



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

Forward-Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. See "Forward-Looking Statements" at the end of this MD&A.

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

Overview of Our Business and Strategy

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

Vision

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

Core Values

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

Mission

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

The Corporation's strategy is as follows:

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

Reporting by Segment

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

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

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

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

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

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

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

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

Fourth Quarter Overview

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

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

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

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

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

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

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

Results of Operations

Buildings

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

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

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

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

Industrial Insulation Contracting

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

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

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

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

Industrial Electrical Contracting

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

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

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

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

Selected Annual Financial Information

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

Years ended December 31

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

Annual Overview

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

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

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

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

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

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

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

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

Discontinued Operations

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

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

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

Statements of Earnings

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

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

Results of Operations in the Year

Buildings

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

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

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

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

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

Industrial Insulation Contracting

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

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

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

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

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

Industrial Electrical Contracting

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

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

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

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

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

Corporate and Other

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

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

Capital Resources and Liquidity

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

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

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

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

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

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

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

Contractual Obligations ⁽¹⁾

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

(1) The above table represents scheduled debt repayments.

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

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

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

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

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

Share Data

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

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

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

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

Stock-based Compensation

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

Other Compensation Expenses

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

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

Supplemental Disclosures

Off-Balance Sheet Arrangements

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

Related Party Transactions

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

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

Outlook

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

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

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

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

Critical Accounting Estimates

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

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

Contract Revenue and Contract Costs

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

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

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

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

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

Changes in Accounting Policies

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

- 3064, *Goodwill and Intangible Assets*, replacing Section 3062, Goodwill and Other Intangible Assets. This new Section established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions of this Section, relating to the definition and initial recognition of intangible assets, are equivalent to the corresponding provisions under International Financial Reporting Standards (“IFRS”). CICA Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new Section. The adoption of this standard has resulted in reallocating additions in the year of \$3,395 related to the new ERP system from property and equipment to intangible assets.
- Emerging Issues Committee’s Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* (“EIC-173”). This standard clarifies that an entity’s own credit risk and the credit risk of its counterparties should be taken into account in determining the fair value of financial assets and liabilities. The adoption of this standard did not have a material impact on the Corporation’s consolidated financial statements or on the fair value determination of its financial assets and liabilities.
- 3475, Disposal of Long-Lived Assets and Discontinued Operations. Long-lived assets are classified as held for sale once certain criteria are met. Such criteria include a firm commitment by management and the board of directors to dispose of a business or group of selected assets and the expectation that such disposal will be completed within a twelve month period. Assets held for sale are measured at the lower of their carrying amounts or fair values less costs to sell, and are no longer depreciated.

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

Recent Accounting Pronouncements

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

- 1582, “Business Combinations”;
- 1601, “Consolidated Financial Statements”; and
- 1602, “Non-Controlling Interests”.

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

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

International Financial Reporting Standards (“IFRS”)

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

IFRS Conversion Plan

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

Churchill’s implementation project consists of three principal phases:

Phase 1: Preliminary Scope and Diagnostic

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

Phase 2: Detailed Design and Evaluation

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

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

Phase 3: Implementation and Embedding

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

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

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

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

Information Systems and Business Processes

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

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

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

Training and Communication

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

Financial Statement Preparation and Internal Controls

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

Business Activities

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

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

Risks and Uncertainties

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

Volatile Market Conditions

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

Limited Geographic Scope of Operations

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

Unexpected Adjustments and Cancellations in Backlog

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

Weather

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

Competition

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

Performance Bonds

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

Corporate Guarantees and Letters of Credit

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

Dependence on the Public Sector

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

Unanticipated Shutdowns

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

Failure of Clients to Obtain Required Permits and Licenses

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

Labour Shortages and Material Prices

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

Shortage of Client Design Capabilities

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

Design-Build Risk

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

Public-Private Partnerships

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

Joint Venture Partners

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

Estimating Costs, Assessing Contract Risk

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

Accuracy of Cost to Complete Estimates

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

Reliance on Suppliers and Subcontractors

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

Contractor Default Insurance

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

Work Stoppages

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

Financial Resources

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

Potential for Non-Payment

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

Acquisition and Integration Risk

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

Loss of Key Management, Inability to Attract and Retain Management

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

Maintaining Safe Worksites

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

Litigation Risk

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

Compliance with Environmental Laws

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

Regulations

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

Volatility of Market Trading

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

Quarterly Financial Information

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

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

(1) During 2008, the Corporation repurchased and cancelled 159,900 common shares at an average price of \$6.18 per share.

(2) During 2009, the Corporation cancelled 145,000 common shares acquired in December 2008 at an average price of \$6.58 per share.

(3) During the remainder of 2009, the Corporation repurchased and cancelled 127,600 common shares at an average price of \$7.59 per share.

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

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

Controls and Procedures

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Because of inherent limitations in all control systems, absolute assurance cannot be provided that all misstatements have been detected. Management is responsible for establishing and maintaining adequate internal controls appropriate to the nature and size of the business, to provide reasonable assurance regarding the reliability of financial reporting for the Corporation.

Under the oversight of the Audit Committee and Board of Directors, management with the participation of the Corporation's CEO and CFO, evaluated the design of the Corporation's internal controls over financial reporting using the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework ("COSO"). The evaluation included documentation review, enquiries, testing and other procedures considered by management to be appropriate in the circumstances. As at the end of the period covered by this management discussion and analysis, management has concluded that the design and operation of the internal controls over financial reporting were effective.

Material Changes to the Internal Controls over Financial Reporting

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

Terminology

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

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

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

Backlog means the total value of work including work-in-hand that has not yet been completed that: (a) is assessed by the Corporation as having high certainty of being performed by the Corporation or its subsidiaries by either the existence of a contract or work order specifying job scope, value and timing; or (b) has been awarded to the Corporation or its subsidiaries, as evidenced by an executed binding or non-binding letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work currently assessed by the Corporation as being reasonably assured. All projects

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

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

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

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

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

EBITDA is a common financial measure widely used by investors to facilitate an "enterprise level" valuation of an entity. The Corporation follows the standardized definition of EBITDA. Standardized EBITDA represents an indication of the Corporation's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, standardized EBITDA comprises revenues less operating cost before interest expense, capital asset amortization and impairment charges, and income taxes. This measure as reported by the Corporation may not be comparable to similar measures presented by other reporting issuers. The following is a reconciliation of net earnings to EBITDA from continuing operations for each of the periods presented in this MD&A in accordance with GAAP.

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

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

Forward-Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting",

“intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

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

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

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

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

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

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

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

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