

# management's discussion and analysis

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation ("Churchill" or the "Corporation"), dated March 12, 2009, should be read in conjunction with the December 31, 2008, audited Consolidated Financial Statements and related notes thereto. Unless otherwise specified, all amounts are expressed in Canadian dollars.

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.

The Churchill Corporation constructs buildings and provides industrial construction and maintenance services.

### Vision

Churchill's strategic vision is to build a profitable, diversified and sustainable construction and industrial service company.

### Mission

Churchill's mission is to deliver building construction, industrial contracting and maintenance services at levels of performance and cost that exceed client expectations.

### Strategy

- Emphasizing value added construction and other partnering methods of project delivery.
- Securing contracts for larger projects.
- Leveraging module fabrication activities into opportunities for field installation work.
- Targeted geographic expansion.
- Industry sector diversification.
- Ensuring an adequate level of working capital is available to the Corporation.

The Corporation segments its operations into five business segments –

- **Buildings** (Stuart Olson, includes collectively Stuart Olson Construction Ltd. and Stuart Olson Constructors Inc.) – constructs commercial, institutional and light-industrial buildings
- **Industrial General Contracting** (Triton, includes collectively Triton Construction Inc. and Triton Projects Inc.) – provides heavy-industrial general contracting, fabrication and maintenance services
- **Industrial Insulation Contracting** (Insulation Holdings Inc. ("IHI"), includes collectively Fuller Austin Insulation Inc., and Northern Industrial Insulation Contractors Inc.) – provides industrial insulation, asbestos abatement, siding application, plant maintenance and related services
- **Industrial Electrical Contracting** (Laird Electric Inc.) – 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

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. Stuart Olson has grown to comprise approximately 70% of Churchill's consolidated revenues and contribute 80% of the Corporation's consolidated net earnings.

The Corporations' three industrial business segments are also located in Western Canada, headquartered in Edmonton and Fort McMurray, servicing clients in the oil sands, oil and gas, power, refinery, petrochemical, mining and agricultural sectors.

The Corporation has historically generated approximately 83% of its revenues from Alberta, 15% from British Columbia and the remainder from Saskatchewan, Manitoba and northwest Ontario. The Corporation's most significant tangible assets are its Lamont Fabrication Facility, office buildings which it owns throughout Alberta, and the equipment and vehicles it also owns and utilizes on construction sites.

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.

## 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.

(\$ millions, except per share amounts)	Years ended December 31		
	2008	2007	2006
Contract revenue	\$ 846.8	\$ 736.1	\$ 531.3
Contract income	100.2	69.6	51.2
Indirect and administrative expenses	45.6	38.1	36.1
EBITDA	57.6	35.1	16.3
Earnings before income taxes	52.3	30.8	12.7
Net earnings	36.4	21.1	8.1
Earnings per share - Basic	2.03	1.19	0.46
Earnings per share - Fully Diluted	2.01	1.17	0.45
Work-in-hand	591.5	713.8	493.9
Total assets	302.8	290.3	165.5
Long-term debt	9.0	10.7	11.2
Cash dividends declared per share	-	-	-

Churchill's consolidated financial results have been very strong over the last three fiscal years as a result of significant capital expenditures in the oil and gas, petrochemical and public infrastructure sectors. A shortage of construction labour and project management expertise has allowed contractors and sub-contractors to secure work on favourable contract terms. More recently however, several industries have reduced their capital spending programs due to challenges emanating from the global recession such as lower commodity prices and insufficient access to credit. These lower commodity prices and tightened lending policies have resulted in the deferral and cancellation of many large industrial projects in Western Canada. The global economic crisis has also resulted in forecasts of government deficits for the next several years as government spending increases to stimulate economies impacted by the recession. While this government spending should be favourable for our public sector building segment, the economic slowdown has resulted in greater competition for work and lower contract margins.

## Consolidated Annual Results of Operations

For the year ended December 31, 2008, Churchill generated consolidated contract revenue of \$846.8 million, compared to consolidated contract revenues of \$736.1 million for 2007, an increase of \$110.7 million (15%). This \$110.7 million increase was the result of a \$44.3 million increase in Stuart Olson revenue, a \$43.7 million increase in Triton revenue, a \$21.5 million increase in Insulation Holdings Inc. revenue and a \$1.2 million increase in Laird revenue.

The contract income increased 44% from \$69.6 million in 2007 to \$100.2 million in 2008. This \$30.6 million increase resulted from greater overall volumes and improved execution at Stuart Olson, Insulation Holdings Inc. and Laird. Consolidated contract income margin percentage was 11.8% in 2008 as compared to 9.5% in 2007.

Indirect and administrative expenses of \$45.6 million were incurred during 2008, compared to \$38.1 million in 2007. The increase of \$7.5 million was primarily attributable to increased project management and compensation expenses related to the increased activity levels.

EBITDA increased by \$22.5 million (64%) to \$57.6 million during 2008, as compared to \$35.1 million for the year ended December 31, 2007. Churchill achieved consolidated net earnings of \$36.4 million (\$2.03 basic earnings per common share) during 2008 as compared to \$21.1 million of net earnings (\$1.19 basic earnings per common share) in 2007.

Work-in-hand at December 31, 2008, was \$591.5 million, \$122.3 million lower than the balance at December 31, 2007. On a segmented basis, there was a decrease in the buildings segment of \$108.4 million, a decrease in the industrial general contracting segment of \$18.8 million, an increase in the insulation contracting segment of \$27.3 million and a decrease in the electrical contracting segment of \$22.4 million.

Churchill's total backlog including work-in-hand at December 31, 2008, increased by 4% to \$1.44 billion from \$1.38 billion in the prior year. Year-over-year backlog in our buildings segment increased by \$64.2 million, the insulation contracting segment backlog increased by \$35.6 million, the industrial general contracting segment backlog decreased by \$26.9 million and the industrial electrical contracting backlog decreased by \$21.0 million. The Corporation's backlog consists of work-in-hand of \$591.5 million, \$814.3 million of active backlog and delayed backlog of \$30.3 million. Delayed backlog represents new disclosure on the part of the Corporation. Delayed backlog corresponds to contracts, binding and non-binding letters of intent for which the Corporation has received verbal or written notification from its client that the work is delayed. Since the delayed component represents only 2% of Churchill's total backlog, at this time management is of the view that the majority of the Corporation's backlog will be realized as revenue in future reporting periods.

## Buildings

For the year ended December 31, 2008, Stuart Olson's revenue increased by \$44.3 million to \$569.0 million, compared to \$524.7 million in the prior year. This increase in revenue was due to higher levels of activity in all branches. Stuart Olson was active during the year on projects ranging from educational and healthcare facilities, to civic infrastructure and commercial buildings.

Contract income in 2008 increased 51% to \$60.7 million from \$40.3 million in 2007. The contract income margin percentage increased to 10.7% in 2008 as compared to 7.7% in 2007. This margin increase was driven by the strength of Stuart Olson's markets, strong project execution and the ability to effectively manage construction costs.

Earnings before tax from the buildings segment were \$40.8 million in 2008, compared to \$24.4 million in 2007. This 67% improvement in earnings was a result of the increase in overall contract volume, strong project execution particularly in the Northern Alberta and British Columbia branches, and controlled spending growth in indirect and administrative expenses.

Stuart Olson finished the year with \$472.8 million of work-in-hand, after entering the year with work-in-hand of \$581.2 million. During 2008 the company secured a further \$460.6 million of contracts, and executed and took into revenue \$569.0 million. At December 31, 2008, Stuart Olson's backlog amounted to \$1.3 billion, compared to \$1.2 billion at the end of the prior year. The company's backlog grew in 2008 as a result of new contracts to build institutional buildings, educational and healthcare infrastructure, and civic recreational facilities in Alberta and British Columbia. Subsequent to December 31, 2008, Stuart Olson received verbal notification from a client that construction under a previously awarded construction contract would be delayed until 2010. The impact of this delay on Stuart Olson's fiscal 2009 results will be the deferral of \$7.4 million of contract revenue.

As a result of the impact of the global economic crisis on the Western Canadian economy, Stuart Olson is experiencing increased competition in its markets. However, Stuart Olson continues to pursue new project opportunities which fit within their strategy, execution expertise and price for value proposition. The company is part of two P3 teams which have been selected as the short listed proponents on the Prince George Cancer Centre and Fort St. John Hospital projects in British Columbia.

## Industrial General Contracting

Triton's revenue for the year ended December 31, 2008, was \$85.9 million, increasing 104% from \$42.1 million for the year ended December 31, 2007. Revenues from all divisions were higher during 2008 than in the prior year. However, contract income margin for 2008 was 6.5%, down from the 13.8% generated in 2007. This margin erosion was disappointing given the efforts made by Triton management to improve project execution. Triton's contract margin challenges are a result of having to aggressively bid projects in an effort to re-establish customer relationships, difficulty in attracting project managers to the organization and having to utilize high cost labour to execute certain fabrication and construction jobs.

Triton reported earnings before tax of \$0.1 million in 2008 compared to a loss before tax of \$0.1 million for the year ended December 31, 2007. Despite the aforementioned operational challenges, Triton's market image continues to show signs of improvement in the construction as well as fabrication divisions.

Triton entered the year with \$45.1 million of work-in-hand. For the year ended December 31, 2008, the company secured a further \$67.1 million of contracts, and executed \$85.9 million of contractual work. As a result, the company has \$26.3 million of work-in-hand to carry over into 2009. At December 31, 2008, Triton's backlog amounted to \$45.8 million compared to \$72.7 million at the conclusion of 2007.

The market slowdown in Q4 2008 has significantly impacted incoming bid requests. Largely due to the slowdown of activities in the oil sands, Triton management is taking steps to improve the productivity of its operations and right size the organization in light of reduced industrial activity levels expected during 2009. In addition, Triton's management is refocusing its business development to emphasize maintenance activities rather than new project construction.

## Industrial Insulation Contracting

Industrial Insulation Contracting operates under three business units – 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.

Revenue for the year ended December 31, 2008, increased 41% to \$73.7 million, compared to \$52.3 million for the year ended December 31, 2007. This year's revenue increase was the result of greater insulation and siding activity in all of the company's markets, particularly in Saskatchewan, where activity levels were up 152%.

2008 contract income increased to \$14.1 million from \$9.7 million for the comparable period in 2007. Contract income margins were higher, 19.1% in 2008 versus 18.5% in 2007, mainly due to strong project execution resulting in projects yielding better margins than estimated.

Earnings before tax increased by \$3.6 million (73%) to \$8.5 million for the year ended December 31, 2008, compared to earnings before tax of \$4.9 million for 2007. The primary reason for the increase in earnings was the greater volume of work performed, strong project execution and control over indirect costs. Insulation Holdings' ability to increase its pre-tax profit margin from 9.4% to 11.5% demonstrates its strong operating efficiency.

Industrial Insulation Contracting began 2008 with work-in-hand of \$35.9 million and ended 2008 with work-in-hand of \$63.1 million. For the year ended December 31, 2008, they secured a further \$101.0 million of contracts, and executed \$73.7 million of contracts. Notably, the insulation segment secured 38% more work in 2008 than it obtained in 2007. Backlog at December 31, 2008 was \$78.3 million compared to \$42.7 million at December 31, 2007.

The current price of oil and tight credit markets will provide insufficient cash flow to fund the expansion and maintenance strategies of several of Insulation Holdings' oil sands and petrochemical clients. This has resulted in the deferral of two jobs, cumulatively valued at \$5.3 million and the cancellation of four jobs totaling \$3.6 million in aggregate. There are opportunities to replace this lost volume of work. However, pricing will be very competitive due to the abundance of competitors.

## Industrial Electrical Contracting

Laird generated record revenue and earnings in 2008. Laird's revenue increased to \$118.2 million, compared to \$117.1 million reported for 2007. Laird's strategy to diversify its customer base has been very important to its recent success. By focusing on the needs of its key clients, Laird has been able to demonstrate its value as a reliable, efficient and quality electrical and instrumentation contractor. As a direct result of its strong operational performance, Laird has been awarded additional project scope on many of the projects it has undertaken.

Contract income increased from \$13.2 million in 2007 to \$19.0 million in 2008, due to strong project execution and operational improvements. The 2008 contract income margin percentage of 16.1% is significantly higher than the 11.3% achieved in 2007.

Laird achieved earnings before tax of \$10.5 million for the year ended December 31, 2008, compared to earnings before tax of \$6.6 million in 2007. The increase in earnings is a result of higher contract income, over and above the additional administrative expenses required to manage this increased level of activity.

Laird ended 2008 with work-in-hand of \$29.3 million, compared to \$51.7 million at the end of 2007. New contract awards of \$95.8 million were secured in the current year, compared to \$125.2 million in 2007, and executed \$118.2 million of contracts. Laird's backlog at the end of 2008 was \$30.7 million, compared to \$51.7 million as at December 31, 2007.

Oil sands industry project cancellations will impact Laird's 2009 activity levels and profitability. Laird has initiated a reorganization and value creation initiative. The organization is undergoing some right sizing to match its activity level and reduced revenue forecast. Laird will be relocating its senior management and accounts receivable functions from Fort McMurray to Edmonton, as part of its focus on having greater access to clients, improving productivity and lowering controllable expenses.

## Corporate and Other

In 2008, the Corporate and Other segment incurred a loss before tax of \$7.6 million compared to a loss before tax of \$4.9 in 2007. The net increase of \$2.7 million consisted of a \$1.8 million increase in indirect and administrative expenses associated primarily with public company functions, salaries, and an additional \$0.9 million increase in stock based compensation expense.

## Capital Resources and Liquidity

Cash and cash equivalents at December 31, 2008, totaled \$100.8 million, which compares with \$108.1 million at the end of 2007. Of the \$100.8 million of cash and cash equivalents, \$17.5 million was subject to deemed trust conditions under the British Columbia Builders Lien Act, compared to \$25.3 million at December 31, 2007. As such, this cash is restricted to the payment of direct costs related to specific construction projects.

Cash flow provided from operating activities was \$3.9 million, compared to \$73.7 million provided from operations during 2007. This was primarily due to an increase of \$15.6 million in accounts receivable and a \$21.2 million reduction in current liabilities at year end 2008. The Corporation expects to increase its cash and cash equivalents as accounts receivable is collected from various industrial clients.

The Corporation's liquidity typically decreases in the second and third quarters of a fiscal year as maintenance activities on industrial projects ramp up and the amount of manpower utilized by the Corporation increases. This decrease usually reverses itself in the fourth quarter due to lower activity levels and fewer working days during this time frame.

Investing activities resulted in a use of cash of \$7.6 million during 2008, which compares with cash used of \$2.4 million in 2007. The cash was invested in the acquisition of construction equipment for long term projects under contract.

During 2008 cash used in financing activities amounted to \$3.7 million, compared to cash used in financing of \$13.6 million in 2007. Net repayments applied to the Corporation's line of credit in 2008 amounted to \$nil, compared to net repayments of \$12.0 million in 2007. During 2008, the Corporation repaid \$2.0 million of long-term debt and in 2007 repaid \$2.2 million in aggregate of long-term debt and demand term loan. These payments were in accordance with the repayment schedules and the contractual obligations as described in previous quarters and the Corporation's 2007 Annual Report. Stock options exercised by directors and officers of the Corporation contributed \$0.3 million to the cash generated from financing compared to \$0.7 million in 2007.

Effective, December 19, 2008, the Corporation renegotiated its existing \$21.0 million operating line and term loan facility, replacing these with a \$60.0 million revolving line of credit. The term of the new credit facility is three years and it will mature in October 2011. Borrowings under the credit facility will bear interest at a floating rate ranging from prime to prime plus 0.50%. In addition, the Corporation also has a leasing facility with a borrowing limit of \$3.0 million to facilitate the purchase of capital assets. At December 31, 2008, the current portion of long-term debt and long-term debt amounted to \$9.0 million, compared to \$10.7 million at December 31, 2007.

As at December 31, 2008, Churchill had working capital of \$78.3 million, which compares favourably to the working capital position of \$47.9 million at the end of 2007.

## Contractual Obligations<sup>(1)</sup>

(\$ millions)	December 31, 2008				
	Total	Current Year	2-3 years	4-5 years	After 5 years
Mortgage payable	\$ 1.1	\$ 1.1	\$ 0.0	\$ 0.0	\$ 0.0
Finance contracts and capital lease obligations	2.6	1.1	1.4	0.1	0.0
<b>Total contractual obligations</b>	<b>\$ 3.7</b>	<b>\$ 2.2</b>	<b>\$ 1.4</b>	<b>\$ 0.1</b>	<b>\$ 0.0</b>

(1) The above table represents scheduled repayments.

Scheduled debt repayments for 2009 are \$2.2 million. The mortgage payable, finance contracts and lease obligations are more fully described in Note 9 of the notes to the Consolidated Financial Statements.

During 2009, the Corporation anticipates that it will utilize up to \$8.5 million to fund its capital expenditure plans. These expenditures will largely be made in the areas of information systems (\$3.0 million), construction equipment (\$2.3 million), vehicles (\$2.0 million) and land and buildings (\$1.8 million). However, market conditions will dictate which expenditures are undertaken so the Corporation can maintain a robust balance sheet. The expected source of the funds to meet these expenditures is the Corporation's cash and cash equivalents in conjunction with finance contracts and capital leases.

Management believes that the Corporation has the capital resources and liquidity necessary to meet its commitments, support its operations and finance its 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 is also able to issue additional common shares to provide for capital spending and sustain its property and equipment.

The Corporation remains a partner in two 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. In aggregate the Corporation's exposure is not significant relative to its operations.

Shareholders' equity was \$105.6 million at December 31, 2008, as compared to \$69.7 million at December 31, 2007. Retained earnings increased from \$47.5 million at December 31, 2007 to \$83.1 million at the end of 2008, reflecting the addition of net earnings of \$36.4 million for the year, and \$0.8 million relating to shares repurchased under the Normal Course Issuer Bid ("NCIB").

## Share Data

On October 15, 2008, the Corporation commenced a NCIB, under which it is entitled to purchase up to 1,391,090 common shares in a 12 month period. As at December 31, 2008, the Corporation had repurchased 304,900 common shares at an average price of \$6.38 per share. Of the shares repurchased, 159,900 were cancelled during the reporting period. The funding for the NCIB is from the Corporation's cash and cash equivalents balance.

As at March 12, 2009, the Corporation had 17,692,191 common share issued and outstanding and 819,660 options convertible into common shares upon exercise (December 31, 2007 - 17,886,991 common shares and 317,500 options).

The Corporation has an Employee Share Purchase Plan (the "ESPP") available to all full-time employees. At December 31, 2008, 74% of eligible employees were participants in the ESPP. At December 31, 2008, the Plan held 857,421 common shares for employees. Under the ESPP, common shares are acquired in the open market.

## Quarterly Financial Information

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

(\$ millions, except per share data and percentages)

	2008				2007			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Contract revenue	\$ 204.4	\$ 228.9	\$ 229.5	\$ 184.0	\$ 191.5	\$ 203.8	\$ 186.9	\$ 153.9
Contract income	29.1	28.0	25.2	17.9	22.4	17.9	16.9	12.4
Contract income margin - %	14.2%	12.2%	11.0%	9.7%	11.7%	8.8%	9.0%	8.1%
EBITDA	17.2	17.3	14.9	8.1	13.0	9.6	8.3	4.3
Earnings before income taxes	15.8	16.0	13.7	6.9	11.7	8.4	7.4	3.3
Net earnings	11.2	11.2	9.5	4.5	8.2	5.6	5.0	2.3
Earnings per share - basic	0.62	0.62	0.53	0.25	0.46	0.31	0.28	0.13
Earnings per share - fully diluted	0.62	0.62	0.53	0.25	0.45	0.31	0.28	0.13
Work-in-hand	591.5	585.8	585.5	639.7	713.8	734.5	757.4	596.6
Working capital	78.3	69.9	60.1	51.4	47.9	38.4	33.1	29.2
Shareholders' equity	105.6	95.9	84.4	74.3	69.7	61.1	55.1	50.0
Book value (\$ per share)	5.92	5.33	4.70	4.15	3.90	3.43	3.12	2.83

Analysis of operating results for each of the first three quarters of 2008 was included in the Management's Discussion and Analysis incorporated in the Interim Reports to Shareholders for each quarter. The reader is referred to the Corporation's 2007 Annual Report for a discussion and analysis of the results of the quarters preceding January 1, 2008.

Due to the impact of share issuances throughout the periods on the weighted average number of shares outstanding, the aggregate total of the quarterly earnings per share may not equal the annual total for the corresponding year. The aggregate total of the quarterly earnings per share, compared with the amounts for the full year are as follows:

	2008		2007	
	Quarterly Total	Annual Total	Quarterly Total	Annual Total
Earnings per common share:				
Basic	\$ 2.02	\$ 2.03	\$ 1.18	\$ 1.19
Fully diluted	\$ 2.02	\$ 2.01	\$ 1.17	\$ 1.17

## Fourth Quarter Results

For the fourth quarter of 2008, consolidated contract revenue was \$204.4 million, which was \$12.9 million or 7% higher than the same period in 2007. This higher level of revenue on a year-over-year basis was a result of continued strength in our building construction segment and increased volume from all of the industrial businesses.

Contract income increased from \$22.4 million in the fourth quarter of 2007 to \$29.1 million in the fourth quarter of 2008 as a mix of greater revenue and stronger margins in our building construction, industrial insulation and industrial electrical segments improved overall performance.

Indirect and administrative expenses amounted to \$12.6 million in the quarter, compared to \$11.0 million in the comparable period of 2007, reflecting increased work volume, expenses associated with recruiting fees, salaries, director expenses and stock based compensation.

Earnings before interest, taxes, depreciation and amortization in the quarter were \$17.2 million, compared to \$13.0 million in the fourth quarter of 2007. Earnings before tax in Q4 2008 increased 35% to \$15.8 million, compared to \$11.7 million reported in Q4 2007. The Corporation's consolidated net earnings for the three months ended December 31, 2008 were \$11.2 million compared to net earnings of \$8.2 million in 2007.

New contract awards of \$210.0 million were booked in the current quarter, which compares with \$170.9 million in Q4 2007. Total new contract awards of \$724.5 million were recorded in 2008, compared to \$956.1 million in 2007.

Stuart Olson's revenue for the three months ended December 31, 2008, was \$134.2 million, a decrease of 6% compared to \$142.6 million for the same period in 2007. The cumulative effects from delays in awarding tender packages earlier in 2008 resulted in this decrease. Contract income in the fourth quarter increased to \$19.0 million compared to \$14.2 million in the prior year. Earnings before tax increased 38% to \$13.7 million in the fourth quarter of 2008 from \$9.9 million in the corresponding quarter of 2007. The increase in earnings before tax was primarily the result of strong project execution in Northern Alberta and British Columbia, higher margin on self-performed work and containment of indirect expenses.

Triton's revenue for the fourth quarter of 2008 was \$18.9 million, \$5.8 million greater than in the same quarter of 2007. The quarter saw the commencement of work for TCPL Woodenhouse and Statoil, which resulted in revenue growth. Contract income decreased 42% to \$1.1 million from \$1.9 million year-over-year, as project execution challenges within the construction division impacted results. Triton's loss before tax during the quarter was \$0.5 million compared to earnings before tax of \$0.5 million in 2007.

Combined revenue from our insulation companies, Fuller Austin and Northern Industrial, was \$20.7 million or \$6.9 million greater than the fourth quarter of 2007. The revenue increase was from higher insulation contracting activity in all of the company's geographic markets. Q4 2008 contract income margin was 17.4% compared to 16.3% in the prior year. The increase in volume and contract income margin percentage during the quarter resulted in a year-over-year increase in earnings before tax, from \$1.1 million in Q4 2007 to \$2.1 million.

Laird generated \$30.5 million of revenue in the quarter, which compares favourably to the \$22.0 million of contract revenue delivered in Q4 2007. The fourth quarter of 2008 was impacted by the acceleration of work schedules on certain of Laird's projects in the Fort McMurray oil sands region. Contract income was \$5.3 million in the fourth quarter of 2008, compared to \$3.9 million in Q4 2007. As a result of higher revenue and margins Laird reported earnings before tax of \$3.0 million in Q4 2008 as compared to earnings before tax of \$1.8 million in Q4 2007.

## Supplemental Disclosures

### Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements in place at this time.

### Related Party Transactions

The Corporation incurred legal fees during the year ended December 31, 2008, with a law firm of which a director of the Corporation is also a partner. The fees were for services rendered in the ordinary course of business. The amount incurred during the fourth quarter of 2008 was \$62 thousand (Q4 2007 - \$35 thousand) and \$175 thousand was incurred during the full year (2007 - \$189 thousand). At December 31, 2008, \$54 thousand was included in accounts payable (2007 - \$7 thousand).

During 2008 the Corporation incurred facility costs of \$157 thousand (2007 - \$119 thousand) relating to rental of a building which is owned by a director of the Corporation. No amounts were included in accounts payable at December 31, 2008 and 2007.

## Outlook

The outlook for Churchill remains positive, although uncertainty in global economic conditions makes it more difficult to predict demand for our services. Given this uncertainty, our fundamental business strategies will need to be more focused than ever. The Corporation's financial position has never been stronger with over \$100.0 million in cash, \$50.0 million in unutilized credit and \$1.4 billion in high margin backlog. We are optimistic that public sector infrastructure spending will remain strong as a result of the 2009 Federal Budget and other federal and provincial infrastructure programs. These programs aimed at stabilizing the economy should provide new opportunities for projects in Stuart Olson's public infrastructure markets.

The impact of an uncertain global economic environment on oil prices, has led to major reductions in capital spending in Alberta which we believe will last throughout 2009. These reductions will make the competitive environment for our industrial businesses more challenging, as competitors reduce margins to stay in business and retain key employees. Notwithstanding the ability of Churchill's industrial businesses to generate approximately 30% of their oil and gas industry related revenue from maintenance and sustaining small capital projects, this will be insufficient to offset the decline in new capital spending.

In this more competitive environment where firms will be competing for smaller capital projects resulting from reduced capital spending, Churchill management will be focusing on cost reductions and productivity improvements, some of which will be passed on to our customers to enhance their operational efficiency, while a portion will be retained by Churchill. These productivity improvements will result in right sizing our industrial segments to improve our organizational capabilities to deliver more cost effective services to our clients.

Whatever the future brings, Churchill will be ready and prepared to capitalize on the opportunities which present themselves. Management of the Corporation believes that in the medium to long-term, growth will resume and that Churchill is well positioned to deliver sustained shareholder value.

## 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:

The recent global financial crisis has tightened liquidity in the financial markets and has damaged investor confidence in global equity markets and negatively impacted the value of publicly-traded securities of many companies. This global financial crisis has also resulted in a significant decline in commodity prices including oil and natural gas. These macro-economic conditions will likely have a significant and adverse affect on the operating conditions of the clients and industries in which the Corporation provides services. This may result in more significant declines in capital expenditures by oil and gas companies in fiscal 2009 and future years and create uncertainty and caution for the future outlook, financial performance and common share price of the Corporation.

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

Churchill may not be able to convert its entire Backlog into revenue and cannot guarantee that the revenues projected in its Backlog will be realized or, if realized, will result in profits. Projects may remain in its Backlog for an extended period of time or be cancelled. Churchill includes in its Backlog binding and non-binding letters of intent, work orders and cost reimbursable contracts, which may be different than the items other issuers include or exclude in their respective Backlog. Project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in Backlog. In respect of Backlog evidenced by a non-binding letter of intent, the formal contract respecting 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.

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

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

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 and Aviva 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.

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.

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.

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 political priorities would likely have an adverse effect on the Corporation if that business could not be replaced from within the private sector.

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 the recent downturn in oil and gas prices, fires, mechanical breakdowns, 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.

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 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.

Periods of high construction activity can create shortages of labour and material. In the past several years, the rapidly expanding market in Alberta, B.C. and other jurisdictions created general shortages of tradesmen and management personnel and this condition was expected to continue for several years. Churchill's operating companies attempted to mitigate labour shortages through competitive remuneration, enhanced in-house training programs and expanded recruiting, both within Canada and internationally. However, later in 2008 the labour market softened as a result of a weaker demand for commodities, amid a global economic slowdown. 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.

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.

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

Stuart Olson may participate in public-private-partnership work (P3s). These contracts may require letters of credit, parental guarantees, 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.

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 project costs are inaccurate, project profitability may be lower than anticipated or a loss may be incurred.

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.

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.

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; this should provide labour peace for 3 to 4 years.

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, as and when Churchill seeks equity or debt financing, it will be able to obtain the required funding on favourable commercial terms, or at all. Any such future financing may also result in additional dilution to existing shareholders.

Before signing any construction contract, the Corporation goes to considerable lengths to satisfy itself that the potential client has adequate resources to pay as construction work is completed. During the term of the contract, Churchill may be required to utilize its working capital to fund construction costs until payments are collected from clients. If a client defaults in making its payments on a project, Churchill would generally have a right to register a lien against the project. If the client were ultimately unable or unwilling to pay the amounts owing to the Corporation, a lien against the property would normally provide some security that Churchill could ultimately realize what is owed. However in these situations, the Corporation's ability to ultimately collect what it is owed is never assured. Payment default by a client could result in a financial loss to the Corporation that could have a material adverse effect on its operating results and financial position.

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.

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.

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.

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.

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

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.

The Province of Alberta's new royalty regime for oil sands, conventional oil and gas and coal bed methane, implemented effective January 1, 2009, may adversely impact the current royalty structures in place for some of the Corporation's clients, which may in turn impact their capital and maintenance spending, and therefore adversely impact the Corporation.

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 results of such companies to meet market expectations in a particular quarter. Broad market fluctuations, or any failure of the Corporation's operating results in a particular quarter to meet market expectations, may adversely affect the market price of the Corporation's common shares.

## 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, Churchill's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, requiring estimates that are inherently uncertain and may change in subsequent periods.

**Revenue recognition** for cost-plus contracts and unit-price contracts is recorded as the service is performed and the related expenses are incurred. Under this method, the costs incurred and related revenue are included in the consolidated statement of earnings, comprehensive earnings and retained earnings as the work progresses. Contract revenue from fixed-price contracts is recognized as revenue on a percentage-of-completion basis, which requires estimating certain costs incurred as well as the costs required to complete the contract. 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 and Triton where a significant portion of their contract revenue and contract income for the period may be 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 rates, and terminal values. The goodwill arose on the purchase 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 and 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.

## Changes In Accounting Policies

Several new Canadian accounting standards adopted in 2008 are described in note 2 of the Consolidated Financial Statements.

## Recent Accounting Pronouncements

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 adoption of this standard should not have a material impact on the Corporation's consolidated financial statements.

## International Financial Reporting Standards ("IFRS")

The Accounting Standards Board 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. Churchill has undertaken a project to assess the potential impacts of the transition to IFRS and has established a project team led by financial management to plan for and achieve a smooth transition to IFRS. The project team has developed a detailed project plan to ensure compliance with the new standards. Regular progress reports on the status of Churchill's IFRS implementation project are provided to senior management and to the audit committee of the Board of Directors. A major public accounting firm has been engaged to provide technical accounting advice and project management guidance in the conversion to IFRS.

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.

**Phase 2: Detailed Design and Evaluation** – In this phase, further evaluation of the financial statement areas impacted by IFRS will be completed. This will involve 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.

**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.

Churchill completed the preliminary scope and diagnostic phase in January 2009 and is now in the detailed design and evaluation phase. Churchill's analysis of the areas that may be impacted by the adoption of IFRS has identified a number of differences. 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.

## Annual Certification

National Instrument 52-109 (“NI52-109”), Certification of Disclosure in Issuers’ Annual and Interim Filings requires the Corporation’s President and Chief Executive Officer (the “CEO”) and the Senior Vice President Finance and Chief Financial Officer (the “CFO”) to certify:

- that the design of disclosure controls and procedures provides reasonable assurance that material information is made known to them and that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation;
- that the design of internal controls over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in GAAP;
- the effectiveness of the disclosure controls and procedures at year end; and
- the effectiveness of the internal control over financial reporting at the year end.

## Disclosure Controls & Procedures

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

During the year, an evaluation of the effectiveness of the design and operation of 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. Based on this evaluation the CEO and CFO have concluded that the Corporation’s disclosure controls and procedures as defined in NI 52-109, Certification of Disclosure in Issuers Annual and Interim Filings, were effective as at December 31, 2008.

## 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, Board of Directors and Chairperson, 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”). As at the end of the period covered by this management discussion and analysis, management has concluded that the internal controls over financial reporting were appropriately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The latest requirement of NI 52-109 is that the CEO and CFO evaluate the effectiveness of ICFR as at the year end. The evaluation was conducted by testing whether the ICFR were operating as the design intended. Management’s testing resulted in identification of certain areas where it can enhance controls. The Corporation requires that each opportunity to enhance controls must have an action plan with deadlines that are monitored. Where there were weaknesses in process level controls, Churchill management identified compensating controls that successfully detected and corrected any material errors that might otherwise have resulted. Based on the evaluation, with oversight from the Audit Committee and Board of Directors, Management has concluded that the ICFR were operating effectively as at December 31, 2008.

## Material Changes to the Internal Controls over Financial Reporting

For the year ended December 31, 2008, the CEO and CFO evaluated whether there were any material changes in internal controls over financial reporting pursuant to NI 52-109. They concluded that for the year ended December 31, 2008, there were no changes to the Corporation's ICFR that has materially affected or were likely to materially affect the Corporation's internal controls over financial reporting.

## Terminology

Throughout this 2008 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 project is classified as **Delayed Backlog**. This is the first reporting period in which the Corporation is disclosing delayed backlog to further assist investors in understanding the certainty associated with the Backlog reported. 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.

(\$ millions)

As at December 31, 2008

Work-in-Hand	Active Backlog	Delayed Backlog	Total Backlog
\$ 591.5	\$ 814.3	\$ 30.3	\$ 1,436.1

Working capital is current assets less current liabilities excluding that portion relating to any demand term loan which is scheduled to be repaid beyond one year. Our calculation of working capital is provided in the table below:

As at	December 31,	December 31,
(\$ millions)	2008	2007
Current assets	\$ 268.5	\$ 259.3
Less:		
Current liabilities	\$ 190.2	\$ 211.4
Working capital	\$ 78.3	\$ 47.9

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

(\$ millions)	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
Net earnings	\$ 11.2	\$ 8.2	\$ 36.4	\$ 21.1
Add:				
Income taxes	4.6	3.5	15.8	9.7
Depreciation & amortization	1.3	1.1	4.8	3.5
Interest expense	0.1	0.2	0.6	0.8
EBITDA	\$ 17.2	\$ 13.0	\$ 57.6	\$ 35.1

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";
- 2009 growth of business and operations;
- business strategies and plans for implementing them;
- future 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 how that will be effect 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 Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of these risk factors set forth above. 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 2008 Annual Information Form and other required securities filings are available on our website at [www.churchillcorporation.com](http://www.churchillcorporation.com) and on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com); the System for Electronic Document Analysis and Retrieval ("SEDAR").