

## SECOND QUARTER REPORT

June 30, 2004

### REPORT TO SHAREHOLDERS

Your Corporation is pleased to announce significant improvements in operational results during the second quarter of 2004. Although revenue was similar, at \$77.3 million as compared to \$77.2 million in 2003, higher contract income margins and lower overhead costs contributed to improvements in financial results compared to both the first quarter of this year and the same period last year. The net loss for the quarter was \$0.2 million as compared to \$1.2 million in the first quarter of 2004 and \$2.4 million in the second quarter of 2003. The 2003 loss included a \$1.8 million after-tax writedown on the JTB Canadian Pork receivable. The improvement in earnings is indicative of the progress made in restructuring our operations over the past two years. As well, market conditions are improving and our level of activity is expected to increase rapidly over the last half of the year.

The backlog of our work-in-hand has grown to \$347.0 million from \$298.4 million at the end of the first quarter of 2004. An additional \$125.9 million of new work was awarded to Churchill companies during the quarter. We have continued to replace the work that was completed in the second quarter as well as to grow our backlog.

Stuart Olson achieved operational earnings of \$0.2 million during the second quarter. This improvement over the first quarter was due to increased revenue and substantially improved contract margins. Also their work-in-hand increased as the market in western Canada improved in both the commercial and institutional building construction sectors.

Our insulation companies achieved another excellent quarter providing operational earnings of \$1.3 million, year to date. Much of their work was on process modules destined for the Fort McMurray oil sands projects. They are expecting to follow up with further significant work related to the associated field installation of these modules.

Laird Electric was negatively impacted by delays in starts on major oil sands projects. During the latter half of 2004 it is expected that many of these projects will move into the

construction phase, which will increase their level of activity. Maintenance and plant turnaround work provided the bulk of their revenue during the second quarter.

Similarly, the second quarter was slow for Triton as many of their industrial projects had not moved into the construction phase. Their operating loss was primarily due to a low level of revenue although this loss was partially offset by improved operating margins. We expect their earnings to improve substantially during the balance of 2004 as their revenue will increase with new fabrication plant work and an increase in their overall construction activity. Their backlog of work-in-hand is at the highest level in the company's history.

At the end of the second quarter we completed the construction of our new modular fabrication facility near Edmonton. Oil sands projects are increasingly utilizing off-site fabrication of process modules that are then transported to the jobsite and assembled. Our new facility has enabled Churchill's companies to move strongly into this market. Triton has several contracts in place and is already into full production on this fabrication work.

The first half of 2004 was expected to be a challenge from an earnings perspective and as such the second quarter results are in line with our expectations. We continue to believe that the latter half of the year will provide substantial improvement in both our revenue and earnings; we are already experiencing the positive benefits of both improved market conditions and our internal performance. The new fabrication facility will provide us with an exciting new dimension to our service offerings and enhance our earnings potential. We look forward to reporting this progress to you in the upcoming months.



August 4, 2004

Gary R. Bardell, MBA, P.Eng.  
President and Chief Executive Officer

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of The Churchill Corporation, prepared as at July 28, 2004, should be read in conjunction with the unaudited Consolidated Financial Statements and related notes, and the Report to Shareholders contained in this 2004 Second Quarter report, as well as the consolidated financial statements and related notes, MD&A and Report to Shareholders contained in the Corporation's 2003 Annual Report and 2004 First Quarter Report.

Except as discussed below, all other factors referred to and discussed in the MD&A for fiscal 2003 and for the first quarter of 2004 remain substantially unchanged.

## 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 adopted, effective January 1, 2004, the new CICA Handbook policies related to stock-based compensation and asset impairment. These new policies are described more fully in the MD&A contained in the Corporation's 2004 First Quarter Report. The impact of adopting the fair value based method of accounting for stock-based compensation is disclosed in Note 5. There is no material impact on the current or prior period financial statements resulting from the adoption of the asset impairment policy.

## TERMINOLOGY

Throughout this 2004 Second Quarter Report, and other documents referred to, management uses the following terms which do not have any standardized meaning under Canadian GAAP as set out in the CICA Handbook, and which require definition –

*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 contractually been awarded to the Corporation. It includes capital construction contracts that have been awarded and are either under construction or expected to commence construction in the normal course, as well as an estimate of the revenue expected 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, commitments, and related disclosures. Actual results may vary from these estimates.

As discussed in the MD&A contained in the 2004 First Quarter Report, management has identified the Corporation's most critical accounting estimates to be in the areas of revenue recognition, accounts receivable collectability, goodwill impairment, and income tax provisions. There have not been any new critical accounting estimates identified during the three months ended June 30, 2004.

All estimates are updated each reporting period to reflect actual activity as well as incorporate all new relevant information that has come to the attention of management. Given the nature of construction, with numerous contracts in progress at any given point in time, the impact of the critical accounting estimates on the results of operations is significant. Subsequent activities, or information received subsequent to the date of this MD&A, may cause actual results to vary, which will be reflected in the results of subsequent reporting periods.

## SELECTED ANNUAL INFORMATION

(\$ millions, except where noted)	Years ended December 31		
	2003	2002	2001
Contract revenue	\$ 319.2	\$ 311.7	\$ 293.5
Net (loss) earnings	(3.7)	1.0	5.3
Net (loss) earnings per common share			
Basic (\$ per share)	(0.31)	0.09	0.50
Fully diluted (\$ per share)	(0.31)	0.09	0.47
Total assets	102.8	99.0	103.9
Total long-term financial liabilities	7.5	0.4	1.5

Churchill acquired Laird Electric on February 7, 2003. For the year ended December 31, 2003 Laird contributed \$25.6 million of contract revenue. For the six months ended June 30, 2004 Laird contributed \$11.1 million of contract revenue.

Churchill acquired Lakehead Insulation in January, 2002. For the years ended December 31, 2002 and December 31, 2003 Lakehead contributed \$2.4 million and \$13.8 million of contract revenue, respectively. For the six months ended June 30, 2004 Lakehead contributed \$3.4 million of contract revenue.

Churchill's 41% interest in the Lafrentz Road Services business was sold in early 2003. Churchill's equity investment and management fees from Lafrentz were \$0.2 million in 2003, \$0.4 million in 2002, and \$0.1 million in 2001.

## QUARTERLY FINANCIAL INFORMATION

(\$ millions, except where noted)

	2004			
			June 30	Mar. 31
Contract revenue			\$ 77.3	\$ 72.8
Contract income			6.2	4.5
Contract income - %			8.0%	6.2%
Net (loss) earnings			(0.2)	(1.2)
Work-in-hand			347.0	298.4
Working capital			13.0	15.2
Shareholders' equity			29.5	29.2
	2003			
	Dec. 31	Sept. 30	June 30	Mar. 31
Contract revenue	\$ 95.6	\$ 84.2	\$ 77.2	\$ 62.2
Contract income	7.0	5.1	6.1	2.9
Contract income - %	7.3%	6.1%	7.9%	4.7%
Net (loss) earnings	(0.5)	1.0	(2.4)	(1.8)
Work-in-hand	313.7	393.4	393.8	402.7
Working capital	17.6	18.9	17.8	19.7
Shareholders' equity	30.5	30.8	29.7	32.1

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### QUARTERLY FINANCIAL INFORMATION, continued

(\$ millions, except where noted)

	2002			
	Dec. 31	Sept. 30	June 30	Mar. 31
Contract revenue	\$ 84.6	\$ 85.0	\$ 75.0	\$ 67.1
Contract income	4.4	4.3	6.1	5.8
Contract income - %	5.2%	5.1%	8.1%	8.6%
Net (loss) earnings	Nil	(0.2)	0.8	0.4
Work-in-hand	317.3	319.9	326.5	337.7
Working capital	21.2	20.9	21.7	22.6
Shareholders' equity	31.7	31.9	32.1	31.0

The quarterly results for 2002 and 2003 reflect the importance of contract income margin percentages in determining the net earnings of the Corporation in any given period. Contract income margin percentages can be influenced by bidding, procurement, and contracting activity that may have taken place well over a year prior, when circumstances might have been much different than the present.

Work-in-hand at December 31, 2002 was \$317.3 million. Contract revenue in the following fiscal 2003 year totaled \$319.2 million, indicating that a significant portion of 2003 revenue had been awarded to the Corporation in 2002 or earlier. Any measures taken by management to improve contract income margin percentages may take several quarters before they are fully reflected in the results.

Work-in-hand at June 30, 2004 was \$347.0 million, up from \$298.4 million at March 31, 2004 and from \$313.7 million at December 31, 2003. The Corporation has been successful in replacing the work executed during the first six months of 2004.

### RESULTS OF OPERATIONS

For the three months ended June 30, 2004, Churchill incurred a net loss of \$0.2 million (2003 – net loss of \$2.4 million) on revenues of \$77.3 million (2003 – \$77.2 million), or a net loss per common share of \$0.01 (2003 – net loss per common share of \$0.21).

For the six months ended June 30, 2004, Churchill incurred a net loss of \$1.5 million (2003 – net loss of \$4.2 million) on revenues of \$150.2 million (2003 – \$139.4 million), or a net loss per common share of \$0.12 (2003 – net loss per common share of \$0.37).

The June 30, 2004 results include the activities of Laird Electric for the full period, while the June 30, 2003 results include the activities of Laird from February 8, 2003 to June 30, 2003.

The June 30, 2003 results were impacted by a \$3.0 million bad debt allowance, which was subsequently recovered in the third quarter of 2003.

Churchill's 41% interest in the Lafrentz Road Services business was sold in the first quarter of 2003. Churchill realized \$1.5 million in proceeds from the sale and recognized a \$0.1 million gain in the quarter ended March 31, 2003.

#### *Buildings*

Stuart Olson had work-in-hand of \$248.2 million at March 31, 2004. For the three months ended June 30, 2004 they secured a further \$72.0 million of contracts, and executed and took into revenue \$59.9 million. The company had \$260.3 million of work-in-hand at June 30, 2004, of which \$138.9 million is expected to carry over into 2005.

Stuart Olson's revenues for the three months ended June 30, 2004 were \$59.9 million, up substantially from \$47.7 million for the same period last year as projects that had been delayed moved into construction. After adjusting for the \$3.0 million provision for bad debts that was established at June 30, 2003, earnings before taxes improved by \$0.6 million in the second quarter of 2004 as compared to the same period of 2003. The improvement was the result of higher revenues and improved contract income margin percentages.

For the six months ended June 30, 2004 Stuart Olson realized a loss before income taxes of \$0.3 million on contract revenue of \$115.7 million, compared to a loss before income taxes of \$4.5 million on contract revenue of \$88.0 million for the six months to June 30, 2003.

### ***Industrial General Contracting***

Triton had work-in-hand of \$16.6 million at March 31, 2004. For the three months ended June 30, 2004 they secured a further \$23.2 million of contracts, and executed and took into revenue \$6.6 million. The company had \$33.2 million of work-in-hand at June 30, 2004, of which \$12.0 million is expected to carry over into 2005.

Triton's revenues for the three months ended June 30, 2004 were \$6.6 million, down from \$8.9 million for the three months ended June 30, 2003. Triton's loss before income taxes for the three months ended June 30, 2004 was \$0.1 million, compared to a loss before income taxes of \$0.9 million for the same period last year. The earnings for the three month period, after adjusting for \$1.0 million of restructuring-related expenses incurred in the second quarter of 2003 that did not repeat in 2004, are essentially unchanged on lower revenues, indicating that contract income margin percentages improved.

For the six months ended June 30, 2004 Triton realized a loss before income taxes of \$0.8 million on contract revenue of \$10.6 million, compared to a loss before income taxes of \$2.0 million on contract revenue of \$18.3 million for the six months to June 30, 2003.

### ***Industrial Insulation Contracting***

Fuller Austin and Northern Industrial Insulation had a combined work-in-hand of \$10.6 million at March 31, 2004. For the three months ended June 30, 2004 they secured a further \$7.7 million of contracts, and executed and took into revenue \$7.8 million. The company had \$10.5 million of work-in-hand at June 30, 2004, of which \$0.9 million is expected to carry over into 2005.

Revenues for the three months ended June 30, 2004 declined \$4.7 million, to \$7.8 million, compared to revenues of \$12.5 million for the three months ended June 30, 2003. Activity levels throughout western Canada declined from levels of a year ago. Earnings before tax were \$1.0 million for the three months ended June 30, 2004, up from \$0.7 million for the same period last year due to improved contract income margin percentages.

For the six months ended June 30, 2004 the insulation companies realized earnings before tax of \$1.3 million on contract revenue of \$16.7 million, compared to earnings before tax of \$0.6 million on contract income of \$20.4 million for the six months to June 30, 2003.

### ***Industrial Electrical Contracting***

Laird Electric had work-in-hand of \$23.0 million at March 31, 2004. For the three months ended June 30, 2004 they secured

a further \$26.0 million of contracts, and executed and took into revenue \$6.0 million. The company had \$43.0 million of work-in-hand at June 30, 2004, of which \$26.9 million is expected to carry over into 2005.

For the three months ended June 30, 2004, Laird's revenues were \$6.0 million, as compared to \$9.1 million for the same period last year. Revenues in the second quarter of 2003 included revenues from a major shutdown that did not re-occur in 2004. As a result of lower revenues, Laird realized a loss before income tax of \$0.4 million for the three months ended June 30, 2004, compared to earnings before tax of \$0.5 million for the same period last year.

For the six months ended June 30, 2004 Laird incurred a loss before tax of \$0.6 million on contract revenue of \$11.1 million, compared to earnings before tax of \$0.7 million on contract income of \$14.3 million for the six months ended June 30, 2003.

### ***Corporate and Other***

For the three months ended June 30, 2004, the Corporate and Other segment incurred \$0.7 million of indirect and administrative expenses and \$0.1 million of interest and other costs, as compared to \$0.6 million of indirect and administrative expenses and \$0.2 million of interest and other costs incurred for the three months ended June 30, 2003.

For the six months ended June 30, 2004 the Corporate and Other segment incurred \$1.3 million of indirect and administrative expenses and \$0.2 million of interest and other costs, as compared to \$1.3 million of indirect and administrative expenses and \$0.2 million of interest and other costs for the six months ended June 30, 2003. The current year's costs include \$0.1 million associated with preparing to meet the new public company certification requirements that were introduced in the first quarter of 2004.

The Corporation incurred legal fees during the quarter ended June 30, 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 in the quarter was twenty-eight thousand dollars.

At June 30, 2004 the Corporation has an interest bearing demand loan outstanding to the 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 six thousand dollars during the quarter. Churchill has the option, renewable annually, to continue the monthly rent payments through September 30, 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

Churchill's working capital position at June 30, 2004 was \$13.0 million, down \$2.2 million from March 31, 2004 and down \$4.6 million from December 31, 2003. The \$2.2 million reduction of working capital during the second quarter of 2004 was the result of incurring an operating loss of \$0.2 million in the quarter, spending \$2.9 million on capital expenditures and repaying \$0.4 million in debt, offset by proceeds from the exercise of share options of \$0.5 million and \$0.8 million of other items.

Capital expenditures for the three months ended June 30, 2004 were \$2.9 million, bringing total capital expenditures to \$4.6 million for the six month period ended June 30, 2004. The Corporation's new modular fabrication facility began production at the end of June, 2004. Approximately \$1.0 million was spent on this facility in the first quarter of 2004, while \$2.6 million was spent in the second quarter. It is expected that an additional \$3.6 million of costs will be recorded in the remainder of 2004 relating to this new facility. The remaining \$0.3 million of capital expenditures in the three month period ended June 30, 2004 were primarily to replace portions of the vehicle fleet and upgrade certain computer hardware.

#### *Contractual Obligations* (\$ millions)

	Payments due in		
	Total	Current year	1-3 years
Long-term debt	\$ 6.0	\$ 1.6	\$ 4.4
Finance contracts and capital lease obligations	0.9	0.3	0.6
	6.9	1.9	5.0
Purchase obligations	3.6	3.6	-
	\$ 10.5	\$ 5.5	\$ 5.0

The long-term debt is floating rate term debt, bearing interest at prime plus 1.25%, payable in quarterly installments of \$0.4 million plus interest, due February 2008, and secured by a General Securities Agreement. Finance contracts, which bear interest at rates ranging from 3.9% to 8.4%, are payable in various monthly amounts, mature at various dates through to 2008, and are secured by specific equipment items. The purchase obligations represent enforceable commitments made by the Corporation pertaining to the new modular fabrication facility, and will be paid in 2004.

The Corporation paid \$0.4 million of long-term debt in the second quarter in accordance with the repayment schedule.

Churchill expects to complete a transaction before September 30, 2004 with its existing lenders to raise an additional \$4.0

million of long-term debt as financing on the new modular fabrication facility, as well as utilize up to \$1.5 million of the existing equipment financing facility available from its lender. Proceeds will be used to replenish working capital. Churchill continues to have an unused general operating line of credit.

Churchill is in compliance with its banking covenants at June 30, 2004. In conjunction with arranging the \$4.0 million of additional term debt, the Corporation is negotiating modifications to its covenants. Should the Corporation be offside on any of its covenants going forward, its lender has the contractual right to demand repayment of any outstanding balances under their loan facilities.

The Corporation continues to be 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 as a reserve against potential claims under the guarantee. At June 30, 2004, \$0.2 million was in escrow.

As part of the purchase price of Lakehead Insulation by Fuller Austin in January, 2002, there is 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 has been earned to June 30, 2004 under this arrangement.

Shareholder's equity was \$29.5 million at June 30, 2004, as compared to \$29.2 million at March 31, 2004 and \$30.5 million at December 31, 2003. Share capital increased \$0.5 million in the second quarter of 2004 as a result of 367,000 share options being exercised in the quarter. There were no purchases under the Normal Course Issuer Bid during the second quarter of 2004. Contributed surplus increased twenty-five thousand dollars during the three months ended June 30, 2004 as a result of applying the new accounting principle related to stock-based compensation. Retained earnings declined during the second quarter, from \$20.1 million at March 31, 2004 to \$19.9 million at June 30, 2004, reflecting the \$0.2 million loss for the quarter.

As at June 30, 2004 the Corporation had outstanding 12,223,352 common shares and 679,334 options convertible into common shares (December 31, 2003 - 11,863,652 common shares and 1,046,334 options).

During the period July 1, 2004 to July 28, 2004, no options were issued or exercised, and no common shares were issued or purchased.

## **RISKS AND RISK MANAGEMENT**

Churchill's management team assesses risk on an ongoing basis, while management and the Board of Directors periodically conduct a complete risk management assessment. The identified risks, such as oil and gas commodity pricing, oil and gas industry activity levels, severe weather changes, labour shortages, labour cost pressures, pre-construction third party activities, design-build project issues, bonding availability, project execution, and acquisition integration are considered with each major decision. During the three months ended June 30, 2004, management's assessment was that the identified risks remained substantially unchanged from March 31, 2004.

## **2004 OUTLOOK**

During the three months ended June 30, 2004, the Corporation secured a further \$128.9 million of contracts, and executed and took into revenue \$77.3 million net of \$3.0 million of inter-segment revenue. At June 30, 2004 the Corporation had \$347.0

million of work-in-hand, of which \$178.7 million is expected to carry forward into 2005 or later.

Three of the operating segments continue to experience improved contract income margin percentages over last year. The three operating segments expect their current margin percentages to hold or improve throughout the remainder of 2004, while the fourth operating segment expects its contract income margin percentages to improve.

Churchill previously reported that it expects construction markets to be stronger in the latter half of 2004 than the first six months, and that it believes it is well positioned to benefit from the strengthening market. The new modular fabrication facility is operational, which is expected to provide increased revenue and income going forward. Management teams have been strengthened throughout the organization, contract income margin percentages are improving, and the dollar volume of industrial and commercial construction projects being announced as proceeding is increasing. Churchill continues to expect improvements in the second half of 2004.

## **NOTICE**

The June 30, 2004 Consolidated Financial Statements and related notes, contained herein, have not been subjected to an audit or review by external auditors.

It has been the Corporation's practice that interim financial information is unaudited, while year-end financial information is audited by external auditors.

## **FORWARD-LOOKING STATEMENTS**

Certain statements in this Second Quarter Report may constitute "forward-looking statements". Although management of the Corporation believes its expectations regarding future performance of the Corporation are based on reasonable assumptions and currently available financial and economic data, market conditions and operating plans, it can give no assurance that 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, performances or achievements expressed or implied in any forward-looking statements.

## **ADDITIONAL INFORMATION**

This Second Quarter Report, and the Management's Discussion and Analysis for the period ending June 30, 2004, as well as previous Quarterly and Annual Reports, the Annual Information Form and other required filings of The Churchill Corporation may be obtained by accessing SEDAR, the electronic system recording Canadian public securities filings, at [www.sedar.com](http://www.sedar.com).

## CONSOLIDATED BALANCE SHEETS

(\$ thousands)	June 30 2004 (Unaudited)	December 31 2003 (Audited)	June 30 2003 (Unaudited)
<b>ASSETS</b>			
Current assets			
Cash (Note 2)	\$ 20,941	\$ 14,622	\$ 14,102
Accounts receivable	61,107	67,513	65,291
Inventories and prepaid expenses	2,487	1,410	2,292
Properties for sale	103	103	103
Income taxes recoverable	953	-	552
Current portion of agreement receivable	-	138	101
	<b>85,591</b>	<b>83,786</b>	<b>82,441</b>
Agreements receivable	-	-	33
Future income tax assets	376	376	327
Property and equipment	12,818	9,568	9,361
Intangible assets	522	784	1,222
Goodwill	8,315	8,315	8,263
	<b>\$ 107,622</b>	<b>\$ 102,829</b>	<b>\$ 101,647</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 56,914	\$ 50,949	\$ 48,963
Contract advances and unearned income	13,834	11,454	13,767
Income taxes payable	-	1,105	-
Future income tax liabilities	-	858	-
Current portion of long-term debt	1,886	1,864	1,906
	<b>72,634</b>	<b>66,230</b>	<b>64,636</b>
Long-term debt	4,994	5,635	6,538
Future income tax liabilities	483	483	734
	<b>78,111</b>	<b>72,348</b>	<b>71,908</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 3)	4,265	3,794	3,624
Contributed surplus (Note 5)	5,354	5,128	5,128
Retained earnings	19,892	21,559	20,987
	<b>29,511</b>	<b>30,481</b>	<b>29,739</b>
	<b>\$ 107,622</b>	<b>\$ 102,829</b>	<b>\$ 101,647</b>

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

## CONSOLIDATED STATEMENTS OF LOSS

(\$ thousands, except per share amounts)	Three months ended June 30 (Unaudited)		Six months ended June 30 (Unaudited)	
	2004	2003	2004	2003
Contract revenue	\$ 77,339	\$ 77,202	\$ 150,168	\$ 139,379
Contract costs	71,166	71,177	139,475	130,423
Contract income	6,173	6,025	10,693	8,956
Interest income	96	111	220	216
Sundry income	149	89	211	198
Indirect and administrative expenses	(5,866)	(6,181)	(11,503)	(11,427)
Bad debt recovery (expense)	52	(3,002)	52	(3,003)
Depreciation and amortization	(728)	(826)	(1,509)	(1,521)
Interest expense	(126)	(137)	(241)	(263)
Loss before income taxes	(250)	(3,921)	(2,077)	(6,844)
Income tax recovery	23	1,509	601	2,599
Net loss	\$ (227)	\$ (2,412)	\$ (1,476)	\$ (4,245)
Net loss per common share (Note 4)				
Basic	\$ (0.01)	\$ (0.21)	\$ (0.12)	\$ (0.37)
Fully diluted	\$ (0.01)	\$ (0.21)	\$ (0.12)	\$ (0.37)

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

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(\$ thousands)	Three months ended June 30 (Unaudited)		Six months ended June 30 (Unaudited)	
	2004	2003	2004	2003
Retained earnings, beginning of period	\$ 20,119	\$ 23,420	\$ 21,559	\$ 25,253
Stock-based compensation (Note 5)	-	-	(176)	-
Retained earnings, beginning of period, restated	20,119	23,420	21,383	25,253
Net loss	(227)	(2,412)	(1,476)	(4,245)
Share redemption in excess of stated capital	-	(21)	(15)	(21)
Retained earnings, end of period	\$ 19,892	\$ 20,987	\$ 19,892	\$ 20,987

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

## CONSOLIDATED STATEMENTS OF NET CASH FLOW

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	(Unaudited)		(Unaudited)	
	2004	2003	2004	2003
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (227)	\$ (2,412)	\$ (1,476)	\$ (4,245)
Non-cash items				
Net equity earnings of affiliate	-	-	-	(80)
Depreciation and amortization	728	826	1,509	1,521
Gain on disposal of property and equipment	(50)	(8)	(56)	(11)
Future income taxes	1	-	(858)	(5,732)
Stock-based compensation (Note 5)	25	-	50	-
	477	(1,594)	(831)	(8,547)
Net change in accounts receivable, inventories and prepaid expenses	(1,210)	(1,524)	5,329	11,145
Net change in accounts payable, contract advances and unearned income	4,301	5,072	8,345	(166)
Net change in income taxes payable/recoverable	1,512	(1,764)	(2,058)	1,966
	5,080	190	10,785	4,398
<b>INVESTING ACTIVITIES</b>				
Proceeds from agreement receivable	-	76	138	128
Proceeds on disposal of property and equipment	93	72	112	75
Distributions from equity investee	-	-	-	1,496
Acquisition of subsidiary	-	-	-	(13,165)
Acquisition of property and equipment	(2,906)	(527)	(4,553)	(769)
	(2,813)	(379)	(4,303)	(12,235)
<b>FINANCING ACTIVITIES</b>				
Issuance of long-term debt	-	529	222	8,529
Repayment of long-term debt	(371)	(170)	(841)	(763)
Issuance of common shares	474	78	474	104
Redemption of common shares	-	(24)	(18)	(24)
	103	413	(163)	7,846
Increase in cash	2,370	224	6,319	9
Net cash, beginning of period	18,571	13,878	14,622	14,093
Net cash, end of period	\$ 20,941	\$ 14,102	\$ 20,941	\$ 14,102

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

These interim unaudited consolidated financial statements should be read in conjunction with the audited financial statements for the fiscal year ended December 31, 2003 and notes thereto. These financial statements are prepared in accordance with generally accepted accounting principles for interim financial information in Canada; however, they do not conform in all respects to the disclosure requirements of generally accepted accounting principles for annual financial statements. The same accounting policies and methods were followed as were followed in the preparation of the audited annual financial statements for the financial year ended December 31, 2003, except for the application of the following new CICA Handbook Sections:

**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. 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 5.

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

## 2. Cash

(\$ thousands)

Cash includes \$7,310 (December 31, 2003 - \$4,370; June 30, 2003 - \$4,681), which is restricted, under the British Columbia Lien Act, to the payment of direct costs related to specific construction projects.

## 3. Share Capital

(\$ thousands, except per share amounts )

	Six months ended June 30 (unaudited)			
	2004		2003	
	Shares	Share Capital	Shares	Share Capital
Balance, December 31	11,863,652	\$ 3,794	10,864,040	\$ 1,300
Share options exercised for cash	367,000	474	72,000	104
Shares issued on acquisition	—	—	826,412	2,223
Shares repurchased under Normal Course Issuer Bid	(7,300)	(3)	(11,100)	(3)
Balance, June 30	12,223,352	\$ 4,265	11,751,352	\$ 3,624

During 2004, 7,300 common shares (2003 – 11,100) were repurchased for cancellation pursuant to an ongoing Normal Course Issuer Bid at a cost of \$18 (2003 - \$24). Of this amount, \$3 (2003 - \$3) reduced share capital, with \$15 (2003 - \$21) being charged to retained earnings.

As at June 30, 2004 the Corporation had outstanding 679,334 options convertible into common shares (December 31, 2003 – 1,046,334).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. *Net Loss Per Common Share*

(\$ thousands, except per share amounts)

	Six months ended June 30 (unaudited)	
	2004	2003
Net loss	(\$1,476)	(\$4,245)
Weighted average number of common shares outstanding	11,971,954	11,565,174
Incremental number of shares under treasury stock method	257,492	404,610
	12,229,446	11,969,784
Net loss per common share:		
Basic	(\$0.12)	(\$0.37)
Fully diluted	(\$0.12)	(\$0.37)

For the periods ended June 30, 2004 and June 30, 2003, the effect of outstanding share options on earnings per share were anti-dilutive as the Corporation is in a loss position.

### 5. *Stock-Based Compensation*

(\$ thousands)

Effective January 1, 2004, the Corporation adopted the fair value method of accounting for employee stock options granted on or after January 1, 2002, retroactively without restatement as allowed under the transitional provision of CICA Handbook Section 3870. As a result, the opening balance of retained earnings has been decreased by \$176 and opening contributed surplus has been increased by a corresponding amount.

Stock compensation expense of \$50 was recognized for the six months ended June 30, 2004 (2003 - \$0), representing the amortization of the estimated fair value of all options granted since January 1, 2002.

### 6. *Segmented Information*

(\$ thousands)

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

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

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

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

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

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

The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

**6. Segmented Information (continued)**  
(\$ thousands)

Three Months Ended June 30, 2004	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	\$ 59,944	\$ 210	\$ 188	\$ —	\$ 68,339	\$ 89
Industrial General Contracting	6,565	(126)	201	—	8,832	84
Industrial Insulation Contracting	7,797	984	116	—	6,256	129
Industrial Electrical Contracting	6,021	(360)	182	8,315	11,591	139
Corporate and Other	—	(845)	41	—	15,356	2,465
Inter-segment Adjustments	(2,988)	(113)	—	—	(2,752)	—
	\$ 77,339	\$ (250)	\$ 728	\$ 8,315	\$ 107,622	\$ 2,906

Three Months Ended June 30, 2003	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	\$ 47,703	\$ (3,360)	\$ 150	\$ —	\$ 55,988	\$ 81
Industrial General Contracting	8,856	(912)	216	—	12,175	150
Industrial Insulation Contracting	12,476	709	119	—	10,356	104
Industrial Electrical Contracting	9,106	453	290	8,263	12,617	192
Corporate and Other	—	(799)	51	—	10,511	—
Inter-segment Adjustments	(939)	(12)	—	—	—	—
	\$ 77,202	\$ (3,921)	\$ 826	\$ 8,263	\$ 101,647	\$ 527

Six Months Ended June 30, 2004	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	\$ 115,689	\$ (269)	\$ 337	\$ —	\$ 68,339	\$ 261
Industrial General Contracting	10,634	(844)	427	—	8,832	406
Industrial Insulation Contracting	16,717	1,315	229	—	6,256	152
Industrial Electrical Contracting	11,083	(598)	436	8,315	11,591	286
Corporate and Other	—	(1,530)	80	—	15,356	3,448
Inter-segment Adjustments	(3,955)	(151)	--	—	(2,752)	--
	\$ 150,168	\$ (2,077)	\$ 1,509	\$ 8,315	\$ 107,622	\$ 4,553

Six Months Ended June 30, 2003	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	\$ 87,975	\$ (4,490)	\$ 306	\$ ---	\$ 55,988	\$ 219
Industrial General Contracting	18,291	(2,048)	436	---	12,175	189
Industrial Insulation Contracting	20,420	566	237	---	10,356	130
Industrial Electrical Contracting	14,302	677	440	8,263	12,617	195
Corporate and Other	—	(1,537)	102	—	10,511	36
Inter-segment Adjustments	(1,609)	(12)	--	---	—	--
	\$ 139,379	\$ (6,844)	\$ 1,521	\$ 8,263	\$ 101,647	\$ 769

**7. Comparative Figures**

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

# CORPORATE DIRECTORY

## EXECUTIVE OFFICES

12836 – 146 Street  
Edmonton, Alberta T5L 2H7  
Phone: (780) 454-3667  
Fax: (780) 452-8741  
Email: [inquiries@churchill-cuq.com](mailto:inquiries@churchill-cuq.com)  
[www.churchillcorporation.com](http://www.churchillcorporation.com)

## INVESTOR RELATIONS

For further information please contact:  
Cheryle Brandner  
The Churchill Corporation  
Phone: (780) 454-3667  
Email: [investor.relations@churchill-cuq.com](mailto:investor.relations@churchill-cuq.com)

## REGISTRAR AND TRANSFER AGENTS

Inquiries regarding change of address, registered shareholdings,  
Share transfers, duplicate mailings and lost certificates should be directed to:

CIBC Mellon Trust Company  
600 The Dome Tower  
333 Seventh Avenue S.W.  
Calgary, Alberta T2P 2Z1  
Phone: (403) 232-2400  
Answer line: 1-800-387-0825  
Fax: (403) 264-2100  
Email: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)  
[www.cibcmellon.ca](http://www.cibcmellon.ca)