

ShawCor Ltd.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2011

(in thousands of Canadian dollars)

ShawCor Ltd.

Interim Consolidated Balance Sheet (Unaudited)

(in thousands of Canadian dollars)

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 97,913	\$ 155,998
Accounts receivable	269,033	243,955
Income taxes receivable	14,020	13,823
Inventories	136,298	126,132
Prepaid expenses	20,387	14,171
Derivative financial instruments	1,711	1,130
	<u>539,362</u>	<u>555,209</u>
Non-current assets		
Property, plant and equipment	299,754	287,697
Intangible assets	93,107	91,353
Long-term investment (note 7)	35,276	31,995
Deferred income taxes	42,064	33,555
Other assets (note 8)	14,974	15,622
Goodwill	222,028	220,092
	<u>707,203</u>	<u>680,314</u>
	<u>\$ 1,246,565</u>	<u>\$ 1,235,523</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ 1,774	\$ -
Loan payable	5,437	5,126
Accounts payable and accrued liabilities	129,891	120,549
Provisions	10,530	8,013
Income taxes payable	36,779	50,860
Derivative financial instruments	700	527
Deferred revenue	53,995	54,751
Current portion of long-term debt (note 10)	-	25,005
Finance lease obligation	290	345
	<u>239,396</u>	<u>265,176</u>
Non-current liabilities		
Long-term finance lease obligation	225	339
Derivative financial instruments	1,575	807
Deferred income taxes	86,235	75,167
Long-term provisions	56,633	56,903
	<u>144,668</u>	<u>133,216</u>
	<u>384,064</u>	<u>398,392</u>
Commitments and contingencies (note10)		
Shareholders' Equity		
Share capital (note 11)	208,839	206,775
Contributed surplus	18,696	18,144
Retained earnings	671,805	648,989
Accumulated other comprehensive income (loss)	(36,839)	(36,777)
	<u>862,501</u>	<u>837,131</u>
	<u>\$ 1,246,565</u>	<u>\$ 1,235,523</u>

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

[The interim consolidated financial statements and accompanying notes for the period ended June 30, 2011 were authorized for issue by the Board of Directors on August 10, 2011.]

Director

Director

ShawCor Ltd.

Interim Consolidated Statement of Income

For the three and six months ended June 30:

(Unaudited)

(in thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue				
Sale of products	\$ 74,801	\$ 128,248	\$ 144,129	\$ 192,052
Rendering of services	189,740	106,298	399,878	267,066
	264,541	234,546	544,007	459,118
Cost of goods sold	169,895	141,793	344,307	280,207
Gross profit	94,646	92,753	199,700	178,911
Selling, general and administrative expenses	60,019	56,388	121,669	111,137
Research and development expenses	3,691	2,656	6,608	5,280
Foreign exchange (gains)/losses	(4,367)	2,316	(5,715)	660
Amortization of property, plant and equipment	10,789	11,354	20,787	22,153
Amortization of intangible assets	1,854	1,095	3,596	2,190
Income from operations	22,660	18,944	52,755	37,491
Investment loss on long-term investment	3,583	–	5,018	–
Interest expense (net)	1,200	841	2,213	1,845
Income before income taxes	17,877	18,103	45,524	35,646
Income taxes	2,174	6,072	9,336	11,876
Net income for the period	\$ 15,703	\$ 12,031	\$ 36,188	\$ 23,770
Earnings per share				
Basic	0.22	0.17	0.51	0.34
Diluted	0.21	0.17	0.50	0.33

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

ShawCor Ltd.

Interim Consolidated Statement of Comprehensive Income (Loss)

For the three and six months ended June 30:

(Unaudited)

(in thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income for the period	\$ 15,703	\$ 12,031	\$ 36,188	\$ 23,770
Other comprehensive income (loss), net of income taxes				
Unrealized gain (loss) on translation of foreign operations	2,423	2,645	960	(17,175)
Gain (loss) on hedges of unrealized foreign currency translation	70	(965)	603	385
Gain on hedges of unrealized foreign currency translation transferred to net income during the period	(1,833)	(193)	(1,833)	(193)
Income tax expense	(12)	(165)	(103)	(396)
Income tax expense transferred to net income during the period	311	–	311	–
Other comprehensive income (loss), net of income taxes	\$ 959	\$ 1,322	\$ (62)	\$ (17,379)
Comprehensive income for the period	\$ 16,662	\$ 13,353	\$ 36,126	\$ 6,391

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

ShawCor Ltd.**Interim Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)**

(in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance – January 1, 2010	\$ 204,151	17,277	569,587	–	791,015
Net income for the period	–	–	23,770	–	23,770
Issued on exercise of stock options	808	–	–	–	808
Compensation cost on exercised options	243	(243)	–	–	–
Stock-based compensation expense	–	1,193	–	–	1,193
Other comprehensive loss	–	–	–	(17,379)	(17,379)
Dividends paid	–	–	(10,058)	–	(10,058)
Balance – June 30, 2010	\$ 205,202	18,227	583,299	(17,379)	789,349
Balance – December 31, 2010	\$ 206,775	18,144	648,989	(36,777)	837,131
Net income for the period	–	–	36,188	–	36,188
Issued on exercise of stock options	1,824	–	–	–	1,824
Compensation cost on exercised options	593	(593)	–	–	–
Compensation cost on exercised RSUs	7	(7)	–	–	–
Stock-based compensation expense	–	1,152	–	–	1,152
Other comprehensive loss	–	–	–	(62)	(62)
Dividends paid	–	–	(10,777)	–	(10,777)
Purchase – normal course issuer bid	(360)	–	–	–	(360)
Excess of purchase price over stated value of shares	–	–	(2,595)	–	(2,595)
Balance – June 30, 2011	\$ 208,839	18,696	671,805	(36,839)	862,501

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

ShawCor Ltd.**Interim Consolidated Statement of Cash flows
(Unaudited)**

(in thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Operating activities				
Net income for the period	\$ 15,703	\$ 12,031	\$ 36,188	\$ 23,770
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	10,789	11,354	20,787	22,153
Amortization of intangible assets	1,854	1,095	3,596	2,190
Amortization of transaction costs	–	(312)	–	(201)
Amortization of long-term prepaid expenses	316	(41)	465	46
Decommissioning liabilities expense	118	(29)	234	114
Provisions expense	334	2,318	2,353	4,008
Stock-based compensation (note 12)	1,943	1,397	3,666	2,379
Deferred income taxes	1,235	305	5,434	(579)
Gain on disposal of property, plant and equipment	2	(1,033)	183	(1,191)
Loss on derivative financial instruments	273	2,047	360	1,042
Accretion expense on long-term provisions	189	–	372	–
Investment loss on long-term investment	3,582	–	5,018	–
Settlement of decommissioning liabilities	–	(2,077)	–	(2,374)
Settlement of provisions	(2,774)	(812)	(3,124)	(1,927)
Change in employee future benefits	–	(153)	–	506
Change in non-cash working capital and foreign exchange	(22,545)	(46,166)	(51,551)	(43,444)
Cash provided by (used in) operating activities	11,019	(20,076)	23,981	6,492
Investing activities				
Purchases of property, plant and equipment	(11,606)	(10,523)	(23,652)	(21,831)
Proceeds on disposal of property, plant, and equipment	441	3,420	419	3,420
Acquisition of long-term investment	–	–	(9,085)	–
Business acquisition	(12,839)	–	(12,839)	–
Decrease (increase) in long-term notes receivable	47	130	59	(4)
Cash used in investing activities	(23,957)	(6,973)	(45,098)	(18,415)
Financing activities				
Proceeds from bank indebtedness	1,774	–	1,774	–
Proceeds from (repayments of) loan	(233)	–	311	–
Repayments on finance lease obligation	(58)	61	(169)	(58)
Repayments of long-term debt	(24,402)	(26,043)	(24,402)	(26,043)
Issuance of shares	460	269	1,793	808
Repurchase of shares	(2,955)	–	(2,955)	–
Dividends paid to shareholders	(5,564)	(5,203)	(10,777)	(10,058)
Cash used in financing activities	(30,978)	(30,916)	(34,425)	(35,351)
Foreign exchange gain (loss) on foreign cash and cash equivalents	(131)	3,701	(2,543)	(965)
Net change in cash and cash equivalents for the period	(44,047)	(54,264)	(58,085)	(48,239)
Cash and cash equivalents - beginning of period	141,960	256,013	155,998	249,988
Cash and cash equivalents - end of period	\$ 97,913	\$ 201,749	\$ 97,913	\$ 201,749

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

1. Corporate information

ShawCor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange ("TSX"). The Company, together with its wholly owned subsidiaries (collectively referred to as "ShawCor" or the "Company"), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates seven divisions with over 70 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 5.

The head office, principal address and registered office of the Company is 25 Bethridge Road, Toronto, Ontario, M9W 1M7.

2. Basis of preparation and adoption of International Financial Reporting Standards

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of The Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In the consolidated financial statements, the term "CGAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Subject to certain transition elections, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of June 30, 2011. Any subsequent changes to IFRS pertaining to the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

The consolidated financial statements should be read in conjunction with the Company's CGAAP audited annual consolidated financial statements for the year ended December 31, 2010, as well as the Company's first IFRS unaudited interim consolidated financial statements for the three-month period ended March 31, 2011 ("First IFRS Consolidated Financial Statements"). Note 4 in the First IFRS Consolidated Financial Statements discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's audited annual consolidated financial statements for the year ended December 31, 2010.

Basis of presentation and consolidation

The consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in the Company's First IFRS Consolidated Financial Statements.

These consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand, except when otherwise stated.

The consolidated financial statements comprise the financial statements of the Company and the entities under its control and the Company's proportionate share in its joint ventures.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are described in note 3 of the Company's First IFRS Consolidated Financial Statements.

The results of the subsidiaries acquired during the period are included in the consolidated financial statements from the date of the acquisition. Adjustments are made, where necessary, to the financial statements of the subsidiaries and joint ventures to ensure consistency with those policies adopted by the Company. All intercompany transactions, balances, income and expenses have been eliminated upon consolidation.

3. Accounting standards issued but not yet applied

IFRS 9 Financial Instruments

IFRS 9, *Financial Instruments*, was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, *Financial Instruments - Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss).

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 Consolidated Financial Statements

For annual periods beginning on January 1, 2013, IFRS 10, *Consolidated Financial Statements* will replace portions of IAS 27 *Consolidated and Separate Financial Statements* and interpretation SIC-12 *Consolidation — Special Purpose Entities*. The new standard requires consolidated financial statements to include all controlled entities under a single control model. The Company will be considered to control an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. As required by this standard, control is reassessed as facts and circumstances change. All facts and circumstances must be considered to make a judgement about whether the Company controls another entity; there are no 'bright lines'. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights, and principal-agency relationships (including removal rights), all which may differ from current practice.

IFRS 10 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 11 Joint Arrangements

On January 1, 2013, ShawCor will be required to adopt IFRS 11, *Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting.

Due to the adoption of this new section, Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item.

IFRS 11 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12 Disclosure of Interests in Other Entities

On January 1, 2013, ShawCor will be required to adopt IFRS 12, *Disclosure of Involvement with Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. Due to this new section, the Company will be required to disclose the following: judgements and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities, and nature of the risks associated with interests in other entities.

IFRS 12 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13 Fair Value Measurement

On January 1, 2013, ShawCor will be required to adopt IFRS 13, *Fair Value Measurement*. The new standard will generally converge the IFRS and US GAAP requirements for how to measure fair value and the related disclosures. IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the Company will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities.

IFRS 13 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IAS 27 Separate Financial Statements

On January 1, 2013 ShawCor will be required to adopt IAS 27, *Separate Financial Statements*. As a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued to reflect the change as the consolidation guidance has recently been included in IFRS 10.

In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The company has not yet assessed the impact of the new accounting standard on its separate financial statements.

IAS 28 Investments in Associates and Joint Ventures

On January 1, 2013, ShawCor will be required to adopt IAS 28, *Investments in Associates and Joint Ventures*. As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will further provide the accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control, or significant influence over an investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not include control or joint control of those policy decisions. When determined that the Company has an interest in a joint venture, the Company will recognise an investment and will account for it using the equity method in accordance with IAS 28.

IAS 28 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. First-time adoption of IFRS

ShawCor has adopted IFRS on January 1, 2011 with a date of transition to IFRS of January 1, 2010 ("IFRS Transition Date"). In accordance with IFRS 1, IFRS have been applied retrospectively at the IFRS Transition Date, with any adjustments to the assets and liabilities as a result of the adoption taken to retained earnings, unless certain exemptions applied.

The effect of the Company's transition to IFRS has been described in the Company's First IFRS Consolidated Financial Statements.

Reconciliations between CGAAP and IFRS

The impact of applying IFRS exemptions and the accounting policy differences between CGAAP and IFRS had a significant impact on the assets, liabilities, shareholders' equity, net income, and comprehensive income of the Company.

The following reconciliations between CGAAP and IFRS are shown in the tables below:

- Consolidated Statement of Income for the three month period ended June 30, 2010;
- Consolidated Statement of Comprehensive Income for the three month period ended June 30, 2010;
- Consolidated Statement of Income for the six month period ended June 30, 2010;
- Consolidated Statement of Comprehensive Income for the six-month period ended June 30, 2010; and
- Shareholders equity as at June 30, 2010.

Reconciliation of the statement of income and comprehensive income under CGAAP to IFRS for the three months ended June 30, 2010

<u>Consolidated Statement of Income</u>	Note	CGAAP June 30, 2010	Effect of Transition to IFRS	Restated Under IFRS June 30, 2010
Revenue		\$ 234,546	\$ –	\$ 234,546
Cost of goods sold		141,793	–	141,793
Gross profit		92,753	–	92,753
Selling, general and administrative expenses	c,g	57,200	(812)	56,388
Research and development expenses		2,656	–	2,656
Foreign exchange losses	f	2,122	194	2,316
Amortization of property, plant and equipment	e	12,352	(998)	11,354
Amortization of intangible assets		1,095	–	1,095
Income from operations		17,328	1,616	18,944
Interest expense (net)	h	792	49	841
Income before income taxes		16,536	1,567	18,103
Income taxes		5,659	413	6,072
Net income for the period		\$ 10,877	\$ 1,154	\$ 12,031
Earnings per share				
Basic		\$ 0.15	\$ 0.02	\$ 0.17
Diluted		\$ 0.15	\$ 0.02	\$ 0.17
 <u>Consolidated Statement of Comprehensive Income</u>				
Net income for the period		\$ 10,877	\$ 1,154	\$ 12,031
Unrealized gain on translating financial statements of foreign operations		1,477	1,168	2,645
Loss on hedges of unrealized foreign currency translation		(965)	–	(965)
Gain on hedges of unrealized foreign currency translation transferred to net income in the current period		(193)	–	(193)
Income tax expense		(165)	–	(165)
Other comprehensive income for the period		154	1,168	1,322
Comprehensive income for the period		\$ 11,031	\$ 2,322	\$ 13,353

Reconciliation of the statement of income and comprehensive income under CGAAP to IFRS for the six months ended June 30, 2010

<u>Consolidated Statement of Income</u>	Note	CGAAP June 30, 2010	Effect of Transition to IFRS	Restated Under IFRS June 30, 2010
Revenue		\$ 459,118	\$ –	\$ 459,118
Cost of goods sold		280,207	–	280,207
Gross profit		178,911	–	178,911
Selling, general and administrative expenses	c,g	112,335	(1,198)	111,137
Research and development expenses		5,280	–	5,280
Foreign exchange (gains) losses	f	702	(42)	660
Amortization of property, plant and equipment	e	24,612	(2,459)	22,153
Amortization of intangible assets		2,190	–	2,190
Income from operations		33,792	3,699	37,491
Interest expense (net)	h	1,734	111	1,845
Income before income taxes		32,058	3,588	35,646
Income taxes		11,182	694	11,876
Net income for the period		\$ 20,876	\$ 2,894	\$ 23,770
Earnings per share				
Basic		\$ 0.30	\$ 0.04	\$ 0.34
Diluted		\$ 0.29	\$ 0.04	\$ 0.33
 <u>Consolidated Statement of Comprehensive Income</u>				
Net income for the period		\$ 20,876	\$ 2,894	\$ 23,770
Unrealized loss on translating financial statements of foreign operations		(16,704)	(471)	(17,175)
Gain on hedges of unrealized foreign currency translation		385	–	385
Gain on hedges of unrealized foreign currency translation transferred to net income during the period		(193)	–	(193)
Income tax expense		(396)	–	(396)
Other comprehensive loss for the period		(16,908)	(471)	(17,379)
Comprehensive income for the period		\$ 3,968	\$ 2,423	\$ 6,391

Reconciliation of Shareholders' Equity

	Note	June 30, 2010
Shareholders' equity in accordance with CGAAP		\$ 786,333
Property, Plant and Equipment	a,d,e	27,130
Impairment of property, plant, and equipment	a,d	(14,275)
Employee Benefits	b,d	(10,454)
Effects of change in FX rates	f	(806)
Provisions	d	214
Decommissioning of liabilities	c,d	1,207
		789,349
Shareholders' equity in accordance with IFRS		\$ 789,349

Notes to the reconciliations**(a) Property, Plant and Equipment**

The adjustment to property, plant and equipment at the January 1, 2010 transition date was a net increase of \$14.1 million to the Net Book Value ("NBV"). NBV increased by \$28.4 million due to the impact of componentization of property, plant and equipment and revision in the estimated useful life as required by IAS 16. This increase was partly offset by a combined asset impairment loss of \$14.3 million recognized on certain Pipeline and Pipe Services segment fixed assets.

Under IFRS, impairment testing is performed by comparing the carrying amount to the recoverable amount, calculated using the value in use method, which uses a risk adjusted pre-tax rate to discount cash flows (i.e. a higher rate than under CGAAP) to their net present value. Under CGAAP, there is a two step process:

- a) Reasonability test using the sum of the undiscounted cash flows and comparing them to the carrying value, and if the test fails
- b) The amount of impairment is calculated using a risk adjusted post tax rate to discount the cash flows (i.e. a lower rate than under IFRS) to their net present value.

Under CGAAP, no impairment existed on the above assets as at December 31, 2009 and during the year ended December 31, 2010.

ShawCor recognized an additional impairment at December 31, 2010 on these fixed assets under IFRS in the amount of \$14.9 million. The impairment recognized has been expensed in the Statement of Income for the year ended December 31, 2010.

(b) Employee Benefits

Under IFRS, the \$14.1 million adjustment results from ShawCor's election to use the IFRS 1 exemption and adopt IAS 19 on a prospective basis. This 'fresh start or prospective approach' allows that the unrecognized actuarial gains/losses at December 31, 2009 for all plans be immediately recognized through an adjustment to the opening retained earnings and an increase to the liability for employee future benefits. The accrued employee future benefit obligation under IFRS was \$3.3 million lower than that under CGAAP due to the application of IFRIC 14 on transition to IFRS and the application of IAS 19 on a prospective basis.

(c) Decommissioning liabilities

As at June 30, 2010, the impact on shareholders' equity of \$1.2 million is mainly driven by the property, plant and equipment balance associated with decommissioning liabilities, which increased due to the use of lower discount rates in effect during the period under IFRS. The use of lower discount rates also resulted in the calculation of higher decommissioning liability balances throughout 2010 under IFRS.

(d) Deferred Income Tax Effect

These are the required deferred tax effects related to the various IFRS adjustments (i.e. property, plant and equipment; employee future benefits; decommissioning liabilities etc). The rates used were based on the statutory tax rates in the jurisdiction where the adjustment was made.

(e) Amortization of property plant and equipment

The 2010 income statement adjustment was due to the recalculation of depreciation expense of all fixed assets due to the application of a more detailed componentization analysis including their expected useful lives, which in a number of cases was extended. This resulted in a decrease in the amortization cost under IFRS versus CGAAP of \$ 1.0 million for the quarter ended June 30, 2010 and \$2.5 million for the six month period ended June 30, 2010.

(f) Foreign Exchange

Foreign exchange losses increased by \$0.2 million for the three months ended June 30, 2010 and decreased by \$0.05 million for the six months ended June 30, 2010 primarily due to the change in the translation method for certain entities accounted for under the Temporal Method under CGAAP to the Current Rate Method under IFRS, and the foreign exchange component relating to the accounting for decommissioning liabilities. The adoption of IAS 21 had an impact on shareholders's equity of \$0.8 million as at June 30, 2010, and was primarily due to the change in the translation method for certain entities accounted for under the Temporal Method under CGAAP to the Current Rate Method under IFRS.

(g) Selling, General and Administration Expense

The selling, general and administrative expenses decreased by \$0.8 million and \$1.2 million for the three and six month periods ended June 30, 2010, mainly due to the transitional IFRS adjustments related to employee future benefits and decommissioning liabilities. The Employee Defined Pension expense under IFRS was \$0.1 million and \$0.3 million lower in the three and six month periods ended June 30, 2010, respectively, than that under CGAAP due to the application of IFRIC 14 on transition to IFRS and the application of IAS 19 on a prospective basis; in addition, lower charges for decommissioning liabilities further contributed to the reduction in selling, general and administrative expenses for the three and six month periods ended June 30, 2010, from CGAAP to IFRS.

(h) Interest Expense, Other

In accordance with financial statement disclosure requirements for IFRS, accretion expense of \$0.05 million and \$0.1 million for the three and six months ended June 30, 2011, respectively, was reclassified from the *selling general and administrative expenses* account to the *Interest, Other* account.

(i) Adjustment to the consolidated statement of cash flows

The changes to the consolidated statement of income and consolidated balance sheet have resulted in various reclassifications on the consolidated statement of cash flows; however, there were no material changes to the net cash flows. As a result, no reconciliations have been presented.

5. Segment information

ShawCor's operating segments are being reported based on the financial information provided to the Chief Executive Officer, who has been identified as the chief operating decision-maker ("CODM") in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on segment operating income or loss, which is measured differently than operating income or loss in the consolidated financial statements. Interest income, finance costs and income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at June 30, 2011, the Company had two reportable operating segments: Pipeline and Pipe Services and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment comprises the following business units:

- Bredero Shaw, which provides pipe-coating, lining and insulation products;
- Flexpipe Systems, which provides spoolable composite pipe systems;
- Canusa - CPS, which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications;
- Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction; and
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular.

Petrochemical and Industrial

The Petrochemical and Industrial segment comprises the following business units:

- ShawFlex, which manufactures wire and cable for process instrumentation and control applications; and
- DSG-Canusa, which manufactures heat shrinkable tubing for automotive, electrical, electronic and utility applications.

Financial and Corporate

The financial and corporate division for ShawCor only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined in IFRS.

Segment

The following table sets forth information for revenue and income from operations by segment for the three months ended June 30:

	<u>Pipeline and Pipe Services</u>		<u>Petrochemical and Industrial</u>		<u>Financial and Corporate</u>		<u>Eliminations and Adjustments</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenue										
External	\$ 228,826	203,956	35,715	30,590	–	–	–	–	264,541	234,546
Inter-segment	1,798	394	72	–	–	–	(1,870)	(394)	–	–
	<u>\$ 230,624</u>	<u>204,350</u>	<u>35,787</u>	<u>30,590</u>	<u>–</u>	<u>–</u>	<u>(1,870)</u>	<u>(394)</u>	<u>264,541</u>	<u>234,546</u>
Income (loss) from operations	\$ 18,435	25,168	4,471	4,068	(245)	(10,292)	–	–	22,661	18,944

The following table sets forth information for revenue and income from operations by segment for the six months ended June 30:

	<u>Pipeline and Pipe Services</u>		<u>Petrochemical and Industrial</u>		<u>Financial and Corporate</u>		<u>Eliminations and adjustments</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenue										
External	\$ 474,932	398,862	69,075	60,256	–	–	–	–	544,007	459,118
Inter-segment	2,160	68	74	728	–	–	(2,234)	(796)	–	–
	<u>\$ 477,092</u>	<u>398,930</u>	<u>69,149</u>	<u>60,984</u>	<u>–</u>	<u>–</u>	<u>(2,234)</u>	<u>(796)</u>	<u>544,007</u>	<u>459,118</u>
Income (loss) from operations	\$ 53,096	47,170	7,995	7,079	(8,336)	(16,758)	–	–	52,755	37,491

The following table sets forth information for total assets by segment as at:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Pipeline and Pipe Services	\$ 1,083,136	\$ 1,055,169
Petrochemical and Industrial	112,290	102,505
Financial and Corporate	807,910	931,585
Elimination	(770,258)	(853,436)
	<u>\$ 1,233,078</u>	<u>\$ 1,235,823</u>

6. Acquisition

On April 6, 2011, the Company acquired certain of the coating assets and business of Altus Energy Services Partnership, Altus Energy Services Ltd. and Nusco Northern Manufacturing Ltd. for \$12.8 million. The assets purchased constitute a business as defined by IFRS 3R, *Business Combinations*.

The coating business, formerly known as CSI, and now known as ShawCor CSI ("CSI") provides shop applied coatings at its modern facility in Nisku, Alberta and provides field coating services throughout Western Canada.

The acquisition of the CSI assets will allow the Bredero Shaw division to supply a broad range of internal and external custom coating solutions that are complementary to its current range of anticorrosion, flow efficiency and insulation coatings for oil and gas gathering and transmission lines. This acquisition will also allow Bredero Shaw to provide a full range of custom coating solutions for the oil sands and for pipeline rehabilitation applications.

The following table shows the purchase price allocation for the acquisitions of CSI, and assigns the total consideration paid to the net assets acquired:

Current assets (excluding cash)	\$	339
Property, plant and equipment		6,150
Intangible assets		4,543
Goodwill		1,880
Current liabilities assumed		(73)
		<hr/>
Net assets acquired, at fair value	\$	<u>12,839</u>
Consideration:		
Cash	\$	<u>12,839</u>

The goodwill acquired represents the acquired assembled workforce and the benefits that the Company expects to earn from the acquisition due to expected synergies and other intangible assets that do not meet the criteria for recognition as identifiable Intangible Assets.

The Company did not acquire or divest any other significant or material businesses during the six months ended June 30, 2011.

7. Long-term investment

The following table sets forth the Company's long-term investments as at:

	June 30, 2011	December 31, 2010
Investment in company subject to significant influence	\$ 35,276	\$ 31,971
Other long-term investment classified as available-for-sale	–	24
	<hr/>	<hr/>
	\$ 35,276	\$ 31,995

Investment in company subject to significant influence - Fineglade Limited (Ireland)

On July 2, 2010, the Company made an equity investment in Fineglade Limited (Ireland) ("Fineglade") in the amount of \$25.7 million (U.S.\$24.7 million) to form an investor group with two private equity firms, 4D Global Energy Advisors of Paris, France, and Sophia Capital of Buenos Aires, Argentina, with the Company holding a 40% interest in the investor group. Fineglade was formed to complete a share capital investment in Socotherm S.p.A ("Socotherm") and has resulted in Fineglade attaining a 95% ownership interest in Socotherm.

During the fourth quarter of 2010, the Company made an incremental investment in Fineglade of \$5.2 million (U.S.\$5.1 million) as its pro rata share of a secured bridge loan provided by Fineglade to Socotherm, and a further investment in Socotherm of \$3.4 million (U.S.\$3.3 million) to discharge additional liabilities. On October 29, 2010, the court of Vicenza issued a homologation decree that approved the share capital investment, and the acquisition between the investor group and Socotherm was subsequently completed.

During the six months ended June 30, 2011, the Company invested an additional \$9.1 million (U.S.\$9.2 million) in Fineglade as its pro rata share of a potential future capital increase by Fineglade in Socotherm and incurred an investment loss on its investment in Fineglade in the amount of \$5.0 million.

The Company also entered into a shareholders' agreement with the other shareholders of Fineglade that provides the Company with significant influence over the strategic operating, investing and financing activities of Fineglade, without having joint control. In connection with the investment in Fineglade, the Company also entered into a financial instruments agreement that may result in the Company increasing its ownership in Fineglade after January 1, 2013. The net fair value of the financial instruments as at June 30, 2011 was \$1.6 million (December 31, 2010 – \$0.8 million) and this long-term liability has been classified under long-term derivative financial instruments, a financial liability through profit and loss, on the interim consolidated balance sheet.

8. Other assets

The following table details the other assets as at:

	June 30, 2011	December 31, 2010
Long-term prepaid expenses	\$ 3,330	\$ 3,828
Long-term notes receivable ^(a)	3,608	3,758
Accrued employee future benefit asset	8,036	8,036
	<u>\$ 14,974</u>	<u>\$ 15,622</u>

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual instalments beginning no later than March 31, 2018, as set out in the loan agreement terms.

9. Employee Future Benefits

The Company's cost under both defined benefit and defined contribution arrangements included in selling and administrative expenses for the three and six months ended June 30, 2011 was \$1.8 million and \$4.1 million, respectively (three and six month periods ended June 30, 2010 - \$2.3 million and \$4.9 million, respectively).

10. Commitments and Contingencies

Legal claims

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and other third parties. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

Performance, bid and surety bonds

The Company provides standby letters of credit for performance, bid and surety bonds through financial intermediaries to various customers in support of project contracts for the successful execution of these contracts. If the Company fails to perform under the terms of the contract, the customer has the ability to draw upon all or a portion of the bond as compensation for the Company's failure to perform. The contracts which these performance bonds support generally have a term of one to three years, but could extend up to four years. Bid bonds typically have a term of less than one year and are renewed, if required, over the term of the applicable contract. Historically, the Company has not made and does not anticipate that it will be required to make material payments under these types of bonds.

The Company's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of \$64.0 million as at June 30, 2011, and \$75.1 million as at December 31, 2010, for support of its bonds.

Long-term debt (Senior Notes)

On June 27, 2003, the Company entered into an agreement for the issue and sale, at par, on a private placement basis to institutional investors, of U.S.\$75.0 million of Senior Notes due June 30, 2011. Under the terms of the agreement, the Company was required to repay the Senior Notes in three equal instalments of U.S.\$25.0 million on June 30, 2009, 2010 and 2011. On June 30, 2009, the Company made the first repayments of U.S.\$25.0 million (\$28.7 million at the then current exchange rate). On June 30, 2010, the Company made the second repayment of U.S.\$25.0 million (\$26.0 million at the then current exchange rate). On June 30, 2011, the Company made the third and final repayment of U.S.\$25.0 million (\$24.4 million at the current exchange rate). Upon extinguishment of the Senior Notes, foreign exchange gains in the amount of \$1.8 million (2010 - \$0.2 million) were recognized and included in the consolidated statement of income.

Unsecured credit facilities

On June 22, 2011, the Company renewed its unsecured Bank Credit Facility for a period of four years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was reduced from U.S.\$190.0 million to U.S.\$150.0 million, with an option to increase the credit limit to U.S.\$200.0 million with the consent of lenders.

11. Share capital

The following table sets forth the Company's shares outstanding:

	2011		
	Class A	Class B	Total
Number of shares			
Balance, December 31, 2010	57,578,299	13,058,073	70,636,372
Issued on exercise of stock options	100,220	–	100,220
Issued on exercise of RSUs	255	–	255
Conversions Class B to Class A	4,500	(4,500)	–
Purchase – normal course issuer bid	(100,000)	–	(100,000)
Balance, June 30, 2011	57,583,274	13,053,573	70,636,847
Stated value:			
Balance, December 31, 2010	\$ 205,772	\$ 1,003	\$ 206,775
Issued on exercise of stock options	1,824	–	1,824
Compensation cost on exercised options	593	–	593
Compensation cost on exercised RSUs	7	–	7
Conversion of Class B shares to Class A	1	(1)	–
Purchase - normal course issuer bid	(360)	–	(360)
Balance, June 30, 2011	\$ 207,837	\$ 1,002	\$ 208,839
			2010
	Class A	Class B	Total
Number of shares			
Balance, January 1, 2010	57,458,183	13,059,983	70,518,166
Issued on exercise of stock options	118,206	–	118,206
Conversions of Class B shares into Class A shares	1,910	(1,910)	–
Balance, December 31, 2010	57,578,299	13,058,073	70,636,372
Stated value:			
Balance, January 1, 2010	\$ 203,148	\$ 1,003	\$ 204,151
Issued on exercise of stock options	2,013	–	2,013
Compensation cost on exercised options	611	–	611
Balance, December 31, 2010	\$ 205,772	\$ 1,003	\$ 206,775

All shares have been issued as fully paid.

There are an unlimited number of Class A subordinate voting shares ("Class A shares") and Class B multiple voting shares ("Class B shares") authorized. Holders of Class A shares are entitled to one vote per share and receive a non-cumulative dividend premium of 10% of the dividends paid to holders of Class B shares. Holders of Class B shares are entitled to ten votes per share and are convertible at any time into Class A shares on a one-for-one basis.

Under the terms of the Normal Course Issuer Bid ("NCIB"), the Company was entitled to repurchase up to 3,000,000 Class A shares and up to 100,000 Class B shares between December 1, 2009 and November 30, 2010.

The repurchase of shares is made in the open market at prevailing market prices; however, during 2010, the Company did not repurchase and cancel any Class A or Class B shares under the NCIB. The NCIB was renewed on November 30, 2010, entitling the Company to repurchase up to 2,000,000 Class A shares and up to 100,000 Class B shares between December 1, 2010 and November 30, 2011. During the three months ended June 30, 2011, 100,000 Class A shares were repurchased and cancelled for total consideration of \$3.0 million (refer to statement of shareholders equity for details).

In 2011, dividends declared and paid for the three months ended June 30, 2011 were \$0.08 per class A share and \$0.073 per class B share (three months ended June 30, 2010 - \$0.075 per class A share and \$0.068 per class B share). The dividends declared and paid for the six months ended June 30, 2011 were \$0.155 per class A share and \$0.141 per class B share (six months ended June 30, 2010 - \$0.15 per class A share and \$0.136 per class B share).

12. Share-based compensation

As at June 30, 2011, the Company had the following stock option plan, which was initiated in 2001:

- Under the Company's 2001 employee stock option plan (the "2001 Employee Plan"), which is a traditional stock option plan, the options granted have a term of ten years from the date of the grant. Exercises are permitted on the basis of 20% of the optioned shares per year over five years, on a cumulative basis, commencing one year following the date of the grant. The grant price equals the closing sale price of the Class A shares on the day prior to the grant.

On March 3, 2010, the Board of Directors ("Board") approved the amended 2001 Employee Plan (the "Amended 2001 Employee Plan"). All stock options granted in 2010 under the Amended 2001 Employee Plan have a tandem share appreciation right ("SAR") attached, which allows the option holder to exercise either the option and receive a share, or exercise the SAR and receive a cash payment that is equivalent to the difference between the grant price and fair market value. All stock options granted under the Amended 2001 Employee Plan have the same characteristics as stock options that were granted under the original 2001 Employee Plan, with respect to vesting requirements, term, termination and other provisions.

On March 3, 2011, the Board modified the Amended 2001 Employee Plan (the "Restated 2001 Employee Plan") to facilitate the cashless exercise of stock options and SARs by the holders of such instruments.

The following table sets forth a summary of the Company's traditional options outstanding and exercisable:

	Six Month Ended June 30 2011		Year Ended December 31, 2010	
	Total shares	Weighted average exercise price	Total shares	Weighted average exercise price
Balance outstanding, Beginning of period	2,702,160	\$ 18.93	2,826,366	\$ 18.86
Granted	102,260	37.32	—	—
Exercised	(100,220)	18.19	(118,206)	17.02
Forfeited	(17,440)	20.06	(6,000)	21.57
Balance outstanding, End of period	<u>2,686,760</u>	<u>\$ 19.65</u>	<u>2,702,160</u>	<u>\$ 18.93</u>

The following table sets forth a summary of the Company's traditional options outstanding and exercisable:

Range of exercise price	Options outstanding			Options exercisable	
	Outstanding as at June 30, 2011	Weighted average remaining contractual life (years)	Weighted average exercise price	Exercisable as at June 30, 2011	Weighted average exercise price
\$10.00 to \$15.00	450,200	1.35	\$ 12.60	450,200	\$ 12.60
\$15.01 to \$20.00	1,382,940	4.04	16.42	1,099,140	16.64
\$20.01 to \$25.00	44,000	5.03	21.00	28,800	20.79
\$25.01 to \$30.00	677,360	6.02	27.65	464,840	27.30
\$30.01 to \$35.00	30,000	6.48	31.77	18,000	31.77
\$35.01 to \$40.00	102,260	9.48	37.32	—	—
	<u>2,686,760</u>		<u>\$ 19.65</u>	<u>2,060,980</u>	<u>\$ 18.35</u>

Range of exercise price	Options outstanding			Options exercisable	
	Outstanding as at December 31, 2010	Weighted average remaining contractual life (years)	Weighted average exercise price	Exercisable as at December 31, 2010	Weighted average exercise price
\$10.00 to \$15.00	454,800	1.86	\$ 12.60	454,800	\$ 12.60
\$15.01 to \$20.00	1,473,120	4.63	16.42	1,033,592	16.70
\$20.01 to \$25.00	46,000	5.66	21.04	30,800	20.87
\$25.01 to \$30.00	698,240	6.53	27.67	343,064	27.18
\$30.01 to \$35.00	30,000	7.01	31.77	12,000	31.77
	<u>2,702,160</u>		<u>\$ 18.93</u>	<u>1,874,256</u>	<u>\$ 17.45</u>

The Board of Directors approved the granting of 102,260 stock options during the six months ended June 30, 2011 under the Amended 2001 Employee Plan (the Plan). The total fair value of the stock options granted during the six months ended June 30, 2011 was \$1.3 million (six months ended June 30, 2010 - \$nil) and the weighted average fair value of the options was \$1.3 million (six months ended June 30, 2010 - \$nil), calculated using the Black-Scholes option pricing model with the following assumptions:

		2011	2010
Weighted average share price	\$	36.31	–
Exercise price	\$	37.32	–
Expected life of options		7.25	–
Expected stock price volatility		35%	–
Expected dividend yield		0.8%	–
Risk-free interest rate		3.2%	–

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 9.25 years.

The fair value of options granted under the Plan will be amortized to compensation expense over the five-year vesting period of options. The compensation cost from the continuing amortization of granted stock options for the six months ended June 30, 2011, included in selling, general and administrative expenses, was \$0.8 million (six months ended June 30, 2010 - \$1.0 million).

Stock Options with Tandem Share Appreciation Rights

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	Total shares	Weighted average fair value^(a)	Total shares	Weighted average fair value^(a)
Balance outstanding, Beginning of period	118,500	\$ 12.94	–	\$ –
Granted	35,800	12.89	118,500	12.94
Balance outstanding, End of period	154,300	\$ 12.93	118,500	\$ 12.94

(a) The weighted average fair value refers to the fair value of the underlying shares of the Company on the grant date of the SARs.

The mark-to-market liability for the stock options with SARs as at June 30, 2011 is \$0.6 million (December 31, 2010 - \$0.2 million), all of which is included in the current provisions account on the consolidated balance sheet.

On March 3, 2010, the Board approved a new long-term incentive program ("LTIP") for executives and key employees and a deferred share unit ("DSU") plan for directors of the Company. Additional details with respect to the LTIP and DSU plan are as follows:

LTIP

The LTIP includes the existing stock option plan discussed above and two new plans, the Value Growth Plan ("VGP") and the Employee Share Unit Plan ("ESUP").

VGP

The VGP is a cash-based awards plan which rewards executives and key employees for improving operating income and revenue over a three-year performance period. Units granted to participants vest on the third year of the performance period for which they were granted. The value of units is determined based on the growth rate in operating income and revenue on a cumulative basis for the three consecutive years that comprise the performance period and is measured against the baseline period. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The liability as at June 30, 2011 is \$3.7 million (December 31, 2010 - \$1.7 million).

ESUP

The ESUP authorizes the Board to grant awards of restricted share units ("RSUs") to employees of the Company as a form of incentive compensation. All RSUs are to be settled with Class A shares and are valued on the basis of the underlying weighted average trading price of the Class A shares over the five trading days preceding the grant date. The valuation is not subsequently adjusted for changes in the market price of the Class A shares prior to the settlement of the award. Each RSU granted under the ESUP represents one Class A share. The ESUP provides that the maximum number of Class A shares that are reserved for issuance from time to time shall be fixed at 1,000,000 Class A shares. The RSUs vest in two tranches over a period of one to five years and four to seven years, respectively and become payable once vesting is completed. Compensation cost is recognized over the vesting period in accordance with IFRS. All RSUs granted are classified as equity instruments in accordance with IFRS as their terms require that they be settled in shares.

The following table sets forth the Company's RSU reconciliation for the period:

	June 30, 2011		December 31, 2010	
	Total shares	Weighted average grant date fair value ^(a)	Total shares	Weighted average grant date fair value ^(a)
Balance outstanding, Beginning of period	53,563	\$ 26.51	–	\$ –
Granted	40,772	35.30	53,563	26.51
Exercised	(255)	27.69	–	–
Forfeited	(791)	27.69	–	–
Balance outstanding, End of period	93,289	\$ 30.34	53,563	\$ 26.51
Options exercisable	4,822	\$ 27.41	–	\$ –

(a) RSU awards do not have an exercise price; as a result, grant date weighted average fair value has been calculated.

DSU

Under the Company's DSU plan, all directors (other than the President and Chief Executive Officer) of the Company can elect to receive all or a portion of their compensation for services rendered as a director of the Company, in share units or a combination of share units and cash. The number of DSUs received is equal to the amount to be paid in DSUs divided by the weighted average trading price of the Class A shares over the five days immediately preceding the date of the grant. DSUs are to be settled at the time that the director ceases to be a member of the Board and each DSU entitles the holder to receive one Class A share or the cash equivalent. DSUs vest immediately on the date of the grant. The value of a DSU and the related compensation expense is determined and recorded based on the current market price of the underlying Class A shares on the date of the grant. Common shares are purchased on the open market to settle outstanding share units.

All DSUs granted will be classified as liability instruments on the date of the grant in accordance with IFRS as the unit holder has the option to settle in cash, or shares.

The following table sets forth the Company's DSU reconciliation for the periods:

	June 30, 2011		December 31, 2010	
	Total shares	Weighted average grant date fair value^(a)	Total shares	Weighted average grant date fair value^(a)
Balance outstanding, beginning of period	30,260	\$ 29.53	–	\$ –
Granted	15,451	31.23	30,260	29.53
Exercised	(6,246)	32.55	–	–
Balance outstanding, end of period	39,465	\$ 29.72	30,260	\$ 29.53
Options exercisable ^(b)	–	\$ –	–	\$ –

(a) DSU awards do not have an exercise price; as a result, grant date weighted average fair value has been calculated.

(b) DSU awards cannot be exercised while the director is still a member of the Board of Directors.

The mark-to-market liability for the DSUs as at June 30, 2011 is \$1.2 million (December 31, 2010 - \$1.0 million), all of which is included in accounts payable and accrued liabilities on the consolidated balance sheet.

Incentive-based compensation

The following table sets forth the incentive-based compensation expense recorded for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Stock option expense	\$ 433	\$ 444	\$ 828	\$ 1,039
VGP expense	1,141	579	1,997	778
DSU expense	47	248	284	409
RSU expense	196	126	324	153
SAR expense	126	—	233	—
Total incentive-based compensation expense	\$ 1,943	\$ 1,397	\$ 3,666	\$ 2,379

13. Key management compensation

Key management includes directors (executive and non-executive) and corporate officers. The compensation paid or payable to key management for employee and director services are shown below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Salaries and other short-term employee benefits	\$ 770	\$ 765	\$ 1,521	\$ 1,530
Post-employment benefits	113	99	226	198
Share-based and other long-term incentive payments	762	401	1,273	709
Director fees and other compensation	523	525	948	995
	\$ 2,168	\$ 1,790	\$ 3,968	\$ 3,432

14. Interest in joint ventures

The following table presents the joint venture interests of the Company as at June 30, 2011:

Legal Entity	Country of incorporation	Activity	Proportion of interest held
Hal Shaw Inc.	USA	Pipe coating	50 %
Arabian Pipecoating Company Ltd.	Saudi Arabia	Pipe coating	30 %
Shaw & Shaw Ltd.	Canada	Pipe coating	83 %
Hellicore Holdings Ltd.	Russia	Pipe coating	25 %

The following table presents the Company's share of the income, expenses and cash flows of the jointly controlled entities described above:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010 ^(a)	2011	2010 ^(a)
Revenue	\$ 8,831	\$ 10,209	\$ 13,301	\$ 18,055
Operating expenses	7,768	10,358	13,041	18,350
Income (loss) before income taxes	1,063	(149)	260	(295)
Income taxes	65	8	(14)	260
Net Income (loss)	\$ 998	\$ (157)	\$ 274	\$ (555)
Cash provided by (used in)				
Operating activities	\$ (921)	\$ 1,591	\$ (861)	\$ 996
Investing activities	\$ (356)	\$ (806)	\$ (458)	\$ (1,490)
Financing activities	\$ 33	\$ 25,764	\$ 312	\$ 27,661

(a) On October 5, 2010, Company completed the acquisition of the remaining 50% interest in TTB Ltd. and BSSI that they did not previously own; hence, TTB Ltd. and BSSI were not considered to be joint ventures subsequent to October 4, 2010.

The following table presents the Company's share of the assets and liabilities of the jointly controlled entities as at the periods indicated:

	June 30, 2011	December 31, 2010
Current assets	\$ 23,409	\$ 23,289
Non-current assets	5,685	6,557
Total assets	\$ 29,094	\$ 29,846
Current liabilities	\$ 12,859	\$ 13,296
Non-current liabilities	762	761
Total liabilities	\$ 13,621	\$ 14,057
Net assets	\$ 15,473	\$ 15,789

The Company's Russian joint venture has a loan from OOO ArkhTekhnoProm in the amount of 600 million Russian roubles payable on demand. The Company's portion of this loan that has been proportionately consolidated and included on the interim consolidated balance sheet as at June 30, 2011 in the amount of \$5.4 million or 156 million Russian roubles at the current exchange rate (December 31, 2010 - \$5.1 million or 150 million Russian roubles at the then current exchange rate). Interest is calculated on this loan at 9.625% per annum and is to be paid over the period of actual use. In the event that the Company's Russian joint venture fails to repay the outstanding loan within the time specified by the loan agreement, a penalty in the amount of 24% per annum will be assessed on the outstanding loan amount on a daily basis.

15. Earnings per share ("EPS")

The following table details the weighted average number of shares outstanding for the purposes of calculating basic and diluted EPS:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Income used to calculate EPS				
Net income for the period	\$ 15,703	12,031	\$ 36,188	\$ 23,770
Average number of shares outstanding during the period – basic (000's)				
Class A	57,673	57,498	57,637	57,481
Class B	13,053	13,060	13,053	13,060
	<u>70,726</u>	<u>70,558</u>	<u>70,690</u>	<u>70,541</u>
Dilutive effect of stock options (000's)				
Class A	958	790	1,083	830
Class B	–	–	–	–
	<u>958</u>	<u>790</u>	<u>1,083</u>	<u>830</u>
Average number of shares outstanding – diluted (000's)				
Class A	58,631	58,288	58,720	58,311
Class B	13,053	13,060	13,053	13,060
	<u>71,684</u>	<u>71,348</u>	<u>71,773</u>	<u>71,371</u>
Basic EPS	\$ 0.22	0.17	\$ 0.51	\$ 0.34
Diluted EPS	\$ 0.21	0.17	\$ 0.50	\$ 0.33

16. Comparative figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current consolidated financial statements in accordance with IFRS.