

August 4, 2005

SHAWCOR LTD.
(TSX: SCL.A, SCL.B)

PRESS RELEASE

Financial Summary

(In thousands of Canadian dollars except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Operating Results				
Revenue	\$ 269,490	\$ 201,947	\$ 553,587	\$ 385,846
EBITDA (note 1)	28,687	16,470	71,646	39,363
Income from operations	16,854	1,166	46,437	8,995
Net income	9,740	(3,489)	27,498	96
Net income per share (Class A and B)				
Basic	0.13	(0.05)	0.37	0.00
Diluted	0.13	(0.05)	0.37	0.00
Cash Flow				
Cash from operating activities	39,170	5,669	25,935	16,454
Additions to capital assets	12,121	9,961	17,361	17,900
Financial Position				
Working capital			170,452	168,011
Total assets			834,398	873,687
Shareholders' equity per share (Class A and B)			\$ 6.16	\$ 7.43

Note 1: EBITDA is a non-GAAP measure calculated by adding back to net income, interest, taxes, and depreciation/amortization.

Consolidated revenue for the quarter ended June 30, 2005 totaled \$269.5 million, representing an increase of 33% over the second quarter of last year. On a year-to-date basis, revenue for the six months ended June 30, 2005 of \$553.6 million was 43% higher than for the same period in 2004, with both the Pipeline and the Exploration and Production segments reporting much stronger activity levels. Second quarter revenue was \$14.6 million below the first quarter as increased drill pipe manufacturing revenue was more than offset by the extended seasonal slow-down in Western Canada, reduced revenue from the Mobile, Alabama facility and pipe-coating project delays in the Western United States.

Consolidated income from operations for the quarter of \$16.9 million increased significantly over the \$1.2 million recorded during the same quarter of 2004 in line with the increased revenue and the reduced losses at Mobile. Compared to the first quarter of 2005, the lower operating income is a result of the lower revenues and higher than expected unrecovered operating costs in the pipe-coating operations. For the six months ended June 30, 2005, consolidated income from operations totaled \$46.4 million compared to \$9.0 million in the same period last year. Losses relating to the cessation of operations at the Mobile, Alabama pipe-coating facility were \$1.4 million for the quarter and \$4.6 million for the year-to-date compared to \$12.9 million and \$19.1 million for the comparative periods last year.

Net income for the quarter was \$9.7 million (\$0.13 per share) compared to a net loss of \$3.5 million (\$0.05 per share) in the same quarter of last year. On a year-to-date basis,

net income for the six months ended June 30, 2005 totaled \$27.5 million (\$0.37 per share) compared to \$96 thousand (\$0.00 per share) in the corresponding period of 2004.

Business activity in the Pipeline segment continued at high levels during the quarter, particularly at Bredero Shaw's Farsund, Norway facility, currently working on the Langed project, and at the division's Malaysian and African coating plants. Seasonal softness at the Canadian small-diameter plants, the result of spring break-up in Western Canada and decreasing revenue at the Mobile, Alabama facility as the wind-down of that facility continued according to plan, partially offset some of the strength in Africa, the Far East and Mexico. Canusa-CPS and Shaw Pipelines Services continued to be very active. Profitability in the North Sea was below expectations as efforts to meet production schedules and unplanned additional initial load-out costs resulted in increased production costs. The switch to coating the 42" diameter pipe on the Langed project, which took place during quarter, also reduced operating efficiencies temporarily. While activity has increased in Nigeria, delays in getting approval for several significant change orders to offset material cost increases has depressed operating results for the quarter.

OMSCO and Guardian continued to experience favourable business conditions in the Exploration and Production segment with revenue in the quarter almost double last year's levels. At OMSCO, revenue increased substantially over the prior quarter while revenue at Guardian decreased seasonally due to spring-break up.

Business activity at both ShawFlex and DSG-Canusa continued to increase steadily and revenue for the quarter for the Petrochemical and Industrial segment increased 3% over the prior quarter.

On June 30, Geoff Hyland retired from his position as President and Chief Executive Officer. He was succeeded by Bill Buckley, previously Executive Vice President and Chief Operating Officer, in accordance with the Company's succession plan. Mr. Hyland will continue to serve the Company in an advisory role and will remain on the Board of Directors.

MANAGEMENT DISCUSSION AND ANALYSIS

The following is management's interim discussion and analysis of operations and financial position and should be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis included in the Company's 2004 Annual Report.

Revenue and Income from Operations

ShawCor classifies its revenue and income from operations in three industry segments: Pipeline, Exploration and Production and Petrochemical and Industrial.

Consolidated revenue for the quarter increased 33% over the second quarter of last year to \$269.5 million reflecting the increased activity levels in both the Pipeline and the Exploration and Production market segments. Compared to the first quarter of the year, revenue was 5% lower (2% lower excluding the Mobile results) due to pipe-coating project scheduling, the previously announced closure of the Mobile facility and seasonal factors, including spring break-up in Western Canada. On a year-to-date basis, consolidated revenue totaled \$553.6 million for the six months ended June 30, 2005 compared to \$385.8 million for the same period last year.

Consolidated operating income for the quarter, before taking into account the losses at Mobile, was \$18.3 million compared to \$14.1 million in the second quarter of last year and \$32.8 million in the prior quarter of 2005 with the decrease from last quarter the result of lower revenue together with higher than expected manufacturing and load-out costs in the North Sea and Africa. Consolidated net income for the quarter was \$9.7 million or \$0.13 per share compared to a loss of \$3.5 million or \$0.05 per share in the second quarter of last year. Net income for the six months ended June 30, 2005 totaled \$27.5 million (\$0.37 per share) compared to \$96 thousand (\$0.00 per share) in the same period last year.

A significant portion of the Company's business is conducted in U.S. dollars. Changes in exchange rates can result in variability in the Canadian equivalent of U.S. dollar-based revenue, expenses, earnings and cash flow which are included in the Company's consolidated financial results. For the six months ended June 30, 2005, the average rate of exchange between the U.S. dollar and the Canadian dollar was approximately 8% lower than in the same period of 2004, which adversely impacted revenue and net income for the period by \$23 million and \$4 million (\$0.05 per share), respectively.

In the Pipeline segment, revenue for the quarter was \$196.3 million, 34% higher than in the second quarter of last year. Compared to last year, revenue at Bredero Shaw was positively impacted by the Langed project in Norway and increased project activity in West Africa and Mexico; however, this was partially offset by the reduced activity in Mobile and a temporary softness in the Middle East and Americas regions resulting from project scheduling. Business activity remained high during the quarter at Canusa – CPS and Shaw Pipeline Services and both divisions experienced revenue growth over the corresponding quarter of last year. Compared to the first quarter, segment revenue decreased \$22.1 million as a result of expected seasonal factors in Western Canada, pipe-coating project scheduling and the impact of the Mobile wind-down. Income from operations for the segment for the quarter totaled \$10.2 million compared to a loss of \$5.3 million in the second quarter of last year with the improvement attributable to the increased revenue for the segment and the curtailment of losses at the Mobile plant. Salt contamination on bare pipe received for coating and production throughput and rework issues in the North Sea sector negatively impacted operating earnings and higher than anticipated input costs related to the EGGS project in Africa had an adverse impact on the quarter's result. While requests for reimbursement of these higher costs have been made, these claims have not been included in revenue as no formal approval has yet been received. On a year-to-date basis, revenue in the Pipeline segment totaled \$414.7 million

for the six months ended June 30, 2005, compared to \$284.4 million for the corresponding period of 2004 with increases achieved at all three divisions within the segment. Income from operations for the segment for the period was \$35.0 million compared to \$3.3 million last year. Excluding the Mobile-related costs, operating income for the Pipeline segment would have been \$11.6 million in the quarter compared to \$7.6 million in the second quarter of last year and \$28.0 million in the first quarter of this year.

In the Exploration and Production segment, revenue for the quarter of \$41.4 million increased 18% over the prior quarter and 93% over the second quarter of last year as OMSCO and Guardian continued to experience improving business conditions. Income from operations for the segment totaled \$7.3 million for the quarter and increased over the previous quarter and the second quarter of last year by \$1.7 million and \$6.4 million, respectively. For the six months ended June 30, 2005, revenue for the segment was \$76.3 million, representing a 105% increase over the first six months of 2004, with growth achieved at both OMSCO and Guardian. Income from operations for the period was \$12.9 million compared to \$1.1 million in the corresponding period last year. Continued high levels of drilling activity have eliminated the industry's inventory of drill pipe and OMSCO's backlog of drill pipe orders is at record levels.

In the Petrochemical and Industrial segment, revenue for the quarter was \$32.2 million compared to \$31.2 million last quarter and \$34.4 million in the second quarter of last year. ShawFlex experienced increased activity in the quarter while at DSG-Canusa, business activity in North America increased over the prior quarter but remained flat in Europe. Income from operations for the segment totaled \$3.5 million compared to \$3.8 million last quarter and \$5.0 million in second quarter of 2004. On a year-to-date basis, segment revenue totaled \$63.3 million, marginally lower than in the same period last year. Income from operations for the period was \$7.3 million compared to \$8.5 million in the first six months of 2004.

Financial and Corporate

Financial and corporate costs consist of corporate office costs not charged to the operating divisions and other non-operating items including foreign exchange gains and losses on cash balances. Financial and corporate costs for the quarter totaled \$4.1 million compared to \$4.7 million, including foreign exchange losses of \$575 thousand, in the prior quarter.

Net interest expense in the quarter totaled \$1.6 million, in line with the second quarter of 2004 but was \$531 thousand higher than in the prior quarter reflecting higher levels of bank indebtedness as a result of investment in facilities and working capital during the period.

Income tax expense was \$5.1 million in the quarter compared to \$11.0 million last quarter and \$3.3 million in the second quarter of 2004. Improvements in profitability over the prior year have resulted in a return to more normal levels of income tax than in

the recent past; the effective tax rate in the quarter was 34% while on a year-to-date basis it is 37%.

Cash Flow

Cash flow generated from operating activities totaled \$39.2 million for the quarter compared to \$5.7 million in the second quarter of last year with the improvement the result of higher profitability in the period together with significant reductions in working capital balances.

Capital expenditures for the quarter totaled \$12.1 million compared to \$10.0 million in the same period last year and included continuing investment in new pipe-coating plants in Indonesia, Nigeria and Ghana.

Cash flow used in financing activities totaled \$9.8 million in the quarter compared to \$2.9 million in the second quarter of 2004 and consisted mainly of repayments of bank indebtedness and dividends paid to shareholders of \$6.8 million and \$3.3 million, respectively. Dividends paid in the same quarter of last year totaled \$3.0 million.

Liquidity and Capitalization

As at June 30, 2005, the Company had a working capital ratio of 1.74 to 1 compared to 1.85 to 1 at the beginning of the quarter. Operating working capital, excluding cash, cash equivalents and bank indebtedness, decreased \$23.1 million in the quarter to \$92.6 million due in part to prepayments received on an upcoming African project.

Financial Instruments

The Company manages interest rate risk and foreign exchange risk through the use of derivative financial instruments including foreign exchange option contracts and forward exchange contracts. These instruments are used to hedge exposures related to commercial activities only. The Company does not use them for speculative purposes. Short-term movements on financial instruments acquired as a hedge of a specific foreign currency purchase obligation or revenue source are deferred and matched with the specific transaction.

At June 30, 2005, the Company had notional amounts of \$86.2 million of forward contracts outstanding (December 31, 2004 - \$67.2 million) with a fair value of \$1.3 million (December 31, 2004 - \$214 thousand). These amounts are used to express the volume of transactions and are not recognized in the consolidated financial statements.

Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure

of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management's best judgment given the information available at the time, however, actual results could differ from the estimates. Critical estimates used in preparing the consolidated financial statements were materially unchanged during the quarter.

Risks and Uncertainties

Operating in an international environment, servicing predominantly the oil and gas industry, ShawCor faces a number of business risks and uncertainties that could materially adversely affect the Company's projections, business, results of operations and financial condition. There were no material changes in the nature or magnitude of such business risks during the quarter.

Contractual Obligations

There were no material changes to the Company's contractual obligation during the quarter, other than those that would be expected in the ordinary course of business.

Summary of Quarterly Results

The following is selected financial information for the ten most recently completed quarters:

(In thousands of Canadian dollars except per share amounts)	First	Second	Third	Fourth	Full Year
Revenue					
2005	\$ 284,097	\$ 269,490	\$ -	\$ -	\$ -
2004	183,899	201,947	208,862	268,722	863,430
2003	235,664	215,456	178,323	194,954	824,397
Income (loss) from operations					
2005	29,583	16,854	-	-	-
2004	7,829	1,166	(5,386)	(11,754)	(8,145)
2003	20,224	17,192	2,889	12,308	52,613
Asset impairment charges					
2005	-	-	-	-	-
2004	-	-	-	(50,390)	(50,390)
2003	-	-	-	-	-
Net income (loss)					
2005	17,758	9,740	-	-	-
2004	3,585	(3,489)	(8,658)	(78,099)	(86,661)
2003	10,622	8,596	97	5,036	24,351
Basic earnings (loss) per share (Classes A and B)					
2005	0.24	0.13			
2004	0.05	(0.05)	(0.11)	(1.05)	(1.16)
2003	0.15	0.13	0.00	0.07	0.35
Fully diluted earnings (loss) per share (Classes A and B)					
2005	0.24	0.13	-	-	-
2004	0.05	(0.05)	(0.11)	(1.05)	(1.16)
2003	0.15	0.12	0.00	0.07	0.34

The following are key factors affecting the comparability of quarterly financial results.

The Company's business is heavily leveraged toward major oil and gas pipeline projects, the timing of which can have significant impacts on any given quarter. Due to the Company's large foreign operations, fluctuations in foreign exchange rates can also impact quarterly results.

In November 2004, the Company announced the closure of its Mobile, Alabama facility. This event had a significant impact on the financial results for the fourth quarter of 2004.

Outstanding Share Capital

As at July 22, 2005, the Company had 61,421,291 Class A Subordinate Voting Shares ("Class A") outstanding and 13,727,565 Class B Multiple Voting Shares ("Class B") outstanding. Each Class B share is convertible into a Class A share at the option of the holder. In addition, as at July 26, 2005, the Company had stock options outstanding to purchase up to 2,693,899 Class A shares.

Outlook

The outlook for the markets served by ShawCor remains favourable as evidenced by the 12 month backlog of orders which stood at \$450 million on June 30, a 7% decrease from first quarter levels, reflecting the continuing production on the Langede project. Major additions to the backlog in the quarter included, among others, the recently announced U.S. \$33 million Ca Mau project in Vietnam. Pipe-coating bid activity remains strong and OMSCO's drill pipe order backlog at the end of June was more than double last year's level.

The Bredero Shaw integration program launched a year ago is on track to achieve its objectives, including a more focused marketing thrust, better controls and improved operating results. The two- year program, including strengthening operating and financial management throughout the Bredero Shaw organization, is now beginning to show positive results.

This document contains forward-looking statements, which are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such statements.

Other information relating to the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com.

ShawCor will be hosting a Shareholder and Analyst Conference Call and Webcast on Friday, August 5, 2005 at 10:00 a.m. EDT to discuss the Company's Second Quarter

2005 financial results. Please visit the Investor Relations section of our website at www.shawcor.com for further details.

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SHAWCOR LTD.**INTERIM FINANCIAL INFORMATION (Unaudited)**
(in thousands of Canadian dollars except per share data)**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Revenue	\$ 269,490	\$ 201,947	\$ 553,587	\$ 385,846
Operating expenses	238,302	185,316	478,306	346,030
Amortization	12,221	15,185	25,375	30,046
Research and development	2,158	1,210	3,970	2,722
	<u>252,681</u>	<u>201,711</u>	<u>507,651</u>	<u>378,798</u>
Share of earnings in associated company	45	930	501	1,947
Income from operations	16,854	1,166	46,437	8,995
Interest expense (note 4)	1,599	1,503	2,667	2,848
Income (loss) before income taxes and non-controlling interest	15,255	(337)	43,770	6,147
Income taxes	5,127	3,271	16,106	6,373
Income (loss) before non-controlling interest	10,128	(3,608)	27,664	(226)
Non-controlling interest	(388)	119	(166)	322
Net income (loss)	<u>\$ 9,740</u>	<u>\$ (3,489)</u>	<u>\$ 27,498</u>	<u>\$ 96</u>
Earnings (loss) per share Class A and B - Basic	<u>\$ 0.13</u>	<u>\$ (0.05)</u>	<u>\$ 0.37</u>	<u>\$ -</u>
Earnings (loss) per share Class A and B - Diluted	<u>\$ 0.13</u>	<u>\$ (0.05)</u>	<u>\$ 0.37</u>	<u>\$ -</u>

SEGMENTED INFORMATION

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Revenue				
Pipeline	\$ 196,260	\$ 146,521	\$ 414,677	\$ 284,362
Exploration and Production	41,387	21,443	76,314	37,151
Petrochemical and Industrial	32,168	34,420	63,348	65,177
Intersegment Eliminations	(325)	(437)	(752)	(844)
	<u>\$ 269,490</u>	<u>\$ 201,947</u>	<u>\$ 553,587</u>	<u>\$ 385,846</u>
Income (loss) from operations				
Pipeline	\$ 10,187	\$ (5,265)	\$ 35,035	\$ 3,273
Exploration and Production	7,267	880	12,873	1,104
Petrochemical and Industrial	3,538	5,029	7,349	8,543
Financial and Corporate	(4,138)	522	(8,820)	(3,925)
	<u>\$ 16,854</u>	<u>\$ 1,166</u>	<u>\$ 46,437</u>	<u>\$ 8,995</u>

SHAWCOR LTD.**INTERIM FINANCIAL INFORMATION (Unaudited)****(in thousands of Canadian dollars)****CONSOLIDATED STATEMENTS OF CASH FLOW**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Operating activities:				
Net income (loss)	\$ 9,740	\$ (3,489)	\$ 27,498	\$ 96
Items not requiring an outlay of cash:				
Amortization	12,221	15,185	25,375	30,046
Gain on disposal of investment in shares	-	185	-	-
Change in deferred project costs	(4,954)	14,210	(3,782)	5,125
Future income taxes	2,254	(154)	2,008	(3,801)
Non-controlling interest in earnings of subsidiaries	388	(119)	166	(322)
Share of earnings of associated company	(45)	(930)	(501)	(128)
Change in non-cash working capital and other	19,566	(19,219)	(24,829)	(14,562)
Cash provided by operating activities	<u>39,170</u>	<u>5,669</u>	<u>25,935</u>	<u>16,454</u>
Investing activities:				
Additions to property, plant and equipment	(12,121)	(9,961)	(17,361)	(17,900)
Proceeds on disposal of property, plant and equipment	64	80	80	266
Proceeds on disposal of investment in shares	-	6,444	-	6,729
Investment in shares	-	(2,874)	-	(2,874)
Cash used in investing activities	<u>(12,057)</u>	<u>(6,311)</u>	<u>(17,281)</u>	<u>(13,779)</u>
Financing activities:				
Increase (decrease) in bank indebtedness	(6,788)	105	111	(7,246)
Issue of shares	262	-	333	363
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	(7)
Dividends paid to shareholders	(3,323)	(2,980)	(3,323)	(2,980)
Cash used in financing activities	<u>(9,849)</u>	<u>(2,875)</u>	<u>(2,879)</u>	<u>(9,870)</u>
Foreign exchange on foreign cash and cash equivalents	<u>456</u>	<u>236</u>	<u>177</u>	<u>2,055</u>
Net increase (decrease) in cash position during the period	<u>17,720</u>	<u>(3,281)</u>	<u>5,952</u>	<u>(5,140)</u>
Cash and cash equivalents at beginning of period	<u>64,729</u>	<u>85,867</u>	<u>76,497</u>	<u>87,726</u>
Cash and cash equivalents at end of period	<u>\$ 82,449</u>	<u>\$ 82,586</u>	<u>\$ 82,449</u>	<u>\$ 82,586</u>

SHAWCOR LTD.
INTERIM FINANCIAL INFORMATION (Unaudited)
(in thousands of Canadian dollars)

CONSOLIDATED BALANCE SHEETS

	June 30	Dec. 31	June 30
	2005	2004	2004
	<u> </u>	<u> </u>	<u> </u>
Assets			
Current assets			
Cash and cash equivalents	\$ 82,449	\$ 76,497	\$ 82,586
Accounts receivable and prepaid expenses	206,992	183,690	188,611
Inventories	108,798	94,444	71,805
Future income taxes	2,354	5,010	3,180
	<u>400,593</u>	<u>359,641</u>	<u>346,182</u>
Property, plant and equipment, net	214,225	222,765	305,061
Goodwill	175,350	176,393	191,989
Investment in associated company	4,341	4,226	4,345
Other assets (note 5)	39,889	32,637	26,110
	<u>\$ 834,398</u>	<u>\$ 795,662</u>	<u>\$ 873,687</u>
Liabilities			
Current liabilities			
Bank indebtedness (note 7)	\$ 4,606	\$ 4,495	\$ 223
Accounts payable and accrued liabilities	199,903	188,591	153,871
Taxes payable	25,632	22,142	24,077
	<u>230,141</u>	<u>215,228</u>	<u>178,171</u>
Long-term debt	92,415	90,360	101,903
Future income taxes	46,280	43,350	32,753
Non-controlling interest in subsidiaries	3,542	3,318	3,702
	<u>372,378</u>	<u>352,256</u>	<u>316,529</u>
Shareholders' Equity			
Capital stock (note 8)	207,941	206,904	206,874
Contributed surplus (note 9)	7,694	7,196	6,335
Retained earnings	324,990	300,815	390,952
Cumulative translation account	(78,605)	(71,509)	(47,003)
	<u>462,020</u>	<u>443,406</u>	<u>557,158</u>
	<u>\$ 834,398</u>	<u>\$ 795,662</u>	<u>\$ 873,687</u>

SHAWCOR LTD.
INTERIM FINANCIAL INFORMATION (Unaudited)
(in thousands of Canadian dollars)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Balance at beginning of period	\$ 318,573	\$ 397,421	\$ 300,815	\$ 396,037
Adjustment for stock based compensation (note 2)	-	-	-	(2,201)
Balance at beginning of period, adjusted	<u>318,573</u>	<u>397,421</u>	<u>300,815</u>	<u>393,836</u>
Net income (loss)	<u>9,740</u>	<u>(3,489)</u>	<u>27,498</u>	<u>96</u>
	<u>328,313</u>	<u>393,932</u>	<u>328,313</u>	<u>393,932</u>
Dividends paid	<u>3,323</u>	<u>2,980</u>	<u>3,323</u>	<u>2,980</u>
Balance at end of period	<u>\$ 324,990</u>	<u>\$ 390,952</u>	<u>\$ 324,990</u>	<u>\$ 390,952</u>

ShawCor Ltd.

Notes to the Interim Consolidated Financial Statements (Unaudited)

1. Accounting policies

The accompanying unaudited interim consolidated financial statements of ShawCor Ltd. (the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for the preparation of interim financial statements. They do not include all of the information and disclosures required by GAAP for annual consolidated financial statements. These unaudited interim consolidated financial statements have been prepared in accordance with accounting policies outlined in the Company’s audited consolidated financial statements for the year ended December 31, 2004. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements.

2. Stock-based compensation

On May 10, 2005, the Board of Directors approved the granting of 6,000 stock options under the 2001 Employee Plan and 4,000 stock options under the 2001 Director Plan. The average fair value of the stock options, calculated using the Black-Scholes pricing model, was \$47 thousand. The options granted under the 2001 Director Plan vest immediately and as a result, the fair value of the options are charged to compensation cost immediately. The fair value of options granted under the 2001 Employee Plan will be amortized to compensation expense over the 5 year vesting period of the options. The assumptions used in calculating the fair value of the options are as follows: expected life of options from 3.25 years to 8.25 years, expected stock price volatility ranges from 25% to 34%, expected dividend yield 0.54%, and risk free interest rate ranging from 3.42% to 3.92% over the life of the options.

The compensation cost recognized in the accounts for the three months and six months ended June 30, 2005 is \$601 thousand and \$1.2 million, respectively (June 30, 2004 - \$532 thousand and \$1.1 million, respectively).

3. Foreign exchange gains and losses

Included in income from operations for the three months and six months ended June 30, 2005 are foreign exchange losses totaling \$225 thousand and \$801 thousand, respectively (June 30, 2004 - \$1.9 million gain and \$2.3 million gain, respectively).

4. Interest expense (income)

(in thousands of Canadian dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Interest on short-term deposits	\$ (95)	(229)	\$ (580)	(506)
Interest on bank indebtedness	218	266	364	455
Interest on long-term debt	1,476	1,466	2,883	2,899
	<u>\$ 1,599</u>	<u>1,503</u>	<u>\$ 2,667</u>	<u>2,848</u>

Net interest paid during the three months and six months ended June 30, 2005 totaled \$2.0 million and \$3.0 million, respectively (June 30, 2004 - \$1.9 million and \$3.0 million, respectively).

5. Other assets

(in thousands of Canadian dollars)

	June 30, 2005	Dec. 31, 2004	June 30, 2004
Long-term investment	\$ 2,875	\$ 2,875	\$ 2,874
Deferred financing costs	2,355	2,627	3,004
Deferred project costs	11,206	7,260	6,991
Future income taxes	23,453	19,875	13,241
Total	\$ 39,889	\$ 32,637	\$ 26,110

Other assets include a long-term investment in Garneau Inc., a Canadian-based, publicly traded pipe-coating company with a market value of \$1.9 million at June 30, 2005.

6. Derivative Financial Instruments

Foreign exchange options and forward exchange contracts are used to hedge foreign exchange exposures related to commercial activities. They are not used by the Company for speculative purposes. At June 30, 2005, the Company had notional amounts of \$86.2 million of forward contracts outstanding (December 31, 2004 - \$67.2 million) with a fair value of \$1.3 million (December 31, 2004 - \$214 thousand). These amounts are used to express the volume of transactions and are not recognized in the consolidated financial statements.

7. Bank indebtedness

As at June 30, 2005, the Company had unused operating lines of credit of \$185.1 million, net of \$4.6 million in bank indebtedness and \$75.2 million for various types of standby letters of credit for performance and bid bonds.

8. Capital stock

(in thousands except share information)	June 30, 2005	Dec. 31, 2004	June 30, 2004
Number of shares: Class A			
Balance, beginning of the period	61,224,968	61,206,202	61,206,202
Issued – stock options	177,923	44,736	37,768
Conversion Class B to A	18,400	24,030	8,000
Share issuance	-	-	-
Purchases under Normal Course Issuer Bid	-	(50,000)	-
Balance, end of the period	61,421,291	61,224,968	61,251,970
Number of shares: Class B	13,727,565	13,745,965	13,761,995
Total number of shares Class A and Class B	75,148,856	74,970,933	75,013,965

Stated Value: Class A

Balance, beginning of the period	\$ 205,849	\$ 205,454	\$ 205,454
Issued – stock options	1,036	561	363
Conversion Class B to A	1	2	1
Share issuance	-	-	-
Purchases under Normal Course Issuer Bid	-	(168)	-
Balance, end of the period	\$ 206,887	\$ 205,849	\$ 205,818
Stated Value: Class B	1,055	1,055	1,056
Total stated value Class A and Class B	\$ 207,941	\$ 206,904	\$ 206,874

9. Contributed surplus

(in thousands of Canadian dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Balance, beginning of period	\$ 7,242	5,803	\$ 7,196	3,027
Adjustment for stock-based compensation	-	-	-	2,201
Stock compensation expense (note 2)	601	532	1,202	1,107
Fair value of stock options exercised	(149)	-	(704)	-
Balance, end of period	\$ 7,694	6,335	\$ 7,694	6,335

10. Segmented information

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Revenue				
Pipeline	\$ 196,260	\$ 146,521	\$ 414,677	\$ 284,362
Exploration and Production	41,387	21,443	76,314	37,151
Petrochemical and Industrial	32,168	34,420	63,348	65,177
Intersegment Eliminations	(325)	(437)	(751)	(844)
	<u>\$ 269,490</u>	<u>\$ 201,947</u>	<u>\$ 553,587</u>	<u>\$ 385,846</u>
Income (loss) from operations				
Pipeline	\$ 10,187	\$ (5,265)	\$ 35,035	\$ 3,273
Exploration and Production	7,267	880	12,873	1,104
Petrochemical and Industrial	3,538	5,029	7,349	8,543
Financial and Corporate	(4,138)	522	(8,820)	(3,925)
	<u>\$ 16,854</u>	<u>\$ 1,166</u>	<u>\$ 46,437</u>	<u>\$ 8,995</u>
Goodwill				
Pipeline			\$ 157,829	\$ 172,573
Petrochemical and Industrial			17,521	19,416
			<u>\$ 175,350</u>	<u>\$ 191,989</u>
Total assets				
Pipeline			\$ 860,665	\$ 684,658
Exploration and Production			96,244	58,482
Petrochemical and Industrial			75,490	83,141
Financial and Corporate			803,090	588,365
Elimination			(1,001,091)	(540,959)
			<u>\$ 834,398</u>	<u>\$ 873,687</u>

11. Employee future benefits

The Company's cost under both defined benefit and defined contribution arrangements for the three months and six months ended June 30, 2005 is \$2.0 million and \$4.0 million, respectively (June 30, 2004 - \$1.8 million and \$3.7 million, respectively).

12. Closure of Mobile, Alabama facility

On November 2, 2004, the Company announced its decision to close the Mobile, Alabama pipe-coating facility. The closure is on schedule and plant operations are winding down as projects under contract are completed. Production at the plant has been largely completed and load-out of remaining coated pipe is expected to be completed in the third quarter of the year. In addition to overhead costs associated with the completion of the remaining contracts, fixed costs of approximately U.S.\$2.0 million per annum will continue to be incurred until the site is vacated. The

Mobile facility is a component of the pipeline market segment.

The following table summarizes the financial results of the Mobile facility for the past ten quarters:

(In thousands of Canadian dollars)	First	Second	Third	Fourth	Full Year
Revenue					
2005	\$ 15,319	\$ 4,938	\$ -	\$ -	\$ -
2004	12,384	12,717	17,688	21,174	63,963
2003	29,870	18,558	13,931	16,852	79,211
Loss from operations					
2005	(3,175)	(1,428)	-	-	-
2004	(6,226)	(12,894)	(14,932)	(43,336)	(77,388)
2003	(2,100)	(8,196)	(5,582)	(4,626)	(20,504)
Asset impairment charges					
2005	-	-	-	-	-
2004	-	-	-	(50,390)	(50,390)
2003	-	-	-	-	-
Loss from operations after asset impairment charges					
2005	(3,175)	(1,428)	-	-	-
2004	(6,226)	(12,894)	(14,932)	(93,726)	(127,778)
2003	(2,100)	(8,196)	(5,582)	(4,626)	(20,504)

13. Income taxes

Net income taxes paid during the three months and six months ended June 30, 2005 totaled \$1.1 million and \$6.6 million, respectively (June 30, 2004 – \$4.1 million and \$3.4 million, respectively).

14. Comparative figures

Comparative figures have been reclassified where necessary to correspond with the current period's presentation.