2009 Annual Report

busy
creating value

the Churchill Corporation

creating value for our clients, employees, partners and our shareholders

CORPORATE PROFILE

Churchill is a diversified construction company comprised of three strategic business units: Buildings, Industrial Insulation Contracting and Industrial Electrical Contracting. In aggregate, these business units provided services to than 200 customers, employed 337 full-time employees and 1,136 skilled trades people in 2009. At December 31, 2009, total assets were $367 million, shareholder's equity was $142 million and market capitalization was $339 million. Churchill's operations are focused primarily in Western Canada.

Project Locations
Stuart Olson
IHI
Laird
Office Locations

Fort McMurray
Edmonton
Calgary
Saskatoon
Vancouver
Kelowna
Regina
Winnipeg
Thunder Bay

TABLE OF CONTENTS

01 Project and Office Locations
02 Five Year Summary
03 Historical Results
06 Shareholders' Message
10 Our Responsibility
14 The Market
20 Operations
34 Q&A with Management
37 MD&A and Financials

5 year summary

The following selected unaudited financial data has been derived from Churchill's consolidated financial statements, which have been audited by Deloitte & Touche LLP, Chartered Accountants. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report. The data below is presented on a continuing operations basis.

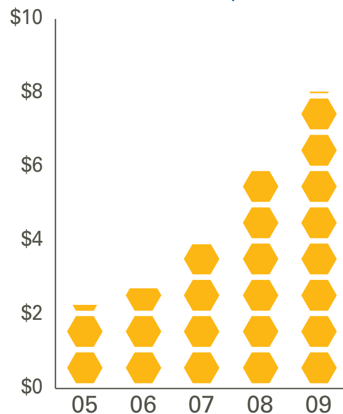
Years ended December 31

($ thousands, except share and per share data and percentages)	**2009**	2008	2007	2006	2005
INCOME STATEMENT DATA					
Contract revenue	**$ 601,241**	$ 760,953	$ 694,021	$ 478,893	$ 379,150
Contract income	**91,951**	93,879	63,218	44,136	32,017
Contract income (%)	**15.3%**	12.3%	9.1%	9.2%	8.4%
Earnings (loss) before interest, tax depreciation and amortization ("EBITDA")	**51,322**	56,186	33,883	15,880	8,075
Interest expense	**240**	491	665	814	880
Depreciation and amortization expense	**4,435**	4,089	2,808	1,782	1,773
Earnings before income taxes	**46,647**	51,606	30,410	13,284	5,214
Net earnings from continuing operations	**33,479**	35,591	20,682	8,599	3,212
BALANCE SHEET DATA					
Working capital	**$ 107,365**	$ 78,303	$ 35,180	$ 19,801	$ 14,872
Shareholders' equity	**141,507**	105,573	69,678	47,689	40,219
Total debt	**788**	7,869	9,460	21,631	16,695
Non-construction related assets	**-**	-	-	-	-
PER COMMON SHARE DATA					
Net earnings per common share:					
Basic from continuing operations	**$ 1.90**	$ 1.98	$ 1.17	$ 0.49	$ 0.20
Fully diluted from continuing operations	**1.87**	1.96	1.15	0.48	0.20
Book value per share	**8.03**	5.92	3.90	2.70	2.25
OTHER DATA					
Price to earnings multiple (12 month trailing)	**10.1**	3.6	19.2	12.2	15.8
Return on average shareholders' equity ("ROE")	**28%**	41%	35%	20%	10%
Total shareholder return	**168%**	(68%)	275%	90%	29%
Work-in-hand	**$ 784,237**	$ 565,259	$ 668,780	$ 480,628	$ 223,501
Total backlog	**$ 1,388,624**	$ 1,390,273	$ 1,333,655	$ 1,080,836	n/a
COMMON SHARE INFORMATION					
Weighted average shares outstanding - basic	**17,620,454**	17,928,037	17,730,644	17,746,020	15,739,334
Weighted average shares outstanding - diluted	**17,935,551**	18,109,979	17,995,235	17,960,636	15,885,305
Shares outstanding at year-end:					
Basic	**17,619,259**	17,822,091	17,886,991	17,667,491	17,895,686
Fully diluted	**18,832,502**	18,341,751	18,204,491	18,239,158	18,500,686
Shares traded	**15,729,584**	20,315,900	19,195,481	4,452,191	2,632,200
Share price:					
High	**$ 20.94**	$ 24.49	$ 29.90	$ 6.35	$ 3.50
Low	**6.33**	4.45	5.11	3.00	1.86
Close	**19.27**	7.19	22.50	6.00	3.15

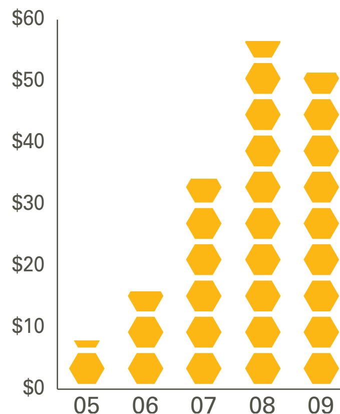
historical results

Book Value per Common Share ($)

Growth of 36% in 2009
CAGR of 37% over 4 years

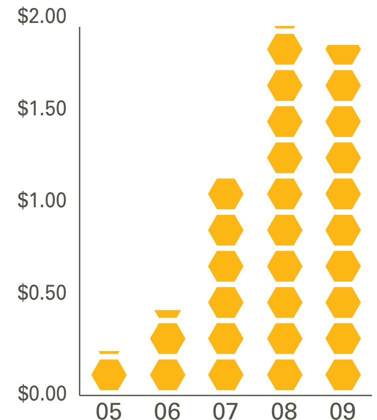


EBITDA ($millions)



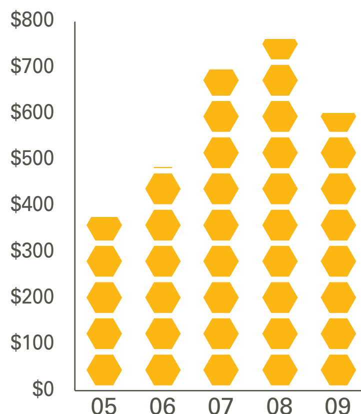
Earnings per Share ($)

CAGR of 68% over 4 years



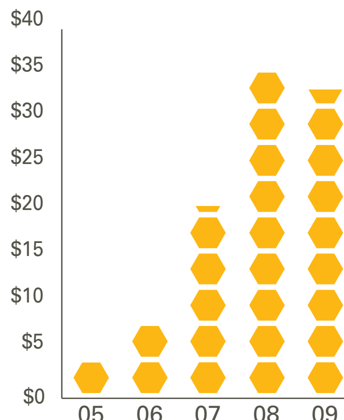
Revenue ($millions)

CAGR of 12% over 4 years



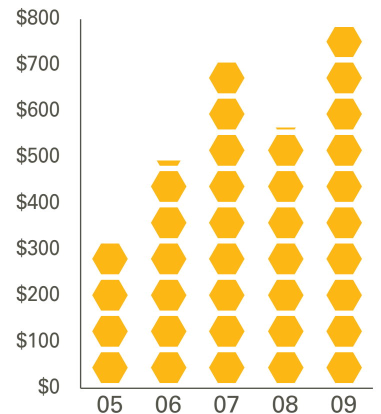
Net Earnings ($millions)

CAGR Growth of 80% over 4 years



Work-In-Hand ($millions)

Increase of 39% in 2009
CAGR of 37% over 4 years



the vision

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

Mission

- Creating value for our clients, employees, partners and ultimately our shareholders.
- 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.
- Contributing positively to the community in which we work, live and play.

Strategy

- Emphasizing value added construction and other partnering methods of project delivery.
- Securing contracts for larger projects.
- Targeted geographic expansion.
- Industry sector diversification.
- Product and service line diversification.
- Ensuring the Corporation has a strong balance sheet to support its growth objectives.

Core Values

Acting with integrity by respecting and trusting people

Striving for excellence in an exciting team environment

Demonstrating innovation and entrepreneurial spirit

Being conscious of safety, health and the environment

the executive

From left to right:
Joette Decore, James Houck, David LeMay, Greg Phaneuf, Ron Martineau, Daryl Sands, Andrew Apedoe, Don Pearson

Shareholders' Message

Dear fellow shareholders,

The past year marked another excellent year for the company. Our financial performance once again exceeded expectations.

We began 2009 in the midst of great uncertainty, as commodity prices declined dramatically impacting our industrial businesses, the housing market in places like the United States and United Kingdom stalled and financial markets were in crisis due to the collapse of several financial institutions and significant losses.

As a result, we took a hard look at our business operations and began looking for ways for us and our customers to reduce costs and improve our business models. Churchill's employees adapted quickly to the change in the economic environment and how we conduct our business. The success we experienced in 2009 could not have been accomplished without their hard work and commitment. We significantly restructured all of our industrial businesses and eventually sold Triton, our industrial general contracting segment, to an organization who could grow and derive more value from that business than we could. Afterwards, we relocated and restructured the corporate offices which resulted in new locations for Laird Electric, IHI and the corporate centre. By making these improvements we were better able to meet the four key objectives that we use to assess our financial performance.

Our performance objectives for 2009 were:

- Achieving total shareholder returns which would place us in the first quartile of our peer group;
- Positioning for growth in our financial results;
- Sustaining and growing our backlog; and
- Maintaining a strong balance sheet.

The outlook for 2010 is for a gradual return to economic growth across most regions of Canada and in particular Western Canada, where we operate. Our focus will be on growth in the years to come as we execute our strategy of expanding geographically and adding new services to our business mix. Your management team and board of directors are committed to building shareholder value.

In 2009, we achieved:

- A total shareholder return of 168%, placing us at the top of our peer group and one of the better performing companies on the TSX;
- Net earnings of $34.8 million, and earnings per share of $1.98;
- Our backlog began and finished the year at $1.4 billion;
- Our balance sheet remained strong with cash growing from $100.7 million at the beginning of the year to $184.4 million; and
- Restructured our debt by paying down $7.1 million and negotiating a $60 million credit facility which remains substantially unutilized.

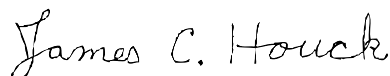
We are also pleased with our performance as it relates to safety. We have taken significant steps to impart a stronger culture of safety awareness throughout the organization. Most recently, the Board of Directors approved the formation of a health, safety and environment committee and the mandate of this committee will be more fully disclosed in our management information circular. Operationally every company saw improvements in their safety statistics during 2009. We will be striving to improve upon these strong safety metrics again in 2010.

Churchill continues to strive for excellence in its corporate governance practices. Churchill recruited Carmen R. Loberg and Wendy L. Hanrahan to our board of directors in 2009. Carmen serves as President and Chief Executive Officer of the Norterra Group of Companies and Wendy is the Vice President, Human Resources, Communications and Facilities Management at TransCanada. Carmen is already proving to be a great contributor to our strategic thinking and provision of leadership to management, and Wendy is providing support to our Human Resource and Finance initiatives.

The outlook for 2010 is for a gradual return to economic growth across most regions of Canada and in particular Western Canada, where we operate. Our focus will be on growth in the years to come as we execute our strategy of expanding geographically and adding new services to our business mix. Your management team and board of directors are committed to building shareholder value.

In closing we would like to thank all of our employees, customers and shareholders for their commitment and support of the Corporation during the past year and we look forward to continuing to earn your trust and respect.

Regards,



James C. Houck
President & Chief Executive Officer
March 11, 2010

our responsibility

Social Responsibility Report

This year, Churchill's board of directors approved the adoption of a Corporate Social Responsibility program to guide employees and directors in all aspects of their work for the company.

At The Churchill Corporation, we define Corporate Social Responsibility as:

- Conducting business in a socially responsible and ethical manner;
- Protecting the environment, health and safety of people;
- Respecting the individual;
- Engaging, learning from and supporting the communities and cultures with whom we work; and
- Supporting and encouraging our employees to give back to their communities.

The following are highlights of our achievements in 2009.

Conducting business in a socially responsible and ethical manner

Governance begins with a strong board and management and is reflected in the policies of the Corporation. We have continued to add to our board new members to renew and refresh the board and bring in new thinking over time. We have codes of conduct for employees and directors, and an anonymous whistleblower hotline. We respect the law and believe it is important to protect human rights and have appropriate policies to assist in the recruitment of staff, and the protection of the health and safety of all individuals and the environment.

Environment, health and safety

To complement the sustainable design and construction services we offer our clients, we continually take steps to ensure that our own operations are environmentally sustainable. Investments in sustainability include:

- The design and materials of our Corporate and Southern Alberta head office have been completed with environmentally friendly materials;
- Recycle bins under every desk;
- Composting in lunchrooms/kitchens;
- Sulfate free dish soap and detergents;
- Energy-efficient lighting;
- Low VOC paints and glues;
- The purchase of two hybrid vehicles for use by our project managers, coordinators, superintendents and others visiting our work sites; and
- The printing of our investor relations materials using FSC recycled paper products.

Additionally, we have increased our emphasis on health and safety, experiencing positive results and feedback from our stretching boot camps. Consequently, we have seen a verifiable reduction in soft-tissue injuries and fewer sprains, strains, etc.

Other safety accomplishments include:

- Implementing a behaviour – based safety program at Laird Electric; and
- Creating a corporate safety council consisting of safety representatives from all operating companies to share best practices.

Respecting the individual

The Corporation will ensure that employees are treated fairly, with dignity, respect and consideration for their goals and aspirations and that diversity in the workplace is embraced. To this end, we conduct annual employee performance evaluations and in 2010 have implemented the balance scorecard assessment methodology beyond the management level and into the operating ranks within the company. This will allow us to identify more high potential future leaders for whom we can provide development and support to create the best organization possible. Further highlights of 2009 include:

- Providing professional development programs and funding for our people;
- Providing customized leadership programs for management employees;
- Utilizing salary surveys and the knowledge of our human resources and compensation consultant (Hay Group) to further refine and improve our compensation practices to achieve the desired results;
- Continuing to offer competitive wages, benefits and a wide range of career opportunities which allows Churchill to attract and retain high performers; and
- We expanded our wellness program to include a larger base of employees, effective January 1, 2010.

Engaging, learning and supporting the community

Our continued financial and operational success enables us to support our communities by hiring new staff, which contributes to the strengthening of our economy and the social fabric.

Stuart Olson is at the forefront of the Green Building movement. It has made the corporate commitment to be involved in and promote the continued growth of sustainable design and construction projects. Stuart Olson has completed over 25 sustainable design and construction projects in recent years, buildings of enduring quality that will serve our communities for many decades.

We also direct contributions and donations to community based non-profit organizations in the communities in which we work. For example, in 2009:

- We donated over $260,000 to numerous charities, educational institutions, health foundations, and youth organizations throughout Alberta, British Columbia and Saskatchewan;
- We provided 13 scholarships to students attending universities and technical institutes; and
- We made a five-year commitment totalling $1 million dollars to SAIT Polytechnic's two priority areas; the Trades and Technology Complex and the SAIT Opportunities Fund.

Encouraging employee giving

Employees are encouraged to be generous with their time and resources where they can make a difference. This can involve everything from coaching local sports teams, to raising money for cancer, to supporting the local United Way chapter. The company will support employee giving through use of office space for meetings, office equipment for copying and printing and matching funds raised with the approval of a senior officer of the Corporation.

Examples of organizations which benefitted from the support of our employees in 2009 were:

- The United Way;
- The Canadian Cancer Society;
- The Juvenile Diabetes Research Foundation; and
- Many other local community organizations.

the market

Market sectors at a glance

Commercial
Our expertise includes retail, office and hospitality buildings.

Infrastructure
Our expertise in this sector includes airports, buildings, primary, secondary and post-secondary educational facilities, healthcare facilities, recreation centers, civic and government buildings.

Agrifood
Our expertise includes food processing to packaging, handling, distribution and storage facilities.

Chemicals and Petroleum
Our expertise includes gas processing, heavy and conventional oil production, refining and upgrading, bitumen production, petrochemicals, chemicals and fertilizer facilities.

Mining and Metallurgy
Our expertise includes uranium, potash, zinc and other complex industrial operations.

Forestry
Our expertise includes softwood lumber, pulp and paper production facilities.

Residential
Our expertise includes multi-unit residential projects.

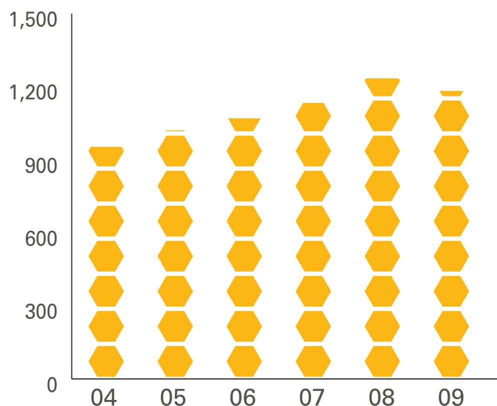
Trend Charts

5-year construction employment (source Statistics Canada)

- The economic downturn impacted the construction labour force in 2009 as it did many industries. While total employment numbers were down for the first time since 2002, employment levels generally were very robust.

5-Year Construction Employment Trendline

(Employment in thousands)

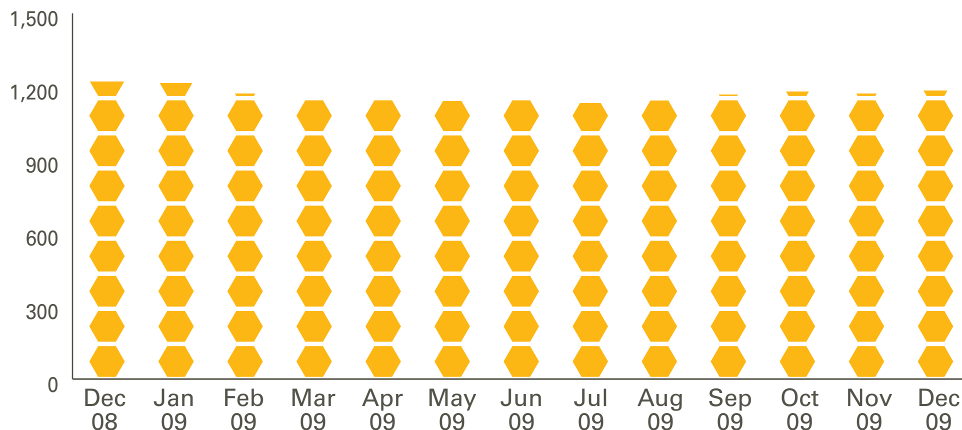


12-Month construction employment (source Statistics Canada)

- Employment numbers started to recover during the third and fourth quarter of 2009. This trend should hold through 2010 and 2011.

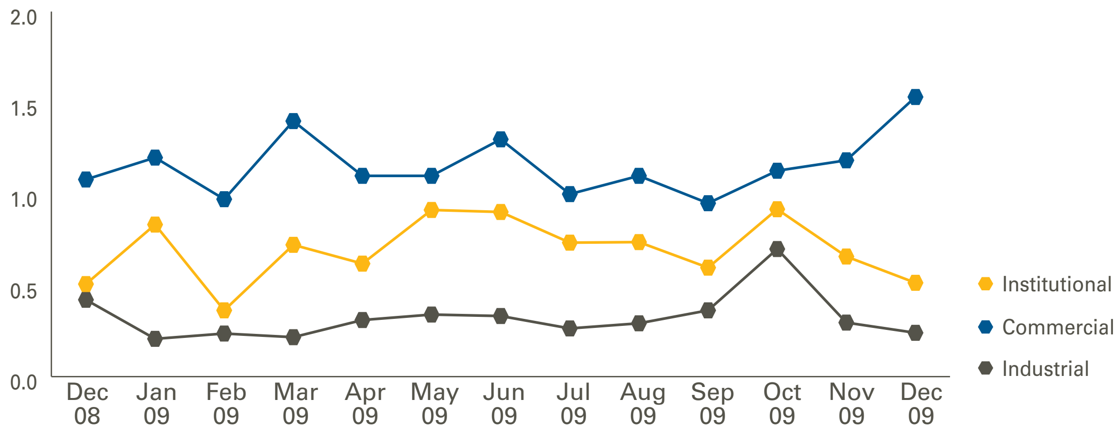
12-Month Construction Employment Trendline

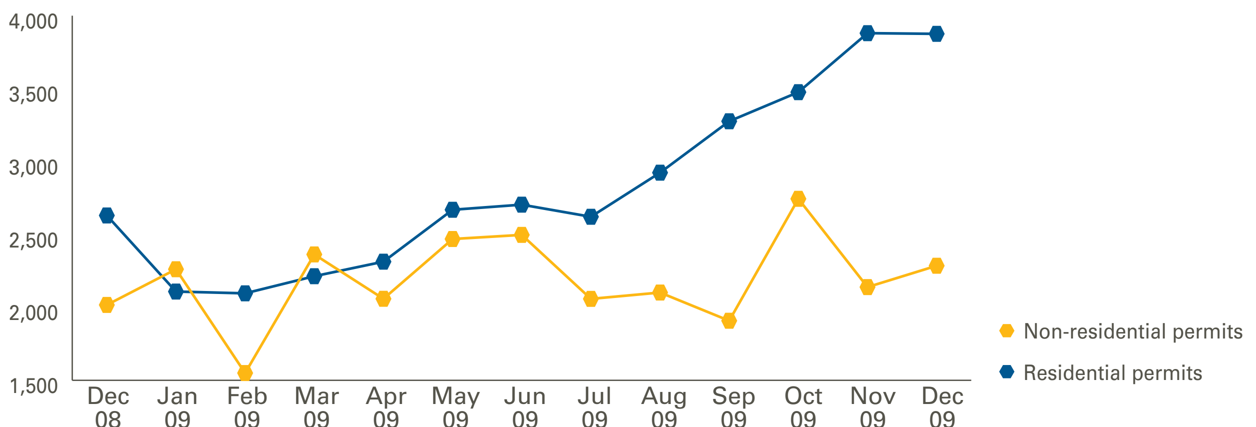
(Employment in thousands)



Non-residential building permits by type (source Statistics Canada)
On a current dollar basis non-residential spending in 2009 declined 1.2% versus 2008.

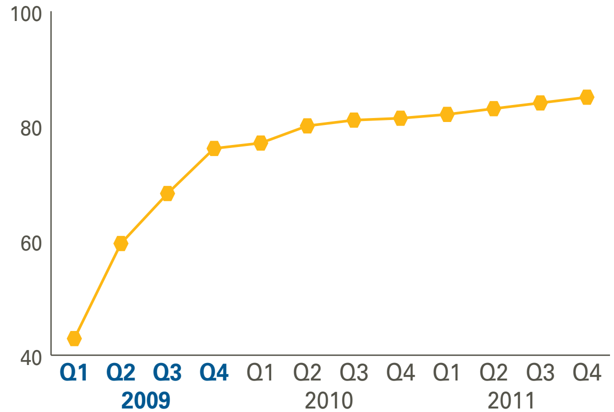
- The decline was mainly a result of a 6.5% decline in spending on commercial projects, combined with a 16.4% pull back in spending on industrial projects.
- These declines offset a 19.3% rise in institutional construction which was boosted by federal and provincial stimulus spending.
- Growth in non-residential spending in 2009 was particularly strong in Prince Edward Island (+37.5%) and in Saskatchewan (+25.8%); while in Alberta and British Columbia it declined by 7.7% and 7.4%, respectively.
- Non-residential construction spending may continue to shrink in the first half of 2010.
- Increasing corporate profits, improving credit conditions, higher commodity prices, low interest rates and a modest economic recovery should cause non-residential spending to accelerate in the second half of 2010 and strengthen further in 2011.





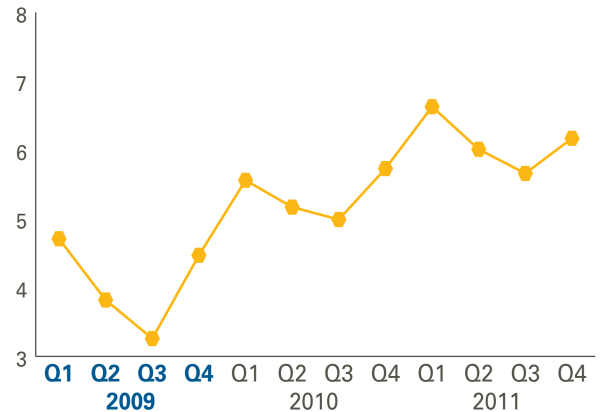
Oil WTI forecast
(Source: US Energy Information Association – Jan 2010)

- The EIA expects the crude oil market to strengthen this spring with WTI rising to an average of about $81.00 per barrel over the second half of this year and $84 per barrel in 2011. EIA's forecast assumes that US GDP grows about 2.3% in 2010 and by 2.5% in 2011, while world oil consumption-weighted real GDP grows by 2.6 % and 3.7% in 2010 and 2011, respectively.



Natural gas forecast
(Source: US Energy Information Association – Jan 2010)

- EIA expects this year's annual average natural gas Henry Hub spot price to be $5.37 per million Btu (MMBtu), a $1.42-per-MMBtu increase over the 2009 average of $3.95. EIA projects continuing price increases in 2011, averaging $5.86 per MMBtu for the year. EIA expects working gas inventories to end the first quarter at about 1,644 billion cubic feet (Bcf) compared with 1,734 Bcf in the previous Outlook, because of colder-than-normal weather in early January.



Government of Alberta's Capital Plan

- The Government of Alberta is forecasting a 3.7% increase in total capital spending to $7.2 billion in 2010 – 2011, which contains the last year of the two-year federal Economic Action Plan, up from $7.0 billion in 2009 – 2010 (per the government's Q2 update last November). Health facilities and equipment lead the growth in 2010 – 2011, and we believe this will provide substantial opportunities for engineering and construction companies (78% of spending under this category is for new facilities and expansions or capital maintenance/renewal).
- Depending on the speed and extent of a recovery in the oil and gas industry and the economy in general, we suspect there could be some upside in the governments' plans for 2012-2013 by the time that period is reached.

($ millions) Year ends are March 31	Actual 2007-2008	Actual 2008-2009	Q2 Update Target 2009-2010	 2010-2011	Target 2011-2012	Target 2012-2013	5 Year CAGR
Municipal infrastructure support	$ 1,526	$ 1,628	$ 1,664	$ 1,776	$ 1,718	$ 1,756	2.8%
Provincial highway network	1,388	2,020	1,905	1,866	2,183	1,644	3.4%
Health facilities and equipment	1,290	979	312	802	916	769	(9.8%)
Schools	620	609	716	516	185	284	(14.5%)
Post-secondary facilities	906	880	708	578	251	145	(30.7%)
Community facilities and centennial projects	359	365	97	118	109	104	(21.9%)
Water and wastewater management	158	346	286	167	290	252	9.8%
Housing	349	413	405	352	247	200	(10.5%)
Government facilities, equipment and other capital	375	702	858	1,033	1,010	804	16.5%
Total	$ 6,971	$ 7,942	$ 6,951	$ 7,208	$ 6,909	$ 5,958	
Yr/Yr change	47.0%	13.9%	(12.5%)	3.7%	(4.1%)	(13.8%)	

British Columbia Economy

British Columbia's economic recovery in 2010 is expected to result in a 2.2% increase in real GDP. BC's economic rebound is being keyed by a recovery in domestic demand, including a resumption of job creation, gains in retail sales and a stabilization in housing.

After averaging more than 5% in the prior four years, the fiscal plan is based on an average program spending increase of less than 2% over the coming three years. Health and education remain the key spending priorities for the British Columbia government. BC anticipates a 2.3% expansion for 2011, with growth accelerating to an average pace of 2.8% over the 2012-2014 timeframe, propelled by stronger US demand.

The BC Major Projects Inventory estimates the available capital cost of proposed projects estimated at about $107.1 billion, up from $106.7 billion in the previous quarter. Many major project proposals are in very preliminary stages and are not approved for construction, therefore capital cost estimates should be viewed with caution. Approximately $19.3 billion of projects are judged to be 'on hold' for the time being.

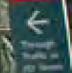
Saskatchewan Economy

Saskatchewan is expected to lead the country in GDP growth in 2010 and battle Alberta for top spot in 2011. A rebound in the oil, potash, agriculture and uranium sectors will see Saskatchewan reap the benefits of re-invigorated Asia-Pacific growth. GDP growth in the province is expected to climb 3.0% in 2010 and 4.1% in 2011. Saskatchewan's December 2009 major projects inventory identifies $30 billion of construction projects proposed, in planning and design and tendered and in construction. Of this amount, more than $28 billion is associated with projects in the areas of commercial, retail, industrial, manufacturing, infrastructure and institutional construction, mining, oil and gas and power construction.

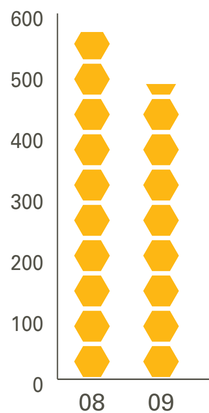
operations

Stuart Olson and Insulation Holdings achieved record financial results in 2009 on an EBITDA basis. Our restructuring efforts at Laird Electric were successful, enabling Laird to remain profitable despite a 63% decline in revenue due to reduced capital and maintenance spending in the oil sands.

Going into 2010, Churchill's backlog remains at near-record levels, client access to capital is improving, spending by the private sector is increasing and our substantial cash position provides us with significant financial flexibility to evaluate value creation opportunities.



Stuart Olson



Services:

Stuart Olson provides: (i) construction management; (ii) design-build; and (iii) general contracting services in different market sectors. Stuart Olson specializes in the construction management form of delivery which involves partnering with the client and their design team early in the development process. This is the most common form of contracting Stuart Olson undertakes, presently generating more than 80% of the company's revenue. Stuart Olson's work in this area has ranged from post - secondary projects to high-rise buildings and includes both new construction and renovation. Stuart Olson also offers clients design - build construction services, whereby Stuart Olson provides both the design and the construction services for the project. Stuart Olson also provides general contracting services, which include the provision of management, estimating, accounting, site management, staff, field workers and equipment in order to complete projects. Stuart Olson's project managers and superintendents provide the experience and expertise to manage projects ranging in size from $1 million to more than $500 million.

Representative Customers:

- Alberta Health Services
- Alberta Infrastructure
- British Columbia Ministry of Health
- Edmonton International Airport Authority
- The University of Alberta
- NAIT
- SAIT Polytechnic
- The University of Calgary
- The University of Lethbridge
- The City of Red Deer
- The City of Calgary
- The City of Edmonton
- UBC and UBCO
- Vancouver Community College
- Simon Fraser University
- University of Victoria
- Vancouver Aquarium
- The Government of Canada, Department of Defense

Competitive Landscape:

The building construction market is highly competitive, with relatively low barriers to entry in the small-to-medium size project segment of the market, but with significantly higher barriers to entry in the large, more complicated project segment where bonding capacity, working capital availability and technical capabilities restrict competitors. Stuart Olson has several capable and well-established competitors. Competitive factors include: price and approach to project execution; relevant project experience; client relationships; quality of service; record in completing similar projects on time and on budget; subcontractor relationships; strength of project team; performance bonding capability and financial strength.

Competitive Advantage:

Our people are our greatest competitive advantage combined with the systems, processes and investment in training and development we provide.

Management believes that its strong reputation developed from past project successes, positions it favourably to meet current and future competitive challenges.

Experience – Stuart Olson's detailed construction management methodology is based on years of successful construction management experience. The company was one of the first general contractors in Western Canada to introduce construction management, as far back as 1983.

Teamwork – Stuart Olson focuses on a team approach built around professional engineers and experienced contractors who understand the full scope of the construction manager's role. Stuart Olson is a general contractor of choice because of its team player approach to providing value added services.

Pre-Construction Program – The fundamental difference between Stuart Olson and other construction management firms is its proactive, accurate, vigorous and exhaustive approach to pre-construction services which deliver a higher value product at a lower cost.

Value Engineering and Constructability Evaluation – Stuart Olson takes great pride in assisting design consultants with design co-ordination review. Stuart Olson's team is very technically proficient and motivated to make a positive impact on the projects the company undertakes. Working with the project team, Stuart Olson reviews the design with respect to "constructability" from the earliest phases of design through to completion of working drawings. Stuart Olson's review extends beyond bricks and mortar issues, considering elements such as labour and materials, environmental impact and people.

Maintain Quality and Cost Controls – Stuart Olson provides guidance on both quality and costs during the design phase. A quality plan and systematic approach to tracking costs is monitored closely during the construction phase. All of the project information with regard to cost, schedule and quality management is reviewed on a monthly basis with clients.

Safety – Safety is paramount to the Stuart Olson organization. The well-being of all our stakeholders is the very health of the company. Safety guides us in all we do and is an integral part of the Stuart Olson blueprint.

Notable Accomplishments

EBITDA was a record $51.3 million in 2009 compared to $42.8 million in 2008

Awarded first P3 project – Fort St. John Hospital with our partners

Awarded $699 million of new awards during 2009

Opened a new branch office in Saskatoon, Saskatchewan

In May, we began the construction of the $115 million Wal-Mart Perishable Distribution Centre in Balzac, Alberta, adjacent to Calgary's northern city limits. This 400,000 square foot distribution centre will be a state of the art facility utilizing the latest in RFID and logistics technology to receive, store and distribute fresh produce and frozen products.

In May, we were selected as lead proponent to construct the Central Utilities Plant ("CUP") Project as part of the Edmonton International Airport ("EIA") Expansion Program. Stuart Olson's scope of work will entail providing construction management services to ensure the adequate installation of mechanical, electrical, storm, sanitary and water services to support the increased capacity associated with the terminal expansion building and new control tower.

In July, we began work on the $298 million Fort St. John Hospital and Residential Care Facility project in Northeast, British Columbia. This was our first successful P3 bid. Our portion of the construction contract was $117 million.

In September, we announced that Stuart Olson would build the Genesis Centre of Community Wellness, in Calgary, Alberta. The Genesis Centre will house branches of the Calgary Public Library and YMCA Calgary, a human and social services centre, indoor and outdoor sports facilities and community gathering places. The facility is expected to open its doors in 2011.

We continued to make significant progress on the New Edmonton Remand Centre. This will be largest maximum security, correctional facility in Western Canada when completed. The facility is comprised of eight buildings, totalling 610,000 square feet and is expected to qualify for LEED Silver certification when completed. As at December 31, 2009, tendering activity is 72% complete and construction activity is 35% complete.

Strategies for Value Creation:

Relationship Focused – It is critical that we continue to strive for positive relationships with all owners, designers and trades with whom we work.

People – Attracting prospective employees to join Stuart Olson because the Blueprint is practiced and challenging opportunities exist for personal development and career growth.

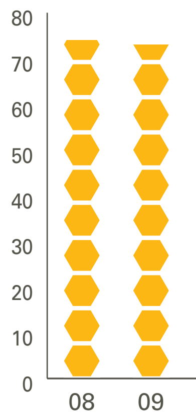
Backlog Growth – The book to bill ratio is a key metric demonstrating replacement of backlog. Our objective is to exceed a 1:1 ratio while at the same time, securing projects with the potential to achieve reasonable margins.

Geographic Expansion – Ensuring a successful expansion into the Saskatchewan building market.

Secure More P3 Projects – Stuart Olson will continue to dedicate time, resources and money in the pursuit of P3 projects in our areas of expertise and geographic scope.

Insulation Holdings

Insulation Holdings Revenue
($millions)



Services:

Both Fuller Austin and Northern Industrial provide the following construction services: mechanical insulation installation; industrial metal siding and cladding; and asbestos abatement. Installation of mechanical insulation can involve a variety of piping systems and sizes, all operating under differing conditions and in differing environments within the same facility. Other insulated components often include vessels, equipment, tanks, boilers, ductwork, precipitators, stacks, etc. The companies utilize an extensive selection of insulation products and cladding types designed to service thermal, cryogenic, acoustical and production purposes. The siding services provided encompass new and retrofit siding applications in the industrial sector. The companies supply and install claddings of all types (insulated, lined or single skinned construction systems). Asbestos abatement services include asbestos removal, encapsulation, emergency response, as well as monitoring and testing.

Representative Customers:

- TransAlta
- Suncor
- Shell Scotford (Bantrel)
- Syncrude (Jacobs)
- Albian Sands (Horton CBI)
- EPCOR
- Encana (KBR)
- Flint / Transfield
- PCL Industrial
- Consumers Cooperative Refinery Ltd.
- Potash Corporation of Saskatchewan (Cory, Allan, Rocanville)
- Mosaic Potash
- AMEC
- Vale Inco
- Imperial Oil - Strathcona Refinery
- Sherritt
- Agrium Redwater
- Agrium Fort Saskatchewan
- CNRL Wolf Lake & Horizon

Competitive Landscape:

Fuller Austin and Northern Industrial have several large and capable competitors in each of their geographic markets and areas of service. The companies provide a more comprehensive range of services than most of their competitors, which enables them to deliver a single-source solution to clients. The competitive factors affecting the businesses include: price and approach to project execution; relationships with clients and client representatives; scope of service capabilities; quality of service; record in completing similar projects on time and on budget; safety programs and record; performance bonding capability and financial strength; and relevant project experience.

Competitive Advantage:

Size – Management believes that the Insulation Holdings group of companies makes up one of the largest insulation contracting companies in Canada.

Structure – Insulation Holdings operates via a unionized insulation contractor (Fuller Austin) and a non-unionized insulation contractor (Northern Industrial), which allows it to effectively target virtually any insulation contract available in the Alberta marketplace.

Geographic Reach – Insulation Holdings is able to target opportunities and perform work on opportunities from Northwestern Ontario to British Columbia. This geographic scope makes the business less sensitive to economic conditions in any one particular province.

Safety – The management team of Insulation Holdings provides oversight and direction to its subsidiary management and employees who work closely with their clients to ensure a 100% safe culture is implemented. The organization has demonstrated an exemplary record of safety which has assisted it in winning various contracts.

Notable Accomplishments

Record EBITDA for 2009 of $9.1 million compared to $7.6 million, the three year average

Ended 2009 with backlog of $69.0 million

Awarded $75.3 million of new awards during 2009

Accumulated 1,906,305 hours of work without a recordable lost time incident September 2007 through December 2009 (27 months)

Strong project execution

Strategies for Value Creation:

To grow our insulation service line through the pre-fabrication and installation of removable/re-usable soft cover insulation blankets for flanges, valves, turbines, exchangers and other equipment.

Expand and grow HVAC service line to include shop pre-fabrication of HVAC components.

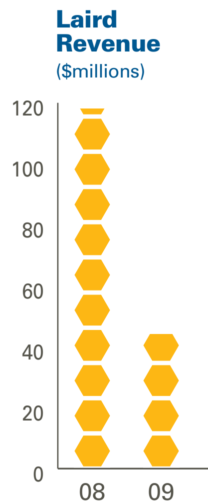
Through organic growth, continue to grow current service lines in all business units in Alberta and Saskatchewan.

Bundling of Services – In 2009, Fuller Austin and Laird Electric partnered to provide electrical heat tracing and insulation services to a client for their upcoming 2010 turnaround. In 2010, the two organizations hope to build upon this initial success.

Geographic and Services Growth – The insulation companies are ready and capable of expanding their operations base. The management team is in place to accomplish this goal. Complimentary lines of service and geography will be reviewed and evaluated in conjunction with Churchill for acquisition.

Hertz

Laird Electric



Services:

Laird is a full service electrical contractor providing electrical, instrumentation and power-line construction and maintenance services. This multi-faceted approach allows Laird to gain early access to new projects by providing the initial construction power service; continuing with the electrical and instrumentation installation during the construction phase; full project commissioning followed by the value added services of continued operations and maintenance support for the operating facility.

Representative Customers:

- Suncor
- Shell Canada
- Nexen
- Trans Alta
- EpcorAlta Link
- SNC Lavalin
- Fluor Canada
- Siemens
- KBR

Competitive Landscape:

Laird has several large and capable competitors in the union electrical, instrumentation construction and maintenance industry. Laird provides a broader range of complementary services than most of its competitors. The competitive factors affecting Laird include: price and solution driven approach to project execution; management information and cost management systems; client relationships; scope of service capabilities; quality of service; record in completing similar projects on time and on budget; safety programs and record; performance bonding capability and financial strength; owner's preference for union versus non-union workforce; and relevant project experience.

Competitive Advantage:

Laird is one of the top electrical instrumentation contractors operating in the Canadian oil sands industry. With almost 50 years of history in the community and industry of Fort McMurray our local approach offers a unique service for oil sands owners. Experienced industry proven local project management teams are an essential part of our commitment to the oil sands industry and our service offering. Our expanded presence in the Edmonton market has increased our foot print in the industry and provided a cost effective central location for our head office. This has also positioned us closer to our client's corporate centres and supply chain decision makers.

Focusing on Strong Project Management and Execution – Laird's proven project management teams have the ability to often deliver projects ahead of client schedules and continue to earn praise from our clients. This strong execution model and commitment to quality and safety does not go unnoticed as Laird has won substantial projects where it was not initially the prime electrical subcontractor. Leveraging our unmatched history in operating plant environments, Laird has successfully secured our clients trust and respect for executing work in these challenging and potentially dangerous environments. This allows us to confidently perform not only routine maintenance support services and shutdown/turnaround services but also be a "go to" contractor for sustainable projects. The sustainable project market, including existing plant optimization (debottlenecking) and process replacement, is a growth market in which Laird is uniquely qualified. Our commitment to the safety of our employees, partners and owners has been the key to this success. Bringing our unique suite of services from construction to maintenance makes Laird a supplier of choice for many major oil sands owners.

Ability to Access Labour – Laird's strong relationships with the building trades and union-contractor status enable it to access a reliable and qualified trade labour supply. As such, Laird has been able to access labour successfully in the midst of province wide labour shortages. This is very beneficial during periods of major plant shutdowns and other unexpected events.

Powerline and Substation Work – Our niche technical expertise in high voltage construction has secured Laird presence early in the construction phase of projects with early utility work. This service allows Laird early entry to many new major projects. This enables Laird to establish important working relations with the project owners, construction management teams and engineering groups and results in Laird being invited to tender additional work packages after they come out of engineering and design phases. Given these service lines, Laird is often well positioned to participate as a true partner with our key clients in the early project constructability process.

Safety – At Laird, safety is led by the executive who consistently oversees and invests in safe work practices and operations. Laird is continuously improving its safety and loss prevention programs as they develop and strengthen a culture where incidents and injuries are not acceptable and are recognized as preventable by all employees. Safety is not a procedure at Laird, it's the way we do business every day and a key competitive advantage in earning business from our clients.

Notable Accomplishments

$2.8 million of EBITDA in a significantly reduced client spending year

Awarded three substation projects with SNC-Lavalin in the Edmonton area

Aggressively right sized organization keeping ahead of the economic descent ensuring a profitable year while maintaining key personnel and organizational capability to be properly positioned for economic and industry recovery

Secured Suncor 2010 Turnaround Contract partnering with Fuller Austin to provide complete electrical heat trace and insulation solutions as well as complete electrical and instrumentation

Awarded major scopes of maintenance and construction work at Shell Scotford Edmonton

Working all of 2009 without a lost time incident

Successfully extended multiyear maintenance agreements with key clients including Suncor, Shell and TransAlta in extremely competitive environments

Laird quickly responded to the challenges faced by the oil and gas industry in early 2009. This meant right-sizing the organization while maintaining the right organizational capability. These cost savings initiatives enable Laird to maintain profitability.

Strategies for Value Creation:

Continue to Focus on People and Performance Improvement

Laird's success has been a result of a continued commitment to safety quality and performance by all its employees. Ensuring we continue to attract and retain the industry's leading professionals is a key strategic initiative in 2010 and beyond.

EBITDA Growth Via Organic Initiatives

- Continue to leverage our industry reputation for performance and experience in operating plant conditions as well as major green field construction projects. The industry demand requirements for turnaround and plant maintenance services will be larger than the construction demands in the years to come. This lagging market will only continue to heat up as more of the mega projects and new plants come on line and begin production.
- Adding significant new Fort McMurray and Edmonton customers to provide client and marketplace diversification.
- Pursue engineer-procure-construct electrical infrastructure projects by partnering with large reputable engineering firms. There is a significant requirement for development of Alberta's electrical distribution infrastructure. Laird's unique suite of services positions us well for continued success in this growing market.
- Bundling of services with Fuller Austin providing complete electrical heat trace and insulation solutions demanded by our industrial clients. This unique relationship with our sister company places us in a uniquely competitive position as we are 1 of only 2 companies currently providing this service offering.

EBITDA Growth Via Geographic and Market Diversification

With a strong balance sheet we are in a favourable position to be opportunistic in our efforts to expand our geographic presence and add complimentary service lines. Leveraging the existing owner relationships of the Churchill insulation companies in Saskatchewan, Laird will aggressively pursue industrial opportunities in that province in 2010.

q&a with management

Q. How did the collapse in the financial and economic markets impact your business in 2009?

A. Late 2008 was exemplified by the collapse in investor confidence, plunging corporate profits and a sharp tightening of credit conditions which caused non-residential construction spending to decline by 1.2% in 2009. The decline was the largest year-over-year drop since 2000, and was mainly the result of a 6.5% decline in spending on commercial projects. Reduced industrial demand, evidenced by a 16.4% pullback in spending on industrial projects combined with customers demanding 20 – 35% reductions to their costs made 2009 a very challenging year. Together, these declines more than offset a 19.3% rise in institutional construction, which was boosted by federal and provincial infrastructure spending. Fortunately, the outlook for 2010 is much better. Given higher levels of commercial vacancies and low levels of industrial capacity utilization, the commercial and industrial sectors within the non-residential construction market will start to recover in 2010, with the latter outperforming on a relative basis. Recent increases in corporate profits, a marked strengthening in commodity prices and the steady strengthening of investor confidence should cause business non-residential construction spending to accelerate.

Q. Is Infrastructure spending increasing/decreasing/or remaining the same in the future?

A. The Western Canadian provinces (Alberta, British Columbia and Saskatchewan) are expected to lead the recovery in non-residential construction spending (as measured by square footage) with a CAGR of 24% over the next two years. We believe that we should experience accelerating revenue growth driven by government infrastructure spending in Western Canada and the indirect infrastructure spin-off benefits from renewed oil sands investment activity.

Q. Has the infrastructure spending to date closed the so-called "infrastructure gap"?

A. The stimulus spending has been focused on the here and now and smaller sized, "shovel-ready" projects to get as many people working as quickly as possible. The infrastructure deficit continues to be an issue due to required repair and replacement of aging infrastructure. The fundamental macro-economic drivers are still there.

Q. What do you believe are the longer-term dynamics (i.e. post stimulus)?

A. Post-stimulus, we believe there will continue to be a significant amount of spending on infrastructure to upgrade existing roads, bridges, water treatment facilities, educational institutions, hospitals, etc.

Q. Will there be a crash in infrastructure spending once the stimulus ends? Should we expect a significant pull back in spending given government needs to "balance the books"?

A. We don't believe there will be a crash, as the need to remediate the infrastructure deficit remains, an odd benefit of the economic woes we have had over the last year or two is that it has forced the federal government to look at ways to reduce red tape associated with approving funding requests, they have also introduced a low-interest funding program for municipalities and doubled the size of the federal gas tax transfer so these will hopefully all become permanent structural features which facilitate reducing the $123 billion infrastructure deficit.

Q. Does your company participate in P3s?

A. Yes and we are looking to grow this segment of the business.

Q. What has been your experience with them?

A. Currently we are building a $298 million P3 hospital in Fort St. John, BC. The project began construction in July 2009 and is expected to be completed in 2012. In addition, we are responding with our partners to several hospital project opportunities in British Columbia.

Q. Do you think P3s will remain a staple of Canadian infrastructure going forward?

A. Yes, as an alternative financing mechanism to support the build-out of infrastructure, P3's may become a preferred method of procurement while governments strive to maintain balanced budgets. Secondly, in BC and Alberta governments have had success in achieving on-time and on-budget delivery of projects.

Q. Is financing available? On what terms? How different than pre-crisis?

A. In the case of the Fort St. John project, tightened credit terms led the government to provide government backed debt finance rather than utilizing private market debt in the P3 structure. Financial markets are improving and we expect that these projects will revert to their more traditional structure in the future.

Q. What are the pros/cons of P3 work for you?

A. Pros – potential for profits due to higher margins. Cons – guarantees, potential liquidated damages.

Q. What is your view on the opportunity in the oil sands?

A. The oil sands appear to be making a recovery. Recent announcements to proceed with oil sands/bitumen refinery projects by CNRL and North West Upgrading, Husky and BP, ConocoPhillips and Total, Suncor and Cenovus point to an improving industrial economic outlook. We have recently signed contracts to provide services to some of these owners at both Laird and Fuller Austin.

Q. Are there any/many "mega projects" on the horizon?

A. There are numerous mega projects in the oil sands either starting or awaiting corporate decisions to proceed. For example, CNRL (Kirby, Horizon Phase 2 and 3), Encana (Borealis), Suncor (Fort Hills, Steepbank, Voyageur South Mine) and Imperial Kearl Lake.

Q. How are margins vs. 2008/09? Was 2009 the peak for margins?

A. Our contract income margins have been approximately 300 basis points higher in 2009 as compared to 2008. 2009 probably is the short-term peak for margins as new projects we have secured will have a lower go-in fee and profit recognition is always conservative until risk has been mitigated.

Q. Why will margins not return to the low points reached in 2001 – 2004?

A. We have a disciplined approach to securing projects which emphasizes our value added to a project and tries to steer owners from selection based on fees alone. Combined with our efforts to ensure cost-effectiveness in all aspects of our operations, this will prevent the low margins seen in past decades.

Q. Are acquisitions a part of your growth strategy?

A. We look to make the best use of our cash to maximize shareholder value and have added organizational capability to help us evaluate the competitive landscape and opportunities available in the marketplace.

Q. How are acquisition opportunities right now?

A. There are many acquisition opportunities available. We are methodolically evaluating these opportunities and have dedicated resources to evaluate these within the corporate centre. We are seeking selective strategic acquisitions that complement our existing strengths and broaden our served markets.

Views from the Street

"The Company has seen an acceleration in new orders drive work-in-hand to record levels, surpassing previous 2007 highs, with expectation of strong signings in Q4 as well as a restart of previously delayed projects. As such, we expect a reversal of 2009's revenue declines in 2010, and even with a projected softening in profitability in 2010, we expect earnings to grow modestly vs. 2009." – Paul Lechem, CIBC World Markets, November 5, 2009.

"Right at the onset of the recession, the Street anticipated a collapse in backlog during 2009, which would entail a dramatic decline in revenues and EPS in 2010 and beyond. The stock fell into the abyss, dropping from over $29.00 to under $5, and it even traded below net cash value for a little while. As it turns out, the Street's biggest fears never materialized. Backlog is still climbing despite a difficult non-residential construction environment, propelled by Churchill's ability to secure large publicly funded contracts. At this juncture, the stock remains largely undervalued, trading at 8.4 times our 2010 EPS estimate. Still a table-pounding buy." – Benoit Caron, National Bank Financial, November 5, 2009.

"We urge investors to buy Churchill today because it currently boasts the best backlog-to-revenue ratio, highest projected EBITDA margin for 2010 and most attractive valuation among the construction stocks we track." – Frederic Bastien, Raymond James, November 5, 2009.

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation ("Churchill" or the "Corporation"), is dated March 11, 2010 and should be read in conjunction with the December 31, 2009, audited Consolidated Financial Statements and related notes thereto. Unless otherwise specified all amounts are expressed in Canadian dollars.

Forward-Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are 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. These statements involve 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 statements. The Corporation believes that the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. See "Forward-Looking Statements" at the end of this MD&A.

Throughout this MD&A, certain measures are used that while common in the construction industry are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). The measures used are "Contract income margin percentage", "Work-in-hand", "Backlog", "Delayed backlog", "Working capital", "EBITDA" and "Book value per share". Please review the discussion of these measures in the "Terminology" section of this MD&A.

Overview of Our Business and Strategy

The Churchill Corporation constructs buildings and provides industrial construction and maintenance services. In July 2009, the Corporation held its annual strategic planning work session and during these meetings arrived at a consensus in respect of its vision, mission and core values, which are as follows:

Vision

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

Core Values

- Acting with integrity by respecting and trusting **people.**
- Striving for **excellence** in an exciting **team** environment.
- Demonstrating **innovation** and **entrepreneurial** spirit.
- Being conscious of **safety, health** and the **environment** in all we do.

Mission

- Creating value for our clients, employees, partners and ultimately, our shareholders.
- 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.
- Contributing positively to the community in which we work, live and play.

The Corporation's strategy is as follows:

- Emphasizing value added construction and other partnering methods of project delivery.
- Securing contracts for larger projects.
- Targeted geographic expansion.
- Industry sector diversification.
- Product and service line diversification.
- Ensuring the Corporation has a strong balance sheet to support its growth objectives.

Reporting by Segment

The Corporation segments its operations into four business segments and reports its results under the categories of: Buildings, Industrial Insulation Contracting, Industrial Electrical Contracting and Corporate and Other. The Corporation regularly analyzes the results of these categories independently as they generate different gross margin yields and have different risk profiles. The evaluation of results by segment is consistent with the way in which management performance is assessed.

- **Buildings** (Stuart Olson, includes collectively, Stuart Olson Construction Ltd. and Stuart Olson Constructors Inc.) – constructs commercial, institutional, light-industrial buildings and multi-unit residential buildings.
- **Industrial Insulation Contracting** (Insulation Holdings Inc. ("IHI"), includes collectively, Fuller Austin Inc. ("Fuller Austin"), Northern Industrial Insulation Contractors Inc. ("Northern Industrial Insulation") and Lakehead Insulation ("Lakehead")) – provides industrial insulation, asbestos abatement, siding application, HVAC, plant maintenance and related services.
- **Industrial Electrical Contracting** (Laird Electric Inc. ("Laird")) – provides industrial electrical, instrumentation and power-line construction and maintenance services.
- **Corporate and Other** – includes corporate costs not allocated directly to another business segment as well as any miscellaneous investments.

The Corporation has historically generated virtually all of its revenues from Western Canada.

In this MD&A, the Corporation is reporting on the performance of its Industrial General Contracting ("Triton") segment and certain assets and liabilities of the Corporate and Other segment collectively as discontinued operations of the Corporation. Agricultural land adjacent to the Lamont, Alberta fabrication facility, the Bonnyville, Alberta maintenance and fabrication facility, equipment located at Bonnyville and the Triton office building located in Edmonton, Alberta are included in the assets held for sale on the balance sheet as is required under GAAP.

Stuart Olson has been a general contractor since 1939 and during the last several years has become a key player in Western Canada's building markets. In 2009, Stuart Olson has grown to comprise approximately 80% of Churchill's consolidated revenues and earnings from continuing operations before income taxes (excluding the expenses of the Corporate and Other segment) and 92% of total backlog.

The Corporation's two industrial business segments ("IHI and Laird") are also located in Western Canada, and are headquartered in Edmonton, servicing clients in the oil sands, oil and gas, power, refinery, petrochemical, mining and agricultural sectors.

The Industrial Insulation Contracting segment operated via three business units during 2009 (Fuller Austin, Northern Industrial Insulation and Lakehead Insulation) all providing insulation related contracting services for capital projects and maintenance work. Lakehead is a wholly owned subsidiary of Fuller Austin. Subsequent to fiscal 2009, the Corporation has decided to consolidate its Lakehead, Ontario operations into its Regina, Saskatchewan office to lower costs for maintaining a market presence in that geographic region.

The Corporate and Other business segment provides strategic direction, operating advice, financing, infrastructure services and management of public company requirements to each of its business segments. In order to understand more clearly the operating results for the Corporation, the discussion within this MD&A will be focused at the business segment level.

Fourth Quarter Overview

In the fourth quarter of 2009, consolidated contract revenue was $173.9 million, slightly lower than the $185.0 million generated in the same period in 2008. This year-over-year decline was due to lower levels of industrial contracting activity on a year-over-year basis in our industrial electrical segment.

Contract income decreased from $27.7 million in the fourth quarter of 2008 to $24.7 million in Q4 2009, as greater contract income margin derived from our building construction segment was offset by lower contract income in the industrial electrical segment.

Indirect and administrative expenses amounted to $12.4 million in the quarter, compared to $10.6 million in the comparable period of 2008. In early November, the board of directors approved the implementation of a deferred share unit ("DSU") plan for all employees and directors. Indirect and administrative costs increased as a result of DSU grants, additional stock option grants during the fourth quarter and increased compensation expenses as a result of the significant appreciation in the Corporation's stock price during 2009. These new incentive programs are more closely aligned with shareholder interests. Additionally, costs increased due to personnel and professional fees associated with the Corporation's conversion to International Financial Reporting Standards and the implementation of a new enterprise resource planning system ("SAP").

Earnings from continuing operations before interest, taxes, depreciation and amortization in the quarter were $12.5 million, compared to $17.7 million in Q4 2008.

Earnings from continuing operations before income taxes in Q4 2009 decreased to $11.3 million as compared to $16.4 million reported in Q4 2008. The decrease in earnings from continuing operations before tax was primarily due to the lower profitability derived from our industrial electrical segment ($2.3 million), increased expenses within the corporate and other segment ($1.6 million) and reduced earnings from our building segment ($0.9 million). Net earnings from continuing operations were $8.1 million in Q4 2009 compared to $11.2 million in Q4 2008.

New contract awards of $188.1 million were added to work-in-hand in the fourth quarter compared to $194.7 million in Q4 2008. Work-in-hand at December 31, 2009, was $784.2 million, compared to $565.3 million at December 31, 2008. The Corporation's backlog totalled $1.4 billion, in line with the fourth quarter of 2008.

At the end of December 2009, the Corporation's cash and cash equivalents increased to $184.4 million from $100.8 million at December 31, 2008; primarily reflecting the after-tax cash flows generated from operating activities, cash received from the divestiture of Triton and related assets, partially offset by cash used to repay long-term debt and finance the purchase of project equipment. After conducting a full review of the Corporation's bonding, credit facilities and working capital needs, management is of the view that approximately $100.0 to $120.0 million of its cash balance is surplus to its operational needs, and thus available to create incremental shareholder value.

Results of Operations

Buildings

For the three month period ended December 31, 2009, Stuart Olson's revenue was $137.5 million, compared to $134.2 million in the prior year. Increased activity from projects in construction, such as the Ft. St. John Hospital, Wal-Mart distribution centre and the new Edmonton Remand Centre contributed to this revenue increase.

Contract income in the fourth quarter of 2009 increased 3% to $19.5 million, from $19.0 million for the same period in 2008. The Q4 2009 contract income margin percentage remained constant at 14.2% compared to 14.1% in Q4 2008.

Earnings before tax from the buildings segment were $12.9 million in Q4 2009, compared to $13.9 million in Q4 2008. This decrease in pre-tax earnings was a result of the increased indirect and administrative expense of $1.0 million year-over-year.

Stuart Olson had work-in-hand of $653.6 million and a backlog of $1.4 billion as at September 30, 2009. In the three months ended December 31, 2009, Stuart Olson secured $172.0 million of new contracts and executed $137.5 million of work. As at December 31, 2009, Stuart Olson's work-in-hand was $688.0 million, of which $204.0 million is expected to carry over into 2011. As a result of Stuart Olson's commitment to deliver value to its clients through regular review of project cost plans and changes associated with reduced labour and material costs resulting from the economic contraction; Stuart Olson's clients will benefit from savings amounting to $133.2 million in the future. This resulted in Stuart Olson reducing its active backlog by an equivalent amount during Q4 2009. As at December 31, 2009, Stuart Olson's backlog was $1.3 billion, comparable to its backlog at the conclusion of 2008.

Industrial Insulation Contracting

Revenue for the three months ended December 31, 2009, was $20.6 million, compared to $20.7 million generated in the same period of 2008.

Contract income in the fourth quarter of 2009 was $3.5 million compared to $3.6 million in the comparable period of 2008. The contract income margin percentage in Q4 2009 was 17.0%, in line with the 17.4% achieved in Q4 2008, demonstrating the consistency of IHI's project execution.

Earnings before tax were $1.8 million during the period ending December 31, 2009, compared to $2.1 million in the fourth quarter of 2008. Earnings before tax were reduced slightly by the lower contract income margin and a $0.1 million increase in indirect and administrative expenses year-over-year.

Industrial Insulation Contracting had work-in-hand of $71.5 million and a backlog of $75.8 million as at September 30, 2009. During Q4 2009, IHI secured new awards totalling $14.4 million and executed $20.6 million of contractual work. The insulation segment concluded the quarter with $65.3 million of work-in-hand, of which $5.8 million is expected to carry over into 2011. At December 31, 2009, IHI's backlog amounted to $69.0 million compared to $78.3 million at the end of the prior year.

Industrial Electrical Contracting

For the three months ended December 31, 2009, Laird's contract revenue was $15.9 million compared to $30.5 million reported in Q4 2008. This decrease in revenue was primarily due to a reduction in activity levels associated with several oil sands projects in the Fort McMurray area.

Contract income was $1.8 million in Q4 2009 compared to $5.4 million during the prior year. This decrease was due to lower activity levels. The contract income margin percentage was lower at 11.3% during the fourth quarter of 2009 compared to 17.6% in Q4 2008 mainly due to a more competitive bidding environment and the mix between maintenance and construction contracts under execution.

Laird reported earnings before tax of $0.6 million for the quarter, compared to earnings before tax of $2.9 million in Q4 2008. The impact of lower revenues in the period was partially mitigated through close monitoring and control over Laird's indirect and administrative expenses, which decreased to $1.0 million compared to $2.2 million in Q4 2008.

Laird's reported Q3 2009 work-in-hand and backlog was $45.1 million. New contract awards of $1.8 million were secured in the fourth quarter of 2009 and $15.9 million of contract work was executed. Laird concluded the fourth quarter with $31.0 million of work-in-hand and $46.8 million of backlog. This compares to a backlog of $30.7 million at the end of 2008.

Selected Annual Financial Information

Set out below is selected annual financial information for each of the last three years, which have been prepared in accordance with Canadian GAAP.

Years ended December 31 ($ millions, except per share amounts)		2009		2008		2007
Contract Revenue	**$**	**601.2**	$	761.0	$	694.0
Net earnings from continuing operations		**33.5**		35.6		20.7
Net earnings from discontinued operations		**1.3**		0.8		0.4
Net earnings		**34.8**		36.4		21.1
Earnings per share from continuing operations ($)						
Basic	**$**	**1.90**	$	1.98	$	1.17
Fully diluted	**$**	**1.87**	$	1.96	$	1.15
Earnings per common share ($)						
Basic	**$**	**1.98**	$	2.03	$	1.19
Fully diluted	**$**	**1.94**	$	2.01	$	1.17
Work-in-hand	**$**	**784.2**	$	565.3	$	668.8
Total assets	**$**	**367.4**	$	302.8	$	290.3
Long-term debt	**$**	**0.8**	$	7.9	$	9.5

Annual Overview

The effects of the economic downturn which began in 2008 continued throughout 2009 resulting in significant pressures in all areas of the economy.

For the year ended December 31, 2009 ,consolidated contract revenue was $601.2 million, compared to $761.0 million in 2008. Revenue decreased due to the cumulative effect of delays in project starts and tendering in our buildings segment in combination with lower levels of industrial contracting activity on a year-over-year basis in our industrial electrical operations.

Contract income was $92.0 million in 2009 compared to $93.9 million in 2008. Increases in contract income from our building construction segment and industrial insulation segments driven by higher operating margins, were offset by lower contract income in the industrial electrical segment resulting from lower volumes and operating margin. The consolidated contract income margin percentage during 2009 was 15.3% compared to 12.3% realized in 2008.

Indirect and administrative expenses amounted to $41.7 million in 2009, compared to $40.6 million in 2008. Managing our indirect and administrative costs was a key objective during 2009, and costs at every operating company were lower in 2009 than in 2008. Total indirect and administrative expenses rose due to increased costs within the Corporate and Other segment associated with compensation programs for executives and directors, increased administrative expenses and professional fees related to IFRS conversion and SAP implementation, one-time relocation costs and other expenses.

Earnings from continuing operations before interest, taxes, depreciation and amortization in 2009 were $51.3 million, compared to $56.2 million in 2008.

Earnings from continuing operations before tax in 2009 decreased to $46.6 million as compared to $51.6 million reported in 2008. Net earnings from continuing operations, were $33.5 million in 2009 compared to $35.6 million in 2008. Net earnings during 2009, inclusive of gains from discontinued operations were $34.8 million as compared to $36.4 million in 2008. The 2009 results are largely in line with the prior year, despite lower revenue, due to the greater profitability derived from our buildings and industrial insulation segments. The increase in earnings from Stuart Olson and Insulation Holdings were offset by a reduction in earnings from Laird and increased indirect and administrative expenses within the Corporate and Other segment.

New contract awards of $820.1 million were secured during 2009 compared to $657.4 million in 2008. Work-in-hand at December 31, 2009, was $784.2 million, compared to $565.3 million at December 31, 2008, setting the foundation for an increase in revenues in 2010. On a segmented basis, year-over-year work-in-hand increased $215.2 million in the buildings segment, $2.2 million in the insulation contracting segment and $1.7 million in the electrical contracting segment.

Churchill's total backlog as at December 31, 2009, including work-in-hand, was consistent at $1.4 billion comparable to the value at the end of 2008. Year-over-year backlog in our buildings segment remained level at $1.3 billion, the insulation contracting segment backlog decreased by $9.3 million and the industrial electrical contracting backlog increased by $16.1 million. The Corporation's backlog consists of work-in-hand of $784.2 million, active backlog of $504.4 million and delayed backlog of $100.0 million. Delayed backlog decreased as a result of the Shaw Building beginning construction and is now composed exclusively of the Lethbridge Hospital project. The Lethbridge hospital project was re-evaluated during the fourth quarter and the expected construction cost has escalated by $8.0 million. The project has been delayed as a result of funding and approval process challenges on a related parking structure being constructed by another general contractor. The City of Lethbridge and the Province of Alberta must resolve the parkade funding issue before construction of the hospital can proceed.

Discontinued Operations

In August 2009, the Corporation completed the sale of Triton and certain assets and liabilities of the Corporate and Other segment to an arm's length third party. Triton had performed poorly over a period of time and as a result management felt that there may be a more advantaged owner of the assets held-for-sale and that Churchill could more profitably deploy its resources and the proceeds from disposition into its other operating segments. Accordingly, the results of operations and cashflows for the assets held-for-sale have been accounted for on a discontinued basis for the current and prior periods.

Proceeds from the sale recognized in the financial statements were $19.0 million for Triton and certain assets and liabilities of the Corporate and Other segment sold to the purchaser. Of this amount, $3.0 million is in escrow as security for the indemnification provided to the purchaser as part of the sale. A gain on sale of $5.0 million was realized. The Corporation anticipates generating additional cash proceeds of $5.0 to $6.0 million (an estimated gain of $0.15 to $0.20 per share) from the sale of the remaining latent assets of Triton, which could be completed during 2010.

The following tables reflect our net earnings (loss) from discontinued operations relating to Triton and the assets held-for-sale for the periods ended December 31, 2009 and 2008. The 2009 figures reflect operations from January 1 to August 12, 2009, the completion date of the transaction.

Statements of Earnings

($ thousands)	December 31, 2009	December 31, 2008
Revenue	**$ 27,954**	$ 85,864
Contract income	**1,308**	6,273
Gain on sale of discontinued operations	**4,965**	-
Net earnings (loss) from discontinued operations [1]	**(3,627)**	852
Total net earnings	**$ 1,338**	$ 852

(1) Net loss from continuing operations for the year ended December 31, 2009 includes income tax recovery of $1,517 (2008 – $187).

Results of Operations in the Year

Buildings

For the year ended December 31, 2009, Stuart Olson's revenue was $483.8 million, compared to $569.0 million in the prior year. This decrease in revenue was a result of the cumulative impact of delayed project starts and tendering referred to in the Corporation's first quarter MD&A.

Contract income in 2009 increased 16% to $70.3 million, from $60.7 million for the same period in 2008. The 2009 contract income margin percentage was 14.5% compared to 10.7% in 2008. This margin increase was driven by the strength of the margins in Stuart Olson's backlog, strong project execution, own forces work and the ability to effectively manage construction costs.

Earnings before tax from the buildings segment were $49.0 million in 2009, compared to $40.8 million in 2008. This 20% improvement in pre-tax earnings was a result of increased profit margins across all branches, particularly in Northern Alberta.

Stuart Olson began the year with work-in-hand of $472.8 million and a backlog of $1.3 billion. During 2009, Stuart Olson secured $699.0 million of new contracts and executed $483.8 million of work. The company concluded the year with $688.0 million of work-in-hand and backlog amounted to $1.3 billion.

Stuart Olson continues to pursue project opportunities which fit its strategy, expertise and price for value proposition. Government spending intentions are high, but possibly at risk due to growing deficit projections. We anticipate that in this environment, governments may resort to alternative financing strategies such as Public-Private Partnerships ("P3") projects to finance their infrastructure spending until economic growth and budget surpluses resume. During 2009, Stuart Olson was selected as the preferred proponent and closed its first P3, the Fort St. John Hospital and Residential Care Facility. Stuart Olson has intentions to pursue additional P3 projects in the future. Additionally, during Q4 2009, Stuart Olson opened a new branch in Saskatoon, Saskatchewan to take advantage of construction market opportunities.

Industrial Insulation Contracting

Revenue for the year ended December 31, 2009 was $73.1 million and was in line with revenue of $73.7 million for the same period of 2008.

Contract income in 2009 was $14.6 million compared to $14.1 million for the comparable period in 2008. The contract income margin percentage increased in 2009 to 20.0% versus 19.1% in 2008 due to strong project execution.

Earnings before tax were a record $8.7 million for the year ended December 31, 2009, compared to $8.5 million in 2008. Strong project execution by the insulation companies on a variety of maintenance and shutdown contracts allowed Insulation Holdings to deliver record earnings during a period of reduced industrial activity.

Industrial Insulation Contracting began 2009 with work-in-hand of $63.1 million and a backlog of $78.3 million. During 2009, Insulation Holdings secured new awards totalling $75.3 million and executed $73.1 million of contractual work. The insulation segment ended the year with $65.3 million of work-in-hand, and backlog of $69.0 million.

With a strong backlog of projects, Insulation Holdings is positioned to perform favourably during 2010. However, owner requests for rate resets and increased competition for new work continue to apply downward pressure on contract income margins.

Industrial Electrical Contracting

For the year ended December 31, 2009, Laird's contract revenue was $44.3 million compared to $118.2 million reported in 2008. This decrease in revenue was due to a reduction in activity levels associated with several oil sands projects in the Fort McMurray area in 2009 and a reduction in plant turnaround activity in the year. Management believes that future activity levels should exceed the low revenues delivered in 2009. The increase in the year-end backlog from $30.7 million in 2008 to $46.8 million in 2009, reflects an improvement in commodity prices and the economic environment associated with Laird's oil and gas clients.

Contract income was $7.1 million in 2009 compared to $19.0 million during the prior year. This decrease was due to lower activity levels. Contract income margin percentage was 16.0% during 2009 compared to 16.1% in 2008 mainly due to consistent project execution, operational improvements and favourable resolution of project contingencies.

Laird reported earnings before tax of $1.7 million for the period, compared to earnings before tax of $10.5 million in 2008. Laird's initiatives to "right size" the organization for the anticipated reduced activity levels enabled the company to withstand a significant decrease in revenue. Laird was able to offset partially the impact of lower revenues during the year with strong project execution and control of its indirect and administrative expenses.

Laird began 2009 with work-in-hand and backlog of $29.3 and $30.7 million, respectively. New contract awards of $46.0 million were secured during 2009 and $44.3 million of contracts were executed. Laird concluded the year with $31.0 million of work-in-hand and $46.8 million of backlog.

Laird increased its focus on business development activities during 2009 which has resulted in the company securing new major turnaround and maintenance projects on its own, successfully partnering with Fuller Austin on projects and further establishing its presence in the Edmonton market place by securing maintenance and project work. Laird continues to target its strategic goal of geographic diversification by pursuing industrial opportunities in Saskatchewan and other areas.

Corporate and Other

During the third quarter of 2009, management received board approval to implement a new enterprise resource planning system. The SAP implementation has been budgeted at $9.5 million. The capital cost and the expenses associated with this implementation will be depreciated over subsequent reporting periods once the system is ready for use, expected to be late 2010.

In 2009, the Corporate and Other segment incurred a loss before tax of $12.8 million compared to a loss before tax of $8.1 million in 2008. The increase in 2009 Corporate and Other expenditures is attributable to indirect and administrative expenses associated primarily with implementation of a new incentive based compensation program more closely aligned with shareholder interests, stock based compensation expenses, increased professional fees, increased travel expenses and one-time office relocation costs. In addition, the increase in the year-over-year loss is partially attributable to significantly lower other income from a decline in interest income corresponding with the decline in prime rates.

Capital Resources and Liquidity

Cash and cash equivalents at December 31, 2009 totalled $184.4 million, which compares to $100.8 million at the end of 2008. Included in the cash and cash equivalents balance is $17.0 million which is held as security for the payment of direct costs related to specific construction projects in British Columbia, compared to $17.5 million at December 31, 2008.

Typically, maintenance activities on industrial projects ramp up during the spring and summer seasons, and the number of hourly workers utilized by the Corporation for construction and maintenance projects increases, and as a result, the Corporation's liquidity typically decreases. This usually occurs in the second and third quarters of a fiscal year. During the fourth quarter of a fiscal year, liquidity usually increases as a result of lower industrial activity levels and fewer working days during this time frame.

Cash flow provided from operating activities was $78.5 million, compared to $7.1 million of cash generated from operations during 2008. The change in cash provided from operations was primarily due to the changes in the working capital accounts

year-over-year. The Corporation expects that its cash and cash equivalents balance will continue to grow during 2010 from the proceeds associated with the sale of its discontinued operations and earnings from its operations.

Investing activities resulted in a use of cash of $8.3 million during 2009, which compares with $7.1 million in 2008. The cash was invested in the acquisition of construction equipment for long term projects under contract ($5.1 million) and the design and implementation work associated with the SAP implementation ($3.4 million) which is anticipated to be ready for use in late 2010.

During 2009, cash used in financing activities amounted to $7.9 million compared to cash used in financing of $3.4 million in 2008. Financing activities in 2009 included $7.1 million in net repayments of long term debt, $1.0 million used to support acquisitions under the share repurchase program, offset by $0.2 million in proceeds from stock option exercises.

As at December 31, 2009, Churchill had working capital of $107.3 million, compared to working capital of $78.3 million at December 31, 2008.

Contractual Obligations [1]

($ millions)	Total	Current Year	2-3 Years	4-5 Years	After 5 Years
Finance contracts and capital lease obligations	$ 0.8	$ 0.6	$ 0.2	$ 0.0	$ 0.00
Total contractual obligations	$ 0.8	$ 0.6	$ 0.2	$ 0.0	$ 0.00

(1) The above table represents scheduled debt repayments.

Scheduled debt repayments for 2010 are $0.6 million. The finance contracts and capital lease obligations are secured by construction and automotive equipment and are more fully described in Note 11 of the Notes to the Consolidated Financial Statements.

During 2010, the Corporation anticipates that it will require approximately $14.1 million to fund its capital expenditure plans. The capital budget consists of $9.0 million of replacement expenditures and $5.1 million of expansion related costs. These expenditures will largely be made in the areas of IT infrastructure ($6.9 million), construction equipment ($3.0 million), tenant improvements ($1.9 million) and vehicles ($1.8 million). This significant increase in capital expenditures year-over-year is associated with the Corporation's need to support the growth in size and scope of its operations and with the implementation of SAP as an enterprise resource planning system. All capital spending is being closely monitored by management.

Management believes that the Corporation has the capital resources and liquidity necessary to meet its commitments, support its operations, finance its capital expenditures and growth strategies. In addition to the Corporation's cash and cash equivalents, ability to generate cash from operations and its $60.0 million credit facility, the Corporation believes that it has access to further debt and/or equity capital.

The Corporation is a partner in three joint ventures. In each instance the Corporation has provided a joint and several guarantee, increasing the maximum potential exposure to the full value of the work remaining under the contract. Public-Private Partnerships infrastructure projects may expose the Corporation to financial penalties and/or liquidated damages under the contract for project delays. P3 projects require security in the form of letters of credit to support the obligations that the Corporation undertakes on these projects.

Shareholders' equity was $141.5 million at December 31, 2009, as compared to $105.6 million at December 31, 2008. Retained earnings increased from $83.1 million at December 31, 2008 to $116.3 million at the conclusion of 2009, reflecting the addition of $34.8 million in net earnings from operations, less $1.7 million for shares repurchased under the Normal Course Issuer Bid ("NCIB"). Contributed surplus increased by $1.8 million year-over-year, due to the exercise of stock options and share capital increased by $0.1 million during 2010.

Share Data

On October 15, 2008, the Corporation commenced a Normal Course Issuer Bid ("NCIB"), under which it was entitled to purchase up to 1,391,090 common shares in a 12 month period. During 2009, the Corporation repurchased and cancelled 127,600 common shares at an average cost of $7.59. per share, and additionally cancelled 145,000 common shares repurchased in December 2008. The NCIB expired on October 14, 2009.

The Corporation has an Employee Share Purchase Plan (the "ESPP") available to all full-time employees. At December 31, 2009, 80% of eligible employees were participants in the ESPP. At December 31, 2009, the ESPP held 692,910 common shares for employees. Under the ESPP, common shares are acquired in the open market.

To further encourage director and employee share ownership, on November 3, 2009, the Corporation implemented a Deferred Share Unit plan available to directors and employees. The plan was implemented to move away from compensating directors in the form of options, however employees are also able to voluntarily participate in the DSU plan by allocating a percentage of their compensation to the purchase of DSUs.

As at March 11, 2010, the Corporation had 17,619,259 common shares issued and outstanding and 1,213,243 options convertible into common shares upon exercise (December 31, 2008 – 17,822,091 common shares and 519,660 options).

Stock-based Compensation

Stock-based compensation is a non-cash expense driven in part by the number, fair value and vesting rights of options granted. The stock-based compensation expense totalled $1.9 million and $1.1 million for the twelve months ended December 31, 2009 and 2008, respectively.

Other Compensation Expenses

The Corporation granted 32,934 DSUs to directors resulting in $0.7 million of stock-based compensation expenses recorded in the fourth quarter of 2009 (2008 – nil). The DSUs are structured under the current plan to be settled in cash, upon ceasing service with the Corporation.

During the year, the Corporation booked a compensation expense of $1.0 million compared to $0.1 million in 2008, for performance share units ("PSUs") granted to employees. The PSUs are structured under the current plan to be settled in cash, upon vesting.

Supplemental Disclosures

Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements in place at December 31, 2009.

Related Party Transactions

The Corporation incurred legal fees during the year ended December 31, 2009, with a law firm of which a director of the Corporation is also a partner. The fees were for services rendered in the ordinary course of business and the sale of Triton. The amount incurred during the fourth quarter of 2009 was $88 thousand (Q4 2008 – $62 thousand). Legal fees of $610 thousand (December 31, 2008 – $130 thousand) were incurred with this law firm during the full year. The fees increased as a result of the provision of services associated with the Triton disposition, a non-recurring item. At December 31, 2009, $29 thousand was included in accounts payable (2008 – $37 thousand).

During the fourth quarter of 2009, the Corporation incurred facility costs of $36 thousand (Q4 2008 – $35 thousand) relating to the rental of a building to Laird Electric which is owned by a director of the Corporation. The rented building is Laird's operations base in Fort McMurray and the rental charge is comparable to the market rate of similar properties. The current lease arrangement expires on December 31, 2012. Facility costs of $146 thousand were incurred during 2009 (2008 – $157 thousand) for this building. At December 31, 2009, there are no amounts included in accounts payable (2008 – $nil).

Outlook

In the industrial market, with a resurgence in commodity prices, and numerous project restarts and sanctioning announcements (e.g. Kearl, Firebag, Sunrise, Surmont, Jackfish 2, Christina Lake Phase 2), the outlook has brightened considerably for our industrial operations. However, we expect operators to take a balanced and measured approach to their development activities, to avoid acceleration in inflation and costs as experienced in prior years. In addition, 2010 is expected to have several major planned turnarounds which should provide opportunities for additional revenue. The expected increase in industrial activity in Alberta from oil sands projects and in Saskatchewan from mining, agriculture/fertilizer, chemical and refinery projects should bode well for strong results from Laird Electric and Insulation Holdings in 2010 and beyond.

In the non-residential building sector, macro-economic conditions are improving private sector opportunities and at the same time government infrastructure commitments continue unabated. While 2010-2011 will represent the peak spending period for federal stimulus funds, we believe that governments remain keenly aware of the need to remain focused on addressing infrastructure needs. We believe this will result in continued funding for healthcare, educational and municipal facilities over the longer-term. These are areas of strength for our Stuart Olson business and we believe that we can grow this business in a meaningful way over the next several years.

Overall, Churchill's backlog remains at near-record levels, client access to capital is improving, spending by the private sector is increasing and our substantial cash position provides us with significant flexibility to examine value creation opportunities. As a result, we are more encouraged by the possibilities than at anytime in the past year.

In 2010, the Corporation expects revenues to increase within all operating segments, while its contract margins are expected to decrease from the record levels achieved in 2008 and 2009. Nonetheless, profitability is expected to remain robust and close to recently attained levels.

Critical Accounting Estimates

The Corporation's summary of significant accounting policies are contained in Note 1 to the Consolidated Financial Statements.

Churchill's financial statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the Corporation's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgements, requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

Contract Revenue and Contract Costs

Revenue for cost-plus contracts are recorded as the service is performed and the related expenses are incurred. Under this method, the costs incurred and the related revenue are included in the consolidated statement of earnings, comprehensive earnings and retained earnings as the work progresses. Contract revenue from fixed-price and unit price contracts are recognized as revenue on a percentage-of-completion basis, measured by the ratio of either the actual cost of work or the actual hours performed to date, to the estimated total cost or estimated total hours. In making such estimates, judgments are required to evaluate contingencies such as variances in scheduling, material costs, labour costs, labour productivity, subcontractor costs, change orders and liability claims. Revenue recognition estimates may be required in each of Churchill's operating business segments, but would normally be most prevalent in Stuart Olson where a significant portion of their contract revenue and contract income for the period is estimated. Changes in estimated costs to complete on fixed-price contracts may have a material impact on the realization of net earnings.

Goodwill impairment incorporates, at a minimum, an annual assessment of the value of Churchill's goodwill by applying a fair value based test to each segment of goodwill. Each fair value test may incorporate estimates such as normalized earnings, future earnings, price earnings multiples, future cash flows, discount rate, and terminal values. The goodwill amount on the balance sheet arose from the acquisition of Laird Electric in February, 2003. A significant portion of the valuation of goodwill for Laird is related to future earnings which are estimated and uncertain. Any reduction in these estimates could result in an impairment of goodwill.

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

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

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

Changes in Accounting Policies

Effective January 1, 2009, Churchill adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- 3064, *Goodwill and Intangible Assets,* replacing Section 3062, Goodwill and Other Intangible Assets. This new Section established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions of this Section, relating to the definition and initial recognition of intangible assets, are equivalent to the corresponding provisions under International Financial Reporting Standards ("IFRS"). CICA Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new Section. The adoption of this standard has resulted in reallocating additions in the year of $3,395 related to the new ERP system from property and equipment to intangible assets.

- Emerging Issues Committee's Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC-173"). This standard clarifies that an entity's own credit risk and the credit risk of its counterparties should be taken into account in determining the fair value of financial assets and liabilities. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements or on the fair value determination of its financial assets and liabilities.

- 3475, Disposal of Long-Lived Assets and Discontinued Operations. Long-lived assets are classified as held for sale once certain criteria are met. Such criteria include a firm commitment by management and the board of directors to dispose of a business or group of selected assets and the expectation that such disposal will be completed within a twelve month period. Assets held for sale are measured at the lower of their carrying amounts or fair values less costs to sell, and are no longer depreciated.

Operating results of a company's components disposed of by sale or being classified as held-for-sale are reported as discontinued operations if the operations and cash flows of those components have been, or will be, eliminated from the Corporation's current operations pursuant to the disposal and if the Corporation does not have significant continuing involvement in the operations of the component after the disposal transaction. A component of an enterprise includes operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Corporation's operations and cash flows. All information contained in the consolidated financial statements and accompanying notes is presented on a continuing operations basis unless otherwise noted.

Recent Accounting Pronouncements

In January 2009, the CICA issued the new following Handbook sections:

- 1582, "Business Combinations";

- 1601, "Consolidated Financial Statements"; and

- 1602, "Non-Controlling Interests".

Section 1582, which replaces the former Section 1581, requires all business combinations to be accounted for by applying the acquisition method. Under this method, assets acquired and liabilities assumed are measured at their full fair value at the date of acquisition unless another standard requires otherwise. Section 1582 provides the option of accounting for non-controlling interest at either fair value, or at the non-controlling interest's proportionate share of the identifiable net assets acquired. Section 1601 carries forward the standards for the preparation of consolidated financial statements of former Section 1600, while Section 1602 requires non-controlling interests to be reported as a separate component of equity, with net income calculated without deduction for non-controlling interests. Rather, consolidated net income is to be allocated between controlling and non-controlling interest.

These three new sections constitute the Canadian GAAP equivalent to the corresponding provision under IFRS. These sections are to be implemented concurrently and apply prospectively to all business combinations for which the acquisition date is on or after January 1, 2011, with earlier application permitted. The Corporation is currently evaluating the impact of adoption of these sections to its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

IFRS Conversion Plan

The Corporation has developed a plan to convert its consolidated financial statements to IFRS. The Corporation has established a cross-functional IFRS team sponsored by the Chief Financial Officer and managed by a project team represented by senior financial personnel in Churchill and all business units, representatives from Information Technology, Special Projects and Internal Audit. External contracting resources are being utilized to provide technical accounting advice and project management guidance in the conversion to IFRS. Updates regarding the progress of the conversion plan are provided to the Corporation's Audit Committee on a quarterly basis.

Churchill's implementation project consists of three principal phases:

Phase 1: Preliminary Scope and Diagnostic

This phase included performing a high-level impact assessment to identify key areas that may be impacted by the adoption of IFRS. This analysis resulted in the prioritization of areas to be evaluated in the next phase of the project plan. The information obtained from the assessment was also used to develop a detailed plan for convergence and implementation. This phase was completed in the first quarter of 2009.

Phase 2: Detailed Design and Evaluation

In this phase, further evaluation of the financial statement areas impacted by IFRS will be completed. This involves a more detailed, systematic gap analysis of accounting and disclosure differences between Canadian GAAP and IFRS. This detailed assessment will facilitate final decisions around accounting policies and overall conversion strategy. This phase also involves specification of changes required to existing business processes. During this phase, an analysis will also be performed to assess information technology systems used to collect and report financial data and determine what modifications will be required in order to meet new reporting requirements under IFRS.

- This phase is substantially complete.
- A complete analysis of financial statement areas impacted by IFRS along with a systematic gap analysis has been completed with the main impact areas described in more detail below.
- The Corporation has evaluated accounting policy options and has developed IFRS accounting policy documents.
- The Corporation is quantifying differences and will prepare an opening IFRS balance sheet during 2010.
- Comprehensive training programs are being designed for staff prior to full transition.
- Information technology impacts are being analyzed on an on-going basis throughout 2010 and is described in more detail below.

Phase 3: Implementation and Embedding

This phase includes execution of changes to business processes impacted by Churchill's transition to IFRS and formal approval of recommended accounting policy changes. Also included in this phase is the delivery of necessary IFRS training to Churchill's audit committee of the board, board of directors and staff. This phase will culminate with the collection of financial information necessary to compile IFRS compliant financial statements and audit committee approval of IFRS financial statements commencing in 2011. This phase is currently underway.

Based on the analysis performed, the major differences between Canadian GAAP and IFRS that are likely to impact Churchill include, but are not limited to:

- **IFRS 1 First-Time Adoption of International Financial Accounting Standards** – provides entities with a number of optional and mandatory exemptions upon initial adoption of the standards. The Corporation has thoroughly analyzed the optional exemptions available but any decisions about the optional exemptions available under IFRS 1 are preliminary at this time. The decisions about accounting policy choices available under IFRS 1 and other individual IFRS standards will be disclosed throughout 2010 as they are reviewed by the Audit Committee and finalized. Senior executive and the Audit Committee will consider the appropriateness of the accounting policies applied under IFRS both at the time of transition and following transition.
- **Presentation of Financial Statements International Accounting Standards ("IAS") 1** – requires significantly more disclosures than existing Canadian GAAP. In addition, classification and presentation may be different for some balance sheet and income statement items. The Corporation has planned for the continual development of additional disclosures and is analyzing the impact of the classification and presentation changes on its financial statements.
- **Contract Revenue** – IAS 11 requires construction contracts to be accounted for on a percentage of completion basis or when the outcome of a contract cannot be estimated reliably, contract costs are recognized as an expense and revenue is recognized to the extent that costs incurred are recoverable (cost recovery or zero margin approach). IAS 11 also contains requirements for separating projects under one overall contract or combining different projects into one overall contract.
- **Property, Plant and Equipment** – IAS 16 requires componentization of assets where each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Componentization of assets will impact the depreciation recognized and the carrying value of an asset. IAS 16 also provides an accounting policy choice, subsequent to the initial recognition of the asset, using either a cost model or a revaluation model. After initial recognition of assets, the use of the revaluation model will result in increases and decreases in the asset being revalued and corresponding increases and decreases in the revaluation surplus account (component of equity).
- **Impairment of Assets** – IAS 36 uses a one step approach for both testing and measurement of impairment, with assets' carrying values compared directly with the higher of fair value less costs to sell or value in use (which uses discounted cash flows). The Corporation will be required to assess impairment indicators at the end of each reporting period. Where an impairment indicator is present management must determine the recoverable amount of the individual asset or cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Intangibles with indefinite lives, intangibles assets not yet available for use and goodwill acquired in a business combination must be tested for impairment annually. This could result in the impairment of intangible assets or goodwill on transition to IFRS.

- **Recognition of Leases** – IAS 17 provides guidance on assessing the classification of leases as either finance leases or operating leases. Unlike Canadian GAAP, IAS does not provide prescriptive measurements on lease contracts and consequently there is more emphasis on the actual substance of the transaction rather than assessing based on a definitive threshold level. Lease contracts will need to be reviewed to determine if they are operating or capital leases based on whether or not management assesses that substantially all of the risks and rewards incidental to ownership have been transferred.

Information Systems and Business Processes

The Corporation launched a project in 2009 to implement SAP as its new ERP system. The Corporation is targeting the end of 2010 to complete the transition and achieve full utilization of the system. The IFRS project team is analyzing all areas of IFRS change that will impact the ERP system to ensure that the structure is adequate for IFRS reporting needs.

The Corporation has developed detailed processes to derive the 2010 opening balance sheet under IFRS and is building processes and systems solutions to create 2010 IFRS compliant quarterly financial information for comparative purposes.

Process changes needed to sustain IFRS conversion starting in 2011 have been identified and during 2010, process design and training is expected to be completed. Related impacts to internal controls over financial reporting and disclosure controls and procedures are expected to be identified during 2010.

Training and Communication

A professional services firm has been engaged since the outset of the project and is providing technical accounting advice and project management guidance. Key members of the project team have completed, and will continue to complete, IFRS specific training courses to maintain up to date knowledge of best practices and changes in standards. The Corporation has a comprehensive plan to train internal personnel who will be impacted by the conversion to IFRS in their daily activities throughout implementation. Training will begin in early 2010 and is expected to continue throughout the year. Communication to external stakeholders will be ongoing through MD&A disclosures quarterly and will vary depending on the nature and magnitude of changes to the financial statements expected under IFRS.

Financial Statement Preparation and Internal Controls

Churchill is currently assessing the impact of the adoption of IFRS on our results of operations, financial position and financial statement disclosures. In addition, Churchill continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures. Churchill has and will continue to invest in training and resources throughout the transition period.

Business Activities

The effects of IFRS conversion on the Corporations activities have been reviewed. It is not expected that the conversion to IFRS will significantly impact these activities or requirements.

The expected timing of key activities identified above may change prior to the IFRS conversion date due to changes in regulation, economic conditions or other factors and the issuance of new accounting standards or amendments to existing accounting standards including, and in addition to, those noted above.

Risks and Uncertainties

The Corporation is exposed to various risks and uncertainties in the normal course of business that can cause variations in results from operations and affect our financial condition. In addition to the risks described elsewhere in this MD&A, the Corporation is exposed to the following business risks which include but are not limited to:

Volatile Market Conditions

The volatility created by the global financial crisis damaged investor confidence in global equity markets and negatively impacted the value of publicly-traded securities of many companies. This global financial crisis also resulted in a significant decline in commodity prices including oil and natural gas. Additionally, changing fiscal, taxation and royalty policies of various levels of government can impact the decisions of oil and gas companies to conduct business in Western Canada. These macro-economic conditions did have a significant and adverse affect on the operating conditions of the clients and industries in which the Corporation provides services, resulting in significant declines in capital expenditures by oil and gas companies in 2009. Fortunately, the outlook has improved; investor confidence, while still fragile, is stronger, commodity prices are higher, the banking and financial sectors have been stabilized and a global depression has been averted due to the coordinated actions of central bankers from around the world. While the current crisis has been dealt with, it remains that a future crisis, outside of management's control, may yet cause instability in the financial system. These potential volatile market conditions could in the future impact the outlook, financial performance and the common share price of the Corporation.

Limited Geographic Scope of Operations

Churchill's operations are centered in, and primarily focused on, Western Canada. The majority of construction in Western Canada, particularly industrial construction, is either directly or indirectly connected to oil and gas. Oil and gas pricing and activity levels are directly impacted by worldwide events including fundamental changes in economic activity impacting the demand and prices for petroleum products. The Corporation monitors this information to assist in managing various mid-term aspects of its business. Significant downward movement in oil or gas commodity prices could lead clients to slow down, delay or cancel current projects or planned expansions, while significant upward movement could lead to clients seeking to accelerate their project schedule. Either movement could put pressure on the Corporation's organizational infrastructure in the short-term. Such slow downs, delays or cancellations could have a material adverse impact on the Corporation's financial condition.

Unexpected Adjustments and Cancellations in Backlog

Churchill may not be able to convert its entire backlog into revenue and cannot guarantee that the revenues projected in its backlog will be realized or, if realized, will result in profits. Projects may remain in its backlog for an extended period of time. Churchill includes in its backlog binding and non-binding letters of intent, work orders and cost reimbursable contracts, which may be different than the items other issuers include or exclude in their respective backlog. Project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in backlog. In respect of backlog evidenced by a non-binding letter of intent, the formal contract respecting the same may never be finalized, resulting in such engagement being terminated. backlog reductions can adversely affect the revenue and profit Churchill actually receives from projects reflected in its backlog. Especially in light of the current economic environment for our industrial businesses, Churchill is providing additional disclosure in regards to backlog by refining our backlog disclosure into active and delayed backlog. This disclosure can be found in the terminology section of this MD&A.

Weather

The climate in Western Canada can generate severe weather, including heavy rain and snow, which could slow down or delay construction for short periods of time, impacting costs and delivery schedules. This could adversely impact results of operations.

Competition

There is strong competition relating to all aspects of the construction industry. The Corporation competes with a broad range of companies in each market, some of which are substantially larger than the Corporation. This competition may adversely affect the Corporation's ability to be awarded new business. Competitors that have greater financial and other resources can better bear the risk of under-pricing projects, whereas smaller competitors may have lower overhead cost structures and therefore may be able to provide their services at lower rates. The business may be adversely impacted to the extent that the Corporation is unable to successfully bid against these companies. The loss of existing clients to competitors or the failure to win new projects could materially and adversely affect the Corporation's business and results of operations.

Performance Bonds

Churchill's operating companies are often required to provide performance and labour and material payment bonds as assurance against contract completion. The Corporation entered into a co-surety arrangement with Travelers Guarantee Company and Aviva Insurance Company of Canada during 2008, which significantly increased bonding capacity. This may be a competitive advantage to the Corporation. If for any reason participants in the surety market are unable to satisfy the Corporation's future bonding requirements, this could limit growth and potentially adversely affect on-going operations. Alternatively, if there were a significant failure in the construction industry such that owners started demanding surety bonds for all contracts, Churchill's bonding capacity may be insufficient to meet its business needs.

Corporate Guarantees and Letters of Credit

In the course of business operations, the Corporation may be required to guarantee the performance pursuant to a contract of one or more of its operating divisions by way of providing guarantees or letters of credit. Letters of credit are issued mainly to provide security to third parties in the case of non-performance under a contract. Significant claims under letters of credit and/or corporate guarantees could materially and adversely affect the Corporation's business, financial stability and operating capacity.

Dependence on the Public Sector

A significant portion of the Corporation's revenue is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for the Corporation's services by the public sector, whether from funding constraints or changing capital spending plans, would likely have an adverse effect on the Corporation if that business could not be replaced from within the private sector.

Unanticipated Shutdowns

A portion of Churchill's work is generated from the development, expansion and ongoing maintenance of oil sands mining, extraction and upgrading facilities. Shutdowns of these facilities due to events outside the Corporation's control or the control of the Corporation's clients, such as the cancellation of projects due to a downturn in oil and gas prices, fires, mechanical breakdowns and technology failures and pressure from environmental activists, could lead to the temporary shutdown or complete cessation of projects on which Churchill is working. These events could materially and adversely affect the Corporation's business and results of operations.

Failure of Clients to Obtain Required Permits and Licenses

The development of construction projects requires Churchill's clients to obtain regulatory and other permits and licenses from various governmental licensing bodies. Churchill's clients may not be able to obtain all necessary permits and licenses required for the development of their projects, in a timely manner or at all. These delays are generally outside the Corporation's control. The major cost associated with these delays is personnel and associated overhead that is designated for the project and that cannot be reallocated effectively to other work. If the client's project is unable to proceed, it may adversely impact the demand for the Corporation's services.

Labour Shortages and Material Prices

Periods of high construction activity can create shortages of labour and material. In the past, the rapidly expanding market in Alberta, B.C. and other jurisdictions, has created general shortages of tradesmen and management personnel. In 2008, the labour market softened as a result of a weaker demand for commodities, amid a global economic slowdown. Churchill's operating companies attempt to mitigate labour shortages through competitive remuneration, enhanced in-house training programs and expanded recruiting, both within Canada and internationally. Any future labour and material shortages may lead to construction cost escalation which could decrease contract margins should clients not agree to absorb these additional costs. Any increase in the price of building and construction materials could have a material adverse effect on market demand and on the Corporation's growth and profitability.

Shortage of Client Design Capabilities

Churchill's clients may face shortages of internal and contracted engineering capability resulting in delays in project start-ups. This may adversely impact the Corporation's business and operating results.

Design-Build Risk

Stuart Olson occasionally participates in design-build projects whereby they assume the additional risk of design-related flaws or failures. This risk is reduced by utilizing external consultants for the design component as well as by the purchase of appropriate insurance protection. Design remediation work could result in additional contract costs that may not be reimbursed by the client.

Public-Private Partnerships

Stuart Olson may participate in public-private-partnership work (P3s) which contracts may require letters of credit, equity participation or contain liquidated damages clauses. Liquidated damage clauses impose a penalty for failure to meet project completion schedules, which can be impacted by many factors outside of the direct control of the general contractor.

Joint Venture Partners

Churchill undertakes certain contracts with joint venture partners. The success of its joint ventures relies on the satisfactory performance of Churchill's joint venture partners in their joint venture obligations. The Corporation may provide joint and several guarantees in connection with these joint ventures. The failure of the joint venture partners to perform their obligations could impose additional financial and performance obligations on Churchill that could result in increased costs.

Estimating Costs, Assessing Contract Risk

The contract price for all the projects performed by Churchill is based in part on cost estimates that are subject to a number of assumptions. If, as a result of faulty estimates or unforeseen circumstances, the Corporation's assumptions are erroneous, or if the Corporation inaccurately assesses the risks associated with a contract, or if its estimates of the project costs are inaccurate, project profitability may be lower than anticipated, or a loss may be incurred.

Accuracy of Cost to Complete Estimates

Once a project has begun, the project management team monitors costs and project execution against the original cost estimates and contract terms. On at least a monthly basis, detailed estimates of the costs to complete a contract are compiled by the Corporation. These estimates form an integral part of Churchill's process for determining construction profits. To the extent that the costs to complete estimates are based on inaccurate or incomplete information, or on faulty judgments, the accuracy of reported construction profits can be compromised. The Corporation assesses its project controls on an ongoing basis.

Reliance on Suppliers and Subcontractors

The Corporation relies on third party suppliers and subcontractors. The profitable completion of some contracts depends to a large degree on the satisfactory performance of the subcontractors who complete different elements of work. If these subcontractors do not perform to accepted standards, the Corporation may be required to hire different subcontractors to complete the tasks, which may add additional costs to a contract, may impact profitability on a specific job and in certain circumstances lead to significant losses. The failure of such third party suppliers and subcontractors to execute or effectively manage their own business plans and deliver on their contractual commitments, can have a material adverse effect on the Corporation's business, operating results and financial condition. This risk is managed by evaluating third party subcontractors and suppliers, by proactively monitoring project schedules and budgets and by obtaining bonds or other guarantees.

Contractor Default Insurance

Stuart Olson has entered into an innovative, yet well-tested sub-contractor risk management strategy provided by Zurich Canada, a leading commercial property-casualty insurance provider serving the global corporate market. Under this strategy, a portion of sub-contractor performance risk is retained by Stuart Olson, with the balance being transferred to the insurance provider. This risk management program provides more control over the subcontractor pre-qualification process, an ability to manage project risk more effectively and cost efficiencies for Stuart Olson. Because this is an insurance product, Stuart Olson pays a premium to the insurer for coverage, however without a loss-run history to consider, it is difficult to predict whether this program will result in savings or incremental expenses to Stuart Olson.

Work Stoppages

Certain of the Corporation's businesses are subject to collective bargaining agreements with their hourly employees. Any work stoppage resulting from a strike or lockout could have a material adverse effect on the Corporation's business, financial condition and results of operations, including increased labour costs and service disruptions. In addition, Churchill's clients employ workers under collective agreements. Any work stoppage or labour disruption experienced by Churchill's clients could significantly reduce the amount of its services they require. In 2007, new collective bargaining agreements were ratified by the building trades in Alberta and Saskatchewan. These collective bargaining arrangements will expire in 2011.

Financial Resources

Churchill's operations require a significant amount of working capital due to a large manpower workforce on projects. The Corporation's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the construction industry. There can be no assurance that the current working capital of Churchill will be sufficient to enable it to implement all of its objectives. There can be no assurance that if, and when, Churchill seeks equity or debt financing, it will be able to obtain the required funding on favourable commercial terms, or at all. Any such future financing may also result in additional dilution to existing shareholders.

Potential for Non-Payment

Before signing any construction contract, the Corporation satisfies itself that the potential client has adequate resources to pay as construction work is completed. During the term of the contract, Churchill may be required to utilize its working capital to fund construction costs until payments are collected from clients. If a client defaults in making its payments on a project, Churchill would generally have a right to register a lien against the project. If the client were ultimately unable or unwilling to pay the amounts owing to the Corporation, a lien against the property would normally provide some security that Churchill could ultimately realize what is owed. However in these situations, the Corporation's ability to ultimately collect what it is owed is never assured. Payment default by a client could result in a financial loss to the Corporation that could have a material adverse effect on its operating results and financial position. The Corporation's objective is to reduce credit risk by ensuring the timely collection of its trade and other receivables on a timely basis. Furthermore, the concentration of credit risk is limited due to the large number of clients comprising Churchill's revenue base.

Acquisition and Integration Risk

In the past Churchill has grown partly by acquisition. The Corporation's growth strategy contemplates more acquisitions; however, future acquisition opportunities may not be identified and obtainable on suitable terms. The ability to undertake future acquisitions is limited, in part, by the Corporation's ability to access financing. If integration of new businesses does not occur as expected, their performance is less than expected, or an unknown liability is acquired, the Corporation's revenues may be lower and operational costs higher than anticipated.

Loss of Key Management, Inability to Attract and Retain Management

The Corporation's future prospects depend to a significant extent on the continued service of its key executives. Furthermore, the Corporation's continued growth and future success depends on its ability to identify, recruit and retain key management personnel. The competition for such employees is intense and there can be no assurance that the Corporation will be successful in identifying, recruiting or retaining such personnel.

Maintaining Safe Worksites

Churchill's success as a contractor is highly dependent on its ability to keep its construction worksites safe. Failure to do so can have serious impacts beyond the threat to personal safety of its employees and others. It can expose the Corporation to fines, regulatory sanction and even criminal prosecution. The Corporation's safety record and worksite safety practices have a direct bearing on its ability to secure work. Management is not aware of any pending health and safety legislation or prior incidents which would be likely to have a material impact on any of the Corporation's operations, capital expenditure requirements or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or accidents.

Litigation Risk

In the normal course of business, the Corporation is involved in various legal actions and proceedings which arise from time to time, some of which may be substantial. In view of the quantum of the amounts claimed and the insurance coverage maintained by the Corporation in respect of these matters, management of the Corporation does not believe any of the legal actions or proceedings that are presently known or anticipated by the Corporation are likely to have a material adverse effect on the Corporation's financial position. However, there can be no assurance that the Corporation's insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, the Corporation is subject to the risk of claims and legal actions for various commercial and contractual matters primarily arising from construction disputes, in respect of which insurance is not available.

Compliance with Environmental Laws

The Corporation is subject to numerous federal, provincial and municipal environmental laws and judicial, legislative and regulatory developments relating to environmental protection on an ongoing basis. While the Corporation strives to keep informed of and comply with all applicable environmental laws, circumstances may arise and incidents may occur that are beyond the Corporation's control that could adversely affect it. Management is not aware of any pending environmental legislation that would be likely to have a material adverse impact on any of the Corporation's operations, capital expenditure requirements or competitive position, although there can be no assurance that future legislation will not be proposed, and if implemented, may have a material adverse impact on the Corporation's operations.

Regulations

The operations of Churchill's clients are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate, such as applicable environmental laws. As a result of changes in regulations and laws relating to these industries, clients' operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations may cause clients to discontinue or limit their operations or may discourage companies from continuing development activities. As a result, demand for the Corporation's services could be substantially affected by regulations adversely impacting these industries.

Volatility of Market Trading

The market price of the Corporation's common shares may be volatile and could be subject to fluctuations in response to quarterly variations in operating results, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies providing services to the commodity industry. Often, these fluctuations have been unrelated to the operating performance of such companies, or have resulted from the failure of the operating result of such companies to meet market expectations in a particular quarter. Broad market fluctuations, or any failure of the Corporation's operating results in a particular quarter to meet market expectations, may adversely affect the market price of the Corporation's common shares.

Quarterly Financial Information

The following table sets forth selected quarterly financial information of the Corporation for the last eight quarters based on continuing operations and therefore excludes the assets held for sale as discontinued operations (i.e. Industrial General Contracting segment):

($ millions, except per share data and percentages)	2009 (2,3)				2008 (1)			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Contract revenue	**$173.9**	$161.5	$136.7	$129.1	$185.5	$216.2	$202.0	$157.8
Contract income	**24.7**	27.1	21.6	18.6	27.9	28.1	23.1	15.0
Contract income margin – %	**14.2%**	16.8%	15.8%	14.4%	15.0%	13.0%	11.4%	9.5%
EBITDA from continuing operations	**12.5**	17.3	12.3	9.3	17.7	18.2	13.8	6.5
Earnings from continuing operations before income taxes	**11.3**	16.2	11.0	8.1	16.4	17.1	12.7	5.4
Net earnings from continuing operations	**8.1**	11.7	8.0	5.7	11.2	11.9	8.9	3.6
Earnings per share from continuing operations - basic	**0.46**	0.66	0.45	0.32	0.63	0.66	0.50	0.20
Earnings per share from continuing operations – fully diluted	**0.44**	0.65	0.44	0.32	0.62	0.62	0.50	0.20
Net earnings and comprehensive income	**7.7**	15.2	7.4	4.6	11.2	11.2	9.5	4.5
Earnings per share – basic	**0.44**	0.86	0.42	0.26	0.63	0.62	0.53	0.25
Earnings per share – fully diluted	**0.42**	0.85	0.41	0.26	0.62	0.63	0.53	0.25
Work-in-hand	**784.2**	767.2	600.6	528.4	565.3	556.0	560.5	598.9
Backlog	**1,388.6**	1,514.5	1,344.2	1,327.5	1,390.3	1,422.1	1,235.8	1,385.3
Working capital	**107.0**	103.9	84.4	77.5	78.3	69.9	60.1	51.4
Shareholders' equity	**141.5**	133.0	117.3	109.8	105.6	95.9	84.4	74.3
Book value ($ per basic share)	**8.03**	7.56	6.67	6.23	5.92	5.33	4.70	4.15

(1) During 2008, the Corporation repurchased and cancelled 159,900 common shares at an average price of $6.18 per share.
(2) During 2009, the Corporation cancelled 145,000 common shares acquired in December 2008 at an average price of $6.58 per share.
(3) During the remainder of 2009, the Corporation repurchased and cancelled 127,600 common shares at an average price of $7.59 per share.

The Corporation's contract income margin percentage has increased during the last eight quarters as a result of improved project execution, favourable contract terms and solid cost management practices. The combined effect of this has been a record year of performance in 2008, followed by a consistent performance in 2009.

A comprehensive analysis of the operating results for each of the first three quarters of 2009 was included in the Management's Discussion and Analysis incorporated into the interim report to shareholders for each quarter. The reader is referred to the Corporation's 2008 Annual Report for a discussion and analysis of the results of the quarters proceeding January 1, 2009.

Controls and Procedures

Disclosure Controls and 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 of the Corporation.

An evaluation of the design and testing of the effectiveness 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 Audit Committee and the Board of Directors as of December 31, 2009. Based on this evaluation, the CEO and CFO have concluded that the design and operation of the Corporation's disclosure controls and procedures as defined in National Instrument 52-109 ("NI 52-109"), Certification of Disclosure in Issuers Annual and Interim Filings, was effective as at December 31, 2009.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. 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 Audit Committee and Board of Directors, 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 in Internal Control – Integrated Framework ("COSO"). The evaluation included documentation review, enquiries, testing and other procedures considered by management to be appropriate in the circumstances. As at the end of the period covered by this management discussion and analysis, management has concluded that the design and operation of the internal controls over financial reporting were effective.

Material Changes to the Internal Controls over Financial Reporting

There were no changes to the Corporation's internal controls over financial reporting during 2009 that have materially affected or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

Terminology

Throughout this 2009 Management's Discussion and Analysis, management refers to certain terms when explaining its financial results that do not have any standardized meaning under Canadian GAAP as set out in the CICA Handbook. Specifically, the terms "contract income margin percentage", "work-in-hand", "backlog", "delayed backlog", "working capital", "EBITDA" and "book value per share" have been defined as:

Contract income margin percentage 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 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) twelve months, or (b) the remaining life of the contract.

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. All projects

within backlog are classified as active unless the Company has received written or verbal notification from the client that a job/project/contract has been delayed, at which point the backlog is classified as Delayed Backlog. The Corporation provides no assurance that additional clients will not choose to defer or cancel their projects in the future. There can be no assurance that the client will resume the project or that the delayed backlog will not be retendered. Jobs or projects subsequently retendered and not awarded to the Corporation or its subsidiaries would at that time be removed from the Corporation's backlog.

As at December 31, 2009 ($ millions)	Work-in-Hand	Active Backlog	Delayed Backlog	Total Backlog
	$ 784.2	$ 504.4	$ 100.0	$ 1,388.6

As at December 31, 2008 ($ millions)	Work-in-hand	Active Backlog	Delayed Backlog	Total Backlog
	$ 565.3	$ 794.7	$ 30.3	$ 1,390.3

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

As at ($ millions)	December 31, 2009	December 31, 2008
Current assets	**$ 330.3**	$ 268.5
Less:		
Current liabilities	**223.0**	190.2
Working capital	**$ 107.3**	$ 78.3

EBITDA 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. The following is a reconciliation of net earnings to EBITDA from continuing operations for each of the periods presented in this MD&A in accordance with GAAP.

	Three months ended December 31,		Twelve months ended December 31,	
($ millions)	2009	2008	2009	2008
Net earnings from continuing operations	**$ 8.1**	$ 11.2	**$ 33.5**	$ 35.6
Add:				
Income taxes	**3.2**	5.2	**13.2**	16.0
Depreciation & amortization	**1.1**	1.1	**4.4**	4.1
Interest expense	**0.1**	0.2	**0.2**	0.5
EBITDA from continuing operations	**$ 12.5**	$ 17.7	**$ 51.3**	$ 56.2

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

Forward-Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are 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. These statements involve 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 statements. The Corporation believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

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

- disclosures made under the heading “Outlook”;
- 2010 growth of business and operations;
- business strategies and plans for implementing them;
- future cash flow, cash requirements and long-term obligations; and
- the demand for the Corporation’s services.

With respect to forward-looking statements listed above and contained in this MD&A, the Corporation has made assumptions regarding, among other things:

- the expected performance of the Canadian economy and the effect on the Corporation’s businesses;
- the impact of increasing competition;
- the global demand for oil and the effect on oil and gas projects in Western Canada; and
- government policies to stimulate the economy.

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- general global economic and business conditions including the effect, if any, of a economic slowdown in the U.S. and/or Canada;
- weak capital and/or credit markets;
- fluctuations in currency and interest rates;
- changes in laws and regulations;
- timing of completion of capital or maintenance projects;
- competition and pricing pressures; and
- unpredictable weather conditions.

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

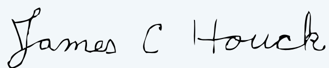
Additional information regarding Churchill, including the Corporation’s 2009 Annual Information Form and other required securities filings, are available on our website at www.churchillcorporation.com and on the Canadian Securities Administrators’ website at www.sedar.com; the System for Electronic Document Analysis and Retrieval (“SEDAR”).

Management's Report

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgment. Financial information contained throughout this Annual Report is consistent with the financial statements.

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

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has thoroughly reviewed the financial statements, including the notes thereto, with management and the external auditors.



James C. Houck
President and Chief Executive Officer
March 5, 2010

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

Auditors' Report

TO THE SHAREHOLDERS OF THE CHURCHILL CORPORATION

We have audited the consolidated balance sheets of The Churchill Corporation (the "Corporation") as at December 31, 2009 and December 31, 2008 and the consolidated statements of earnings, comprehensive income, retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Edmonton, Alberta
March 5, 2010

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

($ thousands, except share and per share amounts)	Year ended December 31, 2009	2008
Contract revenue	**$ 601,241**	$ 760,953
Contract costs	**509,290**	667,074
Contract income	**91,951**	93,879
Interest income	**643**	2,602
Sundry income	**464**	297
Indirect and administrative expenses	**(41,736)**	(40,592)
Depreciation and amortization	**(4,435)**	(4,089)
Interest expense	**(240)**	(491)
Earnings from continuing operations before income taxes	**46,647**	51,606
Income tax (expense) recovery		
Current income tax	**(22,758)**	(14,095)
Future income tax	**9,590**	(1,920)
	(13,168)	(16,015)
Net earnings from continuing operations and comprehensive income	**33,479**	35,591
Net earnings from discontinued operations (Note 4)	**1,338**	852
Net earnings and comprehensive income	**34,817**	36,443
Retained earnings, beginning of period	**83,132**	47,528
Adjustment arising from shares purchased under a normal course issuer bid (Note 13)	**(1,670)**	(839)
Retained earnings, end of period	**$ 116,279**	$ 83,132
Net earnings per common share:		
Basic from continuing operations	**$ 1.90**	$ 1.98
Basic from discontinued operations	**$ 0.08**	$ 0.05
Basic net earnings per share	**$ 1.98**	$ 2.03
Diluted from continuing operations	**$ 1.87**	$ 1.96
Diluted from discontinued operations	**$ 0.07**	$ 0.05
Diluted net earnings per share	**$ 1.94**	$ 2.01
Weighted average common shares:		
Basic	**17,620,454**	17,928,037
Diluted	**17,935,551**	18,109,979

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

($ thousands)	December 31, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**$ 184,402**	$ 100,768
Accounts receivable (Note 8)	**116,592**	119,248
Inventories and prepaid expenses	**949**	1,285
Costs in excess of billings	**19,013**	17,692
Income taxes recoverable	**56**	3,615
Future income tax assets (Note 12)	**7,813**	1,390
Current portion of long-term receivable (Note 4)	**1,500**	-
Assets held-for-sale (Note 4)	**-**	24,528
	330,325	268,526
Restricted cash (Note 7)	**2,642**	-
Long-term receivable (Note 4)	**1,500**	-
Future income tax assets (Note 12)	**399**	568
Property and equipment (Note 9)	**17,063**	16,547
Assets held-for-sale (Note 4)	**4,778**	9,844
Goodwill and intangible assets (Note 10)	**10,710**	7,336
	$ 367,417	$ 302,821
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 138,976**	$ 134,194
Contract advances and unearned income	**71,897**	41,088
Income taxes payable	**11,528**	2,462
Future income tax liabilities (Note 12)	**-**	3,177
Current portion of long-term debt (Note 11)	**559**	1,082
Liabilities related to assets held-for-sale (Note 4)	**-**	8,220
	222,960	190,223
Long-term deferred warranty claims (Note 7)	**2,642**	-
Long-term debt (Note 11)	**229**	6,787
Liabilities related to assets held for sale (Note 4)	**-**	34
Future income tax liabilities (Note 12)	**79**	204
	225,910	197,248
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	**16,732**	16,663
Shares repurchased under a normal course issuer bid, not cancelled (Note 13)	**-**	(956)
Contributed surplus (Note 14)	**8,496**	6,734
Retained earnings	**116,279**	83,132
	141,507	105,573
Commitments and contingencies, and guarantees (Notes 18 and 19)		
	$ 367,417	$ 302,821

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors:

Albrecht W.A. Bellstedt, QC
Chairperson

Allister J. McPherson
Director

Consolidated Statements of Cash Flow

($ thousands)	Year ended December 31, 2009	2008
OPERATING ACTIVITIES		
Net earnings from continuing operations and comprehensive income	**$ 33,479**	$ 35,591
Depreciation and amortization	**4,435**	4,089
Gain on disposal of equipment	**(11)**	(34)
Stock-based compensation (Note 13)	**1,929**	1,109
Future income taxes	**(9,590)**	1,920
	30,242	42,675
Change in non-cash balances relating to operations (Note 21)	**48,222**	(35,546)
	78,464	7,129
INVESTING ACTIVITIES		
Proceeds on disposal of equipment	**259**	117
Additions to intangible assets	**(3,395)**	-
Additions to property and equipment	**(5,131)**	(7,246)
	(8,267)	(7,129)
FINANCING ACTIVITIES		
Proceeds under operating line of credit	**-**	9,000
Repayments under operating line of credit	**-**	(9,000)
Repayment of long-term debt	**(7,129)**	(1,722)
Share purchase under a normal course issuer bid (Note 13)	**(970)**	(1,944)
Issuance of common shares	**158**	287
	(7,941)	(3,379)
Cash provided by (used in) continuing operations	**62,256**	(3,379)
Cash provided by (used in) discontinued operations (Note 4)	**21,378**	(3,958)
Increase (decrease) in cash and cash equivalents during the year	**$ 83,634**	$ (7,337)
Cash and cash equivalents, beginning of year	**100,768**	108,105
Cash and cash equivalents, end of year	**$ 184,402**	$ 100,768
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash received (paid) during the year for:		
Interest	**$ 384**	$ 1,773
Income taxes	**$ (10,023)**	$ (25,432)

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

The Churchill Corporation (the "Corporation") was incorporated in Canada under the Business Corporations Act (Alberta) and commenced operations on July 30, 1985. The Corporation provides building construction, industrial insulation contracting, industrial electrical and instrumentation contracting and related services within Canada. The Corporation's common stock is traded on the Toronto Stock Exchange under the symbol "CUQ".

1. Summary of Significant Accounting Policies

These consolidated financial statements are presented in Canadian dollars rounded to the nearest thousand ($000), except where otherwise indicated, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following principles:

(i) Principles of Consolidation

The consolidated financial statements include the accounts of The Churchill Corporation and all subsidiary companies. All subsidiary companies are wholly owned and intercompany balances have been eliminated on consolidation. The Corporation proportionately consolidates its interests in joint ventures.

(ii) Measurement Uncertainty

Consolidated financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates. Uncertainty is inherent in estimating the cost of completing construction projects, the estimated useful life of property and equipment and corresponding depreciation rates, the useful life of intangible assets and corresponding amortization rates, allowances for doubtful accounts receivable, future income taxes, provision for legal contingencies, valuation of stock options and the fair value of goodwill and other financial instruments. The impact on the consolidated financial statements of future changes in such estimates could be material.

(iii) Contract Revenue and Contract Costs

Revenue for cost-plus contracts is recorded as the service is performed and the related expenses are incurred. Under this method, the costs incurred and the related revenue are included in the consolidated statement of earnings as the work progresses. Contract revenue from fixed-price and unit-price contracts is recognized on the percentage-of-completion basis measured by the ratio of either the actual cost of work or the actual hours performed to date, to the estimated total cost or estimated total hours.

Contract costs include all direct material, labour and equipment costs and indirect costs related to contract performance such as indirect labour, supplies, and tool costs. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and revenue and are recognized in the period in which such adjustments are determined.

On all contracts where current estimates indicate an ultimate loss, the full amount of the projected loss is recognized immediately. Construction claims are included in revenue when realization is probable and can be reliably estimated.

(iv) Cash and Cash Equivalents

Cash and cash equivalents are comprised of bank balances and short-term investments with original terms to maturity of three months or less.

(v) Inventories

Inventories are recorded at the lower of cost and net realizable value.

(vi) Property and Equipment

Property and equipment are recorded at original cost and depreciated using either the declining balance or the straight-line methods over their estimated useful lives or at the rates as described below. Depreciation is not taken on assets under construction until the asset is placed into use.

Asset	Basis	Rate
Land improvements	Straight-line	30 years
Buildings and improvements	Straight-line	20 – 40 years
Leasehold improvements	Straight-line	Lesser of estimated useful life or lease term
Construction and automotive equipment	Straight-line or declining balance	3 – 5 years, 15% – 30%
Office furniture and equipment	Straight-line or declining balance	1 – 10 years, 30%
Computer hardware	Straight-line	3 years
Computer software	Straight-line	12 months

(vii) Accounting for Impairment of Long-Lived Assets

The Corporation tests for the impairment of long-lived assets held for use through a two-step process, with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the fair value. The amount of the impairment is measured as the excess of the carrying amount of the long-lived asset over the fair value.

(viii) Goodwill and Intangible Assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination. Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess.

Intangible assets consist of Enterprise Resource Planning ("ERP") assets that are expected to be ready for use in late 2010. These will be amortized on a straight-line basis over the estimated useful life.

(ix) Income Taxes

The Corporation uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent it is more likely than not such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

(x) Share-Based Compensation Plan

The Corporation utilizes a fair value based method of accounting for stock options. Under this method, the estimated fair value of the stock options granted is recognized over the applicable vesting period as a charge to stock compensation expense and a credit to contributed surplus. When these options are exercised, the proceeds received and the related amounts of contributed surplus are credited to share capital.

(xi) Earnings Per Share

Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding during each reporting period. Shares issued during the year and shares reacquired during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds obtained from such exercise was used to acquire common shares at the average market price during the reporting period.

(xii) Employee Future Benefits

The Corporation and its subsidiaries have a Registered Retirement Savings Plan and an Employee Share Purchase Plan. The Corporation contributes to the plans based on the amount of employee contributions. The Corporation accounts for contributions as an expense in the year that they are made. The Corporation does not provide post employment or post-retirement benefits.

(xiii) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are recognized immediately in income or are capitalized, depending upon the nature of the transaction and the associated product.

Held-for-trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are accounted for at fair value with the change in the fair value recognized in investment income.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. The fair value of a financial instrument on initial recognition is normally the transaction price. Subsequent to initial recognition, fair values for financial assets are determined by bid prices quoted in active markets. Securities that are classified as available-for-sale and do not have a readily available market value are recorded at cost. Available-for-sale securities are written down to fair value through income whenever it is necessary to reflect other-than-temporary impairment. Gains and losses realized on disposal of available-for-sale securities, which are calculated on an average cost basis, are recognized in other income.

Held-to-maturity

Securities that have a fixed maturity date, where the Corporation intends and has the ability to hold to maturity, are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method.

Loans, receivables and other liabilities

Loans, receivables and other liabilities are accounted for at amortized cost using the effective interest rate method.

The Corporation has the following financial assets and liabilities:

	Classification	Measurement
Financial assets		
Cash and cash equivalents	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Restricted cash	Available for sale	Fair value
Long-term receivable	Loans and receivables	Amortized cost
Financial liabilities		
Revolving line of credit	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term deferred warranty claims	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

(xiv) Accumulated Other Comprehensive Income and Retained Earnings

The Corporation applies the standards for reporting and displaying other comprehensive income, defined as revenue, expenses, and gains and losses which, in accordance with primary sources of GAAP, are recognized in comprehensive income but excluded from net earnings. The application of these standards did not have any impact on the Corporation's financial statement presentation during the years ended December 31, 2009 or 2008 as the Corporation has no other comprehensive income components.

The Corporation has also applied the standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to those of comprehensive income and recommend that an enterprise present separately the following components of equity: retained earnings, accumulated other comprehensive income, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital, and reserves. The Corporation has elected to present a combined Consolidated Statement of Earnings, Comprehensive Income and Retained Earnings.

2. Accounting Policy Adoption and Changes

(i) Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets,* replacing Section 3062, *Goodwill and Other Intangible Assets.* This new Section established standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions of this Section, relating to the definition and initial recognition of intangible assets, are equivalent to the corresponding provisions under International Financial Reporting Standards ("IFRS"). CICA Handbook Section 1000, *Financial Statement Concepts,* was also amended to provide consistency with this new Section. The adoption of this standard has resulted in reallocating additions in the year of $3,395 related to the new ERP system from property and equipment to intangible assets.

(ii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Corporation adopted Emerging Issues Committee's ("EIC") Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.* This standard clarifies that an entity's own credit risk and the credit risk of its counterparties should be taken into account in determining the fair value of financial assets and liabilities, including derivatives. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements or on the fair value determination of its financial assets and liabilities.

(iii) Disposal of Long-Lived Assets and Discontinued Operations

In accordance with CICA Handbook Section 3475, long-lived assets are classified as held for sale once certain criteria are met. Such criteria include a firm commitment by management and the board of directors to dispose of a business or group of selected assets and the expectation that such disposal will be completed within a twelve month period. Assets held for sale are measured at the lower of their carrying amounts or fair values less costs to sell, and are no longer depreciated.

Operating results of a corporation's components disposed of by sale or being classified as held-for-sale are reported as discontinued operations if the operations and cash flows of those components have been, or will be, eliminated from the Corporation's current operations pursuant to the disposal and if the Corporation does not have significant continuing involvement in the operations of the component after the disposal transaction. A component of an enterprise includes operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Corporation's operations and cash flows. All information contained in the consolidated financial statements and accompanying notes is presented on a continuing operations basis unless otherwise noted.

3. Recent Accounting Pronouncements

(i) Business Combinations

CICA Handbook Section 1582, *Business Combinations* replaces Section 1581, *Business Combinations* and establishes new standards for the accounting of a business combination. This Section constitutes the Canadian GAAP equivalent to the corresponding provision under IFRS. This Section shall be applied prospectively to business combinations for which the acquisition date is on or after the commencing of the first annual reporting period beginning on or after January 1, 2011 and the Corporation will adopt this new Section as of such date upon its conversion to IFRS. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements and on future business combinations.

(ii) Consolidated Financial Statements

CICA Handbook Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests* replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements while Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. These Sections constitute the Canadian GAAP equivalent to the corresponding provision under IFRS. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and the Corporation will adopt these new Sections as of such date upon its conversion to IFRS. The Corporation is currently evaluating the impact of the adoption of these new Sections on the consolidated financial statements.

4. Assets Held-for-Sale and Discontinued Operations

On August 12, 2009, the Corporation entered into a share purchase agreement with an undisclosed company (the "Purchaser"), pursuant to which the Corporation sold 100% of its interests in Triton Industrial Group ("TIG" previously known as Churchill Industrial Group) which held certain assets of the Corporate and Other segment, and a wholly owned Triton subsidiary (Triton Construction Inc. Subsidiary "TCIS") which held the majority of the assets and liabilities of the Industrial General Contracting (Triton) segment. Included as part of the share purchase agreement was the working capital, active construction projects and certain real property held by TIG and TCIS. The Corporation has classified the remaining assets of Triton as held-for-sale in the balance sheets of the Corporation. Assets held-for-sale include certain industrial and agricultural lands, and buildings and equipment.

The Corporation received cash proceeds of $18,487, including $3,000 in escrow, for the outstanding common shares of TIG and TCIS for an after-tax gain of $4,965 net of transaction costs. As part of the agreement, two escrow accounts were established in response to certain terms and conditions of the share purchase agreement.

An escrow account of $3,000 has been recognized as part of the gain on sale and allocated equally between current and long-term receivable. These funds are held in escrow as security for the indemnification provided to the Purchaser by the Corporation as part of the share sale. This escrow account is receivable in two equal installments, net of any claims, on August 11, 2010 and 2011. The funds are presently invested in guaranteed investment certificates bearing interest at 0.9%.

A second escrow account of $6,000 was established as part of a purchase price adjustment pending the finalization of the closing net assets of TIG and TCIS.

The results of operations attributable to these assets and liabilities have been retrospectively reported as discontinued operations for the years ended December 31, 2009 and 2008. Previously, these amounts were included in continuing operations in the Corporate and Other, and the Industrial General Contracting (Triton) segments. Commencing on the date of disposition, the operations and cash flows of this segment have been eliminated from the ongoing operations of the Corporation.

The following table presents summary balance sheets, statements of earnings and statements of cash flows of the discontinued operations included in the consolidated financial statements:

Balance Sheets

	December 31, 2009	December 31, 2008
Accounts receivable	$ -	$ 20,259
Inventories and prepaid expenses	-	208
Costs in excess of billings	-	3,546
Income taxes recoverable	-	55
Future income taxes assets	-	460
	-	24,528
Property and equipment	2,691	9,507
Future income tax assets	2,087	337
	4,778	9,844
Accounts payable and accrued liabilities	-	6,612
Contract advances and unearned income	-	437
Future income tax liabilities	-	2
Current portion of long-term debt	-	1,169
	-	8,220
Long-term debt	-	-
Future income tax liabilities	-	34
Net assets held for sale	$ 4,778	$ 26,118

Statements of Earnings

	December 31, 2009	December 31, 2008
Revenue	$ 27,954	$ 85,864
Contract income	1,308	6,273
Gain on sale of discontinued operations	4,965	-
Net earnings (loss) from discontinued operations [1]	(3,627)	852
Total net earnings [2]	$ 1,338	$ 852

(1) Net loss from discontinued operations for the year ended December 31, 2009 includes income tax recovery of $1,517 (2008 – $187).

Statements of Cash Flows

	December 31, 2009	December 31, 2008
Operating activities	**$ 6,897**	$ (3,247)
Financing activities	**1,235**	(272)
Investing activities	**13,246**	(439)
Cash provided by (used in) discontinued operations [2]	**$ 21,378**	$ (3,958)

(2) Includes Triton's operations for the period from January 1 to August 12, 2009.

5. Joint Ventures

The Corporation and its subsidiaries are partners in incorporated and unincorporated joint ventures. These consolidated financial statements include the proportionate share of assets, liabilities, revenue, expenses, net income and cash flow of these joint ventures as follows:

	2009	2008
Current and total assets	**$ 18,363**	$ 533
Current and total liabilities	**17,836**	1,164
Contract revenue	**10,609**	400
Contract costs and expenses	**9,189**	309
Net earnings	**1,419**	91
Cash flow provided by operating activities	**15,154**	740

6. Cash and Cash Equivalents

Included in the cash and cash equivalents balance is $16,961 (2008 – $17,466) held as security for the payment of direct costs related to specific construction projects and cash balances of $15,502 (2008 – $309) held in joint venture accounts. Cash and cash equivalents are comprised of:

	2009	2008
Cash	**$ 153,317**	$ 80,733
Short-term investments	**31,085**	20,035
	$ 184,402	$ 100,768

7. Restricted Cash

Restricted cash relates to the Building segment's Subguard Program representing an agreement with Zurich Insurance Company ("Zurich") that establishes a pre-funded deductible/co-pay insurance program. The funds provided to Zurich as at December 31, 2009 amounted to $2,642 (2008 – nil) and are presented as Restricted Cash on the consolidated balance sheets with a corresponding offset to Long-Term Deferred Warranty Claims.

8. Accounts Receivable

Accounts receivable are comprised of:

	2009	2008
Trade receivables	**$ 53,440**	$ 56,970
Construction holdbacks, due within one year	**57,270**	61,572
Other receivables	**5,882**	706
	$ 116,592	$ 119,248

9. Property and Equipment

December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Land	**$ 685**	**$ -**	**$ 685**
Land improvements	**24**	**24**	**-**
Buildings and improvements	**1,921**	**1,475**	**446**
Leasehold improvements	**5,655**	**1,249**	**4,406**
Construction and automotive equipment	**16,123**	**7,228**	**8,895**
Office furniture and equipment	**1,737**	**837**	**900**
Computer hardware and software	**5,734**	**4,416**	**1,318**
Assets under construction	**413**	**-**	**413**
	$ 32,292	**$ 15,229**	**$ 17,063**

December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Land	$ 685	$ -	$ 685
Land improvements	24	24	-
Buildings and improvements	2,630	1,726	904
Leasehold improvements	2,674	938	1,736
Construction and automotive equipment	19,047	10,381	8,666
Office furniture and equipment	2,873	1,802	1,071
Computer hardware and software	7,341	5,386	1,955
Assets under construction	1,530	-	1,530
	$ 36,804	$ 20,257	$ 16,547

Included in construction and automotive equipment is $87 (2008 – $1,656) of assets relating to capital leases and $32 (2008 – $1,150) of accumulated depreciation for a net book value of $55 (2008 – $506).

10. Goodwill and Intangible Assets

December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Intangible assets	**$ 252**	**$ 252**	**$ -**
Enterprise resource planning assets	**3,395**	**-**	**3,395**
Goodwill	**7,315**	**-**	**7,315**
	$ 10,962	**$ 252**	**$ 10,710**

December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Intangible assets	$ 252	$ 231	$ 21
Enterprise resource planning assets	-	-	-
Goodwill	7,315	-	7,315
	$ 7,567	$ 231	$ 7,336

The intangible assets relate to the design and implementation of the Corporation's computer systems. Enterprise Resource Planning ("ERP") assets relate to the design and implementation of the Corporation's new ERP software (SAP), which is anticipated to be ready for use in late 2010. Once ready for use the Corporation will begin depreciating the assets.

Goodwill is associated with prior acquisitions and is tested each accounting period for impairment. The Corporation performed an impairment test related to the goodwill at December 31, 2009, and based on this analysis concluded that the fair value of the goodwill exceeded the carrying amount.

11. Long-Term Debt

		2009		2008
Revolving line of credit, interest at prime to prime plus 0.5% depending on certain financial ratios, secured by land and buildings with an aggregate carrying value of $2,194, as well as various security agreements and unlimited guarantees.	**$**	**-**	$	5,265
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of $994, interest varying from 0.0% to 5.0%, blended monthly repayments of $58, maturing between February 2010 and September 2013.		**752**		1,566
Capital leases, secured by construction and automotive equipment with an aggregate carrying value of $55, interest of 8.0% and 10.0%, blended monthly repayments of $3, maturing between September 2010 and 2011.		**36**		1,038
		788		7,869
Less current portion		**(559)**		(1,082)
	$	**229**	$	6,787

(i) Terms and Security

The Corporation has in place a $60,000 revolving line of credit that bears interest at rates varying between prime and prime plus 0.5% based on certain financial ratios. The Corporation has provided a first charge over all assets under a General Security Agreement as security for the revolving line of credit. The Corporation has also provided a site specific General Security Agreement as security for the mortgage. These credit facilities require the Corporation to meet certain covenants. The Corporation was in compliance with these covenants at December 31, 2009 and 2008. At year-end $21.8 million of the Corporation's line of credit was reserved as support for letters of credit for various joint ventures and construction projects.

For the year ended December 31, 2009, $48 (2008 – $314) in asset additions were acquired through capital leases and finance contracts and accounted for as non-cash transactions in the Consolidated Statements of Cash Flow.

(ii) Principal Payments are Due as Follows:

2010	**$**	**559**
2011		**172**
2012		**47**
2013		**10**
2014		**-**
Thereafter		**-**
	$	**788**

12. Income Taxes

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

	2009	2008
Earnings from continuing operations before income taxes	**$ 46,647**	$ 51,606
Non-deductible expenses	**303**	1,502
Income subject to tax	**$ 46,950**	$ 53,108
Income tax at statutory rate of 29.0% (2008 – 29.5%) of taxable income	**$ 13,616**	$ 15,667
Valuation allowance on non-capital loss carryforwards	**18**	94
Effect of change in tax rates for future income tax and tax recovery	**(50)**	(125)
Utilization of net capital loss carryforward	**(580)**	-
Rate difference in other provinces	**187**	-
Other	**(23)**	379
Income tax expense	**$ 13,168**	$ 16,015

The components of the future income tax assets and liabilities are as follows:

	2009	2008
Tax loss carryforwards	**$ 286**	$ 261
Equipment and other assets	**113**	(3)
Valuation allowance on non-capital loss carryforwards	**(79)**	(94)
Unbilled work-in-progress and holdback receivable	**7,813**	(1,861)
Other	**-**	274
	$ 8,133	$ (1,423)
Classified as:		
Current asset	**$ 7,813**	$ 1,390
Long-term asset	**399**	568
Current liability	**-**	(3,177)
Long-term liability	**(79)**	(204)
	$ 8,133	$ (1,423)

The Corporation has accumulated net capital losses for income tax purposes of $3,172 (2008 – $7,172) which may be carried forward indefinitely to reduce future capital gains. The value of these losses has not been recognized in these consolidated financial statements.

The Corporation has accumulated non-capital losses for income tax purposes of $1,022 related to continuing operations, which expire as follows:

Loss Carryforwards

2010	**$ -**
2014	**99**
2015	**238**
2026	**84**
2027	**294**
2028	**147**
2029	**160**
	$ 1,022

13. Shareholders' Equity

(i) Share Capital

Authorized

Unlimited Preferred Shares issuable in series with rights set by the directors

Unlimited Common Shares

Issued	Shares	2009 Share Capital	Shares	2008 Share Capital
Common shares:				
Issued, beginning of year	**17,822,091**	**$ 16,663**	17,886,991	$ 16,414
Shares repurchased	**(272,600)**	**(257)**	(159,900)	(149)
Stock options exercised	**69,768**	**326**	95,000	398
Issued, end of year	**17,619,259**	**$ 16,732**	17,822,091	$ 16,663

(ii) Share-Based Compensation Plan

Stock options:

The Corporation has an incentive stock option plan for certain employees and directors. Options issued under the plan for employees vest one third each on the anniversary of the award date in each of the subsequent three years. Options granted to Directors vest one year after award date. There were no options awarded to Directors in 2009 as a decision was made by the Board of Directors to implement a Deferred Share Unit ("DSU") plan. All stock options must be exercised over specified periods not to exceed five years from the date granted.

At December 31, 2009, the Corporation had 1,213,243 options outstanding (December 31, 2008 – 519,660) of which 262,074 are currently exercisable (December 31, 2008 – 277,535).

The following table summarizes information about stock options outstanding under the Plan at December 31, 2009:

Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2009	Options Exercisable Dec. 31, 2009
$ 2.55	Jun. 14, 2010	5,000	5,000
3.15	Nov. 30, 2010	64,500	64,500
3.05	Jan. 4, 2011	15,000	15,000
18.26	Oct. 3, 2012	37,000	37,000
16.05	Mar. 17, 2013	85,828	85,828
16.50	Aug. 14, 2013	56,845	18,948
6.43	Nov. 19, 2013	89,496	35,798
7.29	Jan. 4, 2014	350,000	-
8.08	Mar. 24, 2014	99,702	-
10.83	May 14, 2014	1,716	-
10.68	Jul. 9, 2014	1,978	-
13.15	Mar. 24, 2014	395,196	-
20.04	Nov. 16, 2014	10,982	-
		1,213,243	262,074

For the year, the Corporation recognized stock-based compensation expense of $1,929 (2008 – $1,109) related to the estimated fair value of options granted.

The fair value of each common share option granted by the Corporation was estimated using the Black-Scholes option-pricing model at the grant date, with the following weighted average assumptions:

	2009	2008
Risk-free interest rate	**1.92%**	2.75%
Expected life	**4.0 years**	3.9 years
Expected volatility	**62.12%**	50.01%
Expected dividends	**-**	-

During the year ended December 31, 2009, 859,574 options were granted with a weighted average fair value of $4.99. The amounts computed, according to the Black-Scholes pricing model, may not be indicative of the actual values realized upon the exercise of these options by the holders.

A summary of the Corporation's outstanding share options under the plan at December 31, 2009 and 2008, indicating changes during the years ended is presented below:

	2009		2008	
	Number of Share Options	**Weighted Average Exercise Price**	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	**519,660**	**$ 11.13**	317,500	$ 7.00
Granted	**859,574**	**4.99**	320,798	13.26
Forfeited	**(96,223)**	**5.71**	(23,638)	17.08
Exercised	**(69,768)**	**1.55**	(95,000)	3.02
Outstanding, end of year	**1,213,243**	**$ 13.04**	519,660	$ 11.13

Performance share units:

The Corporation has a Performance Share Unit ("PSU") plan. Under the PSU plan, participants are eligible to receive an equivalent cash value of the common shares, at a future date, subject to certain performance vesting conditions. The original cost of the PSU is equal to the fair market value at the date of grant. Compensation expense is recognized in earnings on a straight line basis over a vesting period of three years adjusted for the performance based vesting conditions. Changes in the amount of the liability due to stock price changes after the initial grant date are recognized as compensation expense of the period in which the changes occur.

A summary of the Corporation's outstanding PSUs at December 31, 2009 and 2008, indicating changes during the year is presented below:

	2009 Number of PSUs	2008 Number of PSUs
Outstanding, beginning of year	**85,195**	-
Granted	**205,849**	85,195
Forfeited	**(47,310)**	-
Vested and paid	**-**	-
Outstanding, end of year	**243,734**	85,195

As at December 31, 2009, the PSUs issued during the year had a fair value of $1,958 (2008 – $1,269). During the year, the Corporation booked a compensation expense of $1,009 (2008 – $77). As at December 31, 2009, none of the PSUs were vested.

Deferred share units:
The Corporation has a Deferred Share Unit ("DSU") plan which received board approval on November 3, 2009. On November 16, 2009, the Corporation granted a total of 32,934 DSUs to Directors resulting in additional stock-based compensation expense of $660 (2008 – nil) recorded in the fourth quarter of 2009.

(iii) Normal Course Issuer Bid

On October 9, 2008, the Corporation received regulatory approval under Canadian securities laws to purchase Common Shares under a Normal Course Issuer Bid ("NCIB"). The Corporation was entitled to purchase, for cancellation, up to approximately 1,391,090 Common Shares under the NCIB which commenced on October 15, 2008 and expired on October 14, 2009.

During the year ended December 31, 2009, 127,600 common shares were purchased under the Corporation's NCIB (2008 – 304,900) for a total of $970 or $7.59 per share (2008 – $1,944 or $6.38 per share).

Of the shares repurchased, all common shares were cancelled resulting in the average carrying value of $257 (2008 – $149) being allocated as a reduction in share capital; and $1,670 (2008 – $839) representing the consideration in excess of the assigned value being charged to retained earnings during the period. In addition, 145,000 common shares repurchased in 2008 for a total expenditure of $956 or $6.58 were not cancelled prior to December 31, 2008. These were subsequently cancelled in 2009.

(iv) Shareholder Rights Plan

The Corporation has an Amended and Restated Shareholder Rights Plan (the "Plan") which grants the Right to issue additional shares at a 50% discount to the current market price. Such Rights can only be exercised on the occurrence of a triggering event, which is defined as a person (an "Acquiring Person") acquiring, or publicly announcing its intention to acquire, 20% or more of the common shares, other than by an acquisition pursuant to a takeover bid permitted by the Plan. The Rights expire on September 30, 2010 unless exchanged or redeemed on an earlier date.

14. Contributed Surplus

For stock options granted to employees and directors the Corporation records compensation expense using the fair value method as outlined in Note 13 (ii). Compensation costs are recognized over the vesting period as stock-based compensation expense and an increase to contributed surplus. When options are exercised, the fair-value amount in contributed surplus is credited to share capital. During the years ended December 31, 2009 and 2008, contributed surplus has changed as follows:

	2009	2008
Balance, beginning of year	**$ 6,734**	$ 5,736
Stock-based compensation expense	**1,929**	1,109
Stock options exercised	**(167)**	(111)
Balance, end of year	**$ 8,496**	$ 6,734

15. Management of Capital

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

The Corporation's capital is composed of shareholders' equity and long-term debt. The Corporation's primary uses of capital are to finance its growth strategies and capital expenditure programs. The Corporation currently funds these requirements from internally-generated cash flows and interest bearing debt.

The Corporation did not pay a dividend in 2009 so that it maintained maximum flexibility to finance growth and expansion and is able to take advantage of acquisition opportunities. The merits of introducing a dividend are evaluated by the Corporation's Board of Directors from time to time.

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 (secured or unsecured) or refinance existing debt with different characteristics.

The primary non-GAAP measures used by the Corporation to monitor its financial leverage are its ratios of Debt to Capitalization and Net Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). EBITDA is not a measure that has any standardized meaning prescribed by Canadian GAAP and is considered to be a non-GAAP measure. Therefore, this measure may not be comparable to similar measures presented by other companies. This measure has been described and presented in the manner in which the chief operating decision maker assesses performance. These metrics are indicative of the Corporation's overall financial strength.

The Corporation targets a Debt to Capitalization ratio less than 30 percent that is calculated as follows:

	2009	2008
Long-term debt, excluding current portion	**$ 229**	$ 6,787
Total shareholders' equity	**141,507**	105,573
Total capitalization	**$ 141,736**	$ 112,360
Debt to capitalization ratio	**0%**	6%

The Corporation targets a Debt to EBITDA ratio less than 0.8 times. At December 31, 2009, the Debt to EBITDA was 0.0x (December 31, 2008 – 0.1x) calculated on a trailing twelve-month basis as follows:

	2009	2008
Long-term debt, excluding current portion	**$ 229**	$ 6,787
Net earnings and comprehensive income	**$ 34,817**	$ 36,443
Add:		
Interest expense	**240**	491
Income tax expense	**13,168**	16,015
Depreciation and amortization	**4,435**	4,089
EBITDA	**$ 52,660**	$ 57,038
Debt to EBITDA	**0.0x**	0.1x

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 credit facility is subject to the following covenants to which it was in full compliance at December 31, 2009.

- Current Service Ratio
- Debt to Tangible Net Worth
- Tangible Net Worth
- Funded Debt to EBITDA

The Corporation's capital management objectives, evaluation measures and definitions have remained unchanged over the periods presented.

16. Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of Common Shares outstanding. Fully diluted earnings per share is computed on the basis of the weighted average number of Common Shares outstanding plus the effect of outstanding stock options using the treasury stock method.

17. 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 Corporation has determined that the fair value of its financial assets, including cash and cash equivalents, accounts receivable, and financial liabilities, including the accounts payable and accrued liabilities, approximates their respective carrying amounts as at the balance sheet dates because of the short-term maturity of those instruments. The fair values of the Corporation's interest-bearing financial liabilities, including the revolving line of credit, capital leases and financed contracts, also approximates their respective carrying amounts due to the floating rate nature of the debt.

(i) Financial Instruments – Carrying Values

	2009	2008
Financial assets:		
Cash and cash equivalents	**$ 184,402**	$ 100,768
Accounts receivable	**116,592**	119,248
Restricted cash	**2,642**	-
Long-term receivable	**3,000**	-
Financial liabilities:		
Accounts payable and accrued liabilities	**$ 138,976**	$ 134,194
Long-term deferred warranty claims	**2,642**	-
Long-term debt, including current portion	**788**	7,869

(ii) Financial Income and Expense

	2009	2008
Interest income – cash and cash equivalents	**$ 643**	$ 2,602
Interest expense – operating line of credit	**(26)**	(26)
Interest expense – long-term debt	**(214)**	(465)
Bad debt expense, net	**(73)**	(569)
	$ 330	$ 1,542

(iii) Financial Risk Management

The Corporation has exposure to credit, interest rate and liquidity risks. The Corporation is not exposed to any direct foreign currency risk. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework and reviews the 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 geographic centers. The Corporation performs an assessment of its customers as part of its work procurement process, including an evaluation of financial capacity.

Allowances are provided for potential losses that have been incurred at the balance sheet 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, credit worthiness 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 operating expenses in the consolidated statements of earnings, comprehensive income and retained earnings and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at December 31, 2009 is $1,117 (2008 – $2,782).

The Corporation had $2,534 trade receivables which were greater than 90 days past due as at the end of the year (December 31, 2008 – $5,210). There are no concentrations of credit risk in geographical area, customer markets or other areas as at December 31, 2009.

The 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 interest rate risk on its revolving line of credit with payment terms as disclosed in Note 11. The Corporation does not use derivative instruments to reduce its exposure to this risk. At December 31, 2009, the increase or decrease in annual net earnings for each 1.0% change in interest rates on floating rate debt would be negligible.

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 these cash equivalents to fail to meet their obligations.

There have not been any changes in the type of risks arising from financial instruments during the period.

18. Commitments and Contingencies

The Corporation leases certain construction equipment, vehicles, office premises and equipment under operating leases, and is committed to future annual payments in respect of a service agreement. Future minimum lease payments over the next five years and thereafter are as follows:

2010	$	**1,994**
2011		**1,664**
2012		**1,508**
2013		**1,361**
2014		**1,360**
Thereafter		**1,002**
	$	**8,889**

At December 31, 2009, the Corporation was involved in various legal claims arising in the normal course of operations. Management believes that it has adequately provided for these legal claims and that the results of these actions will not have any material effect on the financial position of the Corporation.

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

19. Guarantees

The Corporation is a participant in joint ventures (Note 5) for which it has provided a joint and several guarantee, increasing the maximum potential payment to the full value of the work remaining under the contract. The Corporation has issued several parental guarantees in support of significant projects being undertaken by the buildings, industrial insulation and industrial electric segments. The cost of completing the contracts cannot reasonably be determined, and may be greater or less than the unbilled portion of the contracts.

20. Related Party Transactions

The Corporation incurred legal fees of $610 (2008 – $130) for services related to various legal matters with a law firm of which a director of the Corporation is also a partner. At December 31, 2009, $29 (2008 – $37) is included in accounts payable.

The Corporation incurred facility costs of $146 (2008 – $157) related to rental of a building which is owned by a director of the Corporation. At December 31, 2009 (2008 – nil) there are no amounts included in accounts payable.

Related party transaction costs were incurred in the ordinary course of business where normal trade terms apply and are measured at the exchange amount.

21. Change in Non-Cash Balances Relating to Operations

	2009	2008
Accounts receivable	**$ 2,656**	$ (7,497)
Inventories and prepaid expenses	**336**	(578)
Costs in excess of billings	**(1,321)**	(969)
Income taxes recoverable	**3,559**	(3,615)
Accounts payable and accrued liabilities	**3,082**	(9,856)
Contract advances and unearned income	**30,809**	(5,400)
Income taxes payable	**9,101**	(7,631)
	$ 48,222	$ (35,546)

Certain balances have been reclassified from continuing operations as cash provided by (used in) discontinued operations in the Consolidated Statements of Cash Flow (Note 4).

22. Segmented Information

The Corporation operates as a construction and maintenance services provider, primarily in western Canada. The Corporation is managed using four business segments: Buildings, Industrial Insulation Contracting, Industrial Electrical Contracting, and Corporate and Other.

Buildings (Stuart Olson) – constructs commercial, institutional, and light-industrial buildings.

Industrial Insulation Contracting (Fuller Austin, Northern Industrial) – provides insulation, maintenance and related services.

Industrial Electrical Contracting (Laird) – provides industrial electrical, instrumentation and power-line construction and maintenance services.

Corporate and Other – includes corporate costs not allocated directly to another business segment as well as any miscellaneous investments.

The accounting policies and practices of the reportable segments are the same as those described in Note 1. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

December 31, 2009	Buildings	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	**$ 483,837**	**$ 73,100**	**$ 44,304**	**$ -**	**$ 601,241**
EBITDA [1]	**51,289**	**9,082**	**2,777**	**(11,826)**	**51,322**
Depreciation and amortization	**2,229**	**352**	**1,076**	**778**	**4,435**
Interest expense	**38**	**-**	**33**	**169**	**240**
Earnings (loss) before tax	**$ 49,022**	**$ 8,730**	**$ 1,668**	**$ (12,773)**	**$ 46,647**
Income taxes					**(13,168)**
Net earnings from continuing operations					**$ 33,479**
Goodwill and intangible assets	**$ -**	**$ -**	**$ 7,315**	**$ 3,395**	**$ 10,710**
Total assets	**$ 268,778**	**$ 26,876**	**$ 23,578**	**$ 48,185**	**$ 367,417**
Capital expenditures	**$ 3,120**	**$ 927**	**$ 619**	**$ 3,860**	**$ 8,526**

December 31, 2008	Buildings	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	$ 568,958	$ 73,748	$ 118,247	$ -	$ 760,953
EBITDA [1]	42,827	8,711	11,595	(6,947)	56,186
Depreciation and amortization	1,998	231	1,044	816	4,089
Interest expense	65	3	64	359	491
Earnings (loss) before tax	$ 40,764	$ 8,478	$ 10,487	$ (8,123)	$ 51,606
Income taxes					(16,015)
Net earnings from continuing operations					$ 35,591
Goodwill and intangible assets	$ -	$ -	$ 7,315	$ 21	$ 7,336
Total assets	$ 183,539	$ 26,707	$ 36,348	$ 56,227	$ 302,821
Capital expenditures	$ 3,301	$ 376	$ 2,535	$ 1,034	$ 7,246

(1) EBITDA represents earnings or loss before interest, income taxes, depreciation and amortization. EBITDA is not a measure that has any standardized meaning prescribed by Canadian GAAP and is considered to be a non-GAAP measure. Therefore, this measure may not be comparable to similar measures presented by other companies. This measure has been described and presented in the manner in which the chief operating decision maker makes operating decisions and assesses performance.

For the purposes of presentation, capital expenditures of $48 (2008 – $314) relating to capital leases have been treated as non-cash transactions and as such have not been reflected on the Consolidated Statements of Cash Flow (Note 11).

In 2009, revenue from a significant customer was $110,338, which represented greater than 10% of contract revenue earned. This revenue was earned in the Buildings segment. In 2008, no individual customer was responsible for greater than 10% of contract revenue.

23. Employee Contribution Plans

The Corporation has a registered retirement savings plan which permits employees to voluntarily contribute up to 5% of their gross base salary. The Corporation matches all contributions made by the employees. The combined contributions are invested by the individual employees, at their discretion, in any of several mutual funds offered by the plan. Contributions made by the Corporation during the year to the registered retirement savings plan was $1,293 (2008 – $1,579).

The Corporation has an employee share purchase plan which permits employees to voluntarily contribute up to 10% of their gross base salary. The Corporation matches all contributions by the employees up to a maximum of 5% of the gross base salary. The combined contributions are invested by the plan in common shares of the Corporation purchased on the retail market. Contributions made by the Corporation during the year to the employee share purchase plan was $1,185 (2008 – $1,392).

The Corporation also has a DSU plan that provides an opportunity for employees and Directors to invest a percentage of the pre-tax salary or bonus in DSUs. Employees can contribute between 1% to 25% of their regular pre-tax salary or bonus to the plan and Directors can contribute up to 100% of their retainer and meeting fees. The amount of salary and/or bonus contributed to the plan determines the number of DSUs at the time of contribution with the value of the DSUs floating with the market value of the Corporation's share price. Cash payout for the equivalent value of DSUs is only made when an employee/Director ceases to be an employee/Director. From time to time, in the sole discretion of the Board, each Non-Employee Director may be awarded discretionary grants of DSUs as part of their remuneration package. During the fourth quarter, the Corporate granted a total of 32,934 DSUs to Directors resulting in additional stock-based compensation expense of $660 (2008 – nil).

24. Comparative Figures

Certain of the comparative figures have been adjusted to be consistent with the current period presentation.

corporate & shareholder information

Officers

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

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

Greg G. Phaneuf, B.Comm., CA, CFA
Vice President, Corporate Development

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

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

Ronald L. Martineau
President and Chief Operating Officer, Insulation Holdings Inc.

David J. LeMay
President and Chief Operating Officer, Laird Electric Inc.

Directors

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

Wendy L. Hanrahan (1) (2)

James C. Houck, B.Sc., MBA

Harry A. King, B.A., CA (1)

Carmen R. Loberg (2) (4)

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

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

Ian M. Reid, B.Comm. (1) (3)

George M. Schneider (2) (4)

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

(1) Member of the Audit Committee

(2) Member of the Human Resources & Compensation Committee

(3) Member of the Corporate Governance & Nominating Committee

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

Executive Offices

400, 4954 Richard Road SW

Calgary, AB T3E 6L1

Phone: (403) 685-7777

Fax: (403) 685-7770

Email: inquiries@churchill-cuq.com

Website: www.churchillcorporation.com

Auditors

Deloitte & Touche LLP
Edmonton, Alberta

Legal Counsel

Miller Thomson LLP

Macleod Dixon LLP

Principal Bank

HSBC Bank Canada

Bonding and Insurance

Aviva Insurance Company of Canada

AXA Pacific Insurance Company

Aon Reed Stenhouse Inc.

Travelers Guarantee Company

Registrar and Transfer Agents
Inquiries regarding change of address, registered shareholdings, share transfers, duplicate mailings and lost certificates should be directed to:

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

Notice of Annual Meeting:
The Annual General Meeting will be held on May 20, 2010 at 2:00 pm at the Metropolitan Centre located at 333 - 4 Avenue SW, Calgary, Alberta.

the
Churchill
Corporation

400, 4954 Richard Road SW
Calgary, AB T3E 6L1
Phone: 403.685.7777
Fax: 403.685.7770

www.churchillcorporation.com