

SECOND QUARTER REPORT

August 3, 2006

REPORT TO SHAREHOLDERS

We are pleased to report our second quarter results. Revenue was \$121.6 million in the quarter compared to \$118.8 million in the second quarter of 2005. Net income was \$0.8 million compared with \$1.1 million in the comparable period of last year. During the quarter, your Corporation was able to achieve profitability in three of our four operating companies with the exception being Triton which incurred losses on several contracts.

The Corporation on July 31, 2006 secured the services of Kelly R. Smith, as President and COO of Triton Projects Inc. Kelly recently concluded a 26 year tenure as President and General Manager of a successful manufacturing and service company specializing in oilfield module and full scale turnkey facility construction. We are pleased to welcome Kelly to our management team and look forward to improved results from Triton.

Stuart Olson experienced a strong second quarter with \$68.7 million of revenue and increased earnings as a result of higher contract margins in comparison to the same period of 2005. The backlog at Stuart Olson grew considerably to \$251.8 million, an increase of \$62.8 million compared to the first quarter of 2006. The company's markets in Alberta and British Columbia continue to suggest a high level of activity throughout the balance of the year.

Revenue from our insulation companies, Fuller Austin and Northern Industrial was higher at \$16.1 million as compared to \$13.9 million for the second quarter of 2005.

This was primarily a result of the work on a large oil sands project during the quarter, coupled with improvements in their Saskatchewan and Manitoba markets. Earnings before tax in the quarter at \$1.1 million were significantly higher than in the second quarter of 2005, at which time reported earnings were nil. Work-in-hand remains very strong in our insulating companies.

Laird's revenue increased to \$24.5 million from a seasonally slower first quarter of 2006. The growth in the second quarter revenue is attributable to the Company's strategy to diversify its client base as well as the commencement of new contract work secured in previous quarters. This growth in revenue was accompanied by significant improvement in earnings. The company's work-in-hand and outlook for the balance of the year is positive.

Financial results from Triton were disappointing as the company generated lower revenue as compared to the same period in 2005 and consequently a loss before taxes. Revenue was \$12.3 million in the quarter compared to \$26.4 million in the second quarter of 2005. Triton's lower revenue in the quarter is a result of volume restrictions placed on the business while improved processes and systems are developed. Activity levels at Triton will continue to remain restricted while Mr. Smith undertakes his review and analysis of Triton's operations.

Revenue for the six months year-to-date was \$233.4 million with net income of \$1.4 million compared to \$220.4 million of revenue and net income of \$0.8 million for the six months ended June 30, 2005. Churchill's backlog of work-in-hand at the end of June 2006 was \$353.7 million compared to \$294.8 million for the same period of 2005. Market conditions remain robust and our companies continue to have significant new work opportunities.

While our construction market continues to be among the best in the world, we do face challenges of attracting skilled labour and rising material costs. We have strategies and processes in place to monitor these inputs into our business, and compete successfully at the operating company level in this environment. Our view is that this high level of activity in the construction sector will be sustainable for a number of years as our energy clients seek to capitalize on high oil prices, and infrastructure requirements increase to serve a growing population.

August 3, 2006



J. Norman (Norm) Rokosh, MBA, 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 August 3, 2006, should be read in conjunction with the unaudited Consolidated Financial Statements and related notes, and the Report to Shareholders contained in this 2006 Second Quarter Report, as well as the audited consolidated financial statements and related notes, MD&A and Report to Shareholders contained in the Corporation's 2005 Annual Report.

Except as discussed below, all other factors referred to and discussed in the MD&A for fiscal 2005 remain substantially unchanged.

ACCOUNTING POLICIES

Churchill continues to use the same accounting policies and methods as described in the December 31, 2005 Consolidated Financial Statements, except for the adoption of the following new CICA Accounting Recommendations and Emerging Issues Committee's abstract:

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 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 impact on the consolidated financial statements from the adoption of EIC 157.

TERMINOLOGY

Throughout this 2006 Second Quarter Report, and other documents referred to, management has incorporated the following terms which 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" and "working capital" 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) the next two years, 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.

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.

As discussed in the MD&A contained in the 2005 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. No new critical accounting estimates have been identified during the three months ended June 30, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

All estimates are updated each reporting period to reflect actual activity as well as to incorporate all new 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.

SELECTED ANNUAL INFORMATION

Years ended December 31

| (\$ millions, except where noted) | 2005 | 2004 | 2003 |
|---------------------------------------|----------|----------|----------|
| Contract Revenue | \$ 479.8 | \$ 334.6 | \$ 319.4 |
| Net (Loss) Earnings | 3.8 | (6.2) | (3.7) |
| Net (Loss) Earnings per common share | | | |
| Basic (\$ per share) | 0.24 | (0.51) | (0.31) |
| Fully Diluted (\$ per share) | 0.24 | (0.51) | (0.31) |
| | | | |
| Total Assets | 144.1 | 122.3 | 102.8 |
| Total long-term financial liabilities | 2.3 | 1.8 | 5.6 |
| Cash dividends declared per share | - | - | - |

The above information is impacted by the following items:

(1) The acquisition of Laird Electric occurred on February 7, 2003. Laird's revenue for the period from acquisition to December 31, 2003 was \$25.5 million and for the year ended December 31, 2004 was \$19.7 million; and for the year ended December 31, 2005 was \$79.8 million.

(2) Churchill's 41% interest in the Lafrentz Road Services business was sold in early 2003. Churchill's equity investment and management fee revenues from Lafrentz were \$0.2 million in 2003.

(3) The Corporation's long-term debt increased during 2004 by \$4.0 million in order to finance the construction and operations of a new modular fabrication facility. In 2004, the Corporation was not in compliance with certain debt covenants and consequently reclassified \$6.6 million of long-term debt to a current liability. In 2005, the Corporation finalized an arrangement for additional equity funding. The arrangement included the issuance of 5,323,000 of new Common Shares in a private placement for \$10.6 million. In 2005 the Corporation arranged for a new banking facility, with which the Corporation was in compliance with the required debt covenants as at December 31, 2005.

QUARTERLY FINANCIAL INFORMATION

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

| | 2006 | | 2005 | | | | 2004 | |
|------------------------------|---------|---------|---------|----------|---------|---------|---------|----------|
| | June 30 | Mar. 31 | Dec.31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 |
| Contract Revenue | \$121.6 | \$111.8 | \$138.8 | \$120.6 | \$118.8 | \$101.6 | \$101.8 | \$82.6 |
| Contract Income | 11.4 | 9.7 | 12.4 | 9.7 | 10.4 | 7.3 | 1.9 | 5.4 |
| Contract Income - % | 9.4% | 8.7% | 8.9% | 8.0% | 8.8% | 7.1% | 1.9% | 6.5% |
| | | | | | | | | |
| Net Earnings (Loss) | 0.8 | 0.6 | 1.6 | 1.3 | 1.1 | (0.2) | (3.7) | (1.0) |
| Basic (\$ per share) | 0.05 | 0.03 | 0.09 | 0.07 | 0.07 | (0.02) | (0.31) | (0.08) |
| Fully diluted (\$ per share) | 0.04 | 0.03 | 0.09 | 0.07 | 0.07 | (0.02) | (0.31) | (0.08) |
| | | | | | | | | |
| Work-in-Hand | 353.7 | 313.1 | 247.2 | 307.8 | 294.8 | 299.8 | 251.5 | 338.4 |
| Working Capital* | 21.9 | 21.3 | 25.1 | 23.4 | 14.9 | 3.4 | 3.0 | 9.9 |
| Shareholders' Equity | 40.7 | 40.8 | 40.2 | 37.9 | 36.5 | 24.7 | 24.9 | 28.6 |
| Book Value (\$ per share) | 2.31 | 2.28 | 2.25 | 2.15 | 2.07 | 2.02 | 2.03 | 2.34 |

*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.

The preceding quarterly information is impacted by the following items:

(1) Revenue increased in the last quarter of 2004 and the four quarters of 2005, indicating a general improvement in the Corporation's markets as well as a result of the additional revenue from projects executed at the fabrication facility.

(2) Increased revenue in the first quarter of 2006 compares favorably with the first quarter of 2005 and reflects generally improved market conditions. First and second quarter revenue in 2006 is lower than the fourth quarter of 2005 due to seasonal fluctuations and lower revenue in Triton's fabrication facility.

(3) The increase in contract income in 2005 and 2006 relative to 2004 reflects an improving market resulting in higher revenue and a return by the Corporation to its historic levels of contract margins.

(4) The significant drop in contract income in the fourth quarter of 2004 is primarily due to large losses incurred on early contracts executed by Triton utilizing Churchill's modular fabrication facility.

(5) Contract income in the second and third quarters of 2005 included \$1.3 and \$0.4 million respectively, related to contractual settlements on a fabrication project executed by Triton.

(6) In the first and second quarters of 2005 the Corporation incurred additional indirect and administrative costs. These costs included \$0.6 million for outside consultants and \$0.4 million related to a Special Committee of the Board of Directors. The additional costs were mainly incurred with regard to the review and design of process improvements in respect to the industrial operations and the fabrication plant, as well as the sourcing of new capital for the Corporation. The Special Committee also provided interim management to the Corporation during that period. The work of the Special Committee was substantially completed in the second quarter of 2005.

(7) Contract income in the first and second quarters of 2006 was negatively impacted by losses at the fabrication plant and additional administration costs related to systems improvements and process re-engineering of the industrial companies. These costs were partially offset by recoveries on contractual settlements of Triton in both quarters, as well as insurance rebates for all of the operating companies in the second quarter.

(8) Work-in-hand increased during the first quarter of 2005 from that at year-end 2004, due to a large amount of new work secured by the Corporation's industrial businesses. The increase in the Corporation's work-in-hand during the first and second quarters of 2006 from year-end 2005 is a reflection of the strengthening in its industrial and building construction markets.

(9) Working capital was reduced during the fourth quarter of 2004 and the first and second quarters of 2005, principally as a result of a reclassification of \$6.6 million of long-term debt with covenant violations to current liabilities in 2004 (\$6.0 million in the first quarter and \$5.4 million in the second quarter of 2005), as well as operational losses and capital expenditures incurred with respect to the modular fabrication facility in 2004. The increase in working capital 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. In the third quarter of 2005 the Corporation arranged for a new banking facility, with which the Corporation was in compliance with the required debt covenants as at December 31, 2005.

(10) Working capital was reduced in the first and second quarters of 2006 as a result of \$4.0 million of cash being classified as a long term asset due to agreements related to a restriction in its use.

RESULTS OF OPERATIONS

For the three months ended June 30, 2006, Churchill realized net income of \$0.8 million (2005 – net income of \$1.1 million) on revenue of \$121.6 million (2005 – \$118.8 million), or net earnings per Common Share of \$0.05 (2005 – net earnings per Common Share of \$0.07). The decrease in profitability in the second quarter, as compared to the same period in 2005, is a result of increased indirect and administrative expenses and losses incurred in our Triton business. Each of Churchill's operating companies received insurance rebates during the quarter which in aggregate was \$1.1 million.

For the six months ended June 30, 2006, Churchill realized net income of \$1.4 million (2005 – net income of \$0.8 million) on revenue of \$233.4 million (2005 - \$220.4 million), or net earnings per Common Share of \$0.08 (2005 – net earnings per Common Share of \$0.06).

Buildings

Stuart Olson had work-in-hand of \$189.0 million at March 31, 2006. For the three months ended June 30, 2006 the company secured a further \$131.5 million of contracts, and executed and took into revenue \$68.7 million. The company had \$251.8 million of work-in-hand at June 30, 2006, of which \$65.5 million is expected to carry over into 2007.

Stuart Olson's revenue for the three months ended June 30, 2006 was \$68.7 million, an increase of 20.3% compared to \$57.1 million for the same period in 2005. Earnings before taxes increased to \$1.1 million in the second quarter of 2006 from \$0.5 million in the second quarter of 2005.

The increase in earnings was primarily the result of higher revenue and contract margins compared to the prior year as the company's markets remain strong.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the six months ended June 30, 2006 Stuart Olson realized earnings before taxes of \$2.0 million on contract revenue of \$126.9 million, compared to earnings before tax of \$0.9 million on revenue of \$112.8 million for the six months ended June 30, 2005. The company continues to experience an abundance of project opportunities in all of its operating regions.

Industrial General Contracting

Triton had work-in-hand of \$20.8 million at March 31, 2006. For the three months ended June 30, 2006 the company secured a further \$15.1 million of contracts, and executed \$12.3 million. The company had \$23.6 million of work-in-hand at June 30, 2006, of which \$1.6 million is expected to carry over into 2007.

Subsequent to the quarter, the Corporation appointed Kelly Smith as President and Chief Operating Officer of Triton. Mr. Smith brings to Triton a 26 year track record of successfully leading an oilfield service company, specializing in oilfield module and turnkey facility construction.

Triton's revenue for the three months ended June 30, 2006 was \$12.3 million, down from \$26.4 million for the three months ended June 30, 2005. Triton incurred a loss before taxes of \$1.3 million, compared to earnings before taxes of \$1.4 million for the same period last year. During the quarter the company experienced recoveries on contracts completed in 2005 and recognized \$1.2 million of earnings before taxes associated with these recoveries. Triton will continue to operate below capacity until such time as Mr. Smith concludes his operational assessment of the business.

For the six months ended June 30, 2006, Triton realized a loss before taxes of \$0.5 million on contract revenue of \$29.6 million, compared to earnings before taxes of \$1.5 million on revenue of \$44.9 million for the six months ended June 30, 2005. The decrease in revenue is primarily related to productivity and utilization at the fabrication facility and a reduction in secured work. The decrease in revenue, coupled with losses on several projects is responsible for the loss year-to-date.

Industrial Insulation Contracting

Fuller Austin and Northern Industrial Insulation had combined work-in-hand of \$31.9 million at March 31, 2006. For the three months ended June 30, 2006 they secured a further \$12.4 million of contracts, and executed \$16.1 million. The companies had \$28.2 million of work-in-hand at June 30, 2006, of which \$1.3 million is expected to carry over into 2007.

Revenue for the three months ended June 30, 2006 increased 15.8% to \$16.1 million, compared to \$13.9 million for the three months ended June 30, 2005. Earnings before taxes were \$1.1 million for the three months ended June 30, 2006, compared to earnings before taxes of nil for the same period last year. The primary reason for the higher earnings was the increase in revenue in 2006 and improved margins in most of the company's operating divisions.

For the six months ended June 30, 2006 the insulation companies realized a profit before taxes of \$1.5 million on contract revenue of \$38.6 million, compared to a loss before tax of \$0.3 million on revenue of \$25.3 million for the six months to June 30, 2005. The increased volume as well as improved margins experienced year-to-date is responsible for the positive contribution to earnings before tax.

Industrial Electrical Contracting

Laird had work-in-hand of \$71.4 million at March 31, 2006. For the three months ended June 30, 2006 the company secured a further \$3.2 million of contracts, and executed \$24.5 million. Delays in engineering during the first and second quarters caused delays in construction work packages being finalized. These delays will defer activity into the latter two quarters of 2006. The company had \$50.1 million of work-in-hand at June 30, 2006, of which \$10.6 million is expected to carry over into 2007.

For the three months ended June 30, 2006, Laird's revenue was \$24.5 million, an increase of 9.4% from \$22.4 million for the same period last year. This is the highest quarterly revenue for the company since acquisition by Churchill. Laird achieved earnings before taxes of \$1.5 million for the three months ended June 30, 2006, compared to earnings before taxes of \$0.9 million for the same period last year. This 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.

For the six months ended June 30, 2006 Laird realized earnings before tax of \$1.1 million on contract revenue of \$38.3 million, compared to earnings before tax of \$1.1 million on revenue of \$39.0 million for the six months to June 30, 2005. The majority of the company's revenue and work-in-hand is related to oil sands projects in its core Fort McMurray market.

Corporate and Other

For the three months ended June 30, 2006, the Corporate and Other segment incurred \$0.9 million of indirect and administrative expenses including net interest costs, as compared to \$1.1 million for the three months ended June 30, 2005. The decrease in the indirect and administrative

expenses on a year-over-year basis is primarily related to costs associated with consultants and the Special Committee of the Board of Directors in the comparable period in 2005.

For the six months ended June 30, 2006, the Corporate and Other segment incurred \$1.8 million of indirect and administrative expenses including net interest costs, as compared to \$1.9 million for the same period in 2005. The decrease is a result of the aforementioned consultants and Special Committee costs.

CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

Churchill's working capital position, comprised of current assets less current liabilities excluding that portion of a demand term loan which is scheduled to be repaid beyond one year, was \$21.9 million at June 30, 2006 as compared to \$25.1 million at December 31, 2005. This decrease in working capital from December 31, 2005 was primarily due to a classification of \$4.0 million as a long term asset due to agreements related to a restriction in its use, less earnings of the Corporation year-to-date .

Capital expenditures for the three months ended June 30, 2006 were \$0.6 million. Replacing and expanding the vehicle fleet accounted for \$0.3 million; upgrading computer equipment accounted for \$0.2 million; the balance was spent on miscellaneous construction and office equipment.

An arrangement was made in the first quarter of 2006 with the Corporation's lender to increase the operating line of credit from \$12.0 million to \$16.0 million as well as to add an additional line of credit of \$3.0 million to be used specifically for the lease of vehicles and equipment pertaining to operations. During the second quarter of 2006, a further arrangement was finalized increasing the operating line from \$16.0 million to \$21.0 million.

The Corporation is a partner in three joint ventures. 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.

During the second quarter of 2006, the Corporation repaid \$0.2 million of the demand term loan and \$0.2 million of long term debt in accordance with the repayment schedules and the contractual obligations described in the 2005 Annual Report. An additional \$0.2 million was added to long term debt in the quarter related to the financing of new vehicles and computer systems.

During the three months ended June 30, 2006, 311,528 Common Shares were returned to the Corporation. These shares were returned under the escrow agreements for the acquisition of Laird Electric Inc. which stated that if a performance objective was not met, the Corporation would

be entitled to a repayment of a refundable deposit of \$1.0 million. This performance objective was not met. The shares have been returned to treasury and cancelled. Share capital decreased by \$0.3 million and retained earnings were reduced by \$0.7 million related to this transaction.

Shareholder's equity was \$40.7 million at June 30, 2006, as compared to \$40.2 million at December 31, 2005. Contributed surplus increased \$0.1 million during the six months ended June 30, 2006 as a result of the accrual of stock-based compensation. Retained earnings increased by \$0.6 million from \$19.0 million at December 31, 2005, reflecting net earnings of \$1.4 million for the six months reduced by the Laird share transaction.

The Corporation had 17,584,158 Common Shares outstanding as at June 30, 2006 (March 31, 2006 – 17,895,686 Common Shares). No stock option activity occurred during the quarter ended June 30, 2006.

As at August 3, 2006, the Corporation has outstanding 17,584,158 Common Shares (December 31, 2005 – 17,895,686 Common Shares) and 655,000 options (December 31, 2005 – 605,000 options) convertible to Common Shares.

RISKS AND RISK MANAGEMENT

The risk assessment and risk management processes carried out by the Corporation are essentially unchanged from those discussed in the MD&A contained in the 2005 Annual Report except for the following updates:

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. Through-put was still significantly below capacity in the first and second quarters of 2006 and the facility incurred a loss. Should the plant continue to operate significantly below capacity for an extended period, then further losses will occur. At the conclusion of the first quarter of 2006, project size and scope restrictions were also placed on Triton's operations which resulted in lower revenue during the second quarter.

Churchill's industrial operations generally require a higher level of working capital due to a larger manpower workforce on projects. The Corporation's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the industrial market. To address these working capital needs, new equity of \$10.6 million was placed and a new banking facility, with an increased operating line, was arranged in 2005. During the first two quarters of 2006, this operating line was increased to \$21.0 million. The Corporation continues to examine the need for, and to seek opportunities to, add working capital. Although the immediate needs are satisfied, future growth may be limited if additional working capital is required and not available.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

OUTLOOK

During the three months ended June 30, 2006, Churchill secured a further \$162.2 million of contracts and executed and took into revenue \$121.6 million of work, with no significant inter-segment revenue. At June 30, 2006 the Corporation had \$353.7 million of work-in-hand, of which \$79.0 million is expected to carry forward into 2007.

The Corporation's markets continue to be strong with the construction and expansion of petrochemical plants, enhanced oil recovery facilities, oil sands mines, refineries, upgraders and gas plants. This is generating a high volume of projects for our industrial companies. The spinoff of this activity into the commercial and public infrastructure projects is significant, thus generating opportunities for Stuart Olson. Most of our businesses continue to have a strong backlog of work and are expected to increase activity levels as the year progresses.

Churchill is achieving steady operational improvements. To facilitate and support the Corporation's growth, systems and process changes will continue to be implemented over the next few quarters. Triton continues to operate below capacity which is negatively affecting the company's earnings. The shortages of skilled labour continue to be an issue; however Churchill's companies have been successful to date in proactively mitigating the problem.

In the second quarter of 2006, the Corporation's credit facility was expanded to assist in its growth plans. To date the Corporation has been able to work effectively with its lender to address any working capital requirements and continues to look forward to doing so in the future. Where appropriate the Corporation may look to supplement this facility with additional equity capital.

Churchill expects to experience improving results throughout the remainder of 2006 due to an excellent construction market in western Canada.

NOTICE

The June 30, 2006 Consolidated Financial Statements and related notes, contained herein, have not been subjected to an audit or review by external auditors.

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

FORWARD-LOOKING STATEMENTS

Certain statements in this Second Quarter Report may constitute "forward-looking statements". Although management of the Corporation believes its expectations regarding future performance of the Corporation are based on reasonable assumptions and currently available financial and economic data, market conditions and operating plans, it can give no assurance that 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, performances or achievements expressed or implied in any forward-looking statements.

ADDITIONAL INFORMATION

This Second Quarter Report, and the Management's Discussion and Analysis for the period ending June 30, 2006, as well as previous Quarterly and Annual Reports, the Annual Information Form and other required filings of The Churchill Corporation may be obtained by accessing SEDAR, the electronic system recording Canadian public securities filings, at www.sedar.com.

CONSOLIDATED BALANCE SHEETS

| (\$ thousands) | June 30 2006 (Unaudited) | December 31 2005 |
|--|--------------------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents (note 2) | \$ 27,443 | \$ 29,177 |
| Accounts receivable | 87,680 | 72,417 |
| Inventories and prepaid expenses | 2,559 | 1,724 |
| Costs in excess of billings | - | 13,127 |
| Income taxes recoverable | 410 | 3,310 |
| | 118,092 | 119,755 |
| Long-term cash and equivalents (note 2) | 4,000 | - |
| Future income tax assets | 495 | 435 |
| Property and equipment | 16,130 | 15,556 |
| Refundable deposit (note 7) | - | 1,000 |
| Goodwill | 7,315 | 7,315 |
| Intangible assets (note 3) | 231 | - |
| | \$ 146,263 | \$ 144,061 |
| LIABILITIES | | |
| Current liabilities | | |
| Line of credit (note 4) | \$ 13,350 | \$ 7,780 |
| Accounts payable | 67,266 | 81,775 |
| Contract advances and unearned income | 9,581 | - |
| Future income tax liabilities | 4,493 | 3,706 |
| Current portion of long-term debt (note 5) | 731 | 597 |
| Demand term loan (note 6) | 7,150 | 7,540 |
| | 102,571 | 101,398 |
| Long-term debt (note 5) | 2,827 | 2,301 |
| Future income tax liabilities | 191 | 143 |
| | 105,589 | 103,842 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 7) | 15,203 | 15,472 |
| Contributed surplus | 5,833 | 5,754 |
| Retained earnings | 19,638 | 18,993 |
| | 40,674 | 40,219 |
| | \$ 146,263 | \$ 144,061 |

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

CONSOLIDATED STATEMENTS OF EARNINGS

| (\$ thousands, except per share amounts) | Three months ended June 30 (Unaudited) | | Six months ended June 30 (Unaudited) | |
|--|---|------------|---|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Contract revenue | \$ 121,592 | \$ 118,818 | \$ 233,428 | \$ 220,432 |
| Contract costs | 110,204 | 108,367 | 212,370 | 202,722 |
| Contract income | 11,388 | 10,451 | 21,058 | 17,710 |
| Interest income | 186 | 76 | 312 | 165 |
| Sundry income | 190 | 20 | 369 | 310 |
| Indirect and administrative expenses | (9,415) | (7,937) | (17,643) | (15,113) |
| Depreciation and amortization | (652) | (608) | (1,250) | (1,278) |
| Interest expense | (306) | (321) | (575) | (496) |
| Income before income taxes | 1,391 | 1,681 | 2,271 | 1,298 |
| Income tax expense: | | | | |
| Current income tax | (100) | (1,519) | (120) | 35 |
| Future income tax | (479) | 922 | (775) | (487) |
| | (579) | (597) | (895) | (452) |
| Net income | \$ 812 | 1,084 | \$ 1,376 | 846 |
| Net income per common share (note 8) | | | | |
| Basic | \$ 0.05 | 0.07 | \$ 0.08 | 0.06 |
| Fully diluted | \$ 0.04 | 0.07 | \$ 0.08 | 0.06 |

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

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| (\$ thousands) | Three months ended June 30 (Unaudited) | | Six months ended June 30 (Unaudited) | |
|--|---|--------|---|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Retained earnings, beginning of period | \$ 19,557 | 14,961 | \$ 18,993 | \$ 15,199 |
| Net income | 812 | 1,084 | 1,376 | 846 |
| Return of shares (note 7) | (731) | - | (731) | - |
| Retained earnings, end of period | \$ 19,638 | 16,045 | \$ 19,638 | \$ 6,045 |

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

CONSOLIDATED STATEMENTS OF NET CASH FLOW

| (\$ thousands) | Three months ended June 30 (Unaudited) | | Six months ended June 30 (Unaudited) | |
|---|---|----------|---|----------|
| | 2006 | 2005 | 2006 | 2005 |
| OPERATING ACTIVITIES | | | | |
| Net income | \$ 812 | \$ 1,084 | \$ 1,376 | \$ 846 |
| Non-cash items | | | | |
| Depreciation and amortization | 652 | 608 | 1,250 | 1,278 |
| Gain on disposal of property for sale | - | - | - | (210) |
| Gain on disposal of equipment | (3) | (7) | (10) | (5) |
| Future income taxes | 479 | (922) | 775 | 487 |
| Stock-based compensation | 68 | 13 | 79 | 71 |
| | 2,008 | 776 | 3,470 | 2,467 |
| Net change in costs in accounts receivable, inventories and prepaid expenses | (10,182) | 9,896 | (16,098) | (3,046) |
| Net change in costs in accounts payable | 5,583 | (11,879) | (14,509) | (9,626) |
| Net change in costs in contract advances and unearned income | 5,760 | (9,102) | 22,708 | (10,138) |
| Change in income taxes recoverable | 2,900 | 2,305 | 2,900 | 751 |
| | 6,069 | (8,004) | (1,529) | (19,592) |
| INVESTING ACTIVITIES | | | | |
| Proceeds on disposal of property for sale | - | - | - | 312 |
| Long-term cash and equivalents (note 2) | - | - | (4,000) | - |
| Proceeds on disposal of equipment | 177 | 9 | 197 | 10 |
| Additions to property and equipment | (638) | (1,151) | (1,475) | (1,654) |
| Additions to intangible assets | - | - | (253) | - |
| | (461) | (1,142) | (5,531) | (1,332) |
| FINANCING ACTIVITIES | | | | |
| Issuance of common shares | - | 3,646 | - | 3,690 |
| Issuance of short-term debt | - | 7,000 | - | 7,000 |
| Proceeds under line of credit | 1,150 | - | 5,570 | - |
| Issuance of long-term debt | 190 | 971 | 473 | 989 |
| Repayment of long-term debt | (172) | (743) | (327) | (1,427) |
| Repayment of demand term loan | (195) | - | (390) | - |
| | 973 | 10,874 | 5,326 | 10,252 |
| Increase (decrease) in cash | 6,581 | 1,728 | (1,734) | (10,672) |
| Net cash (overdraft), beginning of period | 20,862 | (681) | 29,177 | 11,719 |
| Net cash, end of period | \$ 27,433 | \$ 1,047 | \$ 27,433 | \$ 1,047 |

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. *Basis of Presentation*

These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 2005 and notes thereto. These interim unaudited 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 methods 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 financial year ended December 31, 2005, except for the adoption of the following new CICA Accounting Recommendation and Emerging Issues Committee's abstract:

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 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 impact on the consolidated financial statements from the adoption of EIC 157.

2. *Cash and Equivalents*

(\$ thousands)

Cash includes \$10,013 (December 31, 2005 - \$9,857) which is restricted under the British Columbia Lien Act to the payment of direct costs related to specific construction projects. Cash balances of \$308 (December 31, 2005 - \$10) are in joint venture accounts. \$4,000 has been classified as long-term as it is restricted in use.

3. *Intangible Assets*

(\$ thousands)

The intangible assets relate to intellectual property resulting from the design and implementation of processes related to the Corporation's computer system. The intangible assets will be amortized straight line over 3 years.

4. *Line of Credit*

(\$ thousands)

The line of credit is an operating line of credit with a maximum availability of \$21,000. The line of credit bears interest at prime plus 1.0%. The total amount ultimately available under this facility is subject to limits based on certain financial ratios. In addition, availability of the operating line is subject to default provisions of the Corporation's credit facilities' debt covenants (Note 6).

4. **Line of Credit (Continued)**
(\$ thousands)

At June 30, 2006, the total maximum available operating line of credit of \$21,000 was reduced by \$500 (2005 - \$1,840) in conjunction with the issuance of irrevocable letters of credit provided as general security in respect of specific contracts. The letters of credit expire in 2006 and are renewable annually.

The operating line is considered a financing activity for the statement of cash flow.

5. **Long-term Debt**
(\$ thousands)

Interest expense on long-term debt during the six months ended June 30, 2006 was \$185 (2005 – \$401).

The Corporation has added a leasing facility with a borrowing limit of up to \$3,000 to assist the Corporation with the purchase of capital assets. The leasing facility bears interest at the three year GIC rate plus 3.25%. As at June 30, 2006, the Corporation has utilized \$473 of the leasing facility.

6. **Demand Term Loan**
(\$ thousands)

The Corporation's demand term loan has certain demand features. As a result, \$6,370 of the demand term loan, which is scheduled to be repaid beyond 12 months, has been classified as a current liability on the balance sheet. The Corporation's bank has acknowledged that the \$6,370 will not be considered a current liability for the purpose of calculating debt covenants.

The demand term loan, and the line of credit (Note 4) are subject to certain debt covenants calculated on a quarterly basis. At June 30, 2006, the Corporation was in compliance with its debt covenants.

Interest expense on the demand term loan for the six months ended June 30, 2006 was \$248 (2005 – \$0).

7. **Share Capital**
(\$ thousands, except share and per share amounts)

| | Six months ended June 30, 2006 | | Twelve months ended December 31, 2005 | |
|-----------------------------|--------------------------------|---------------|---------------------------------------|---------------|
| | Shares | Share Capital | Shares | Share Capital |
| Common Shares: | | | | |
| Issued, beginning of period | 17,895,686 | \$ 15,472 | 12,238,352 | \$ 4,289 |
| New shares issued | - | - | 5,323,000 | 10,646 |
| Shares cancelled | (311,528) | (269) | - | - |
| Stock options exercised | - | - | 334,334 | 537 |
| Issued, at June 30 | 17,584,158 | \$ 15,203 | 17,895,686 | \$ 15,472 |

During the period ended June 30, 2006, 50,000 options were granted with an exercise price of \$3.05. No options were exercised.

As at June 30, 2006 the Corporation had outstanding 655,000 options convertible into Common Shares. (December 31, 2005 – 605,000).

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. *Share Capital (Continued)*

(\$ thousands, except share and per share amounts)

In the period ended June 30, 2006, the Corporation recognized stock compensation expense of \$79 (June 30, 2005 - \$71) related to the estimated fair value of options granted. The fair value of options granted 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 3.59% (December 31, 2005 - 3.56%), an average life of 3.7 years (December 31, 2005 - 3.7 years), and a weighted average volatility of 46.04% (December 31, 2005 - 46.05%). 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.

Under the Laird purchase agreement, 311,528 shares with a stated value of \$269 were issued from treasury and placed in escrow to support a refundable deposit of \$1,000. If Laird did not achieve specified performance measures by December 31, 2005, the deposit was due to be refunded to Churchill by April 30, 2006. In the quarter the shares were returned from escrow for cancellation to satisfy the refundable deposit with a difference of \$731 being charged to retained earnings.

8. *Net Earnings (loss) per Common Share*

(\$ thousands, except per share amounts)

| | Six months ended June 30 | |
|--|---------------------------------|------------|
| | 2006 | 2005 |
| Net income (loss) | \$ 1,376 | \$ 846 |
| Weighted average number of common shares outstanding | 17,887,080 | 13,742,127 |
| Incremental number of shares under treasury stock method | 236,335 | 91,780 |
| | 18,123,415 | 13,833,907 |
| Net income (loss) per common share: | | |
| Basic | \$ 0.08 | \$ 0.06 |
| Fully diluted | \$ 0.08 | \$ 0.06 |

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

9. *Related Party Transactions*

(\$ thousands)

The Corporation incurred legal fees of \$117 (2005 - \$82) for services related to various legal matters with a law firm for which a director of the Corporation is also a partner of the firm.

The Corporation incurred expenses of \$64 (2005 - \$60) for facility costs relating to rental of a building which is owned by a director of the Corporation.

10. *Segmented Information*

(\$ thousands)

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.

10. **Segmented Information (Continued)**

(\$ thousands)

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, 2005. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

| Three months ended June 30, 2006 | Contract Revenue | Earnings (Loss) Before Tax | Depreciation & Amortization | Goodwill & Intangibles | Total Assets | Capital Expenditures |
|-----------------------------------|------------------|----------------------------|-----------------------------|------------------------|--------------|----------------------|
| Buildings | \$ 68,724 | \$ 1,061 | \$ 132 | \$ - | \$ 70,057 | \$ 164 |
| Industrial General Contracting | 12,312 | (1,346) | 154 | - | 4,452 | 18 |
| Industrial Insulation Contracting | 16,074 | 1,126 | 82 | - | 9,475 | 14 |
| Industrial Electrical Contracting | 24,500 | 1,451 | 166 | 7,315 | 14,439 | 328 |
| Corporate and Other | - | (896) | 118 | 231 | 47,840 | 114 |
| Inter-segment Adjustments | (18) | (5) | - | - | - | - |
| | \$ 121,592 | \$ 1,391 | \$ 652 | \$ 7,546 | \$ 146,263 | \$ 638 |

| Three months ended June 30, 2005 | Contract Revenue | Earnings (Loss) Before Tax | Depreciation & Amortization | Goodwill & Intangibles | Total Assets | Capital Expenditures |
|-----------------------------------|------------------|----------------------------|-----------------------------|------------------------|--------------|----------------------|
| Buildings | \$ 57,137 | \$ 451 | \$ 147 | \$ - | \$ 59,400 | \$ 87 |
| Industrial General Contracting | 26,373 | 1,386 | 138 | - | 2,760 | 64 |
| Industrial Insulation Contracting | 13,947 | (7) | 101 | - | 5,305 | 26 |
| Industrial Electrical Contracting | 22,400 | 946 | 11 | 7,315 | 14,489 | 963 |
| Corporate and Other | - | (1,107) | 91 | - | 41,725 | 12 |
| Inter-segment Adjustments | (1,039) | 12 | 120 | - | - | (1) |
| | \$ 118,818 | \$ 1,681 | \$ 608 | \$ 7,315 | \$ 123,679 | \$ 1,151 |

| Six months ended June 30, 2006 | Contract Revenue | Earnings (Loss) Before Tax | Depreciation & Amortization | Goodwill & Intangibles | Total Assets | Capital Expenditures |
|-----------------------------------|------------------|----------------------------|-----------------------------|------------------------|--------------|----------------------|
| Buildings | \$ 126,900 | \$ 1,956 | \$ 251 | \$ - | \$ 70,057 | \$ 372 |
| Industrial General Contracting | 29,649 | (455) | 314 | - | 4,452 | 71 |
| Industrial Insulation Contracting | 38,625 | 1,457 | 170 | - | 9,475 | 31 |
| Industrial Electrical Contracting | 38,346 | 1,079 | 306 | 7,315 | 14,439 | 686 |
| Corporate and Other | - | (1,766) | 209 | 231 | 47,840 | 315 |
| Inter-segment Adjustments | (92) | - | - | - | - | - |
| | \$ 233,428 | \$ 2,271 | \$ 1,250 | \$ 7,546 | \$ 146,263 | \$ 1,475 |

| Six months ended June 30, 2005 | Contract Revenue | Earnings (Loss) Before Tax | Depreciation & Amortization | Goodwill & Intangibles | Total Assets | Capital Expenditures |
|-----------------------------------|------------------|----------------------------|-----------------------------|------------------------|--------------|----------------------|
| Buildings | \$ 112,828 | \$ 918 | \$ 287 | \$ - | \$ 59,400 | \$ 185 |
| Industrial General Contracting | 44,853 | 1,499 | 330 | - | 2,760 | 195 |
| Industrial Insulation Contracting | 25,312 | (329) | 209 | - | 5,305 | 32 |
| Industrial Electrical Contracting | 39,043 | 1,101 | 138 | 7,315 | 14,489 | 1,056 |
| Corporate and Other | - | (1,861) | 194 | - | 41,725 | 168 |
| Inter-segment Adjustments | (1,604) | (30) | 120 | - | - | 18 |
| | \$ 220,432 | \$ 1,298 | \$ 1,278 | \$ 7,315 | \$ 123,679 | \$ 1,654 |

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

10. *Segmented Information (Continued)*

(\$ thousands)

During the quarter, the Corporation had no revenue from any customer in excess of 10% of its contract revenue (2005 – one customer). Contract revenue from the customer was \$0 (2005 – \$21,027). The revenue was earned in the Industrial Electrical Contracting segment.

For the six months ended June 30, 2006, the Corporation had no revenue from any customer in excess of 10% of its contract revenue (2005 – one customer). Contract revenue from the customer was \$0 (2005 – \$34,880). The revenue was earned in the Industrial Electrical Contracting segment.

11. *Comparative Figures*

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

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