MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the operating performance and financial position of Churchill should be read in conjunction with the December 31, 2003 Consolidated Financial Statements and related notes on pages 30 to 44 and the Report to Shareholders on pages 3 to 9 of this Annual Report.

KEY OPERATING RESULTS

The following tables set forth certain unaudited historic operating results and financial information referred to in this management's discussion and analysis:

Years ended December 31

($ thousands, except for percentages and per share amounts)	2003	2003 Excluding Laird	2002
Contract Revenue	$ 319,192	$ 293,613	$ 311,663
Contract Income	20,015	16,223	20,639
Contract Income (%)	6.3%	5.5%	6.6%
(Loss) Earnings from Construction Operations	(4,776)	(5,949)	119
(Loss) Earnings Before Income Taxes	(4,594)		546
Net (Loss) Earnings	(3,657)		982
Net (Loss) Earnings per Common Share (Basic)	(0.31)		0.09
Net (Loss) Earnings per Common Share (Fully Diluted)	(0.31)		0.09
Working Capital	17,556		21,175
Working Capital Ratio	1.27		1.32
Capital Expenditures	2,411		4,154
Shareholders' Equity	30,481		31,681
Book Value per Common Share	2.57		2.92
Work-in-Hand	313,712		317,266

Quarterly Financial Information

($ millions, except per share amounts)	2003				2002			
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**	Mar. 31	June 30	Sept. 30	Dec. 31
Contract Revenue	$ 62.2	$ 77.2	$ 84.2	$ 95.6	$ 67.1	$ 75.0	$ 85.0	$ 84.6
(Loss) Earnings before tax	(2.9)	(3.9)	1.9	0.3	0.7	1.3	(0.6)	(0.9)
Net (Loss) Earnings	(1.8)	(2.4)	1.0	(0.5)	0.4	0.8	(0.2)	Nil
Net (Loss) Earnings per Common Share:								
-Basic	(0.16)	(0.21)	0.09	(0.04)	0.04	0.07	(0.02)	Nil
-Fully Diluted	(0.16)	(0.21)	0.09	(0.04)	0.04	0.06	(0.02)	Nil

STRATEGIC VISION

Churchill's strategic vision is to build a highly profitable and sustainable construction, maintenance and industrial services business.

Churchill constructs buildings and provides industrial construction and maintenance services. In 2002 the Corporation operated through four business segments–

- Buildings – constructs commercial, institutional and light-industrial buildings
- Industrial General Contracting – provides heavy-industrial general contracting, fabrication and maintenance services
- Industrial Subcontracting – provides industrial insulation, maintenance and related services
- Corporate and Other – includes corporate costs not allocated directly to another business segment as well as any miscellaneous investments

In February 2003, Churchill acquired Laird Electric, necessitating the expansion to five segments. The fifth segment is–

- Industrial Electrical Contracting – provides industrial electrical, instrumentation and power-line construction and maintenance services

The Industrial Subcontracting segment was renamed Industrial Insulation Contracting for disclosure purposes commencing March 31, 2003, to better reflect the nature of their business.

Churchill provides strategic direction, operating advice, financing and infrastructure services to each of the business segments. Churchill's senior management is Gary Bardell, President and CEO; Al Stowkowy, President, Stuart Olson Construction; Bruce Rintoul, Vice President, Industrial, and Ian Morris, Vice President Finance and Chief Financial Officer. Each business segment has its own President and senior management team, and is designed to be self-supporting.

The roles of the parent company and the operating entities, and of the key people within these organizations, are highly dynamic. We are constantly reviewing and amending our business models and processes to address immediate client needs and in anticipation of changes in our markets.

Churchill has not performed well from a financial standpoint over the past two years. Notwithstanding the financial disappointments, we have made progressive steps and achieved some success. Our immediate objective is to return Churchill to profitability.

Once we have returned to the desired levels of profitability, we will be in a position to determine our best opportunities for growth. We will continue to assess both niche style acquisition opportunities and major strategic acquisitions, but only so long as this activity does not distract from our primary objective.

RESULTS OF OPERATIONS

The consolidated results of operations, cash flow and financial position of the Corporation for the year ended and as at December 31, 2003 are included on pages 30 to 44.

The Churchill Corporation acquired Laird Electric Inc. on February 7, 2003. The consolidated results for the year ended December 31, 2003 include the results of Laird Electric from the date of acquisition to December 31, 2003. The comparative results for the year ended December 31, 2002 do not include Laird. The key operating results summarized on page 19 have been tabulated to reflect the consolidated results including Laird, as well as disclosing revenue and contract income excluding Laird. The latter results are more directly comparable to the consolidated 2002 results.

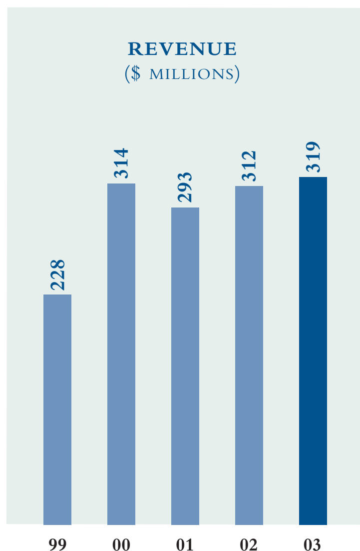
In order to understand more clearly the operating results for The Churchill Corporation, the discussion within this Management's Discussion and Analysis will be focused on the business segment level.

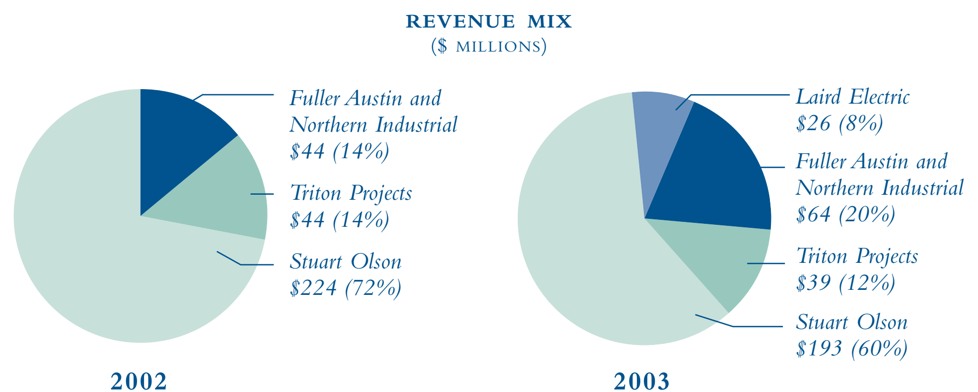
The quarterly financial information as at March 31, June 30, and September 30, 2003 has been presented and analyzed in our quarterly reports to shareholders. The Corporation does not produce a separate quarterly report for the fourth quarter. As shown in the Quarterly Financial Information on page 19, the activities for the three months ended December 31, 2003 resulted in revenues being up substantially, to $95.6 million from $84.2 million the previous quarter. This strong increase in revenue is indicative of a strengthening in the market with a lessening of the effects of project delays. The net earnings before tax for the three months ended December 31, 2003 were $ 0.3 million, indicating that Churchill's operations are profitable when not negatively impacted by restructuring charges, bad debt provisions, and low levels of work.

For the year ended December 31, 2003, The Churchill Corporation had a net loss of $3.7 million on revenues of $319.2 million, or a net loss per share of $0.31 for the year. For the year ended December 31, 2002, The Churchill Corporation had net earnings of $1.0 million on revenues of $311.7 million, or earnings per share of $0.09.

Year over year revenues for the consolidated group increased $7.5 million. As discussed, the 2003 results include Laird from its date of acquisition; without Laird's $25.6 million of revenue, 2003 revenues for the comparable group as existed in 2002 would have been lower than 2002 by $18.1 million. Industrial Insulation Contracting had an excellent year in 2003, with revenues increasing $19.6 million, while Triton Projects experienced a revenue decline in 2003 of $5.8 million and Stuart Olson's revenue declined $31.1 million.

The net loss of $3.7 million for the 2003 year is after reversal of future income tax amounts of $5.0 million and accrual of $4.0 million of current taxes payable. The movement between current and future income tax is due to tax loss carryforwards for 2004 and reductions of certain tax reserves in 2003.





BUILDINGS

For the year ended December 31, 2003, Stuart Olson had revenues of $192.6 million, compared to $223.7 million in the prior year.

Stuart Olson entered the year with a backlog of $283.7 million. During 2003 Stuart Olson secured a further $172.4 million of contracts, net of contract revisions, and executed and took into revenue $192.6 million. They ended 2003 with a backlog of $263.5 million.

Contract income declined from $10.8 million in 2002 to $7.0 million in 2003, and also declined as a percentage, from 4.8% of revenue to 3.6%. Project backlog entering 2003 had been bid during 2002, when there was a shortage of work. This resulted in tighter bid margins as the company attempted to secure work to offset infrastructure costs. Stuart Olson management is focused on improving their overall margins in 2004.

INDUSTRIAL GENERAL CONTRACTING

Triton Projects experienced another year of financial losses. The traditional markets for Triton continued to reduce. Repositioning the company to successfully penetrate new markets has taken longer than anticipated. Triton's revenues for the year ended December 31, 2003 were $38.7 million, down 13.0% from $44.5 million for the year ended December 31, 2002, which in turn was down 21.2% from the prior year.

Operating margins were approximately 6.7% in 2003 and 8.9% in 2002. This is below historical long-term margin performance for Triton Projects, and is a direct result of heavy-industrial contracting companies, including Triton, being more aggressive in their bidding margins. The operating margin produced from the lower level of revenues was not sufficient to recover all of the general and administrative expenses for the year. Triton recorded a loss before income taxes of $2.9 million for the year ended December 31, 2003, as compared to a loss before income taxes of $1.1 million for the year ended December 31, 2002.

As reported in our June 30, 2003 Second Quarter Report, Triton took a $1.0 million charge in the first half of the year for severances and early retirements as their management reduced overheads and repositioned operations to match market conditions. As the year progressed and new potential opportunities appeared, it became necessary to add infrastructure to support the development of these new opportunities.

Triton began 2003 with $10.6 million of work-in-hand. All of this was executed and brought into revenue for 2003. In addition, they secured $40.1 million of new work during the year, and executed $28.0 million of that, leaving $12.1 million to be executed in 2004. At the end of 2003 Triton Projects renewed its maintenance contracts, which added an additional $6.5 million to the backlog of work-in-hand at December 31, 2003.

Triton had several initiatives in 2003 that are expected to produce improved results in 2004 and beyond. They developed a division to provide boiler repair and maintenance services. This led to several smaller contracts in 2003, has introduced the company to a new set of clients, and is expected to result in an increasing volume of work in 2004.

A significant portion of the capital projects in enhanced oil recovery and oil sands are expected to be constructed using a modular methodology. With this approach the component parts are constructed within the controlled environment of a fabrication facility and yard, then moved to the site and installed. Churchill has started construction of a modular fabrication facility. Triton Projects is expected to be the largest beneficiary of work, both within this facility, and the related field installation work.

INDUSTRIAL INSULATION CONTRACTING

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

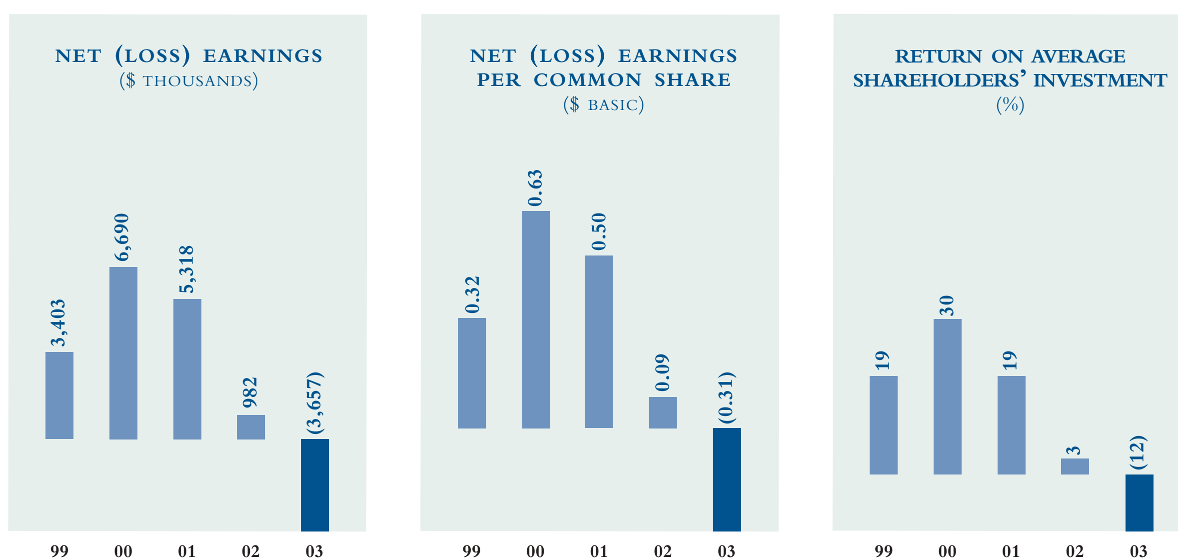
The Industrial Insulation Contracting segment performed well in 2003. Revenues for the year ended December 31, 2003 increased by 44.2% over 2002, to $63.9 million from $44.3 million. In Ontario, significant revenues were generated from two large projects for pulp mills in Lakehead's traditional geographic market, as well as from one large project in southern Ontario. This project was Lakehead's first in the highly industrialized southern Ontario market. They are now assessing whether to increase their marketing of the company's services in that area. In Saskatchewan, Fuller Austin provided insulation contracting services on a major turnaround project at a refinery in Regina. In Alberta, the insulation companies participated in projects in modular fabrication yards in the Edmonton area, in new project work in the Fort McMurray area, and in a project expansion in the heavy oil sands area near Bonnyville.

Several of these larger projects incurred lower operating margins than their traditional work. Consequently, margins for the year ended December 31, 2003 were 10.6%, compared to 13.2% attained in 2002.

Earnings before income taxes for the year ended December 31, 2003 were $2.5 million, as compared to $1.6 million for the year ended December 31, 2002.

Industrial Insulation Contracting had a number of recurring maintenance contracts with major industrial clients that generated revenue in 2003 of approximately $5.0 million.

Industrial Insulation Contracting entered 2003 with an order backlog of $23.0 million. They secured $51.2 million of new contracts in 2003. They executed and took into revenue $63.9 million. They enter 2004 with an order backlog of $14.3 million, including $4.0 million of recurring maintenance contracts.



INDUSTRIAL ELECTRICAL CONTRACTING

Churchill acquired Laird Electric in February 2003. The December 31, 2003 financial statements for The Churchill Corporation include the results for Laird Electric from the date of acquisition to the end of the year.

Churchill acquired all of the issued and outstanding shares of Laird Electric for $10.7 million and all of the shareholders' loans for $5.4 million, for a total outlay of $16.1 million. The purchase price was paid by way of $13.9 million cash and the issuance from treasury of 826,412 Churchill Common Shares. In order to complete the transaction, Churchill secured $8.0 million of term financing.

The purchase price was allocated $6.3 million to net tangible assets, $1.5 million to a customer contract and certain employment contracts, and $8.3 million to goodwill. The assets acquired included $6.2 million of receivables, $0.4 million of inventory, $1.0 million of property and equipment, and $1.0 million of cash. The liabilities assumed included $1.7 million of trade and government obligations, and $0.3 million of financing related to the purchases of vehicles. The value assigned to intangible assets of $1.5 million consists of the present value assigned to a maintenance contract with Laird Electric's largest customer, which expires in the first quarter of 2004, and the value assigned to the employment contracts with the senior management of Laird Electric. These contracts include a claw back of the purchase price in the event the individuals do not remain with the company through the full three-year retention period. The $1.5 million is being amortized over its estimated life. At December 31, 2003 the unamortized value of these intangible assets was $0.8 million.

Laird Electric generated $25.6 million of revenue for the period from acquisition to December 31, 2003. Operating margins during that period were 14.8%. Earnings before income taxes for the period were $1.2 million. These results were within the range anticipated at the time of acquisition. Approximately 76% of Laird Electric's revenue in 2003 was derived from two customers.

Laird had a backlog of work of $24.2 million at the date of acquisition. They secured $25.2 million of new contracts to the end of 2003, and executed $25.6 million of work. They enter 2004 with an order backlog of $23.8 million.

During the year Laird Electric successfully expanded into the Edmonton region, obtaining work in a power generating facility and in several of the modular fabrication yards in the Edmonton area.

The integration of Laird Electric into the Industrial Group progressed well throughout 2003, and will continue into 2004. The primary successes included a continuation of contract awards, improvements in communications infrastructure, adjustment of accounting routines to meet public company requirements, and the successful opening of an office in Edmonton together with procurement of several new contracts in that market place.

CORPORATE AND OTHER

In 2003, $21.9 million of Indirect and Administrative expenses were incurred by the Churchill group of companies, compared to $19.3 million for the year ended December 31, 2002. The 2003 figure of $21.9 million includes $1.4 million incurred directly by Laird Electric. The 2002 Indirect and Administrative expenses did not include any amount incurred by Laird.

The increase of 6.2% in Indirect and Administrative expenses (excluding Laird), is due primarily to increases in insurance costs, computer infrastructure support costs, severances and salaries. Insurance cost increases were market driven; Churchill did not increase or enhance coverage year over year. Computer infrastructure costs increased as the Corporation enhanced its communication capabilities and increased security over its information. Severances and early retirements of $1.0 million have been discussed earlier in relation to the activities of Triton Projects. Severances paid by all other segments totaled $0.3 million.

In February 2003, the receiver-manager of JTB Canada Pork accepted a $5.5 million offer for the assets of JTB. Over the course of five months the potential purchaser paid in excess of $1.1 million in non-refundable deposits. However, by the middle of the year it became apparent that the potential purchaser had not been successful in raising the remaining funds, and their deal collapsed. There being no other purchasers expressing interest at that point, Churchill booked a bad debt allowance of $3.0 million as at June 30, 2003, writing the net receivable down to zero. After contemplating the alternatives, the receiver-manager began anew the process of seeking potential buyers but at a lower price. Shortly thereafter several purchasers expressed interest, and the receiver-manager negotiated and closed the sale of the assets for a price of $3.3 million. This allowed Churchill to reflect a net recovery of the $3.0 million bad debt allowance set up in the previous quarter.

Churchill's 41% interest in the Lafrentz Road Services business was deemed to be non-essential and was sold in early 2003. The distributed proceeds received on the sale were $1.6 million, resulting in the Corporation recording a small gain.

CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

For the year ended December 31, 2003, Churchill consumed $5.6 million of cash through its revenue generating activities. The Corporation generated $12.5 million of cash flow through reduction of working capital, related in part to the timing of collections and payments. This resulted in a net cash flow from operating activities of $6.9 million. For the year ended December 31, 2002, Churchill generated $4.0 million of cash through its revenue generating activities, however, increases in working capital consumed $3.3 million.

The most significant capital requirement and financing activity for 2003 related to the acquisition of Laird Electric. Churchill secured an additional $8.0 million of financing through its lending institution to complete the transaction. The loan is repayable in equal quarterly installments over five years, and bears interest at prime plus 1.25%, payable monthly. It can be repaid without penalty at any time under its floating rate structure. In addition, it may be converted into a fixed rate loan before May 31, 2004. The cash portion of the Laird Electric purchase price consisted of $8.5 million for shares and $5.4 million for shareholder loans less $1.0 million Laird cash acquired for a net of $12.9 million. The $12.9 million was paid from proceeds of the $8.0 million financing, and $4.9 million was paid out of existing cash reserves. The remaining portion of the purchase price was financed through the issuance of 826,412 Common Shares of Churchill valued at $2.2 million.

Churchill repaid $1.9 million of debt during the year ended December 31, 2003. Of these repayments, $1.2 million were the scheduled payments on the Laird Electric acquisition loan. The remainder consisted primarily of scheduled payments on dealer financing for vehicles.

Churchill acquired $2.4 million of property and equipment during the 2003 fiscal year, compared to $4.2 million in the year ended December 31, 2002.

Churchill began 2003 with $14.1 million in cash, of which $5.5 million was subject to certain deemed trust conditions. All of the operating, investing and financing activities throughout 2003 generated a small amount of additional cash. At December 31, 2003 Churchill had $14.6 million of cash, of which $4.4 million was subject to deemed trust conditions.

The scheduled debt repayments for 2004 are $1.9 million. The level of required replacement capital spending for Churchill is estimated to be in the range of $2.0 million a year. These requirements are expected to again be met through a combination of operating and financing activities. In addition, as discussed under the 2004 Outlook section of this Management's Discussion and Analysis, Churchill's Board of Directors has approved the construction of a modular fabrication shop and yard at an estimated cost of $7.4 million. Churchill expects to raise long-term debt for a significant portion of this requirement.

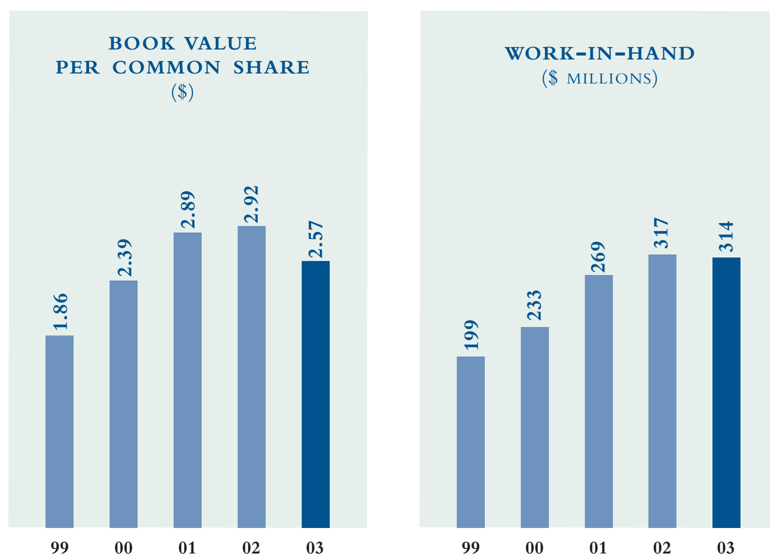
The Corporation is in compliance with its banking covenants as at December 31, 2003. It is in the early stages of arranging financing for the modular fabrication facility and in conjunction with this, it will be having discussions with its current lender to modify its existing covenants to take into account the effect of its additional borrowings and operations. Should the Corporation be in violation of its financial ratios as it goes forward, the lender would be in a position to demand repayment of any balances outstanding under its loan facilities. The Corporation monitors the financial ratios on a continuous basis.

The Corporation has $30.5 million of equity, including $8.3 million of goodwill, against which it has $7.5 million of long-term debt. At December 31, 2003, working capital was $17.6 million. The Corporation has sufficient short-term and long-term liquidity to deal with its regular business in the normal course.

During the year the Corporation issued 826,412 Common Shares from treasury as part payment for Laird Electric at a price of $2.42 per share, and issued 192,000 Common Shares on the exercise of options by certain Directors and Officers at an average price of $1.44 per share. The Corporation purchased and cancelled 18,800 Common Shares during the year under Normal Course Issuer Bids at an average price of $2.29 per share. There were 11,863,652 Common Shares issued and outstanding at December 31, 2003.

The Corporation has an Employee Share Purchase Plan available to all full-time employees. At December 31, 2003 the Plan held 1,168,589 Churchill Common Shares for the employees. Under the Plan, shares are acquired in the open market.

The Corporation maintains a Share Option Plan for Directors and Officers, under which 1,046,334 options were outstanding as at December 31, 2003. In addition to the 192,000 options exercised during the year, there were 44,333 options cancelled, and 205,000 options issued. The options issued during the year were to members of senior management, issued at an exercise price of $2.95, vesting over two years and expiring at the end of four years. There were 361,666 options available for grant at December 31, 2003.



RISKS AND RISK MANAGEMENT

Churchill's 2002 Annual Report discussed how certain of the operating segments had increased their infrastructure in anticipation of higher revenue levels in 2003. In particular, both Stuart Olson and Triton had done so. Unfortunately, several factors caused governments and major exploration and production companies in western Canada to delay capital projects in 2003.

- Political unrest, war and terrorism in many parts of the world caused governments in western Canada to shift their focus, temporarily suspending capital spending while reassessing the impact of fluctuations in commodity prices on their cash flows.
- Companies with worldwide oil and gas assets also shifted their focus to assets most at risk, suspending other capital projects, some of which are in western Canada.
- Companies already active or contemplating activity in the Alberta oil sands region analyzed the most recent experiences on major projects in an attempt to understand the escalating project costs and reassess how to deliver their own projects in the future.

These delays had a direct impact on Churchill's 2003 revenues, as certain contracts already awarded to us were put on hold. Other projects not yet out for bid were delayed, meaning less work available to all construction contractors and making the marketplace more competitive. Those of our operating companies carrying additional infrastructure not only incurred that cost for a period of time but also had to bear the cost of downsizing those portions that they determined to be surplus to their needs during the year.

Our operations are centered in and primarily focused on western Canada. The majority of construction in western Canada, particularly the industrial construction activity we pursue, is either directly or indirectly connected to oil and gas. Oil and gas pricing and activity levels are directly impacted by worldwide events. While we can attempt to anticipate what direction oil and gas commodity prices might take, we mainly react to significant price movements as they happen. Significant downward movement in oil and gas prices can lead to project delays or cancellations.

The climate in western Canada can generate severe weather, which will slow down or delay construction for periods of time, impacting costs and delivery schedules.

Permitting, engineering and design that happen in advance of construction can lead to a delay. Stuart Olson participates in design-build projects where they take on the additional risk of design-related flaws or failures. In order for us to be awarded a project, we often are required to provide a surety bond for the contract; our ability to attain bonding is dependent upon our past performance, the strength of our balance sheet, and the quantity of our work-in-hand.

Once under construction, the project management team must be aware of and constantly monitor estimating, procurement, project execution, and contract terms. These are all risks that are under management control, and are an area where management is assessing the strength of its internal and disclosure controls on an ongoing basis.

In past periods of high construction activity in western Canada there have been shortages of labour, including our own and our subcontractors' work forces. In certain of our companies, the labour force is unionized, creating a possibility of labour disruptions if collective agreements cannot be negotiated as they come due.

In the past, Churchill has grown by acquisition, including Laird Electric in 2003. Our ability to undertake future acquisitions is limited by our ability to access financing. In addition, the success of any acquisition is dependent upon the successful integration of the acquired company into the rest of our operations.

Churchill's management is constantly assessing the company's exposure to some form of catastrophic risk, and where possible and economically feasible, will buy insurance protection to mitigate that risk.

2004 OUTLOOK

The Churchill Corporation entered 2004 with a backlog of $313.7 million, of which $265.6 million is expected to become earned revenue in 2004 and $48.1 million is expected to carry forward into 2005 or later.

Of the $265.6 million of backlog expected to be taken into revenue in 2004, $175.8 million is from projects already underway, reducing the risk of project cancellation or delay. An additional $26.5 million is generated from maintenance contracts, which clients generally do not defer. The remaining $63.3 million of the backlog relates to projects that had not commenced at December 31, 2003. In general, these projects have a higher degree of risk of being delayed or cancelled, although in this instance, a number are government related projects that have received all approvals, including funding, and should commence on schedule.

Stuart Olson enters 2004 with $263.5 million of backlog, of which $216.3 million is expected to be realized as revenue in 2004. This represents 112% of their 2003 revenue level, and 97% of their record earned revenue level of 2002. The Alberta building construction market appears to be positive, and the British Columbia market appears to be strengthening. Coupled with the anticipated infrastructure development funding for schools, hospitals and long-term health care in Alberta this should result in Stuart Olson surpassing 2003 revenues. Stuart Olson typically experiences a slow first quarter of the year due to the impact of weather on productivity; we do not expect 2004 to vary from that pattern.

Triton Projects enters 2004 with $12.1 million of backlog. This is at a low level, however, they have secured contracts for the new fabrication facility commencing mid-year, and they expect to participate in the related field construction work later in the year. Our belief is that the Triton organization has been right-sized, so that a reasonable level of success in obtaining contracts in the first six months of the year should result in Triton being profitable. It is expected that the first six months of the year will be difficult, as many of the potential projects will still be in the engineering phase and not yet moved into the construction phase.

The Industrial Insulation Contracting group had a strong year in 2003, with revenues of $63.9 million. They entered 2004 with $14.3 million of backlog for execution in 2004, of which $4.0 million is expected as work under maintenance contracts. 2004 is expected to be somewhat slower than 2003 for this group due to the early stage of development on many of the anticipated projects.

Laird Electric entered 2004 with a $23.8 million backlog, of which $16.0 million is recurring maintenance to be completed in 2004. In January 2004 Laird was awarded a large contract in the Fort McMurray area for an existing client, scheduled for completion in 2004. Laird should repeat or exceed their performance of 2003.

Churchill incurred approximately $0.4 million in 2003 in public company costs including directors' fees and insurance. Looking forward to 2004, that figure is expected to increase substantially due to regulatory changes, both in the level and timing of reporting to the stock exchanges and securities commissions, and in dealing with other legislation such as the new Privacy Acts and the new health and safety regulations. Churchill expects to incur significant one-time and on-going costs related to these activities.

An important initiative during the second half of 2003 was the establishment of Churchill Industrial Group Inc., a new group that is internally focused on the efficient and cost effective delivery of services that are common to all of the industrial companies. These include safety, marketing and human resources. It is also expected that this initiative will allow Churchill to better communicate and market its package of services to existing and potential clients.

A major new initiative for the Industrial group is the planned construction of a modular fabrication shop and yard. This initiative, approved by the Board of Directors in late 2003, is planned for construction completion by mid-2004 at an estimated cost of $7.4 million. This facility will allow Churchill to offer its clients a more controlled environment to achieve lower project costs, and access to a larger labour pool compared to that available at a remote work site. The Corporation has received a written indication of intent from a customer that would utilize a substantial portion of the 2004 capacity of the facility upon completion. Depending on the client and the opportunity, more than one of Churchill's industrial companies could be involved in the work in the modular fabrication shop and yard, and in the field installation activity.

The primary driver for Churchill is profitability. The Corporation has a significant backlog of construction projects entering 2004. Management is focused on their markets, their profitability, and is aware of the risks that have kept the company from being financially successful over the past year. The construction marketplace in western Canada is expected to improve in 2004 and strengthen for a number of years.

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