



PRESS RELEASE

SICO Achieves a Solid Second-Quarter Performance:

The successful integration of PARA and operational optimization program raise net earnings to \$8.0 million for the quarter and to \$9.2 million for the first six months.

Longueuil, August 5, 2004 — (SIC/TSX)

For the three-month period ended June 25, 2004, SICO INC., Canada's leading paint company, recorded sales increases and higher profit margins in almost all its markets. The Company posted net earnings of \$8.0 million or \$1.17 per share (\$1.16 diluted), up 17.7% over \$6.8 million or \$1.01 per share (\$0.99 diluted) in the same quarter last year. Sales grew by 10.9% to \$95.5 million.

This brings year-to-date net earnings for the first six months to \$9.2 million or \$1.35 per share (\$1.33 diluted), compared to \$8.8 million or \$1.37 per share (\$1.34 diluted) for the same period the previous year. Revenues rose to \$159.0 million compared to \$145.4 million in 2003.

"Today, we can confirm that the integration of PARA and our infrastructure optimization program — two major initiatives carried out concurrently — have proven successful across the board," pointed out **Pierre Dufresne**, President and Chief Executive Officer.

Mr. Dufresne specified that, in the first case, PARA's business operations were integrated to the satisfaction of both SICO and its customers, yielding a major contribution to the results of SICO's **ARCHITECTURAL SECTOR** since the beginning of the current year. Moreover, most of the \$3 million synergies expected from the optimization program were effectively in place by the end of the second quarter.

"We have another reason to be pleased with the Company's latest results," added the President. "After several quarters of decline or stagnation, the North American industrial metal coatings market is finally showing tangible signs of a recovery. Brisker demand combined with recruiting new customers enabled our **INDUSTRIAL SECTOR** to resume sales and earnings growth in the second quarter, although market conditions in Europe remain a concern for our Sico-Becker S.A.S. joint venture."

Major Business Developments

Besides PARA's contribution to consolidated results for the full three and six-month periods, as opposed to only two months in the previous year, the Architectural Sector posted solid internal growth in both the retail and professional paint markets. This performance can be attributed to increased efforts in market development, designed to achieve SICO's objective of becoming the leading architectural paint company in every major region across the country. Since the beginning of the current year, in addition to consolidating its presence in Ontario through PARA, the Company has further increased its market share in Western Canada. In the second quarter, it also launched its latest "Design" premium coating: *Shantung*, a complement to *Cashmere* and *Chamois*, offering an exceptional esthetic finish to enhance the beauty of woodwork. To maintain and strengthen its leadership in the realm of colour, SICO developed and introduced its new *SICO 6000* colour system.

Outlook

"Overall, recent results and developments under way in our various markets are most satisfactory," said Pierre Dufresne. "However, we are closely monitoring the price of certain raw materials, especially metal cans, petroleum derivatives and titanium dioxide. So far, the upward pressure on the price of these materials has not seriously affected us, because its impact has been offset by a combination of factors such as the strong Canadian dollar, the procurement synergies arising from the integration of PARA, and a generally efficient management of raw materials. We believe these factors will continue to favour SICO for the remainder of 2004. In July 2004, we completed one of the final steps of our optimization program by divesting one of the three properties remaining for sale for \$2.1 million. We hope to conclude agreements for the disposal of the other two shortly."

Dividends

SICO's Board of Directors has declared a quarterly dividend of \$0.12 per common share and a dividend of \$0.02612 per Class B preferred share. These dividends will be paid on September 24, 2004 to the Company's registered shareholders as at September 10, 2004.

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Interim Management Report – June 2004

(Discussion and Analysis of Operating Results and Financial Position)

Description of Business

In business since 1937, Sico Inc. (“SICO” or the “Company”) is the largest company in Canada specializing in the development, manufacture and marketing of paint, coatings and related products.

- As leader in the Canadian architectural paint market, its major sector, SICO stands out for its innovative, high-quality products, strong brand recognition and the scope of its distribution network which includes more than 2400 points of sale country-wide.
- SICO also markets metal coatings in 15 countries, mainly for the railway, aerospace and heavy transportation industries, as well as the specialized equipment industry.

A public company listed on the Toronto Stock Exchange under the ticker symbol SIC/TSX, SICO employs an average of 1000 people in Canada, the United States and Mexico.

Foreword

General

This Interim Management Report on the Company’s operating results and cash flows for the three and six-month periods ended June 25, 2004 and June 27, 2003, as well as its financial position at these dates, should be read in conjunction with the consolidated financial statements and accompanying notes included in this interim report, and with the annual report on the last year ended December 26, 2003. SICO’s annual report and supplementary documents, including its annual information form, previous interim reports and press releases, are available at the SEDAR website at www.sedar.com.

In this management report, “SICO”, or the “Company”, as the case may be, designates Sico Inc. and its subsidiaries and divisions, or Sico Inc. or one of its subsidiaries or divisions.

The information contained in this management report takes into account major events which occurred prior to August 4, 2004, on which date the financial statements and management report were approved by the Company’s Board of Directors.

Unless otherwise indicated, the financial information presented below, including tabular amounts, is expressed in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

The information contained in this report also includes certain figures that are not performance measures consistent with GAAP. For instance, SICO uses earnings before interest, taxes, depreciation and amortization ("EBITDA") because this measure enables management to assess the operational performance of the Company's various sectors. This measure is a widely accepted financial indicator of a company's ability to reimburse and incur debt. It should not be considered by an investor as an alternative to operating income or net earnings, an indicator of operating performance or cash flows, nor as a measure of liquidity. As EBITDA is not a measurement established in accordance with GAAP, it may not be comparable to the EBITDA of other companies. In SICO's statement of earnings, EBITDA corresponds to "*Operating income before the following items*".

Forward-Looking Statements and Use of Estimates

Some sections of this interim report contain forward-looking statements that involve a number of risks and uncertainties. Actual results could therefore differ materially from those indicated or underlying these forward-looking statements.

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates, notably in regard to the allowance for doubtful accounts, inventories, accounts payable and accrued liabilities, intangible assets, goodwill, future tax assets and liabilities as well as actuarial assumptions. These assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Changes in Accounting Policies

Since the beginning of the current year, SICO has adopted the new recommendations issued by the Canadian Institute of Chartered Accountants ("CICA") related to the depreciation of long-term assets and asset retirement obligations. The adoption of these recommendations, described in Note 2 of the consolidated financial statements contained in this interim report, had no impact on the consolidated financial statements. Moreover, as also described in Note 2, the Company has adopted the new CICA recommendation related to stock-based compensation and other stock-based payments. Results for the previous year have been restated to account for allocations assigned after January 1, 2002.

Major Acquisition of 2003

On May 5, 2003, during the second quarter of the previous year, SICO acquired PARA Inc., an Ontario-based architectural paint manufacturer serving more than 400 retailers across Canada. This acquisition, which made SICO the leading company in the Canadian architectural paint industry, largely accounts for the variations in SICO's results during the three and six-month periods ended June 25, 2004, compared with the corresponding periods of the previous year.

Seasonality

Sales of exterior architectural paint products, which account for some 20% of the annual paint sales of the Company's Architectural Sector, are seasonal in nature as they are dependent on weather conditions. Accordingly, the Company's sales and net earnings are generally lower in the first and fourth quarters than in the second and third.

Selected Quarterly Financial Information

Periods ended June 25, 2004 and June 27, 2003

(in thousands of \$ except per share amounts) (unaudited)

	<u>Three-Month Periods</u>		<u>Six-Month Periods</u>	
	2004	2003	2004	2003
	\$	\$	\$	\$
Sales				
• Architectural Sector	83,857	74,876	137,960	123,659
• Industrial Sector	11,625	11,186	21,085	21,789
Total	95,482	86,062	159,045	145,448
EBITDA				
• Architectural Sector	19,142	16,013	26,946	22,743
• Industrial Sector	718	550	1,450	1,412
• Head Office	(6,245)	(5,577)	(11,433)	(9,567)
Total	13,615	10,986	16,963	14,588
Net Earnings	7,975	6,775	9,150	8,779
• Basic earnings per common share	1.17	1.01	1.35	1.37
• Diluted earnings per common share	1.16	0.99	1.33	1.34
Weighted average number of outstanding common shares	6,822,128	6,725,905	6,802,568	6,417,969

Balance Sheet Data

	June 25,	December 26,
	2004	2003
	\$	\$
Total assets	209,420	188,823
Shareholders' equity	113,199	105,461
Total indebtedness*	48,292	42,437

* Including the bank loan, long-term debt and its current portion, and Class B preferred shares.

Consolidated and Segment Operating Results

Three-Month Period Ended June 25, 2004

SICO achieved sales of \$95.5 million during the second quarter of 2004, up from \$86.1 million in the same quarter last year. This \$9.4 million or 10.9% increase is attributable to PARA's contribution for the entire period, as compared to only two months in the corresponding quarter of the previous year, coupled with internal growth in both sectors of the Company.

- The **ARCHITECTURAL SECTOR's** sales grew by \$9.0 million or 12.0% to \$83.9 million, accounting for 87.8% of SICO's consolidated sales. In addition to PARA's full contribution, SICO posted solid internal growth in both the retail and professional paint markets, especially in regard to the sale of national brand products. Sales of private-label products also resumed growth, after downward adjustments to inventories made by certain major retail customers during the first quarter were partially reversed.
- The **INDUSTRIAL SECTOR's** sales rose 3.9% to \$11.6 million, due to improved market conditions in North America and recruiting new customers. It should be noted that the fluctuation in the Canadian and U.S. dollars had a negative impact of \$0.2 million on second-quarter sales. On the other hand, the Sico-Becker S.A.S. joint venture suffered a decline in sales due to difficult market conditions in Europe and the non-renewal of certain contracts.

SICO's EBITDA amounted to \$13.6 million, representing 14.3% of sales, compared with \$11.0 million or 12.8% of sales in the corresponding quarter of 2003. Both sectors improved their profitability in the second quarter.

- The **ARCHITECTURAL SECTOR's** EBITDA grew by 19.5% to \$19.1 million, up from \$16.0 million a year earlier. Its profit margin as a percentage of sales thereby rose from 21.4% in 2003 to 22.8% this year, owing to a combination of factors including PARA's solid contribution, the benefits of the operational optimization program implemented during the second half of 2003, and the greater proportion of national brand products in the sales mix. These factors more than offset the higher marketing expenses associated with the development of the new *SICO 6000* colour system and the Company's efforts to increase its market share across Canada. Moreover, the impact of the higher cost of metal cans, petroleum derivatives and titanium dioxide was minimized by the relative strength of the Canadian dollar in relation to the U.S. dollar, the procurement synergies arising from the PARA acquisition, and generally efficient management of raw materials.
- The **INDUSTRIAL SECTOR** achieved EBITDA of \$0.7 million, compared with \$0.6 million last year. This improvement is attributable to the growth of sales in North America and the impact of the streamlining and optimization measures implemented in the second half of 2003.
- The expenses associated with the Head Office's general administration (other than depreciation and amortization) rose from \$5.6 million to \$6.2 million, due to an increase in salaries, employee benefits and professional fees, most of this increase being non-recurring.

Depreciation and amortization expenses grew by less than \$0.1 million to \$1.6 million, primarily due to the amortization for the full period of the intangible assets acquired from PARA and an increase in the amortization of deferred charges, mainly related to the development of the new colour system. Part of the amortization of deferred charges was applied as a reduction of sales. It should be noted that the depreciation of fixed assets declined slightly thanks to the infrastructure optimization program.

SICO recorded financial revenues of \$0.1 million, compared with \$0.7 million in the same quarter last year, which had given rise to a \$0.8 million exchange gain on the conversion of debt and cash denominated in foreign currency. Nevertheless, the Company benefited from a reduction in financial expenses on debts due to lower average indebtedness and interest rate than the previous year.

SICO therefore posted earnings before income taxes of \$12.1 million, compared with \$10.2 million in 2003, an increase of 18.7%. The effective tax rate rose from 33.7% in 2003 to 34.3% in 2004 as a result of a reduction in future tax balances in 2003, following a decline in average statutory rates.

Consequently, SICO achieved quarterly net earnings of \$8.0 million, up 17.7% over \$6.8 million in the corresponding quarter of 2003. Earnings per common share amounted to \$1.17 (\$1.16 diluted) on a weighted average of 6.8 million outstanding shares in 2004, compared with \$1.01 (\$0.99 diluted) on 6.7 million outstanding shares in 2003. The greater number of shares primarily reflects the issue of 1,000,000 common shares under a public offering completed on February 21, 2003.

Six-Month Period Ended June 25, 2004

For the first half of 2004, SICO recorded cumulative sales of \$159.0 million, compared to \$145.4 million for the same period the previous year, an increase of \$13.6 million or 9.3%.

- The **ARCHITECTURAL SECTOR**'s sales grew by \$14.3 million or 11.6% to \$138.0 million, accounting for 86.7% of consolidated sales. This increase was, for the most part, due to the addition of PARA for the full six-month period compared to only two months in 2003, together with the internal growth in national brand architectural paint sales in the retail and professional paint market. Nevertheless, the Company sustained a decline in sales of private-label paints at a major retailer customer.
- The **INDUSTRIAL SECTOR**'s sales totalled \$21.1 million, compared with \$21.8 million in 2003, a decline of 3.2%, largely due to Sico-Becker S.A.S. In addition, industrial sales had experienced a temporary boom in the first quarter of 2003, while the decline in the U.S. dollar in relation to the Canadian dollar has had a negative impact of \$0.7 million on the Sector's sales since the beginning of the year compared to the same period in 2003.

SICO's consolidated EBITDA amounted to \$17.0 million or 10.7% of sales, compared with \$14.6 million or 10.0% of sales in 2003.

- The **ARCHITECTURAL SECTOR**'s EBITDA showed a solid growth of 18.5% for a total of \$26.9 million. This solid growth is mainly due to PARA's additional contribution and the other factors described previously, including the benefits of the operational infrastructure optimization program, the larger proportion of national brand products in the sales mix, and the positive impact of the exchange rate fluctuation on the cost of certain raw materials, which offset the increase in the price of such materials. All these factors contributed to improve this Sector's gross margin.
- Despite a sales decline, the **INDUSTRIAL SECTOR** also improved its gross margin and posted a 2.7% growth in EBITDA, which amounted to \$1.5 million. This improvement was mainly due to the streamlining and optimization measures adopted last year, which enabled this Sector to increase productivity and lower costs.
- Excluding depreciation and amortization, Head Office expenses increased from \$9.6 million in 2003 to \$11.4 million in 2004. This increase, most of which is non-recurring, includes a rise in salaries, employee benefits and professional fees as well as certain expenses related to the integration of PARA.

For the full period, depreciation and amortization expenses grew by \$0.4 million to total \$3.0 million due to the previously mentioned factors. SICO recorded financial expenses of \$34,000, compared to financial revenues of \$1.5 million the previous year, were due when the Company had recorded a \$1.6 million exchange gain on the conversion of debt and cash denominated in foreign currency.

Accordingly, SICO achieved year-to-date net earnings of \$9.2 million, up 4.2% over \$8.8 million the previous year. Earnings per common share amounted to \$1.35 (\$1.33 diluted) on a weighted average of 6.8 million outstanding shares in 2004, versus \$1.37 (\$1.34 diluted) on 6.4 million shares in 2003. The larger number of shares primarily reflects the issue of 1 million common shares under a public offering completed on February 21, 2003.

Analysis of Cash Flows

Three-Month Period Ended June 25, 2004

Operating activities provided cash flows of \$9.8 million in the ***three-month period*** ended June 25, 2004, compared to a cash outflow of \$11.2 million the previous year, this improvement being partly attributable to last year's repayment of accounts payable and accrued liabilities related to the PARA acquisition as well as a reduction in inventories of raw materials. Combined with the use of some \$2.2 million of the Company's available cash, these funds were primarily used for the following purposes:

- the acquisition of \$2.1 million in new fixed assets, including the purchase of manufacturing, tinting and warehousing equipment, the development of Bétonel stores and the development of the Company's information technologies, as provided for in its \$7 million capital expenditure budget for 2004;
- a \$1.5 million increase in deferred charges, mostly for the development of a new colour system;
- a \$7.1 million repayment of the bank loan;
- the redemption and cancellation, in the normal course of business, of 34,000 common shares for a consideration of \$0.8 million; and
- the payment of a quarterly dividend of \$0.12 on common shares, for a total consideration of \$0.8 million.

Six-Month Period Ended June 25, 2004

Operating activities provided cash flows of \$1.1 million during the ***six-month period*** ended June 25, 2004, compared to a cash outflow of \$26.3 million the previous year. This improvement is partly attributable to last year's repayment of accounts payable and accrued liabilities related to the PARA acquisition, as well as a reduction in inventories of raw materials and receivables.

As described in Note 3 to the interim financial statements, since the beginning of the current year, SICO has disbursed \$0.7 million in workforce reduction costs and related expenses connected with the operational infrastructure optimization program. This outlay had no impact on results as it was drawn directly from the \$0.9 million provision recorded for that purpose in the financial statements as at December 26, 2003. The residual balance of the provision needed to cover the final optimization program outlays was also revalued downward to less than \$0.2 million as at June 25, 2004.

With regard to investing activities, SICO purchased a total of \$2.9 million in new fixed assets and invested \$2.7 million in deferred charges. The Company received \$0.6 million from the repayment of long-term receivables. With regard to financing activities, SICO increased its bank loan by \$5.9 million to cover its working capital requirements. The Company also issued 79,945 common shares for a consideration of \$0.9 million on the exercise of stock options by executives and directors. Besides the previously mentioned share redemption, for an amount of \$0.8 million, a dividend totalling \$1.6 million or \$0.24 per share was paid to common shareholders.

The various changes in cash flows described above provided funds of \$0.4 million, raising cash and cash equivalents from \$1.4 million as at December 26, 2003 to \$1.8 million as at June 25, 2004.

Financial Position as at June 25, 2004

Total assets amounted to \$209.4 million at the close of the second quarter, up 10.9% over the end of the previous year. At the same date, SICO's working capital amounted to \$62.7 million for a current ratio of 2.3:1, compared with \$55.4 million and a ratio of 2.5:1 as at December 26, 2003. The change in working capital items, including the increase in accounts receivable, inventories, accounts payable and accrued liabilities, and bank loan, is mainly attributable to the seasonal cycle in the Canadian architectural paint industry.

Long-term assets have not changed significantly since the end of last year, except for increases of \$1.0 million in the value of fixed assets and \$1.5 million in deferred charges, and a decrease of \$0.6 million in long-term accounts receivable. As at June 25, 2004, shareholders' equity amounted to \$113.2 million (compared to \$105.5 million as at December 26, 2003), and long-term debt, including its current portion, to \$35.9 million (same as at December 26, 2003). Adding the Class B preferred shares and bank loan, net of available cash, total net indebtedness increased from \$41.0 million as at December 26, 2003 (for a total net debt to invested capital ratio of 28:72), to \$46.5 million (29:71 ratio) as at June 25, 2004, this variation being due to the higher bank loan.

Requirements and Sources of Funds in 2004

Considering the favourable business environment in the Canadian architectural paint industry and the beginning of a recovery in the North American industrial metal coatings market, SICO expects to maintain a good financial performance between now and the close of the current year with regard to sales, net earnings and operating cash flows. The Company will also benefit from the successful integration of PARA, the impact of its operational infrastructure optimization program, and the other measures adopted in 2003 to improve the Industrial Sector's profitability.

The Company does not expect the upward pressure on the price of certain raw materials, especially steel, petroleum derivatives and titanium dioxide, to have a material impact on its results for the remainder of 2004.

With regard to the Company's funding requirements, other than the scheduled \$4.9 million reduction in its revolving line of credit for 2004 as a whole, capital expenditures of approximately \$7 million are planned for the current year, plus strategic investments of about \$1 million. An additional amount of \$6.7 million will be paid under long-term operating leases for premises and equipment, \$3.4 million of which was actually paid during the first half. SICO also intends to maintain its dividend policy and, as is its practice every year, will assess the opportunity to redeem common shares under its normal course issuer bid. Cash flows from operating activities should be sufficient to cover these various funding requirements.

Furthermore, as at June 25, 2004, SICO had credit facilities of approximately \$93 million of which \$71 million was available considering the financial ratios to be met. \$42.6 million were effectively used as at June 25, 2004.

Capital Stock

As at June 25, 2004, SICO's capital stock consisted of 6,800,579 issued and outstanding common shares, versus 6,754,634 shares as at December 26, 2003. Since the beginning of the current year, the Company has issued 79,945 common shares on the exercise of stock options by executives and directors. It has also redeemed 34,000 common shares for cancellation purposes under its normal course issuer bid.

Supplementary information about the stock option plan for senior officers and directors, as well as the stock purchase plan for employees, executives and directors, is presented in Note 4 to the consolidated financial statements contained in this interim report.

Contractual Obligations

Long-term operating leases for premises and equipment, as well as other commitments outstanding as at June 25, 2004, comprise the following annual minimum payments and contain the usual clauses pertaining to taxes, insurance and other expenses. The following table shows the payments required for the balance of 2004 and subsequent years:

	\$
2004 (6 months)	3,345,000
2005	5,874,000
2006	5,265,000
2007	4,828,000
2008	1,749,000
2009 (6 months)	736,000

Financial Instruments

Fair Value

The estimated fair values of cash and cash equivalents, accounts receivable, long-term receivables, bank loan, and accounts payable and accrued liabilities approximate their respective carrying values. The estimated fair value of long-term debt is not significantly different from its book value.

Derivative Financial Instruments

As at June 25, 2004, the Company did not hold and had not issued any financial instruments for trading or hedging purposes. Nevertheless, from time to time, the Company purchases forward exchange contracts to hedge against the risk associated with purchases of goods made in U.S. dollars.

Risks and Uncertainties

There have been no major changes in the risks and uncertainties to which the Company is exposed as set forth in the management's discussion and analysis contained in its annual report for the year ended December 26, 2003.

Additional Information

Additional information about the Company, including its latest annual report and annual information form, is available on SEDAR's website at www.sedar.com.

CONSOLIDATED STATEMENTS OF EARNINGS

Periods ended June 25, 2004 and June 27, 2003

(in thousands of dollars except per-share data) (unaudited)

	Three-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(restated)		(restated)
Sales	95,482	86,062	159,045	145,448
Cost of sales and operating expenses (Note 7)	81,867	75,076	142,082	130,860
Operating earnings before:	13,615	10,986	16,963	14,588
Depreciation and amortization (Note 5)	1,566	1,481	3,032	2,665
Financial (income) expenses (Note 6)	(89)	(720)	34	(1,505)
	1,477	761	3,066	1,160
Earnings before income taxes	12,138	10,225	13,897	13,428
Income taxes	4,163	3,450	4,747	4,649
Net earnings	7,975	6,775	9,150	8,779
Weighted average number of outstanding common shares	6,822,128	6,725,905	6,802,568	6,417,969
Basic earnings per share (Note 4)	1.17	1.01	1.35	1.37
Diluted earnings per share (Note 4)	1.16	0.99	1.33	1.34

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Periods ended June 25, 2004 and June 27, 2003

(in thousands of dollars) (unaudited)

	2004	2003
	\$	\$
		(restated)
Balance at beginning, previously reported	62,243	55,277
Restatement for stock-based compensation cost (Note 2)	(120)	--
Balance at beginning, restated	62,123	55,277
Net earnings	9,150	8,779
Premium on common shares redemption (Note 4)	(547)	--
Dividends on common shares	(1,638)	(1,480)
Balance at end	69,088	62,576

CONSOLIDATED BALANCE SHEETSAs at June 25, 2004 and December 26, 2003
(in thousands of dollars)

	June 25, 2004	December 26, 2003
	\$ (unaudited)	\$ (restated)
ASSETS		
Current assets		
Cash and cash equivalents	1,826	1,404
Accounts receivable	53,064	36,152
Income taxes	93	527
Inventories	49,683	45,542
Prepaid expenses	7,326	7,929
	111,992	91,554
Long-term receivables	720	1,281
Fixed assets	34,804	33,815
Deferred charges	7,386	5,874
Intangible assets	15,687	15,875
Goodwill	37,144	37,128
Future income taxes	1,687	3,296
	209,420	188,823
LIABILITIES		
Current liabilities		
Bank loan	8,615	2,769
Accounts payable and accrued liabilities	35,762	28,590
Current portion of long-term debt (Note 12)	4,877	4,750
	49,254	36,109
Long-term debt (Note 12)	31,000	31,118
Future income taxes	8,912	9,854
Accrued benefit liability	2,802	2,009
Deferred credits	453	472
Preferred Class B shares (Note 4)	3,800	3,800
	96,221	83,362
SHAREHOLDERS' EQUITY		
Capital stock (Note 4)	43,245	42,577
Contributed surplus	206	120
Retained earnings	69,088	62,123
Foreign currency translation adjustment	660	641
	113,199	105,461
	209,420	188,823

CONSOLIDATED STATEMENTS OF CASH FLOWS

Periods ended June 25, 2004 and June 27, 2003

(in thousands of dollars) (unaudited)

	Three-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(restated)		(restated)
OPERATING ACTIVITIES				
Net earnings	7,975	6,775	9,150	8,779
Adjustments for:				
Depreciation and amortization	1,702	1,568	3,275	2,837
Future income taxes	235	223	667	119
Exchange gain	(31)	(1,068)	(8)	(1,816)
(Gain) loss on disposal of assets	(3)	--	(19)	11
Excess of pension plans expense over amounts paid	417	431	793	798
Stock-based compensation cost	46	40	86	40
Other	--	--	--	22
Net change in non-cash working capital items (Note 8)	(548)	(19,126)	(12,853)	(37,128)
Cash flow from (applied to) operating activities	9,793	(11,157)	1,091	(26,338)
INVESTING ACTIVITIES				
Acquisitions of fixed assets	(2,104)	(660)	(2,928)	(1,465)
Business acquisition net of cash acquired	--	(13,929)	--	(13,929)
Disposal of Hancock Paint Inc. assets	--	758	--	2,721
Deferred charges	(1,450)	(209)	(2,681)	(1,441)
Proceeds from disposal of fixed assets	3	--	21	464
Long-term receivables	53	2	563	2
Cash flow applied to investing activities	(3,498)	(14,038)	(5,025)	(13,648)
FINANCING ACTIVITIES				
Bank loan	(7,099)	5,161	5,850	3,644
Increase in long-term debt	--	17,000	--	17,000
Reduction in long-term debt	--	(6,781)	--	(8,181)
Issue of common shares (Note 4)	155	17	884	20,418
Common share issue costs	--	9	--	(1,463)
Redemption of common shares (Note 4)	(763)	--	(763)	--
Dividends on common shares	(820)	(740)	(1,638)	(1,480)
Cash flow (applied to) from financing activities	(8,527)	14,666	4,333	29,938
Exchange gain on foreign currency denominated cash and cash equivalents				
	53	168	23	312
(Decrease) increase in cash and cash equivalents	(2,179)	(10,361)	422	(9,736)
Cash and cash equivalents at beginning	4,005	9,765	1,404	9,140
Cash and cash equivalents at end	1,826	(596)	1,826	(596)
Supplementary information				
Interest paid	404	610	819	966
Dividends paid on preferred shares	38	47	79	90
Income taxes paid	1,816	1,683	3,730	4,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements for the three-month period and the six-month period ended June 25, 2004 and June 27, 2003, included in this report are unaudited and reflect normal and recurring adjustments, which are, in the opinion of the Company, considered necessary for a fair presentation. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. However, they do not include all disclosures required under Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest Annual Report. The results of operations for the interim periods should not be considered indicative of full year results due to the seasonality of the business. These financial statements follow the same accounting policies as in the most recent annual financial statements, with the exception of the accounting changes described in Note 2.

2. ACCOUNTING CHANGES

Impairment of long-lived assets

The CICA issued Section 3063, *Impairment of long-lived assets*, which is effective for fiscal years beginning on April 1, 2003. This Section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces the write-down provisions in Section 3061, *Property, plant and equipment*. The provisions of the new Section require an impairment loss for a long-lived asset to be held and used to be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. Impairment loss is measured as the amount by which the carrying amount exceeds the fair value. The adoption of this new Section did not have any impact on the consolidated net earnings of the Company.

Asset retirement obligations

The CICA issued Handbook Section 3110, *Asset retirement obligations*. The new standard focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The standard is effective for fiscal years beginning on or after January 1, 2004. The adoption of this new Section did not have any impact on the consolidated financial statements.

Stock-based compensation and other stock-based payments

The CICA re-issued Handbook Section 3870, *Stock-based compensation and other stock-based payments*. The revised standard requires the adoption of the fair value based method for all stock-based awards effective for fiscal years beginning on or after January 1, 2004. The Company has adopted this new standard for the current fiscal year and has restated the December 26, 2003 results to account for the impact of the awards granted after January 1, 2002.

The restatement relates to the calculation of the stock-based compensation cost which is based on the Black and Scholes option pricing model using the assumptions described in Note 4c). The impact of this restatement is to recognize a cost for stock-based compensation of \$40,000 per quarter starting during the second quarter of the year ended December 26, 2003. The counterpart of this cost is accounted for in contributed surplus.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

3. CONTINUITY OF THE PROVISION FOR RESTRUCTURING EXPENSES

As at December 26, 2003, the provision for restructuring expenses amounted to \$937,000, representing workforce reduction and other restructuring expenses. Out of this amount, the Company has paid an amount of \$690,000 during the six-month period ended June 25, 2004 and has decreased the provision of \$71,000. The following table sets forth the changes in the provision for restructuring expenses:

	Workforce reduction	Other restructuring expenses	Total
	\$	\$	\$
Balance as at December 26, 2003	659	278	937
Amounts paid for the three-month period ended March 26, 2004	(358)	(177)	(535)
Balance as at March 26, 2004	301	101	402
Amounts paid for the three-month period ended June 25, 2004	(111)	(44)	(155)
Revaluation of the provision	(24)	(47)	(71)
Balance as at June 25, 2004	166	10	176

4. CAPITAL STOCK

a) Issued

	As at June 25, 2004	As at December 26, 2003
	\$	\$
6,800,579 common shares (6,754,634 as at December 26, 2003)	43,245	42,577
1,381,819 Class B preferred shares, classified as liabilities	3,800	3,800

b) Summary of common share transactions

	Number	Amount
		\$
Shares issued, December 27, 2002	5,725,379	21,622
Issued for cash from the public offering	1,000,000	20,400
Exercise of stock options	29,989	331
Stock purchase plan for employees, executives and directors	12,266	306
Redemption of shares	(13,000)	(82)
Shares issued, December 26, 2003	6,754,634	42,577
Exercise of stock options	79,945	884
Redemption of shares ⁽¹⁾	(34,000)	(216)
Shares issued, June 25, 2004	6,800,579	43,245

⁽¹⁾ During the six-month period ended June 25, 2004, the Company repurchased and cancelled 34,000 common shares for a net cash consideration of \$763,000, including redemption fees. The excess of \$547,000 over paid-up capital of the shares was recorded as a decrease in retained earnings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

4. CAPITAL STOCK (continued)

c) Stock option plan

Under the stock option plan for senior management of the Company, the Board of Directors may, at its discretion, grant options to purchase common shares of the Company to certain officers and designated executives. The exercise price is established by the Board of Directors but may not be lower than the closing price of a regular lot of the Company's common shares on the Toronto Stock Exchange on the last trading day preceding the grant date. Options vest over a four-year period from the date of grant at a rate of 20% per year and must be exercised within a ten-year period, except in the event of retirement, termination of employment or death. As at June 25, 2004, 451,342 common shares (531,287 common shares as at December 26, 2003) were reserved for issuance under this plan.

The following table presents information concerning all stock options granted by the Company:

	For the six-month period ended June 25, 2004		Year ended December 26, 2003	
	Number of options	Weighted average exercise price per share	Number of options	Weighted average exercise price per share
		\$		\$
Outstanding at beginning	349,082	15.15	247,896	11.03
Granted	34,000	21.75	131,175	21.99
Exercised	(79,945)	11.06	(29,989)	11.01
Outstanding at end	303,137	16.97	349,082	15.15

The outstanding stock options granted to certain members of senior management of the Company at June 25, 2004, are as follows:

Options issued	Options exercisable	Weighted average exercise price per share	Weighted average remaining contractual life (years)
		\$	
1,500	1,500	10.00	0.2
18,601	18,601	8.88	1.2
25,900	25,900	6.55	2.2
48,000	48,000	10.50	2.8
20,042	20,042	13.25	3.2
10,812	10,812	16.00	4.8
13,512	13,512	17.50	5.1
130,770	52,065	21.99	8.9
34,000	6,800	21.75	9.9
303,137	197,232	16.97	6.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

4. CAPITAL STOCK (continued)

c) Stock option plan (continued)

The stock-based compensation cost charged to earnings only reflects the impact of the awards granted to employees after January 1, 2002. The stock-based compensation cost has been calculated using the Black and Scholes option pricing model using the following assumptions:

Options granted in 2003:

Weighted-average fair value of options at the date of the grant	\$6.14
Risk-free interest rate	3.85%
Dividend yield	2.01%
Expected volatility	32%
Expected life	5 years

Options granted in 2004:

Weighted-average fair value of options at the date of the grant	\$4.84
Risk-free interest rate	3.77%
Dividend yield	2.20%
Expected volatility	25%
Expected life	5 years

The stock-based compensation cost charged to earnings for the awards granted to employees is as follows :

Three-month periods		Six-month periods	
2004	2003	2004	2003
\$	\$	\$	\$
46	40	86	40

The counterpart has been accounted for in the contributed surplus.

d) Stock purchase plan for employees, executives and directors

This stock purchase plan was set up to allow employees, executives and directors of the Company to purchase shares of the Company's capital stock. The subscription price of the common shares is equal to the average market closing price during the last five days of trading prior to the issue date of the common shares offered. Under the plan, the maximum number of shares offered annually is 25,000 shares, and the remaining number of shares offered as at June 25, 2004 and December 26, 2003 is 96,374 shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

4. CAPITAL STOCK (continued)

e) Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

	Three-month period ended June 25, 2004	Three-month period ended June 27, 2003
	\$	\$
Numerator:		
Net earnings	7,975	6,775
Denominator:		
Denominator for basic earnings per share – weighted average number of shares	6,822,128	6,725,905
Dilutive effect of stock options	81,441	121,093
Denominator for diluted earnings per share – weighted average number of shares and assumed conversions	6,903,569	6,846,998
Basic earnings per share	1.17	1.01
Diluted earnings per share	1.16	0.99
	Six-month period ended June 25, 2004	Six-month period ended June 27, 2003
	\$	\$
Numerator:		
Net earnings	9,150	8,779
Denominator:		
Denominator for basic earnings per share – weighted average number of shares	6,802,568	6,417,969
Dilutive effect of stock options	92,665	121,190
Denominator for diluted earnings per share – weighted average number of shares and assumed conversions	6,895,233	6,539,159
Basic earnings per share	1.35	1.37
Diluted earnings per share	1.33	1.34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

5. DEPRECIATION AND AMORTIZATION

	Three-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
Fixed assets	975	1,076	1,937	2,038
Deferred charges ⁽¹⁾	643	501	1,169	818
Customer relationships	94	--	188	--
Deferred credits	(10)	(9)	(19)	(19)
	1,702	1,568	3,275	2,837

⁽¹⁾ During the three-month period and six-month period ended June 25, 2004, amounts of \$136,000 (\$87,000 as at June 27, 2003) and \$243,000 (\$172,000 as at June 27, 2003) respectively, representing amortization related to deferred charges were applied as a reduction of sales.

6. FINANCIAL (INCOME) EXPENSES

	Three-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
Interest	419	579	824	837
Dividends on preferred Class B shares	38	47	79	90
Cash discounts	(498)	(516)	(833)	(833)
Foreign currency translation gain	(48)	(830)	(36)	(1,599)
	(89)	(720)	34	(1,505)

7. RESEARCH

	Three-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
Research expenses	993	1,057	1,942	2,054
Tax credits	(88)	(89)	(176)	(177)
	905	968	1,766	1,877

Research expenses are shown under "Cost of sales and operating expenses". Some of these expenses qualify for tax credits, which are applied against these expenses.

8. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Three-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
Accounts receivable	(7,759)	(4,786)	(16,897)	(20,400)
Inventories	2,081	(4,410)	(4,126)	(11,898)
Prepaid expenses	565	(101)	603	149
Accounts payable and accrued liabilities	2,449	(11,329)	7,135	(5,176)
Income taxes	2,116	1,500	432	197
	(548)	(19,126)	(12,853)	(37,128)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

9. EMPLOYEE FUTURE BENEFITS

The Company maintains primarily defined benefit pension plans for most of its employees. The other plans relate to other retirement benefits, primarily life insurance, offered by the Company to its employees.

The net expense recognized during the three-month period and the six-month period ended June 25, 2004 and June 27, 2003 is as follows:

	Pension plans		Other plans	
	Three-month periods		Three-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	548	483	12	11
Interest cost	981	950	17	19
Expected return on plan assets	(947)	(961)	--	--
Amortization of transitional (asset) obligation	(70)	(70)	10	13
Amortization of actuarial loss	13	46	7	8
Adjustment of the valuation allowance on accrued benefit asset	39	12	--	--
	564	460	46	51

	Pension plans		Other plans	
	Six-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	1,126	966	24	23
Interest cost	1,962	1,900	31	38
Expected return on plan assets	(1,894)	(1,922)	--	--
Amortization of transitional (asset) obligation	(140)	(140)	20	25
Amortization of actuarial loss	26	92	14	17
Adjustment of the valuation allowance on accrued benefit asset	78	24	--	--
	1,158	920	89	103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

10. SEGMENTED INFORMATION

The Company has two business units organized by products. The Company assesses the performance of the business units based on the following items: sales, operating earnings before depreciation and amortization, financial (income) expenses and income taxes and operating earnings before financial (income) expenses and income taxes. Each business unit, except for the Head Office segment, includes activities related to manufacturing, sales and distribution of paints and coatings. Management of cash and cash equivalents, as well as other activities related to the corporate strategies with regard to manufacturing and market development are part of the Head Office segment. The allocation of the expenses of this segment would not assist in the evaluation of the contribution of the other segments.

	Architectural	Industrial	Head Office	Total
	\$	\$	\$	\$
As at and for the three-month period ended June 25, 2004				
Sales	83,857	11,625	--	95,482
Operating earnings before depreciation and amortization, financial (income) expenses and income taxes	19,142	718	(6,245)	13,615
Depreciation and amortization	1,133	157	276	1,566
Operating earnings before financial (income) expenses and income taxes	18,009	561	(6,521)	12,049
Total assets	163,669	36,377	9,374	209,420
Acquisitions of fixed assets	1,408	312	384	2,104
As at and for the three-month period ended June 27, 2003				
Sales	74,876	11,186	--	86,062
Operating earnings before depreciation and amortization, financial (income) expenses and income taxes	16,013	550	(5,577) ⁽¹⁾	10,986 ⁽¹⁾
Depreciation and amortization	1,040	212	229	1,481
Operating earnings before financial (income) expenses and income taxes	14,973	338	(5,806) ⁽¹⁾	9,505 ⁽¹⁾
Total assets	178,638	45,066	9,537	233,241
Acquisitions of fixed assets	273	106	281	660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

10. SEGMENTED INFORMATION (continued)

	Architectural	Industrial	Head Office	Total
	\$	\$	\$	\$
As at and for the six-month period ended June 25, 2004				
Sales	137,960	21,085	--	159,045
Operating earnings before depreciation and amortization, financial (income) expenses and income taxes	26,946	1,450	(11,433)	16,963
Depreciation and amortization	2,184	320	528	3,032
Operating earnings before financial (income) expenses and income taxes	24,762	1,130	(11,961)	13,931
Total assets	163,669	36,377	9,374	209,420
Acquisitions of fixed assets	1,932	402	594	2,928
As at and for the six-month period ended June 27, 2003				
Sales	123,659	21,789	--	145,448
Operating earnings before depreciation and amortization, financial (income) expenses and income taxes	22,743	1,412	(9,567) ⁽¹⁾	14,588 ⁽¹⁾
Depreciation and amortization	1,829	426	410	2,665
Operating earnings before financial (income) expenses and income taxes	20,914	986	(9,977) ⁽¹⁾	11,923 ⁽¹⁾
Total assets	178,638	45,066	9,537	233,241
Acquisitions of fixed assets	556	272	637	1,465

Geographical Information

	Three-month periods		Six-month periods	
	2004	2003	2004	2003
	\$	\$	\$	\$
Sales				
Canada	92,028	81,456	152,028	136,493
Other countries	3,454	4,606	7,017	8,955
	95,482	86,062	159,045	145,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended June 25, 2004 and June 27, 2003

(tabular amounts are in thousands of dollars, except per-share data) (unaudited)

10. SEGMENTED INFORMATION (continued)

Geographical Information (continued)

	As at June 25, 2004			As at June 27, 2003		
	Total assets	Fixed assets	Goodwill	Total assets	Fixed assets	Goodwill
	\$	\$	\$	\$	\$	\$
Canada	193,679	33,908	27,749	216,990	39,329	26,473
United States	8,445	685	5,943	8,253	822	5,921
France	6,327	68	3,424	6,065	15	3,228
Other countries	969	143	28	1,933	160	28
	209,420	34,804	37,144	233,241	40,326	35,650

(1) Restated as described in Note 2.

11. WEATHER AND SEASONALITY

Exterior paint products are subject to specific application requirements related to weather conditions. The sales volume of such products, which account for approximately 20% of the paint sales of the Company's architectural sector, is dependent upon weather conditions and may be materially adversely affected by unfavorable weather conditions persisting for several days or weeks.

Furthermore, the sale of exterior products is seasonal in nature. Sales of such products in the second and third quarters are historically significantly higher than sales in the first and fourth quarters and, consequently, net earnings are significantly higher in those quarters. Variable costs may be managed according to the seasonal pattern. However, a significant portion of the Company's costs may not be adjusted for seasonality.

12. LONG-TERM DEBT

Following a revision of the interpretation of the clauses of repayment of the long-term debt, the current portion of long-term debt as at December 26, 2003 was modified from \$11,875,000 to \$4,750,000 and the long-term debt was increased from \$23,993,000 to \$31,118,000.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2004.