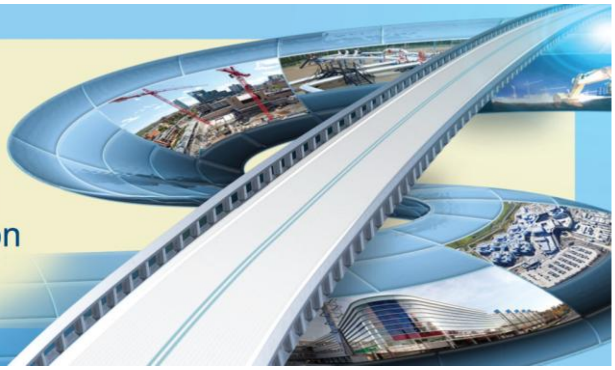
The road
to higher value

the
Churchill
Corporation



Q2 **SECOND QUARTER INTERIM REPORT**
For the three and six months ended June 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation ("Churchill" or the "Corporation"), for the three and six months ended June 30, 2012, contains information current to August 8, 2012 and should be read in conjunction with the June 30, 2012 Condensed Consolidated Interim Financial Statements and related notes thereto. Unless otherwise specified all amounts are expressed in Canadian dollars.

On January 1, 2011, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, became the Canadian generally accepted accounting principles ("GAAP") for the basis of preparation of financial statements for publicly accountable enterprises. The information presented in this MD&A, including information relating to comparative periods in 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;
- The expectation that any of the Corporation's operating companies will improve or maintain their business prospects, maintain project schedules or continue to grow their revenue, earnings and backlog in any manner whatsoever including, without limitation, through margin expansion, organic growth, geographic expansion 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, government and institutional spending in Western Canada, margin expansion in certain of the Corporation's operating companies, the possibility of available acquisition targets and the ability of the Corporation to compete for projects;
- The Corporation's projected use of cash resources including, without limitation, its capital expenditures and its plans to pay down its indebtedness; 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 of increasing competition;
- The global demand for oil and the effect on oil and natural gas 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 further economic slowdown in the U.S., Canada and/or other countries;
- Weak capital and/or credit markets;
- Fluctuations in currency and interest rates;
- Changes in laws and regulations;
- Timing of completion of client's capital or maintenance projects;
- Competition and pricing pressures;
- Delays and/or terminations of projects;
- Action or non-action of customers, suppliers and/or partners;
- Unpredictable weather conditions; and
- Those other risk factors described in the Corporation's most recent Annual Information Form filed under the Corporation's System for Electronic Document Analysis and Retrieval ("SEDAR") profile at www.sedar.com.

The forward-looking information contained in this MD&A is current to 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.

Overview of Business and Strategy

Churchill is a dividend paying Canadian corporation that provides institutional, commercial and industrial construction and maintenance services. It is headquartered in Calgary, Alberta and, as of June 30, 2012, had 3,551 employees (797 salaried employees and 2,754 hourly employees). Churchill is focused on growing revenue and earnings through organic growth and expanded geographical presence (primarily in Western Canada) in all of its operating segments, accelerating growth in its higher margin Industrial Services and Commercial Systems segments, and client leverage through integrating the industrial services of its operating companies.

Vision

To be the most admired construction and industrial services company in Canada.

Core Values

- Acting with INTEGRITY;
- Respecting and trusting PEOPLE;
- Striving for EXCELLENCE in an exciting TEAM environment;
- Demonstrating INNOVATION and ENTREPRENEURIAL spirit; and
- Making SAFETY, HEALTH and the ENVIRONMENT a key priority in all we do.

Mission

- Creating value for our shareholders, clients, employees and partners;
- Attracting, retaining and developing the best people;
- Exceeding customer expectations by being results driven;
- Achieving sustainable growth through continuous improvement;
- Delivering consistently superior operating and financial results; and
- Contributing positively to the community in which we work, live and play.

Strategy

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

Declaration of Common Share Dividend

On August 8, 2012 Churchill's Board of Directors declared a common share dividend of $0.12 per share. The dividend is designated as an eligible dividend under the *Income Tax Act* (Canada) and is payable October 16, 2012 to shareholders of record on September 28, 2012. The ex-dividend date is September 26, 2012. 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 levels may vary depending on a variety of factors and conditions existing from time-to-time, including debt service requirements, operating costs and other factors affecting cash sources and uses.

Senior Management Changes

On June 8, 2012, Churchill announced that Don Pearson, President & Chief Operating Officer of Stuart Olson Dominion Construction Ltd. ("Stuart Olson Dominion"), intends to retire on December 31, 2012. A transition plan is underway to consider and evaluate internal and external candidates to replace Mr. Pearson. Mr. Pearson remains committed to the success of Stuart Olson Dominion and its many customers and their active and potential construction projects.

On July 31, 2012, Churchill announced the appointment of David LeMay to the position of President and Acting Chief Executive Officer, effective immediately. Churchill's Board is working toward confirming a Chief Executive Officer for the Company. Mr. LeMay was formerly president of Churchill Services Group ("CSG"). He replaces James Houck, who left the Corporation to pursue other interests. Mr. LeMay has 25 years of experience in the construction industry, including seven years with subsidiaries of Churchill. He earned his Master of Business Administration from Queen's University while also leading CSG.

On July 31, 2012, Churchill also announced that Ron Martineau will succeed Mr. LeMay on an interim basis as President of CSG. Mr. Martineau, who retired earlier in 2012, was formerly President and Chief Operating Officer of Insulation Holdings Inc. ("Insulation Holdings").

Reporting by Segment

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 forms the General Contracting segment. Canem Holdings Ltd. ("Canem") forms the Commercial Systems segment. Each of these companies generated greater than 10% of the consolidated earnings of the Corporation in 2011 and each is of a size that justifies 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 types of customers, in that Stuart Olson Dominion's customers are primarily project owners and Canem typically subcontracts to general contractors.

In December 2011, Churchill announced an organizational realignment of its Industrial Services segment, to better meet the needs of industrial customers and deliver accelerated growth and business performance. On January 1, 2012, 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 Insulation Holdings. CSG and Broda Construction Inc. ("Broda") collectively form the Industrial Services segment. Churchill reports these companies collectively within the Industrial Services segment on the basis that they have similar economic characteristics and are similar in terms of services provided, production processes, customer base, 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, and during the last several years both have become key players in Western Canada's building markets. Stuart Olson Dominion has branch offices in Richmond, British Columbia; Calgary, Alberta; Edmonton, Alberta; Saskatoon, Saskatchewan; 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 builders 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 the first six months of 2012, Stuart Olson Dominion comprised 57% of Churchill's consolidated revenue (excluding intersegment eliminations), 21% of earnings before interest, taxes, depreciation and amortization ("EBITDA") (excluding the Corporate and Other segment and intersegment eliminations), and 68% of total backlog.

Commercial Systems

Commercial Systems is comprised of Canem, which designs, builds, maintains and services electrical and data communication systems for commercial, institutional, light industrial and multi-family residential customers. With its head office in Richmond, British Columbia, 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 scheduled maintenance for critical component installations; budgeting and pre-construction services; and management of regional and national contracts for multi-site installations. Churchill's acquisition of

McCaine Electric Ltd. (“McCaine”), which closed on April 29, 2011, expanded Canem’s Western Canadian footprint into Manitoba.

For the first six months of 2012, Canem comprised 14% of Churchill’s consolidated revenue (excluding intersegment eliminations), 38% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations), and 14% of total backlog.

Industrial Services

Industrial Services consists of CSG and Broda.

CSG has three divisions: Laird Electric, Laird Constructors and Insulation Holdings.

- 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 industry in Ontario, Manitoba and Saskatchewan.
- Insulation Holdings 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.

CSG and Broda have many similarities, including common customers such as Saskatchewan’s major potash and uranium mining organizations.

In the first six months of 2012, Industrial Services comprised 29% of Churchill’s consolidated revenue (excluding intersegment eliminations), 41% of EBITDA (excluding the Corporate and Other segment and intersegment eliminations), and 18% of total backlog.

Corporate and Other

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

Additionally, the Corporation reports certain assets-held-for-sale which include agricultural lands located near Lamont, Alberta and a commercial yard in Edmonton, Alberta, which are no longer required by the Corporation at June 30, 2012.

Selected Interim Financial Information

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

	Three months ended June 30		Six months ended June 30	
($millions, except per share amounts)	**2012**	**2011**	**2012**	**2011**
Contract revenue	$ 295.8	$ 340.9	$ 629.0	$ 645.6
Contract income	25.9	35.7	61.5	72.3
EBITDA from continuing operations[1]	4.6	17.0	18.5	34.2
Net earnings (loss) from continuing operations	(4.2)	4.8	(1.1)	10.6
Net earnings from discontinued operations	-	1.0	0.1	0.9
Net earnings (loss)	(4.2)	5.8	(1.0)	11.5
Earnings (loss) per common share from continuing operations				
- Basic	$ (0.17)	$ 0.20	$ (0.04)	$ 0.44
- Diluted	(0.17)	0.19	(0.04)	0.43
Net (loss) earnings per common share				
- Basic	(0.17)	0.24	(0.04)	0.48
- Diluted	(0.17)	0.22	(0.04)	0.47
Funds from operations[1]	$ 4.6	$ 17.3	$ 20.1	$ 36.2
Funds from operations per common shares - Basic[1]	$ 0.19	$ 0.71	$ 0.83	$ 1.50
			June 30, 2012	**December 31, 2011**
Backlog[1]			$ 1,570.4	$ 1,842.6
Working capital[1]			95.7	86.0
Long-term debt (excluding current portion)			69.7	60.4
Convertible debentures (excluding equity portion)			77.9	76.7
Total assets			817.7	888.5

Note: (1) *"EBITDA" is earnings from continuing operations before interest, taxes, depreciation and amortization; "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.*

Overview

The Corporation has historically generated virtually all of its revenue from the four Western Canadian provinces of Manitoba, Saskatchewan, Alberta and British Columbia. In 2011, with the establishment of Laird Constructors, a division of CSG headquartered in Sudbury, Ontario, the Corporation took steps to grow its business east of Manitoba. The following table sets out selected interim results by operating segment:

($millions, except margin percent)	Three months ended June 30, 2012 Total	 General Contracting	 Commercial Systems	 Industrial Services	 Corporate and Other	 Intersegment Eliminations
Contract revenue	$ 295.8	$ 177.3	$ 46.4	$ 84.8	$ -	$ (12.8)
Contract income	25.9	8.5	9.6	6.1	-	1.7
Contract income margin	8.7%	4.8%	20.6%	7.2%	-	-
Administrative expenses	23.3	10.0	6.2	5.2	1.9	(0.1)
EBITDA[(1)]	4.6	(0.7)	3.5	1.9	(1.9)	1.7
EBITDA margin	1.5%	-0.4%	7.6%	2.3%	-	-
EBT[(1)]	(5.4)	(1.6)	2.9	(0.1)	(8.2)	1.6
Backlog[(1)]	$ 1,570.4	$ 1,064.4	$ 218.0	$ 288.0	$ -	$ -
	Three months ended June 30, 2011					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 340.9	$ 215.9	$ 46.0	$ 93.1	$ -	$ (14.2)
Contract income	35.7	15.4	10.6	9.5	-	0.3
Contract income margin	10.5%	7.1%	23.0%	10.2%	-	-
Administrative expenses	20.5	8.3	5.7	5.1	2.2	(0.8)
EBITDA[(1)]	17.0	7.6	5.3	5.2	(2.2)	1.1
EBITDA margin	5.0%	3.5%	11.6%	5.6%	-	-
EBT[(1)]	7.0	6.6	4.8	4.0	(9.4)	1.0
Backlog[(1)(2)]	$ 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.*

(2) As of December 31, 2011.

For the three months ended June 30, 2012, consolidated contract revenue was $295.8 million, compared to $340.9 million in the second quarter of 2011, a 13% decrease. The General Contracting segment's revenue decreased by $38.6 million or 18%, the Commercial Systems segment increased revenue by $0.4 million or 1%, and the Industrial Services segment revenue decreased by $8.3 million or 9%.

Contract income decreased from $35.7 million (10.5% of revenue) in the second quarter of 2011 to $25.9 million (8.7% of revenue) in the three months ended June 30, 2012. The $9.8 million decrease in contract income is made up of decreases in the General Contracting, Commercial Systems and Industrial Services operating segments of $6.9 million (45%), $1.0 million (10%) and $3.3 million (35%) respectively, partly offset by an increase in the intersegment elimination of $1.4 million.

Administrative expenses for the second quarter of 2012 amounted to $23.3 million (7.9% of revenue) compared to $20.5 million (6.0% of revenue) in the three months ended June 30, 2011. Administrative expenses increased by $1.7 million (21%) in the General Contracting segment, $0.5 million (10%) in the Commercial Systems segment, and $0.1 million (2%) in the Industrial Services segment. Administrative expenses decreased by $0.3 million (12%) in the Corporate and Other segment ($0.7 million increase in the intersegment elimination).

The net impact of the aforementioned decrease in contract income and increase in administrative expenses, as well as a $0.4 million increase in other income, was a $12.4 million decrease in second quarter EBITDA to $4.6 million versus $17.0 million in the three months ended June 30, 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. These assets resulted in an amortization charge of $3.6 million in the second quarter of 2012. The assets acquired relate to the acquisition of Dominion, Canem and Broda in 2010 and McCaine in 2011. The comparable charge in the second quarter of 2011 was $3.9 million. The backlog and agency intangibles are amortized based on management's expectation of when the related revenues will be earned. The net book value of intangible assets as at June 30, 2012 was $67.6 million (December 31, 2011 - $72.1 million). Refer to *Note 13* to the Condensed Consolidated Interim Financial Statements for additional information.

EBT for the second quarter of 2012 was $(5.4) million compared to $7.0 million in the second quarter of 2011 (decrease of $12.4 million). This decline reflects the $12.4 million decrease in EBITDA described above as well as an increase in depreciation and amortization of $0.6 million primarily due to growth of Broda's fleet of equipment, partly offset by a decrease in interest expense of $0.6 million.

The Corporation's consolidated net loss from continuing operations for the second quarter of 2012 was $4.2 million compared to net earnings from continuing operations of $4.8 million in the same period in 2011, a $9.0 million decrease, resulting from the $12.4 million decrease in EBT partly offset by a reduction in tax expense of $3.4 million, from an expense of $2.2 million to a recovery of $(1.2) million.

Churchill's consolidated net loss for the second quarter of 2012 was $4.2 million, compared to net earnings of $5.8 million including net earnings from discontinued operations of $1.0 million in the second quarter of 2011.

In the three months ended June 30, 2012, funds from operations of $4.6 million decreased by $12.7 million (73%) from $17.3 million in the second quarter of 2011. Funds from operations are discussed in the Capital Resources and Liquidity - Summary of Cash Flows section that follows.

	Six months ended June 30, 2012					
($millions, except margin percent)	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 629.0	$ 371.5	$ 93.1	$ 189.6	$ -	$ (25.3)
Contract income	61.5	21.5	20.1	16.7	-	3.3
Contract income margin	9.8%	5.8%	21.6%	8.8%	-	-
Administrative expenses	49.7	19.7	12.3	10.7	7.2	(0.1)
EBITDA[(1)]	18.5	4.7	8.5	9.2	(7.2)	3.3
EBITDA margin	2.9%	1.3%	9.1%	4.8%	-	-
EBT[(1)]	(1.1)	2.8	7.3	5.4	(19.6)	3.0
Backlog[(1)]	$ 1,570.4	$ 1,064.4	$ 218.0	$ 288.0	$ -	$ -
	Six months ended June 30, 2011					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	$ 645.6	$ 423.7	$ 87.4	$ 157.4	$ -	$ (22.8)
Contract income	72.3	30.1	22.3	19.7	-	0.2
Contract income margin	11.2%	7.1%	25.6%	12.5%	-	-
Administrative expenses	42.4	15.6	11.3	9.8	6.5	(0.9)
EBITDA[(1)]	34.2	16.6	11.6	11.5	(6.5)	1.0
EBITDA margin	5.3%	3.9%	13.2%	7.3%	-	-
EBT[(1)]	15.2	14.8	10.7	9.2	(20.3)	0.8
Backlog[(1)(2)]	$ 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.*
(2) As of December 31, 2011.

For the six months ended June 30, 2012, consolidated contract revenue was $629.0 million, compared to $645.6 million in the first half of 2011, a 3% decrease. Contract income decreased from $72.3 million, or 11.2% of revenue, in the first half of 2011 to $61.5 million, or 9.8% of revenue, in the six months ended June 30, 2012. Of the $10.8 million decrease in contract income, the General Contracting segment reported a decrease of $8.7 million, while the Commercial Systems and Industrial Services segments reported decreases of $2.3 million and $3.0 million, respectively (change in the intersegment elimination of $3.1 million). EBITDA in the first half of 2012 decreased by 46% compared to the first half of 2011 (first six months of 2012 - $18.5 million, first six months of 2011 - $34.2 million). EBT for the first half of 2012 was $(1.1) million compared to $15.2 million in the first six months of 2011. The Corporation's consolidated net loss from continuing operations for the first six months of 2012 was $1.1 million compared to net earnings from continuing operations of $10.6 million in the same period of 2011. Net loss for the six months ended June 30, 2012, was $1.0 million, compared to net earnings of $11.5 million including net earnings from discontinued operations of $0.9 million in the first six months of 2011.

Churchill's backlog, including work-in-hand, at June 30, 2012 was $1,570.4 million, compared to a record $1,842.6 million at December 31, 2011, a $272.2 million or 15% decrease. The Corporation's backlog consists of work-in-hand of $906.9 million (December 31, 2011 – $901.1 million) and active backlog of $663.6 million (December 31, 2011 – $941.5 million). The backlog is made up of approximately 54% CM projects, 26% cost-plus arrangements (combined total of 80% CM and cost-plus) and 20% 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 price and schedule risk than tendered projects because the price and schedule setting process is collaborative, rather than competitive. Only under cost-plus contracts does the contractor not carry price and schedule risk. On a segmented basis, backlog at June 30, 2012 was $1,064.4 million in General Contracting

(December 31, 2011 – $1,445.3 million), $218.0 million in Commercial Systems (December 31, 2011 – $133.3 million) and $288.0 million in the Industrial Services segment (December 31, 2011 – $264.0 million). New contract awards and net increases in contract value of $416.8 million were added to work-in-hand in the second quarter of 2012.

Assets Held for Sale

Tables that set out the net assets held for sale are included in *Note 10* to the Condensed Consolidated Interim Financial Statements. These amounts are associated with agricultural lands located near Lamont, Alberta and a commercial yard in Edmonton, Alberta, which are no longer required by the Corporation.

Interim Results of Operations

General Contracting (Stuart Olson Dominion)

For the three months ended June 30, 2012, Stuart Olson Dominion's revenue was $177.3 million, compared to $215.9 million in the second quarter of 2011. This $38.6 million or 18% decrease is primarily attributable to being in the early stages of construction on several new projects, and delays in executing backlog. For example, construction of three Alberta hospitals that were announced in July 2011 is in the early stages of construction, with initial work started in September 2011 for the Edson hospital, in January 2012 for the Lethbridge hospital, and in February 2012 for the Medicine Hat hospital.

Stuart Olson Dominion's contract income in the second quarter of 2012 decreased by $6.9 million (45%) to $8.5 million, from $15.4 million for the three months ended June 30, 2011. The 2012 second quarter contract income margin was 4.8% compared to 7.1% in the second quarter of 2011. The decline in contract income is primarily related to increases in the estimated costs to complete the Investors Group Field stadium project in Winnipeg, Manitoba. Construction delays in completing structural steel work resulted in modifications to project schedule and execution, causing additional costs to be incurred and the profitability of the project to be reassessed. Stuart Olson Dominion will be pursuing a claim against the structural steel subcontractor in an effort to recover these additional costs.

Remaining legacy Dominion projects in backlog as of June 30, 2012, excluding Investors Group Field, were valued at $17.5 million, including $3.1 million of tendered projects.

Stuart Olson Dominion's administrative expenses were $10.0 million (5.6% of revenue) in the three months ended June 30, 2012 compared to $8.3 million (3.8% of revenue) in the second quarter of 2011. The $1.7 million (21%) increase is primarily related to tenant improvements, training and recruiting costs, professional fees, and costs related to optimization of the company's SAP-based ERP system.

EBITDA for Stuart Olson Dominion in the second quarter of 2012 was $(0.7) million compared to $7.6 million in the second quarter of 2011. This $8.3 million decrease was mainly due to the aforementioned decrease in contract income and increase in administrative expenses, partly offset by a $0.3 million increase in other income. The other income in the second quarter of 2012 related to the sale of miscellaneous assets.

For the six months ended June 30, 2012, Stuart Olson Dominion's revenue was $371.5 million, compared to $423.7 million in the first half of 2011. Stuart Olson Dominion's contract income in the first half of 2012 decreased by $8.6 million, or 29%, to $21.5 million from $30.1 million for the first six months of 2011. The contract income margin for the first half of 2012 was 5.8% compared to 7.1% in the first half of 2011. EBITDA for Stuart Olson Dominion in the first half of 2012 was $4.7 million compared to $16.6 million in the same period of 2011.

Stuart Olson Dominion had backlog of $1,064.4 million as at June 30, 2012, compared to backlog of $1,445.3 million at December 31, 2011, a $380.9 million (26%) decrease. At June 30, 2012, approximately 72% of Stuart Olson Dominion's backlog was composed of CM assignments, 20% was cost-plus projects (combined total of 92% CM and cost-plus) and 8% were tendered projects. The June 30, 2012 backlog consisted of $587.7 million of work-in-hand and $476.7 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 second quarter of 2012 with $535.6 million of work-in-hand, contracted $229.5 million of additional work-in-hand during the quarter and executed $177.3 million of construction activity.

Commercial Systems (Canem)

The Commercial Systems segment's second quarter 2012 revenue was $46.4 million, compared to $46.0 million in the three months ended June 30, 2011, a $0.4 million (1%) increase.

Canem's contract income in the second quarter of 2012 decreased by $1.0 million (9%) to $9.6 million, from $10.6 million in the second quarter of 2011. Canem's second quarter 2012 contract income margin was 20.6% compared to 23.0% in the second quarter of 2011. The reduced margin is attributable to the execution of lower margin projects.

Canem's indirect and administration expenses were $6.2 million (13.4% of revenue) in the second quarter of 2012 compared to $5.7 million (12.3% of revenue) in the three months ended June 30, 2011. The increase is largely related to the impact of an additional month of expenses associated with McCaine Electric in the second quarter of 2012. McCaine was acquired as of April 29, 2011.

EBITDA for Canem in the second quarter of 2012 was $3.5 million (a 7.6% EBITDA margin) compared to $5.3 million (an 11.6% EBITDA margin) for the second quarter of 2011. This $1.8 million (34%) decrease was due to the aforementioned decrease in contract income and increase in administrative expenses, as well as a $0.3 million decrease in other income.

For the first half of 2012, Canem's revenue was $93.1 million, compared to $87.4 million in the first half of 2011. Canem's contract income for the first six months of 2012 was $20.1 million or 21.6% of revenue, versus $22.3 million or 25.6% of revenue in the first six months of 2011. Canem's administrative expenses were $12.3 million (13.2% of revenue) in the first half of 2012, whereas they were $11.3 million (13.0% of revenue) in the first half of 2011. Canem reported EBITDA for the first half of 2012 of $8.5 million or 9.1% of revenue, compared to $11.6 million or 13.2% of revenue in the first half of 2011.

Canem had total backlog of $218.0 million as at June 30, 2012, compared to total backlog of $133.3 million at December 31, 2011 (a $84.7 million or 64% increase), consisting of work-in-hand of $114.9 million and active backlog of $103.1 million. The increase results primarily from new projects brought into active backlog in the first and second quarters. The backlog consists of 3% cost-plus projects, 35% CM projects (combined total of 38% CM and cost-plus) and 62% 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 thus is able to bear a larger proportion of tendered projects. The segment began the second quarter of 2011 with $125.4 million of work-in-hand, contracted $36.0 million of additional work-in-hand during the quarter and executed $46.4 million of work-in-hand.

Industrial Services (CSG and Broda)

For the Industrial Services segment, second quarter 2012 revenue decreased by $8.3 million (9%) to $84.8 million from $93.1 million for the second quarter of 2011. The revenue decrease was due to a modest reduction in industrial insulation activities at CSG and the impact of wet weather in southern Alberta and Saskatchewan, which slowed Broda's earth moving activity levels.

Industrial Services' contract income for the three months ended June 30, 2012 decreased by $3.4 million (35%) to $6.1 million from $9.5 million for the second quarter of 2011. Contract income margins were lower at 7.2% in the three months ended June 30, 2012 versus 10.2% in the second quarter of 2011. This decrease is attributable to the wet weather conditions in Alberta and Saskatchewan in April, May and June that impacted Broda's productivity on more than 55% of the available working days at its Calgary Airport Runway project and a Saskatoon residential project, causing project-specific margin erosion. As well, administrative project delays caused the deferral of revenue from projects in Northern Saskatchewan. Broda also incurred equipment and maintenance costs that were $0.7 million higher than expected as maintenance work was undertaken to take advantage of lower equipment activity levels during the period.

The Industrial Services segment's administrative expenses were $5.2 million (6.1% of revenue) in the second quarter of 2012 compared to $5.1 million (5.5% of revenue) in the second quarter of 2011.

EBITDA for the Industrial Services segment decreased by $3.3 million (64%) to $1.9 million for the three months ended June 30, 2012 from $5.2 million in the second quarter of 2011. The decrease in EBITDA resulted from the aforementioned lower contract income, a $0.6 million decrease in other income from the mark-to-market of Broda's fuel hedge partly offset by a $0.7 million increase in depreciation, which is included in contract income but not in EBITDA, in the three months ended June 30, 2012.

For the six months ended June 30, 2012, the Industrial Services segment's revenue was $189.6 million, compared to $157.4 million in the first half of 2011, a 21% increase. The segment's contract income in the first half of 2012 decreased by $3.0 million, or 15%, to $16.7 million from $19.7 million for the first six months of 2011. In the first half 2012, contract income margin was 8.8% compared to 12.5% in the first half of 2011. EBITDA for Industrial Services in the first half of 2012 was $9.2 million compared to $11.5 million in the same period of 2011. The decline in profitability was largely due to the lower contract income.

Industrial Services had backlog of $288.0 million as at June 30, 2012, compared to backlog of $264.0 million at December 31, 2011. The June 30, 2012 backlog consisted of $204.2 million of work-in-hand and $83.8 million of active backlog. The backlog consists of 65% cost-plus projects and 35% tendered projects. The Industrial Services segment started the fourth quarter with $140.0 million of work-in-hand, contracted $151.3 million of additional work-in-hand during the quarter and executed $87.1 million of work-in-hand.

Corporate and Other

The Corporate and Other segment's administrative expenses, excluding depreciation and amortization, were $1.9 million in the second quarter of 2012 compared to $2.2 million in the second quarter of 2011, a $0.3 million (14%) decrease. The decrease is primarily related to at-risk, equity-based compensation expenses partly offset by increased resources at the corporate centre to support the SAP-based ERP system. Changes in the fair value of Performance Share Units ("PSUs") and Deferred Share Units ("DSUs") after the initial grant date are recognized in each reporting period as a compensation expense. This accounted for a $0.2 million decrease in indirect and administration expenses in the second quarter of 2012, compared to a $0.6 million decrease in the second quarter of 2011, as Churchill's total shareholder return over the vesting period of certain PSUs declined relative to a comparator group of companies. Refer to the "Share-based Compensation" section below for further information.

Corporate and Other's finance costs were $2.9 million in the second quarter of 2012 compared to $3.5 million in the three months ended June 30, 2011, a $0.6 million decrease. The decrease in finance costs related to a lower interest rate pricing on the outstanding long term debt during the period.

The Corporate and Other segment's depreciation and amortization expense was $3.4 million in the three months ended June 30, 2012 compared to $3.7 million in the second quarter of 2011, a $0.3 million decrease. The 2011 amount includes amortization of intangible assets acquired on July 13, 2010 with the acquisition of Dominion, Canem and Broda, and amortization of the implemented portion of the Corporation's new SAP-based ERP system. The 2012 amount also includes amortization of intangible assets acquired in the acquisition of McCaine on April 29, 2011. 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 second quarter of 2012, the Corporate and Other segment incurred a net loss before tax of $8.2 million compared to a net loss before tax of $9.4 million in the second quarter of 2011. Decreases in indirect and administration expenses, finance costs and reduced depreciation and amortization expenses contributed to the $1.2 million improvement.

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:**				**2010 Quarter ended:**	
	Jun. 30	**Mar. 31**	**Dec. 31**	**Sep. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sep. 30**
Contract revenue	$ 295.8	$ 333.2	$ 384.3	$ 379.3	$ 340.9	$ 304.7	$ 391.4	$ 386.6
Contract income	25.9	35.7	45.1	40.5	35.7	36.6	50.0	44.6
Contract income margin(1)	8.7%	10.7%	11.7%	10.7%	10.5%	12.0%	12.8%	11.5%
Continuing operations:								
EBITDA(1)	$ 4.6	$ 13.9	$ 19.6	$ 18.3	$ 17.0	$ 17.2	$ 28.2	$ 15.9
EBT(1)	(5.4)	4.3	9.3	8.2	7.0	8.2	18.2	5.9
Net earnings (loss)	(4.2)	3.1	7.3	6.2	4.8	5.8	10.6	3.1
EPS - basic	(0.17)	0.13	0.30	0.25	0.20	0.24	0.52	0.13
EPS - diluted	(0.17)	0.13	0.27	0.24	0.19	0.24	0.47	0.13
Net earnings (loss)	$ (4.2)	$ 3.2	$ 7.3	$ 6.1	$ 5.8	$ 5.8	$ 11.5	$ 3.1
EPS - basic	(0.17)	0.13	0.30	0.25	0.24	0.24	0.55	0.13
EPS - diluted	(0.17)	0.13	0.27	0.24	0.22	0.24	0.49	0.13
Funds from operations(1)	$ 4.6	$ 15.6	$ 19.6	$ 18.3	$ 15.3	$ 19.0	$ 29.7	$ 17.9
Funds from operations per share(1) - basic	0.19	0.64	0.81	0.75	0.63	0.79	1.42	0.78
Backlog(1)	$ 1,570.4	$ 1,751.5	$ 1,842.6	$ 1,840.1	$ 1,705.6	$ 1,577.4	$ 1,555.0	$ 1,835.7
Working capital(1)	95.7	102.6	86.0	99.6	115.5	99.7	97.8	91.5
Shareholders' equity	301.4	308.5	309.1	302.5	301.3	295.9	289.3	273.6
Book value ($ per basic share)(1)	12.36	12.68	12.72	12.45	12.45	12.28	11.99	11.35

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

The Corporation's revenue, backlog and shareholders' equity increased subsequent to July 2010 with the closing of a major acquisition, which included Dominion, Canem and Broda. Net earnings in 2010 declined under IFRS reporting standards as acquisition restructuring costs and transaction costs in respect of this major acquisition were expensed. These costs were previously capitalized under Canadian GAAP.

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 legacy Dominion lower margin projects, a decline in legacy 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.

The reader is referred to the Corporation's 2010 and 2011 annual and interim reports and 2012 First Quarter Report for a more detailed discussion and analysis of the results of the quarters preceding March 31, 2012.

Capital Resources and Liquidity

Cash and Debt Balances

Cash and cash equivalents at June 30, 2012 were $21.6 million, compared to $59.4 million at December 31, 2011, a $37.8 million decrease that was invested in non-cash working capital to support operations.

Long-term indebtedness at June 30, 2012, excluding the $1.6 million current portion of long-term debt, amounted to $147.5 million compared to $137.1 million at December 31, 2011, a net increase of $10.4 million. This amount consisted of $77.9 million (December 31, 2011 - $76.7 million) of the debt portion of convertible debentures and $69.7 million (December 31, 2011 - $60.4 million) drawn on Churchill's $200 million, four-year senior revolving credit facility (the "Revolver").

The Revolver was originally secured on July 12, 2010, with a syndicate of chartered banks (the "Syndicate"), and improved terms and conditions were negotiated on July 13, 2011 and again on July 12, 2012. The most recent improvements include a reduction in the applicable interest rate, a one-year extension of the facility (new maturity date of July 12, 2016), and additional flexibility on consents regarding dividends and acquisitions. The Syndicate remains the same and the Revolver continues to include a $75 million accordion feature. The amount of the Revolver will fluctuate from quarter to quarter as it is drawn to finance working capital requirements and acquisitions, and as it is paid with funds from operations. For additional information refer to *Note 15* to the Condensed Consolidated Interim 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 16* to the Condensed Consolidated Interim Financial Statements.

Hedging Agreements

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 the second quarter of 2012 this resulted in an unrealized loss of $0.6 million included in Other Income (Cost). For additional information refer to *Note 20(b)* and *Note 20(c)(iv)* to the Condensed Consolidated Interim Financial Statements.

Summary of Cash Flows

Funds from operations for the second quarter of 2012 were $4.6 million compared to $17.3 million in the second quarter of 2011. The $12.7 million decrease is largely due to a $9.0 million decrease in contract income excluding a $0.8 million increase in indirect depreciation, plus a $2.9 million increase in administrative expenses. The increase in administrative expenses was largely due to the inclusion of McCaine's results for a full three months in the second quarter of 2012 and new leased office space, partly offset by a decrease in equity-based compensation expenses.

Cash generated from (used in) operations in the quarter was $(10.3) million (second quarter 2011 - $9.1 million) after accounting for a change in share-based payment liability of $nil (second quarter 2011 - $0.8 million), a change in provisions of $1.9 million (second quarter 2011 - $4.0 million), and a change in non-cash operating working capital of $13.0 million (second quarter 2011 - $3.4 million). Working capital requirements have been growing within the business, primarily in the Industrial Services segment as expanding operations have caused receivables to grow faster than payables.

Finance costs of $3.5 million (second quarter 2011 – $4.2 million) were more than offset by a tax recovery of $9.4 million (second quarter 2011 – tax recovery of $4.5 million) resulting in net cash generated by (used in) operating activities to be $(4.4) million on June 30, 2012 (June 30, 2011 - $9.4 million). The reduction in net tax cash paid for the second quarter of 2012 was primarily due to lower taxable earnings in the quarter.

Funds from operations for the first six months of 2012 were $20.1 million compared to $36.2 million in the first half of 2011. Cash generated from (used in) operations in the six months ended June 30, 2012, was $(39.2) million (first half 2011 - $19.4 million) after accounting for a change in share-based payment liability of $3.0 million (first half 2011 - $0.8 million), a change in provisions of $3.3 million (first half 2011 - $5.0 million), and a change in non-cash operating working capital of $53.0 million (first half 2011 - $11.0

million). Finance costs of $4.0 million (first half 2011 – $4.6 million) were more than offset by a tax recovery of $9.9 million (first half 2011 – tax expense of $4.6 million) resulting in net cash generated by (used in) operations to be $(33.3) million on June 30, 2012 (June 30, 2011 - $10.2 million).

	Three months ended June 30		**Six months ended June 30**	
($millions, except shares and per share amounts)	**2012**	**2011**	**2012**	**2011**
Net cash generated by (used in) operating activities	$ (4.4)	$ 9.4	$ (33.3)	$ 10.2
Add:				
Income taxes paid (received)	(9.4)	(4.5)	(9.9)	4.6
Interest paid (received)	3.5	4.2	4.0	4.6
Cash generated from (used in) operations	$ (10.3)	$ 9.1	$ (39.2)	$ 19.4
Change in share-based payment liability	-	0.8	3.0	0.8
Change in provisions	1.9	4.0	3.3	5.0
Change in non-cash working capital balances relating to operations	13.0	3.4	53.0	11.0
Funds from operations	$ 4.6	$ 17.3	$ 20.1	$ 36.2
Weighted average common shares - basic (millions)	24.4	24.2	24.3	24.2
Funds from operations per common share - basic	$ 0.19	$ 0.71	$ 0.83	$ 1.50

Investing activities resulted in a net use of cash of $3.9 million during the second quarter of 2012, which compares with net cash used of $21.8 million in the second quarter of 2011. The difference is primarily attributable to additions to property and equipment in 2011 mainly in support of Broda's Calgary Airport Runway and Tunnel projects, the acquisition of McCaine in the second quarter of 2011, and further investment associated with the Corporation's ERP system, partly offset by proceeds on disposal of equipment and assets held-for-sale.

Investing activities resulted in a net use of cash of $7.3 million during the first six months of 2012, which compares with net cash used of $26.0 million in the first half of 2011. The majority of these expenditures occurred in the second quarter of the respective year as described above.

During the second quarter of 2012, net cash generated by financing activities amounted to $1.3 million, related primarily to a net increase in long term debt partly offset by the payment of dividends. This amount compares to net cash generated by financing activities of $27.6 million in the three months ended June 30, 2011, which was primarily an increase in proceeds received from long-term debt.

During the first six months of 2012, net cash generated by financing activities amounted to $2.7 million, related primarily to a net increase in long term debt partly offset by the payment of dividends. This amount compares to net cash generated by financing activities of $14.5 million in the six months ended June 30, 2011, related to net proceeds of long-term debt.

As at June 30, 2012, Churchill had working capital of $95.7 million, compared to $86.0 million at December 31, 2011.

Scheduled debt principal repayments due within one year at June 30, 2012 were $1.6 million, compared to $1.4 million at June 30, 2011. Finance contracts and finance lease obligations are secured by construction and automotive equipment and are more fully described in *Note 15* to the Condensed Consolidated Interim Financial Statements.

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 for project delays was eliminated. P3 projects also require security in the form of letters of credit to support the Corporation's obligations. Refer to *Note 5 and Note 23* to the Condensed Consolidated Interim Financial Statements for additional details.

In the first half of 2012, the Corporation's capital expenditures totalled $12.2 million including $4.6 million for construction equipment, $3.2 million for computer equipment and software, $1.3 million for vehicles, $2.8 million for tenant improvements, and $0.3 million for furniture and equipment. Capital expenditures are associated with the Corporation's need to support the growth in size and scope of its operations and the need for heavy construction equipment at Broda. All capital spending is being closely monitored by management. For the remainder of 2012, the Corporation anticipates that it will require approximately $12 million to fund its capital expenditures.

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, the ability to generate cash from operations, and an undrawn portion of its revolving credit facility.

Shareholders' equity was $301.4 million at June 30, 2012 compared to $309.1 million at December 31, 2011. Retained earnings decreased from $165.0 million at December 31, 2011 to $154.8 million at June 30, 2012. The $10.2 million reduction in retained earnings resulted from a net loss of $1.0 million for the first half of 2012, dividend payments of $5.9 million, normal course issuer bid share purchases of $0.2 million and defined benefit plan actuarial losses net of tax of $3.1 million.

Share Data

The Corporation has an Employee Share Purchase Plan ("ESPP") available to all full-time employees. At June 30, 2012, the ESPP held 1,099,680 common shares for employees. Under the ESPP, common shares are acquired in the open market.

On January 17, April 17 and July 17, 2012, the Corporation issued 67,807, 46,098 and 64,313 common shares, respectively, pursuant to its DRIP.

As at August 8, 2012, the Corporation had 24,443,237 common shares issued and outstanding and 2,047,628 options convertible into common shares upon exercise (December 31, 2011 – 24,348,919 common shares and 1,542,783 options). Refer to *Note 17(a) and Note 18* to the Condensed Consolidated Interim Financial Statements for further detail.

As well, the Corporation has 6% convertible debentures outstanding in the principal amount of $86.3 million, convertible into 3,791,205 common shares. Refer to *Note 16* to the Condensed Consolidated Interim 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 for the three months ended June 30, 2012 was 24,556,143 (June 30, 2011 – 24,589,930) is set out in *Note 8(b)* to the Condensed Consolidated Interim Financial Statements.

- At June 30, 2012, 1,604,348 (June 30, 2011 – 528,561) options were excluded from the diluted weighted average number of common share calculations as their effect would have been anti-dilutive. The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

- At June 30, 2012, no incremental shares related to the convertible debentures are included in the diluted share calculation (same for June 30, 2011). In determining the diluted earnings per share, the Corporation determined the impact of normalizing earnings by adding back related interest, accretion and amortization costs of the convertible debentures to net earnings from continuing operations. This outweighed the effect of the related incremental shares, making the calculation anti-dilutive. The incremental shares included in the dilutive weighted average number of shares was determined using the Corporation's share price at June 29, 2012 of $12.00 (June 30, 2011 - $16.39).

Share-based Compensation

Share-based compensation is an expense driven in part by the number, fair value and vesting rights of options, DSUs and PSUs granted. The share-based compensation expense was $0.5 million during the second quarter of 2012 and $0.1 million for the three months ended June 30, 2011. The share-based compensation expense was $3.8 million during the first half of 2012 and $1.9 million for the first six months of 2011.

During the three and six months ended June 30, 2012, the Corporation granted 16,775 and 30,411 DSUs, respectively (three and six months ended June 30, 2011 – 11,032 and 20,342 DSUs, respectively) to directors as part of their annual remuneration. In addition, during the quarter and six months ended June 30, 2012, directors and employees voluntarily elected to purchase or accept in lieu of cash 5,574 and 9,817 DSUs, respectively, (three and six months ended June 30, 2011 – 4,844 and 8,077 DSUs, respectively) by deferring compensation related to retainers, meeting fees, base salary and/or cash bonus, as applicable. These DSU grants and elections totalling 22,349 and 40,228 DSUs (three and six months ended June 30, 2011 – 15,876 and 28,109 DSUs) resulted in $(0.3) million and $(0.1) million of share-based compensation expense (income) for the second quarter and first six months of 2012, respectively (second quarter 2011 - $(0.1) million; first half of 2011 - $0.2 million. The amounts recorded are based on the sum of 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 three and six months ended June 30, 2012, the Corporation recorded compensation expenses (income) for PSUs granted to employees of $0.1 million and $(0.5) million, respectively, compared to $(0.5) million and $0.4 million in the second quarter and first six months of 2011. The amounts recorded are based on the sum of changes in fair value and grants of PSUs. During the three and six months ended June 30, 2012, the Corporation cancelled nil and 2,967 PSUs, respectively, due to forfeiture. On June 30, 2012, the Corporation had 358,747 PSUs outstanding, compared to 340,055 PSUs on 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, at the Board's discretion. The first vesting was in February 2011 for 43,608 PSUs and payout was in April 2011 for PSUs granted in 2008, and amounted to $0.8 million. The vesting of 175,126 PSUs granted in 2009 was in February 2012 and the payout amounted to $3.0 million.

Refer to *Note 17* to the Condensed Consolidated Interim Financial Statements.

Supplemental Disclosures

Off-Balance-Sheet Arrangements

The Corporation had no off-balance sheet arrangements in place at June 30, 2012.

Related-Party Transactions

During the second quarter of 2012, the Corporation incurred facility costs of $136 thousand (second quarter 2011 – $143 thousand) relating to the rental of two buildings, one of which is owned 50% by Schneider Investments Inc., a company owned by George Schneider, a director of the Corporation. The other building is owned by Broda Holdings (2009) Inc., a company owned by Gord Broda, the President of Broda. One of the rented buildings is the operations base for CSG in Fort McMurray. The other rented building is the head office, maintenance facility and operations base for Broda in Prince Albert, Saskatchewan. For both buildings, the lease rates are comparable or below market rates of similar properties. For the six months ended June 30, 2012, these facility costs were $301 thousand (six months ended June 30, 2011 - $284 thousand). At June 30, 2012, there was $58 thousand of this amount included in accounts payable (June 30, 2011 – $35 thousand).

Refer to *Note 22* to the Condensed Consolidated Interim Financial Statements.

Outlook

Churchill is well positioned in Western Canada to compete for projects through its three operating business segments.

- Margins for Stuart Olson Dominion are expected to gradually improve in the latter part of 2012 and into 2013 as several large projects are completed and recently awarded projects transition from design to the tendering and construction phase. Additional detail is included in the General Contracting section below.
- Canem expects to deliver margins that are modestly lower than its first half 2012 results due to execution of projects awarded in more competitive times and project delays. Additional detail is included in the Commercial Systems section below.
- Within the Industrial Services segment, CSG had a strong quarter as it executed a significant amount of turnaround and maintenance work in Alberta's oil sands. Recent backlog additions continue to provide good visibility to future potential earnings. After a challenging quarter, Broda is expected to turn around its operational results in the second-half of the year. Additional detail is included in the Industrial Services section below.

Sovereign debt concerns in Europe and the United States continue to trouble the capital markets and have continued to cause significant volatility in the second quarter of 2012. China's economic growth is decelerating and this is causing softness in the price of many commodities. Prices of commodities such as crude oil and natural gas have not escaped this volatility. Oil prices have softened but remained reasonably strong with the West Texas Intermediate spot price averaging US$93.42 per barrel in the second quarter of 2012, and forecast by the U.S. Department of Energy's Energy Information Administration to average approximately US$93 and $88.50 per barrel on an annual basis in 2012 and 2013, respectively. Natural gas prices are expected to continue to remain low but gradually trend upwards with an average Henry Hub spot price of US$2.28 per million British Thermal Units ("MMBtu") in the second quarter of 2012 and a forecasted average spot price of $2.58 and $3.22 per MMBtu on an annual basis in 2012 and 2013, respectively. It is management's intention to continue to monitor these developments very closely and to remain in close communication with customers to ensure that the Corporation is positioned to react should a severe market correction occur. In the recessionary period of late 2008 and 2009, there were no significant delays in the Corporation's backlog with the exception of the Lethbridge Hospital project, which was subsequently re-awarded to Stuart Olson Dominion, as announced on July 6, 2011. Churchill's backlog remains approximately 60% institutionally levered, so management expects limited impact on the backlog should Western Canada experience an economic slowdown. Also, during the previous recession, Churchill delivered strong financial performance as a result of right-sizing its industrial organization to adjust to the prevailing economic environment and from executing its higher margin, multi-year General Contracting backlog acquired in the pre-recessionary years of 2006, 2007 and early 2008.

General Contracting

Stuart Olson Dominion is well established in Western Canada in the institutional and commercial construction market sectors. Stuart Olson Dominion's $1.1 billion backlog remains institutionally levered, with three Alberta hospital projects and several educational facilities added to backlog in 2011. As well, there are many project opportunities in Stuart Olson Dominion's prospect inventory. The institutional spending outlook in Western Canada is healthy, partly due to expected provincial and municipal government spending on institutional projects such as schools and community centres. For example, the Alberta government's 2012/2013 fiscal year budget calls for the government to spend $5.7 billion on infrastructure-related projects. Although this represents a 9% year-over-year decline from the $6.3 billion spent during the previous term, the capital plan will average $5.5 billion per year, which is more than 30% higher than the annual average since 2001. The municipal infrastructure, transportation, education, and healthcare sectors continue to dominate provincial spending initiatives accounting for 84% of total spending, compared to 89% last year.

The non-residential private sector spending outlook is continuing to improve as a result of reasonably strong commodity prices, particularly oil prices, and favourable financing and construction costs. This is expected to support backlog additions for Stuart Olson Dominion. Margins are expected to marginally improve in the latter part of 2012 and into 2013 as several large projects are completed and as the company transitions from lower margin legacy Dominion backlog and projects procured in the more competitive environment of late 2008, 2009 and early 2010, to new higher-margin projects recently added to backlog. Stuart Olson Dominion expects to complete the remaining legacy Dominion projects in the second-half of 2012 and will continue to focus on attaining projects that meet acceptable return thresholds and offer higher margin, fee-enhancing opportunities. Stuart Olson Dominion intends to augment this margin improvement in its traditional markets by expanding its industrial sector presence for building construction. To date, Stuart Olson Dominion's industrial division, Stuart Olson Dominion Industrial Contractors Inc. ("SODICI"), has established a foothold with three industrial buildings with a combined value of $40 million and recently, in partnership with CSG, executed a multiple use field and plant master services agreement with a leading Canadian integrated energy company active in Alberta's oil sands.

The General Contracting segment expects to execute approximately $365 million of its June 30, 2012 backlog during the balance of 2012. Additional projects added throughout the remainder of the year are expected to add modestly to the amount of work executed by Stuart Olson Dominion in 2012.

Current Stuart Olson Dominion projects include:

- The Edmonton Remand Centre, a $523 million, 57,000-square-metre facility in Edmonton, Alberta scheduled for completion of the capital construction phase in the fall of 2012;
- Three Alberta hospital projects valued at $315 million, located at Medicine Hat, Lethbridge and Edson, Alberta;

- The Central Alberta Cancer Centre, a $60 million cancer care facility located in Red Deer, Alberta;
- Bow Valley College, Phase 2, a $160 million campus expansion in downtown Calgary, Alberta, scheduled for completion in December, 2012;
- Investors Group Field, a $170 million, 33,000-seat football facility in Winnipeg, Manitoba scheduled for completion in the fall of 2012;
- 745 Thurlow, a 25 storey, 400,000 square foot office tower, valued at $100 million and located at 745 Thurlow Street, Vancouver;
- The Multisport Centre of Excellence, a $54 million athlete development centre situated in Burnaby, British Columbia; and
- Renovation and construction of the Tache Hall Music, Art and Theatre Complex for the University of Manitoba, budgeted at $60 million.

Commercial Systems

The outlook for Canem remains positive. Although some of Canem's commercial projects such as the Shaw Data Centre in Calgary, the Central Alberta Cancer Centre in Red Deer, the Investors Group Field football stadium in Winnipeg and the 443 Maritime Helicopter Squadron facility in Victoria, have been proceeding slower than originally planned, others, such as the New Remand Centre in Edmonton and Bow Valley College in Calgary, are experiencing scope increases. Canem's contract income margin of 20.6% in the second quarter of 2012 was strong, but lower than the 23.0% contract income margin generated in the second quarter of 2011 when the company was completing a number of high margin projects.

Canem expects contract income and EBITDA margins to be modestly lower for the remainder of 2012 as compared to first half 2012 results. 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 has developed considerable expertise in sustainable buildings and energy efficiency and in 2010 launched its Smart Connected Real Estate Program. One product of this program is the Canem Centre for Building Performance ("CCBP") in Richmond, British Columbia, which opened in the summer of 2011 as a permanent training and testing facility for integrated building systems, with the goal of encouraging building owners and developers to adopt new efficiencies and performance in buildings systems. The CCBP has been well received by owners, design consultants and general contractors and has resulted in Canem securing some electrical and data systems mandates.

Canem expects to execute approximately $93.9 million of its June 30, 2012 work-in-hand and active backlog during the remainder of 2012. Additional short-duration projects, building maintenance and tenant improvement work are expected to supplement Canem's 2012 revenue.

Current projects include:

- The Edmonton Remand Centre, a $523 million ($93 million electrical and data systems budget), 57,000-square-metre facility being built by Stuart Olson Dominion in Edmonton, Alberta and scheduled for completion in the fall of 2012;
- The Shaw Data Centre, an energy efficient, high-technology structure with a $30 million electrical and data systems budget being built by Ledcor Construction Limited in Calgary, Alberta;
- Investors Group Field, a $170 million ($17 million electrical and data systems budget), 33,000-seat football facility being built by Stuart Olson Dominion in Winnipeg, Manitoba and scheduled for completion in the fall of 2012;

- The 443 Maritime Helicopter Squadron facility, a $103.9 million ($11 million electrical and data systems budget), 20,000 square metre hangar being constructed at Victoria International Airport in Victoria, British Columbia by Knappett Projects Inc. and scheduled for completion in the second quarter of 2014;
- 745 Thurlow, a 25 storey, 400,000 square foot office tower, valued at $100 million ($5 million electrical and data systems budget) being built by Stuart Olson Dominion and located at 745 Thurlow Street, Vancouver; and
- Telus Garden Office Tower, a 24 storey commercial building ($8.4 million electrical and data systems budget) in downtown Vancouver.

Industrial Services

CSG continued to perform well in the second quarter of 2012. Success for CSG's businesses is largely driven by their reputation for safety, quality and project execution capabilities, which enables them to be the preferred suppliers on many projects. Going forward, CSG is expecting to maintain strong revenue and earnings in the second half of 2012 as industrial construction and maintenance projects continue through the peak construction season and it executes on strategic plans to expand market share and increase its operations footprint and customer base. Although WTI spot oil prices dipped briefly below $80 per barrel in late June, the large oil sands construction projects are not affected by short term oil price fluctuations and oil sands and refinery maintenance projects, including planned turnarounds, make up much of CSG's workload. Margins are expected to remain steady with a large sustainable industrial project spend and increased major project activity, particularly in Alberta's oil sands.

Broda is expected to turn around its operational results in the second-half of the year. Broda has numerous project opportunities in Saskatchewan's industrial and mining markets, expects healthy ballast sales to Canada's two major railways in 2012, and is continuing work on the Calgary Airport Runway project.

CSG and Broda expect to execute approximately $160.5 million of their June 30, 2012 backlog during the remainder of 2012. Additional short-duration projects, scope changes and industrial maintenance work are expected to supplement the segment's 2012 revenue.

Critical Accounting Estimates

The key assumptions and basis for the estimates that management has made under IFRS and their impact on the amounts reported in the Condensed Consolidated Interim Financial Statements and notes thereto, are contained in *Note 2* to the 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 impairment assessment;
- Depreciation and amortization;
- Income tax provisions;
- Provisions for warranty work and legal contingencies;
- Valuation of stock options and intangible assets;

- Accounts receivable collectability; and
- Valuation of defined benefit pension plans.

A detailed discussion and analysis of these factors is available in the Corporation's Annual MD&A.

Goodwill Impairment Assessment

Goodwill is tested for impairment by allocating it to the cash generating unit ("CGU") groups, as this is the lowest level at which goodwill is monitored. Goodwill is tested annually for impairment during the fourth quarter or more frequently if it is warranted by changes in events and circumstances that indicate goodwill is potentially impaired. Significant variances between expected and actual results were viewed by management as a possible indicator of impairment. In particular, operating losses in two of the Corporation's operating companies, Stuart Olson Dominion and Broda negatively impacted the results of the Corporation in the quarter. Accordingly, the Corporation performed impairment tests on these two groups of CGU's which are included in the General Contracting and the Industrial Services segments. The Corporation concluded that no impairment charge was required. Refer to *Note 12* to the Condensed Consolidated Interim Financial Statements for further detail.

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 debt component of the convertible debentures of $81.5 million at June 30, 2012 ($81.5 million at December 31, 2011) is based on an average market yield rate of 8% determined from marketable debentures traded with similar terms. The fair value of the fuel derivative instrument asset was $0.2 million at June 30, 2012 (December 31, 2011 – $21 thousand), which is calculated using common pricing methodology for instruments of this type that makes reference to current and future pricing information obtained from market sources. It is recorded within prepaid expenses on the statements of financial position and in other income in the statements of earnings and comprehensive 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 June 30, 2012 was $1.0 million (December 31, 2011 – $2.0 million).

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 $10.1 million of trade receivables which were greater than 90 days past due and not provided for as at June 30, 2012 (December 31, 2011 – $14.4 million). Of the total, $1.4 million (13%) was concentrated in one customer account and remained outstanding as of August 8, 2012. 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 June 30, 2012, the increase or decrease in quarterly net earnings and equity for each 100 basis point change in interest rates on floating rate debt would have been approximately $0.2 million (December 31, 2011 - $0.4 million) related to financial assets and by $0.5 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. From an accounting perspective, 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 20* to the Condensed Consolidated Interim Financial Statements for further detail.

Changes in Accounting Policies

The Corporation's Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2012 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board, and using the accounting policies under IFRS for interim financial information. See *Note 2* to the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2012 for more information regarding the basis of presentation. The significant accounting policies used to prepare the financial statements are included in the Notes to the December 31, 2011 Consolidated Annual Financial Statements.

Future Changes in Accounting Standards

Churchill has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. Please refer to *Note 3* to the Consolidated Annual Financial Statements for further information.

Risks and Uncertainties

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

Controls and Procedures

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

Disclosure Controls & Procedures

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

An evaluation of the effectiveness of the design of the Corporation's disclosure controls and procedures was carried out under the supervision of Churchill's management, including the CEO and CFO, with oversight by the Board of Directors and its Audit Committee as of June 30, 2012. Based on this evaluation, the CEO and CFO have concluded that the design of the Corporation's disclosure controls and procedures as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings was effective as at June 30, 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, with the participation of the Corporation's CEO and CFO, evaluated the design of the Corporation's internal controls over financial reporting using the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework. The evaluation included documentation review, enquiries, testing and other procedures considered by management to be appropriate in the circumstances. As at June 30, 2012, the CEO and CFO have concluded that the design of the internal controls over financial reporting was effective.

Terminology

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

Contract Income Margin

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

Work-In-Hand

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

Backlog

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

As at:	**June 30, 2012**			**December 31, 2011**		
($millions)	Work-in-hand	Active backlog	Total backlog	Work-in-hand	Active backlog	Total backlog
	$ 906.9	$ 663.5	$ 1,570.4	$ 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)**	**June 30, 2012**	**December 31, 2011**
Current assets	$ 414.3	$ 481.5
Current liabilities	318.6	395.5
Working capital	$ 95.7	$ 86.0

EBITDA and EBT

EBITDA (earnings (loss) 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. 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 (loss) before taxes. The following is a reconciliation of net earnings to EBITDA and EBT for each of the periods presented in this MD&A in accordance with IFRS.

	Three months ended June 30		Six months ended June 30	
($millions)	2012	2011	2012	2011
Net earnings (loss) from continuing operations	$ (4.2)	$ 4.8	$ (1.1)	$ 10.6
Add:				
Income tax expense (recovery)	(1.2)	2.2	(0.1)	4.6
EBT from continuing operations	$ (5.4)	$ 7.0	$ (1.2)	$ 15.2
Add:				
Depreciation and amortization (indirect cost)	2.4	1.7	4.7	3.2
Depreciation and amortization (general and administrative)	4.6	4.8	9.0	9.6
Interest expense	3.0	3.6	5.8	6.3
EBITDA from continuing operations	$ 4.6	$ 17.1	$ 18.3	$ 34.2

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

the
Churchill
Corporation

Three and six month periods ending June 30, 2012 and 2011

Condensed Consolidated Financial Statements

(unaudited)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the periods ended June 30, 2012 and 2011.

THE CHURCHILL CORPORATION

Condensed Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income
For the three and six month periods ended June 30, 2012 and 2011
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

		Three months ended		Six months ended	
		June 30,	June 30,	**June 30,**	June 30,
	Note	**2012**	2011	**2012**	2011
Contract revenue	6	**$ 295,777**	$ 340,905	**$ 628,993**	$ 645,565
Contract costs		**269,920**	305,162	**567,469**	573,227
Contract income		**25,857**	35,743	**61,524**	72,338
Other income (cost)		**(460)**	(110)	**1,726**	766
Finance income		**111**	209	**232**	386
Administrative costs		**(27,959)**	(25,271)	**(58,783)**	(52,044)
Finance costs		**(2,968)**	(3,568)	**(5,835)**	(6,262)
(Loss) earnings from continuing operations before tax		**(5,419)**	7,003	**(1,136)**	15,184
Income tax (expense) recovery					
Current income tax	7	**(3,790)**	8,041	**3,065**	1,605
Deferred income tax		**5,001**	(10,270)	**(3,012)**	(6,216)
		1,211	(2,229)	**53**	(4,611)
Net (loss) earnings from continuing operations		**(4,208)**	4,774	**(1,083)**	10,573
Net (loss) earnings from discontinued operations		**(11)**	979	**76**	944
Net (loss) earnings		**$ (4,219)**	$ 5,753	**$ (1,007)**	$ 11,517
Other comprehensive loss					
Defined benefit plan actuarial losses		**(1,846)**	(1,232)	**(4,188)**	(673)
Deferred tax recovery on other comprehensive income		**463**	318	**1,048**	178
		(1,383)	(914)	**(3,140)**	(495)
Total comprehensive (loss) income		**$ (5,602)**	$ 4,839	**$ (4,147)**	$ 11,022
(Loss) earnings per share:					
Basic from continuing operations		**$ (0.17)**	$ 0.20	**$ (0.04)**	$ 0.44
Basic from discontinued operations		**$ -**	$ 0.04	**$ -**	$ 0.04
Basic (loss) earnings per share	8	**$ (0.17)**	$ 0.24	**$ (0.04)**	$ 0.48
Diluted from continuing operations		**$ (0.17)**	$ 0.19	**$ (0.04)**	$ 0.43
Diluted from discontinued operations		**$ -**	$ 0.03	**$ -**	$ 0.04
Diluted (loss) earnings per share	8	**$ (0.17)**	$ 0.22	**$ (0.04)**	$ 0.47
Weighted average common shares:					
Basic	8	**24,370,819**	24,218,841	**24,347,784**	24,176,519
Diluted	8	**24,556,143**	24,589,930	**24,537,554**	24,549,172

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Condensed Consolidated Statements of Financial Position
As at June 30, 2012 and December 31, 2011
(in thousands of Canadian dollars)
(unaudited)

	Note		**June 30, 2012**		December 31, 2011
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**21,585**	$	59,445
Trade and other receivables			**327,386**		345,772
Inventory			**13,022**		12,762
Prepaid expenses			**5,591**		4,377
Costs in excess of billings	9		**29,989**		33,738
Income taxes recoverable			**15,062**		23,377
Current portion of long-term receivable			**100**		534
Assets held-for-sale	10		**1,528**		1,488
			414,263		481,493
Service provider deposit			**7,394**		6,066
Long-term receivable			**200**		300
Deferred tax asset			**9,801**		11,745
Property and equipment	11		**84,211**		82,526
Goodwill			**234,256**		234,256
Intangible assets	12		**67,597**		72,096
		$	**817,722**	$	888,482
LIABILITIES					
Current liabilities					
Trade and other payables		**$**	**230,300**	$	283,857
Contract advances and unearned income	9		**78,105**		97,657
Current portion of provisions	13		**4,928**		7,294
Income taxes payable			**3,631**		5,262
Current portion of long-term debt	14		**1,590**		1,403
			318,554		395,473
Employee benefits			**11,647**		8,315
Provisions	13		**4,953**		5,875
Long-term debt	14		**69,662**		60,433
Convertible debentures	15		**77,867**		76,691
Deferred tax liability			**30,484**		30,493
Share-based payments	16 (d)		**3,185**		2,061
			516,352		579,341
EQUITY					
Share capital	17		**125,436**		124,290
Preferred share reserve			**5,128**		5,128
Convertible debentures	15		**7,100**		7,100
Share-based payment reserve	16 (a)		**8,912**		7,636
Retained earnings			**154,794**		164,987
			301,370		309,141
		$	**817,722**	$	888,482

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Condensed Consolidated Statements of Changes in Equity
For the three and six month periods ended June 30, 2012 and 2011
(in thousands of Canadian dollars)
(unaudited)

	Note	Share capital	Preferred share reserve	Convertible debentures	Share-based payment reserve	Retained earnings	Total equity
Balance at December 31, 2011		$ 124,290	$ 5,128	$ 7,100	$ 7,636	$ 164,987	309,141
Net loss						(1,007)	(1,007)
Other comprehensive loss:							
Defined benefit plan actuarial losses, net of tax						(3,140)	(3,140)
Total comprehensive loss						(4,147)	(4,147)
Transactions recorded directly to equity							
Share-based payment transactions	16				1,276		1,276
Dividends	17	1,325				(5,845)	(4,520)
Normal course issuer bid	17	(179)				(201)	(380)
Balance at June 30, 2012		$ 125,436	$ 5,128	$ 7,100	$ 8,912	$ 154,794	$ 301,370
Balance at December 31, 2010		$ 120,757	$ 5,128	$ 7,100	$ 4,860	$ 151,503	$ 289,348
Net earnings						11,517	11,517
Other comprehensive income:							
Defined benefit plan actuarial loss, net of tax						(495)	(495)
Total comprehensive income						11,022	11,022
Transactions recorded directly to equity							
Share-based payment transactions	16				1,227		1,227
Issued in the period	17	2,500					2,500
Dividends					-	(2,911)	(2,911)
Balance at June 30, 2011		$ 123,257	$ 5,128	$ 7,100	$ 6,087	$ 159,614	$ 301,186

See accompanying notes to the consolidated financial statements.

THE CHURCHILL CORPORATION
Condensed Consolidated Statements of Cash Flow
For the six month periods ended June 30, 2012 and 2011
(in thousands of Canadian dollars)
(unaudited)

		Six months ended	
	Note	June 30, 2012	June 30, 2011
OPERATING ACTIVITIES			
Net (loss) earnings from continuing operations		$ (1,083)	$ 10,573
Net earnings from discontinued operations		76	944
Depreciation and amortization		13,754	12,746
Loss (gain) on disposal of equipment		(1,276)	342
Gain on disposal of assets held-for-sale		(1,259)	(1,215)
Loss (gain) on settlement of liabilities related to discontinued operations		84	-
Share-based compensation expense	17	3,878	1,861
Loss on derivative instrument		155	-
Income tax expense (recovery)		(53)	4,611
Income tax expense (recovery) on discontinued operations		(14)	58
Finance costs		5,835	6,262
		$ 20,097	$ 36,182
Payment of share-based payment liability		(2,958)	(825)
Change in provisions		(3,288)	(4,987)
Change in non-cash working capital balances relating to operations	19	(52,998)	(11,001)
Cash generated from (used in) operations		$ (39,147)	$ 19,369
Interest paid		(4,006)	(4,569)
Income taxes received (paid)		9,872	(4,626)
Net cash generated by (used in) general operating activities		$ (33,281)	$ 10,174
INVESTING ACTIVITIES			
Acquisition, net of cash and cash equivalents acquired		-	(9,743)
Proceeds from long-term receivable		381	-
Proceeds on disposal of equipment		2,530	442
Proceeds on disposal of assets held-for-sale		2,050	3,059
Additions to intangible assets		(2,677)	(5,297)
Additions to property and equipment		(9,604)	(14,462)
Net cash used in investing activities		$ (7,320)	$ (26,001)
FINANCING ACTIVITIES			
Increase in service provider deposit		(1,328)	(353)
Proceeds of long-term debt		339,734	202,949
Repayment of long-term debt		(330,769)	(188,465)
Share purchase under normal course issuer bid	18	(380)	-
Dividend paid	18	(4,516)	-
Net cash generated by financing activities		$ 2,741	$ 14,131
Increase (decrease) in cash and cash equivalents during the period		$ (37,860)	$ (1,696)
Cash and cash equivalents, beginning of period		$ 59,445	$ 70,848
Cash and cash equivalents, end of period		$ 21,585	$ 69,152

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY

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

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

2. BASIS OF PRESENTATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited condensed consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") and using the accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. The same accounting policies and principles were followed in respect of the preparation of these unaudited condensed consolidated financial statements as were followed in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2011.

These unaudited condensed consolidated interim financial statements were approved by the Corporation's Board of Directors on August 8, 2012.

(b) Summary of Significant Accounting Policies

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Corporation for the year ended December 31, 2011. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, "Presentation of Financial Statements" ("IAS 1"). Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011.

3. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The standards and interpretations in issue but not yet adopted by the Corporation have been disclosed in the audited annual financial statements at December 31, 2011. There have been no new standards and interpretations issued in the second quarter that have an impact on the Corporation.

4. SEGMENTS

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides and reports its operations under four reporting segments: 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 the consolidated audited annual financial statements of the Corporation at December 31, 2011.

For the six months ended June 30, 2012, there were no customers that represented 10% or more of contract revenue earned.

Three month period ended June 30, 2012	**General Contracting**	**Industrial Services**	**Commercial Systems**	**Corporate and Other**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 177,330**	**$ 84,777**	**$ 46,430**	**$ -**	**$ (12,760)**	**$ 295,777**
EBITDA [(1)]	**(673)**	**1,938**	**3,531**	**(1,910)**	**1,686**	**4,572**
Depreciation and amortization	**953**	**1,945**	**613**	**3,379**	**133**	**7,023**
Finance costs	**-**	**44**	**-**	**2,924**	**-**	**2,968**
(Loss) earnings from continuing operations before tax	**$ (1,626)**	**$ (51)**	**$ 2,918**	**$ (8,213)**	**$ 1,553**	**$ (5,419)**
Income taxes						**1,211**
Net (loss) earnings from continuing operations						**$ (4,208)**
Goodwill and intangible assets	**$ 129,329**	**$ 24,420**	**$ 128,366**	**$ 19,738**	**$ -**	**$ 301,853**
Capital expenditures	**$ 1,847**	**$ 3,072**	**$ 187**	**$ 1,044**	**$ 28**	**$ 6,178**
Total assets	**$ 414,241**	**$ 203,387**	**$ 190,927**	**$ 25,227**	**$ (16,060)**	**$ 817,722**
Total liabilities	**$ 272,006**	**$ 57,487**	**$ 35,190**	**$ 171,507**	**$ (19,838)**	**$ 516,352**

Three month period ended June 30, 2011	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	$ 215,941	$ 93,126	$ 46,017	$ -	$ (14,179)	$ 340,905
EBITDA [(1)]	7,551	5,213	5,331	(2,217)	1,130	17,007
Depreciation and amortization	964	1,137	546	3,655	134	6,436
Finance costs	12	51	-	3,505	-	3,568
Earnings (loss) from continuing operations before tax	$ 6,575	$ 4,025	$ 4,785	$ (9,377)	$ 996	$ 7,003
Income taxes						(2,229)
Net earnings from continuing operations						$ 4,774
Goodwill and intangible assets	$ 134,070	$ 21,485	$ 138,109	$ 17,198	$ -	$ 310,862
Capital expenditures	$ 2,154	$ 11,284	$ 193	$ 1,952	$ -	$ 15,583
Total assets	$ 443,188	$ 187,585	$ 196,615	$ 76,191	$ (16,300)	$ 887,279
Total liabilities	$ 322,079	$ 51,994	$ 29,784	$ 192,959	$ (10,723)	$ 586,093

[(1)] EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

Six month period ended June 30, 2012	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	$ 371,549	$ 189,647	$ 93,074	$ -	$ (25,277)	$ 628,993
EBITDA [(1)]	4,662	9,188	8,475	(7,173)	3,301	18,453
Depreciation and amortization	1,888	3,713	1,210	6,691	252	13,754
Finance costs	3	77	-	5,755	-	5,835
(Loss) earnings from continuing operations before tax	$ 2,771	$ 5,398	$ 7,265	$ (19,619)	$ 3,049	$ (1,136)
Income taxes						53
Net (loss) earnings from continuing operations						$ (1,083)
Goodwill and intangible assets	$ 129,329	$ 24,420	$ 128,366	$ 19,738	$ -	$ 301,853
Capital and intangible expenditures	$ 3,637	$ 5,232	$ 397	$ 2,988	$ 27	$ 12,281
Total assets	$ 414,241	$ 203,387	$ 190,927	$ 25,227	$ (16,060)	$ 817,722
Total liabilities	$ 272,006	$ 57,487	$ 35,190	$ 171,507	$ (19,838)	$ 516,352

Six month period ended June 30, 2011	General Contracting	Industrial Services	Commercial Systems	Corporate and Other	Intersegment Eliminations	Total
Contract revenue	$ 423,671	$ 157,363	$ 87,360	$ -	$ (22,829)	$ 645,565
EBITDA [(1)]	16,589	11,535	11,559	(6,496)	1,006	34,193
Depreciation and amortization	1,770	2,248	851	7,627	250	12,746
Finance costs	11	111	4	6,136	-	6,262
Earnings (loss) from continuing operations before tax	$ 14,807	$ 9,176	$ 10,704	$ (20,259)	$ 756	$ 15,184
Income taxes						(4,611)
Net earnings from continuing operations						$ 10,573
Goodwill and intangible assets	$ 134,070	$ 21,485	$ 138,109	$ 17,198	$ -	$ 310,862
Capital and intangible expenditures	$ 2,413	$ 12,126	$ 264	$ 4,956	$ -	$ 19,759
Total assets	$ 443,188	$ 187,585	$ 196,615	$ 76,191	$ (16,300)	$ 887,279
Total liabilities	$ 322,079	$ 51,994	$ 29,784	$ 192,959	$ (10,723)	$ 586,093

[(1)] EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

5. 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 period ended June 30, 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:

		June 30, 2012		December 31, 2011
Current assets	**$**	**22,958**	$	33,757
Current liabilities		**15,987**		22,382

	Three months ended				Six months ended			
		June 30, 2012		June 30, 2011		**June 30, 2012**		June 30, 2011
Contract income	**$**	**8,514**	$	21,163	**$**	**20,084**	$	38,474
Expenses		**5,553**		18,878		**14,220**		34,376

	Three months ended				Six months ended			
		June 30, 2012		June 30, 2011		**June 30, 2012**		June 30, 2011
Cash flow provided (used) by operating activities	**$**	**5,767**	$	(7,059)	**$**	**3,902**	$	(8,506)

6. REVENUE

	Three months ended				Six months ended			
		June 30, 2012		June 30, 2011		**June 30, 2012**		June 30, 2011
Construction contract revenue	**$**	**272,094**	$	280,176	**$**	**565,420**	$	544,756
Service contract revenue		**19,984**		56,703		**59,262**		96,286
Sales of goods		**3,699**		4,026		**4,311**		4,523
Total revenue	**$**	**295,777**	$	340,905	**$**	**628,993**	$	645,565

The amount of revenue recognized results from the construction of assets and the provision of construction management services and includes materials that are fabricated to customer specifications under specifically negotiated contracts. Service contracts represent maintenance and other services and are determined based on the percentage of completion method.

7. INCOME TAXES

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Earnings (loss) from continuing operations before tax	**$ (5,419)**	$ 7,003	**$ (1,136)**	$ 15,184
Income tax at statutory rate of 25.0% (2011 - 26.5%)	**1,355**	(1,856)	**284**	(4,024)
Statutory and other rate differences	**73**	(45)	**44**	(136)
Non-deductible expenses	**(267)**	(245)	**(361)**	(438)
Other	**50**	(83)	**86**	(13)
Income tax recovery (expense) from continuing operations	**$ 1,211**	$ (2,229)	**$ 53**	$ (4,611)

8. EARNINGS PER SHARE

(a) Basic earnings per share

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net (loss) earnings from continuing operations attributable to common shareholders (basic)	**$ (4,208)**	$ 4,774	**$ (1,083)**	$ 10,573
Net (loss) earnings from discontinued operations attributable to common shareholders (basic)	**(11)**	979	**76**	944
	$ (4,219)	$ 5,753	**$ (1,007)**	$ 11,517
Issued common shares at beginning of period	**24,332,826**	24,133,727	**24,300,019**	24,133,727
Effect of shares issued related to a business combination	**-**	85,114	**-**	42,792
Effect of shares repurchased under NCIB	**-**	-	**(33,077)**	-
Effect of shares issued related to DRIP	**37,993**	-	**80,842**	-
Weighted average number of common shares for the period	**24,370,819**	24,218,841	**24,347,784**	24,176,519

(b) Diluted earnings per share

The weighted average number of shares outstanding is calculated as follows:

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net (loss) earnings from continuing operations attributable to common shareholders (basic)	**$ (4,208)**	$ 4,774	**$ (1,083)**	$ 10,573
Net (loss) earnings from discontinued operations attributable to common shareholders (basic)	**(11)**	979	**76**	944
Net earnings attributable to common shareholders (diluted)	**$ (4,219)**	$ 5,753	**$ (1,007)**	$ 11,517
Weighted average number of common shares (basic)	**24,370,819**	24,218,841	**24,347,784**	24,176,519
Incremental shares - stock options	**185,324**	371,089	**189,770**	372,653
Weighted average number of common shares for the period (diluted)	**24,556,143**	24,589,930	**24,537,554**	24,549,172

At June 30, 2012, 1,604,348 options (June 30, 2011 – 528,561) 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, 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 closing share price at June 30, 2012 of $12.00 (June 30, 2011 - $16.39).

9. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

Contracts in progress:

		June 30, 2012		December 31, 2011
Construction costs incurred plus recognized profits less recognized losses to date	**$**	**4,242,445**	$	3,802,663
Less: progress billings		**(4,289,235)**		(3,871,178)
Net over billings on construction contracts		**(46,790)**		(68,515)
Non-construction costs incurred plus recognized profits less recognized losses to date	**$**	**215,699**	$	201,415
Less: progress billings		**(217,025)**		(196,819)
Net under billings on non-construction contracts		**(1,326)**		4,596
Total net contract position	**$**	**(48,116)**	$	(63,919)

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

		June 30, 2012		December 31, 2011
Costs in excess of billings - Construction contracts	**$**	**22,737**	$	28,038
Costs in excess of billings - Non-construction contracts		**7,252**		5,700
Total costs in excess of billings		**29,989**		33,738
Contract advances and unearned income - Construction contracts	**$**	**(77,766)**	$	(96,561)
Contract advances and unearned income - Non-construction contracts		**(339)**		(1,096)
Total contract advances and unearned income		**(78,105)**		(97,657)
Total net contract position	**$**	**(48,116)**	$	(63,919)

At June 30, 2012, retentions held by customers for contract work amounted to $117,990 (December 31, 2011 - $111,187). Advances received from customers for contract work amounted to $73,128 (December 31, 2011 - $96,930).

10. ASSETS HELD-FOR-SALE

Assets held-for-sale at June 30, 2012, include agricultural lands and a commercial yard.

The assets held-for-sale are available for immediate sale in their present condition and the sale is highly probable. In the first quarter, a storage yard held by the General Contracting segment met these conditions and was added to assets held-for-sale.

	June 30, 2012	December 31, 2011
Property and equipment	**$ 1,306**	$ 1,238
Deferred income taxes	**222**	250
Net assets held-for-sale	**$ 1,528**	$ 1,488

11. PROPERTY AND EQUIPMENT

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	-	-	4,680	5,895	583	279	(1,833)	9,604
Disposal	(207)	(1,313)	(827)	(1,107)	(155)	(55)	(5)	(3,669)
Assets held-for-sale	(657)	98	483	-	-	8	-	(68)
Balance at June 30, 2012	$ 301	$ 3,620	$ 12,637	$ 89,369	$ 6,906	$ 4,406	$ 2,393	$ 119,632
Accumulated Depreciation and Impairment Losses								
Balance as at December 31, 2011	$ -	$ 3,129	$ 2,429	$ 18,943	$ 4,618	$ 2,120	$ -	$ 31,239
Depreciation expense	-	11	885	4,783	607	292	-	6,578
Disposal of assets	-	(1,215)	(334)	(750)	(66)	(31)	-	(2,396)
Balance at June 30, 2012	$ -	$ 1,925	$ 2,980	$ 22,976	$ 5,159	$ 2,381	$ -	$ 35,421
Carrying amounts								
at December 31, 2011	$ 1,165	$ 1,706	$ 5,872	$ 65,638	$ 1,860	$ 2,054	$ 4,231	$ 82,526
at June 30, 2012	$ 301	$ 1,695	$ 9,657	$ 66,393	$ 1,747	$ 2,025	$ 2,393	$ 84,211

12. GOODWILL

		June 30, 2012		December 31, 2011
General Contracting Segment				
SODCL	**$**	**114,078**	$	114,078
Industrial Services Segment				
Laird		**7,315**		7,315
Broda		**11,840**		11,840
Commercial Systems Segment				
Canem		**95,390**		95,390
McCaine		**5,633**		5,633
	$	**234,256**	$	234,256

Goodwill is tested for impairment by allocating it to the cash generating unit ("CGU") groups, as this is the lowest level at which goodwill is monitored. Goodwill is tested annually for impairment during the fourth quarter or more frequently if it is warranted by changes in events and circumstances that indicate goodwill is potentially impaired. Significant variances between expected and actual financial results were viewed by management as a possible indicator of impairment. In particular, specific project losses in two of the Corporation's operating companies, SODCL and Broda negatively impacted the results of the Corporation in the quarter. Accordingly, the Corporation performed impairment tests on these two groups of CGU's, which are included in the General Contracting and the Industrial Services Segments. The Corporation concluded that no impairment charge was required.

The recoverable amounts of the CGUs' assets have been 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, growth opportunities, including economic risk assumptions and estimates of achieving key operating metrics and drivers; and the future weighted average cost of capital. Management uses its best estimate to determine which key assumptions to use in the analysis.

Future Cash Flows

The cash flow projection key assumptions were based upon the Corporation's current annual forecasts as well as the draft three-year rolling strategic plans which were reviewed by management and the Board of Directors at the end of the second quarter. A three-year discounted cash flow model was used with a terminal value calculated in the final year. This period was deemed appropriate given the timing of the backlog projects and the predictability of their cash flows. The terminal value calculation in the discounted cash flow model was calculated using an annual inflation rate of 2%.

Growth Opportunities

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.

Discount Rates

The discount rate used in the calculation was 10%, which resulted in a capitalization multiple between 9 and 15 times. The discount rate is based on current market information at the date of valuation. Any reasonable fluctuation in key assumptions on which the CGUs' recoverable amounts are based would not cause the CGUs' carrying amounts to exceed their recoverable amounts.

13. INTANGIBLE ASSETS

Intangible assets relate to the design and implementation of the Corporation's computer systems (ERP assets), computer software and the assets acquired as part of previous acquisitions. The backlog and agency intangibles are amortized based on management's expectation of when the related revenues will be earned.

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	**2,395**	**-**	**-**	**282**	**2,677**
Balance, June 30, 2012	**22,737**	**20,600**	**54,410**	**3,887**	**101,634**
Accumulated amortization					
Balance, December 31, 2011	**$ 1,249**	**$ 14,252**	**$ 8,074**	**$ 3,286**	**$ 26,861**
Amortization expense	**774**	**3,434**	**2,731**	**237**	**7,176**
Balance, June 30, 2012	**2,023**	**17,686**	**10,805**	**3,523**	**34,037**
Carrying amounts, December 31, 2011	**$ 19,093**	**$ 6,348**	**$ 46,336**	**$ 319**	**$ 72,096**
Carrying amounts, June 30, 2012	**$ 20,714**	**$ 2,914**	**$ 43,605**	**$ 364**	**$ 67,597**

14. 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. Reversal of provisions are made when new information arises in the period.

	Warranties	Restructuring costs	Claims and disputes	Subcontractor default	Acquisition purchase price payment	Total
Balance as December 31, 2010	$ 5,485	$ 4,386	$ 3,005	$ 3,600	$ -	$ 16,476
Provisions made during the period	5,206	906	550	2,077	1,209	9,948
Provisions used during the period	(420)	(1,903)	(14)	(1,216)	(685)	(4,238)
Provisions reversed in the period	(4,448)	(1,787)	(580)	(2,000)	(202)	(9,017)
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 period	1,537	-	1,282	1,637	-	4,456
Provisions used during the period	(328)	(863)	(654)	(51)	-	(1,896)
Provisions reversed in the period	(3,423)	-	(425)	(2,000)	-	(5,848)
Balance at June 30, 2012	**$ 3,609**	**$ 739**	**$ 3,164**	**$ 2,047**	**$ 322**	**$ 9,881**

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

	June 30, 2012	December 31, 2011
Current portion of provisions	**$ 4,928**	$ 7,294
Long-term provisions	**4,953**	5,875
Total provisions	**$ 9,881**	$ 13,169

15. LONG-TERM DEBT

	June 30, 2012	December 31, 2011
Current portion of long-term debt		
Finance contracts	**$ 540**	$ 598
Finance lease obligations	**1,050**	805
	$ 1,590	$ 1,403
Non-current		
Revolving credit facility	**$ 69,080**	$ 59,628
Finance contracts	**3**	10
Finance lease obligations	**579**	795
	$ 69,662	$ 60,433

At June 30, 2012, the terms and conditions of the revolving credit facility were unchanged from those disclosed in the audited financial statements as at December 31, 2011. There were no changes to the credit facility during the quarter.

The revolving credit facility includes a swingline loan of $10,000 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 June 30, 2012, there was no drawdown on the swingline.

Subsequent to the quarter on July 12, 2012, the Corporation entered into an agreement amending the terms and conditions for its $200,000 senior secured revolving credit facility. The syndicate of lenders remains the same and the revolving credit facility continues to include a

$75,000 accordion feature. Changes to the revolving 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 (Note 24).

16. CONVERTIBLE DEBENTURES

There were no changes to the terms and conditions of the convertible debentures during the quarter ended June 30, 2012.

		June 30, 2012		December 31, 2011
Principal amount - debt component	**$**	**76,691**	$	74,454
Accretion on convertible debentures		**905**		1,724
Amortization of deferred financing fees		**271**		513
Balance at the end of the period	**$**	**77,867**	$	76,691

		June 30, 2012		December 31, 2011
Principal amount - equity component	**$**	**7,100**	$	7,100
Financing fees		**-**		-
Balance at the end of the period	**$**	**7,100**	$	7,100

17. SHARE-BASED PAYMENTS

(a) Share options

Movement during the periods

	June 30, 2012			December 31, 2011		
	Number of Share Options		**Weighted Average Exercise Price**	Number of Share Options		Weighted Average Exercise Price
Outstanding, beginning of the period	**1,542,783**	**$**	**14.34**	1,131,172	$	12.81
Granted	**514,421**		**15.48**	424,011		18.45
Forfeited	**(7,576)**		**19.40**	(8,657)		18.41
Surrendered	**(2,000)**		**8.08**	(3,743)		8.50
Outstanding, end of period	**2,047,628**	**$**	**14.61**	1,542,783	$	14.34

The options outstanding at June 30, 2012 have an exercise price in the range of $6.43 to $19.63 (June 30, 2011 - $6.43 to $19.63) and a weighted average contractual life of 5 years (June 30, 2011 - 5 years).

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 to the share-based payment reserve:

	June 30, 2012	December 31, 2011
Balance, beginning of the period	**$ 7,636**	$ 4,860
Share-based compensation expense	**1,285**	2,818
Share options surrendered	**(9)**	(42)
Balance, end of period	**$ 8,912**	$ 7,636

(b) Performance share units

Movement during the periods

	June 30, 2012	December 31, 2011
	Number of Performance Share Units	Number of Performance Share Units
Outstanding, beginning of the period	**340,055**	291,291
Granted	**196,785**	94,177
Forfeited	**(2,967)**	(1,805)
Vested and paid	**(175,126)**	(43,608)
Outstanding, end of period	**358,747**	340,055

(c) Deferred share units

Movement during the periods

	June 30, 2012	December 31, 2011
	Number of Deferred Share Units	Number of Deferred Share Units
Outstanding, beginning of the period	**165,434**	97,283
Granted	**40,604**	68,151
Vested and paid	**(376)**	-
Outstanding, end of period	**205,662**	165,434

(d) Share-based payment liability

	June 30, 2012	December 31, 2011
Carrying amount of liabilities for cash-settled arrangements		
- current portion	**$ 635**	$ 1,881
- long-term portion	**3,185**	2,061
Total carrying amount	**$ 3,820**	$ 3,942
Total intrinsic value of liability for vested benefits	**$ 2,468**	$ 1,753

The PSUs issued in 2009 vested on March 15, 2012 and were paid to unit holders at a payout ratio of 109%, totalling $2,958 in Q1. 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 $3,185 at June 30, 2012 (December 31, 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.

(e) Share-based compensation expense

		Three months ended				Six months ended		
		June 30, 2012		June 30, 2011		**June 30, 2012**		June 30, 2011
Share-based compensation expense on share options	**$**	**755**	$	726	**$**	**1,285**	$	1,259
Effects of changes in fair value and grants for PSUs		**98**		(528)		**2,150**		406
Effects of changes in fair value and grants for DSUs		**(260)**		(118)		**443**		196
	$	**593**	$	80	**$**	**3,878**	$	1,861

18. 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.

	June 30, 2012			December 31, 2011		
	Shares		**Share Capital**	Shares		Share Capital
Common Shares						
Issued, beginning of period	**24,300,019**	**$**	**124,290**	24,133,727	$	120,757
Dividend reinvestment plan	**113,905**		**1,325**	92,718		1,293
Repurchased in the period	**(35,000)**		**(179)**	(53,400)		(274)
Issued in the period	**-**		**-**	126,974		2,514
Issued, end of period	**24,378,924**	**$**	**125,436**	24,300,019	$	124,290

(a) Common shares and dividends

On May 25, 2011, Churchill announced that it was implementing a dividend policy. The Corporation declared its fifth quarterly dividend of $0.12 per share, which was paid on July 17, 2012 to shareholders of record on June 29, 2012.

As at June 30, 2012, trade and other payables includes $2,925 (December 31, 2011 - $2,923) related to the declared but as yet unpaid dividend, of which $739 (December 31, 2011 - $717) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

	June 30, 2012		December 31, 2011	
	Per Share	**Total**	Per Share	Total
Dividend payable, beginning of period	**$ 0.12**	**$ 2,923**	$ -	$ -
Total dividends declared during the period	**0.24**	**5,845**	0.36	8,749
Total dividends paid during the period [1]	**(0.24)**	**(5,841)**	(0.24)	(5,826)
Dividend payable, end of period	**$ 0.12**	**$ 2,927**	$ 0.12	$ 2,923

[1] Includes DRIP non-cash payments totaling $1,325 (December 31, 2011 - $1,293) which are recorded through share capital.

(b) Normal course issuer bid

During the six month period ended June 30, 2012, 35,000 (December 31, 2011 – 53,400) common shares were purchased under the Corporation's NCIB for a total of $380 (December 31, 2011 – $585) or $10.84 per share (December 31, 2011 - $10.96 per share).

Of the common shares repurchased during the period, 35,000 were cancelled, resulting in the average carrying value of $179 being allocated as a reduction in equity and $201 representing the consideration in excess of the assigned value being charged to retained earnings during the period. These shares have been excluded from the calculation of the weighted average common shares outstanding for the period ended June 30, 2012. Subsequent to June 30, 2012, the Corporation purchased common shares under the NCIB (Note 24).

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Trade and other receivables	**$ (2,059)**	$ 3,527	**$ 18,386**	$ 15,925
Inventory	**252**	291	**(260)**	(1,657)
Prepaid expenses	**(1,478)**	1,482	**(1,214)**	739
Costs in excess of billings	**20,849**	(3,065)	**3,749**	(9,330)
Trade and other payables	**(26,566)**	(5,789)	**(54,107)**	(3,682)
Contract advances and unearned income	**(3,955)**	153	**(19,552)**	(12,996)
	$ (12,957)	$ (3,401)	**$ (52,998)**	$ (11,001)

20. FINANCIAL INSTRUMENTS

(a) Carrying values

		June 30, 2012		December 31, 2011
Financial assets:				
Cash and cash equivalents	**$**	**21,585**	$	59,445
Trade and other receivables		**327,386**		345,772
Service provider deposit		**7,394**		6,066
Long-term receivable		**200**		300
Financial liabilities:				
Trade and other payables	**$**	**230,300**	$	283,857
Long-term debt including current portion		**71,252**		61,836
Convertible debentures - debt component		**77,867**		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 $81,458 at June 30, 2012, which is based on an average market yield rate of 8% determined from marketable debentures traded with similar terms.

The fair value of the fuel derivative instrument liability was $218 at June 30, 2012 (December 31, 2011 – $21 asset), which is calculated using common pricing methodology for instruments of this type that reference current and future pricing information obtained from market sources. Changes in the value of the fuel derivative instrument is recorded within accrued liabilities or prepaid expenses in the statements of financial position, and other income in the statements of earnings and comprehensive income.

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 earnings and comprehensive income and is net of any recoveries that were provided for in a prior period.

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

	June 30, 2012	December 31, 2011
Balance at beginning of the period	**$ 1,993**	$ 3,685
Impairment losses recognized on receivables	**119**	143
Amounts written off during the period as uncollectible	**117**	(319)
Amounts received during the period	**(536)**	(1,340)
Impairment losses reversed	**(654)**	(176)
Balance at the end of the period	**$ 1,039**	$ 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 establishes whether or not the receivable is past due.

		June 30, 2012		December 31, 2011
0-30 days	**$**	**151,380**	$	173,958
31-90 days		**48,465**		43,962
91-120 days		**2,807**		6,665
More than 120 days		**8,341**		9,687
	$	**210,993**	$	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 $10,109 of trade receivables which were greater than 90 days past due and not provided for at June 30, 2012 (December 31, 2011 - $14,359). Of the total, $1,435 (13%) was concentrated in one customer account and remained outstanding as of August 8, 2012. The related customers are considered to be credit-worthy and there are presently no concerns regarding collectability of these accounts. Trade receivables are included in trade and other receivables on the statements of financial position.

(ii) Interest rate risk

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

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

		Carrying amount		
		June 30, 2012		December 31, 2011
Fixed rate instruments				
Financial assets	**$**	**-**	$	-
Financial liabilities		**77,867**		76,691
Variable rate instruments				
Financial assets	**$**	**21,585**	$	59,445
Financial liabilities		**71,252**		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 $158 (December 31, 2011 - $422) related to financial assets and by $520 (December 31, 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 June 30, 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	**$ 230,300**	$ 230,300	$ 230,300	$ -	$ -	$ -
Provisions including current portion	**9,881**	9,881	2,464	2,464	1,762	3,191
Convertible debentures	**77,867**	101,776	2,587	2,587	5,175	91,428
Long-term debt including current portion	**71,252**	70,516	374	374	172	69,596
Fuel derivative [(1)]	**218**	3,247	3,247	-	-	-
Lease commitments	**55,242**	55,243	3,251	3,251	6,151	42,590
	$ 444,760	$ 470,963	$ 242,223	$ 8,676	$ 13,260	$ 206,805

[(1)] Cash inflows related to the fuel derivative are not reported in the maturity analysis. If these cash inflows were also recognized, the cash outflow presented would be substantially lower, if not nil.

(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 is required. The contracts require the Corporation to pay fixed prices between $0.7633 per litre and $0.7727 per litre and receive the floating market price at each settlement date from the counterparty on 4,230,000 litres of heating oil. The contracts expire between July 2012 and October 2012.

21. CAPITAL MANAGEMENT

The Corporation’s objective in managing capital is to ensure sufficient liquidity to pursue its growth and expansion 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:

		June 30, 2012		December 31, 2011
Long-term indebtedness:				
Long-term debt, excluding current portion net of deferred financing fees	**$**	**69,662**	$	60,433
Convertible debentures - debt component net of deferred financing fees		**77,867**		76,691
Total long-term indebtedness		**147,529**		137,124
Total equity		**301,370**		309,141
Total capitalization	**$**	**448,899**	$	446,265
Indebtedness to capitalization percentage		**33%**		31%

The Corporation targets a long-term indebtedness to EBITDA ratio of 1.5x to 3x over a three to five-year planning horizon. At June 30, 2012, the long-term indebtedness to EBITDA was 2.62x (June 30, 2011 – 2.07x) calculated on a trailing twelve-month basis as follows:

		June 30, 2012		June 30, 2011
Total long-term indebtedness	**$**	**147,529**	$	165,816
Net earnings and comprehensive income	**$**	**12,418**	$	27,974
Add:				
Finance costs		**12,066**		13,364
Income tax expense		**3,854**		13,087
Depreciation and amortization		**27,950**		25,619
EBITDA	**$**	**56,288**	$	80,044
Long-term indebtedness to EBITDA ratio		**2.62x**		2.07x

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 Corporation was in full compliance with its credit facility covenants at June 30, 2012 and December 31, 2011.

- Working capital – Working capital represents total current assets less total current liabilities as classified on the consolidated statements of financial position.

- 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. EBITDA represents earnings or loss before interest, income taxes, depreciation and amortization.
- Debt to EBITDA – Debt represents total indebtedness and total obligations of the Corporation and its subsidiaries, excluding convertible debentures.
- Senior debt to EBITDA – Senior debt represents all debt other than subordinated or unsecured debt.

22. RELATED PARTY TRANSACTIONS

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

The Corporation incurred facility costs during the three months ended June 30, 2012 of $136 (June 30, 2011 - $143) related to the rental of two buildings, one of which is owned 50% by Schneider Investments Inc., a company owned by George Schneider, a director of the Corporation, and the other owned by Broda Holdings (2009) Inc., a company owned by the President of Broda. For the six months ended June 30, 2012 these facility costs were $301 (June 30, 2011 - $284). At June 30, 2012, $58 is included in trade payables (June 30, 2011 - $35).

23. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Corporation has provided several letters of credit in the amount of $17,852 in connection with various projects and joint ventures (December 31, 2011 - $23,926). These letters of credit are issued utilizing the credit facilities of the Corporation and reduce the maximum availability under the revolving credit facility.

24. EVENTS AFTER THE REPORTING PERIOD

On July 4, 2012, the Corporation reduced one of its letters of credit by $7,000 in connection with a project nearing completion.

On July 12, 2012, the Corporation entered into an agreement amending the terms and conditions for its $200,000 senior secured revolving credit facility as described in Note 15.

Subsequent to June 30, 2012, the Corporation purchased 2,439 common shares for total consideration of $20 under the Corporation’s NCIB (Note 18).

On August 8, 2012, the Corporation’s Board of Directors declared a common share dividend of $0.12 per share. The dividend is designated as an eligible dividend under the Income Tax Act (Canada) and is payable October 16, 2012 to shareholders of record on September 28, 2012. The ex-dividend date is September 26, 2012.

the

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