



2005 ANNUAL REPORT

HOWARD ROSS LIBRARY OF MANAGEMENT
MCGILL UNIVERSITY

GROWING DEMAND AND GLOBAL EXPANSION

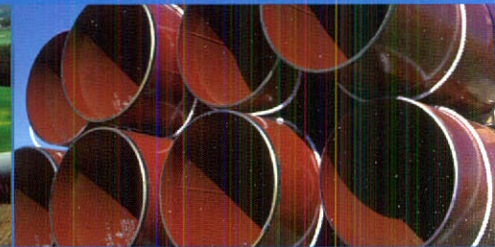
SHAWCOR LTD.: A GLOBAL PRESENCE

5,000 EMPLOYEES > 50 LOCATIONS > OVER 20 COUNTRIES



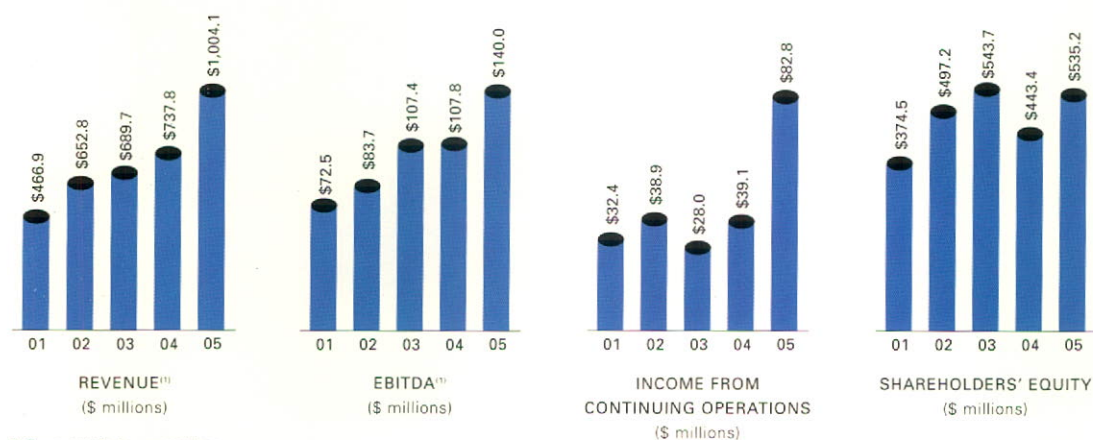
SHAWCOR

LTD. IS A GROWTH-ORIENTED, GLOBAL ENERGY SERVICES COMPANY THAT OPERATES THROUGH SIX BUSINESS UNITS WHICH FOCUS ON TECHNOLOGY-BASED PRODUCTS AND SERVICES FOR THE PIPELINE AND PIPE SERVICES AND THE PETROCHEMICAL AND INDUSTRIAL MARKETS WITH MANUFACTURING AND SERVICE FACILITIES LOCATED IN OVER TWENTY COUNTRIES AROUND THE WORLD.



WORLDWIDE LOCATIONS





⁽¹⁾ From continuing operations

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

FINANCIAL SUMMARY

(In thousands of Canadian dollars except per share amounts)

2005

2004

OPERATING RESULTS

		Restated
Revenue	\$ 1,004,119	\$ 737,784
EBITDA (Note 1)	\$ 140,009	\$ 107,807
Operating income from continuing operations	\$ 95,413	\$ 67,178
Income from continuing operations for the year	\$ 82,790	\$ 39,127
Income (loss) from discontinued operations for the year	\$ 56,050	\$ (125,788)
Net income (loss) for the year	\$ 138,840	\$ (86,661)
Earnings (loss) per share, Class A and Class B – basic and diluted		
From continuing operations	\$ 1.10	\$ 0.52
From discontinued operations	\$ 0.75	\$ (1.68)
Total	\$ 1.85	\$ (1.16)

CASH FLOW

Cash provided by continuing operating activities	\$ 79,577	\$ 70,173
Additions to property, plant and equipment	\$ 36,199	\$ 30,599

FINANCIAL POSITION

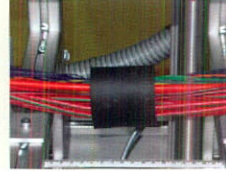
Working capital	\$ 264,019	\$ 151,866
Total assets	\$ 915,683	\$ 804,219
Shareholders' equity per share (Class A and Class B) (Note 2)	\$ 7.22	\$ 5.91

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

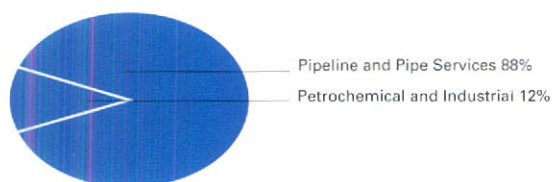
Note 2: Shareholders' equity per share is a non-GAAP measure calculated by dividing shareholders' equity by the number of Class A and Class B shares outstanding at the date of the balance sheet.

TOP RANKED ENERGY SERVICES BUSINESSES

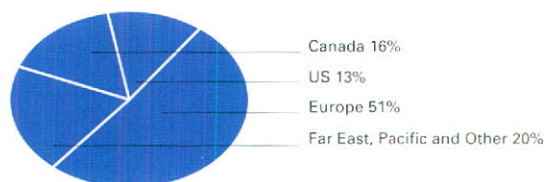
SHAWCOR OPERATES SIX ENERGY SERVICES BUSINESSES THAT ARE RANKED #1 OR #2 IN THEIR RESPECTIVE MARKETS

	Operating Unit	About the Business	Primary Locations
	Bredero Shaw	• Pipeline corrosion coatings • Insulation and weight coatings	• Houston, Texas • Calgary, Alberta • Edinburgh, Scotland • Singapore
	Canusa-CPS	• Pipeline joint protection systems • Pipe coating materials	• Toronto, Ontario • The Woodlands, Texas • Crawley, England
	Shaw Pipeline Services	• Ultrasonic and radiographic pipeline weld inspection	• Houston, Texas • Great Yarmouth, England
	Guardian	• Drill pipe/tubular inspection and refurbishment • Tubular inventory management systems	• Edmonton, Alberta • Villahermosa, Mexico
	DSG-Canusa	• Heat shrinkable tubing and moulded products for sealing and protection	• Toronto, Ontario • Loveland, Ohio • Meckenheim, Germany • Człuchów, Poland
	ShawFlex	• Control and instrumentation wire and cable	• Toronto, Ontario

REVENUE SPLIT



GEOGRAPHIC REVENUE SPLIT



MESSAGE TO OUR SHAREHOLDERS

2005 In Perspective

The year 2005 produced a significant improvement in performance at ShawCor as several key programs were implemented to increase profitability growth while establishing the sound business fundamentals necessary to achieve the company's future growth and return mandates. We are pleased to report that in 2005, five of the six ShawCor businesses either met or exceeded revenue and operating income targets set prior to the beginning of the year. On a consolidated basis, ShawCor established new records for both revenue and profitability during the year.

In 2005, ShawCor's total consolidated revenue, including discontinued operations, reached a new record at \$1.1 billion, the first year that revenue exceeded the billion dollar plateau. Revenue from continuing operations exceeded \$1.0 billion while revenue

from discontinued operations was an additional \$113.6 million. The company achieved net income of \$138.8 million, including a gain on the sale of its OMSCO drill string components business, but net income from continuing operations of \$82.8 million also set a new record. Achievement of the growth in earnings from continuing operations was due to a combination of the strength exhibited in ShawCor's pipeline and other energy service markets along with the impact of profitability improvement programs implemented to achieve higher returns and generate increased shareholder value. It is anticipated that these improving trends will continue.

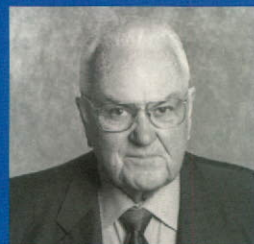
At the end of June 2005, Bill Buckley became President and CEO of ShawCor following eleven years with the company in increasingly senior roles including, most recently,

HIGHLIGHTS

- **consolidated revenue exceeds one billion dollars for first time**
- **net income sets record at \$138.8 million**
- **five of six businesses meet or exceed targets**
- **operating income at Bredero Shaw grows 105%**
- **OMSCO division sold for US\$115 million**

SHAWCOR'S VISION IS

“TO BE THE MARKET LEADER AND TECHNOLOGY INNOVATOR WITH A PRIMARY FOCUS ON THE GLOBAL PIPELINE INDUSTRY AND TO USE THIS BASE TO BUILD AN INTERNATIONAL ENERGY SERVICES COMPANY.”



TOP TO BOTTOM
Leslie E. Shaw
Chairman of the Board
William P. Buckley
President and CEO

Executive Vice President and COO. Under former President Geoff Hyland, the company's size has grown almost three-fold, from revenue of \$300 million to being a billion dollar enterprise. Bill has led the implementation of programs to improve ShawCor's global marketing capability and to increase the company's focus on the development of unique, highly differentiated products while achieving lowest cost producer status throughout its operations. It is through these programs that the company will achieve its vision, "To be the market leader and technology innovator with a primary focus on the global pipeline industry and to use this base to build an international energy services company".

At the end of September 2005, ShawCor sold its OMSCO division to Vallourec & Mannesmann Tubes S.A. of France. OMSCO's markets for drill pipe and other drilling components have always been highly cyclical and the level of returns achieved over several industry cycles did not meet the targets established for all ShawCor businesses. V&M is an integrated steel manufacturer and a world leader in the production of seamless steel tubes and tubular products including the tubes that are the raw material from which drill pipe is made. Closing proceeds from the sale, net of a working capital adjustment, were US\$115 million. Funds realized from the sale of the OMSCO division will be invested to enhance growth opportunities in ShawCor's six other divisions which will now focus on serving two key strategic sectors: i) Pipeline and Pipe Services and ii) Petrochemical and Industrial.

Significant progress was also made during the year toward the establishment of a new strategic direction for Bredero Shaw. John Tikkanen, who has served in several senior management roles including a number of international assignments during a twenty-five year career with Bredero Shaw, became President of the division in March 2005. Several other key management positions were also added to the Bredero Shaw team, including both experienced personnel from other ShawCor divisions and others from outside the company who contributed to the resurgence of this division as the year progressed. Bredero Shaw management is now clearly focused on revenue and profit growth while enhancing the division's position as "The Global Leader in Pipe Coating Solutions".

In 2005, the results achieved at Bredero Shaw were significantly stronger than during the prior year with more than one hundred percent growth in operating income. The closure of the division's deepwater coating and fabrication facility in Mobile, Alabama was successfully completed and all customer commitments associated with contracts being performed at that location were fully achieved. Subsequently, the division's Thermoflo polyurethane insulation plant was relocated from Mobile to the Bredero Shaw facility in Pearland, Texas to continue to serve the deepwater insulation market in the Gulf of Mexico.

Levels of activity and opportunities for growth in ShawCor's core pipeline markets depend on the requirement for new pipeline infrastructure which,

in turn, is driven by investment in increased energy supply to offset rising depletion rates and meet demand growth. Trends in energy supply and demand are affected by a large number of factors that are difficult to predict, such as energy prices, world economic growth, advances in technologies, changes in weather patterns and future public policy decisions. Since 2000, world oil and North American gas prices have risen sharply as supply has tightened, first as a result of strong demand growth in developing economies such as China and later as a result of supply constraints resulting from disruptions and inadequate investment to meet demand growth. As a result, world energy prices continued to rise during 2005 with the average oil price reaching US\$50.00 per barrel, approximately US\$15.00 above the average price recorded in 2004. North American natural gas prices have also increased due to supply constraints with the wellhead price in the US\$10.00 – 12.00 per Mcf range during the last quarter of 2005 as compared to an average of US\$5.50 per Mcf during all of 2004.

2006 Looking Forward

Today, unlike previous up-cycles in the energy industry, there is a consensus that resource depletion and demand growth will ensure continued tightness of supply for the foreseeable future. While research into alternative energy sources is increasing at a rapid rate, it will likely be many years before it will be economic to generate electricity and power transportation without the significant use of hydrocarbon fuels.

2006 GOALS

- IMPROVE FINANCIAL RETURNS – 15% RETURN ON EQUITY
- ACHIEVE EARNINGS GROWTH – 15% NET INCOME GROWTH
- IMPROVE HEALTH, SAFETY AND ENVIRONMENT (HSE) PERFORMANCE
- STRENGTHEN MANAGEMENT CAPABILITIES
- INCREASE RESEARCH, DEVELOPMENT AND ENGINEERING INVESTMENT
- IMPROVE BUSINESS CONTROL SYSTEMS



Canusa-CPS polypropylene sleeves being installed on a pipeline in Algeria

As a result, energy industry fundamentals have never been as strong as they appear today and ShawCor is continuing to position each of its businesses to take advantage of these growth opportunities. While 2006 large diameter pipeline volumes will be somewhat subdued, following completion of the Langeled and Balgzand to Bacton projects in the North Sea, we anticipate that the period from 2007 through 2009 and beyond will be very strong for new pipeline construction. ShawCor's businesses will be ready to respond to these growth opportunities through investment in new or expanded facilities at Bredero Shaw and Guardian, the addition of manufacturing capacity at Canusa-CPS, DSG-Canusa and ShawFlex and the introduction of new, digital pipeline weld inspection equipment at Shaw Pipeline Services.

Competitive pressures are present in each of ShawCor's markets and the rapid rise in raw material prices and the strength of the Canadian dollar are challenging the performance of all ShawCor businesses. These challenges are being met with new programs that will provide improved returns through early involvement with customers on key projects and value creation through the introduction of unique, differentiated product solutions while investing in technology to ensure lowest cost producer status and encouraging continuous improvement in all aspects of the company's operations.

Development of new product solutions is being supported by increased

investment in research, development and engineering which is being focused on specific programs in response to identified commercial opportunities. The company is also investing in improved business control and IT systems to improve performance monitoring and is continuing a strong focus on HSE programs including the achievement of an Incident and Injury Free (IIF) work environment.

At ShawCor, we believe that the performance goals which have been established in each of our businesses will be achieved through the motivation and effort of the company's highly dedicated employees wherever they are located around the world. We would like to express our sincere appreciation to Geoff Hyland, who dedicated his career to the growth of ShawCor and who retired as President and CEO of the company in June 2005. We are also pleased to welcome E. Charlene Valiquette, an Independent Consultant and Corporate Director, and John F. (Jack) Petch, Q.C., Counsel, Osler, Hoskin & Harcourt LLP, who joined the ShawCor Board in 2005.

WILLIAM P. BUCKLEY
President and
Chief Executive Officer

LESLIE E. SHAW
Chairman of the Board

INDUSTRY DYNAMICS



Insulated pipe for the Snøhvit Project in Norway



Large diameter pipe with fusion bond epoxy coating in Western Canada

Growth in global demand for oil and gas will drive increased investment in new pipelines.

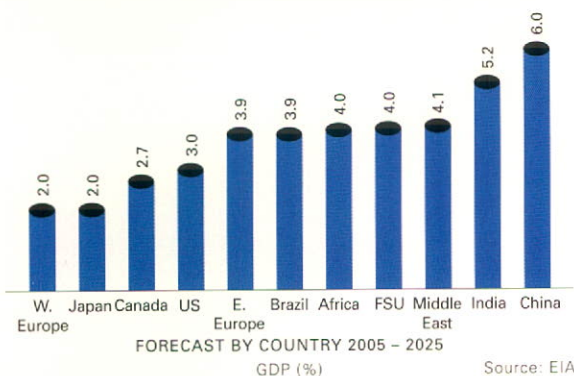
With the world's Gross Domestic Product (GDP) projected to grow at an annual average of 3.9 percent over the next twenty years, global energy demand is expected to grow at 2.0 percent per year during the same period. Significant growth in energy consumption is expected to occur in a number of developing regions including China, India, South America, Mexico and West Africa.

The growth in demand for non-renewable energy, the depletion of existing reserves and the discovery of new reserves in remote locations far from the primary consumer and industrial markets are drivers that will continue to support increased investment in pipeline

infrastructure for the foreseeable future. Supporting this growth, interest rates in North America and Western Europe are expected to remain low, making capital for infrastructure projects inexpensive and allowing the international banking community to invest in the developing regions of the world where local financing is weak.

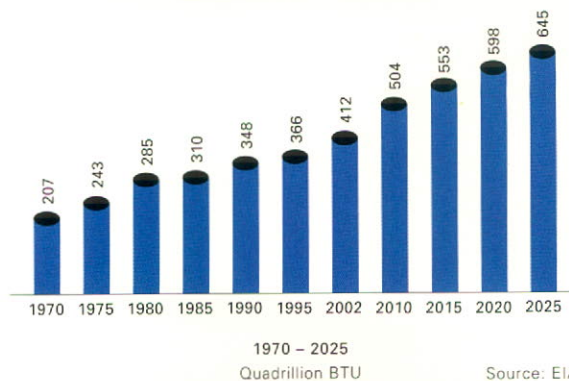
The rise in energy prices, fueled by the increasing perception that supply will be unable to keep pace with demand, will also ensure that previously uneconomic frontier gas, oil sands and deepwater exploration projects will now be profitable. Most of the "easy" oil and gas reserves have already been found and future exploration, both onshore and offshore, will focus primarily on these

GLOBAL ECONOMIC GROWTH



Source: EIA

GLOBAL ENERGY DEMAND



Source: EIA

FRONTIER

GAS, TAR SANDS AND DEEPWATER ENERGY PROJECTS WILL REQUIRE HIGHER VALUE PIPE COATINGS AND INNOVATIVE SOLUTIONS TO MEET CLIENT NEEDS.

technologically challenging frontier and deepwater opportunities.

Additionally, growth in the liquefaction, transshipment and re-gasification of liquefied natural gas (LNG) will continue over the next two decades. Investment in LNG infrastructure will unlock stranded gas reserves and require pipelines to ship the gas to liquefaction plants and provide connections to the existing grid at the points of delivery. Accordingly, the impact of LNG investment on ShawCor is positive.

These new energy sources will require higher value coatings and innovative solutions to meet client needs for strain-based design pipelines, for higher performance insulation and for negative

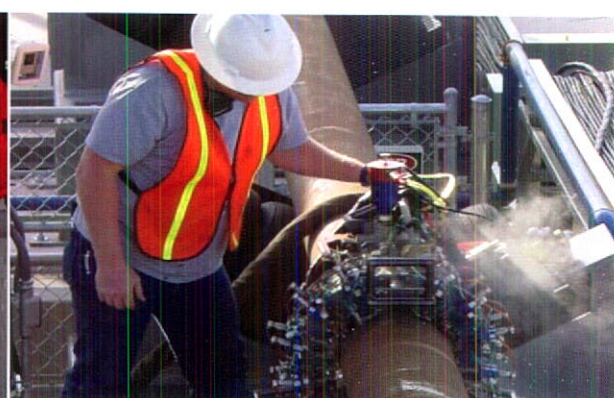
buoyancy and flow assurance applications. Increasing competition together with price and cost pressures are driving a client-centered approach to the market and a product differentiation strategy, both of which will be essential to maintain and grow market share.



TECHNOLOGY LEADERSHIP



Advanced polypropylene joint protection systems for offshore pipelines



Automated high resolution pulse echo ultrasonic weld inspection

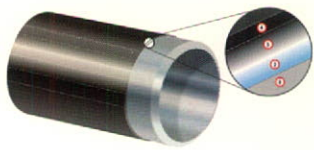
ShawCor's teams of dedicated engineers and scientists are helping the company maintain its technology leadership position.

ShawCor's continuing investment in research, development and engineering is helping the company to maintain its leadership position in spite of the challenges posed by competitors to its traditional product lines. For example, commoditization of traditional products and aggressive pricing strategies in many of Bredero Shaw's markets are being met with a strong commitment to the development and commercialization of new, highly differentiated products and services.

Supporting innovation and investing in the development of client-focused, solutions-based products has become increasingly important as these highly differentiated products play a major role

in forging a sustainable, long term competitive advantage.

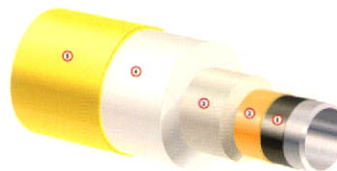
ShawCor's goal is to increase the flow of new product introductions in response to identified, attractive commercial opportunities and increase the level of annual revenue that will come from new products developed within the previous three years. New products have been identified in each of the company's key pipe coating markets including: anti-corrosion coatings, protective and weight coatings, flow assurance coatings, internal coatings, custom coating and field joints. New pipeline design criteria, such as the use of strain-based designs in cold climates, will require advanced coating materials and processes to serve these demanding applications.



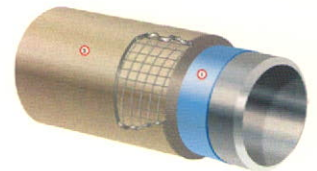
HPCC™
(Frontier sources)



Insul-8®
(Oil sands)



Hevicote®
(Offshore)



Thermotite®
(Deepwater)

DEVELOPMENT

OF CLIENT-FOCUSED,
SOLUTIONS-BASED PRODUCTS WILL PLAY AN INCREASING ROLE IN FORGING
A SUSTAINABLE, LONG TERM COMPETITIVE ADVANTAGE.

The introduction of new products and technologies is being driven in part by the development of frontier energy reserves in regions with unique, highly rigorous construction and operating conditions. Technology and environmental trends are pushing design temperatures at both ends of the temperature spectrum, requiring product and process innovations to meet client needs. Higher temperatures used in ultra-deepwater applications and lower temperatures to support LNG distribution are encouraging Bredero Shaw to focus on developing new product offerings while more stringent environmental standards are forcing the elimination of previously accepted materials from pipeline coating and insulation systems.

ShawCor's divisions are successfully meeting these technology challenges in highly competitive market environments by following the principles of early involvement with clients and the effective development with these clients of value creating solutions based on proprietary products and processes.

Optimizing the effectiveness of these product development programs is enhanced through the use of shared technologies by ShawCor's six divisions including: adhesives, corrosion protection, polymer processing, crosslinking and thermal insulation.



PROJECT LEADERSHIP



Coatings and linings for the Langeled Project were applied at Bredero Shaw's facility in Farsund, Norway



Canusa-CPS' GTS-65 sleeves were used on the giant Sakhalin II Project

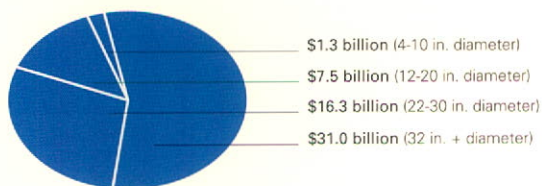
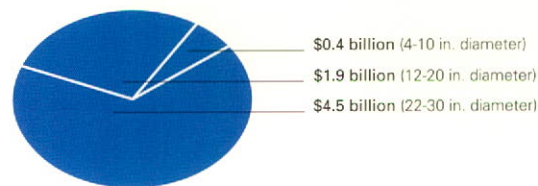
ShawCor's project leadership capabilities ensure that the diverse and technologically challenging needs of customers are met on each and every project.

All of ShawCor's divisions were very active during 2005, undertaking a number of challenging, high profile projects.

For example, Bredero Shaw secured two key projects in the Americas region in 2005. The first involved the completion of the Lorient project which confirmed Bredero Shaw's presence in the strategic Gulf of Mexico insulation market. This project, which involved the demobilization of Bredero Shaw's Thermoflo polyurethane insulation plant from Mobile, Alabama and its successful remobilization at Bredero Shaw's Pearland, Texas facility, satisfied all customer requirements and was completed on budget and ahead of schedule. The second project requires the construction of a state-of-the-art

Thermotite polypropylene insulation coating facility in Belo Horizonte, Brazil where work has begun providing this technologically advanced coating system for enhanced offshore flow assurance on the PDEG project.

Canusa-CPS supplied over 100,000 of its GTS-65 sleeves for use on the 20, 24 and 48-inch pipelines for the giant Sakhalin II project, located on Sakhalin Island off northeastern Siberia. The remoteness of the Russian project posed a number of logistical, training and field support challenges which Canusa-CPS met to the client's complete satisfaction. The project's technical challenges were tackled successfully with the use of an industry-leading specification for the harsh environment of Sakhalin.

WORLDWIDE PIPELINE CONSTRUCTION ESTIMATE
ONSHORE — 2005 AND BEYONDWORLDWIDE PIPELINE CONSTRUCTION ESTIMATE
OFFSHORE — 2005 AND BEYOND

Source: Oil & Gas Journal

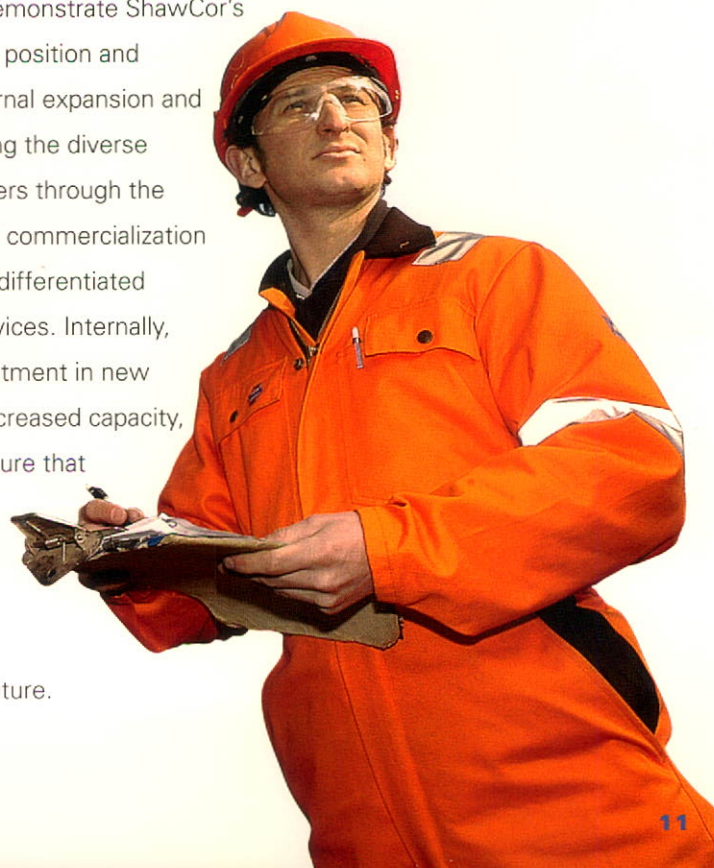
SHAWCOR'S DIVISIONS WERE VERY ACTIVE DURING 2005 UNDERTAKING AND COMPLETING A NUMBER OF CHALLENGING, HIGH PROFILE PROJECTS.

Shaw Pipeline Services' successfully utilized a promising new technology, developed within the division, for the inspection of clad risers on ExxonMobil's Erha project located in Nigerian offshore waters. Shaw Pipeline Services' unique technology for the inspection of clad pipelines has made this division the industry leader in a very challenging segment of the pipeline inspection market.

The 2005 installation of a new armouring machine at ShawFlex's Toronto production facility has added thirty percent more armouring capacity allowing this division to keep up with a surging market for armoured wire and cable products. This project is being followed in rapid succession by other projects in 2006 including the installation

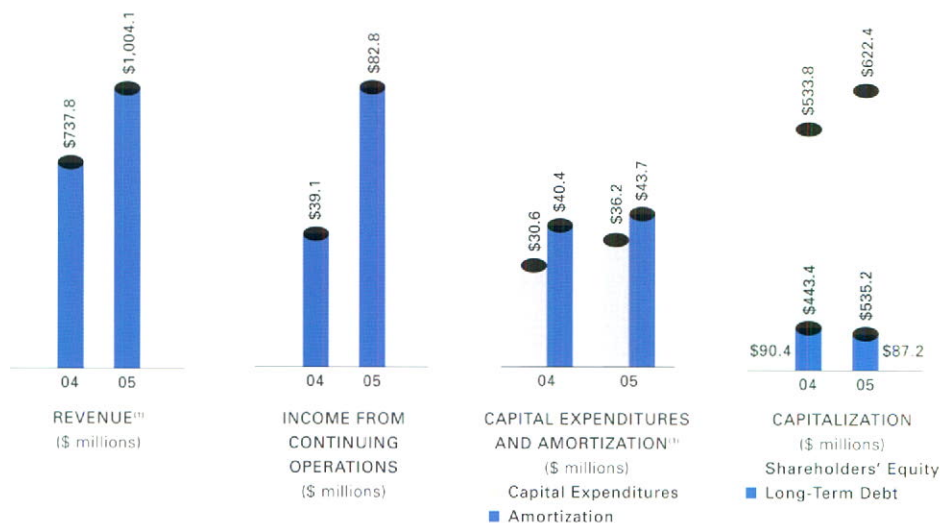
of a new drum twist cabler and a jacket extrusion line which will allow ShawFlex to keep up with demand in the specialty cable market.

These projects demonstrate ShawCor's strong leadership position and potential for external expansion and growth by meeting the diverse needs of customers through the development and commercialization of unique, highly differentiated products and services. Internally, through the investment in new processes and increased capacity, ShawCor will ensure that its facilities maintain lowest cost producer status now and in the future.



FINANCIAL OVERVIEW

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



- ShawCor's consolidated revenue and revenue from continuing operations exceeded one billion dollars for the first time in 2005.
- Consolidated net income reached \$138.8 million, income from continuing operations reached \$82.8 million, a 111.6% increase over 2004.
- Capital expenditures of \$36.2 million increased 18.3% over 2004 with significant investment for a new pipe coating facility at Kabil, Indonesia.
- ShawCor's capitalization increased 16.6% in 2005, net of the repurchase and cancellation of 1,083,600 Class A shares under the terms of a Normal Course Issuer Bid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

On September 30, 2005, the Company sold its OMSCO drill pipe manufacturing division to Vallourec & Mannesmann Tubes S.A. ("V&M"). In the fourth quarter of 2005, operations ceased at the Company's Mobile, Alabama pipe coating plant. In accordance with Canadian generally accepted accounting principles ("GAAP"), the Company has accounted for both operations as discontinued operations and has accordingly restated financial results, cash flows and financial position for 2005, 2004 and 2003. Also, as a result of the OMSCO sale, the Company has realigned its segmented financial reporting into two market segments: Pipeline and Pipe Services and Petrochemical and Industrial. Prior year segmented reporting has been restated to reflect these changes. The sale of OMSCO and the closure of Mobile should reduce cyclicity and have a positive impact on the continuing operations of the Company.

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

The Petrochemical and Industrial segment includes DSG-Canusa and ShawFlex. DSG-Canusa produces heat shrinkable tubing, sleeves, moulded products and kits for the utility, communications, automotive and industrial markets. ShawFlex produces specialty instrumentation and control wire and cable for the petrochemical processing, power generation, ship building and industrial markets.

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

ShawCor has identified several factors as being critical to the long-term success of the Company. These include: the ability to quickly identify and respond to market opportunities; the development of new, superior products and services to meet the evolving needs of customers; a culture of continuous improvement and total quality management; the maintenance of a conservative capital structure; and the recruitment, development and retention of high-caliber personnel. The Company has developed a comprehensive strategy to manage these critical success factors.

2005 FINANCIAL RESULTS

Revenue

Consolidated revenue from continuing operations for 2005 increased 36% over 2004 levels to \$1,004.1 million, the highest level ever achieved by the Company, despite the impact of the strengthening of the Canadian dollar against the U.S. dollar during the year. On average, the Canadian dollar was 7% stronger in 2005, compared to the U.S. dollar, than in 2004. Since over half of the Company's revenue is denominated in U.S. dollars, this results in lower reported revenue when that revenue is translated into Canadian dollars, the Company's reporting currency.

Revenue in the Pipeline and Pipe Services segment increased 43% to \$884.2 million resulting from significantly higher pipe coating volumes at the Company's Bredero Shaw division. Revenue at Bredero Shaw increased 52% over the prior year driven by project volume increases in the North Sea and Africa, including a full year's production on the Langeled project at the Company's Farsund, Norway plant. Onshore pipe coating volumes also increased at the Company's North American plants, with the U.S. and Mexican plants recording 79% and 19% increases, respectively. Offshore volumes remained strong at the Malaysian and Indonesian plants, offsetting much lower levels in the Middle East during the year. Revenue at Canusa-CPS increased 9% over the prior

year, primarily due to several large, international offshore projects, and revenue at Guardian increased 24% over the prior year due to geographic expansion and strong drilling activity in Western Canada. Shaw Pipeline Services' revenue level remained steady.

In the Petrochemical and Industrial segment, revenue in 2005 of \$121.5 million decreased marginally from the 2004 level. Revenue at ShawFlex increased 17% over the prior year due to growth in demand for the division's specialty wiring and cable products; however, this growth was offset by decreased revenue at DSG-Canusa stemming from continuing weakness in the division's European market together with the impact of a significantly stronger Canadian dollar compared to the Euro.

Income from Continuing Operations

Consolidated income from continuing operations for 2005 before interest, income taxes and non-controlling interest increased 42% over the prior year to \$95.4 million, and reflected increased profitability in the Pipeline and Pipe Services segment, offset to some degree by lower Petrochemical and Industrial segment earnings, negative foreign currency movements and higher Financial and Corporate costs.

In the Pipeline and Pipe Services segment, income from continuing operations in 2005 totaled \$100.4 million, representing a 64% improvement over 2004 with the improvement driven by higher sales volumes in the year together with improved operating margins (operating income from continuing operations divided by revenue) at Bredero Shaw. Operational improvement programs, which were launched at Bredero Shaw in 2003, continued to show positive results as improved pipe coating project execution translated into improved profitability for the division. Operating margins improved somewhat but remained below expectations. A somewhat lower margin percentage on the Langeled project in Norway, low levels of activity for much of the year at the Leith, Scotland facility and significant unrecovered cost overruns on the African EGGs project accounted for much of the shortfall in operating margins from internal targets. Fixed cost increases relating to the relocation of the Indonesia facility from Batu Ampar to Kabil and the building of a more customer focused marketing team also reduced operating margins for the year.

In the Petrochemical and Industrial segment, income from continuing operations in 2005 of \$11.9 million decreased

\$3.8 million from the prior year as increased profit at ShawFlex, driven by higher sales revenue, was offset by lower earnings at DSG-Canusa, the result of lower sales and margins stemming from weak European economic activity.

Financial and Corporate costs include corporate expenses not charged to the operating divisions and other non-operating items including foreign exchange gains and losses on foreign currency denominated cash balances. In 2005, Financial and Corporate costs consisted of unallocated corporate office costs of \$16.0 million and foreign exchange losses of \$874 thousand. In 2004, Financial and Corporate costs consisted of unallocated corporate office costs of \$15.5 million, partially offset by foreign exchange gains of \$2.6 million and a gain on the sale of shares of Compagnie Générale de Géophysique ("CGG") of \$4.7 million. The CGG shares were acquired in September 2000 as consideration for the sale of the operating assets of Mark Products.

Amortization expense was \$43.7 million in 2005 compared to \$40.4 million in 2004. 2005 included a full year's amortization on the Farsund plant, which will be substantially amortized by the end of the Langeled project. Research and development costs totaled \$8.1 million compared to \$5.6 million in the prior year and reflected the impact of an internal new product development drive during the year.

Non-Operating Income and Expenses

Interest expense on long-term debt and bank indebtedness, net of interest income on short-term deposits, was \$3.4 million in 2005 compared to \$5.2 million in 2004. This decrease reflected the impact of lower levels of borrowing and higher cash balances, compared to the previous year, due in part to the impact of the proceeds from the sale of the OMSCO division. In addition, the weaker U.S. dollar had a favourable impact on interest expense since the majority of the Company's indebtedness is denominated in U.S. dollars and the translation of the interest on this debt into Canadian dollars was favourably impacted by the lower exchange rate.

Income tax expense of \$10.1 million (11.0% of income from continuing operations before income taxes) in 2005 compared to \$23.1 million (37.3% of income from continuing operations before income taxes) in the prior year and reflected a reduction in income tax expense of \$18.4 million, recorded in the third quarter of the year, due to the utilization of previous years' income tax losses not previously recognized in the accounts.

Non-controlling interest in the losses of subsidiary companies was \$865 thousand in 2005, compared to \$256 thousand in the prior year.

Net income from continuing operations for 2005 was \$82.8 million (\$1.10 per share) compared to \$39.1 million (\$0.52 per share) in 2004 and represented record earnings for the Company.

Discontinued Operations

Net income from discontinued operations in 2005 totaled \$56.1 million (\$0.75 per share) and reflects the operating results of the OMSCO division until its sale to V&M on September 30, 2005 of \$14.6 million, as well as a gain of \$48.4 million, net of deferred tax expense of \$26.7 million, resulting from the sale. Operating losses for the year related to the Mobile, Alabama pipe coating plant totaling \$6.9 million are also included in discontinued operations. Net loss from discontinued operations in 2004 totaled \$125.8 million (\$1.68 per share) consisting of net income from the OMSCO division for the year of \$2.0 million and net losses from the Mobile, Alabama facility for the year of \$127.8 million, including a provision of \$50.4 million for asset impairment resulting from the closure of the facility.

Net Income and Earnings per Share

Consolidated net income for the year was \$138.8 million or \$1.85 per share including the after-tax gain on the OMSCO sale of \$48.4 million (\$0.65 per share) and the \$18.4 million (\$0.25 per share) reduction in income tax expense from the utilization of prior year losses in the third quarter. 2004 saw a net loss of \$86.7 million or \$1.16 per share and included a provision for asset impairment related to the closure of the Mobile, Alabama facility of \$50.4 million (\$0.67 per share).

Cash Flows

Cash flow generated from continuing operations totaled \$79.6 million in 2005 compared to \$70.2 million in the prior year as the impact of the improved profitability in the year was partially offset by higher working capital investment to support the increased business levels.

Cash generated from investing activities in 2005 totaled \$93.9 million, reflecting the net proceeds on the OMSCO divestment of \$129.6 million and proceeds on the disposal of property, plant and equipment of \$575 thousand, less capital expenditures of \$36.2 million. Significant expenditures in the year included moving and upgrading the Indonesian and Nigerian pipe coating plants and machine

capacity expansion at ShawFlex and Canusa-CPS. Cash used in investing activities in 2004 totaled \$26.2 million as capital expenditures totaling \$30.6 million and a \$2.9 million investment in shares of Garneau Inc. were partially offset by proceeds of \$575 thousand from the disposal of property, plant and equipment and proceeds of \$6.7 million on the sale of shares of CGG.

Cash flow used in continuing financing activities totaled \$23.9 million in 2005 as bank indebtedness was decreased by \$2.8 million, dividends of \$6.6 million were paid to shareholders, and 1,083,600 Class A shares were purchased by the Company for \$15.1 million under a Normal Course Issuer Bid. Cash flow used in continuing financing activities in 2004 totaled \$9.0 million consisting mainly of dividends paid of \$6.0 million and repayment of bank indebtedness of \$2.8 million.

Cash flow used in discontinued operations totaled \$21.9 million in the year consisting mainly of cash outflows from operations at OMSCO and the Mobile, Alabama facility. In 2004, cash outflows from discontinued operations totaled \$43.0 million, primarily reflecting the operating losses in the year at Mobile.

Cash and cash equivalents increased \$123.8 million during 2005 and totaled \$200.3 million at the end of the year. In 2004, cash and cash equivalents decreased \$11.1 million during the year to \$76.5 million.

Dividends

Dividends per share paid in 2005 were \$0.09 for Class A Subordinate Voting Shares (2004 – \$0.0808) and \$0.0818 for Class B Multiple Voting Shares (2004 – \$0.0734). The dividend applicable to Class A shares includes a non-cumulative premium of 10% above that applicable to Class B shares. The Board of Directors determines dividend payments based on a consideration of net income over a period of years, the Company's overall financial standing and the Company's growth opportunities.

Liquidity and Capitalization

At December 31, 2005, the Company recorded a working capital ratio of 2.05 to 1 compared to 1.71 to 1 at December 31, 2004. Operating working capital (excluding cash and cash equivalents) of \$65.4 million decreased \$14.4 million during the year reflecting the reduction resulting from the OMSCO sale and the closure of Mobile, offset by working capital investments in continuing operations to support higher business levels.

Property, plant and equipment, net of accumulated amortization of \$177.3 million, decreased \$9.7 million from the prior year as amortization expense of \$43.7 million was partially offset by capital expenditures of \$36.2 million and the impact of the lower U.S. exchange rate on the translation of U.S. dollar-denominated assets.

Goodwill decreased \$9.2 million during the year to \$167.2 million reflecting the impact of the lower U.S. dollar exchange rate on the translation of goodwill related to Bredero Shaw.

Other assets increased \$6.2 million during the year to \$42.5 million at December 31. Future income taxes increased \$4.7 million, mainly due to differences between the accounting and tax values of certain property, plant and equipment. Deferred project costs increased \$1.4 million, while deferred financing costs decreased due to amortization by \$596 thousand.

Shareholders' equity increased \$91.8 million during the year to \$535.2 million at December 31, 2005. The stated value of capital stock decreased \$2.2 million, due to the repurchase of 1,083,600 Class A shares during the year under the Normal Course Issuer Bid, reduced by the impact of the exercise of 206,727 stock options in the year. Contributed surplus increased \$2.0 million in the year, reflecting expenses recorded in the year related to stock-based compensation, net of options exercised.

Retained earnings increased \$120.7 million in the year to \$421.5 million at December 31 reflecting net income for the year of \$138.8 million, partially offset by cash dividends paid in the year of \$6.6 million and the excess of the purchase price over the stated value of shares purchased under the Normal Course Issuer Bid.

The cumulative translation account increased \$28.8 million in 2005 to negative \$100.3 million, reflecting the impact of the stronger Canadian dollar on the translation of the net

assets of the Company's U.S. dollar, U.K. pound and Norwegian kroner-based, self-sustaining subsidiaries, partially offset by the impact of the translation of the Company's U.S. dollar-denominated Senior Notes. These notes are designated as a hedge of a portion of the Company's investment in the net assets of Bredero Shaw.

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

At December 31, 2005, the Company had unused operating credit lines of \$150.3 million (2004 – \$193.0 million), net of \$98.0 million of various standby letters of credit for performance and bid bonds (2004 – \$61.5 million) and bank indebtedness of \$1.7 million (2004 – \$4.5 million). The Company's existing three year committed credit line of US\$165 million, with six North American banks, expires on June 30, 2006. The Company anticipates it will be able to renew that line on similar terms and conditions.

As part of the Company's normal operations, it often enters into contracts, such as leases and purchase contracts, which obligate the Company to make disbursements in the future. The following table summarizes these future payments required in respect of the Company's contractual obligations:

(In thousands of Canadian dollars)	2006	2007	2008	2009	2010	Thereafter	Total
Long-term debt	\$ —	\$ —	\$ —	\$ 29,070	\$ 29,070	\$ 29,070	\$ 87,210
Operating leases	9,693	8,000	5,991	5,546	5,247	21,126	55,603
Capital commitments	1,477	—	—	—	—	—	1,477
Other purchase commitments	18,558	249	249	249	249	249	19,803
Total contractual obligations	\$ 29,728	\$ 8,249	\$ 6,240	\$ 34,865	\$ 34,566	\$ 50,445	\$ 164,093

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

SELECTED ANNUAL INFORMATION

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

(In thousands of Canadian dollars except per share and outstanding share amounts)		2005	2004	2003
			Restated	Restated
Revenue	\$ 1,004,119	\$ 737,784	\$ 689,657	
Operating income from continuing operations	95,413	67,178	67,459	
Income from continuing operations	82,790	39,127	35,689	
Income (loss) from discontinued operations	56,050	(125,788)	(11,338)	
Net income (loss)	138,840	(86,661)	24,351	
Operating income from continuing operations per share (Classes A and B)				
Basic	1.27	0.90	0.96	
Diluted	1.27	0.90	0.95	
Income from continuing operations per share (Classes A and B)				
Basic	1.10	0.52	0.51	
Diluted	1.10	0.52	0.50	
Income (loss) from discontinued operations per share (Classes A and B)				
Basic	0.75	(1.68)	(0.16)	
Diluted	0.75	(1.68)	(0.16)	
Net income (loss) per share (Classes A and B)				
Basic	1.85	(1.16)	0.35	
Diluted	1.85	(1.16)	0.34	
Total assets	915,683	804,219	825,617	
Total long-term financial liabilities	87,210	90,360	97,095	
Cash dividends per share				
Class A	0.09	0.0808	0.0808	
Class B	0.0818	0.0734	0.0734	
Number of outstanding shares				
Class A	61,006,045	61,224,968	61,206,202	
Class B	13,088,015	13,745,965	13,769,995	
Total	74,094,060	74,970,933	74,976,197	

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

Over 80% of the Company's revenue is transacted in currencies other than Canadian dollars, with a majority transacted in U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies can have a significant effect on the amounts of these revenues when they are translated into Canadian dollars. For example, in 2004, the U.S. dollar was on average, approximately 7% lower than in 2003 and in 2005, the U.S. dollar was also on average, approximately 7% lower than in 2004. In 2005, a 1¢ change in the U.S. dollar, vis-à-vis the Canadian dollar, impacted revenue by approximately \$4 million and net income by \$1 million (\$0.01 per share).

On January 1, 2004, the Company adopted new GAAP recommendations related to asset retirement obligations. The adoption of these recommendations resulted in the recording of expenses of \$2.1 million in 2004 and \$774 thousand in 2005 that were not recorded in 2003.

On November 3, 2004, the Company announced the closure of its Mobile, Alabama facility. Operations at the facility ceased in the fourth quarter of 2005 and discontinued operations accounting treatment was adopted in that quarter with the prior years restated on a comparable basis.

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

SUMMARY OF QUARTERLY RESULTS

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

(in thousands of Canadian dollars except per share amounts)	First		Second		Third		Fourth		Full Year	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue (restated)	242,859	163,352	230,410	174,311	239,165	172,440	291,685	227,681	1,004,119	737,784
Operating income from continuing operations (restated)	29,326	15,499	12,499	12,758	21,869	10,690	31,719	28,231	95,413	67,178
Income from continuing operations (restated)	18,688	11,268	7,516	8,128	34,806	7,434	21,780	12,297	82,790	39,127
Income (loss) from discontinued operations (restated)	(930)	(7,683)	2,224	(11,617)	55,946	(16,092)	(1,190)	(90,396)	56,050	(125,788)
Net income (loss)	17,758	3,585	9,740	(3,489)	90,752	(8,658)	20,590	(78,099)	138,840	(86,661)
Operating income from continuing operations per share (Classes A and B) basic and diluted (restated)	0.39	0.21	0.17	0.17	0.29	0.14	0.42	0.38	1.27	0.90
Income from continuing operations per share (Classes A and B) basic and diluted (restated)	0.25	0.15	0.10	0.11	0.45	0.10	0.30	0.16	1.10	0.52
Income (loss) from discontinued operations per share (Classes A and B) basic and diluted (restated)	(0.01)	(0.10)	0.03	(0.16)	0.75	(0.21)	(0.02)	(1.21)	0.75	(1.68)
Net income (loss) per share (Classes A and B) basic and diluted	0.24	0.05	0.13	(0.05)	1.20	(0.11)	0.28	(1.05)	1.85	(1.16)

The Company's operations are subject to a degree of seasonality particularly in the Pipeline and Pipe Services market segment. 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 pipeline and drilling operations of their customers. 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. In 2005, a 1¢ change in the U.S. dollar, vis-à-vis the Canadian dollar, impacted revenue by approximately \$4 million and net income by \$1 million (\$0.01 per share).

On November 3, 2004, the Company announced the closure of its Mobile, Alabama facility. This event had a

significant impact on the financial results for the fourth quarter of 2004. Operations at the facility ceased in the fourth quarter of 2005 and discontinued operations accounting treatment was adopted in that quarter with prior quarters restated on a comparable basis.

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

FOURTH QUARTER RESULTS

Revenue

Consolidated revenue for the fourth quarter of \$291.7 million, the highest quarterly figure ever reported by the Company, represented a 22% increase over the third quarter and a 28% increase over the fourth quarter of last year with significant improvements realized by both market segments.

Pipeline and Pipe Services segment revenue for the quarter reached \$264.0 million, representing a 26% increase over the prior quarter and a 31% improvement over the fourth quarter of last year. Bredero Shaw was the main contributor to the improvement as revenue at the division grew 32% over the third quarter and 39% over the fourth quarter of 2004 with gains in all geographic regions. Project activity at the division's plants in Africa and Scotland, together with stronger onshore pipe coating volumes at the division's North American plants, were the primary drivers behind the improvement in revenue. Revenue also improved at ShawCor's drill pipe inspection business; however, it decreased at the Company's pipeline joint protection and weld inspection businesses.

Petrochemical and Industrial segment revenue in the quarter totaled \$28.2 million, 5% higher than in the same quarter of last year. Revenue at ShawFlex increased significantly over the fourth quarter of 2004; however, it declined at DSG-Canusa reflecting soft conditions in the division's European markets.

Income from Continuing Operations

Consolidated income from continuing operations before interest, income taxes and non-controlling interest totaled \$31.7 million in the quarter compared to \$21.9 million in the prior quarter and \$28.2 million in the fourth quarter of 2004.

In the Pipeline and Pipe Services segment, income from continuing operations in the quarter totaled \$34.8 million, representing a 54% increase over operating earnings in the previous quarter and a 22% improvement over the fourth quarter of 2004. Operating earnings at Bredero Shaw improved 103% over the third quarter result and 43% over fourth quarter 2004 earnings, driven by the strengthened revenue in the quarter. Operating margins at Bredero Shaw improved significantly over the prior quarter due to improved efficiencies at the division's Farsund, Norway and African plants and increased through-put in Scotland and North America. Bredero Shaw's operating margins in the quarter were only slightly improved over the fourth quarter of 2004 as improved operating efficiencies were mainly offset by a slightly less favourable project mix. Canusa-CPS earnings were negatively impacted by the seasonal fourth quarter slowdown in sales activity, increased raw material costs, a result of major suppliers being unable to deliver materials, and the stronger Canadian dollar, which also negatively impacted Shaw Pipeline Services.

In the Petrochemical and Industrial segment, income from continuing operations of \$1.5 million for the fourth quarter compares to \$3.0 million in the third quarter of the year and \$3.1 million in the fourth quarter of last year with earnings reflecting lower revenue and a less favourable sales mix in the quarter.

Financial and Corporate costs in the quarter of \$4.7 million were mainly comprised of unallocated corporate office costs. In the fourth quarter of 2004, Financial and Corporate costs comprised unallocated corporate office costs of \$4.7 million partially offset by foreign exchange gains on foreign currency denominated cash deposits of \$1.1 million.

Non-Operating Income and Expenses

Net interest income was \$300 thousand in the fourth quarter of 2005, compared to interest expense of \$1.1 million in the third quarter and \$1.1 million in the fourth quarter of 2004. The improvement in net interest reflects income during the quarter on the proceeds from the sale of the OMSCO division.

Income tax expense in the quarter was \$11.2 million or 34.9% of income from continuing operations before income taxes compared to \$14.5 million (53.6% of income from continuing operations before income taxes) in the fourth quarter of last year.

Consolidated net income from continuing operations for the quarter totaled \$21.8 million (\$0.30 per share), compared to \$12.3 million (\$0.16 per share) in the fourth quarter of 2004.

Discontinued Operations

Net loss from discontinued operations for the quarter totaled \$1.2 million (\$0.02 per share) reflecting fourth quarter costs at the Mobile, Alabama facility. In the fourth quarter of 2004, net losses from discontinued operations totaled \$90.4 million (\$1.21 per share) and were comprised of net income from OMSCO of \$2.5 million offset by operating losses at the Mobile facility of \$42.5 million and a provision for the impairment in the fair value of the Mobile assets of \$50.4 million.

Net Income and Earnings per Share

Consolidated net income for the fourth quarter of 2005 was \$20.6 million or \$0.28 per share compared to \$90.8 million (\$1.20 per share) in the prior quarter and a net loss of \$78.1 million (\$1.05 per share) in the fourth quarter of

2004. The third quarter figure includes the \$48.4 million (\$0.64 per share) after-tax gain on the OMSCO sale while the fourth quarter, 2004 figure includes a provision for asset impairment related to the closure of the Mobile, Alabama facility of \$50.4 million (\$0.67 per share).

Cash Flow

Cash flow used in continuing operations in the quarter totaled \$4.2 million compared to cash generated of \$27.9 million in the fourth quarter of last year, with the decrease in cash flow due primarily to increased working capital investment to support increased business levels, partially offset by increased profitability.

Cash flow used in continuing investing activities in the quarter totaled \$11.4 million, comprised of capital expenditures of \$5.5 million less proceeds on disposal of property, plant and equipment of \$173 thousand, together with the payment of the final working capital adjustment related to the OMSCO sale. In the fourth quarter of 2004, cash used in continuing investing activities totaled \$8.6 million as capital expenditures of \$8.9 million were partially offset by proceeds on disposal of property, plant and equipment of \$307 thousand. Expenditures in the fourth quarter of 2005 included moving and upgrading the Indonesia pipe coating plant.

Cash flow used in continuing financing activities totaled \$18.4 million in the quarter, mainly consisting of \$15.1 million for the repurchase of Class A shares under a Normal Course Issuer Bid and cash dividends paid to shareholders of \$3.3 million. In the fourth quarter of 2004, cash used in continuing financing activities totaled \$4.0 million, comprised of cash dividends paid of \$3.0 million, repayment of bank indebtedness of \$483 thousand and \$568 thousand paid to repurchase Class A shares.

Overall, cash and cash equivalents decreased \$27.4 million during the quarter to \$200.3 million, compared with a decrease of \$3.5 million during the fourth quarter of 2004 to \$76.5 million.

RELATED PARTY TRANSACTION

On October 4, 2005, the Company completed a transaction with its controlling shareholder, the Leslie E. Shaw family (the "Shaws"). As a result of this transaction, the Company acquired certain private companies owned by the Shaws, which companies owned 10,304,685 Class B Multiple Voting Shares of ShawCor, and in consideration therefore issued an equivalent number (10,304,685) of

Class B Multiple Voting Shares to the Shaws. The Company recorded this transaction at the carrying amount of the shares received and issued.

The purpose of the reorganization was to facilitate estate planning objectives of the Shaws, and all of the costs of the reorganization were borne by them.

The Company's Board of Directors formed an independent committee (the "Independent Committee") of the Board to review, among other matters, the proposed terms of the reorganization and to make a recommendation to the Board regarding its implementation. The Independent Committee retained counsel to advise on this matter. Based upon its review of the reorganization and the definitive agreements, the Independent Committee concluded and recommended to the Board that it was reasonable and appropriate for the Company to proceed with the transaction.

CRITICAL ACCOUNTING ESTIMATES

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

Long-Lived Assets and Goodwill

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

Future Benefit Obligations

The Company provides employee future benefits to its employees under a number of defined benefit and defined contribution arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding

discount rates, long-term rates of return on pension plan assets, and rates of employee compensation increases. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

Contingent Liabilities

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

Asset Retirement Obligations

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

Financial Instruments

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

Income Taxes

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

UPCOMING ACCOUNTING CHANGES

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

- a) CICA Handbook Section 1530, "Comprehensive Income" establishes standards for the reporting and presentation of comprehensive income and defines other comprehensive income to include revenues, gains and losses that are recognized in comprehensive income, but excluded from net income.
- b) CICA Handbook 3855, "Financial Instruments – Recognition and Measurement" describes the standards for recognizing, measuring and presenting financial assets, financial liabilities and non-financial derivatives.
- c) CICA Handbook 3866, "Hedges" provides guidance on when and how hedge accounting may be applied.

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

DISCLOSURE CONTROLS AND PROCEDURES

The Company evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators), under the supervision of the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company concluded that its disclosure controls and procedures were effective as of December 31, 2005.

FINANCIAL INSTRUMENTS

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

- a) **Cash and Cash Equivalents, Accounts Receivable, Bank Indebtedness, Accounts Payable and Accrued Liabilities, and Income Taxes**
Due to the short period to maturity of the financial instruments, the carrying values as presented in the

consolidated balance sheet are reasonable estimates of fair values.

b) Long-Term Debt

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

c) Derivative Financial Instruments

The Company manages foreign exchange risk through the use of derivative financial instruments including foreign exchange option contracts and forward exchange contracts. These instruments are used to hedge exposures related to expected foreign currency cash flows only; the Company does not use these instruments for speculative purposes. The fair values of foreign exchange forward contracts represent an approximation of the amounts the Company would have paid to or received from counterparties to unwind its positions at December 31, 2005. The fair value of the Company's net benefit for all foreign exchange forward contracts at December 31, 2005 not recognized in the consolidated financial statements was approximately \$1.9 million (2004 – \$1.2 million). If these contracts ceased to be effective as hedges, unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign-denominated cash flows would be recognized in income at the time this condition was identified.

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

a) Interest Rate Risk

The Company's cash and bank indebtedness are at floating rates of interest while cash equivalents are for terms of less than 90 days. As a result, interest rate risk related to these instruments is considered to be low. The Company's U.S. dollar-denominated Senior Notes are at a fixed interest rate of 5.11%.

b) Credit Risk

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

Cash and cash equivalents consist of deposits with major commercial banks and short-term investments with original maturities of three months or less.

The Company, in the normal course of business, is exposed to credit risk from its customers, substantially all

of which are in the energy industry. These accounts receivable are subject to normal industry credit risks.

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

c) Foreign Exchange Risk

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

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2005:

(in thousands)	
Maturity	December 31, 2005
U.S. DOLLARS SOLD FOR CANADIAN DOLLARS	
Less than one year	US\$10,000
Weighted average rate	1.2267
EUROS SOLD FOR U.K. POUNDS	
Less than one year	€34,000
Weighted average rate	0.6941
NORWEGIAN KRONERS SOLD FOR U.S. DOLLARS	
Less than one year	NOK75,000
Weighted average rate	0.1619
U.K. POUNDS SOLD FOR EUROS	
Less than one year	£7,055
Weighted average rate	1.4175
BRAZILIAN REALS SOLD FOR U.S. DOLLARS	
Less than one year	BRL6,719
Weighted average rate	0.4019
One to two years	BRL23,095
Weighted average rate	0.3897

RISKS AND UNCERTAINTIES

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

Markets

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

Availability of Raw Materials

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

Political Risk

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

Liability Claims

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

Environmental Risk

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

OUTLOOK

The key determinant of the demand for the products and services of the Company's largest market segment, the Pipeline and Pipe Services segment, is the level of pipeline infrastructure investment which in turn is driven by several factors, chiefly energy demand and energy supply. Energy demand is mainly the result of economic growth while

supply is impacted by declining production from existing reservoirs and by the development of new producing areas. 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.

Global economic activity is expected to remain robust in the medium term, driven mainly by dynamic economic growth in China and India. In North America, economic growth over the first half of 2006 is expected to remain strong at current levels; however, some softening is expected toward the latter half of the year. As strong economic activity translates into increased demand for energy, prices are expected to remain buoyant in the medium term and additional production is expected to be added. Pipeline investment will be required to carry this additional production to market.

In 2006, ShawCor's revenue is expected to decline slightly from the 2005 level as pipe coating project work in the North Sea slows down after the conclusion of several large projects including Langeled; however, this reduction in North Sea activity will be largely offset by increases initially in the Middle and Far East followed by North American large diameter activity. Profitability levels are expected to be maintained in 2006, despite the revenue shortfall, as improved operational execution leads to improved profitability at Bredero Shaw. Current bid activity levels suggest further profitability growth in 2007 and beyond. ShawCor conducts pipe coating operations at two locations in Nigeria. Recent political unrest has resulted in some disruption of operations at the Company's Warri facility.

Consolidated order backlog, representing customer orders expected to be completed within one year, although strong at \$357.2 million, decreased from \$373.0 million at the beginning of the fourth quarter of 2005 as the conclusion of the Langeled project approached.

With the proceeds from the sale of OMSCO, ShawCor has 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 provide the potential for strong growth for ShawCor in 2007 and beyond.

OUTSTANDING SHARE CAPITAL

As at January 31, 2006, the Company had 61,011,693 Class A Subordinate Voting Shares outstanding and 13,082,367 Class B Multiple Voting Shares outstanding. Each Class B Multiple Voting Share is convertible into a Class A Subordinate Voting Share at the option of the holder. In addition, as at January 31, 2006, the Company had stock options outstanding to purchase up to 2,596,205 Class A Subordinate Voting Shares.

This document includes certain statements that reflect management's expectations and objectives for ShawCor's future performance, opportunities and growth. Such statements, except to the extent that they contain historical facts, are forward-looking and accordingly involve estimates, assumptions, judgements and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may," "will," "should," "anticipate," "estimate," "continue," "intend," "plan," and variations of these words or other similar expressions. 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 risk and uncertainty, as outlined above under "Risk Factors," which could cause actual results to differ materially from those projected.

Further information on the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com.

February 23, 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

The Audit Committee is appointed by the Board and all of its members are independent. The Committee meets periodically to review quarterly financial reports and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the Company's quarterly and annual consolidated financial statements and recommends their approval to the Board of Directors.

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

February 13, 2006



William P. Buckley
President and Chief Executive Officer



Alan R. Thomas
Vice President, Finance and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of ShawCor Ltd.

We have audited the consolidated balance sheets of ShawCor Ltd. as at December 31, 2005 and 2004 and the consolidated statements of income (loss), retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

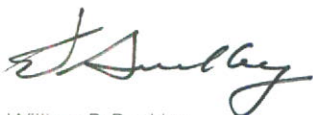
Toronto, Canada
February 13, 2006

CONSOLIDATED BALANCE SHEETS

December 31 (In thousands of Canadian dollars)	2005	2004
		Restated (note 17)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 200,304	\$ 76,497
Accounts receivable	213,416	144,441
Inventories (note 2)	81,012	70,913
Prepaid expenses	14,393	6,346
Taxes receivable	5,711	5,687
Future income taxes (note 16)	—	5,010
Current assets of discontinued operations (note 17)	799	55,645
	515,635	364,539
Property, plant and equipment, net (note 3)	177,317	187,054
Goodwill (note 4)	167,172	176,393
Investment in associated company	5,061	4,226
Other assets (note 5)	42,524	36,296
Non-current assets of discontinued operations (note 17)	7,974	35,711
	\$ 915,683	\$ 804,219
LIABILITIES		
Current liabilities		
Bank indebtedness (note 7)	\$ 1,715	\$ 4,495
Accounts payable and accrued liabilities	167,473	137,747
Deferred revenue	23,975	5,494
Taxes payable (note 16)	46,203	40,793
Current liabilities of discontinued operations (note 17)	12,250	24,144
	251,616	212,673
Long-term debt (note 7)	87,210	90,360
Other non-current liabilities (note 8)	41,619	38,700
Non-current liabilities of discontinued operations (note 17)	—	19,080
	380,445	360,813
SHAREHOLDERS' EQUITY		
Capital stock (note 9)	204,720	206,904
Contributed surplus (note 10)	9,231	7,196
Retained earnings	421,547	300,815
Cumulative translation account (note 13)	(100,260)	(71,509)
	535,238	443,406
	\$ 915,683	\$ 804,219

See accompanying notes.

On behalf of the Board



William P. Buckley
Director



Leslie E. Shaw
Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years Ended December 31 (In thousands of Canadian dollars except per share information)		
	2005	2004
		Restated (note 17)
Revenue	\$ 1,004,119	\$ 737,784
Operating expenses (note 14)	858,380	628,091
Amortization of property, plant and equipment	43,731	40,373
Research and development	8,090	5,623
	910,201	674,087
Share of earnings in associated company	1,495	3,481
Operating income from continuing operations	95,413	67,178
Interest expense, net (note 15)	3,379	5,182
Income from continuing operations before income taxes and non-controlling interest	92,034	61,996
Income taxes (note 16)	10,109	23,125
Income from continuing operations before non-controlling interest	81,925	38,871
Non-controlling interest	865	256
Income from continuing operations	82,790	39,127
Income (loss) from discontinued operations, net of tax (note 17)	56,050	(125,788)
Net income (loss) for the year	\$ 138,840	\$ (86,661)
Earnings (loss) per share, Class A and Class B – basic and diluted		
Continuing operations	\$ 1.10	\$ 0.52
Discontinued operations	0.75	(1.68)
Total	\$ 1.85	\$ (1.16)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31 (In thousands of Canadian dollars)		
	2005	2004
Balance at beginning of year	\$ 300,815	\$ 393,836
Net income (loss) for the year	138,840	(86,661)
	439,655	307,175
Excess of purchase price paid over stated value of shares (note 9)	(11,496)	(400)
Dividends paid	(6,612)	(5,960)
Balance at end of year	\$ 421,547	\$ 300,815

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years Ended December 31 (In thousands of Canadian dollars)		2005	2004
			Restated (note 17)
OPERATING ACTIVITIES			
Income from continuing operations	\$ 82,790		\$ 39,127
Items not requiring an outlay of cash:			
Amortization	43,731		40,373
Gain on disposal of investment in shares	—		(4,710)
Future income taxes	4,230		(1,668)
Non-controlling interest in losses of subsidiaries	(865)		(256)
Share of earnings of associated company	(1,495)		(3,481)
Change in non-cash working capital and other	(48,814)		788
Cash provided by continuing operating activities	79,577		70,173
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(36,199)		(30,599)
Proceeds on disposal of property, plant and equipment	575		575
Proceeds on disposal of discontinued operations	129,558		—
Proceeds on disposal of investment in shares	—		6,728
Investment in shares	—		(2,875)
Cash provided by (used in) continuing investing activities	93,934		(26,171)
FINANCING ACTIVITIES			
Decrease in bank indebtedness	(2,780)		(2,817)
Dividends paid to shareholders	(6,612)		(5,960)
Dividends paid to minority shareholders of subsidiaries	—		(7)
Purchase of shares for cancellation (note 9)	(15,139)		(568)
Issue of shares (notes 9 and 11)	634		359
Cash used in continuing financing activities	(23,897)		(8,993)
Foreign exchange on cash and cash equivalents	(3,909)		(3,105)
Net increase in cash position during the year			
from continuing operations	145,705		31,904
Net decrease in cash position during the year from discontinued			
operations (note 17)	(21,898)		(42,979)
Cash and cash equivalents at beginning of year	76,497		87,572
Cash and cash equivalents at end of year	\$ 200,304		\$ 76,497

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

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

b) Foreign Currency Translation

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

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

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

c) Use of Estimates

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

d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in bank and short-term investments with original maturity dates on acquisition of 90 days or less.

e) Derivative Financial Instruments

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

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

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

f) Inventories

Inventories are valued at the lower of cost or market. Cost for finished goods is determined principally on a first-in, first-out basis, except in most pipeline businesses where the average cost basis is employed. Raw materials and

work-in-process inventories are recorded using a specific cost identification method. Market value is net realizable value for finished goods and work-in-process, and replacement cost for raw materials.

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

g) Property, Plant and Equipment

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

h) Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions. No amortization is recorded for years ended after December 31, 2001. The Company determines, at least once annually, whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings. During 2005, the Company assessed the fair value of reporting units to which the underlying goodwill is attributable and determined that no charge for impairment of goodwill was required for the year ended December 31, 2005.

i) Investments

The Company accounts for investments in which it has significant influence using the equity method. Other investments are recorded at cost less write-downs to reflect other than temporary impairment.

j) Deferred Project Costs

Costs related to the mobilization of production facilities for fixed term projects are deferred and amortized on a basis to match the costs with the revenue from performance of the specific projects.

k) Asset Retirement Obligations

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

l) Revenue Recognition

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

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

m) Operating Leases

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

n) Employee Future Benefits

The Company provides pensions to its employees under a number of defined benefit and defined contribution arrangements. The cost of the defined benefit plans is

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

o) Stock-Based Compensation

The Company has three stock option plans, which are described in note 11. Effective January 1, 2004, the Company recognizes compensation expense in respect of stock options granted under all three plans. For stock option units granted under the 1989 employee market growth stock option plan, compensation expense has been recognized since January 1, 2002. The compensation expense is equal to the estimated fair value of the option at its grant date and is amortized over the vesting period of the option. An amount equal to compensation expense is initially credited to contributed surplus and transferred to share capital if and when the option is exercised. Consideration received on the exercise of stock options is credited to share capital.

p) Research and Development Costs

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

q) Income Taxes

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that

are expected to be in effect, based on substantially enacted tax regulations, when the differences are expected to reverse.

r) Earnings per Share

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

2. INVENTORIES

(in thousands)	2005	2004
		Restated (note 17)
Raw materials and supplies	\$ 61,808	\$ 49,950
Work in progress	4,858	6,125
Finished goods	14,346	14,838
	\$ 81,012	\$ 70,913

3. PROPERTY, PLANT AND EQUIPMENT

(in thousands)	2005	2004
		Restated (note 17)
Cost		
Land and land improvements	\$ 34,580	\$ 37,087
Buildings	80,495	85,464
Machinery and equipment	359,816	375,256
Capital projects in progress	15,003	5,142
	489,894	502,949
Accumulated depreciation and write-downs		
Land improvements	19,886	20,747
Buildings	46,564	52,122
Machinery and equipment	246,127	243,026
	312,577	315,895
	\$ 177,317	\$ 187,054

4. GOODWILL

(in thousands)	2005	2004
Balance at beginning of year	\$ 176,393	\$ 185,965
Translation of self-sustaining foreign operations	(9,221)	(9,572)
Balance at end of year	\$ 167,172	\$ 176,393

5. OTHER ASSETS

(in thousands)	2005	2004
		Restated (note 17)
Long-term investment	\$ 2,875	\$ 2,875
Deferred project costs	8,637	7,260
Deferred financing costs	2,031	2,627
Accrued employee future benefit asset (note 6)	4,384	3,658
Future income taxes (note 16)	24,597	19,876
	\$ 42,524	\$ 36,296

Long-term investments at December 31, 2005 represented an investment in Garneau Inc., a Canadian-based, publicly traded pipe coating company, with a quoted year-end market value of \$3.2 million (December 31, 2004 – \$2.2 million). Deferred financing costs are amortized over the terms of the long-term debt with \$596 thousand expensed in 2005 (2004 – \$698 thousand). Deferred project costs are shown net of associated deferred revenue. Operating expenses include amortization of deferred project costs of \$21.0 million (2004 – \$5.9 million).

6. EMPLOYEE FUTURE BENEFITS

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

The total cash payments made by the Company during 2005 were \$10.2 million (2004 – \$10.0 million). The cash payments consisted of contributions required to fund both the defined benefit and defined contribution plans.

The Company measures the fair value of assets and accrued benefit obligations as of December 31. Actuarial

valuations for the Company's nine defined benefit pension plans are generally required at least every three years. The most recent actuarial valuations of the plans were conducted at December 31, 2002 (one plan), August 1, 2004 (one plan), December 31, 2004 (one plan) and January 1, 2005 (six plans).

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

(in thousands)	2005	2004
Net benefit cost for the year:		
Employer portion of current service cost	\$ 3,281	\$ 2,882
Interest on accrued benefit obligation	3,488	2,968
Actual return on plan assets	(5,562)	(3,847)
Actuarial losses and changes in assumptions	7,813	6,543
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefits costs	9,020	8,546
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan asset for year	2,327	1,055
Difference between actuarial loss recognized for year and actual actuarial loss and assumption changes on accrued benefit obligation for year	(7,449)	(6,479)
Difference between amortization of past service cost for year and actual plan amendments cost for year	237	204
Amortization of transitional obligation	136	136
Subtotal	(4,749)	(5,084)
Defined benefit cost recognized	4,271	3,462
Defined contribution employee future benefit expense	2,989	3,754
Employee future benefit cost	\$ 7,260	\$ 7,216

(in thousands)	2005	2004
Accrued benefit obligation		
beginning of year	\$ 57,383	\$ 47,194
Current service cost	3,328	2,933
Actuarial loss and		
assumption changes	7,813	6,543
Interest cost	3,488	2,968
Valuation effect	—	(1,127)
Foreign currency (gain) loss	(1,995)	180
Benefits paid	(1,531)	(1,308)
Accrued benefit obligation		
end of year	68,486	57,383
Fair value of plan assets		
beginning of year	47,953	41,147
Valuation effect	—	(3)
Actual return on plan assets	5,562	3,847
Contributions	5,033	4,148
Benefits paid	(1,531)	(1,308)
Effect of foreign currency		
exchange rates	(1,571)	122
Fair value of plan assets		
end of year	55,446	47,953
Funded status – plan deficit	(13,040)	(9,430)
Unamortized net actuarial		
losses	14,080	9,382
Unamortized past service cost	686	923
Unamortized net transitional		
obligation	705	841
Net accrued benefit asset	\$ 2,431	\$ 1,716

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

(in thousands)	2005	2004
Accrued employee future benefit asset	\$ 4,384	\$ 3,658
Accrued employee future benefit liability	(1,953)	(1,942)
Net accrued employee future benefit asset	\$ 2,431	\$ 1,716

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

(in thousands)	2005	2004
Accrued benefit obligation	\$ 58,798	\$ 50,179
Fair value of plan assets	45,049	38,723
Funded status – plan (deficit)	\$ (13,749)	\$ (11,456)

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

(percentage of plan assets)	2005	2004
<i>(registered Canadian employee future benefit plans)</i>		
Equities	56%	51%
Fixed Income	36%	39%
Real Estate	0%	0%
Other	8%	10%
Total	100%	100%

(percentage of plan assets)	2005	2004
<i>(SERP plan invested assets)</i>		
Equities	95%	95%
Fixed Income	0%	0%
Real Estate	0%	0%
Other	5%	5%
Total	100%	100%

Significant assumptions used:

Canada	2005	2004
Accrued benefit obligation		
as of December 31:		
Discount rate	5.00%	6.00%
Salary increases	4.00%	4.00%
Benefit cost for year ended		
December 31:		
Discount rate	6.00%	6.25%
Expected rate of return		
on assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

Significant assumptions used:

Norway / UK (weighted average)	2005	2004
Accrued benefit obligation as of December 31:		
Discount rate	4.79%	5.15%
Salary increases	3.23%	3.23%
Benefit cost for year ended December 31:		
Discount rate	5.15%	5.69%
Expected rate of return on assets	6.95%	7.13%
Rate of compensation increase	3.23%	3.22%

7. BANK INDEBTEDNESS AND LONG-TERM DEBT

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

(in thousands)	2005	2004
5.11% Senior Notes due in equal installments of US\$25 million on June 30, 2009, 2010 and 2011 (US\$75.0 million)	\$ 87,210	\$ 90,360

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

2006 to 2008	\$ —
2009	29,070
2010	29,070
2011	29,070
	\$ 87,210

c) As at December 31, 2005 the Company had operating lines of credit of US\$215.0 million, less \$98.0 million for various types of standby letters of credit for performance and bid bonds (2004 – \$61.5 million) and bank indebtedness of \$1.7 million (2004 – \$4.5 million).

d) The Company has undertaken to maintain certain covenants in respect of the US\$75.0 million of 5.11% Senior Notes and the 3-Year Unsecured Committed Bank Credit Facility described above. The Company believes that it is in compliance with these covenants at December 31, 2005.

8. OTHER NON-CURRENT LIABILITIES

(in thousands)	2005	2004
		Restated (note 17)
Non-current asset retirement obligations (note 18)	\$ 2,249	\$ 2,806
Accrued employee future benefit obligations (note 6)	1,953	1,942
Future income taxes (note 16)	34,575	30,634
Non-controlling interest in subsidiaries	2,842	3,318
	\$ 41,619	\$ 38,700

9. CAPITAL STOCK

As at December 31, the following shares were outstanding:

(in thousands except number of shares information)	2005			2004		
	Class A	Class B	Total	Class A	Class B	Total
Number of Shares:						
Balance, beginning of year	61,224,968	13,745,965	74,970,933	61,206,202	13,769,995	74,976,197
Issued on exercise of stock options	206,727	—	206,727	44,736	—	44,736
Issued through related party transaction (note 19)	—	10,304,685	10,304,685	—	—	—
Conversions Class B to Class A	657,950	(657,950)	—	24,030	(24,030)	—
Purchased and cancelled under Normal Course Issuer Bid	(1,083,600)	—	(1,083,600)	(50,000)	—	(50,000)
Purchased and cancelled through related party transaction (note 19)	—	(10,304,685)	(10,304,685)	—	—	—
Balance, end of year	61,006,045	13,088,015	74,094,060	61,224,968	13,745,965	74,970,933
Stated Value:						
Balance, beginning of year	\$ 205,849	\$ 1,055	\$ 206,904	\$ 205,454	\$ 1,057	\$ 206,511
Issued on exercise of stock options	1,459	—	1,459	561	—	561
Issued through related party transaction (note 19)	—	790,885	790,885	—	—	—
Conversions Class B to Class A	51	(51)	—	2	(2)	—
Purchased and cancelled under Normal Course Issuer Bid	(3,643)	—	(3,643)	(168)	—	(168)
Purchased and cancelled through related party transaction (note 19)	—	(790,885)	(790,885)	—	—	—
Balance, end of year	\$ 203,716	\$ 1,004	\$ 204,720	\$ 205,849	\$ 1,055	\$ 206,904

There are an unlimited number of Class A and Class B shares authorized. Holders of Class A shares are entitled to one vote per share and receive a non-cumulative dividend premium of 10% of the dividends paid to holders of Class B shares. Holders of Class B shares are entitled to ten votes per share and are convertible at any time into Class A shares on a one-for-one basis.

In 2005, the Company repurchased and cancelled 1,083,600 Class A shares (2004 – 50,000) under the terms of a Normal Course Issuer Bid ("NCIB"). The \$11.5 million (2004 – \$400 thousand) excess of cost over stated capital of the acquired shares was charged to retained earnings. Under the terms of the NCIB, the Company is entitled to repurchase 3,000,000 Class A shares (4.9%) and 679,000 Class B shares (5.0%) between December 1, 2005 and November 30, 2006. The repurchase of shares is made on the open market at prevailing market prices.

10. CONTRIBUTED SURPLUS

(in thousands)	2005	2004
Balance at beginning of year	\$ 7,196	\$ 3,027
Adjustment for stock-based compensation	—	2,201
Stock compensation expense (note 12)	2,860	2,170
Fair value of stock options exercised (note 11)	(825)	(202)
Balance at end of year	\$ 9,231	\$ 7,196

11. STOCK OPTION PLANS

The Company has three stock option plans, one initiated in 1989 and two in 2001. A fourth plan, the 1995 Directors stock option plan, expired in March 2004.

Under the 1989 Market Growth Plan (the "1989 Employee Plan"), options were granted to senior management and employees to acquire from the Company, the number of Class A shares equal in value to the market growth of the shares from the grant date with respect to which the option is exercised. Options are exercisable up to a maximum of 20% of the option units, on a cumulative basis, per year, commencing one year after the date of grant. The number of shares to be issued under any option shall not exceed 75% of the number of units with respect to which the option is exercised. Subsequent to January 1, 2002, no additional options were granted under this plan and all options outstanding under this plan must be exercised on or before March 7, 2007.

Under the Company's 1995 director stock option plan (the "1995 Director Plan"), options to purchase Class A shares were granted at a price being the fair market value at the date of the grant. The maximum number of Class A Subordinate Voting Shares which could be purchased by a director pursuant to any single grant of options was equal to the lesser of 9,000 Class A Subordinate Voting Shares and a number equal to twice the number of Class A Subordinate Voting Shares and Class B Multiple Voting Shares owned by the eligible director at the date of the grant. No additional options will be granted under the 1995 Director Plan which has been replaced by the 2001 Director Plan.

Under the Company's 2001 employee stock option plan (the "2001 Employee Plan"), which replaces the 1989 Employee Plan and is a traditional stock option plan, the options will have a term of ten years from the date of the grant. Exercises will be permitted on the basis of 20% of the optioned shares per year over five years, on a cumulative basis, commencing one year following the date of the grant. The grant price will equal the closing sale price of the Class A shares on the day prior to the grant.

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

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

	2005				2004	
	Market Growth Plan ⁽¹⁾	Other Plans	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding, beginning of year	998,655	1,597,550	2,596,205	\$ 14.91	2,203,755	\$ 14.73
Granted	—	566,900	566,900	17.26	722,600	14.94
Exercised	(162,927)	(43,800)	(206,727)	12.22	(44,736)	10.20
Forfeited or expired	(265,653)	(112,560)	(378,213)	14.15	(285,414)	14.29
Balance outstanding, end of year	570,075	2,008,090	2,578,165	\$ 15.76	2,596,205	\$ 14.91

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

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

Options Outstanding				Options Exercisable	
Range of exercise prices	Outstanding at December 31, 2004	Weighted average remaining contractual life in years	Weighted average exercise price	Exercisable at December 31, 2004	Weighted average exercise price
\$10.00 to \$15.00	1,221,040	6.70	\$ 12.71	563,327	\$ 12.63
\$15.01 to \$20.00	1,375,165	7.35	\$ 16.87	454,947	\$ 17.52
	2,596,205			1,018,274	

12. STOCK-BASED COMPENSATION

The weighted average fair value of options granted during 2005 is \$6.17. Compensation cost is calculated using the fair value of each stock option which is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	2005	2004
Expected life of options	3.25 to 8.25 years	3.25 to 8.25 years
Expected stock price volatility	25% to 34%	17% to 33%
Expected dividend yield	0.5% to 0.6%	0.5% to 0.7%
Risk-free interest rate	3.42% to 4.07%	2.25% to 4.22%

The compensation cost recognized in the accounts for the year ended December 31, 2005 was \$2.9 million (2004 – \$2.2 million).

13. CUMULATIVE TRANSLATION ACCOUNT

(in thousands)	2005	2004
Balance at beginning of year	\$ (71,509)	\$ (61,905)
Translation of self-sustaining foreign operations	(28,751)	(9,604)
Balance at end of year	\$ (100,260)	\$ (71,509)

During 2005, the Canadian dollar gained 3.5% (2004 gained 7.0%) against the U.S. dollar, gained 16.2% (2004 weakened 1.4%) against the Euro and gained 13.7% (2004 weakened 0.8%) against the U.K. pound.

14. FOREIGN EXCHANGE GAINS AND LOSSES

Included in operating expenses are foreign exchange losses, primarily related to the translation of foreign currency cash and working capital balances, totaling \$874 thousand (2004 – \$1.6 million gain).

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

15. INTEREST EXPENSE (INCOME)

(in thousands)	2005	2004
		Restated (note 17)
Interest income on short-term deposits	\$ (2,965)	\$ (1,100)
Interest on bank indebtedness	618	580
Interest on long-term debt	5,726	5,702
	\$ 3,379	\$ 5,182

Net cash interest paid in 2005 totaled \$3.9 million (2004 – \$5.7 million).

16. INCOME TAXES

a) The income tax expense is comprised of:

(in thousands)	2005	2004
		Restated (note 17)
Current	\$ 5,879	\$ 24,793
Future	4,230	(1,668)
	\$ 10,109	\$ 23,125

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

(in thousands)	2005	2004
		Restated (note 17)
Combined basic Canadian federal and provincial income tax rate	43.1 %	43.1 %
Canadian manufacturing and processing profits deductions	(9.0)	(9.0)
Expected rate	34.1	34.1
Tax rate differential on earnings of foreign subsidiaries	(1.0)	—
Benefit of previously unrecognized tax losses of foreign subsidiaries	(24.1)	(2.2)
Unrecognized tax losses of foreign subsidiaries	1.2	—
Other	0.8	5.4
	11.0 %	37.3 %

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

(in thousands)	2005	2004
		Restated (note 17)
FUTURE TAX ASSET		
Depreciable capital assets	\$ 14,653	\$ 11,274
Provisions and future expenditures	9,477	3,815
Net operating losses carry forward – current	—	5,010
Net operating losses carry forward – non-current	19,587	47,455
Less valuation allowance	(19,120)	(42,668)
Net future tax asset	\$ 24,597	\$ 24,886
FUTURE TAX LIABILITY		
Depreciable capital assets	\$ 27,936	\$ 28,930
Provisions and future expenditures	6,639	1,704
Total future tax liability	\$ 34,575	\$ 30,634

The Company has income tax losses carried forward of \$1.6 million (2004 – \$34.9 million) for which tax benefit of these loss carry-forwards has been recorded as a future tax asset. These tax losses may be utilized to offset taxable income from certain jurisdictions in future years and will expire in 2009. Income taxes of \$21.1 million (2004 – \$16.6 million) were paid during the year. The Company has net losses of \$62.6 million (2004 – \$123.1 million) in various jurisdictions for which no future tax asset has been recognized. The majority of these losses expire beyond 2010.

17. DISCONTINUED OPERATIONS

On September 30, 2005, the Company concluded the sale of its OMSCO drill pipe manufacturing division ("OMSCO") for net proceeds of \$129.6 million. The transaction was a sale of assets consisting of net working capital totaling \$37.8 million and property, plant and equipment with a net book value of \$16.7 million. OMSCO was a component of the Exploration and Production market segment.

On November 2, 2004, the Company announced its decision to close the Mobile, Alabama pipe coating facility. At December 31, 2005, operations at the facility had ceased and on December 31, 2005, the Company accrued \$6.3 million, the present value of future lease and other cost obligations for properties where the Company has ceased using the rights conveyed by the leases. These ongoing lease costs will result in the following annual undiscounted cash outflows over the remaining terms of the leases:

(in thousands)		
2006	\$	1,413
2007		1,413
2008		1,413
2009		1,413
2010		1,200
Thereafter		688
	\$	7,540

The Mobile facility was a component of the Pipeline market segment.

The following table summarizes the financial results and cash flows from discontinued operations for the years ended December 31, 2005 and 2004 and the assets and liabilities of the discontinued operations as at those dates:

(in thousands)	2005			2004		
	OMSCO	Mobile Facility	Total	OMSCO	Mobile Facility	Total
Revenue	\$ 90,572	\$ 23,045	\$ 113,617	\$ 61,682	\$ 63,963	\$ 125,645
Income (loss) from operations	14,487	(6,858)	7,629	1,990	(77,388)	(75,398)
Provision for asset impairment	—	—	—	—	(50,390)	(50,390)
Gain on sale	75,109	—	75,109	—	—	—
Income (loss) from discontinued operations before income taxes	89,596	(6,858)	82,738	1,990	(127,778)	(125,788)
Income tax expense	26,688	—	26,688	—	—	—
Net income (loss) from discontinued operations	\$ 62,908	\$ (6,858)	\$ 56,050	\$ 1,990	\$ (127,778)	\$ (125,788)
Cash flow from (used in) operating activities	(2,121)	(19,546)	(21,667)	1,764	(42,034)	(40,270)
Cash flow from (used in) investing activities	(231)	—	(231)	(309)	(2,400)	(2,709)
Cash flow from (used in) financing activities	—	—	—	—	—	—
Net cash provided by (used in) discontinued operations	\$ (2,352)	\$ (19,546)	\$ (21,898)	\$ 1,455	\$ (44,434)	\$ (42,979)
Current assets	—	799	799	2,399	53,246	55,645
Property, plant and equipment, net	—	7,974	7,974	19,068	16,643	35,711
Current liabilities	—	12,250	12,250	6,981	17,163	24,144
Non-current liabilities	—	—	—	—	19,080	19,080

18. OTHER COMMITMENTS

a) Contractual Commitments

At December 31, 2005, the aggregate minimum amounts payable under non-cancellable contracts were as follows:

(in thousands)	2006	2007	2008	2009	2010	After 2010	Total
Operating leases	\$ 9,693	\$ 8,000	\$ 5,991	\$ 5,546	\$ 5,247	\$ 21,126	\$ 55,603
Purchase commitments	20,035	249	249	249	249	249	21,280
Total contractual obligations	\$ 29,728	\$ 8,249	\$ 6,240	\$ 5,795	\$ 5,496	\$ 21,375	\$ 76,883

b) Asset Retirement Obligations

(in thousands)	2005	2004
Balance at beginning of year	\$ 5,309	\$ 5,102
Liabilities settled in the year	(1,801)	—
Liabilities incurred in the year	756	—
Accretion expense	271	207
Balance at end of year	\$ 4,535	\$ 5,309

Estimated obligations related to exiting certain leased properties at the end of their respective terms, which will occur between 2006 and 2020, total \$4.5 million (2004 – \$5.0 million). Obligations which are expected to be settled in 2006 are included in Accrued Liabilities while obligations which are expected to be settled after 2006 are included in Other Non-Current Liabilities. The total undiscounted cash flows which are estimated to be required to settle all asset retirement obligations is \$4.5 million (2004 – \$5.4 million) and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted is 5.11%.

c) General

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and other third parties. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

19. RELATED PARTY TRANSACTION

On October 4, 2005, the Company completed a transaction with its controlling shareholder, the Leslie E. Shaw family (the “Shaws”). As a result of this transaction, the

Company acquired certain private companies owned by the Shaws, which companies owned 10,304,685 Class B Multiple Voting Shares of ShawCor, and in consideration therefore issued an equivalent number (10,304,685) of Class B Multiple Voting Shares to the Shaws. The Company recorded this transaction at the carrying amount of the shares received and issued.

The purpose of the reorganization was to facilitate estate planning objectives of the Shaws, and all of the costs of the reorganization were borne by them.

The Company’s Board of Directors formed an independent committee (the “Independent Committee”) of the Board to review, among other matters, the proposed terms of the reorganization and to make a recommendation to the Board regarding its implementation. The Independent Committee retained counsel to advise on this matter. Based upon its review of the reorganization and the definitive agreements, the Independent Committee concluded and recommended to the Board that it was reasonable and appropriate for the Company to proceed with the transaction.

20. FINANCIAL INSTRUMENTS

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

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

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

b) Long-Term Debt

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

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

a) Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk at December 31, 2005:

		Fixed interest rate maturing in			
(in thousands)	Floating rate	1 year or less	Greater than 1 year		Total
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 200,304	\$ —	\$ —	\$ —	200,304
Total	\$ 200,304	\$ —	\$ —	\$ —	200,304
FINANCIAL LIABILITIES					
Bank indebtedness	\$ 1,715	\$ —	\$ —	\$ —	1,715
Long-term debt	—	—	87,210		87,210
Total	\$ 1,715	\$ —	\$ 87,210	\$ —	88,925
Average fixed rates of debt	—	—	5.11%		—

b) Credit Risk

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

Cash and cash equivalents consist of deposits with major commercial banks and short-term investments with original maturities of three months or less.

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

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

c) Foreign Exchange Risk

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

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2005:

(in thousands)	
Maturity	December 31, 2005
U.S. DOLLARS SOLD FOR CANADIAN DOLLARS	
Less than one year	US\$10,000
Weighted average rate	1.2267
EUROS SOLD FOR U.K. POUNDS	
Less than one year	€34,000
Weighted average rate	0.6941
NORWEGIAN KRONERS SOLD FOR U.S. DOLLARS	
Less than one year	NOK75,000
Weighted average rate	0.1619
U.K. POUNDS SOLD FOR EUROS	
Less than one year	£7,055
Weighted average rate	1.4175
BRAZILIAN REALS FOR U.S. DOLLARS	
Less than one year	BRL6,719
Weighted average rate	0.4019
One to two years	BRL23,095
Weighted average rate	0.3897

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, 2005. The fair value of the Company's net benefit for all foreign exchange

forward contracts at December 31, 2005 not recognized in the consolidated financial statements was approximately \$1.9 million (2004 – \$1.2 million). If these contracts ceased to be effective as hedges, unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign-denominated cash flows would be recognized in income at the time this condition was identified.

21. SEGMENTED INFORMATION

The Company provides products and services to two general segments of the global energy industry: Pipeline and Pipe Services, and Petrochemical and Industrial. The Pipeline and Pipe Services segment is comprised of Bredero Shaw, which provides pipe coating, lining and insulation products, Canusa-CPS, which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications, Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction and Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubulars. The Petrochemical and Industrial segment is comprised of ShawFlex which manufactures wire and cable for process instrumentation and control applications, and DSG-Canusa, which manufactures heat shrinkable tubing for automotive, electrical, electronic and utility applications.

Financial information by operating segment for continuing operations is as follows:

	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations		Total	
(in thousands)	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue – customer	883,827	616,299	120,292	121,485	—	—	—	—	1,004,119	737,784
– intersegment	394	479	1,190	1,178	—	—	(1,584)	(1,657)	—	—
– total	884,221	616,778	121,482	122,663	—	—	(1,584)	(1,657)	1,004,119	737,784
Operating expenses	741,919	520,880	104,000	101,654	14,045	7,214	(1,584)	(1,657)	858,380	628,091
Amortization of property, plant and equipment	37,443	34,619	4,333	4,343	1,955	1,411	—	—	43,731	40,373
Research and development	5,988	3,623	1,231	915	871	1,085	—	—	8,090	5,623
	785,350	559,122	109,564	106,912	16,871	9,710	(1,584)	(1,657)	910,201	674,087
Share of earnings in associated companies	1,495	3,481	—	—	—	—	—	—	1,495	3,481
Income (loss) from operations	100,366	61,137	11,918	15,751	(16,871)	(9,710)	—	—	95,413	67,178
Asset impairment charges	—	—	—	—	—	—	—	—	—	—
Interest expense, net	—	—	—	—	3,379	5,182	—	—	3,379	5,182
Income tax expense	—	—	—	—	10,109	23,125	—	—	10,109	23,125
Total assets	971,411	913,870	88,019	87,949	1,146,315	1,096,185	(1,290,062)	(1,293,785)	915,683	804,219
Goodwill	150,901	156,984	16,271	19,409	—	—	—	—	167,172	176,393
Purchases of property, plant and equipment, net of proceeds on disposals	32,190	28,179	2,388	1,469	1,046	376	—	—	35,624	30,024

Revenues and capital assets by geographic segment are as follows. 'Other' in the Far East, Pacific and Other geographic segment includes operations in Mexico, Latin America, Africa, and the Middle East. The geographical segment is determined by the location of the Company's country of operation:

	Canada		United States		Europe		Far East, Pacific and Other		Eliminations		Total	
(in thousands)	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue – customer	163,732	160,675	133,269	128,659	504,882	279,887	202,236	168,563	—	—	1,004,119	737,784
– intersegment	69,254	61,648	5,960	8,238	2,346	2,160	—	—	(77,560)	(72,046)	—	—
– total	232,986	222,323	139,229	136,897	507,228	282,047	202,236	168,563	(77,560)	(72,046)	1,004,119	737,784
Property, plant and equipment, net	66,870	71,076	23,030	22,442	37,321	55,815	50,096	37,721	—	—	177,317	187,054

22. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to shareholders by the weighted average number of common shares outstanding during the year, which in 2005 was 74,980,749 (2004 – 75,010,829 shares). Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. The weighted average number of common shares outstanding during the period plus the dilutive effect of outstanding stock options was 74,988,609 (2004 – 75,010,829). Stock options to pur-

chase 1,354,016 and 2,596,205 Class A shares for the years ended December 31, 2005, and 2004, respectively, were not included in the computation of diluted earnings per share because these options have exercise prices which were greater than the average market price of the Company's Class A shares for 2005.

23. COMPARATIVE FIGURES

Certain figures for previous years have been reclassified to conform with the current year's consolidated financial statement presentation.

SIX YEAR REVIEW (Unaudited)

(in thousands except per share information)		2005	2004	2003	2002	2001	2000
OPERATING RESULTS							
Revenue (note 1)	\$ 1,004,119	\$ 737,784	\$ 689,657	\$ 652,835	\$ 466,912	\$ 403,229	
EBITDA (note 2)	140,009	107,807	107,407	83,694	72,459	53,418	
Net income (loss) for the year	138,840	(86,661)	24,351	1,134	33,376	23,860	
CASH FLOW (note 1)							
Cash from operating activities	\$ 79,577	\$ 70,173	\$ 137,476	\$ 37,776	\$ 12,898	\$ 33,389	
Additions to property, plant and equipment	36,199	30,599	6,362	1,431	47,509	24,708	
FINANCIAL POSITION							
Working capital	\$ 264,019	\$ 151,866	\$ 152,420	\$ (79,611)	\$ 80,363	\$ 119,135	
Long-term debt	87,210	90,360	97,095	13,069	8,881	3,242	
Shareholders' equity	535,238	443,406	543,670	497,206	374,529	339,554	
Total assets	915,683	804,219	825,617	985,900	620,625	468,523	
PER SHARE INFORMATION (CLASS A AND CLASS B)							
Net income (loss)							
Basic	\$ 1.85	\$ (1.16)	\$ 0.35	\$ 0.02	\$ 0.55	\$ 0.39	
Diluted	\$ 1.85	\$ (1.16)	\$ 0.34	\$ 0.02	\$ 0.54	\$ 0.39	
Dividends							
Class A	\$ 0.09	\$ 0.0808	\$ 0.0808	\$ 0.0808	\$ 0.0808	\$ 0.0808	
Class B	\$ 0.0818	\$ 0.0734	\$ 0.0734	\$ 0.0734	\$ 0.0734	\$ 0.0734	
Shareholders' equity	\$ 7.22	\$ 5.91	\$ 7.25	\$ 7.24	\$ 6.16	\$ 5.60	

Note 1: Restated to exclude discontinued operations.

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

QUARTERLY INFORMATION (Unaudited)

(in thousands except per share information)		First	Second	Third	Fourth	Total
Revenue	– 2005	\$ 242,859	\$ 230,410	\$ 239,165	\$ 291,685	\$1,004,119
	– 2004	\$ 163,352	\$ 174,311	\$ 172,439	\$ 227,682	\$ 737,784
Net income (loss)	– 2005	\$ 17,759	\$ 9,738	\$ 90,753	\$ 20,590	\$ 138,840
	– 2004	\$ 3,585	\$ (3,498)	\$ (8,649)	\$ (78,099)	\$ (86,661)
Net income (loss) per share (Class A and Class B)						
Basic	– 2005	\$ 0.24	\$ 0.13	\$ 1.20	\$ 0.28	\$ 1.85
	– 2004	\$ 0.05	\$ (0.05)	\$ (0.11)	\$ (1.05)	\$ (1.16)
Diluted	– 2005	\$ 0.24	\$ 0.13	\$ 1.20	\$ 0.28	\$ 1.85
	– 2004	\$ 0.05	\$ (0.05)	\$ (0.11)	\$ (1.05)	\$ (1.16)

DIRECTORS, CORPORATE OFFICERS AND OPERATIONS MANAGEMENT

DIRECTORS

W.P. Buckley
Toronto, Ontario
President and
Chief Executive Officer
ShawCor Ltd.

G.F. Hyland
Alton, Ontario
Consultant and
Corporate Director

M.K. Mullen⁽¹⁾
Aldersyde, Alberta
Chairman, and
Co-Chief Executive Officer
Mullen Group Income Fund

J.J. Murphy⁽¹⁾
Dallas, Texas
Private Investor

J.F. Petch, Q.C.⁽²⁾
Toronto, Ontario
Counsel
Osler, Hoskin & Harcourt LLP

R.J. Ritchie⁽¹⁾
Calgary, Alberta
Chief Executive Officer
Canadian Pacific Railway
Company

P.G. Robinson⁽¹⁾
Woodbridge, Ontario
President and
General Manager
Litens Automotive Group

L.E. Shaw
Barbados
Chairman of the Board
ShawCor Ltd.

V.L. Shaw⁽³⁾
Barbados
Vice Chair of the Board
ShawCor Ltd.

W.J.V. Sheridan
Toronto, Ontario
Partner
Lang Michener LLP

Z.D. Simo⁽²⁾
Oakville, Ontario
Corporate Director

E.C. Valiquette⁽¹⁾
Cobden, Ontario
Independent Consultant
and Corporate Director

D.C. Vaughn⁽²⁾
Houston, Texas
Consultant and
Corporate Director

CORPORATE OFFICERS

L.E. Shaw
Chairman of the Board

V.L. Shaw
Vice Chair of the Board

W.P. Buckley
President and
Chief Executive Officer

A.R. Thomas
Vice President, Finance
and Chief Financial Officer

P.H. Langdon
Vice President,
Human Resources
and Assistant Secretary

R.E. Steele
Vice President, Technology

W.J.V. Sheridan
Secretary

OPERATIONAL MANAGEMENT

W.M. Barnes
Vice President, Corporate Research
and Development ShawCor Ltd.

R.A. Dick
Senior Vice President
Middle East/Far East
Bredero Shaw

R.J. Dunn
Vice President and
General Manager
Canusa-CPS

F. Gallina
Vice President, Operations
ShawCor Ltd.

G.L. Graham
Vice President,
Corporate Development
ShawCor Ltd.

N.W. Grits
Senior Vice President
Strategic Marketing
Bredero Shaw

L.W.J. Hutchison
Senior Vice President, Europe/Africa
Bredero Shaw
Vice President and
General Manager
Shaw Pipeline Services

G.S. Love
Vice President and
Senior Controller
ShawCor Ltd.

J.H. McTurnan
Vice President, Legal
ShawCor Ltd.

Y.F. Paletta
Senior Vice President, Americas
Bredero Shaw

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

J.D. Tikkanen
President
Bredero Shaw

K.C. Willson
Vice President and
General Manager
Guardian

- (1) Audit Committee
(2) Compensation Committee
(3) Nominating & Governance
Committee

PRIMARY OPERATING LOCATIONS

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TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company

STOCK LISTING

The Toronto Stock Exchange

Class "A"

Subordinate Voting Shares

Trading symbol: SCL.SV.A

(Effective May 13, 2006: SCL.A)

Class "B"

Multiple Voting Shares

Trading symbol: SCL.MV.B

(Effective May 13, 2006: SCL.B)

ANNUAL MEETING

Tuesday, May 9, 2006

4:30 p.m.

The Fairmont Royal York Hotel
Toronto, Ontario, Canada