

T H I N K



PEOPLE



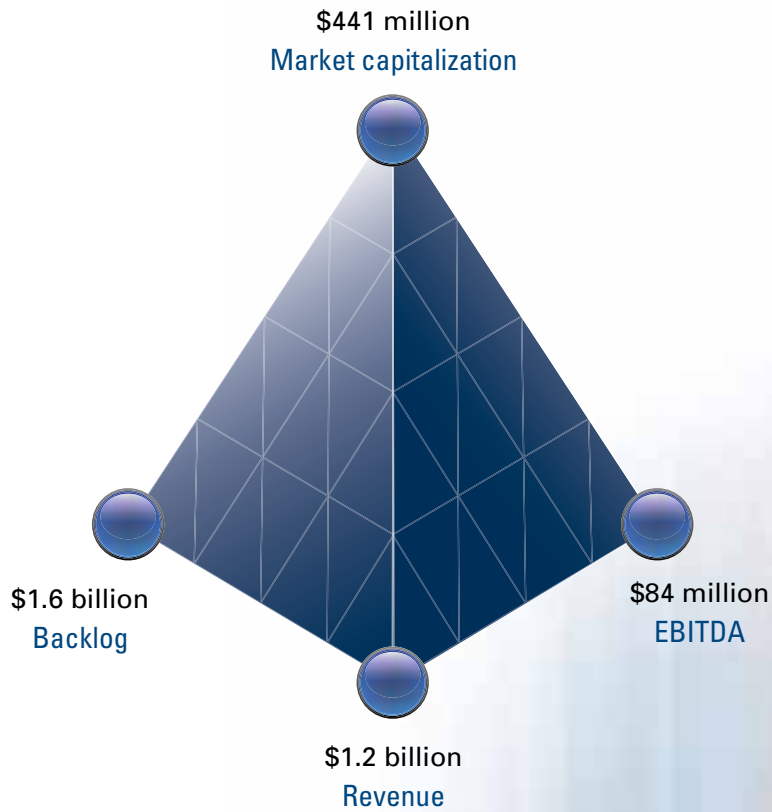
PROGRESS



VALUE

the  
**Churchill**  
Corporation

2010 ANNUAL REPORT



# A Western Canada pure play

## that created BIG results in 2010

Churchill is the only public construction and industrial services company that is focused exclusively on Western Canada. In July 2010 we doubled the size of our company with the acquisition of Seaclyff Construction Corporation. Our combined operations resulted in 2010 annual revenue of \$1.2 billion, annual EBITDA\* of \$84 million and a year-end backlog of \$1.6 billion. Churchill's December 31, 2010 market capitalization was \$441 million (24.1 million shares outstanding at \$18.29 per share).

\* "EBITDA" is earnings from continuing operations before interest, taxes, depreciation and amortization (a non-GAAP measure). Refer to "Terminology" in the Management's Discussion and Analysis for definitions of non-GAAP measures.

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# Think **BIG** shareholder value

## We'll accomplish this through

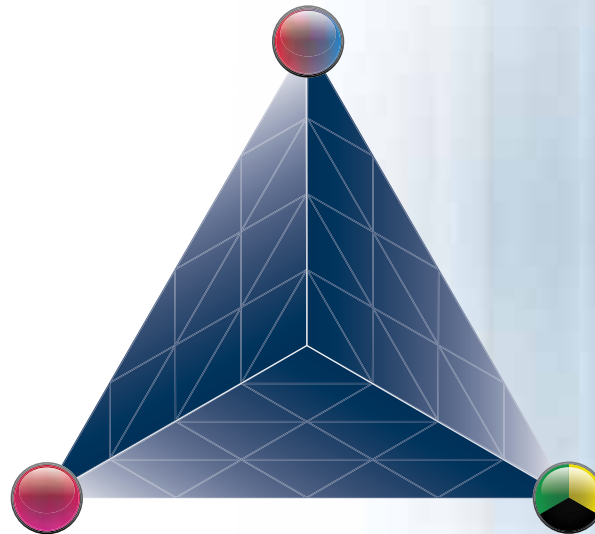
our focus on continued profitable organic growth across all business segments, supplemented by selected acquisitions where the price is reasonable and we have clear line-of-sight to an enhanced business model. Our target is accretive growth to a \$1 billion market capitalization by 2014.

# How our business segments work together

## General Contracting

Builds commercial (privately owned) and institutional (publicly owned) buildings in Western Canada. Able to profitably meet client needs for large-scale, technologically-complex projects, on-time and on-budget.

### Operating Company:



## Commercial Systems

Provides best-in-class electrical and data communication systems for commercial and institutional buildings in Western Canada. Customers are general contractors, including Stuart Olson Dominion and its competitors.

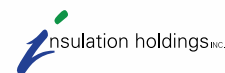
### Operating Company:



## Industrial Services

Provides insulation (cladding, HVAC (heating, ventilation and air conditioning), asbestos remediation), electrical (instrumentation, power-line) and heavy construction (aggregate processing, earthwork, concrete) services to industrial customers in Western Canada.

### Operating Companies:



## Power and Utilities

- Expertise in construction of facilities for power generation, transmission, distribution, substations, instrumentation, temporary service, lighting, electrical buildings systems and data communications systems.

## Mining

- Expertise in construction of facilities for surface and underground uranium, potash, precious metals and coal mining.

## Commercial

- Expertise in the construction of retail, office, hospitality and multi-unit residential buildings.



# BIG opportunities across multiple markets

## Oil Sands

- Expertise in construction of facilities for natural gas processing, heavy and conventional oil and bitumen production, refining and upgrading, and petrochemical manufacturing.

## Petrochemicals

- Expertise in insulation, cladding, roofing, piping and equipment installation in large petrochemical complexes.

## Institutional

- Expertise in constructing airports, buildings, educational facilities, healthcare facilities, recreation centres, prisons, and civic and government buildings.

# Building **BIG** comes naturally – like investor value

## Leadership

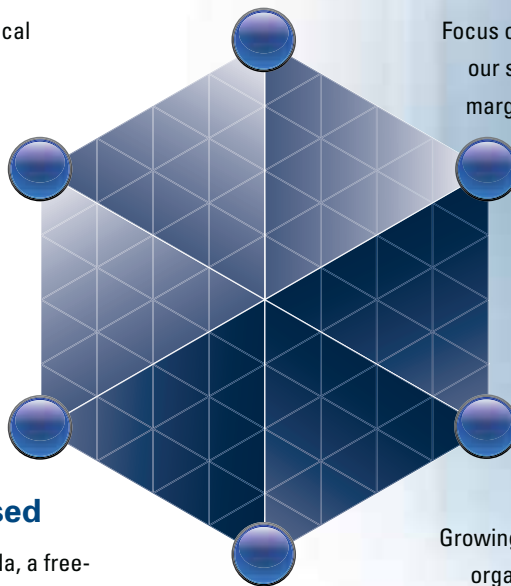
Leadership team fosters a creative, dynamic and innovative organization that is accepting of change and challenge. Is committed to building a workplace on the foundation of trust between our organization and our business partners, employees, shareholders and the communities we work in.

## Multi-Dimensional Services

Provide general contracting, electrical and data communication services to the commercial (privately owned) and institutional (publicly owned) building markets. Provide insulation (cladding, HVAC, asbestos remediation), electrical (instrumentation, power-line) and civil construction (aggregate processing, earthwork, concrete) services to industrial customers.

## Opportunistic

Focus on opportunities that enable us to utilize our strongest skill-sets to maximize profit margins. Generate repeat business through reputation of exceeding client expectations with high-quality, innovative work performed safely, on-time and on-budget.



## Geographically Focused

Focused exclusively on Western Canada, a free-enterprise, entrepreneurial, rapidly-growing economy endowed with abundant natural resources, including vast forests; large natural gas, uranium, potash and coal deposits; and huge oil reserves, second only to Saudi Arabia's.

## Profitable Growth

Growing shareholder value by driving profitable organic growth and acquiring successful businesses that are reasonably priced and have strengths that can be enhanced with our business processes, complementary services and industry expertise, creating synergies.

## Vision

To be the most admired construction and industrial services company in Canada. That means exceeding the expectations of clients, business partners, employees, shareholders and the investment community by achieving continuous improvement in our business.

# \$520

million

## Enterprise value

At December 31, 2010

# \$441

million

## Market capitalization

At December 31, 2010



# \$84.3

million

## 2010 EBITDA

Compared to  
\$51.3 million in 2009

# \$2.14

## Earnings/share (basic)

Compared to \$1.98 in 2009

# Five year summary

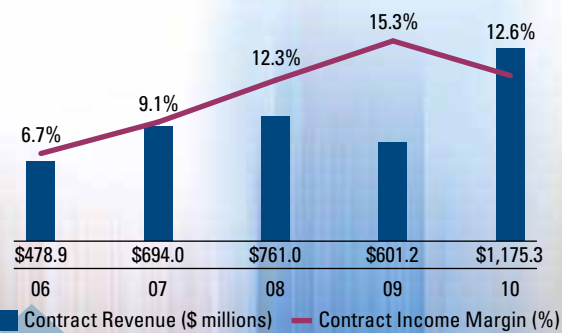
The following selected unaudited financial data has been derived from Churchill's consolidated financial statements, which have been audited by Deloitte & Touche LLP, Chartered Accountants. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated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

(\$ thousands, except share and per share data and percentages)	Years ended December 31				
	2010	2009	2008	2007	2006
<b>INCOME STATEMENT DATA</b>					
Contract revenue	\$ 1,175,333	\$ 601,241	\$ 760,953	\$ 694,021	\$ 478,893
Contract income	148,305	91,951	93,879	63,218	44,136
Contract income margin (%)	12.6%	15.3%	12.3%	9.1%	9.2%
Earnings (loss) before interest, tax depreciation and amortization (EBITDA) <sup>(1)</sup>	84,318	51,322	56,186	33,883	15,880
Interest expense	7,461	240	491	665	814
Depreciation and amortization expense	15,233	4,435	4,089	2,808	1,782
Earnings before income taxes	61,624	46,647	51,606	30,410	13,284
Net earnings from continuing operations and comprehensive income	43,083	33,479	35,591	20,682	8,599
<b>BALANCE SHEET DATA</b>					
Working capital	\$ 100,386	\$ 109,092	\$ 61,995	\$ 35,180	\$ 19,801
Shareholders' equity	300,853	141,507	105,573	69,678	47,689
Total debt	150,395	788	7,869	9,460	21,631
<b>PER COMMON SHARE DATA</b>					
Net earnings per common share:					
Basic	\$ 2.14	\$ 1.98	\$ 2.03	\$ 1.19	\$ 0.46
Diluted	2.03	1.94	2.01	1.17	0.45
Book value per share	12.47	8.03	5.92	3.90	2.70
<b>OTHER DATA</b>					
Price to earnings multiple (12 month trailing)	8.8	10.1	3.6	19.2	12.2
Return on average shareholders' equity (ROE)	19%	27%	41%	35%	20%
Total shareholder return	(5%)	168%	(68%)	275%	90%
Work-in-hand <sup>(1)</sup>	\$ 1,222,526	\$ 784,237	\$ 565,259	\$ 668,780	\$ 480,628
Total backlog <sup>(1)</sup>	\$ 1,555,034	\$ 1,388,624	\$ 1,390,273	\$ 1,333,655	\$ 1,080,836
<b>COMMON SHARE INFORMATION</b>					
Weighted average shares outstanding – basic	20,643,343	17,620,454	17,928,037	17,730,644	17,746,020
Weighted average shares outstanding – diluted	23,191,211	17,935,551	18,109,979	17,995,235	17,960,636
Shares outstanding at year-end:					
Basic	24,133,727	17,619,259	17,822,091	17,886,991	17,667,491
Fully diluted	28,395,427	18,832,502	18,099,626	18,204,491	18,239,158
Shares traded	19,809,454	15,729,284	20,315,900	19,195,481	4,452,191
Share price:					
High	\$ 22.00	\$ 20.94	\$ 24.49	\$ 29.90	\$ 6.35
Low	16.32	6.33	4.45	5.11	3.00
Close	18.29	19.27	7.19	22.50	6.00

Note: <sup>(1)</sup> See MD&A – Terminology section.

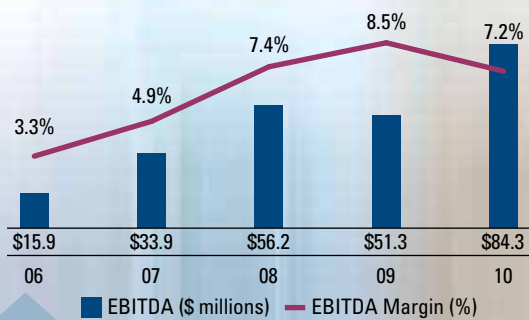


### Contract Revenue & Contract Income Margin



In 2010, contract revenue grew at a rate that more than offset a decline in contract income margin (contract income divided by contract revenue).

### EBITDA and EBITDA Margin

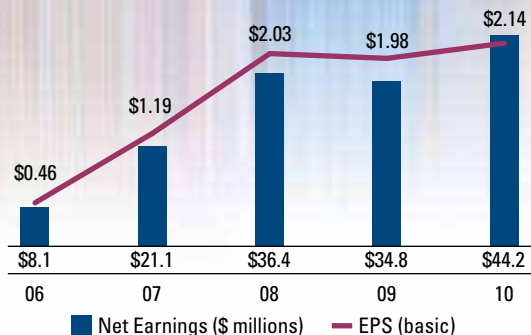


We controlled indirect costs in 2010, thereby helping to grow our EBITDA\* at a rate that more than offset a decline in EBITDA margin (EBITDA divided by contract revenue).

# BIG metrics that matter

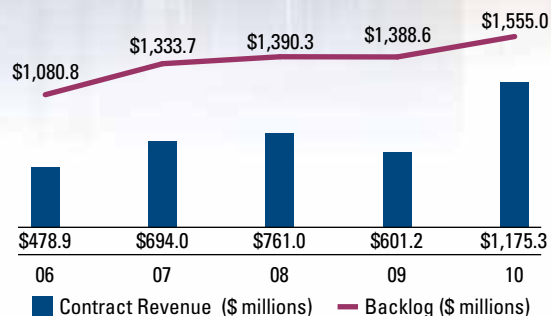
In 2010, we grew earnings and EPS, adding shareholder value while growing the Company with the Seacliff acquisition.

### Earnings and Earnings per Share (EPS)



We closed 2010 with a backlog\* significantly higher than our annual contract revenue, improving the visibility of our future contract revenue.

### Contract Revenue and Backlog




\* See MD&A – Terminology section.



# Straight up

In conversation with Jim Houck,  
President and Chief Executive Officer  
March 10, 2011

 **Q: In your 2009 Annual Report you said your focus in the years to come would be to grow by expanding geographically and adding new services to your business mix. How would you rate your success in achieving those goals in 2010?**

A: We advanced both of those objectives in 2010. With the Seacliff acquisition we gained a much broader geographical footprint with additional office and project locations throughout Western Canada. As well, we added new capabilities in three ways. First, we gained a key merger benefit by growing and high-grading our General Contracting segment through combining Stuart Olson and Dominion to form Stuart Olson Dominion. It is all about putting the best people on the highest bang per buck projects and then excelling in the execution of those projects. The key is to match the best people to the job at hand with a philosophy of value creation. Operational excellence is the mindset that we nurture at Churchill. Second, we added the institutional and commercial electrical and data communications systems of Canem. Third, we acquired the aggregate processing, earthwork, civil construction and concrete production services of Broda Construction. We have emerged as a much larger company capable of taking on larger projects and presenting a much broader integrated service offering, which is a big focus this year and beyond.

 **Q: Other than expanding geographically and growing your service offering, were there other strategies that you executed in 2010?**

A: Yes there were, including a very important one, which was to increase the organizational capability of our Churchill corporate group. We had been getting by for several years with essentially a skeleton staff and, now that we were managing a much larger company, we concluded it was time to increase the strength of our accounting, finance, corporate development, human resources, information systems and investor relations groups. Our timing took advantage of the current state of the Western Canadian economy, which was emerging from the recent global recession but not yet back in boom, so we were able to add some very talented people to our team.

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## Acquisitions drove capacity and opportunity

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**Q: The Seaclyff transaction was well received by the market. Has it grown value for Churchill's shareholders?**

A: We have already achieved cost synergies as we integrated the Seaclyff companies into Churchill, through reduced insurance and procurement expenses, closing down the Seaclyff and Dominion corporate offices, eliminating duplicative public company costs and advancing the organization to develop and grow the best people while eliminating redundancies. We originally expected to achieve cost savings of \$7 million annually for 2012 and beyond. With the aid of improved systems, processes and internal controls at SODCL, Churchill is now targeting annual cost savings of \$10 million to \$13 million.

Another benefit we're working to gain from the Seaclyff acquisition is transitioning legacy Dominion operations from a fixed-bid culture to Stuart Olson's construction management culture. In the short term we'll need to work through Dominion's backlog of fixed-bid projects, but going forward we expect margins to improve as new construction management projects replace them.

Further, Churchill expects to realize significant revenue synergies due to the ability of SODCL to secure certain projects that may not have been awarded to Dominion or Stuart Olson as stand-alone entities. The Corporation expects to announce several projects of this nature in 2011, which would exceed our projected \$3 million in annual revenue synergies within SODCL alone. In addition, we are pursuing revenue synergies in the Industrial Services segment by producing bundled products and services offerings to customers.



**Q: Stuart Olson had large projects prior to the Seaclyff acquisition, as did Dominion. Why is SODCL better able to win large projects now, as opposed to when Stuart Olson and Dominion were separate companies?**

A: Our increased size gives us increased financing and bonding capabilities, so we can take on larger projects, and at a lower cost of capital. As well, managing large projects effectively requires an experienced and talented team. With the integration of Dominion, SODCL has increased its number of such teams, so we can now compete for more projects at the same time.



**Q: In addition to the items mentioned already, what other actions have been taken to integrate the operations of Churchill and Seaclyff, and what work remains to be done?**

A: The integration of Stuart Olson and Dominion is complete. We are also implementing a new SAP-based enterprise resource planning, or ERP, system to enable us to run the business more efficiently. This system has also been implemented in Laird and IHI. Canem Systems has been kept as a stand-alone company in a separate business segment because, while it serves the same commercial and institutional markets as SODCL, Canem has many opportunities to partner with other general contractors and we want it to retain that freedom. Broda also remains as a stand-alone operation, giving us the opportunity to add earthwork, civil construction and concrete production to the bundled services that we can offer to our industrial customers, as needed. We expect to extend our new ERP system to Canem and Broda in early 2012.



**Q: Construction companies have been experiencing margin pressure. Can you discuss the margin outlook for Churchill?**

A: In 2010, Churchill's EBITDA margin was 7.2%, compared to 8.5% in 2009. Overall, we expect margins to begin to improve in late 2011 or early 2012, as demand for our products and services improves.

For SODCL, which comprised about two-thirds of Churchill's revenue in 2010, the EBITDA margin was 8.0%, compared to the 10.6% margin reported in 2009. We expect continued margin compression for SODCL over the next few quarters as we work through the lower-margin projects acquired in the Dominion backlog and the projects awarded in the more competitive bidding environment during the late 2008 and 2009 recession period. We are starting to see go-in margins rise in 2011, which will likely start being reflected in results reported in late 2011 and 2012.

In our Industrial Services segment, which derives a large part of its business from oil sands projects, revenues were significantly up in 2010 but this was partly offset by lower margins as the project mix shifted to larger projects with more competitive margins. While this segment's revenues increased by over 150% in 2010, EBITDA margin decreased to 8.2% from 10.0% in 2009. As industrial activity in Alberta and Saskatchewan increases, and as Broda's higher-margin business contributes more to the segment, we expect to see margins begin to rise in 2011.

Our new Commercial Systems segment's EBITDA margin was 14.6% on \$80.3 million of revenue for the last 5 months of 2010. We expect Canem's margins to be under pressure in 2011, but to remain in the low double-digit range.



**Q: Are you expecting to grow outside of your current geographical reach? Will you add further construction services? Under what circumstances?**

A: We will continue to be focused on Western Canada, because we know the region well and we believe it has excellent construction and industrial services growth opportunities. We intend to grow our service offering through organic growth and reasonably priced tuck-in acquisitions, and we are also open to another impactful acquisition, but only if it makes sense from three perspectives: strategic fit with a compelling go-forward business model; cultural fit with improved organizational capability; and financial metrics that create value for our shareholders.



**Q: How are Churchill's industrial businesses positioned to win work on new oil sands projects?**

A: IHI and Laird, thanks to their excellent safety and work execution records, are very well positioned to benefit from the resurgence of the oil sands. Safety is ingrained into our culture and Laird actually achieved zero recordable injury incidents in 2010, quite an accomplishment given their record activity level. A proven ability to execute projects safely and on schedule is the most important competitive factor in securing oil sands work. The large-scale economics of oil sands projects make them more schedule-sensitive than cost-sensitive, since a delay in commissioning date can have a major impact on project economics. Large customers also insist upon top-level project execution performance along with sophisticated safety management systems. We are expecting our activity in the oil sands to soften in the first half of 2011 until our particular trade disciplines are required on-site for new construction or expanded maintenance and sustaining capital activities of our clients. We expect to be busy in the last half of 2011 and we believe 2012 will be a strong year.



From Left: **Jack Jenkins**, VP Human Resources & Strategic Planning; **Amy Gaucher**, VP Finance & Administration; **James Houck**, President and Chief Executive Officer; **Daryl Sands**, Executive VP & CFO; **Andrew Apedoe**, VP Investor Relations & Secretary, **Joette Decore**, VP Corporate Development.

➔ **Q: On Broda, wet weather in Saskatchewan proved to be a major impediment in 2010. How does the 2011 pipeline look?**

A: Broda's customer base includes Agrium, Potash Corporation, Cameco and Saskatchewan provincial and municipal governments. They are all planning significant expenditures in 2011 and beyond. Assuming a return to something closer to average weather conditions in Saskatchewan, Broda is well-positioned for an improved 2011. As well, in the spring we are planning to start offering Broda's services in Alberta and bundling its services with Laird and IHI.

➔ **Q: Since you joined Churchill in January 2009, there've been some big changes. In 2009 you sold Churchill's Triton industrial businesses and in 2010 you acquired Seacliff Construction Corp. What's on your agenda for 2011 and beyond?**

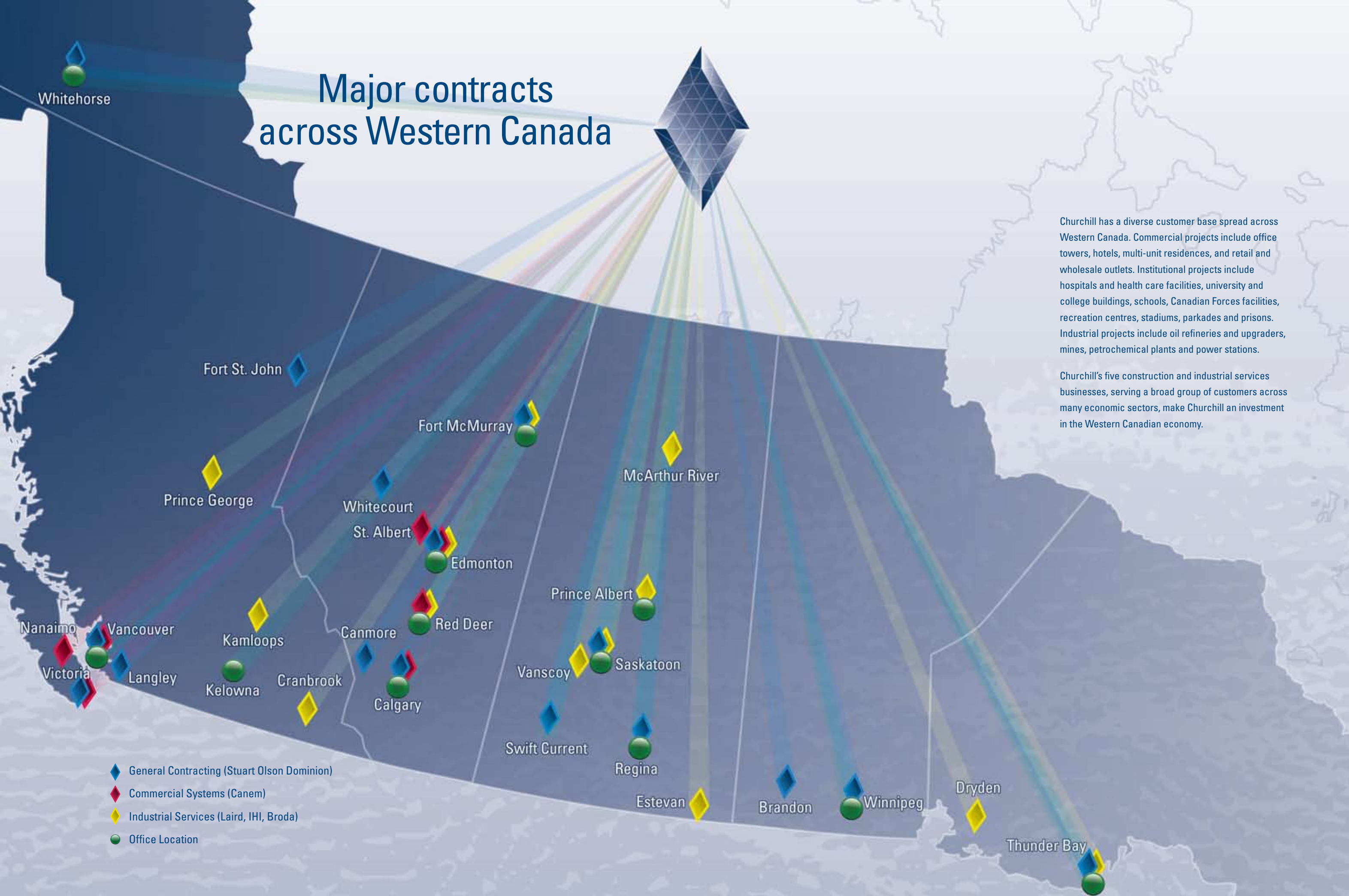
A: In 2011 we are continuing to focus on growth that adds value for our shareholders. We are executing organic growth through targeting new projects with strong profit margins across our five operating companies. Our business segments are cooperating more closely to lever each other's customers and provide bundled or grouped services. We are also continuing to look for acquisitions that are accretive to our shareholders on a per share basis. These may include small "tuck-in" acquisitions that add products or services to our existing operating companies, and we are not ruling out further transformational transactions of a similar size and scope to the Seacliff acquisition. As well, we will be paying down debt and considering instituting a common share dividend.

➔ **Q: Is there anything else you would like to add?**

A: I would like to thank all of our employees for their hard work, our customers for their support, and our shareholders for their trust. We will be striving to earn their continued hard work, support and trust as we drive forward. In addition, I would like to thank our board of directors for their vision, support and single-minded focus on shareholder value creation.



# Major contracts across Western Canada



Churchill has a diverse customer base spread across Western Canada. Commercial projects include office towers, hotels, multi-unit residences, and retail and wholesale outlets. Institutional projects include hospitals and health care facilities, university and college buildings, schools, Canadian Forces facilities, recreation centres, stadiums, parkades and prisons. Industrial projects include oil refineries and upgraders, mines, petrochemical plants and power stations.

Churchill's five construction and industrial services businesses, serving a broad group of customers across many economic sectors, make Churchill an investment in the Western Canadian economy.

- ◆ General Contracting (Stuart Olson Dominion)
- ◆ Commercial Systems (Canem)
- ◆ Industrial Services (Laird, IHI, Broda)
- Office Location

# How we work: General contracting

Stuart Olson Dominion forms Churchill's General Contracting segment. As part of a strategy to acquire assets to build on our strengths, Seaciff Construction was acquired in July 2010. Seaciff included The Dominion Company, a key 100-year-old competitor in Western Canada's building markets. We combined Dominion with Churchill's legacy general contractor, Stuart Olson. In 2010, Stuart Olson Dominion comprised approximately two-thirds of Churchill's consolidated revenue and EBITDA, excluding the expenses of the Corporate and Other Segment. It also accounted for approximately 80% of total backlog. Similarly, it is expected to account for the majority of Churchill's revenues, EBITDA and backlog in 2011.

Stuart Olson Dominion's goal is to serve all of the construction needs of its predominantly repeat client base across the four Western Canadian provinces, and to focus on relationship-driven construction management contracting. The company's expertise includes renovation and new construction in the light industrial, educational, healthcare, government and institutional sectors. Its

success results from strong construction management methodology, highly skilled people with the tools, training and professional development necessary to be successful on challenging construction projects, and the first-class expertise of the subcontractors it has employed for many years.

We believe Stuart Olson Dominion's construction management tendering method will continue to outperform stipulated sum and public-private-partnership (P3) bids in 2011. The availability of P3 opportunities is less than what was anticipated in 2010, with local governments deferring or repackaging some projects to be more suitable for conventional tendering. Construction management (CM) allows owners to collaborate with the general contractor and project consultants to optimize project parameters. CM projects may later be negotiated to stipulated sum if the owner wishes to transfer project execution risk to the general contractor.

We are expecting Stuart Olson Dominion to continue performing well in 2011. The much larger combined company has greater geographical coverage, particularly in the provinces of Saskatchewan and Manitoba, plus the critical mass required to take on larger projects. It is able to complete large-scale, technologically-complex projects, on-time and on-budget. Among its many strengths, it is able to meet clients' needs for environmental sustainability accreditation from Leadership in Energy and Environment Design (LEED). As well, the Western Canada economy is showing strength. Private-sector commercial construction spending is bouncing back, taking advantage of favourable interest rate and construction costs. We expect upcoming provincial elections in Western Canada to generate some additional public-sector spending associated with new construction projects.



**Don Pearson**  
President and COO  
Stuart Olson Dominion Construction Ltd.



# Innovations

## Relationship-based construction management

- Holistic, team-based approach that brings clients, contractors and consultants together as equals.
- Focuses on all project parameters: materials, budget, costs and current economic environment. Finds innovations that maximize value for project stakeholders.
- Seeks to self-perform in selected subcontracts such as concrete work, to improve project timing and economics for customers.



Think BIG projects

## Competitive strengths

- Size – As one of the largest general contractors in Western Canada, we are able to choose larger projects with lower risk profiles.
- Experience – Our detailed construction management methodology, based on years of successful experience, enables us to estimate project parameters accurately, mitigating business risks and protecting margins.
- People – Technically capable teams add value by improving project constructability.

## 2010 milestones

With the integration of Dominion we achieved our goals of:

- Geographical Expansion, gaining a broader presence across all of Western Canada; and
- Additional Capacity, including project managers and site superintendents, enabling us to execute more substantial projects.
- A new SAP-based enterprise resource planning system (ERP) is enhancing productivity and business efficiency.

## 2011 goals

- Safety – Target zero lost-time accidents and a 15% reduction in medical aids.
- Operations – Grow backlog and establish an industrial sector presence.
- Financial – Exceed revenue, margin and backlog targets.
- Human Resources – Continued focus on accelerated development program for project management staff, achieve improved productivity per person, and ensure staff talent matches project requirements.

# How we work: Commercial systems

Canem Systems is our Commercial Systems segment. It designs, builds, maintains and services electrical and data communication systems for institutional, commercial, light industrial and multi-family residential customers. Headquartered in Richmond, B.C., its services include designing electrical distribution systems within a building or complex, procuring and installing electrical equipment and materials, on-call service for electrical maintenance and troubleshooting, preventative and scheduled maintenance for critical component installations, budgeting and pre-construction services, and management of regional and national contracts for multi-site installations.

Canem's independence from Stuart Olson Dominion enables Canem to maximize opportunities to partner with any major general contractor in Canada.

Canem is a well-run company with consistently high margins and an excellent reputation in the institutional and commercial construction sectors. It is one of the few electrical contractors that can provide data communication systems installations alongside more traditional electrical contracting services. Another key differentiator is its production management module, allowing Canem to track productivity, reduce labour risk and identify potential cost overruns. Canem also utilizes stand-alone prefabrication facilities, which significantly improve worksite productivity by enabling much of what would otherwise be site work to be completed in a controlled, well-organized setting.

In the second quarter of 2011, Canem will open its Centre for Building Performance in Richmond. It is designed to be a permanent training and testing facility to assist building developers and operators to financially justify

environmentally friendly systems, which are becoming a large proportion of new construction and retrofit projects. These systems typically have higher capital costs than less "green" alternatives, but pay for themselves by improving the net operating income of owners, particularly if they can be integrated to interact with each other. The facility is outfitted with the most advanced integrated building systems, including lighting, environmental controls, security and digital media.

Canem entered 2011 working on several high-profile projects with a variety of general contractors, including the Edmonton Remand Centre (Stuart Olson Dominion), the Edmonton North Clinic (PCL), the Shaw Data Centre in Calgary (Ledcor), SAIT Polytechnic's Trades and Technology Centre (PCL), and Calgary's 49-storey Eighth Avenue Place (EllisDon), the first Gold LEED-CS pre-certified high-rise office building in Canada.



**Al Miller**  
President  
Canem Systems

# Innovations

## ● Production Management Module

Tracks productivity, reduces labour risk and identifies potential cost overruns.

## ● Stand-alone Prefabrication Facility

Significantly improves worksite productivity by constructing modules in a controlled, well-organized off-site setting.

## ● Centre for Building Performance

A newly constructed, permanent training and testing facility for integrated environmentally friendly building systems.



Think **BIG** networks

## Competitive strengths

- Size – One of Western Canada's largest electrical contracting companies.
- Integrated Technology Systems – Enhance Canem's operating controls and allow it to consolidate procurement programs on a regional basis.
- People – In-house technical expertise allows Canem to access higher-margin design-build projects and growth markets, as well as to deliver high-quality services with greater reliability.

## 2010 milestones

- Established Smart Connected Real Estate Division – Responsible for establishing a company-wide security capacity, a national rollout marketing team, a building automation and interconnectivity capability, and an energy management and sustainability practice.
- Established National Roll-Out Initiative – Focused on gaining construction and maintenance contracts with large clients that have nationwide operations.

## 2011 goals

- Safety – Improve reportable incident frequency rating by 16%; reduce Workers' Compensation Board rates by 40%.
- Operations – Expand Smart Connected Real Estate offerings, roll out new brand, open Centre of Innovation, expand Manitoba operations, implement new SAP-based ERP.
- Financial – Exceed revenue, margin and backlog growth targets.
- Human Resources – Formalize succession planning; enhance organizational capability.

# How we work: Industrial services



**Ron Martineau**  
President and COO  
Insulation Holdings Inc.

**David LeMay**  
President and COO  
Laird Electric Inc.

**Gord Broda**  
President and COO  
Broda Construction Inc.

Churchill's Industrial Services segment consists of Laird Electric Inc., Insulation Holdings Inc. (IHI) and Broda Construction Inc.

Laird is headquartered in Edmonton, Alberta and provides electrical, instrumentation and power-line construction and maintenance services to resource and industrial clients, primarily in the Fort McMurray and greater Edmonton regions.

IHI is also headquartered in Edmonton, serving industrial clients with insulation, asbestos abatement, siding application, HVAC and plant maintenance services. Its clients are in the oil sands, oil and natural gas, petrochemical, forest products, power utilities and mining industries.

Broda is headquartered in Prince Albert, Saskatchewan, providing aggregate processing, earthwork, civil construction, concrete production and related services. It serves a broad range of organizations, including Canada's two major railway corporations, Saskatchewan's major

potash and uranium producers, and the province's major infrastructure organizations. Broda has a 400-unit fleet of well-maintained, specialized earthmoving equipment, with high uptime and availability due to its in-house maintenance program, which includes an 18,000-square-foot maintenance facility. The fleet has a combined capacity to move more than 5 million cubic metres of material per year.

Laird and IHI performed exceptionally well in 2010. Downward pressure on bid margins resulted from several competitors not operating at full capacity and the project mix shifting to larger projects with lower margins, but sales growth more than offset margin pressure. Success for these businesses is driven by many factors, including their reputation for safety and quality. Laird, IHI and Broda all have very strong safety records, making them the preferred suppliers on many projects. Broda had surplus production capacity in 2010 due to an exceptionally wet construction season, which made earth-moving very difficult. Historically, Broda has been a weather-sensitive business with the majority of its cash flow generated between April and October.

# Laird Electric

# Innovations

Laird maximizes earnings per job site by:

- Gaining early access to new projects by providing the initial power service;
- Continuing with the electrical installation during the construction phase;
- Following up with ongoing instrumentation and control calibration after project completion; and
- Performing ongoing maintenance and upgrades on facilities.



Think **BIG** industries

## Competitive strengths

- Size – One of the three largest industrial union electrical contractors in the Fort McMurray and Edmonton areas.
- Broad Line of Services – Provides power-line installation, instrumentation services and electrical construction.
- Strong Quality and Safety Record – Reputation for completing high-quality work safely, on-time and on-budget.

## 2010 milestones

- Launched new corporate brand.
- Increased customer base in Fort McMurray-area oil sands and in northwest Ontario mining and power generation.
- Generated record revenue of \$134.7 million, an increase of more than 200% from \$44.3 million in 2009.
- EBITDA of \$8.0 million compared to \$2.8 million in 2009.
- Had best safety record in industry: zero recordable injury incidents.

## 2011 goals

- Safety – Reduce total incident frequency by 10%.
- Operations – Add at least three new customers, promote bundling with other Churchill industrial companies, broaden geographical and product footprint, implement new SAP-based ERP.
- Financial – Maintain revenue and grow gross margin and earnings.
- Human Resources – Enhance productivity on all levels.

# Insulation Holdings (IHI)

# Innovations

- Leading-edge technology and equipment to conform to any specification or project requirement.

- All locations maintain full fabrication facilities served by experienced technical professionals.

- Many systems and programs provide assurance that projects are completed safely and on-budget and conform to clients' needs as well as legislative/regulatory requirements.



## Think BIG industries

### Competitive strengths

- Size – Western Canada's largest industrial insulation contracting specialist.
- Union and Open Shop – Serves the unionized trades market (Fuller Austin Inc.) and the open shop market (Northern Industrial Insulation Contractors Inc.).
- Broad Range of Integrated Services – Thermal and sound insulation, fireproofing, siding, sheet metal, utilidor construction, asbestos abatement and plant maintenance.

- Strong Quality and Safety Record – Reputation for completing high-quality work safely, on-time and on-budget.

### 2010 milestones

- Increased bundled services offerings with Laird Electric.
- Generated record annual revenue of \$145.6 million, a 99% increase from \$73.3 million in 2009.
- EBITDA of \$14.2 million compared to \$9.1 million in 2009.

### 2011 goals

- Safety – Target zero recordable incidents and reduce total incident frequency by 10%.
- Operations – Launch valve cover fabrication in new facility, grow HVAC organically, promote bundling with other Churchill industrial companies, broaden geographical and product footprint, implement new SAP-based ERP.
- Financial – Maintain revenue, grow gross margin and grow earnings.
- Human Resources – Enhance succession plan.

- Repair shop – 18,000-square-foot, state-of-the-art in-house facility ensures quality control of equipment maintenance to drive high reliability and availability of equipment.

- Large major components and parts inventory – improves service turnarounds.
- Mobile maintenance – Eight mobile maintenance repair vehicles support onsite maintenance program.

- Railroad Ballast Production – Recognized need of railroads for ballast production in 1976, becoming exclusive supplier for CN and CP railroads in Western Canada.



Think **BIG** industries

## Competitive strengths

- Experience – Established in 1957
- Business Relationships – Provincial and municipal governments, railroads, mining companies, real estate developers.
- Size – 400-unit fleet, can move more than 5 million cubic metres of material per year.
- Strong Quality and Safety Record – Reputation for completing high-quality work safely, on-time and on-budget, evidenced by Gold Seal Certification from the Canadian Construction Association.

## 2010 milestones

- Subsidiaries North American Rock & Dirt Inc. and Kam-Crete Ltd. achieved zero lost-time accidents for second year running.
- Became part of Churchill's Industrial Services segment with the completion of the Seacliff acquisition on July 13, 2010.
- Unusual wet seasonal weather in 2010 caused major deferrals of earthmoving work.

## 2011 goals

- Safety – Reduce lost-time accidents; reduce reportable incident frequency and total incident frequency.
- Operations – Pursue more long-term (less seasonal) projects such as uranium, potash and gold mining, and municipal infrastructure; win Saskatchewan "election year" projects and 2010 deferred projects.
- Financial – Increase gross revenue; maintain historically strong 15% to 20% EBITDA margins.
- Human Resources – Build organizational capability to expand beyond Saskatchewan.

# Markets we serve: Commercial

Most commercial construction in Western Canada takes place in the region's six major metropolitan areas: Vancouver, Calgary, Edmonton, Regina, Saskatoon and Winnipeg, representing approximately 55% of the region's total population of 10.6 million\*. Construction activity is typically retail, wholesale and office space, as well as multi-unit residential.

## Economic drivers

Population growth, natural resource assets, and industry and government capital spending are the main economic drivers. Despite the recent recession, Western Canada's population has grown at a compound annual rate of 1.7% since 2006, concentrated in metropolitan areas. Crude oil prices are expected to be in the \$104 to \$106 per barrel W.T.I. range in 2011 and 2012<sup>(2)</sup>, favourable for economic growth in Western Canada. Government spending is expected to remain high in 2011, partly due to provincial spending.

## BIG numbers

**\$8.8 billion**

2010 Value of investment in Western Canadian commercial construction.<sup>(1)</sup>

**\$5.5 billion**

2010 Value of commercial building permits in Western Canada.<sup>(1)</sup>

**10.6 million**

Population of Western Canada (British Columbia, Alberta, Saskatchewan, Manitoba, Yukon).<sup>(1)</sup>

## Growth strategies

Our focus will be on construction management contracts and relationship-based wins, where there is less risk and opportunities to self-perform project components. To this end, we will continue to develop alliances with relationship-based project developers and investors. As well, we will differentiate ourselves from our competitors by our quality and safety record, and by value-added product offerings, such as Canem's Smart Connected Real Estate.



## Services

- SODCL – Design and construction of buildings.
- Canem – Best-in-class electrical and data communication systems for buildings.

Source: <sup>(1)</sup> Statistics Canada; <sup>(2)</sup> United States Energy Information Administration



# Market strongholds

## 1 Vancouver

- Home to Canada's busiest and largest port.
- 2010 projects: Discovery Green Building 12 (\$42 million), Willingdon Office Park (\$54 million).

## 2 Calgary

- Most Canadian oil and natural gas companies headquartered here.
- 2010 projects: Walmart Distribution Centre (\$73 million), Hanson Square office building (\$19 million).

## 3 Edmonton

- Northern and central Alberta's economic centre.
- 2010 projects: Shepherd's Care Foundation home (\$22 million); Steppes Gateway Office Complex (\$15 million).

## 4 Winnipeg

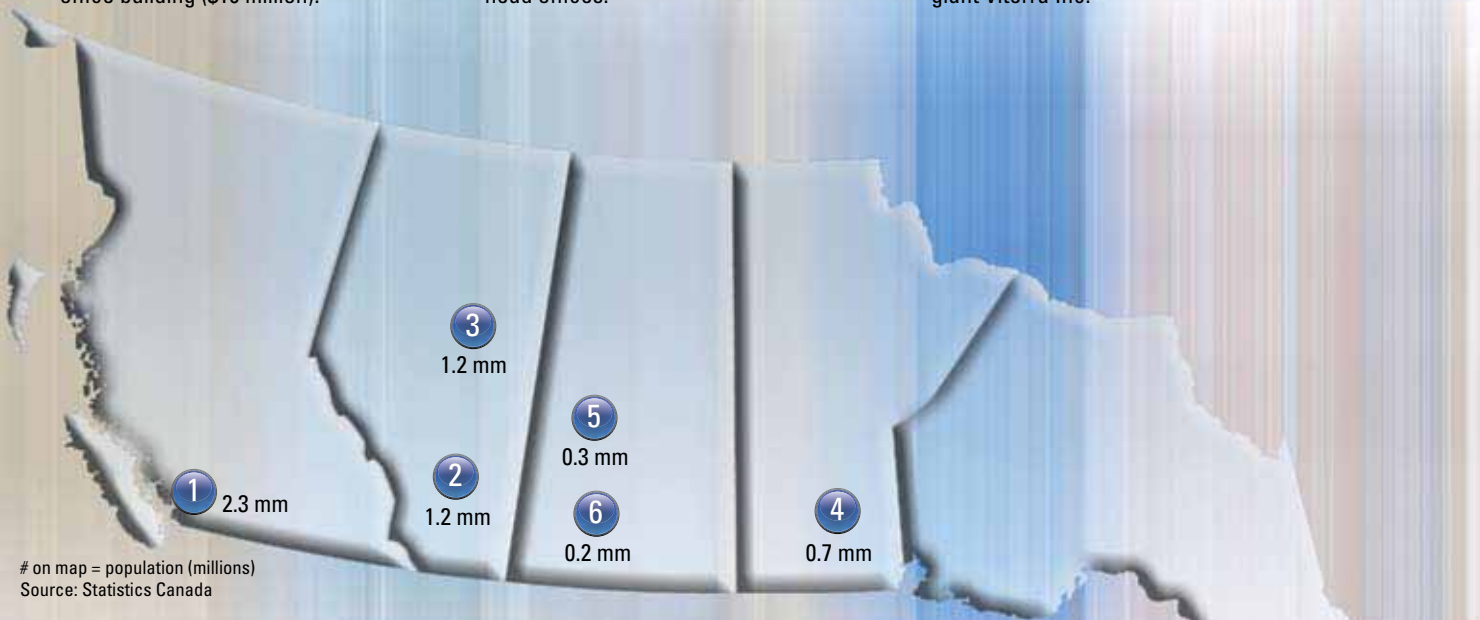
- Manitoba's centre for finance, manufacturing, transportation, and food and beverage production.
- Financial and insurance company head offices.

## 5 Saskatoon

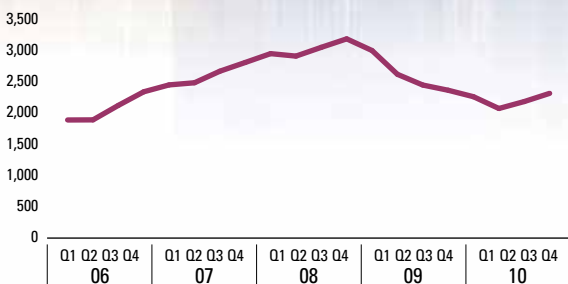
- Northern Saskatchewan's centre for agriculture, and potash and uranium mining.
- 2010 projects: Holiday Inn (\$25 million).

## 6 Regina

- Southern Saskatchewan's centre for agriculture, potash mining, and oil refining.
- Includes head office of grain-handling giant Viterra Inc.



Quarterly Investment in Western Canada Commercial Building Construction\* (\$ millions)



Western Canadian commercial construction investment was \$8.8 billion in 2010 compared to \$10.4 billion in 2009. However, Q4 2010 improved by 12% over Q2 2010.

Value of Western Canada Commercial Building Permits\* (\$ millions)



After declining to \$1.0 billion in Q1 2010, the value of Western Canadian commercial building permits rebounded to average \$1.5 billion in Q2, Q3 and Q4.

\*Source: Statistics Canada

# Markets we serve: Oil and gas

Oil sands activity, the largest component of Western Canada's oil and gas industry, takes place in northern Alberta. Alberta ranks second only to Saudi Arabia in global proved oil reserves. Oil sands are composed mainly of water, sand and a form of heavy oil called bitumen. In 2009, Alberta's bitumen production averaged 1.49 million barrels (bbls) per day<sup>(1)</sup> and was continuing to grow.

## Economic drivers

Global oil supply and demand, resource availability and proximity to the U.S. consuming market.

The West Texas Intermediate (W.T.I.) average spot price has trended upward since 2009 and is forecast to average between \$102 and \$106 per bbl in 2011 and 2012<sup>(2)</sup>. At this price level most oil sands projects are significantly profitable, and recent instability in North Africa and the Middle East has created supply concerns that add upside to oil prices. With global demand for oil increasing and international political strife threatening supply, Alberta's oil sands are increasingly seen as an essential, safe and reliable source.

## BIG numbers

**170 billion bbls**

Oil sands proved oil reserves<sup>(1)</sup>.

**3.2 million bbls/day**

Forecast 2019 bitumen production<sup>(1)</sup>.

**\$170 billion**

Value of oil sands projects currently underway or proposed<sup>(1)</sup>.



## Growth strategies

Bundling of services and combining customer relationships between Laird and IHI were successful in 2010 and we are expanding this strategy in 2011 with the addition of Broda's earthmoving services and industrial construction services from SODCL, as appropriate. We will also explore adding complementary business lines through acquisition. As well, we are increasing our marketing efforts to broaden our customer base and will continue to build our core of repeat business.

## Services

- Laird – Electrical, instrumentation and power-line construction and maintenance.
- IHI – Insulation, asbestos abatement, siding application, HVAC and plant maintenance.
- Broda – Aggregate processing, earthwork, civil construction and concrete production.
- SODCL – Industrial buildings.

Source: <sup>(1)</sup> Government of Alberta; <sup>(2)</sup> United States Energy Information Administration

# Market strongholds

## 1 Calgary

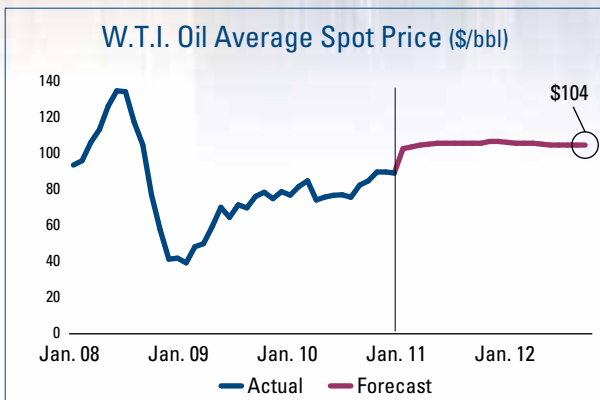
- Includes head offices of most major oil sands players including Suncor Energy, Shell Canada, Nexen Inc., Imperial Oil, Marathon Oil Canada, Chevron Canada Limited, Canadian Oil Sands Limited and Canadian Natural Resources Limited (CNRL).

## 2 Edmonton

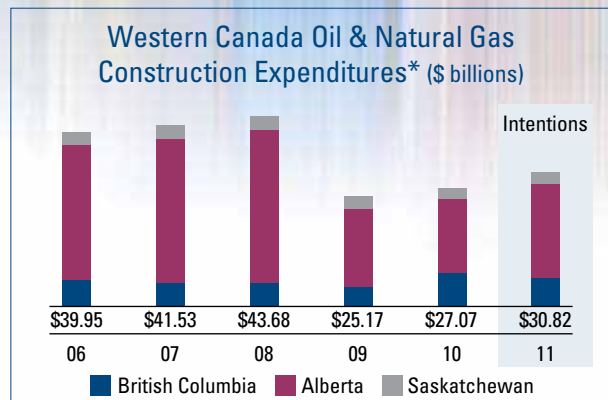
- Major fabrication centre and staging point for oil sands projects.
- Home to large oil refineries and upgraders owned by Imperial Oil, Suncor Energy and Athabasca Oil Sands Project (60% Shell Canada, 20% Marathon Oil Sands LP and 20% Chevron Canada Limited).

## 3 Fort McMurray

- Located in the heart of oil sands production.
- Home to large oil sands upgraders owned by Suncor Energy, Syncrude, Opti-Nexen and CNRL.



The W.T.I. oil price has trended upward since 2009 and may be entering a period of volatility in a higher range.



After a major pullback in 2009, oil and natural gas companies intend to continue to increase their construction expenditures in Western Canada to over \$30 billion in 2011.

\*Source: Statistics Canada, United States Energy Information Administration

# Markets we serve: Institutional

Institutional construction in Western Canada is less concentrated in urban areas than commercial construction, but the majority still takes place in the region's population centres. Institutional construction is typically of schools, hospitals, recreation centres, detention centres, government offices, other public buildings and transportation infrastructure such as roads and bridges.

## Economic drivers

The majority of Western Canada's public institutional construction occurred in the 1950s, 1960s and early 1970s, with the sector being somewhat neglected during the 1980s and 1990s. Private and public investment is required to support the construction of new and expanded infrastructure to meet market demands created by aging and growing populations and infrastructure which is nearing the end of its useful life. In 2011, we expect provincial governments to increase institutional spending partly due to impending provincial elections.

## BIG numbers

80%

Canadian infrastructure life expectancy utilized to date.

\$5.5 billion\*

2010 investment in Western Canadian institutional construction (2009 – \$4.9 billion).

\$12 billion

Capital value of 35+ P3 projects that Partnerships BC has participated in to date.



## Growth strategies

We will continue to pursue institutional and quasi-government construction projects in the forms offered by clients, including construction management and public private partnerships (P3), projects for which the risk/reward profile is attractive. Similar to our strategy for the commercial market, our primary focus will be on construction management contracts and relationship-based wins, where there is less risk and opportunities to self-perform project components. To this end, we will continue to maintain close contact with government officials and elected members. We will also identify and aggressively pursue large projects where economics are favourable. Canem will also continue to perform maintenance and sustaining capital projects work on existing facilities.

## Services

- SODCL – Design and construction of buildings.
- Canem – Best-in-class electrical and data communication systems for buildings.

\*Source: Statistics Canada

# Market strongholds

## 1 Victoria

- Capital of B.C.
- 2010 projects: University of Victoria (\$54 million), Royal Canadian Navy fleet maintenance facility (\$49 million).

## 2 Vancouver

- 2010 projects: Vancouver Community College (\$44 million), Simon Fraser University Schrum Science Centre (\$38 million).

## 3 Fort St. John

- 2010 projects: Fort St. John Hospital (\$267 million).

## 4 Fort McMurray

- 2010 Projects: Macdonald Island Recreation Centre (\$139 million).

## 5 Calgary

- 2010 projects: Bow Valley College (\$177 million), Genesis Centre (\$63 million).

## 6 Edmonton

- Capital of Alberta.
- 2010 projects: Remand Centre (\$523 million), Terwillegar Recreation Centre (\$139 million).

## 7 Saskatoon

- 2010 projects: Saskatchewan Disease Control Laboratory (\$48 million), sludge treatment plant (\$13 million).

## 6 Regina

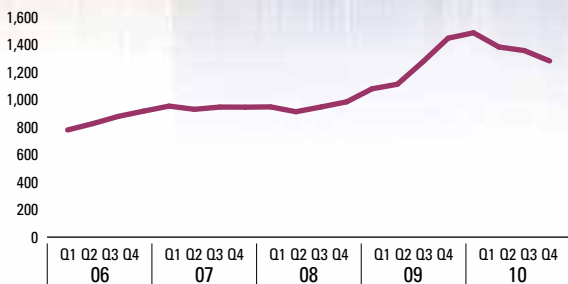
- Capital of Saskatchewan.
- 2010 projects: Cypress Regional Hospital (\$33 million).

## 9 Winnipeg

- Capital of Manitoba.
- 2010 projects: Winnipeg Stadium (\$170 million); HSC Tecumseh Parkade (\$39 million).



Quarterly Investment in Western Canada Institutional Building Construction\* (\$ millions)



Investment in institutional building construction across Western Canada has begun to decline following a reduction in institutional building permits.

Value of Western Canada Institutional Building Permits\* (\$ millions)



With the slowing of government stimulus spending, the value of Western Canadian institutional building permits has returned to more typical levels.

\*Source: Statistics Canada

# Markets we serve: Mining

Saskatchewan produces one-third of the world's potash and uranium<sup>(1)</sup>, and B.C. is home to over 800 mining companies with gross annual revenues in excess of \$8 billion<sup>(2)</sup>. Alberta has large deposits of thermal coal used for power production and is Western Canada's cement manufacturing hub<sup>(3)</sup>. Manitoba mines produce about \$1.3 billion of metals and industrial minerals per year<sup>(4)</sup>.

## Economic drivers

Potash – Potash Corporation, a Broda customer responsible for about 20% of global potash capacity, expects to nearly double its operational capability by 2015<sup>(5)</sup>.

Uranium – Cameco Corporation, a Broda customer responsible for 16% of world uranium mine production, plans to double its production by 2018<sup>(6)</sup>.

Copper, gold and coal – B.C. currently has seven new mines, each with an operating life of 12-25 years, representing \$4 billion in capital investment and hundreds of millions of dollars in ongoing, annual operating expenditures<sup>(2)</sup>.

## BIG numbers

**\$8 billion**

Combined annual revenues of over 800 B.C. mining companies.

**33%**

Saskatchewan's share of world potash and uranium production.

**\$3.9 billion**

Expected 2011 Western Canada mining construction expenditures.



## Growth strategies

Churchill's industrial companies, Laird, IHI and Broda, together with SODCL, intend to broaden their collective customer base by presenting integrated service offerings to current and potential customers. Laird and IHI have already done this in the oil sands. Now Churchill plans to bring Broda, with its primarily Saskatchewan mining customer base, and SODCL, with its industrial buildings capabilities, into the mix. Broda intends to lever its long-term relationships with companies such as Cameco and Potash Corporation to build multi-year revenue opportunities. Broda will also continue to produce railroad ballast for CN Rail and CP Rail.

## Services

- Laird – Electrical, instrumentation and power-line construction and maintenance.
- IHI – Insulation, asbestos abatement, siding application, HVAC and plant maintenance.
- Broda – Aggregate processing, earthwork, civil construction and concrete production.
- SODCL – Industrial buildings.

Sources: <sup>(1)</sup> Saskatchewan Mining Association; <sup>(2)</sup> Mining Association of B.C.; <sup>(3)</sup> Government of Alberta; <sup>(4)</sup> Government of Manitoba; <sup>(5)</sup> [www.potashcorp.com](http://www.potashcorp.com); <sup>(6)</sup> [www.cameco.com](http://www.cameco.com)

# Market strongholds

## 1 Vancouver

- Major centre of mineral exploration and financing expertise.
- Includes many mining company headquarters and Canada's largest port.

## 2 Saskatoon

- Includes head offices of the world's largest publicly traded uranium company, Cameco, and the world's largest potash producer, Potash Corporation.

## 3 Prince Albert

- Home to Broda's head office.
- Staging point for Saskatchewan's northern mining territory.

## 4 Vanscoy

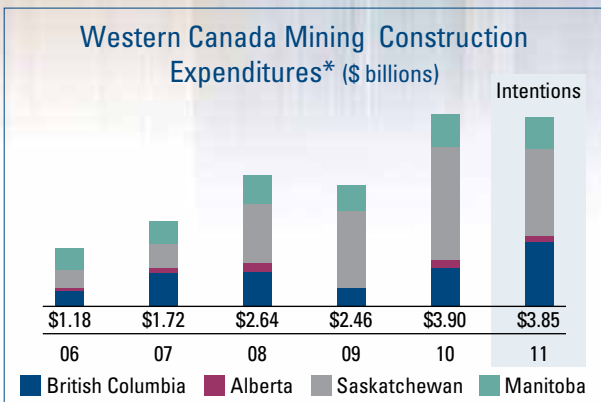
- Location of Agrium Inc. potash mine.
- Current Broda project.

## 5 McArthur River

- Location of Cameco uranium mine.
- Current Broda project.

## 6 Thompson

- Location of Vale (formerly Inco Limited) nickel mining and processing operations.
- Previous IHI project.



Western Canada mining construction expenditures have trended upward over the past 5 years, and are expected to remain strong in 2011.



CP Rail's Swansea quarry operations near Cranbrook, British Columbia. Broda operates the quarry to produce ballast for CP's rail beds in Western Canada.

\*Source: Statistics Canada

# Markets we serve: Power and utilities

The electric power market in Western Canada is dominated by provincial government-owned utility companies in B.C. (BC Hydro), Saskatchewan (SaskPower) and Manitoba (Manitoba Hydro). In Alberta's competitive market there are two publicly traded utility companies, TransAlta Corporation and Capital Power Corporation (a spin-off of Epcor Utilities Ltd.), and indirectly a third in Atco Electric (a subsidiary of publicly traded ATCO Ltd.). As well, Alberta has AltaLink (a privately owned transmission company), Enmax Corporation (owned by the City of Calgary), plus numerous independent power producers.

## Economic drivers

Industrial and population growth are the main drivers of western Canada's electricity markets. The Alberta Electric System Operator (AESO) forecasts an average annual growth rate of 3.3% in Alberta energy demand over the next 20 years, nearly double the Canadian average<sup>(1)</sup>. This will require upgrades to the congested, aging and inefficient transmission and distribution infrastructure, with major upgrades having been proposed by AltaLink. In B.C., BC Hydro plans to invest about \$6 billion to upgrade and expand capital infrastructure<sup>(2)</sup>.

## BIG numbers

**\$7.9 billion**

2011 expected Western Canada utilities construction expenditures<sup>(3)</sup>.

**\$16.6 billion**

AESO's 10-year capital budget for Alberta's electric distribution system<sup>(1)</sup>.

**\$6 billion**

BC Hydro's 3-year capital budget<sup>(2)</sup>.



## Growth strategies

Laird, IHI, Broda and SODCL intend to work together to broaden their collective customer base by presenting integrated services offerings to current and potential customers. Laird and IHI have already done this in the oil sands, and the intention is to broaden customer bases further. The electric power industry is a natural fit for an integrated offering with Laird's electrical capabilities, IHI's industrial insulation skills, Broda's earthmoving experience and SODCL's building design and construction expertise.

## Services

- Laird – Electrical, instrumentation and power-line construction and maintenance.
- IHI – Insulation, asbestos abatement, siding application, HVAC and plant maintenance.
- Broda – Earthwork, civil construction and concrete production.
- SODCL – Industrial buildings.

Sources: <sup>(1)</sup> [www.aeso.com](http://www.aeso.com); <sup>(2)</sup> [www.bchydro.com](http://www.bchydro.com); <sup>(3)</sup> Statistics Canada.



# Market strongholds

## 1 Fort McMurray

- Many oil sands developments have co-generation facilities and most require high-voltage substations and power lines.
- Laird has ongoing work with TransAlta Corporation in the area.

## 2 Edmonton

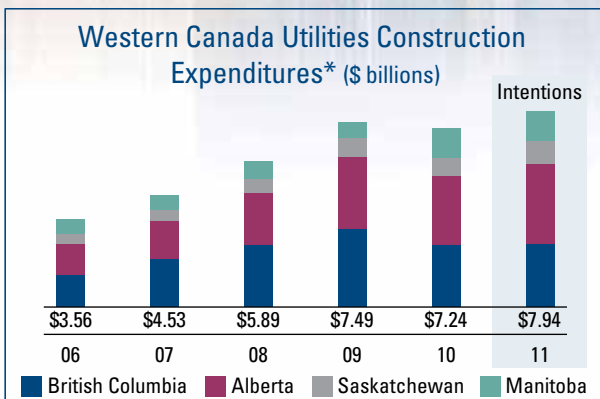
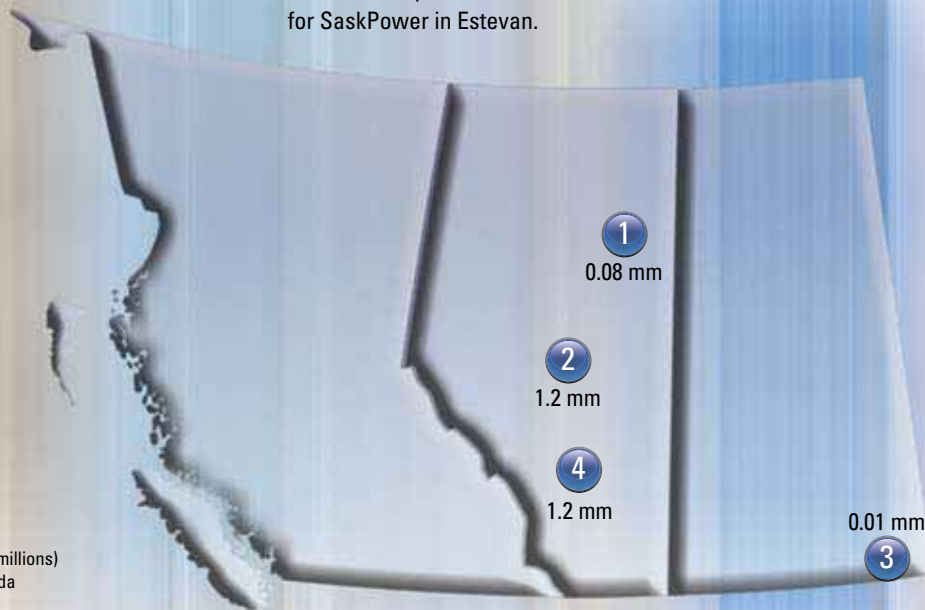
- Includes head offices of Capital Power, Epcor and Atco Electric.
- Large generating plants nearby.
- Capital Power and TransAlta have employed Laird and IHI in the area.

## 3 Estevan

- Estevan has two generating plants owned by SaskPower.
- IHI has done plant modification work for SaskPower in Estevan.

## 4 Calgary

- Includes head offices of TransAlta, Enmax, AltaLink and many independent power producers.
- Location of Enmax's two proposed gas-fired generating plants totalling 965 megawatts of capacity.



Annual construction expenditures by utilities in Western Canada have exceeded \$7 billion per year in 2009 and 2010, and utilities intend to spend \$8 billion on construction in 2011.



Laird performs transmission line construction for Capital Power near Edmonton. Churchill's companies are pursuing integrated services offerings to increase overall business.

\*Source: Statistics Canada

# Markets we serve:

## Petrochemicals

There are two main petrochemical complexes in Western Canada, both in Alberta, Canada's largest petrochemical producer. One is at Fort Saskatchewan, near Edmonton, and the other is at Joffre, near Red Deer. In 2009 this sector in Alberta had shipments valued at \$2 billion, representing about 43% of Canadian production.<sup>(1)</sup>

### Economic drivers

Alberta petrochemical production has been based almost exclusively on natural gas feedstocks, mainly ethane. The primary petrochemical output is ethylene, which is used to produce a large variety of industrial and consumer products, including vinyl and synthetic rubber.<sup>(1)</sup> Other outputs include styrene, propylene and benzene. The main economic drivers for the industry therefore are low natural gas prices and high demand for end products. Alberta's petrochemical production averaged 322 million litres annually from 2005 to 2009.<sup>(2)</sup>

### BIG numbers

**\$2 billion**

Value of 2009 Alberta petrochemical shipments.

**322 million litres**

Average annual Alberta petrochemical production (2005-2009).

**43%**

Alberta's proportion of Canadian petrochemical production.



### Growth strategies

Laird, IHI, Broda and SODCL intend to work together to broaden their collective customer base by presenting integrated services offerings to current and potential customers. Petrochemical plant construction is a natural fit for an integrated service offering that would include IHI's insulation expertise, Laird's electrical capabilities, Broda's earthmoving experience and SODCL's building design and construction expertise. Churchill's operating companies have performed work in the past for Dow Chemical Canada Inc. and Nova Chemicals Corporation at Joffre, and Shell Chemicals Canada Ltd. at Fort Saskatchewan.

### Services

- Laird – Electrical, instrumentation and power-line construction and maintenance.
- IHI – Insulation, asbestos abatement, siding application, HVAC and plant maintenance.
- Broda – Earthwork, civil construction and concrete production.
- SODCL – Buildings.

Sources: <sup>(1)</sup> Industry Canada; <sup>(2)</sup> Statistics Canada.

# Building a culture of excellence:

## Recruiting and developing a champion workforce

At Churchill, we work every day to ensure that employees are treated fairly and with dignity, respect and consideration for their goals and aspirations, and that diversity in the workforce is embraced. Not only is this morally the right thing to do, but for a publicly traded corporation, sound recruitment and retention policies are also an important form of risk management and competitive positioning.

Management's human resources responsibilities are overseen by the Board of Directors, assisted by its Human Resources and Compensation (HR) Committee, which is comprised entirely of independent directors as per the Canadian Securities Administrators' National Policy 58-201. The HR Committee has the responsibility to review and report to the Board on matters regarding compensation policies, plans and programs, succession and organizational change planning, and other human resource issues. In 2010 Churchill ranked among the top three in the University of Toronto's study of corporate governance in Canadian small and medium-sized enterprises.



We expanded our methodology for annual employee performance evaluations in 2010 to help us identify high-potential future leaders.

We customized leadership programs, accelerated development programs and provided professional development funding for our employees.

We utilize salary surveys and professional human resources consultants to ensure that we attract and retain high performers.

We challenge our people to be the best in terms of productivity and operational excellence and strive to provide the best tools to increase productivity.

# Building a culture of excellence

## Health, safety and environment

The most valuable assets of Churchill and its operating companies are people. We recognize our responsibility to encourage healthy lifestyles, train people in safe work practices, and respect and protect our natural environment.

### Health and wellness

Churchill's health and wellness program focuses on mental wellness, physical fitness and nutrition. The objectives of this program are to:

- Promote health and wellness ideas and opportunities;
- Motivate employees to get personally involved with their own wellness initiatives; and
- Encourage employees to take advantage of the resources provided.

The program consists of:

- Organized activities such as fitness classes and “break-out” sessions to discuss topics such as smoking cessation and designing your own fitness program; and
- Subsidized activities, including a partial subsidy of the cost of employees' physical, mental and/or nutritional activities.

### Safety

At Churchill the relationship with our customers and our employees is based on the philosophy that both have the inherent right to work in a safe work place. Our governance, management and operations are structured with this in mind. Our Board of Directors' Health, Safety and Environment Committee is dedicated to monitoring our health, safety and environmental practices. We also implemented an operationally integrated Health, Safety and Environment Council consisting of senior management and safety representatives to facilitate the sharing of best practices across all operating units. We are working to standardize the safety reporting across our business units, all of which already have excellent safety records.

Safety guides everything we do. For example, SODCL strives to be the construction industry's leader in health, safety and the environment. The SODCL safety program's goal is to have a perfect safety record on every project. This means setting goals for zero lost time injury incidents and zero incidents resulting in damage to equipment, property or the environment. The program provides a safe and healthy work environment for all project personnel including subcontractors, as well as for visitors and the general public. It is one of the construction industry's most diligent, rigorous and respected programs.



### Environment

Churchill's operating companies are at the forefront of sustainable building construction, building automation and energy conservation, and industrial energy and emissions reduction. For example:

- SODCL provides its clients with value-added expertise to attain LEED (Leadership in Energy and Environmental Design) sustainability accreditation;
- Canem's new Centre for Building Performance in Richmond, B.C., scheduled to open by mid-year 2011, is designed as a permanent training and testing facility to assist developers and operators to financially justify environmentally friendly systems; and
- IHI's insulation, HVAC and plant maintenance services are all focused on improving the energy efficiency of its clients' operations.

# Health and safety programs, goals and initiatives



Laird is committed to ensuring all employees have the training, equipment and procedures necessary to work safely with zero incidents or injuries, and in 2010 had zero recordable injury incidents, a major accomplishment given it also set a record for number of hours worked.

IHI's safety goal is to protect all workers, the public, property and the environment from incident or injury.

SODCL tracks every hour each employee works without a lost-time accident, providing awards when milestones are reached.

Broda requires all staff to meet all generally accepted safety standards, including training in WHMIS, First Aid/CPR and safety excellence.

# Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation ("Churchill" or the "Corporation"), for the year ended December 31, 2010, contains information current to March 10, 2011 and should be read in conjunction with the December 31, 2010 audited Consolidated Financial Statements and related notes thereto. Unless otherwise specified all amounts are expressed in Canadian dollars.

## 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";
- Growth of business and operations in 2011;
- Performance of operating subsidiaries in 2011;
- Business strategies and plans for implementing them;
- Future cash flow, cash requirements and long-term obligations;
- Demand for the Corporation's services; and
- The changeover to International Financial Reporting Standards ("IFRS").

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 effects thereof on the Corporation's businesses;
- The impact of increasing competition;
- The global demand for oil and the effect on oil and natural gas projects in Western Canada; and
- Government policies.

The Corporation's actual results could differ materially from those anticipated in 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 further 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;
- Action or non-action of customers, suppliers and/or partners; 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.

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", "EBT" and "book value per share". These measures are used by management of the Corporation to assist in making operating decisions and assessing performance. They are presented in this MD&A to assist readers to assess the performance of the Corporation and its operating companies. While Churchill calculates these measures consistently from period to period, they likely will not be directly comparable to similar measures used by other companies because they do not have standardized meanings prescribed by GAAP. Please review the discussion of these measures in "Terminology" below.

Additional information regarding Churchill, including the Corporation's current Annual Information Form and other required securities filings, is available on our website at [www.churchillcorporation.com](http://www.churchillcorporation.com) and on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) (the System for Electronic Document Analysis and Retrieval (SEDAR)).

## Overview of Business and Strategy

Churchill constructs buildings and provides institutional, commercial and industrial construction and maintenance services. It is headquartered in Calgary, Alberta.

### 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; and
- 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; and
- Contributing positively to the community in which we work, live and play.

### Strategy

- Hire the best people and ensure that they have the best tools;
- Emphasize value added construction and other partnering methods of project delivery;
- Build a strong balance sheet to support growth objectives;
- Focused geographic expansion;
- Product and service line diversification; and
- Target contracts for larger projects.

## Seacliff Construction Corp. Acquisition

On July 13, 2010, the Corporation acquired, by way of a plan of arrangement, all of the issued and outstanding shares of Seacliff Construction Corp. (“Seacliff”) for total consideration of \$387.4 million, including the assumption of liabilities. This acquisition was financed by drawing down \$80 million of the Corporation’s \$200 million syndicated revolving credit facility, applying net proceeds from the issuance of 6,324,500 common shares for proceeds of \$105.9 million and from a convertible debenture financing of \$86.3 million, and utilizing \$109.6 million of Churchill and Seacliff’s combined cash. Transaction costs incurred to complete the acquisition were \$5.6 million.



## Reporting by Segment

The quarter ended December 31, 2010 is the second quarter that the Corporation is reporting its results under four business segments: General Contracting, Commercial Systems, Industrial Services, and Corporate and Other. The Corporation regularly analyzes the results of these categories independently as they serve different end-markets, generate different gross margin yields and have different risk profiles. The evaluation of results by segment and by individual operating entity is consistent with the way in which management performance is assessed. In order to understand more clearly the operating results for the Corporation, the discussion of business results within this MD&A will be focused mainly at the business segment level.

Stuart Olson Dominion Construction Ltd. (“SODCL”), Churchill’s largest operating company, forms the General Contracting segment and Canem Holdings Ltd. (“Canem”) forms the Commercial Systems segment. Both of these companies, with earnings in excess of 10% of the combined earnings of the Corporation in 2010 (even though Canem contributed results for only 5½ months in 2010), are of a size that justifies separate disclosure under the Canadian Institute of Chartered Accountants’ (“CICA”) Handbook Section 1701, Segment Disclosures. Although they both serve the institutional/commercial construction market, they operate independently because they are different in terms of the type or class of customer for their products and services, in that SODCL’s customers are primarily project owners, whereas Canem typically subcontracts to general contractors. This difference, in addition to their earnings contribution, justifies their being disclosed separately under CICA Handbook Section 1701.

Laird Electric Inc. (“Laird”), Insulation Holdings Inc. (“IHI”) and Broda Construction Inc. (“Broda”) form the Industrial Services segment. Churchill reports these companies within the Industrial Services segment on the basis that they have similar economic characteristics and are similar in terms of services provided, production processes, customer base, methods of service delivery and the regulatory environment in which they operate.

## General Contracting

General Contracting consists of SODCL. Following the Seacliff acquisition closing, Stuart Olson Constructors Inc. (“Stuart Olson”) and The Dominion Company Inc. (“Dominion”) were operationally combined to form SODCL. SODCL is headquartered in Calgary, Alberta and constructs commercial, institutional, light-industrial and multi-unit residential buildings. Stuart Olson and Dominion have been general contractors since 1939 and 1911, respectively, and during the last several years both have become key players in Western Canada’s building markets. In 2010, SODCL comprised approximately two-thirds of Churchill’s consolidated revenues and earnings from continuing operations before income taxes (excluding the expenses of the Corporate and Other segment) and 80% of total backlog. Similarly, SODCL is expected to comprise the majority of the Corporation’s revenues, earnings and backlog in 2011. SODCL has branch offices in Richmond, BC; Kelowna, BC; Whitehorse, YK; Calgary, AB; Edmonton, AB; Saskatoon, SK; Regina, SK; Winnipeg, MB; and Thunder Bay, ON.

## **Commercial Systems**

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

## **Industrial Services**

Industrial Services consists of Laird, IHI and Broda. Laird is headquartered in Edmonton, Alberta and provides electrical, instrumentation and power-line construction and maintenance services to resource and industrial clients, primarily in the Fort McMurray and greater Edmonton regions. IHI is also headquartered in Edmonton, serving industrial clients with insulation, asbestos abatement, siding application, heating, ventilation and air conditioning (HVAC) and plant maintenance services. Its clients are in the oil sands, oil and natural gas, petrochemical, forest products, power utilities and mining industries. Broda is headquartered in Prince Albert, Saskatchewan, providing aggregate processing, earthwork, civil construction, concrete production and related services to mining and infrastructure organisations and Canada's two major railway corporations. Both IHI and Broda serve Saskatchewan's major potash and uranium mining organizations. IHI and Laird have many customers in common in the oil sands, petrochemical, power utilities and mining industries.

## **Corporate and Other**

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

Additionally, the Corporation reports the results of its previously divested Industrial General Contracting ("Triton") segment and certain assets and liabilities of the Corporate and Other segment collectively as discontinued operations. Agricultural land adjacent to a Lamont, Alberta fabrication facility and the Triton office building in Edmonton, Alberta are included in the assets held for sale on the balance sheet as at December 31, 2010.

## Selected Annual Financial Information

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

(\$millions except per share amounts)	Twelve Months Ended December 31		
	2010	2009	2008
Contract revenue	\$ 1,175.3	\$ 601.2	\$ 761.0
Contract income	148.3	92.0	93.9
EBITDA from continuing operations <sup>(1)</sup>	84.3	51.3	56.2
Net earnings from continuing operations	43.1	33.5	35.6
Net earnings from discontinued operations	1.1	1.3	0.9
Net earnings	44.2	34.8	36.4
Earnings per common share from continuing operations			
Basic	\$ 2.09	\$ 1.90	\$ 1.98
Diluted	1.98	1.87	1.96
Net earnings per common share			
Basic	2.14	1.98	2.03
Diluted	2.03	1.94	2.01
Backlog <sup>(1)</sup>	\$ 1,555.0	\$ 1,388.6	\$ 1,390.3
Long-term indebtedness	148.4	0.2	7.9
Total assets	876.1	367.4	302.8

Notes:

(1) "EBITDA" is earnings from continuing operations before interest, taxes, depreciation and amortization (a non-GAAP measure). Backlog is also a non-GAAP measure. Refer to "Terminology" for definitions of non-GAAP measures.

## Annual Overview

The Corporation has historically generated virtually all of its revenues from the four Western Canada provinces of Manitoba, Saskatchewan, Alberta and British Columbia. The following table sets out selected annual results by operating segment:

(\$millions except margin percent)	2010					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 1,175.3	\$ 812.2	\$ 80.3	\$ 300.5	\$ –	\$ (17.8)
Contract income	148.3	90.9	20.4	37.6	–	(0.6)
Contract income margin	12.6%	11.2%	25.4%	12.5%		
Indirect & administrative expense	65.6	26.7	8.7	13.2	19.1	(2.1)
EBITDA <sup>(2)</sup>	84.3	65.3	11.7	24.6	(16.3)	(1.0)
EBITDA margin	7.2%	8.0%	14.6%	8.2%		
EBT <sup>(1)</sup>	61.6	62.7	11.0	21.1	(32.7)	(0.5)
Backlog <sup>(2)</sup>	\$ 1,555.0	\$ 1,251.6	\$ 127.5	\$ 176.0	\$ –	\$ –

	2009					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 601.2	\$ 484.1	\$ –	\$ 117.6	\$ –	\$ (0.5)
Contract income	92.0	70.3	–	21.7	–	–
Contract income margin	15.3%	14.5%	–	18.5%		
Indirect & administrative expense	41.7	19.8	–	9.9	12.7	(0.7)
EBITDA <sup>(2)</sup>	51.3	51.4	–	11.9	(11.1)	(0.9)
EBITDA margin	8.5%	10.6%	–	10.0%		
EBT <sup>(1)</sup>	46.6	49.2	–	10.4	(12.7)	(0.3)
Backlog <sup>(2)</sup>	\$ 1,388.6	\$ 1,272.8	\$ –	\$ 115.8	\$ –	\$ –

Notes:

(1) "EBT" is earnings from continuing operations before income tax.

(2) EBITDA and backlog are non-GAAP measures. Refer to "Terminology" for definitions of non-GAAP measures.

For the year ended December 31, 2010, consolidated contract revenue was \$1,175.3 million, compared to \$601.2 million in 2009, a 95% improvement, as increases were reported in all operating segments. Revenue increased due to higher year-over-year levels of contracting activity in Churchill's legacy operations as well as the addition of the Seaclyff legacy companies for 5½ months in 2010.

Contract income increased from \$92.0 million, or 15.3% of revenue, in 2009 to \$148.3 million, or 12.6% of revenue, in 2010. Of the \$56.3 million year-over-year increase in contract income in 2010, the General Contracting, Commercial Systems and Industrial Services segments reported increases of \$20.6 million, \$20.4 million and \$15.9 million, respectively (with an intersegment elimination of \$(0.6) million). The respective increases in contract income are due to increased revenue, as contract income margins have declined on a year-over-year basis in all business segments due to competitive market conditions and a changing project mix. Please refer to the discussion of segmented results which follows.

Indirect and administrative expenses for 2010 amounted to \$65.6 million, or 5.6% of revenue, compared to \$41.7 million or 6.9% of revenue in 2009. Indirect and administrative expenses increased by \$6.9 million and \$8.7 million in the General Contracting and Commercial Systems segments, respectively, while the Industrial Services, and Corporate and Other segments increased by \$3.3 million and \$6.4 million, respectively (change in intersegment elimination of \$(1.4) million). The increases in General Contracting, Commercial Systems and Industrial Services were primarily due to the inclusion of Dominion, Canem and Broda, respectively, in the Corporation's financial results for the last 5½ months of 2010. The increase in the Corporate and Other segment was due largely to Seaclyff integration costs, corporate development activities, and the inclusion of legacy Seaclyff management in the Churchill executive incentive compensation plan.

The net impact of the aforementioned increases in contract income and indirect administrative expenses was a 64% increase in year-over-year EBITDA (2010 – \$84.3 million, 2009 – \$51.3 million).

In accounting for the Seaclyff acquisition, Churchill used the fair value method for the intangible assets acquired on closing. The impact of amortizing these intangible assets resulted in an \$8.8 million amortization charge for 2010. The unamortized balance of these assets as at December 31, 2010 was \$61.4 million, of which \$3.6 million is expected to be amortized in each quarter throughout 2011.

EBT for 2010 increased by \$15.0 million to \$61.6 million from \$46.6 million reported in 2009, due to the increase in EBITDA described above, partially offset by an increase in depreciation and amortization of \$10.8 million (including the \$8.4 million amortization of Seacliff intangible assets described above), and an increase in interest expense of \$7.2 million primarily due to additional debt incurred to finance the Seacliff acquisition.

The Corporation's consolidated net earnings from continuing operations for 2010 were \$43.1 million compared to net earnings from continuing operations of \$33.5 million in 2009, reflecting the earnings before taxes described above partially offset by an increase in income tax of \$5.4 million.

Churchill's total backlog, including work-in-hand, at December 31, 2010 was \$1,555.0 million compared to \$1,388.6 million at December 31, 2009, a \$166.4 million increase. The Corporation's backlog consists of work-in-hand of \$1,222.5 million and active backlog of \$332.5 million. Churchill currently has no delayed backlog. On a segmented basis, backlog at year-end 2010 was \$1,251.6 million in General Contracting, \$127.5 million in Commercial Systems and \$176.0 million in the Industrial Services segment. New contract awards of \$305.1 million were added to work-in-hand in the fourth quarter of 2010.

### **Discontinued Operations**

Tables that set out the net assets held for sale, net earnings (loss) and cash flows from discontinued operations for 2010 and related details are included in Note 4 to the annual audited Consolidated Financial Statements. These amounts are associated with assets held for sale and the resolution of certain outstanding matters with respect to the sale of Triton, announced on August 12, 2009.

### **Annual Results of Operations**

#### **General Contracting (SODCL)**

For the 12 months ended December 31, 2010, SODCL's revenue was \$812.2 million, compared to \$484.1 million in 2009. This \$328.1 million (68%) increase is attributable to the inclusion of 5½ months of revenue from the legacy Dominion operations and increased revenue from the legacy Stuart Olson branches throughout Alberta and British Columbia.

SODCL's contract income in 2010 increased by 29% to \$90.9 million from \$70.3 million for 2009. The 2010 contract income margin percentage was 11.2% compared to 14.5% in 2009. Approximately 60% of the decline in contract income margin resulted from the inclusion of legacy Dominion's lower margin operations in the last 5½ months of 2010. The other 40% was due to a decline in legacy Stuart Olson's margins on projects secured in the more competitive markets of 2008 and 2009, lower amounts of self-performed work, and being in the early phases of construction on several new projects.

EBITDA for SODCL in 2010 was \$65.3 million compared to \$51.4 million in 2009. This \$13.9 million or 27% increase was due to the aforementioned increases in contract income partly offset by an increase in indirect and administrative expenses of \$6.9 million. SODCL's indirect and administration expenses were \$26.7 million (3.3% of revenue) in 2010 compared to \$19.8 million (4.1% of revenue) in 2009.

SODCL had total backlog of \$1,251.6 million as at December 31, 2010, compared to total backlog of \$1,272.8 million at December 31, 2009. The December 31, 2010 backlog consisted of \$927.5 million of work-in-hand and \$324.1 million of active backlog, whereas the December 31, 2009 backlog was made up of \$688.0 million of work-in hand, with the remainder being active backlog. The General Contracting segment expects to execute \$880.7 million of its work-in-hand and active backlog during 2011.

### **Commercial Systems (Canem)**

Given that Canem was purchased by the Corporation in July 2010 as part of the Sealiff acquisition, no comparable amounts for Commercial Systems are disclosed for 2009. For the remainder of 2010 after the July purchase date, Canem's revenue was \$80.3 million.

Canem's contract income for 2010 was \$20.4 million or 25.4% of revenue.

Canem reported EBITDA for 2010 of \$11.7 million or 14.6% of revenue.

Backlog for this segment was \$127.5 million at the end of 2010, consisting entirely of work-in-hand. The segment started the final quarter of 2010 with \$155.1 million of work-in-hand, contracted \$18.6 million of additional work-in-hand during the quarter and executed \$46.2 million of construction activity. Work-in-hand of \$76.5 million is expected to be executed during 2011.

### **Industrial Services (Laird, IHI and Broda)**

Revenue for 2010 increased by 156% year-over-year to \$300.5 million from \$117.6 million for 2009. Revenue increases at Laird and IHI resulted from greater activity levels associated with several oil sands commissioning, maintenance and turnaround projects in the Fort McMurray and Edmonton areas. A large proportion of this revenue was for bundled services that the two companies provided to a major oil sands customer. The revenue increase associated with the addition of Broda since July 13, 2010 is \$20.3 million. Broda's operations are heavily seasonal, skewed toward the second and third quarters as most civil and earthmoving work is done during these quarters. First and fourth quarters tend to be relatively low in activity for Broda and the company performs a significant amount of its equipment maintenance during this period. Accordingly, the first and fourth quarters tend to generate breakeven results or losses.

Contract income in 2010 increased to \$37.6 million from \$21.7 million for 2009. Contract income margins were lower at 12.5% in 2010 versus 18.5% in 2009, as a result of the combination of competitive market conditions and changing project mix at Laird and IHI. The contract income increase associated with the addition of Broda since July 13, 2010 is \$4.5 million.

EBITDA increased to \$24.6 million for 2010 from \$11.9 million for 2009. The increase in EBITDA resulted from the strong activity levels at Laird and IHI on oil sands projects in northern Alberta, partially offset by higher indirect and administrative expenses for the period. The EBITDA impact associated with the addition of Broda since July 13, 2010 is \$2.4 million.

Industrial Services had total backlog of \$176.0 million as at December 31, 2010, compared to total backlog of \$115.8 million at December 31, 2009. The December 31, 2010 backlog consisted of \$167.6 million of work-in-hand and \$8.4 million of active backlog, whereas the December 31, 2009 backlog was made up of \$96.3 million of work-in hand and \$19.5 million of active backlog. Laird and IHI started the fourth quarter with \$122.6 million of work-in-hand, contracted \$101.9 million of additional work-in-hand during the fourth quarter and executed \$86.6 million of construction activity, ending the year with \$137.8 million of work-in-hand. Laird and IHI expect to execute \$142.5 million of work-in-hand and active backlog during 2011. Broda started the fourth quarter of 2010 with \$39.3 million of work-in-hand, contracted \$1.5 million of additional work-in-hand in the fourth quarter and executed \$11.1 million of construction activity during that period, ending the year with \$29.8 million of work-in-hand, of which \$17.6 million is expected to be executed during 2011. Much of the work in this segment involves contracts of less than 12 months duration that have a modest impact on backlog.

### **Corporate and Other**

In 2010, the Corporate and Other segment incurred a net loss before tax of \$32.7 million compared to a net loss before tax of \$12.7 million in 2009. The increase in 2010 Corporate and Other expenses is attributable to costs associated with the acquisition of Seaciff, including an \$8.8 million amortization of intangible assets charge, indirect and administrative expenses associated primarily with at-risk, equity-based compensation expenses, increased resources at the corporate centre and additional professional fees required to support corporate development initiatives.

## Quarterly Financial Information

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

(\$millions except per share data and percentages)	2010, Quarter Ended:				2009, Quarter Ended:			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Contract revenue	\$ 389.7	\$ 386.0	\$ 223.1	\$ 176.5	\$ 173.9	\$ 161.5	\$ 136.7	\$ 129.1
Contract income	51.2	48.3	25.8	23.0	24.7	27.1	21.6	18.6
Contract income margin	13.2%	12.5%	11.6%	13.0%	14.2%	16.8%	15.8%	14.4%
From continuing operations:								
EBITDA <sup>(2)</sup>	\$ 29.6	\$ 29.0	\$ 14.0	\$ 11.7	\$ 12.5	\$ 17.3	\$ 12.3	\$ 9.3
EBT	20.1	18.4	12.8	10.3	11.3	16.2	11.0	8.1
Net earnings	13.7	13.3	9.0	7.1	8.1	11.7	8.0	5.7
EPS – basic <sup>(1)</sup>	0.59	0.59	0.51	0.40	0.46	0.66	0.45	0.32
EPS – diluted <sup>(1)</sup>	0.55	0.55	0.49	0.39	0.44	0.65	0.44	0.32
Net earnings	\$ 14.6	\$ 13.3	\$ 9.1	\$ 7.2	\$ 7.7	\$ 15.2	\$ 7.4	\$ 4.6
EPS – basic <sup>(1)</sup>	0.62	0.59	0.52	0.41	0.44	0.86	0.42	0.26
EPS – diluted <sup>(1)</sup>	0.58	0.55	0.50	0.40	0.42	0.85	0.41	0.26
Backlog <sup>(2)</sup>	\$ 1,555.0	\$ 1,835.7	\$ 1,182.2	\$ 1,314.4	\$ 1,388.6	\$ 1,514.5	\$ 1,344.2	\$ 1,327.5
Working capital	100.4	93.2	205.8	115.5	109.1	103.9	84.4	77.5
Shareholders' equity	300.9	285.6	168.6	149.3	141.5	133.0	117.3	109.8
Book value (\$ per basic share)	12.47	11.84	9.57	8.47	8.03	7.56	6.67	6.23

Notes:

(1) Earnings per share in the first and third quarters of 2010 were adjusted to reflect actual diluted shares.

(2) EBITDA and backlog are non-GAAP measures. Refer to "Terminology" for definitions of non-GAAP measures.

A comprehensive analysis of the operating results for each of the first three quarters of 2010 was included in the MD&A in the interim report to shareholders for each quarter. The reader is referred to the Corporation's 2009 Annual Report for a discussion and analysis of the results of the quarters preceding January 1, 2010.



## Fourth Quarter Overview

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

(\$millions except margin percent)	Fourth Quarter 2010					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 389.7	\$ 257.8	\$ 46.2	\$ 95.7	\$ –	\$ (10.0)
Contract income	51.2	27.3	12.6	11.6	–	(0.3)
Contract income margin	13.1%	10.6%	27.3%	12.1%		
Indirect & administrative expense	21.9	7.4	5.0	4.2	5.6	(0.3)
EBITDA <sup>(1)</sup>	29.6	20.0	7.6	7.5	(5.1)	(0.4)
EBITDA margin	7.6%	7.8%	16.5%	7.8%		
EBT <sup>(1)</sup>	20.1	19.6	7.3	6.3	(12.9)	(0.2)

	Fourth Quarter 2009					
	Total	General Contracting	Commercial Systems	Industrial Services	Corporate and Other	Intersegment Eliminations
Contract revenue	\$ 173.9	\$ 137.5	\$ –	\$ 36.6	\$ –	\$ (0.2)
Contract income	24.7	19.5	–	5.3	–	(0.1)
Contract income margin	14.2%	14.2%		14.5%		
Indirect & administrative expense	12.4	6.1	–	2.5	4.0	(0.2)
EBITDA <sup>(1)</sup>	12.5	13.5	–	2.8	(3.7)	(0.1)
EBITDA margin	7.2%	9.8%		7.7%		
EBT <sup>(1)</sup>	11.3	12.9	–	2.4	(3.9)	(0.1)

Notes:

(1) EBITDA and EBT are non-GAAP measures. Refer to "Terminology" for definitions of non-GAAP measures.

For the fourth quarter of 2010, consolidated contract revenue was \$389.7 million, compared to \$173.9 million in the same period in 2009, a 124% increase fuelled by growth in all operating segments. Revenue growth was due to higher year-over-year quarterly levels of contracting activity in Churchill's legacy operations as well as the addition of the Seaclyff legacy companies for the full quarter.

Contract income increased from \$24.7 million, or 14.2% of revenue, in the fourth quarter of 2009 to \$51.2 million, or 13.2% of revenue, in the fourth quarter of 2010. Of the \$26.5 million quarterly year-over-year increase, the General Contracting and Industrial Services segments reported increases of \$7.8 million and \$6.3 million, respectively. The respective increases are due to increased revenue, as contract income margins declined on a year-over-year basis in the General Contracting and Industrial Services business segments due to competitive market conditions and a changing project mix. The balance of the increase, \$12.6 million, was due to the inclusion of Canem's results in the fourth quarter of 2010.

Indirect and administrative expenses for the fourth quarter of 2010 amounted to \$21.9 million, or 5.6% of revenue, compared to \$12.4 million or 7.1% of revenue in the comparable period of 2009. Indirect and administrative expenses increased by \$1.3 million, \$1.7 million and \$1.6 million in the General Contracting, Industrial Services and Corporate segments, respectively, with the balance of \$5.0 million attributable to the addition of the Commercial Systems segment. The year-over-year quarterly increases in General Contracting and Industrial Services were primarily due to the inclusion of Dominion and Broda, respectively, in the Corporation's 2010 fourth quarter financial results for the full quarter. The year-over-year quarterly increase in the Corporate segment was due largely to Seacliff integration costs, corporate development activities, and the inclusion of legacy Seacliff senior management in the executive incentive compensation plan.

EBITDA from continuing operations in the fourth quarter was \$29.6 million, compared to \$12.5 million in the fourth quarter of 2009. This strong year-over-year quarterly growth of 137% was due to the aforementioned increases in contract income partly offset by increases in indirect and administrative expenses.

In accounting for the Seacliff acquisition, Churchill used the fair value method to account for the intangible assets acquired on closing. The impact of amortizing these intangible assets resulted in a \$3.7 million amortization charge for the three months ended December 31, 2010.

EBT for the fourth quarter of 2010 increased by \$8.8 million to \$20.1 million from \$11.3 million reported in the fourth quarter of 2009 due to the increase in EBITDA described above, partially offset by an increase in depreciation and amortization of \$4.8 million (including the \$3.7 million amortization of intangible assets described above), and an increase in interest expense of \$3.6 million primarily due to additional debt incurred to finance the Seacliff acquisition.

The Corporation's consolidated net earnings from continuing operations for the three months ended December 31, 2010 were \$13.7 million compared to \$8.1 million in the fourth quarter of 2009. Consolidated net earnings for the three months ended December 31, 2010 were \$14.6 million compared to \$7.7 million in the corresponding period of 2009.

## **Fourth Quarter Results of Operations**

### **General Contracting (SODCL)**

For the three months ended December 31, 2010, SODCL's revenue was \$257.8 million, compared to \$137.5 million in the fourth quarter of 2009. The increase is due to the addition of Dominion's operations for the full quarter and increased revenue from the Stuart Olson legacy operations throughout Alberta and British Columbia.

SODCL's contract income in the fourth quarter of 2010 increased by 40% to \$27.3 million from \$19.5 million for the same period in 2009. The fourth quarter 2010 contract income margin percentage was 10.6% compared to 14.2% in the fourth quarter of 2009. Approximately three-quarters of the decrease in contract income margin resulted from the inclusion of Dominion's operations in the quarter. The balance of the decline in contract income margin was due to a decline in legacy Stuart Olson margin caused by lower margins on projects secured in the more competitive market of 2008 and 2009, lower amounts of self-performed work, and being in the early phases of construction on several new projects. Partially offsetting these factors was a \$2.1 million reduction in the quarter in the amount of long-term deferred warranty claims liability, reflecting the ongoing assessment of subcontractor risk under the Corporation's Subguard program. When we initiated the Subguard program in 2008, we consciously took an approach that has now proven to be overly conservative.

EBITDA for SODCL in the fourth quarter of 2010 was \$20.0 million compared to \$13.5 million in the fourth quarter of 2009. This 48% or \$6.5 million increase resulted from the aforementioned increases in contract income partly offset by an increase in indirect and administrative expenses of \$1.3 million. SODCL's indirect and administration expenses were \$7.4 million (2.9% of revenue) in 2010 compared to \$6.1 million (4.4% of revenue) in 2009.

#### **Commercial Systems (Canem)**

Canem was purchased by the Corporation in July 2010 as part of the Seaciff acquisition and accordingly no comparable amounts for Commercial Systems are disclosed for the 2009 periods. For the three months ended December 31, 2010, Canem's revenue was \$46.2 million.

Commercial Systems' contract income for the three months ended December 31, 2010 was \$12.6 million or 27.3% of revenue.

Commercial Systems reported EBITDA for the three months ended December 31, 2010 of \$7.6 million or 16.5% of revenue.

#### **Industrial Services (Laird, IHI and Broda)**

Revenue for the three months ended December 31, 2010 increased by 161% to \$95.7 million from \$36.6 million for the same period of 2009. Exceptional revenue increases at Laird and IHI resulted from greater activity levels associated with several oil sands commissioning, maintenance and turnaround projects in the Fort McMurray and Edmonton areas. The revenue increase associated with the addition of Broda for the full quarter is \$9.1 million. Broda's operations are heavily seasonal, skewed toward the second and third quarters. First and fourth quarters tend to be low in activity for Broda and the company performs a significant amount of its own equipment maintenance during this period.

Contract income in the fourth quarter of 2010 increased to \$11.6 million from \$5.3 million for the comparable period in 2009. Contract income margins were lower at 12.1% in the fourth quarter of 2010 versus 14.5% in the fourth quarter of 2009, as a result of the combination of competitive market conditions and changing project mix at Laird and IHI. The contract income increase associated with the addition of Broda for the fourth quarter of 2010 is \$0.9 million.

EBITDA increased to \$7.5 million during the three-month period ending December 31, 2010 from \$2.8 million in the fourth quarter of 2009. The increase in EBITDA resulted from the strong activity levels at Laird and IHI on oil sands projects in northern Alberta, partially offset by higher indirect and administrative expenses for the period. EBITDA margins were slightly higher at 7.8% in the fourth quarter of 2010 versus 7.7% in the fourth quarter of 2009. The EBITDA impact associated with the addition of Broda in the quarter is \$(0.3) million.

### **Corporate and Other**

In the fourth quarter of 2010, the Corporate and Other segment incurred a loss before tax of \$12.9 million compared to a loss before tax of \$3.9 million in the fourth quarter of 2009. The increase in 2010 Corporate and Other expenses is attributable to costs associated with the acquisition of Seaciff, including a \$3.7 million amortization of intangible assets charge, indirect and administrative expenses associated primarily with at-risk, equity-based compensation expenses, increased resources at the corporate centre, and additional professional fees required to support corporate development initiatives.

## **Capital Resources and Liquidity**

### **Cash and Debt Balances**

Cash and cash equivalents at December 31, 2010 were \$70.8 million, compared to \$184.4 million at December 31, 2009.

Long-term indebtedness at December 31, 2010, excluding the current portion of \$2.0 million, amounted to \$148.4 million compared to \$0.2 million at December 31, 2009. This amount consisted of \$74.5 million of the debt portion of convertible debentures and \$73.9 million drawn on Churchill's \$200 million senior revolving credit facility. On June 15, 2010, to support the Seaciff acquisition, the Corporation closed its previously announced financing of convertible debentures. The Corporation issued convertible debentures in the principal amount of \$86.3 million, including the exercise by the underwriters of the over-allotment option. Upon closing, the debentures became an obligation of the Corporation. For accounting purposes, the equity conversion rights were assigned a value of \$9.5 million (net of financing fees) which is included in shareholders' equity, and \$73.4 million was assigned to the long-term debt component (net of transaction costs and interest accretion). In the remainder of 2010, \$0.9 million of interest accretion and \$0.3 million amortization of financing fees were added to the long-term debt component, and \$0.1 million of future taxes were added to the equity conversion rights of the debentures, making the debt and equity portions of the debentures \$74.5 million and \$9.7 million, respectively.

## Summary of Cash Flows

Cash flow from operating activities before changes in non-cash working capital balances for 2010 increased by \$36.9 million to \$67.2 million from \$30.3 million during 2009. The increase in cash flow is largely due to the inclusion of results from the legacy Seacliff operating companies and record activity in Churchill's legacy Industrial Services operating companies, Laird and IHI. Cash flow used in operations was \$26.8 million after accounting for a change in working capital of \$(91.9) million resulting from increasing working capital requirements associated with a growing business, primarily in the Industrial Services segment as expanding operations have caused receivables to grow faster than payables.

Investing activities resulted in a use of cash of \$343.9 million during 2010, which compares with cash used of \$8.3 million in 2009. In addition to the third-quarter 2010 Seacliff acquisition, the cash was invested in the acquisition of construction equipment for long-term projects under contract and the implementation of a new computer system for enterprise resource planning ("ERP"), which went live in the first quarter of 2011 for SODCL, Laird and IHI. The system is being expanded to include Canem and Broda.

During 2010, cash received from financing activities amounted to \$255.0 million, compared to cash used in financing of \$7.9 million in 2009. The majority of the 2010 financing activities arose from the Seacliff acquisition, which necessitated drawing down \$80 million of the Corporation's new \$200 million syndicated revolving credit facility and applying proceeds from the issuance of 6,324,500 common shares of \$105.9 million. Net repayments of long-term debt in 2010 amounted to \$(72.6) million, compared to net repayments of \$7.1 million in 2009. In the second quarter of 2010 Churchill issued \$86.3 million of convertible debentures in support of the Seacliff acquisition. Stock options exercised by directors, officers and employees of the Corporation contributed \$1.4 million to the cash generated from financing in 2010 compared to \$0.3 million in 2009. The Corporation expended \$1.0 million in 2009 under its Normal Course Issuer Bid, which expired in the fourth quarter of 2009. Financing costs in 2010 were \$11.2 million.

As at December 31, 2010, Churchill had working capital of \$100.4 million, compared to \$109.1 million at December 31, 2009.

## Contractual Obligations

(\$millions)	Total	Current Year	2-3 years	4-5 years	After 5 years
Finance contracts and capital lease obligations <sup>(1)</sup>	\$ 2.7	\$ 2.0	\$ 0.7	\$ 0.0	\$ 0.0
Operating leases and other	\$ 28.2	\$ 6.0	\$ 10.3	\$ 6.6	\$ 5.3
<b>Total contractual obligations <sup>(2)</sup></b>	<b>\$ 30.9</b>	<b>\$ 8.3</b>	<b>\$ 10.8</b>	<b>\$ 6.5</b>	<b>\$ 5.3</b>

Notes:

(1) Principal repayments of scheduled debt.

(2) Excluding accounts payable and accrued liabilities and interest payments on debt. Refer to Note 21 to the Consolidated Financial Statements for additional detail.

Scheduled debt repayments for 2011 are \$2.0 million. The finance contracts and capital lease obligations are secured by construction and automotive equipment and are more fully described in Note 12 to the Consolidated Financial Statements.

The operating leases and other obligations in the above table are with regard to certain construction equipment, vehicles, office premises and equipment, and a certain commitment to SAIT Polytechnic. They are more fully described in Note 22 to the Consolidated Financial Statements. The Corporation remains a partner in three joint ventures, one of which is a public-private partnership (“P3”) project. For that project 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. P3 infrastructure projects may expose the Corporation to financial penalties and/or liquidated damages for project delays. P3 projects also require security in the form of letters of credit to support the Corporation’s obligations.

During 2011, the Corporation anticipates that it will require approximately \$23.0 million to fund its planned capital expenditures, compared to \$16.1 million spent in 2010. These expenditures are planned for the areas of information technology infrastructure (\$5.7 million), construction equipment (\$8.1 million), tenant improvements (\$5.2 million), vehicles (\$3.1 million) and furniture and equipment (\$0.9 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 continuing implementation of its new SAP-based ERP 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 capital expenditures and support growth strategies. In addition to the Corporation’s cash and cash equivalents, ability to generate cash from operations, and its \$200 million credit facility, the Corporation believes that it has access to further debt and/or equity through the capital markets.

Shareholders’ equity was \$300.9 million at December 31, 2010 compared to \$141.5 million at December 31, 2009. Retained earnings increased from \$116.3 million at December 31, 2009 to \$160.5 million at year-end 2010, reflecting the cumulative addition of \$44.2 million of net earnings for the year.

## **Share Data**

The Corporation has an Employee Share Purchase Plan (“ESPP”) available to all full-time employees. At December 31, 2010, the ESPP held 716,811 common shares for employees. Under the ESPP, common shares are acquired in the open market.

Following the closing of the Seaciff acquisition on July 13, 2010, the Corporation issued 6,324,500 common shares upon the conversion of previously issued subscription receipts and the net proceeds from the subscription receipts financing were released from escrow. The \$102.7 million net proceeds of the subscription receipts were included in share capital.

As at March 10, 2011, the Corporation had 24,133,727 common shares issued and outstanding and 1,131,809 options convertible into common shares upon exercise (December 31, 2010 – 24,133,727 common shares and 1,131,172 options).

As well, the Corporation has convertible debentures outstanding in the amount of \$86.3 million convertible into 3,791,205 common shares. Refer to Note 13 to the Consolidated Financial Statements for further detail.

## **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 was \$5.4 million during 2010 and \$2.0 million for 2009.

## **Other Compensation Expenses**

The Corporation has a Deferred Share Unit (“DSU”) plan. During the 12 months ended December 31, 2010, the Corporation granted 39,157 DSUs to directors as part of their annual remuneration. In addition, during 2010, directors and employees voluntarily elected to purchase 25,192 DSUs by deferring compensation related to retainers, meeting fees, base salary and/or cash bonus, as applicable. These DSU grants and elections resulted in \$1.2 million of stock-based compensation expense for 2010 (2009 – \$0.7 million). The DSUs are structured under the current plan to be settled in cash, upon ceasing service with the Corporation.

During the 12 months ended December 31, 2010, the Corporation recorded compensation expenses for performance share units (“PSUs”) granted to employees of \$1.6 million, compared to \$1.0 million in 2009. As at December 31, 2010, the Corporation had 291,291 PSUs outstanding, compared to 243,734 PSUs at December 31, 2009. The PSUs are structured under the current plan to be settled in cash at the time of vesting, if certain performance objectives for shareholder value creation are met. The first vesting and payout is expected to be in March 2011 for PSUs granted in 2008.

## **Supplemental Disclosures**

### **Off-Balance-Sheet Arrangements**

The Corporation had no off-balance sheet arrangements in place at December 31, 2010.

### **Related-Party Transactions**

The Corporation incurred legal fees during the year ended December 31, 2010, 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. The amount incurred during the fourth quarter of 2010 was \$43,000 (Q4 2009 – \$88,000). Legal fees of \$354,000 (December 31, 2009 – \$610,000) were incurred with this law firm for the year ended December 31, 2010. At December 31, 2010, \$4,000 was included in accounts payable (December 31, 2009 – \$29,000).

During the fourth quarter of 2010, the Corporation incurred facility costs of \$35,000 (Q4 2009 – \$36,000) relating to the rental of a building owned by a director of the Corporation. Facility costs of \$146,000 (December 31, 2009 – \$146,000) for this building were incurred for the year ended December 31, 2010. The rented building is the operations base for Laird and IHI 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. At December 31, 2010, there was \$nil included in accounts payable (December 31, 2009 – \$nil).

During the fourth quarter of 2010, the Corporation incurred facility costs of \$101,000 (Q4 2009 – \$nil) related to an office lease agreement with a company controlled by a senior executive of the Corporation at terms representative of third party contracts. Facility costs of \$184,000 (December 31, 2009 – \$nil) for this building were incurred for the year ended December 31, 2010. The rented building is the head office, maintenance facility and operations base for Broda in Prince Albert, Saskatchewan.

## Outlook

Following its acquisition of Seaciff, Churchill is a larger, more diversified entity that is better positioned to compete for projects within its various business segments. The Seaciff acquisition completed in July 2010 has contributed to increasing Churchill's backlog to \$1.6 billion. Subsequent to the acquisition, the Corporation targeted achieving cost and revenue synergies largely as a result of combining the two public companies and operationally combining Stuart Olson and Dominion to form SODCL, with an expectation of achieving cost savings of \$7 million and revenue synergies of \$3 million for a total of \$10 million annually for 2012 and beyond. Cost synergies would result from eliminating redundant offices, facilities and staff positions. With the aid of improved systems, processes and internal controls at SODCL, Churchill has revised its original expectations with regard to cost synergies and now is targeting estimated annual cost savings of \$10 to \$13 million. Further, Churchill expects to realize significant revenue synergies due to the ability of the larger combined entity, SODCL, to secure certain large projects that may not have been awarded to either Dominion or Stuart Olson as stand-alone entities. The Corporation expects to announce several projects of this nature in the first half of 2011, which would demonstrate that the projected \$3 million in revenue synergies would be exceeded within SODCL alone. In addition, revenue synergies within the Industrial Services segment are being pursued by producing bundled products and services offerings to customers.

The Corporation incurred some debt to complete the acquisition, but given the significant cash flow expected to be generated in future periods, the Corporation's focus will be to pay down this debt from operating cash flow in the short-term and, further, to assess the appropriateness of instituting a dividend. As well, Churchill is exploring adding complementary lines of business through relatively small "tuck-in" acquisitions and may also consider more impactful acquisitions where the price is reasonable and there is a clear opportunity to enhance the business model and create shareholder value.



## General Contracting

The integration of Stuart Olson and Dominion, forming SODCL, is essentially complete, expanding SODCL's market presence across the four provinces of Western Canada and capitalizing on the strengths of each company in its geographical and sectoral markets, where they were already well positioned. SODCL's \$1.3 billion backlog remains institutionally levered, and there are many project opportunities in the pipeline. For the remainder of 2011 the institutional spending outlook in Western Canada remains strong, partly due to expected provincial government spending. The non-residential private sector spending outlook is continuing to improve as a result of generally strong commodity prices, particularly oil prices, and favourable financing and construction costs. This is expected to support continued revenue growth for SODCL, but margin pressure will continue as the segment works through lower margin legacy Dominion backlog and projects secured in the recessionary 2008 and 2009 environment. SODCL intends to partially offset this margin pressure by focusing its marketing activities on large relationship-based construction management projects that will allow better margin upside and establishing an industrial sector presence for building construction. Current SODCL projects include: the Edmonton Remand Centre, a \$523-million, 57,000-square-metre facility in Edmonton, Alberta scheduled for completion of the capital construction phase in the fall of 2012; the Fort St. John Hospital, a \$298-million, 15,000-square-metre P3 project in Fort St. John, British Columbia scheduled for completion in the spring of 2012; and the Winnipeg Stadium project, a \$170-million, 33,000-seat football facility scheduled for completion in the fall of 2012.

## Commercial Systems

The outlook for Canem during 2011 is positive. As with General Contracting, Commercial Systems' revenue outlook for 2011 is expected to be strong as a result of continued institutional spending and increasing private sector spending. However, margins are expected to be under continuing pressure in a very competitive bidding market. Canem intends to partially offset this margin pressure by differentiating itself from the competition with building systems integration solutions to support its core operations. Canem has developed considerable expertise in sustainable buildings and energy efficiency and in 2010 Canem launched its Smart Connected Real Estate Program. One product of this program is the Canem Centre for Building Performance in Richmond, British Columbia, which is expected to open in the second quarter of 2011 as a permanent training and testing facility for integrated building systems, with the goal of encouraging building owners and developers to adopt new efficiencies and performance in buildings systems. Current projects include: Eighth Avenue Place in Calgary, Alberta, a \$1 billion (\$23-million electrical budget), 177,000-square-metre office-retail development scheduled for completion in fall 2011; the Edmonton Remand Centre, a \$523-million (\$80-million electrical budget), 57,000-square-metre facility in Edmonton, Alberta scheduled for completion of the capital construction phase in the fall of 2012; and Dockside Green, a \$300-million (\$6-million electrical budget for initial two phases), 121,000-square-metre, residential/office development.

## Industrial Services

Laird and IHI continued to perform exceptionally well throughout 2010 in a competitive environment. Downward pressure on bid margins resulted from several competitors not operating at full capacity and the project mix shifting to larger projects with lower margins. However, with work-in-hand and backlog at high levels, 2010 was a record year for earnings for Laird and IHI. Success for these businesses is driven by many factors, not least their reputation for safety and quality. Laird and IHI have very strong safety records, enabling them to be the preferred suppliers on many projects.

Both Laird and IHI generated record revenues in 2010 but margins compressed due to a changing work mix and a very competitive business environment. Going forward, Laird and IHI are expecting revenue growth to moderate, following completion of commissioning work on oil sands mining and upgrader projects in 2010, and margins are expected to improve in the second half of 2011 with a large sustainable industrial project spend and increased major project activity. The economic outlook for the oil sands remains strong. The players in this market are evolving to more senior exploration and development companies, foreign national oil companies and integrated oil companies. With the stable and high commodity prices, and numerous project restarts and sanctioning announcements (e.g. Kearl, Firebag, Sunrise, Surmont, Jackfish 2, Christina Lake Phase 2), the outlook is positive for Churchill's industrial operations. In addition, planned turnarounds are expected to continue to provide opportunities for additional work. The focus is now on securing backlog for the remainder of 2011 and execution of strategic plans to expand market share and customer base. The record revenue growth of 2010 is expected to moderate in 2011 and margins are expected to remain under pressure as competition is keen from other firms with unused capacity and the work mix continues to shift to large-volume/lower-margin projects.

Broda had a slow start to 2010 and financial results were dampened by tendering delays and difficult work conditions associated with heavy rain in Saskatchewan in the spring and summer. Additionally, the unevenness of the economic recovery has led to the deferral of several industrial opportunities; hence the year-end backlog within Broda was relatively low at \$29.8 million. Broda is currently focused on building its backlog for the remainder of 2011, focusing its marketing efforts on several repeat mining customers such as Cameco and Potash Corporation, as well as new mining and municipal infrastructure opportunities, and leveraging its corporate relationship with IHI and Laird to further expand their service bundling efforts for industrial customers in the oil sands and related industries. Assuming a return to more normal weather conditions, Broda's results are expected to improve significantly in 2011.

## **Critical Accounting Estimates**

The key assumptions and basis for the estimates that management has made under GAAP, and their impact on the amounts reported in the annual Consolidated Financial Statements and notes thereto, 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 condition, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the more significant estimates that have an impact on Churchill's financial condition and results of operations:

- Revenue recognition and contract cost estimates;
- Goodwill impairment assessment;
- Depreciation and amortization;
- Income tax provisions;
- Accounts receivable collectability; and
- Valuation of defined benefit pension plans.

## **Revenue Recognition and Contract Cost Estimates**

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 Statements of Earnings, Comprehensive Earnings and Retained Earnings as the work progresses. Contract revenue from fixed-price and unit-price contracts is 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 SODCL where a significant portion of 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 Assessment**

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 to earnings multiples, future cash flows, discount rate, and terminal values. The goodwill amount on the Consolidated Balance Sheets as at December 31, 2010 arose from the acquisition of Laird in February 2003 and Seacliff in July 2010. A significant portion of the valuation of goodwill is related to future earnings, which are estimated and uncertain. Any significant reduction in these estimates could result in an impairment of goodwill.

### **Depreciation and Amortization**

Effective January 1, 2010, the Corporation changed its method of depreciating certain classes of property and equipment from declining-balance to straight-line in order to reflect the true consumption of the asset. The effect of this change did not have a material impact on the Consolidated Financial Statements. Refer to Note 1 (vi) and Note 9 to the Consolidated Financial Statements for further detail.

### **Income Tax Provisions**

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**

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.

### **Valuation of Defined Benefit Pension Plans**

Fluctuations in the valuation of the Corporation's defined benefit pension plans expose the Corporation to additional risk. Economic factors such as expected long-term rate-of-return on plan assets, discount rates and future salary and bonus increases will cause volatility in the accrued benefit obligation. Refer to Note 1 (xiv) to the Consolidated Financial Statements for further information.

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

### **Financial Instruments**

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings and any other amounts that will result in future cash outlays. The fair value of Churchill's short-term financial assets and liabilities approximates their respective carrying amounts on the balance sheets because of the short-term maturity of those instruments. The fair value of the Corporation's interest-bearing financial liabilities, including capital leases, financed contracts, the revolving credit facility and convertible debentures, also approximates their respective carrying amounts due to the floating-rate nature of the debt. The carrying value of the convertible debentures approximates fair value due to the recent issuance of the debentures.

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

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

Allowances are provided for potential losses as 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, creditworthiness and the current economic environment in which the customer operates to assess impairment.

The Corporation accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable. The provision for doubtful accounts has been included in operating expenses on the Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at December 31, 2010 was \$3.7 million (December 31, 2009 – \$1.1 million).

The Corporation had \$12.4 million of trade receivables which were greater than 90 days past due and not provided for as at December 31, 2010 (December 31, 2009 – \$2.5 million). Of the total, \$4.9 million (40%) of the 90 days past due and not provided for trade receivables as of December 31, 2010 were concentrated in one oil sands customer account, but \$nil remains outstanding as of March 10, 2011. There were no other concentrations of credit risk by geography or customer as at December 31, 2010.

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to this risk. At December 31, 2010, the increase or decrease in annual net earnings for each 1.0% change in interest rates on floating rate debt would be approximately \$0.5 million.

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

Other than the new risks related to the defined benefit pension plans, there have not been any changes in the type of risks arising from financial instruments during the period.

## **Changes in Accounting Policies**

The Corporation's audited Consolidated Financial Statements for the year ended December 31, 2010 have been prepared in accordance with Canadian GAAP. See Note 1 to the Consolidated Financial Statements for the year ended December 31, 2010 for more information regarding the significant accounting principles used to prepare the financial statements.

## **Future Changes in Accounting Standards**

### **International Financial Reporting Standards ("IFRS")**

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

The Corporation developed a strategy for the IFRS conversion which has been discussed in detail in prior quarters. This is a high level recap of the IFRS activities to date and progress that has been made as preparations for Churchill's first set of IFRS financial statements are released in Q1 of 2011.

### **Overview of Progress to Date**

The Churchill IFRS conversion strategy includes 3 phases; Phase 1: preliminary scope and diagnostic; Phase 2: detailed design and evaluation; Phase 3: implementation and embedding of processes. Phase 1 and 2 were both complete at year-end. Phase 3 is expected to be fully completed in Q1 of 2011.

On December 7, 2010 the Audit Committee had a special meeting to address the Corporation's progress in respect of IFRS. In this meeting, the Committee received further training to assist in their understanding of the impact of IFRS to the Corporation's financial statements. To assist in the demonstration of the impact, a set of draft Q1 2011 financial statements and related notes were prepared and presented. The draft financial statements notes provided significantly more disclosure and analysis than the Corporation's current disclosure under GAAP. These statements included comparative numbers, but did not include any numbers in respect of December 31, 2010 and March 31, 2011. This process allowed the Audit Committee members the chance to ask questions regarding the proposed Q1 disclosures. The Committee did not approve the opening balance sheets presented in those statements, as that approval will be granted when the Q1 2011 financial statements are complete.

In addition to reviewing the draft Q1 2011 financial statements, a summary of the changes in accounting policies were reviewed with the Audit Committee. A review of the major differences between Canadian GAAP and IFRS impacting Churchill were reviewed in detail with the Committee.

Phase 3 also includes the implementation of processes to ensure that IFRS is being reflected in the financial statements. Churchill's plan is to have IFRS processes embedded within the organization through use of checklists and decision models to give guidance on the proper accounting. In early 2011, meetings were held with finance teams across the Corporation to ensure that they were in possession of the right tools to arrive at the correct numbers in compliance with IFRS. As we progress into Q1 2011 reporting, the processes will be refined if we determine that they are not being applied consistently or correctly.

Phase 3 will be complete when the Q1 2011 financial statements are completed and have been formally approved by the Audit Committee.

In prior quarters, management has shared summaries of elections available, discussion and expected treatment of the new standards. Those details are not repeated in the current MD&A. Dollar values of impacts of the new standards became clearer as the opening balance sheet was prepared. Changes in the value of the impact or changes in the approach are discussed below.

#### *Fair value election of deemed cost*

Originally, the Corporation reported an increase in deemed cost of certain assets between \$2.0 and \$2.5 million. Management has reconsidered which assets will adopt a new deemed cost. The expectation is that only one of two properties originally considered will adopt deemed cost on transition. The new range is between \$500,000 and \$700,000.

#### *Contract revenue – construction contracts*

IAS 11 includes criteria for determining whether construction contracts should be segmented or if multiple construction contracts should be combined. The Corporation previously reported that, in aggregate, a \$3 million to \$4 million reduction to retained earnings at January 1, 2010 was anticipated. The change appears to be much smaller than originally determined due to a closer review of the adjustments made in the general contracting segment. The new range is between \$700,000 and \$1 million.

#### **IFRS Impacts Due to Seacliff Acquisition**

The most significant impact of the Seacliff transaction is related to IFRS 3, Business Combinations. Transaction costs incurred in respect of the Seacliff acquisition are \$5.6 million. These costs will no longer be capitalized after the transition date and instead will be reflected in an opening retained earnings adjustment.

Last quarter, management reported that the method of revenue recognition for railway ballast operations /rock crushing at Broda was being examined. During the fourth quarter, a decision was made that revenue would continue to be recognized as the rock is consumed by the railway companies, as opposed to when the rock is produced.

## **Risks and Uncertainties**

### **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 effect 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 is stronger, commodity prices are higher, the banking and financial sectors have been stabilized and a global depression may have been averted due to the coordinated actions of central bankers from around the world. While the current crisis has been dealt with, it remains possible that a future economic crisis, outside of management's control, may yet cause instability in the financial system. Future market conditions could negatively 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 such as a global recession. 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. 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 or be cancelled. 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.



## **Weather**

The climate in Western Canada can generate severe weather, including heavy rain, snow and extreme winter temperatures, which could slow down or delay construction for short periods of time, impacting costs and delivery schedules. This could adversely impact results of operations. Broda's earthmoving business is particularly sensitive to adverse weather conditions.

## **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. Such 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 Corporation's business may be adversely impacted to the extent that it 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 new co-surety arrangement with Travelers Guarantee Company and CNA Surety Corporation during 2010. Access to this surety facility 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 ongoing 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 might 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. If Churchill's capacity to issue letters of credit under its revolving credit facility and its cash on hand is insufficient to satisfy clients and surety providers, the business and results of operations could be adversely affected. 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.

### **Client Concentration**

Canem does a significant amount of work with a small number of major general contractors. Consequently, the loss of, or a significant reduction in business with, one or more of these contractors, whether as a result of completion of a contract, early termination, or a failure or inability to pay amounts owed, could have a material adverse effect on Canem's and consequently Churchill's business and results of operations. Similarly, Laird and Broda also each have a narrow concentration of clients. The loss of, or significant reduction in business with, one or more of these clients could have a material adverse effect on Laird and Broda, and consequently on Churchill's business and results of operations.

### **Penalties Related to Total Costs and Completion Dates**

A portion of Churchill's revenue may be derived from contracts which have performance incentives and penalties depending on the total cost of a project as compared to the original estimate. Churchill could incur significant penalties based on cost overruns. In addition, the total project cost as defined by contract may include work performed by other contractors or subcontractors. As a result, Churchill could incur penalties due to work performed by others over which it has no control. Churchill may also incur penalties if projects are not completed by their specified completion date milestones. These penalties, if incurred, could have a significant impact on Churchill's profitability under these contracts.

Any catastrophic occurrence in excess of insurance limits at projects where Churchill's structures are installed or services are performed could result in significant professional liability, product liability, warranty or other claims against the Corporation. Such liabilities could potentially exceed Churchill's current insurance coverage and the fees derived from those services. A partially or completely uninsured claim, if successful and of a significant magnitude, could result in substantial losses.

### **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 of 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, technology failures or 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. If Churchill is unable to recruit and retain enough employees with the appropriate skills, the Corporation may be unable to maintain its client service levels, and it may not be able to satisfy increased demand for its services. Any future labour and/or material shortage 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.

### **Ability to Lease Equipment**

A portion of Churchill's equipment fleet is currently leased from third parties. Further, as project demands fluctuate, Churchill may be required to lease substantial amounts of equipment to perform the work on projects it has been awarded. In addition, future projects may require Churchill to lease additional equipment. If equipment lessors are unable or unwilling to provide Churchill with the equipment it needs to perform its work, Churchill's results of operations may be adversely affected.

### **Ability to Obtain Long Lead Time Equipment and Tires**

Churchill's ability to grow its business is, in part, dependent upon obtaining equipment on a timely basis. Due to the long production lead times of suppliers of large earthmoving equipment during strong economic times, the Corporation may have to forecast its demand for equipment many months or even years, in advance. If the Corporation fails to forecast accurately, it could suffer equipment shortages or surpluses, which could have a material adverse impact on Churchill's financial condition and results of operations. In strong economic times, global demand for tires of size and specifications the Corporation requires can exceed the available supply. Churchill's inability to procure tires to meet the demands for its existing fleet as well as to meet new demand for Churchill's services could have an adverse effect on Churchill's ability to grow its business.

### **Ability to Maintain and Repair Churchill's Equipment Fleet**

The outdoor environment which Churchill's equipment operates in is harsh and demanding, subjecting the equipment to conditions that may cause significant and long-term breakdown and failure. Due to long lead times to supply some of Churchill's equipment parts, the limited number of trained and qualified service technicians, and the potential for multiple failures occurring at the same time, the Corporation experiences periods where equipment is non-productive and non-operable. Churchill's financial condition and results of operations could be adversely impacted due to events of this nature.

### **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**

SODCL occasionally participates in design-build projects whereby it assumes 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**

SODCL may participate in P3s. These contracts may require letters of credit, parental guarantees, equity participation or contain liquidated damage 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 depends 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 projects performed by Churchill is based in part on cost estimates that are based on 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 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, 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 that 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.

### **Quality Assurance and Quality Control**

Churchill enters into contracts which specify the scope of the project to be constructed including quality standards. If all or portions of the work fail to meet these standards, the Corporation would be exposed to additional costs for the correction of non-compliant work.

### **Contractor Default Insurance**

SODCL has entered into an innovative, yet well-tested subcontractor 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 subcontractor performance risk is retained by SODCL, 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 SODCL. Because this is an insurance product, SODCL pays a premium to the insurer for coverage. It is difficult to predict whether this program will result in savings or incremental expenses to SODCL.

### **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 Churchill's services they require.

On March 31, 2011, International Brotherhood of Electrical Workers labour agreements in British Columbia will expire. The terms of the upcoming contract are unknown as negotiations have not started. Construction Labour Relations (the bargaining unit for the employers) has indicated that there are no plans to commence negotiations until late 2011/early 2012. The existing agreement will continue in force and effect until a new agreement is negotiated and ratified by the union. There can be no guarantee that contract negotiations will be concluded in a timely manner. Any work stoppages or labour disruptions could materially affect the financial results from Canem's British Columbia-based operations.

On April 30, 2011, all of the building trades labour agreements in Alberta and Saskatchewan will expire which affects the operations of Laird and Insulation Holdings Inc. All new 3-year agreements are either in place, awaiting ratification or under negotiation. The Corporation does not expect any work stoppages in 2011. However, there can be no guarantee that contract negotiations will be concluded in a timely manner. Work stoppages may occur if negotiations are unsuccessful, which could materially affect the financial results from Laird and Insulation Holdings Inc. related to construction projects active in Alberta.

### **Cost Overruns by Churchill's Clients**

In the past, several of Churchill's clients' projects have experienced significant cost overruns, impacting their returns. As new projects are contemplated or built, if cost overruns continue to challenge Churchill's clients, they could reassess future projects and expansions which could adversely affect the amount of work Churchill receives.

### **Financial Resources**

Churchill's operations, particularly its industrial 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. As well, there can be no assurance that, if, as 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 significant dilution to existing shareholders.

### **Credit Risk**

Churchill serves a broad range of clients spread across geographic and market sectors. By maintaining this diversity, credit risk is mitigated, as the concentration of accounts receivable is not specific to a particular client, market or geographic sector. Management performs a regular review of accounts receivable past due in order to identify clients with potential payment issues and resolves issues that might be causing a delay in collections. The maximum amount of credit risk exposure is limited to the accounts receivable balances noted in the financial statements.

### **Potential for Non-Payment**

Before signing any construction contract, the Corporation goes to considerable lengths to satisfy 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 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 unforeseen liability is acquired, the Corporation's profitability may be lower 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.

### **Internal Controls**

Churchill's internal controls over financial reporting and its disclosure controls and procedures may not prevent all possible errors. Internal control over financial reporting and disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objective will be met. A misstatement due to internal control issues may result in decisions being made on non-current or inaccurate financial information, fraud, or similar events or disruptions which may adversely affect Churchill's operating results.

### **Interruption of Information Technology Systems**

Churchill is heavily dependent on computers and related communications systems to effectively run its operations. On January 1, 2011, Churchill launched the transition to a new SAP-based enterprise resource planning system. If the Corporation is unable to maintain the integrity of Churchill's data, train Churchill's staff effectively in the use of the new system and hence improve the overall efficiency of Churchill's operations, the Corporation's processes could be disrupted and its financial reports may be delayed or inaccurate. Natural disasters, computer viruses, security breaches, and similar events or disruptions could cause computers and related communications systems failures that may adversely affect Churchill's business and financial results.

### **Adoption of IFRS**

The Canadian Accounting Standards Board is requiring the adoption of IFRS for all Canadian public companies for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. During this period of change there may be modifications in the design and effectiveness of internal controls, as well as communications issues with stakeholders as to the impact of IFRS and changes in the financial results as compared to those previously reported under Canadian generally accepted accounting principles.

### **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 to 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 further 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 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 results 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 Common Shares.

### **Controls and Procedures**

All of the controls and procedures set out below encompass all legacy Churchill companies and scope out controls for legacy Seacliff entities, as permitted by the Canadian Securities Administrators' National Instrument ("NI") 52-109 for 365 days following the acquisition.

### **Disclosure Controls & Procedures**

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

An evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was carried out under the supervision of Churchill's management, including the CEO and CFO, with oversight by the Board of Directors and its Audit Committee as of December 31, 2010. Based on this evaluation, the CEO and CFO have concluded that the design and operation of the Corporation's disclosure controls and procedures as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, were effective as at December 31, 2010.

### **Internal Controls over Financial Reporting**

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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 Board of Directors and its Audit Committee, management with the participation of the Corporation's CEO and CFO evaluated the design and operation of the Corporation's internal controls over financial reporting using the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework. The evaluation included documentation review, enquiries, testing and other procedures considered by management to be appropriate in the circumstances. As at December 31, 2010, the CEO and CFO have 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 has been no change to the Corporation's internal controls over financial reporting that occurred during 2010 that has materially affected or is reasonably likely to materially affect the Corporation's internal controls over financial reporting.

### **Terminology**

Throughout this MD&A, management refers to certain terms when explaining its financial results that do not have any standardized meaning under 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", "EBT" and "book value per share" have been defined as:

#### **Contract Income Margin Percentage**

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

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

## Backlog

Backlog means the total value of work including work-in-hand that has not yet been completed that (a) is assessed by the Corporation as having high certainty of being performed by the Corporation or its subsidiaries by either the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to the Corporation or its subsidiaries, as evidenced by an executed binding or non-binding letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work currently assessed by the Corporation as being reasonably assured. All projects within backlog are classified as Active Backlog 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 re-tendered. Jobs or projects subsequently re-tendered and not awarded to the Corporation or its subsidiaries would at that time be removed from the Corporation's backlog.

As at December 31, 2010 (\$millions)	Work-in-hand	Active Backlog	Delayed Backlog	Total Backlog
	\$ 1,222.5	\$ 332.5	\$ –	\$ 1,555.0

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

## Working Capital

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

As at (\$millions)	December 31, 2010	December 31, 2009
Current assets	\$ 495.0	\$ 330.3
Less: Current liabilities	394.6	221.2
Working capital	\$ 100.4	\$ 109.1

## EBITDA

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 for each of the periods presented in this MD&A in accordance with GAAP.

(\$millions)	Three Months Ended December 31		Twelve Months Ended December 31	
	2010	2009	2010	2009
Net earnings from continuing operations	\$ 13.7	\$ 8.1	\$ 43.1	\$ 33.5
Add:				
Income tax	6.3	3.2	18.5	13.2
Depreciation and amortization	6.0	1.1	15.2	4.4
Interest expense	3.6	–	7.5	0.2
EBITDA from continuing operations	\$ 29.6	\$ 12.4	\$ 84.3	\$ 51.3

## Book Value per Share

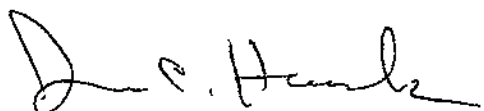
Book value per share is the value of shareholders’ equity less value of preferred stock divided by basic shares outstanding at the end of the period.

# Management's Report

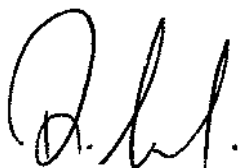
The accompanying financial statements and all information in The Churchill Corporation 2010 Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgment. Financial information contained throughout the 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



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

March 10, 2011

# Independent Auditor's Report

## To the Shareholders of The Churchill Corporation

We have audited the accompanying consolidated financial statements of The Churchill Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of earnings, comprehensive income, retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Churchill Corporation as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Chartered Accountants

March 10, 2011

# Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

(\$ thousands, except share and per share amounts)	Year Ended December 31,	
	2010	2009
Contract revenue	\$ 1,175,333	\$ 601,241
Contract costs	1,027,028	509,290
Contract income	148,305	91,951
Interest income	980	643
Sundry income	614	464
Indirect and administrative expenses	(65,581)	(41,736)
Depreciation and amortization (Note 9 and 10)	(15,233)	(4,435)
Interest expense (Note 15)	(7,461)	(240)
Earnings before income taxes	61,624	46,647
Income tax (expense) recovery (Note 16)		
Current income tax	(16,231)	(22,758)
Future income tax	(2,310)	9,590
	(18,541)	(13,168)
Net earnings from continuing operations and comprehensive income	43,083	33,479
Net earnings from discontinued operations (Note 4)	1,109	1,338
Net earnings and comprehensive income	44,192	34,817
Retained earnings, beginning of period	116,279	83,132
Adjustment arising from shares purchased under a normal course issuer bid (Note 17)	–	(1,670)
Retained earnings, end of period	\$ 160,471	\$ 116,279
Net earnings per common share: (Note 20)		
Basic from continuing operations	\$ 2.09	\$ 1.90
Basic from discontinued operations	\$ 0.05	\$ 0.08
Basic net earnings per share	\$ 2.14	\$ 1.98
Diluted from continuing operations	\$ 1.98	\$ 1.87
Diluted from discontinued operations	\$ 0.05	\$ 0.07
Diluted net earnings per share	\$ 2.03	\$ 1.94
Weighted average common shares:		
Basic	20,643,343	17,620,454
Diluted	23,191,211	17,935,551

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

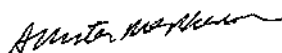
# Consolidated Balance Sheets

(\$ thousands)	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 6)	\$ 70,848	\$ 184,402
Accounts receivable (Note 8)	348,569	116,592
Inventories and prepaid expenses	4,867	949
Costs in excess of billings	33,098	19,013
Income taxes recoverable	21,017	56
Future income tax assets (Note 16)	15,001	7,813
Current portion of long-term receivable	1,612	1,500
	<b>495,012</b>	<b>330,325</b>
Restricted cash (Note 7)	4,779	2,642
Long-term receivable	188	1,500
Future income tax assets (Note 16)	3,760	399
Property and equipment (Note 9)	62,181	17,063
Assets held-for-sale (Note 4)	2,627	4,778
Intangible assets (Note 10)	73,274	3,395
Goodwill (Note 11)	234,278	7,315
	<b>\$ 876,099</b>	<b>\$ 367,417</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 267,604	\$ 137,249
Contract advances and unearned income	108,764	71,897
Income taxes payable	1,572	11,528
Future income tax liabilities (Note 16)	14,669	–
Current portion of long-term debt (Note 12)	2,017	559
	<b>394,626</b>	<b>221,233</b>
Long-term deferred warranty claims (Note 7)	2,430	2,642
Long-term debt (Note 12)	73,924	229
Long-term stock-based compensation liability (Note 17)	3,887	1,727
Convertible debentures (Note 13)	74,454	–
Accrued pension obligation (Note 14)	9,078	–
Future income tax liabilities (Note 16)	16,847	79
	<b>575,246</b>	<b>225,910</b>
<b>EQUITY</b>		
Share capital (Note 17)	120,734	16,732
Contributed surplus (Note 18)	9,988	8,496
Convertible debentures (Note 13)	9,660	–
Retained earnings	160,471	116,279
	<b>300,853</b>	<b>141,507</b>
Commitments, Contingencies and Guarantees (Note 22)		
	<b>\$ 876,099</b>	<b>\$ 367,417</b>

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,	
	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net earnings from continuing operations and comprehensive income	\$ 43,083	\$ 33,479
Depreciation and amortization (Note 9 and 10)	15,233	4,435
Loss (gain) on disposal of equipment	41	(11)
Net change in accrued pension obligation	(335)	–
Stock-based compensation (Note 17)	5,396	1,991
Non-cash component of interest expense (Note 15)	1,707	–
Change in long-term deferred warranty claims	(212)	–
Future income taxes	2,310	(9,590)
	<b>67,223</b>	<b>30,304</b>
Change in restricted cash	(2,137)	–
Change in non-cash working capital balances relating to operations (Note 24)	(91,856)	48,160
	<b>(26,770)</b>	<b>78,464</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition, net of cash and cash equivalents acquired (Note 3)	(329,829)	–
Proceeds from long-term receivable	1,798	–
Proceeds on disposal of equipment	218	259
Additions to intangible assets (Note 10)	(8,519)	(3,395)
Additions to property and equipment	(7,608)	(5,131)
	<b>(343,940)</b>	<b>(8,267)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds of long-term debt (Note 12)	198,276	–
Issue costs of long-term debt (Note 12)	(3,342)	–
Repayment of long-term debt (Note 12)	(125,656)	(7,129)
Issuance of convertible debentures (Note 13)	86,250	–
Issue costs of convertible debentures (Note 13)	(3,401)	–
Issuance of common shares (Note 17)	107,307	158
Share issuance costs of common shares (Note 17)	(4,429)	–
Share purchase under a normal course issuer bid	–	(970)
	<b>255,005</b>	<b>(7,941)</b>
Cash (used in) provided by continuing operations	(115,705)	62,256
Cash provided by discontinued operations (Note 4)	2,151	21,378
(Decrease) increase in cash and cash equivalents during the period	\$ (113,554)	\$ 83,634
Cash and cash equivalents, beginning of period	184,402	100,768
Cash and cash equivalents, end of period	<b>70,848</b>	<b>184,402</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash (paid) received during the period for:		
Interest (Note 15)	\$ (5,754)	\$ 384
Income taxes	\$ (40,654)	\$ (10,023)

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

# Notes to the Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

The Churchill Corporation was incorporated on August 31, 1981 in Canada under the Companies Act of Alberta and was continued under the Business Corporations Act (Alberta) on July 30, 1985. The principal activities of The Churchill Corporation and its subsidiaries (collectively the “Corporation”) are to provide building construction, commercial electrical contracting, industrial insulation contracting, industrial electrical and instrumentation contracting, civil construction 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. The Corporation’s subsidiaries include Stuart Olson Dominion Construction Ltd. (“SODCL”), Insulation Holdings Inc. (“IHI”), Laird Electric Inc. (“Laird”), Canem Holdings Ltd. (“Canem”), and Broda Construction Inc. (“Broda”). 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, percentage of completion of fixed price and unit price contracts, 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 employee future benefits, fair value of assets held-for-sale, valuation of long-term deferred warranty claims, provision for legal contingencies, valuation of stock options, valuation of components of the convertible debentures, 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. Revenue on contracts that cannot be forecasted for completion are accounted for based on the completed contract method. The Corporation recognizes revenue on the supply of rock crushing services (“ballast”) when the material is taken by the customer and invoiced. Undelivered ballast is accounted for as costs in excess of billings on the consolidated balance sheets. Costs in excess of billings also represent revenues earned in excess of amounts billed on incomplete contracts. Contract advances and unearned income represent the excess of amounts billed over revenues earned on incomplete contracts.

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 the straight-line method over their estimated useful lives as described below. Depreciation is not taken on assets under construction until the asset is placed into use. During the year, the Corporation revised its useful lives of buildings and improvements, construction and automotive equipment, office furniture and computer hardware. The estimated impact of this change for the year ended December 31, 2010 is a \$350 increase in depreciation expense.

Asset	Basis	Rate
Land improvements	Straight-line	30 years
Buildings and improvements	Straight-line	10 – 25 years
Leasehold improvements	Straight-line	Lesser of estimated useful life or lease term
Construction and automotive equipment	Straight-line	5 – 20 years
Office furniture and equipment	Straight-line	3 – 5 years
Computer hardware and software	Straight-line	1 – 3 years

**(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 has occurred 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) Intangible Assets**

Intangible assets consist of Enterprise Resource Planning (“ERP”) assets and finite life intangible assets consisting of backlog and agency, contracts, customer relationships, and tradenames (Note 3). The ERP assets are measured at cost and are amortized using a straight-line basis over the useful life of 10 years, which became available for use in December 2010. Backlog and agency intangibles are amortized based on management’s expectation of when the related revenues will be earned over the next 2 to 3 years. The contracts, customer relationships and tradenames are all straight-line amortized over 5 to 15 years.

**(ix) Goodwill**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination. Goodwill is not amortized and is tested for impairment annually in the fourth 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, which is measured using the income approach. 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.

**(x) 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.

**(xi) Stock-Based Compensation Plans**

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-based 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. For options that are forfeited before vesting, the compensation expense that has previously been recognized in indirect and administrative expenses and contributed surplus is reversed.

Other stock-based compensation plans are accounted for as liability awards. These include Performance Share Units (“PSUs”) and Deferred Share Units (“DSUs”). The liabilities for these plans are calculated based on the number of award units outstanding at the end of the reporting period. Each unit is equivalent in value to the fair market value of a common share of the Corporation. The liabilities for the PSUs are accrued and expensed on a straight-line basis over the vesting period. DSUs generally vest immediately and are recorded upon grant. Any fluctuation in the common share price changes the value of the units, which affects the stock-based compensation expense. Upon settlement of the PSUs and DSUs, cash payments are made to the holders with a corresponding reduction in the stock-based compensation liability. PSUs are settled within 90 days of the vesting period and DSUs are not settled until termination, death or retirement. For unvested PSUs that are forfeited, the liability is reduced and the stock-based compensation expense that has previously been recognized in indirect and administrative expenses is reversed.

**(xii) Business Combinations**

The Corporation accounts for its business combinations using the purchase method of accounting. Under this method, the Corporation allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair value, at the date of acquisition, with the excess of the purchase price amount allocated to goodwill.

**(xiii) 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. The dilutive effect of stock options and convertible debentures are determined using the treasury stock method.

**(xiv) Employee Future Benefits**

The Corporation and its subsidiaries maintain defined benefit plans (“DB”), defined contribution plans (“DC”), a Registered Retirement Savings Plan (“RRSP”) and an Employee Share Purchase Plan (“ESPP”) with certain of its employees. The Corporation contributes to the RRSP and ESPP plans based on the amount of employee contributions. The Corporation accounts for contributions as an expense in the period that they are made. The RRSP 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. The ESPP 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.

With the acquisition of Seacliff on July 13, 2010 (Note 3), the Corporation inherited the legacy Seacliff pension plans of two of its subsidiaries: Dominion Company Inc. (“Dominion”) and Canem. These plans are comprised of two non-contributory DB pension plans that cover salaried employees who did not convert to Seacliff’s two DC pension plans, which came into effect in 2005. Once the DC pension plans began, new members were no longer accepted into the DB pension plans. Upon acquisition, the Corporation halted new membership to the DC pension plan in Dominion; however, the DC pension plan in Canem continues to accept the entrance of new employees. In Canem’s DC pension plan, employees are automatically enrolled following completion of one year of service for employees hired after April 4, 2004.

The DB pension plans in both Dominion and Canem have a flexi-benefit whereby active members may make flexi-contributions, which must be used to provide benefit enhancements at retirement, termination, or death. Current service costs are expensed in the year. The cost of the DB plans are actuarially determined using the projected benefit method prorated on services and using management’s estimates of expected return on plan assets, which are based on market-related value, rates of compensation increase and retirement ages of employees. Future salaries and cost escalation are considered in the benefit. For the purposes of calculating the expected return on plan assets, the plan assets are valued at fair value. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the difference between the actuarial present value of accrued benefits and the market value of the pension fund assets are amortized over the expected average remaining service life of the employee group. Cumulative actuarial gains or losses in excess of 10% of the greater of the accrued benefit obligation and the fair value of the plan assets are deferred and amortized over the expected average remaining service life of the plan participants.

The DC pension plans are registered pension plans regulated by provincial pension legislation and are also non-contributory plans. Current service costs are expensed as incurred based on a contribution schedule where employee age, length of continuous service and pensionable earnings determine the contribution. The plan assets are held by a third party custodian who invests the contributions on behalf of the participating employees. The DC pension plans cover salaried employees and provide participants with an annual contribution of 3% to 7% of annual base salary based on a participant’s age and service.

**(xv) Share Capital**

The Corporation records proceeds from share issuances net of share issuance costs.

**(xvi) Convertible Debentures**

The Corporation’s convertible debentures are segregated into their debt and equity components at the date of issue. The debt component of the debentures is classified as a liability, and recorded as the present value of the Corporation’s obligation to settle the redemption value of the instrument. The carrying value of the debt component is accreted to the original face value of the instrument, over the term of the convertible debt instrument, using the effective interest method. The value of the conversion option makes up the equity component of an instrument and is recorded using the residual value approach. Upon conversion, any gain or loss arising from the extinguishment of the debt is recorded in operations of the current period.

## **(xvii) 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 related to held-for-trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are added to the carrying value of the asset or netted against the liability and are recognized over the expected life of the instrument using the effective interest method.

### **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 indirect and administrative expenses.

### **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 sundry 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
<b>Financial assets</b>		
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
<b>Financial liabilities</b>		
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
Convertible debentures	Other liabilities	Amortized cost

#### (xviii) 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, 2010 or 2009 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.

#### (xix) Long-Term Deferred Warranty Claims

The Corporation maintains Subcontractor Default Insurance, which was created to provide general contractors with more comprehensive coverage in respect of subcontractor default. The liabilities on the consolidated balance sheets relate to management's best estimate of exposures and costs associated with prior or existing subcontractor performance, and the risk of potential default. Management conducts a thorough review of the liability every quarter and takes into consideration the Corporation's experience to date with those subcontractors that are enrolled in the program, and changes to factors that tend to affect the construction sector.

## 2. Future Changes in Accounting Standards

### International Financial Reporting Standards ("IFRS")

First-time adoption of Part I – International Financial Reporting Standards ("Part I") of the Canadian Institute of Chartered Accountants ("CICA") Handbook is mandatory for Canadian publicly accountable enterprises as of January 1, 2011. Accordingly, the effective transition date for the Corporation is January 1, 2010, with the first



reporting period under IFRS being the three months ended March 31, 2011, including restatement of comparative periods. IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in recognition, measurement and disclosures.

### 3. Acquisition of Seaclyff Construction Corp.

On July 13, 2010, the Corporation completed the acquisition of 100% of the issued and outstanding shares of Seaclyff, pursuant to an arrangement under the Business Corporations Act (British Columbia). Under the terms of the arrangement, Seaclyff shareholders received \$17.14 in cash for each Seaclyff common share, resulting in total cash consideration of \$381,833.

Seaclyff was a diversified construction company providing general contracting construction, electrical contracting and earthmoving services to a wide array of clients in both the public and private sectors. Seaclyff operated through three operating units: i) Dominion ii) Canem and iii) Broda. Dominion offers diversified general contracting, construction management and design-build services in Western Canada, primarily to institutional, commercial and light industrial clients. Canem provides a broad range of electrical contracting services including designing, building, maintaining and servicing electrical and data communication systems for institutional, commercial, light industrial and multi-family residential customers. Broda provides heavy construction and specializes in aggregate processing, earth work, civil construction and concrete production.

The acquisition was accounted for using the purchase method and the results of the operations are included from the date of the acquisition. The total purchase price of the acquisition was \$387,386, including the assumption of Seaclyff's indebtedness. Details of the acquisition are as follows:

<b>Net assets acquired, at fair value</b>	
Cash and cash equivalents	\$ 57,557
Accounts receivable	123,256
Costs in excess of billings	17,525
Inventories and prepaid expenses	24,340
Long-term receivables	598
Property and equipment	44,152
Intangible assets (Note 10)	70,210
Goodwill (Note 11)	226,963
	564,601
Less:	
Accrued pension obligation (Note 14)	9,413
Accounts payable and accrued liabilities	107,077
Income taxes payable	6,772
Contract advances and unearned income	28,817
Long-term debt	5,318
Future income tax liabilities	19,818
	\$ 387,386
<b>Purchase price</b>	
Cash consideration	\$ 381,833
Transaction fees	5,553
	\$ 387,386

Based upon the valuations disclosed above, goodwill recognized on the acquisition amounted to \$226,963, which is not expected to be deductible for tax purposes. The purchase price allocation (“PPA”) was finalized at December 31, 2010 after certain adjustments were recorded. The significant changes in the PPA, as compared to the third quarter, relate primarily to the completion of all construction project status assessments, which identified increases in the estimated costs to complete for various projects. These changes result in a decrease in revenue recognized and the immediate recognition of losses on certain projects totalling a \$3,185 reduction of net assets. In addition, the value assigned to intangible assets decreased by \$3,600 due to the increase in estimated costs on various projects in progress and an additional \$4,030 receivable was booked. These adjustments resulted in an offsetting reduction in the future tax liability of \$2,721.

Prior to the completion of the acquisition, the Corporation replaced the equity bridge facility with a \$200,000, 3-year senior secured revolving credit facility with a syndicate of chartered banks (Note 12). The remainder of the financing for the acquisition was obtained through a prospectus filed on June 8, 2010, which included an equity financing of 6,000,000 subscription receipts for gross proceeds of \$100,500, and an aggregate of \$75,000 principal amount of 6% convertible extendible unsecured subordinated debentures. On June 15, 2010, the equity and debenture financing closed and an additional \$11,250 of convertible debentures were issued pursuant to the exercise of the underwriters’ over-allotment option (Note 13). On July 8, 2010, the underwriters completed a partial exercise of their over-allotment option on the subscription receipts for 324,500 additional subscription receipts. Concurrent with the closing of the acquisition, the subscription receipts were automatically exchanged on a one-to-one basis for common shares of the Corporation for a total of 6,324,500 shares and total gross proceeds of \$105,935 (Note 17).

#### **4. Assets Held-For-Sale and Discontinued Operations**

Assets held-for-sale include agricultural lands and a commercial building. Commencing on the date of disposition of August 12, 2009, the results of operations attributable to these assets and liabilities are reported as discontinued operations for the years ended December 31, 2010 and 2009. The related operations and cash flows have been eliminated from the ongoing operations of the Corporation.

During the year, the Corporation sold the land, equipment and buildings of the Bonnyville property, which was included in assets held-for-sale at December 31, 2009. The Corporation received cash proceeds on the sale of \$2,195 with a net book value of \$407, resulting in a gain of \$1,788. In addition, the Corporation recorded a gain on settlement of liabilities of \$1,269 that were recorded in accounts payable at December 31, 2009.

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:

#### Statements of Earnings

	2010	2009
Revenue	\$ –	\$ 27,954
Contract income	–	1,308
Gain on sale	3,057	4,965
Expenses	(800)	(6,452)
Future tax (expense) recovery	(1,739)	1,517
Current tax recovery	591	–
Net earnings from discontinued operations	\$ 1,109	\$ 1,338

#### Balance Sheets

	2010	2009
Property and equipment	\$ 2,279	\$ 2,691
Future income tax assets	348	2,087
Assets held-for-sale	\$ 2,627	\$ 4,778

#### Statements of Cash Flows

	2010	2009
Operating activities	\$ (44)	\$ 6,897
Financing activities	–	1,235
Investing activities	2,195	13,246
Cash provided by discontinued operations	\$ 2,151	\$ 21,378

## 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:

	2010	2009
Current and total assets	\$ 37,272	\$ 18,363
Current and total liabilities	30,635	17,836
Contract revenue	53,496	10,609
Contract costs and expenses	49,423	9,189
Net earnings	4,073	1,419
Cash flow provided by operating activities	3,347	15,154

## 6. Cash and Cash Equivalents

Included in the cash and cash equivalents balance is \$21,879 (December 31, 2009 – \$15,502) held in joint venture bank accounts. Cash and cash equivalents are comprised of:

	2010	2009
Cash	\$ 70,848	\$ 153,317
Short-term investments	–	31,085
	<b>\$ 70,848</b>	<b>\$ 184,402</b>

## 7. Restricted Cash and Long-Term Deferred Warranty Claims

Restricted cash relates to the general contracting 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, 2010 amounted to \$4,779 (December 31, 2009 – \$2,642) and are presented as restricted cash on the consolidated balance sheets. The long-term deferred warranty claims of \$2,430 (December 31, 2009 – \$2,642) represent the estimated costs associated with project and subcontractor specific risks and exposure of the deductible amounts established with Zurich.

## 8. Accounts Receivable

Accounts receivable are comprised of:

	2010	2009
Trade receivables (Note 21)	\$ 231,117	\$ 53,440
Construction holdbacks, due within one business cycle	106,080	57,270
Other receivables	11,372	5,882
	<b>\$ 348,569</b>	<b>\$ 116,592</b>

Other receivables consists of an allowance for doubtful accounts (Note 21), joint venture receivables (Note 5), and GST receivables.

## 9. Property and Equipment

December 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Land and improvements	\$ 709	\$ 24	\$ 685
Buildings and improvements	3,798	2,711	1,087
Leasehold improvements	9,656	3,729	5,927
Construction and automotive equipment	73,281	23,145	50,136
Office furniture and equipment	3,858	2,490	1,368
Computer hardware and software	12,259	9,634	2,625
Assets under construction	353	–	353
	<b>\$ 103,914</b>	<b>\$ 41,733</b>	<b>\$ 62,181</b>

December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Land and improvements	\$ 709	\$ 24	\$ 685
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
	<b>\$ 32,292</b>	<b>\$ 15,229</b>	<b>\$ 17,063</b>

Included in construction and automotive equipment is \$16,062 (2009 – \$4,272) of assets relating to capital leases and finance contracts and \$4,024 (2009 – \$3,227) of accumulated depreciation for a net book value of \$12,038 (2009 – \$1,045). The majority of the increase over the prior year is related to new assets under capital lease acquired from Seaclyff (Note 3). Included in depreciation and amortization on the consolidated statements of earnings is \$6,383 of depreciation related to property and equipment (December 31, 2009 – \$4,435).

## 10. Intangible Assets

Intangible assets December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Enterprise Resource Planning assets	\$ 11,914	\$ 36	\$ 11,878
Backlog and agency	19,700	6,083	13,617
Contracts, customer relationships and tradenames	50,510	2,731	47,779
	<b>\$ 82,124</b>	<b>\$ 8,850</b>	<b>\$ 73,274</b>

Intangible assets December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Enterprise Resource Planning assets	\$ 3,395	\$ –	\$ 3,395
Backlog and agency	–	–	–
Contracts, customer relationships and tradenames	–	–	–
	<b>\$ 3,395</b>	<b>\$ –</b>	<b>\$ 3,395</b>

The intangible amortization of \$8,850 (December 31, 2009 – nil) is included in depreciation and amortization on the consolidated statements of earnings for the year ended December 31, 2010.

## 11. Goodwill

Goodwill	2010	2009
General Contracting segment	\$ 118,116	\$ –
Industrial Services segment	19,324	7,315
Commercial Systems segment	96,838	–
	<b>\$ 234,278</b>	<b>\$ 7,315</b>

Goodwill consists of \$7,315 related to the acquisition of Laird in 2003 and the remaining \$226,963 relates to the Seacliff acquisition (Note 3). Goodwill is assessed for impairment indicators each accounting period. The Corporation performed an impairment test on goodwill at December 31, 2010, and based on this analysis concluded that the fair value of goodwill exceeded the carrying amount.

## 12. Long-Term Debt

	2010	2009
Senior secured revolving credit facility, interest at prime plus 2.0%, depending on certain financial ratios, secured by all present and future assets.	\$ 76,000	\$ –
Financing fees, net of amortization (Note 15)	(2,785)	–
	<b>73,215</b>	–
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$6,722, interest varying from 0.0% to 8.4%, blended monthly repayments of \$85, maturing between January 2011 and September 2015.	1,774	752
Capital leases, secured by construction and automotive equipment with an aggregate carrying value of \$5,316, interest varying from 0.0% to 10.0%, blended monthly repayments of \$308, maturing between March 2011 and December 2014.	952	36
	<b>2,726</b>	788
Total long-term debt	<b>75,941</b>	788
Less current portion	<b>(2,017)</b>	(559)
	<b>\$ 73,924</b>	\$ 229

### (i) Revolving Credit Facility

On July 12, 2010, the Corporation obtained a \$200,000, 3-year senior secured revolving credit facility with a syndicate of chartered banks. The facility matures on July 12, 2013; however, during the 90 day period before each anniversary date, the Corporation may extend the revolving credit facility for an additional year. As such, there is no current portion of long-term debt related to the revolving credit facility. The revolving credit facility is secured by comprehensive security over all assets of the Corporation. Interest is charged at a rate per annum equal to the Canadian prime rate, Libor rate or Bankers' Acceptance rate as applicable and in effect during the interest period, plus additional interest based on a pricing rate schedule. The additional interest per the pricing rate schedule depends upon the debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio and ranges from a low of 200 basis points for Canadian prime rate loans to a high of 450 basis points for Libor and Bankers' Acceptances. The revolving credit facility contains provisions for stamping fees on Bankers' Acceptances and Libor loans and standby fees on unutilized credit lines that vary depending on certain consolidated financial ratios.

Total interest expense for the year ended December 31, 2010 on the revolving credit facility is \$2,513 representing the interest paid on the debt. Total deferred financing fees are \$3,342 and are net of amortization of \$557, which is also included in interest expense (Note 15).

For the year ended December 31, 2010, there were nil in asset additions acquired through capital leases and finance contracts and as such, were accounted for as non-cash transactions in the consolidated statements of cash flows (December 31, 2009 – \$48).

**(ii) Principal Payments on Finance Contracts and Capital Leases are Due as Follows:**

	2011	\$	2,017
	2012		554
	2013		121
	2014		30
	2015		4
		\$	2,726

**13. Convertible Debentures**

	2010	2009
Principal amount – debt component	\$ 76,250	\$ –
Accretion (Note 15)	888	–
Financing fees, net of amortization (Note 15)	(2,684)	–
Convertible unsecured subordinated debentures – debt component	\$ 74,454	\$ –

	2010	2009
Principal amount – equity component	\$ 10,000	\$ –
Financing fees <sup>(1)</sup>	(340)	–
Convertible unsecured subordinated debentures – equity component	\$ 9,660	\$ –

<sup>(1)</sup> Financing fees are net of future income taxes of \$116.

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

The maturity date of the debentures is June 30, 2015. The debentures bear interest at an annual rate of 6% payable in equal installments semi-annually in arrears on December 31 and June 30 in each year, commencing December 31, 2010. Each debenture is convertible into common shares of the Corporation at the option of the holder at any time after the acquisition closing date (Note 3) and prior to the earlier of the maturity date and the date of redemption of the debenture, at an initial conversion price of \$22.75 per common share, or a conversion rate of approximately 43.9560 common shares per one thousand dollar principal amount of debentures. The Corporation has reserved 3,791,205 common shares for issuance upon conversion of the debentures.

From June 30, 2013, or in the event of a change of control, and at any time prior to the final maturity date, the Corporation may, at its discretion, redeem the debentures, in whole or in part from time to time, provided that the current market price is at least 125% of the conversion price or \$28.44 per common share, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Corporation may, at its discretion, elect to satisfy its obligation to pay the principal amount of the debentures by issuing and delivering common shares. The Corporation may also elect to satisfy its obligations to pay interest on the debentures by delivering common shares. The Corporation does not expect to exercise its right to settle the obligations through the issuance of common shares and as a result the potentially dilutive impact has been excluded from the calculation of fully diluted earnings per share (Note 20). The number of any shares issued will be determined based on market prices at the time of issuance.

The Corporation presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the debentures, the Corporation recorded a liability of \$76,250, less related offering fees of \$2,945. Total interest expense for the year ended December 31, 2010 on \$86,250 of debentures is \$3,953 representing the 6% coupon on the debentures, accretion related to the portion of the debentures recorded in equity and amortization of deferred financing fees calculated using the effective interest method (Note 15). The estimated fair value of the holder's option to convert debentures to common shares in the amount of \$10,000 has been separated from the fair value of the liability and is included in equity, net of its pro rata share of financing fees of \$456.

#### 14. Employee Future Benefits

At July 13, 2010, the Corporation had recognized the fair value of the pension obligation of \$9,413 (Note 3) for the DB pension plans. The Corporation has included the long-term liability on the consolidated balance sheets as an accrued pension obligation of \$9,078 as at December 31, 2010 (December 31, 2009 – nil). Information about the DB pension plans as at the date of acquisition and December 31, 2010 is as follows:

	2010
<b>Accrued benefit obligations</b>	
Balance, July 13, 2010	\$ 28,258
Current service cost	524
Interest cost	803
Benefits paid	(734)
Employee contributions	90
Actuarial gains	(1,214)
Balance, December 31, 2010	\$ 27,727
<b>Plan assets</b>	
Fair value, July 13, 2010	\$ 18,845
Employee and employer contributions	1,028
Actual return on plan assets	1,716
Benefits paid	(734)
Fair value, December 31, 2010	\$ 20,855
Funded status – plan deficit	6,872
Unamortized net actuarial gains	2,206
Unamortized transitional assets	–
Unamortized past service costs	–
Accrued pension obligation, December 31, 2010	\$ 9,078



The measurement date used to determine the plan assets and the accrued benefit obligation was December 31, 2010. Included in the amounts above are individual DB pension plans with accrued benefit obligations in excess of the fair value of plan assets as follows:

	2010
<b>Canem</b>	
Accrued benefit obligation	\$ 9,641
Fair value of plan assets	7,487
Funded status – plan deficit, December 31, 2010	\$ 2,154
<b>Dominion</b>	
Accrued benefit obligation	\$ 18,086
Fair value of plan assets	13,368
Funded status – plan deficit, December 31, 2010	\$ 4,718

The Corporation uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The Corporation completed actuarial valuations for funding and accounting purposes for both Dominion and Canem as at December 31, 2010. The actuarial valuations for funding purposes will be filed with the regulators in 2011. The next actuarial valuations for both Dominion and Canem for funding purposes are required to be performed as of December 31, 2013. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations and net pension plan expense under the DB pension plans are as follows:

	2010
Discount rate on benefit obligations	5.5%
Discount rate on benefit costs	5.7%
Rate of compensation increase for 15 years	3.5%
Expected long-term rate of return on plan assets	7.0%
Inflation rate	2.5%
Average remaining service period of active employees	9 – 11 years

A summary of the elements of defined benefit cost for the DB pension plans is as follows:

	2010
Current service cost	\$ 524
Interest cost	803
Expected return on plan assets	(712)
Net defined benefit pension plan expense	\$ 615

The Corporation's pension plan asset allocation and the current weighted average permissible range for each major asset class are as follows:

	2010
<b>Asset allocation:</b>	
Equity securities	71.0%
Debt securities	29.0%

The Corporation's investment strategy is to achieve a long-term (5 to 10 year period) real rate of return of 7.0% net of all fees and expenses. In identifying the asset allocation ranges, consideration was given to the long-term nature of the underlying plan liabilities, the solvency and going concern financial position of the plan, long-term return expectations and the risks associated with key asset classes, as well as the relationships of their returns with each other, inflation and interest rates.

For the period ending December 31, 2010, the Corporation funded the DB pension plans by \$926 (December 31, 2009 – nil), and the DC pension plans by \$306 (December 31, 2009 – nil).

During the year ended December 31, 2010, the Corporation made contributions to the RRSP of \$1,563 (December 31, 2009 – \$1,293). Contributions made by the Corporation during the year to the ESPP were \$1,775 (December 31, 2009 – \$1,185).

## 15. Interest Expense

Interest expense includes the following:

	2010	2009
Interest expense on revolving credit facility (Note 12)	\$ 2,513	\$ –
Interest expense on convertible debentures (Note 13)	2,803	–
Other interest expense	438	240
<b>Total cash interest expense</b>	<b>\$ 5,754</b>	<b>\$ 240</b>
Non-cash interest expense:		
Amortization of deferred financing fees on revolving credit facility (Note 12)	557	–
Accretion on convertible debentures (Note 13)	888	–
Amortization of deferred financing fees on convertible debentures (Note 13)	262	–
<b>Total non-cash interest expense</b>	<b>\$ 1,707</b>	<b>\$ –</b>
<b>Total interest expense</b>	<b>\$ 7,461</b>	<b>\$ 240</b>

## 16. Income Taxes

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

	2010	2009
Earnings before income taxes	\$ 61,624	\$ 46,647
Non-deductible expenses	4,374	303
<b>Income subject to tax</b>	<b>\$ 65,998</b>	<b>\$ 46,950</b>
Income tax at statutory rate of 28% (2009 – 29%) of taxable income	\$ 18,479	\$ 13,616
Valuation allowance on non-capital loss carryforwards	125	18
Effect of change in tax rates for future income tax and tax recovery	(317)	(50)
Utilization of net capital loss carryforward	–	(580)
Rate difference in other provinces	211	187
Other	43	(23)
<b>Income tax expense</b>	<b>\$ 18,541</b>	<b>\$ 13,168</b>

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

	2010	2009
Tax loss carryforwards	\$ 5,051	\$ 286
Equipment and other assets	(7,701)	113
Intangible assets	(15,812)	–
Financing costs	2,430	–
Pension and other compensation	4,892	–
Valuation allowance on loss carryforwards	(499)	(79)
Unbilled work-in-progress and holdbacks	(2,753)	7,813
Other	1,637	–
	<b>\$ (12,755)</b>	<b>\$ 8,133</b>
Classified as		
Current asset	\$ 15,001	\$ 7,813
Long-term asset	3,760	399
Current liability	(14,669)	–
Long-term liability	(16,847)	(79)
	<b>\$ (12,755)</b>	<b>\$ 8,133</b>

The Corporation has accumulated net capital losses for income tax purposes of \$1,195 (2009 – \$3,172) 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 \$17,647 related to continuing operations, which expire as follows:

	2014	99
	2015	240
	2026	91
	2027	296
	2028	209
	2029	4,083
	2030	12,629
		<b>\$ 17,647</b>

## 17. Equity

### (i) Share Capital

#### Authorized

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

Unlimited Common Shares

#### Issued

	2010		2009	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of year	17,619,259	\$ 16,732	17,822,091	\$ 16,663
Shares repurchased	–	–	(272,600)	(257)
Subscription receipts exercised <sup>(1)</sup>	6,324,500	102,630		
Stock options exercised	189,968	1,372	69,768	326
Issued, end of year	24,133,727	\$ 120,734	17,619,259	\$ 16,732

<sup>(1)</sup> Subscription receipts include transaction fees of \$4,429, net of future income taxes of \$1,124.

### (ii) Stock-Based Compensation

#### Stock Options (Equity-Settled):

The Corporation amended its stock option plan on March 10, 2010 to permit unexercised vested options to be surrendered in exchange for the fair market value of common shares less the option exercise price, or the net settlement. The net settlement value can be paid out in either common shares or cash and is at the sole discretion of the Board of Directors. There is no accounting impact of this amendment on prior periods. In 2010, 220,878 options were surrendered for a total of 105,468 common shares and \$14 (December 31, 2009 – nil).

As at December 31, 2010, the Corporation had 1,131,172 options outstanding (December 31, 2009 – 1,213,243), of which 274,399 are currently exercisable (December 31, 2009 – 262,074).

The following table summarizes information about stock options outstanding under the Plan at December 31, 2010:

Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2010	Options Exercisable Dec. 31, 2010
18.26	October 3, 2012	37,000	37,000
16.05	March 17, 2013	85,828	85,828
16.50	August 14, 2013	56,845	37,897
6.43	November 19, 2013	89,496	53,698
7.29	January 4, 2014	233,334	–
8.08	March 24, 2014	93,643	30,260
10.83	May 14, 2014	1,716	572
10.68	July 9, 2014	1,978	659
13.15	March 24, 2014	292,416	28,485
19.63	March 22, 2015	154,416	–
18.34	July 20, 2015	65,000	–
19.73	August 24, 2015	4,500	–
17.60	December 10, 2015	15,000	–
		<b>1,131,172</b>	<b>274,399</b>

For the year ended December 31, 2010, the Corporation recognized stock-based compensation expense of \$2,616 (December 31, 2009 – \$1,929). During the year, 268,916 options were issued with a weighted average grant date fair value of \$8.15. 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:

	2010	2009
Risk-free interest rate	<b>2.29%</b>	1.92%
Expected life	<b>4.0 years</b>	4.0 years
Expected volatility	<b>53.18%</b>	62.12%
Expected dividends	–	–

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, 2010 and 2009, indicating changes during the years ended, is presented below:

	2010		2009	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of year	<b>1,213,243</b>	<b>\$ 13.04</b>	519,660	\$ 11.13
Granted	<b>268,916</b>	<b>19.06</b>	859,574	4.99
Forfeited	<b>(45,609)</b>	<b>17.71</b>	(96,223)	5.71
Exercised / surrendered	<b>(305,378)</b>	<b>8.11</b>	(69,768)	1.55
Outstanding, end of year	<b>1,131,172</b>	<b>\$ 12.81</b>	1,213,243	\$ 13.04

### Performance Share Units (Cash-Settled):

PSUs are phantom shares that provide eligible participants with an equivalent cash value of common shares. Each grant has a cliff vesting of three years, subject to certain performance criteria. The Corporation has set the PSU performance criteria as comparative Total Shareholder Return (“TSR”) relative to a competitive peer group. When each grant vests at three years, payout can be between 0% and 150% of the vested units, depending on the Corporation’s relative positioning with respect to TSR. Currently the Corporation is using an assumption of 100% vesting to accrue expenses for all outstanding PSUs. Each grant of PSUs are individually evaluated regularly with regard to vesting assumptions.

The Corporation will settle the PSUs in cash within 90 days after the vesting date. The original cost of the PSU is equal to the fair market value at the date of grant. Changes in the amount of the liability due to fair value changes after the initial grant date at each reporting period are recognized as a compensation expense of the period in which the changes occur. PSU holders are entitled to cumulative dividend awards if dividends are issued in the period.

A summary of the Corporation’s outstanding PSUs at December 31, 2010 and 2009, indicating changes during the year is presented below:

	2010	2009
	Number of PSUs	Number of PSUs
Outstanding, beginning of year	243,734	85,195
Granted	73,324	205,849
Forfeited	(25,767)	(47,310)
Outstanding, end of year	291,291	243,734

In 2010, the Corporation recognized compensation expense of \$1,619 (December 31, 2009 – \$1,009) in respect of the PSU Plan. As at December 31, 2010, the Corporation had 291,291 PSUs outstanding (December 31, 2009 – 243,734), of which none are vested and all require that the holder remain in service until the vesting date. The first vesting and payout will be in March 2011 for PSUs granted in 2008, and as at December 31, 2010, \$619 (December 31, 2009 – nil) is included in accounts payable and accrued liabilities on the consolidated balance sheets. The long-term portion of PSUs and DSUs of \$3,887 (December 31, 2009 – \$1,727) is classified as long-term stock-based compensation liability on the consolidated balance sheets. The total fair value of the liability for vested benefits is \$1,821 (December 31, 2009 – \$660), which reflects all of the DSUs outstanding, as none of the long-term PSUs have vested.

### Deferred Share Units (Cash-Settled):

The Corporation has a DSU plan which received board approval on November 3, 2009. Under the DSU plan participants may invest between 1% and 25% of their annual remuneration (employees and non-employee directors), retainer and meeting fees (non-employee directors), or the Corporation’s cash bonus plan (employees). DSUs are phantom shares which provide the holder with the right to receive a cash payment equal to the value of a common share. DSUs are cash settled only when an employee or director ceases to be an employee or director. The terms of

the plan allow for discretionary grants by the Board of Directors. Discretionary grants vest immediately. As DSUs are cash settled, a liability is established and compensation expense is recognized in earnings upon grant. Changes in the amount of the liability due to fair value changes after the initial grant date are recognized as a compensation expense of the period in which the changes occur. DSUs are also adjusted for corporate dividends as they arise.

A summary of the Corporation's outstanding DSUs at December 31, 2010 and 2009, indicating changes during the year is presented below:

	2010	2009
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	32,934	–
Granted	64,349	32,934
Outstanding, end of year	97,283	32,934

In 2010, the Corporation granted 39,157 DSUs to directors as part of their annual remuneration. During the year, directors and employees voluntarily elected to defer compensation related to retainer and meeting fees, salary or cash bonuses for grants of 25,192 DSUs. These DSU grants and elections resulted in \$1,161 (December 31, 2009 – \$660) of stock-based compensation expense for the year.

**(iii) Normal Course Issuer Bid:**

On October 15, 2008, the Corporation commenced a Normal Course Issuer Bid (“NCIB”) which was effective for one year, expiring on October 14, 2009. Under this NCIB, the Corporation was authorized to repurchase and cancel up to 1,391,000 common shares, of which 432,500 were actually repurchased from the inception of the program.

**18. Contributed Surplus**

For stock options granted to employees and directors the Corporation records compensation expense using the fair value method as outlined in Note 17 (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, 2010 and 2009, contributed surplus has changed as follows:

	2010	2009
Balance, beginning of year	\$ 8,496	\$ 6,734
Stock-based compensation expense	2,682	2,102
Stock options exercised/surrendered	(1,124)	(167)
Stock options forfeited	(66)	(173)
Balance, end of year	\$ 9,988	\$ 8,496

## 19. 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 prudent approach towards financial leverage and management of financial risk.

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

The Corporation does not currently pay a dividend so that it has 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 or refinance existing debt.

The primary non-GAAP measures used by the Corporation to monitor its financial leverage are its ratios of long-term indebtedness to book capitalization and long-term indebtedness to EBITDA. For the purposes of capital management, long-term indebtedness includes long-term debt and the debt component of convertible debentures, both net of deferred financing fees. 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 has changed its capital management strategy to reflect the increased size of the Corporation and the related capital structure put in place to finance the Seaclyff transaction (Note 3). Over the long-term, the Corporation strives to maintain a target long-term indebtedness to book capitalization percentage in the range of 20 to 4%, calculated as follows:

	2010	2009
Long-term indebtedness:		
Long-term debt, excluding current portion, net of deferred financing fees	\$ 73,924	\$ 229
Convertible debentures – debt component, net of deferred financing fees	74,454	–
Total long-term indebtedness	148,378	229
Total equity	300,853	141,507
Total capitalization	\$ 449,231	\$ 141,736
Indebtedness to capitalization percentage	33%	0%



The Corporation targets a long-term indebtedness to EBITDA ratio of 1.5x to 3x over a three to five year planning horizon. At December 31, 2010, the long-term indebtedness to EBITDA was 1.74x (December 31, 2009 – 0.0x) calculated on a trailing twelve-month basis as follows:

	2010	2009
Total long-term indebtedness	<b>\$ 148,378</b>	\$ 229
Net earnings and comprehensive income	<b>\$ 44,192</b>	\$ 34,817
Add:		
Interest	<b>7,461</b>	240
Income tax expense	<b>18,541</b>	13,168
Depreciation and amortization	<b>15,233</b>	4,435
EBITDA	<b>\$ 85,427</b>	\$ 52,660
Long-term indebtedness to EBITDA ratio	<b>1.74x</b>	0.0x

The Corporation also manages its capital through a rolling forecast of financial position and expected operating results. In addition, the Corporation establishes and reviews operating and capital budgets and cash flow forecasts in order to manage overall capital with respect to financial covenants. The Corporation's revolving credit facility and surety programs were subject to the following covenants. The Corporation was in full compliance with the debt covenants at December 31, 2010.

- Debt to EBITDA
- Senior debt to EBITDA
- Working capital
- Tangible net worth
- Interest coverage

## 20. Earnings per Share

	2010	2009
Weighted average number of common shares (basic)	<b>20,643,343</b>	17,620,454
Effect of dilutive securities:		
Incremental shares – stock options	<b>470,495</b>	315,097
Incremental shares – convertible debentures	<b>2,077,373</b>	–
Weighted average number of common shares (diluted)	<b>23,191,211</b>	17,935,551

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 number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. These include the outstanding stock options and the convertible debentures, assuming that all of the debenture holders converted at time of issuance. For the dilutive earnings per share calculation, the interest expense, accretion and amortization of deferred financing fees has been tax effected and added back to net earnings in order to calculate the diluted net earnings. For the year ended December 31, 2010, the adjustment is \$2,807 (December 31, 2009 – nil).

## 21. 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.

### (i) Financial Instruments – Carrying Values

	2010	2009
<b>Financial assets:</b>		
Cash and cash equivalents	\$ 70,848	\$ 184,402
Accounts receivable	348,569	116,592
Restricted cash	4,779	2,642
Long-term receivable, including current portion	1,800	3,000
<b>Financial liabilities:</b>		
Accounts payable and accrued liabilities	\$ 267,604	\$ 137,249
Long-term deferred warranty claims	2,430	2,642
Long-term debt, including current portion	75,941	788
Convertible debentures – debt component	74,454	–

### (ii) Financial Instruments – Fair Values

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 trade and other payables, approximates their respective carrying amounts as at the consolidated 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 credit facility, capital leases and financed contracts, also approximates their respective carrying amounts due to the floating rate nature of the debt.

The fair value of the liability and equity components of the convertible debentures is \$90,653 at December 31, 2010 (December 31, 2009 – nil), which is based on the market trading price of this instrument.

#### Fair Value Hierarchy

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

### (iii) Financial Income and Expense

	2010	2009
Interest income – cash and cash equivalents	\$ 980	\$ 643
Interest expense – revolving credit facility	\$ (2,513)	\$ –
Interest expense – convertible debentures	(2,803)	–
Interest expense – other	(438)	(240)
Bad debt expense, net	(852)	(73)
	<b>\$ (5,626)</b>	<b>\$ 330</b>

### (iv) 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.

#### Credit Risk

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

The Corporation assesses accounts receivable for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation takes into consideration the customer's payment history, credit worthiness and the current economic environment in which the customer operates to assess impairment. Prior to accepting new customers, the Corporation assesses the customer's credit quality and establishes the customer's credit limit. The Corporation accounts for specific bad debt provisions when management considers that the expected recovery is less than the actual amount of the accounts receivable.

The provision for doubtful accounts has been included in indirect and administrative expenses in the consolidated statements of earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at December 31, 2010 is \$3,685 (December 31, 2009 – \$1,117), of which \$2,580 relates to amounts outstanding over 90 days (December 31, 2009 – \$1,117).

Trade receivables (Note 8) include the following amounts that are past due at the end of the reporting period. The Corporation does not hold any collateral over these balances and does not have a legal right of offset against any amounts owed by the Corporation to the counterparty.

	2010	2009
Past due 0-90 days	\$ 216,164	\$ 50,261
Past due 90-120 days	14,023	2,868
Past due more than 120 days	930	311
	<b>\$ 231,117</b>	<b>\$ 53,440</b>

In determining the quality of trade receivables, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. Included in the total greater than 90 days past due, \$4,922 (33%) was concentrated in an oil sands customer account, of which nil remains outstanding as of March 10, 2011. There are no other concentrations of credit risk in geographical areas, customer markets or other areas as at December 31, 2010.

### Interest Rate Risk

The financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation is exposed to interest rate risk on its revolving credit facility with payment terms as disclosed in Note 12. The Corporation does not use derivative instruments to reduce its exposure to this risk.

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

	Carrying Amount	
	2010	2009
<b>Fixed rate instruments</b>		
Financial assets	\$ –	\$ –
Financial liabilities	74,454	–
<b>Variable rate instruments</b>		
Financial assets	\$ 70,848	\$ 184,402
Financial liabilities	75,941	788

### Fixed rate sensitivity

The Corporation does not account for any fixed rate financial assets and liabilities at fair value and the Corporation does not designate any derivatives (interest rate swaps) as hedging instruments; therefore, a change in interest rates at the reporting date would not affect profit or loss for those instruments.

### Variable rate sensitivity

A change of 100 basis points in interest rates at the reporting date would have increased or decreased equity and profit or loss by \$500 (December 31, 2009 – \$1,310) related to financial assets and by \$540 (December 31, 2009 – \$5) related to financial liabilities.

### Liquidity Risk

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

The following are the contractual obligations, including estimated interest payments. Interest payments on the revolving credit facility have not been included in the table below since they are subject to variability based upon outstanding balances at various points throughout the year.

	Carrying Amount	Contractual Cash Flows	0 – 6 Months	6 – 12 Months	12 – 24 Months	After 24 Months
Accounts payable and accrued liabilities	\$ 267,604	\$ 267,604	\$ 267,604	\$ –	\$ –	\$ –
Long-term debt, including current portion (Note 12)	75,941	75,941	1,009	1,008	554	73,370
Convertible debentures (Note 13)	74,454	112,125	2,588	2,587	5,175	101,775
Lease commitments (Note 22)	–	27,790	2,947	2,948	5,297	16,598
	<b>\$ 417,999</b>	<b>\$ 483,460</b>	<b>\$ 274,148</b>	<b>\$ 6,543</b>	<b>\$ 11,026</b>	<b>\$ 191,743</b>

## 22. Commitments, Contingencies and Guarantees

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:

	2011	\$ 5,895
	2012	5,297
	2013	4,769
	2014	3,578
	2015	2,913
	Thereafter	5,338
		<b>\$ 27,790</b>

### (i) Contingencies

At December 31, 2010, 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.

### (ii) Commitments and Guarantees

The Corporation has a non-discretionary five year commitment totaling \$1,000 to SAIT Polytechnic, of which \$400 is remaining.

The Corporation is a participant in joint ventures for which it has provided joint and several guarantees, increasing the maximum potential payment to the full value of the work remaining under the contract. The Corporation has issued several parental guarantees in support of significant projects being undertaken by the general contracting and industrial services segments. The cost of completing the contracts cannot reasonably be determined, and may be greater or less than the unbilled portion of the contracts. Furthermore, there are various outstanding parental guarantees provided by the Corporation in respect of the obligations and performance of the Corporation's operating segments.

### (iii) Letters of Credit

In addition, the Corporation has provided several letters of credit in the amount of \$23,939 in connection with various projects and joint ventures (December 31, 2009 – \$11,787). These letters of credit are issued utilizing the credit facilities of the Corporation and reduce the maximum availability under the revolving credit facility.

## 23. Related Party Transactions

The Corporation incurred legal fees of \$354 (December 31, 2009 – \$610) during the year for services related to various legal matters with a law firm of which a director of the Corporation was a partner at December 31, 2010. At December 31, 2010, \$4 (December 31, 2009 – \$29) is included in accounts payable.

The Corporation incurred facility costs of \$146 (December 31, 2009 – \$146) related to rental of a building which is owned by a director of the Corporation. At December 31, 2010 there was nil (December 31, 2009 – nil) included in accounts payable.

The Corporation incurred facility costs related to an office lease agreement with a company controlled by the presidents of one of Churchill's operating companies. For the year ended December 31, 2010, the Corporation incurred facility costs of \$184 (December 31, 2009 – nil). At December 31, 2010, nil (December 31, 2009 – nil) is 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 carrying amount. These costs have all been included in indirect and administrative expenses on the consolidated statements of earnings.

## 24. Change in Non-Cash Working Capital Balances Relating to Operations

	2010	2009
Accounts receivable	\$ (108,721)	\$ 2,656
Inventories and prepaid expenses	20,422	336
Costs in excess of billings	3,440	(1,321)
Income taxes recoverable	(20,961)	3,559
Accounts payable and accrued liabilities	22,642	3,055
Contract advances and unearned income	8,050	30,809
Income taxes payable	(16,728)	9,066
	<b>\$ (91,856)</b>	<b>\$ 48,160</b>

The comparative amount for accounts payable and accrued liabilities reflects a retrospective reclassification of the long-term portion of PSUs and DSUs (Note 26).

## 25. Segmented Information

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides its operations into four business segments and reports its results under the categories of: General Contracting, Industrial Services, Commercial Systems, and Corporate and Other. The accounting policies and practices of the reportable segments are the same as those described in Note 1.

**General Contracting** — General Contracting consists of SODCL. SODCL constructs commercial, institutional, light-industrial and multi-unit residential buildings. Following the Seaclyff transaction closing, Stuart Olson Constructors Inc. (“Stuart Olson”) and Dominion Company Inc. (“Dominion”) were combined to form SODCL. Stuart Olson and Dominion have been general contractors since 1939 and 1911 respectively and during the last several years both have become key players in Western Canada’s building markets.

**Industrial Services** – Industrial Services consists of Laird, IHI and Broda. Laird is headquartered in Edmonton, and provides electrical, instrumentation and power-line construction and maintenance services to resource and industrial clients, primarily in the Fort McMurray and greater Edmonton regions. IHI is also headquartered in Edmonton, serving industrial clients with insulation, asbestos abatement, siding application, HVAC and plant maintenance services. Its clients are in the oil sands, oil and gas, petrochemical, forest products, power, utilities and mining industries. Broda is headquartered in Prince Albert, Saskatchewan, providing aggregate processing, earthwork, civil construction, concrete production and related services. It serves a broad range of organizations, including two major Canadian railway corporations and a number of Saskatchewan’s major potash, uranium, and infrastructure.

**Commercial Systems** – Commercial Systems, consisting of Canem with its head office located in Richmond, B.C., designs, builds, maintains and services electrical and data communication systems for institutional, commercial, light industrial and multi-family residential customers. Its services include the design of electrical distribution systems within a building or complex; procurement and installation of electrical equipment and materials; on-call service for electrical maintenance and troubleshooting; preventative and scheduled maintenance for critical component installations; budgeting and pre-construction services; and management of regional and national contracts for multi-site installations.

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

The segmented information for the year ending and as at December 31, 2010 and 2009 is as follows:

Year ended December 31, 2010	General Contracting	Industrial Systems	Commercial Services	Corporate and Other	Intersegment Eliminations	Total
Revenues	\$ 812,239	\$ 300,546	\$ 80,308	\$ –	\$ (17,760)	\$ 1,175,333
EBITDA from continuing operations <sup>(1)</sup>	65,275	24,600	11,730	(16,309)	(978)	84,318
Depreciation and amortization	2,445	3,291	671	8,994	(168)	15,233
Interest expense (recovery)	119	208	16	7,436	(318)	7,461
Earnings (loss) before tax	\$ 62,711	\$ 21,101	\$ 11,043	\$ (32,739)	\$ (492)	\$ 61,624
Income taxes						(18,541)
Net earnings from continuing operations						\$ 43,083
Intangible assets and goodwill	\$ 141,644	\$ 21,739	\$ 132,291	\$ 11,878	\$ –	\$ 307,552
Total assets	\$ 352,417	\$ 158,170	\$ 48,336	\$ 347,587	\$ (30,411)	\$ 876,099
Capital expenditures	\$ 2,496	\$ 2,855	\$ 475	\$ 10,024	\$ 277	\$ 16,127

Year ended December 31, 2009	General Contracting	Industrial Systems	Commercial Services	Corporate and Other	Intersegment Eliminations	Total
Revenues	\$ 484,128	\$ 117,555	\$ –	\$ –	\$ (442)	\$ 601,241
EBITDA from continuing operations <sup>(1)</sup>	51,424	11,886	–	(11,123)	(865)	51,322
Depreciation and amortization	2,229	1,416	–	781	9	4,435
Interest expense (recovery)	38	42	–	746	(586)	240
Earnings (loss) before tax	\$ 49,157	\$ 10,428	\$ –	\$ (12,650)	\$ (288)	\$ 46,647
Income taxes						(13,168)
Net earnings from continuing operations						\$ 33,479
Intangible assets and goodwill	\$ –	\$ 7,315	\$ –	\$ 3,395	\$ –	\$ 10,710
Total assets	\$ 228,606	\$ 46,666	\$ –	\$ 115,007	\$ (22,862)	\$ 367,417
Capital expenditures	\$ 3,120	\$ 1,546	\$ –	\$ 3,886	\$ (26)	\$ 8,526

(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 nil (December 31, 2009 – \$48) relating to capital leases and finance contracts have been treated as non-cash transactions and as such have not been reflected on the consolidated statements of cash flow (Note 12).

In 2010, revenue from a significant customer was \$141,601 (December 31, 2009 – \$110,338), which represented greater than 10% of contract revenue earned. This revenue was earned in the general contracting segment.

## 26. Comparative Figures

The comparative amounts reflect a retrospective reclassification of the long-term portion of PSUs and DSUs of \$1,727, previously included in accounts payable and accrued liabilities, to long-term stock-based compensation liability on the consolidated balance sheets. This reclassification did not have any effect on net income, equity, cash flows, or externally imposed financial covenants to which the Corporation was subject for the year ended December 31, 2009.



# Corporate & Shareholder Information

## Officers

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

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

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

**Gord Broda**  
President and Chief Operating Officer,  
Broda Construction Inc.

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

**Amy Gaucher, CA**  
Vice President, Finance and  
Administration

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

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

**Ron Martineau**  
President and Chief Operating Officer,  
Insulation Holdings Inc.

**Al Miller**  
President, Canem Systems

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

## Directors

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

**Wendy L. Hanrahan, CA** <sup>(1) (2)</sup>

**James C. Houck, B.Sc., MBA**

**Harry A. King, B.A., CA** <sup>(1)</sup>

**Carmen R. Loberg** <sup>(2) (4)</sup>

**Allister J. McPherson, B.Sc., M.Sc.** <sup>(1) (3)</sup>

**Henry R. Reid, B.A.Sc., MBA, P.Eng.** <sup>(4)</sup>

**Ian M. Reid, B.Comm.** <sup>(1) (3)</sup>

**George M. Schneider** <sup>(2) (4)</sup>

**Brian W. L. Tod, B.A., LL.B., Q.C.** <sup>(2) (3)</sup>

<sup>(1)</sup> Member of the Audit Committee

<sup>(2)</sup> Member of the Human Resources &  
Compensation Committee

<sup>(3)</sup> Member of the Corporate Governance &  
Nominating Committee

<sup>(4)</sup> Member of the Health, Safety and  
Environment Committee

## Registrars and Transfer Agents

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

### Common Shares:

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

### Notice of Annual Meeting

The Annual General Meeting will be held on  
May 25, 2011 at 2:00 p.m. at the Metropolitan Centre,  
333 – 4th Avenue SW, Calgary, Alberta.

## 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**

### Convertible Debentures:

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

the  
**Churchill**  
Corporation

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