

November 2, 2005

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

**PRESS RELEASE**

**Financial Summary**

(In thousands of Canadian dollars except per share amounts)	Three Months Ended Sep. 30		Nine Months Ended Sep. 30	
	<b>2005</b>	2004	<b>2005</b>	2004
<b>Operating Results</b>		Restated		Restated
Revenue	\$ 240,378	\$ 190,125	\$ 733,902	\$ 552,892
EBITDA (note 1)	31,354	8,247	92,754	47,088
Income (loss) from operations	20,189	(6,205)	57,871	3,973
Net income (loss) from continuing operations	33,138	(9,131)	55,187	(8,260)
Net income (loss) from discontinued operations	57,614	473	63,063	(302)
Net income (loss)	90,752	(8,658)	118,250	(8,562)
Net income (loss) per share (Class A and B) - Basic				
Continuing operations	0.44	(0.11)	0.73	(0.11)
Discontinued operations	0.76	0.00	0.84	(0.00)
Total	1.20	(0.11)	1.57	(0.11)
Net income (loss) per share (Class A and B) - Diluted				
Continuing operations	0.44	(0.11)	0.73	(0.11)
Discontinued operations	0.76	0.00	0.84	(0.00)
Total	1.20	(0.11)	1.57	(0.11)
<b>Cash Flow</b>				
Cash from continuing operating activities	22,320	591	49,240	18,548
Additions to property, plant and equipment	13,315	6,346	30,676	24,160
<b>Financial Position</b>				
Working capital			269,483	163,972
Total assets			907,562	853,035
Shareholders' equity per share (Class A and B)			\$ 7.20	\$ 7.05

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

Net income for the nine months ended September 30, 2005 was \$118.3 million, or \$1.57 per share, including a \$48.8 million (\$0.65 per share) after-tax gain on the sale of the OMSCO drill string manufacturing business.

The previously announced sale of the OMSCO division to Vallourec & Mannesmann Tubes S.A. ("V&M") for net proceeds of \$135.6 million was completed on September 30, 2005. In accordance with Canadian accounting principles, the Company has accounted for this division in the quarter as a discontinued operation including restating current and prior year operating results. Also as a result of this transaction, the Company has realigned its segmented financial reporting into two market segments: Pipeline and Pipe Services and Petrochemical and Industrial. The former segment includes the operations of Bredero Shaw, Canusa-CPS, Shaw Pipeline Services and Guardian while the latter segment is unchanged and is comprised of DSG-Canusa and ShawFlex. Prior period segmented reporting has been restated to reflect these changes.

Consolidated revenue from continuing operations for the quarter of \$240.4 million was 26% higher than in the same quarter of last year. Revenue in the Pipeline and Pipe Services segment increased 32% over the third quarter of last year on strength in the Far Eastern and African areas of Bredero Shaw together with continuing strong revenue from the Langede pipecoating project in Norway. Revenue in the Petrochemical and Industrial segment in the quarter was slightly lower than in the corresponding period of last year reflecting softness in the European automotive sector. On a year-to-date basis, consolidated revenue for the nine months ended September 30, 2005 was \$733.9 million, 33% higher than in the corresponding period of last year.

Consolidated income from continuing operations, before interest, income taxes and minority interest, totaled \$20.2 million in the quarter compared to a loss of \$6.2 million in the third quarter of last year with the improvement attributable to the revenue increase, improved operations execution and reduced costs as a result of the closure of the Mobile facility. Compared to the prior quarter, consolidated income from continuing operations improved 82%, mainly as a result of improved efficiencies and improved capacity utilization at Bredero Shaw. For the nine months ended September 30, 2005, consolidated income from continuing operations totaled \$57.9 million compared to \$4.0 million in the corresponding period of 2004, which included losses from the Mobile pipecoating operation of \$34.1 million.

Consolidated net income from continuing operations in the quarter totaled \$33.1 million (\$0.44 per share) compared to a loss of \$9.1 million (\$0.11 per share) in the same quarter of last year. Consolidated net income from continuing operations for the nine months ended September 30, 2005 totaled \$55.2 million (\$0.73 per share) compared to a loss of \$8.3 million (\$0.11 per share) last year. Net income for the quarter and year-to-date includes a reduction in income taxes of \$18.4 million (\$0.25 per share) from the utilization of previous years' income tax losses not previously recognized in the accounts.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

### **Revenue and Income from Operations**

As a result of the sale of the OMSCO division, the Company has realigned its segmented reporting into two industry segments: Pipeline and Pipe Services and Petrochemical and Industrial. The former segment includes the operations of Bredero Shaw, Shaw Pipeline Services, Canusa-CPS and Guardian while the latter segment includes ShawFlex and DSG-Canusa. All comparative figures have been reclassified to reflect this new structure.

Consolidated revenue for the quarter totaled \$240.4 million compared to \$235.3 million last quarter and \$190.1 million in the third quarter of 2004 with the improvements over the prior quarter driven by large diameter coating activity in the Far East and Africa and increased onshore pipecoating volume in North America. On a year-to-date basis, consolidated revenue for the nine months ended September 30, 2005 was \$733.9 million compared to \$552.9 million in the corresponding period of last year, reflecting the much higher activity levels in the Company's Pipeline and Pipe Services businesses. Compared to last year, the stronger Canadian dollar versus to the U.S. dollar and the Euro reduced Canadian dollar revenues for the nine months by \$29.7 million.

Consolidated income from continuing operations, before interest, income taxes and minority interest, totaled \$20.2 million in the quarter compared to \$11.1 million last quarter and a loss of \$6.2 million in the third quarter of last year, with the improvement due to the increased revenue together with improved efficiencies at Bredero Shaw. On a year-to-date basis, income from continuing operations totaled \$57.9 million compared to \$4.0 million in the first nine months of 2004.

On September 30, 2005, the Company completed the sale of its OMSCO division for proceeds of U.S.\$120 million (\$140.7 million), less closing and other transactions costs, which resulted in the Company recording an after-tax gain on the sale of \$48.8 million (\$0.65 per share). The consolidated net income for the quarter was \$90.8 million or \$1.20 per share, inclusive of this gain, compared to \$9.7 million or \$0.13 per share last quarter and a net loss of \$8.7 million or \$0.11 per share in the third quarter of 2004. On a year-to-date basis, net income for the nine months ended September 30, 2005 totaled \$118.3 million (\$1.57 per share) compared to a net loss of \$8.6 million (\$0.11 per share) in the corresponding period of last year. Net income from continuing operations of \$55.2 million includes a reduction in income tax expense of \$18.4 million from the utilization of prior years' tax losses not previously recognized in the financial statements.

In the Pipeline and Pipe Services segment, revenue for the quarter was \$210.8 million compared to \$203.5 million in the second quarter and \$159.8 million in the third quarter of last year. Revenue in the quarter was positively impacted by increased large diameter coating activity in the Far Eastern region and by increased onshore pipecoating activity in the United States and Canada. Business activity at Guardian increased from the prior quarter, however, activity at Canusa-CPS and Shaw Pipeline Services, although still very strong, decreased slightly from the high levels in the second quarter of the year. On a year-to-date basis, revenue for the segment totaled \$641.7 million compared to \$458.2 million in the first nine months of 2004. Income from operations for the segment totaled \$21.3 million in the quarter compared to \$11.5 million last quarter and a loss of \$6.8 million in the third quarter of 2004 with the improvement over the previous quarter the result of increased efficiencies at the North Sea pipecoating plants together with improved factory utilization in the Far East and the recording of some customer approved variations orders related to costs incurred in prior periods. On a year-to-date basis, income from operations for the segment for the nine months ended September 30, 2005 totaled \$59.7 million compared to a loss of \$1.6 million in the corresponding period of last year, including \$34.1 million of losses from the Mobile, Alabama pipecoating plant.

Coating operations at Mobile are now shut-down. The objective is to have pipe load out activities completed, and all full time staff offsite, by year-end, subject to customer agreement.

In the Petrochemical and Industrial segment, revenue for the third quarter totaled \$29.9 million compared to \$32.2 million last quarter and \$30.7 million in the third quarter of last year. Business activity remained stable at ShawFlex and in the North American region of DSG-Canusa but declined slightly at DSG-Canusa in Europe, reflecting the economic environment in that region. The exchange rate between the Euro and the Canadian dollar, which was approximately 8% lower in the quarter compared to the same quarter last year, also had an adverse impact on the reported results of the division, in terms of Canadian dollars. Income from operations for the segment totaled \$3.0 million in the quarter compared to \$3.5 million in the prior quarter and \$4.1 million in the third quarter of last year. Revenue for the segment for the nine months ended September 30, 2005 was \$93.3 million compared to \$95.9 million in the same period last year. Income from operations for the segment for the first nine months of 2005 totaled \$10.4 million compared to \$12.7 million in 2004. A reduction in revenue of \$2.0 million from last year's levels was due to translation of foreign currency revenues into Canadian dollars.

### **Financial and Corporate**

Financial and corporate costs consist of corporate office costs not charged to the operating divisions and other non-operating items including foreign exchange gains and losses on cash balances. Financial and corporate costs for the quarter totaled \$4.2 million including foreign exchange losses of \$78 thousand, compared to \$4.0 million in the prior quarter, including foreign exchange losses of \$226 thousand.

Net interest expense in the quarter totaled \$1.1 million compared to \$1.5 million in the prior quarter and \$1.2 million in the third quarter of 2004 and reflected increased cash balances in the quarter.

### **Cash Flow**

Cash flow generated from continuing operating activities in the quarter totaled \$22.3 million compared to \$591 thousand in the same quarter last year, mainly due to the higher earnings in the period. On a year-to-date basis, cash flow generated by continuing operations totaled \$49.2 million for the nine months ended September 30, 2005 compared to \$18.5 million in the corresponding period of 2004.

Cash flow used in investing activities in the quarter totaled \$13.0 million, mainly capital expenditures of \$13.3 million, partially offset by proceeds on the disposal of assets of \$338 thousand. In the third quarter of last year, cash flow used in investing activities totaled \$6.3 million. For the nine months ended September 30, 2005, cash flow used in investing activities totaled \$30.3 million compared to \$20.0 million in the same period of 2004.

Cash flow used in financing activities totaled \$2.6 million in the quarter, primarily due to the repayment of some bank indebtedness, compared to an inflow of \$4.0 million in the third quarter of 2004. For the year-to-date, cash used in financing activities totaled \$4.9 million compared to an inflow of \$2.3 million in the first nine months of last year.

Cash flow from discontinued operations totaled \$141.3 million for the quarter, compared to \$389 thousand in the third quarter of last year, and included proceeds on the disposal of OMSCO of \$135.6 million. For the nine months ended September 30, 2005, cash flow from discontinued operations totaled \$140.1 million compared to an outflow of \$42 thousand in the same period of last year.

### **Liquidity and Capitalization**

As at September 30, 2005 the Company has a working capital ratio of 2.15 to 1, compared to 1.74 to 1 at June 30, 2005 and 1.67 to 1 at the beginning of the year. Operating working capital, excluding cash, cash equivalents and bank indebtedness decreased \$49.1 million in the quarter to \$43.5 million, primarily the result of the sale of OMSCO. Cash and cash equivalents, net of bank indebtedness, increased \$148.2 million in the quarter to \$226.0 million reflecting the proceeds on the OMSCO divestment.

### **Financial Instruments**

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

At September 30, 2005, the Company had notional amounts of \$108.5 million of forward contracts outstanding (December 31, 2004 - \$67.2 million) with a fair value of \$1.5 million (December 31, 2004 - \$214 thousand). These amounts are used to express the volume of transactions and are not recognized in the consolidated financial statements.

### **Critical Accounting Estimates**

The preparation of the consolidated financial statements in conformity with Canadian Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management's best judgment given the information available at the time, however, actual results could differ from the estimates. Critical estimates used in preparing the consolidated financial statements were materially unchanged during the quarter.

## Risks and Uncertainties

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

## Contractual Obligations

There were no material changes to the Company's contractual obligations during the quarter other than those that would be expected in the ordinary course of business, with the exception of a specific obligation related to the sale of the OMSCO division which occurred in the quarter. The Asset Purchase Agreement between the Company and V&M included a purchase price adjustment for changes in OMSCO's working capital balances between the date of the agreement and the closing date of the transaction. Accordingly, the Company expects to pay V&M approximately \$6.4 million in the fourth quarter representing cash received by the Company from the reduction of OMSCO's working capital prior to the closing of the sale transaction.

## Summary of Quarterly Results

The following is selected financial information for the eleven most recently completed quarters. Prior quarters have been restated to exclude OMSCO revenues and operating result from continuing operations.

(In thousands of Canadian dollars except per share amounts)	First	Second	Third	Fourth	Full Year
<b>Revenue</b>					
2005	\$ 258,177	\$ 235,347	\$ 240,378	\$ -	\$ -
2004	175,736	187,031	190,125	248,855	801,747
2003	220,963	203,360	163,679	180,866	768,868
<b>Income (loss) from continuing operations</b>					
2005	26,611	11,071	20,189	-	-
2004	9,013	1,165	(6,205)	(14,249)	(10,276)
2003	19,777	18,297	(1,530)	6,113	42,657
<b>Asset impairment charges</b>					
2005	-	-	-	-	-
2004	-	-	-	(50,390)	(50,390)
2003	-	-	-	-	-
<b>Net income (loss) from continuing operations</b>					
2005	15,912	6,137	33,138	-	-
2004	4,349	(3,478)	(9,131)	(79,677)	(87,937)
2003	10,325	9,332	(2,968)	(1,286)	15,403
<b>Net income (loss) from discontinued operations</b>					
2005	1,846	3,603	57,614	-	-
2004	(764)	(11)	473	1,578	1,276
2003	297	(736)	3,065	6,322	8,948

<b>Net income (loss)</b>					
<b>2005</b>	<b>17,758</b>	<b>9,740</b>	<b>90,752</b>	-	-
2004	3,585	(3,489)	(8,658)	(78,099)	(86,661)
2003	10,622	8,596	97	5,036	24,351
<b>Basic earnings (loss) per share from continuing operations (Classes A and B)</b>					
<b>2005</b>	<b>0.21</b>	<b>0.08</b>	<b>0.44</b>	-	-
2004	0.06	(0.06)	(0.11)	(1.07)	(1.18)
2003	0.15	0.14	(0.04)	(0.02)	0.23
<b>Basic earnings (loss) per share from discontinued operations (Classes A and B)</b>					
<b>2005</b>	<b>0.03</b>	<b>0.05</b>	<b>0.76</b>	-	-
2004	(0.01)	0.01	0.00	0.02	0.02
2003	0.00	(0.01)	0.04	0.09	0.12
<b>Total basic earnings (loss) per share (Classes A and B)</b>					
<b>2005</b>	<b>0.24</b>	<b>0.13</b>	<b>1.20</b>	-	-
2004	0.05	(0.05)	(0.11)	(1.05)	(1.16)
2003	0.15	0.13	0.00	0.07	0.35
<b>Diluted earnings (loss) per share from continuing operations (Classes A and B)</b>					
<b>2005</b>	<b>0.21</b>	<b>0.08</b>	<b>0.44</b>	-	-
2004	0.06	(0.06)	(0.11)	(1.07)	(1.18)
2003	0.15	0.13	(0.04)	(0.02)	0.22
<b>Diluted earnings (loss) per share from discontinued operations (Classes A and B)</b>					
<b>2005</b>	<b>0.03</b>	<b>0.05</b>	<b>0.76</b>	-	-
2004	(0.01)	0.01	0.00	0.02	0.02
2003	0.00	(0.01)	0.04	0.09	0.12
<b>Total diluted earnings (loss) per share (Classes A and B)</b>					
<b>2005</b>	<b>0.24</b>	<b>0.13</b>	<b>1.20</b>	-	-
2004	0.05	(0.05)	(0.11)	(1.05)	(1.16)
2003	0.15	0.12	0.00	0.07	0.34

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

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

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

On September 30, 2005, the Company sold its OMSCO division. As a result, the Company recorded an after-tax gain of \$48.8 million (\$0.65 per share) in the third quarter of 2005 and adopted discontinued operations accounting treatment for the OMSCO division.

## **Outstanding Share Capital**

As at October 24, 2005, the Company had 61,575,601 Class A Subordinate Voting Shares (“Class A”) outstanding and 13,599,165 Class B Multiple Voting Shares (“Class B”) outstanding. Each Class B share is convertible into a Class A share at the option of the holder. In addition, as at October 24, 2005, the Company had stock options outstanding to purchase up to 2,651,690 Class A shares.

## **Outlook**

The 12 month backlog of orders continued to be strong at the end of the quarter and stood at \$373.0 million at September 30, 2005, compared to \$383.1 million, restated to exclude OMSCO, at the beginning of the quarter, with the decrease attributable to foreign exchange rate fluctuations and continuing production on the Langed project.

The strength of the backlog indicates continuing favourable market conditions for the Company’s businesses. Quotation and bid levels remain high in the Pipeline and Pipe Services segment’s businesses and several large projects were awarded in the Far Eastern region and in Latin America during the quarter. Business conditions at the Petrochemical and Industrial segment’s businesses are expected to remain stable. The Company’s Bredero Shaw continuous improvements programs continue to demonstrate positive results. With the winding down of the Ormen Lange project work by the end of the first quarter of next year, the challenge will be to replace those volumes with other large project work around the world. With the cash proceeds from the sale of OMSCO, the Company’s balance sheet is well positioned to finance the internal and external growth opportunities that are expected to be available going forward.

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

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

ShawCor will be hosting a Shareholder and Analyst Conference Call and Webcast on Thursday, November 3, 2005 at 10:00 a.m. EST to discuss the Company’s third quarter 2005 financial results. Please visit our website at [www.shawcor.com](http://www.shawcor.com) for further details.

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**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2005	2004 Restated	2005	2004 Restated
Revenue	\$ 240,378	\$ 190,125	\$ 733,902	\$ 552,892
Operating expenses	207,964	181,111	636,595	504,830
Amortization	11,073	14,224	34,970	42,565
Research and development	2,002	1,342	5,817	3,818
	<u>221,039</u>	<u>196,677</u>	<u>677,382</u>	<u>551,213</u>
Share of earnings in associated company	850	347	1,351	2,294
Income (loss) from operations	20,189	(6,205)	57,871	3,973
Interest expense (note 4)	1,145	1,213	3,679	4,022
Income (loss) before income taxes and non-controlling interest	19,044	(7,418)	54,192	(49)
Income taxes	(14,002)	1,941	(1,082)	8,761
Income (loss) before non-controlling interest	33,046	(9,359)	55,274	(8,810)
Non-controlling interest	92	228	(87)	550
Income (loss) from continuing operations	33,138	(9,131)	55,187	(8,260)
Income (loss) from discontinued operation (note 10)	57,614	473	63,063	(302)
Net income (loss)	<u>\$ 90,752</u>	<u>\$ (8,658)</u>	<u>\$ 118,250</u>	<u>\$ (8,562)</u>
Earnings (loss) per share Class A and B - Basic				
Continuing operations	\$ 0.44	\$ (0.11)	\$ 0.73	\$ (0.11)
Discontinued operation	0.76	(0.00)	0.84	(0.00)
Total	<u>\$ 1.20</u>	<u>\$ (0.11)</u>	<u>\$ 1.57</u>	<u>\$ (0.11)</u>
Earnings (loss) per share Class A and B - Diluted				
Continuing operations	\$ 0.44	\$ (0.11)	\$ 0.73	\$ (0.11)
Discontinued operation	0.76	(0.00)	0.84	(0.00)
Total	<u>\$ 1.20</u>	<u>\$ (0.11)</u>	<u>\$ 1.57</u>	<u>\$ (0.11)</u>

**SEGMENTED INFORMATION**

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2005	2004 Restated	2005	2004 Restated
Revenue				
Pipeline and Pipe Services	\$ 210,806	\$ 159,780	\$ 641,736	\$ 458,211
Petrochemical and Industrial	29,920	30,729	93,268	95,906
Intersegment Eliminations	(348)	(384)	(1,102)	(1,225)
	<u>\$ 240,378</u>	<u>\$ 190,125</u>	<u>\$ 733,902</u>	<u>\$ 552,892</u>
Income (loss) from operations				
Pipeline and Pipe Services	\$ 21,330	\$ (6,759)	\$ 59,705	\$ (1,559)
Petrochemical and Industrial	3,022	4,134	10,372	12,677
Financial and Corporate	(4,163)	(3,580)	(12,206)	(7,145)
	<u>\$ 20,189</u>	<u>\$ (6,205)</u>	<u>\$ 57,871</u>	<u>\$ 3,973</u>

**CONSOLIDATED STATEMENTS OF CASH FLOW**

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2005	2004 Restated	2005	2004 Restated
Operating activities:				
Net income (loss) from continuing operations	\$ 33,138	\$ (9,131)	\$ 55,187	\$ (8,260)
Items not requiring an outlay of cash:				
Amortization	11,073	14,224	34,970	42,565
Gain on disposal of investment in shares	-	-	-	(4,710)
Change in deferred project costs	(1,358)	(294)	(5,140)	4,831
Future income taxes	(2,788)	597	(537)	(3,258)
Non-controlling interest in earnings of subsidiaries	(79)	(228)	87	(550)
Share of earnings of associated company	(850)	(347)	(1,351)	(475)
Change in non-cash working capital and other	(16,816)	(4,230)	(33,976)	(11,595)
Cash provided by operating activities	<u>22,320</u>	<u>591</u>	<u>49,240</u>	<u>18,548</u>
Investing activities:				
Additions to property, plant and equipment	(13,315)	(6,346)	(30,676)	(24,160)
Proceeds on disposal of assets	338	2	402	268
Proceeds on disposal of investment in shares	-	-	-	6,729
Investment in shares	-	-	-	(2,874)
Cash (used in) investing activities	<u>(12,977)</u>	<u>(6,344)</u>	<u>(30,274)</u>	<u>(20,037)</u>
Financing activities:				
Increase (decrease) in bank indebtedness	(2,868)	3,992	(2,142)	4,932
Issue of shares	280	-	613	363
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	(7)
Dividends paid to shareholders	-	-	(3,323)	(2,980)
Cash provided by (used in) financing activities	<u>(2,588)</u>	<u>3,992</u>	<u>(4,852)</u>	<u>2,308</u>
Foreign exchange on foreign cash and cash equivalents	(2,795)	(1,206)	(2,972)	(1,029)
Net cash provided by (used in) continuing operations	3,960	(2,967)	11,142	(210)
Net cash provided by (used in) discontinued operation (note10)	141,339	389	140,109	(42)
Cash and cash equivalents at beginning of period	<u>82,449</u>	<u>82,586</u>	<u>76,497</u>	<u>80,260</u>
Cash and cash equivalents at end of period	<u>\$ 227,748</u>	<u>\$ 80,008</u>	<u>\$ 227,748</u>	<u>\$ 80,008</u>

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

**CONSOLIDATED BALANCE SHEETS**

	<u>Sept. 30</u> <u>2005</u>	<u>Dec. 31</u> <u>2004</u>	<u>Sept. 30</u> <u>2004</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 227,748	\$ 76,497	\$ 80,008
Accounts receivable and prepaid expenses	201,785	183,690	189,691
Inventories	75,280	94,444	82,588
Future income taxes	-	5,010	1,977
	<u>504,813</u>	<u>359,641</u>	<u>354,264</u>
Property, plant and equipment, net	189,406	222,765	283,523
Goodwill	169,206	176,393	183,798
Investment in associated company	4,953	4,226	4,835
Other assets (note 5)	39,184	32,637	26,615
	<u>\$ 907,562</u>	<u>\$ 795,662</u>	<u>\$ 853,035</u>
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness (note 7)	\$ 1,738	\$ 4,495	\$ 4,978
Accounts payable and accrued liabilities	203,211	188,591	161,216
Taxes payable	30,381	22,142	24,098
	<u>235,330</u>	<u>215,228</u>	<u>190,292</u>
Long-term debt	87,953	90,360	98,498
Future income taxes	39,764	43,350	32,009
Non-controlling interest in subsidiaries	3,771	3,318	3,261
	<u>366,818</u>	<u>352,256</u>	<u>324,060</u>
<b>Shareholders' Equity</b>			
Capital stock (note 8)	208,322	206,904	206,873
Contributed surplus (note 9)	7,837	7,196	6,867
Retained earnings	415,742	300,815	382,294
Cumulative translation account	(91,157)	(71,509)	(67,059)
	<u>540,744</u>	<u>443,406</u>	<u>528,975</u>
	<u>\$ 907,562</u>	<u>\$ 795,662</u>	<u>\$ 853,035</u>

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

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	Three Months Ended		Nine Months Ended	
	Sept 30		Sept 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Balance at beginning of period	\$ 324,990	\$ 390,952	\$ 300,815	\$ 396,037
Adjustment for stock based compensation	-	-	-	(2,201)
Balance at beginning of period, adjusted	<u>324,990</u>	<u>390,952</u>	<u>300,815</u>	<u>393,836</u>
Net income (loss)	<u>90,752</u>	<u>(8,658)</u>	<u>118,250</u>	<u>(8,562)</u>
	<u>415,742</u>	<u>382,294</u>	<u>419,065</u>	<u>385,274</u>
Dividends paid	-	-	3,323	2,980
Balance at end of period	<u>\$ 415,742</u>	<u>\$ 382,294</u>	<u>\$ 415,742</u>	<u>\$ 382,294</u>

## ShawCor Ltd.

### Notes to the Interim Consolidated Financial Statements (Unaudited)

#### 1. Accounting policies

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

#### 2. Stock-based compensation

On August 9, 2005, the Board of Directors approved the granting of 4,000 stock options under the 2001 Director Plan. The total, average fair value of the stock options, calculated using the Black-Scholes pricing model, was \$16 thousand. The options granted under the 2001 Director Plan vest immediately and as a result, the fair value of the options are charged to compensation cost immediately. The assumptions used in calculating the fair value of the options are as follows: expected life of options 3.25 years, expected stock price volatility 25%, expected dividend yield 0.47%, and risk free interest rate 3.47%. The compensation cost recognized in the accounts for the three months and nine months ended September 30, 2005 is \$244 thousand and \$1.4 million, respectively (September 30, 2004 - \$532 thousand and \$1.6 million, respectively).

#### 3. Foreign exchange gains and losses

Included in income from operations for the three months and nine months ended September 30, 2005 are foreign exchange losses totaling \$78 thousand and \$880 thousand, respectively (September 30, 2004 - \$326 thousand loss and \$2.0 million gain, respectively).

#### 4. Interest expense (income)

(in thousands of Canadian dollars)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2005	2004	2005	2004
Interest on short-term deposits	\$ (380)	\$ (339)	\$ (1,093)	\$ (868)
Interest on bank indebtedness	94	123	458	563
Interest on long-term debt	1,431	1,429	4,314	4,327
	<u>\$ 1,145</u>	<u>\$ 1,213</u>	<u>\$ 3,679</u>	<u>\$ 4,022</u>

Net interest paid during the three months and nine months ended September 30, 2005 totaled \$928 thousand and \$3.9 million, respectively (September 30, 2004 - \$1.5 million and \$4.5 million, respectively).

**5. Other assets**

(in thousands of Canadian dollars)	<b>Sept 30, 2005</b>	Dec. 31, 2004	Sept 30, 2004
Long-term investment	\$ 2,875	\$ 2,875	\$ 2,875
Deferred financing costs	2,193	2,627	2,842
Deferred project costs	12,206	7,260	7,741
Future income taxes	21,910	19,875	13,157
Total	<b>\$ 39,184</b>	\$ 32,637	\$ 26,615

Other assets include a long-term investment in Garneau Inc., a Canadian-based, publicly traded pipe-coating company with a market value of \$2.9 million at September 30, 2005.

**6. Derivative Financial Instruments**

Foreign exchange options and forward exchange contracts are used to hedge foreign exchange exposures related to commercial activities. They are not used by the Company for speculative purposes. At September 30, 2005, the Company had notional amounts of \$108.5 million of forward contracts outstanding (December 31, 2004 - \$67.2 million) with a fair value of \$1.5 million (December 31, 2004 - \$214 thousand). These amounts are used to express the volume of transactions and are not recognized in the consolidated financial statements. During the quarter, the Company entered into a series of forward contracts with notional values totaling \$43.8 million, with large international financial institutions, to hedge expected U.S. dollar, Euro, U.K. Pound and Brazilian Real cash flows. These contracts are accounted for as hedges of the related cash flows and short-term movements in the fair value of these financial instruments are deferred and matched with the hedged cash flows. The Company monitors the effectiveness of the hedges on an on-going basis and if the hedges are no longer considered effective, hedge accounting is discontinued.

**7. Bank indebtedness**

As at September 30, 2005, the Company had unused operating lines of credit of \$172.4 million, net of \$1.7 million in bank indebtedness and \$78.0 million for various types of standby letters of credit for performance and bid bonds.

**8. Capital stock**

(in thousands except share information)	Sep. 30, 2005	Dec. 31, 2004	Sep. 30, 2004
<b>Number of shares: Class A</b>			
Balance, beginning of the period	61,224,968	61,206,202	61,206,202
Issued – stock options	200,975	44,736	41,270
Conversion Class B to A	146,000	24,030	14,200
Share issuance	-	-	-
Purchases under Normal Course Issuer Bid	-	(50,000)	-
Balance, end of the period	61,571,944	61,224,968	61,261,672
Number of shares: Class B	13,599,965	13,745,965	13,755,795
Total number of shares Class A and Class B	75,171,909	74,970,933	75,017,467
<b>Stated Value: Class A</b>			
Balance, beginning of the period	\$ 205,849	\$ 205,454	\$ 205,454
Issued – stock options	1,418	561	363
Conversion Class B to A	11	2	1
Share issuance	-	-	-
Purchases under Normal Course Issuer Bid	-	(168)	-
Balance, end of the period	\$ 207,278	\$ 205,849	\$ 205,818
Stated Value: Class B	1,044	1,055	1,055
Total stated value Class A and Class B	\$ 208,322	\$ 206,904	\$ 206,873

**9. Contributed surplus**

(in thousands of Canadian dollars)	Three Months Ended		Nine Months Ended	
	Sep. 30	2004	Sep. 30	2004
Balance, beginning of period	\$ 7,694	\$ 6,335	\$ 7,196	\$ 3,027
Adjustment for stock-based compensation	-	-	-	2,201
Stock compensation expense (note 2)	244	532	1,446	1,639
Fair value of stock options exercised	(101)	-	(805)	-
Balance, end of period	\$ 7,837	\$ 6,867	\$ 7,837	\$ 6,867

**10. Discontinued operation**

On September 30, 2005, the Company concluded the sale of its OMSCO division to Vallourec & Mannesmann Tubes S.A. (“V&M”) for proceeds of U.S.\$120 million (\$140.7 million), less closing and other transaction costs estimated to be \$5.1 million. The transaction was a sale of assets consisting of net working capital totaling \$43.8 million and property, plant and equipment with a net book value of \$16.7 million. As a result of this transaction, the Company has accounted for its OMSCO division as a discontinued operation and has restated current and prior operating results accordingly. The following table summarizes the results of

OMSCO, including the gain recognized on the sale of the division, for the quarter and the year-to-date:

(in thousands of Canadian dollars)	Three Months Ended Sep. 30		Nine Months Ended Sep. 30	
	2005	2004	2005	2004
Revenue	\$ 31,271	\$ 18,737	\$ 91,333	\$ 41,818
OMSCO income (loss) from operations	6,008	738	14,642	(483)
Gain on sale	75,109	-	75,109	-
Income from discontinued operation before income tax expense	81,117	738	89,751	(483)
Income tax expense	23,503	265	26,688	(181)
Net income (loss) from discontinued operation	57,614	473	63,063	(302)
Cash flow from (used in) operating activities	5,739	(266)	5,124	105
Cash flow from (used in) investing activities	135,600	(108)	135,600	(194)
Cash flow from (used in) investing activities	-	763	(615)	47
Net cash provided by (used in) discontinued operations	141,339	389	140,109	(42)

The following table summarized the assets and liabilities of OMSCO as at December 31, 2004 and September 30, 2004, which are included in the consolidated balance sheet:

In thousand of Canadian dollars	Dec. 31 2004	Sep. 30 2004
Current assets	\$ 30,019	\$ 25,775
Property, plant and equipment, net	19,068	20,928
Current liabilities	7,596	7,536

## 11. Segmented information

As a result of the sale of the OMSCO division, the Company has realigned its segmented reporting into two industry segments: Pipeline and Pipe Services and Petrochemical and Industrial. The former segment includes the operations of Bredero Shaw, Shaw Pipeline Services, Canusa-CPS and Guardian while the later segment includes ShawFlex and DSG-Canusa. All comparative figures have been reclassified to reflect this new structure.

(in thousands of Canadian dollars)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2005	2004	2005	2004
Revenue				
Pipeline and Pipe Services	\$ 210,806	\$ 159,780	\$ 641,736	\$ 458,211
Petrochemical and Industrial	29,920	30,729	93,268	96,906
Intersegment Eliminations	(348)	(384)	(1,102)	(1,225)
	<u>\$ 240,378</u>	<u>\$ 190,125</u>	<u>\$ 733,902</u>	<u>\$ 552,892</u>
Income (loss) from operations				
Pipeline and Pipe Services	\$ 21,330	\$ (6,759)	\$ 59,705	\$ (1,559)
Petrochemical and Industrial	3,022	4,134	10,372	12,677
Financial and Corporate	(4,163)	(3,580)	(12,206)	(7,145)
	<u>\$ 20,189</u>	<u>\$ (6,205)</u>	<u>\$ 57,871</u>	<u>\$ 3,973</u>
Goodwill				
Pipeline and Pipe Services			\$ 152,534	\$ 165,253
Petrochemical and Industrial			16,672	18,545
			<u>\$ 169,206</u>	<u>\$ 183,798</u>
Total assets				
Pipeline and Pipe Services			\$ 909,874	\$ 731,717
Petrochemical and Industrial			73,667	80,498
Financial and Corporate			940,553	581,534
Elimination			(1,016,532)	(540,714)
			<u>\$ 907,562</u>	<u>\$ 853,035</u>

## 12. Employee future benefits

The Company's cost under both defined benefit and defined contribution arrangements for the three months and nine months ended September 30, 2005 is \$2.7 million and \$6.7 million, respectively (September 30, 2004 - \$2.2 million and \$6.6 million, respectively).

## 13. Closure of Mobile, Alabama facility

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

Mobile facility is a component of the Pipeline and Pipe Services market segment.

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

(In thousands of Canadian dollars)	First	Second	Third	Fourth	Full Year
<b>Revenue</b>					
<b>2005</b>	\$ 15,319	\$ 4,938	\$ 1,211	\$ -	\$ -
2004	12,384	12,717	17,688	21,174	63,963
2003	29,870	18,558	13,931	16,852	79,211
<b>Loss from operations</b>					
<b>2005</b>	(3,175)	(1,428)	(1,220)	-	-
2004	(6,226)	(12,894)	(14,932)	(43,336)	(77,388)
2003	(2,100)	(8,196)	(5,582)	(4,626)	(20,504)
<b>Asset impairment charges</b>					
<b>2005</b>	-	-	-	-	-
2004	-	-	-	(50,390)	(50,390)
2003	-	-	-	-	-
<b>Loss from operations after asset impairment charges</b>					
<b>2005</b>	(3,175)	(1,428)	(1,220)	-	-
2004	(6,226)	(12,894)	(14,932)	(93,726)	(127,778)
2003	(2,100)	(8,196)	(5,582)	(4,626)	(20,504)

#### 14. Income taxes

Net income taxes paid during the three months and nine months ended September 30, 2005 totaled \$11.4 million and \$18.0 million, respectively (September 30, 2004 – \$1.6 million and \$5.0 million, respectively). Taxes on income from continuing operations includes a reduction in income taxes expense of \$18.4 million from the utilization of prior years' tax losses not previously recognized in the accounts.

#### 15. Comparative figures

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