

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the operating performance and financial position of Churchill, dated March 29, 2005, should be read in conjunction with the December 31, 2004 Consolidated Financial Statements and related notes on pages 27 to 42 and the Report to Shareholders on pages 2 to 6 of this Annual Report.

FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis may constitute "forward-looking statements". Although management of Churchill believes its expectations regarding future performance of the Corporation are based on reasonable assumptions and currently available competitive, financial and economic data, market conditions and operating plans, it can give no assurance its expectations will be achieved. Such forward-looking statements involve risk, uncertainties and other factors that might cause the actual results, performance or achievements of the Corporation to vary significantly from any future results, performance or achievements expressed or implied in any forward-looking statements.

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:

SELECTED ANNUAL INFORMATION

Years ended December 31 (\$ thousands, except percentages and per share amounts)	2004	2003	2002
Contract Revenue	334,618	319,398	311,794
Contract Income	17,998	21,304	21,736
Contract Income (%)	5.4%	6.7%	7.0%
Net (loss) earnings	(6,169)	(3,657)	982
Net (loss) earnings per common share Basic and fully diluted (\$ per share)	(0.51)	(0.31)	0.09
Total Assets	122,308	102,829	98,970
Total long-term financial liabilities	1,849	5,635	17
Cash dividends declared per share	-	-	-
Outstanding shares at December 31, 2004	12,238,352	11,863,652	10,864,040
Outstanding shares at March 29, 2005	12,271,686		

The above information is impacted by the following items:

- (1) The acquisition of Laird Electric occurred on February 7, 2003. Laird's revenue for the period from acquisition to December 31, 2003 was \$25.5 million and for the year ended December 31, 2004 was \$19.7 million.
- (2) Churchill's 41% interest in the Lafrentz Road Services business was sold in early 2003. Churchill's equity investment and management fee revenues from Lafrentz were \$0.2 million in 2003 and \$0.4 million in 2002.
- (3) Churchill's new modular fabrication facility was constructed and commenced operation in 2004. The total carrying value of the asset was \$7.2 million at December 31, 2004 and the Corporation's long-term debt increased during the year by \$4.0 million in order to finance the facility. At December 31, 2004, due to larger than expected fourth quarter operating losses associated with the start-up of the fabrication facility, the Corporation was not in compliance with certain of its debt covenants. As a result, the portion of long-term debt outstanding with the lender at December 31, 2004 that was not scheduled to be repaid in the next 12 months has been reclassified as a current liability. The amount of this reclassification is \$6.6 million.

Overview

Churchill has not performed well from a financial standpoint over the past three years. The major performance problem in 2004 was related to significantly larger start-up costs on the new modular fabrication facility. The start-up issues included lower than expected productivity and higher indirect costs that resulted in significant losses on the initial projects executed by Triton utilizing the facility. These losses occurred primarily in the fourth quarter of the year. The Corporation's immediate objective is to return to profitability as well as to replace the working capital lost due to the poor operating results.

Notwithstanding the financial disappointments, there have been improvements and successes achieved in a number of areas. Stuart Olson rebounded from a poor year in 2003 to increase revenue and improve both operating margins and income in 2004. In addition to its work-in-hand entering 2005, the company is in negotiations for several hundred million dollars of additional contracts for the year. Both Fuller Austin and Laird have large contracts in hand for oil sands related work that will be executed during the year. Although Triton incurred substantial losses in 2004 related to projects utilizing the new fabrication facility, the company has made significant progress in identifying the problems and in developing systems and procedures to improve the operation of this facility going forward.

The financial losses of the last few years have reduced Churchill's working capital. The Corporation is in the process of arranging for additional financing to replenish the working capital required to fund both the present work program as well as growth opportunities.

Upon achieving the desired level of profitability, Churchill will be in a position to determine the best opportunities for growth.

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 2004 the

Corporation operated through five business segments –

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

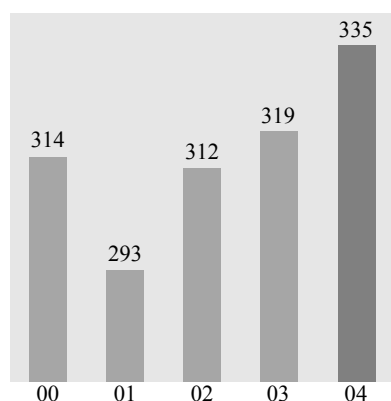
In February 2003, Churchill acquired Laird Electric. Prior to that date the Corporation operated with four business segments.

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

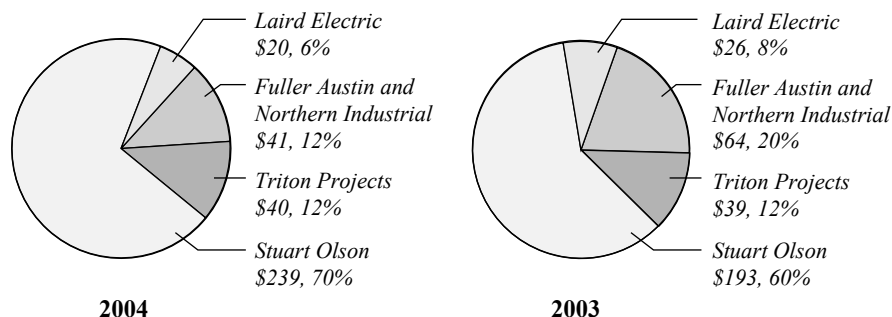
Churchill provides strategic direction, operating advice, financing and infrastructure services to each of the business segments. Churchill's senior management includes Hank Reid, Interim President and Chief Executive Officer; Al Stowkowy, President, Stuart Olson Construction; Bruce Rintoul, Vice President, Industrial; and DeEtte Mack, Corporate Controller. Each business segment has its own President and senior management team, and is designed to be self-supporting.

During 2004, there were several major changes to Churchill's senior management. Gary Bardell stepped down in November as the President and Chief Executive Officer. Hank Reid, who led the Corporation through a successful twelve year period from 1991 to 2003, returned as Interim President and CEO. At year-end, Ian Morris, Vice President Finance and Chief Financial Officer, left the organization. DeEtte Mack, CA, the Corporate Controller, subsequently assumed the duties of the chief financial officer.

REVENUE (\$ Millions)



REVENUE MIX (\$ Millions)



QUARTERLY FINANCIAL INFORMATION

(\$ millions, except per share data and percentages)

	2004				2003			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Contract Revenue	\$101.8	\$82.7	\$77.3	\$72.8	\$95.8	\$84.2	\$77.2	\$62.2
Contract Income	1.9	5.4	6.2	4.5	7.2	5.1	6.1	2.9
Contract Income (%)	1.9%	6.5%	8.0%	6.2%	7.5%	6.1%	7.9%	4.7%
Net (Loss) Earnings	(3.7)	(1.0)	(0.2)	(1.3)	(0.5)	1.0	(2.4)	(1.8)
Net (Loss) Earnings per share Basic and fully diluted	(0.31)	(0.08)	(0.01)	(0.11)	(0.04)	0.09	(0.21)	(0.16)
Work-in-Hand	251.5	338.4	347.0	298.5	313.7	393.5	393.8	402.7
Working Capital	3.0	9.9	13.0	15.2	17.6	19.0	17.8	19.7
Shareholders' Equity	24.9	28.5	29.5	29.2	30.5	30.8	29.7	32.1
Book Value per share	2.03	2.34	2.41	2.46	2.57	2.62	2.53	2.74

The business is generally affected by seasonal fluctuations such that the latter two quarters of the year tend to have higher revenue. Increased revenue was incurred in the last quarter of 2004 indicating a general improvement in the Corporation's markets.

Contract income margins can be influenced by bidding, procurement, and contracting activity that may have taken place well over a year prior, when circumstances may have been much different than the present.

The Corporation finalized a settlement in 2003 on a construction project commenced in 2001 by Stuart Olson for JTB Canadian Pork. In February 2003 the receiver-manager of JTB Canadian 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 resulted in a net recovery at September 30, 2003 of the \$3.0 million bad debt allowance set up in the previous quarter.

The significant drop in contract income in the fourth quarter of 2004 is primarily due to large losses incurred on early contracts executed utilizing Churchill's new modular fabrication facility.

Work-in-hand at December 31, 2004 was \$251.5 million, which is the lowest of these eight quarters. Churchill's industrial businesses all had a larger backlog of work at year-end 2004 than at the prior year end. Stuart Olson's work-in-hand was lower by \$123.8 million. Although Stuart Olson's market in 2004 was strong, it had numerous project opportunities for which the company was awaiting contractual agreements and as such these additional opportunities are not reflected in its backlog.

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, 2004 are included on pages 27 to 42.

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.

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 at the business segment level, the results of which are shown on page 41.

Fourth Quarter Results

The quarterly financial information as at March 31, June 30, and September 30, 2004 has been presented and analyzed in the 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 16, the activities for the three months ended December 31, 2004 resulted in revenue being up substantially, to \$101.8 million from \$82.7 million in the previous quarter and \$95.8 million during the comparable period in 2003. This strong increase in revenue is indicative of a strengthening in the market with a lessening of the effects of project delays. Stuart Olson's revenue for the quarter was \$61.7 million, an increase of \$3.1 million compared to the same period in 2003. Triton's revenue increased by \$9.9 million to \$19.3 million and Laird increased by \$0.8 million to \$5.7 million. Churchill's insulation companies were the only segment with lower revenue at \$15.8 million compared to \$22.5 million in the fourth quarter of 2003. The net loss for the three months ended December 31, 2004 was \$3.7 million as compared to a net loss of \$0.5 million for the three months ended December 31, 2003. The loss in the fourth quarter of 2004 was primarily as a result of major losses incurred on the early contracts executed by Triton utilizing Churchill's new modular fabrication facility. Triton incurred a net loss before tax of \$6.0 million during the quarter. Laird had a net loss before tax of \$0.5 million, while both Stuart Olson and Industrial Insulation Contracting were profitable with earnings before tax of \$0.9 million and \$0.3 million, respectively, for the quarter.

Annual Results

For the year ended December 31, 2004, The Churchill Corporation had a net loss of \$6.2 million on revenue of \$334.6 million, or a net loss per share of \$0.51 for the year. For the year ended December 31, 2003, The Churchill Corporation had a net loss of \$3.7 million on revenue of \$319.4 million, or a net loss per share of \$0.31.

Year over year revenues for the consolidated group increased \$15.2 million. As discussed, the 2003 results include Laird from its date of acquisition. In 2004 Laird had a slower than expected year with revenue of \$19.7 million, a decline of \$5.8 million compared to the shorter period of 2003. Revenues also declined in the Industrial Insulation Contracting group with a reduction of \$22.8 million. Triton Projects experienced a moderate revenue increase in 2004 of \$1.8 million while Stuart Olson had an excellent year with revenue increasing by \$46.3 million. Revenue of the consolidated Churchill Corporation included an elimination of \$5.8 million for the year, an increase of \$4.2 million over 2003. This elimination occurs when one of Churchill's companies performs work for another; in 2004 this was primarily related to the construction of the fabrication facility.

The net loss of \$6.2 million for the 2004 year is after the accrual of future income taxes recoverable of \$2.5 million and the accrual of \$0.9 million of current taxes recoverable. The future income taxes recoverable are a result of timing differences related to certain tax reserves. The current taxes recoverable recorded in the financial statements result from a net recovery of taxes paid in prior years due to the carryback of current year tax losses.

Buildings

For the year ended December 31, 2004, Stuart Olson had revenue of \$239.2 million, compared to \$192.9 million in the prior year.

Stuart Olson entered the year with a backlog of \$263.5 million. During 2004 the company secured a further \$115.3 million of contracts, net of contract revisions, and executed and took

into revenue \$239.2 million. It ended 2004 with a backlog of \$139.6 million. The lower level of backlog relative to year-end 2003 is not indicative of a slowdown in the company's market. Stuart Olson's market improved in 2004 as reflected by the 24.0% increase in revenue on a year over year basis. The reduction in backlog is primarily related to the stage the company is at in negotiations on new contracts, in that numerous contracts had not been finalized at year-end and were thus not recognized as work-in-hand.

Contract income increased substantially from \$6.8 million in 2003 to \$12.0 million in 2004, and also increased as a percentage, from 3.5% of revenue to 5.0%. This is indicative of the improving markets the company is facing as well as a result of positive changes in its processes and procedures.

Industrial General Contracting

Triton Projects experienced another year of financial losses. Its traditional markets were slow during the first half of the year as new oil sands projects had not moved into the construction phase. The market improved considerably during the second half and Triton was able to secure new work. However, the company incurred major losses due to start-up costs and associated production issues on two new projects executed utilizing Churchill's new modular fabrication facility. Triton's revenue for the year ended December 31, 2004 was \$40.4 million, up 4.6% from \$38.7 million for the year ended December 31, 2003. 73.7% of the company's total 2004 revenue occurred during the last two quarters of the year indicating a strong improvement in its market.

Operating margins were a negative 5.3% in 2004 as compared to a positive 8.9% in 2003. This is primarily a result of the major losses incurred on the company's two fabrication shop contracts as well as a project loss on a field construction contract. Triton recorded a loss before income taxes of \$8.3 million for the year ended December 31, 2004, as compared to a loss before income taxes of \$2.9 million for the year ended December 31, 2003. In 2003 the positive operating margin produced from the lower level of revenue was not sufficient to recover all of the general and administrative expenses for the year.

As reported in our June 30, 2003 Second Quarter Report, Triton took a \$1.0 million charge in the first half of the year 2003 for severances and early retirements as its management reduced overheads and repositioned operations to better match market conditions.

Triton began 2004 with \$12.1 million of work-in-hand. All of this was executed and brought into revenue for 2004. In addition, the company secured \$73.9 million of new work during the year, and executed \$28.3 million, leaving \$45.6 million to be executed in 2005.

A significant portion of the capital projects in enhanced oil recovery and oil sands is expected to be constructed using a modular system. 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 completed the construction of a new modular fabrication facility in the third quarter of 2004. Triton Projects was the largest beneficiary of work, both within this facility, and the related field installation work.

Triton incurred much higher than expected start-up costs on its initial fabrication contracts. These additional costs were reported in a press release dated January 20, 2005 to be approximately \$4.5 million higher than anticipated. Churchill is investing considerable resources to streamline process efficiency and improve control at the fabrication plant. Process changes have been implemented and significant improvements have been achieved to date. Triton will limit plant through-put to allow for completion of these changes and will not gear up to full capacity until consistent profitability has been demonstrated.

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 2004 although not to the same level as 2003. Revenues were down, while operating margins were up considerably from the previous year. Revenues for the year ended December 31, 2004 decreased by 35.7% from 2003, to \$41.1 million from \$63.9 million. This was similar to 2002 where revenues were \$44.3 million. In the early part of 2004, the insulation companies were busy in modular fabrication yards in the Edmonton area on several large oil sands projects destined for the Fort McMurray area. Upon the completion of this work the companies experienced a slowdown as their clients had not yet initiated the field installation component. Subsequently, Fuller Austin secured several large contracts for these components and construction commenced in late 2004.

In 2003 the insulation companies executed a number of larger projects with lower operating margins than their traditional work. Consequently, the overall margin for the year ended December 31, 2003 was 10.6%. In 2004, they executed smaller, higher margin work resulting in an overall operating margin of 15.4%.

Earnings before taxes for the year ended December 31, 2004 were \$1.7 million, as compared to \$2.5 million for the year ended December 31, 2003.

Industrial Insulation Contracting entered 2004 with a work-in-hand backlog of \$14.4 million. The companies secured \$48.9 million of new contracts in 2004. They executed and took into revenue \$41.1 million. They enter 2005 with a backlog of \$22.2 million.

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 \$9.7 million and all of the shareholders' loans for \$5.4 million. In addition Churchill paid a refundable deposit of \$1.0 million for a total outlay of \$16.1 million. The consideration 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 deposit on acquisition relates to contingent consideration held in escrow and is secured by 413,205 of Churchill shares held by an escrow agent without further recourse. The contingent consideration will be released from escrow at December 31, 2005 if Laird fulfills certain cumulative performance criteria. Should Laird achieve the required performance criteria, the deposit will be recorded as goodwill. If Laird does not achieve the required performance criteria, the deposit will be reversed with a corresponding reversal of share capital related to shares held in escrow and any applicable contributed surplus.

The purchase price was allocated \$6.3 million to net tangible assets, \$1.5 million to a customer contract and certain employment contracts, \$1.0 million to refundable deposits and \$7.3 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 consisted of the present value assigned to a maintenance contract with Laird Electric's largest customer, which expired 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 clawback 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. At December 31, 2004 the unamortized value of these intangible assets was \$0.2 million.

Laird Electric generated \$19.7 million of revenue in 2004. This is a reduction from the \$25.5 million of revenue for the

period from acquisition to December 31, 2003. Delays in the start-up of construction on many of the new oil sands projects in northern Alberta caused its revenue to be considerably lower than expected. As well, a major client postponed a significant amount of on-going maintenance work into 2005 resulting in lower contract revenue for 2004. This work is proceeding in 2005.

Operating margins were 8.9% in 2004 compared to 15.5% during the period in 2003 from the acquisition date. Laird incurred an operating loss before taxes of \$1.4 million compared to earnings before taxes of \$1.2 million for the 2003 period. The lower operating margins were as a result of the company more aggressively competing for contracts in a slower than expected market. As well, the deferment of a large amount of its regular maintenance work affected overall margins as this work is generally higher margin than Laird's other types of projects. The lower operating margins combined with the lower level of revenue were not sufficient to recover all of the general and administrative expenses for the year, resulting in an operating loss.

By year-end 2004, Laird's market improved significantly. The company secured \$21.1 million of new work in the last quarter and in early 2005 obtained an additional large contract from its major client. This work-in-hand, together with confirmation that its annual maintenance contract that was deferred in 2004 will be proceeding in 2005, provides management with a much improved forecast for the coming year. Laird's poor financial results in 2004 were due primarily to a lack of revenue as opposed to project execution issues and thus the company's prospects are much improved going forward.

Laird had a backlog of work of \$23.8 million entering 2004. It secured \$40.0 million of new contracts during the year and executed \$19.7 million of work. It enters 2004 with a work-in-hand backlog of \$44.1 million.

Corporate and Other

In 2004, \$24.8 million of Indirect and Administrative expenses were incurred by the Churchill group of companies, compared to \$22.9 million for the year ended December 31, 2003. During the year, Laird Electric and Triton reclassified a portion of their expenses from contract costs to indirect and administrative costs to be consistent with the reporting methodology of Churchill's other operating companies. This resulted in approximately \$1.0 million of higher indirect and administrative costs with a corresponding reduction in contract costs. The 2003 figures in the financial statements have been adjusted for comparison purposes. This adjustment does not affect the net earnings (loss) for the year.

The increase of 8.2% in Indirect and Administrative expenses is due primarily to increases in salaries, training and facility costs, as well as a reclassification of direct job costs. Laird

Electric costs are included for the full year in 2004 compared to approximately 11 months included from the date of acquisition in the 2003 year-end. The industrial group underwent a reorganization of business development, safety and human resources during 2004 that involved increased salary, travel and business promotional costs. Costs of preparing for compliance with the new public company regulatory requirements were incurred in 2004 with no comparable costs in the prior year. Facility costs increased in accordance with normal building lease renewals as well as additional costs associated with the completion of the new fabrication facility. Included in the costs for the current year are charges for stock-based compensation expense in accordance with the new accounting policy.

Churchill's 41% interest in the Lafrentz Road Services business was deemed to be non-core 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.

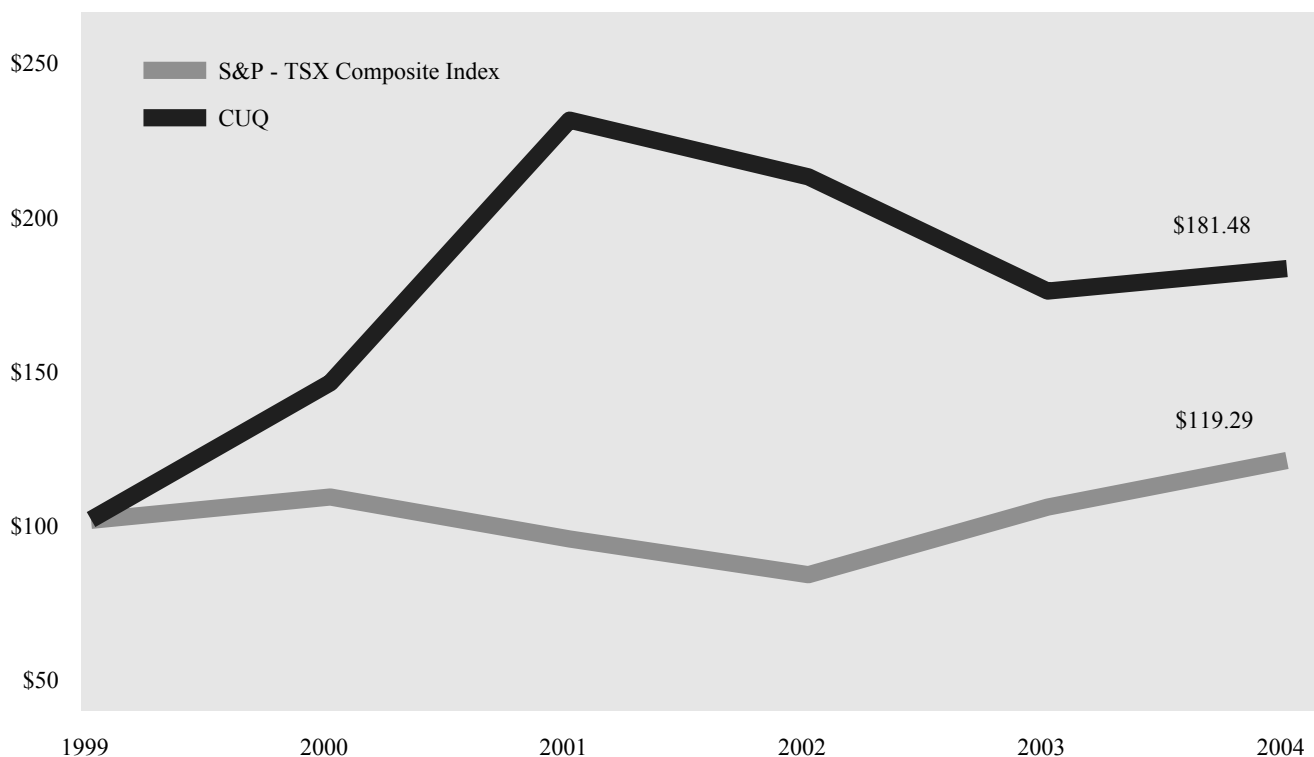
The Corporation incurred legal fees during the year ended December 31, 2004 with a law firm for which a Director of the Corporation is also a partner of the firm. The fees were

for services rendered in the ordinary course of business. The amount paid during the year was \$194.0 thousand.

At December 31, 2004 the Corporation had an interest bearing demand loan outstanding to the former President and Chief Executive Officer to assist with housing arrangements in Edmonton in order to allow him to maintain offices in both Edmonton and Calgary. In addition, in relation to this housing arrangement, market-rate rent payments were made by the Corporation in the amount of \$24.0 thousand during the year. Churchill has the option, renewable annually, to continue the monthly rent payments through September 30, 2006.

In late 2004 Churchill set up a new special committee of the Board of Directors. The mandate of this committee is to work with senior management to review the operational and control systems and to implement measures for improvement. The compensation for the committee members is over and above the fees and disbursements contemplated in their role as Directors and members of the Corporation's various standing committees. This committee is expected to operate through the first two quarters of 2005. The fees paid during 2004 to the special committee members were \$62.0 thousand.

CUMULATIVE RETURN ON \$100 INVESTMENT



Cash Flow, Financing, Capital Requirements, Liquidity

For the year ended December 31, 2004, Churchill consumed \$5.5 million of cash through its revenue generating activities. The Corporation generated \$10.8 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 \$5.3 million. For the year ended December 31, 2003, Churchill consumed \$5.7 million of cash through its revenue generating activities and reduced working capital by \$12.5 million, resulting in a net cash flow from operating activities of \$6.8 million.

Churchill's working capital position at December 31, 2004 was \$3.0 million as compared to \$17.6 million at December 31, 2003. The reduction in working capital was primarily due to three issues: a reclassification of a portion of long-term debt to a current liability, net losses during the year and investment in capital assets.

Churchill's \$8.0 million loan arranged for the acquisition of Laird Electric in 2003, the \$4.0 million five year term loan arranged for the fabrication plant construction in 2004, and other lines of credit 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, due to larger than expected fourth quarter losses, the Corporation was not in compliance with certain of its debt covenants. The lender is in a position to demand repayment of any balances outstanding under these facilities. As a result, the portion of long-term debt outstanding with the lender at December 31, 2004, which was not scheduled to be repaid in the next 12 months, has been reclassified as a current liability. This reclassification was \$6.6 million. The Corporation monitors the financial covenants on a continuous basis.

Losses during the year accounted for a further reduction of \$6.2 million in working capital. The balance of the reduction of approximately \$8.7 million was due to capital investments of which the modular fabrication facility accounted for the majority.

In order to increase the level of working capital the Corporation is in the process of negotiating additional financing. This includes subordinated debt and an increased operating line of credit. Churchill is also considering obtaining additional equity and/or debt funding in 2005 to regain compliance with its debt covenants and to finance growth plans. As well, negotiations are underway with Churchill's lender to increase specific operating lines of credit to fund day-to-day operations as a result of the successes of Fuller Austin and Laird in securing two large oil sands related industrial construction projects.

Capital expenditures for the year ended December 31, 2004 were \$8.7 million as compared to \$2.4 million for the year

ended December 31, 2003. In 2004 the Corporation commenced and completed construction of a new modular fabrication facility for use by its industrial companies. Approximately \$7.4 million was spent on the construction of this facility during the year. The remaining \$1.3 million of capital expenditures in 2004 were primarily to replace portions of, or add to, the vehicle and equipment fleets.

Contractual Obligations

(\$ Millions)

December 31, 2004

	Total	Current Year	2-3 Years	4-5 Years	After 5 Years
Acquisition Loan	\$ 5.2	\$ 1.6	\$ 3.2	\$ 0.4	\$ -
Finance contracts and capital lease obligations	6.0	1.2	2.2	1.5	1.1
Purchase Obligations	0.1	0.1	-	-	-
	\$ 11.3	\$ 2.9	\$ 5.4	\$ 1.9	\$ 1.1

The acquisition loan, finance contracts and capital lease obligations are more fully described in Note 14 of the Notes to the Consolidated Financial Statements that are included in this Annual Report.

The purchase obligations represent enforceable commitments made by the Corporation pertaining to the new modular fabrication facility, and will be paid in 2005.

Churchill added \$5.9 million to long-term debt during the year. This consisted of a \$4.0 million, five year term loan with its existing lender and a \$1.3 million, five year mortgage on one of its properties to finance the construction of the new modular fabrication facility, as well as \$0.6 million of other long-term debt to fund additions to the vehicle fleet. As described above, \$6.6 million of the long-term debt was reclassified as a current liability at year-end 2004.

Churchill repaid \$2.2 million of debt during the year ended December 31, 2004. Of these repayments, \$1.6 million were the scheduled payments on the Laird Electric acquisition loan and \$0.2 million were the scheduled payments on the term loan. The remainder consisted primarily of scheduled payments on dealer financing for vehicles.

Churchill began 2004 with \$14.6 million in cash, of which \$4.4 million was subject to certain deemed trust conditions. All of the operating, investing and financing activities throughout 2004 reduced the Corporation's cash by \$2.9 million. At December 31, 2004 Churchill had \$11.7 million of cash, of which \$10.5 million was subject to deemed trust conditions under the British Columbia Lien Act. As well, the Corporation had \$4.0 million of term deposits which is held as security by the Corporation's bank.

The scheduled debt repayments for 2005 are \$2.8 million. The level of required replacement capital spending for Churchill is estimated to be in the range of \$4.6 million a year. These requirements are expected to again be met through a combination of operating and financing activities.

Churchill 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 Corporation also provided a joint and several guarantee as part of the transaction in the first quarter of 2003 in which Churchill's interest in the Lafrentz Road Services business was sold to a third party. There is no maximum potential payment under the guarantee. The Corporation placed a portion of its proceeds into an escrow account until February, 2008 to provide in part against potential claims under the guarantee.

As part of the purchase of Lakehead Insulation by Fuller Austin in January, 2002, there was a potential future consideration of up to \$0.3 million payable to the vendors based on Lakehead's earnings for the three year period ending December 31, 2004. No contingent consideration was earned under this arrangement.

Shareholders' equity was \$24.9 million at December 31, 2004, as compared to \$30.5 million at December 31, 2003. The 2004 value includes \$7.3 million of goodwill, against which there is \$5.2 million of long-term debt.

Share capital increased \$0.5 million from January 1, 2004 to December 31, 2004 as a result of 382,000 stock options being exercised, offset by 7,300 shares being purchased and cancelled under the Normal Course Issuer Bid. The Normal Course Issuer Bid shares were purchased at an average price

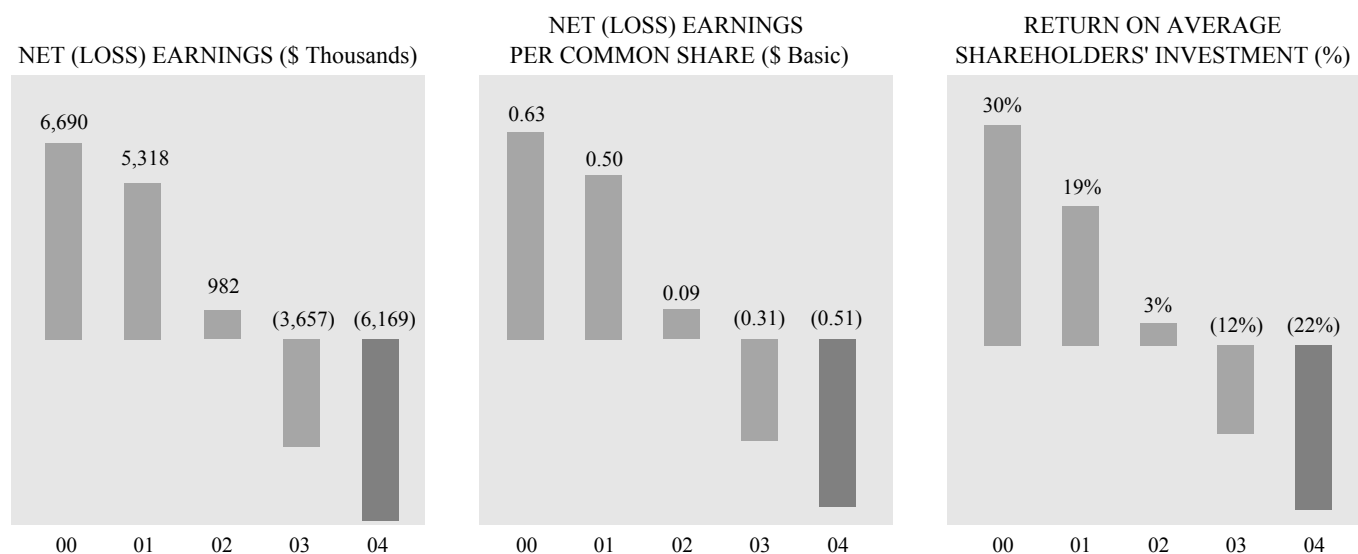
of \$2.44 per share. During 2004, Contributed Surplus increased by \$0.3 million over the \$5.1 million balance that was reflected at December 31, 2003. This increase is the result of applying the new accounting principle related to stock-based compensation, and is detailed in Note 16 of the Consolidated Financial Statements and related notes included in this Annual Report. Retained Earnings declined from \$21.6 million at December 31, 2003 to \$15.2 million at December 31, 2004, reflecting the \$6.2 million net loss for the year, as well as the impact of the stock-based compensation accounting policy and the Normal Course Issuer Bid activity.

As discussed in Note 16 to the Consolidated Financial Statements and related notes contained within this 2004 Annual Report, options to acquire 382,000 Common Shares were exercised for cash during the period January 1, 2004 to December 31, 2004.

As at December 31, 2004 the Corporation had outstanding 12,238,352 Common Shares and 564,334 options convertible into Common Shares (December 31, 2003 – 11,863,652 Common Shares and 1,046,334 options).

The Corporation has an Employee Share Purchase Plan available to all full-time employees. At December 31, 2004 the Plan held 1,282,182 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 564,334 options were outstanding as at December 31, 2004. In addition to the 382,000 options exercised during the year, there were 100,000 options cancelled. There were 461,666 options available for grant at December 31, 2004.



Risks and Risk Management

Churchill's operations are centered in and primarily focused on western Canada. The majority of construction in western Canada, particularly industrial construction, is either directly or indirectly connected to oil and gas. Oil and gas pricing and activity levels are directly impacted by worldwide events. The Corporation utilizes various third-party estimates of the price movement direction and level as background information in managing various mid-term aspects of its business. Significant downward movement in oil or gas commodity prices could lead to project delays or cancellations by clients, while significant upward movement could lead to clients looking to accelerate the project schedule. Either movement could put pressure on Churchill's organizational infrastructure in the short term.

The climate in western Canada can generate severe weather, which could slow down or delay construction for short 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 it takes on the additional risk of design-related flaws or failures. This risk is reduced by utilizing external consultants for the design component as well as purchasing appropriate insurance protection. Delays and/or design remediation work could result in additional contract costs that may not be reimbursed by the client.

Churchill's operating companies are often required to provide performance bonds as assurance against contract completion. As a result of the recent worldwide reduction in surety and reinsurance capacity, the Corporation is continually monitoring the bonding and surety market. Although the present surety capacity has been sufficient to satisfy the work-in-hand, Churchill is seeking to increase the level through additional working capital in order to take advantage of opportunities in the market. Should the Corporation be unsuccessful in increasing the working capital and in turn the bonding capacity, then this would limit growth as well as potentially having an adverse affect on the on-going operations.

Once a project has begun, the project management team must constantly monitor estimating, procurement, project execution, and contract terms. All of these risks are controllable by management. Churchill assesses its project controls on an ongoing basis.

In past periods of high construction activity in western Canada there have been shortages of labour, including both Churchill

companies' and their subcontractors' work forces. In certain of the companies, the labour force is unionized, creating the possibility of labour disruptions if collective agreements cannot be negotiated as they come due. There are no collective agreements expiring in 2005 for any of Churchill's companies.

In 2004 Churchill completed the construction and initiated operation of a new modular fabrication facility. Many of the components of the operation of the facility are similar to the types of work carried out by the Corporation's various businesses in their normal construction activities; however, there are a number of differences in running a fabrication plant. These differences manifested during the year in unforeseen start-up costs, lower than expected productivity and requirements for new processes and controls. This is a new element of risk for the Corporation. It is being addressed through an external review by independent consultants as well as internally by senior management and the Board of Directors.

Churchill's industrial operations generally require a higher level of working capital due to a larger manpower workforce on projects. The Corporation's ability to obtain additional capital is important in order to achieve the strategy of expansion in the industrial market. A shortfall of working capital would limit this growth and reduce the industrial revenue potential.

In the past Churchill has grown by acquisition, including the acquisition of Laird Electric in 2003. The success of any acquisition is dependent upon the integration of the acquired company into Churchill's operations. Churchill's ability to undertake future acquisitions is limited by the Corporation's ability to access financing.

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

The Board of Directors of the Corporation, while remaining committed to the present strategic and operating plans, has been increasingly concerned about the poorer than expected financial results over the last few quarters of 2004. Late in the year the Directors, together with senior management, formed a special committee. The committee's mandate is to review the operational and control systems of the companies experiencing difficulties, and to implement measures for improvement.

2005 Outlook

Churchill's markets for new work all appear to be strong for 2005 and considerably improved from those of the past few years. Alberta and British Columbia are forecast to lead the country in economic growth in the coming year. The oil sands and heavy oil mega projects are moving into the construction phase with independent analysts identifying \$64 billion of major projects planned for the next three to five years. The carryover of industrial work is at an historically high level for the Corporation and Stuart Olson has significant new contract opportunities that are close to finalization in addition to their work-in-hand. As a consequence of the losses of the past few years, it is important that Churchill completes an arrangement for new financing and capital structure in order to take advantage of these opportunities. Management and the Board of Directors are viewing this as the prime driver for success going forward.

The Churchill Corporation enters 2005 with a backlog of \$251.5 million, of which \$234.3 million is expected to become earned revenue in 2005 and \$17.2 million is expected to carry forward into 2006 or later.

Of the \$234.3 million of backlog expected to be taken into revenue in 2005, \$106.1 million is from projects already underway, reducing the risk of project cancellation or delay. An additional \$52.0 million is generated from maintenance contracts, which clients generally do not defer. The remaining \$76.2 million of the backlog relates to projects that had not commenced at December 31, 2004. 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 approval, including funding, and should commence on schedule.

Stuart Olson experienced a good year in 2004 and its market is likely to strengthen in 2005. The company enters 2005 with \$139.6 million of backlog, of which \$135.4 million is expected to be realized as revenue in 2005. This represents 58.4% of its 2004 revenue level. The Alberta building construction market is very positive and the British Columbia market has strengthened markedly over the last year. With major government investment planned for schools, hospitals and long-term health care in Alberta and British Columbia this should result in Stuart Olson surpassing its 2004 revenue.

Triton Projects enters 2005 with \$45.6 million of backlog. This is considerably higher than the last few years and as such it is expected that the company's revenue should be higher in 2005. The major issue with Triton will be to rebound from its poor performance in 2004 on fabrication plant contracts and to achieve positive returns going forward. As new systems and processes are implemented to remedy this

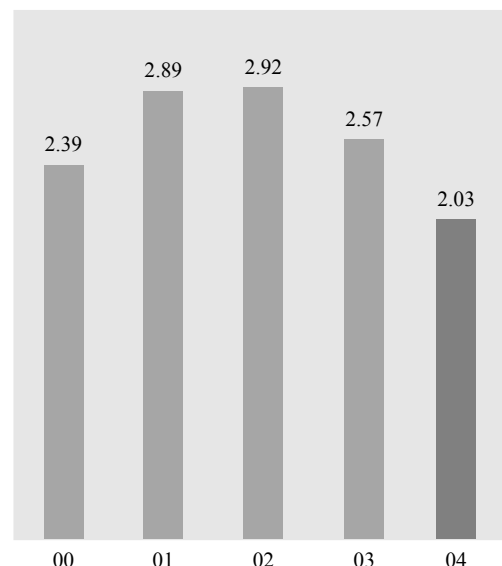
situation, it is expected that 2005 will be an improving year, although not to the desired levels of return.

The Industrial Insulation Contracting group had another strong year in 2004. The companies enter 2005 with \$22.2 million of backlog for execution in the coming year, which is at an historically high level for their businesses. As much of their oil sands related work is moving into the construction phase, 2005 is expected to be a very good year.

Laird Electric enters 2005 with a \$44.1 million backlog, which is considerably higher than the level of \$23.8 million entering 2004. As well, in January 2005 the company was awarded a large contract in the Fort McMurray area for an existing client, scheduled for completion in the year. With this large backlog of work-in-hand and the improvements expected in its core Fort McMurray market, Laird is expected to improve upon its performance of 2004.

The primary objective for Churchill is profitability. The Corporation has a significant backlog of construction entering 2005. Churchill's core construction market in western Canada is strong and is expected to strengthen for a number of years. Management is focused on refinancing the capital structure as well as improving the systems and procedures to ensure that performance is achieved.

BOOK VALUE PER COMMON SHARE (\$)



Changes in Accounting Policies

Churchill continues to use the same accounting policies and methods as described in Note 2 attached to the December 31, 2003 Consolidated Financial Statements, except that the Corporation has adopted, effective January 1, 2004, the new CICA Handbook policies related to stock-based compensation and asset impairment.

Stock-Based Compensation - 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*. The change was adopted retroactively without restatement of the prior year. 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.

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. An analysis to determine a potential impairment related to the acquisition of Laird Electric was carried out at year-end 2004. This review by management, together with an independent consultant, determined that there was no impairment of the asset at this time. As such there is no material impact on the financial statements resulting from the adoption of Section 3063 either in the current or prior periods presented.

Future Accounting Policies

Variable Interest Entities - The Corporation plans to adopt the CICA Accounting Guideline 15 (AcG-15) on the consolidation of variable interest entities which is effective for annual and interim periods beginning on or after November 1, 2004. Variable interest entities refer to those entities that are subject to control on a basis other than ownership of voting interests.

AcG-15 provides guidance for identifying variable interest entities, and criteria for determining consolidation. The Corporation has determined that the adoption of this standard will not have a material effect on its results from operations or financial position.

Financial Instrument - Disclosure and Presentation - In November 2003, CICA Handbook Section 3860 *Financial Instruments - Disclosure and Presentation* was amended to require that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own instruments be presented as a liability. The amendments are expected to be effective for fiscal years beginning after November 1, 2004, and would be applied retroactively, thus requiring restatement. The Corporation has not yet determined the impact of the adoption of this standard on its results from operations or financial position.

Financial Instrument - Recognition and Measurement - In January 2005, the CICA released new Handbook Section 3855, *Financial Instrument - Recognition and Measurement*, effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value, at other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented, and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities and derivative contracts. The Corporation has not yet determined the impact of the adoption of this standard on its results from operations or financial position.

Comprehensive Income and Equity - In January 2005, the CICA released new Handbook Section 1530, *Comprehensive Income*, and Section 3251, *Equity*, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting and display of comprehensive income. It defines other comprehensive income to include revenue, expenses, gains and losses that, in accordance with primary sources of GAAP are recognized in comprehensive income, but excluded from net income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530 and recommends that an enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves. The Corporation has not yet determined the impact of the adoption of this standard on the presentation of the results from operations or financial position.

Terminology

Throughout this 2004 Annual Report management refers to certain terms when explaining its financial results that do not have any standardized meaning under Canadian GAAP as set out in the CICA Handbook. Specifically, the terms “contract income margin percentage” and “work-in-hand” have been defined as –

Contract income margin percentage is the percentage derived by dividing Contract Income by Contract Revenue. Contract

Income is calculated by deducting all associated direct and indirect costs from Contract Revenue in the period.

Work-in-hand is the unexecuted portion of work that has been contractually awarded to the Corporation. It includes contracts that have been awarded but not yet commenced construction, as well as an estimate of the revenue to be generated from maintenance contracts during the shorter of (a) the next two years, or (b) the remaining life of the contract.

Critical Accounting Estimates

Churchill’s financial statements include estimates and assumptions made by management relating to the results of operations, financial conditions, contingencies and commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, Churchill’s most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, requiring estimates that are inherently uncertain and may change in subsequent periods.

Revenue recognition from cost-plus contracts and fixed-price contracts requires monthly estimates of costs incurred, costs to complete, and the timing of realization. On cost-plus contracts, estimates of costs incurred may be required in advance of being billed for those costs. On fixed-price contracts, revenues are recorded on a percentage-of-completion basis, which requires estimating certain costs incurred as well as the costs required to complete the contract. In making such estimates, judgments are required to evaluate contingencies such as variances in scheduling, material costs, labour costs, labour productivity, subcontractor costs, change orders and liability claims. Revenue recognition estimates may be required in each of our operating business segments, but would normally be most prevalent in Stuart Olson and Triton where a significant portion of their contract revenue and contract income for the period may be estimated. Changes in estimated costs to complete on fixed-price contracts may have a material impact on the realization of net earnings.

Goodwill impairment incorporates, at a minimum, an annual assessment of the value of Churchill’s goodwill by applying a fair value based test to each segment of goodwill. Each fair value test may incorporate estimates such as normalized earnings, future earnings, price earnings multiples, future cash flows, discount rates, and terminal values. The goodwill arose on the purchase of Laird Electric in February, 2003. A significant portion of the valuation of goodwill for Laird is related to future earnings which are estimated and uncertain. Any reduction in these estimates could result in an impairment of goodwill.

Income tax provisions, including current and future income tax assets and liabilities, may require estimates and interpretations of federal and provincial tax rules and regulations, and judgments as to their interpretation and application to Churchill’s specific situation. Income tax provisions are estimated each quarter, updated each year-end to reflect actual differences and the impact of revenue recognition estimates, and then finalized during the preparation of the tax returns. Any changes between the quarterly estimates and the year-end provision, and the final filing position, may impact the income tax expense category, as well as the current and future income tax asset and liability categories.

Accounts receivable collectability may require an assessment and estimation of the creditworthiness of the client, the interpretation of specific contract terms, the strength of Churchill’s security, and the timing of collection. An allowance would be provided against any amount estimated to be uncollectible, and reflected as a bad debt expense.