

November 1, 2006

**SHAWCOR LTD.**  
**(TSX: SCL.A, SCL.B)**
**PRESS RELEASE**
**SHAWCOR ANNOUNCES THIRD QUARTER RESULTS**
**Financial Summary**

(In thousands of Canadian dollars except per share amounts)	Three Months Ended Sep. 30		Nine Months Ended Sep. 30	
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Operating Results</b>		Restated		Restated
Revenue	\$ <b>245,349</b>	\$ 239,164	\$ <b>766,008</b>	\$ 712,434
EBITDA (note 1)	<b>36,872</b>	33,031	<b>128,771</b>	97,491
Operating income from continuing operations	<b>23,649</b>	21,869	<b>96,907</b>	63,694
Income from continuing operations	<b>16,549</b>	34,693	<b>66,202</b>	61,010
Income (loss) from discontinued operations	<b>7</b>	56,059	<b>(220)</b>	57,240
Net income (loss)	<b>16,556</b>	90,752	<b>65,982</b>	118,250
Net income (loss) per share (Class A and B) - Basic				
Continuing operations	<b>0.22</b>	0.46	<b>0.89</b>	0.81
Discontinued operations	<b>0.00</b>	0.74	<b>0.00</b>	0.76
Total	<b>0.22</b>	1.20	<b>0.89</b>	1.57
Net income (loss) per share (Class A and B) - Diluted				
Continuing operations	<b>0.22</b>	0.46	<b>0.89</b>	0.81
Discontinued operations	<b>0.00</b>	0.74	<b>0.00</b>	0.76
Total	<b>0.22</b>	1.20	<b>0.89</b>	1.57
<b>Cash Flow</b>				
Cash from (used in) continuing operating activities	<b>61,500</b>	35,247	<b>139,850</b>	83,454
Additions to property, plant and equipment	<b>21,535</b>	13,380	<b>40,643</b>	30,676
<b>Financial Position</b>				
Working capital			<b>304,793</b>	282,305
Total assets			<b>943,530</b>	911,731
Shareholders' equity per share (Class A and B)			\$ <b>7.89</b>	\$ 7.20

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.

Note 2: 2005 figures have been restated to reflect discontinued operations accounting treatment for OMSCO and the Mobile, Alabama pipe-coating operation.

Consolidated revenue for the quarter totaled \$245.3 million compared to \$239.2 million in the same quarter of last year. The third quarter revenue was 7% lower than in the second quarter as a result of the impact of project timing in Bredero Shaw's Far East region, partially offset by revenue growth in Bredero Shaw Americas and the start-up of a major project in the Middle East. Business activity at the Company's other divisions continued to be strong with revenue either increasing or remaining similar to prior quarter levels. On a year-to-date basis, consolidated revenue of \$766.0 million was 8% higher than in the same period of last year.

Consolidated income from continuing operations totaled \$16.5 million (\$0.22 per share) in the quarter, compared to \$34.7 million (\$0.46 per share) in the third quarter of 2005, which result included the benefit of previously unrecognized income tax losses totaling \$18.4 million (\$0.25 per share). Third quarter consolidated income from continuing operations decreased from \$24.9 million (\$0.34 per share) in the second quarter of the year in line with the lower revenue. On a year-to-date basis, income from continuing operations totaled \$66.2 million (\$0.89 per share) compared to \$61.0 million (\$0.81 per share), including the \$18.4 million (\$0.25 per share), income tax benefit in the first nine months of 2005. The growth in earnings per share reflects both the increased revenue and operating margin improvements in the first nine months of 2006 and the impact of reduced shares outstanding through share repurchases under the Company's ongoing Normal Course Issuer Bid.

On August 8, 2006, the Company announced the acquisition of a 50% interest in Eupec Brasil Ltda., which operates a pipe-coating plant adjacent to the Vallourec & Mannesmann pipe mill in Belo Horizonte, Brazil. Eupec Brasil Ltda. was subsequently renamed Bredero Shaw Revestimentos de Tubos Ltda. and, together with ShawCor's existing operation, Thermotite Brasil Ltda. which is also located in Belo Horizonte, will enable ShawCor to offer a complete range of anticorrosion coatings and linings along with high performance insulation coatings to serve both the onshore and offshore segments of the Brazilian pipeline market.

On October 5, 2006, the Company announced that the agreement to purchase Garneau Inc. had been terminated due to delays in closing resulting from a review of the transaction by the Competition Bureau, the prospect of further delays, and the inability of the parties to resolve the outstanding issues associated with the Competition Bureau review.

As a result of the termination of the Garneau agreement, on October 10, 2006 the Company announced a \$30 million pipe-coating capacity expansion in Western Canada. This investment will include the construction of a new state-of-the-art coating plant in Camrose, Alberta adjacent to the Company's existing facility, the construction of a new rail spur to double transportation capacity, and upgrades to increase the capacity of the existing Camrose coating plant. This project, which commenced in October, and is expected to be completed in phases between December 2006 and the end of the second quarter of 2007, will significantly reduce lead times, meet the growing demand for insulated pipelines in the Tar Sands region and also enable the Company's other Alberta pipe-coating facilities to become more focused and efficient.

The anticipated softness in the North Sea and Far Eastern regions of Bredero Shaw is expected to continue into the fourth quarter, partially offset by Bredero Shaw Americas pipe-coating activity which is expected to remain robust. Fourth quarter revenue is expected to be slightly below third quarter levels with operating income impacted by increased costs associated with the launch of new facilities. Revenue for the full year is forecast to be in line with 2005; however, improved operating performance is expected to result in a significant improvement in income from continuing operations per share for

2006 compared with the \$0.85 per share recorded in 2005 (reported earnings per share of \$1.10 less the benefit of previously unrecognized income tax losses totaling \$18.4 million or \$0.25 per share). In addition, the operating performance gains achieved over the past 12 months position the Company to continue to generate improved operating income in 2007.

## **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 consolidated operations totaled \$245.3 million in the third quarter, 3% higher than in the same quarter of 2005 but 7% lower than in the second quarter of 2006. As expected, revenue at Bredero Shaw was lower than in the prior quarter reflecting pipe-coating project timing, particularly in the Far East region. This decrease was partially offset by revenue growth at the Bredero Shaw America's region, improvements at the Pipeline and Pipe Services segment's other divisions and at the Petrochemical and Industrial segment. Consolidated net income for the quarter totaled \$16.6 million (\$0.22 per share) compared to \$90.8 million (\$1.20 per share) in the third quarter of 2005. Third quarter 2005 net income included an after-tax gain on the sale of the OMSCO drill-pipe manufacturing division of \$48.8 million (\$0.65 per share) and the impact of an \$18.4 million (\$0.25 per share) reduction in income taxes from the utilization of income tax losses not previously recognized in the accounts. Compared to the second quarter of 2006, net income in the third quarter decreased \$8.2 million (\$0.12 per share), in line with the decrease in consolidated revenue in the quarter. On a year-to-date basis, consolidated revenue of \$766.0 million was 8% higher than in the same period last year while net income of \$66.0 million (\$0.89 per share) compares to \$118.3 million (\$1.57 per share) including the gain on the sale of OMSCO (\$48.8 million or \$0.65 per share) and the benefit of previously unrecognized income tax losses (\$18.4 million or \$0.25 per share).

In the Pipeline and Pipe Services segment, revenue in the third quarter of \$210.9 million was slightly higher than in the third quarter of last year; however, was \$16.1 million lower than in the prior quarter. As expected, revenue decreased from second quarter levels at Bredero Shaw as stronger business activity in North America and revenue from the KOC project in the Middle East were more than offset by lower pipe-coating activity in the Far East region resulting from the completion of major projects at the plants in Malaysia and Indonesia. Revenue at the segment's other divisions increased by approximately 2% from the prior quarter. Income from continuing operations for the third

quarter for the Pipeline and Pipe Services segment was \$24.0 million (11.4% of revenue), 7% higher than \$22.6 million (10.8% of revenue) in the third quarter of 2005. Compared to last quarter; however, income from continuing operations and operating margins (income from continuing operations divided by revenue) both decreased reflecting the lower revenue and the impact of provisions totaling \$5.4 million recorded in the North Sea and African regions related to cost reduction initiatives and facility rationalization in those areas. On a year-to-date basis, revenue for the nine months ended September 30, 2006 of \$661.1 million was 7% higher than in the corresponding period of 2005. Income from continuing operations for the segment for the year-to-date totaled \$97.6 million, 49% higher than in the same period of 2005.

In the Petrochemical and Industrial segment, revenue in the quarter of \$34.9 million increased 17% from the third quarter of 2005 as ShawFlex and DSG-Canusa both experienced higher levels of business activity versus the prior year. Compared to the second quarter of 2006, revenue for the segment decreased 4% as lower revenue at DSG-Canusa was partially offset by improvements at ShawFlex. Income from continuing operations for the segment for the third quarter of \$5.0 million (14.4% of sales) increased 67% from levels in the third quarter of 2005 and 28% from the second quarter of 2006. Operating margins in the third quarter improved 3.6 percentage points from the prior quarter, reflecting the impact of sales price increases at ShawFlex in response to copper price increases experienced earlier in the year. On a year-to-date basis, revenue for the segment totaled \$106.1 million and income from continuing operations totaled \$13.6 million representing increases of 14% and 31%, 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 gains of \$1.5 million, totaled \$6.9 million compared to \$4.3 million in the prior quarter, before net foreign exchange losses of \$54 thousand, with the increase mainly due to the expensing of previously deferred costs stemming from the unsuccessful Garneau transaction and increased management incentive compensation costs in line with the earnings improvement.

Net interest income totaled \$908 thousand in the quarter, compared to \$424 thousand in the prior quarter and net interest expense of \$1.1 million in the third quarter of 2005. The improvement over the third 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 \$8.0 million (32.4% of pre-tax income) in the quarter compared to \$10.4 million (28.6% of pre-tax income) in the prior quarter and a recovery of \$13.9 million in the third quarter of last year inclusive of an \$18.4 million benefit of previously unrecognized income tax losses. The third quarter 2006 effective tax rate continued to be

favourably impacted by the utilization of previously unrecognized tax losses in the United States; however, this benefit was tempered by tax losses in other countries, principally Nigeria, which were not tax-effected. Canadian Generally Accepted Accounting Principles allow the recording of the benefit of tax losses only when there is reasonable assurance that those losses will be utilized in the future; the foreign tax losses incurred in the quarter did not meet this test.

### **Cash Flow**

Cash flow generated from operating activities in the quarter totaled \$61.5 million, reflecting reductions of working capital and other of \$34.0 million, compared to \$29.4 million last quarter and \$35.2 million in the third quarter of 2005. On a year-to-date basis, cash flow generated from operating activities totaled \$139.9 million compared to \$83.4 million in the first nine months of 2005.

Capital expenditures in the quarter totaled \$21.5 million compared to \$12.6 million last quarter and \$13.4 million in the third quarter of last year. Major expenditures in the quarter included the continuing development of the new Portland Oregon pipe-coating facility, land development and preparation for a subcontract double-jointing facility at the new site in Camrose, Alberta, investments to expand capacity and add a research and development pilot line in the Thermotite plant in Norway and plant upgrades related to the KOC project at the pipe-coating plant in Ras Al Khaimeh. On a year-to-date basis, cash flow used in investing activities totaled \$49.1 million compared to \$30.3 million in the corresponding period of last year.

Cash flow used in financing activities totaled \$6.5 million in the quarter and consisted of dividends paid to shareholders of \$3.3 million and the cost of shares repurchased under the Normal Course Issue Bid of \$3.6 million, partially offset by \$378 thousand received from the issuance of shares on the exercise of stock options. Cash used in financing activities totaled \$2.6 million in the third quarter of 2005, reflecting a decrease in bank indebtedness of \$2.9 million and the receipt of \$280 thousand on the exercise of stock options. On a year-to-date basis, cash flow used in financing activities totaled \$15.1 million compared to \$5.5 million in the first nine months of last year.

### **Liquidity and Capitalization**

At September 30, 2006, the Company recorded a working capital ratio of 2.27 to 1 compared to 2.22 to 1 at June 30, 2006 and 2.08 to 1 at December 31, 2005. Operating working capital, excluding cash and cash equivalents decreased \$30.5 million in the quarter to \$35.2 million, mainly the result of lower receivables reflecting the decrease in revenue compared to last quarter. Cash and cash equivalents increased \$24.0 million in the quarter to \$269.6 million, compared to an increase of \$1.7 million last quarter.

## **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, 2006, the Company had notional amounts of \$24.3 million of forward contracts outstanding (December 31, 2005 - \$104.5 million) with a fair value of negative \$1.8 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 obligations 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>					
<b>2006</b>	\$ 257,730	\$ 262,929	\$ 245,349	\$	\$
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>					
<b>2006</b>	<b>37,452</b>	<b>35,806</b>	<b>23,649</b>		
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>					
<b>2006</b>	<b>24,755</b>	<b>24,898</b>	<b>16,549</b>		
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>					
<b>2006</b>	<b>(35)</b>	<b>(192)</b>	<b>7</b>		
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>					
<b>2006</b>	<b>24,720</b>	<b>24,706</b>	<b>16,556</b>		
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>					
<b>2006</b>	<b>0.51</b>	<b>0.48</b>	<b>0.32</b>		
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>					
<b>2006</b>	<b>0.33</b>	<b>0.34</b>	<b>0.22</b>		
2005	0.25	0.10	0.46	0.29	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>					
<b>2006</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>		
2005	(0.01)	0.03	0.74	(0.01)	0.75
2004	(0.10)	(0.16)	(0.21)	(1.21)	(1.68)
<b>Net income (loss) per share (Class A and B)</b>					
<b>2006</b>	<b>0.33</b>	<b>0.34</b>	<b>0.22</b>		
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 operations in the Pipeline and Pipe Services segment, representing 86% of the Company's year-to-date consolidated revenue, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services market segment. The 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.

### **Outstanding Share Capital**

As at October 27, 2006, the Company had 60,676,953 Class A Subordinate Voting Shares ("Class A") outstanding and 13,078,142 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 27, 2006, the Company had stock options outstanding to purchase up to 2,849,340 Class A shares. During the third quarter, 197 thousand shares were repurchased at a weighted average cost of \$18.37, including brokerage commissions, under the Normal Course Issue Bid for a total expenditure of \$3.6 million.

### **Outlook**

The Company's consolidated order backlog, representing customer orders expected to be completed within one year, totaled \$316 million at September 30, 2006, compared to \$266 million at the beginning of the quarter.

The Company continues to anticipate a slowing of business activity in the fourth quarter of the year compared with the third quarter as lower business levels in the North Sea and Far East regions are partially offset by strong pipe-coating activity in the America's region. Fourth quarter revenue is expected to be slightly below third quarter levels with operating income impacted by increased costs associated with the launch of new

facilities. Although the revenue outlook for full year 2006 is basically in line with the full year result for 2005, the Company's improved operational performance in both of its business segments is expected to result in a significant improvement in income from continuing operations per share for 2006 compared with the \$0.85 per share recorded in 2005 (reported earnings per share of \$1.10 less the benefit of previously unrecognized income tax losses totaling \$18.4 million or \$0.25 per share).

The operating performance gains achieved over the past 12 months position the Company to continue to generate improved operating income in 2007. Robust bidding activity combined with available capacity at the Company's Europe and Far East facilities, and the impact of the Company's investment program, including the North American capacity expansion and the Brazilian joint venture acquisition, position the Company for growth as new pipeline projects that are presently being designed and bid commence production in 2008 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, antitrust 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 Thursday November 2, 2006 at 10:00 AM EST, this will discuss the company's third 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 Sept 30		Nine Months Ended Sept 30	
	2006	2005 Restated - Note 7	2006	2005 Restated - Note 7
Revenue	\$ 245,349	\$ 239,164	\$ 766,008	\$ 712,434
Operating expenses (notes 2, 3 and 4)	208,406	205,061	636,290	610,390
Amortization	13,277	11,083	32,892	33,884
Research and development	1,375	2,001	4,272	5,817
	<u>223,058</u>	<u>218,145</u>	<u>673,454</u>	<u>650,091</u>
Share of earnings in associated company	1,358	850	4,353	1,351
Operating income from continuing operations	23,649	21,869	96,907	63,694
Interest expense (income) (note 5)	(908)	1,145	(1,446)	3,679
Income before income taxes and non-controlling interest	24,557	20,724	98,353	60,015
Income taxes (note 6)	7,954	(13,890)	31,123	(1,082)
Income before non-controlling interest	16,603	34,614	67,230	61,097
Non-controlling interest	(54)	79	(1,028)	(87)
Income from continuing operations	16,549	34,693	66,202	61,010
Income (loss) from discontinued operations (note 7)	7	56,059	(220)	57,240
Net income	<u>\$ 16,556</u>	<u>\$ 90,752</u>	<u>\$ 65,982</u>	<u>\$ 118,250</u>
Earnings per share, Class A and B - Basic and Diluted				
Continuing operations	\$ 0.22	\$ 0.46	\$ 0.89	\$ 0.81
Discontinued operations	-	0.74	-	0.76
Total	<u>\$ 0.22</u>	<u>\$ 1.20</u>	<u>\$ 0.89</u>	<u>\$ 1.57</u>

**SEGMENTED INFORMATION**

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
		Restated - Note 7		Restated - Note 7
Revenue				
Pipeline and Pipe Services	\$ 210,917	\$ 209,593	\$ 661,081	\$ 620,268
Petrochemical and Industrial	34,910	29,920	106,143	93,268
Intersegment Eliminations	(478)	(349)	(1,216)	(1,102)
	<u>\$ 245,349</u>	<u>\$ 239,164</u>	<u>\$ 766,008</u>	<u>\$ 712,434</u>
Operating income (loss) from continuing operations				
Pipeline and Pipe Services	\$ 24,047	\$ 22,550	\$ 97,584	\$ 65,527
Petrochemical and Industrial	5,039	3,023	13,603	10,372
Financial and Corporate	(5,437)	(3,704)	(14,280)	(12,205)
	<u>\$ 23,649</u>	<u>\$ 21,869</u>	<u>\$ 96,907</u>	<u>\$ 63,694</u>

**CONSOLIDATED STATEMENTS OF CASH FLOW**

	Three Months Ended		Nine Months Ended	
	Sept 30		Sept 30	
	2006	2005	2006	2005
		Restated - Note 7		Restated - Note 7
<b>Operating activities:</b>				
Income from continuing operations	\$ 16,549	\$ 34,693	\$ 66,202	\$ 61,010
Items not requiring an outlay of cash:				
Amortization	13,277	11,083	32,892	33,884
Stock-based compensation (note 2)	738	244	2,139	1,446
Future income taxes	(1,793)	(2,594)	(4,680)	(509)
Non-controlling interest in earnings of subsidiaries	54	(79)	1,028	87
Share of earnings of associated company	(1,358)	(850)	(4,353)	(1,351)
Change in non-cash working capital and other	34,033	(7,250)	46,622	(11,113)
Cash provided by continuing operating activities	<u>61,500</u>	<u>35,247</u>	<u>139,850</u>	<u>83,454</u>
<b>Investing activities:</b>				
Purchases of property, plant and equipment	(21,535)	(13,380)	(40,643)	(30,676)
Proceeds on disposal of property, plant and equipment	76	322	117	402
Acquisition of joint venture interest (note 8)	(8,555)	-	(8,555)	-
Cash used in continuing investing activities	<u>(30,014)</u>	<u>(13,058)</u>	<u>(49,081)</u>	<u>(30,274)</u>
<b>Financing activities:</b>				
Decrease in bank indebtedness	-	(2,868)	(1,715)	(2,757)
Issue of shares	378	280	956	613
Purchase of shares for cancellation	(3,609)	-	(7,797)	-
Dividends paid to shareholders	(3,275)	-	(6,557)	(3,323)
Cash used in continuing financing activities	<u>(6,506)</u>	<u>(2,588)</u>	<u>(15,113)</u>	<u>(5,467)</u>
Foreign exchange on foreign cash and cash equivalents	8	(3,149)	(5,713)	(2,972)
Net cash provided by continuing operations	<u>24,988</u>	<u>16,452</u>	<u>69,943</u>	<u>44,741</u>
Net cash provided by (used in) discontinued operations (note 7)	(957)	128,847	(695)	106,510
Cash and cash equivalents at beginning of period	<u>245,521</u>	<u>82,449</u>	<u>200,304</u>	<u>76,497</u>
Cash and cash equivalents at end of period	<u>\$ 269,552</u>	<u>\$ 227,748</u>	<u>\$ 269,552</u>	<u>\$ 227,748</u>

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

Page 13 of 22

**CONSOLIDATED BALANCE SHEETS**

	<u>Sept. 30</u> <u>2006</u>	<u>Dec. 31</u> <u>2005</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 269,552	\$ 200,304
Accounts receivable	178,710	213,416
Inventories	75,277	81,012
Taxes receivable	6,475	5,711
Prepaid expenses	14,253	23,030
Current assets of discontinued operations (note 7)	108	799
	<u>544,375</u>	<u>524,272</u>
Property, plant and equipment, net	187,258	177,317
Goodwill	169,613	167,172
Investment in associated company	7,744	5,061
Other assets (note 9)	29,881	33,887
Non-current assets of discontinued operations (note 7)	4,659	7,974
	<u>\$ 943,530</u>	<u>\$ 915,683</u>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness (note 10)	\$ -	\$ 1,715
Accounts payable and accrued liabilities	165,764	167,473
Deferred revenues	14,586	23,975
Taxes payable	51,002	46,203
Current liabilities of discontinued operations (note 7)	7,770	12,250
	<u>239,122</u>	<u>251,616</u>
Long-term debt	83,858	87,210
Minority interest in subsidiaries	3,902	2,842
Other non-current liabilities (note 11)	31,821	38,777
	<u>358,703</u>	<u>380,445</u>
<b>Shareholders' Equity</b>		
Capital stock (note 12)	204,655	204,720
Contributed surplus (note 13)	10,951	9,231
Retained earnings	474,616	421,547
Cumulative translation account (note 14)	(105,395)	(100,260)
	<u>584,827</u>	<u>535,238</u>
	<u>\$ 943,530</u>	<u>\$ 915,683</u>

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	Three Months Ended		Nine Months Ended	
	Sept 30		Sept 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of period	\$ 464,292	\$ 324,990	\$ 421,547	\$ 300,815
Net income	<u>16,556</u>	<u>90,752</u>	<u>65,982</u>	<u>118,250</u>
	<b>480,848</b>	415,742	<b>487,529</b>	419,065
Excess of purchase price paid over stated value of shares	(2,957)	-	(6,356)	
Dividends paid	<u>(3,275)</u>	-	<u>(6,557)</u>	<u>(3,323)</u>
Balance at end of period	<u>\$ 474,616</u>	<u>\$ 415,742</u>	<u>\$ 474,616</u>	<u>\$ 415,742</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 August 9, 2006, the Board of Directors approved the granting of 36,000 stock options under the 2001 Employee Plan with a fair value, calculated using the Black-Scholes pricing model, of \$227 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 27.7% to 34.0%, expected dividend yield 0.87%, and risk free interest rate ranging from 4.01% to 4.07% over the life of the options. The compensation cost from the continuing amortization of granted stock options for the three months and nine months ended September 30, 2006 included in operating expenses is \$738 thousand and \$2.1 million, respectively (September 30, 2005 - \$244 thousand and \$1.4 million, respectively).

**3. Foreign exchange gains and losses**

Included in operating expenses for the three months and nine months ended September 30, 2006 are foreign exchange gains totaling \$1.5 million and \$2.0 million, respectively (September 30, 2005 - losses of \$78 thousand and \$880 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 nine months ended September 30, 2006 is \$2.8 million and \$8.0 million, respectively (September 30, 2005 - \$2.7 million and \$6.7 million, respectively).

**5. Interest expense (income)**

(in thousands of Canadian dollars)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	2005	2006	2005
Interest on short-term deposits	\$ (2,213)	\$ (380)	\$ (6,313)	\$ (1,093)
Interest on bank indebtedness	26	94	891	458
Interest on long-term debt	1,279	1,431	3,976	4,314
	<u>\$ (908)</u>	<u>\$ 1,145</u>	<u>\$ (1,446)</u>	<u>\$ 3,679</u>

Net interest received during the three months and nine months ended September 30, 2006 totaled \$945 thousand and \$1.4 million, respectively (September 30, 2005 – interest paid of \$928 thousand and \$3.9 million, respectively).

**6. Income taxes**

Net income taxes paid during the three months and nine months ended September 30, 2006 totaled \$8.8 million and \$31.8 million, respectively (September 30, 2005 – \$11.4 million and \$18.0 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 pipe-coating 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 three and nine months ended September 30, 2006 and 2005 and the assets and liabilities of the discontinued operations as at those dates:



## 8. Acquisition

On August 8, 2006, the Company announced the acquisition of a 50% interest in Eupec Brasil Ltda., which operates a pipe-coating plant adjacent to the Vallourec & Mannesmann pipe mill in Belo Horizonte, Brazil. Eupec Brasil Ltda. was subsequently renamed Bredero Shaw Revestimentos de Tubos Ltda. The allocation of the purchase price has not yet been finalized pending the completion of an appraisal of the value of acquired property, plant and equipment. This is expected to be completed prior to the end of the year. The following are the preliminary details of the acquisition; these details may be adjusted pending the finalization of the purchase equation:

(in thousands of Canadian dollars)

Net assets acquired at estimated	
assigned values:	
Current assets	\$ 2,013
Property, plant and equipment	2,973
Goodwill	4,473
Current liabilities	(904)
	<u>\$ 8,555</u>
Consideration given:	
Cash, net of cash acquired of \$1,173	\$ 8,555
	<u>\$ 8,555</u>

This acquisition has been accounted for by the purchase method with the results of operations included in the consolidated financial statements from the date of acquisition.

## 9. Other assets

(in thousands of Canadian dollars)	Sept. 30 2006	Dec. 31 2005
Long-term investment	\$ 2,875	\$ 2,875
Deferred financing costs	2,188	2,031
Accrued employee future benefit asset	4,123	4,384
Future income taxes	20,695	24,597
Total	<u>\$ 29,881</u>	<u>\$ 33,887</u>

Other assets include a long-term investment in Garneau Inc., a Canadian-based, publicly traded pipe-coating company with a market value of \$3.5 million at September 30, 2006.

## 10. Bank indebtedness

As at September 30, 2006, the Company had operating lines of credit of US\$175 million, of which CAD\$83.3 million has been utilized for various types of standby letters of credit for performance and bid bonds (December 31, 2005 - \$98.0 million, September 30, 2005 - \$78.0 million) and bank indebtedness of nil (December 31, 2005 - \$1.7 million, September 30, 2005 - \$1.7 million).

**11. Other non-current liabilities**

Page 19 of 22

(in thousands of Canadian dollars)

	<b>Sept. 30, 2006</b>	Dec. 31, 2005
Non-current asset retirement obligations	\$ 3,282	\$ 2,249
Accrued employee future benefit obligations	2,546	1,953
Future income taxes	<b>25,993</b>	34,575
Total	<b>\$ 31,821</b>	<b>\$ 38,777</b>

**12. Capital stock**

(in thousands except share information)

	<b>Sept. 30, 2006</b>	Dec. 31, 2005
<b>Number of shares: Class A</b>		
Balance, beginning of the period	<b>61,006,045</b>	61,224,968
Issued - stock options	<b>93,935</b>	206,727
Conversions Class B to Class A	<b>9,873</b>	657,950
Purchase and cancelled under Normal Course Issuer Bid	<b>(432,900)</b>	(1,083,600)
Balance, end of the period	<b>60,676,953</b>	61,006,045
Number of shares: Class B	<b>13,078,142</b>	13,088,015
Total number of shares	<b>73,755,095</b>	74,094,060
<b>Stated value: Class A</b>		
Balance, beginning of the period	\$ 203,716	\$ 205,849
Issued – stock options	<b>1,376</b>	1,459
Conversion Class B to Class A	-	51
Purchased and cancelled under Normal Course Issuer Bid	<b>(1,441)</b>	(3,643)
Balance, end of the period	<b>203,651</b>	203,716
Stated Value: Class B	<b>1,004</b>	1,004
Total stated value Class A and Class B	<b>\$ 204,655</b>	<b>\$ 204,720</b>

**13. Contributed surplus**

(in thousands of Canadian dollars)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	2005	2006	2005
Balance, beginning of period	\$ 10,351	\$ 7,694	\$ 9,231	\$ 7,196
Stock compensation expense (note 2)	738	244	2,139	1,446
Fair value of stock options exercised	(138)	(101)	(419)	(805)
Balance, end of period	<u>\$ 10,951</u>	<u>\$ 7,837</u>	<u>\$ 10,951</u>	<u>\$ 7,837</u>

**14. Cumulative translation account**

(in thousands of Canadian dollars)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	2005	2006	2005
Balance at beginning of period	\$ (104,535)	\$ (78,605)	\$ (100,260)	\$ (71,509)
Translation of self-sustaining foreign operations	(860)	(12,552)	(5,135)	(19,648)
Balance at end of year	<u>\$ (105,395)</u>	<u>\$ (91,157)</u>	<u>\$ (105,395)</u>	<u>\$ (91,157)</u>

During the nine months ended September 30, 2006, the Canadian dollar gained 3.8% (2005 gained 2.7%) against the U.S. dollar, weakened 3.8% (2005 gained 14.1%) against the Euro and weakened 6.05% (2005 gained 10.5%) against the U.K. pound.

**15. 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, 2006, the Company had notional amounts of \$24.3million of forward contracts outstanding (December 31, 2005 - \$104.5 million, September 30, 2005 - \$108.5 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 September 30, 2006. The fair value of the Company's net liability for all foreign exchange forward contracts at September 30, 2006 not recognized in the consolidated financial statements was approximately \$1.8 million (December 31, 2006 - \$1.9 million net benefit, September 30, 2005 - \$885 thousand 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.

**16. Segmented information**

(in thousands of Canadian dollars)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	Restated - Note 7	2006	Restated - Note 7
<b>Revenue</b>				
Pipeline and Pipe Services	\$ 210,917	\$ 209,594	\$ 661,081	\$ 620,268
Petrochemical and Industrial	34,910	29,920	106,143	93,268
Intersegment Eliminations	(478)	(350)	(1,216)	(1,102)
	<u>\$ 245,349</u>	<u>\$ 239,164</u>	<u>\$ 766,008</u>	<u>\$ 712,434</u>
<b>Operating income (loss) from continuing operations</b>				
Pipeline and Pipe Services	\$ 24,047	\$ 22,550	\$ 97,584	\$ 65,527
Petrochemical and Industrial	5,039	3,023	13,603	10,372
Financial and Corporate	(5,437)	(3,704)	(14,280)	(12,205)
	<u>\$ 23,649</u>	<u>\$ 21,869</u>	<u>\$ 96,907</u>	<u>\$ 63,694</u>
<b>Goodwill</b>				
Pipeline and Pipe Services			\$ 152,730	\$ 152,534
Petrochemical and Industrial			16,883	16,672
			<u>\$ 169,613</u>	<u>\$ 169,206</u>
<b>Total assets</b>				
Pipeline and Pipe Services			\$ 933,518	\$ 897,898
Petrochemical and Industrial			80,245	73,666
Financial and Corporate			935,329	936,695
Elimination			(1,005,562)	(996,528)
			<u>\$ 943,530</u>	<u>\$ 911,731</u>

**17. Proposed transaction**

On October 5, 2006, the Company announced that the agreement to purchase Garneau Inc. had been terminated due to delays in closing as a result of a review by the Competition Bureau and the inability of the parties to resolve outstanding issues.

**18. Joint venture operation**

On August 8, 2006, the Company announced the acquisition of a 50% interest in Eupec Brasil Ltda., a joint venture equally owned and controlled by ShawCor Ltd. and Delta Premium Trading Corp. Subsequent to the transaction, the name of the joint venture company was changed to Bredero Shaw Revestimentos de Tubos Ltda. (“BSRTL”) The Company’s share of BSRTL’s assets, liabilities, revenue, expenses, net income and cash flows are consolidated based on the Company’s 50% proportional ownership position. The figures related to BSRTL included in the Company’s consolidated financial statements are summarized as follows:

(in thousands of Canadian dollars)	<b>Sept. 30, 2006</b>
Revenue	\$ 966
Operating and other expenses	879
Net income before tax	87
Provision for taxes	20
Net income for the period	<u>\$ 67</u>
Cash provided by used in	
Operating activities	\$ 52
Investing activities	-
Financing activities	<u>-</u>
Current assets	\$ 3,666
Property, plant and equipment, net	2,857
Goodwill	4,828
Current liabilities	<u>1,353</u>

**19. Comparative figures**

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