



REPORT TO SHAREHOLDERS

Churchill achieved record contract revenue and record net earnings in the third quarter of 2007. Contract revenue was \$203.8 million compared to \$145.5 million in the third quarter of 2006. Net earnings of \$5.6 million (\$0.31 per share) were delivered compared to \$3.0 million (\$0.17 per share) in the comparable period of last year.

During the third quarter, the Corporation secured \$180.9 million in new contract awards, compared to \$261.4 million of new work secured in the third quarter of 2006. The construction markets in western Canada remain strong resulting in the Corporation's work-in-hand balance at September 30, 2007 being \$734.5 million, as compared to \$469.6 million at September 30, 2006.

Stuart Olson had a record quarter, generating \$152.8 million of revenue and earnings before tax of \$7.2 million, in comparison to \$77.2 million of revenue and \$2.3 million of earnings before tax in the same period of 2006. Significant revenue and earnings growth was generated by all branches. The backlog at Stuart Olson remains significant, totaling \$634.0 million at September 30, 2007 as compared to \$375.2 million at September 30, 2006. The company's markets in Alberta and British Columbia remain robust.

Revenue at Triton was \$9.1 million compared to \$11.6 million reported in the third quarter of 2006. Triton recorded a loss before tax during the quarter of \$0.5 million as compared to a loss before tax of \$0.9 million in the same period of 2006. The 2006 third quarter loss before tax of \$0.9 million included the benefit associated with the reversal of \$1.0 million in provisions taken in previous years. Triton made progress during the third quarter securing \$14.7 million of new contracts, ending the quarter with \$26.3 million of work-in-hand compared to \$16.4 million at September 30, 2006. Increasing revenue and margin improvement in Q4 2007 should assist Triton achieve its target of break-even on a full year basis.

Revenue from our insulation companies was \$15.6 million as compared to \$21.8 million for the third quarter of 2006. Reduced activity levels in all of the insulation markets during 2007 are responsible for this revenue decrease. We expect the market to increase in activity during 2008. Earnings before tax in the quarter were \$1.9 million as compared to \$2.7 million achieved in the third quarter of 2006. Work-in-hand at the end of the third quarter was \$29.8 million compared to \$22.7 million at the conclusion of the third quarter of 2006.

Laird's third quarter revenue decreased to \$26.2 million from \$34.9 million in the comparable period of 2006. Nine month revenues year-to-date are \$21.7 million greater than the \$73.3 million reported in 2006. Earnings before tax decreased to \$0.5 million compared to earnings before tax of \$1.9 million in the third quarter of 2006. Earnings before tax improved in the nine months ended September 30, 2007 by \$1.6 million, to \$4.8 million as compared to \$3.2 million in the prior year. The company's work-in-hand was \$44.4 million at September 30, 2007 compared to \$55.4 million in 2006.

Churchill's contract revenue for the nine months ended September 30, 2007 was \$544.6 million compared to \$378.9 million for the same period of 2006. Net earnings for the first nine months of 2007 were \$12.9 million (\$0.73 per share) compared to \$4.4 million (\$0.25 per share) for the comparable period in 2006.

The construction market in western Canada continues to be strong, particularly the spending on infrastructure projects and private sector spending on commercial buildings. Persistently high oil prices combined with the approach taken by the Alberta government in respect of its plan to restructure the provincial royalty program should continue to encourage oil sands development. Churchill is well positioned to capitalize on this construction activity.

November 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 ("Churchill" or the "Corporation"), dated November 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 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				Nine months ended			
	September 30				September 30			
	2007	2006	\$ Change	% Change	2007	2006	\$ Change	% Change
Contract Revenue	\$203.8	\$145.5	\$58.3	40%	\$544.6	\$378.9	\$165.7	44%
Contract Income	17.9	13.4	4.5	34%	47.2	34.4	12.8	37%
EBITDA	9.6	5.4	4.2	78%	22.1	9.6	12.5	130%
Earnings before Tax	8.4	4.6	3.8	83%	19.1	6.8	12.3	181%
Net Earnings	5.6	3.0	2.6	87%	12.9	4.4	8.5	193%
Per Share - Basic	\$0.31	\$0.17	\$0.14	82%	\$0.73	\$0.25	\$0.48	192%
Work-in-hand	734.5	469.6	264.9	56%	734.5	469.6	264.9	56%

For the third quarter of 2007, consolidated contract revenue was \$203.8 million, which was \$58.3 million or 40% greater than the same period in 2006. This higher level of revenue on a year-over-year basis was the outcome of continued strength in our Building construction segment. For the first nine months of this year, contract revenue of \$544.6 million was \$165.7 million greater than the comparable period in 2006. Year-over-year contract revenue has increased in the Buildings and Industrial Electrical segments by \$178.0 million and \$21.8 million, respectively, and decreased in the Industrial General and Industrial Insulation segments by \$12.2 million and \$21.9 million, respectively.

Contract income increased from \$13.4 million in the third quarter of 2006 to \$17.9 million in the third quarter of 2007. Contract income year-to-date was \$47.2 million, \$12.8 million greater than in the first nine months of 2006. This year-over-year increase is the net effect of greater overall construction volume and improved 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.

Indirect and administrative expenses increased to \$9.2 million in the third quarter of 2007, from \$8.2 million in the comparable period of 2006. This increase is mainly attributable to higher personnel costs associated with the additional activity in the Buildings segment. For the nine months year-to-date, indirect and administrative expenses of \$27.1 million were \$1.3 million higher than in the corresponding period of 2006. Lower indirect and administrative costs in the Corporate, and Industrial General Contracting segments were offset by increased expenses required to support the higher levels of activity in the Buildings segment.

Earnings before interest, taxes, depreciation and amortization in the quarter were \$9.6 million, compared to \$5.4 million in the third quarter of 2006. Year-over-year earnings before interest, taxes, depreciation and amortization were \$22.1 million compared to \$9.6 million in 2006, an improvement of 130%. Earnings before tax in Q3 2007 increased 83% to \$8.4 million, compared to \$4.6 million reported in Q3 2006. For the nine months ended September 30, 2007, earnings before tax amounted to \$19.1 million, which was \$12.3 million greater than the prior year. The Corporation's consolidated net earnings for the three months ended September 30, 2007 grew 87% to \$5.6 million, compared to net earnings of \$3.0 million in 2006. For the nine months ended September 30, 2007, Churchill realized net earnings of \$12.9 million compared to net earnings of \$4.4 million, a 193% increase.

New contract awards of \$180.9 million were booked in the current quarter, which compares with \$261.4 million in Q3 2006. Total new contract awards of \$785.2 million were recorded in the first nine months of 2007, compared to \$601.3 million recognized for the first nine months of 2006. Work-in-hand at September 30, 2007 was \$734.5 million. This is an increase of \$264.9 million over the amount at September 30, 2006. On a segmented work-in-hand basis, there has been a year-over-year increase in the Buildings segment of \$258.8 million, an increase of \$9.9 million in the Industrial General Contracting segment, an increase of \$7.2 million in Industrial Insulation Contracting and an \$11.0 million decrease in the Industrial Electrical Contracting segments respectively.

RESULTS OF OPERATIONS

Buildings

Stuart Olson had work-in-hand of \$662.8 million at June 30, 2007. For the three months ended September 30, 2007, the company secured a further \$124.0 million of contracts, compared to \$200.6 million secured in the same quarter of 2006. New contracts were added to the backlog from clients such as the Discovery Parks, Red Deer College, The University of Calgary and Capital Health. During the quarter, the company executed and took into revenue \$152.8 million. The company ended the quarter with \$634.0 million of work-in-hand, of which \$457.8 million is expected to carry-over into 2008.

For the three months ended September 30, 2007, Stuart Olson's revenues increased by \$75.6 million to \$152.8 million, compared to \$77.2 million in the prior year. This increase in revenue was due to higher levels of activity, particularly from the Alberta branches. Activity levels during the quarter were highest on projects for the Calgary Regional Health Authority, the Edmonton Regional Airport Authority, the Regional Municipality of Wood Buffalo, and The City of Red Deer.

Contract income in the third quarter increased to \$11.7 million from \$5.2 million in 2006, an increase of \$6.5 million. The contract income margin percentage was higher at 7.7% in 2007 compared to 6.7% in 2006 as a result of strong project execution. Earnings before tax increased to \$7.2 million in the third quarter of 2007, compared to \$2.3 million in 2006. Earnings before tax improved as a result of the stronger contract income margin percentage, controlled spending growth on indirect and administrative expenses and greater interest income.

For the nine months ended September 30, 2007, Stuart Olson reported revenues of \$382.1 million compared to revenues of \$204.1 million for the same period in 2006. This \$178.0 million growth in revenue on a year-over-year basis was generated primarily by increased activity in the Alberta branches.

Contract income for the first nine months of 2007 was \$26.1 million compared to \$12.9 million in 2006. Contract income margin percentage was 6.8% compared to 6.3%, respectively. Year-over-year earnings before tax increased to \$14.5 million, as compared to \$4.4 million for the first nine months of 2006. 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 \$20.7 million at June 30, 2007. For the quarter ended September 30, 2007, the company secured a further \$14.7 million of contracts, compared to \$4.4 million of new work secured in Q3 2006. The company executed \$9.1 million of contractual work during the quarter and as a result had \$26.3 million of work-in-hand as at September 30, 2007 of which \$15.1 million is expected to be completed in 2008. Triton has successfully secured \$42.1 million of new work thus far in 2007, as compared to awards of \$33.9 million for the nine months ended September 30, 2006.

Third quarter revenue at Triton of \$9.1 million was \$2.5 million lower than in the comparable quarter of 2006. This was primarily due to reduced activity in the construction business unit. Triton supplied fabrication, maintenance and construction services during the third quarter to clients including CNRL, Metacor, and Terasen.

Contract income in the third quarter of \$1.0 million was reduced from the \$1.5 million earned in Q3 2006. Contract income margin percentage was 11.0% in Q3 2007 a decrease from 12.9% in the third quarter of 2006. The Q3 2006 contract income margin reflected the benefit associated with the reversal of \$1.0 million in provisions taken in previous years. On a normalized basis Triton's third quarter 2006 margin was 4.3%. Triton incurred a loss before tax of \$0.5 million for the current quarter, compared to a loss before tax of \$0.9 million in 2006 (loss before tax of \$1.9 million in 2006 on a normalized basis).

For the nine months ended September 30, 2007, Triton reported revenues of \$29.0 million compared to revenue of \$41.2 million in 2006. This \$12.2 million year-over-year decrease in revenue during the first nine months of 2007 is a result of reduced activity within the construction and maintenance business units. Triton has been awarded a number of construction and maintenance contracts for execution over the next 12 months.

Contract income for the first nine months of 2007 was \$3.9 million compared to \$5.3 million in 2006. The contract income margin percentage for the same period in 2007 was 13.4%, as compared to 12.9% in 2006. Contract income in the first nine months of 2006 included \$3.2 million of recoveries on loss provisions recorded in a previous year; otherwise the 2006 contract income and contract income margin percentage would have been \$2.1 million and 5.1%, respectively. Triton's year-to-date loss before tax was \$0.6 million, compared to a loss before tax of \$0.8 million in 2006 (loss before tax of \$4.0 million in 2006 on a normalized basis).

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 \$27.2 million at June 30, 2007. For the three months ended September 30, 2007, they secured a further \$18.2 million of contracts, which was \$2.1 million greater

than in the same period of 2006. Awards were received in the current quarter from clients such as Horton CBI, Suncor, and Alstom. The insulation companies executed \$15.6 million of work during the third quarter, resulting in \$29.8 million of work-in-hand at September 30, 2007, \$13.4 million of which is expected to carry forward into 2008.

Revenue for three months ended September 30, 2007 was \$15.6 million, compared to \$21.8 million for the period ended September 30, 2006. During the quarter, the insulation companies were active on projects for clients including Suncor, Alstom and Agrium. Activity levels in the third quarter were lower as a result of award and scheduling delays and reduced activity in all of the company's insulation markets.

Notwithstanding the reduced volume of work in the quarter, contract income of \$3.2 million was only slightly less than the \$3.5 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 20.5% in Q3 2007, as compared to 16.1% in Q3 2006.

Earnings before tax in the Industrial Insulation Contracting segment were \$1.9 million for the quarter, \$0.8 million less than the \$2.7 million achieved in the third quarter of 2006. The decrease in earnings resulted from the lower volume of work and greater indirect and administrative expenses during the period.

For the nine months ended September 30, 2007, the Industrial Insulation segment reported revenues of \$38.4 million compared to revenues of \$60.3 million last year. The revenue differential is due to reduced insulation and siding activity in all of the company's markets. The outlook is for activity levels to improve in 2008.

Contract income for the first nine months of 2007 was \$7.4 million compared to \$7.8 million in the comparable period of 2006. Contract income margin percentage was 19.3% compared to 12.8%, respectively. This increase in contract income margin percentage was due to capable project execution and the completion in 2006 of a large, lower margin, major oil sands contract. Earnings before tax year-over-year was \$3.8 million compared to \$4.5 million in 2006.

Industrial Electrical Contracting

Laird reported work-in-hand of \$46.6 million at the end of June 2007. In the third quarter of 2007, new contract awards of \$23.9 million were secured, compared to \$40.2 million in 2006. New contract awards were received from customers including Nexen and Suncor. During the period, \$26.2 million of work was executed, leaving a backlog of \$44.3 million, of which \$27.4 million is expected to carry-over into 2008.

For the three months ended September 30, 2007, Laird's revenue decreased to \$26.2 million, as compared to \$34.9 million reported for the same period of 2006. The decline year-over-year was a result of engineering and award delays in the first half of 2006 resulting in Laird executing a significant amount of contracting activity in the third and fourth quarters of 2006.

Contract income declined to \$1.9 million in Q3 2007 from \$3.0 million in Q3 2006, due to the lower volume of activity in the current quarter. The contract income margin percentage was 7.3% in Q3 2007 compared to 8.6% in Q3 2006. Laird achieved earnings before tax of \$0.5 million in the third quarter of 2007 compared to earnings before tax of \$1.9 million in 2006. The decrease in earnings before tax for the third quarter was a result of \$0.8 million of provisions and writedowns taken in the quarter for various items under negotiation with clients and the lower activity level.

For the nine months ended September 30, 2007, Laird reported revenues of \$95.0 million compared to revenues of \$73.3 million last year. A significant portion of this \$21.7 million increase has been from maintenance related activities for a major oil sands client.

Contract income for the first nine months of 2007 was \$9.3 million compared to \$7.7 million in 2006. The contract income margin percentage for the first nine months of 2007 was 9.8%, compared to 10.5% for the corresponding period in 2006. Earnings before tax year-over-year increased to \$4.8 million in 2007 compared to \$3.2 million in 2006. Record volumes and effective expense management has allowed Laird to generate greater earnings.

Corporate and Other

In the third quarter of 2007, the Corporate and Other segment incurred \$0.8 million of indirect and administrative expenses, as compared to \$1.4 million of expenses in the third quarter of 2006. For the nine months ended September 30, 2007, the Corporate and Other segment incurred indirect and administrative expenses of \$3.3 million compared to \$4.5 million for the same period in 2006. This segment's expenses have decreased as a result of lower professional fees, reduced personnel costs and a change in the allocation of information technology expenses.

QUARTERLY FINANCIAL INFORMATION

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

	2007			2006				2005
	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
(\$ millions, except per share data and percentages)								
Contract Revenue	203.8	186.9	\$153.9	\$152.4	\$145.5	\$121.6	\$111.8	\$138.8
Contract Income	17.9	16.9	12.4	16.7	13.4	11.4	9.7	12.4
Contract Income Margin - %	8.8%	9.0%	8.1%	11.0%	9.2%	9.4%	8.7%	8.9%
Net Earnings	5.6	5.0	2.3	3.7	3.0	0.8	0.6	1.6
Basic (\$ per share)	0.31	0.28	0.13	0.21	0.17	0.05	0.03	0.09
Fully diluted (\$ per share)	0.31	0.28	0.13	0.21	0.16	0.04	0.03	0.09
Work-in-Hand	734.5	757.4	596.6	493.9	469.6	353.7	313.1	247.2
Working Capital	38.4	33.1	29.2	27.4	24.1	21.9	21.3	25.1
Shareholders' Equity	61.1	55.1	50.0	47.7	43.7	40.7	40.8	40.2
Book Value (\$ per share)	3.43	3.12	2.83	2.70	2.48	2.31	2.28	2.25

The reader is referred to the Corporation's 2006 Annual Report for a discussion and analysis of the results of the quarters preceding January 1, 2007.

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 September 30, 2007, totaled \$64.6 million, which compares with \$50.4 million at the end of 2006. Of the \$64.6 million of cash and cash equivalents, \$14.5 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 \$13.6 million in the quarter, which compares to \$4.3 million of cash invested in operations during the third quarter of 2006. This favourable change of \$17.9 million was the result of greater net earnings in 2007 and cash positive changes in working capital accounts.

Investing activities resulted in a use of cash of \$1.4 million during the third quarter of 2007, which compares with cash used of \$1.6 million in Q3 2006. This decrease in use of cash year-over-year resulted from the slightly lower investment in property and construction equipment during the quarter.

Cash used in financing activities amounted to \$15.0 million in the quarter ended September 30, 2007, compared to \$2.0 million of cash provided from financing activities in Q3 2006. The primary use of this cash was the repayment of the Corporation's operating line of credit during the quarter. Repayments applied to the line of credit during the third quarter were \$15.5 million compared to \$1.9 million of net proceeds received from the line of credit in the third quarter of 2006. The Corporation increased long-term debt by use of finance contracts in the amount of \$0.4 million to acquire vehicles in the third quarter of 2007 and 2006. During the third quarter of 2007, the Corporation repaid \$0.4 million of long-term debt (2006 - \$0.2 million) and \$0.1 million of its demand term loan (2006 - \$0.1 million).

Cash provided from operating activities of \$30.3 million in the first nine months of 2007 was \$36.2 million greater than in the same period last year. This year-over-year improvement can be attributed to increased earnings and improved working capital management.

For the nine months ended September 30, 2007, investing activities resulted in a use of cash of \$4.3 million compared to \$7.3 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, \$3.0 million related to property and equipment and \$4.0 million to the classification of restricted cash as a long-term asset. As at October 25, 2007 the requirement to hold the \$4.0 million as restricted cash was removed, making these funds available as general working capital in Q4 2007.

For the nine months ended September 30, 2007, cash used in financing activities amounted to \$11.8 million compared to proceeds of \$7.5 million received in 2006. Net repayments applied to the line of credit year-to-date equaled \$12.0 million of cash repayments, compared to \$7.5 million of net proceeds in 2006. Issuances and repayments of long-term debt provided \$0.1 million of cash in 2007 and \$0.5 million of cash in 2006. Repayments of \$0.5 million were applied to the demand term loan in 2007 and 2006, respectively. On July 9, 2007, the Corporation's amended credit agreement converted the demand term loan balance of \$6.4 million to a non-revolving long-term debt facility and lowered the interest rate from prime plus 1.25% to prime plus 1.0%. At September 30, 2007, the current portion of long-term debt, long-term debt and the converted demand term balance of \$6.4 million amounted to \$11.1 million, compared to \$11.2 million at the end of 2006. As at September 30, 2007, the Corporation was in compliance with the repayment terms associated with its long-term obligations.

At September 30, 2007, Churchill had working capital of \$38.4 million, which was greater than the 2006 year-end working capital balance of \$27.4 million.

Shareholders' equity was \$61.1 million at September 30, 2007, as compared to \$47.7 million at December 31, 2006. Share capital increased by \$611 thousand as a result of the exercise of stock options and contributed surplus has decreased \$100 thousand for the same reason. Retained earnings increased from \$26.4 million at December 31, 2006 to \$39.3 million as at September 30, 2007, reflecting the year-to-date net earnings of \$12.9 million.

At September 30, 2007, there were 17,822,491 Common Shares and 300,000 options outstanding (December 31, 2006 - 17,667,491 Common Shares and 571,667 options). During the quarter ended September 30, 2007, no new share options were issued and 155,000 share options were exercised. On October 4, 2007, the Corporation issued 82,000 share options to various management employees.

The Corporation has an Employee Share Purchase Plan available to all full-time employees. As at September 30, 2007, the Plan held 1,150,869 Churchill Common Shares for the employees. Under the Plan, shares are acquired in the open market.

RISKS AND UNCERTAINTIES

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

In our Q2 2007 report we reported that collective bargaining negotiations were ongoing between the Electrical Contractors Association of Alberta and the International Brotherhood of Electrical Workers. We can report that a collective bargaining agreement was reached and ratified by the union, ensuring labour stability for a 3 year period.

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 and service costs, 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. Many construction opportunities have yet to be awarded by owners although bids have been submitted by our various operating companies.

In our Industrial General Contracting segment, the fabrication and maintenance units are performing reasonably well while the construction unit has found the market for smaller work packages to be challenging. Triton management is working hard to secure the necessary work to allow this unit to recapture a meaningful share of the overall market. Year-to-date, Triton has secured 24% more new work in 2007 as compared to 2006. Triton's turnaround strategy remains on track including its objective to achieve break-even performance on a full year basis for 2007.

The Industrial Insulation segment has proven to be a consistent performer despite lower revenue volumes. Strong field execution has offset the general weakness in insulation and siding markets during the course of this year. The competition for new work remains vigorous as all the companies in this market try to position themselves for a stronger 2008.

Management's expectation is Laird's volume of activity will continue to moderate from the record pace they have demonstrated year-over-year. However, we expect that Laird will see a push from its clients to complete numerous projects before construction sites shut down in mid-December.

A solid non-residential construction market in Alberta & British Columbia, combined with strong spending by provincial governments continues to drive record volumes and earnings for Stuart Olson. Their focus continues to be on sound execution of existing projects and securing new work for 2009 and 2010.

SUPPLEMENTAL DISCLOSURES

Contractual Obligations

As at September 30, 2007, the material changes made to the contractual obligations reported in our 2006 Annual Report were the addition of \$1.4 million of finance and lease obligations in connection with the purchase of equipment, an additional \$0.3 million annually for additional office space, the repayment of \$1.1 million of long-term debt and repayment of \$0.5 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 September 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 \$31 thousand (2006 - \$49 thousand). At September 30, 2007, \$12 thousand was included in accounts payable.

During the third quarter of 2007, the Corporation incurred facility costs of \$20 thousand (2006 - \$19 thousand) relating to rental of a building which is owned by a director of the Corporation. At September 30, 2007, \$1 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

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.

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.

In March 2007, the CICA issued Handbook Section 3031 – *Inventories*. This section requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires

the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. 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 third 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 September 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 third 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 controls 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 several 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 third 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:

<u>As at</u> (\$ millions)	<u>September 30,</u> 2007	<u>December 31,</u> 2006
Current assets	\$237.7	\$135.6
Less: current liabilities	199.3	114.2
Add:		
Current portion of demand term loan	0.0	6.0
<u>Working Capital</u>	<u>\$38.4</u>	<u>\$27.4</u>

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)	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	2007	2006	2007	2006
Net Earnings	\$5.6	\$3.0	\$12.9	\$4.4
Add:				
Income Taxes	2.9	1.5	6.2	2.4
Amortization	0.9	0.7	2.4	2.0
Interest expense	0.2	0.2	0.6	0.8
<u>EBITDA</u>	<u>\$9.6</u>	<u>\$5.4</u>	<u>\$22.1</u>	<u>\$9.6</u>

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 September 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)

	September 30, 2007 (Unaudited)	December 31, 2006*
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 64,583	\$ 50,387
Accounts receivable	171,526	83,369
Inventories and prepaid expenses	1,576	1,174
Costs in excess of billings	-	620
	237,685	135,550
Long-term cash and equivalents (Note 2)	4,000	4,000
Future income tax assets	632	631
Property and equipment	20,119	17,816
Intellectual property	126	189
Goodwill	7,315	7,315
	\$ 269,877	\$ 165,501
LIABILITIES		
Current liabilities		
Operating line of credit	\$ -	\$ 12,000
Accounts payable and accrued liabilities	147,240	86,191
Contract advances and unearned income	43,345	-
Income taxes payable	4,902	4,327
Future income tax liabilities	1,864	3,902
Demand term loan (Note 3)	-	6,825
Current portion of long-term debt (Note 3)	1,948	917
	199,299	114,162
Long-term debt (Note 3)	9,107	3,419
Future income tax liabilities	353	231
	208,759	117,812
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	16,119	15,508
Contributed surplus	5,679	5,779
Retained earnings	39,320	26,402
Accumulated other comprehensive income	-	-
	61,118	47,689
	\$ 269,877	\$ 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 September 30 (Unaudited)		Nine months ended September 30 (Unaudited)	
	2007	2006	2007	2006
Contract revenue	\$ 203,756	\$ 145,453	\$ 544,597	\$ 378,881
Contract costs	185,860	132,080	497,393	344,450
Contract income	17,896	13,373	47,204	34,431
Interest income	813	240	1,742	552
Sundry income (expense)	(3)	40	293	409
Indirect and administrative expenses	(9,189)	(8,160)	(27,139)	(25,803)
Depreciation and amortization	(903)	(721)	(2,413)	(1,971)
Interest expense	(179)	(213)	(552)	(788)
Earnings before income taxes	8,435	4,559	19,135	6,830
Income tax (expense) recovery				
Current income tax	(5,523)	(2,595)	(8,134)	(2,715)
Future income tax	2,653	1,073	1,917	298
	(2,870)	(1,522)	(6,217)	(2,417)
Net earnings	5,565	3,037	12,918	4,413
Retained earnings, beginning of period	33,755	19,638	26,402	18,993
Return of Laird escrowed shares	-	-	-	(731)
Retained earnings, end of period	\$ 39,320	\$ 22,675	\$ 39,320	\$ 22,675
Net earnings per common share (Note 5)				
Basic	\$ 0.31	\$ 0.17	\$ 0.73	\$ 0.25
Fully diluted	\$ 0.31	\$ 0.16	\$ 0.72	\$ 0.24
Weighted average common shares:				
Basic	17,725,969	17,584,158	17,687,198	17,784,997
Diluted	18,034,466	17,855,248	17,966,548	18,056,087

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS AND ACCUMULATED COMPREHENSIVE EARNINGS

(\$ thousands)	Three months ended September 30 (Unaudited)		Nine months ended September 30 (Unaudited)	
	2007	2006	2007	2006
Net earnings	\$ 5,565	\$ 3,037	\$ 12,918	\$ 4,413
Other comprehensive earnings, net	-	-	-	-
Comprehensive earnings	\$ 5,565	\$ 3,037	\$ 12,918	\$ 4,413
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 September 30 (Unaudited)		Nine months ended September 30 (Unaudited)	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net earnings	\$ 5,565	\$ 3,037	\$ 12,918	\$ 4,413
Non-cash items				
Depreciation and amortization	903	721	2,413	1,971
Gain on disposal of equipment	(21)	6	(37)	(4)
Future income taxes	(2,653)	(1,073)	(1,917)	(298)
Stock-based compensation	(137)	32	(100)	111
	3,657	2,723	13,277	6,193
Net change in accounts receivable, inventories and prepaid expenses	(30,631)	(37,665)	(88,559)	(53,763)
Net change in accounts payable and accrued liabilities	26,748	12,046	61,049	(2,463)
Net change in contract advances and unearned income and costs in excess of billings	9,343	15,557	43,965	38,265
Net change in income taxes payable	4,469	2,999	575	5,899
	13,586	(4,340)	30,307	(5,869)
INVESTING ACTIVITIES				
Long-term cash and equivalents	-	-	-	(4,000)
Proceeds on disposal of equipment	27	17	177	214
Additions to intellectual property	-	-	-	(253)
Additions to property and equipment	(1,396)	(1,588)	(4,505)	(3,232)
	(1,369)	(1,571)	(4,328)	(7,271)
FINANCING ACTIVITIES				
Proceeds under line of credit	-	8,300	5,000	15,770
Repayments under line of credit	(15,500)	(6,400)	(17,000)	(8,300)
Issuance of long-term debt	371	408	1,137	1,050
Repayment of long-term debt	(441)	(204)	(1,076)	(531)
Repayment of demand term loan	(65)	(130)	(455)	(520)
Issuance of common shares	611	-	611	-
	(15,024)	1,974	(11,783)	7,469
Increase (decrease) in cash	(2,807)	(3,937)	14,196	(5,671)
Cash, beginning of period	67,390	27,443	50,387	29,177
Cash, end of period	\$ 64,583	\$ 23,506	\$ 64,583	\$ 23,506

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid (received) during the year for:

Interest	\$ 171	\$ 184	\$ 534	\$ 564
Income taxes	\$ 1,054	\$ (404)	\$ 7,559	\$ (3,184)

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 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>
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 acquired or modified 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 \$64,583 (December 31, 2006 - \$50,387) is \$14,546 (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 \$1,720 (December 31, 2006 - \$762) held in joint venture accounts. Previously, \$4,000 had been classified as long-term as it was restricted in use. As of October 25, 2007 the requirement to hold the \$4,000 as restricted cash was removed, making these funds available as general working capital.

3. ***Long-term Debt***

On July 9, 2007, the credit agreement was renegotiated with the Corporation's bank. 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%.

The term loan is repayable in principal monthly installments of \$65 plus interest, matures in 2015, and is secured by a mortgage on the modular fabrication facility, mortgages on two of the Corporation's properties, various general security agreements and unlimited guarantees from the Corporation and its wholly owned subsidiaries. The net book value of the land and buildings at September 30, 2007 is \$6,777.

Finance contracts and certain capital leases bear a weighted average interest rate of 2.2%, are payable in blended monthly payments of \$78, mature at various dates up to 2011, and are secured by vehicles and equipment with a net book value of \$2,147.

The Corporation has a leasing facility with a borrowing limit of up to \$3,000 to assist with the purchase of property and equipment. 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 \$1,206. As at September 30, 2007, the Corporation has utilized \$1,577 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)

4. **Share Capital**

	Nine months ended September 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	155,000	611	83,333	305
Issued, end of period	17,822,491	\$ 16,119	17,667,491	\$ 15,508

As at September 30, 2007 the Corporation had outstanding 300,000 options convertible into Common Shares (December 31, 2006 – 571,667), of which 283,332 are currently exercisable (December 31, 2006 – 396,666).

For the three months ended September 30, 2007, the Corporation recognized stock based compensation expense of \$4 (September 30, 2006 - \$32) related to the estimated fair value of options granted. Stock based compensation for the nine months ended September 30, 2007 was \$42 (2006 – \$111). During the quarter ended September 30, 2007 no options were issued and accordingly there was no weighted average fair value. During the quarter ended September 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 September 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.

On October 4, 2007 certain key employees were granted options to purchase up to an aggregate of 82,000 Common Shares of the Corporation at \$18.26 per share exercisable, subject to various vesting requirements, on or before October 3, 2012.

5. **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.

6. **Related Party Transactions**

For the three months ended September 30, 2007, the Corporation incurred legal fees of \$31 (September 30, 2006 - \$49) 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 \$154 (September 30, 2006 - \$166) were incurred with this law firm for the nine months ended September 30, 2007. At September 30, 2007, \$12 (September 30, 2006 - \$7) is included in accounts payable.

For the three months ended September 30, 2007, the Corporation incurred facility costs of \$20 (September 30, 2006 - \$19) relating to rental of a building which is owned by a director of the Corporation. Facility costs of \$85 (September 30, 2006 - \$84) for this building were incurred for the nine months ended September 30, 2007. At September 30, 2007, \$1 (September 30, 2006 - nil) 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)

7. ***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)

7. **Segmented Information (continued)**

Three months ended September 30, 2007	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 152,781	\$ 7,247	\$ 359	\$ -	\$ 188,471	\$ 529
Industrial General Contracting	9,154	(458)	104	-	13,266	80
Industrial Insulation Contracting	15,644	1,865	58	-	18,047	73
Industrial Electrical Contracting	26,177	538	245	7,315	35,821	376
Corporate and Other	-	(757)	137	126	14,272	338
	\$ 203,756	\$ 8,435	\$ 903	\$ 7,441	\$ 269,877	\$ 1,396

Three months ended September 30, 2006	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 77,181	\$ 2,301	\$ 161	\$ -	\$ 94,592	\$ 1,276
Industrial General Contracting	11,554	(859)	147	-	16,592	107
Industrial Insulation Contracting	21,800	2,650	75	-	22,307	22
Industrial Electrical Contracting	34,918	1,868	210	7,315	38,870	521
Corporate and Other	-	(1,401)	128	210	8,472	64
	\$ 145,453	\$ 4,559	\$ 721	\$ 7,525	\$ 180,833	\$ 1,990

Nine months ended September 30, 2007	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 382,112	\$ 14,477	\$ 878	\$ -	\$ 188,471	\$ 2,657
Industrial General Contracting	29,022	(613)	339	-	13,266	91
Industrial Insulation Contracting	38,426	3,758	182	-	18,047	199
Industrial Electrical Contracting	95,037	4,792	635	7,315	35,821	1,461
Corporate and Other	-	(3,279)	379	126	14,272	385
	\$ 544,597	\$ 19,135	\$ 2,413	\$ 7,441	\$ 269,877	\$ 4,793

Nine months ended September 30, 2006	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill & Intangibles	Total Assets	Capital Expenditures
Buildings	\$ 204,081	\$ 4,362	\$ 412	\$ -	\$ 94,592	\$ 2,022
Industrial General Contracting	41,203	(770)	461	-	16,592	178
Industrial Insulation Contracting	60,333	4,467	245	-	22,307	53
Industrial Electrical Contracting	73,264	3,238	516	7,315	38,870	1,207
Corporate and Other	-	(4,467)	337	210	8,472	520
	\$ 378,881	\$ 6,830	\$ 1,971	\$ 7,525	\$ 180,833	\$ 3,980

For the purposes of presentation, capital expenditures for the three months ended September 30, 2007 of \$0 (September 30, 2006 - \$234) 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 nine months ended September 30, 2007 capital expenditures relating to capital leases were \$288 (September 30, 2006 - \$748).

For the three months ended September 30, 2007, the Corporation recorded revenues in excess of 10% of its contract revenue from one customer. Contract revenue from the customer was \$22,585 (September 30, 2006 - \$20,926). The revenue was earned in the Industrial Insulation and Industrial Electrical Contracting segments.

For the nine months ended September 30, 2007, the Corporation recorded revenues in excess of 10% of its contract revenue from one customer. Contract revenue from the customer was \$69,040 (September 30, 2006 - nil). The revenue was earned in the Industrial Insulation and Industrial Electrical Contracting segments.

(in thousands of dollars, except share data)

8. *Future Accounting Changes*

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.

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.

In March 2007, the CICA issued Handbook Section 3031 – *Inventories*. This section requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Corporation is currently evaluating the impact of the Section on the consolidated financial statements.

9. *Comparative Figures*

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

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