



## REPORT TO SHAREHOLDERS

Churchill achieved record contract revenue and net earnings in Q2 2008. Contract revenue was \$229.5 million compared to \$186.9 million in the second quarter of 2007. Net earnings of \$9.5 million (\$0.53 per share) were delivered compared to net earnings of \$5.0 million (\$0.28 per share) in the comparable period of 2007.

The Corporation's work-in-hand balance at June 30, 2008, was \$585.5 million, as compared to \$757.4 million at June 30, 2007. Churchill's backlog at the end of the second quarter was \$1.3 billion compared to \$1.2 billion in Q2 2007.

Stuart Olson delivered \$148.9 million of revenue and earnings before tax of \$9.0 million during the second quarter of 2008, in comparison to \$130.2 million of revenue and \$4.5 million of earnings before tax in the same period of 2007. Strong revenue and earnings growth was achieved by all branches. The backlog at Stuart Olson was \$1.1 billion at June 30, 2008 and at June 30, 2007. The company's markets in Alberta and British Columbia remain robust.

Revenue at Triton for Q2 2008 was \$27.7 million, compared to \$10.6 million reported in the second quarter of 2007. We are encouraged by Triton's great start in the first half of 2008, with activity levels higher in all business units year-over-year. Triton reported earnings before tax during the quarter of \$0.8 million, compared to earnings before tax of \$0.5 million in the same period of 2007. Triton secured \$11.9 million of new contracts, ending the quarter with \$29.4 million of backlog compared to \$28.1 million at June 30, 2007.

Revenue from Insulation Holdings in Q2 2008 was \$20.0 million, as compared to \$10.9 million for the second quarter of 2007. Earnings before tax in the quarter were a record \$2.6 million as compared to \$1.3 million of earnings achieved in the second quarter of 2007. Backlog at the end of the second quarter was \$51.8 million compared to \$27.2 million at the conclusion of the second quarter of 2007.

Laird's second quarter revenue decreased to \$32.9 million from \$35.3 million in the comparable period of 2007. Earnings before tax increased to \$3.0 million compared to earnings before tax of \$2.6 million in the second quarter of 2007. The company's backlog was \$39.7 million at June 30, 2008, compared to \$46.6 million in 2007.

The outlook for Churchill remains favorable due to expanding capital expenditures in the oil sands and petrochemical industries, supplemented by strong government spending on infrastructure and institutional projects. Churchill's operating companies are well positioned to capitalize on the significant demand for construction services throughout Western Canada.

July 31, 2008

Peter F. Adams, Ph.D., P.Eng.  
Chairman and Interim Chief Executive Officer

## 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 (the "Corporation"), dated July 31, 2008, should be read in conjunction with the unaudited interim Consolidated Financial Statements and related notes thereto, as well as the December 31, 2007, audited Consolidated Financial Statements and related notes, MD&A and Report to Shareholders contained in the Corporation's 2007 Annual Report. 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", "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 ("Churchill" or the "Corporation") constructs buildings and provides industrial construction and maintenance services. The Corporation segments its operations into five business segments –

- **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 industrial insulation, siding application, plant 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 Corporation provides strategic direction, operating advice, financing and infrastructure services 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.

## 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				2006	
	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30
Contract Revenue	\$229.5	\$184.0	\$191.5	\$203.8	\$186.9	\$153.9	\$152.4	\$145.5
Contract Income	25.2	17.9	22.4	17.9	16.9	12.4	16.7	13.4
Contract Income Margin - %	11.0%	9.7%	11.7%	8.8%	9.0%	8.1%	11.0%	9.2%
EBITDA	14.9	8.1	13.0	9.6	8.3	4.3	6.7	5.4
Earnings Before Tax	13.7	6.9	11.7	8.4	7.4	3.3	5.9	4.6
Net Earnings	9.5	4.5	8.2	5.6	5.0	2.3	3.7	3.0
Basic (\$ per share)	0.53	0.25	0.46	0.31	0.28	0.13	0.21	0.17
Fully diluted (\$ per share)	0.53	0.25	0.45	0.31	0.28	0.13	0.21	0.16
Work-in-Hand	585.5	639.7	713.8	734.5	757.4	596.6	493.9	469.6
Working Capital	60.1	51.4	47.9	38.4	33.1	29.2	27.4	24.1
Shareholders' Equity	84.4	74.3	69.7	61.1	55.1	50.0	47.7	43.7
Book Value (\$ per share)	4.70	4.15	3.90	3.43	3.12	2.83	2.70	2.48

For a discussion of the analysis and results of prior years the reader is referred to the Corporation's 2007 and 2006 Annual Reports.

## SECOND QUARTER RESULTS

For the second quarter of 2008, consolidated contract revenue was \$229.5 million, which was \$42.6 million or 23% greater 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, significant growth in our industrial general contracting segment and a greater volume of work completed in our industrial insulation segment.

Contract income increased from \$16.9 million in the second quarter of 2007 to \$25.2 million in the current period as stronger margins in the buildings and electrical segments improved overall results.

Indirect and administrative expenses amounted to \$10.9 million in the quarter, compared to \$9.4 million in the comparable period of 2007, reflecting increased expenses associated with higher revenue.

Earnings before interest, taxes, depreciation and amortization in the quarter were \$14.9 million, compared to \$8.3 million in the second quarter of 2007. Earnings before tax in Q2 2008 increased 85% to \$13.7 million, compared to \$7.4 million reported in Q2 2007. All of the operating companies were profitable in the second quarter of 2008. The Corporation's consolidated net earnings for the three months ended June 30, 2008 were \$9.5 million compared to net earnings of \$5.0 million in 2007.

Work-in-hand at June 30, 2008 was \$585.5 million, a decrease of 23% compared to \$757.4 million in the second quarter of 2007. The Corporation's backlog at the conclusion of the quarter was \$1.3 billion dollars, an increase of 3% relative to the comparable period of 2007. New contract awards of \$175.3 million were booked in the current quarter, which compares with \$347.7 million in Q2 2007. The majority of the variance in new work secured was from the buildings segment. Stuart Olson is targeting certain large projects within Alberta and British Columbia with a view to securing new projects for late 2008 and early 2009 construction.

## RESULTS OF OPERATIONS

### *Buildings*

For the three months ended June 30, 2008, Stuart Olson's revenue increased by \$18.7 million to \$148.9 million, compared to \$130.2 million in the prior year. The company continues to experience higher levels of activity in all of its branches; however growth was particularly strong in the Northern Alberta and British Columbia branches. Stuart Olson was active during the period on projects ranging from educational and healthcare facilities, to civic infrastructure and commercial buildings.

Contract income margin in the second quarter increased 67% to \$13.9 million from \$8.3 million for the same period in 2007. Contract income margin percentage increased to 9.3% in 2008 as compared to 6.4% in 2007. Stuart Olson's operational strength is allowing it to grow margins through solid project execution.

Earnings before tax from the buildings segment were \$9.0 million in Q2 2008, compared to \$4.5 million in Q2 2007. This 100% improvement in earnings was a result of the increase in overall contract volume and strong project execution.

For the six months ended June 30, 2008, Stuart Olson reported revenues of \$276.3 million compared to revenues of \$229.3 million last year. This \$47.0 million growth in revenue on a year-over-year basis was generated by increased activity in all regions.

Contract income margin for the first six months of 2008 was \$24.7 million compared to \$14.5 million in 2007. Contract income margin percentage was 8.9% compared to 6.3%, respectively. Earnings before tax increased to \$14.9 million compared to \$7.2 million. A strong market combined with solid project execution has allowed Stuart Olson to be more profitable.

Stuart Olson had work-in-hand of \$508.6 million and a backlog of \$1.3 billion as at March 31, 2008. In the three months ended June 30, 2008, the company secured a further \$121.1 million of contracts, and executed \$148.9 million of contract revenue. The company completed the quarter with \$480.8 million of work-in-hand, of which \$177.2 million is expected to carryover into 2009. The company continues to focus its efforts on securing larger projects with construction starts scheduled for the second half of 2008 and into 2009. At June 30, 2008, Stuart Olson's backlog amounted to \$1.14 billion, compared to \$1.12 billion in Q2 2007, an increase of 2%.

### ***Industrial General Contracting***

Triton's contract revenue for the period ending June 30, 2008, was \$27.7 million; an increase of 161% from the \$10.6 million generated in the comparable quarter of 2007. Revenues from all divisions were higher during the second quarter of 2008, but most significantly in the construction division.

Contract income margin increased 5% to \$2.1 million in Q2 2008 from \$2.0 million in Q2 2007. The company's contract income margin percentage was lower at 7.6%, down from 18.9% in the second quarter of 2007. The mix of contract revenue, lower realized contract income margins in the construction and fabrication divisions and recording a loss provision on a previously completed contract were responsible for this decrease.

Earnings before tax increased to \$0.8 million in the second quarter of 2008, as compared to earnings before tax of \$0.5 million in Q2 2007. The increase in pre-tax earnings was a result of greater activity levels and profits in all three divisions.

For the six months ended June 30, 2008, Triton reported revenues of \$53.9 million compared to revenues of \$19.9 million last year. While all three divisions have been busier than in 2007, the majority of this revenue differential can be attributed to a significant year-over-year increase in activity levels within the construction division.

Contract income for the first six months of 2008 was \$4.8 million compared to \$2.9 million in 2007. Contract income margin percentage in 2008 was 8.9% compared to 14.6%, in 2007. Triton's year to date earnings before tax was \$2.1 million, compared to a loss before tax of \$0.2 million in 2007.

Triton had work-in-hand of \$40.9 million and a backlog of \$42.7 million at March 31, 2008. For the quarter ending June 30, 2008, the company secured a further \$11.9 million of contracts, and executed \$27.7 million of contractual work. Triton was awarded contracts from BA Energy, Encana, IMV Projects, TCPL and others during the quarter. The company ended the quarter with \$25.1 million of work-in-hand, which it expects to execute during the balance of 2008. At June 30, 2008, the company's backlog was \$29.4 million versus a Q2 2007 backlog of \$28.1 million.

### ***Industrial Insulation Contracting***

Insulation Holdings Inc. operates 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 three months ended June 30, 2008, increased to \$20.0 million, compared to \$10.9 million for the comparable period in 2007. The increase in revenue was a result of greater activity in Fuller Austin Saskatchewan and Northern Industrial divisions.

Contract income margin increased to \$4.0 million in Q2 2008 from \$2.5 million for the comparable period of 2007. The increase in margin was a result of continued strong project execution and the greater volume of work executed. The contract income margin percentage was 20.0% in this quarter as compared to 22.9% in the prior year.

The company's earnings before tax increased 100% to \$2.6 million during the period, compared to earnings before tax of \$1.3 million in the second quarter of 2007.

For the six months ended June 30, 2008, Insulation Holdings reported revenues of \$33.6 million compared to revenues of \$22.8 million last year. The majority of the \$10.8 million revenue differential is associated with work completed in the Saskatchewan market.

Contract income for the first six months of 2008 was \$6.1 million compared to \$4.2 million in the comparable period of 2007. Contract income margin percentage was 18.2% compared to 18.4%, respectively. This high contract income margin percentage was due to solid project execution. Earnings before tax year to date increased to \$3.5 million from \$1.9 million in 2007.

Insulation Holdings had work-in-hand of \$44.4 million and backlog of \$52.6 million at March 31, 2008. During Q2 2008, they secured a further \$15.5 million of contracts and executed \$20.0 million of contracts. New contracts were secured from clients such as Agrium, Comstock, Flint, TransAlta and Suncor. The insulation segment ended the quarter with \$39.9 million of work-in-hand, of which \$7.0 million is expected to be completed in 2009. At June 30, 2008, the company had a backlog of \$51.8 million, as compared to \$27.2 million in the prior year.

### ***Industrial Electrical Contracting***

For the three months ended June 30, 2008, Laird's contract revenue was \$32.9 million compared to the \$35.3 million reported in Q2 2007. Q2 2007 revenue was a record quarter for Laird, with significant manpower employed on several major oil sands projects.

Contract income increased from \$4.1 million in 2007 to \$4.9 million in Q2 2008, due to improved project execution. The contract income margin percentage was higher during the second quarter at 14.9% as compared to 11.6% in Q2 2007. This was a result of the revenue mix from contracts under construction, strong project execution and ongoing systems and process improvements.

Laird achieved earnings before tax of \$3.0 million for the period, compared to earnings before tax of \$2.6 million in Q2 2007. The increase in earnings was a result of the higher contract income margin in Q2 2008 as compared to the prior year.

For the six months ended June 30, 2008, Laird reported revenues of \$49.7 million compared to revenues of \$68.9 million last year, a decrease of \$19.2 million. In the first six months of 2007, Laird undertook a significant amount of maintenance related activities for a major oil sands client, which contributed to the greater prior year volume.

Contract income for the first six months of 2008 was \$7.2 million compared to \$7.4 million in 2007. This consistent contract income, notwithstanding the year-over-year revenue decrease of \$19.2 million, is mainly due to systems and process improvements. Contract income margin percentage was 14.5% compared to 10.7%, respectively. Earnings before tax year to date decreased to \$3.4 million compared to \$4.3 million in 2007. The \$0.9 million decrease in earnings before tax is attributable to the reduction in contract revenue of \$19.2 million.

Laird reported work-in-hand and backlog amounting to \$45.8 million at March 31, 2008. New contract awards of \$26.8 million were secured in the second quarter and \$32.9 million of contracts were executed. Projects were secured from clients including Albion, Nexen, TransAlta and Suncor. Laird ended the second quarter with \$39.7 million of work-in-hand and backlog, all of which is expected to be completed in 2008. Laird's backlog at the end of Q2 2007 was \$46.6 million.

### ***Corporate and Other***

In the second quarter of 2008, the Corporate and Other segment incurred a loss before tax of \$1.7 million compared to a loss before tax of \$1.6 million in 2007. For the six months ended June 30, 2008, the Corporate and Other segment generated a loss before tax of \$3.3 million compared to a loss before tax of \$2.5 million for the same period in 2007. Corporate expenses were higher due to recognition of stock based compensation expenses, consulting fees and a larger work force.

## **CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY**

Cash and cash equivalents at June 30, 2008, totaled \$75.9 million, which compares with \$108.1 million at the end of 2007. Of the \$75.9 million of cash and cash equivalents, \$18.1 million was subject to deemed trust conditions under the British Columbia 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.

Operating activities used \$7.1 million of cash during the quarter as compared to providing \$11.4 million of cash during the second quarter of 2007. This change was primarily due to an increase in accounts receivable during the second quarter of 2008 resulting from increased activity.

Investing activities resulted in the use of \$1.7 million of cash during the second quarter of 2008, which compares with cash used of \$1.5 million in Q2 2007. The investments were made in construction equipment to support operations.

During the second quarter of 2008 net cash used in financing activities amounted to \$0.3 million, compared to cash used in financing activities of \$0.5 million in the second quarter of 2007. The Corporation repaid \$0.5 million of long-term debt during Q2 2008, and received proceeds of \$0.2 million from the exercise of stock options.

Cash used in operations of \$28.2 million in the first six months of 2008 was in contrast to cash generated from operations of \$16.7 million in the same period last year. This change can be attributed to additional income taxes paid and greater working capital investment to support revenue growth on a year-over-year basis.

For the six months ended June 30, 2008, investing activities resulted in a use of cash of \$3.2 million compared to \$2.2 million of cash used in the prior year. The Corporation has primarily used this cash to acquire construction equipment in both periods.

For the six months ended June 30, 2008, cash used in financing activities amounted to \$0.8 million compared to proceeds of \$2.5 million received in 2007. Proceeds and repayments applied to the operating line of credit during the year to date offset each other compared to \$3.5 million of net cash received in 2007. Repayment of long-term debt in the first six months of 2008 was \$1.1 million and \$0.6 million in 2007. Repayment of the demand term loan in 2007 was \$0.4 million; subsequent to the second quarter of 2007 this demand term loan was converted to a committed debt facility. As at June 30, 2008, the Corporation was in compliance with the repayment terms associated with its contractual obligations. The Corporation received proceeds of \$0.2 million from the exercise of stock options in the first six months of 2008, and proceeds of \$nil in the corresponding period of 2007.

As at June 30, 2008, Churchill had working capital of \$60.1 million, which compares favourably to the working capital position of \$47.9 million at the end of 2007.

The Corporation remains a partner in two joint ventures. In each instance the Corporation has provided joint and several guarantees, increasing the maximum potential exposure to the full value of the work remaining under the contract.

Shareholders' equity was \$84.4 million at June 30, 2008, as compared to \$69.7 million at December 31, 2007. Share capital has increased by \$328 thousand during the first six months of 2008 to recognize options exercised. Year-to-date, contributed surplus increased \$278 thousand as a result of the recognition of stock-based compensation. Retained earnings increased from \$47.5 million at December 31, 2007 to \$61.6 million at June 30, 2008, reflecting the year-to-date addition of \$14.1 million of net earnings.

### ***Share Data***

As at June 30, 2008, the Corporation had 17,961,991 common shares issued and outstanding and 350,026 options convertible into common shares upon exercise (June 30, 2007 - 17,667,491 common shares and 455,000 options). During the period from July 1, 2008, to July 31, 2008, no new share options were granted, exercised or cancelled.

The Corporation has an Employee Share Purchase Plan available to all full-time employees. At June 30, 2008, the plan held 827,585 Churchill common shares for employees (Q2 2007 – 1,323,080 common shares). Under the plan, shares are acquired in the open market.

## **SUPPLEMENTAL DISCLOSURES**

### ***Contractual Obligations***

At June 30, 2008, there were no material changes to the contractual obligations reported in our 2007 Annual Report.

### ***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 three month period ending June 30, 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 period was \$16 thousand (2007 - \$35 thousand). Legal fees of \$51 thousand (2007 - \$116 thousand) were incurred with this law firm for the six months ended June 30, 2008. At June 30, 2008, \$2 thousand was included in accounts payable (2007 - \$6 thousand).

During the second quarter of 2008, the Corporation incurred facility costs of \$35 thousand (2007 - \$38 thousand) relating to the rental of a building which is owned by a director of the Corporation. Facility costs of \$77 thousand (2007 - \$66 thousand) for this building were incurred for the six months ended June 30, 2008. At June 30, 2008, \$29 thousand was included in accounts payable (2007 - \$10 thousand).

## **OUTLOOK**

The total value of major construction projects expected to be built in Alberta grew to more than \$273 billion by the end of June 2008, an increase of more than \$90 billion from June 2007. The total number of major construction projects stands at 1,177 up from 955 a year ago. The oil sands sector continues to make up the biggest piece of this inventory with 53 projects valued at more than \$170 billion. Last year, the oil sands sector was listed with 52 projects valued at \$110.7 billion. The institutional sector with 220 projects was valued at \$13.9 billion in June 2008 compared to 181 institutional projects valued at \$10.8 billion in June 2007.

Clearly infrastructure spending continues to remain strong in Western Canada and particularly Alberta. Stuart Olson is successfully converting its \$1.1 billion of backlog into revenue, executing extremely well on the projects in its possession and delivering record earnings year-over-year. Stuart Olson remains a sought-after general contractor with numerous project opportunities in the pipeline.

Triton is off to a great start in 2008, with activity levels higher within all business units. The accelerated pace of construction activity in the first half of 2008 has resulted in Triton working through its backlog faster than planned. Activity levels are forecast to soften in the third and fourth quarters and have a corresponding impact on profitability. However, the strength of the market and the repositioning of the company with customers have us optimistic that Triton will be able to secure significant construction projects for 2009.

Insulation Holdings is executing well and market conditions in all regions are strong enough to enable them to return to the revenue levels and associated profitability experienced in 2005 and 2006. The backlog remains at near record levels and provides substantial near-term visibility.

Laird is making the operational and systems improvements necessary to position itself for long-term success in the oil sands construction and maintenance market. Laird's maintenance role on a major oil sands site has been extended by the general contractor through the balance of fiscal 2008 and the backlog of work remains high.

Churchill is well on its way to delivering improved operational and financial results once again in 2008. We have initiated projects at various levels within the company to increase efficiencies and generate higher margins.

## **RISKS AND UNCERTAINTIES**

During the second quarter of 2008, the Corporation and its subsidiaries executed a bonding and surety agreement with Travelers Guarantee Company and its co-surety partner Aviva that reflects a significant increase over our

previous capacity; otherwise there have been no significant changes in the Corporation's risk factors from those disclosed in its 2007 Annual Report and Annual Information Form.

## **CRITICAL ACCOUNTING ESTIMATES**

The Corporation's significant accounting policies are referred to in Note 1 of the unaudited interim Consolidated Financial Statements and the audited consolidated financial statements for the fiscal year ended December 31, 2007.

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. As discussed in the MD&A contained in the Corporation's 2007 Annual Report, management has identified the Corporation's most critical accounting estimates to be in the areas of revenue recognition, goodwill impairment, income tax provisions and accounts receivable collectability. For the period ending June 30, 2008, there has been no significant change in our critical accounting estimates.

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

## **CHANGES IN ACCOUNTING POLICIES**

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

## **RECENT ACCOUNTING PRONOUNCEMENTS**

Note 3 of the unaudited interim Consolidated Financial Statements describes new CICA Handbook sections which will become effective after fiscal 2008 for Churchill and their potential impact on the Corporation's Consolidated Financial Statements.

## **DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (the "CEO") and the Senior Vice President Finance and Chief Financial Officer (the "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 at least one member of the Board of Directors.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). However, 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.

The CEO and CFO evaluated the design of the Corporation's internal controls over financial reporting as at June 30, 2008. Corresponding with the significant growth being experienced by the Corporation, management continually monitors and revises its control procedures and processes over different areas of its business and consequently

management has identified certain areas where it can enhance process controls. These enhancements will be implemented throughout the remainder of 2008. The Corporation employs additional controls to compensate for deficiencies that may exist. As at the end of the period covered by this management's 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.

### ***Material Changes to the Internal Controls over Financial Reporting***

For the three months ended June 30, 2008, the CEO and CFO evaluated whether there were any material changes in internal controls over financial reporting pursuant to MI 52-109. They concluded that there were no changes to the Corporation's internal controls over financial reporting that have materially affected, or were likely to materially affect the Corporation's internal controls over financial reporting.

### **TERMINOLOGY**

Throughout this second quarter 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", "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 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.

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

As at (\$ millions)	June 30, 2008	December 31, 2007
Current assets	\$274.9	\$233.6
Less:		
Current liabilities	214.8	185.7
<b>Working Capital</b>	<b>\$60.1</b>	<b>\$47.9</b>

*EBITDA* is equal to earnings before interest expense, taxes, depreciation and amortization. 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 EBITDA to net earnings for each of the periods presented in this MD&A.

(\$ millions)	Three months ended		Six months ended	
	2008	June 30, 2007	2008	June 30, 2007
Net Earnings	\$9.5	\$5.0	\$14.1	\$7.4
Add:				
Income Taxes	4.1	2.3	6.5	3.3
Depreciation & Amortization	1.2	0.8	2.2	1.5
Interest expense	0.1	0.2	0.3	0.4
<b>EBITDA</b>	<b>\$14.9</b>	<b>\$8.3</b>	<b>\$23.1</b>	<b>\$12.6</b>

*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 in this Management's Discussion and Analysis may constitute "forward-looking statements". Forward-looking statements include, without limitation, statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives of the Corporation. Many of these statements can be identified by looking for words such as "believes," "expects," "may," "will," "intends," "anticipates," "estimates," "continues," or the negative thereof, or other variations thereon. Although management of Churchill believes its expectations regarding future performance of the Corporation are based on reasonable assumptions and currently available competitive, financial and economic data, market conditions and operating plans, it can give no assurance its expectations will be achieved. The Corporation cautions that, by their nature, forward-looking statements, involve risks, and uncertainties and that its actual actions, and/or results could differ materially from those expressed or implied in such forward-looking statements, and that the aforementioned risks, uncertainties and actions could affect the extent to which a particular projection materializes. The Corporation assumes no obligation to update the forward-looking statements should circumstances or the Corporation's management's estimates or opinions change.

Additional information regarding Churchill including the Corporation's 2007 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").

## NOTICE

The June 30, 2008, Consolidated Financial Statements and related notes, contained herein, have not been subjected to an audit or review by the Corporation's external auditors.

It has been the Corporation's practice that interim financial information is unaudited, while year-end financial information is audited by the Corporation's external auditors.

## Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

(\$ thousands, except per share amounts)	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2008	2007	2008	2007
Contract revenue	\$ 229,544	\$ 186,937	\$ 413,528	\$ 340,841
Contract costs	204,348	170,063	370,457	311,533
Contract income	25,196	16,874	43,071	29,308
Interest income	598	516	1,554	929
Sundry income	122	292	218	296
Indirect and administrative expenses	(10,937)	(9,370)	(21,776)	(17,950)
Depreciation and amortization	(1,169)	(770)	(2,239)	(1,510)
Interest expense	(147)	(179)	(307)	(373)
Earnings before income taxes	13,663	7,363	20,521	10,700
Income tax (expense) recovery				
Current income tax	(5,743)	(2,241)	(8,834)	(2,611)
Future income tax	1,624	(88)	2,383	(736)
	(4,119)	(2,329)	(6,451)	(3,347)
Net earnings	9,544	5,034	14,070	7,353
Comprehensive income	-	-	-	-
Net earnings and comprehensive income	9,544	5,034	14,070	7,353
Retained earnings, beginning of period	52,054	28,721	47,528	26,402
Retained earnings, end of period	\$ 61,598	\$ 33,755	\$ 61,598	\$ 33,755
Accumulated comprehensive income, beginning of period	\$ -	\$ -	\$ -	\$ -
Comprehensive income for the period	-	-	-	-
Accumulated comprehensive income, end of period	\$ -	\$ -	\$ -	\$ -
Net earnings per common share (Note 8):				
Basic	\$ 0.53	\$ 0.28	\$ 0.79	\$ 0.42
Fully diluted	\$ 0.53	\$ 0.28	\$ 0.78	\$ 0.41
Weighted average common shares:				
Basic	17,922,156	17,667,491	17,904,573	17,667,491
Diluted	18,131,675	17,949,780	18,115,697	17,932,268

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

## Consolidated Balance Sheets

(\$ thousands)

	June 30, 2008 (unaudited)	December 31, 2007
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 4)	\$ 75,909	\$ 108,105
Accounts receivable	190,526	123,906
Inventories and prepaid expenses	1,903	859
Income taxes recoverable	3,844	-
Future income tax assets	2,756	759
	274,938	233,629
Future income tax assets	1,481	788
Property and equipment	23,968	22,832
Goodwill and intangible assets	7,378	7,420
	\$ 307,765	\$ 264,669
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 165,251	\$ 149,057
Contract advances and unearned income	47,606	24,611
Income taxes payable	-	10,148
Current portion of long-term debt (Note 5)	1,971	1,963
	214,828	185,779
Long-term debt (Note 5)	7,817	8,755
Future income tax liabilities	766	457
	223,411	194,991
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	16,742	16,414
Contributed surplus	6,014	5,736
Retained earnings	61,598	47,528
Accumulated other comprehensive income	-	-
	84,354	69,678
	\$ 307,765	\$ 264,669

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



## **NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, in thousands of dollars, except per share amounts)*

### **1. Basis of Presentation**

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 2007 and notes thereto. These unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles for interim financial information in Canada; however, they do not conform in all respects to the disclosure requirements of generally accepted accounting principles for annual financial statements. The same accounting policies and principles were followed in respect of the preparation of these unaudited interim consolidated financial statements as were followed in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2007, except as described in note 2.

### **2. Accounting Policy Changes**

(i) General standards of financial statements:

Effective January 1, 2008, the Corporation adopted the requirements of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1400, *General Standards of Financial Statements*. The 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 7.

(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 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 nonfinancial 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 9.

## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited, in thousands of dollars, except per share amounts)*

### 3. *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 new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard should not have a material impact on the Corporation's consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As the Corporation will be required to report its results in accordance with IFRS starting in 2011, the Corporation is currently assessing the potential impacts of this changeover and developing its plan accordingly.

### 4. *Cash and Cash Equivalents*

Included in cash and cash equivalents balance is \$18,140 (December 31, 2007 - \$25,342) which is restricted under the British Columbia Lien Act to the payment of direct costs related to specific construction projects and cash balances of \$1,148 (December 31, 2007 - \$1,737) held in joint venture accounts.

### 5. *Long-term Debt*

	June 30, 2008	December 31, 2007
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 \$6,613, maturing June 2015.	\$ 5,590	\$ 5,980
Mortgage, interest at 6.47%, blended monthly repayments of \$10, secured by land and buildings with an aggregate carrying value of \$1,997, maturing November 2009.	1,166	1,186
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$1,909, interest varying from 0.0% to 5.25%, blended monthly repayments of \$95, maturing between July 2008 and May 2012.	1,808	2,266
Capital leases, secured by construction and automotive equipment with an aggregate carrying value of \$959, interest at the three-year guaranteed investment certificate rate plus 3.25%, blended monthly repayments of \$30, maturing between March 2011 and February 2012.	1,224	1,286
	9,788	10,718
Less current portion	(1,971)	(1,963)
	\$ 7,817	\$ 8,755

For the purposes of presentation, expenditures relating to capital leases from the leasing facility and finance contracts have been treated as non-cash items and as such have not been reflected on the Consolidated Statements of Cash Flow. During the quarter there were \$124 (June 30, 2007 - \$418) in expenditures of this nature. For the six months ended June 30, 2008, there were \$124 (June 30, 2007 - \$1,054) in expenditures from the leasing facility and finance contracts.

## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

### 6. Share Capital

Issued	Six months ended June 30, 2008		Twelve months ended December 31, 2007	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of year	17,886,991	\$ 16,414	17,667,491	\$ 15,508
Stock options exercised	75,000	328	219,500	906
Issued, end of year	17,961,991	\$ 16,742	17,886,991	\$ 16,414

As at June 30, 2008, the Corporation had outstanding 350,026 options convertible into Common Shares (December 31, 2007 - 317,500), of which 182,617 are currently exercisable (December 31, 2007 - 218,832)

For the three months ended June 30, 2008, the Corporation recognized stock based compensation expense of \$303 (June 30, 2007 - \$30) related to the estimated fair value of options granted. Stock based compensation for the six months ended June 30, 2008 was \$370 (June 30, 2007 - \$37). During the quarter ended June 30, 2008, 9,060 options were issued with a weighted average fair value of \$8.83. The fair value of options granted in the quarter ended June 30, 2008 by the Corporation was estimated using the Black-Scholes option-pricing model with the following assumptions: no dividends are paid on Common Shares, a weighted average risk-free interest rate of 3.02%, an average life of 4.0 years, and a weighted average volatility of 46.89%. 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.

The Corporation has a Restricted Share Unit (RSU) plan, which received shareholder and regulatory approval on May 21 and June 2, 2008, respectively. Under the RSU 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 RSU is equal to fair market value at the date of grant. Compensation expense is recognized on a straight line basis over the RSU vesting period of three years. The maximum number of RSUs available under the plan is 750,000.

Subsequent to the quarter ended June 30, 2008, the Corporation issued 66,535 RSUs to key employees. The fair market value of these RSUs was \$1,214.

## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited, in thousands of dollars, except per share amounts)*

### 7. *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 used to steward the Corporation's overall leverage as measures of the Corporation's financial strength.

The Corporation targets a Debt to Capitalization ratio between 10 and 30 percent that is calculated as follows:

	June 30, 2008	December 31, 2007
Long-Term Debt, excluding current portion	\$ 7,817	\$ 8,755
Total Shareholders' Equity	84,354	69,678
Total Capitalization	\$ 92,171	\$ 78,433
Debt to Capitalization Ratio	8%	11%

The Corporation targets a Debt to EBITDA between 0.2 and 0.8 times. At June 30, 2008, the Debt to EBITDA was 0.2x (December 31, 2007 - 0.2x) calculated on a trailing twelve-month basis as follows:

	June 30, 2008	December 31, 2007
Long-Term Debt, excluding current portion	\$ 7,817	\$ 8,755
Net earnings	\$ 27,843	\$ 21,126
Add:		
Interest	683	749
Income tax expense	12,804	9,700
Depreciation and amortization	4,251	3,522
EBITDA	\$ 45,581	\$ 35,097
Debt to EBITDA	0.2x	0.2x

## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

### 7. Management of Capital (continued)

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 June 30, 2008 and December 31, 2007.

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

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

### 8. Earnings per Share

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

### 9. Financial Instruments

For the interim period ended June 30, 2008, 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.

#### (a) Financial instruments – carrying values

	June 30, 2008	December 31, 2007
<i>Financial assets:</i>		
Cash and cash equivalents	\$ 75,909	\$ 108,105
Accounts receivable	190,526	123,906
Long-term cash and cash equivalents	-	-
<i>Financial liabilities:</i>		
Operating line of credit	\$ -	\$ -
Accounts payable and accrued liabilities	165,251	149,057
Demand term loan	-	-
Long-term debt	9,788	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.

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited, in thousands of dollars, except per share amounts)*

9. **Financial Instruments (continued)**

(b) Financial income and expense

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Interest income - cash and cash equivalents	\$ 598	\$ 484	\$ 1,554	\$ 844
Interest income - long-term cash and equivalents	-	32	-	85
Interest expense - operating line of credit	(6)	(7)	(13)	(13)
Interest expense - demand term loan	-	(122)	-	(238)
Interest expense - long-term debt	(134)	(54)	(285)	(103)
Bad debt (expense) recovery, net	(1,703)	229	(1,282)	1,384
	\$ (1,245)	\$ 562	\$ (26)	\$ 1,959

(c) Financial risk management

The Corporation has exposure to credit, interest-rate and liquidity risks. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework and reviews 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:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Balance, beginning of period	\$ 1,568	\$ 1,632	\$ 1,989	\$ 2,787
Provision for uncollectible accounts	2,218	16	2,223	172
Recovery of accounts previously written off	(515)	(245)	(941)	(1,556)
Balance, end of period	\$ 3,271	\$ 1,403	\$ 3,271	\$ 1,403

The Corporation had \$7,656 in past due trade receivables at the end of the quarter. There are no concentrations of credit risk in geographical area, customer markets or other areas as at June 30, 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 operating line of credit and demand term loan with payment terms as disclosed in Note 9 of the audited annual consolidated financial statements. The Corporation does not use derivative instruments to reduce its exposure to this risk.

## **NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, in thousands of dollars, except per share amounts)*

### **9. Financial Instruments (continued)**

The Corporation is not exposed to any direct foreign currency risk. At June 30, 2008, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$68.

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.

### **10. Related Party Transactions**

For the three months ended June 30, 2008, the Corporation incurred legal fees of \$16 (June 30, 2007 - \$35) for services related to various legal matters with a law firm for which a director of the Corporation is also a partner of the firm. Legal fees of \$51 (June 30, 2007 - \$116) were incurred with this law firm for the six months ended June 30, 2008. At June 30, 2008, \$2 (June 30, 2007 - \$6) is included in accounts payable.

For the three months ended June 30, 2008, the Corporation incurred facility costs of \$35 (June 30, 2007 - \$38) relating to rental of a building which is owned by a director of the Corporation. Facility costs of \$77 (June 30, 2007 - \$66) for this building were incurred for the six months ended June 30, 2008. At June 30, 2008, \$29 (June 30, 2007 - \$10) is included in accounts payable.

Related party transaction costs were incurred in the ordinary course of business where normal trade terms apply.

### **11. 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 of the reportable segments are the same as those described in Note 1 of the audited consolidated financial statements for the fiscal year ended December 31, 2007. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited, in thousands of dollars, except per share amounts)*

**11. Segmented Information (continued)**

<b>Three months ended June 30, 2008</b>	<b>Buildings</b>	<b>Industrial General</b>	<b>Industrial Insulation</b>	<b>Industrial Electric</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 148,932	\$ 27,719	\$ 20,001	\$ 32,892	\$ -	\$ 229,544
EBITDA <sup>(1)</sup>	9,469	899	2,661	3,317	(1,367)	14,979
Depreciation and amortization	489	99	53	250	278	1,169
Interest expense	14	19	-	22	92	147
Earnings (loss) before tax	\$ 8,966	\$ 781	\$ 2,608	\$ 3,045	\$ (1,737)	\$ 13,663
Income taxes						(4,119)
Net earnings						\$ 9,544
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 63	\$ 7,378
Total Assets	\$ 216,213	\$ 27,379	\$ 20,166	\$ 32,813	\$ 11,194	\$ 307,765
Capital Expenditures	\$ 930	\$ 7	\$ 31	\$ 572	\$ 409	\$ 1,949

<b>Three months ended June 30, 2007</b>	<b>Buildings</b>	<b>Industrial General</b>	<b>Industrial Insulation</b>	<b>Industrial Electric</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 130,169	\$ 10,599	\$ 10,895	\$ 35,274	\$ -	\$ 186,937
EBITDA <sup>(1)</sup>	4,781	634	1,376	2,823	(1,302)	8,312
Depreciation and amortization	278	103	60	206	123	770
Interest expense	7	16	-	4	152	179
Earnings (loss) before tax	\$ 4,496	\$ 515	\$ 1,316	\$ 2,613	\$ (1,577)	\$ 7,363
Income taxes						(2,329)
Net earnings						\$ 5,034
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 147	\$ 7,462
Total Assets	\$ 161,659	\$ 15,409	\$ 15,755	\$ 37,328	\$ 11,417	\$ 241,568
Capital Expenditures	\$ 1,434	\$ 7	\$ 67	\$ 479	\$ 34	\$ 2,021

<b>Six months ended June 30, 2008</b>	<b>Buildings</b>	<b>Industrial General</b>	<b>Industrial Insulation</b>	<b>Industrial Electric</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 276,330	\$ 53,923	\$ 33,604	\$ 49,671	\$ -	\$ 413,528
EBITDA <sup>(1)</sup>	15,862	2,310	3,571	3,887	(2,563)	23,067
Depreciation and amortization	949	195	108	487	500	2,239
Interest expense	29	39	-	40	199	307
Earnings (loss) before tax	\$ 14,884	\$ 2,076	\$ 3,463	\$ 3,360	\$ (3,262)	\$ 20,521
Income taxes						(6,451)
Net earnings						\$ 14,070
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 63	\$ 7,378
Total Assets	\$ 216,213	\$ 27,379	\$ 20,166	\$ 32,813	\$ 11,194	\$ 307,765
Capital Expenditures	\$ 1,660	\$ 162	\$ 62	\$ 626	\$ 985	\$ 3,495

<b>Six months ended June 30, 2007</b>	<b>Buildings</b>	<b>Industrial General</b>	<b>Industrial Insulation</b>	<b>Industrial Electric</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 229,331	\$ 19,868	\$ 22,782	\$ 68,860	\$ -	\$ 340,841
EBITDA <sup>(1)</sup>	7,783	121	2,018	4,664	(2,003)	12,583
Depreciation and amortization	519	235	124	390	242	1,510
Interest expense	34	41	1	20	277	373
Earnings (loss) before tax	\$ 7,230	\$ (155)	\$ 1,893	\$ 4,254	\$ (2,522)	\$ 10,700
Income taxes						(3,347)
Net earnings						\$ 7,353
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 147	\$ 7,462
Total Assets	\$ 161,659	\$ 15,409	\$ 15,755	\$ 37,328	\$ 11,417	\$ 241,568
Capital Expenditures	\$ 2,128	\$ 11	\$ 126	\$ 1,085	\$ 47	\$ 3,397

## **NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, in thousands of dollars, except per share amounts)*

### **11. *Segmented Information (continued)***

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

For the purposes of presentation, capital expenditures for the three months ended June 30, 2008 of \$124 (June 30, 2007 - \$418) relating to capital leases from the leasing facility and finance contracts have been treated as non-cash items and as such have not been reflected on the Consolidated Statements of Cash Flow. For the six months ended June 30, 2008, capital expenditures related to capital leases and finance contracts were \$124 (June 30, 2008 - \$1,054).

For the six months ended June 30, 2008, the Corporation had no revenue from any customer in excess of 10% of its contract revenue (June 30, 2007 - one). During the comparative period, contract revenue from a significant customer was \$46,454 earned in the Industrial Insulation and Industrial Electrical Contracting segments.

### **12. *Comparative Figures***

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

# CORPORATE DIRECTORY

## EXECUTIVE OFFICES

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## INDUSTRIAL CONSTRUCTION & MAINTENANCE

### LAIRD ELECTRIC INC.

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### FULLER AUSTIN INSULATION INC.

11540 – 184 Street  
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### NORTHERN INDUSTRIAL INSULATION CONTRACTORS INC.

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## BUILDING CONSTRUCTION

### STUART OLSON CONSTRUCTORS INC.

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## AUDITORS

Deloitte & Touche LLP  
Chartered Accountants

## LEGAL COUNSEL

Miller Thomson LLP  
Davis LLP

## PRINCIPAL BANK

HSBC Bank Canada

## BONDING AND INSURANCE

Aviva Insurance Company of Canada  
AXA Pacific Insurance Company  
Aon Reed Stenhouse Inc.  
Travelers Guarantee Company

## REGISTRAR AND TRANSFER AGENTS

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

CIBC Mellon Trust Company  
600 The Dome Tower  
333 Seventh Avenue S.W.  
Calgary, Alberta T2P 2Z1  
Phone: (403) 232-2400  
Fax: (403) 264-2100  
Email: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)  
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