

## *2006: A YEAR OF BUILDING VALUE*

>> SHAWCOR LTD. >> ENERGY SERVICES >> GLOBAL SOLUTIONS >> 2006 ANNUAL REPORT >>



SHAWCOR LTD. is a growth-oriented, global energy services company specializing in technology-based products and services for the pipeline and pipe services and the petrochemical and industrial markets. The company operates through six divisions with over sixty manufacturing and service facilities located around the world.



## PIPELINE AND PIPE SERVICES

### BREDERO SHAW

- Pipeline Corrosion Protection Coatings
- Insulation and Weight Coatings
- Flow Efficiency Coatings

### CANUSA-CPS

- Pipeline Joint Protection Systems
- Heat Shrinkable Sleeves
- Pipe Coating Materials

### SHAW PIPELINE SERVICES

- Ultrasonic and Radiographic Pipeline Weld Inspection

### GUARDIAN

- Drill Pipe/Tubular Inspection and Refurbishment
- Tubular Inventory

## PETROCHEMICAL AND INDUSTRIAL

### DSG-CANUSA

- Heat Shrink Tubing for Sealing and Protection

### SHAWFLEX

- Control and Instrumentation Wire and Cable

- *\$1.1 BILLION ANNUAL REVENUE*
- *5,200 EMPLOYEES WORLDWIDE*
- *\$1.8 BILLION MARKET CAPITALIZATION*
- *SIX RELATED BUSINESSES ALL RANKED #1 OR #2*

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BUSINESS SEGMENT REVENUE SPLIT



GEOGRAPHIC REVENUE SPLIT

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**SHAWCOR HAS A STRONG BALANCE SHEET WITH THE FINANCIAL CAPACITY TO FUND SIGNIFICANT INTERNAL AND EXTERNAL OPPORTUNITIES AS THEY ARISE, PROVIDING THE POTENTIAL FOR ROBUST GROWTH IN THE FUTURE.**



Bredero Shaw coated pipe for Langed Project at Farsund, Norway.

## FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per share amounts)

### OPERATING RESULTS

	2006	2005
Revenue	\$ 1,059,619	\$1,012,453
EBITDA (Note 1)	\$ 183,705	\$ 140,214
Operating income from continuing operations	\$ 138,780	\$ 95,454
Income from continuing operations for the year	\$ 92,924	\$ 82,790
Income (loss) from discontinued operations for the year	\$ (289)	\$ 56,050
Net income for the year	\$ 92,635	\$ 138,840

### Earnings per share, Class A and Class B – Basic and diluted

From continuing operations	\$ 1.25	\$ 1.10
From discontinued operations	\$ —	\$ 0.75
Total	\$ 1.25	\$ 1.85

### CASH FLOW

Cash provided by continuing operating activities	\$ 183,585	\$ 79,890
Additions to property, plant and equipment	\$ 60,692	\$ 38,141

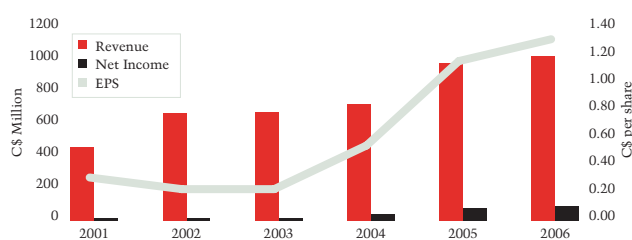
### FINANCIAL POSITION

Working capital	\$ 347,008	\$ 274,103
Total assets	\$ 1,008,026	\$ 919,846
Shareholders' equity per share (Class A and Class B) (Note 2)	\$ 8.51	\$ 7.22

Note 1: EBITDA is a non-GAAP measure calculated by adding back to net income from continuing operations, taxes, net interest, and amortization of property, plant and equipment.

Note 2: Shareholders' equity per share is a non-GAAP measure calculated by dividing shareholders' equity by the number of Class A and Class B shares outstanding at the date of the balance sheet.

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**SHAWCOR PERFORMANCE TRENDS**  
From continuing operations

## MESSAGE TO OUR SHAREHOLDERS



**William P. Buckley**  
President and  
Chief Executive Officer



**Virginia L. Shaw**  
Chair of the Board

### 2006 IN PERSPECTIVE

For ShawCor, 2006 marked the second consecutive year of record revenue, record income from continuing operations and record operating cash flow. This success was a result of ongoing progress with programs that concentrated on the achievement of the Company's growth and profitability objectives. The efforts of management and employees in each of the Company's six divisions were focused on building value for all ShawCor stakeholders. Their dedication and hard work resulted in the creation of record value during 2006 as measured by the 61 percent increase in the closing price of the Company's Class A shares on the last trading day in

2006 (\$25.05) versus the last trading day in 2005 (\$15.56).

Overall, ShawCor established another record for revenue in 2006 at just under \$1.1 billion, an increase of 4.7 percent over the prior year. Record net income from continuing operations of \$92.9 million in 2006 increased by 44.3 percent in comparison to \$64.4 million in 2005, after excluding a tax loss recovery of \$18.4 million. All divisions performed strongly during 2006, contributing to the overall increase in operating income of 45.4 percent recorded by the Company on a year-over-year basis. Performance in the Pipeline and Pipe Services segment continued to improve with operating income rising by

37.9 percent during the year while operating income in the Petrochemical and Industrial segment rose by 61.0 percent in comparison to the prior year.

At Bredero Shaw, coating for the Langede Pipeline System and the Balgzand to Bacton Pipeline in the North Sea was completed early in 2006 and the division was successful in securing several key, large diameter projects in the Americas and Middle East regions including the Rockies Express, Southern Access, Corridor, TMX, Waupisoo, Tyrihans, KOC Crude Oil Export and Aramco Khurais projects. Coating for several of these projects began during the second half of the year and will continue during 2007.

During 2006, Bredero Shaw continued to strengthen its global management capability through transfers within ShawCor and the addition of experienced personnel from outside the organization. The ongoing improvement in the division's competitive capability, based on new product development initiatives, additional marketing resources and improved operations execution skills, contributed to the growth in operating income on a year-over-year basis.

Natural gas is perceived by many to be the clean fuel of the future. Global demand growth is leading to an accelerating need for new pipeline infrastructure in most of the regions of the world where gas reserves

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**\$1.1 BILLION**

IN 2006 REVENUE, A  
4.7% INCREASE  
OVER 2005

**45.4%** INCREASE

IN OPERATING INCOME  
FROM CONTINUING  
OPERATIONS

**\$184 MILLION**

IN CASH FLOW PROVIDED BY  
CONTINUING OPERATING  
ACTIVITIES

are plentiful or where rising demand is concentrated. In addition, most of the easy oil and gas has already been discovered with the result that producers are focusing their exploration activities on frontier reserves including the oil sands, offshore and deepwater fields where new pipe coating technologies will be required to ensure successful production. The need for additional gas transportation capacity and new pipelines to link frontier oil and gas reserves to markets has led to the announcement of a large number of new pipeline projects which are slated for construction beginning in 2007 with activity levels rising from 2008 through 2010 and beyond. The combined requirements for the large

diameter pipe needed for these projects will strain the capacity of traditional pipe suppliers in most of these markets. As a result, many pipe mills are investing to increase capacity at existing facilities or adding capacity in new facilities.

One example of such an investment is the new, large diameter pipe mill constructed by Oregon Steel Mills, Inc. at its facility in Portland, Oregon. In cooperation with Oregon Steel, Bredero Shaw has established a new, external fusion bond epoxy (FBE) anticorrosion coating and internal lining facility adjacent to the pipe mill. This new pipe mill has already secured a portion of the initial phase of the Rockies Express Project with

### **CORPORATE LONG-TERM GOALS**

- **Maintain 15% Return on Equity**
- **Achieve 15% Net Income Growth**
- **Commit to Incident and Injury Free (IIF) Environment within ShawCor**
- **Challenge Each Division to be #1 or #2 in its Respective Market(s)**
- **Improve Execution Capability by Driving Accountability and Responsibility Principles Down Through Organization**
- **Continue Flow of New Product Introductions**
- **Drive Toward "Lowest Cost Producer" Status Through Successful Implementation of ShawCor Manufacturing System (SMS)**
- **Dedicate Resources to Ensure Adequate Governance and Internal Controls are in Place**
- **Provide a Workplace and Career Growth Environment That Will Attract and Retain Top Caliber Employees**

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**61%** YEAR-OVER-YEAR INCREASE IN VALUE OF CLASS A SHARES

**DOUBLED** DIVIDEND AND CHANGED TO QUARTERLY PAYMENTS

**SHARE BUY-BACK** OF 1.5 MILLION CLASS A SHARES UNDER NORMAL COURSE ISSUER BID IN 2005-2006

## MESSAGE TO OUR SHAREHOLDERS (CONT'D)

additional pipe being produced at Oregon Steel's pipe mill in Camrose, Alberta. Installation of the new Portland coating facility means that Bredero Shaw will coat the majority of the pipe for this project and is well positioned to participate in the future growth in this region.

Bredero Shaw also continued to expand its geographic market position with the completion of the acquisition of a 50 percent interest in Eupec Brasil Ltda. (since renamed Bredero Shaw Revestimentos de Tubos Ltda.) in Belo Horizonte, Brazil. The anticorrosion capabilities of this business have been combined with the insulation capabilities of Thermotite de Brasil

Ltda., resulting in a 50 percent interest in a joint venture that is able to offer a full range of anticorrosion and insulation products on pipe manufactured by the adjacent Vallourec & Mannesmann pipe mill.

### **2007 LOOKING FORWARD**

In the long term, strong energy industry fundamentals including growth in demand for oil and natural gas, depletion of existing reserves and the discovery of new reserves in remote locations will continue to drive increased investment in pipeline infrastructure in the future.

Significant investment and promotion of alternative energy (wind, solar, biomass and other renewables) will

lead to rapid growth in developed markets. With their small initial capacity, these resources will not likely play a significant role in world energy supply prior to 2030. Natural gas and oil will continue to account for approximately 60 percent of total energy demand during this period. Imported LNG will account for an increasing proportion of gas consumed in developed countries, reaching approximately 20 percent of consumption in OECD countries by 2010 where the main drivers of growth will be power generation and industrial uses. New, approved LNG facilities, including liquefaction plants in the producing regions and regasification terminals close to end use markets, are estimated to

require close to 7,000 km of associated pipelines that will require coating and lining prior to installation.

Continuation of the strong energy industry fundamentals will provide significant growth potential for ShawCor's six businesses which are positioned to take advantage of these opportunities over the next decade. ShawCor's financial strength, focus on early involvement in client projects, unique highly differentiated products and services, strong emphasis on continuous improvement programs to achieve lowest cost producer status and continuing pursuit of an Incident and Injury Free (IIF) work environment all ensure that the Company

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## SHAWCOR

MARKETING FOCUSES ON  
EARLY INVOLVEMENT AND  
CLOSE CONTACT WITH  
CUSTOMERS

## DIFFERENTIATED

PRODUCTS ALLOW SHAWCOR TO  
MEET CUSTOMER NEEDS AT  
LOWEST INSTALLED COST

## SHAWCOR

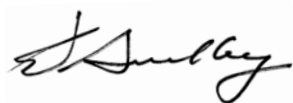
MANUFACTURING SYSTEM  
(SMS) IS USED TO  
ACHIEVE OPERATIONAL  
EXCELLENCE



will continue to be the leader in its field.

Based upon the record results achieved in 2006, ShawCor has clearly demonstrated a culture of growth and value creation that is shared by every one of the Company's 5,200 employees around the world. Fundamental to this culture is the dedication and commitment of all ShawCor employees to the continued achievement of progress toward the goals and objectives established by Les Shaw during his fifty-six years with the Company. His presence will be strongly missed but his vision will continue to guide all of us who are committed to making ShawCor an even stronger and more highly valued energy serv-

ices company in the years ahead. ShawCor is well served by its dedicated Board of Directors. We would like to acknowledge the contributions of John J. (Jack) Murphy who completed an eight year period of service as a Director of the Company in May 2006.



William P. Buckley  
President and  
Chief Executive Officer



Virginia L. Shaw  
Chair of the Board

## IN MEMORIAM



**Leslie Earl (Les) Shaw**  
1927–2007

*It is with deep sadness the thirty-eighth annual report for ShawCor Ltd. contains the message that the Chairman of the Company for the past twenty-two years, Leslie Earl Shaw, passed away on January 17, 2007 at the age of 79 years. Les joined the Shaw Family Group of Companies at the age of 23 and was employed by them throughout his career. Beginning with pipeline construction and pipe coatings, Les presided over the growth of what has become a leading Canadian energy service company with revenue of \$1.1 billion and operations at more than sixty facilities worldwide.*

*As a young man, Les Shaw had a dream of building a world-class pipe coating operation. His entrepreneurial vision, commitment to technology and steadfast dedication allowed him to realize much more. For over half a century, Les has led the growth and diversification of ShawCor's products and services and its expansion around the world. Along the way, Les Shaw's pioneering attitude earned him the respect of business leaders in the oil and gas industry, while his warm and generous spirit garnered him the admiration of friends, employees and customers alike.*

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## NEW COATING

FACILITIES MOBILIZED  
IN PORTLAND, OREGON;  
CAMROSE, ALBERTA  
AND KABIL, INDONESIA

## 50% INTEREST

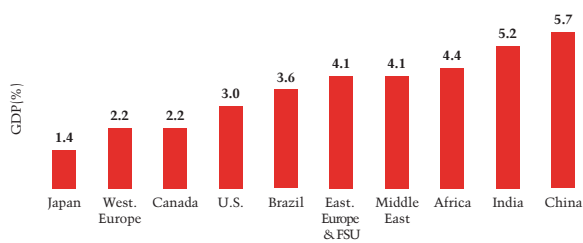
ACQUIRED IN BREDERO  
SHAW REVESTIMENTOS DE  
TUBOS LTDA. IN BRAZIL

## NEW PIPE COATING

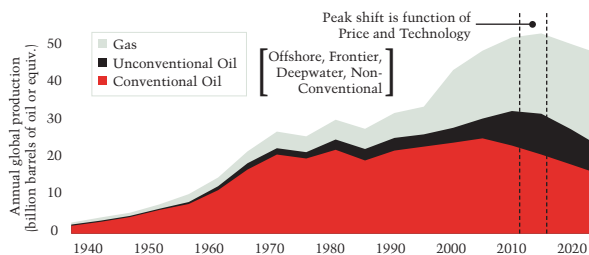
ORDERS INCLUDE: ROCKIES  
EXPRESS, SOUTHERN ACCESS,  
CORRIDOR, TMX, WAUPISOO,  
TYRIHANS, KOC, KHURAI  
AND MEDGAZ



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**FORECAST BY COUNTRY 2005-2030**  
Economic growth and energy demand growth are linked  
Source: EIA



**ENERGY SOURCES**  
New energy sources are required  
Source: C Campbell



## BUSINESS DRIVERS

**SHAWCOR'S BUSINESS DRIVERS INCLUDE GLOBAL ECONOMIC EXPANSION, ENERGY DEMAND GROWTH AND THE DEPLETION AND SUPPLY REPLACEMENT OF HYDROCARBON RESOURCES. SHAWCOR'S PRIMARY MARKETS FOCUS ON PRODUCTS AND SERVICES THAT PLAY KEY ROLES DURING THE CONSTRUCTION OF NEW PIPELINES WHICH DELIVER OIL AND GAS FROM THE WELLHEAD TO THE END USER.**



Bredero Shaw Hevicote on world's longest subsea pipeline in the North Sea.

The ongoing expansion of global economies and the associated investment in industrial growth and pipeline infrastructure development continued to fuel ShawCor's growth in 2006. Projections for real global GDP growth remain strong at an average increase of 3.8 percent per year during the period through 2030 and mark an unprecedented period of sustained economic growth. The outlook for the developing economies of China, India, other countries in the Far East, the Middle East, Africa, Latin America and Eastern Europe is stronger still, with forecast annual GDP growth averaging 5.0 percent per year over the same period. With a broad global presence and over 75 percent of revenue derived from outside Canada,

ShawCor is well positioned to participate in these growth opportunities.

Worldwide energy demand continued to increase in 2006 and is expected to grow at an average rate of 1.9 percent per year through 2030. The need for new energy resources to meet demand growth in developed economies is primarily due to accelerating depletion of existing supplies while demand growth in emerging economies is due to rapid growth in energy consumption. Although fossil fuels will continue to dominate the energy supply mix through 2030, natural gas will become increasingly important as the transition fuel of the future. Overall, world energy consumption is forecast to increase by 61.6 percent during this period with oil consumption

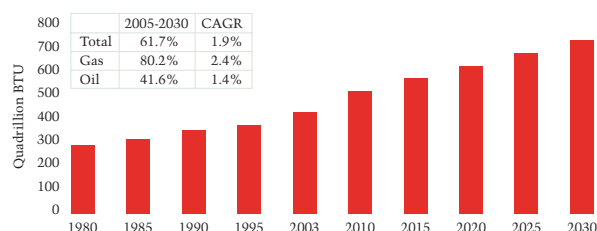
increasing by 40.7 percent and natural gas consumption increasing by 82.6 percent over 2005 levels. Despite significant investment and promotion, alternative energy sources are not expected to play a major role in world energy supply during the foreseeable future.

Coupled with the more rapid depletion of existing reserves and the discovery of new reserves in more remote locations, the projected growth in demand for oil and natural gas will continue to drive increased investment in pipeline infrastructure in the future. Rising concerns over the security of national energy supplies have also created the need for additional pipeline routes and capacity to gain direct access to both existing and new energy reserves. In addition,

recent escalations in energy prices, which have brought oil to market levels in excess of US\$50 per barrel and natural gas prices in excess of US\$6 per Mcf, have made previously uncompetitive energy sources, such as frontier gas, oil sands and deepwater reserves, economically viable.

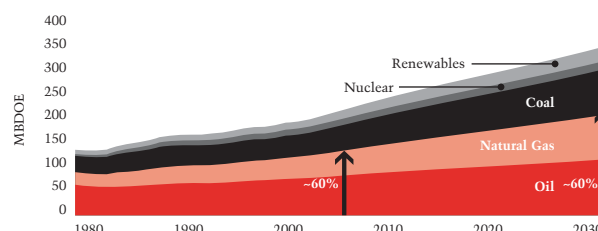
With rapid global economic expansion, high energy demand growth and a continuing need to replace depleted hydrocarbon resources, each of ShawCor's business drivers are expected to provide a strong impetus to revenue and profitability growth for the foreseeable future.

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**ENERGY DEMAND GROWTH**  
Global expansion drives energy demand growth

Source: EIA



**OIL AND GAS DEMAND GROWTH**  
Oil and gas demand growth drives new pipelines

Source: EIA



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*Shaw Pipeline Services demonstrates improved inspection capabilities through its new Hybrid Phased Array inspection system.*



*Canusa-CPS's new MIS-65 Mastic Infill System for offshore lay barge applications.*

## INNOVATIVE SOLUTIONS

**LEVERAGING SHARED TECHNOLOGIES IN ADHESIVES, CORROSION PROTECTION, POLYMER PROCESSING, CROSS-LINKING AND THERMAL INSULATION, SHAWCOR'S CONTINUING INVESTMENT IN RESEARCH, DEVELOPMENT AND ENGINEERING PROVIDES A TECHNOLOGY LEADERSHIP POSITION WHICH ENSURES THAT EACH DIVISION HAS A SUSTAINABLE COMPETITIVE ADVANTAGE IN THE MARKETPLACE.**

ShawCor is firmly committed to meeting clients' existing needs and also to anticipating future challenges. Each of ShawCor's six divisions utilize unique, proprietary technologies to provide customers with highly differentiated products and services. Through a consistent focus on new product introductions, ShawCor is also able to counter the commoditization of more traditional products and to improve the profitability of its product and service offerings.

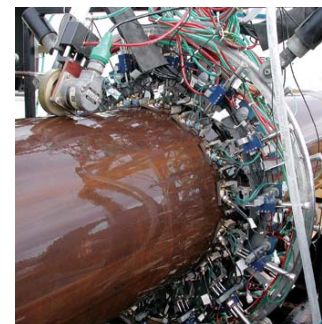
To maintain a technology gap with competitors, ShawCor's divisions employ a client-centered approach to each served market. A focus on early involvement with clients allows the divisions to form stronger customer relationships at all organizational levels. This proactive approach ensures a better understanding of clients' product and service require-

ments at the early stages of new projects. Innovative and proprietary products and services are developed through the application of world-class research and development resources utilizing a thorough understanding of customer needs. These product and service solutions are brought to market based upon the improved execution capabilities provided by the ShawCor Manufacturing System (SMS) which delivers value-added products and services to clients at the lowest installed cost.

At Bredero Shaw, new, frontier and offshore energy sources continue to require innovative solutions that address challenges imposed by the strenuous operating conditions found in remote regions of the world. New technologies such as strain-based designs for cold climate pipelines, high performance insulation coatings for ultra-deepwater projects and new

requirements for negative buoyancy and flow assurance applications continue to drive the division's new product development programs. Changes to environmental standards are also causing a need to replace previously accepted coating methods and materials. These requirements have led to the successful launch of eight new coating products in 2006, with a portfolio of several additional products under development for release in the near term.

Other ShawCor divisions made equal strides developing and commercializing eighteen innovative new products during 2006. In the Pipeline and Pipe Services segment, Canusa-CPS successfully expanded its polypropylene sleeve line and introduced a performance enhanced polypropylene adhesive for specific client projects in developing regions. Shaw



Shaw Pipeline Services' full body ultrasonic weld inspection system.

Pipeline Services completed the development of a new hybrid phased array inspection system for the highly demanding offshore inspection market and released a prototype unit for customer field testing. Similarly, Guardian continued to enhance its leadership position with the division's internet-based tubular products inventory management system.

In the Petrochemical and Industrial segment, ShawFlex continued to develop unique product solutions that withstand the low temperatures and harsh operational conditions found in Canadian oil sands applications. DSG-Canusa also brought innovative solutions to market in the form of new, water blocking heat shrink products to continue its growth in the highly competitive automotive industry.

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*DSG-Canusa's Coldmelt products provide automotive customers with unique water blocking solutions.*



*Canusa-CPS's GTS-PP heat shrinkable sleeves provide superior joint protection on an offshore project in Brazil.*



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*Thermotite injection  
moulded field joints  
on pipe being loaded  
onto a reel ship  
in Brazil.*



*Bredero Shaw  
wrapped concrete  
coating technology  
at the APCO joint  
venture facility in  
Jubail, Saudi Arabia.*



## EXPANDING HORIZONS

*IN 2006, SHAWCOR CONTINUED TO LEVERAGE ITS STRONG FINANCIAL POSITION TO EXPAND THROUGH THE STRATEGIC DEPLOYMENT OF CAPITAL RESOURCES IN HIGH-VALUE PROJECTS AND MARKETS. GROWTH OPPORTUNITIES WERE EVALUATED AND PURSUED ACROSS ALL DIVISIONS TO DEVELOP NEW PRODUCTS AND SERVICES, EXPAND GLOBAL REACH, IMPROVE PROCESS CAPABILITIES, ADD MANUFACTURING CAPACITY AND ACQUIRE COMPLEMENTARY BUSINESSES OF STRATEGIC VALUE.*

At Bredero Shaw, a wide range of expansion initiatives were undertaken in 2006 to grow the division's global pipe coating operations. In the Americas region, several key large diameter projects were secured, supporting an investment of over \$38 million to expand pipe coating operations in Camrose, Alberta and upgrade other coating facilities in Western Canada. The division increased its presence in the large diameter coating market in the United States and secured a substantial backlog of large diameter work through its new coating operation and strategic partnership at Oregon Steel Mills, Inc. in Portland, Oregon. In South America, Bredero Shaw continued to expand its market reach with the acquisition of a 50% interest in Eupec Brasil Ltda. and the subsequent combination of this business, now known as

Bredero Shaw Revestimentos de Tubos Ltda., with its 50 percent interest in Thermotite Brasil Ltda., located adjacent to the Vallourec & Mannesmann pipe mill in Belo Horizonte, Brazil.

In Europe, new equipment was installed during 2006 at Thermotite Norway to provide increased insulation coating capacity. In the Middle East region, significant investment commitments were made at the Ras al Khaimah, UAE facility to meet customer demand for anticorrosion and concrete weight coatings on pipe up to 56 inches in diameter. Similar investments were made at the APCO joint venture facility in Jubail, Saudi Arabia to expand process capabilities for large diameter coatings such as required by the Khurais pipeline project for Aramco. In the Far East region, invest-

ments were made to expand the capacity and capabilities of the world's largest pipe coating facility in Kuantan, Malaysia, and to complete a new world-class anticorrosion and concrete weight coating facility which commenced full operations in Kabil, Indonesia during 2006.

At all ShawCor divisions, the pursuit of expansion and growth opportunities is a common theme. For example, Shaw Pipeline Services will expand its offshore girth weld inspection business by providing these services on additional lay barges for major offshore pipe lay contractors. Guardian has also increased its inspection and tubular repair business through the establishment of a new, highly automated inspection and premium threading facility in Nisku, Alberta.



DSG-Canusa 15 kV medium voltage termination kits.

At Canusa-CPS, investments are being made to expand process capacity through the installation of a new extrusion line in 2006 and new sheet stretching equipment which will be installed in 2007. Similar investments were made at ShawFlex to increase extrusion and cabling capacity, and to further improve customer response times. At DSG-Canusa, investments were made to optimize manufacturing assets and to develop new products in response to specific customer needs.

Through these strategic investments, ShawCor has strengthened the competitive position at each of its divisions and has prepared the Company for profitable growth as a leading global energy services provider in the years to come.

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*Guardian's new, highly automated inspection and premium threading facility in Nisku, Alberta.*



*New cabling line at ShawFlex helps the division to maintain rapid customer response times.*



# FINANCIAL OVERVIEW

*SHAWCOR'S EXTENSIVE CAPABILITIES, BROAD TECHNOLOGY BASE, GLOBAL REACH AND COMMITMENT TO CONTINUOUS IMPROVEMENT MAKE THE COMPANY AN IDEAL SUPPLIER AND PARTNER FOR THE DAY-TO-DAY AND PROJECT NEEDS OF THE ENERGY INDUSTRY.*



Field application of Canusa-CPS GTS-PP heat shrinkable sleeves in Kazakhstan.

- ShawCor's consolidated revenue reached a new record and exceeded \$1.0 billion for the second consecutive year.
- Operating income from continuing operations reached \$138.8 million, a 45.4% increase over 2005.
- Capital expenditures of \$60.7 million increased 59.1% over 2005 including pipe coating capacity expansion programs in Western Canada, Brazil and the United States.
- ShawCor's capitalization increased 15.3% in 2006, net of the repurchase and cancellation of 432,900 Class A shares under the terms of a Normal Course Issuer Bid.



REVENUE  
(\$ millions)



INCOME FROM  
CONTINUING  
OPERATIONS  
(\$ millions)



CAPITAL EXPENDITURES  
AND AMORTIZATION  
(\$ millions)

■ Capital Expenditures  
■ Amortization



CAPITALIZATION  
(\$ millions)

■ Shareholders' Equity  
■ Long-Term Debt

## MANAGEMENT'S DISCUSSION AND ANALYSIS

ShawCor Ltd. ("ShawCor" or the "Company") is a Canadian-based, growth-oriented company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the global energy industry. The Company operates through six divisions producing specialized products and providing value-added services through a network of over 60 manufacturing and service facilities located around the world.

The Pipeline and Pipe Services segment includes Bredero Shaw, Canusa-CPS, Shaw Pipeline Services and Guardian and represents the largest part of the Company's operations. Bredero Shaw provides anticorrosion, insulation and weight coating products and related services for land and marine pipelines. Canusa-CPS manufactures heat shrinkable sleeves, adhesives, sealants and liquid coatings for onshore and offshore pipeline protection and sealing systems for the oil and gas, water and district heating and cooling markets. Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services for land and marine pipelines. Guardian provides drill string inspection, refurbishment and tubular management services.

The Petrochemical and Industrial segment includes DSG-Canusa and ShawFlex. DSG-Canusa produces heat shrinkable tubing, sleeves, moulded products and kits for the utility, communications, automotive and industrial markets. ShawFlex produces specialty instrumentation and control wire and cable for the petrochemical processing, power generation, ship building and industrial markets. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline segment and are now being applied to applications in other markets.

The primary driver of demand for the Company's products and services is the level of energy industry investment in infrastructure for hydrocarbon exploration, development and transportation around the globe. This investment, in turn, is driven by global levels of economic activity, the impact of supply, demand and depletion within the hydrocarbon marketplace and the financial position of the major energy companies. All of these factors tend to be cyclical.

ShawCor has identified several factors as being critical to the long-term success of the Company. These include: the ability to quickly identify and respond to market opportunities; the development of new, superior products and services to meet the evolving needs of customers; the capability to execute projects as planned; a culture of continuous improvement and total

quality management; the maintenance of a conservative capital structure; and the recruitment, development and retention of high-caliber personnel. The Company has developed a comprehensive strategy to manage these critical success factors.

During 2006, the Company adopted the proportionate consolidation method of accounting for its 30% investment in the Arabian Pipecoating Company Limited ("APCO"). The Company previously accounted for this investment using the equity method. This change in accounting policy has been applied retroactively and as a result, revenue, operating expenses and certain balance sheet accounts for 2005 have been restated.

### 2006 FINANCIAL RESULTS

#### Revenue

Consolidated revenue for 2006 of \$1.06 billion reached a new record for the Company, increasing 5% over the level achieved in 2005. This increase is notable in light of the necessity to replace revenue due to the completion of the Langed project, which had contributed \$200.3 million in 2005. In addition, revenue was adversely impacted by a stronger Canadian dollar during the year. The majority of the Company's revenue is earned in currencies other than the Canadian dollar. A strengthening of the Canadian dollar results in lower revenue in terms of Canadian dollars than would be the case if exchange rates between the Canadian dollar and other currencies had remained unchanged. On average, the Canadian dollar was 6% higher in 2006 than in 2005 in terms of U.S. dollars, while it was 5% higher in terms of the U.K. pound and 6% higher in terms of the Euro. As a result, consolidated revenue from continuing operations for 2006 was \$41.5 million lower than would have been the case, had those foreign exchange rates not changed during the year.

Revenue for the Pipeline and Pipe Services segment totaled \$922.3 million in 2006, representing an increase of 3% from 2005, with all divisions in the segment achieving positive growth. Revenue at Bredero Shaw during the year was marginally higher than the level generated in 2005, despite the impact of the stronger Canadian dollar, as strong growth in the Americas, Far East and Middle East regions offset a revenue reduction in the Europe and Africa region.

Strong revenue growth in the Far East and Middle East regions of Bredero Shaw resulted from several major large diameter projects that were undertaken at pipe coating plants in Kuantan, Malaysia, and Kabil, Indonesia, as well as the KOC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

project that contributed revenue of \$49 million at the Ras Al Khaimah facility in the United Arab Emirates.

In the Americas region, revenue in the year increased significantly over 2005 with the growth broadly-based in Canada, the United States and Latin America. Revenue for the year at the division's Canadian operations increased as a result of growth in demand for small diameter pipe coating and the commencement of several large diameter projects. In Latin America, revenue increased with the completion of the PDEG project performed by Bredero Shaw's operations in Belo Horizonte, Brazil.

The Europe, Africa, FSU region experienced a revenue decline as a result of the completion of the Langeled project at the Farsund, Norway pipe coating plant in the first quarter of 2006. Revenue recorded in 2005 related to this project was \$200.3 million. Other divisions within the Pipeline and Pipe Services segment recorded healthy revenue growth on increasing market shares and strong global pipeline construction activity.

In the Petrochemical and Industrial segment, revenue in 2006 increased 14% over the prior year to \$138.9 million. Most of the segment's growth was attributable to an increase in ShawFlex's level of business activity in the Western Canadian oil sands market combined with the impact of higher material costs, mainly copper, that were successfully passed on to customers during the year. Revenue at DSG-Canusa increased marginally, reflecting improvements in market demand in both North America and Europe, despite the adverse impact, totaling \$4.6 million, of the stronger Canadian dollar on the translation of the Euro-based revenue of the division's European operations and on the division's mainly U.S. dollar North American revenue.

### Operating Income from Continuing Operations

Consolidated income from continuing operations before interest, income taxes and non-controlling interest increased to \$138.8 million in 2006, 45% over the level in 2005.

In the Pipeline and Pipe Services segment, operating income from continuing operations for the year of \$138.5 million (15.0% of revenue) improved 38% from the \$100.4 million (11.2% of revenue) achieved in 2005. Each of the divisions in the Pipeline and Pipe Services segment reported increased operating income over 2005. At Bredero Shaw, operating income growth resulted from the gain in operating margins (operating income from continuing operations divided by revenue). The margin improvement resulted from the fact that

the revenue from the Langeled project was replaced by higher margin project work in other regions, and the benefit of ongoing operational improvement programs, which have been implemented over the past three years. Canusa-CPS, Shaw Pipeline Services and Guardian also achieved increased operating income from continuing operations, mainly reflecting their improved revenue performance in the year.

In the Petrochemical and Industrial segment, operating income from continuing operations for the year of \$19.2 million (13.8% of sales) improved 61% from \$11.9 million (9.8% of sales) in 2005, reflecting the impact of revenue growth together with operating margin improvements at both ShawFlex and DSG-Canusa.

Financial and corporate costs include corporate expenses not charged to the operating divisions and other non-operating items including foreign exchange gains and losses on foreign currency denominated cash balances. In 2006, unallocated corporate expenses totaled \$19.9 million compared to \$16.0 million in 2005 with the increase mainly reflecting increased compensation costs in line with the Company's improved performance and increased legal and other transaction costs associated with acquisition activities. Foreign exchange gains in the year, mainly resulting from the translation of foreign cash and working capital balances, totaled \$970 thousand compared to foreign exchange losses in 2005 of \$874 thousand.

Amortization expense in 2006 totaled \$46.7 million, compared to \$43.9 million in 2005 with the increase reflecting the impact of 2005 and 2006 capital expenditures.

### Non-Operating Income and Expenses

Interest income on short-term deposits, net of interest expense on long-term debt and bank indebtedness was \$2.8 million in 2006 compared to net interest expense of \$3.4 million in 2005. The change resulted from interest earned on higher average cash balances in 2006 than in the prior year, and stemmed from the proceeds received on the sale of the OMSCO division in the fourth quarter of 2005 together with cash generated from operating activities throughout 2006. Net interest income was also positively affected by the impact of the stronger Canadian dollar in 2006 on the translation of the U.S. dollar-denominated interest expense on the Company's Senior Notes.

Income tax expense related to continuing operations totaled \$46.8 million in 2006 (33.1% of income from continuing operations before income taxes), slightly lower than the Company's

expected effective tax rate, and reflected the benefit of the utilization of previously unrecognized tax losses in the U.S., offset by the impact of losses in certain other countries, primarily Nigeria, for which the future tax benefit has not been recognized in the Company's consolidated financial statements. Income tax expense related to continuing operations totaled \$10.1 million in 2005, net of a reduction of \$18.4 million related to the utilization of prior years' income tax losses, which had not been previously recognized in the accounts.

Non-controlling interest in the earnings of non-wholly-owned subsidiary companies was \$1.8 million in 2006. In 2005, non-controlling interest in the losses of subsidiary companies was \$865 thousand, with the change in the year reflecting the impact on profits of increased business levels at those companies.

Net income from continuing operations for 2006 was \$92.9 million (\$1.25 per share) compared to \$82.8 million (\$1.10 per share) in the prior year. 2006 marked the second consecutive year of record earnings for the Company, on a continuing operations basis.

### Discontinued Operations

Losses from discontinued operations totaled \$289 thousand in 2006 representing ongoing costs related to the closed Mobile, Alabama pipe coating plant. In 2005, income from discontinued operations totaled \$56.1 million (\$0.75 per share) and was comprised of earnings of \$14.5 million from the OMSCO division until its sale to Vallourec & Mannesmann Tubes S.A. ("V&M") on September 30, 2005, and a gain of \$48.4 million, net of deferred tax expense of \$26.7 million, recorded on the sale, partially offset by operating losses for the year related to the Mobile, Alabama pipe coating plant totaling \$6.9 million.

### Net Income and Earnings per Share

Consolidated net income for 2006 totaled \$92.6 million (\$1.25 per share), compared to \$138.8 million (\$1.85 per share) in 2005. Net income in 2005 was inclusive of an after-tax gain on the sale of the OMSCO division of \$48.4 million (\$0.65 per share) and an \$18.4 million (\$0.25 per share) reduction in income tax expense from the utilization of prior year tax losses not previously recognized in the accounts.

### Cash Flows

Cash flow generated from continuing operations in 2006 totaled \$183.6 million compared to \$79.9 million in 2005 with the improvement reflecting higher profits and reduced working capital balances. The year-over-year reduction in non-cash working

capital resulted from three factors: the lower level of business activity in the fourth quarter of 2006 compared with the same quarter of last year, changes in project mix with reduced prepaid expenses and raw material inventories associated with projects at the end of 2006 compared with 2005 and increased taxes payable due to the increased profits. In 2006, reductions in non-cash working capital and other generated cash of \$42.8 million while in 2005, investments in working capital utilized \$53.0 million of cash.

Cash flow used in continuing investing activities totaled \$68.3 million in 2006, comprised of purchases of property, plant and equipment of \$60.7 million and a \$9.1 million acquisition of a joint venture interest in a pipe coating facility located in Belo Horizonte, Brazil, partially offset by proceeds of \$1.5 million on the disposal of property, plant and equipment. Major capital expenditures in the year included pipe coating capacity expansion programs in Western Canada, Brazil and the United States, including the new facility adjacent to Oregon Steel Mills' pipe mill in Portland, Oregon and the commencement of construction of a new facility in Camrose, Alberta. In 2005, cash flow generated from continuing investing activities totaled \$92.0 million. This cash flow included the cash generated from the net proceeds on the sale of the OMSCO drill pipe manufacturing division of \$129.6 million and proceeds on the disposal of property, plant and equipment of \$575 thousand as well as cash used to fund capital expenditures of \$38.1 million.

Cash flow used in continuing financing activities totaled \$14.3 million and was comprised of dividends paid to shareholders of \$9.8 million and \$7.8 million paid to repurchase 432,900 Class A shares under the Company's Normal Course Issuer Bid, partially offset by \$2.1 million received on the exercise of stock options and a \$1.2 million increase in bank indebtedness. In 2005, cash flow used in continuing financing activities totaled \$22.7 million and included \$15.1 million paid to repurchase 1,083,600 Class A shares under the Normal Course Issuer Bid, dividends paid to shareholders of \$6.6 million and a decrease in bank indebtedness of \$1.5 million, partially offset by \$634 thousand received on the exercise of stock options.

Cash flow generated from discontinued operations totaled \$3.9 million in the year and reflected proceeds recorded at the Mobile plant on the sale of equipment to other operations within the Company, partially offset by cash outflows related to ongoing costs. In 2005, cash flow used in discontinued operations totaled \$21.9 million consisting of cash outflows from

## MANAGEMENT'S DISCUSSION AND ANALYSIS

operations at the Company's OMSCO division and Mobile, Alabama pipe coating plant.

Cash and cash equivalents increased \$109.0 million during 2006 and totaled \$309.3 million at the end of the year. In 2005, cash and cash equivalents increased \$123.4 million during the year to \$200.3 million.

### Dividends

Dividends per share paid in 2006 were \$0.135 for Class A Subordinate Voting Shares (2005 – \$0.09) and \$0.1227 for Class B Multiple Voting Shares (2005 – \$0.0818). The dividend applicable to Class A shares includes a non-cumulative premium of 10% above that applicable to Class B shares. The Board of Directors determines dividend payments based on a consideration of net income over a period of years, the Company's overall financial standing and the Company's growth opportunities. During 2006, the Company commenced quarterly dividend payments. Previously, dividends were paid on a semi-annual basis.

### Liquidity and Capitalization

At December 31, 2006, the Company recorded a working capital ratio of 2.39 to 1 compared to 2.07 to 1 at December 31, 2005. Operating working capital, excluding cash and cash equivalents and working capital related to discontinued operations, of \$48.4 million decreased \$39.7 million during the year as described in the Cash Flows section.

Property, plant and equipment, net of accumulated amortization, of \$202.1 million increased \$21.1 million over the prior year reflecting capital expenditures during the year of \$60.7 million together with property, plant and equipment of \$3.6 million acquired in connection with the Company's investment in a joint venture in Brazil, partially offset by amortization for the year of \$46.7 million.

Goodwill increased \$8.6 million during the year to \$175.8 million reflecting the addition of goodwill recorded on the Company's acquisition of the interest in the Brazilian joint venture in the year, together with the impact on the translation of goodwill, of the weaker Canadian dollar at the end of the year compared to the end of the prior year.

Shareholders' equity increased \$94.7 million during the year to \$629.9 million at December 31, 2006. The stated value of capital stock increased \$2.1 million, reflecting the \$3.6 million impact of the issuance of 331,157 Class A shares on the exercise of stock options, partially offset by the \$1.4 million impact of the repurchase of 432,900 Class A shares during the year

under the Normal Course Issuer Bid. Contributed surplus increased \$1.4 million in the year, reflecting expenses recorded in the year related to stock-based compensation, reduced by the impact of the exercise of stock options in the year.

Retained earnings increased \$76.5 million in the year to \$498.0 million at December 31 reflecting net income for the year of \$92.6 million, partially offset by cash dividends paid in the year of \$9.8 million and the excess of the purchase price paid over the stated value of shares purchased under a Normal Course Issuer Bid in the amount of \$6.4 million.

The cumulative translation account was reduced by \$14.8 million in 2006 to negative \$85.5 million from negative \$100.3 million as a result of the impact of the weakening of the Canadian dollar at the end of the year, compared to the end of the prior year, on the translation of the net assets of the Company's U.S. dollar-based, self-sustaining subsidiaries. This was partially offset by the impact of the translation of the Company's U.S. dollar-denominated Senior Notes. These notes are designated as a hedge of a portion of the Company's investment in the U.S. dollar net assets of Bredero Shaw.

The Company operates in the global energy industry and as a result, the operations of the Company tend to be cyclical. In addition, the Company can undertake major pipe coating projects anywhere in the world as part of its normal operations. These factors, as well as the Company's growth initiatives, can result in variations in the amount of investment required, in the form of property, plant and equipment, working capital and project guarantees, to support the Company's business. The Company's policy is to manage its financial resources, including debt facilities, so as to maintain sufficient financial capacity to fund these investment requirements. The current financial position of the Company is very strong and the Company does not foresee any difficulties in maintaining a sufficient level of financial capacity.

At December 31, 2006, the Company had unused operating credit lines of \$204.1 million (2005 – \$150.3 million), reduced by \$74.1 million of various standby letters of credit for performance and bid bonds (2005 – \$98.0 million) and bank indebtedness of \$3.0 million (2005 – \$1.7 million). The Company renewed its Unsecured Bank Credit Facility for five years, effective June 27, 2006, with terms and conditions similar to the prior agreement except that the maximum borrowing limit was reduced from US\$165 million to US\$125 million. There were no changes to the Company's other credit facilities, totaling US\$50 million, in the year.



As part of the Company's normal operations, it often enters into contracts, such as leases and purchase contracts, which obligate the Company to make disbursements in the future.

The following table summarizes these future payments required in respect of the Company's contractual obligations:

<i>(in thousands of Canadian dollars)</i>	2007	2008	2009	2010	2011	After 2011	Total
Operating leases	\$ 13,630	\$ 8,728	\$ 7,351	\$ 6,797	\$ 5,554	\$ 19,885	\$ 61,945
Purchase commitments	8,982	—	—	—	—	—	8,982
Asset retirement obligations	4,433	2,513	—	700	—	348	7,994
<b>Total contractual obligations</b>	<b>\$ 27,045</b>	<b>\$ 11,241</b>	<b>\$ 7,351</b>	<b>\$ 7,497</b>	<b>\$ 5,554</b>	<b>\$ 20,233</b>	<b>\$ 78,921</b>

The Company expects to have sufficient financial capacity to meet all contractual obligations as and when they become due.

### SELECTED ANNUAL INFORMATION

The following is selected annual financial information for the three most recently completed years:

<i>(in thousands of Canadian dollars except per share and outstanding share amounts)</i>	2006	2005	2004
Revenue (Restated – see note below)	<b>\$ 1,059,619</b>	\$ 1,012,453	\$ 747,027
Operating income from continuing operations (Restated – see note below)	<b>138,780</b>	95,454	66,930
Income from continuing operations	<b>92,924</b>	82,790	39,127
Income (loss) from discontinued operations	<b>(289)</b>	56,050	(125,788)
Net income (loss)	<b>92,635</b>	138,840	(86,661)
Operating income from continuing operations per share (Classes A and B) – basic and diluted	<b>1.87</b>	1.27	0.89
Income from continuing operations per share (Classes A and B) – basic and diluted	<b>1.25</b>	1.10	0.52
Income (loss) from discontinued operations per share (Classes A and B) – basic and diluted	<b>0.00</b>	0.75	(1.68)
Net income (loss) per share (Classes A and B) – basic and diluted	<b>1.25</b>	1.85	(1.16)
Total assets	<b>1,008,026</b>	919,846	806,325
Total long-term financial liabilities	<b>87,480</b>	87,210	90,360
Cash dividends per share			
Class A	<b>0.135</b>	0.09	0.0808
Class B	<b>0.1227</b>	0.0818	0.0734
Number of outstanding shares			
Class A	<b>60,914,175</b>	61,006,045	61,224,968
Class B	<b>13,078,142</b>	13,088,015	13,745,965
<b>Total</b>	<b>73,992,317</b>	74,094,060	74,970,933

*Note: 2005 and 2004 revenue and operating income from continuing operations figures have been restated to reflect the change in accounting treatment for the Company's investment in the Arabian Pipecoating Company Limited. Please refer to note 2 to the 2006 annual financial statements.*

The following are key factors impacting the comparability of the annual information disclosed above:

Nearly 80% of the Company's revenue is transacted in currencies other than Canadian dollars, with a majority transacted in U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies can have a significant effect on the amounts of these revenues when they are translated into Canadian dollars. In 2005, the U.S. dollar was on

average, approximately 7% lower than in 2004, and in 2006, the U.S. dollar was on average approximately 6% lower than in 2005. In 2006, a 1¢ change in the U.S. dollar, vis-à-vis the Canadian dollar, impact revenue by approximately \$6.4 million and net income by \$2.7 million (\$0.04 per share).

On November 3, 2004, the Company announced the closure of its Mobile, Alabama facility. Operations at the facility ceased in the fourth quarter of 2005 and discontinued operations

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accounting treatment was adopted in that quarter with the prior years restated on a comparable basis.

On September 30, 2005, the Company completed the sale of its OMSCO drill pipe manufacturing division. The division has been accounted for as a discontinued operation.

### SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected financial information for the eight most recently completed quarters:

<i>(in thousands of Canadian dollars except per share amounts)</i>	First	Second	Third	Fourth	Full Year
Revenue (Restated – see note below)					
<b>2006</b>	<b>\$ 262,547</b>	<b>\$ 269,433</b>	<b>\$ 251,324</b>	<b>\$ 276,315</b>	<b>\$1,059,619</b>
2005	244,952	231,995	241,639	293,867	1,012,453
Operating income from continuing operations (Restated – see note below)					
<b>2006</b>	<b>37,478</b>	<b>35,835</b>	<b>23,677</b>	<b>41,790</b>	<b>138,780</b>
2005	29,326	12,509	21,882	31,737	95,454
Income from continuing operations					
<b>2006</b>	<b>24,755</b>	<b>24,898</b>	<b>16,549</b>	<b>26,722</b>	<b>92,924</b>
2005	18,688	7,516	34,806	21,780	82,790
Income (loss) from discontinued operations					
<b>2006</b>	<b>(35)</b>	<b>(192)</b>	<b>7</b>	<b>(69)</b>	<b>(289)</b>
2005	(930)	2,224	55,946	(1,190)	56,050
Net income					
<b>2006</b>	<b>24,720</b>	<b>24,706</b>	<b>16,556</b>	<b>26,653</b>	<b>92,635</b>
2005	17,758	9,740	90,752	20,590	138,840
Operating income from continuing operations per share (Classes A and B) Basic and diluted					
<b>2006</b>	<b>0.51</b>	<b>0.48</b>	<b>0.32</b>	<b>0.56</b>	<b>1.87</b>
2005	0.39	0.17	0.29	0.42	1.27
Income from continuing operations per share (Classes A and B) Basic and diluted					
<b>2006</b>	<b>0.33</b>	<b>0.34</b>	<b>0.22</b>	<b>0.36</b>	<b>1.25</b>
2005	0.25	0.10	0.45	0.30	1.10
Income (loss) from discontinued operations per share (Classes A and B) Basic and diluted					
<b>2006</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
2005	(0.01)	0.03	0.75	(0.02)	0.75
Net income per share (Classes A and B) Basic and diluted					
<b>2006</b>	<b>0.33</b>	<b>0.34</b>	<b>0.22</b>	<b>0.36</b>	<b>1.25</b>
2005	0.24	0.13	1.20	0.28	1.85

Note: Quarterly revenue and operating income from continuing operations figures have been restated to reflect the change in accounting treatment for the Company's investment in the Arabian Pipecoating Company Limited. Please refer to note 2 to the 2006 annual financial statements.

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

The Company's operations in the Pipeline and Pipe Services segment, representing 87% of the Company's consolidated revenue, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality particularly in the Pipeline and Pipe Services market segment.

The majority of the Company's revenue is transacted in currencies other than Canadian dollars, with a majority transacted in U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amounts of these revenues when they are translated into Canadian dollars.

On November 3, 2004, the Company announced the closure of its Mobile, Alabama facility. This event had a significant impact on the financial results for the fourth quarter of 2004. Operations at the facility ceased in the fourth quarter of 2005 and discontinued operations accounting treatment was adopted in that quarter with prior quarters restated on a comparable basis.

On September 30, 2005, the Company completed the sale of its OMSCO drill pipe manufacturing division. The division has been accounted for as a discontinued operation.

#### **FOURTH QUARTER RESULTS**

##### **Revenue**

Consolidated revenue for the fourth quarter of 2006 totaled \$276.3 million, compared to \$251.3 million in the prior quarter with the increase resulting from increased business activity in the Pipeline and Pipe Services segment, partially offset by some seasonal softness in the Petrochemical and Industrial segment. Consolidated revenue for the quarter was lower than the fourth quarter of 2005 reflecting the impact of the Langed project which contributed revenue of \$41.9 million in the fourth quarter 2005 and was completed in the first quarter of 2006.

Pipeline and Pipe Services segment revenue for the quarter totaled \$244.0 million, an increase of 12% compared to \$216.9 million in the prior quarter and \$266.1 million in the fourth quarter of 2005. The Company had expected that fourth quarter revenue would be slightly below third quarter levels as a result of reduced activity in Bredero Shaw's North Sea and

Far East regions. While these regions did soften as anticipated, stronger than expected revenue from the Bredero Shaw Americas region led to the overall revenue growth for the Pipeline and Pipe Services segment. Three factors accounted for the Bredero Shaw Americas revenue result. First, unexpectedly strong small diameter pipe coating demand was experienced in Canada, resulting in high levels of coated pipe in customer inventories which will likely reduce demand in the first half of 2007. Second, additional production shifts were added at facilities in Canada which enabled higher large diameter production levels than anticipated. Third, an increase in revenue was realized from the PDEG project in Brazil. This revenue growth more than offset the anticipated reduction in revenue in the Far East region where business activity returned to more typical levels. The decline in revenue for the Pipeline and Pipe Services segment compared with the fourth quarter of last year was due mainly to the fact that the Langed project had contributed revenue of \$41.9 million in the fourth quarter 2005. Revenue in the quarter also improved over the prior quarter at the segment's other divisions. Strong revenue growth at Shaw Pipeline Services compared with the third quarter reflected increased variation orders on several pipeline projects while Canusa-CPS benefited from the stronger small diameter pipe demand in Western Canada as well as an increase in project activity in the Middle East.

In the Petrochemical and Industrial segment, revenue for the fourth quarter of 2006 of \$32.8 million, although seasonally lower than the prior quarter, was 16% higher than in the fourth quarter of 2005 with DSG-Canusa and ShawFlex both experiencing stronger market demand and ShawFlex continuing to realize the impact of the pass-through of material cost increases to customers.

##### **Income from Continuing Operations**

Consolidated income from continuing operations before interest, income taxes and non-controlling interest totaled \$41.8 million (15.1% of revenue) in the fourth quarter of 2006, compared to \$23.7 million (9.4% of revenue) in the third quarter and \$31.7 million (10.8% of revenue) in the fourth quarter of 2005.

In the Pipeline and Pipe Services segment, operating income from continuing operations in the quarter of \$40.8 million (16.7% of revenue) increased 70% over the previous quarter and 17% over the fourth quarter of last year. The operating income growth of the Pipeline and Pipe Services segment was primarily attributable to the 12% increase in revenue coupled

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with increased operating margins at Bredero Shaw. This margin growth was attributable to a more favourable mix of projects, a significant improvement in facility utilization in the Americas region, and the benefit of lower variable operating costs as a result of improvements in project execution on the KOC and PDEG projects. Compared to the fourth quarter of last year, Bredero Shaw's operating income decreased marginally reflecting the lower level of revenue in the quarter associated with the completion of the Langed project. Margins, however, were improved through a favourable project mix and ongoing performance improvement measures. Operating income at Canusa-CPS and Shaw Pipeline Services in the quarter improved over the third quarter and the fourth quarter of 2005, in line with the increased revenue. Operating income at Guardian, while lower than in the prior quarter reflecting seasonally lower revenue, improved over the fourth quarter of 2005 as a result of the launch in the third quarter of 2006 of the division's new integrated tubular inspection and machining facility.

In the Petrochemical and Industrial segment, operating income from continuing operations for the fourth quarter of \$5.6 million (17.0% of revenue) improved 11% over the \$5.0 million (14.4% of revenue) recorded in the third quarter and improved \$4.1 million over the \$1.5 million (5.5% of revenue) in the fourth quarter of last year, with DSG-Canusa and ShawFlex both achieving improvements over the prior quarter and the fourth quarter of the prior year.

Financial and corporate costs in the quarter consisted of unallocated corporate expenses of \$4.6 million including foreign exchange losses of \$1.0 million. In the fourth quarter of 2005, financial and corporate costs consisted of unallocated corporate expenses of \$4.7 million.

### Non-Operating Income and Expenses

Net interest income was \$1.4 million in the fourth quarter of 2006, compared to \$881 thousand in the third quarter and \$282 thousand in the fourth quarter of 2005. The increase in the quarter reflects the impact of higher cash balances as a result of cash flows generated by the Company as well as the favourable impact of the stronger Canadian dollar on the translation of the U.S. dollar-denominated interest expense on the Company's Senior Notes.

Income tax expense related to continuing operations totaled \$15.7 million (36.4% of income from continuing operations before income taxes), with the effective tax rate in the quarter

reflecting the impact of losses in certain countries, primarily Nigeria, where the future tax benefit was not recognized in the Company's consolidated financial statements. Income tax expense totaled \$11.2 million (35.0% of income from continuing operations before income taxes) in the fourth quarter of 2005.

Consolidated income from continuing operations for the quarter totaled \$26.7 million (\$0.36 per share), compared to \$16.6 million (\$0.22 per share) in the third quarter and \$21.8 million (\$0.30 per share) in the fourth quarter of 2005.

### Discontinued Operations

Loss from discontinued operations for the quarter totaled \$69 thousand (\$0.00 per share) compared to \$1.2 million (\$0.02 per share) in 2005 and reflected costs related to the closed Mobile, Alabama facility.

### Net Income and Earnings per Share

Consolidated net income for the fourth quarter of 2006 was \$26.7 million (\$0.36 per share) compared to \$16.6 million (\$0.22 per share) in the third quarter and \$20.6 million (\$0.28 per share) in the fourth quarter of 2005.

### Cash Flow

Cash flow generated by continuing operations in the quarter totaled \$40.6 million compared to cash flow used in continuing operations of \$3.7 million in the fourth quarter of 2005. The improvement reflected the increased profits, partially offset by a \$2.3 million increase in non-cash working capital balances, compared to a \$40.6 million increase experienced in the fourth quarter of 2005. This change in working capital resulted from the lower revenue in the quarter, compared to the fourth quarter of last year, changes in project mix with reduced prepaid expenses and raw material inventories associated with projects at the end of 2006 compared with 2005 and increased taxes payable due to the increased profits.

Cash flow used in continuing investing activities in the quarter totaled \$16.8 million, comprised of capital expenditures of \$18.1 million less proceeds on disposal of property, plant and equipment of \$1.3 million. Major capital expenditures in the quarter included continuing development of the new pipe coating plant in Portland, Oregon, pipe coating capacity expansions at the Company's Saudi joint venture, and the commencement of construction of a new facility in Camrose, Alberta. In the fourth quarter of last year, cash used in continu-

ing investing activities totaled \$12.0 million reflecting adjustments on the closing of the OMSCO divestment of \$6.0 million and proceeds on the disposal of property, plant and equipment of \$173 thousand, partially offset by capital expenditures of \$6.1 million.

Cash flow generated by continuing financing activities totaled \$899 thousand in the quarter, mainly consisting of an increase in bank indebtedness of \$3.0 million and \$1.2 million received on the exercise of stock options, partially offset by dividends paid to shareholders of \$3.3 million. In the fourth quarter of 2005, cash flow used in continuing financing activities totaled \$18.3 million, comprised of \$15.1 million paid to repurchase Class A shares under the Normal Course Issuer Bid and dividends paid to shareholders of \$3.3 million.

Overall, cash and cash equivalents increased \$39.2 million during the quarter to \$309.3 million, compared with a decrease of \$27.4 million during the fourth quarter of 2005 to \$200.3 million.

### ***CRITICAL ACCOUNTING ESTIMATES***

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management's best judgment given the information available at the time; however, actual results could differ from the estimates. Critical estimates used in preparing the consolidated financial statements include:

#### **Long-Lived Assets and Goodwill**

The Company evaluates the valuation of goodwill on an annual basis to determine whether or not impairment of these assets has occurred and whether write-downs of the value of these assets are required. Similarly, the Company evaluates the valuation of long-lived assets whenever circumstances arise that could indicate an impairment. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets. Actual results may differ from these assumptions.

#### **Future Benefit Obligations**

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, long-term rates of return on pension plan assets, and rates of employee compensation increases. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

#### **Contingent Liabilities**

The Company is involved with a number of legal actions, all considered to be in the ordinary course of business. In addition, claims by or against the Company may arise with customers, suppliers or others from time to time. The outcome of such items is not certain. Management has recorded provisions for contingent liabilities in the financial statements in amounts considered appropriate given the known facts of each situation. The outcome of any or all of these items may differ from the estimates used by management, which could have an impact on operating costs.

#### **Asset Retirement Obligations**

The Company has a number of asset retirement obligations related to leased facilities. These have been recorded in the financial statements based on estimated future amounts required to satisfy these obligations, discounted at the Company's estimated cost of capital. Differences in either the actual future payments or the discount rate could have an impact on operating costs and accrued liabilities.

#### **Financial Instruments**

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Income Taxes**

The recording of income tax expense includes certain estimations related to the impact in the current year of future events. Differences between the estimated and actual impact of these events could impact tax expense, current taxes payable or future taxes. In particular, earnings and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada.

### **UPCOMING ACCOUNTING CHANGES**

In January 2005, the Canadian Institute of Chartered Accountants ("CICA") issued three new Handbook sections. These new standards have been created to harmonize Canadian Generally Accepted Accounting Principles ("GAAP") with U.S. GAAP. The new standards must be adopted by the Company for the fiscal period beginning November 1, 2006 at the latest.

a) CICA Handbook Section 1530, "Comprehensive Income" establishes standards for the reporting and presentation of comprehensive income and defines other comprehensive income to include revenues, gains and losses that are recognized in comprehensive income, but excluded from net income.

b) CICA Handbook 3855, "Financial Instruments – Recognition and Measurement" describes the standards for recognizing, measuring and presenting financial assets, financial liabilities and non-financial derivatives.

c) CICA Handbook 3865, "Hedges" provides guidance on when and how hedge accounting may be applied.

The Company is currently evaluating the impact of these new standards on its financial position and results of operations.

### **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and of the design of internal controls over financial reporting ("ICFR"). Based on that evaluation, they have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006. Furthermore, they have concluded that the Company's design of ICFR was adequate to prevent a material misstatement of the Company's annual financial statements as at December 31, 2006 and that there have been

no changes in ICFR during the most recent interim period that materially affect or are reasonably likely to materially affect ICFR.

### **FINANCIAL INSTRUMENTS**

The Company has several financial instruments including cash and cash equivalents, accounts receivable, accounts payable, long-term debt and forward exchange contracts. The methods and assumptions used to estimate the fair value of financial instruments are described below:

#### **a) Cash and cash equivalents, accounts receivable, and bank indebtedness, accounts payable and accrued liabilities, and income taxes**

Due to the short period to maturity of the financial instruments, the carrying values as presented in the consolidated balance sheet are reasonable estimates of fair values.

#### **b) Long-term debt**

The fair value of the Company's long-term debt is based on current rates for debt with similar terms and maturities and is not materially different from its carrying values.

#### **c) Derivative financial instruments**

The Company manages foreign exchange risk through the use of derivative financial instruments including foreign exchange option contracts and forward exchange contracts. These instruments are used to hedge exposures related to expected foreign currency cash flows only; the Company does not use these instruments for speculative purposes. The fair values of foreign exchange forward contracts represent an approximation of the amounts the Company would have paid to or received from counterparties to unwind its positions at December 31, 2006. The fair value of the Company's net liability for all foreign exchange forward contracts at December 31, 2006 not recognized in the consolidated financial statements was approximately \$3.1 million (2005 – \$1.9 million benefit). If these contracts ceased to be effective as hedges, unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign-denominated cash flows would be recognized in income at the time this condition was identified.

The following are key risks associated with the Company's financial instruments:

#### **a) Interest rate risk**

The Company's cash and bank indebtedness are at floating rates of interest while cash equivalents are for terms of less

than 90 days. As a result, interest rate risk related to these instruments is considered to be low. The Company's U.S. dollar-denominated Senior Notes are at a fixed interest rate of 5.11%.

#### b) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and foreign exchange forward contracts.

Cash and cash equivalents consist of deposits with major commercial banks and short-term investments which are readily convertible into cash.

The Company, in the normal course of business, is exposed to credit risk from its customers, substantially all of which are in the energy industry. These accounts receivable are subject to normal industry credit risks.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by dealing with counterparties that are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

#### c) Foreign exchange risk

The Company operates in several countries, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange. The Company utilizes foreign exchange forward contracts to manage foreign exchange risk from its underlying customer contracts. In particular, the Company uses foreign exchange forward contracts for the sole purpose of hedging a portion of its projected foreign currency inflows, consisting primarily of foreign currency sales to the Company's customers. Gains or losses on these hedging instruments are recognized in the same period as, and as part of, the hedged transactions.

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2006:

(in thousands)

Maturity	December 31, 2006
<b>U.S. DOLLARS SOLD FOR CANADIAN DOLLARS</b>	
Less than one year	US\$25,100
Weighted average rate	1.1281
<b>BRAZILIAN REALS SOLD FOR U.S. DOLLARS</b>	
Less than one year	BRL23,095
Weighted average rate	0.3897
<b>CANADIAN DOLLARS SOLD FOR U.S. DOLLARS</b>	
Less than one year	CAD\$1,150
Weighted average rate	0.8697

### RISKS AND UNCERTAINTIES

Operating in an international environment, servicing predominantly the oil and gas industry, ShawCor faces a number of business risks and uncertainties that could materially, adversely effect the Company's projections, business, results of operations and financial condition.

#### Markets

The Company's business is materially dependent on the level of North American drilling and worldwide pipeline construction activity which in turn depends on the growth in demand for oil and natural gas and the availability of new supplies to meet this increased demand. Reductions in activity levels in either of these industries would reduce demand for the Company's products and services.

#### Availability of Raw Materials

The Company purchases a broad range of materials and components throughout the world in connection with its manufacturing activities. Major items include polyolefin and other polymeric resins, iron ore, cement, adhesives, sealants, copper and other nonferrous wire. The ability of suppliers to meet performance and quality specifications and delivery schedules is important to the maintenance of customer satisfaction but the Company is not dependent on any single source of supply. While the materials required for its manufacturing operations have generally been readily available, cyclical swings in supply and demand can produce short-term shortages and/or price spikes. The Company's ability to pass on any such price increases may be restricted in the short term.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Political Risk**

The Company's operations in certain international locations, including West Africa, Indonesia, Malaysia and the Middle East, are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include currency fluctuations and devaluations, currency restrictions and limitations on repatriation of profits, political instability and potential hostile activities. The Company's foreign operations may suffer disruptions and may incur losses that will not be covered by insurance. Such disruptions could include the Company's inability to timely and cost effectively ship products, its inability to place contractors and employees in various countries or regions, and evacuations or similar disruptions.

### **Liability Claims**

From time to time, the Company is a party to litigation and legal proceedings that it considers to be a part of the ordinary course of business. Although none of the litigation or legal proceedings in which the Company is currently involved are expected to have a material adverse effect on the Company's business, results of operations, or financial condition, the Company could, however, become involved in material legal proceedings in the future.

### **Environmental Risk**

The Company's operations are regulated under a number of federal, provincial, state, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of hazardous materials. Compliance with these environmental laws is a major consideration in the manufacturing of the Company's products, as the Company uses and generates hazardous substances and wastes in its manufacturing operations, and the Company may be subject to material financial liability for any investigation, clean-up and consequential damages respecting hazardous materials. In addition, many of the Company's current and former properties are or have been previously used for other industrial purposes. Accordingly, the Company also may be subject to financial liabilities relating to the investigation and remediation of hazardous materials resulting from the actions of previous owners or operators of industrial facilities on those sites. The Company is also subject to various Canadian and U.S. federal, provincial, state, local and foreign laws and regu-

lations relating to safety and health conditions in its manufacturing facilities. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any non-compliance, as well as potential business disruption if any of its facilities or a portion of any facility is required to be temporarily closed as a result of any violation of those laws and regulations.

### **OUTLOOK**

Demand for the products and services of the Company's largest market segment, the Pipeline and Pipe Services segment, is mainly driven by the level of pipeline infrastructure investment. This investment, in turn, is determined by energy supply and demand, which itself is a function of global economic activity. Demand for the products and services of the Petrochemical and Industrial segment is driven by the general level of economic activity in the regions where the segment operates, primarily North America and Western Europe. Economic activity in North America is expected to continue into 2007, albeit at a lower rate than that enjoyed during the past few years. In Western Europe, the economic recovery which began in 2006 should continue, with modest growth expected in 2007.

Growth in economic activity translates into strong demand for energy. Since energy supply is limited in the medium-term, prices are expected to remain strong; however, at levels below those experienced during most of 2006. Strong demand together with limited supply and ongoing depletion of existing energy reserves should encourage additional production and infrastructure development. In addition, record profits and cash flows at the major energy companies during the past two years have strengthened their balance sheets and put them in the position to fund major expansion programs. These factors should result in increased pipeline construction and translate into favourable business prospects for the Company over the next several years.

In 2007, ShawCor's revenue is expected to be broadly in line with 2006 levels. Revenue is expected to increase in North and South America, due in large part to the pipe coating capacity expansions which commenced in 2006 in Western Canada and the United States, and the impact of the Brazilian joint venture which the company entered into during the year, together with increased business activity in the Middle East. Growth in these areas is expected to be tempered by continuing softness in the

North Sea and by lower revenue in the Far East where the extremely high level of project activity experienced in 2006 is expected to abate somewhat.

Consolidated order backlog, representing customer orders expected to be completed within one year, totaled \$367.8 million compared to \$352.0 million at the end of the third quarter, and \$367.6 million at the beginning of the year. The composition of the 2006 year-end backlog has shifted considerably from the beginning of the year, with considerable growth in Canada and the United States offset by weakening in Europe, due mainly to the completion of the Langede project, and in the Far East where pipe coating project activity is returning to more typical levels following unprecedented strength in 2006.

The Company continues to enjoy a very strong balance sheet with the financial capacity to fund significant internal and external growth opportunities as they arise. This opportunity to fund expansion together with the strong market fundamentals enjoyed by the Company provides the potential for strong growth for ShawCor in the years ahead.

### **OUTSTANDING SHARE CAPITAL**

As at January 31, 2007, the Company had 60,914,175 Class A Subordinate Voting Shares outstanding and 13,078,142 Class B Multiple Voting Shares outstanding. In addition, as at January 31, 2007, the Company had stock options outstanding to purchase up to 2,269,395 Class A Subordinate Voting Shares.

### **FORWARD-LOOKING INFORMATION**

This document includes certain statements that reflect management's expectations and objectives for ShawCor's future performance, opportunities and growth which constitute forward-looking information under applicable securities laws. Such statements, except to the extent that they contain historical facts, are forward-looking and accordingly involve estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may," "will," "should," "anticipate," "expect," "believe," "predict," "estimate," "continue," "intend," "plan," and variations of these words or other similar expressions. These statements are based on assumptions, estimates and analysis made by ShawCor management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances.

Although ShawCor management believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions in light of currently available information, management can give no assurance that such expectations will be achieved.

Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted, expressed or implied by the forward-looking statements. Significant risks facing ShawCor include, but are not limited to: changes in global economic activity and changes in energy supply and demand which impact the level of drilling activity and pipeline construction; political, economic and other risks arising from ShawCor's international operations; compliance with environmental, trade and other laws; liability claims; fluctuations in foreign exchange rates; fluctuations in prices of raw materials, as well as other risks and uncertainties, as more fully described under "Risk and Uncertainties" and "Critical Accounting Estimates".

Further information on the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

February 28, 2007

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The accompanying consolidated financial statements of ShawCor Ltd. included in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has selected those it deems to be most appropriate in the circumstances. The financial statements include estimates based on the experience and judgment of management in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

The management of the Company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfils its responsibilities for financial reporting and internal control with the assistance of its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are Directors who are not officers or employees of ShawCor Ltd. or any of its subsidiaries. The Committee meets periodically to review quarterly financial reports and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors.

These financial statements have been audited by Ernst & Young LLP, the external auditors, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

February 15, 2007



William Buckley  
President and Chief Executive Officer



Gary Love  
Vice President, Finance and  
Chief Financial Officer



## AUDITORS' REPORT

To the Shareholders of ShawCor Ltd.

We have audited the consolidated balance sheets of ShawCor Ltd. as at December 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada

February 15, 2007

## CONSOLIDATED BALANCE SHEETS

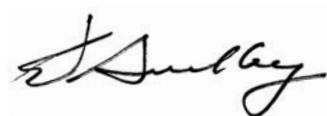
December 31

(in thousands of Canadian dollars)

	2006	2005
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 309,322	\$ 200,335
Accounts receivable	188,865	216,269
Inventories (note 4)	79,662	86,120
Prepaid expenses	12,897	20,648
Taxes receivable	4,293	5,711
Current assets of discontinued operations (note 21)	156	799
	595,195	529,882
Property, plant and equipment, net (note 5)	202,078	180,931
Goodwill (note 6)	175,813	167,172
Other assets (note 7)	34,940	33,887
Non-current assets of discontinued operations (note 21)	—	7,974
	\$ 1,008,026	\$ 919,846
<b>LIABILITIES</b>		
Current liabilities		
Bank indebtedness (note 9)	\$ 4,094	\$ 2,911
Accounts payable and accrued liabilities	169,387	170,446
Deferred revenue	10,907	23,975
Taxes payable (note 19)	57,010	46,197
Current liabilities of discontinued operations (note 21)	7,789	12,250
	249,187	255,779
Long-term debt (note 9)	87,480	87,210
Non-controlling interests	5,013	2,842
Other non-current liabilities (note 10)	36,419	38,777
	378,099	384,608
<b>OTHER COMMITMENTS (note 11)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 12)	206,852	204,720
Contributed surplus (note 13)	10,603	9,231
Retained earnings	498,001	421,547
Cumulative translation account (note 16)	(85,529)	(100,260)
	629,927	535,238
	\$ 1,008,026	\$ 919,846

See accompanying notes.

On behalf of the Board



William P. Buckley  
Director



Virginia L. Snaw  
Director

## CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

(in thousands of Canadian dollars except per share information)

	2006	2005
Revenue	\$ 1,059,619	\$ 1,012,453
Operating expenses (notes 8, 15 and 17)	868,012	865,014
Amortization of property, plant and equipment	46,745	43,895
Research and development	6,082	8,090
	920,839	916,999
Operating income from continuing operations	138,780	95,454
Interest expense (income), net (note 18)	(2,804)	3,420
Income from continuing operations before income taxes and non-controlling interests	141,584	92,034
Income taxes (note 19)	46,840	10,109
Income from continuing operations before non-controlling interests	94,744	81,925
Non-controlling interests	(1,820)	865
Income from continuing operations	92,924	82,790
Income (loss) from discontinued operations, net of tax (note 21)	(289)	56,050
Net income for the year	\$ 92,635	\$ 138,840
Earnings per share, Class A and Class B – basic and diluted (note 20)		
Continuing operations	\$ 1.25	\$ 1.10
Discontinued operations	0.00	0.75
Total	\$ 1.25	\$ 1.85

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31

(in thousands of Canadian dollars)

	2006	2005
Balance at beginning of year	\$ 421,547	\$ 300,815
Net income for the year	92,635	138,840
	514,182	439,655
Excess of purchase price paid over stated value of shares (note 12)	(6,356)	(11,496)
Dividends paid	(9,825)	(6,612)
Balance at end of year	\$ 498,001	\$ 421,547

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOW

Years Ended December 31

(in thousands of Canadian dollars)

	2006	2005
<b>OPERATING ACTIVITIES</b>		
Income from continuing operations	\$ 92,924	\$ 82,790
Items not requiring an outlay of cash:		
Amortization	46,745	43,895
Stock-based compensation (note 15)	2,798	2,860
Future income taxes	(3,498)	4,230
Non-controlling interests	1,820	(865)
Change in non-cash working capital and other	42,796	(53,020)
Cash provided by continuing operating activities	183,585	79,890
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(60,692)	(38,141)
Proceeds on disposal of property, plant and equipment	1,451	575
Proceeds on disposal of discontinued operations	—	129,558
Acquisition of joint venture interest (note 3)	(9,099)	—
Cash provided by (used in) continuing investing activities	(68,340)	91,992
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in bank indebtedness	1,183	(1,538)
Dividends paid to shareholders	(9,825)	(6,612)
Purchase of shares for cancellation (note 12)	(7,797)	(15,139)
Issue of shares (notes 12 and 14)	2,147	634
Cash used in continuing financing activities	(14,292)	(22,655)
Foreign exchange on cash and cash equivalents	4,167	(3,942)
Net increase in cash position during the year from continuing operations	105,120	145,285
Net increase (decrease) in cash position during the year from discontinued operations (note 21)	3,867	(21,898)
Cash and cash equivalents at beginning of year	200,335	76,948
Cash and cash equivalents at end of year	\$ 309,322	\$ 200,335

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a) Principles of Consolidation

The consolidated financial statements include the accounts of ShawCor Ltd. (the "Company"), its wholly owned subsidiaries, certain partially owned subsidiaries which give rise to non-controlling interest in their net assets and net results, and the Company's proportionate share of joint ventures.

#### b) Foreign Currency Translation

Foreign operations which are financially and operationally independent are classified as self-sustaining. Foreign operations which are dependent upon other operations within the Company are classified as integrated.

Assets and liabilities of self-sustaining foreign operations are translated at year-end exchange rates. Income and expense items are translated at average exchange rates for the year. The foreign exchange impact of these translations is included in the cumulative translation account on the consolidated balance sheets. The appropriate amounts of exchange gains and losses accumulated in the cumulative translation account are reflected in income when there is a reduction in the Company's investment in these subsidiaries as a result of capital transactions.

Monetary assets and liabilities of the Company and its integrated foreign operations denominated in foreign currencies are translated at year-end exchange rates. All other assets and liabilities, along with amortization expense denominated in foreign currencies, are translated at historical exchange rates. Income and expense items other than amortization are translated at average exchange rates for the year. All other foreign exchange gains or losses are included in the determination of net income for the year.

#### c) Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in bank and short-term investments which are readily convertible into cash.

#### e) Derivative Financial Instruments

The Company manages foreign exchange risk through the use of derivative financial instruments for the sole purpose of hedging a portion of its projected foreign currency inflows, not for speculative purposes. The notional amounts of derivatives are not recognized in the consolidated financial statements. Short-term movements on financial instruments acquired as a hedge of a specific foreign currency purchase obligation, revenue source or net investment are deferred and matched with the specific transaction.

The Company's policy is to document all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the consolidated statement of financial position or to specific firm commitments or forecasted transactions. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used are effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments that are proven to be effective, but which have been terminated prior to maturity, are deferred and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income immediately. Derivatives that do not qualify for hedge accounting are marked to market at each period end, with the result that any gain or loss is charged to income.

#### f) Inventories

Inventories are valued at the lower of cost or market. Cost for finished goods is determined principally on a first-in, first-out basis, except in most pipeline businesses where the average cost basis is employed. Raw materials and work-in-process inventories are recorded using a specific cost identification method. Market value is net realizable value for finished goods and work-in-process, and replacement cost for raw materials.



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Ownership of inbound inventories is recognized at the time title passes to the Company, which coincides with the invoicing and release of such inventories by the suppliers.

### **g) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost and, other than project-related facilities and equipment, are amortized over their useful lives commencing when the asset is available for use on a straight-line basis at annual rates of 4% to 10% on buildings, 10% to 20% on machinery and equipment and 33% to 50% for computer equipment. Project-related facilities are amortized over the initial estimated project life, generally no longer than seven years. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value of the asset exceeds the estimated undiscounted cash flows from the use of the asset, then an impairment loss is recognized to write the asset down to fair value.

### **h) Goodwill**

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary or joint venture entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions. No amortization is recorded for years ended after December 31, 2001. The Company determines, at least once annually, whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings. During 2006, the Company assessed the fair value of reporting units to which the underlying goodwill is attributable and determined that no charge for impairment of goodwill was required for the year ended December 31, 2006.

### **i) Investments**

The Company accounts for investments in which it has significant influence using the equity method. Other investments are recorded at cost less write-downs to reflect other than temporary impairment. Investments which are jointly controlled by the Company and one or more unrelated parties are accounted for using the proportionate consolidation method.

### **j) Deferred Costs**

Costs related to the mobilization of production facilities for fixed term projects are deferred and amortized on a basis to match the costs with the revenue from performance of the specific projects. Costs related to negotiating and arranging debt and credit facilities are deferred and amortized on a straight-line basis over the terms of the agreements to which they relate.

### **k) Asset Retirement Obligations**

The Company recognizes the fair value of estimated asset retirement obligations when a reasonable estimate of fair value can be made. An asset retirement obligation is a legal obligation associated with the retirement of an owned or leased, tangible, long-lived asset. Such obligations are recognized in the consolidated balance sheet by recording an increase in the carrying value of the applicable long-lived assets and recognizing corresponding liabilities. The asset retirement obligations are accreted over the period to settlement with a corresponding charge to interest expense and the increase in the carrying value of long-lived assets is amortized over the useful life of the asset.

### **l) Revenue Recognition**

Revenue is recorded when title to goods passes or services are provided to customers, the price is fixed or determinable and collection is reasonably assured. For the majority of product revenue, title passes to the buyer at the time of shipment and revenue is recorded at that time. Revenue from pipe coating, inspection, repair and other services provided in respect of customer owned property is recognized as services are performed under specific contracts. Revenue on these contracts is recognized using the percentage-of-completion method based on a proportional performance basis using output as a measure of performance. Losses, if any, on these contracts are provided for in full at the time such losses are identified.

Services performed in advance of billings are recorded as unbilled revenue pursuant to the contractual terms. In general, amounts become billable upon the achievement of certain milestones or in accordance with predetermined payment schedules. Changes in the scope of work are not included in net revenues until earned and realization is assured.

#### **m) Operating Leases**

Payments for operating leases are charged to income on a straight-line basis over the term of the lease.

#### **n) Employee Future Benefits**

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The cost of the defined benefit plans is determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement age and inflation. The cost is then charged to expense as services are rendered. Obligations are accrued net of plan assets, which are valued at quoted market prices at the balance sheet date. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service lives of the employees who are members of the plan. Net actuarial gains and losses that exceed 10% of the greater of the benefit obligation and the value of plan assets are amortized over the average remaining service lives of the employees who are members of the plan. For the Company's principal plans, these periods range from 14 years to 22 years.

#### **o) Stock-Based Compensation**

The Company has three stock option plans, which are described in note 14. Effective January 1, 2004, the Company recognizes compensation expense in respect of stock options granted under all three plans. For stock option units granted under the 1989 employee market growth stock option plan, compensation expense has been recognized since January 1, 2002. The compensation expense is equal to the estimated fair value of the option at its grant date and is amortized over the vesting period of the option. An amount equal to compensation expense is initially credited to contributed surplus and transferred to share capital if and when the option is exercised. Consideration received on the exercise of stock options is credited to share capital.

#### **p) Research and Development Costs**

Research and development costs other than property, plant and equipment acquisitions are charged against income in the year incurred unless they meet GAAP requirements for deferral. Research and development costs are net of investment tax credits, which are recorded to income in the year the related

investment expenditures are made and totaled \$342 thousand in 2006 (2005 – \$327 thousand).

#### **q) Income Taxes**

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that are expected to be in effect, based on substantially enacted tax regulations, when the differences are expected to reverse.

#### **r) Earnings per Share**

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of outstanding options. Under this method the exercise of options is assumed at the beginning of the year (or at the time of issuance, if later) and shares are assumed issued. The proceeds from the exercise are assumed to be used to purchase common shares at the average market price during the period and the incremental number of shares (the difference between the number of shares assumed issued and assumed purchased) is included in the denominator of the diluted earnings per share computation.

### **2. CHANGE IN ACCOUNTING POLICY**

In 2006, the Company adopted the proportionate consolidation method of accounting for its 30% investment in the Arabian Pipecoating Company Limited ("APCO"). This change in accounting policy has been applied retroactively with 2005 comparative figures restated. The Company previously accounted for this investment using the equity method. Refer to note 22 for further information.

### **3. ACQUISITION**

On August 8, 2006, the Company announced the acquisition of a 50% interest in Eupec Brasil Ltda., which operates a pipe coating plant adjacent to the Vallourec & Mannesmann pipe mill in Belo Horizonte, Brazil. Eupec Brasil Ltda. was subsequently renamed Bredero Shaw Revestimentos de Tubos Ltda. Details of this acquisition follow:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

Net assets acquired at assigned values:	
Current assets	\$ 1,972
Property, plant and equipment	3,625
Goodwill	4,390
Current liabilities	(888)
	\$ 9,099
Consideration given:	
Cash, net of cash acquired of \$1,149	\$ 9,099
	\$ 9,099

### 4. INVENTORIES

(in thousands)	2006	2005
Raw materials and supplies	\$ 56,603	\$ 66,916
Work-in-process	6,517	4,858
Finished goods	16,542	14,346
	\$ 79,662	\$ 86,120

### 5. PROPERTY, PLANT AND EQUIPMENT

(in thousands)	2006	2005
Cost		
Land and land improvements	\$ 39,128	\$ 34,580
Buildings	93,039	81,020
Machinery and equipment	437,373	365,329
Capital projects in progress	9,040	18,028
	578,580	498,957
Accumulated depreciation and write-downs		
Land improvements	25,395	19,886
Buildings	54,928	47,076
Machinery and equipment	296,179	251,064
	376,502	318,026
	\$ 202,078	\$ 180,931

### 6. GOODWILL

(in thousands)	2006	2005
Balance at beginning of year	\$ 167,172	\$ 176,393
Additions to goodwill on acquisition of joint venture interest (note 3)	4,390	—
Translation of self-sustaining foreign operations	4,251	(9,221)
Balance at end of year	\$ 175,813	\$ 167,172

### 7. OTHER ASSETS

(in thousands)	2006	2005
Long-term investment	\$ 2,875	\$ 2,875
Deferred financing costs	2,089	2,031
Accrued employee future benefit asset (note 8)	4,572	4,384
Future income taxes (note 19)	25,404	24,597
	\$ 34,940	\$ 33,887

Long-term investments at December 31, 2006 represented an investment in Garneau Inc., a Canadian-based, publicly traded pipe coating company, with a quoted year-end market value of \$3.6 million (December 31, 2005 – \$3.2 million). Deferred financing costs are amortized over the terms of the long-term debt with \$597 thousand expensed in 2006 (2005 – \$596 thousand).

### 8. EMPLOYEE FUTURE BENEFITS

The Company provides employee future benefits to its employees under a number of defined benefit and defined contribution arrangements. The defined benefit pension plans are in Canada, the U.K. and Norway and include both flat-dollar plans for hourly employees and final earning plans for salaried employees. The Company also provides a small post-retirement life insurance benefit to its Canadian retirees.

The total cash payments made by the Company during 2006 were \$9.2 million (2005 – \$10.2 million). The cash payments consisted of contributions required to fund both the defined benefit and defined contribution plans.

The Company measures the fair value of assets and accrued benefit obligations as of December 31. Actuarial valuations for the Company's nine defined benefit pension plans are generally required at least every three years. The most recent actuarial valuations of the plans were conducted at August 1, 2004 (one plan), January 1, 2005 (one plan), December 31, 2005 (three plans) and January 1, 2006 (four plans).

Information about the Company's employee future benefits in aggregate is as follows:

<i>(in thousands)</i>	2006	2005
Net benefit cost for the year:		
Employer portion of current service cost	\$ 3,874	\$ 3,281
Interest on accrued benefit obligation	3,628	3,488
Actual return on plan assets	(6,049)	(5,562)
Actuarial losses and changes in assumptions	1,337	7,813
Curtailment/settlement	198	—
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefits costs	2,988	9,020
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets for year	2,557	2,327
Difference between actuarial loss recognized for year and actual actuarial loss and assumption changes on accrued benefit obligation for year	(561)	(7,449)
Difference between amortization of past service cost for year and actual plan amendments cost for year	286	237
Amortization of transitional obligation	136	136
Subtotal	2,418	(4,749)
Defined benefit cost recognized	5,406	4,271
Defined contribution employee future benefit expense	3,989	2,989
Employee future benefit cost	\$ 9,395	\$ 7,260

<i>(in thousands)</i>	2006	2005
Accrued benefit obligation		
beginning of year	\$ 68,486	\$ 57,383
Current service cost	3,914	3,328
Actuarial loss and assumption changes	972	7,813
Interest cost	3,628	3,488
Valuation effect	1,744	—
Foreign currency (gain) loss	1,840	(1,995)
Benefits paid	(2,620)	(1,531)
Curtailment/settlement	(162)	—
Accrued benefit obligation end of year	77,802	68,486
Fair value of plan assets		
beginning of year	55,446	47,953
Valuation effect	(25)	—
Actual return on plan assets	6,049	5,562
Contributions	5,224	5,033
Benefits paid	(2,620)	(1,531)
Foreign currency (gain) loss	1,475	(1,571)
Fair value of plan assets end of year	65,549	55,446
Funded status – plan deficit	(12,253)	(13,040)
Unamortized net actuarial losses	12,984	14,080
Unamortized past service cost	883	686
Unamortized net transitional obligation	596	705
Net accrued benefit asset	\$ 2,210	\$ 2,431

The accrued benefit asset is included in the consolidated balance sheet as follows:

<i>(in thousands)</i>	2006	2005
Accrued employee future benefit asset	\$ 4,572	\$ 4,384
Accrued employee future benefit liability	(2,362)	(1,953)
Net accrued employee future benefit asset	\$ 2,210	\$ 2,431

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Included in the accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

<i>(in thousands)</i>	2006	2005
Accrued benefit obligation	\$ 67,796	\$ 58,798
Fair value of plan assets	54,223	45,049
Funded status – plan (deficit)	\$ (13,573)	\$ (13,749)

The following were the composition of plan assets at the balance sheet dates and the significant assumptions used in the calculation of accrued benefit obligations and net defined benefit cost:

<i>(percentage of plan assets)</i>	2006	2005
<i>(registered Canadian employee future benefit plans)</i>		
Equities	60%	56%
Fixed Income	34%	36%
Real Estate	0%	0%
Other	6%	8%
Total	100%	100%
<i>(percentage of plan assets)</i>	2006	2005
<i>(SERP plan invested assets)</i>		
Equities	95%	95%
Fixed Income	0%	0%
Real Estate	0%	0%
Other	5%	5%
Total	100%	100%

Significant assumptions used:

Canada	2006	2005
Accrued benefit obligation as of December 31:		
Discount rate	5.00%	5.00%
Salary increases	4.00%	4.00%
Benefit cost for year ended December 31:		
Discount rate	5.00%	6.00%
Expected rate of return on assets	6.50%	7.00%
Rate of compensation increase	4.00%	4.00%

Significant assumptions used:

Norway	2006	2005
Accrued benefit obligation as of December 31:		
Discount rate	4.35%	4.75%
Salary increases	4.50%	3.30%
Increases to pensions in pay	1.60%	2.50%
Benefit cost for year ended December 31:		
Discount rate	4.75%	5.00%
Expected rate of return on assets	6.00%	6.00%
Rate of compensation increase	3.30%	3.30%
Increases to pensions in pay	2.50%	2.50%

Significant assumptions used:

UK	2006	2005
Accrued benefit obligation as of December 31:		
Discount rate	5.00%	4.80%
Salary increases	0.00%	3.00%
Increases to pensions in pay	3.10%	2.70%
Benefit cost for year ended December 31:		
Discount rate	4.80%	5.20%
Expected rate of return on assets	6.89%	7.28%
Rate of compensation increase	3.00%	3.20%
Increases to pensions in pay	2.70%	2.70%

### 9. BANK INDEBTEDNESS AND LONG-TERM DEBT

a) The Company has long-term debt consisting of the following:

<i>(in thousands)</i>	2006	2005
5.11 % Senior Notes due in equal instalments of US\$25 million on June 30, 2009, 2010 and 2011 (US\$75.0 million)	\$ 87,480	\$ 87,210

b) Long-term debt repayments during each of the next five years at current rates of exchange are as follows:

2007 to 2008	\$ —
2009	29,160
2010	29,160
2011	29,160
	\$ 87,480



c) At December 31, 2006, the Company had unused operating credit lines of \$204.1 million (2005 – \$150.3 million), reduced by \$74.1 million of various standby letters of credit for performance and bid bonds (2005 – \$98.0 million) and bank indebtedness of \$3.0 million (2005 – \$1.7 million), excluding the Company's proportionate share of the bank indebtedness of its joint venture, Arabian Pipecoating Company Limited. The Company renewed its Unsecured Bank Credit Facility for five years, effective June 27, 2006, with terms and conditions similar to the prior agreement except that the maximum borrowing limit was reduced from US\$165 million to US\$125 million. There were no changes to the Company's other credit facilities, totaling US\$50 million, in the year.

d) The Company has undertaken to maintain certain covenants in respect of the US\$75.0 million of 5.11 % Senior Notes and the 5-Year Unsecured Committed Bank Credit Facility described previously. The Company believes that it is in compliance with these covenants at December 31, 2006.

## 10. OTHER NON-CURRENT LIABILITIES

<i>(in thousands)</i>	2006	2005
Non-current asset retirement obligations (note 11)	\$ 3,561	\$ 2,249
Accrued employee future benefit obligations (note 8)	2,362	1,953
Future income taxes (note 19)	30,496	34,575
	<b>\$ 36,419</b>	<b>\$ 38,777</b>

## 11. OTHER COMMITMENTS

### a) Contractual Commitments

At December 31, 2006, the aggregate minimum amounts payable under non-cancellable contracts were as follows:

<i>(in thousands)</i>	2007	2008	2009	2010	2011	After 2011	Total
Operating leases	\$ 13,630	\$ 8,728	\$ 7,351	\$ 6,797	\$ 5,554	\$ 19,885	\$ 61,945
Purchase commitments	8,982	—	—	—	—	—	8,982
Asset retirement obligations	4,433	2,513	—	700	—	348	7,994
Total contractual obligations	\$ 27,045	\$ 11,241	\$ 7,351	\$ 7,497	\$ 5,554	\$ 20,233	\$ 78,921

### b) Asset Retirement Obligations

<i>(in thousands)</i>	2006	2005
Balance at beginning of year	\$ 4,535	\$ 5,309
Liabilities settled in the year	(1,276)	(1,801)
Liabilities incurred in the year	4,503	756
Accretion expense	232	271
Balance at end of year	<b>\$ 7,994</b>	<b>\$ 4,535</b>

Estimated obligations related to exiting certain leased properties at the end of their respective terms, which will occur between 2007 and 2020, total \$8.0 million (2005 – \$4.5 million). Obligations which are expected to be settled in 2007 are included in Accrued Liabilities while obligations which are expected to be settled after 2007 are included in Other Non-Current Liabilities. The total undiscounted cash flows which

are estimated to be required to settle all asset retirement obligations is \$8.6 million (2005 – \$4.5 million) and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted is 5.11%.

### c) General

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. CAPITAL STOCK

As at December 31, the following shares were outstanding:

(in thousands except number of shares information)	2006			2005		
	Class A	Class B	Total	Class A	Class B	Total
Number of Shares:						
Balance, beginning of year	61,006,045	13,088,015	74,094,060	61,224,968	13,745,965	74,970,933
Issued on exercise of stock options	331,157	—	331,157	206,727	—	206,727
Issued through related party transaction	—	—	—	—	10,304,685	10,304,685
Conversions Class B to Class A	9,873	(9,873)	—	657,950	(657,950)	—
Purchased and cancelled under Normal Course Issuer Bid	(432,900)	—	(432,900)	(1,083,600)	—	(1,083,600)
Purchased and cancelled through related party transaction	—	—	—	—	(10,304,685)	(10,304,685)
Balance, end of year	60,914,175	13,078,142	73,992,317	61,006,045	13,088,015	74,094,060
Stated Value:						
Balance, beginning of year	\$ 203,716	\$ 1,004	\$ 204,720	\$ 205,849	\$ 1,055	\$ 206,904
Issued on exercise of stock options	3,573	—	3,573	1,459	—	1,459
Issued through related party transaction	—	—	—	—	790,885	790,885
Conversions Class B to Class A	—	—	—	51	(51)	—
Purchased and cancelled under Normal Course Issuer Bid	(1,441)	—	(1,441)	(3,643)	—	(3,643)
Purchased and cancelled through related party transaction	—	—	—	—	(790,885)	(790,885)
Balance, end of year	\$ 205,848	\$ 1,004	\$ 206,852	\$ 203,716	\$ 1,004	\$ 204,720

There are an unlimited number of Class A and 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.

In 2006, the Company repurchased and cancelled 432,900 Class A shares (2005 –1,083,600) under the terms of a Normal Course Issuer Bid ("NCIB"). The \$6.4 million (2005 – \$11.5 million) excess of cost over stated capital of the acquired shares was charged to retained earnings. Under the terms of the NCIB, which was renewed on November 30, 2006, the Company is entitled to repurchase 5,250,000 Class A shares (8.6%) and 100,000 Class B shares (0.8%) between December 1, 2006 and November 30, 2007. The repurchase of shares is made on the open market at prevailing market prices.

### 13. CONTRIBUTED SURPLUS

(in thousands)	2006	2005
Balance at beginning of year	\$ 9,231	\$ 7,196
Stock-based compensation expense (note 15)	2,798	2,860
Fair value of stock options exercised (note 14)	(1,426)	(825)
Balance at end of year	\$ 10,603	\$ 9,231

### 14. STOCK OPTION PLANS

The Company has three stock option plans, one initiated in 1989 and two in 2001. Under the 1989 Market Growth Plan, (the "1989 Employee Plan") options were granted to senior management and employees to acquire from the Company, the number of Class A shares equal in value to the market growth of the shares from the grant date with respect to which the option is exercised. Options are exercisable up to a maximum

of 20% of the option units, on a cumulative basis, per year, commencing one year after the date of grant. The number of shares to be issued under any option shall not exceed 75% of the number of units with respect to which the option is exercised. Subsequent to January 1, 2002, no additional options were granted under this plan and all options outstanding under this plan must be exercised on or before March 7, 2007.

Under the Company's 2001 employee stock option plan (the "2001 Employee Plan"), which replaces the 1989 Employee Plan and 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.

Under the Company's 2001 director plan (the "2001 Director Plan"), options are granted on an annual basis and the maximum number of Class A Subordinate Voting Shares issued in any single grant shall be equal to the number of Class A Subordinate Voting Shares and Class B Multiple Voting Shares of the Company owned at the date of the option grant by the individual director, subject to a maximum of 8,000 Class A Subordinate Voting Shares for each of the Chairman and Vice Chair and 4,000 Class A Subordinate Voting Shares for each of the other eligible directors. The term of the options is five years and vesting is immediate upon grant. The grant price equals the closing sale price of the Class A Subordinate Voting Shares on the day prior to the grant.

A summary of the status of the Company's stock option plans and changes during the year are presented below:

	2006				2005	
	Market Growth Plan <sup>(1)</sup>	Other Plans	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding, beginning of year	570,075	2,008,090	2,578,165	\$ 15.76	2,596,205	\$ 14.91
Granted	—	457,700	457,700	17.27	566,900	17.26
Exercised	(191,527)	(139,630)	(331,157)	16.43	(206,727)	12.22
Forfeited	(2,250)	(64,640)	(66,890)	15.75	(129,885)	16.68
Expired	(368,423)	—	(368,423)	17.31	(248,328)	13.23
Balance outstanding, end of year	7,875	2,261,520	2,269,395	\$ 15.76	2,578,165	\$ 15.76

(1) This maximum number is achieved only when the market value of the shares at the time of exercise is equal to no less than four times the value at the date of the grant.

Range of exercise prices	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 2006	Weighted average remaining contractual life in years	Weighted average exercise price	Exercisable at December 31, 2006	Weighted average exercise price
\$10.00 to \$15.00	626,920	6.13	\$ 12.78	626,920	\$ 12.78
\$15.01 to \$20.00	1,600,475	7.26	\$ 16.79	1,237,275	\$ 16.75
\$20.01 to \$25.00	42,000	8.53	\$ 20.90	4,000	\$ 21.90
	2,269,395			1,868,195	

Range of exercise prices	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 2005	Weighted average remaining contractual life in years	Weighted average exercise price	Exercisable at December 31, 2005	Weighted average exercise price
\$10.00 to \$15.00	771,475	6.93	\$ 12.86	320,025	\$ 13.06
\$15.01 to \$20.00	1,806,690	7.12	\$ 17.05	682,536	\$ 17.28
	2,578,165			1,002,561	

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 15. STOCK-BASED COMPENSATION

The weighted average fair value of options granted during 2006 was \$6.05. Compensation cost was calculated using the fair value of each stock option which was estimated on the date of grant using the Black-Scholes pricing model. The following weighted average assumptions were used in these calculations:

	2006	2005
Expected life of options	<b>5.9 years</b>	5.6 years
Expected stock price volatility	<b>29.44%</b>	30.69%
Expected dividend yield	<b>1.03%</b>	0.52%
Risk-free interest rate	<b>4.08%</b>	3.90%

The compensation cost recognized in the accounts for the year ended December 31, 2006 was \$2.8 million (2005 – \$2.9 million).

### 16. CUMULATIVE TRANSLATION ACCOUNT

(in thousands)	2006	2005
Balance at beginning of year	<b>\$ (100,260)</b>	\$ (71,509)
Translation of self-sustaining foreign operations	<b>14,731</b>	(28,751)
Balance at end of year	<b>\$ (85,529)</b>	\$ (100,260)

During 2006, the Canadian dollar weakened 0.3% (2005 gained 3.5%) against the U.S. dollar, weakened 11.8% (2005 gained 16.2%) against the Euro and weakened 14.0% (2005 gained 13.7%) against the U.K. pound.

### 17. FOREIGN EXCHANGE GAINS AND LOSSES

Included in operating expenses are foreign exchange gains, primarily related to the translation of foreign currency cash and working capital balances, totaling \$970 thousand (2005 – \$874 thousand loss).

The Company has designated, effective July 3, 2003, the 5.11% Senior Notes as a hedge of a portion of its net investment in the Company's U.S. dollar-based operations. Gains and losses from the translation of this debt are not included in the income statement, but are shown in the cumulative translation account.

### 18. INTEREST EXPENSE (INCOME)

(in thousands)	2006	2005
Interest income on short-term deposits	<b>\$ (9,566)</b>	\$ (2,965)
Interest on bank indebtedness	<b>1,456</b>	659
Interest on long-term debt	<b>5,306</b>	5,726
	<b>\$ (2,804)</b>	\$ 3,420

Net cash interest received in 2006 totaled \$1.9 million (2005 – \$3.9 million net paid).

### 19. INCOME TAXES

a) The income tax expense is comprised of:

(in thousands)	2006	2005
Current	<b>\$ 50,338</b>	\$ 5,879
Future	<b>(3,498)</b>	4,230
	<b>\$ 46,840</b>	\$ 10,109

b) The Company's effective income tax rate is composed of the following:

(in thousands)	2006	2005
Combined basic Canadian federal and provincial income tax rate	<b>36.1 %</b>	36.1 %
Provincial manufacturing and processing profits deductions	<b>(2.0)</b>	(2.0)
Expected rate	<b>34.1</b>	34.1
Tax rate differential on earnings of foreign subsidiaries	<b>(5.3)</b>	(1.0)
Benefit of previously unrecognized tax losses of foreign subsidiaries	<b>(4.4)</b>	(24.1)
Unrecognized tax losses of foreign subsidiaries	<b>3.9</b>	1.2
Permanent differences between accounting and taxable income	<b>2.1</b>	2.4
Other	<b>2.7</b>	(1.6)
	<b>33.1 %</b>	11.0 %

c) Components of future income taxes are summarized as follows:

<i>(in thousands)</i>	2006	2005
<b>FUTURE TAX ASSET</b>		
Depreciable capital assets	\$ 17,574	\$ 14,653
Provisions and future expenditures	6,975	9,477
Net operating losses carry forward non-current	22,343	19,587
Less valuation allowance	(21,488)	(19,120)
Net future tax asset	\$ 25,404	\$ 24,597
<b>FUTURE TAX LIABILITY</b>		
Depreciable capital assets	\$ 26,629	\$ 27,936
Provisions and future expenditures	3,867	6,639
Total future tax liability	\$ 30,496	\$ 34,575

The Company has income tax losses totaling \$3.2 million carried forward for which tax benefits have been recorded as future tax assets (2005 – \$1.6 million). The Company has net losses of \$76.2 million (2005 – \$62.6 million) in various jurisdictions for which no future tax asset has been recognized. The majority of these losses expire beyond 2011. Income taxes of \$39.5 million (2005 – \$21.1 million) were paid during the year.

## 20. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to shareholders by the weighted average number of common shares outstanding during the year, which in 2006 was 73,994,928 shares (2005 – 74,980,749 shares). Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. The weighted average number of common shares outstanding during the period plus the dilutive effect of outstanding stock options was 74,113,900 shares (2005

– 74,988,609 shares). Stock options to purchase 42,000 and 1,354,016 Class A shares for the years ended December 31, 2006, and 2005, respectively, were not included in the computation of diluted earnings per share because these options have exercise prices which were greater than the average market prices of the Company's Class A shares for the respective years.

## 21. DISCONTINUED OPERATIONS

On September 30, 2005, the Company concluded the sale of its OMSCO drill pipe manufacturing division ("OMSCO"). On November 2, 2004, the Company announced its decision to close the Mobile, Alabama pipe coating facility and by December 31, 2005, operations at the facility had ceased. The Company adopted discontinued operation accounting treatment for both operations in 2005.

On December 31, 2005, the Company accrued \$6.3 million related to the Mobile operation, representing the present value of future lease and other cost obligations for properties where it had ceased using the rights conveyed by the leases. These ongoing lease costs will result in the following annual undiscounted cash outflows over the remaining terms of the leases:

<i>(in thousands)</i>	
2007	\$ 1,356
2008	1,356
2009	1,356
2010	1,283
2011	204
Thereafter	380
	\$ 5,935



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the financial results and cash flows from discontinued operations for the years ended December 31, 2006 and 2005 and the assets and liabilities of the discontinued operations as at those dates:

(in thousands)	2006			2005		
	OMSCO	Mobile Facility	Total	OMSCO	Mobile Facility	Total
Revenue	\$ —	\$ 60	\$ 60	\$ 90,572	\$ 23,045	\$ 113,617
Income (loss) from operations	—	(289)	(289)	14,487	(6,858)	7,629
Gain on sale	—	—	—	75,109	—	75,109
Income (loss) from discontinued operations before income taxes	—	(289)	(289)	89,596	(6,858)	82,738
Income tax expense	—	—	—	26,688	—	26,688
Net income (loss) from discontinued operations	\$ —	\$ (289)	\$ (289)	\$ 62,908	\$ (6,858)	\$ 56,050
Cash provided by (used in) operating activities	—	(4,107)	(4,107)	(2,121)	(19,546)	(21,667)
Cash provided by (used in) investing activities	—	7,974	7,974	(231)	—	(231)
Cash provided by (used in) financing activities	—	—	—	—	—	—
Net cash provided by (used in) discontinued operations	\$ —	\$ 3,867	\$ 3,867	\$ (2,352)	\$ (19,546)	\$ (21,898)
Current assets	—	156	156	—	799	799
Property, plant and equipment, net	—	—	—	—	7,974	7,974
Current liabilities	—	7,789	7,789	—	12,250	12,250

## 22. JOINT VENTURE OPERATIONS

On August 8, 2006, the Company announced the acquisition of a 50% interest in Eupec Brasil Ltda., a joint venture equally owned and controlled by the Company and Delta Premium Trading Corp. Subsequent to the transaction, the name of the joint venture company was changed to Bredero Shaw Revestimentos de Tubos Ltda. ("BSRTL"). The Company also has 30% ownership in the jointly controlled Arabian Pipecoating Company Limited ("APCO") located in Saudi Arabia. Both of these investments have been accounted for through proportionate consolidation with the Company's share of each joint venture's assets, liabilities, revenue, expenses, net income and cash flows consolidated based on the Company's ownership position. The figures related to these joint ventures included in the Company's consolidated financial statements are summarized as follows:

(in thousands)	2006	2005
Revenue	\$ 25,919	\$ 8,334
Operating and other expenses	20,803	6,839
Net income before income taxes	5,116	1,495
Income taxes	312	157
Net income	\$ 4,804	\$ 1,338
Cash provided by (used in):		
Operating activities	\$ 2,566	\$ 314
Investing activities	(3,298)	(1,942)
Financing activities	(76)	1,242
Current assets	\$ 9,318	\$ 5,609
Property, plant and equipment, net	9,984	3,613
Goodwill	4,451	—
Current liabilities	5,868	4,353

## 23. FINANCIAL INSTRUMENTS

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments as well as related interest rate, credit and foreign exchange risk are described below:

The following are key risks associated with the Company's financial instruments:

### a) Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk at December 31, 2006:

Fixed interest rate maturing in								
(in thousands)	Floating rate		1 year or less		Greater than 1 year	Total		
FINANCIAL ASSETS								
Cash and cash equivalents	\$	309,322	\$	—	\$	—	\$	309,322
Total	\$	309,322	\$	—	\$	—	\$	309,322
FINANCIAL LIABILITIES								
Bank indebtedness	\$	4,094	\$	—	\$	—	\$	4,094
Long-term debt		—		—		87,480		87,480
Total	\$	4,094	\$	—	\$	87,480	\$	91,574
Average fixed rates of debt		—		—		5.11%		

### b) Credit Risk

Certain of the Company's financial assets are exposed to credit risk.

Cash and cash equivalents consist of deposits with major commercial banks and short-term investments which are readily convertible into cash.

The Company, in the normal course of business, is exposed to credit risk from its customers, substantially all of which are in the energy industry. These accounts receivable are subject to normal industry credit risks.

### a) Cash and Cash Equivalents, Accounts Receivable, Bank Indebtedness, Accounts Payable and Accrued Liabilities, and Income Taxes

Due to the short period to maturity of the financial instruments, the carrying values as presented in the consolidated balance sheet are reasonable estimates of fair values.

### b) Long-Term Debt

The fair value of the Company's long-term debt is based on current rates for debt with similar terms and maturities and is not materially different from its carrying values.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by dealing with counterparties that are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

### c) Foreign Exchange Risk

The Company operates in several countries, which gives rise to a risk that its earnings and cash flows may be adversely

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

impacted by fluctuations in foreign exchange. The Company utilizes foreign exchange forward contracts to manage foreign exchange risk from its underlying customer contracts. In particular, the Company uses foreign exchange forward contracts for the sole purpose of hedging a portion of its projected foreign currency inflows, consisting primarily of foreign currency sales to the Company's customers. Gains or losses on these hedging instruments are recognized in the same period as, and as part of, the hedged transactions. The Company does not enter into foreign exchange contracts for speculative purposes. The Company does not generally attempt to hedge the net investment and equity of self-sustaining foreign operations, except that the U.S. dollar long-term note payable is designated as a hedge of a portion of its net investment in Bredero Shaw's U.S. dollar-based operations.

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2006:

<i>(in thousands)</i>	
Maturity	December 31, 2006
<b>U.S. DOLLARS SOLD FOR CANADIAN DOLLARS</b>	
Less than one year	US\$25,100
Weighted average rate	1.1281
<b>BRAZILIAN REALS SOLD FOR U.S. DOLLARS</b>	
Less than one year	BRL23,095
Weighted average rate	0.3897
<b>CANADIAN DOLLARS SOLD FOR U.S. DOLLARS</b>	
Less than one year	CAD\$1,150
Weighted average rate	0.8697

The fair values of foreign exchange forward contracts represent an approximation of the amounts the Company would have paid to or received from counterparties to unwind its positions at December 31, 2006. The fair value of the Company's net liability for all foreign exchange forward contracts at December 31, 2006 not recognized in the consolidated financial statements was approximately \$3.1 million (2005 – net benefit of \$1.9 million). If these contracts ceased to be effective as hedges, unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign-denominated cash flows would be recognized in income at the time this condition was identified.

### 24. SEGMENTED INFORMATION

The Company provides products and services to two general segments of the global energy industry: Pipeline and Pipe Services, and Petrochemical and Industrial. The Pipeline and Pipe Services segment is comprised of Bredero Shaw, which provides pipe coating, lining and insulation products, 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 tubulars. The Petrochemical and Industrial segment is comprised of 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 information by operating segment for continuing operations is as follows:

	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations		Total	
<i>(in thousands)</i>	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue – customer	922,052	892,161	137,567	120,292	—	—	—	—	1,059,619	1,012,453
– intersegment	276	394	1,371	1,190	—	—	(1,647)	(1,584)	—	—
– total	922,328	892,555	138,938	121,482	—	—	(1,647)	(1,584)	1,059,619	1,012,453
Operating expenses	739,475	748,553	114,058	104,000	16,126	14,045	(1,647)	(1,584)	868,012	865,014
Amortization of property, plant and equipment	40,640	37,607	4,706	4,333	1,399	1,955	—	—	46,745	43,895
Research and development	3,730	5,988	982	1,231	1,370	871	—	—	6,082	8,090
	783,845	792,148	119,746	109,564	18,895	16,871	(1,647)	(1,584)	920,839	916,999
Income (loss) from operations	138,483	100,407	19,192	11,918	(18,895)	(16,871)	—	—	138,780	95,454
Interest expense (income), net	—	—	—	—	(2,804)	3,420	—	—	(2,804)	3,420
Income tax expense	—	—	—	—	46,840	10,109	—	—	46,840	10,109
Total assets	984,850	975,574	110,965	88,019	1,235,684	1,146,315	(1,323,473)	(1,290,062)	1,008,026	919,846
Goodwill	157,630	150,901	18,183	16,271	—	—	—	—	175,813	167,172
Purchases of property, plant and equipment, net of disposals	55,295	34,707	4,774	2,388	623	1,046	—	—	60,692	38,141

Revenue and property, plant and equipment by geographic segment are as follows. ‘Other’ in the Far East, Pacific and Other geographic segment includes operations in Mexico, Latin America, Africa, and the Middle East. The geographical segment is determined by the location of the Company’s country of operation:

	Canada		United States		Europe		Far East, Pacific and Other		Eliminations		Total	
<i>(in thousands)</i>	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue – customer	261,330	163,732	164,102	133,269	242,686	504,882	391,501	210,570	—	—	1,059,619	1,012,453
– intersegment	77,647	69,254	4,845	5,960	3,868	2,346	—	—	(86,360)	(77,560)	—	—
– total	338,977	232,986	168,947	139,229	246,554	507,228	391,501	210,570	(86,360)	(77,560)	1,059,619	1,012,453
Property, plant and equipment, net	74,781	66,870	34,591	23,030	27,360	37,321	65,346	53,710	—	—	202,078	180,931

## 25. COMPARATIVE FIGURES

Certain figures for previously presented years have been reclassified to conform to the current year’s consolidated financial statement presentation.

## SIX YEAR REVIEW (UNAUDITED)

(in thousands except per share information)	2006	2005	2004	2003	2002	2001
<b>OPERATING RESULTS</b>						
Revenue (note 1)	\$ 1,059,619	\$1,012,453	\$ 746,511	\$ 699,339	\$ 690,574	\$ 471,883
EBITDA (note 2)	183,705	140,214	108,355	107,709	84,032	72,779
Net income (loss) for the year	92,635	138,840	(86,661)	24,351	1,134	33,376
<b>CASH FLOW (note 1)</b>						
Cash from operating activities	\$ 183,585	\$ 79,890	\$ 72,132	\$ 139,125	\$ 39,849	\$ 13,095
Additions to property, plant and equipment	60,692	38,141	31,882	6,454	1,679	47,626
<b>FINANCIAL POSITION</b>						
Working capital	\$ 347,008	\$ 274,103	\$ 153,452	\$ 155,207	\$ (74,178)	\$ 81,877
Long-term debt	87,480	87,210	90,360	97,095	13,069	8,881
Shareholders' equity	629,927	535,238	443,406	543,670	497,206	374,529
Total assets	1,008,026	919,846	805,437	826,996	988,701	617,153
<b>PER SHARE INFORMATION (CLASS A AND CLASS B)</b>						
Net income (loss)						
Basic	\$ 1.25	\$ 1.85	\$ (1.16)	\$ 0.35	\$ 0.02	\$ 0.55
Diluted	\$ 1.25	\$ 1.85	\$ (1.16)	\$ 0.34	\$ 0.02	\$ 0.54
Dividends						
Class A	\$ 0.135	\$ 0.09	\$ 0.0808	\$ 0.0808	\$ 0.0808	\$ 0.0808
Class B	\$ 0.1227	\$ 0.0818	\$ 0.0734	\$ 0.0734	\$ 0.0734	\$ 0.0734
Shareholders' equity (note 3)	\$ 8.51	\$ 7.22	\$ 5.91	\$ 7.25	\$ 7.24	\$ 6.16

Note 1: Restated to exclude discontinued operations and to reflect the adoption of proportionate consolidation for the Company's investment in Arabian Pipecoating Company Limited.

Note 2: EBITDA is a non-GAAP measure and can be calculated by adding back to income from continuing operations, taxes, net interest, and amortization. EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools. There is no standard definition of EBITDA under GAAP.

Note 3: Shareholders' equity per share is a non-GAAP measure calculated by dividing shareholders' equity by the number of Class A and Class B shares outstanding at the date of the balance sheet.

## QUARTERLY INFORMATION (UNAUDITED)

(in thousands except per share information)		First	Second	Third	Fourth	Total
Revenue	– 2006	\$ 262,547	\$ 269,433	\$ 251,324	\$ 276,315	\$ 1,059,619
	– 2005	\$ 244,952	\$ 231,995	\$ 241,639	\$ 293,867	\$ 1,012,453
Net income	– 2006	\$ 24,720	\$ 24,706	\$ 16,556	\$ 26,653	\$ 92,635
	– 2005	\$ 17,758	\$ 9,740	\$ 90,752	\$ 20,590	\$ 138,840
Net income per share (Class A and Class B)						
Basic and diluted						
	– 2006	\$ 0.33	\$ 0.34	\$ 0.22	\$ 0.36	\$ 1.25
	– 2005	\$ 0.24	\$ 0.13	\$ 1.20	\$ 0.28	\$ 1.85



## SHAWCOR DIRECTORS



**W.P. Buckley**  
Toronto, Ontario

Mr. Buckley is President and CEO of ShawCor Ltd., a position he has held since June 2005 and has been a Director of the Company since August 2005.



**G.F. Hyland**  
Caledon, Ontario

Mr. Hyland has been a Director of the Company since December 1987 and was President and CEO of ShawCor Ltd. from December 1994 until his retirement in June 2005.



**M.K. Mullen**  
Calgary, Alberta

Mr. Mullen is Chairman and Co-Chief Executive Officer of Mullen Group Income Fund and has been a Director of ShawCor Ltd. since August 2003.



**J.F. Petch, Q.C.**  
Toronto, Ontario

Mr. Petch serves as Counsel to Osler, Hoskin & Harcourt LLP and has been a Director of ShawCor Ltd. since March 2005.



**R.J. Ritchie**  
Calgary, Alberta

Mr. Ritchie was the President of the CP Rail Systems division of Canadian Pacific Limited from 1990 until 2001, retired as CEO and a Director of Canadian Pacific Railway Limited in 2006 and has been a Director of ShawCor Ltd. since April 1994.



**P.G. Robinson**  
Toronto, Ontario

Mr. Robinson is President and General Manager of Litens Automotive Group, a position he has held since 2001 and has been a Director of ShawCor Ltd. since August 2001.



**V.L. Shaw**  
St. James, Barbados

Ms. Shaw was elected Chair of the Board of ShawCor Ltd. in February 2007, was Vice Chair of the Board from August 2000 until February 2007 and has been a Director of the Company since April 1994.



**W.J.V. Sheridan**  
Toronto, Ontario

Mr. Sheridan is a partner with Lang Michener LLP, a position he has held since March 1974 and has been a Director of ShawCor Ltd. since December 2000.



**Z.D. Simo**  
Oakville, Ontario

Mr. Simo is a former President and CEO of Tecsyn International Inc. and has been a Director of ShawCor Ltd. since August 1987.



**E.C. Valiquette**  
Cobden, Ontario

Ms. Valiquette was Senior Vice President and Chief Financial Officer of ING Canada Inc. from 2000 to 2002, was a management consultant from 2002 to 2004 and has been a Director of ShawCor Ltd. since March 2005.



**D.C. Vaughn**  
The Woodlands, Texas

Mr. Vaughn was President and COO of Dresser Industries, Inc. from 1996 to 1999, was Vice Chairman of Haliburton Company from 1999 to 2001 and has been a Director of ShawCor Ltd. since November 2001.

## **CORPORATE OFFICERS**

**V.L. SHAW**  
Chair of the Board

**W.P. BUCKLEY**  
President and  
Chief Executive Officer

**G.S. LOVE**  
Vice President, Finance  
and Chief Financial Officer

**P.H. LANGDON**  
Vice President,  
Human Resources  
and Assistant Secretary

**R.E. STEELE**  
Vice President, Technology

**W.J.V. SHERIDAN**  
Secretary

## **OPERATIONS MANAGEMENT**

**E.J. BOUFARAH**  
Vice President and  
General Manager,  
Middle East  
Bredero Shaw

**R.J. DUNN**  
Vice President and  
General Manager  
Canusa-CPS

**S.J. EDMONDSON**  
Vice President,  
Research & Development  
ShawCor Ltd.

**P.L. EVANS**  
Senior Vice President,  
Far East  
Bredero Shaw

**F. GALLINA**  
Vice President, Operations  
ShawCor Ltd.

**G.L. GRAHAM**  
Vice President,  
Corporate Development  
ShawCor Ltd.

**N.W. GRITIS**  
Senior Vice President,  
Canada  
Bredero Shaw

**L.W.J. HUTCHISON**  
Senior Vice President,  
Europe, Africa, FSU  
Bredero Shaw and  
Vice President and  
General Manager  
Shaw Pipeline Services

**J.H. MCTURNAN**  
Vice President, Legal  
ShawCor Ltd.

**Y.F. PALETTA**  
Senior Vice President,  
Americas  
Bredero Shaw

**E.W. REYNOLDS**  
Vice President and  
General Manager  
DSG-Canusa, ShawFlex

**J.D. TIKKANEN**  
President  
Bredero Shaw

**K.C. WILLSON**  
Vice President and  
General Manager  
Guardian

## **PRIMARY OPERATING LOCATIONS**

### **PIPELINE AND PIPE SERVICES**

**BREDERO SHAW**  
ShawCor Pipe Protection  
Bredero Shaw  
3838 N. Sam Houston  
Pkwy. E., Suite 300  
Houston, Texas 77032  
t: 281-886-2350  
f: 281-886-2351

Bredero Shaw  
Imperial Dock  
Leith, Edinburgh  
Scotland EH6 7DT  
t: 44-131-554-6232  
f: 44-131-553-9604

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1824 Crowchild Trail N.W.  
Calgary, Alberta T2M 3Y7  
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f: 403-264-3649

Bredero Shaw  
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101 Thomson Road  
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**SHAW PIPELINE  
SERVICES**  
200 – 15411 W. Vantage Pkwy.  
Houston, Texas 77032  
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950 – 78th Avenue  
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### **PETROCHEMICAL AND INDUSTRIAL**

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**AUDITORS**

Ernst & Young LLP

**TRANSFER AGENT**

**AND REGISTRAR**

CIBC Mellon Trust Company

**STOCK LISTING**

The Toronto Stock Exchange

**Class "A"**

Subordinate Voting Shares  
Trading Symbol: SCL.A

**Class "B"**

Multiple Voting Shares  
Trading Symbol: SCL.B

**ANNUAL MEETING**

Tuesday, May 8, 2007

4:30 p.m.

The Fairmont Royal York Hotel  
Toronto, Ontario, Canada



[www.shawcor.com](http://www.shawcor.com)