

August 3, 2006

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

**PRESS RELEASE**

**SHAWCOR ANNOUNCES SECOND QUARTER RESULTS**

**Financial Summary**

| (In thousands of Canadian dollars except per share amounts) | Three Months Ended Jun. 30 |            | Six Months Ended Jun. 30 |            |
|---|----------------------------|------------|--------------------------|------------|
|   | 2006                       | 2005       | 2006                     | 2005       |
| <b>Operating Results</b>                                    |                            | Restated   |                          | Restated   |
| Revenue   | \$ 262,929                 | \$ 230,411 | \$ 520,659               | \$ 473,270 |
| EBITDA (note 1)   | 44,344                     | 23,577     | 91,899                   | 64,460     |
| Operating income from continuing operations                 | 35,805                     | 12,499     | 73,258                   | 41,825     |
| Income from continuing operations                           | 24,898                     | 7,629      | 49,653                   | 26,317     |
| Income (loss) from discontinued operations                  | (192)                      | 2,111      | (227)                    | 1,181      |
| Net income (loss)   | 24,706                     | 9,740      | 49,426                   | 27,498     |
| Net income (loss) per share (Class A and B) - Basic         |                            |            |                          |            |
| Continuing operations                                       | 0.34                       | 0.10       | 0.67                     | 0.35       |
| Discontinued operations                                     | 0.00                       | 0.03       | 0.00                     | 0.02       |
| Total   | 0.34                       | 0.13       | 0.67                     | 0.37       |
| Net income (loss) per share (Class A and B) - Diluted       |                            |            |                          |            |
| Continuing operations                                       | 0.34                       | 0.10       | 0.67                     | 0.35       |
| Discontinued operations                                     | 0.00                       | 0.03       | 0.00                     | 0.02       |
| Total   | 0.34                       | 0.13       | 0.67                     | 0.37       |
| <b>Cash Flow</b>  |                            |            |                          |            |
| Cash from (used in) continuing operating activities         | 29,412                     | 36,758     | 78,350                   | 48,207     |
| Additions to property, plant and equipment                  | 12,582                     | 12,084     | 19,108                   | 17,296     |
| <b>Financial Position</b>                                   |                            |            |                          |            |
| Working capital   |                            |            | 297,373                  | 158,572    |
| Total assets  |                            |            | 952,409                  | 838,350    |
| Shareholders' equity per share (Class A and B)              |                            |            | \$ 7.76                  | \$ 6.16    |

Note 1: EBITDA is a non-GAAP measure calculated by adding back to income from continuing operations, interest, taxes and depreciation/amortization. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures prescribed by other companies. EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools.

Consolidated revenue for the quarter totaled \$262.9 million compared to \$257.7 million last quarter and \$230.4 million in the second quarter of 2005. The growth in revenue reflected strong business activity at Bredero Shaw's North American operations and the impact of several large pipecoating projects which are in progress at the Company's pipecoating plants in Indonesia and Malaysia. Revenue at the Company's other divisions remained at levels similar to the prior quarter but some 7% ahead of the prior year led by increased revenue at the Shawflex division. On a year-to-date basis, revenue totaled \$520.7 million, 10% higher than in the first six months of 2005.

Consolidated income from continuing operations totaled \$24.9 million (\$0.34 per share) in the quarter compared to \$7.6 million (\$0.10 per share) in the second quarter of 2005

with the improvement mainly due to the increased revenue and higher operating margins, resulting from improved operating efficiencies, at Bredero Shaw. Consolidated income from continuing operations in the quarter increased slightly from levels in the first quarter of the year with a reduction in income tax expense offsetting the impact of reduced activity at the North Sea plants and at Bredero Shaw's Nigerian operations. Actions were taken during the quarter to reduce costs in the North Sea region to reflect anticipated business levels over the near term and are expected to show improvements in future periods.

The current outlook for the Company continues to show softness in the second half of the year with the forecast for full year revenue slightly lower than last year. A major factor in this outlook is the translation impact of the stronger Canadian dollar which has the effect of reducing the value the Company's U.S. dollar-based revenues when translated into the Canadian dollar reporting currency. Profitability levels for full year 2006 are expected to be maintained at levels similar to 2005, despite the lower revenue, due to improved operational efficiencies at Bredero Shaw. Bidding activity continues to be strong and several major pipeline projects are planned throughout the world over the next several years. These factors result in the Company anticipating strong business activity in 2007 and beyond.

The acquisition of Garneau Inc., which was announced in the quarter, has been delayed pending review by the Competition Bureau, Canada (the "Bureau"). The Company remains committed to this transaction; however, there are no assurances that the Company will receive the governmental clearance necessary to complete the transaction.

## **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 2005 Annual Report.

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

ShawCor classifies its revenue and income from operations in two industry segments: Pipeline and Pipe Services, and Petrochemical and Industrial.

Consolidated revenue from continuing operations totaled \$262.9 million in the quarter and increased 14% from levels in the second quarter of 2005. Consolidated income from continuing operations for the quarter totaled \$24.9 million (\$0.34 per share), compared to \$7.6 million (\$0.10 per share) in the second quarter of 2005. Consolidated revenue increased marginally compared to last quarter of \$257.7 million while income from continuing operations was \$0.2 million higher than the previous quarter reflecting the benefit of a reduced income tax rate offsetting softness at Bredero Shaw's North Sea plants and in Nigeria. Net income in the quarter after discontinued operations costs, was \$24.7 million (\$0.34 per share) compared to \$24.7 million (\$0.33 per share) last quarter

and \$9.7 million (\$0.13 per share) in the second quarter of 2005. The improvement in net income per share from the first quarter was due to the reduction in shares outstanding as a result of the purchase of shares for cancellation during the quarter.

In the Pipeline and Pipe Services segment, revenue in the quarter totaled \$227.1 million, 2% higher than in the prior quarter and 14% higher than in the second quarter of 2005. Revenue in the quarter at Bredero Shaw was virtually unchanged from the prior quarter as large diameter project activity in the division's Far East region, more than offset slower North Sea activity resulting from the completion of the Langeled project in Norway. Revenue at the division in the second quarter increased 17% from levels in the same quarter of last year reflecting stronger business activity in North America and the Far East. Income from continuing operations for the Pipeline and Pipe Services segment remained strong at \$36.3 million (16% of segment sales) in the quarter compared to \$37.3 million (16.6% of segment sales) in the preceding quarter and was significantly improved over the \$12.9 million (6% of segment sales) in the second quarter of last year. The continuation of the strong performance from the first quarter and improvement over the prior year reflected improved operating margins at Bredero Shaw resulting from better operational efficiency and more favourable project mix in the North America and Far East operations. On a year-to-date basis, revenue for the segment totaled \$450.2 million and income from continuing operations totaled \$73.5 million compared to \$410.7 million and \$43.0 million, respectively, in the corresponding period of last year.

In the Petrochemical and Industrial segment, revenue in the quarter of \$36.2 million was 3% higher than in the prior quarter and increased 13% from the level in the second quarter of last year driven mainly by strong business activity at ShawFlex. Revenue in the quarter at both DSG-Canusa and Shawflex increased by 3% over the first quarter of 2006 and increased by 3% and 39% respectively over the second quarter of 2005. Income from continuing operations for the segment totaled \$3.9 million in the quarter and increased 11% from the second quarter of last year, however, decreased from \$4.6 million last quarter. ShawFlex operating income was adversely impacted in the quarter by higher material prices, primarily copper, prior to being able to pass these increases on to customers through price increases. On a year-to-date basis, revenue for the segment totaled \$71.2 million and income from continuing operations totaled \$8.6 million representing increases of 12% and 17%, respectively, over the same period last year.

## **Finance**

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, before net foreign exchange losses of \$54 thousand, totaled \$4.3 million compared to \$5.0 million in the prior quarter, before net foreign exchange gains of \$550 thousand.

Net interest income totaled \$424 thousand in the quarter, compared to \$114 thousand in the prior quarter and net interest expense of \$1.5 million in the second quarter of 2005. The improvement over the second quarter of last year reflects the improved cash position

of the Company resulting from the divestiture of the OMSCO division in the third quarter of 2005 together with cash generated during the twelve month period.

Income tax expense was \$10.4 million in the quarter compared to \$12.8 million in the prior quarter and \$3.0 million in the second quarter of last year. The effective tax rate (income taxes as a percentage of income from continuing operations before income taxes and non-controlling interest) of 29% in the quarter was impacted by the benefit of earnings in the United States sheltered by previously unrecognized tax losses and by tax rate reductions in Canada, partially offset by losses in other countries which were not tax-effected.

### **Cash Flow**

Cash flow generated from operating activities in the quarter totaled \$29.4 million compared to \$48.9 million last quarter and \$36.8 million in the second quarter of 2005 with the decrease due primarily to the significant reduction in working capital in the preceding quarter compared with a \$2.0 million increase in the current quarter. On a year-to-date basis, cash flow generated from operating activities totaled \$78.4 million compared to \$48.2 million in the first six months of 2005.

Capital expenditures in the quarter totaled \$12.6 million compared to \$6.5 million last quarter and \$12.1 million in the second quarter of last year. Major capital additions in the quarter included the purchase of land near Bredero Shaw's Camrose, Alberta plant, the purchase of a pipecoating line in the Far Eastern region from an inactive facility, to be used for an anticipated upcoming project mobilization, the commencement of capital spending for the Company's new pipecoating facility in Portland Oregon, and an ongoing production capacity expansion program at ShawFlex. On a year-to-date basis, cash flow used in investing activities totaled \$19.1 million compared to \$17.2 million in the corresponding period of last year.

Cash flow used in financing activities totaled \$7.0 million in the quarter consisted of dividends paid to shareholders of \$3.3 million and the cost of shares repurchased under the Normal Course Issue Bid of \$4.2 million, partially offset by \$478 thousand received from the issuance of shares on the exercise of stock options. Cash used in financing activities totaled \$10.0 million in the second quarter of 2005, reflecting the repayment of bank indebtedness of \$6.9 million and dividends paid to shareholders of \$3.3 million, partially offset by the receipt of \$262 thousand on the exercise of stock options. On a year-to-date basis, cash flow used in investing activities totaled \$8.7 million compared to \$2.9 million in the first six months of last year.

### **Liquidity and Capitalization**

At June 30, 2006, the Company recorded a working capital ratio of 2.16 to 1 compared to 2.05 to 1 at December 31, 2005. Operating working capital, excluding cash and cash equivalents, increased \$893 thousand in the quarter to \$51.9 million as increased investments in accounts receivable and prepaid contract costs were mostly offset by

increased accounts payable. Cash and cash equivalents increased \$1.7 million in the quarter to \$245.5 million, compared in an increase of \$42.7 million last quarter and \$16.1 million in the second quarter of 2005.

### **Financial Instruments**

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

At June 30, 2006, the Company had notional amounts of \$45.8 million of forward contracts outstanding (December 31, 2005 - \$104.5 million) with a fair value of negative \$1.3 million (December 31, 2005 – positive \$1.9 million). 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. The Company’s 2005 Annual Report and 2005 Annual Information Form include a more detailed discussion of these risks and uncertainties.

### **Contractual Obligations**

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

## Summary of Quarterly Results

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

(In thousands of Canadian dollars except per share amounts)

|  | First      | Second     | Third    | Fourth   | Full Year |
|--|------------|------------|----------|----------|-----------|
| <b>Revenue</b>   |            |            |          |          |           |
| 2006   | \$ 257,730 | \$ 262,929 | \$       | \$       | \$        |
| 2005   | 242,859    | 230,411    | 239,164  | 291,685  | 1,004,119 |
| 2004   | 163,352    | 174,311    | 172,440  | 227,681  | 737,784   |
| <b>Operating income from continuing operations</b>                             |            |            |          |          |           |
| 2006   | 37,452     | 35,806     |          |          |           |
| 2005   | 29,326     | 12,499     | 21,869   | 31,719   | 95,413    |
| 2004   | 15,499     | 12,758     | 10,690   | 28,231   | 67,178    |
| <b>Income from continuing operations</b>                                       |            |            |          |          |           |
| 2006   | 24,755     | 24,898     |          |          |           |
| 2005   | 18,688     | 7,629      | 34,693   | 21,780   | 82,790    |
| 2004   | 11,268     | 8,128      | 7,434    | 12,297   | 39,127    |
| <b>Income (loss) from discontinued operations</b>                              |            |            |          |          |           |
| 2006   | (35)       | (192)      |          |          |           |
| 2005   | (930)      | 2,111      | 56,059   | (1,190)  | 56,050    |
| 2004   | (7,683)    | (11,617)   | (16,092) | (90,396) | (125,788) |
| <b>Net income (loss)</b>   |            |            |          |          |           |
| 2006   | 24,720     | 24,898     |          |          |           |
| 2005   | 17,758     | 9,740      | 90,752   | 20,590   | 138,840   |
| 2004   | 3,585      | (3,489)    | (8,658)  | (78,099) | (86,661)  |
| <b>Operating income from continuing operations per share (Classes A and B)</b> |            |            |          |          |           |
| <b>Basic and Diluted</b>   |            |            |          |          |           |
| 2006   | 0.51       | 0.48       |          |          |           |
| 2005   | 0.39       | 0.17       | 0.29     | 0.42     | 1.27      |
| 2004   | 0.21       | 0.17       | 0.14     | 0.38     | 0.90      |
| <b>Income from continuing operations per share (Classes A and B)</b>           |            |            |          |          |           |
| <b>Basic and Diluted</b>   |            |            |          |          |           |
| 2006   | 0.33       | 0.34       |          |          |           |
| 2005   | 0.25       | 0.10       | 0.45     | 0.30     | 1.10      |
| 2004   | 0.15       | 0.11       | 0.10     | 0.16     | 0.52      |
| <b>Income (loss) from discontinued operations per share (Classes A and B)</b>  |            |            |          |          |           |
| <b>Basic and Diluted</b>   |            |            |          |          |           |
| 2006   | 0.00       | 0.00       |          |          |           |
| 2005   | (0.01)     | 0.03       | 0.75     | (0.02)   | 0.75      |
| 2004   | (0.10)     | (0.16)     | (0.21)   | (1.21)   | (1.68)    |
| <b>Net income (loss) per share (Class A and B)</b>                             |            |            |          |          |           |
| 2006   | 0.33       | 0.34       |          |          |           |
| 2005   | 0.24       | 0.13       | 1.20     | 1.28     | 1.85      |
| 2004   | 0.05       | (0.05)     | (0.11)   | (1.05)   | (1.16)    |

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

The Company's pipecoating operations are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability.

The Company's operations are subject to a degree of seasonality particularly in the Pipeline and Pipe Services market segment. Generally, the Western Canadian operations of Bredero Shaw and Guardian tend to be stronger in the first and fourth quarters of the year reflecting the winter pipe lay and drilling operations of their customers. In the case of Bredero Shaw in 2006 this historical seasonal trend has been altered by very strong market demand in Western Canada with the volume levels experienced in the first quarter 2006 continuing through the second quarter. It is now expected however that volumes will weaken in the second half. The following are additional key factors impacting the comparability of the quarterly information disclosed above:

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.

### **Proposed Transaction**

On April 20, 2006, the Company announced that it had entered into an agreement to acquire all of the outstanding common shares of Garneau Inc. by way of a court approved plan of arrangement. Under the terms of the arrangement, shareholders of Garneau (other than ShawCor and certain members of the Garneau family) will receive a cash payment of \$2.20 per share of Garneau. Members of the Garneau family will exchange their common shares of Garneau Inc. for non-voting preferred shares of Garneau Inc. which preferred shares will be redeemable after 3 years and retractable after 2 years at a price to be based on future profitability of certain ShawCor pipecoating operations, subject to a minimum of \$2.20 per share and a maximum of \$3.78 per share, and bear fixed cumulative dividends of 5% per annum. As part of the plan of arrangement, Garneau Inc. will sell its equipment manufacturing division to Garneau Industries Ltd., a corporation controlled by Glen Garneau, for a purchase price of \$3.0 million. Including outstanding stock options, there are 12.5 million common shares of Garneau Inc. outstanding, of which 3.6 million are owned by the Garneau family and 2.2 million by ShawCor.

On May 30, 2006, a resolution approving the plan of arrangement was passed by the required vote of shareholders at the Garneau Inc. special and general annual shareholders meeting. The final order from the Court of Queen's Bench of Alberta approving the arrangement was then issued. Prior to completing the transaction, the Company announced that the closing of the plan of arrangement had been delayed at the request of the Competition Bureau, Canada ("the Bureau"). While the Company remains committed to completing the Garneau acquisition, further delays at the request of the Bureau are possible and there are no assurances that the Company will receive the governmental clearance necessary to complete the transaction.

### **Outstanding Share Capital**

As at July 25, 2006, the Company had 60,850,600 Class A Subordinate Voting Shares ("Class A") outstanding and 13,078,232 Class B Multiple Voting Shares ("Class B") outstanding. Each Class B share is convertible into a Class A share at the option of the holder. In addition, as at July 25, 2006, the Company had stock options outstanding to purchase up to 2,860,205 Class A shares.

### **Outlook**

The Company's consolidated order backlog, representing customer orders expected to be completed within one year, totaled \$266 million at June 30, 2006. Including the Rockies Express contract that was announced in July 2006, the consolidated order backlog increases to \$308 million compared with \$333 million at the beginning of the second quarter.

The Company continues to anticipate slower business activity in the second half of the year as the North Sea region activity will be minimal and large pipecoating projects currently underway in the Far East are completed. The strong activity in the first half of the year in western Canada and Mexico will moderate in the second half following which the recently announced North American large diameter pipecoating projects are expected to generate strong performance in 2007 and beyond. The revenue for the full year is forecast at levels slightly lower than in 2005; however, profitability levels are expected to be maintained at levels similar to 2005, despite the lower revenue, due to improved operational efficiencies at Bredero Shaw.

Pipecoating bid activity remains strong and the Company continues to win large pipecoating contracts with several announced so far during 2006. In addition, several large pipeline projects are being planned globally, which will provide the significant growth opportunities for the Company. These factors point to strengthening business activity in 2007 and beyond.

### **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 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 believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions in light of currently available information, ShawCor 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 on 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 in our 2005 Annual Information Form and 2005 Annual Report . Please refer to the Company's 2005 Annual Information Form and 2005 Annual Report for more information.

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 Friday, August 4, 2006 at 10:00 AM EDT, which will discuss the company's second quarter 2006 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**

|   | Three Months Ended<br>June 30 |                           | Six Months Ended<br>June 30 |                           |
|---|-------------------------------|---------------------------|-----------------------------|---------------------------|
|   | <b>2006</b>                   | 2005<br>Restated - Note 7 | <b>2006</b>                 | 2005<br>Restated - Note 7 |
| Revenue   | \$ <b>262,929</b>             | \$ 230,411                | \$ <b>520,659</b>           | \$ 473,270                |
| Operating expenses (notes 2, 3 and 4)                   | <b>217,881</b>                | 204,429                   | <b>427,884</b>              | 405,329                   |
| Amortization  | <b>9,493</b>                  | 11,466                    | <b>19,615</b>               | 22,801                    |
| Research and development                                | <b>1,448</b>                  | 2,062                     | <b>2,897</b>                | 3,816                     |
|   | <b>228,822</b>                | 217,957                   | <b>450,396</b>              | 431,946                   |
| Share of earnings in associated company                 | <b>1,699</b>                  | 45                        | <b>2,995</b>                | 501                       |
| Operating income from continuing operations             | <b>35,806</b>                 | 12,499                    | <b>73,258</b>               | 41,825                    |
| Interest expense (income) (note 5)                      | <b>(424)</b>                  | 1,486                     | <b>(538)</b>                | 2,534                     |
| Income before income taxes and non-controlling interest | <b>36,230</b>                 | 11,013                    | <b>73,796</b>               | 39,291                    |
| Income taxes (note 6)                                   | <b>10,377</b>                 | 2,996                     | <b>23,169</b>               | 12,808                    |
| Income before non-controlling interest                  | <b>25,853</b>                 | 8,017                     | <b>50,627</b>               | 26,483                    |
| Non-controlling interest                                | <b>(955)</b>                  | (388)                     | <b>(974)</b>                | (166)                     |
| Income from continuing operations                       | <b>24,898</b>                 | 7,629                     | <b>49,653</b>               | 26,317                    |
| Income (loss) from discontinued operations (note 7)     | <b>(192)</b>                  | 2,111                     | <b>(227)</b>                | 1,181                     |
| Net income  | <b>\$ 24,706</b>              | \$ 9,740                  | <b>\$ 49,426</b>            | \$ 27,498                 |
| Earnings per share, Class A and B - Basic and Diluted   |                               |                           |                             |                           |
| Continuing operations                                   | \$ <b>0.34</b>                | \$ 0.10                   | \$ <b>0.67</b>              | \$ 0.35                   |
| Discontinued operations                                 | -                             | 0.03                      | -                           | 0.02                      |
| Total   | <b>\$ 0.34</b>                | \$ 0.13                   | <b>\$ 0.67</b>              | \$ 0.37                   |

**SEGMENTED INFORMATION**

|                               | Three Months Ended<br>June 30 |                   | Six Months Ended<br>June 30 |                   |
|-------------------------------|-------------------------------|-------------------|-----------------------------|-------------------|
|                               |                               | Restated - Note 7 |                             | Restated - Note 7 |
| Revenue                       |                               |                   |                             |                   |
| Pipeline and Pipe Services    | \$ <b>227,056</b>             | \$ 198,569        | \$ <b>450,164</b>           | \$ 410,674        |
| Petrochemical and Industrial  | <b>36,207</b>                 | 32,168            | <b>71,233</b>               | 63,348            |
| Intersegment Eliminations     | <b>(334)</b>                  | (326)             | <b>(738)</b>                | (752)             |
|                               | <b>\$ 262,929</b>             | \$ 230,411        | <b>\$ 520,659</b>           | \$ 473,270        |
| Income (loss) from operations |                               |                   |                             |                   |
| Pipeline and Pipe Services    | \$ <b>36,276</b>              | \$ 12,901         | \$ <b>73,537</b>            | \$ 42,977         |
| Petrochemical and Industrial  | <b>3,928</b>                  | 3,538             | <b>8,564</b>                | 7,349             |
| Financial and Corporate       | <b>(4,398)</b>                | (3,940)           | <b>(8,843)</b>              | (8,501)           |
|                               | <b>\$ 35,806</b>              | \$ 12,499         | <b>\$ 73,258</b>            | \$ 41,825         |

**CONSOLIDATED STATEMENTS OF CASH FLOW**

|   | Three Months Ended |                   | Six Months Ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | June 30            |                   | June 30           |                   |
|   | 2006               | 2005              | 2006              | 2005              |
|   |                    | Restated - Note 7 |                   | Restated - Note 7 |
| Operating activities:   |                    |                   |                   |                   |
| Income from continuing operations                               | \$ 24,898          | \$ 7,629          | \$ 49,653         | \$ 26,317         |
| Items not requiring an outlay of cash:                          |                    |                   |                   |                   |
| Amortization  | 9,493              | 11,466            | 19,615            | 22,801            |
| Future income taxes   | (2,281)            | (2,783)           | (2,887)           | 2,085             |
| Non-controlling interest in earnings of subsidiaries            | 955                | 388               | 974               | 166               |
| Share of earnings of associated company                         | (1,699)            | (45)              | (2,995)           | (501)             |
| Change in non-cash working capital and other                    | (1,954)            | 20,103            | 13,990            | (2,661)           |
| Cash provided by continuing operating activities                | <u>29,412</u>      | <u>36,758</u>     | <u>78,350</u>     | <u>48,207</u>     |
| Investing activities:   |                    |                   |                   |                   |
| Purchases of property, plant and equipment                      | (12,582)           | (12,084)          | (19,108)          | (17,296)          |
| Proceeds on disposal property, plant and equipment              | -                  | 64                | 41                | 80                |
| Cash used in continuing investing activities                    | <u>(12,582)</u>    | <u>(12,020)</u>   | <u>(19,067)</u>   | <u>(17,216)</u>   |
| Financing activities:   |                    |                   |                   |                   |
| Increase (decrease) increase in bank indebtedness               | -                  | (6,932)           | (1,715)           | 111               |
| Issue of shares   | 478                | 262               | 578               | 333               |
| Purchase of shares for cancellation                             | (4,188)            | -                 | (4,188)           |                   |
| Dividends paid to shareholders                                  | (3,282)            | (3,323)           | (3,282)           | (3,323)           |
| Cash used in continuing financing activities                    | <u>(6,992)</u>     | <u>(9,993)</u>    | <u>(8,607)</u>    | <u>(2,879)</u>    |
| Foreign exchange on foreign cash and cash equivalents           | <u>(7,585)</u>     | 455               | <u>(5,721)</u>    | 177               |
| Net cash provided by continuing operations                      | 2,253              | 15,200            | 44,955            | 28,289            |
| Net cash provided by (used in) discontinued operations (note 7) | (548)              | 2,374             | 262               | (22,337)          |
| Cash and cash equivalents at beginning of period                | <u>243,816</u>     | <u>64,875</u>     | <u>200,304</u>    | <u>76,497</u>     |
| Cash and cash equivalents at end of period                      | <u>\$ 245,521</u>  | <u>\$ 82,449</u>  | <u>\$ 245,521</u> | <u>\$ 82,449</u>  |

**CONSOLIDATED BALANCE SHEETS**

|  | <b>June. 30<br/>2006</b> | Dec. 31<br>2005   | June. 30<br>2005<br>Restated-Note 7 |
|--|--------------------------|-------------------|-------------------------------------|
| <b>Assets</b>  |                          |                   |                                     |
| Current assets   |                          |                   |                                     |
| Cash and cash equivalents                              | \$ 245,521               | \$ 200,304        | \$ 82,449                           |
| Accounts receivable                                    | 205,223                  | 213,416           | 161,835                             |
| Inventories  | 78,662                   | 81,012            | 68,997                              |
| Taxes receivable                                       | 4,976                    | 5,711             | -                                   |
| Prepaid expenses                                       | 18,792                   | 14,393            | 12,237                              |
| Future income taxes                                    | -                        | -                 | 2,354                               |
| Current assets of discontinued operation (note 7)      | -                        | 799               | 72,721                              |
|  | <u>553,174</u>           | <u>515,635</u>    | <u>400,593</u>                      |
| Property, plant and equipment, net                     | 176,242                  | 177,317           | 181,764                             |
| Goodwill   | 165,503                  | 167,172           | 175,350                             |
| Investment in associated company                       | 7,828                    | 5,061             | 4,341                               |
| Other assets (note 8)                                  | 44,832                   | 42,524            | 43,841                              |
| Non-current assets of discontinued operations (note 7) | 4,830                    | 7,974             | 32,461                              |
|  | <u>\$ 952,409</u>        | <u>\$ 915,683</u> | <u>\$ 838,350</u>                   |
| <b>Liabilities</b>                                     |                          |                   |                                     |
| Current liabilities                                    |                          |                   |                                     |
| Bank indebtedness (note 9)                             | \$ -                     | \$ 1,715          | \$ 4,606                            |
| Accounts payable and accrued liabilities               | 173,154                  | 167,473           | 151,299                             |
| Deferred revenues                                      | 25,363                   | 23,975            | 13,132                              |
| Taxes payable  | 48,487                   | 46,203            | 38,271                              |
| Current liabilities of discontinued operation (note 7) | 8,797                    | 12,250            | 34,713                              |
|  | <u>255,801</u>           | <u>251,616</u>    | <u>242,021</u>                      |
| Long-term debt   | 84,248                   | 87,210            | 92,415                              |
| Other non-current liabilities (note 10)                | 37,462                   | 41,619            | 41,894                              |
|  | <u>377,511</u>           | <u>380,445</u>    | <u>376,330</u>                      |
| <b>Shareholders' Equity</b>                            |                          |                   |                                     |
| Capital stock (note 11)                                | 204,790                  | 204,720           | 207,941                             |
| Contributed surplus (note 12)                          | 10,351                   | 9,231             | 7,694                               |
| Retained earnings                                      | 464,292                  | 421,547           | 324,990                             |
| Cumulative translation account                         | (104,535)                | (100,260)         | (78,605)                            |
|  | <u>574,898</u>           | <u>535,238</u>    | <u>462,020</u>                      |
|  | <u>\$ 952,409</u>        | <u>\$ 915,683</u> | <u>\$ 838,350</u>                   |

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

|  | Three Months Ended |                   | Six Months Ended  |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | June 30            |                   | June 30           |                   |
|  | <u>2006</u>        | <u>2005</u>       | <u>2006</u>       | <u>2005</u>       |
| Balance at beginning of period                               | \$ 446,267         | \$ 318,573        | \$ 421,547        | \$ 300,815        |
| Net income   | <u>24,706</u>      | <u>9,740</u>      | <u>49,426</u>     | <u>27,498</u>     |
|  | <b>470,973</b>     | <b>328,313</b>    | <b>470,973</b>    | <b>328,313</b>    |
| Excess of purchase price paid over stated value<br>of shares | <b>(3,399)</b>     | -                 | <b>(3,399)</b>    |                   |
| Dividends paid   | <b>(3,282)</b>     | <b>(3,323)</b>    | <b>(3,282)</b>    | <b>(3,323)</b>    |
| Balance at end of period                                     | <u>\$ 464,292</u>  | <u>\$ 324,990</u> | <u>\$ 464,292</u> | <u>\$ 324,990</u> |

**Notes to the 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 financial statements have been prepared in accordance with accounting policies outlined in the Company's audited financial statements for the year ended December 31, 2005. Accordingly, these interim financial statements should be read in conjunction with the Company's annual consolidated financial statements.

**2. Stock-based compensation**

On May 12, 2006, the Board of Directors approved the granting of 2,000 stock options under the 2001 Employee Plan with a fair value, calculated using the Black-Scholes pricing model, of \$13 thousand. The fair value of these options will be amortized to compensation expense over the 5 year vesting period of the options. The assumptions used in calculating the fair value of the options are as follows: expected life of options from 4.25 years to 8.25 years, expected stock price volatility ranges from 25.9% to 33.0%, expected dividend yield 0.87%, and risk free interest rate ranging from 4.23% to 4.39% over the life of the options. The compensation cost from the continuing amortization of granted stock options for the three months and six months ended June 30, 2006 included in operating expenses is \$819 thousand and \$1.4 million, respectively (June 30, 2005 - \$601 thousand and \$1.2 million, respectively).

**3. Foreign exchange gains and losses**

Included in operating expenses for the three months ended June 30, 2006 are foreign exchange losses totaling \$54 thousand, while foreign exchange gains for the six months ended June 30, 2006 totaled \$496 thousand (June 30, 2005 - losses of \$225 thousand and \$801 thousand, respectively). These gains and losses arise from foreign currency transactions and from the translation of the financial statements of foreign integrated subsidiaries.

**4. Employee future benefits**

The Company's cost under both defined benefit and defined contribution arrangements included in operating expenses for the three months and six months ended June 30, 2006 is \$2.8 million and \$5.2 million, respectively (June 30, 2005 - \$2.0 million and \$4.0 million, respectively).

**5. Interest expense (income)**

| (in thousands)                  | Three Months Ended<br>Jun. 30 |          | Six Months Ended<br>Jun. 30 |          |
|---------------------------------|-------------------------------|----------|-----------------------------|----------|
|                                 | 2006                          | 2005     | 2006                        | 2005     |
| Interest on short-term deposits | \$ (2,295)                    | \$ (227) | \$ (4,038)                  | \$ (713) |
| Interest on bank indebtedness   | 569                           | 217      | 803                         | 364      |
| Interest on long-term debt      | 1,302                         | 1,496    | 2,697                       | 2,883    |
|                                 | \$ (424)                      | \$ 1,486 | \$ (538)                    | \$ 2,534 |

Net interest received during the three months and six months ended June 30, 2006 totaled \$16 thousand and \$409 thousand, respectively (June 30, 2005 – interest paid of \$2.0 millions and \$3.0 million, respectively).

**6. Income taxes**

Net income taxes paid during the three months and six months ended June 30, 2006 totaled \$18.6 million and \$23.0 million, respectively (June 30, 2005 – \$1.1 million and \$6.6 million, respectively).

**7. Discontinued operations**

On September 30, 2005, the Company concluded the sale of its OMSCO drill pipe manufacturing division (“OMSCO”) and accordingly adopted discontinued operations accounting treatment for the division in the third quarter of 2005. On November 2, 2004, the Company announced its decision to close the Mobile, Alabama pipecoating facility and operations at the facility ceased in the fourth quarter of 2005. The Company adopted discontinued operations accounting treatment for the Mobile facility in the fourth quarter of 2005.

The following table summarizes the financial results and cash flows from discontinued operations for the six months ended June 30, 2006 and 2005 and the assets and liabilities of the discontinued operations as at those dates:

| (in thousands of Canadian dollars)                             | Six Months Ended June 30, 2006 |          |          | Six Months Ended June 30, 2005 |             |           |
|--|--------------------------------|----------|----------|--------------------------------|-------------|-----------|
|  | OMSCO                          | Mobile   |          | OMSCO                          | Mobile      |           |
|  |                                | Facility | Total    |                                | Facility    | Total     |
| Revenue  | \$ -                           | \$ 60    | \$ 60    | \$ 60,062                      | \$ 20,255   | \$ 80,317 |
| Income (loss) from operations                                  | -                              | (227)    | (227)    | 9,214                          | (4,602)     | 4,612     |
| Interest expenses  | -                              | -        | -        | 133                            | -           | 133       |
| Income (loss) from discontinued operations before income taxes | -                              | (227)    | (227)    | 9,081                          | (4,602)     | 4,479     |
| Income tax expense   | -                              | -        | -        | 3,298                          | -           | 3,298     |
| Net income (loss) from discontinued operations                 | \$ -                           | \$ (227) | \$ (227) | \$ 5,783                       | \$ (4,602)  | \$ 1,181  |
| Cash flow from (used in) operating activities                  | -                              | 262      | 262      | 36,532                         | (14,094)    | 22,438    |
| Cash flow from (used in) investing activities                  | -                              | -        | -        | (101)                          | -           | (101)     |
| Cash flow from (used in) financing activities                  | -                              | -        | -        | -                              | -           | -         |
| Net cash provided by (used in) discontinued operations         | \$ -                           | \$ 262   | 262      | \$ 36,431                      | \$ (14,094) | \$ 22,337 |
| Current assets   | -                              | -        | -        | 59,853                         | 12,868      | 72,721    |
| Property, plant and equipment, net                             | -                              | 4,830    | 4,830    | 18,085                         | 14,376      | 32,461    |
| Current liabilities  | -                              | 8,797    | 8,797    | 18,437                         | 16,276      | 34,713    |

## 8. Other assets

| (in thousands of Canadian dollars)    | Jun. 30, 2006 | Dec. 31, 2005 | Jun. 30, 2005 |
|---------------------------------------|---------------|---------------|---------------|
| Long-term investment                  | \$ 2,875      | \$ 2,875      | \$ 2,875      |
| Deferred financing costs              | 2,192         | 2,031         | 2,355         |
| Deferred project costs                | 13,844        | 8,637         | 11,206        |
| Accrued employee future benefit asset | 4,046         | 4,384         | 3,952         |
| Future income taxes                   | 21,875        | 24,597        | 23,453        |
| Total                                 | \$ 44,832     | \$ 42,524     | \$ 43,841     |

Other assets include a long-term investment in Garneau Inc., a Canadian-based, publicly traded pipecoating company with a market value of \$4.6 million at June 30, 2006.

## 9. Bank indebtedness

As at June 30, 2006, the Company had operating lines of credit of US\$175 million, of which CAD\$98.2 million has been utilized for various types of standby letters of credit for performance and bid bonds

**9. Bank indebtedness (continued)**

(December 31, 2005 - \$98.0 million, June 30, 2005 - \$75.2 million) and bank indebtedness of nil (December 31, 2005 - \$1.7 million, June 30, 2005 - \$4.6 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 has been 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 quarter.

**10. Other non-current liabilities**

(in thousands of Canadian dollars)

|   | <b>Jun. 30, 2006</b> | Dec. 31, 2005 | Jun. 30, 2005 |
|---|----------------------|---------------|---------------|
| Non-current asset retirement obligations    | \$ 2,307             | \$ 2,249      | \$ 2,833      |
| Accrued employee future benefit obligations | 2,375                | 1,953         | 1,878         |
| Future income taxes                         | 28,966               | 34,575        | 33,641        |
| Non-controlling interest in subsidiaries    | 3,814                | 2,842         | 3,542         |
| Total                                       | \$ 37,462            | \$ 41,619     | \$ 41,894     |

**11. Capital stock**

(in thousands except share information)

|  | <b>Jun. 30, 2006</b> | Dec. 31, 2005 | Jun. 30, 2005 |
|--|----------------------|---------------|---------------|
| <b>Number of shares: Class A</b>                       |                      |               |               |
| Balance, beginning of the period                       | 61,006,045           | 61,224,968    | 61,224,968    |
| Issued – stock options                                 | 68,272               | 206,727       | 177,923       |
| Conversion Class B to Class A                          | 9,728                | 657,950       | 18,400        |
| Purchased and cancelled under Normal Course Issuer Bid | (235,900)            | (1,083,600)   | -             |
| Balance, end of the period                             | 60,848,145           | 61,006,045    | 61,421,291    |
| Number of shares: Class B                              | 13,078,287           | 13,088,015    | 13,727,565    |
| Total number of shares Class A and Class B             | 73,926,432           | 74,094,060    | 75,148,856    |
| <b>Stated Value: Class A</b>                           |                      |               |               |
| Balance, beginning of the period                       | \$ 203,716           | \$ 205,849    | \$ 205,849    |
| Issued – stock options                                 | 859                  | 1,459         | 1,036         |
| Conversion Class B to Class A                          | -                    | 51            | 1             |
| Purchased and cancelled under Normal Course Issuer Bid | (789)                | (3,643)       | -             |
| Balance, end of the period                             | \$ 203,786           | \$ 203,716    | \$ 206,886    |
| Stated Value: Class B                                  | 1,004                | 1,004         | 1,055         |
| Total stated value Class A and Class B                 | \$ 204,790           | \$ 204,720    | \$ 207,941    |

**12. Contributed surplus**

| (in thousands of Canadian dollars)      | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|---|-------------------------------|-------|-----------------------------|-------|
|   | 2006                          | 2005  | 2006                        | 2005  |
| Balance, beginning of period            | \$ 9,719                      | 7,242 | \$ 9,231                    | 7,196 |
| Adjustment for stock-based compensation | -                             | -     | -                           | -     |
| Stock compensation expense (note 2)     | 819                           | 601   | 1,401                       | 1,202 |
| Fair value of stock options exercised   | (187)                         | (149) | (281)                       | (704) |
| Balance, end of period                  | \$ 10,351                     | 7,694 | \$ 10,351                   | 7,694 |

**13. Derivative Financial instruments**

Foreign exchange options and forward exchange contracts are used to hedge foreign exchange exposures related to commercial activities. They are not used by the Company for speculative purposes. At June 30, 2006, the Company had notional amounts of \$45.8 million of forward contracts outstanding (December 31, 2005 - \$104.5 million, June 30, 2005 - \$86.2 million). These amounts are used to express the volume of transactions and are not recognized in the consolidated financial statements. These financial instruments are contracted with major, chartered banks; as a result, credit and liquidity risks related to these instruments are considered to be low.

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 June 30, 2006. The fair value of the Company's net liability for all foreign exchange forward contracts at June 30, 2006 not recognized in the consolidated financial statements was approximately \$1.3 million (December 31, 2006 - \$1.9 million net benefit, June 30, 2005 - \$1.3 million net 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.

## 14. Segmented information

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| (in thousands)                                     | Three Months Ended |                   | Six Months Ended  |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | Jun. 30            |                   | Jun. 30           |                   |
|  | 2006               | 2005              | 2006              | 2005              |
| Revenue  |                    |                   |                   |                   |
| Pipeline and Pipe Services                         | \$ 227,056         | \$ 198,569        | \$ 450,164        | \$ 410,674        |
| Petrochemical and Industrial                       | 36,207             | 32,168            | 71,233            | 63,348            |
| Intersegment Eliminations                          | (335)              | (326)             | (738)             | (752)             |
|  | <u>\$ 262,928</u>  | <u>\$ 230,411</u> | <u>\$ 520,659</u> | <u>\$ 473,270</u> |
| Operating income (loss) from continuing operations |                    |                   |                   |                   |
| Pipeline and Pipe Services                         | \$ 36,276          | \$ 12,901         | \$ 73,537         | \$ 42,977         |
| Petrochemical and Industrial                       | 3,928              | 3,538             | 8,564             | 7,349             |
| Financial and Corporate                            | (4,398)            | (3,940)           | (8,843)           | (8,501)           |
|  | <u>\$ 35,806</u>   | <u>\$ 12,499</u>  | <u>\$ 73,258</u>  | <u>\$ 41,825</u>  |
| Goodwill   |                    |                   |                   |                   |
| Pipeline and Pipe Services                         |                    |                   | \$ 148,908        | \$ 157,829        |
| Petrochemical and Industrial                       |                    |                   | 16,595            | 17,521            |
|  |                    |                   | <u>\$ 165,503</u> | <u>\$ 175,350</u> |
| Total assets                                       |                    |                   |                   |                   |
| Pipeline and Pipe Services                         |                    |                   | \$ 955,412        | \$ 712,835        |
| Petrochemical and Industrial                       |                    |                   | 79,612            | 75,490            |
| Financial and Corporate                            |                    |                   | 1,170,083         | 812,053           |
| Elimination  |                    |                   | (1,252,698)       | (762,028)         |
|  |                    |                   | <u>\$ 952,409</u> | <u>\$ 838,350</u> |

## 15. Proposed Transaction

On April 20, 2006, the Company announced that it had entered into an arrangement whereby the Company would acquire all of the outstanding common shares of Garneau Inc. The transaction will be effected by means of a court approved plan of arrangement. Under the terms of the arrangement, shareholders of Garneau (other than ShawCor and certain members of the Garneau family) will receive a cash payment of \$2.20 per share of Garneau. Members of the Garneau family will exchange their common shares of Garneau Inc. for non-voting preferred shares of Garneau Inc. which preferred shares will be redeemable after 3 years and retractable after 2 years at a price to be based on future profitability of certain ShawCor pipecoating operations, subject to a minimum of \$2.20 per share, and bear fixed cumulative dividends of 5% per annum. As part of the plan of arrangement, Garneau Inc. will sell its equipment manufacturing division to Garneau Industries Ltd., a corporation controlled by Glen Garneau, for a purchase price of \$3.0 million. Including outstanding stock options, there are 12.5 million common shares of Garneau Inc. outstanding, of which 3.6 million are owned by the Garneau family and 2.2 million by ShawCor.

On May 30, 2006, a resolution approving the plan of arrangement was passed by the required vote of shareholders at the Garneau Inc. special and general annual shareholders meeting. The final order from the Court of Queen's Bench of Alberta approving the arrangement was then issued. Prior to completing the transaction, the Company announced that the closing of the plan of arrangement had been delayed at the request of the Competition Bureau, Canada

**15. Proposed Transaction (continued)**

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("the Bureau"). While the Company remains committed to completing the Garneau acquisition, there are no assurances that the Company will receive the governmental clearance necessary to complete the transaction.

**16. Comparative figures**

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