

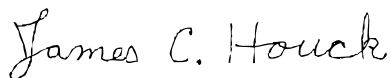
consolidated financial statements

Management's Report

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

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

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



James C. Houck
President and Chief Executive Officer



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

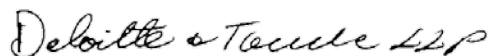
Auditors' Report

TO THE SHAREHOLDERS OF THE CHURCHILL CORPORATION

We have audited the consolidated balance sheets of The Churchill Corporation (the "Corporation") as at December 31, 2008 and December 31, 2007 and the consolidated statements of earnings, comprehensive income, retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Edmonton, Alberta

March 2, 2009

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

(\$ thousands, except per share amounts)

Year Ended December 31

	2008	2007
Contract revenue	\$ 846,817	\$ 736,141
Contract costs	746,665	666,562
Contract income	100,152	69,579
Interest income	2,669	2,777
Sundry income	429	887
Indirect and administrative expenses	(45,634)	(38,146)
Depreciation and amortization	(4,778)	(3,522)
Interest expense	(567)	(749)
Earnings before income taxes	52,271	30,826
Income tax (expense) recovery (Note 10)		
Current income tax	(14,077)	(14,292)
Future income tax	(1,751)	4,592
	(15,828)	(9,700)
Net earnings and comprehensive income	36,443	21,126
Retained earnings, beginning of year	47,528	26,402
Adjustment arising from shares purchased under a normal course issuer bid (Note 11)	(839)	-
Retained earnings, end of year	\$ 83,132	\$ 47,528
Net earnings per common share:		
Basic	\$ 2.03	\$ 1.19
Diluted	\$ 2.01	\$ 1.17
Weighted average common shares:		
Basic	17,928,037	17,730,644
Diluted	18,109,979	17,995,235

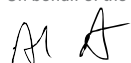
The accompanying notes are an integral part of these consolidated financial statements

Consolidated Balance Sheets

(\$ thousands)	December 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	\$ 100,768	\$ 108,105
Accounts receivable (Note 6)	139,508	123,906
Inventories and prepaid expenses	1,493	859
Costs in excess of billings	21,238	21,877
Income taxes recoverable	3,669	-
Future income tax assets (Note 10)	1,850	4,504
	268,526	259,251
Future income tax assets (Note 10)	905	788
Property and equipment (Note 7)	26,054	22,832
Goodwill and intangible assets (Note 8)	7,336	7,420
	\$ 302,821	\$ 290,291
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 140,806	\$ 149,057
Contract advances and unearned income	41,525	46,488
Income taxes payable	2,462	10,148
Future income tax liabilities (Note 10)	3,179	3,745
Current portion of long-term debt (Note 9)	2,251	1,963
	190,223	211,401
Long-term debt (Note 9)	6,787	8,755
Future income tax liabilities (Note 10)	238	457
	197,248	220,613
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	16,663	16,414
Shares repurchased under a normal course issuer bid, not cancelled (Note 11)	(956)	-
Contributed surplus (Note 12)	6,734	5,736
Retained earnings	83,132	47,528
	105,573	69,678
Contingencies and commitments, and guarantees (Notes 15 and 16)		
	\$ 302,821	\$ 290,291

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

On behalf of the Board of Directors:



Albrecht W.A. Bellstedt, QC
Chairman



Harry King, CA
Director

Consolidated Statements of Cash Flow

(\$ thousands)

Year Ended December 31

	2008	2007
OPERATING ACTIVITIES		
Net earnings and comprehensive income	\$ 36,443	\$ 21,126
Depreciation and amortization	4,778	3,522
Gain on disposal of equipment	(34)	(224)
Share-based compensation (Note 11)	1,109	194
Future income taxes	1,751	(4,592)
	44,047	20,026
Change in non-cash balances relating to operations (Note 18)	(40,165)	53,696
	3,882	73,722
INVESTING ACTIVITIES		
Long-term cash and equivalents	-	4,000
Proceeds on disposal of equipment	235	369
Additions to property and equipment	(7,803)	(6,806)
	(7,568)	(2,437)
FINANCING ACTIVITIES		
Proceeds under operating line of credit	9,000	5,000
Repayments under operating line of credit	(9,000)	(17,000)
Repayment of long-term debt	(1,994)	(1,781)
Repayment of demand term loan	-	(455)
Share purchase under a normal course issuer bid (Note 11)	(1,944)	-
Issuance of common shares	287	669
	(3,651)	(13,567)
Increase (decrease) in cash	(7,337)	57,718
Cash and cash equivalents, beginning of year	108,105	50,387
Cash and cash equivalents, end of year	\$ 100,768	\$ 108,105
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash received (paid) during the year for:		
Interest	\$ 2,240	\$ 1,890
Income taxes	\$ (25,432)	\$ 8,471

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

Notes to the Consolidated Financial Statements

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

1. Summary Of Significant Accounting Policies

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

(i) Principles of Consolidation

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

(ii) Measurement Uncertainty

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

(iii) Contract Revenue and Contract Costs

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

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

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

(iv) Cash and Cash Equivalents

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

(v) Inventories

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

(vi) Property and Equipment

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

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

(vii) Accounting for Impairment of Long-Lived Assets

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

(viii) Goodwill and Intangible Assets

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

The intangible assets are amortized on a straight-line basis over three years.

(ix) Income Taxes

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

(x) Share-Based Compensation Plan

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

(xi) Earnings Per Share

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

(xii) Employee Future Benefits

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

(xiii) Financial Instruments

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

Held for trading

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

Available-for-sale

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

Held-to-maturity

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

Loans, receivables and other liabilities

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

The Corporation has the following financial assets and liabilities:

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

(xiv) Accumulated Other Comprehensive Income and Retained Earnings

The Corporation applies the standards for reporting and displaying other comprehensive income, defined as revenue, expenses, and gains and losses which, in accordance with primary sources of GAAP, are recognized in comprehensive income but excluded from net earnings. The application of these standards did not have any impact on the Corporation’s financial statement presentation during the years ended December 31, 2008 or 2007 as the Corporation has no other comprehensive income components.

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

2. Accounting Policy Changes

(i) General standards of financial statements

Effective January 1, 2008, the Corporation adopted the new requirements of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1400, *General Standards of Financial Statement Presentation*. The new requirements require management to make an assessment of the Corporation’s ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. The Corporation determined that there was no material impact from the adoption of Section 1400 on the consolidated financial statements.

(ii) Capital disclosures

Effective January 1, 2008, the Corporation adopted the new recommendations of the CICA Handbook Section 1535, *Capital Disclosures*. This new Handbook Section establishes standards for disclosing information about an entity’s capital and how it is managed. The standard requires the disclosure of information about an entity’s objectives, policies and processes for managing capital. These new disclosures are included in note 13.

(iii) Inventories

Effective January 1, 2008, the Corporation adopted CICA Handbook Section 3031, *Inventories*. The new Section is a replacement of the CICA Handbook Section 3030. Under the requirements of the new standard, inventories are measured at the lower of cost and net realizable value; cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects are assigned by using a specific identification of their individual costs; consistent use of either first-in, first-out or weighted average cost is prescribed for other inventories, and the reversal of previous write-downs to net realizable value is required when there is a subsequent increase in the value of the inventories. The Corporation determined that there was no material impact from the adoption of Section 3031 on the consolidated financial statements.

(iv) Financial instruments

Effective January 1, 2008, the Corporation adopted the new recommendations of CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Handbook Section 3863, *Financial Instruments – Presentation*. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have any impact on the classification and valuation of the Corporation's financial instruments. The new disclosures pursuant to these new Handbook Sections are included in note 14.

3. Recent Accounting Pronouncements

(i) Goodwill and Intangible Assets

As of January 1, 2009, the Corporation will be required to adopt the CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which will replace the existing standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard should not have a material impact on the Corporation's consolidated financial statements.

(ii) International Financial Reporting Standards (IFRS)

The Accounting Standards Board ("AcSB") has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. The Corporation has undertaken a project to assess the potential impacts of the transition to IFRS and has developed a detailed project plan to ensure compliance with the new standards

The Corporation has completed the initial phase of the implementation project including a diagnostic analysis which included 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 second phase, which is currently in progress, includes the analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. The Corporation will continue to assess the impact of the conversion to IFRS and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion. The Corporation is currently assessing the impact of the adoption of IFRS on our results of operations, financial position and financial statement disclosures.

4. Joint Ventures

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

	2008		2007
Current and total assets	\$ 533	\$	2,695
Current and total liabilities	1,164		1,252
Contract revenue	400		4,576
Contract costs and expenses	309		2,540
Net earnings	91		2,036
Cash flow provided by operating activities	740		1,504

5. Cash and Cash Equivalents

Included in the cash and cash equivalents balance is \$17,466 (2007 - \$25,342) which is separated for the payment of direct costs related to specific construction projects as required by the British Columbia Lien Act and cash balances of \$309 (2007 - \$1,737) held in joint venture accounts. Cash and cash equivalents are comprised of:

	2008		2007
Cash	\$ 80,733	\$	79,945
Short-term investments	20,035		28,160
	\$ 100,768	\$	108,105

6. Accounts Receivable

Accounts receivable are comprised of:

	2008		2007
Trade receivables	\$ 73,593	\$	67,169
Construction holdbacks, due within one year	64,744		52,219
Other receivables	1,171		4,518
	\$ 139,508	\$	123,906

7. Property and Equipment

December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,944	\$ -	\$ 1,944
Land improvements	1,518	249	1,269
Buildings and improvements	8,923	2,772	6,151
Leasehold improvements	2,765	982	1,783
Construction and automotive equipment	25,130	14,931	10,199
Office furniture and equipment	11,429	8,251	3,178
Assets under construction	1,530	-	1,530
	\$ 53,239	\$ 27,185	\$ 26,054

December 31, 2007	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,944	\$ -	\$ 1,944
Land improvements	1,518	199	1,319
Buildings and improvements	8,295	2,534	5,761
Leasehold improvements	2,874	897	1,977
Construction and automotive equipment	22,527	13,336	9,191
Office furniture and equipment	9,490	6,876	2,614
Assets under construction	26	-	26
	\$ 46,674	\$ 23,842	\$ 22,832

Included in Construction and automotive equipment is \$1,617 (2007 - \$1,617) of assets relating to capital leases from the leasing facility and \$812 (2007 - \$474) of accumulated depreciation for a net book value of \$805 (2007 - \$1,143).

8. Goodwill And Intangible Assets

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

December 31, 2007	Cost	Accumulated Depreciation	Net Book Value
Intangible assets	\$ 252	\$ 147	\$ 105
Goodwill	7,315	-	7,315
	\$ 7,567	\$ 147	\$ 7,420

The intangible assets resulted from the design and implementation of processes related to the Corporation's computer systems.

The Corporation performed an impairment test related to the goodwill acquired on an acquisition completed in fiscal 2003. As at December 31, 2008, no impairment was recorded as the fair value of the goodwill exceeded the carrying amount.

9. Long-term Debt

	2008	2007
Revolving line of credit, interest varying from prime to prime plus 0.5% depending on certain financial ratios, secured by land and buildings with an aggregate carrying value of \$6,504, as well as various security agreements and unlimited guarantees.	\$ 5,265	\$ -
Term loan, interest at prime plus 1.0%, payable monthly in arrears, principal repayable in monthly installments of \$65, secured by land and buildings with an aggregate carrying value of \$6,504, maturing June 2015.	-	5,980
Mortgage, interest at 6.47%, blended monthly repayments of \$10, secured by land and buildings with an aggregate carrying value of \$1,970, maturing November 2009.	1,145	1,186
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$1,750, interest varying from 0.0% to 5.0%, blended monthly repayments of \$80, maturing between May 2009 and September 2013.	1,590	2,266
Capital leases, secured by construction and automotive equipment with an aggregate carrying value of \$805, interest at the three-year guaranteed investment certificate rate plus 3.25%, blended monthly repayments of \$30, maturing between February 2011 and February 2012.	1,038	1,286
	9,038	10,718
Less current portion	(2,251)	(1,963)
	\$ 6,787	\$ 8,755

(i) Terms and Security

On December 19, 2008, the Corporation renegotiated the credit facility with the Corporation's bank. The new credit facility replaced the Operating line of credit and the Term loan with a Revolving line of credit. The Revolving line of credit is limited to \$60,000 and bears interest at rates varying between prime and prime plus 0.5% based on certain financial ratios.

The Corporation also has a leasing facility with a borrowing limit of \$3,000 to assist the Corporation with the purchase of capital assets.

These credit facilities require the Corporation to meet certain covenants. The Corporation was in compliance with these covenants at December 31, 2008 and 2007.

The Corporation has provided a first charge over all assets under a General Security Agreement as security for the Revolving line of credit. The Corporation has also provided a site specific General Security Agreement as security for the mortgage.

For the year ended December 31, 2008 there were \$314 (2007 - \$1,793) in asset additions acquired through capital leases and finance contracts, which have been accounted for as non-cash transactions in the Consolidated Statements of Cash Flow.

(ii) Principal payments are due as follows:

	2009	\$	2,251
	2010		861
	2011		5,844
	2012		72
	2013		10
	Thereafter		-
		\$	9,038

10. Income Taxes

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

	2008		2007
Earnings before income taxes	\$ 52,271	\$	30,826
Non-deductible expenses	1,529		563
Income subject to tax	\$ 53,800	\$	31,389
Income tax at statutory rate of 29.50% (2007 - 32.12%) of Taxable Income	\$ 15,871	\$	10,082
Valuation allowance on non-capital loss carryforwards	61		100
Effect of change in tax rates for future income tax and tax recovery	(110)		(68)
Other	6		(414)
Income tax expense	\$ 15,828	\$	9,700

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

	2008	2007
Tax loss carryforwards	\$ 764	\$ 738
Equipment and other assets	206	120
Valuation allowance on non-capital loss carryforwards	(61)	(100)
Unbilled work-in-progress and holdback receivable	(1,861)	45
Other	290	287
	\$ (662)	\$ 1,090
Classified as:		
Current asset	\$ 1,850	\$ 4,504
Long-term asset	905	788
Current liability	(3,179)	(3,745)
Long-term liability	(238)	(457)
	\$ (662)	\$ 1,090

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

The Corporation has accumulated non-capital losses for income tax purposes of \$2,603 which expire as follows:

2009	\$ 6
2010	11
2014	179
2015	652
2026	440
2027	922
2028	393
	\$ 2,603

11. Shareholders' Equity

(i) Share Capital

Authorized

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

Unlimited Common Shares

Issued	2008		2007	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of year	17,886,991	\$ 16,414	17,667,491	\$ 15,508
Shares repurchased	(159,900)	(149)	-	-
Stock options exercised	95,000	398	219,500	906
Issued, end of year	17,822,091	\$ 16,663	17,886,991	\$ 16,414

(ii) Share-Based Compensation Plan

Stock options:

The Corporation has an incentive stock option plan for certain employees and directors. Options issued under the plan vest on the anniversary of the award date in each of the subsequent three years, with the exception of options granted to directors which vest one year after their award date. All stock options must be exercised over specified periods not to exceed five years from the date granted.

At December 31, 2008, the Corporation had 519,660 options outstanding (December 31, 2007 - 317,500) of which 277,535 are currently exercisable (December 31, 2007 - 218,832).

The following table summarizes information about share options outstanding under the Plan at December 31, 2008:

Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2008	Options Exercisable Dec. 31, 2008
\$ 2.55	Jun. 14, 2010	5,000	5,000
3.15	Nov. 30, 2010	120,500	120,500
3.05	Jan. 4, 2011	15,000	15,000
18.26	Oct. 3, 2012	71,000	35,500
16.05	Mar. 17, 2013	98,466	76,353
22.09	May 12, 2013	9,060	4,530
16.50	Aug. 14, 2013	97,370	-
6.43	Nov. 19, 2013	103,264	20,652
		519,660	277,535

For the year, the Corporation recognized stock based compensation expense of \$1,032 (2007 - \$194) related to the estimated fair value of options granted. During the year ended December 31, 2008, 320,798 options were granted with a weighted average fair value of \$5.33.

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

	2008	2007
Risk-free interest rate	2.75%	4.04%
Expected life	3.9 years	3.0 years
Expected volatility	50.01%	55.67%
Expected dividends	\$ -	\$ -

The amounts computed, according to the Black-Scholes pricing model, may not be indicative of the actual values realized upon the exercise of these options by the holders.

A summary of the Corporation's outstanding share options under the plan at December 31, 2008 and 2007, indicating changes during the years ended on those dates is presented below:

	2008		2007	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	317,500	\$ 7.00	571,667	\$ 2.91
Granted	320,798	13.26	82,000	18.26
Forfeited	(23,638)	17.08	(116,667)	2.57
Exercised	(95,000)	3.02	(219,500)	3.05
Outstanding, end of year	519,660	\$ 11.13	317,500	\$ 7.00

On January 5, 2009, certain key employees were granted options to purchase up to 350,000 common shares of the Corporation at \$7.29 per share exercisable, subject to various vesting requirements, on or before January 5, 2014.

Performance share units:

The Corporation has a Performance Share Unit (PSU) plan which received regulatory approval on June 2, 2008. Under the PSU plan, participants are eligible to receive common shares issued from treasury, or an equivalent cash value of the common shares, at a future date subject to certain performance vesting conditions. The cost of the PSU is equal to the fair market value at the date of grant. Compensation expense is recognized in earnings on a straight line basis over a vesting period of three years. Changes in the amount of the liability due to stock price changes after the initial grant date are recognized as compensation cost of the period in which the changes occur.

During the year ended December 31, 2008, the Corporation issued 85,195 PSUs with fair market value of \$1,269 and recognized compensation expense of \$77 (2007 - nil). As at December 31, 2008 the Corporation had 78,807 PSUs outstanding, of which none are vested.

On March 2, 2009, the Board of Directors of the Corporation amended the terms of the PSU plan. Under the amended plan, participants are only eligible to receive the equivalent cash value of the common shares, at a future date subject to certain performance vesting conditions.

(iii) Normal course issuer bid

On October 9, 2008, the Corporation received regulatory approval under Canadian securities laws to purchase Common Shares under a Normal Course Issuer Bid ("NCIB"). The Corporation is entitled to purchase, for cancellation, up to approximately 1,391,090 Common Shares under the NCIB which commenced on October 15, 2008 and terminates not later than October 14, 2009.

During the year ended December 31, 2008, 304,900 common shares were purchased under the Corporation's current NCIB for a total of \$1,944 or \$6.38 per share.

Of the shares repurchased, 159,900 common shares were cancelled resulting in the average carrying value of \$149 being allocated as a reduction in share capital; and \$839 representing the consideration in excess of the assigned value being charged to retained earnings during the period.

The remaining 145,000 common shares were repurchased for a total expenditure of \$956 or \$6.59 per share but were not cancelled by December 31, 2008. This expenditure has been recorded as a reduction of shareholders equity until such time that the shares are cancelled. As of December 31, 2008, these shares had an average carrying value of \$136 included in share capital. These shares have been excluded from the calculation of the weighted average common shares outstanding for the year ended December 31, 2008.

Subsequent to the year ended December 31, 2008 up to February 27, 2009, 83,500 common shares were purchased under the NCIB for a total of \$669 or \$8.01 per share.

(iv) Shareholder Rights Plan

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

12. Contributed Surplus

For stock options granted to employees and directors the Corporation records compensation expense using the fair value method as outlined in Note 11(ii). Compensation costs are recognized over the vesting period to stock based compensation expense and an increase to contributed surplus. When options are exercised, the fair-value amount in contributed surplus is credited to share capital. During the years ended December 31, 2008 and 2007, contributed surplus has changed as follows:

	2008	2007
Balance, beginning of year	\$ 5,736	\$ 5,779
Stock-based compensation expense	1,109	194
Stock options exercised	(111)	(237)
Balance, end of year	\$ 6,734	\$ 5,736

13. Management Of Capital

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

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

The Corporation does not currently pay a dividend so that it has maximum flexibility to finance growth and expansion and be able to take advantage of acquisition opportunities. Periodically, the merits of introducing a dividend are evaluated by the Corporation's Board of Directors.

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

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

The Corporation targets a Debt to Capitalization ratio between 5 and 30 percent that is calculated as follows:

	2008	2007
Long-term debt, excluding current portion	\$ 6,787	\$ 8,755
Total shareholders' equity	105,573	69,678
Total capitalization	\$ 112,360	\$ 78,433
Debt to capitalization ratio	6%	11%

The Corporation targets a Debt to EBITDA between 0.0 and 0.8 times. At December 31, 2008, the Debt to EBITDA was 0.1x (December 31, 2007 - 0.2x) calculated on a trailing twelve-month basis as follows:

	2008	2007
Long-term debt, excluding current portion	\$ 6,787	\$ 8,755
Net earnings	\$ 36,443	\$ 21,126
Add:		
Interest expense	567	749
Income tax expense	15,828	9,700
Depreciation and amortization	4,778	3,522
EBITDA	\$ 57,616	\$ 35,097
Debt to EBITDA	0.1x	0.2x

The Corporation also manages its capital through a rolling forecast of financial position and expected operating results. In addition, the Corporation establishes and reviews operating and capital budgets and cash flow forecasts in order to manage overall capital with respect to financial covenants. The Corporation's credit facility is subject to the following covenants to which it was in full compliance at December 31, 2008.

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

The Corporation's capital management objectives, evaluation measures and definitions have remained unchanged over the periods presented. The Corporation has amended its Debt to Capitalization and Debt to EBITDA targets downward to reflect the overall economic circumstances presently affecting the capital markets.

14. Financial Instruments

The Corporation adopted the requirements of CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. These new Sections require disclosures to enable users to evaluate the significance of financial instruments on the Corporation's financial position and performance, and the nature and extent of the Corporation's exposure to risks arising from financial instruments, including how the Corporation manages those risks.

(i) *Financial instruments – carrying values*

	2008	2007
FINANCIAL ASSETS:		
Cash and cash equivalents	\$ 100,768	\$ 108,105
Accounts receivable	139,508	123,906
Long-term cash and cash equivalents	-	-
FINANCIAL LIABILITIES:		
Operating line of credit	\$ -	\$ -
Accounts payable and accrued liabilities	140,806	149,057
Demand term loan	-	-
Long-term debt, including current portion	9,038	10,718

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

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

(ii) Financial income and expense

	2008	2007
Interest income - cash and cash equivalents	\$ 2,669	\$ 2,605
Interest income - long-term cash and equivalents	-	172
Interest expense - operating line of credit	(26)	(26)
Interest expense - demand term loan	-	(238)
Interest expense - long-term debt	(523)	(444)
Bad debt (expense) recovery, net	(793)	798
	\$ 1,327	\$ 2,867

(iii) Financial risk management

The Corporation has exposure to credit, interest-rate and liquidity risks. The Corporation is not exposed to any direct foreign currency risk. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework and reviews the corporate policies on an ongoing basis.

The Corporation is exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographic centers. The Corporation performs an assessment of its customers as part of its work procurement process, including an evaluation of financial capacity.

Allowances are provided for potential losses that have been incurred at the balance sheet date. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation takes into consideration the customer's payment history, credit worthiness and the current economic environment in which the customer operates to assess impairment. The Corporation accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

The provision for doubtful accounts has been included in operating expenses in the consolidated statements of earnings, and is net of any recoveries that were provided for in a prior period. Changes in the allowance for doubtful accounts are as follows:

	2008	2007
Balance, beginning of period	\$ 1,989	\$ 2,787
Provision for uncollectible accounts	3,096	1,803
Recovery of accounts previously written off	(2,303)	(2,601)
Balance, end of period	\$ 2,782	\$ 1,989

The Corporation had \$6,272 trade receivables which were greater than 90 days past due as at the end of the year (December 31, 2007 - \$6,602). There are no concentrations of credit risk in geographical area, customer markets or other areas as at December 31, 2008

The financial risk is the risk to the Corporation's earnings that arises from fluctuations in the interest rates and the degree of volatility of these rates. The Corporation is exposed to interest rate risk on its Revolving line of credit with payment terms as disclosed in Note 9. The Corporation does not use derivative instruments to reduce its exposure to this risk. At December 31, 2008, the increase or decrease in annual net earnings for each one percent change in interest rates on floating rate debt amounts to \$63.

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

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

15. Commitments And Contingencies

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

	2009	\$	2,044
	2010		1,499
	2011		1,056
	2012		963
	2013		966
	Thereafter		3,413
		\$	9,941

At December 31, 2008, the Corporation was involved in various legal claims arising in the normal course of operations. Management believes that it has adequately provided for these legal claims and that the results of these actions will not have any material effect on the financial position of the Corporation.

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

16. Guarantees

The Corporation is a participant in joint ventures (Note 4) for which it has provided a joint and several guarantee, increasing the maximum potential payment to the full value of the work remaining under the contract. The cost of completing the contracts cannot reasonably be determined, and may be greater or less than the unbilled portion of the contracts.

17. Related Party Transactions

The Corporation incurred legal fees of \$175 (2007 - \$189) for services related to various legal matters with a law firm of which a director of the Corporation is also a partner. At December 31, 2008, \$54 (2007 - \$7) is included in accounts payable.

The Corporation incurred facility costs of \$157 (2007 - \$119) related to rental of a building which is owned by a director of the Corporation. At December 31, 2008 (2007 - \$0) there are no amounts included in accounts payable.

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

18. Change In Non-cash Balances Relating To Operations

	2008	2007
Accounts receivable	\$ (15,602)	\$ (40,537)
Inventories and prepaid expenses	(633)	315
Costs in excess of billings	639	(1,364)
Income taxes recoverable	(3,669)	-
Accounts payable and accrued liabilities	(8,251)	62,866
Contract advances and unearned income	(4,963)	26,595
Income taxes payable	(7,686)	5,821
	\$ (40,165)	\$ 53,696

19. Segmented Information

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

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

Industrial General Contracting (Triton) - provides heavy-industrial general contracting, fabrication, and maintenance services.

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

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

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

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

December 31, 2008	Buildings	Industrial General	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	\$ 568,958	\$ 85,864	\$ 73,748	\$ 118,247	\$ -	\$ 846,817
EBITDA ⁽ⁱ⁾	42,827	593	8,711	11,595	(6,110)	57,616
Depreciation and amortization	1,998	415	231	1,044	1,090	4,778
Interest expense	65	77	1	64	360	567
Earnings (loss) before tax	\$ 40,764	\$ 101	\$ 8,479	\$ 10,487	\$ (7,560)	\$ 52,271
Income taxes						(15,828)
Net earnings						\$ 36,443
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 21	\$ 7,336
Total assets	\$ 183,539	\$ 33,034	\$ 26,707	\$ 36,348	\$ 23,193	\$ 302,821
Capital expenditures	\$ 3,301	\$ 328	\$ 376	\$ 2,535	\$ 1,577	\$ 8,117

December 31, 2007	Buildings	Industrial General	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	\$ 524,669	\$ 42,120	\$ 52,272	\$ 117,080	\$ -	\$ 736,141
EBITDA ⁽ⁱ⁾	25,785	414	5,111	7,596	(3,809)	35,097
Depreciation and amortization	1,356	438	237	937	554	3,522
Interest expense	65	84	1	67	532	749
Earnings (loss) before tax	\$ 24,364	\$ (108)	\$ 4,873	\$ 6,592	\$ (4,895)	\$ 30,826
Income taxes						(9,700)
Net earnings						\$ 21,126
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 105	\$ 7,420
Total assets	\$ 184,423	\$ 21,070	\$ 16,781	\$ 37,088	\$ 30,929	\$ 290,291
Capital expenditures	\$ 5,112	\$ 557	\$ 232	\$ 1,861	\$ 837	\$ 8,599

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

For the purposes of presentation, capital expenditures of \$314 (2007 - \$1,793) relating to capital leases and finance contracts have been treated as non-cash transactions and as such have not been reflected on the Consolidated Statements of Cash Flow (Note 9).

In 2008, no individual customer was responsible for greater than 10% of contract revenue. In 2007, the Corporation had \$84,582 of revenue from one significant customer which represented greater than 10% of contract revenue. This revenue was earned in the Industrial Electrical Contracting and Industrial Insulation Contracting segments.

20. Employee Contribution Plans

The Corporation has a registered retirement savings plan which permits employees to voluntarily contribute up to 5% of their gross base salary. The Corporation matches all contributions made by the employees. The combined contributions are invested by the individual employees, at their discretion, in any of several mutual funds offered by the plan. Contributions made by the Corporation during the year to the registered retirement savings plan was \$1,579 (2007 - \$1,380).

The Corporation also has an employee share purchase plan which permits employees to voluntarily contribute up to 10% of their gross base salary. The Corporation matches all contributions by the employees up to a maximum of 5% of the gross base salary. The combined contributions are invested by the plan in common shares of the Corporation purchased on the retail market. Contributions made by the Corporation during the year to the employee share purchase plan was \$1,392 (2007 - \$1,152).

21. Comparative Figures

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