

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.



H. R. (Hank) Reid, MBA, P.Eng.
Interim Chief Executive Officer



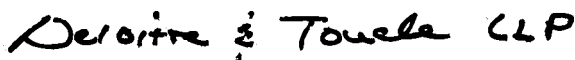
DeEtte Mack, B.Comm., CA
Corporate Controller

To the Shareholders of The Churchill Corporation

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 2004 and December 31, 2003 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, 2004 and 2003 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
February 28, 2005 (Except for Note 25(b) which is as of March 18, 2005)


CONSOLIDATED BALANCE SHEETS


as at December 31,

(\$ thousands)	2004	2003
Assets		
Current Assets		
Cash and equivalents (Note 5)	\$ 11,719	\$ 14,622
Term deposit (Note 6)	4,000	-
Accounts receivable (Note 7)	77,325	67,513
Inventories and prepaid expenses	1,663	1,410
Properties for sale (Note 8)	103	103
Income taxes recoverable	954	-
Future income tax assets (Note 15)	1,921	-
Current portion of agreement receivable (Note 9)	-	138
	97,685	83,786
Future income tax assets (Note 15)	549	376
Property and equipment (Note 10)	15,528	9,568
Intangible assets (Note 11)	231	784
Refundable deposit (Note 3)	1,000	1,000
Goodwill (Notes 3 and 12)	7,315	7,315
	\$ 122,308	\$ 102,829
Liabilities		
Current Liabilities		
Accounts payable	\$ 67,363	\$ 50,949
Contract advances and unearned income	17,937	11,454
Income taxes payable	-	1,105
Future income tax liabilities (Note 15)	-	858
Current portion of long-term debt (Note 14)	9,358	1,864
	94,658	66,230
Long-term debt (Note 14)	1,849	5,635
Future income tax liabilities (Note 15)	935	483
	97,442	72,348
Contingencies, Commitments and Guarantees (Notes 18, 19 and 20)		
Shareholders' Equity		
Share capital (Note 16)	4,289	3,794
Contributed surplus (Note 16)	5,378	5,128
Retained earnings	15,199	21,559
	24,866	30,481
	\$ 122,308	\$ 102,829

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

Approved by the Board:


 H.R. (Hank) Reid
 Director


 Peter F. Adams
 Director

CONSOLIDATED STATEMENTS OF LOSS

for the years ended December 31,

(\$ thousands, except per share amounts)	2004	2003
Construction Operations		
Contract revenue	\$ 334,618	\$ 319,398
Contract costs	316,620	298,094
Contract income	17,998	21,304
Interest income	469	472
Sundry income	468	350
Indirect and administrative expenses	(24,820)	(22,937)
Depreciation and amortization	(3,193)	(3,226)
Interest expense	(523)	(557)
Loss before income taxes	(9,601)	(4,594)
Income Tax Recovery (Expense):		
Current income tax	932	(4,031)
Future income tax	2,500	4,968
	3,432	937
Net loss	\$ (6,169)	\$ (3,657)
Net loss per common share (Note 17)		
Basic and fully diluted	\$ (0.51)	\$ (0.31)

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

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

for the years ended December 31,

(\$ thousands)	2004	2003
Retained earnings, beginning of year, as previously reported	\$ 21,559	\$ 25,253
Change in accounting policy, stock-based compensation (Notes 1 and 16)	(176)	-
Retained earnings, beginning of year, restated	21,383	25,253
Net loss	(6,169)	(3,657)
Share redemption in excess of stated capital	(15)	(37)
Retained earnings, end of year	\$ 15,199	\$ 21,559

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

CONSOLIDATED STATEMENTS OF NET CASH FLOW

for the years ended December 31,

(\$ thousands)	2004	2003
Operating Activities		
Net loss	\$ (6,169)	\$ (3,657)
Non-cash items		
Net equity earnings of affiliate	-	(172)
Depreciation and amortization	3,193	3,226
Gain on disposal of property and equipment	(51)	(136)
Future income taxes	(2,500)	(4,968)
Stock-based compensation (Note 16)	74	-
	(5,453)	(5,707)
Net change in accounts receivable, inventories and prepaid expenses	(10,065)	9,397
Net change in accounts payable, contract advances and unearned income	22,897	(492)
Change in income taxes payable	(2,059)	3,589
	5,320	6,787
Investing Activities		
Proceeds from agreement receivable	138	124
Distributions from equity investee	-	1,588
Purchase of term deposit (Note 6)	(4,000)	-
Proceeds on disposal of property and equipment	155	260
Acquisition of subsidiary (Note 3)	-	(12,874)
Additions to property and equipment	(8,704)	(2,411)
	(12,411)	(13,313)
Financing Activities		
Issuance of long-term debt	5,882	8,678
Repayment of long-term debt	(2,174)	(1,857)
Issuance of common shares	498	277
Redemption of common shares	(18)	(43)
	4,188	7,055
(Decrease) increase in cash	(2,903)	529
Net cash, beginning of year	14,622	14,093
Net cash, end of year	\$ 11,719	\$ 14,622
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest expense	\$ 508	\$ 565
Income taxes	\$ 1,127	\$ 343

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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

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

Principles of Consolidation

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

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

Joint ventures are accounted for on the proportionate consolidation basis, which results in the Corporation recognizing its pro rata share of the assets, liabilities, revenues, and expenses of each of the entities.

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. A certain amount of uncertainty is inherent in estimating the cost of completing construction projects, the estimated useful life of equipment and corresponding depreciation rates, allowances for doubtful accounts receivable, future income taxes, provision for legal contingencies, valuation of stock options and the fair value of goodwill, intangible assets and other financial instruments. The impact on the financial statements of future changes in such estimates could be material.

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.

Property and Equipment

Property and equipment are recorded at cost and depreciated using either the diminishing-balance or the straight-line methods over their estimated useful lives at the rates indicated in Note 10.

Employee Future Benefits

The Corporation and its subsidiaries have a Registered Retirement Savings Plan and an Employee Share Purchase Plan. The Corporation contributes to the plans based on the amount of employee contributions. The Corporation accounts for contributions as an expense in the period that they are made (Note 23). The Corporation does not provide post employment or post retirement benefits.

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.

Stock-Based Compensation Plan

Effective January 1, 2004, the Corporation adopted the fair value based method of accounting for stock options which were granted to employees on or after January 1, 2002, in accordance with the new recommendations of CICA Handbook Section 3870 *Stock-Based Compensation and Other Stock-based Payments*. As permitted, the change was adopted retroactively without restatement. Under this method, the estimated fair value of the stock options granted is recognized over the applicable vesting period as a charge to stock compensation expense and a credit to contributed surplus. When these options are exercised, the proceeds received and the related amounts of contributed surplus are credited to share capital. For options granted prior to January 1, 2002, the Corporation continues to follow the applicable generally accepted accounting principle under which no expense is recognized; when these options are exercised, the proceeds are a credit to share capital. The impact on the financial statements arising from adoption of the fair value method is disclosed in Note 16.

The Corporation has one stock option plan as described in Note 16.

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

The Corporation records intangible assets with indefinite lives and goodwill at cost. The Corporation tests its goodwill and intangible assets with infinite lives for impairment on an annual basis, or more frequently if events and changes in circumstances indicate that the asset might be impaired. 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.

Asset Impairment

Effective January 1, 2004, the Corporation adopted the new recommendations of CICA Handbook Section 3063 Impairment of Long-Lived Assets. Section 3063 requires that the impairment of long-lived assets held for use be established through a two-step process, with the first step determining when an impairment is recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition and is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. There is no material impact on the financial statements resulting from the adoption of Section 3063 either in the current or prior periods presented.

Guarantees

The Corporation discloses the nature, amount and term of obligations under guarantee and has provided additional disclosure in Note 20.

2. CONTINUING OPERATIONS

The consolidated financial statements of the Corporation have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

As a result of the financial losses over the last two years, particularly in 2004, the acquisition of capital assets related to pursuing growth in the industrial business and the reclassification of bank debt to current liabilities due to the Corporation's results being offside with the terms of its bank debt covenants, working capital has been significantly reduced. The Corporation is currently working with its existing lenders and other potential sources of financing to manage their bank debt covenant position and replenish working capital to fund its current work program as well as future growth opportunities.

To the extent that the timing of additional sources of financing does not match with the Corporation's expectations, other strategic options will be considered to manage the size and scale of activity in different operating areas to continue operations.

These consolidated financial statements do not reflect adjustments that would be necessary to the carrying values of assets, liabilities and operations if the going concern assumption were not appropriate because management believes that the actions already taken or planned will result in sufficient financing to continue operations. However, management cannot guarantee that all financing arrangements will be in place and available within the timeframes required by current operating plans.

3. ACQUISITION OF SUBSIDIARY

(\$ thousands)

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		7,315
Long-term debt		(316)
Shareholders' loans		(5,359)
Future income tax liabilities		(615)
	\$	9,743

The purchase price consisted of:

Common shares	\$	2,223
Cash		8,520
Refundable Deposit		(1,000)
	\$	9,743

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 11). The intangibles relate to a customer contract (\$550), valued on a discounted net present value basis, and employment contracts valued at their recoverable value (\$1,000).

The purchase price includes a refundable amount of up to \$1,000 that is recoverable in the event that Laird does not achieve a cumulative financial performance objective by December 31, 2005. Any potential refund is secured

by 413,205 shares of the Corporation held in escrow without further recourse. As the consideration is contingent on achieving specific earnings levels in the future, the \$1,000 has been recorded as a refundable deposit. The amount of the deposit that is not refunded, if any, will be treated as additional consideration for goodwill once the contingency is resolved. In the prior year, the contingent amount had been incorrectly recorded in goodwill as part of the purchase consideration. In 2004, the 2003 comparatives have been adjusted to decrease goodwill by \$1,000 with a corresponding increase in refundable deposit.

The deposit is also refundable if certain employees of Laird resign or are terminated with cause prior to December 31, 2005. To date, no such departure has occurred or is expected to occur.

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:

	2004	2003
Current and total assets	\$ 221	\$ 973
Current and total liabilities	440	1,330
Contract revenue	49	3,247
Contract costs and expenses	133	4,530
Net loss	(83)	(1,282)
Cash flow provided by (used in) operating activities	146	(2,508)

5. CASH

(\$ thousands)

Cash includes \$10,477 (2003 — \$4,370) which is restricted under the British Columbia Lien Act to the payment of direct costs related to specific construction projects. Cash balances of \$13 (2003 — \$146) are in joint venture accounts.

6. TERM DEPOSIT

(\$ thousands)

The term deposit bears interest at 2.3%, matures in December 2005, and is held as security by the bank against outstanding credit facilities (Note 14).

7. ACCOUNTS RECEIVABLE

(\$ thousands)

Accounts receivable are comprised of:

	2004	2003
Trades receivable	\$ 60,101	\$ 52,518
Holdback	14,568	11,766
Other	2,656	3,229
	\$ 77,325	\$ 67,513

8. PROPERTIES FOR SALE

(\$ thousands)

	2004	2003
Undeveloped land	\$ 647	\$ 647
Less cumulative valuation adjustments	(544)	(544)
	\$ 103	\$ 103

9. AGREEMENTS RECEIVABLE
(\$ thousands)

	2004	2003
Mortgage receivable, interest at 7%	\$ —	\$ 138
Less current portion	—	(138)
	\$ —	\$ —

10. PROPERTY AND EQUIPMENT
(\$ thousands)

	2004			2003	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	\$ 3,343	\$ —	\$ 3,343	\$ 1,562	—
Assets under construction	—	—	—	27	—
Buildings and improvements	10,411	3,054	7,357	2,782	4%-30%
Vehicles and equipment	19,013	14,185	4,828	5,197	6%-100%
	\$ 32,767	\$ 17,239	\$ 15,528	\$ 9,568	

Depreciation for the year amounted to \$2,640 (2003 — \$2,460).

11. INTANGIBLE ASSETS
(\$ thousands)

	2004			2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Amortization Term
Customer contract intangible	\$ 550	\$ 550	\$ —	\$ 88	12 months
Employment contracts intangible	1,000	769	231	696	36 months
	\$ 1,550	\$ 1,319	\$ 231	\$ 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.

During the year, \$99 of employment contracts intangible was written off by way of additional amortization when employment of an employee for whom the employment contracts intangible was originally recorded was terminated by mutual agreement.

The amortization expense for the year totaled \$553 (2003 — \$766).

12. GOODWILL
(\$ thousands)

	2004	2003
Goodwill	\$ 7,315	\$ 7,315

The goodwill arose on the acquisition of Laird Electric Inc. (Note 3).

13. LINES OF CREDIT

(\$ thousands)

The Corporation maintains an operating line of credit of \$6,000 which, when utilized, bears interest at prime plus 0.5%. The total amounts ultimately available under these facilities are subject to limits based on certain financial ratios. In addition, availability of the operating line is subject to default provisions of the Corporation's credit facilities' debt covenants (Note 14).

At December 31, 2004, the total available operating line of credit was reduced by \$40 which was utilized in the form of an irrevocable letter of credit as general security under an industrial maintenance contract. The letter of credit expires August 2005 and is renewed annually.

14. LONG-TERM DEBT

(\$ thousands)

	2004	2003
Term loan	\$ 3,800	\$ —
Mortgage payable	1,292	—
Acquisition loan	5,200	6,800
Finance contracts and capital leases	915	699
	11,207	7,499
Less current portion	(9,358)	(1,864)
	\$ 1,849	\$ 5,635

The Corporation entered into a \$4,000, five year term loan with its existing lender, secured by the existing General Security Agreements as well as a mortgage on the new modular fabrication facility with a net book value of \$7,213. Interest on this loan is currently at prime plus 1.25%, but can be converted to a fixed interest rate at any time up to May 31, 2005. Principal repayments of \$200 are due quarterly with the last payment due on August 2009.

Churchill placed a \$1,300, five year mortgage on one of its properties. The mortgage matures on October 2009. The mortgage bears interest at 6.45%, is repayable in blended monthly payments of \$10, and is secured by land and buildings with a net book value of \$1,763 and a site specific General Security Agreement.

The acquisition loan bears interest at prime plus 1.25%, is payable in quarterly installments of \$400 plus interest, is due February 2008, and is secured by General Security Agreements.

Finance contracts and capital leases bear effective interest rates ranging from 2.9% to 8.4%, are payable in various monthly installments, mature at various dates up to 2009, and are secured by vehicles and equipment with a net book value of \$984 (2003 — \$760).

Interest expense on long-term debt during the year was \$413 (2003 — \$411).

The term loan and acquisition loan as discussed above, as well as the line of credit, as discussed in Note 13, 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. At December 31, 2004, the Corporation was not in compliance with certain of its debt covenants; therefore, the bank is in a position to demand repayment of these facilities. As a result, the Corporation has classified \$6,600 of long-term debt that is not scheduled to be repaid until 2006 and onward, as a current liability. The Corporation has provided \$4,000 term deposit (Note 6) as additional security for these credit facilities.

Estimated principal payments in the next five years are:

	Scheduled Repayment	Reclassification of Demandable Loans	Total
2005	\$ 2,758	\$ 6,600	\$ 9,358
2006	2,766	(2,400)	366
2007	2,642	(2,400)	242
2008	1,332	(1,200)	132
2009	606	(600)	6
thereafter	1,103	—	1,103

15. INCOME TAXES

(\$ thousands)

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

	2004	2003
Net loss before income taxes	\$ (9,601)	\$ (4,594)
Equity earnings	—	(172)
Non-deductible expense	653	475
Taxable Income	\$ (8,948)	\$ (4,291)
Income tax at statutory rate of 33.87% (2003 — 36.75%) of taxable income	\$ (3,031)	\$ (1,577)
Large corporation and other taxes	10	224
Effect of change in tax rates for future income tax and tax recovery	(192)	(65)
Unrecorded tax loss asset of joint venture	(267)	267
Other	48	214
Income Tax Recovery	\$ (3,432)	\$ (937)

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

	2004	2003
Tax loss carryforwards	\$ 523	\$ 1,703
Equipment and other assets	(537)	12
Unbilled work-in-progress and holdback receivable	1,387	(2,692)
Other	162	12
	\$ 1,535	\$ (965)
Classified as:		
Long-term asset	\$ 549	\$ 376
Current asset (liability)	1,921	(858)
Long-term liability	(935)	(483)
	\$ 1,535	\$ (965)

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 \$1,777 which expire as follows.

2005	\$ 5
2006	5
2007	5
2008	154
2009	10
2010	154
2011	1,444

16. 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	2004		2003	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of year	11,863,652	\$ 3,794	10,864,040	\$ 1,300
Shares repurchased and cancelled	(7,300)	(3)	(18,800)	(6)
Stock options exercised	382,000	498	192,000	277
Issued pursuant to acquisition (Note 3)	—	—	826,412	2,223
Issued, end of year	12,238,352	\$ 4,289	11,863,652	\$ 3,794

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. A restatement of \$176 was made to opening contributed surplus for cumulative compensation cost of options to acquire Common Shares of the Corporation issued since January 1, 2002. An additional \$74 resulted from the recognition of compensation costs for 2004.

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, 2004, the maximum number of options available for issue under this plan is 1,026,000 of which 564,334 are issued and outstanding, leaving 461,666 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, 2004, indicating changes during the years ended on those dates is presented below:

	2004		2003	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,046,334	\$ 2.03	1,077,667	\$ 1.73
Granted	—	—	205,000	2.95
Cancelled	(100,000)	2.95	(44,333)	1.63
Exercised	(382,000)	1.30	(192,000)	1.44
Outstanding, end of year	564,334	\$ 2.35	1,046,334	\$ 2.03

The following table summarizes information about share options outstanding under the Plan at December 31, 2004:

Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2004	Options Exercisable Dec. 31, 2004
\$ 1.30	Feb. 7, 2005	33,334	33,334
1.64	Nov. 13, 2005	301,000	301,000
3.84	Aug. 9, 2007	125,000	91,666
2.95	Oct. 7, 2007	105,000	70,000
		564,334	496,000

Due to a change in accounting policy effective January 1, 2004 (Note 1), the Corporation recorded an adjustment to contributed surplus and retained earning of \$176 relating to share-based compensation expense for options granted subsequent to January 1, 2002.

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% (2003 — 3.36%), an average life of 3.4 years (2003 — 3.4 years), and a volatility of 49.69% (2003 — 49.69%). 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.

Normal Course Issuer Bids

During the year the Corporation purchased 7,300 (2003 — 18,800) Common Shares for cancellation under a Normal Course Issuer Bid at an average cost of \$2.44 (2003 — \$2.29) per share, including commissions. The amount by which the cost exceeds the stated value of the Common Shares is charged to retained earnings.

The Corporation participated in a 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 bid terminates on February 23, 2005 and has not been renewed.

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, 2007 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.

17. NET LOSS PER COMMON SHARE

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

Basic loss 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. For the years ended December 31, 2004 and December 31, 2003 the effect of outstanding share options on earnings per share is anti-dilutive as the Corporation is in a loss position. As such, the effect of outstanding stock options used to calculate the fully diluted net earnings per share has not been disclosed.

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

	2004	2003
Net loss	\$ (6,169)	\$ (3,657)
Weighted average number of common shares outstanding	12,099,776	11,665,985
Net loss per common share:		
Basic and fully diluted	\$ (0.51)	\$ (0.31)

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.

As discussed in Note 1, if compensation costs for options for Common Shares of the Corporation, issued on or after January 1, 2002, had been determined based on the fair value methodology, using the Black-Scholes option pricing model and the assumptions as described in Note 16, the Corporation's net loss and loss per share would have been increased in 2003 to the Pro forma amounts indicated below:

		2003
Net loss	As reported	\$ (3,657)
	Pro forma	(3,773)
Basic and fully diluted loss per common share	As reported	\$ (0.31)
	Pro forma	(0.32)

18. CONTINGENCIES

(\$ thousands)

- a) 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.
- b) 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.

19. 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 lease payments over the next five years are:

2005	\$	731
2006		404
2007		301
2008		219
2009		195

20. 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 2005 and is renewed annually.

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, 2004.

21. RELATED PARTY TRANSACTIONS

(\$ thousands)

In October 2002 the Corporation provided an interest-bearing, demand loan to a senior officer of the Corporation to assist with the purchase of housing in Edmonton. The senior officer maintains offices in both Calgary and

Edmonton. At December 31, 2004 the loan balance was \$30 (2003 — \$30). In addition, market rent payments of \$24 (2003 — \$24) were made by the Corporation in relation to this housing.

The Corporation incurred legal fees of \$194 (2003 — \$333) 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.

22. 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.

The accounting policies of the reportable segments are the same as those described in Note 1. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

(\$ thousands)

Year Ended December 31, 2004	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	\$ 239,156	\$ 2,183	\$ 668	\$ —	\$ 69,353	\$ 412
Industrial General Contracting	40,423	(8,267)	858	—	9,607	875
Industrial Insulation Contracting	41,112	1,706	456	—	6,336	262
Industrial Electrical Contracting	19,726	(1,981)	921	7,315	12,262	340
Corporate and Other	—	(3,136)	290	—	24,750	6,815
Inter-segment Adjustments	(5,799)	(106)	—	—	—	—
	\$ 334,618	\$ (9,601)	\$ 3,193	\$ 7,315	\$ 122,308	\$ 8,704

Year Ended December 31, 2003	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	\$ 192,875	\$ (2,550)	\$ 596	\$ —	\$ 55,129	\$ 657
Industrial General Contracting	38,660	(2,898)	885	—	10,570	525
Industrial Insulation Contracting	63,940	2,530	475	—	10,498	333
Industrial Electrical Contracting	25,519	1,173	1,070	7,315	11,346	370
Corporate and Other	—	(3,031)	200	—	15,286	526
Inter-segment Adjustments	(1,596)	182	—	—	—	—
	\$ 319,398	\$ (4,594)	\$ 3,226	\$ 7,315	\$ 102,829	\$ 2,411

23. 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 \$1,557 (2003 — \$1,429).

24. 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 13 and 14. 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 centers. 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, 2004, the carrying value of financial instruments of the Corporation approximates their fair values.

25. SUBSEQUENT EVENTS

(\$ thousands)

- a) On February 2, 2005, the Corporation issued an irrevocable letter of credit for \$500 as general security under an industrial maintenance contract. This issuance reduces the Corporation's available operating line of credit.
- b) On March 18, 2005, the Corporation finalized the disposition of a property for sale with a carrying value of \$102 for net cash proceeds of \$328.

26. 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) 2004	2003	2002	2001	2000
INCOME STATEMENT DATA				
Contract Revenue	\$ 319,398	\$ 311,794	\$ 293,462	\$ 314,078
Contract Income	17,998	21,736	30,123	27,802
Contract Income (%)	5.4%	6.7%	7.0%	10.3%
Earnings (Loss) Before Interest, Tax				
Depreciation and Amortization (EBITDA)	(5,885)	(811)	2,786	10,966
Interest Expense	523	557	248	253
Depreciation and Amortization Expense	3,193	3,226	1,992	1,708
Earnings (Loss) Before Income Taxes	(9,601)	(4,594)	546	9,005
Net Earnings	(6,169)	(3,657)	982	5,318
BALANCE SHEET DATA				
Working Capital	\$ 3,027	\$ 17,556	\$ 21,175	\$ 22,504
Shareholders' Equity	24,866	30,481	31,681	30,584
Total Debt	11,207	7,499	362	4,999
Non-Construction Related Assets	103	241	1,781	1,699
PER COMMON SHARE DATA				
Net Earnings (Loss) per Share:				
Basic	\$ (0.51)	\$ (0.31)	\$ 0.09	\$ 0.50
Fully Diluted	(0.51)	(0.31)	0.09	0.47
Book Value per Share	2.03	2.57	2.92	2.89
OTHER DATA				
Return on Average Shareholders' Equity ("ROE")	(22%)	(12%)	3%	19%
Work-in-Hand	\$ 251,463	\$ 313,712	\$ 317,266	\$ 269,101
COMMON SHARE INFORMATION				
Weighted Average Shares Outstanding	12,099,776	11,665,985	10,773,696	10,567,745
Shares Outstanding at Year End:				
Basic	12,238,352	11,863,652	10,864,040	10,566,974
Fully Diluted	12,802,686	12,909,986	11,941,707	11,997,974
Shares Traded*	2,726,344	2,018,816	4,971,289	3,300,782
Share Price:				
High	\$ 3.08	\$ 3.00	\$ 4.91	\$ 3.49
Low	2.25	1.90	1.79	1.86
Close	2.45	2.35	2.85	3.10

* 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.