



February 28, 2007

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

**PRESS RELEASE**

**Financial Summary**

(In thousands of Canadian dollars except per share amounts)	Three Months Ended Dec. 31		Twelve Months Ended Dec. 31	
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Operating Results</b>		Restated		Restated
Revenue	\$ 276,315	\$ 293,867	\$ 1,059,619	\$ 1,012,453
EBITDA (note 1)	54,530	42,574	183,705	140,214
Operating income from continuing operations	41,791	31,737	138,780	95,454
Income from continuing operations	26,722	21,780	92,924	82,790
Income (loss) from discontinued operations	(69)	(1,190)	(289)	56,050
Net income (loss)	26,653	20,590	92,635	138,840
Net income (loss) per share (Class A and B) - Basic				
Continuing operations	0.36	0.30	1.25	1.10
Discontinued operations	0.00	(0.02)	0.00	0.75
Total	0.36	0.28	1.25	1.85
Net income (loss) per share (Class A and B) - Diluted				
Continuing operations	0.36	0.30	1.25	1.10
Discontinued operations	0.00	(0.02)	0.00	0.75
Total	0.36	0.28	1.25	1.85
<b>Cash Flow</b>				
Cash from (used in) continuing operating activities	40,597	(3,685)	183,585	79,890
Additions to property, plant and equipment	18,101	6,080	60,692	38,141
<b>Financial Position</b>				
Working capital			347,008	274,103
Total assets			1,008,026	919,846
Shareholders' equity per share (Class A and B)			\$ 8.51	\$ 7.22

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

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

Note 3: During the fourth quarter of 2006, ShawCor Ltd. adopted the proportionate consolidation method of accounting for its 30% investment in the Arabian Pipecoating Company Limited ("APCO"). The Company previously accounted for this investment using the equity method. This change in accounting policy has been applied retroactively and as a result, revenue, operating expenses and certain balance sheet accounts have been restated. Refer to note 1 of the interim financial statements.

**Fourth Quarter 2006 Results**

Consolidated revenue of ShawCor Ltd. ("ShawCor" or the "Company") for the fourth quarter of 2006 totaled \$276.3 million, compared to \$251.3 million in the prior quarter with the increase resulting from increased business activity in the Pipeline and Pipe Services segment, partially offset by some seasonal softness in the Petrochemical and Industrial segment. Consolidated

revenue for the quarter was lower than the fourth quarter of 2005 reflecting the impact of the Langed project which contributed revenue of \$41.9 million in the fourth quarter 2005 and was completed in the first quarter of 2006. On a full year basis, consolidated revenue from continuing operations of \$1.06 billion reached a new record level for the Company and increased 5% over the level achieved in 2005.

Pipeline and Pipe Services segment revenue for the quarter totaled \$244.0 million an increase of 12% compared to \$216.9 million in the prior quarter and \$266.1 million in the fourth quarter of 2005. The Company had expected that fourth quarter revenue would be slightly below third quarter levels as a result of reduced activity in Bredero Shaw's North Sea and Far East regions. While these regions did soften as anticipated, stronger than expected revenue from Bredero Shaw Americas region led to the overall revenue growth for the Pipeline and Pipe Services segment. Three factors accounted for the Bredero Shaw Americas revenue result. First, unexpectedly strong small diameter pipecoating demand was experienced in Canada, resulting in high levels of coated pipe in customer inventories which will likely reduce demand in the first half of 2007. Second, additional production shifts were added at facilities in Canada, which enabled higher large diameter production levels than anticipated. Third, an increase in revenue was realized from the PDEG project in Brazil. This revenue growth more than offset the anticipated reduction in revenue in the Far East region where business activity returned to more typical levels. The decline in revenue for the Pipeline and Pipe Services segment compared with the fourth quarter of last year was due mainly to the fact that the Langed project had contributed revenue of \$41.9 million in the fourth quarter 2005. Revenue in the quarter also improved over the prior quarter at the segment's other divisions. Strong revenue growth at Shaw Pipeline Services compared with the third quarter reflected increased variation orders on several pipeline projects while Canusa-CPS benefited from the stronger small diameter pipe demand in Western Canada as well as an increase in project activity in the Middle East. On a full year basis, revenue for the segment for the year totaled \$922.3 million, 3% higher than \$892.6 million in 2005.

In the Petrochemical and Industrial segment, revenue for the fourth quarter of 2006 of \$32.8 million, although seasonally lower than the prior quarter, was 16% higher than in the fourth quarter of 2005 with DSG-Canusa and ShawFlex both experiencing stronger market demand and ShawFlex continuing to realize the impact of the material cost pass-through to customers. Revenue for the segment for the full year increased 14% over the prior year to \$138.9 million.

Consolidated income from continuing operations before interest, income taxes and non-controlling interest totaled \$41.8 million (15.1% of revenue) in the fourth quarter of 2006, compared to \$23.7 million (9.4% of revenue) in the third quarter and \$31.7 million (10.8% of revenue) in the fourth quarter of 2005. On a full year basis, consolidated income from continuing operations of \$138.8 million increased 45% over the level achieved in 2005.

In the Pipeline and Pipe Services segment, operating income from continuing operations in the quarter of \$40.8 million (16.7% of revenue) increased 70% over the previous quarter and 17% over the fourth quarter of last year. The operating income growth of the Pipeline and Pipe Services segment was primarily attributable to the 12% increase in revenue coupled with increased operating margins at Bredero Shaw. This margin growth was attributable to a more favourable mix of projects, a significant improvement in facility utilization in the Americas region, and the benefit of lower variable operating costs as a result of improvements in project execution on the KOC and PDEG projects. Compared to the fourth quarter of last year, Bredero Shaw's operating income decreased marginally reflecting the lower level of revenue in the quarter associated with the completion of the Langed project. Margins, however, were improved through a favourable project mix and ongoing performance improvement measures.

Operating income at Canusa-CPS and Shaw Pipeline Services in the quarter improved over the third quarter and the fourth quarter of 2005, in line with the increased revenue. Operating income at Guardian, while lower than in the prior quarter reflecting seasonally lower revenue, improved over the fourth quarter of 2005 as a result of the launch in the third quarter of 2006 of the division's new integrated tubular inspection and machining facility. Operating income for the segment for the year totaled \$138.5 million (15.0% of revenue) compared to \$100.4 million (11.2% of revenue) in 2005.

In the Petrochemical and Industrial segment, operating income from continuing operations for the fourth quarter of \$5.6 million (17.0% of revenue) improved 11% over the \$5.0 million (14.4% of revenue) recorded in the third quarter and improved \$4.1 million over the \$1.5 million (5.5% of revenue) in the fourth quarter of last year, with DSG-Canusa and ShawFlex both achieving improvements over the prior quarter and the fourth quarter of the prior year. Operating income for the segment for the full year totaled \$19.2 million, 61% higher than the level achieved in 2005.

Financial and corporate costs in the quarter consisted of unallocated corporate expenses of \$4.6 million including foreign exchange losses of \$1.0 million. In the fourth quarter of 2005, financial and corporate costs consisted of unallocated corporate expenses of \$4.7 million. On a full year basis, financial and corporate costs totaled \$18.9 million in 2006, inclusive of \$970 thousand of foreign exchange gains, compared to \$16.9 million in 2005, net of foreign exchange losses of \$874 thousand.

Net interest income was \$1.4 million in the fourth quarter of 2006, compared to \$881 thousand in the third quarter and \$282 thousand in the fourth quarter of 2005. The increase in the quarter reflects the impact of higher cash balances as a result of cash flows generated by the Company as well as the favourable impact of the stronger Canadian dollar on the translation of the U.S. dollar denominated interest expense on the Company's Senior Notes. Net interest income for the full year 2006 totaled \$2.8 million compared to net interest expense of \$3.4 million in 2005.

Income tax expense related to continuing operations totaled \$15.7 million (36.4% of income from continuing operations before income taxes), with the effective tax rate in the quarter reflecting the impact of losses in certain countries, primarily Nigeria, where the future tax benefit was not recognized in the Company's consolidated financial statements. Income tax expense totaled \$11.2 million (35.0% of income from continuing operations before income taxes) in the fourth quarter of 2005. On a full year basis, income tax expense related to continuing operations totaled \$46.8 million (33.1% of income from continuing operations before taxes) compared to \$10.1 million (11.0% of income from continuing operations before taxes), net of a reduction in tax expense of \$18.4 million from the utilization of previous years' income tax losses not previously recognized in the Company's accounts.

Consolidated income from continuing operations for the quarter totaled \$26.7 million (\$0.36 per share), compared to \$16.6 million (\$0.22 per share) in the third quarter and \$21.8 million (\$0.30 per share) in the fourth quarter of 2005. For the full year 2006, consolidated income from continuing operations totaled \$92.9 million (\$1.25 per share) compared to \$82.8 million in 2005 (\$1.10 per share), inclusive of an \$18.4 million (\$0.25 per share) reduction in income tax expense from the utilization of prior year tax losses not previously recognized in the accounts.

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

Mobile, Alabama facility. Losses from discontinued operations for the full year 2006 totaled \$289 thousand (\$0.00 per share), while in 2005, income from discontinued operations totaled \$56.1 million (\$0.75 per share) and was comprised of earnings of \$14.5 million from the OMSCO division until its sale to Vallourec & Mannesmann Tubes S.A. (“V&M”) on September 30, 2005, and a gain of \$48.4 million, net of deferred tax expense of \$26.7 million, recorded on the sale, partially offset by operating losses for the year related to the Mobile, Alabama pipecoating plant totaling \$6.9 million.

Consolidated net income for the fourth quarter of 2006 was \$26.7 million (\$0.36 per share) compared to \$16.6 million (\$0.22 per share) in the third quarter and \$20.6 million (\$0.28 per share) in the fourth quarter of 2005. Consolidated net income for 2006 totaled \$92.6 million (\$1.25 per share), compared to \$138.8 million (\$1.85 per share) in 2005. Net income in 2005 was inclusive of an after-tax gain on the sale of the OMSCO division of \$48.4 million (\$0.65 per share) and an \$18.4 million (\$0.25 per share) reduction in income tax expense from the utilization of prior year tax losses not previously recognized in the accounts.

### **Cash Flows**

Cash flow generated by continuing operations in the quarter totaled \$40.6 million compared to cash flow used in continuing operations of \$3.7 million in the fourth quarter of 2005. The improvement reflected the increased profits, partially offset by a \$2.3 million increase in non-cash working capital balances, compared to a \$40.6 million increase experienced in the fourth quarter of 2005. This change in working capital resulted from the lower revenue in the quarter, compared to the fourth quarter of last year, changes in project mix with reduced prepaid expenses and raw material inventories associated with projects at the end of 2006 compared with 2005, and increased taxes payable due to the increased profits. On a full year basis, cash flow generated by continuing operating activities in 2006 totaled \$183.6 million compared to \$79.9 million in 2005.

Cash flow used in continuing investing activities in the quarter totaled \$16.8 million, comprised of capital expenditures of \$18.1 million less proceeds on disposal of property, plant and equipment of \$1.3 million. Major capital expenditures in the quarter included continuing development of the new pipecoating plant in Portland, Oregon, pipecoating capacity expansions at the Company’s Saudi joint venture, and the commencement of construction of a new facility in Camrose, Alberta. In the fourth quarter of last year, cash used in continuing investing activities totaled \$12.0 million reflecting adjustments on the closing of the OMSCO divestment of \$6.0 million and proceeds on the disposal of property, plant and equipment of \$173 thousand, partially offset by capital expenditures of \$6.1 million. Cash flow used in continuing investing activities for the full year totaled \$68.3 million, including \$60.7 million. Cash flow generated by continuing investing activities totaled \$92.0 million in 2005 including proceeds on the divestment of the OMSCO division of \$129.6 million. Capital expenditures in 2005 totaled \$38.1 million.

Cash flow generated by continuing financing activities totaled \$899 thousand in the quarter, mainly consisting of an increase in bank indebtedness of \$3.0 million and \$1.2 million received on the exercise of stock options, partially offset by dividends paid to shareholders of \$3.3 million. In the fourth quarter of 2005, cash flow used in continuing financing activities totaled \$18.3 million, comprised of \$15.1 million paid to repurchase Class A shares under the Normal Course Issuer Bid and dividends paid to shareholders of \$3.3 million. For the full year, cash flow used in continuing financing activities in 2006 totaled \$14.3 million compared to \$22.7 million in 2005.

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

For the full year 2006, cash increased \$109.0 million compared to \$123.4 million in 2005, inclusive of proceeds on the divestment of OMSCO of \$129.6 million.

## **Outlook**

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

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

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

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

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

## **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.

Further information on 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 February 28, 2007 at 10:00 a.m. EST to discuss the company's fourth quarter 2006 financial results. Please visit our website at [www.shawcor.com](http://www.shawcor.com) for further details.

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**SHAWCOR LTD.**  
**INTERIM FINANCIAL INFORMATION (Unaudited)**  
**(in thousands of Canadian dollars except per share data)**

**CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended		Twelve Months Ended	
	Dec 31		Dec 31	
	2006	2005	2006	2005
Revenue	\$ 276,315	\$ 293,867	\$ 1,059,619	\$ 1,012,453
Operating expenses (notes 2, 3 and 4)	219,183	249,972	868,012	865,014
Amortization	13,531	9,885	46,745	43,895
Research and development	1,810	2,273	6,082	8,090
	<u>234,524</u>	<u>262,130</u>	<u>920,839</u>	<u>916,999</u>
Operating income from continuing operations	41,791	31,737	138,780	95,454
Interest expense (income) (note 5)	(1,440)	(282)	(2,804)	3,420
Income before income taxes and non-controlling interest	43,231	32,019	141,584	92,034
Income taxes (note 6)	15,717	11,191	46,840	10,109
Income before non-controlling interest	27,514	20,828	94,744	81,925
Non-controlling interest	(792)	952	(1,820)	865
Income from continuing operations	26,722	21,780	92,924	82,790
Income (loss) from discontinued operations (note 7)	(69)	(1,190)	(289)	56,050
Net income	<u>\$ 26,653</u>	<u>\$ 20,590</u>	<u>\$ 92,635</u>	<u>\$ 138,840</u>
Earnings (losses) per share, Class A and B - Basic and Diluted				
Continuing operations	\$ 0.36	\$ 0.30	\$ 1.25	\$ 1.10
Discontinued operations	-	(0.02)	-	0.75
Total	<u>\$ 0.36</u>	<u>\$ 0.28</u>	<u>\$ 1.25</u>	<u>\$ 1.85</u>

**SEGMENTED INFORMATION**

	Three Months Ended		Twelve Months Ended	
	Dec 31		Dec 31	
	2006	2005	2006	2005
Revenue				
Pipeline and Pipe Services	\$ 243,951	\$ 266,135	\$ 922,328	\$ 892,556
Petrochemical and Industrial	32,795	28,214	138,938	121,482
Intersegment Eliminations	(431)	(482)	(1,647)	(1,585)
	<u>\$ 276,315</u>	<u>\$ 293,867</u>	<u>\$ 1,059,619</u>	<u>\$ 1,012,453</u>
Income (loss) from operations				
Pipeline and Pipe Services	\$ 40,816	\$ 34,857	\$ 138,483	\$ 100,407
Petrochemical and Industrial	5,589	1,546	19,192	11,918
Financial and Corporate	(4,614)	(4,666)	(18,895)	(16,871)
	<u>\$ 41,791</u>	<u>\$ 31,737</u>	<u>\$ 138,780</u>	<u>\$ 95,454</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOW**

	Three Months Ended		Twelve Months Ended	
	Dec 31		Dec 31	
	2006	2005	2006	2005
<b>Operating activities:</b>				
Income from continuing operations	\$ 26,722	\$ 21,780	\$ 92,924	\$ 82,790
Items not requiring an outlay of cash:				
Amortization	13,531	9,885	46,745	43,895
Stock-based compensation (note 2)	659	1,414	2,798	2,860
Future income taxes	1,182	4,739	(3,498)	4,230
Non-controlling interest in earnings of subsidiaries	792	(952)	1,820	(865)
Change in non-cash working capital and other	(2,289)	(40,551)	42,796	(53,020)
Cash provided by (used in) continuing operating activities	<u>40,597</u>	<u>(3,685)</u>	<u>183,585</u>	<u>79,890</u>
<b>Investing activities:</b>				
Purchases of property, plant and equipment	(18,101)	(6,080)	(60,692)	(38,141)
Proceeds on disposal property, plant and equipment	1,334	173	1,451	575
Proceeds on disposal of discontinued operations (note 7)	-	(6,046)	-	129,558
Acquisition of joint venture interest (note 8)	-	-	(9,099)	-
Cash provided by (used in) continuing investing activities	<u>(16,767)</u>	<u>(11,953)</u>	<u>(68,340)</u>	<u>91,992</u>
<b>Financing activities:</b>				
Increase (decrease) in bank indebtedness	2,976	82	1,183	(1,538)
Issue of shares	1,191	21	2,147	634
Purchase of shares for cancellation	-	(15,139)	(7,797)	(15,139)
Dividends paid to shareholders	(3,268)	(3,289)	(9,825)	(6,612)
Cash provided by (used in) continuing financing activities	<u>899</u>	<u>(18,325)</u>	<u>(14,292)</u>	<u>(22,655)</u>
Foreign exchange on foreign cash and cash equivalents	<u>9,894</u>	<u>(941)</u>	<u>4,168</u>	<u>(3,942)</u>
Net cash provided by (used in) continuing operations	<u>34,622</u>	<u>(34,904)</u>	<u>105,120</u>	<u>145,285</u>
Net cash provided by (used in) discontinued operations (note 7)	<u>4,562</u>	<u>7,489</u>	<u>3,867</u>	<u>(21,898)</u>
Cash and cash equivalents at beginning of period	<u>270,138</u>	<u>227,750</u>	<u>200,335</u>	<u>76,948</u>
Cash and cash equivalents at end of period	<u>\$ 309,322</u>	<u>\$ 200,335</u>	<u>\$ 309,322</u>	<u>\$ 200,335</u>

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

**CONSOLIDATED BALANCE SHEETS**

	<u>Dec. 31</u> <u>2006</u>	<u>Dec. 31</u> <u>2005</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 309,322	\$ 200,335
Accounts receivable	188,865	216,269
Inventories	79,662	86,120
Taxes receivable	4,293	5,711
Prepaid expenses	12,897	20,648
Current assets of discontinued operations (note 7)	156	799
	<u>595,195</u>	<u>529,882</u>
Property, plant and equipment, net	202,078	180,931
Goodwill	175,813	167,172
Other assets (note 9)	34,940	33,887
Non-current assets of discontinued operations (note 7)	-	7,974
	<u>\$ 1,008,026</u>	<u>\$ 919,846</u>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness (note 10)	\$ 4,094	\$ 2,911
Accounts payable and accrued liabilities	168,387	170,446
Deferred revenues	10,907	23,975
Taxes payable	57,010	46,197
Current liabilities of discontinued operations (note 7)	7,789	12,250
	<u>248,187</u>	<u>255,779</u>
Long-term debt	87,480	87,210
Minority interest in subsidiaries	5,013	2,842
Other non-current liabilities (note 11)	37,419	38,777
	<u>378,099</u>	<u>384,608</u>
<b>Shareholders' Equity</b>		
Capital stock (note 12)	206,852	204,720
Contributed surplus (note 13)	10,603	9,231
Retained earnings	498,001	421,547
Cumulative translation account (note 14)	(85,529)	(100,260)
	<u>629,927</u>	<u>535,238</u>
	<u>\$ 1,008,026</u>	<u>\$ 919,846</u>

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

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	Three Months Ended		Twelve Months Ended	
	Dec 31		Dec 31	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of period	\$ 474,616	\$ 415,742	\$ 421,547	\$ 300,815
Net income	<u>26,653</u>	<u>20,590</u>	<u>92,635</u>	<u>138,840</u>
	<b>501,269</b>	436,332	<b>514,182</b>	439,655
Excess of purchase price paid over stated value of shares	-	(11,496)	(6,356)	(11,496)
Dividends paid	<u>(3,268)</u>	<u>(3,289)</u>	<u>(9,825)</u>	<u>(6,612)</u>
Balance at end of period	<u>\$ 498,001</u>	<u>\$ 421,547</u>	<u>\$ 498,001</u>	<u>\$ 421,547</u>

## **ShawCor Ltd.**

### **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. Except for the exception noted below, 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.

In the fourth quarter of 2006, the Company adopted the proportionate consolidation method of accounting for its 30% investment in the Arabian Pipecoating Company Limited (“APCO”). This change in accounting policy has been applied retroactively with all comparative figures restated. The Company previously accounted for this investment using the equity method.

#### **2. Stock-based compensation**

On November 6, 2006, the Board of Directors approved the granting of 4,000 stock options under the 2001 Director Plan. The total average fair value of the stock options, calculated using the Black-Scholes pricing model, was \$23 thousand. The options granted under the 2001 Director plan vest immediately and as a result, the fair value of the options was charged to compensation cost immediately. The assumptions used in calculating the fair value of the options are as follows: expected life of options 3.25 years, expected stock price volatility 28%, expected dividend yield 1.03%, and risk free interest rate 4.07%. The compensation cost from the continuing amortization of granted stock options for the three months and twelve months ended December 31, 2006 included in operating expenses is \$659 thousand and \$2.8 million, respectively (December 31, 2005 - \$1.4 million and \$2.9 million, respectively).

#### **3. Foreign exchange gains and losses**

Included in operating expenses for the three months and twelve months ended December 31, 2006 are foreign exchange losses totaling \$1.0 million and gains of \$970 thousand, respectively (December 31, 2005 - losses of \$6 thousand and \$874 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 twelve months ended December 31, 2006 is \$1.4 million and \$9.4 million, respectively (December 31, 2005 - \$511 thousand and \$7.3 million, respectively).

#### 5. Interest expense (income)

(in thousands of Canadian dollars)	Three Months Ended		Twelve Months Ended	
	Dec. 31		Dec. 31	
	2006	2005	2006	2005
Interest on short-term deposits	\$ (3,253)	\$ (1,872)	\$ (9,566)	\$ (2,965)
Interest on bank indebtedness	483	178	1,456	659
Interest on long-term debt	1,330	1,412	5,306	5,726
	<u>\$ (1,440)</u>	<u>\$ (282)</u>	<u>\$ (2,804)</u>	<u>\$ 3,420</u>

Net interest received during the three months and twelve months ended December 31, 2006 totaled \$553 thousand and \$1.9 million, respectively (December 31, 2005 – interest paid of nil and \$3.9 million, respectively).

#### 6. Income taxes

Net income taxes paid during the three months and twelve months ended December 31, 2006 totaled \$10.3 million and \$42.1 million, respectively (December 31, 2005 – \$3.1 million and \$21.1 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 twelve months ended December 31, 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. Details of this acquisition follow:

(in thousands of Canadian dollars)

Net assets acquired at estimated	
assigned values:	
Current assets	\$ 1,972
Property, plant and equipment	3,625
Goodwill	4,390
Current liabilities	(888)
	<u>\$ 9,099</u>
Consideration given:	
Cash, net of cash acquired of \$1,149	\$ 9,099
	<u>\$ 9,099</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)	Dec. 31 2006	Dec. 31 2005
Long-term investment	\$ 2,875	\$ 2,875
Deferred financing costs	2,089	2,031
Accrued employee future benefit asset	4,572	4,384
Future income taxes	25,404	24,597
Total	<u>\$ 34,940</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 \$3.6 million at December 31, 2006 (December 31, 2005 - \$3.2 million).

## 10. Bank indebtedness

At December 31, 2006, the Company had unused operating credit lines of \$204.1 million (2005 - \$150.3 million), net of \$74.1 million of various standby letters of credit for performance and bid bonds (2005 - \$98.0 million) and bank indebtedness of \$3.0 million (2005 - \$1.7 million), excluding the Company's proportionate share of the bank indebtedness of its joint venture, Arabian Pipecoating Company Limited.

## 11. Other non-current liabilities

(in thousands of Canadian dollars)	Dec. 31 2006	Dec. 31 2005
Non-current asset retirement obligations	\$ 4,561	\$ 2,249
Accrued employee future benefit obligations	2,362	1,953
Future income taxes	30,496	34,575
Total	<u>\$ 37,419</u>	<u>\$ 38,777</u>

## 12. Capital stock

(in thousands except share information)	Dec. 31, 2006	Dec. 31, 2005
<b>Number of shares: Class A</b>		
Balance, beginning of the period	61,006,045	61,224,968
Issued - stock options	331,157	206,727
Conversions Class B to Class A	9,873	657,950
Purchase and cancelled under Normal Course Issuer Bid	(432,900)	(1,083,600)
Balance, end of the period	<u>60,914,175</u>	<u>61,006,045</u>
Number of shares: Class B	<u>13,078,142</u>	<u>13,088,015</u>
Total number of shares	<u>73,992,317</u>	<u>74,094,060</u>
<b>Stated value: Class A</b>		
Balance, beginning of the period	\$ 203,716	\$ 205,849
Issued – stock options	3,573	1,459
Conversion Class B to Class A	-	51
Purchased and cancelled under Normal Course Issuer Bid	(1,441)	(3,643)
Balance, end of the period	<u>205,848</u>	<u>203,716</u>
Stated Value: Class B	<u>1,004</u>	<u>1,004</u>
Total stated value Class A and Class B	<u>\$ 206,852</u>	<u>\$ 204,720</u>

## 13. Contributed surplus

(in thousands of Canadian dollars)	Three Months Ended Dec. 31		Twelve Months Ended Dec. 31	
	2006	2005	2006	2005
Balance, beginning of period	\$ 10,951	\$ 7,837	\$ 9,231	\$ 7,196
Stock compensation expense (note 2)	659	1,414	2,798	2,860
Fair value of stock options exercised	(1,007)	(20)	(1,426)	(825)
Balance, end of period	<u>\$ 10,603</u>	<u>\$ 9,231</u>	<u>\$ 10,603</u>	<u>\$ 9,231</u>

#### 14. Cumulative translation account

(in thousands of Canadian dollars)	Three Months Ended		Twelve Months Ended	
	Dec. 31		Dec. 31	
	2006	2005	2006	2005
Balance at beginning of period	\$ (104,535)	\$ (91,157)	\$ (100,260)	\$ (71,509)
Translation of self-sustaining foreign operations	19,006	(9,103)	14,731	(28,751)
Balance at end of year	<u>\$ (85,529)</u>	<u>\$ (100,260)</u>	<u>\$ (85,529)</u>	<u>\$ (100,260)</u>

During the twelve months ended December 31, 2006, the Canadian dollar weakened 0.3% (2005 gained 3.5%) against the U.S. dollar, weakened 11.8% (2005 gained 16.2%) against the Euro and weakened 14.0% (2005 gained 13.7%) against the U.K. pound.

#### 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 December 31, 2006, the Company had notional amounts of \$38.7 million of forward contracts outstanding (December 31, 2005 - \$104.5 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 December 31, 2006. The fair value of the Company's net liability for all foreign exchange forward contracts at December 31, 2006 not recognized in the consolidated financial statements was approximately \$3.1 million (December 31, 2005 - \$1.9 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.

## 16. Segmented information

(in thousands)	Three Months Ended		Twelve Months Ended	
	Dec. 31		Dec. 31	
	2006	2005	2006	2005
Revenue				
Pipeline and Pipe Services	\$ 243,951	\$ 266,135	\$ 922,328	\$ 892,556
Petrochemical and Industrial	32,795	28,214	138,938	121,482
Intersegment Eliminations	(431)	(482)	(1,647)	(1,585)
	<u>\$ 276,315</u>	<u>\$ 293,867</u>	<u>\$ 1,059,619</u>	<u>\$ 1,012,453</u>
Income (loss) from operations				
Pipeline and Pipe Services	\$ 40,816	\$ 34,857	\$ 138,483	\$ 100,407
Petrochemical and Industrial	5,589	1,546	19,192	11,918
Financial and Corporate	(4,614)	(4,666)	(18,895)	(16,871)
	<u>\$ 41,791</u>	<u>\$ 31,737</u>	<u>\$ 138,780</u>	<u>\$ 95,454</u>
Goodwill				
Pipeline and Pipe Services			\$ 157,630	\$ 150,901
Petrochemical and Industrial			18,183	16,271
			<u>\$ 175,813</u>	<u>\$ 167,172</u>
Total assets				
Pipeline and Pipe Services			\$ 984,850	\$ 975,574
Petrochemical and Industrial			110,965	88,019
Financial and Corporate			1,235,684	1,146,315
Elimination			(1,323,473)	(1,290,062)
			<u>\$ 1,008,026</u>	<u>\$ 919,846</u>

## 17. Joint venture operations

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

(in thousands)	Three Months Ended		Twelve Months Ended	
	Dec. 31		Dec. 31	
	2006	2005	2006	2005
Revenue	\$ 7,657	\$ 2,182	\$ 25,919	\$ 8,334
Operating and other expenses	6,981	2,038	20,803	6,839
Net income before income taxes	676	144	5,116	1,495
Provision for taxes	23	15	312	157
Net income	\$ 653	\$ 129	\$ 4,804	\$ 1,338
Cash provided by (used in):				
Operating activities	\$ 131	\$ 486	\$ 4,041	\$ 314
Investing activities	(1,350)	(557)	(3,298)	(1,942)
Financing activities	1,248	105	(76)	1,242
Current assets			\$ 9,318	\$ 5,609
Property, plant and equipment, net			9,984	3,613
Goodwill			4,451	-
Current liabilities			5,868	4,353

## 18. Comparative figures

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