued on March 22, 2011	19.32	19.32	47.58%	5	0.0%	2.29%	6%
Issued on August 29, 2011	13.98	13.98	57.84%	5	2.4%	1.45%	6%
Issued on September 12, 2011	14.32	14.32	57.95%	5	2.4%	1.20%	6%
Issued on December 13, 2011	10.46	10.46	52.20%	5	2.4%	1.10%	6%
Issued on March 19, 2012	15.48	15.48	50.32%	5	3.0%	1.50%	5%
Issued on August 17, 2012	8.19	8.19	50.85%	5	5.9%	1.40%	5%

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Compensation costs are recognized over the vesting period as share-based compensation expense and an increase to the share-based payment reserve. When options are exercised, the fair value amount in the share-based payment reserve is credited to share capital. The following table illustrates the movement in the share-based payment reserve:

	December 31, 2012	December 31, 2011
Balance, beginning of the period	\$ 7,636	\$ 4,860
Stock compensation expense	2,192	2,818
Stock options forfeited	(1,795)	-
Stock options surrendered	(862)	(42)
Balance, end of period	\$ 7,171	\$ 7,636

(d) PSU

Movement during the years

	December 31, 2012	December 31, 2011
	Number of Performance Share Units	Number of Performance Share Units
Outstanding, beginning of the year	340,055	291,291
Granted	196,785	94,177
Forfeited	(82,267)	(1,805)
Vested and paid	(175,126)	(43,608)
Outstanding, end of year	279,447	340,055

(e) DSU

Movement during the years

	December 31, 2012	December 31, 2011
	Number of Deferred Share Units	Number of Deferred Share Units
Outstanding, beginning of the year	165,434	97,283
Granted	242,921	68,151
Vested and paid	(780)	-
Outstanding, end of year	407,575	165,434

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(f) Stock-based payment liability

	December 31, 2012	December 31, 2011
Carrying amount of liabilities for cash-settled arrangements		
- current portion	\$ 53	\$ 1,881
- long-term portion	3,734	2,061
Total carrying amount	\$ 3,787	\$ 3,942
Total intrinsic value of liability for vested benefits	\$ 2,274	\$ 1,753

The PSUs issued in 2009 vested on March 15, 2012 and were paid to unit holders in the first quarter of 2012 at a payout ratio of 109%, totalling \$2,963. Included in trade and other payables in the consolidated statements of financial position is the current portion of the PSUs to be paid out within the next twelve months. The long-term portion of PSUs and DSUs of \$3,734 at December 31, 2012 (2011 - \$2,061) is classified as share-based payments. The total intrinsic value reflects all of the DSUs outstanding, as none of the PSUs have vested.

(g) Stock compensation expense

	December 31, 2012	December 31, 2011
Stock compensation expense on stock options	\$ 2,192	\$ 2,818
Effects of changes in fair value and grants for PSUs	1,589	276
Effects of changes in fair value and grants for DSUs	897	82
	\$ 4,678	\$ 3,176

29. SHARE CAPITAL

Common shares and preferred shares

The Corporation's common shares have no par value and the authorized share capital is comprised of an unlimited number of common shares and an unlimited number of preferred shares issuable in series with rights set by the directors.

	December 31, 2012		December 31, 2011	
	Shares	Share Capital	Shares	Share Capital
Common Shares				
Issued, beginning of year	24,300,019	\$ 124,290	24,133,727	\$ 120,757
Dividend reinvestment plan	230,882	2,503	92,718	1,293
Repurchased in the year	(37,439)	(191)	(53,400)	(274)
Issued in the year	-	-	126,974	2,514
Issued, end of year	24,493,462	\$ 126,602	24,300,019	\$ 124,290

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(a) Common shares and dividends

The holders of common shares are entitled to receive dividends if, as and when declared by the Directors of the Corporation, to receive notice of, to attend and to one vote per share at all meetings of the shareholders of the Corporation, and to share equally in the remaining property of the Corporation upon liquidation, dissolution or wind-up of the Corporation.

On May 25, 2011, Churchill announced that it was implementing a dividend policy. The Corporation declared its seventh quarterly dividend of \$0.12 per share, which was paid on January 15, 2013 to shareholders of record on December 31, 2012.

In conjunction with the dividend policy, the Corporation implemented a Dividend Reinvestment Plan ("DRIP"). The DRIP allows eligible shareholders to direct cash dividends payable on their common shares of the Corporation to be reinvested in additional common shares which, when issued from treasury, will be issued at 95% of the weighted average market price of all common shares traded on the Toronto Stock Exchange on the ten trading days preceding the dividend payment date. DSU holders' accounts are adjusted for the Corporation's declared dividends.

As at December 31, 2012, trade and other payables includes \$2,940 (2011 - \$2,923) related to the dividend payable on January 15, 2013, of which \$437 (2011 - \$717) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

	December 31, 2012		December 31, 2011	
	Per Share	Total	Per Share	Total
Dividend payable, beginning of year	\$ 0.12	\$ 2,923	\$ -	\$ -
Total dividends declared during the year	0.48	11,718	0.36	8,749
Total dividends paid during the year (1)	(0.48)	(11,701)	(0.24)	(5,826)
Dividend payable, end of year	\$ 0.12	\$ 2,940	\$ 0.12	\$ 2,923

⁽¹⁾ Includes DRIP non-cash payments totaling \$2,504 (2011 - \$1,293) which are recorded through share capital.

The Corporation's shareholder rights plan grants shareholders, other than the acquiring person, the right to purchase from the Corporation the number of common shares having an aggregate market price equal to twice the exercise price. Such rights can only be exercised on the occurrence of a triggering event, which is defined as a person acquiring, or publicly announcing their intention to acquire 20% or more of the common shares, other than by an acquisition pursuant to a takeover bid permitted by the plan.

(b) Preferred share reserve

No preferred shares are currently issued. Subject to the provisions of the Business Corporations Act (Alberta), the Directors are authorized to fix the designation rights, privileges, restrictions and conditions attached to each series of preferred shares.

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The preferred shares of each series are entitled to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, rank on parity with the preferred shares of every other series and are entitled to preference over the common shares and over other shares of the Corporation ranking junior to the preferred shares.

If any cumulative dividends or amounts payable on the return of capital in respect of a series of preferred shares are not paid in full, all series of preferred shares shall participate ratably in respect of accumulated dividends and return of capital.

Unless otherwise determined by the Directors in the articles of amendment designating a series of preferred shares, the holder of each share of a series of preferred shares shall not be entitled to receive notice of or vote at any meeting of shareholders.

The preferred share reserve included in the statements of changes in equity arose in 1997 when the Corporation acquired and cancelled all of its issued Series A first and second preferred shares. Accumulated dividend entitlements were eliminated by the cancellation of the shares.

(c) Normal course issuer bid (“NCIB”)

On November 25, 2011, the Corporation received regulatory approval under Canadian securities laws to purchase common shares under a NCIB. The Corporation was entitled to purchase, for cancellation, up to 1,217,671 common shares under the NCIB which commenced on November 30, 2011 and continued until November 29, 2012. The Corporation did not renew the NCIB in November 2012.

During the year ended December 31, 2012, 37,439 (2011 – 53,400) common shares were purchased under the Corporation’s NCIB for a total of \$400 (2011 – \$585) or \$10.67 per share (2011 - \$10.96 per share).

Of the common shares repurchased during the year, 37,439 were cancelled, resulting in the average carrying value of \$192 (2011 - \$273) being allocated as a reduction in equity and \$208 (2011 - \$312) representing the consideration in excess of the assigned value being charged to retained earnings during the year. These shares have been excluded from the calculation of the weighted average common shares outstanding for the year ended December 31, 2012. In addition, the Corporation also cancelled 48,900 shares that were repurchased in 2011.

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

	December 31, 2012	December 31, 2011
Trade and other receivables	\$ 36,675	\$ 10,886
Inventory	1,241	401
Prepaid expenses	527	528
Costs in excess of billings	(5,362)	(10,452)
Trade and other payables	(48,005)	16,806
Contract advances and unearned income	(15,067)	(17,343)
	\$ (29,991)	\$ 826

31. FINANCIAL INSTRUMENTS

(a) Carrying values

	December 31, 2012	December 31, 2011
<i>Financial assets:</i>		
Cash and cash equivalents	\$ 33,774	\$ 59,445
Trade and other receivables	309,097	345,772
Service provider deposit - long-term portion	4,008	6,066
Long-term receivable, including current portion	275	834
<i>Financial liabilities:</i>		
Trade and other payables	\$ 233,442	\$ 283,857
Long-term debt, including current portion	52,737	61,836
Convertible debentures - debt component	79,151	76,691

(b) Fair values

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as trade and other payables, short-term borrowings and any other amounts that will result in future cash outlays.

The Corporation has determined that the fair value of its financial assets, including cash and cash equivalents, trade and other receivables, service provider deposit and long-term receivable and financial liabilities, including the trade and other payables, approximates their respective carrying amounts as at the statement of financial position dates, because of the short-term maturity of those instruments. The fair values of the Corporation's interest-bearing financial liabilities, including the revolving credit facility, finance leases and finance contracts, also approximates their respective carrying amounts due to the floating rate nature of the debt.

The fair value of the liability component of the convertible debentures is \$79,735 at December 31, 2012, which is based on an average market yield rate of 9.7% determined from marketable debentures traded with similar terms.

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The Corporation completed its fuel derivative contracts in 2012 (fair value of fuel derivative instrument assets at December 31, 2011 – \$21). Changes in the value of the fuel derivative instruments were recorded within prepaid expenses in the statements of financial position, and other income in the statements of (loss) earnings.

Fair value hierarchy

The Corporation values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Corporation exercises Level 2 valuations for its fair value determination of the derivative instruments and the liability portion of its convertible debentures.

(c) Financial risk management

(i) Credit risk

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

The Corporation assesses trade and other receivables for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation takes into consideration the customer's payment history, credit worthiness and the current economic environment in which the customer operates to assess impairment.

Prior to accepting new customers, the Corporation assesses the customer's credit quality and establishes the customer's credit limit. The Corporation accounts for specific bad debt provisions when management considers that the expected recovery is less than the actual amount of the accounts receivable.

The provision for doubtful accounts has been included in administrative costs in the consolidated statements of (loss) earnings and is net of any recoveries that were provided for in a prior year.

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The following table represents the movement in the allowance for doubtful accounts:

	December 31, 2012	December 31, 2011
Balance at beginning of the year	\$ 1,993	\$ 3,685
Impairment losses recognized on receivables	877	295
Amounts written off during the period as uncollectible	(898)	(793)
Amounts received during the year	51	(1,017)
Impairment losses reversed	(434)	(176)
Balance at the end of the year	\$ 1,589	\$ 1,993

Trade receivables shown on the statement of financial position include the following amounts that are current and past due at the end of the reporting period. The Corporation does not hold any collateral over these balances and does not have a legal right of offset against any amounts owed by the Corporation to the counterparty. The terms and conditions established with individual customers establish whether or not the receivable is past due.

	December 31, 2012	December 31, 2011
Current	\$ 91,727	\$ 173,958
1-60 days past due	77,119	43,962
61-90 days past due	17,078	6,665
More than 90 days past due	29,822	9,687
	\$ 215,746	\$ 234,272

In determining the quality of trade receivables, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Corporation had \$29,822 of trade receivables which were greater than 90 days past due with \$28,233 not provided for as at December 31, 2012 (2011 - \$9,687). Of the total, \$20,700 (69%) was concentrated in six customer accounts and of this amount \$18,676 remained outstanding as of March 17, 2013. The six customers are considered to be credit-worthy and there are presently no concerns regarding collectability of these accounts. Trade receivables are included in trade and other receivables on the statements of financial position.

(ii) Interest rate risk

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

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

	December 31, 2012	December 31, 2011
<i>Fixed rate instruments</i>		
Financial liabilities	\$ 79,151	\$ 76,691
<i>Variable rate instruments</i>		
Financial assets	\$ 33,774	\$ 59,445
Financial liabilities	52,737	61,836

Fixed rate sensitivity

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Variable rate sensitivity

A change of 100 basis points in interest rates at the reporting date would have increased or decreased equity and profit or loss by \$252 (2011 - \$422) related to financial assets and by \$393 (2011 - \$439) related to financial liabilities.

(iii) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages this risk through cash and debt management. In managing liquidity risk, the Corporation has access to committed short and long-term debt facilities as well as equity markets, the availability of which is dependent on market conditions.

The Corporation believes it has sufficient funding through the use of these facilities to meet foreseeable financial liability obligations.

The following are the contractual obligations, including interest payments as at December 31, 2012, in respect of the financial obligation of the Corporation. Interest payments on the revolving credit facility have not been included in the table below since they are subject to variability based upon outstanding balances at various points throughout the year.

	Carrying amount	Contractual cash flows	0 - 6 months	6 - 12 months	12 - 24 months	After 24 months
Trade and other payables	\$ 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

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(iv) Fuel price risk management

The Corporation is exposed to the risk of volatile diesel fuel prices on large projects. To mitigate the risk of sudden and substantial movements in fuel prices causing volatility in project margins and profitability, the Corporation may enter into derivative instrument contracts.

On August 8, 2011, the Corporation entered into heating oil financial derivative contracts to help manage the volatility of diesel fuel costs for a multi-year project where significant consumption of diesel fuel was required. The contract required the Corporation to pay a fixed price of \$0.7563 per litre to \$0.7727 per litre and receive the floating market price at each settlement date from the counterparty on 6,100,000 litres of heating oil. The contracts expired between May and October 2012.

32. CAPITAL MANAGEMENT

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, and the payment of dividends, while taking a prudent approach towards financial leverage and management of financial risk.

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

The Corporation intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, raise debt or refinance existing debt with different characteristics.

The primary non-IFRS measures used by the Corporation to monitor its financial leverage are its ratios of long-term indebtedness to capitalization and long-term indebtedness to EBITDA. For the purposes of capital management, long-term indebtedness includes long-term debt and the debt component of convertible debentures, both net of deferred financing charges.

Over the long-term, the Corporation strives to maintain a target long-term indebtedness to capitalization percentage in the range of 20 to 40 percent, calculated as follows:

	December 31, 2012	December 31, 2011
Long-term indebtedness:		
Long-term debt, excluding current portion net of deferred financing fees	\$ 51,909	\$ 60,433
Convertible debentures - debt component net of deferred financing fees	79,151	76,691
Total long-term indebtedness	131,060	137,124
Total equity	235,150	309,141
Total capitalization	\$ 366,210	\$ 446,265
Indebtedness to capitalization percentage	36%	31%

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The Corporation targets a long-term indebtedness to EBITDA ratio of 1.5x to 3.0x over a three to five-year planning horizon. At December 31, 2012, the long-term indebtedness to EBITDA was 3.31x (2011 – 1.88x) calculated on a trailing twelve-month basis as follows:

	December 31, 2012	December 31, 2011
Total long-term indebtedness	\$ 131,060	\$ 137,124
Net earnings and comprehensive income	\$ (61,862)	\$ 24,942
Add:		
Finance costs	11,578	12,493
Income tax expense	(1,888)	8,518
Depreciation and amortization	27,170	26,924
Impairment loss	64,600	-
EBITDA	\$ 39,598	\$ 72,877
Long-term indebtedness to EBITDA ratio	3.31x	1.88x

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

The Corporation also manages its capital through a rolling forecast of financial position and expected operating results. In addition, the Corporation establishes and reviews operating and capital budgets and cash flow forecasts in order to manage overall capital with respect to financial covenants. The Corporation's revolving credit facility is subject to the covenants described below. The covenants listed below are measured each quarter on March 31, June 30, September 30 and December 31. The Corporation was in full compliance with its credit facility covenants at December 31, 2012 and December 31, 2011. For the years ending 2012 and 2013, the Corporation's financial covenants are as follows:

- Working capital – Working capital represents total current assets less total current liabilities as classified on the consolidated statements of financial position. The Corporation's working capital ratio cannot be less than 1.1:1.
- Interest coverage – Interest coverage represents the ratio of EBITDA to interest expense for the 12 months ending as at the end of the fiscal quarter. For the purposes of the revolving credit facility, EBITDA is defined as earnings or loss before interest, income taxes, depreciation and amortization, non-cash gains and losses from financial instruments, stock based compensation and any other non-cash items deducted in the calculation of net earnings. The Corporation's interest coverage ratio must exceed 2.5:1 for each quarter on December 31, 2012, March 31, 2013 and June 30, 2013; 2.75:1 for the quarter ending September 30, 2013 and 3:1 for each quarter thereafter.
- Debt to EBITDA – Debt represents total indebtedness and total obligations of the Corporation and its subsidiaries, excluding convertible debentures. The Corporation's total debt to EBITDA ratio cannot exceed 3:1.
- Senior Debt to EBITDA – Senior Debt represents all debt other than subordinated or unsecured debt. The Corporation's senior debt to EBITDA cannot exceed 3:1 for each quarter on December 31, 2012, March 31, 2013, June 30, 2013 and September 30, 2013; 2.75:1 for the quarter ending December 31, 2013 and 2.5:1 on each quarter thereafter.

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33. PRINCIPAL SUBSIDIARIES

Details of the Corporation's principal operating subsidiaries at December 31, 2012 are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held
Stuart Olson Construction Ltd.	Building construction	Alberta	100%
Churchill Services Group Inc.	Corporate	Alberta	100%
411007 Alberta Ltd.	Corporate	Alberta	100%
TCC Holdings Inc.	Corporate	Alberta	100%
Broda Construction Inc.	Civil construction	Saskatchewan	100%
Canem Holdings Ltd.	Electrical contracting	British Columbia	100%

34. RELATED PARTY TRANSACTIONS

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

In the year ended December 31, 2011, the Corporation incurred legal fees with a law firm of which Brian W.L. Tod, a Director of the Corporation, is counsel and a former partner. The amount incurred in 2011 was \$175, and \$1 of this amount was included in accounts payable at December 31, 2011. Effective June 30, 2011, Mr. Tod retired as a partner from the law firm. As such, the law firm is no longer a related party for the year ended December 31, 2012.

The Corporation incurred facility costs during the year ended December 31, 2012 of \$136 (2011 – \$155) 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 Corporation incurred facility costs during the year ended December 31, 2012 of \$432 (2011 - \$424) related to the rental of a building owned by Broda Holdings (2009) Inc., a company owned by the president of Broda. At December 31, 2012, \$29 is included in trade payables (2011 - \$7).

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35. OPERATING LEASE ARRANGEMENTS

The Corporation leases certain construction equipment, vehicles, office premises and equipment under operating leases. Future minimum lease payments over the next five years and thereafter are as follows:

Non-cancellable operating lease commitments:

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

Management has applied judgment in determining the classification of these leases as operating leases. Certain construction equipment, vehicles and equipment leases and office premise leases have been classified as operating leases since title does not pass, the monthly amounts paid do not represent substantially all of the fair value of the leased assets, the lease term is not for the major part of the economic life and the Corporation does not participate in the residual value of these assets.

36. CONTINGENCIES, COMMITMENTS AND GUARANTEES

(a) Contingencies

In the normal course of the Corporation's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings and legal actions relating to, among other things, construction disputes for which insurance is not available, human resources matters, personal injuries, property damage and general commercial and contractual matters arising from its business activities. In view of the quantum of the amounts claimed, the insurance coverage maintained by the Corporation and, in some cases, the provisions included in the Corporation's financial statements for any potential settlements in respect of these matters, management of the Corporation does not believe that any existing litigation or pending litigation will ultimately result in a final judgment against the Corporation that would have a material adverse impact on the financial position or results of operations of the Corporation. Litigation is, however, inherently uncertain. Accordingly, adverse outcomes to current litigation or pending litigation are possible. These potentially adverse outcomes could include financial loss, damage to the Corporation's reputation or reduction of prospects for future contract awards.

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Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts as well as obligations of associates in certain joint ventures.

(b) Commitments and guarantees

The Corporation completed its non-discretionary five year commitment of \$1,000 to Southern Alberta Institute of Technology (“SAIT”) Polytechnic in 2012 and had no related accrued liability as at December 31, 2012 (2011 - \$300).

The Corporation is a participant in joint ventures for which it has provided joint and several guarantees, increasing the maximum potential payment to the full value of the work remaining under the contract. The Corporation has issued several parental guarantees in support of significant projects being undertaken by the general contracting and industrial services segments.

Furthermore, there are various outstanding parental guarantees provided by the Corporation in respect of the obligations and performance of the Corporation’s operating segments.

(c) Letters of credit

The Corporation has provided several letters of credit in the amount of \$15,646 in connection with various projects and joint ventures (2011 - \$23,926), of which \$6,500 are financial letters of credit (2011 - \$nil). These letters of credit are issued utilizing the credit facilities of the Corporation; however, only the financial letters of credit reduce the maximum availability under the revolving credit facility.

37. EVENTS AFTER THE REPORTING PERIOD

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 29, 2013.

Corporate & Shareholder Information

Officers

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

David LeMay, MBA
President and Chief Operating Officer

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

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

Gord Broda
President and Chief Operating Officer
Broda Construction Inc.

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

Al Miller
President
Canem Systems Ltd.

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

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

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

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

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

Directors

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

Wendy L. Hanrahan, CA ⁽¹⁾ ⁽²⁾

Harry A. King, B.A., CA ⁽¹⁾

Carmen R. Loberg ⁽²⁾ ⁽⁴⁾

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

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

Ian M. Reid, B.Comm. ⁽¹⁾ ⁽³⁾

George M. Schneider ⁽²⁾ ⁽⁴⁾

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

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Human Resources &
Compensation Committee

⁽³⁾ Member of the Corporate Governance &
Nominating Committee

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

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

Convertible Debentures:

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

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

Notice of Annual Meeting

The Annual General Meeting will be held on May 23, at 2:00 pm MDT
at the Metropolitan Centre, 333-4 Avenue SW, Calgary, Alberta.

the
Churchill

Corporation

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

www.churchillcorporation.com
