



REPORT TO SHAREHOLDERS

Churchill delivered a record first quarter of 2007. Our improved operating performance in 2006 has continued into 2007 as expected. Contract revenue was \$153.9 million in the quarter as compared to \$111.8 million in the first quarter of 2006. Net earnings were \$2.3 million compared with \$0.6 million in the comparable period of last year.

During the first quarter, the Corporation secured \$256.9 million in new contract awards, a 44.5% increase over the \$177.8 million of new work secured in the first quarter of 2006. This strong new business acquisition trend has taken our work-in-hand to a record \$596.6 million, as compared to \$313.1 million at March 31, 2006.

Stuart Olson experienced a strong first quarter, reporting \$99.2 million of revenue and earnings before tax of \$2.7 million, in comparison to \$58.2 million of revenue and \$0.9 million of earnings before tax in the same period of 2006. Significant revenue and earnings growth was generated by both northern and southern Alberta branch operations. The backlog at Stuart Olson continues to grow, reaching \$501.5 million as compared to \$422.0 million at December 31, 2006. There continues to be an abundance of project opportunities in all regions in which the company operates.

Revenue at Triton of \$9.3 million was lower than the \$17.3 million of revenue reported in the first quarter of 2006. This quarter we believe marked a turning point in Triton's revenue level as new management's business development efforts are starting to be reflected in the volume of new work secured. Triton secured \$24.7 million of new contracts in the first quarter, which exceeded the amount of new work awarded to the company in a single quarter dating back to the third quarter of 2005. Triton incurred a loss before tax during the quarter of \$0.9 million as compared to earnings before tax of \$0.9 million in the same period of 2006. Earnings in the first quarter of 2006 were increased by \$1.0 million of recoveries on loss provisions. The loss in the current quarter was attributable to the reduction in contract revenue.

Revenue from our insulation companies, Fuller Austin and Northern Industrial was lower at \$11.9 million as compared to \$22.6 million for the first quarter of 2006. Activity levels in the first quarter of 2006 were supported by the continuation of work on a significant contract for a large oil sands company. The revenue generated from this contract had a favourable effect on 2006 results. Earnings before tax in the quarter at \$0.5 million were higher than the \$0.3 million reported in the first quarter of 2006. Work-in-hand increased by \$6.7 million in the quarter relative to year end 2006.

Laird's revenue increased substantially to \$33.6 million from \$13.8 million in the comparable period of 2006. The growth in first quarter revenue was a result of high levels of activity on oil sands related construction projects. Earnings before tax increased to \$1.4 million compared to a loss of \$0.4 million in the first quarter of 2006. The company's work-in-hand was \$44.8 million at March 31, 2007.

The construction market in western Canada continues to be strong, bolstered by spending on infrastructure projects and private sector spending on commercial buildings, oil sands and petrochemical projects. The strength of our construction markets and the operational improvements which we continue to make, reinforce our positive outlook for 2007.

May 2, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation (the "Corporation"), dated May 2, 2007, should be read in conjunction with the unaudited interim Consolidated Financial Statements and related notes thereto as well as the audited consolidated financial statements and related notes, MD&A and Letter to Shareholders contained in the Corporation's 2006 Annual Report. 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", and "book value per share". Please review the discussion of these measures in the "Terminology" section of this MD&A.

BUSINESS OF THE CORPORATION

The Churchill Corporation ("Churchill" or the "Corporation") constructs buildings and provides industrial construction and maintenance services. The Corporation operates through five reportable 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.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(\$ millions, except per share amounts)	Three months ended March 31			
	2007	2006	\$ Change	% Change
Contract Revenue	\$153.9	\$111.8	42.1	38%
Contract Income	12.4	9.7	2.7	28%
EBITDA	4.3	1.7	2.6	153%
Earnings before Tax	3.3	0.9	2.4	267%
Net Earnings	2.3	0.6	1.7	283%
Per Share - Basic	0.13	0.03	0.1	333%
Work-in-hand	596.6	313.1	283.5	91%

For the first quarter of 2007, consolidated contract revenue was \$153.9 million, which was \$42.1 million or 38% greater than the same period in 2006. 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 by \$2.7 million in the first three months of the year, from \$9.7 million in 2006 to \$12.4 million in 2007. This increase is due to a higher level of overall activity, stronger margins in our industrial electrical contracting and insulation contracting segments. Indirect and administrative expenses amounted to \$8.6 million in the quarter, compared to \$8.2 million in the comparable period of 2006. The increase in indirect and administrative expenses was a result of the increase in volume and associated growth in personnel.

Earnings before interest, taxes, depreciation and amortization in the quarter were \$4.3 million, compared to \$1.7 million in the first quarter of 2006. Earnings before tax increased 267% to \$3.3 million, compared to \$0.9 million reported in Q1, 2006. The Corporation's consolidated net earnings for the three months ended March 31, 2007 were \$2.3 million compared to net earnings of \$0.6 million in 2006.

Work-in-hand at March 31, 2007 was \$596.6 million. This is an increase of \$283.5 million over the amount at March 31, 2006. On a segmented work-in-hand basis, there was an increase in the buildings segment of \$312.5 million and an increase of \$7.8 million in the industrial general contracting segment. These were offset by declines of \$10.1 million and \$26.6 million in the industrial insulation contracting and industrial electrical contracting segments respectively.

RESULTS OF OPERATIONS

Buildings

For the three months ended March 31, 2007, Stuart Olson's revenues increased \$41.0 million to \$99.2 million, compared to \$58.2 million in the prior year. This was due to higher levels of activity, particularly in the northern and southern Alberta offices. Southern Alberta operations benefited from higher activity levels on projects such as the Peter Lougheed Hospital, SAIT Residence and Bow Valley College expansions. Northern Alberta operations were favourably impacted by construction activity for clients such as Bridge Brand Food Services Ltd., Sysco Food Services and C.A. Knight Recreational Facility.

Contract income in the first quarter increased to \$6.2 million from \$3.7 million, an increase of \$2.5 million. Contract income margin was relatively unchanged at 6.2% in 2007 as compared to 6.3% in 2006. Earnings before tax increased to \$2.7 million in the first quarter of 2007, as compared to \$0.9 million in 2006. This is indicative of the strength of the company's markets and improved operating efficiency.

Stuart Olson had work-in-hand of \$422.0 million at December 31, 2006. For the three months ended March 31, 2007, the company secured a further \$178.7 million of contracts, \$69.6 million more than it secured in the same quarter of 2006. The majority of the increase came from the southern Alberta and British Columbia branches. During the quarter, the company executed and took into revenue \$99.2 million. The company completed the quarter with \$501.5 million of work-in-hand, of which \$98.3 million is expected to carryover into 2008.

Industrial General Contracting

Revenues at Triton of \$9.3 million were \$8.0 million lower than the same quarter in 2006. The Corporation has lifted its planned volume restriction on Triton's operations; however, Triton's lower backlog at the end of 2006 did not allow it to generate sufficient volume to match its first quarter of 2006 results. Contract income margin was 9.9%, down from 18.0% in the first quarter of 2006. Triton incurred a loss before tax of \$0.9 million for the current quarter, compared to earnings before tax of \$0.9 million in 2006. The year over year decreases in margin and earnings before tax was partially due to the recovery in the first quarter of 2006 of \$1.0 million in loss provisions recorded in 2005. Earnings before tax were also negatively impacted by a decrease in revenue as a result of Triton entering 2007 with a reduced level of work-in-hand.

Triton entered the year with \$13.2 million of work-in-hand. For the quarter ending March 31, 2007 the company secured a further \$24.7 million of contracts, \$10.2 million greater than the amount of work secured in the first quarter of 2006. The increase in current quarter awards occurred primarily in the maintenance division which was awarded contracts with Encana and Canadian Natural Resources Ltd. The company executed \$9.3 million of contractual work during the period and as a result had \$28.6 million of work-in-hand to complete in the current year. Triton's management expects to secure additional contracts as the year progresses, which are expected to increase the quarterly revenue rate.

Industrial Insulation Contracting

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

Revenue for three months ended March 31, 2007, was \$11.9 million, compared to \$22.6 million for the period ending March 31, 2006. Activity levels in the first quarter of 2006 were supported by the continuation of work on a major oil sands project. Despite the reduced volume of work, contract income rose to \$1.8 million, up from \$1.7 million for the comparable period as a result of higher contract income margins.

Earnings before tax in the Industrial Insulation Contracting segment increased to \$0.5 million for the quarter, compared to earnings before tax of \$0.3 million for the first quarter of 2006. The primary reason for the improved earnings was the higher contract margin levels.

Industrial Insulation Contracting had combined work-in-hand of \$15.0 million at December 31, 2006. For the three months ended March 31, 2007, they secured a further \$18.7 million of contracts, which was \$9.1 million lower than in the same period of 2006. Due to a slowdown in insulation contracting activity, the competition to secure new opportunities has been vigorous. Awards were received in the current quarter from Nexen, Suncor Energy Inc., and numerous other customers. The insulation companies executed \$11.9 million of work during the first quarter, resulting in a backlog of \$21.8 million of work-in-hand.

Industrial Electrical Contracting

For the three months ended March 31, 2007, Laird's revenue increased by \$19.8 million to \$33.6 million, compared to the \$13.8 million reported for the same period of 2006. This significant revenue increase was generated from site work on various oil sands projects. Contract income improved from \$0.9 million in 2006 to \$3.3 million in 2007, due to the higher volume of activity and increased margins. Laird achieved earnings before tax of \$1.4 million in the first quarter compared to a loss before tax of \$0.4 million in 2006.

Laird had recorded work-in-hand of \$43.6 million at the end of 2006. In the first quarter of 2007, new contract awards of \$34.8 million were secured compared to \$26.6 million in 2006. New contract awards were received from customers such as Nexen, TransAlta Corporation and Suncor Energy Inc. During the period, \$33.6 million of work was executed, leaving a backlog of \$44.8 million remaining to be completed as at March 31, 2007.

Corporate and Other

In the first quarter, the Corporate and Other segment incurred \$0.6 million of indirect and administrative expenses, including net interest costs. This compares to \$1.1 million of indirect and administrative expenses in 2006. Expenses attributed to Churchill were reduced due to a change in the allocation of information technology expenses as well as a temporary reduction in headcount at the corporate office.

QUARTERLY FINANCIAL INFORMATION

The following table sets forth selected quarterly information of the company for the past eight quarters:

	2007	2006				2005		
	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
(\$ millions, except per share data and percentages)								
Contract Revenue	\$153.9	\$152.4	\$145.5	\$121.6	\$111.8	\$138.8	\$ 120.6	\$ 118.8
Contract Income	12.4	16.7	13.4	11.4	9.7	12.4	9.7	10.4
Contract Income - %	8.1%	11.0%	9.2%	9.4%	8.7%	8.9%	8.0%	8.8%
Net Earnings (Loss)	2.3	3.7	3.0	0.8	0.6	1.6	1.3	1.1
Basic (\$ per share)	0.13	0.21	0.17	0.05	0.03	0.09	0.07	0.07
Fully diluted (\$ per share)	0.13	0.21	0.16	0.04	0.03	0.09	0.07	0.07
Work-in-Hand	596.6	493.9	469.6	353.7	313.1	247.2	307.8	294.8
Working Capital	29.2	27.4	24.1	21.9	21.3	25.1	23.4	14.9
Shareholders' Equity	50.0	47.7	43.7	40.7	40.8	40.2	37.9	36.5
Book Value (\$ per share)	2.83	2.70	2.48	2.31	2.28	2.25	2.15	2.07

The reader is referred to the Corporation's 2006 Annual Report for a discussion and analysis of the results of the seven quarters that ended December 31, 2006.

1. Contract income margin percentage in Q1, 2006 was higher by 1.0% as result of recoveries on loss provisions.

CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

Cash and equivalents at March 31, 2007, totaled \$57.9 million, which compares with \$50.4 million at the end of 2006. Of the \$57.9 million of cash and equivalents, \$15.7 million was subject to deemed trust conditions under the British Columbia Lien Act, compared to \$10.7 million at December 31, 2006. As such this cash was not available for general operating purposes.

Cash provided from operating activities amounted to \$5.3 million in the quarter, which compares to \$7.6 million of cash used in operations during the first quarter of 2006. This favourable change of \$12.9 million is a result of the improved operating results generating greater net earnings in 2007 and cash provided due to changes in the working capital accounts.

Investing activities resulted in a use of cash of \$1.3 million, which compares with cash used of \$5.1 million in 2006. This investment was made in property and equipment. The decrease in cash used year over year was primarily due to the classification of \$4.0 million as a long-term asset in the first quarter of 2006. This classification was made due to a contractual restriction in use of the cash.

Cash generated from financing activities amounted to \$3.5 million, compared to \$4.4 million in 2006. At March 31, 2007, the Corporation had drawn on \$15.5 million of its \$21.0 million line of credit. Proceeds received under the line of credit during the first quarter amounted to \$5.0 million while repayments totaled \$1.5 million. At March 31, 2007, long-term debt, including the current portion amounted to \$4.7 million, compared to \$4.3 million at the end of 2006. The increase is due to the use of finance contracts and leases to acquire vehicles and equipment by the Corporation. During the quarter, the Corporation repaid \$0.4 million of long-term debt and \$0.1 million of the demand term loan.

At March 31, 2007, Churchill had working capital of \$29.2 million which was greater than the 2006 year-end working capital position of \$27.4 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.

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

Shareholders' equity was \$50.0 million at March 31, 2007, as compared to \$47.7 million at December 31, 2006. During the quarter contributed surplus increased \$7 thousand as a result of the recognition of stock-based compensation. Retained earnings increased from \$26.4 million at December 31, 2006 to \$28.7 million reflecting the net earnings of \$2.3 million for the quarter.

At March 31, 2007, there were 17,667,491 Common Shares and 455,000 options outstanding (December 31, 2006 - 17,667,491 Common Shares and 571,667 options). During the period from March 31, 2007, to May 2, 2007, no new share options were issued; and no share options were exercised.

The Corporation has an Employee Share Purchase Plan available to all full-time employees. As at April 3, 2007, the Plan held 1,368,984 Churchill Common Shares for the employees. Under the Plan, shares are acquired in the open market.

RISKS AND UNCERTAINTIES

For the first quarter ended March 31, 2007, there has been no significant change in our risk factors from those described in our 2006 Annual Report.

OUTLOOK

New contract awards of \$256.9 million were booked in the current quarter, which compares with \$177.8 million of contracts secured in the same period in 2006. There was an increase in awards in the building construction, industrial general contracting and industrial electrical contracting segments in the current quarter which exceeded the decline in awards to the industrial insulation segment.

The recent Alberta provincial budget included more money for capital projects spending over the next three years which should serve our Stuart Olson business well. In 2007, the buildings segment is expected to contribute a larger proportion of our overall revenue and earnings than in the past couple of years, as the demand for Stuart Olson's services remains strong.

In our industrial general contracting segment, despite the \$0.9 million loss reported in the first quarter, we are encouraged by the improvement in operations and increase in work-in-hand. As new contracts with better margins are secured, we expect an improvement in profitability.

While earnings were strong in the first quarter of 2007 from our industrial insulation segment, a brief lull in activity is expected during the second quarter. With a smaller backlog of work-in-hand to rely on, the revenue outlook in 2007 for this segment is expected to be less than 2006. Several competitors have, and are expected to continue aggressively bidding new opportunities in the Alberta market to shore up their backlog. The insulation contracting climate in Saskatchewan and Ontario is very quiet. Despite these lower activity levels, improved margins and cost controls should allow this segment to continue contributing at historical levels to overall profitability.

Laird experienced a record first quarter. At this time, the immediate work front looks strong with no signs of a slowdown as we move into the second quarter.

Churchill continues to grow its revenue, earnings and work-in-hand. Stuart Olson and Laird are operating at high levels of activity in comparison to prior years, yet this growth is being managed well. At Triton, the implementation of our turnaround strategy continues, with modest early gains being made in many operational areas. Meanwhile, Insulation Holdings is performing well and managing its people based on a forecasted reduction in volume. Churchill's focus remains on providing the management, information systems and financial resources to allow our individual operating companies to succeed and we look forward to strong results throughout the remainder of 2007.

SUPPLEMENTAL DISCLOSURES

Contractual Obligations

As at March 31, 2007, the only material change made to the contractual obligations reported in our 2006 Annual Report was the addition of \$0.6 million of finance and lease obligations in connection with the purchase of equipment, and the repayment of \$0.3 million of long-term debt and \$0.3 million of the demand term loan.

Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

Related Party Transactions

The Corporation incurred legal fees during the quarter ending March 31, 2007 with a law firm of which a director of the Corporation is also a partner. The fees were for services rendered in the ordinary course of business. The amount incurred during the period was \$83 thousand (2006 - \$65 thousand). At March 31, 2007, \$12 thousand was included in accounts payable.

During the first quarter of 2007, the Corporation incurred facility costs of \$28 thousand (2006- \$28 thousand) relating to rental of a building which is owned by a director of the Corporation.

CHANGES IN ACCOUNTING POLICIES

The Corporation continues to use the same accounting policies and methods described in the December 31, 2006 MD&A and Consolidated Financial Statements, except for the adoption of the following new CICA Accounting Recommendations and Emerging Issues Committee's abstract.

Effective January 1, 2007, the Corporation adopted the recommendations of the CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*; section 3865 *Hedges*; Section 1530 *Comprehensive Income*; and Section 3861 – *Financial Instruments – Disclosure and Presentation*. The adoption of the new standards resulted in changes in accounting for financial instruments and hedges. The standards have been applied prospectively with no restatement. Refer to Note 1 of the interim consolidated financial statements for further details.

Effective January 1, 2007, the Corporation adopted CICA Handbook Section 1506, *Accounting Changes*. This section established criteria 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 has determined that there is no material impact on the consolidated financial statements from the adoption of Handbook Section 1506.

Effective January 1, 2007, the Corporation adopted CICA Emerging Issues Committee Abstract 163, *Determining the Variability to be Considered in Applying AcG-15 (EIC 163)*. This EIC deals with situation 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. The Corporation has determined that there is no material impact on the consolidated financial statements from the adoption of EIC 163.

FUTURE ACCOUNTING POLICIES

Financial Instruments – disclosures and presentation – In December 2006, 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, Financial Instruments – Disclosures and Presentation. 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.

Capital Disclosures – In December 2006, the CICA issued Handbook Section 1535 – Capital Disclosures. This section establishes criteria for disclosure of i) an entity’s objectives, policies and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance. Section 1535 applies 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 Section on the consolidated financial statements.

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 2006 Annual Report, management has identified the Corporation’s most critical accounting estimates to be in the areas of revenue recognition, goodwill impairment, income tax provisions and accounts receivable collectability. For the first quarter of 2007, there has been no significant change in our critical accounting estimates,

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND 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 Interim 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.

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.

During the three months ended March 31, 2007, Churchill’s management, including the CEO and CFO, evaluated whether there were any material changes in internal controls over financial reporting pursuant to Multilateral Instrument 52-109 (“MI 52-109”), *Certification of Disclosure in Issuers’ Annual and Interim Filings*. They concluded that there were no changes during the first quarter that affected materially or were likely to affect materially, the Corporation’s internal controls over financial reporting and disclosure controls and procedures.

The CEO and CFO evaluated the design of the Corporation's internal control over financial reporting and the design and effectiveness of the Corporation's disclosure controls and procedures as at December 31, 2006. 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 nine 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.

TERMINOLOGY

Throughout this first quarter 2007 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" and "book value per share" have been defined as:

Contract income margin percentage is the percentage derived by dividing contract income by contract revenue. Contract income is calculated by deducting all associated direct and indirect costs from contract revenue in the period.

Work-in-hand is the unexecuted portion of work that has been contractually awarded for construction to the Corporation. It includes 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 shareholders' equity less value of preferred stock divided by basic shares outstanding at the end of the period.

FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis may constitute "forward-looking statements". 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.

NOTICE

The March 31, 2007, 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.

CONSOLIDATED BALANCE SHEETS

(\$ thousands)	March 31, 2007 (Unaudited)	December 31, 2006*
ASSETS		
Current assets		
Cash and equivalents (Note 2)	\$ 57,948	\$ 50,387
Accounts receivable	122,635	83,369
Inventories and prepaid expenses	2,582	1,174
Costs in excess of billings	-	620
	183,165	135,550
Long-term cash and equivalents (Note 2)	4,000	4,000
Future income tax assets	672	631
Property and equipment	18,473	17,816
Goodwill	7,315	7,315
Intellectual property	168	189
	\$ 213,793	\$ 165,501
LIABILITIES		
Current liabilities		
Line of credit	\$ 15,500	\$ 12,000
Accounts payable	101,096	86,191
Contract advances and unearned income	30,718	-
Income taxes payable	367	4,327
Future income tax liabilities	4,458	3,902
Demand term loan (Note 4)	6,565	6,825
Current portion of long-term debt (Note 3)	1,058	917
	159,762	114,162
Long-term debt (Note 3)	3,652	3,419
Future income tax liabilities	364	231
	163,778	117,812
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	15,508	15,508
Contributed surplus	5,786	5,779
Retained earnings	28,721	26,402
Accumulated other comprehensive income	-	-
	50,015	47,689
	\$ 213,793	\$ 165,501

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

** Figures excerpted from the 2006 audited consolidated financial statements.*

CONSOLIDATED STATEMENTS OF EARNINGS

Three months ended March 31 (Unaudited)

(\$ thousands, except per share amounts)	2007		2006	
Contract revenue	\$	153,904	\$	111,836
Contract costs		141,470		102,166
Contract income		12,434		9,670
Interest income		413		126
Sundry income		4		179
Indirect and administrative expenses		(8,580)		(8,228)
Depreciation and amortization		(740)		(598)
Interest expense		(194)		(269)
Earnings before income taxes		3,337		880
Income tax expense				
Current income tax		(370)		(20)
Future income tax		(648)		(296)
		(1,018)		(316)
Net earnings	\$	2,319	\$	564
Net earnings per Common Share (Note 6)				
Basic	\$	0.13	\$	0.03
Fully diluted	\$	0.13	\$	0.03

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31 (Unaudited)

(\$ thousands)	2007		2006	
Net earnings	\$	2,319	\$	564
Other comprehensive income		-		-
Comprehensive income for the period	\$	2,319	\$	564

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Three months ended March 31 (Unaudited)

(\$ thousands)	2007		2006	
Retained earnings, beginning of period	\$	26,402	\$	18,993
Net earnings		2,319		564
Retained earnings, end of period	\$	28,721	\$	19,557
Accumulated other comprehensive income, beginning of period	\$	-	\$	-
Other comprehensive income		-		-
Accumulated other comprehensive income, end of period	\$	-	\$	-

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

CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended March 31 (Unaudited)

(\$ thousands)	2007	2006
OPERATING ACTIVITIES		
Net earnings	\$ 2,319	\$ 564
Non-cash items		
Depreciation and amortization	740	598
Gain on disposal of equipment	(2)	(7)
Stock-based compensation	7	11
Future income taxes	648	296
	3,712	1,462
Net change in accounts receivable, inventories and prepaid expenses	(40,674)	(5,916)
Net change in accounts payable	14,905	(20,092)
Net change in contract advances and unearned income and cost in excess of billings	31,338	16,948
Net change in income taxes payable	(3,960)	-
	5,321	(7,598)
INVESTING ACTIVITIES		
Long-term cash and equivalents	-	(4,000)
Proceeds on disposal of equipment	2	20
Additions to intellectual property	-	(253)
Additions to property and equipment	(1,304)	(837)
	(1,302)	(5,070)
FINANCING ACTIVITIES		
Proceeds under line of credit	5,000	4,420
Repayments under line of credit	(1,500)	-
Issuance of long-term debt	564	283
Repayment of long-term debt	(262)	(155)
Repayment of demand term loan	(260)	(195)
	3,542	4,353
Increase (decrease) in cash	7,561	(8,315)
Cash, beginning of period	50,387	29,177
Cash, end of period	\$ 57,948	\$ 20,862
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 164	\$ 193
Income taxes	\$ 4,330	\$ 20

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, 2006 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, 2006 except for the adoption of the following new CICA Accounting Recommendations: and Emerging Issues Committee's abstract:

Financial Instruments, Hedges and Comprehensive Income – Effective January 1, 2007, the Corporation adopted the recommendations of the CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*; section 3865 *Hedges*; Section 1530 *Comprehensive Income*; and Section 3861 – *Financial Instruments – Disclosure and Presentation*. The adoption of the new standards resulted in changes in accounting for financial instruments and hedges. The standards have been applied prospectively with no restatement.

Financial assets and financial liabilities

Prior to the adoption of the new standards, all the Corporation's financial assets and liabilities were accounted for on an accrual basis at their carrying amount, net of any adjustments for other-than temporary impairment.

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are recognized immediately in income or are capitalized, depending upon the nature of the transaction and the associated product.

Held for trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are accounted for at fair value with the change in the fair value recognized in investment income.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. The fair value of a financial instrument on initial recognition is normally the transaction price. Subsequent to initial recognition, fair values for financial assets are determined by bid prices quoted in active markets. Securities that are classified as available-for-sale and do not have a readily available market value are recorded at cost. Available-for-sale securities are written down to fair value through income whenever it is necessary to reflect other-than-temporary impairment. Gains and losses realized on disposal of available-for-sale securities, which are calculated on an average cost basis, are recognized in other income.

Held-to-maturity

Securities that have a fixed maturity date, where the Corporation intends and has the ability to hold to maturity, are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method.

Loans, receivables and other liabilities

Loans, receivables and other liabilities are accounted for at amortized cost using the effective interest rate method.

1. **Basis of Presentation (continued)**

As at January 1, 2007, the Corporation has the following financial assets and liabilities and is selecting the following classifications:

	<i>Classification</i>	<i>Measurement</i>
Financial assets		
Cash and cash equivalents	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long-term cash and equivalents	Available for sale	Fair value
Financial liabilities		
Line of Credit	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Demand term loan	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Derivative and hedge accounting

Embedded derivatives

Derivatives may be embedded in other financial instruments (the “host instruments”). Prior to the adoption of the new standards, such embedded derivatives were not accounted for separately from the host instrument. Under the new standard, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivatives are measured at fair value with subsequent changes recognized in trading income. In accordance with CICA Handbook Section 3855, the Corporation conducted a search for embedded derivatives in contractual arrangements dated subsequent to December 31, 2002 and did not identify any embedded features that require separate presentation from the related host contract.

Hedge accounting

Under previous standards, derivatives that met the requirements for hedge accounting were generally accounted for on an accrual basis. Under the new standards, all derivatives are recorded at fair value and are recorded in prepaid expenses and other assets or accounts payable and accrued liabilities. The adoption of this standard had no effect on the Corporation’s financial results.

Comprehensive income

Comprehensive income is composed of the Corporation’s net income and other comprehensive income. The Corporation has disclosed the components of comprehensive income the Consolidated Statements of Comprehensive income.

Accounting Changes – Effective January 1, 2007, the Corporation adopted CICA Handbook Section 1506, *Accounting Changes*. This section established criteria 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 has determined that there is no material impact on the consolidated financial statements from the adoption of Handbook Section 1506.

1. ***Basis of Presentation (continued)***

Determining the Variability to be Considered in Applying AcG-15 – Effective January 1, 2007, the Corporation adopted CICA Emerging Issues Committee Abstract 163, *Determining the Variability to be Considered in Applying AcG-15 (EIC 163)*. This EIC deals with situation 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. The Corporation has determined that there is no material impact on the consolidated financial statements from the adoption of EIC 163.

2. ***Cash and Equivalents***
(\$ thousands)

Included in cash and equivalents balance of \$57,948 (December 31, 2006 - \$50,387) is \$15,661 (December 31, 2006 - \$10,654) which is restricted under the British Columbia Lien Act to the payment of direct costs related to specific construction projects and cash balances of \$1,442 (December 31, 2006 - \$762) in joint venture accounts. \$4,000 has been classified as long-term as it is restricted in use.

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

Finance contracts and certain capital leases bear a weighted average interest rate of 2.4%, are payable in blended monthly payments of \$66, mature at various dates up to 2011, and are secured by vehicles and equipment with a net book value of \$2,120.

The Corporation has 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%, is repayable in blended monthly payments of \$23, and is secured by vehicles and equipment with a net book value of \$1,181. As at March 31, 2007, the Corporation has utilized \$1,419 of the leasing facility.

For the purposes of presentation, capital expenditures of \$72 relating to capital leases from the leasing facility has been treated as a non-cash item and as such has not been reflected on the Consolidated Statements of Cash Flow.

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

The Corporation's demand term loan has certain demand features. As a result, \$5,785 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 \$5,785 will not be considered a current liability for the purpose of calculating debt covenants.

The demand term loan, and the line of credit are subject to certain debt covenants calculated on a quarterly basis. At March 31, 2007, the Corporation was in compliance with its debt covenants.

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

	Three months ended March 31, 2007		Twelve months ended December 31, 2006	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of period	17,667,491	\$ 15,508	17,895,686	\$ 15,472
New shares issued	-	-	-	-
Shares cancelled	-	-	(311,528)	(269)
Stock options exercised	-	-	83,333	305
Issued, end of period	17,667,491	\$ 15,508	17,667,491	\$ 15,508

As at March 31, 2007 the Corporation had outstanding 455,000 options convertible into Common Shares (December 31, 2006 – 571,667), of which 396,666 are currently exercisable (December 31, 2006 – 396,666).

For the three months ended March 31, 2007, the Corporation recognized stock based compensation expense of \$7 (March 31, 2006 - \$11) related to the estimated fair value of options granted. During the quarter ended March 31, 2007 no options were issued and accordingly there was no weighted average fair value. During the quarter ended March 31, 2006, 50,000 options were issued with a weighted average fair value of \$3.05. The fair value of options granted in the quarter ended March 31, 2006 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%, an average life of 3.7 years, and a weighted average volatility of 46.04%. 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.

6. **Net Earnings per Common Share**
(\$ thousands, except per share amounts)

	2007		2006
Net earnings	\$ 2,319	\$	564
Weighted average number of common shares outstanding	17,667,491		17,895,686
Incremental number of shares under treasury stock method	247,264		74,285
	17,914,755		17,969,971
Net earnings per Common Share:			
Basic	\$ 0.13	\$	0.03
Fully diluted	\$ 0.13	\$	0.03

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.

7 **Related Party Transactions**
(\$ thousands)

For the three months ended March 31, 2007, the Corporation incurred legal fees of \$83 (March 31, 2006 - \$65) 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. At March 31, 2007, \$12 (March 31, 2006 - \$0) is included in accounts payable.

For the three months ended March 31, 2007, the Corporation incurred facility costs of \$28 (March 31, 2006 - \$28) relating to rental of a building which is owned by a director of the Corporation. At March 31, 2007, \$0 (March 31, 2006 - \$0) is included in accounts payable.

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

8. **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.

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, 2006. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

8. **Segmented Information (continued)**
(\$ thousands)

Three months ended March 31, 2007	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 99,162	\$ 2,731	\$ 241	\$ -	\$ 128,587	\$ 694
Industrial General Contracting	9,269	(931)	132	-	16,080	4
Industrial Insulation Contracting	11,887	478	64	-	17,213	59
Industrial Electrical Contracting	33,586	1,400	184	7,315	39,206	606
Corporate and Other	-	(284)	119	168	12,707	13
Inter-segment Adjustments	-	(57)	-	-	-	-
	\$ 153,904	\$ 3,337	\$ 740	\$ 7,483	\$ 213,793	\$ 1,376

Three months ended March 31, 2006	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 58,176	\$ 895	\$ 119	\$ -	\$ 62,556	\$ 208
Industrial General Contracting	17,337	891	160	-	4,501	53
Industrial Insulation Contracting	22,551	331	88	-	8,410	17
Industrial Electrical Contracting	13,846	(372)	140	7,315	8,260	358
Corporate and Other	-	(870)	91	253	49,147	201
Inter-segment Adjustments	(74)	5	-	-	-	-
	\$ 111,836	\$ 880	\$ 598	\$ 7,568	\$ 132,874	\$ 837

For the purposes of presentation, capital expenditures at March 31, 2007 of \$72 (March 31, 2006 - \$0) relating to capital leases from the leasing facility has been treated as a non-cash item and as such has not been reflected on the Consolidated Statements of Cash Flow (Note 3).

For the three months ended March 31, 2007, the Corporation recorded revenues in excess of 10% of its contract revenue from one customer (March 31, 2006 – one customer). Contract revenue from the customer was \$20,657 (March 31, 2006 - \$12,230). The revenue was earned in the Industrial Electrical Contracting segment.

9. **Future Accounting Changes**

Financial Instruments – Disclosures and Presentation – In December 2006, 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, Financial Instruments – Disclosures and Presentation. 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.

Capital Disclosures – In December 2006, the CICA issued Handbook Section 1535 – Capital Disclosures. This section establishes criteria for disclosure of i) an entity's objectives, policies and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance. Section 1535 applies 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 Section on the consolidated financial statements.

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

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