

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the operating performance and financial condition of Churchill, dated March 16, 2006, should be read in conjunction with the December 31, 2005 Audited Consolidated Financial Statements and related notes thereto.

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

December 31, 2005

| Years ended December 31 | | | |
|--|------------|------------|------------|
| (\$ thousands, except for percentages and per share amounts) | 2005 | 2004 | 2003 |
| Contract Revenue | 479,820 | 334,618 | 319,398 |
| Contract Income | 39,805 | 17,998 | 21,304 |
| Contract Income (%) | 8.3% | 5.4% | 6.7% |
| Net earnings (loss) | 3,794 | (6,169) | (3,657) |
| Net earnings (loss) per common share | | | |
| Basic (\$ per share) | 0.24 | (0.51) | (0.31) |
| Fully diluted (\$ per share) | 0.24 | (0.51) | (0.31) |
| Total Assets | 144,061 | 122,308 | 102,829 |
| Total long-term financial liabilities | 2,301 | 1,849 | 5,635 |
| Cash dividends declared per share | - | - | - |
| Outstanding shares at December 31 | 17,895,686 | 12,238,352 | 11,863,652 |
| Outstanding shares at March 16, 2006 | 17,895,686 | | |

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; for the year ended December 31, 2004 was \$19.7 million; and for the year ended December 31, 2005 was \$79.8 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.

(3) The Corporation's long-term debt increased during 2004 by \$4.0 million in order to finance the construction and operations of a new modular fabrication facility. In 2004, the Corporation was not in compliance with certain of its debt covenants and consequently reclassified \$6.6 million of long-term debt to a current liability. In 2005 the Corporation finalized an arrangement for additional equity funding. The arrangement included the issuance of 5,323,000 of new Common Shares in a private placement for \$10.6 million.

OVERVIEW

Churchill experienced a significant recovery in 2005 from the losses in the prior two years. Improved market conditions generated opportunities for larger revenue; internal reorganization and systems improvements assisted in better contract margins; and capital restructuring provided additional working capital to achieve higher levels of operations. These were the major factors generating higher earnings for the Corporation. Revenue increased by 43.4% on a year-over-year basis. The Corporation's immediate objective was to return to profitability during the year as well as to replenish working capital. Both of these objectives were accomplished.

All Churchill companies were profitable in 2005 with the exception of Triton. Triton's loss was due to a significant loss on a major construction project coupled with a decision to restrict work flow through the new modular fabrication facility pending systems and process improvements.

A major capital restructuring program was instituted during the year which included new equity financing of \$10.6 million and a new banking facility with increased borrowing levels. This restructuring, combined with the positive earnings achieved in the year, resulted in a significant increase in the Corporation's working capital. Churchill's working capital requirements were impacted by growth in 2005 as well as financial losses in 2003 and 2004.

The higher level of working capital resulted in an enhancement of the Corporation's ability to take advantage of the opportunities created in its expanding markets.

Churchill constructs buildings and provides industrial construction and maintenance services. In 2005 the Corporation operated through five business segments –

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

Churchill provides strategic direction, operating advice, financing and infrastructure services to each of the business segments. Churchill's senior management includes Norm Rokosh, President and Chief Executive Officer; Daryl Sands, Vice President Finance and Chief Financial Officer; Al Stowkowy, President, Stuart Olson Construction; Ron Martineau, President, Insulation Holdings; Danny Daoust, President, Triton Construction; and George Schneider, President, Laird Electric. Each business segment has its own President and senior management team, and is designed to be self-supporting.

During 2005, there were several major changes to Churchill's senior management. Gary Bardell stepped down in November 2004 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 Chief Executive Officer. In May 2005 Norm Rokosh was appointed President and Chief Executive Officer. In January 2005, Ian Morris, Vice President Finance and Chief Financial Officer, left the organization. DeEtte Mack, the Corporate Controller subsequently assumed the duties of the chief financial officer on an interim basis. In June 2005, Daryl Sands was appointed Vice President Finance and Chief Financial Officer. In April 2005, Bruce Rintoul, Vice President Industrial and CEO of Triton left the Corporation. The position of Vice President Industrial was subsequently eliminated.

QUARTERLY FINANCIAL INFORMATION

| | 2005 | | | | 2004 | | | |
|------------------------------|--------|----------|----------|----------|----------|----------|---------|---------|
| | Dec.31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 |
| Contract Revenue | 138.8 | \$ 120.6 | \$ 118.8 | \$ 101.6 | \$ 101.8 | \$ 82.6 | \$ 77.3 | \$ 72.8 |
| Contract Income | 12.4 | 9.7 | 10.4 | 7.3 | 1.9 | 5.4 | 6.2 | 4.5 |
| Contract Income - % | 8.9% | 8.0% | 8.8% | 7.1% | 1.9% | 6.5% | 8.0% | 6.2% |
| Net Earnings(Loss) | 1.6 | 1.3 | 1.1 | (0.2) | (3.7) | (1.0) | (0.2) | (1.3) |
| Basic (\$ per share) | 0.09 | 0.07 | 0.07 | (0.02) | (0.31) | (0.08) | (0.01) | (0.11) |
| Fully diluted (\$ per share) | 0.09 | 0.07 | 0.07 | (0.02) | (0.31) | (0.08) | (0.01) | (0.11) |
| Work-in-Hand | 247.2 | 307.8 | 294.8 | 299.8 | 251.5 | 338.4 | 347.0 | 298.5 |
| Working Capital* | 25.1 | 23.4 | 14.9 | 3.4 | 3.0 | 9.9 | 13.0 | 15.2 |
| Shareholders' Equity | 40.2 | 37.9 | 36.5 | 24.7 | 24.9 | 28.6 | 29.5 | 29.2 |
| Book Value (\$ per share) | 2.25 | 2.15 | 2.07 | 2.02 | 2.03 | 2.34 | 2.41 | 2.46 |

* Working Capital is defined as current assets less current liabilities excluding that portion of a demand term loan entered into on September 7, 2005, which is scheduled to be repaid beyond one year.

The above information is impacted by the following items:

- (1) Revenue increased in the last quarter of 2004 and the four quarters of 2005, indicating a general improvement in the Corporation's markets as well as a result of the additional revenue from projects executed at the new modular fabrication facility.
- (2) The increase in contract income in 2005 relative to 2004 reflects an improving market resulting in higher revenue and a return by the Corporation to its historic levels of contract margins.
- (3) The significant drop in contract income in the fourth quarter of 2004 is primarily due to large losses incurred on early contracts executed by Triton utilizing Churchill's modular fabrication facility.
- (4) Contract income in the second quarter of 2005 included \$1.3 million related to a contractual settlement on a fabrication project executed by Triton. A further \$0.4 million in contract income related to this settlement was realized in the third quarter of 2005.
- (5) In the first and second quarters of 2005 the Corporation incurred additional indirect and administrative costs. These costs included \$0.6 million for outside consultants and \$0.4 million related to the Special Committee of the Board of Directors. The additional costs were mainly incurred with regard to the review and design of process improvements in respect to the industrial operations and the fabrication plant, as well as the sourcing of new capital for the Corporation. The Special Committee also provided interim management to the Corporation during that period. The work of the Special Committee was substantially completed in the second quarter of 2005.
- (6) Work-in-hand increased during the first quarter of 2005, from that at year-end 2004, due to a large amount of new work secured by the Corporation's industrial businesses.
- (7) Working capital was reduced during the fourth quarter of 2004 and the first and second quarters of 2005, principally as a result of a reclassification of \$6.6 million of long-term debt with covenant violations to current liabilities in 2004 (\$6.0 million in the first quarter and \$5.4 million in the second quarter of 2005), as well as operational losses and capital expenditures incurred with respect to the modular fabrication facility in 2004. The increase in working capital in the second quarter of 2005 was primarily due to the proceeds from the issuance of new share capital through the private placement of \$10.6 million for 5.3 million of new Common Shares. In the third quarter of 2005 the Corporation arranged for a new banking facility, with which the Corporation was in compliance with the required debt covenants as at December 31, 2005.

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, 2005 are included in the section titled Cash Flow, Financing, Capital Requirements, Liquidity presented later in this Management's Discussion and Analysis.

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.

Fourth Quarter Results

The quarterly financial information as at March 31, June 30, and September 30, 2005 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 in this Management's Discussion and Analysis, the activities for the three months ended December 31, 2005 resulted in revenue increasing to \$138.8 million from \$120.6 million in the previous quarter and \$101.8 million during the comparable period in 2004. The continued higher level of revenue on a year-over-year basis is indicative of a strengthening in all of the Corporation's markets. Laird's revenue increased significantly for the quarter to \$19.5 million from \$5.7 million in the same period in 2004. As well, Churchill's insulation companies experienced a significant increase to \$28.4 compared to \$15.8 million in the fourth quarter of 2004. Triton's revenue increased by \$12.0 million to \$31.3 million for the quarter while Stuart Olson's revenue of \$60.1 million was similar to that of \$61.7 million in the fourth quarter of 2004.

The Corporation's net earnings for the three months ended December 31, 2005 were \$1.6 million as compared to a net loss of \$3.7 million for the three months ended December 31, 2004. All of the operating companies were profitable in the fourth quarter of 2005 except Triton. Laird's earnings before tax were \$0.7 million; Stuart Olson's were \$2.2 million; and Industrial Insulation Contracting net earnings before tax were \$1.6 million for the quarter. Triton incurred a net loss before tax of \$1.4 million during the fourth quarter of 2005, due to large losses on a major construction contract. Triton had incurred a net loss of \$6.0 million during the comparable period in 2004. 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 modular fabrication facility. The fabrication facility was also intentionally operated below capacity through 2005 to improve systems and re-engineer processes to avoid a loss similar to 2004.

Annual Results

For the year ended December 31, 2005, The Churchill Corporation achieved net earnings of \$3.8 million on revenue of \$479.8 million, or net earnings per share of \$0.24 for the year. For the year ended December 31, 2004, the Corporation had a net loss of \$6.2 million on revenue of \$334.6 million, or a net loss per share of \$0.51.

Year over year revenues for the consolidated group increased \$145.2 million. In 2005, the industrial companies experienced a much higher level of activity than in 2004 with all showing significant increases in revenue. Laird's revenue was \$79.8 million for the year and was the highest in company history; this was an increase of \$60.1 million from \$19.7 million in 2004. The Industrial Insulation Contracting companies increased revenue by \$33.5 million to \$74.6 million in 2005 and Triton's revenue, also a historic high, increased by \$60.3 million to \$100.7 million from \$40.4 million in 2004. The Buildings segment, Stuart Olson had a modest decline in revenue to \$227.5 million compared to \$239.2 million in 2004. Revenue of the consolidated Churchill Corporation included an elimination of \$2.8 million for the year, compared to \$5.8 million in 2004. This elimination occurs when one of Churchill's companies does work for another.

Buildings

For the year ended December 31, 2005, Stuart Olson had revenue of \$227.5 million, compared to \$239.2 million in the prior year.

Stuart Olson entered the year with a backlog of \$139.6 million. During 2005, the company secured a further \$226.0 million of contracts, net of contract revisions, and executed and took into revenue \$227.5 million. It ended 2005 with a backlog of \$138.1 million. In addition to substantially replacing its backlog during the year, the company had several significant new contracts under negotiation that had not been finalized at year end and were thus not recognized as work-in-hand. Stuart Olson's market improved in 2005 as reflected by the considerable number of new projects available to the company as well as the higher contract margins. Institutional building projects in both Alberta and British Columbia accounted for the majority of the work, as the rapidly growing economies and increased government infrastructure spending of these two provinces generated many opportunities.

Earnings before tax for the year ended December 31, 2005, were \$4.4 million as compared to \$2.2 million for the year ended December 31, 2004.

Contract income increased from \$12.0 million in 2004 to \$14.9 million in 2005, and also increased as a percentage, from 5.0% of revenue to 6.5%. This is indicative of the company's improving efficiency and more buoyant markets.

Industrial General Contracting

Triton experienced a significant increase in revenue in 2005. The company's markets grew considerably during the year resulting in the highest revenue in its history. Triton's revenue for the year ended December 31, 2005 was \$100.7 million, a 149.3% increase from \$40.4 million for the year ended December 31, 2004.

The operating margin for 2005 was 6.9%, up from negative 5.3% in 2004. The margin improvement was due to improved market conditions coupled with a gain of \$1.7 million, associated with the resolution of a contractual settlement on a fabrication contract completed in 2005. These positive factors were offset by a significant loss on a major construction project in 2005.

Triton recorded a loss before tax of \$0.8 million for the year ended December 31, 2005, as compared to a loss before tax of \$8.3 million for the year ended December 31, 2004. Due to prior year operating losses in the modular fabrication facility, plant through-put was intentionally limited to a level below capacity for 2005 as systems and process improvements were implemented. This reduced operating level of the fabrication plant, together with the operating loss on a major construction project, resulted in a net loss for Triton for the year.

Triton began 2005 with \$45.6 million of work-in-hand. All of this was executed and brought into revenue for 2005. In addition, the company secured \$78.8 million of new work during the year, and executed \$55.1 million of this, leaving \$23.7 million to be executed in 2006.

Industrial Insulation Contracting

Industrial Insulation Contracting operates under three primary 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 had an excellent year in 2005, with combined revenue reaching a record level. Revenue for the year ended December 31, 2005 increased by 81.5% to \$74.6 million from \$41.1 million in 2004. Although revenue increased, operating margins were down from the previous year, reflecting the nature of the contracts executed in 2005. Activity during the year was dominated by Fuller Austin completing one of the largest industrial insulation projects executed in Canada. This project was for a major oil sands producer in the Fort McMurray region and was carried out primarily during the second half of the year. Fuller Austin's operations outside of Alberta started the year slowly and improved as the year progressed, while Northern Industrial experienced a significant increase in activity. Lakehead's market, which is primarily related to the forest products industry, was steady with maintenance work although limited in new construction projects.

In 2005 the insulation companies executed a number of larger projects with lower operating margins than their historic work. Consequently, the overall margin for the year ended December 31, 2005 was 11.1%. In 2004, they executed higher margin projects resulting in an overall operating margin of 15.4%. The lower margin in 2005 reflects larger contracts with a higher material/labour mix.

Earnings before tax for the year ended December 31, 2005 were \$2.7 million, as compared to \$1.7 million for the year ended December 31, 2004.

Industrial Insulation Contracting entered 2005 with a work-in-hand backlog of \$22.2 million. The companies secured \$79.2 million of new contracts in 2005. They executed and took into revenue \$74.6 million, leaving a backlog of \$26.8 million for 2006.

Industrial Electrical Contracting

Laird Electric experienced a high level of activity in 2005 compared to an unusually slow 2004. The company generated a company record \$79.8 million of revenue, an increase of \$60.1 million over 2004. The company's markets were particularly busy in the Fort McMurray region as oil sands projects moved into construction. Activity included providing electrical reconstruction services to a major oil sands producer who experienced a production fire in early 2005. Laird not only secured additional contracts with its traditional clients, but also expanded its client base to a number of other major oil sands producers. Power line work accounted for increased revenue during the year as this portion of the business recovered markedly from the prior year.

Operating margins were 11.1% in 2005 compared to 8.9% in 2004. Laird achieved earnings before tax of \$2.7 million compared to an operating loss before tax of \$2.0 million in 2004. The higher operating margins were a result of the company's significantly improved construction markets as well as increased maintenance work, including a resumption of work deferred from 2004.

Laird had a backlog of work of \$44.1 million entering 2005. It secured \$94.4 million of new contracts during the year and executed \$79.8 million of work, leaving a work-in-hand backlog of \$58.7 million entering 2006.

Corporate and Other

In 2005, \$31.7 million of Indirect and Administrative expenses were incurred by the Churchill group of companies, compared to \$24.8 million for the year ended December 31, 2004. The increase of 27.8% in Indirect and Administrative expenses is due primarily to anticipated support costs associated with the 43.4% increase in revenue on a year-over-year basis as well as the additional costs of operating the fabrication plant for a full year as compared to five months in 2004. Salaries, training and facility costs account for the majority of this increase. Severance and recruitment costs of \$0.7 million were incurred associated with the corporate restructuring of Churchill's senior management. The Corporation incurred costs of \$1.4 million for the services of consultants related to process re-engineering of the industrial operations. Stock-based compensation expense of \$0.4 million was charged during the year compared to \$0.1 million in 2004.

In late 2004 Churchill struck a special committee of the Board of Directors. The mandate of this committee was to oversee the operation of the Corporation until a new senior management team was established. This included a comprehensive review of the operational and control systems with respect to the industrial operations and the fabrication plant, and implementation of measures for improvement. The committee's role also included the sourcing of new capital for the Corporation which resulted in a private placement on May 13, 2005. The compensation for the committee members was over and above the fees and disbursements contemplated in their role as Directors and members of the Corporation's various standing committees. This committee operated primarily through the first two quarters of 2005 during which time a committee member acted as Interim CEO. The amount paid during the year to the special committee members was \$0.4 million.

The Corporation incurred legal fees during the year ended December 31, 2005 with a law firm for which a Director of the Corporation is also a partner. The fees were for services rendered in the ordinary course of business. The amount paid during the year was \$183 thousand. During the year, the Corporation incurred commission fees of \$14 thousand for services related to the disposition of a property held for sale with a company for which a Director of the Corporation is also the owner of the company.

CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

For the year ended December 31, 2005, Churchill generated \$11.3 million of cash through revenue generating activities. The Corporation incurred increased working capital requirements, due to its higher level of activity, resulting in the consumption of \$14.2 million of cash, related in part to the timing of collections and payments. The result was a net reduction in cash from operating activities of \$2.9 million. For the year ended December 31, 2004, Churchill consumed \$5.5 million of cash through its revenue generating activities and increased cash by \$10.8 million, related in part to the timing of collections and payments, resulting in a net positive cash flow from operating activities of \$5.3 million.

Churchill's working capital position, comprised of current assets less current liabilities excluding that portion of a demand term loan which is scheduled to be repaid beyond one year, was \$25.1 million at December 31, 2005, as compared to \$3.0 million at December 31, 2004. This substantial increase in working capital on a year-over-year basis is the result of positive earnings in 2005, combined with a major capital restructuring program implemented during the year. The capital restructuring program consisted of new equity financing and a new banking arrangement with increased borrowing capability.

At December 31, 2004, due to fourth quarter losses, the Corporation was not in compliance with certain of its debt covenants. As a result, \$6.6 million of long term debt outstanding with the lender at December 31, 2004, which was not scheduled to be repaid in the next 12 months, was reclassified as a current liability.

In order to increase the level of working capital, the Corporation finalized an arrangement for additional equity funding of \$10.6 million on April 25, 2005, which arrangement was approved by the Shareholders at the Annual Meeting on May 12, 2005. This proposal included the issuance of 5,323,000 new Common Shares at a price of \$2.00 per share in a private placement. The \$2.00 share price was the closing market price of Churchill shares on April 15, 2005. This placement consisted of \$7.0 million (3,500,000 shares) subscribed by Matco Capital Ltd. ("Matco"), a private investment firm based in Calgary, Alberta and the balance of \$3.6 million (1,823,000 shares) subscribed by Peter Allard who had previously owned approximately 14% of Churchill Common Shares. The details of this proposal are described in the Corporation's press release of April 19, 2005 as well as the Material Change Report filed with the TSX on April 22, 2005.

To further increase its working capital, the Corporation completed a new banking facility arrangement during the year. This arrangement provided a \$7.8 million ten-year loan ("demand term loan") to replace the Corporation's previous term and acquisition loans as well as to extend the scheduled repayment period. An operating line of credit of \$12.0 million was provided to replace a temporary facility arranged in June 2005 and the agreement allowed for the release of \$4.0 million of term deposits previously held as security.

The Corporation returned to compliance with its bank debt covenants as a result of its profitability, combined with the additional equity funding and new banking arrangements.

Capital expenditures for the year ended December 31, 2005 were \$2.6 million as compared to \$8.7 million for the year ended December 31, 2004. 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 2004 and a further \$0.1 million during 2005. The remaining \$2.5 million of capital expenditures in 2005 were primarily to replace portions of, or add to, the vehicle and equipment fleets.

Contractual Obligations

(\$ millions)

December 31, 2005

| | Total | Current Year | 2-3 years | 4-5 years | After 5 years |
|--|---------------|-----------------|--------------|--------------|------------------|
| Demand term loan (1) | \$7.5 | \$0.8 | \$1.6 | \$1.6 | \$3.5 |
| Mortgage payable | 1.3 | 0.0 | 0.1 | 0.1 | 1.1 |
| Finance contracts and capital lease obligations | 1.6 | 0.6 | 0.8 | 0.1 | 0.1 |
| | <u>\$10.4</u> | <u>\$1.4</u> | <u>\$2.5</u> | <u>\$1.8</u> | <u>\$4.7</u> |

(1) The above table represents scheduled repayments.

The demand term loan, mortgage payable, finance contracts and capital lease obligations are more fully described in Notes 12 and 13 of the Audited Consolidated Financial Statements.

During the year, the Corporation completed a debt-refinancing package. Under the terms of the new agreement, the lender provided the \$7.8 million demand term loan and a \$12.0 million operating line of credit. The proceeds of this financing were used to repay a term loan of \$3.2 million and an acquisition loan of \$4.0 million, with the balance of \$0.6 million going to working capital. In addition, a \$4.0 million term deposit posted as security for these facilities was released as part of the refinancing.

In January 2006, the maximum operating line of credit was subsequently increased by the Corporation's lender from \$12.0 million to \$16.0 million. As well, a new additional line of credit of \$3.0 million was added to the agreement; such line to be used specifically for the lease of vehicles and equipment pertaining to operations.

\$9.0 million was added to long-term debt during the year. This consisted of the \$7.8 million demand term loan described above as well as \$1.2 million of other long term debt to fund additions to the vehicle fleet.

The Corporation repaid \$9.8 million of debt during the year ended December 31, 2005. \$7.2 million was to repay the balance outstanding on the term and acquisition loans as part of the refinancing described above and \$2.1 million were the scheduled payments on these loans. The remainder consisted primarily of scheduled payments on dealer financing for vehicles.

Churchill began 2005 with \$11.7 million in cash, of which \$10.5 million was subject to deemed trust conditions under the British Columbia Lien Act, as well as an additional \$4.0 million in term deposits held as security by the Corporation's bank. The operating, investing and financing activities throughout 2005 generated \$9.7 million of net additional cash. At December 31, 2005 the cash position was \$29.2 million, of which \$9.9 million was subject to certain deemed trust conditions, net of \$7.8 million of bank indebtedness.

The scheduled debt repayments for 2006 are \$1.4 million. The level of required replacement capital spending for Churchill is estimated to be in the range of \$2.9 million for 2006. 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.

Property for sale was disposed of during the year for a net gain over book value of \$0.6 million.

Shareholders' equity was \$40.2 million at December 31, 2005, as compared to \$24.9 million at December 31, 2004. Both 2004 and 2005 values include \$7.3 million of goodwill.

Share capital increased \$11.2 million from January 1, 2005 to December 31, 2005 as a result of the additional equity funding of \$10.6 million referred to above and 334,334 stock options being exercised. During 2005, Contributed Surplus increased by \$0.4 million over the \$5.4 million balance as of December 31, 2004. This increase is the result of share-based compensation awarded during the year, and is detailed in Note 15 of the Audited Consolidated Financial Statements. Retained Earnings increased from \$15.2 million at December 31, 2004 to \$19.0 million at December 31, 2005, reflecting the \$3.8 million net earnings for the year.

The 2003 purchase of Laird Electric included a refundable deposit of \$1.0 million that was recoverable by the Corporation in the event that Laird did not achieve a cumulative financial performance objective by December 31, 2005. The potential refund was secured by shares of the Corporation held in escrow without further recourse. Under the escrow agreements, the vendors were required to maintain \$1.0 million in escrow either through shares or equivalent cash if shares were released. At December 31, 2005, the Corporation has determined that the financial performance objective was not met entitling the Corporation to a repayment of the refundable deposit. Pursuant to the escrow agreements the vendors have the right to dispute management's assessment. Settlement under the escrow agreements is required no later than April 30, 2006. Under the agreements, should there be a repayment, it may be settled with cash or a return of shares of the Corporation valued at the trailing 30 day trading average, which as at December 31, 2005 was \$3.21 per share.

As discussed in Note 15 to the Audited Consolidated Financial Statements, options to acquire 334,334 Common Shares were exercised for cash during the period January 1, 2005 to December 31, 2005.

As at December 31, 2005 the Corporation had outstanding 17,895,686 common shares and 605,000 options convertible into common shares (December 31, 2004 – 12,238,352 common shares and 564,334 options).

The Corporation has an Employee Share Purchase Plan available to all full-time employees. At December 31, 2005 the Plan held 1,446,853 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 605,000 options were outstanding as at December 31, 2005. In addition to the 334,334 options exercised during the year, there were 100,000 options cancelled. There were 86,666 options available for grant at December 31, 2005.

During the year, the Board of Directors approved the implementation of a long-term compensation plan. The plan awards employee share units to eligible employees within 90 days of each fiscal year based on specific targets set each year. The plan is subject to shareholder approval at the Corporation's May, 2006 Annual Meeting and will be implemented retroactively should shareholder approval be granted.

DISCLOSURE CONTROLS

The President and Chief Executive Officer (the "CEO") together with the Vice President Finance and Chief Financial Officer (the "CFO") are responsible for establishing and maintaining the Corporation's disclosure controls and procedures as defined in *Multilateral Instrument 52-109*. They are assisted in this responsibility by the Disclosure Committee which is composed of senior managers of the Corporation and at least one member of the Board of Directors.

During the year, an evaluation was carried out as to the effectiveness of the controls and procedures. The CEO and CFO have concluded that the Corporation's disclosure controls and procedures are effective as at December 31, 2005, to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

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 monitors this information to assist 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, while significant upward movement could lead to clients seeking to accelerate their project schedule. Either movement could put pressure on the Corporation'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 in the preconstruction phase can lead to a project delay. These delays are generally third party generated and thus outside the Corporation's control. The major cost associated with these delays is personnel and associated overhead that is designated for the project and cannot be reallocated effectively to other work.

The operating companies occasionally participate in design-build projects whereby they assume the additional risk of design-related flaws or failures. This risk is reduced by utilizing external consultants for the design component as well as by the purchase of appropriate insurance protection. 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. The agreement with the Corporation's surety company is renewed periodically. Should any revision to the agreement result in a reduction in bonding capacity, then this could limit growth and potentially adversely effect on-going operations.

Once a project has begun, the project management team monitors estimating, procurement, project execution, and contract terms. These risks are controllable by management. The Corporation assesses its project controls on an ongoing basis.

Periods of high construction activity can create shortages of labour and material. With the rapidly expanding market in Alberta, general shortages of tradesmen and management personnel are occurring and this condition is expected to continue for several years. Churchill's operating companies have attempted to mitigate the situation through competitive remuneration, enhanced in-house training programs and expanded recruiting, both within Canada and internationally. These shortages may cause limits on the growth of the Corporation's businesses and could potentially affect contract margins. Also, labour and material shortages may lead to construction cost escalation which could decrease contract margins should clients not agree to absorb these additional costs.

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 major collective agreements expiring in 2006 for any of Churchill's companies.

Triton incurred significant losses in 2004 as a result of start-up problems in the fabrication facility and the associated project execution. As a result, plant through-put was restricted in 2005 under a planned reduction program until systems and processes were sufficiently improved. Results to date indicate improved productivity and performance in respect of the facility however it continues to operate at a restricted level. Management expects to increase work volume slowly to ensure productivity and performance levels remain sufficiently high. Should the plant operate significantly below capacity for an extended period, then revenue may be insufficient to cover fixed overhead costs, thus creating an operating loss.

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 a significant factor in achieving its strategy of expansion in the industrial market. To address these working capital needs, new equity of \$10.6 million was placed and a new banking facility, with an increased operating line, was arranged in 2005. Although this satisfies immediate needs, future growth may be limited if additional working capital is required and not available.

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

2006 OUTLOOK

Churchill's markets for new work improved markedly in 2005 and these markets are expected to remain strong throughout 2006. Alberta and British Columbia are forecast to lead the country in economic growth, driven in part by the oil sands and heavy oil mega projects in Alberta and the 2010 Olympics in British Columbia. The carryover of industrial work is at a high level for the Corporation and the buildings group, Stuart Olson, has significant new contract opportunities that will move into construction in 2006. These new opportunities for growth may require additional working capital, thus necessitating further developments in the Corporation's capitalization.

The Churchill Corporation enters 2006 with a backlog of \$247.2 million, of which \$236.0 million is expected to become earned revenue in 2006 and \$11.2 million is expected to carry forward into 2007 or later.

Of the \$236.0 million of backlog expected to be taken into revenue in 2006, \$166.9 million is from projects already underway, reducing the risk of project cancellation or delay. An additional \$37.0 million is generated from maintenance contracts, which clients generally do not defer. The remaining \$32.1 million of the backlog relates to projects that had not commenced at December 31, 2005. In general, these projects have a higher degree of risk of being delayed or cancelled, although all are expected to commence on schedule.

Stuart Olson is expected to increase revenue in 2006 over 2005, as several of its significant projects move into construction. The company enters 2006 with \$138.1 million of backlog, of which \$128.2 million is expected to be realized as revenue during the year. Growth in the western Canadian economy will continue to generate a need for commercial, residential and institutional building projects, with major government investment planned for schools, hospitals and long-term health care.

Triton Projects enters 2006 with \$23.7 million of backlog. The company achieved a record level of revenue in 2005, which is unlikely to repeat in 2006 as the carryover of work into the year is lower. The industrial market remains the strongest in the company's history and so many opportunities are expected. The major issues with Triton will be a continuation of the restructuring of the fabrication plant as well as the improvement of project execution processes to increase profitability.

The Industrial Insulation Contracting companies are expected to continue with their strong performance into 2006. The companies enter the year with \$26.8 million of backlog, which is at a historically high level for their businesses. They successfully completed a major contract for an oil sands client in the Fort McMurray region in 2005 and their key objective for 2006 is to lever this large project experience into similar work. This should be achievable as the outlook for their services is very positive, particularly in Alberta.

Laird Electric enters 2006 with a \$58.7 million backlog as compared to \$44.1 million entering 2005. The company climbed to a record level of revenue in 2005 and with the large backlog of work and many opportunities in its core Fort McMurray market, Laird is expected to continue with its solid performance in 2006.

The primary driver for Churchill is profitability. The Corporation achieved a significant turn-around in profitability in 2005, due primarily to larger revenue from an improved market, as well as internal reorganization and systems improvements that produced higher contract margins. With a significant backlog of construction entering 2006 and the construction market in western Canada at a record level, it is expected that Churchill will experience another year of strong performance.

CHANGES IN ACCOUNTING POLICIES

The Corporation adopted, effective January 1, 2005, the new CICA Handbook policies related to variable interest entities and financial instruments- disclosure and presentation.

Variable Interest Entities – Effective January 1, 2005, the Corporation adopted the recommendations of CICA Accounting Guideline 15 (AcG-15) *Consolidation of Variable Interest Entities*, 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 which entity, if any, should consolidate them. The Corporation determined that it does not hold an interest in a variable interest entity and there was no impact on the financial statements from the adoption of AcG-15.

Financial Instruments - Disclosure and Presentation – Effective January 1, 2005, the Corporation adopted the amended recommendations of CICA Handbook Section 3860 *Financial Instruments-Disclosure and Presentation* effective for annual and interim periods beginning on or after November 1, 2004. Section 3860 requires 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 equity instruments be presented as a liability. The Corporation has determined that there is no impact on the financial statements from the adoption of amendments to Section 3860.

Future Accounting Policies

Financial Instrument –Recognition and Measurement – In January 2005, the Accounting Standards Board (AcSB) of the CICA issued Handbook Section 3855, *Financial Instruments –Recognition and Measurement*. The new accounting standard requires that all financial instruments, including derivatives are to be included on a company's balance sheet and measured, either at their fair market value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standards also specify when gains and losses as a result of changes in fair values are to be recognized in the income statement.

Comprehensive Income and Equity - In January 2005, the AcSB of the CICA issued new Handbook Section 1530, *Comprehensive Income*, and Section 3251, *Equity*. 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.

Hedges- In January 2005, the AcSB of the CICA issued Handbook Section 3865, *Hedges*. The new accounting standard extends existing requirements for hedge accounting and comprehensively specifies how hedge accounting can be performed.

The mandatory effective date for the new sections 1530, 3251, 3855 and 3865 is for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Corporation is in the process of evaluating the impact of these recently issued standards on its financial position and results of operations.

Non-Monetary Transactions- In June 2005, the AcSB issued Handbook Section 3831, *Non-Monetary Transactions*, replacing Section 3830 of the same title. The new accounting standard requires all non-monetary transactions be measured at fair value unless certain conditions are satisfied. The new requirements are effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006.

The Corporation is in the process of evaluating the impact of the recently issued standard on its financial position and results of operations.

Implicit Variable Interests under AcG-15- In October, the Emerging Issues Committee of the CICA (the “EIC”) issued Abstract No. 157, *Implicit Variable Interests under AcG-15 (EIC-157)*, to address whether a company has an implicit variable interest in a VIE or potential VIE when specific conditions exist. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. The EIC-157 will be effective in the first quarter of 2006. The Corporation does not expect the impact of this abstract to be material.

TERMINOLOGY

Throughout this 2005 Management’s Discussion and Analysis, management refers to certain terms when explaining its financial results that do not have any standardized meaning under Canadian GAAP as set out in the CICA Handbook. Specifically, the terms “contract income margin percentage”, “work-in-hand” and “working capital” 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.

Working capital is current assets less current liabilities excluding that portion relating to any demand term loan which is scheduled to be repaid beyond one year.

CRITICAL ACCOUNTING ESTIMATES

Churchill’s financial statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. 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.