



REPORT TO SHAREHOLDERS

Churchill achieved record contract revenue and record net earnings in the second quarter of 2007. Contract revenue was \$186.9 million compared to \$121.6 million in the second quarter of 2006. Net earnings were \$5.0 million (\$0.28 per share) compared with \$0.8 million (\$0.05 per share) in the comparable period of last year. All of our operating companies were profitable in the quarter.

During the second quarter, the Corporation secured \$347.7 million in new contract awards, a 114% increase over the \$162.2 million of new work secured in the second quarter of 2006. Strong construction markets in western Canada have taken our work-in-hand to a record \$757.4 million, as compared to \$353.7 million at June 30, 2006.

Stuart Olson had a record quarter, generating \$130.2 million of revenue and earnings before tax of \$4.5 million, in comparison to \$68.7 million of revenue and \$1.1 million of earnings before tax in the same period of 2006. Significant revenue and earnings growth was generated by the Alberta branches. The backlog at Stuart Olson continues to grow, reaching \$662.8 million at June 30, 2007, as compared to \$251.8 million at June 30, 2006. The company's markets in Alberta and British Columbia remain robust.

Revenue at Triton was \$10.6 million compared to \$12.3 million of revenue reported in the second quarter of 2006. Triton generated earnings before tax during the quarter of \$0.5 million as compared to a loss before tax of \$1.0 million in the same period of 2006. Operational improvements at Triton contributed to stronger contract income margins and the subsequent earnings improvement. Triton concluded the quarter with \$20.7 million of work-in-hand compared to \$23.6 million at June 30, 2006. Triton is pursuing suitable projects as they become available to secure additional work for the remainder of 2007.

Revenue from our insulation companies was \$10.9 million as compared to \$16.1 million for the second quarter of 2006. Activity levels in the second 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 \$1.3 million were unchanged from the second quarter of 2006. Work-in-hand at the end of the second quarter was \$27.2 million compared to \$28.3 million at the end of the second quarter of 2006.

Laird's second quarter revenue increased substantially to \$35.3 million from \$24.5 million in the comparable period of 2006. The growth in second quarter revenue was a result of high levels of activity on oil sands construction projects. Earnings before tax increased to \$2.6 million compared to earnings before tax of \$1.6 million in the second quarter of 2006. The company's work-in-hand was \$46.6 million at June 30, 2007, compared to \$50.1 million in 2006.

Churchill's contract revenue for the six months year-to-date was \$340.8 million compared to \$233.4 million for the same period of 2006. Net earnings for the first six months of 2007 were \$7.4 million (\$0.42 per share) compared to \$1.4 million (\$0.08 per share). Year-to-date earnings have almost equaled our full year 2006 results.

The construction market in western Canada continues to be strong, particularly the spending on infrastructure projects and private sector spending on commercial buildings. Oil sands activity remains steady with significant projects underway and others still in the advanced planning and engineering phases. Churchill is well positioned to capitalize on this construction activity. It appears that 2007 will be another record year for your Corporation.

August 9, 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 August 9, 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, Lakehead) – 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, Senior Vice President 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 June 30				Six months ended June 30			
	2007	2006	\$ Change	% Change	2007	2006	\$ Change	% Change
Contract Revenue	\$186.9	\$121.6	\$65.3	54%	\$340.8	\$233.4	\$107.4	46%
Contract Income	16.9	11.4	5.5	48%	29.3	21.1	8.2	39%
EBITDA	8.3	2.4	5.9	246%	12.6	4.2	8.4	200%
Earnings before Tax	7.4	1.4	6.0	429%	10.7	2.3	8.4	365%
Net Earnings	5.0	0.8	4.2	525%	7.4	1.4	6.0	429%
Per Share - Basic	\$0.28	\$0.05	\$0.23	460%	\$0.42	\$0.08	\$0.34	425%
Work-in-hand	757.4	353.7	403.7	114%	757.4	353.7	403.7	114%

For the second quarter of 2007, consolidated contract revenue was \$186.9 million, which was \$65.3 million or 54% 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. For the first six months of the year, contract revenue of \$340.8 million was \$107.4 million greater than the comparable period in 2006. Contract revenue increased in the Building construction and Industrial Electrical segments by \$102.4 million and \$30.6 million, respectively, and decreased in the Industrial General and Industrial Insulation segments by \$9.7 million and \$15.7 million, respectively. The \$0.2 million differential is a result of rounding.

Contract income increased from \$11.4 million in the second quarter of 2006 to \$16.9 million in 2007. This increase is a reflection of a higher level of overall activity and increased contract income margin percentages in our Buildings, Industrial General and Industrial Insulation Contracting segments, partially offset by a decline in the contract income margin percentage of the Industrial Electrical Contracting segment. Contract income year to date was \$29.3 million, \$8.2 million greater than in the first six months of 2006. Higher activity levels and stronger contract income margin percentages resulted in the increase in contract income.

Indirect and administrative expenses amounted to \$9.4 million in the second quarter, unchanged from the comparable period of 2006. Indirect and administrative expenses were unchanged from prior year levels due to lower expenses in the industrial companies and corporate office, balancing an increase in administrative expenses in the Buildings segment. For the six months year to date, indirect and administrative expenses were \$18.0 million, which were \$0.4 million higher than the same period last year. Lower indirect and administrative costs in the Corporate and Other and Industrial General Contracting segments were offset by increased expenses in the Buildings segment to support its greater level of activity.

Earnings before interest, taxes, depreciation and amortization in the quarter were \$8.3 million, compared to \$2.4 million in the second quarter of 2006. Year to date earnings before interest, taxes, depreciation and amortization were \$12.6 million compared to \$4.2 million in 2006. Earnings before tax in Q2, 2007 increased 429% to \$7.4 million, compared to \$1.4 million reported in Q2, 2006. For the six months ended June 30, 2007, earnings before tax amounted to \$10.7 million, which is \$8.4 million greater than the prior year. The Corporation's consolidated net earnings for the three months ended June 30, 2007 increased 525% to \$5.0 million compared to net earnings of \$0.8 million in 2006. For the six months ended June 30, 2007, Churchill realized net earnings of \$7.4 million compared to net earnings of \$1.4 million

New contract awards of \$347.7 million were booked in the current quarter, which compares with \$162.2 million in 2006 and total new contract awards of \$604.6 million were booked in the first six months of 2007, compared to \$340.0 million booked for the first six months of 2006. Work-in-hand at June 30, 2007, was \$757.4 million. This is an increase of \$403.7 million over the amount at June 30, 2006. On a segmented work-in-hand basis, there was an increase in the Buildings segment of \$411.0 million offset by decreases of \$2.8 million in the Industrial General Contracting, \$1.0 million and \$3.5 million in the Industrial Insulation Contracting and Industrial Electrical Contracting segments respectively compared to the work-in-hand balances at June 30, 2006.

RESULTS OF OPERATIONS

Buildings

Stuart Olson had work-in-hand of \$501.5 million at March 31, 2007. For the three months ended June 30, 2007, the company secured a further \$291.5 million of contracts, \$160.0 million more than it secured in the same quarter of 2006. The backlog grew significantly in the Alberta region as compared to British Columbia during the quarter. New contracts were added to the backlog from clients such as the City of Red Deer, the Regional Municipality of Wood Buffalo and the Edmonton Airport Authority. During the quarter, the company executed and took into revenue \$130.2 million. The company ended the quarter with \$662.8 million of work-in-hand, of which \$363.9 million is expected to carryover into 2008.

For the three months ended June 30, 2007, Stuart Olson's revenues increased by \$61.5 million to \$130.2 million, compared to \$68.7 million in the prior year. This increase in revenue was due to the greater backlog and higher levels of activity, particularly in the Alberta offices. Year to date, Stuart Olson has been active on projects for the

Calgary Regional Health Authority, Capital Health (Edmonton), the Regional Municipality of Wood Buffalo and various private sector clients such as Sysco Food Services.

Contract income in the second quarter increased to \$8.3 million from \$4.0 million in 2006, an increase of \$4.3 million. The contract income margin percentage was higher at 6.4% in 2007 compared to 5.8% in 2006 as a result of strong project execution. Earnings before tax increased to \$4.5 million in the second quarter of 2007, compared to \$1.1 million in 2006. Earnings before tax improved as a result of stronger margins and controlled spending on indirect and administrative expenses.

For the six months ended June 30, 2007, Stuart Olson reported revenues of \$229.3 million compared to revenues of \$126.9 million last year. This \$102.4 million growth in revenue on a year-over-year basis was generated by increased activity in the Alberta branches, while the British Columbia branch declined slightly.

Contract income for the first six months of 2007 was \$14.5 million compared to \$7.7 million in 2006. Contract income margin percentage was 6.3% compared to 6.1%, respectively. Earnings before tax increased to \$7.2 million compared to \$2.0 million. A strong market combined with solid project execution has allowed Stuart Olson to be more profitable.

Industrial General Contracting

Triton had work-in-hand of \$28.6 million at March 31, 2007. For the quarter ending June 30, 2007, the company secured a further \$2.7 million of contracts, compared to \$15.1 million of new work secured in Q2, 2006. The company executed \$10.6 million of contractual work during the quarter and as a result had \$20.7 million of work-in-hand to complete in the current year. The level of new work secured this quarter was reduced due to delays in the awarding of some contracts and other awarded packages going to competitors. Triton's management expects to secure additional contracts as the year progresses, which are expected to increase the backlog and revenue.

Revenues at Triton of \$10.6 million were \$1.7 million lower than in the second quarter of 2006. While Triton's second quarter revenue was lower than in the previous year, this was a \$1.3 million improvement on the amount reported in the first quarter of 2007. Triton supplied fabrication, maintenance and construction services during the second quarter to clients including Metacor, Terasen, Encana and CNRL.

Contract income margin percentage was 18.9% in Q2, 2007 an increase from 6.0% in the second quarter of 2006. Triton is beginning to demonstrate the improvements in efficiency that Churchill management has been seeking. Triton delivered earnings before tax of \$0.5 million for the current quarter, compared to a loss before tax of \$1.0 million in 2006.

For the six months ended June 30, 2007, Triton reported revenues of \$19.9 million compared to revenues of \$29.6 million last year. The majority of this revenue differential can be attributed to the construction segment at Triton where it has proven more difficult to regain market share. This \$9.7 million year-over-year decrease in revenue during the first six months of 2007 is a result of Triton beginning 2007 with a backlog \$10.5 million smaller than in 2006 and securing \$2.1 million less of new work, year to date.

Contract income for the first six months of 2007 was \$2.9 million compared to \$3.9 million in 2006. Contract income margin percentage in 2007 was 14.6% compared to 13.2%, in 2006. Contract income in the first half of 2006 included \$2.2 million of recoveries on loss provisions recorded in previous year; otherwise the 2006 contract income margin percentage would have been 7.0%. Triton's year to date loss before tax was \$0.2 million, compared to earnings before tax of \$0.1 million in 2006.

Industrial Insulation Contracting

Industrial Insulation Contracting (also referred to as Insulation Holdings Inc.) 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.

Industrial Insulation Contracting had combined work-in-hand of \$21.8 million at March 31, 2007. For the three months ended June 30, 2007, they secured a further \$16.3 million of contracts, which was \$3.9 million greater than in the same period of 2006. Awards were received in the current quarter from Agrium, Suncor, Sherritt and AMEC. The insulation companies executed \$10.9 million of work during the second quarter, resulting in a backlog of \$27.2 million of work-in-hand, \$3.3 million of which is expected to carry forward into 2008.

Revenue for three months ended June 30, 2007, was \$10.9 million, compared to \$16.1 million for the period ending June 30, 2006. During the quarter, the insulation companies were engaged to complete projects for clients including Suncor, Syncrude and Nexen. Activity levels in the second quarter of 2006 were supported by the continuation of work on a major oil sands project.

Despite the reduced volume of work in the quarter, contract income was \$2.5 million, almost unchanged from the \$2.6 million achieved in the comparable period of 2006. The similar contract income was as a result of strong project execution by the insulation companies. The contract income margin percentage was 22.9% in Q2, 2007 compared to 16.1% in Q2, 2006.

Earnings before tax in the Industrial Insulation Contracting segment was \$1.3 million for the quarter, unchanged from the second quarter of 2006. The primary reason for the consistent earnings was the higher contract income margin percentage.

For the six months ended June 30, 2007, the Industrial Insulation segment reported revenues of \$22.8 million compared to revenues of \$38.5 million last year. The majority of the \$15.7 million revenue differential is associated with work completed in 2006 by Fuller Austin on a major oil sands project.

Contract income for the first six months of 2007 was \$4.2 million compared to \$4.3 million in the comparable period of 2006. Contract income margin percentage was 18.4% compared to 11.2%, respectively. This increase in contract income margin percentage was due to solid project execution in 2007 and the inclusion in 2006 of a major oil sands contract which was bid at a lower margin. Earnings before tax year to date increased to \$1.9 million compared to \$1.8 million in 2006.

Industrial Electrical Contracting

Laird reported work-in-hand of \$44.8 million at the end of March 2007. In the second quarter of 2007, new contract awards of \$37.1 million were secured compared to \$3.2 million in 2006. New contract awards were received from customers such as Nexen, TransAlta and Suncor. During the period, \$35.3 million of work was executed, leaving a backlog of \$46.6 million remaining to be completed as at June 30, 2007.

For the three months ended June 30, 2007, Laird's revenue increased by \$10.8 million to \$35.3 million, compared to \$24.5 million reported for the same period of 2006. This significant revenue increase was generated from site work for Suncor, Nexen, Albion and TransAlta.

Contract income improved from \$3.8 million in Q2, 2006 to \$4.1 million in Q2, 2007 due to the higher volume of activity. Laird achieved earnings before tax of \$2.6 million in the second quarter of 2007 compared to earnings before tax of \$1.6 million in 2006. The improvement in earnings before tax was a result of unchanged indirect and administrative expenses notwithstanding a significant increase in the volume of work executed.

For the six months ended June 30, 2007, Laird reported revenues of \$68.9 million compared to revenues of \$38.3 million last year. A significant portion of this \$30.6 million increase has been from maintenance related activities for a major oil sands client.

Contract income for the first six months of 2007 was \$7.4 million compared to \$4.7 million in 2006. Contract income margin percentage was 10.7% compared to 12.3%, respectively. Earnings before tax year to date increased to \$4.3 million compared to \$1.4 million in 2006. Record volumes and solid expense management has allowed Laird to generate greater earnings.

Corporate and Other

In the second quarter of 2007, the Corporate and Other segment incurred \$1.6 million of indirect and administrative expenses unchanged from \$1.6 million of indirect and administrative expenses in the second quarter of 2006. For the six months ended June 30, 2007, the Corporate and Other segment incurred indirect and administrative expenses of \$2.5 million compared to \$3.1 million for the same period 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	
	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30
(\$ millions, except per share data and percentages)								
Contract Revenue	186.9	\$153.9	\$152.4	\$145.5	\$121.6	\$111.8	\$138.8	\$ 120.6
Contract Income	16.9	12.4	16.7	13.4	11.4	9.7	12.4	9.7
Contract Income Margin - %	9.0%	8.1%	11.0%	9.2%	9.4%	8.7%	8.9%	8.0%
Net Earnings	5.0	2.3	3.7	3.0	0.8	0.6	1.6	1.3
Basic (\$ per share)	0.28	0.13	0.21	0.17	0.05	0.03	0.09	0.07
Fully diluted (\$ per share)	0.28	0.13	0.21	0.16	0.04	0.03	0.09	0.07
Work-in-Hand	757.4	596.6	493.9	469.6	353.7	313.1	247.2	307.8
Working Capital	33.1	29.2	27.4	24.1	21.9	21.3	25.1	23.4
Shareholders' Equity	55.1	50.0	47.7	43.7	40.7	40.8	40.2	37.9
Book Value (\$ per share)	3.12	2.83	2.70	2.48	2.31	2.28	2.25	2.15

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

1. Contract income in Q1, 2006 included \$1.0 million related to recoveries on loss provisions, resulting in a 1.0 % increase in contract income margin percentage.
2. Contract income in Q2, 2006 included \$1.2 million related to recoveries on loss provisions resulting in a 1.0% increase in contract income margin percentage.
3. Contract income in Q3, 2006 included \$1.0 million related to recoveries on loss provisions resulting in a 0.9% increase in contract income margin percentage.

CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

Cash and cash equivalents at June 30, 2007, totaled \$67.4 million, which compares with \$50.4 million at the end of 2006. Of the \$67.4 million of cash and cash equivalents, \$12.9 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 is restricted to the payment of direct costs related to specific construction projects.

Cash provided from operating activities amounted to \$11.4 million in the quarter, which compares to \$6.1 million of cash provided from operations during the second quarter of 2006. This favourable change of \$5.3 million is a result of greater net earnings in 2007 and cash positive changes in the working capital accounts.

Investing activities resulted in a use of cash of \$1.7 million during the second quarter of 2007, which compares with cash used of \$0.5 million in Q2, 2006. This increased use of cash year-over-year, resulted from greater investment in property and construction equipment.

Cash used in financing activities amounted to \$0.3 million in the quarter ended June 30, 2007, compared to \$1.0 million of cash provided from financing activities in Q2, 2006. At June 30, 2007, the Corporation had drawn on \$15.5 million of its \$21.0 million operating line of credit. Proceeds and repayments applied to the line of credit during the second quarter were nil compared to \$1.2 million of proceeds received from the line of credit in the second quarter of 2006. The Corporation increased long-term debt by use of finance contracts in the amount of \$0.2 million to acquire vehicles in the second quarter of 2007 and 2006. During the second quarter, the Corporation repaid \$0.4 million of long-term debt (2006 - \$0.2 million) and \$0.1 million of the demand term loan (2006 - \$0.2 million).

Cash provided from operating activities of \$16.7 million in the first six months of 2007 was \$18.2 million greater than in the same period last year. This year-over-year improvement can be attributed to increased earnings and lower working capital investment.

For the six months ended June 30, 2007, investing activities resulted in a use of cash of \$3.0 million compared to \$5.5 million of cash used in the prior year. The Corporation has primarily used cash for additions to property and equipment in 2007, while in 2006 \$4.0 million of cash was classified as a long-term asset.

For the six months ended June 30, 2007, cash generated from financing activities amounted to \$3.2 million compared to \$5.3 million in 2006. Proceeds and repayments applied to the line of credit year to date equaled \$3.5 million of cash received, compared to \$5.6 million of cash utilized in 2006. Issuances and repayments of long-term debt were similar in 2007 and 2006. Also repayments associated with the demand term loan in 2007 and 2006 were equal. At June 30, 2007, long-term debt, including the current portion amounted to \$4.8 million, compared to \$4.3 million at the end of 2006. As at June 30, 2007, the Corporation was in compliance with the repayment terms associated with its long term obligations.

At June 30, 2007, Churchill had working capital of \$33.1 million which was greater than the 2006 year-end working capital position of \$27.4 million.

Shareholders' equity was \$55.1 million at June 30, 2007, as compared to \$47.7 million at December 31, 2006. Year to date contributed surplus has increased \$37 thousand as a result of the recognition of stock-based compensation. Retained earnings increased from \$26.4 million at December 31, 2006, to \$33.8 million, reflecting the year to date net earnings of \$7.4 million.

At June 30, 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 July 1, 2007, to August 9, 2007, no new share options were issued; and 50,000 share options were exercised.

The Corporation has an Employee Share Purchase Plan available to all full-time employees. As at July 3, 2007, the Plan held 1,323,080 Churchill Common Shares for the employees. Under the Plan, shares are acquired in the open market.

RISKS AND UNCERTAINTIES

For the six months ended June 30, 2007, there have been no significant changes in our risk factors from those described in our 2006 Annual Report.

As described in our 2006 Annual Report in certain of the companies, the labour force is unionized, creating the possibility of labour disruptions if collective bargaining agreements cannot be negotiated as they come due. The collective bargaining agreement between the Electrical Contractors Association of Alberta and the International Brotherhood of Electrical Workers has expired. As at the date of this report, negotiations are ongoing between the association and union bargaining committee.

Churchill's operations are centered in, and primarily focused on, western Canada. The majority of construction in western Canada, particularly industrial construction, is either directly or indirectly connected to the exploration, development and production of oil and gas. Any changes to the business environment in terms of commodity pricing, royalty rates, environmental regulations, labour rates, service costs, etc., which reduces the economic

returns to the energy companies could result in a curtailment of planned capital expenditures and impact Churchill's outlook.

OUTLOOK

Significant industrial construction related to the oil sands and petrochemical sector is underway with increased spending forecast for the future. The market remains buoyant with many construction opportunities yet to be awarded by owners.

In our Industrial General Contracting segment, we are pleased that Triton achieved profitability in the quarter after only two quarters with the entire new management team fully in place. In spite of Triton's profitability this quarter, management is of the view that until Triton's backlog of work and volume of activity increase, this segment will be challenged to achieve our goal of consistent profitability.

Despite a slowdown in activity levels, our Industrial Insulation segment has been able to deliver comparable earnings year to date. However, the lull in insulation activity is expected to continue into the third quarter. Competitors have, and are expected to continue aggressively bidding new opportunities in the Alberta market to shore up their backlog. Additionally, the insulation contracting climate in Saskatchewan and northern Ontario is not as active as in 2006. On a full year basis management's expectation is that the profitability of this segment will likely be less than it achieved in 2006.

Laird has experienced a record start to the first half of 2007. Management's expectation is Laird's volume of activity will moderate from the record pace they have demonstrated year to date. Nevertheless, revenue and earnings are forecast to exceed the levels achieved in 2006.

Stuart Olson is operating at record levels. A strong non-residential construction market in Alberta combined with robust provincial government spending in Alberta and British Columbia on infrastructure supports a stable multi-year outlook for Stuart Olson. Management expects that Stuart Olson's level of construction activity will continue to increase in the third and fourth quarters of this year. Stuart Olson's focus will be on managing the projects in hand to ensure success and planning for the future by securing work for 2009 and 2010.

Churchill continues to grow its revenue, earnings and work-in-hand. Stuart Olson and Laird are operating at record levels of activity in comparison to prior years, At Triton, achievements in the turnaround strategy continue to be evident. Meanwhile, Insulation Holdings is performing well and managing its operations 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. We continue to expect strong results throughout the remainder of 2007.

SUPPLEMENTAL DISCLOSURES

Contractual Obligations

As at June 30, 2007, the material changes made to the contractual obligations reported in our 2006 Annual Report were the addition of \$0.8 million of finance and lease obligations in connection with the purchase of equipment, an additional \$0.1 million annually for additional office space, the repayment of \$0.6 million of long-term debt and repayment of \$0.4 million associated with the demand term loan.

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 exposure to the full value of the work remaining under the contract.

Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

Related Party Transactions

The Corporation incurred legal fees during the quarter ending June 30, 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 \$35 thousand (2006 - \$29 thousand). At June 30, 2007, \$6 thousand was included in accounts payable.

During the second quarter of 2007, the Corporation incurred facility costs of \$38 thousand (2006- \$38 thousand) relating to rental of a building which is owned by a director of the Corporation. At June 30, 2007, \$10 thousand was included in accounts payable.

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, and income tax provisions and accounts receivable collectability. For the second 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 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 Senior Vice President 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 June 30, 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 second 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 six 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 second 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 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. Our calculation of working capital is provided in the table below:

As at (\$ millions)	June 30, 2007	December 31, 2006
Current assets	\$209.9	\$135.6
Less: current liabilities	182.5	114.2
Add:		
Portion of demand term loan	5.7	6.0
Working Capital	33.1	27.4

EBITDA is equal to earnings before interest expense, taxes, depreciation and amortization. This measure as reported by the Corporation may not be comparable to similar measures presented by other reporting issuers. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A.

(\$ millions)	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
Net Earnings	\$5.0	\$0.8	\$7.4	\$1.4
Add:				
Income Taxes	2.3	0.6	3.3	0.9
Amortization	0.8	0.7	1.5	1.3
Interest expense	0.2	0.3	0.4	0.6
EBITDA	8.3	2.4	12.6	4.2

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 June 30, 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)

	June 30, 2007 (Unaudited)	December 31, 2006*
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 67,390	\$ 50,387
Accounts receivable	140,353	83,369
Inventories and prepaid expenses	2,118	1,174
Costs in excess of billings	-	620
	209,861	135,550
Long-term cash and equivalents (Note 2)	4,000	4,000
Future income tax assets	634	631
Property and equipment	19,611	17,816
Intellectual property	147	189
Goodwill	7,315	7,315
	\$ 241,568	\$ 165,501
LIABILITIES		
Current liabilities		
Operating line of credit	\$ 15,500	\$ 12,000
Accounts payable and accrued liabilities	120,492	86,191
Contract advances and unearned income	34,002	-
Income taxes payable	433	4,327
Future income tax liabilities	4,519	3,902
Demand term loan (Note 3)	6,435	6,825
Current portion of long-term debt (Note 4)	1,113	917
	182,494	114,162
Long-term debt (Note 4)	3,642	3,419
Future income tax liabilities	353	231
	186,489	117,812
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	15,508	15,508
Contributed surplus	5,816	5,779
Retained earnings	33,755	26,402
Accumulated other comprehensive income	-	-
	55,079	47,689
	\$ 241,568	\$ 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 AND RETAINED EARNINGS

(\$ thousands, except share data)	Three months ended June 30 (Unaudited)		Six months ended June 30 (Unaudited)	
	2007	2006	2007	2006
Contract revenue	\$ 186,937	\$ 121,592	\$ 340,841	\$ 233,428
Contract costs	170,063	110,204	311,533	212,370
Contract income	16,874	11,388	29,308	21,058
Interest income	516	186	929	312
Sundry income	292	190	296	369
Indirect and administrative expenses	(9,370)	(9,415)	(17,950)	(17,643)
Depreciation and amortization	(770)	(652)	(1,510)	(1,250)
Interest expense	(179)	(306)	(373)	(575)
Earnings before income taxes	7,363	1,391	10,700	2,271
Income tax expense				
Current income tax	(2,241)	(100)	(2,611)	(120)
Future income tax	(88)	(479)	(736)	(775)
	(2,329)	(579)	(3,347)	(895)
Net earnings	5,034	812	7,353	1,376
Retained earnings, beginning of period	28,721	19,557	26,402	18,993
Return on Laird escrowed shares	-	(731)	-	(731)
Retained earnings, end of period	\$ 33,755	\$ 19,638	\$ 33,755	\$ 19,638
Net earnings per common share (Note 6)				
Basic	\$ 0.28	\$ 0.05	\$ 0.42	\$ 0.08
Fully diluted	\$ 0.28	\$ 0.04	\$ 0.41	\$ 0.08
Weighted average common shares:				
Basic	17,667,491	17,881,992	17,667,491	17,887,080
Diluted	17,949,780	18,129,943	17,932,268	18,123,415

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS AND ACCUMULATED COMPREHENSIVE EARNINGS

(\$ thousands)	Three months ended June 30 (Unaudited)		Six months ended June 30 (Unaudited)	
	2007	2006	2007	2006
Net earnings	\$ 5,034	\$ 812	\$ 7,353	\$ 1,376
Other comprehensive earnings, net	-	-	-	-
Comprehensive earnings	\$ 5,034	\$ 812	\$ 7,353	\$ 1,376
Accumulated comprehensive earnings, beginning of period	\$ -	\$ -	\$ -	\$ -
Other comprehensive earnings for the period	-	-	-	-
Accumulated comprehensive earnings, end of period	\$ -	\$ -	\$ -	\$ -

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

CONSOLIDATED STATEMENTS OF CASH FLOW

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	(Unaudited)		(Unaudited)	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net earnings	\$ 5,034	\$ 812	\$ 7,353	\$ 1,376
Non-cash items				
Depreciation and amortization	770	652	1,510	1,250
Gain on disposal of equipment	(14)	(3)	(16)	(10)
Future income taxes	88	479	736	775
Stock-based compensation	30	68	37	79
	5,908	2,008	9,620	3,470
Net change in accounts receivable, inventories and prepaid expenses	(17,254)	(10,182)	(57,928)	(16,098)
Net change in accounts payable	19,396	5,583	34,301	(14,509)
Net change in contract advances and unearned income and costs in excess of billings	3,284	5,760	34,622	22,708
Net change in income taxes payable	66	2,900	(3,894)	2,900
	11,400	6,069	16,721	(1,529)
INVESTING ACTIVITIES				
Long-term cash and equivalents	-	-	-	(4,000)
Proceeds on disposal of equipment	148	177	150	197
Additions to intellectual property	-	-	-	(253)
Additions to property and equipment	(1,805)	(638)	(3,109)	(1,475)
	(1,657)	(461)	(2,959)	(5,531)
FINANCING ACTIVITIES				
Proceeds under line of credit	-	3,050	5,000	7,470
Repayments under line of credit	-	(1,900)	(1,500)	(1,900)
Issuance of long-term debt	202	190	766	473
Repayment of long-term debt	(373)	(172)	(635)	(327)
Repayment of demand term loan	(130)	(195)	(390)	(390)
	(301)	973	3,241	5,326
Increase (decrease) in cash	9,442	6,581	17,003	(1,734)
Cash, beginning of period	57,948	20,862	50,387	29,177
Cash, end of period	\$ 67,390	\$ 27,433	\$ 67,390	\$ 27,433

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid (received) during the year for:

Interest	\$ 198	\$ 187	\$ 362	\$ 380
Income taxes	\$ 2,175	\$ (2,800)	\$ 6,505	\$ (2,780)

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of dollars, except share data)

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.

(in thousands of dollars, except share data)

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>
<i>Financial assets</i>		
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
<i>Financial liabilities</i>		
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 earnings

Comprehensive earnings is composed of the Corporation’s net earnings and other comprehensive earnings. The Corporation has disclosed the components of comprehensive earnings in the Consolidated Statements of Comprehensive Earnings and Accumulated Comprehensive Earnings.

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.

(in thousands of dollars, except share data)

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 Cash Equivalents***

Included in cash and cash equivalents balance of \$67,390 (December 31, 2006 - \$50,387) is \$12,890 (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 \$2,417 (December 31, 2006 - \$762) held in joint venture accounts. \$4,000 (December 31, 2006 - \$4,000) has been classified as long-term.

3. ***Demand Term Loan***

The Corporation's term loan has certain demand features. As a result, amounts which are scheduled to be repaid beyond 12 months, have been classified as a current liability.

The demand term loan, and the operating line of credit are subject to certain debt covenants calculated on a quarterly basis. At June 30, 2007, the Corporation was in compliance with its debt covenants. The Corporation's bank has acknowledged that \$5,655 will not be considered a current liability for the purpose of calculating debt covenants.

On July 9, 2007, the credit agreement was renegotiated with the Corporation's bank. The renewal extends to July 9, 2008 and increases the permitted ratio of debt to tangible net worth covenant. Also, the renewal converts the demand term loan to a non-revolving, long-term facility and lowers the interest rate from prime plus 1.25% to prime plus 1.0%.

4. ***Long-term Debt***

Finance contracts and certain capital leases bear a weighted average interest rate of 2.1%, are payable in blended monthly payments of \$75, mature at various dates up to 2011, and are secured by vehicles and equipment with a net book value of \$1,967.

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 \$29, and is secured by vehicles and equipment with a net book value of \$1,304. As at June 30, 2007, the Corporation has utilized \$1,635 of the leasing facility.

For the purposes of presentation, capital expenditures of \$288 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.

(in thousands of dollars, except share data)

5. **Share Capital**

	Six months ended June 30, 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 June 30, 2007 the Corporation had outstanding 455,000 options convertible into Common Shares (December 31, 2006 – 571,667), of which 438,332 are currently exercisable (December 31, 2006 – 396,666).

For the three months ended June 30, 2007, the Corporation recognized stock based compensation expense of \$30 (June 30, 2006 - \$67) related to the estimated fair value of options granted. Stock based compensation for the six months ended June 30, 2007 was \$37 (2006 – \$79). During the quarter ended June 30, 2007 no options were issued and accordingly there was no weighted average fair value. During the quarter ended June 30, 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 June 30, 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. **Earnings per Share**

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

7. **Related Party Transactions**

For the three months ended June 30, 2007, the Corporation incurred legal fees of \$35 (June 30, 2006 - \$29) for services related to various legal matters with a law firm for which a director of the Corporation is also a partner of the firm. Legal fees of \$116 (June 30, 2006 - \$108) were incurred with this law firm for the six months ended June 30, 2007. At June 30, 2007, \$6 (June 30, 2006 - \$48) is included in accounts payable.

For the three months ended June 30, 2007, the Corporation incurred facility costs of \$38 (June 30, 2006 - \$38) relating to rental of a building which is owned by a director of the Corporation. Facility costs of \$66 (June 30, 2006 - \$66) for this building were incurred for the six months ended June 30, 2007. At June 30, 2007, \$10 (June 30, 2006 - \$10) is included in accounts payable.

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

(in thousands of dollars, except share data)

8. *Segmented Information*

The Corporation operates as a construction and maintenance services provider, primarily in western Canada. The Corporation is managed using five business segments: Buildings, Industrial General Contracting, Industrial Insulation Contracting, Industrial Electrical Contracting, and Corporate and Other.

Buildings (Stuart Olson) - constructs commercial, institutional, and light-industrial buildings.

Industrial General Contracting (Triton) - provides heavy-industrial general contracting, fabrication, and maintenance services.

Industrial Insulation Contracting (Fuller Austin, Northern Industrial) - provides insulation, maintenance and related services.

Industrial Electrical Contracting (Laird) - provides industrial electrical, instrumentation and power-line construction and maintenance services.

Corporate and Other - includes corporate costs not allocated directly to another business segment as well as any miscellaneous investments.

The accounting policies of the reportable segments are the same as those described in Note 1 of the audited consolidated financial statements for the fiscal year ended December 31, 2006. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

(in thousands of dollars, except share data)

8. *Segmented Information (continued)*

Three months ended June 30, 2007	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 130,169	\$ 4,496	\$ 278	\$ -	\$ 161,659	\$ 1,434
Industrial General Contracting	10,599	515	103	-	15,409	7
Industrial Insulation Contracting	10,895	1,316	60	-	15,755	67
Industrial Electrical Contracting	35,274	2,612	206	7,315	37,328	479
Corporate and Other	-	(1,576)	123	147	11,418	34
	\$ 186,937	\$ 7,363	\$ 770	\$ 7,462	\$ 241,569	\$ 2,021

Three months ended June 30, 2006	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 68,724	\$ 1,135	\$ 132	\$ -	\$ 73,651	\$ 538
Industrial General Contracting	12,312	(1,046)	154	-	20,953	18
Industrial Insulation Contracting	16,056	1,297	82	-	18,361	14
Industrial Electrical Contracting	24,500	1,633	166	7,315	24,891	328
Corporate and Other	-	(1,628)	118	231	8,407	255
	\$ 121,592	\$ 1,391	\$ 652	\$ 7,546	\$ 146,263	\$ 1,153

Six months ended June 30, 2007	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 229,331	\$ 7,230	\$ 519	\$ -	\$ 161,659	\$ 2,128
Industrial General Contracting	19,868	(155)	235	-	15,409	11
Industrial Insulation Contracting	22,782	1,893	124	-	15,755	126
Industrial Electrical Contracting	68,860	4,254	390	7,315	37,328	1,085
Corporate and Other	-	(2,522)	242	147	11,418	47
	\$ 340,841	\$ 10,700	\$ 1,510	\$ 7,462	\$ 241,569	\$ 3,397

Six months ended June 30, 2006	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 126,900	\$ 2,061	\$ 251	\$ -	\$ 73,651	\$ 746
Industrial General Contracting	29,649	89	314	-	20,953	71
Industrial Insulation Contracting	38,533	1,817	170	-	18,361	31
Industrial Electrical Contracting	38,346	1,370	306	7,315	24,891	686
Corporate and Other	-	(3,066)	209	231	8,407	456
	\$ 233,428	\$ 2,271	\$ 1,250	\$ 7,546	\$ 146,263	\$ 1,990

For the purposes of presentation, capital expenditures for the three months ended June 30, 2007 of \$216 (June 30, 2006 - \$514) 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 4). For the six months ended June 30, 2007 capital expenditures relating to capital leases were \$288 (June 30, 2006 - \$514).

For the three months ended June 30, 2007, the Corporation recorded revenues in excess of 10% of its contract revenue from one customer. Contract revenue from the customer was \$24,800 (June 30, 2006 - \$12,284). The revenue was earned in the Industrial Insulation and Industrial Electrical Contracting segments.

For the six months ended June 30, 2007, the Corporation recorded revenues in excess of 10% of its contract revenue from one customer. Contract revenue from the customer was \$46,454 (June 30, 2006 - \$22,188). The revenue was earned in the Industrial Insulation and Industrial Electrical Contracting segments.

(in thousands of dollars, except share data)

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.

10. *Comparative Figures*

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

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Phone (780) 452-1701
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NORTHERN INDUSTRIAL INSULATION
CONTRACTORS
17408 – 106A Avenue
Edmonton, Alberta T5S 1E6
Phone (780) 483-1850
Fax (780) 484-0004

TRITON PROJECTS
8525 Davies Road
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STUART OLSON CONSTRUCTION
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Phone (403) 520-6565
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Chartered Accountants

LEGAL COUNSEL

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Davis & Company

PRINCIPAL BANK

HSBC Bank Canada

BONDING AND INSURANCE

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

REGISTRAR AND TRANSFER AGENTS

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

CIBC Mellon Trust Company
600 The Dome Tower
333 Seventh Avenue S.W.
Calgary, Alberta T2P 2Z1
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