Management's discussion & analysis

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation (the "Corporation"), dated March 14, 2007, should be read in conjunction with the December 31, 2006 Audited Consolidated Financial Statements and related notes thereto. Additional information on Churchill is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and includes the Corporation's Annual Information Form and other required securities filings.

Throughout this MD&A, certain measures are used, that are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). The measures used are "contract income margin percentage", "work-in-hand", "working capital", "EBITDA", "book value per share" and "ROE". 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. During 2006, the Corporation operated through 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. Churchill's senior management includes Peter Adams, Interim Chief Executive Officer; Daryl Sands, Vice President Finance and Chief Financial Officer; Allen Stowkowy, President, Stuart Olson Construction; Ronald Martineau, President, Insulation Holdings; Kelly Smith, President, Triton Construction; and Blair Bannerholt, President, Laird Electric. Each business segment has its own President and senior management team, and is designed to be self-supporting.

Churchill's industrial operating companies continue to be focused towards oil sands construction activity in the Fort McMurray and Cold Lake areas of Alberta. A record $11.0 billion was spent in 2006 on bitumen production and upgrading projects. Oilsands inventories related to completed projects and projects in advanced construction stages are estimated at 8.6 billion barrels. This equates to only 5% of the 174 billion barrels rated as available using using current technology.

In Stuart Olson's markets of Alberta and British Columbia building permit activity was among the strongest in Canada. Several economic factors were consistent with a fertile environment for the non-residential construction sector, including growth in consumer spending and declining vacancy rates for office buildings. Trends in vacancy rates for both light industrial and office real estate are generally accurate indicators of future building activity. Given declining vacancy rates in both Alberta and British Columbia the demand for new buildings should remain strong throughout 2007, rooted in solid corporate balance sheets and earnings. As well, the governments of both provinces have committed to major infrastructure funding for healthcare, education and recreational facilities. In addition, construction activity in British Columbia is increasing in response to Vancouver and Whistler's preparations for the 2010 Winter Olympics.

The Corporation posted record revenue and net earnings for the year ended December 31, 2006. Record construction activity in Western Canada resulted in increased activity levels for almost all of our operating companies. These strong market conditions generated opportunities for greater revenue at higher margins. In addition, systems improvements and process efficiencies translated into increased operating margins.

In order to understand more clearly the operating results for the Corporation, the discussion within this Management's Discussion and Analysis will be focused at the business segment level.

QUARTERLY FINANCIAL INFORMATION

The following table sets forth selected quarterly information of the company for the last two years:

	2006				2005			
($ millions, except per share data and percentages)	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Contract Revenue	$ 152.4	$ 145.5	$ 121.6	$ 111.8	$ 138.8	$ 120.6	$ 118.8	$ 101.6
Contract Income	16.7	13.4	11.4	9.7	12.4	9.7	10.4	7.3
Contract Income %	11.0 %	9.2 %	9.4 %	8.7 %	8.9 %	8.0 %	8.8 %	7.1 %
Net Earnings (Loss)	3.7	3.0	0.8	0.6	1.6	1.3	1.1	(0.2)
Basic ($ per share)	0.21	0.17	0.05	0.03	0.09	0.07	0.07	(0.02)
Fully diluted ($ per share)	0.21	0.16	0.04	0.03	0.09	0.07	0.07	(0.02)
Work-in-Hand	493.9	469.6	353.7	313.1	247.2	307.8	294.8	299.8
Working Capital	27.4	24.1	21.9	21.3	25.1	23.4	14.9	3.4
Shareholders' Equity	47.7	43.7	40.7	40.8	40.2	37.9	36.5	24.7
Book Value ($ per share)	2.70	2.48	2.31	2.28	2.25	2.15	2.07	2.02

Analysis of operating results for each of the first three quarters of 2006 was included in the Management Discussion and Analysis incorporated in the Interim Reports to Shareholders for each quarter. Comments regarding the quarter over quarter changes are briefly explained below:

(1) Quarterly revenue in 2006 exceeded the comparable quarters of 2005, reflecting generally improved market conditions.

(2) The increase in contract income in 2006 relative to 2005 is a result of the higher revenue, increasing margins, insurance rebates received by all the operating companies and recoveries on provisions for losses taken on completed projects. The increase in net earnings was reduced by additional administration costs related to personnel, systems improvements and process re-engineering.

(3) The increase in the Corporation's work-in-hand during 2006 is a reflection of the strengthening in its building construction markets.

(4) The increase in working capital and shareholders equity in the second quarter of 2005 was primarily due to the proceeds from the issuance of new share capital through the private placement of $10.6 million for 5.3 million of new Common Shares.

(5) The reduction in working capital in the first quarter of 2006 was the result of $4.0 million of cash being classified as a long-term asset due to contractual restrictions in use.

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

	2006		2005	
Earnings Per share:	Quarterly Total	Annual Total	Quarterly Total	Annual Total
Basic	$ 0.46	$ 0.46	$ 0.21	$ 0.24
Fully Diluted	$ 0.44	$ 0.45	$ 0.21	$ 0.24

FOURTH QUARTER RESULTS

For the fourth quarter of 2006, consolidated contract revenue was $152.4 million, which was $13.6 million or 9.8% higher than the same period in 2005. This higher level of revenue on a year-over-year basis was a result of continued strength in our building construction and industrial electrical contracting businesses.

Contract income increased $4.3 million in the final three months of the year, increasing from $12.4 million in 2005 to $16.7 million in 2006 as stronger margins in our building construction and insulation contracting segments improved overall performance.

Indirect and administrative expenses amounted to $10.3 million in the quarter, compared to $9.8 million in the comparable period of 2005.

Earnings before interest, taxes, depreciation and amortization in the quarter were $6.7 million, compared to $3.1 million in the fourth quarter of 2005. All of the operating companies were profitable in the fourth quarter of 2006 with the exception of Triton. The Corporation's consolidated net earnings for the three months ended December 31, 2006 was $3.7 million compared to net earnings of $1.6 million in 2005.

Stuart Olson's revenue for the three months ended December 31, 2006 was $87.1 million, an increase of 44.9% compared to $60.1 million for the same period in 2005. Earnings before tax increased 104.5% to $4.5 million in the fourth quarter of 2006 from $2.2 million in the corresponding quarter of 2005. The increase in earnings before tax was primarily the result of higher revenue and improved contract margins.

Revenue at Triton for the fourth quarter of 2006 of $11.2 million was $20.1 million lower than the same quarter of 2005. Triton entered the fourth quarter of 2006 with a smaller backlog than in the comparable period of 2005; therefore revenues for the fourth quarter of 2006 were lower. Triton's loss before tax during the quarter was $1.1 million compared to a loss before tax of $1.4 million in 2005. The loss during the quarter primarily resulted from $0.8 million of provisions taken on several contracts.

Combined revenue from our insulation companies, Fuller Austin and Northern Industrial was $17.2 million or $11.2 million lower than the fourth quarter of 2005. The volume decrease was a result of reduced backlog entering the fourth quarter and delays in work schedules on some projects. Despite the reduction in volume, earnings before tax in the quarter improved by 12.5% to $1.8 million as compared to $1.6 million for the prior year period.

Laird substantially increased its quarterly revenue to $36.9 million from $19.5 million in the comparable period of 2005. The growth in fourth quarter revenue was favorably impacted by the acceleration of work schedules on some projects in the Fort McMurray oil sands region. Laird recorded earnings before tax of $1.7 million, an increase of 142.9% over earnings before tax of $0.7 million reported in 2005.

ANNUAL FINANCIAL INFORMATION

Set out below is selected annual financial information for each of the last three years.

	Years ended December 31		
($ millions, except per share amounts)	2006	2005	2004
Contract Revenue	$ 531.3	$ 479.8	$ 334.6
Net Earnings (Loss)	8.1	3.8	(6.2)
Net Earnings (Loss) per Common Share			
Basic ($ per share)	0.46	0.24	(0.51)
Fully Diluted ($ per share)	0.45	0.24	(0.51)
Total Assets	165.5	144.1	122.3
Total long-term financial liabilities	$ 3.7	$ 2.4	$ 2.8
Cash dividends declared per share	-	-	-

ANNUAL RESULTS

Consolidated contract revenues were $531.3 million in 2006, an increase of $51.5 million or 10.7% from consolidated contract revenues of $479.8 million for 2005. This $51.5 million increase in consolidated revenue was the result of a $63.7 million increase in Stuart Olson revenues and a $30.3 million increase in Laird revenues, partially offset by a decrease of $48.3 million in Triton revenues.

Contract income increased 28.6% from $39.8 million in 2005 to $51.2 million in 2006. This $11.4 million increase resulted from an increase in revenue and contract income margin percentage. Consolidated contract income percentage grew from 8.3% to 9.6%, largely attributable to strong market conditions.

Consolidated Indirect and Administrative expenses of $36.1 million were incurred during 2006 compared to $31.7 million in 2005. The increase of $4.4 million was partially attributable to increased project management and compensation expenses related to the increased activity levels and professional fees associated with systems improvements and process re-engineering.

Consolidated earnings before interest, taxes, depreciation and amortization increased $7.1 million, or 77.2% to $16.3 million during 2006, as compared to $9.2 million for the year ended December 31, 2005. Churchill achieved consolidated net earnings of $8.1 million or basic earnings per common share of $0.46 during 2006 as compared to $3.8 million of net earnings and basic earnings per common share of $0.24.

Work-in-hand at December 31, 2006 was $493.9 million or $246.7 million higher than the same time last year. On a segmented basis, there was an increase in the buildings segment of $283.9 million, partially offset by decreases in the electrical contracting segment of $15.0 million, industrial general contracting segment of $10.5 million and insulation contracting segments of $11.7 million. The decrease in work in hand in our industrial business is primarily related to delays in the timing of work packages being released to tender.

BUILDINGS

For the year ended December 31, 2006, Stuart Olson's revenues increased $63.7 million to $291.2 million, compared to $227.5 million in the prior year from higher levels of activity, particularly in the northern and southern Alberta offices. The increased revenues in northern Alberta were the result of major new projects for food distribution, educational and civic recreational clients. Also contributing to revenue growth was a major hospital project in southern Alberta and several new contracts with various educational institutions in the British Columbia branch.

Contract income in 2006 increased to $21.2 million from $14.9 million, an increase of $6.3 million. Contract income margin percentage increased to 7.3% in 2006 as compared to 6.6% in 2005. This is indicative of the strength of the company's markets and improved operating efficiency.

Earnings before tax from the buildings segment were $8.7 million in 2006, as compared to $4.4 million in 2005. The $4.3 million improvement in earnings was distributed among the various branch offices, as a result of management's increased focus on the bottom line in each region.

Stuart Olson finished the year with $422.0 million of work-in-hand, after entering the year with work-in-hand of $138.1 million at December 31, 2005. During 2006 the company secured a further $575.1 million of contracts, and executed and took into revenue $291.2 million. The company's backlog grew substantially in 2006 as a result of new contracts to build educational and healthcare infrastructure, commercial food distribution facilities and civic recreational facilities in Alberta and British Columbia.

INDUSTRIAL GENERAL CONTRACTING

During 2006 the Corporation continued with the implementation of its renewal strategy at Triton including the hiring of Kelly Smith as the new President and Chief Operating Officer. Additional senior management changes have been made at the finance, fabrication and construction management levels to support Kelly in implementing the turnaround plan.

Triton's revenue for the year ended December 31, 2006 was $52.4 million, declining 48.0% from $100.7 million for the year ended December 31, 2005. Contract income margin for 2006 was 11.5%, up from 6.9% during 2005. The margin increase was a result of the reversal in 2006 of $3.3 million of loss provisions booked in 2005. Excluding these recoveries, contract income margin for 2006 would have been 5.2%. Triton incurred a loss before tax of $2.4 million for the year ended 2006, compared to a loss before tax of $0.8 million for the year ended December 31, 2005. Earnings before tax were negatively impacted by the decrease in revenue as a result of volume and contract scope restrictions, in addition to losses recorded on several construction and fabrication contracts.

Triton entered the year with $23.7 million of work-in-hand. For the year ended December 31, 2006 the company secured a further $41.9 million of contracts, and executed $52.4 million of contractual work. As a result, the company had $13.2 million of work-in-hand to carry over into 2007. Management's turnaround strategy for Triton involves the recognition of the individual business units within Triton as independent, quality focused profit centers. Going forward each unit will have its own business development objectives and cost management responsibilities. Management expects that as the year progresses, the current level of work-in-hand should increase to reflect the new operating strategy.

INDUSTRIAL INSULATION CONTRACTING

Industrial Insulation Contracting operates under three business units – Fuller Austin Insulation, Northern Industrial Insulation and Lakehead Insulation – all providing insulation related contracting services for capital projects and maintenance work. Lakehead is subsidiary of Fuller Austin.

Revenue for the year ended December 31, 2006 increased to $77.7 million, compared to $74.6 million for the year ended December 31, 2005. Activity levels during 2006 benefited from the completion of an upgrader project and an ethanol facility for two key clients. Contract income increased 37.3% to $11.4 million up from $8.3 million for the comparable period. Fuller Austin's Saskatchewan operations generated improved margins in 2006, which contributed to an overall increase in the contract income margin percentage to 14.7%, versus 11.1% in 2005. The company expects contract income margins to be in the range of 15.5% to 16.5% during 2007. It is worth noting that the overall margin for 2005 and part of 2006 was reduced, by the inclusion of larger contracts at lower margins than in prior years.

Earnings before tax increased by 100% to $5.4 million for the year ended December 31, 2006, compared to earnings before tax of $2.7 million for 2005. The primary reason for the improved earnings was increased regional activity from Fuller Austin in Saskatchewan and Manitoba and increased activity by Northern Industrial, all occurring at higher margin levels.

Industrial Insulation Contracting began 2006 with work-in-hand of $26.8 million. For the year ended December 31, 2006, they secured a further $65.9 million of contracts, and executed $77.7 million, leaving a backlog of $15.0 million of work-in-hand at December 31, 2006.

INDUSTRIAL ELECTRICAL CONTRACTING

Laird generated record revenues and earnings in 2006. Company revenue increased by $30.3 million to $110.1 million, an increase of 38.0% over the $79.8 million reported for 2005. Contract income increased from $8.9 million in 2005 to $11.6 million in 2006, due to the higher volume of activity. Contract income margin percentage declined slightly to 10.5% as compared to 11.1% in 2005.

Laird achieved earnings before tax of $4.4 million for the year ended December 31, 2006 compared to earnings before tax of $2.7 million in 2005. The increase in earnings is a result of higher contract income, over and above the additional administrative expenses required to manage this increased level of activity.

Laird's recorded work-in-hand of $43.6 million at the end of 2006 is $15.1 million or 25.7% lower than the $58.7 million of work-in-hand at the conclusion of 2005. New contract awards of $95.0 million were secured in the current year, and $110.1 million of work was executed. The majority of the company's revenue and work-in-hand is related to oil sands projects in its core Fort McMurray market. The company has successfully diversified its customer base such that it is presently active on multiple oil sands sites for various clients.

CORPORATE AND OTHER

In 2006, the Corporate and Other segment incurred $3.5 million of indirect and administrative expenses, including net interest costs. These costs were unchanged from the prior year as the Corporation continues to make investments in computer systems and process re-engineering to meet the growing level of activity in its infrastructure and industrial companies.

CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

Cash and equivalents at December 31, 2006 totaled $50.4 million, which compares with $29.2 million at the end of 2005. Of the $50.4 million of cash and equivalents, $10.7 million was subject to deemed trust conditions under the British Columbia Lien Act, compared to $9.9 million for the previous year.

Cash provided from operating activities increased by $28.1 million as a result of $25.2 million of cash generated from operations in 2006, compared to $2.9 million of cash used in operations during 2005. This change reflects the improved operating results that occurred in 2006 and overall cash positive changes in the balances of the working capital accounts.

Investing activities resulted in a use of cash of $7.9 million during 2006 which compares with cash used of $1.8 million in 2005. The increase in cash used was due to the classification of $4.0 million as a long-term asset due to a contractual restriction in its use, and $3.9 million expended in 2006 compared to $2.6 million in the prior year for property, plant and equipment.

During the year, the Corporation increased its line of credit from $12.0 million to $21.0 million with advances bearing interest at the bank's prime rate plus 1%. At year end, the Company had drawn $12.0 million of this line of credit. Additionally, a leasing facility of $3.0 million was added to the agreement, to be used specifically for the lease of vehicles and equipment.

Cash generated from financing activities amounted to $4.0 million, compared to $22.2 million in 2005. Proceeds received under the line of credit amounted to $24.6 million while repayments totaled $20.4 million. $1.0 million was added to long-term debt during the year. As at December 31, 2006 long-term debt including the current portion amounted to $4.3 million, compared to $2.9 million at the end of 2005. The increase is due to increased use of finance contracts and leases to acquire vehicles and equipment by the Corporation. During 2006, the Corporation repaid $0.7 million of long-term debt and $0.7 million of the demand term loan. These payments were in accordance with the repayment schedules and the contractual obligations as described in previous quarters and the 2005 Annual Report. Stock options exercised by directors and officers of the Corporation contributed $0.2 million to the cash generated from financing.

As at December 31, 2006, Churchill had positive working capital of $27.4 million which was greater than the 2005 year-end working capital position of $25.1 million. Working capital is defined as current assets less current liabilities excluding that portion relating to any demand term loan which is scheduled to be repaid beyond one year.

CONTRACTUAL OBLIGATIONS

December 31, 2006 ($ millions)	Total	Current Year	2-3 years	4-5 years	After 5 years
Demand term loan [1]	$ 6.8	$ 0.8	$ 1.6	$ 1.6	$ 2.8
Mortgage payable	1.2	0.0	0.1	0.1	1.0
Finance contracts and capital lease obligations	3.2	0.9	1.4	0.9	0.0
	$ 11.2	$ 1.7	$ 3.1	$ 2.6	$ 3.8

[1] The above table represents scheduled repayments.

The demand term loan, mortgage payable, finance contracts and lease obligations are more fully described in Notes 11 and 12 of the Audited Consolidated Financial Statements.

Scheduled debt repayments for 2007 are $1.7 million. During 2007, the level of required replacement capital spending for Churchill is estimated to be approximately $3.3 million. To support expansion and growth opportunities, additional capital expenditures up to $5.0 million could be authorized. These requirements are expected to be met through a combination of operating and financing activities.

The Corporation remains a partner in two joint ventures, with a third having been wound down in the third quarter. In each instance the Corporation has provided a joint and several guarantee, increasing the maximum potential payment to the full value of the work remaining under the contract.

Shareholders' equity was $47.7 million at December 31, 2006, as compared to $40.2 million at December 31, 2005. These values include $7.3 million of goodwill arising from the 2003 purchase of Laird Electric. Under the Laird purchase agreement, 311,528 Churchill shares with a stated value of $269 thousand were placed in escrow as a refundable deposit in the event that Laird did not achieve a cumulative financial performance objective by December 31, 2005. At the conclusion of 2005, the Corporation determined that the cumulative financial performance objective was not met and this assessment was not disputed by the vendors. Settlement by the vendors occurred via a return of the shares of the Corporation. Share capital was reduced by $0.3 million for shares cancelled with respect to the Laird share transaction and offset by the exercise of stock options in the amount of $0.3 million. Contributed surplus increased $25 thousand during the year as a result of the accrual of stock-based compensation. Retained earnings increased from $19.0 million at December 31, 2005 to $26.4 million reflecting the net earnings of $8.1 million for the year reduced by $0.7 million charged to retained earnings as a result of the Laird share transaction.

During 2006, the Corporation granted a total of 50,000 stock options at an average price of $3.05 per option. As at December 31, 2006, the Corporation had outstanding 17,667,491 Common Shares and 571,667 options convertible into Common Shares (December 31, 2005 - 17,895,686 Common Shares and 605,000 options). There were 545,082 options available for grant at December 31, 2006.

The Corporation has an Employee Share Purchase Plan available to all full-time employees. At December 31, 2006 the Plan held 1,385,074 Churchill Common Shares for the employees. Under the Plan, shares are acquired in the open market.

SUPPLEMENTAL DISCLOSURES

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

The Corporation incurred legal fees during the year ended December 31, 2006 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 paid during the year was $214 thousand (2005 - $183 thousand). At December 31, 2006, $32 thousand was included in accounts payable.

The Corporation incurred fees of $3 thousand (2005 - $14 thousand) paid to a company under the control of a director of the Corporation.

The Corporation incurred facility costs of $120 thousand (2005 - $60 thousand) relating to rental of a building which is owned by a director of the Corporation.

During the year, the Corporation incurred rental costs of $21 thousand (2005 - $24 thousand) related to market rental payments for housing provided to a senior officer who maintained offices in both Calgary and Edmonton.

DISCLOSURE CONTROLS & PROCEDURES

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

During the year, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was carried out under the supervision of Churchill's management, including the CEO and CFO. Based on this evaluation the CEO and CFO have concluded that the Corporation's disclosure controls and procedures as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers Annual and Interim Filings* are effective as at December 31, 2006, to ensure that material information relating to the Corporation and its subsidiaries required to be disclosed in reports that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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. 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.

Churchill's management, including the CEO and CFO, has evaluated the design of our internal control over financial reporting procedures. As the Corporation has been in a significant growth phase, management is continually monitoring and revising its control procedures and processes over the different areas of its business. Management has identified certain areas where it can enhance process controls. These enhancements will be implemented during the course of the next 12 months. The Corporation employs additional entity level controls to compensate for any deficiencies which may exist. As at the end of the period covered by this management discussion and analysis, management has concluded that the internal controls over financial reporting were appropriately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

RISKS AND UNCERTAINTIES

Churchill's operations are centered in, and primarily focused on, western Canada. The majority of construction in western Canada, particularly industrial construction, is either directly or indirectly connected to oil and gas. Oil and gas pricing and activity levels are directly impacted by worldwide events. The Corporation monitors this information to assist in managing various mid-term aspects of its business. Significant downward movement in oil or gas commodity prices could lead to project delays or cancellations, while significant upward movement could lead to clients seeking to accelerate their project schedule. Either movement could put pressure on the Corporation's organizational infrastructure in the short term.

The climate in western Canada can generate severe weather, which could slow down or delay construction for short periods of time, impacting costs and delivery schedules.

There is strong competition relating to all aspects of the construction industry. The Corporation competes with many other firms, of which some have greater financial and other resources.

Permitting, engineering and design in the preconstruction phase can lead to a project delay. These delays are generally third party generated and thus outside the Corporation's control. The major cost associated with these delays is personnel and associated overhead that is designated for the project and cannot be reallocated effectively to other work.

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

The Corporation relies on third party suppliers and subcontractors. The loss of, or inability to maintain, any of these relationships, or the failure of such third parties to execute or effectively manage their own business plans and deliver on their contractual commitments can have a material adverse effect on the Corporation's business, operating results and financial condition.

Churchill's operating companies are often required to provide performance and labour and material payment bonds as assurance against contract completion. The agreement with the Corporation's surety company is renewed periodically. Should any revision to the agreement result in a reduction in bonding capacity or a refusal to increase our bonding capacity to meet current needs, this could limit growth and potentially adversely effect on-going operations. Alternatively, if there were a significant failure in the construction industry such that owners started demanding surety bonds for all contracts, Churchill's bonding capacity may be insufficient to meet its business needs.

Once a project has begun, the project management team monitors estimating, procurement, project execution, and contract terms. These risks are controllable by management. The Corporation assesses its project controls on an ongoing basis.

Periods of high construction activity can create shortages of labour and material. With the rapidly expanding market in Alberta, British Columbia and other jurisdictions, general shortages of tradesmen and management personnel are occurring and this condition is expected to continue for several years. Churchill's operating companies have attempted to mitigate the situation through competitive remuneration, enhanced in-house training programs and expanded recruiting, both within Canada and internationally. These shortages may cause limits on the growth of the Corporation's businesses and could potentially affect contract income margins. Also, labour and material shortages may lead to construction cost escalation which could decrease contract margins should clients not agree to absorb these additional costs. Any increase in the price of building and construction materials could have a material adverse effect on market demand and on the Corporation's growth and profitability.

In certain of the companies, the labour force is unionized, creating the possibility of labour disruptions if collective bargaining agreements cannot be negotiated as they come due. There are collective bargaining agreements expiring in 2007 for workers who are contracted by Laird Electric and Fuller Austin Insulation.

Triton incurred significant losses in 2004 as a result of start-up problems in the fabrication facility and the associated project execution. As a result, plant through-put was restricted in 2005 under a planned reduction program until systems and processes were sufficiently improved. The fabrication facility continued to operate below capacity and experience execution difficulties during 2006, resulting in further losses. Management has reviewed the operations at Triton and has implemented measures to align resources with work-in-hand, improve project execution, and increase operating margins with a view to improved financial performance at Triton. There can be no assurance that the actions taken by management of the Corporation will be successful.

Churchill's industrial operations generally require a higher level of working capital due to a larger manpower workforce on projects. During 2006, the Corporation's operating line was increased to $21.0 million and a leasing facility was added with a borrowing capacity of $3.0 million. The Corporation's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the industrial market. Although the immediate needs are satisfied, future growth may be limited if additional working capital is required and not available. The Corporation continues to assess the adequacy of its working capital needs.

In the past Churchill has grown partly by acquisition. The success of any acquisition is dependent upon the integration of the acquired company into Churchill's operations. The ability to undertake future acquisitions is limited, in part, by the Corporation's ability to access financing.

OUTLOOK

Churchill's markets for new work remained strong throughout 2006. Alberta and British Columbia as forecast lead the country in economic growth, driven in part by the oil sands and heavy oil mega projects in Alberta and infrastructure spending prior to the 2010 Olympics in British Columbia. The carryover of infrastructure work is at a record level for the Corporation and the breadth of new contract opportunities for the buildings segment is high by all measures. Stuart Olson is remaining disciplined and focused on its core competencies, only seeking to secure the best possible projects available to it.

The Churchill Corporation enters 2007 with a greater overall backlog of work than at any time in its corporate history. Work-in-hand increased $246.7 million or 100% to $493.9 million as at December 31, 2006. Of the $493.9 million of backlog, $376.8 million is from projects already underway, reducing the risk of project cancellation or delay. An additional $36.2 million is expected to be generated from maintenance contracts, which clients generally do not defer. The remaining $80.9 million of the backlog relates to projects that had not commenced at December 31, 2006. In general, these projects have a higher degree of risk of being delayed or cancelled, although all are expected to commence on schedule.

The spin-off effects of migration, government investment, strong commodity prices and construction related to the 2010 Olympics has created a number of opportunities for Stuart Olson to capitalize on its strengths in commercial and public infrastructure development across western Canada. Stuart Olson is expected to generate increased revenue and profit in 2007 as several new and significant projects move into construction. Government investment in infrastructure and private sector spending on commercial and light industrial buildings continue to present further opportunities for growth into 2008.

The Corporation's industrial businesses are focused on the oil sands markets and related construction requirements. Although costs related to oil sands development are rising, the owners continue to take the long-term view that global oil demand is also rising, necessitating the development of long-term supplies located in Alberta. In addition, a number of proposed oil sands expansions and upgraders to be constructed in the Fort McMurray and Edmonton areas continue to clear the regulatory hurdles to initiating site construction. Churchill's industrial companies will be actively pursuing work on these sites.

With the expiry of collective bargaining agreements occurring in the second quarter of 2007, the potential for labour disruption exists, but management is of the opinion that any potential disruption will be averted. The Corporation continues to proactively mitigate labour availability issues in its non-union operations by focusing its recruitment efforts outside of western Canada. In competitive markets such as these, it is also important to retain those existing employees with specialized knowledge and skills critical to project success.

Triton enters 2007 with its smallest backlog in recent years at $13.2 million. The industrial market remains the strongest in the company's history with significant demand for fabrication services, so further declines in revenue are not expected. The challenge faced by Triton is to secure new construction and fabrication contracts on more favourable terms and to validate that its new project execution processes will result in increased profitability.

The Industrial Insulation Contracting companies are expected to have solid years in 2007. The companies enter the year with $15.0 million of backlog. They successfully completed a major contract for an oil sands client in the Fort McMurray region during 2006 and their key objective for 2007 is to replace this volume of work. The demand outlook for their services is positive, particularly in Alberta which is their core market, while their Saskatchewan and Northern Ontario markets are expected to be weaker than in 2006.

Laird Electric enters 2007 with a backlog of $43.6 million as compared to $58.7 million entering 2006. The company achieved a record level of revenue in 2006 and will be challenged to replace revenue associated with a major oil sands project completed in 2006. However with the significant backlog of work, a more diversified client base than in previous years and many opportunities in its core Fort McMurray market, Laird is expected to continue with its strong performance in 2007.

Churchill is achieving steady operational improvements. To facilitate and support the Corporation's growth, systems and process changes will continue to be implemented during 2007, primarily at our industrial companies. Churchill's focus is to maximize shareholder value by focusing on profitability. The Corporation performed at a high level in 2006 more than doubling net earnings. With a significant backlog of construction entering 2007 and the construction market in western Canada operating at a record level, it is expected that Churchill will experience another year of strong performance.

CHANGES IN ACCOUNTING POLICIES

The Corporation adopted, effective January 1, 2006, the new CICA Handbook policies related to non-monetary transactions and implicit variable interests – disclosure and presentation.

Non-Monetary Transactions – Effective January 1, 2006, the Corporation adopted the amended recommendations of CICA Handbook Section 3831 *Non-monetary transactions*, (formerly Section 3830 of the same title) effective for annual or interim periods beginning on or after January 1, 2006. Section 3831 requires all non-monetary transactions be measured at fair value unless certain conditions are satisfied. The Corporation has determined that there is no material impact on the consolidated financial statements from the adoption of Section 3831.

Implicit Variable Interests – Effective January 1, 2006, the Corporation adopted the Emerging Issues Committee's Abstract 157 *Implicit Variable Interests under AcG - 15 (EIC 157)*. The EIC requires that the Corporation address whether any implicit or potential variable interests exists when specific conditions exist and account for them in accordance with the CICA Handbook Accounting Guideline 15 (AcG – 15) – *Consolidation of Variable Interest Entities*. The Corporation has determined that there is no material impact on the consolidated financial statements from the adoption of EIC 157.

Stock-based compensation for employees eligible to retire before the vesting date – Effective December 31, 2006, the Corporation adopted the Emerging Issues Committee's Abstract 162 *Stock-based compensation for employees eligible to retire before the vesting date* (EIC 162). The EIC establishes guidance where an entity has a stock-based compensation plan that contains provisions that allow an employee to continue vesting in an award in accordance with the stated vesting terms after the employee has retired from the entity and, therefore, is no longer providing service to the entity in return for the award. This abstract is to be applied retroactively, with restatement of prior periods, to all stock-based compensation awards accounted for in accordance with Section 3870 in financial statements issued for interim and annual periods ending on or after December 31, 2006. The Corporation has determined that there is no material impact on the consolidated financial statements from the adoption of EIC 162.

FUTURE ACCOUNTING POLICIES

Financial Instruments – Recognition and Measurement – In January 2005, the Accounting Standards Board (AcSB) of the CICA issued Handbook Section 3855, *Financial Instruments – Recognition and Measurement* which will become effective beginning November 1, 2006. The new accounting standard requires that all financial instruments, including derivatives are to be included on a company's balance sheet and measured at either their fair market value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standards also specify when gains and losses as a result of changes in fair values are to be recognized in the income statement. The Corporation has determined that the adoption of Section 3855 will not have a material impact on the financial statements.

Comprehensive Income and Equity – In January 2005, the AcSB of the CICA issued new Handbook Section 1530, *Comprehensive Income* and Section 3251 *Equity* which become effective beginning November 1, 2006. Section 1530 establishes standards for reporting and display of comprehensive income. It defines other comprehensive income to include revenue, expenses, gains and losses that, in accordance with primary sources of GAAP are recognized in comprehensive income, but excluded from net income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530 and recommends that an enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves. The Corporation has determined that the adoption of Sections 1530 and 3251 will not have a material impact on the financial statements.

Hedges – In January 2005, the AcSB of the CICA issued Handbook Section 3865, *Hedges* which becomes effective November 1, 2006. The new accounting standard extends existing requirements for hedge accounting and comprehensively specifies how hedge accounting can be performed. The Corporation has determined that the adoption of Section 3865 will not have a material impact on the financial statements.

Financial Instruments – disclosures and presentations – In December 2006, the AcSB of the CICA issued Handbook Section 3862, *Financial Instruments – Disclosures,* which modified the disclosure requirements of Section 3861, *Financial Instruments – Disclosures and Presentation* and Section 3863, Financial Instruments – Presentations, which carries forward unchanged the presentation requirements for financial instruments of Section 3861. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entities financial position and its performance, and the nature and extent of risks arising from financial instruments and non-financial derivatives. It deals with the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. Sections 3862 and 3863 apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Corporation is currently evaluating the impact of the revised Sections on the consolidated financial statements.

Accounting Changes – In July 2006, the AcSB of the CICA issued new Handbook Section 1506, *Accounting Changes*, effective for annual and interim periods beginning on or after January 1, 2007. This section establishes critera for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies , changes in accounting estimates, and the correction of errors. It includes the disclosure, on an interim and annual basis, of a description and the impact on our financial results of any new primary source of GAAP that has been issued but is not yet effective. The Corporation does not expect a material effect on its financial position and results of operations.

Determining the Variability to be Considered in Applying AcG-15 – In June 2006, the AcSB of the CICA issued Emerging Issues Committee Abstract 163, *Determining the Variability to be Considered in Applying AcG-15* (EIC 163). This EIC deals with situations where an entity enters into arrangements, such as derivative contracts, to reduce or eliminate variability created by certain assets or operations of the entity or mismatches between the overall asset and liability profiles of the entity, thereby protecting certain liability and equity holders from exposure to such variability. This Abstract applies to interim or annual reporting periods beginning on or after January 1, 2007. The Corporation has determined that there is no material impact on the financial statements from the adoption of EIC 163.

TERMINOLOGY

Throughout this 2006 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", "working capital", "EBITDA", "book value per share" and "ROE" 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 to the Corporation. It includes contracts that have been awarded but not yet commenced construction, as well as 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.

Working capital is current assets less current liabilities excluding that portion relating to any demand term loan which is scheduled to be repaid beyond one year.

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.

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

ROE is a measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested. ROE is calculated as net earnings divided by average shareholders equity during the period.

CRITICAL ACCOUNTING ESTIMATES

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

Revenue recognition from cost-plus contracts and fixed-price contracts requires monthly estimates of costs incurred, costs to complete, and the timing of realization. On cost-plus contracts, estimates of costs incurred may be required in advance of being billed for those costs. On fixed-price contracts, revenues are recorded on a percentage-of-completion basis, which requires estimating certain costs incurred as well as the costs required to complete the contract. In making such estimates, judgments are required to evaluate contingencies such as variances in scheduling, material costs, labour costs, labour productivity, subcontractor costs, change orders and liability claims. Revenue recognition estimates may be required in each of Churchill's operating business segments, but would normally be most prevalent in Stuart Olson and Triton where a significant portion of their contract revenue and contract income for the period may be estimated. Changes in estimated costs to complete on fixed-price contracts may have a material impact on the realization of net earnings.

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

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

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

FORWARD-LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis may constitute "forward-looking statements". 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. Such forward-looking statements involve risk, uncertainties and other factors that might cause the actual results, performance or achievements of the Corporation to vary significantly from any future results, performance or achievements expressed or implied in any forward-looking statements.