

MANAGEMENT'S AND AUDITORS' REPORT

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgment. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche LLP, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has thoroughly reviewed the financial statements, including the notes thereto, with management and the external auditors.



Gary R. Bardell, M.Sc., MBA, P.Eng.
President and CEO



Ian T. Morris, CA, CBV
Vice President Finance and CFO

To the Shareholders of The Churchill Corporation,

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 2003 and 2002 and the consolidated statements of loss, retained earnings and net cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and 2002 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Edmonton, Alberta
February 27, 2004

CONSOLIDATED BALANCE SHEETS

As at December 31

(\$ thousands)	2003	2002
ASSETS		
Current Assets		
Cash (Note 5)	\$ 14,622	\$ 14,093
Accounts Receivable	67,513	70,578
Inventories and Prepaid Expenses	1,410	825
Properties for Sale (Note 6)	103	103
Income Taxes Recoverable	–	2,583
Current Portion of Agreement Receivable (Note 7)	138	95
	83,786	88,277
Agreement Receivable (Note 7)	–	167
Equity Investment	–	1,416
Future Income Tax Assets (Note 12)	376	340
Property and Equipment (Note 8)	9,568	8,770
Intangible Assets (Note 9)	784	–
Goodwill (Note 3)	8,315	–
	\$ 102,829	\$ 98,970
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 50,949	\$ 49,130
Contract Advances and Unearned Income	11,454	12,139
Income Taxes Payable	1,105	–
Future Income Tax Liabilities (Note 12)	858	5,488
Current Portion of Long-Term Debt (Note 11)	1,864	345
	66,230	67,102
Long-Term Debt (Note 11)	5,635	17
Future Income Tax Liabilities (Note 12)	483	170
	72,348	67,289
Contingencies and Commitments (Notes 17 and 18)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 13)	3,794	1,300
Contributed Surplus (Note 13)	5,128	5,128
Retained Earnings	21,559	25,253
	30,481	31,681
	\$ 102,829	\$ 98,970

Approved by the Board:



Gary Bardell
Director



Peter Adams
Director

CONSOLIDATED STATEMENTS OF LOSS

Years ended December 31		
(\$ thousands, except per share amounts)	2003	2002
CONSTRUCTION OPERATIONS		
Contract Revenue	\$ 319,192	\$ 311,663
Contract Costs	299,177	291,024
Contract Income	20,015	20,639
Interest Income	464	769
Sundry Income	176	57
Indirect and Administrative Expenses	(21,854)	(19,312)
Bad Debt Recovery	206	131
Depreciation and Amortization	(3,226)	(1,992)
Interest Expense	(557)	(173)
(Loss) Earnings from Construction Operations	(4,776)	119
NON-CONSTRUCTION OPERATIONS		
Earnings before Interest (Note 15)	182	502
Interest Expense	-	(75)
Earnings from Non-Construction Operations	182	427
(LOSS) EARNINGS BEFORE INCOME TAXES	(4,594)	546
Income Tax (Expense) Recovery:		
Current Income Tax	(4,031)	1,852
Future Income Tax	4,968	(1,416)
	937	436
NET (LOSS) EARNINGS	\$ (3,657)	\$ 982
Net (Loss) Earnings Per Common Share (Note 14)		
Basic	\$ (0.31)	\$ 0.09
Fully Diluted	\$ (0.31)	\$ 0.09

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31		
(\$ thousands)	2003	2002
Retained Earnings, beginning of year	\$ 25,253	\$ 24,631
Net (Loss) Earnings	(3,657)	982
Share redemption in excess of stated capital	(37)	(360)
Retained Earnings, end of year	\$ 21,559	\$ 25,253

CONSOLIDATED STATEMENTS OF NET CASH FLOW

Years ended December 31

(\$ thousands)	2003	2002
OPERATING ACTIVITIES		
Net (Loss) Earnings	\$ (3,657)	\$ 982
Non-cash items		
Net equity earnings of affiliate	(172)	(262)
Depreciation and amortization	3,226	1,992
Gain on disposal of properties for sale	–	(110)
Future income taxes	(4,968)	1,416
	(5,571)	4,018
Net change in accounts receivable, inventories and prepaid expenses	9,397	(2,590)
Net change in accounts payable, contract advances and unearned income	(492)	(3,147)
Change in income taxes payable	3,589	2,413
	6,923	694
INVESTING ACTIVITIES		
Proceeds from agreement receivable	124	64
Distributions from equity investee	1,588	193
Proceeds on disposal of property and equipment	124	667
Acquisition of subsidiary (Note 3)	(12,874)	(570)
Additions to property and equipment	(2,411)	(4,154)
	(13,449)	(3,800)
FINANCING ACTIVITIES		
Issuance of long-term debt	8,678	–
Repayment of long-term debt	(1,857)	(497)
Issuance of Common Shares	277	489
Redemption of Common Shares	(43)	(374)
	7,055	(382)
Increase (decrease) in cash	529	(3,488)
Net cash, beginning of year	14,093	17,581
Net cash, end of year	\$ 14,622	\$ 14,093
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid (received) during the year for:		
Interest expense	\$ 565	\$ 163
Income taxes	\$ 343	\$ (4,265)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

The Churchill Corporation provides building construction, heavy-industrial general contracting, industrial insulation contracting, industrial electrical and instrumentation contracting and related services within Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the following subsidiaries, their subsidiaries and limited partnership:

Stuart Olson Construction Ltd. (100%)	Triton Projects Limited Partnership (100%)
Insulation Holdings Inc. (100%)	Laird Electric Inc. (100%)
Triton Construction Inc. (100%)	Churchill Industrial Group Ltd. (100%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value. Property sales are recorded when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Equity Investment

Equity investment represents an interest in an operating company, LCT Holdings, where the Corporation has significant influence (Note 15). This interest is accounted for on the equity basis with an impairment allowance for any decline in value not considered temporary.

Property and Equipment

Property and equipment are recorded at cost and depreciated using either the diminishing-balance or the straight-line methods at the rates indicated in Note 8.

Contract Income

Contract revenue for cost-plus contracts is recorded as the service is performed and the related expenses are incurred. Contract revenue from fixed-price contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating either the actual cost of work or the actual hours performed to date to the current estimated total cost or estimated total hours for each contract. Any projected loss is recognized immediately.

Income Taxes

The Corporation uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets including unused tax losses are recognized, subject to a valuation allowance, to the extent it is more likely than not such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Earnings Per Share

Fully diluted earnings per share is computed using the treasury stock method, whereby it is assumed that any proceeds obtained upon the exercise of outstanding options would be used to buy back Common Shares at the average market price during the period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation Plan

Effective January 1, 2002, the Corporation adopted prospectively, CICA Handbook Section 3870 with respect to the accounting for and disclosure of stock-based compensation. The Corporation has elected to use the intrinsic value-based method and therefore no compensation expense has been recognized in the financial statements for stock options granted in the year.

Under the current accounting standard, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as the Black-Scholes model, as if the fair value method of accounting has been used (See Note 16). These new rules do not apply to pre-existing awards, except for those awards that call for settlement in cash or other assets.

In September 2003, the CICA revised Section 3870 of the CICA Handbook to require that effective January 1, 2004 the fair value method of accounting for stock options be recognized in the financial statements. The Corporation intends to apply these provisions retroactively without restatement of the prior year commencing January 1, 2004. The cumulative compensation cost of options to acquire Common Shares of the Corporation issued since January 1, 2002, using the Black-Scholes option pricing model, will be charged to retained earnings with a corresponding increase to contributed surplus at January 1, 2004.

Use of Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates.

Statements of Cash Flow

The statements of cash flow have been prepared using the indirect method.

Cash

For the purposes of presentation, on the Consolidated Statements of Cash Flow, cash is comprised of bank balances.

Intangible Assets and Goodwill

In conjunction with CICA Handbook Section 3062, Goodwill and Other Intangible Assets, the Corporation records intangible assets with indefinite lives and goodwill at cost, and rather than being systematically amortized, the carrying value of these assets are periodically tested for impairment. Intangible assets with finite lives ("intangible assets subject to amortization") are reviewed annually in respect to their useful lives. The test is applied to each of the Corporation's reporting units (the reporting units being identified in accordance with the criteria in the CICA Handbook section for intangible assets and goodwill).

Under the requirements of CICA Handbook Section 3062 the Corporation is required to test its goodwill for impairment on an annual basis. Consistent with current industry-specific valuation methods and recommendations for assessment, the Corporation uses a combination of the discounted cash flow model and the market comparable approach for determining the fair value of its reporting units. The Corporation has selected December as its annual test time.

Guarantees

During the year, the Corporation adopted the new CICA Accounting Guideline 14, "Disclosure of Guarantee", which recommends companies disclose the nature, amount and terms of obligations under guarantee, and has provided additional disclosure in Note 19.

3. ACQUISITION OF SUBSIDIARIES

(\$ thousands)

Laird Electric Inc.

On February 7, 2003, the Corporation acquired all of the issued and outstanding shares of Laird Electric Inc. (Laird) for \$8,520 cash plus the issuance from treasury of 826,412 Common Shares of the Corporation. The financial statements to December 31, 2003 include the operations of Laird from February 8, 2003 onward.

The values assigned to the acquired net assets are:

Cash	\$	1,005
Other Working Capital Items		5,192
Property and Equipment		971
Intangible Assets		1,550
Goodwill		8,315
Long-Term Debt		(316)
Shareholders' Loans		(5,359)
Future Income Tax Liabilities		(615)
	\$	10,743

The purchase price consisted of:

Common Shares	\$	2,223
Cash		8,520
	\$	10,743

The acquisition cost is shown in the Statements of Net Cash Flow as the cash paid for the shares of \$8,520 less the cash acquired of \$1,005, plus cash paid for the Laird shareholders' loans of \$5,359, for a net cash outlay of \$12,874.

Intangible assets were acquired totaling \$1,550 (Note 9). The intangibles relate to a customer contract (\$550), valued on a discounted net present value basis, and employment contracts valued at their recoverable value in the event of the departure of the employees (\$1,000).

Up to \$1.0 million of the purchase price is recoverable in the event that either of the key individuals leave Laird's employ prior to December 31, 2005, or if Laird does not achieve a cumulative financial performance objective by December 31, 2005. Potential repayments under these agreements are secured by 413,205 shares of the Corporation held by an escrow agent without further recourse. The final purchase price, and values assigned to certain assets, may vary from those shown above once the final adjustment period has expired.

Lakehead Insulation Inc.

On January 17, 2002, Fuller Austin Insulation Inc., a subsidiary of the Corporation, acquired all the issued and outstanding shares of Lakehead Insulation Inc., an insulation contractor based in Thunder Bay, Ontario, for \$692 plus future consideration based on Lakehead earnings during the three year period ending December 31, 2004.

The values assigned to the acquired net assets are:

Cash	\$	122
Other Working Capital Items		237
Property and Equipment		455
Future Income Tax Liabilities		(122)
	\$	692

The acquisition cost is shown in the Statements of Net Cash Flow as the cash paid for the shares of \$692 less the cash acquired of \$122, for a net of \$570.

4. JOINT VENTURES

(\$ thousands)

The Corporation and its subsidiaries are partners in incorporated and unincorporated joint ventures. These financial statements include the proportionate share of assets, liabilities, revenue, expenses, net income and cash flow of these joint ventures as follows:

	2003	2002
Current and total assets	\$ 973	\$ 7,743
Current and total liabilities	1,330	7,648
Contract revenue	3,247	33,831
Contract costs and expenses	4,530	33,330
Net (loss) income	(1,282)	501
Cash flow (used in) provided by operating activities	(2,508)	1,224

5. CASH

(\$ thousands)

Cash includes \$4,370 (2002 - \$5,512) which is restricted under the British Columbia Lien Act to the payment of direct costs related to specific construction projects. Cash balances of \$146 (2002 - \$1,823) are in joint venture accounts.

6. PROPERTIES FOR SALE

(\$ thousands)

	2003	2002
Undeveloped land	\$ 647	\$ 647
Less cumulative valuation adjustments	(544)	(544)
	\$ 103	\$ 103

7. AGREEMENTS RECEIVABLE

(\$ thousands)

	2003	2002
Mortgage receivable, interest at 7%	\$ 138	\$ 185
Mortgage receivable, interest at 6%	-	77
Less current portion	(138)	(95)
	\$ -	\$ 167

8. PROPERTY AND EQUIPMENT

(\$ thousands)

	2003			2002	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	\$ 1,562	\$ -	\$ 1,562	\$ 1,103	-
Assets under construction	27	-	27	-	-
Buildings and improvements	5,338	2,556	2,782	2,936	4% - 30%
Vehicles and equipment	17,708	12,511	5,197	4,731	6% - 100%
	\$ 24,635	\$ 15,067	\$ 9,568	\$ 8,770	

Depreciation for the year amounted to \$2,460 (2002 - \$ 1,992).

9. INTANGIBLE ASSETS

(\$ thousands)

	2003			2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Amortization Term
Customer Contract Intangible	\$ 550	\$ 462	\$ 88	\$ –	12 months
Employment Contracts Intangible	1,000	304	696	–	36 months
	\$ 1,550	\$ 766	\$ 784	\$ –	

The intangible assets arose on the acquisition of Laird Electric Inc. (Note 3) and are being amortized over the term of the related contracts on a straight-line basis.

The amortization expense for the year totaled \$766 (2002 - \$nil).

10. LINES OF CREDIT

(\$ thousands)

The Corporation maintains an operating line of credit of \$10,500 (2002 - \$7,000) which, if utilized, would bear interest at prime + 0.5%. In addition, the Corporation has an equipment line of \$2,000 (2002 - \$2,000) which, if fully utilized, would bear interest at prime + 1.0%. The total amounts ultimately available under these facilities are subject to limits based on certain financial ratios.

No amounts have been drawn under either of these facilities as at December 31, 2003.

These lines of credit are secured by General Security Agreements and a pledge of specific assets.

11. LONG-TERM DEBT

(\$ thousands)

	2003	2002
Equipment loan	\$ –	\$ 306
Acquisition loan	6,800	–
Finance contracts	683	–
Capital leases	16	56
	7,499	362
Less current portion	(1,864)	(345)
	\$ 5,635	\$ 17

The equipment loan bore interest at prime + 1%, was secured by a pledge of specific assets and was due November, 2003. In conjunction with the acquisition of Laird Electric Inc., the Corporation received \$8,000 of floating-rate term debt, bearing interest at prime plus 1¼%, payable in quarterly installments of \$400 plus interest, and due February, 2008, secured by General Security Agreements. Finance contracts bear effective interest rates ranging from 3.9% to 8.4%, are payable in various monthly installments mature, at various dates up to 2008, and are secured by vehicles with a net book value of \$742. Capital leases, which mature in 2005, and bear interest at 8.4%, are secured by equipment with a net book value of \$18.

Interest expense on long-term debt during the year was \$411 (2002 - \$65).

The acquisition loan, and the lines of credit as described in Note 10, are subject to certain debt covenants calculated on a quarterly basis including, but not limited to, tests of tangible net worth, leverage and interest coverage. The Corporation was in compliance with these ratios in 2003. Should the Corporation be in violation of its financial ratios, the bank will be in a position to demand repayment of any balances outstanding under these facilities. The Corporation monitors the financial ratios on a continuous basis. The Corporation is in the early stages of arranging financing for the modular fabrication facility described in Note 18(b). In conjunction with this, the Corporation will be in discussions with its current lender to modify its existing covenants.

11. LONG-TERM DEBT (CONTINUED)

Estimated principal payments in the next five years are:

	2004	\$	1,864
	2005		1,775
	2006		1,757
	2007		1,678
	2008		425

12. INCOME TAXES

(\$ thousands)

The Corporation's tax (recovery) expense differs from the provision computed at statutory rates as follows:

	2003	2002
Net (loss) earnings before income taxes	\$ (4,594)	\$ 546
Equity earnings	(172)	(262)
Non-deductible expenses	475	353
Taxable Income	\$ (4,291)	\$ 637
Income tax at statutory rate of 36.75% (2002 - 39.25%) of Taxable Income	\$ (1,577)	\$ 250
Large corporation and other taxes	224	15
Savings from reduction in tax rates for future income tax and tax recovery	(65)	(719)
Unrecorded asset in joint venture	267	–
Other	214	18
Income Tax Recovery	\$ (937)	\$ (436)

The components of the future income tax assets and liabilities are as follows:

	2003	2002
Tax loss carry forwards:	\$ 1,703	\$ –
Equipment and other assets	12	166
Unbilled work-in-progress and holdback receivable	(2,692)	(3,403)
Accounting income not currently taxable	–	(2,084)
Other	12	3
	\$ (965)	\$ (5,318)
Classified as:		
Long-term asset	\$ 376	\$ 340
Current liability	(858)	(5,488)
Long-term liability	(483)	(170)
	\$ (965)	\$ (5,318)

The consolidated group has accumulated net capital losses for income tax purposes of \$7,172 which may be carried forward indefinitely to reduce future capital gains. The value of these losses has not been recognized in these financial statements.

The consolidated group has accumulated non-capital losses for income tax purposes of \$4,915 which expire in 2010.

13. SHAREHOLDERS' EQUITY

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

Share Capital

Authorized

Unlimited Preferred Shares issuable in series with rights set by the Directors

Unlimited Common Shares

Issued	2003		2002	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of year	10,864,040	\$ 1,300	10,566,974	\$ 825
Shares repurchased and cancelled	(18,800)	(6)	(149,600)	(14)
Stock options exercised	192,000	277	—	—
Issued pursuant to acquisition (Note 3)	826,412	2,223	446,666	489
Issued, end of year	11,863,652	\$ 3,794	10,864,040	\$ 1,300

Contributed Surplus

Contributed surplus of \$5,128 arose in 1997 from the acquisition of Preferred Shares, with an issue price of \$9,829, for \$4,142 plus associated acquisition costs of \$559.

Share-Based Compensation Plan

The Corporation maintains an Employees and Directors Share Option Plan under which options may be granted by the Board of Directors for up to 2,135,666 Common Shares of the Corporation. As at December 31, 2003, the maximum number of options available for issue under this plan is 1,408,000 of which 1,046,334 are issued and outstanding, leaving 361,666 available for grant. The exercise price of each option cannot be lower than the public market price on the date of grant. The Board of Directors sets the exercise period for each option granted, which may not exceed ten years, and the vesting term, which may not exceed five years.

A summary of the Corporation's outstanding share options under the Plan at December 31, 2003 and 2002, indicating changes during the years ended on those dates, is presented below:

	2003		2002	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,077,667	\$ 1.73	1,431,000	\$ 1.38
Granted	205,000	2.95	125,000	3.84
Cancelled	(44,333)	1.63	(31,667)	3.10
Exercised	(192,000)	1.44	(446,666)	1.10
Outstanding, end of year	1,046,334	\$ 2.03	1,077,667	\$ 1.73

The following table summarizes information about share options outstanding under the Plan at December 31, 2003:

Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2003	Options Exercisable Dec. 31, 2003
\$ 1.29	May 20, 2004	367,000	367,000
1.30	Feb. 7, 2005	33,334	33,334
1.64	Nov. 13, 2005	316,000	316,000
3.84	Aug. 9, 2007	125,000	58,333
2.95	Oct. 7, 2007	205,000	68,333
		1,046,334	843,000

13. SHAREHOLDERS' EQUITY (CONTINUED)

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

Normal Course Issuer Bids

During the year the Corporation purchased 18,800 (2002 – 149,600) Common Shares for cancellation under Normal Course Issuer Bids at an average cost of \$2.29 (2002 – \$2.51) per Share, including commissions. The amount by which the cost exceeds the stated value of the Common Shares is charged to retained earnings.

On February 22, 2004, the Corporation initiated a new Normal Course Issuer Bid through the Toronto Stock Exchange under which up to 900,000 of its outstanding Common Shares may be purchased for cancellation. This new bid will terminate on February 23, 2005.

Shareholder Rights Plan

The Corporation has an Amended and Restated Shareholder Rights Plan (the "Plan") which attaches one Right, with an Exercise Price of \$20.00, to each outstanding Common Share of the Corporation. The Rights expire on September 30, 2004 unless exchanged or redeemed on an earlier date. Such Rights can only be exercised on the occurrence of a triggering event, which is defined as a person (an "Acquiring Person") acquiring, or publicly announcing its intention to acquire, 20% or more of the Common Shares, other than by an acquisition pursuant to a takeover bid permitted by the Plan. Upon occurrence of a triggering event, as described above, each Right entitles the holder, other than an Acquiring Person, to purchase that number of Common Shares of the Corporation having an aggregate market price equal to twice the Exercise Price, for a cash amount equal to the Exercise Price.

14. NET (LOSS) EARNINGS PER COMMON SHARE

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

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.

The components of basic and fully diluted earnings per share are as follows:

	2003	2002
Net (Loss) Earnings	\$ (3,657)	\$ 982
Weighted average number of Common Shares outstanding	11,665,985	10,773,696
Incremental number of shares under treasury stock method	368,044	667,948
	12,034,029	11,441,644
Net (Loss) Earnings Per Common Share:		
Basic	\$ (0.31)	\$ 0.09
Fully Diluted	\$ (0.31)	\$ 0.09

For the year ended December 31, 2003 the effect of outstanding share options on earnings per share is anti-dilutive as the Corporation is in a loss position.

15. NON-CONSTRUCTION EARNINGS

(\$ thousands)

	2003	2002
Equity Investment (LCT Holdings Ltd.)		
Equity earnings	\$ 172	\$ 262
Management fees	–	120
Properties for Sale		
Property rentals - net	–	(3)
Gain on disposal	–	110
Interest income	10	13
Earnings Before Interest	\$ 182	\$ 502

During 2003 Lafrentz Road Services Ltd. sold its operating assets, distributed the net cash received to its owners, and changed its name to LCT Holdings Ltd. As at December 31, 2003 LCT Holdings Ltd. is an inactive company.

16. STOCK-BASED COMPENSATION

(\$ thousands, except per share amounts)

Effective January 1, 2002, the CICA recommended that stock-based compensation be accounted for using a fair value methodology. As permitted, the Corporation has elected to measure compensation expense as the difference, if any, between the quoted market value or fair value of the stock at the date of grant and the exercise price at the date of grant. The exercise price of options granted by the Corporation was not less than the market value at the date of grant and consequently, no compensation expense has been recorded.

If compensation costs for options for Common Shares of the Corporation, issued on or after January 1, 2002, has been determined based on the fair value methodology, using the Black-Scholes option-pricing model, the Corporation's net loss and loss per share would have been increased to the pro forma amounts indicated below:

		2003	2002
Net (Loss) Earnings	As reported	\$ (3,657)	\$ 982
	Pro forma	\$ (3,773)	\$ 922
Basic (Loss) Earnings per Common Share	As reported	\$ (0.31)	\$ 0.09
	Pro forma	\$ (0.32)	\$ 0.09
Fully diluted (Loss) Earnings per Common Share	As reported	\$ (0.31)	\$ 0.09
	Pro forma	\$ (0.32)	\$ 0.08

The fair value of each option granted by the Corporation was estimated using the Black-Scholes option-pricing model assuming no dividends are paid on Common Shares, a risk-free interest rate of 3.36% (2002 - 4.22%), an average life of 3.4 years (2002 - 3.7 years), and a volatility of 49.69% (2002 - 46.91%). 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 holder.

17. CONTINGENCIES

(\$ thousands)

- Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts as well as obligations of associates in certain joint ventures.
- The Corporation and its subsidiaries are defendants in lawsuits arising in the normal course of operations and involving various amounts. Management is of the opinion the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in the Statement of Earnings as the matters are resolved.
- On January 17, 2002, Fuller Austin Insulation Inc. acquired the shares of Lakehead Insulation Inc. The purchase agreement includes potential future consideration of up to \$300 based on Lakehead earnings during the three-year period ending December 31, 2004. No contingent consideration was booked at the date of acquisition as the value could not be reasonably determined. No contingent consideration has been earned under this arrangement.

18. COMMITMENTS

(\$ thousands)

- The Corporation and its subsidiaries lease certain equipment, vehicles, office premises, and are also committed to future annual payments in respect of a service agreement. Future minimum payments over the next five years are:

	2004	\$	700
	2005		549
	2006		322
	2007		244
	2008		160

- The Corporation purchased land to construct a modular fabrication shop and yard, and committed in 2003 to spend up to \$5.2 million on the initial phases of construction. On the strength of a client's indicated commitment, the Corporation has approved completing additional phases of the facility, increasing the total estimated facility cost to \$7.4 million.

19. GUARANTEES

(\$ thousands)

The Corporation has issued an irrevocable letter of credit for \$40 as general security under an industrial maintenance contract. The maximum potential payment amount varies with the scope of the maintenance being performed at any given point in time, and may be greater or less than the letter of credit. The letter of credit expires August 2004.

The Corporation is a partner in two joint ventures. In each instance the Corporation has provided a joint and several guarantee, increasing the maximum potential payment to the full value of the work remaining under the contract. The cost of completing the contracts cannot reasonably be determined, and may be greater or less than the unbilled portion of the contracts.

The Corporation has entered into a joint and several guarantee under the representations and warranties given as a part of the transactions whereby the Corporation's equity investment sold the majority of its assets to a third party. The Corporation also agreed to have \$189 of its proceeds placed into an escrow account until February, 2008 to provide against product warranty claims and claims under the representations and warranties. There is no maximum potential payment under the guarantee. The Corporation has not recorded the escrow amounts as an asset as at December 31, 2003.

20. RELATED PARTY TRANSACTIONS

(\$ thousands)

In October, 2002 the Corporation provided an interest-bearing, demand loan to the President and Chief Executive Officer, to assist with housing arrangements in Edmonton. The President and Chief Executive Officer maintains offices in both Calgary and Edmonton. At December 31, 2003 the loan balance was \$30 (2002 - \$40). In addition, market rent payments of \$24 (2002 - \$6) were made by the Corporation in relation to this housing.

The Corporation incurred legal fees of \$333 (2002 - \$431) 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.

21. SEGMENTED INFORMATION

(\$ thousands)

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

Buildings is active in the construction of commercial, institutional, light-industrial and multi-unit residential buildings.

Industrial General Contracting includes heavy-industrial general contracting, fabrication, site work and ongoing maintenance.

Industrial Insulation Contracting includes all insulation, siding, fireproofing, asbestos abatement and plant maintenance services including, in certain instances, services provided to our industrial general contracting and industrial electrical contracting companies.

Industrial Electrical Contracting includes industrial electrical, instrumentation and power-line construction and maintenance services including, in certain instances, services provided to our industrial general contracting companies.

Corporate and Other includes the Corporation's non-core investments as well as all corporate costs not allocated directly to another business segment.

21. SEGMENTED INFORMATION (CONTINUED)

(\$ thousands)

The accounting policies of the reportable segments are the same as those described in Note 2. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

Year Ended	Contract Revenue	Earnings (Loss) from Construction Operations	Depreciation and Amortization	Goodwill	Total Assets	Capital Expenditures
December 31, 2003						
Buildings	\$ 192,610	\$ (2,550)	\$ 596	\$ –	\$ 55,597	\$ 657
Industrial General Contracting	38,660	(2,898)	885	–	10,765	525
Industrial Insulation Contracting	63,939	2,530	475	–	15,600	333
Industrial Electrical Contracting	25,579	1,173	1,070	8,315	16,956	370
Corporate and Other	–	(3,031)	200	–	4,428	526
Inter-segment Adjustments	(1,596)	–	–	–	(517)	–
	\$ 319,192	\$ (4,776)	\$ 3,226	\$ 8,315	\$ 102,829	\$ 2,411
December 31, 2002						
Buildings	\$ 223,722	\$ 1,840	\$ 651	\$ –	\$ 63,013	\$ 644
Industrial General Contracting	44,477	(1,053)	800	–	18,300	2,581
Industrial Insulation Contracting	44,256	1,575	372	–	17,439	767
Industrial Electrical Contracting	–	–	–	–	–	–
Corporate and Other	–	(2,255)	169	–	218	162
Inter-segment Adjustments	(792)	12	–	–	–	–
	\$ 311,663	\$ 119	\$ 1,992	\$ –	\$ 98,970	\$ 4,154

22. EMPLOYEE CONTRIBUTION PLANS

(\$ thousands)

The Corporation and its subsidiaries have a Registered Retirement Savings Plan and an Employee Share Purchase Plan whereby they match voluntary contributions made by employees to a maximum of 5% of base salary for each plan. Contributions made by the Corporation during the year to the plans were \$1,429 (2002 - \$1,338).

23. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings, and any other amounts that will result in future cash outlays.

Risk management

The financial risk is the risk to the Corporation's earnings that arises from fluctuations in the interest rates and foreign exchange rates and the degree of volatility of these rates. The Corporation is exposed to interest rate risk on its floating rate operating line, when utilized, and its floating rate term debt as disclosed in Notes 10 and 11. The Corporation does not use derivative instruments to reduce its exposure to this risk. The Corporation is not currently exposed to any direct foreign currency risk.

Credit risk

The Corporation is exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographic centres. The Corporation performs an assessment of its potential customers as part of its work procurement process, including an evaluation of financial capacity. The Corporation maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Fair value of financial instruments

As at December 31, 2003, the carrying value of financial instruments of the Corporation approximates their fair values.

24. COMPARATIVE FIGURES

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

FIVE YEAR SUMMARY

The following selected unaudited financial data has been derived from Churchill consolidated financial statements, which have been audited by Deloitte & Touche LLP, Chartered Accountants. The information set forth below should be read in conjunction with the Management's Discussion & Analysis and Consolidated Financial Statements and Notes sections of this Annual Report.

Years ended December 31 (\$ thousands, except share and per share data and percentages)	2003	2002	2001	2000	1999
INCOME STATEMENT DATA					
Contract Revenue	\$ 319,192	\$ 311,663	\$ 293,462	\$ 314,078	\$ 228,038
Contract Income	20,015	20,639	30,123	27,802	18,924
Percent of Contract Revenue	6.3%	6.6%	10.3%	8.9%	8.3%
(Loss) Earnings from Construction Operations	(4,776)	119	8,696	11,860	6,450
Interest Expense	557	248	253	150	307
Depreciation and Amortization	3,226	1,992	1,708	1,502	681
(Loss) Earnings Before Income Taxes	(4,594)	546	9,005	12,045	6,407
Net (Loss) Earnings	(3,657)	982	5,318	6,690	3,403
BALANCE SHEET DATA					
Working Capital	\$ 17,556	\$ 21,175	\$ 22,504	\$ 18,542	\$ 15,324
Shareholders' Equity	30,481	31,681	30,584	25,342	19,427
Term Debt and Bank Indebtedness	7,499	362	4,999	1,248	-
Non-Construction Related Assets	241	1,781	1,699	1,383	1,450
PER COMMON SHARE DATA					
Net (Loss) Earnings per Share:					
Basic	\$ (0.31)	\$ 0.09	\$ 0.50	\$ 0.63	\$ 0.32
Fully Diluted	(0.31)	0.09	0.47	0.60	0.30
Book Value per Share	2.57	2.92	2.89	2.39	1.86
OTHER DATA					
Return on Average Shareholders' Equity (ROE)	(12%)	3%	19%	30%	19%
Work-in-Hand	\$ 313,712	\$ 317,266	\$ 269,101	\$ 233,246	\$ 198,818
COMMON SHARE INFORMATION					
Weighted Average Shares Outstanding	11,665,985	10,773,696	10,567,745	10,704,566	10,514,853
Shares Outstanding at Year End:					
Basic	11,863,652	10,864,040	10,566,974	10,598,774	10,430,174
Fully Diluted	12,909,986	11,941,707	11,997,974	12,018,774	12,157,174
Shares Traded*	2,009,739	4,971,289	3,300,782	4,484,550	3,411,844
Share Price:					
High	\$ 3.00	\$ 4.91	\$ 3.49	\$ 2.00	\$ 1.75
Low	1.90	1.79	1.86	1.25	0.80
Close	2.35	2.85	3.10	1.95	1.35

* Churchill Common Shares were listed on The Alberta Stock Exchange/Canadian Venture Exchange (CDNX) through January 25, 2000 and were listed for trading on the TSE December 8, 1999. The share trading volume and price information set forth consolidates CDNX and TSE market activity.