



## REPORT TO SHAREHOLDERS

Churchill achieved record net earnings in the quarter ended September 30, 2008. Contract revenue was \$228.9 million compared to \$203.8 million in the third quarter of 2007. Net earnings of \$11.2 million (\$0.62 per share) were delivered compared to \$5.6 million (\$0.31 per share) in the comparable period of 2007.

During the third quarter, the Corporation secured \$229.2 million in new contract awards, compared to \$180.9 million of new work during the third quarter of 2007. The Corporation's work-in-hand balance at September 30, 2008, was \$585.8 million compared to \$734.5 million at September 30, 2007. This reduction of work-in-hand is due to the timing of subcontractor tenders and is not an indication of a reduction in expected future activity levels. Churchill's backlog at the end of Q3 2008 was \$1.5 billion compared to \$1.2 billion in Q3 2007.

Stuart Olson had a record quarter, generating \$158.4 million of revenue and earnings before tax of \$12.1 million, in comparison to \$152.8 million of revenue and \$7.2 million of earnings before tax in the same period of 2007. Significant revenue and earnings growth was generated by all branches. The backlog at Stuart Olson increased during the quarter, totaling \$1.3 billion at September 30, 2008, compared to \$1.0 billion at September 30, 2007.

Revenue at Triton this quarter was \$13.0 million compared to \$9.1 million reported in the third quarter of 2007. Triton recorded a loss before tax during the quarter of \$1.4 million compared to a loss before tax of \$0.5 million in the same period of 2007. Triton experienced a series of operating challenges this quarter which led to the financial loss. Triton secured \$17.8 million of new contracts during the third quarter, ending the quarter with \$29.8 million of work-in-hand compared to \$26.3 million at September 30, 2007.

Revenue from our insulation companies was \$19.4 million compared to \$15.6 million for the third quarter of 2007. Earnings before tax in the quarter were \$2.9 million compared to \$1.9 million achieved in the third quarter of 2007. For the insulation companies this was a second consecutive quarter of record pre-tax earnings. Work-in-hand at the end of the third quarter was \$67.7 million compared to \$29.8 million at the conclusion of the third quarter of 2007.

Laird's third quarter revenue increased to \$38.1 million from \$26.2 million in the comparable period of 2007. Earnings before tax increased to \$4.2 million compared to earnings before tax of \$0.5 million in the third quarter of 2007. Earnings before tax improved in the nine months ended September 30, 2008 by 56% to \$7.5 million compared to \$4.8 million in the prior year. The company's work-in-hand was \$24.8 million at September 30, 2008 compared to \$44.4 million in 2007.

Churchill's contract revenue for the nine months ended September 30, 2008 was \$642.5 million compared to \$544.6 million for the same period of 2007. Net earnings for the first nine months of 2008 were \$25.2 million (\$1.41 per share) compared to \$12.9 million (\$0.73 per share) for the comparable period in 2007.

Recently, Churchill's share price and those of its peers has been negatively impacted by the significant volatility in the equity and credit markets, rising concerns about a potential global recession and declines in the prices of commodities such as oil. This general instability in the business climate has prompted some businesses and governments to re-evaluate their capital spending commitments. However, Churchill has been reasonably unaffected by these changes in spending and we remain confident that with our strong and almost debt-free balance sheet, that Churchill remains well positioned to participate in the Western Canada infrastructure and Alberta's oil sands expansion.

November 5, 2008

Peter F. Adams, Ph.D., P.Eng.  
President and 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 November 5, 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	
	Sept. 30	June 30	Mar. 31	Dec 31	Sept. 30	June 30	Mar. 31	Dec 31
Contract Revenue	\$228.9	\$229.5	\$184.0	\$191.5	\$203.8	\$186.9	\$153.9	\$152.4
Contract Income	28.0	25.2	17.9	22.4	17.9	16.9	12.4	16.7
Contract Income Margin - %	12.2%	11.0%	9.7%	11.7%	8.8%	9.0%	8.1%	11.0%
EBITDA	17.3	14.9	8.1	13.0	9.6	8.3	4.3	6.7
Earnings Before Tax	16.0	13.7	6.9	11.7	8.4	7.4	3.3	5.9
Net Earnings	11.2	9.5	4.5	8.2	5.6	5.0	2.3	3.7
Basic (\$ per share)	0.62	0.53	0.25	0.46	0.31	0.28	0.13	0.21
Fully diluted (\$ per share)	0.62	0.53	0.25	0.45	0.31	0.28	0.13	0.21
Work-in-Hand	585.8	585.5	639.7	713.8	734.5	757.4	596.6	493.9
Working Capital	69.9	60.1	51.4	47.9	38.4	33.1	29.2	27.4
Shareholders' Equity	95.9	84.4	74.3	69.7	61.1	55.1	50.0	47.7
Book Value (\$ per share)	5.33	4.70	4.15	3.90	3.43	3.12	2.83	2.70

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

## THIRD QUARTER RESULTS

For the third quarter of 2008, consolidated contract revenue was \$228.9 million, which was \$25.1 million or 12% 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 plus growth in all of our industrial segments. Revenue for the nine months ended September 30, 2008, was \$642.5 million compared to \$544.6 million for the same period of 2007. Year to date contract revenue has increased by 14% in the building segment, 131% in the industrial general contracting segment, 38% in the insulation segment and decreased by 8% in the electrical contracting segment, for a consolidated increase of 18%.

Contract income increased from \$17.9 million in the third quarter of 2007 to \$28.0 million in the current quarter, as stronger margins in the buildings, insulation and electrical segments led to improved overall results. Contract income year to date was \$71.0 million, an increase of 50% over the first nine months of 2007. This year-over-year increase is due to greater overall construction volume and improved contract income margin percentage.

Indirect and administrative expenses amounted to \$11.3 million in the quarter, compared to \$9.2 million in the comparable period of 2007, reflecting increased expenses associated with higher revenue. For the nine months year to date, indirect and administrative expenses of \$33.0 million were \$5.9 million higher than in the corresponding period of 2007. Greater levels of activity in the buildings segment, consulting costs for the industrial electrical segment and greater corporate expenses were the main contributors to this increase.

EBITDA in the quarter was \$17.3 million, compared to \$9.6 million in the third quarter of 2007. EBITDA was \$40.4 million for the nine months ended September 30, 2008, an increase of \$18.3 million or 83% over the prior year period. Earnings before tax in Q3 2008 increased 90% to \$16.0 million, compared to \$8.4 million reported in Q3 2007. Earnings before tax were \$36.5 million for the nine months ended September 30, 2008, an increase of 91% from the \$19.1 million reported in 2007. The Corporation's consolidated net earnings for the three months ended September 30, 2008 were \$11.2 million compared to net earnings of \$5.6 million in 2007. Net earnings increased by 95% to \$25.2 million for the nine months ended September 30, 2008, as compared to net earnings of \$12.9 million during the same period in 2007.

Work-in-hand at September 30, 2008, was \$585.8 million compared to \$734.5 million in the third quarter of 2007. This reduction in work-in-hand is due to the timing and stage of contracting activity, and is not an indication of expected future activity levels. The Corporation's backlog at the conclusion of the quarter was \$1.5 billion, an increase of 26% compared to Q3 2007. New contract awards of \$229.2 million were booked into work-in-hand during the current quarter, which compares with \$180.9 million in Q3 2007. The majority of the increase in new work secured came from the buildings segment.

## **RESULTS OF OPERATIONS**

### ***Buildings***

For the three months ended September 30, 2008, Stuart Olson's revenue increased by \$5.6 million to \$158.4 million, compared to \$152.8 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 Southern Alberta and British Columbia branches. Stuart Olson remains active on projects ranging from educational and healthcare facilities, to civic infrastructure and commercial buildings.

Contract income margin in the third quarter increased 46% to \$17.1 million from \$11.7 million for the same period in 2007. Contract income margin percentage increased to 10.8% in 2008 as compared to 7.6% 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 \$12.1 million in Q3 2008, compared to \$7.2 million in Q3 2007. This 68% improvement in earnings was a result of the increase in overall contract volume and strong project execution.

For the nine months ended September 30, 2008, Stuart Olson reported revenues of \$434.7 million compared to revenues of \$382.1 million last year. This \$52.6 million growth in revenue on a year-over-year basis was generated by increased activity in all regions.

Contract income margin for the first nine months of 2008 was \$41.7 million compared to \$26.1 million in 2007. Contract income margin percentage was 9.6% compared to 6.8%, respectively. Earnings before tax increased to

\$27.0 million compared to \$14.5 million. A strong market combined with solid project execution has allowed Stuart Olson to be more profitable.

Stuart Olson had work-in-hand of \$480.8 million and a backlog of \$1.1 billion as at June 30, 2008. In the three months ended September 30, 2008, the company added a further \$141.2 million of contracts to its work-in-hand, and executed \$158.4 million of contract revenue. The company completed the quarter with \$463.6 million of work-in-hand, of which \$299.3 million is expected to carryover into 2009. The company continues to focus its efforts on securing larger projects which will allow it to maintain and grow current volumes through 2009 and 2010. At September 30, 2008, Stuart Olson's backlog amounted to \$1.3 billion, a 27% increase compared to \$1.0 billion at the end of Q3 2007.

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

Triton's contract revenue for the quarter ended September 30, 2008, was \$13.0 million; an increase of 43% from the \$9.1 million generated in the comparable quarter of 2007. Revenues from all divisions were higher during the third quarter of 2008, but most significantly in the construction division.

Contract income margin decreased to a loss of \$0.3 million in Q3 2008 from a positive margin of \$1.0 million in Q3 2007. Triton realized lower contract income margins in its construction and maintenance divisions as a result of unexpectedly poor soil conditions in the field and project management challenges. As a result, Triton recorded a loss before tax of \$1.4 million in the third quarter of 2008, as compared to a loss before tax of \$0.5 million in Q3 2007.

For the nine months ended September 30, 2008, Triton reported revenues of \$66.9 million compared to revenues of \$29.0 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 and maintenance divisions.

Contract income for the first nine months of 2008 was \$4.5 million compared to \$3.9 million in 2007. Contract income margin percentage in 2008 was 6.7% compared to 13.4%, in 2007. Triton's year-to-date earnings before tax was \$0.6 million, compared to a loss before tax of \$0.6 million in 2007.

Triton had work-in-hand of \$25.1 million and a backlog of \$29.4 million at June 30, 2008. For the quarter ended September 30, 2008, the company secured a further \$17.8 million of contracts, and executed \$13.0 million of contractual work. Triton was awarded contracts from Berry Y&V, MEG Energy, Statoil and TCPL among others during the quarter. The company ended the quarter with \$29.9 million of work-in-hand, of which it expects to execute \$12.0 million during the balance of 2008 and carry forward \$17.9 million into 2009. At September 30, 2008, the company's backlog was \$37.3 million versus a Q3 2007 backlog of \$37.1 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 September 30, 2008, increased to \$19.4 million, compared to \$15.6 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 \$4.5 million in Q3 2008 from \$3.2 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 23.0% in this quarter as compared to 20.5% in the prior year.

The company's earnings before tax increased 53% to \$2.9 million during the period, compared to earnings before tax of \$1.9 million in the third quarter of 2007.

For the nine months ended September 30, 2008, Insulation Holdings reported revenues of \$53.0 million compared to revenues of \$38.4 million last year. The majority of the \$14.6 million revenue differential is associated with work completed in the Saskatchewan market.

Contract income for the first nine months of 2008 was \$10.5 million compared to \$7.4 million in the comparable period of 2007. Contract income margin percentage was 19.8% compared to 19.5%, respectively. This sustained high level of contract income margin percentage was due to solid project execution. Earnings before tax year to date increased to \$6.4 million from \$3.8 million in 2007.

Insulation Holdings had work-in-hand of \$39.9 million and backlog of \$51.8 million at June 30, 2008. During Q3 2008, they secured a further \$47.1 million of contracts and executed \$19.4 million of contracts. New contracts were secured from clients such as Jacobs, Ledcor, Shell and Suncor. The insulation segment ended the quarter with \$67.6 million of work-in-hand, of which \$45.9 million is expected to be completed in 2009. At September 30, 2008, the company had a backlog of \$77.4 million, as compared to \$40.5 million in the prior year.

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

For the three months ended September 30, 2008, Laird's contract revenue was \$38.1 million compared to the \$26.2 million reported in Q3 2007. In Q3 2008 Laird attained a new record for quarterly revenue, as a result of significant manpower employed on several major oil sands projects and its increased presence in the Edmonton industrial market.

Contract income increased from \$1.9 million in 2007 to \$6.5 million in Q3 2008, due to increased volume and improved project execution. The contract income margin percentage of 17.1% generated during the third quarter of 2008 was significantly higher than the 7.3% margin achieved in Q3 2007. This was a result of the revenue mix from contracts under construction, strong project execution and ongoing systems and process improvements.

Laird achieved record quarterly earnings before tax of \$4.2 million for the period, compared to earnings before tax of \$0.5 million in Q3 2007. The increase in earnings was a result of the higher contract income margin in Q3 2008 as compared to the prior year.

For the nine months ended September 30, 2008, Laird reported revenues of \$87.8 million compared to revenues of \$95.0 million last year, a decrease of \$7.2 million. In the first nine months of 2007, Laird undertook a significant amount of construction related activities for a major oil sands client, which contributed to the greater prior year volume.

Contract income for the first nine months of 2008 was \$13.7 million compared to \$9.3 million in 2007. This increase in contract income, notwithstanding the year-over-year revenue decrease of \$7.2 million, was due to improved contract terms, improved project execution and systems and process improvements. Contract income margin percentage was 15.6% for the first nine months of 2008 as compared to 9.8% for the corresponding period in 2007. Earnings before tax year to date increased to \$7.5 million compared to \$4.8 million in 2007. The \$2.7 million increase in earnings before tax is attributable to the increase in contract income margin percentage.

Laird reported work-in-hand and backlog amounting to \$39.7 million at June 30, 2008. New contract awards of \$23.2 million were secured in the third quarter and \$38.1 million of contracts were executed. Projects were secured from clients including Albion, Nexen, TransAlta and Suncor. Laird ended the third quarter with \$24.8 million of work-in-hand of which \$12.9 million is expected to carryover into 2009. At September 30, 2008 Laird had a backlog of \$29.8 million compared to its backlog of \$44.4 million at the end of Q3 2007.

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

In the third quarter of 2008, the Corporate and Other segment incurred a loss before tax of \$1.8 million compared to a loss before tax of \$0.8 million in 2007. For the nine months ended September 30, 2008, the Corporate and Other segment generated a loss before tax of \$5.0 million compared to a loss before tax of \$3.3 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 September 30, 2008, totaled \$78.4 million, which compares with \$108.1 million at the end of 2007. Of the \$78.4 million of cash and cash equivalents, \$12.9 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 provided \$4.8 million of cash during the quarter as compared to providing \$13.7 million of cash during the third quarter of 2007. Changes in non-cash working capital accounts, particularly a reduction in contract advances and costs in excess of billings account for the majority of the difference between the periods.

Investing activities resulted in the use of \$1.8 million of cash during the third quarter of 2008, which compares with cash used of \$1.0 million in Q3 2007. The investments were made in construction equipment to support operations.

During the third quarter of 2008 net cash used in financing activities amounted to \$0.4 million, compared to cash used in financing activities of \$15.5 million in the third quarter of 2007. The Corporation repaid \$0.5 million of long-term debt during Q3 2008, and received proceeds of \$51 thousand from the exercise of stock options.

Cash used in operations of \$23.4 million in the first nine months of 2008 was in contrast to cash generated from operations of \$30.4 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 nine months ended September 30, 2008, investing activities resulted in a use of cash of \$5.0 million compared to \$3.2 million of cash used in the prior year. The Corporation has primarily used this cash to acquire construction equipment in both periods.

For the nine months ended September 30, 2008, cash used in financing activities amounted to \$1.3 million compared to \$13.1 million during 2007. Proceeds and repayments applied to the operating line of credit during the year to date have offset each other compared to a net repayment of \$12.0 million in 2007. Repayment of long-term debt in the first nine months of 2008 was \$1.5 million versus \$1.1 million in 2007. Repayments to the demand term loan in 2007 were \$0.5 million; subsequent to the third quarter of 2007 this demand term loan was converted to a committed debt facility. As at September 30, 2008, the Corporation was in compliance with the repayment terms associated with its contractual obligations. The Corporation has received proceeds of \$0.3 million from the exercise of stock options during the first nine months of 2008, and proceeds of \$0.5 million in the corresponding period of 2007.

As at September 30, 2008, Churchill had working capital of \$69.9 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 \$95.9 million at September 30, 2008, as compared to \$69.7 million at December 31, 2007. Share capital has increased by \$0.4 million during the first nine months of 2008 to recognize options exercised. Year to date, contributed surplus increased \$0.6 million as a result of the recognition of stock-based compensation. Retained earnings increased from \$47.5 million at December 31, 2007, to \$72.8 million at September 30, 2008, reflecting the year to date addition of \$25.3 million of net earnings.

### ***Share Data***

As at September 30, 2008, the Corporation had 17,981,991 common shares issued and outstanding and 423,396 options convertible into common shares upon exercise (September 30, 2007 - 17,822,491 common shares and 300,000 options). During the period from October 1, 2008, to November 5, 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 September 30, 2008, the plan held 779,961 Churchill common shares for employees (Q3 2007 – 1,150,869 common shares). Under the plan, shares are acquired in the open market.

## **SUPPLEMENTAL DISCLOSURES**

### ***Contractual Obligations***

At September 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 ended September 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 quarter was \$63 thousand (2007 - \$31 thousand). Legal fees of \$114 thousand (2007 - \$154 thousand) were incurred with this law firm for the nine months ended September 30, 2008. At September 30, 2008, \$32 thousand was included in accounts payable (2007 - \$12 thousand).

During the third quarter of 2008, the Corporation incurred facility costs of \$35 thousand (2007 - \$20 thousand) relating to the rental of a building which is owned by a director of the Corporation. Facility costs of \$100 thousand (2007 - \$85 thousand) for this building were incurred for the nine months ended September 30, 2008. At September 30, 2008, there were no amounts included in accounts payable (2007 - \$1 thousand).

## **OUTLOOK**

While infrastructure spending continues to remain strong in Western Canada and particularly Alberta, building permit activity in our markets is starting to soften and commodity prices have fallen dramatically in response to global credit conditions and forecasted weaker demand. The response by governments to these conditions is unknown, however, government at all levels in Canada are in better fiscal condition than in past recessions. Stuart Olson is successfully growing its backlog as it now has the people available to manage and execute new projects into 2009 and 2010. Stuart Olson remains confident that it can maintain its volume of activity despite a tightening economic climate and competitive market conditions.

Activity levels at Triton are forecast to remain at the levels reported in this quarter for the first half of 2009, as the energy industry experiences some delays in project approvals and monitors the credit and commodity market conditions. This will have some impact on Triton's ability to secure new work and may impact its ability to maintain profitability.

The insulation companies are successfully securing new clients and work due to their past project execution and client relationships. Activity levels are expected to remain high as we head into 2009, supported by a record backlog. We continue to look for smaller acquisition opportunities to complement the personnel and services we provide in this business segment.

Laird continues to make progress on its project management initiatives and positioning itself for long-term growth 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 first quarter of 2009, under the existing contract and we are hopeful that a new contract will be executed prior to year-end. Decreased capital spending by Suncor related to its Voyageur Upgrader is not expected to have a material impact on Laird's outlook and in fact could be viewed positively, as projects related to Firebag and Suncor's main site may advance more quickly.

Churchill's year-to-date results have exceeded its full year 2007 profitability by 19% on 13% less contract revenue. This has been accomplished by Churchill's operating companies through their focus and diligence on increasing efficiencies and generating higher margins from existing revenue volumes. We remain confident that as 2009 unfolds, our operating companies generally will be able to identify and secure the necessary projects to maintain revenues and profitability at desirable levels. This confidence is based on the size, reputation, market position, ability to execute and management strength of these companies.

## **RISKS AND UNCERTAINTIES**

There have been no significant changes in the Corporation's risk factors from those disclosed in its 2007 Annual Report, Annual Information Form and interim management's discussion and analyses as reported during 2008.

## **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 ended September 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 September 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 September 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 third 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 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)	September 30, 2008	December 31, 2007
Current assets	\$282.9	\$233.6
Less:		
Current liabilities	213.0	185.7
<b>Working Capital</b>	<b>\$69.9</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		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net Earnings	\$11.2	\$5.6	\$25.2	\$12.9
Add:				
Income Taxes	4.8	2.9	11.3	6.2
Depreciation & Amortization	1.2	0.9	3.5	2.4
Interest expense	0.1	0.2	0.4	0.6
<b>EBITDA</b>	<b>\$17.3</b>	<b>\$9.6</b>	<b>\$40.4</b>	<b>\$22.1</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 September 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.

**Churchill**

## **THE CHURCHILL CORPORATION**

### **UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation is disclosing that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended September 30, 2008

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

(\$ thousands, except per share amounts)	Three months ended		Nine months ended	
	September 30 (unaudited)		September 30 (unaudited)	
	2008	2007	2008	2007
Contract revenue	\$ 228,937	\$ 203,756	\$ 642,465	\$ 544,597
Contract costs	200,983	185,860	571,440	497,393
Contract income	27,954	17,896	71,025	47,204
Interest income	581	813	2,135	1,742
Sundry income (expense)	71	(3)	289	293
Indirect and administrative expenses	(11,266)	(9,189)	(33,042)	(27,139)
Depreciation and amortization	(1,211)	(903)	(3,450)	(2,413)
Interest expense	(136)	(179)	(443)	(552)
Earnings before income taxes	15,993	8,435	36,514	19,135
Income tax (expense) recovery				
Current income tax	(6,646)	(5,523)	(15,480)	(8,134)
Future income tax	1,831	2,653	4,214	1,917
	(4,815)	(2,870)	(11,266)	(6,217)
Net earnings	11,178	5,565	25,248	12,918
Comprehensive income	-	-	-	-
Net earnings and comprehensive income	11,178	5,565	25,248	12,918
Retained earnings, beginning of period	61,598	33,755	47,528	26,402
Retained earnings, end of period	\$ 72,776	\$ 39,320	\$ 72,776	\$ 39,320
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	\$ 0.62	\$ 0.31	\$ 1.41	\$ 0.73
Diluted	\$ 0.62	\$ 0.31	\$ 1.39	\$ 0.72
Weighted average common shares:				
Basic	17,972,643	17,725,969	17,927,430	17,687,198
Diluted	18,127,052	18,034,466	18,119,649	17,966,548

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

## Consolidated Balance Sheets

(\$ thousands)

	September 30, 2008 (unaudited)	December 31, 2007
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 4)	\$ 78,425	\$ 108,105
Accounts receivable	199,165	123,906
Inventories and prepaid expenses	1,449	859
Future income tax assets	3,829	759
	<b>282,868</b>	233,629
Future income tax assets	2,263	788
Property and equipment	24,659	22,832
Goodwill and intangible assets	7,357	7,420
	<b>\$ 317,147</b>	<b>\$ 264,669</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 174,046	\$ 149,057
Contract advances and unearned income	35,092	24,611
Income taxes payable	1,948	10,148
Current portion of long-term debt (Note 5)	1,917	1,963
	<b>213,003</b>	185,779
Long-term debt (Note 5)	7,445	8,755
Future income tax liabilities	790	457
	<b>221,238</b>	194,991
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	16,812	16,414
Contributed surplus	6,321	5,736
Retained earnings	72,776	47,528
Accumulated other comprehensive income	-	-
	<b>95,909</b>	69,678
	<b>\$ 317,147</b>	<b>\$ 264,669</b>

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

## Consolidated Statements of Cash Flow

(\$ thousands)	Three months ended		Nine months ended	
	September 30 (unaudited)		September 30 (unaudited)	
	2008	2007	2008	2007
<b>OPERATING ACTIVITIES</b>				
Net earnings	\$ 11,178	\$ 5,565	\$ 25,248	\$ 12,918
Depreciation and amortization	1,211	903	3,450	2,413
Gain on disposal of equipment	(14)	(21)	(34)	(37)
Share-based compensation	326	4	696	41
Future income taxes	(1,831)	(2,653)	(4,214)	(1,917)
	10,870	3,798	25,146	13,418
Net change in accounts receivable, inventories and prepaid expenses	(8,185)	(30,631)	(75,848)	(88,559)
Net change in accounts payable and accrued liabilities	8,795	26,748	24,990	61,049
Net change in contract advances and unearned income and costs in excess of billings	(12,513)	9,343	10,482	43,965
Net change in income taxes payable	5,792	4,469	(8,200)	575
	4,759	13,727	(23,430)	30,448
<b>INVESTING ACTIVITIES</b>				
Proceeds on disposal of equipment	47	27	229	177
Additions to property and equipment	(1,846)	(1,025)	(5,217)	(3,368)
	(1,799)	(998)	(4,988)	(3,191)
<b>FINANCING ACTIVITIES</b>				
Proceeds under operating line of credit	-	-	9,000	5,000
Repayments under operating line of credit	-	(15,500)	(9,000)	(17,000)
Repayment of long-term debt	(495)	(441)	(1,549)	(1,076)
Repayment of demand term loan	-	(65)	-	(455)
Issuance of common shares	51	470	287	470
	(444)	(15,536)	(1,262)	(13,061)
Increase (decrease) in cash	2,516	(2,807)	(29,680)	14,196
Cash, beginning of period	75,909	67,390	108,105	50,387
Cash, end of period	\$ 78,425	\$ 64,583	\$ 78,425	\$ 64,583
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>				
Cash received (paid) during the year for:				
Interest	\$ 461	\$ 610	\$ 1,716	\$ 1,189
Income taxes	\$ (997)	\$ (1,054)	\$ (23,680)	\$ (7,559)

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 goodwill and 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 \$12,889 (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 \$1,043 (December 31, 2007 - \$1,737) held in joint venture accounts.

**5. Long-term Debt**

	September 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 \$6,559, maturing June 2015.	\$ 5,395	\$ 5,980
Mortgage, interest at 6.47%, blended monthly repayments of \$10, secured by land and buildings with an aggregate carrying value of \$1,983, maturing November 2009.	1,156	1,186
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$1,804, interest varying from 0.0% to 5.25%, blended monthly repayments of \$95, maturing between October 2008 and October 2013.	1,701	2,266
Capital leases, secured by construction and automotive equipment with an aggregate carrying value of \$882, interest at the three-year guaranteed investment certificate rate plus 3.25%, blended monthly repayments of \$30, maturing between March 2011 and February 2012.	1,110	1,286
	<b>9,362</b>	10,718
Less current portion	<b>(1,917)</b>	(1,963)
	<b>\$ 7,445</b>	\$ 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 \$69 (September 30, 2007 - \$371) in expenditures of this nature. For the nine months ended September 30, 2008, there were \$193 (September 30, 2007 - \$1,425) in expenditures from the leasing facility and finance contracts.

During the period the Corporation commenced negotiations concerning expansion of the credit facility. All terms of the previous credit facility have been extended by the Corporation's bank until such time as a new agreement is executed.

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

**6. Share Capital**

Issued	Nine months ended September 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	95,000	398	219,500	906
Issued, end of year	17,981,991	\$ 16,812	17,886,991	\$ 16,414

(i) Stock options:

As at September 30, 2008, the Corporation had 423,396 options outstanding (December 31, 2007 - 317,500) of which 235,998 are currently exercisable (December 31, 2007 - 218,832)

For the three months ended September 30, 2008, the Corporation recognized stock based compensation expense of \$326 (September 30, 2007 - \$4) related to the estimated fair value of options granted. Stock based compensation for the nine months ended September 30, 2008 was \$696 (September 30, 2007 - \$42). During the quarter ended September 30, 2008, 97,370 options were issued with a weighted average fair value of \$6.54. The fair value of options granted in the quarter ended September 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 46.35%. 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.

(ii) Restricted share units:

The Corporation has a Restricted Share Unit (RSU) plan, which received regulatory approval on June 2, 2008. 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 the fair market value at the date of grant. Compensation expense is recognized in earnings on a straight line basis over the RSU vesting period of three years. Changes in the amount of the liability due to stock price changes after the initial grant date are recognized as compensation cost of the period in which the changes occur. The maximum number of RSUs available under the plan is 750,000.

During the quarter ended September 30, 2008, the Corporation issued 66,535 RSUs with fair market value of \$1,214 and recognized compensation expense of \$39 (September 30, 2007 - nil). As at September 30, 2008 the Corporation had 60,150 RSUs outstanding, of which none are vested.

(iii) Normal course issuer bid:

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

**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 indicative of the Corporation's overall financial strength.

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

	September 30, 2008	December 31, 2007
Long-Term Debt, excluding current portion	\$ 7,445	\$ 8,755
Total Shareholders' Equity	95,909	69,678
Total Capitalization	\$ 103,354	\$ 78,433
Debt to Capitalization Ratio	7%	11%

The Corporation targets a Debt to EBITDA between 0.2 and 0.8 times. At September 30, 2008, the Debt to EBITDA was 0.1x (December 31, 2007 - 0.2x) calculated on a trailing twelve-month basis as follows:

	September 30, 2008	December 31, 2007
Long-Term Debt, excluding current portion	\$ 7,445	\$ 8,755
Net earnings	\$ 33,455	\$ 21,126
Add:		
Interest	650	749
Income tax expense	14,749	9,700
Depreciation and amortization	4,559	3,522
EBITDA	\$ 53,413	\$ 35,097
Debt to EBITDA	0.1x	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 September 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. The impact of restricted share units, on a weighted average basis, is also added to the number of shares outstanding.

**9. Financial Instruments**

For the interim period ended September 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.

(i) Financial instruments – carrying values

	September 30, 2008	December 31, 2007
<i>Financial assets:</i>		
Cash and cash equivalents	\$ 78,425	\$ 108,105
Accounts receivable	199,165	123,906
Long-term cash and cash equivalents	-	-
<i>Financial liabilities:</i>		
Operating line of credit	\$ -	\$ -
Accounts payable and accrued liabilities	174,046	149,057
Demand term loan	-	-
Long-term debt, including current portion	9,362	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.

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

**9. Financial Instruments (continued)**

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

(ii) Financial income and expense

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest income - cash and cash equivalents	\$ 581	\$ 771	\$ 2,135	\$ 1,615
Interest income - long-term cash and equivalents	-	42	-	127
Interest expense - operating line of credit	(7)	(7)	(20)	(20)
Interest expense - demand term loan	-	-	-	(238)
Interest expense - long-term debt	(131)	(160)	(416)	(263)
Bad debt (expense) recovery, net	(189)	335	(1,471)	1,719
	\$ 254	\$ 981	\$ 228	\$ 2,940

(iii) 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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Balance, beginning of period	\$ 3,271	\$ 1,403	\$ 1,989	\$ 2,787
Provision for uncollectible accounts	282	-	2,505	172
Recovery of accounts previously written off	(93)	(335)	(1,034)	(1,891)
Balance, end of period	\$ 3,460	\$ 1,068	\$ 3,460	\$ 1,068

The Corporation had \$10,807 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 September 30, 2008.

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

**9. Financial Instruments (continued)**

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.

The Corporation is not exposed to any direct foreign currency risk. At September 30, 2008, the increase or decrease in annual net earnings for each one percent change in interest rates on floating rate debt amounts to \$66.

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 September 30, 2008, the Corporation incurred legal fees of \$63 (September 30, 2007 - \$31) for services related to various legal matters with a law firm of which a director of the Corporation is also a partner. Legal fees of \$114 (September 30, 2007 - \$154) were incurred with this law firm for the nine months ended September 30, 2008. At September 30, 2008, \$32 (September 30, 2007 - \$12) is included in accounts payable.

For the three months ended September 30, 2008, the Corporation incurred facility costs of \$35 (September 30, 2007 - \$20) relating to rental of a building which is owned by a director of the Corporation. Facility costs of \$100 (September 30, 2007 - \$85) for this building were incurred for the nine months ended September 30, 2008. At September 30, 2008, (September 30, 2007 - \$1) there are no amounts included in accounts payable.

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

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

**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)**

Three months ended September 30, 2008	Buildings	Industrial General	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	\$ 158,385	\$ 13,011	\$ 19,415	\$ 38,126	\$ -	\$ 228,937
EBITDA <sup>(1)</sup>	12,668	(1,314)	2,950	4,438	(1,402)	17,340
Depreciation and amortization	511	96	55	267	282	1,211
Interest expense	13	19	1	15	88	136
Earnings (loss) before tax	\$ 12,144	\$ (1,429)	\$ 2,894	\$ 4,156	\$ (1,772)	\$ 15,993
Income taxes						(4,815)
Net earnings						\$ 11,178
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 42	\$ 7,357
Total Assets	\$ 219,525	\$ 30,648	\$ 23,821	\$ 34,975	\$ 8,178	\$ 317,147
Capital Expenditures	\$ 913	\$ 89	\$ 200	\$ 432	\$ 281	\$ 1,915

Three months ended September 30, 2007	Buildings	Industrial General	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	\$ 152,781	\$ 9,154	\$ 15,644	\$ 26,177	\$ -	\$ 203,756
EBITDA <sup>(1)</sup>	7,622	(333)	1,923	793	(488)	9,517
Depreciation and amortization	359	104	58	245	137	903
Interest expense	16	21	-	10	132	179
Earnings (loss) before tax	\$ 7,247	\$ (458)	\$ 1,865	\$ 538	\$ (757)	\$ 8,435
Income taxes						(2,870)
Net earnings						\$ 5,565
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 126	\$ 7,441
Total Assets	\$ 188,471	\$ 13,266	\$ 18,047	\$ 35,821	\$ 14,272	\$ 269,877
Capital Expenditures	\$ 529	\$ 80	\$ 73	\$ 376	\$ 338	\$ 1,396

Nine months ended September 30, 2008	Buildings	Industrial General	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	\$ 434,715	\$ 66,934	\$ 53,019	\$ 87,797	\$ -	\$ 642,465
EBITDA <sup>(1)</sup>	28,530	996	6,521	8,325	(3,965)	40,407
Depreciation and amortization	1,460	291	163	754	782	3,450
Interest expense	42	58	1	55	287	443
Earnings (loss) before tax	\$ 27,028	\$ 647	\$ 6,357	\$ 7,516	\$ (5,034)	\$ 36,514
Income taxes						(11,266)
Net earnings						\$ 25,248
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 42	\$ 7,357
Total Assets	\$ 219,525	\$ 30,648	\$ 23,821	\$ 34,975	\$ 8,178	\$ 317,147
Capital Expenditures	\$ 2,573	\$ 251	\$ 262	\$ 1,058	\$ 1,266	\$ 5,410

Nine months ended September 30, 2007	Buildings	Industrial General	Industrial Insulation	Industrial Electric	Corporate and Other	Total
Revenues	\$ 382,112	\$ 29,022	\$ 38,426	\$ 95,037	\$ -	\$ 544,597
EBITDA <sup>(1)</sup>	15,405	(212)	3,941	5,457	(2,491)	22,100
Depreciation and amortization	878	339	182	635	379	2,413
Interest expense	50	62	1	30	409	552
Earnings (loss) before tax	\$ 14,477	\$ (613)	\$ 3,758	\$ 4,792	\$ (3,279)	\$ 19,135
Income taxes						(6,217)
Net earnings						\$ 12,918
Goodwill and intangible assets	\$ -	\$ -	\$ -	\$ 7,315	\$ 126	\$ 7,441
Total Assets	\$ 188,471	\$ 13,266	\$ 18,047	\$ 35,821	\$ 14,272	\$ 269,877
Capital Expenditures	\$ 2,657	\$ 91	\$ 199	\$ 1,461	\$ 385	\$ 4,793

**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 September 30, 2008 of \$69 (September 30, 2007 - \$371) 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 nine months ended September 30, 2008, capital expenditures related to capital leases and finance contracts were \$193 (September 30, 2008 - \$1,425).

For the nine months ended September 30, 2008, the Corporation had no revenue from any customer in excess of 10% of its contract revenue (September 30, 2007 - one). During the comparative period, contract revenue from a significant customer was \$69,040 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

11825 – 149 Street  
Edmonton, AB T5L 2J1  
Phone: (780) 454-3667  
Fax: (780) 488-0194  
Email: [inquiries@churchill-cuq.com](mailto:inquiries@churchill-cuq.com)  
Website: [www.churchillcorporation.com](http://www.churchillcorporation.com)

## INDUSTRIAL CONSTRUCTION & MAINTENANCE

### LAIRD ELECTRIC INC.

225 MacDonald Crescent  
Fort McMurray, Alberta T9H 4B5  
Phone: (780) 743-2595  
Fax: (780) 791-0441

### FULLER AUSTIN INSULATION INC.

11540 – 184 Street  
Edmonton, Alberta T5S 2W7  
Phone: (780) 452-1701  
Fax: (780) 452-4129

### NORTHERN INDUSTRIAL INSULATION CONTRACTORS INC.

17408 – 106A Avenue  
Edmonton, Alberta T5S 1E6  
Phone: (780) 483-1850  
Fax: (780) 484-0004

### TRITON PROJECTS INC.

8525 Davies Road  
Edmonton, Alberta T6E 4N3  
Phone: (780) 485-6700  
Fax: (780) 485-6719

## BUILDING CONSTRUCTION

### STUART OLSON CONSTRUCTORS INC.

Suite 400, 4954 Richard Road S.W.  
Calgary, Alberta T3E 6L1  
Phone: (403) 520-6565  
Fax: (403) 230-5323

## 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)  
Website: [www.cibcmellon.ca](http://www.cibcmellon.ca)  
Answerline: 1-800-387-0825

the  
**Churchill**  
Corporation



the  
**Churchill**  
Corporation

---

11825 - 149 Street  
Edmonton, AB T5L 2J1  
Phone: 780.454.3667  
Fax: 780.488.0194

[www.churchillcorporation.com](http://www.churchillcorporation.com)

