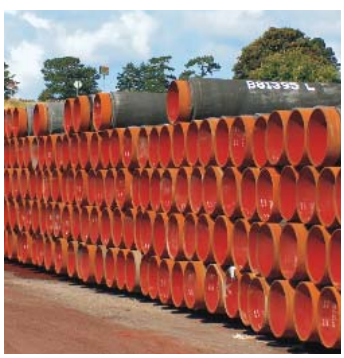
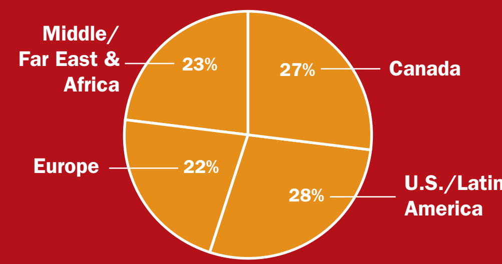
ShawCor

# The Global Leader



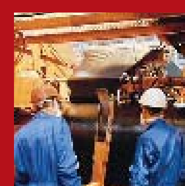
2007 Annual Report

ShawCor Ltd. is a growth-oriented, global energy services company specializing in technology-based products and services for the Pipeline and Pipe Services and the Petrochemical and Industrial markets. The Company operates through six divisions with over 60 manufacturing and service facilities located around the world.




**A GLOBAL PLAYER**
**Geographic Revenue Breakdown**

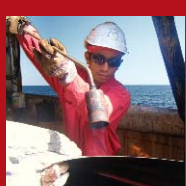
**+ 15.3%** Increase in 2007 operating income



**> 5,000** Employees worldwide

**> 60** Manufacturing and service facilities worldwide

**> $2.5B** Market capitalization*



**#1** Global ranking in pipe coatings and services

*As at December 31, 2007

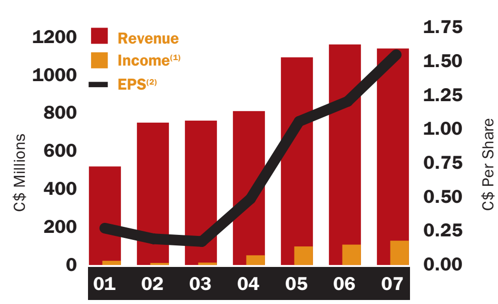
**ShawCor** is the Global Leader in advanced pipe coating materials and processes. ShawCor's proprietary products and services are specifically developed to meet or exceed customer needs.

## FINANCIAL SUMMARY

| (in thousands of Canadian dollars except per share amounts) | 2007 | 2006 |
|---|---|---|
| **OPERATING RESULTS** | | |
| Revenue | $ 1,048,099 | $ 1,059,619 |
| EBITDA (note 1) | $ 202,808 | $ 187,828 |
| Operating income from continuing operations | $ 160,001 | $ 138,780 |
| Income from continuing operations for the year | $ 117,819 | $ 92,924 |
| Loss from discontinued operations for the year | $ (30,462) | $ (289) |
| Net income for the year | $ 87,357 | $ 92,635 |
| Earnings per share, Class A and Class B | | |
| Basic – From continuing operations | $ 1.62 | $ 1.25 |
| – From discontinued operations | $ (0.42) | $ — |
| Total | $ 1.20 | $ 1.25 |
| Diluted – From continuing operations | $ 1.60 | $ 1.25 |
| – From discontinued operations | $ (0.41) | $ — |
| Total | $ 1.19 | $ 1.25 |
| **CASH FLOW** | | |
| Cash provided by continuing operating activities | $ 97,514 | $ 189,877 |
| Purchases of property, plant and equipment | $ 91,855 | $ 58,170 |
| **FINANCIAL POSITION** | | |
| Working capital | $ 255,625 | $ 341,375 |
| Total assets | $ 960,326 | $ 1,008,026 |
| Shareholders' equity per share (Class A and Class B) (note 2) | $ 8.13 | $ 8.51 |

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

Note 2: 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.



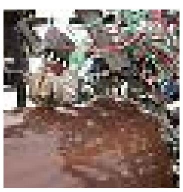

**SHAWCOR PERFORMANCE TRENDS**

(1) From continuing operations
(2) From continuing operations, diluted

# What Sets Us Apart?

ShawCor's proprietary products and services, broad technology base, global reach and commitment to continuous improvement make the Company an ideal supplier and partner for clients throughout the energy industry.

## PIPELINE AND PIPE SERVICES

| | | PRODUCTS | INNOVATIONS |
|---|---|---|---|
|  | **Bredero Shaw** | • **Coatings**<br>• Corrosion protection<br>• Insulation<br>• Weight/protective<br>• Internal flow efficiency | • **Thermotite**<br>• Multi-layer polypropylene insulation for offshore flow assurance<br>• **Insul-8® HT**<br>• High temperature polyurethane foam insulation for onshore pipelines |
|  | **Canusa-CPS** | • **Joint Protection Systems**<br>• **Pipe Coating Materials** | • **GTS-PP Sleeve**<br>• Ultra fast polypropylene field joints for offshore lay barges<br>• **HT Foam Joint System**<br>• High temperature foam insulation with SuperCase sleeve |
|  | **Shaw Pipeline Services** | • **Weld Inspection**<br>• Radiographic<br>• Ultrasonic | • **Hybrid Phased Array**<br>• Industry-leading phased array inspection system<br>• **Real Time Radiography**<br>• Digitized radiographic weld inspection |
|  | **Guardian** | • **Drill Pipe/Tubular Inspection**<br>• **Inventory Management Services** | • **Over-The-Well Tubing Inspection**<br>• Sensitive, non-contact EMI tubing inspection system |

## PETROCHEMICAL AND INDUSTRIAL

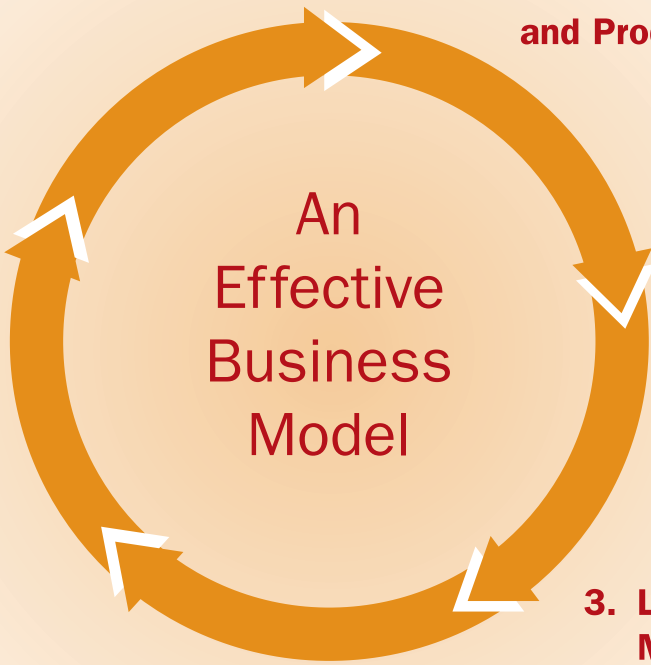
| | | PRODUCTS | INNOVATIONS |
|---|---|---|---|
|  | **DSG-Canusa** | • **Heat Shrink Tubing for Sealing and Protection** | • **FCFW Quickwrap**<br>• Low voltage repair sleeves for utility applications |
|  | **ShawFlex** | • **Control and Instrumentation Wire and Cable** | • **RoHS Compliant Cable**<br>• Environmentally friendly cable<br>• **LSZH Cable**<br>• Low smoke, zero halogen cable for rapid transit applications |

## 1. Close Involvement with Clients

- Global project tracking system
- Key account management program

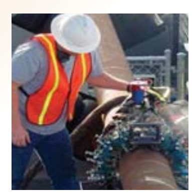
## 2. Innovative Technologies and Products

- First to develop polypropylene sleeve technology for high temperature pipelines
- First choice to coat world's longest subsea pipeline (Langeled) using proprietary concrete and internal coating technology
- First to develop advanced defect detection technology for offshore pipeline weld inspection




## 3. Low Cost Manufacturing

- ShawCor Manufacturing System "SMS"
- New Product/Process Development System
- "Best in Class" Benchmarks



## 4. Global Leadership

- Over 60 facilities around the world
- ShawCor's locational advantages ensure securing a high share of global projects
- Global leader in advanced pipeline coatings with unmatched scale

## 5. Financial Strength

- Cash of more than $175 million
- Low debt to capitalization of less than 12%
- Repurchased 3 million shares at average cost of $30.67

## ShawCor Business Model is a world apart.

# Message to Our Shareholders

## Record income from continuing operations of $117.8 million in 2007 increased by 26.8 percent over the $92.9 million achieved during 2006.

### 2007 IN PERSPECTIVE

ShawCor established a new record for income from continuing operations in 2007. This was achieved through sustained improvement in operating margins as total revenue remained close to the record level achieved during the prior year. This marks the third successive year in which a new record for income from continuing operations has been established and demonstrates the effectiveness of programs that focus on the Company's growth and profitability objectives.

ShawCor's Global Leadership Position gained strength in many areas during 2007. Significant progress was made with many of the programs that have been implemented by the Company's business units during the past few years. These programs cover almost all aspects of ShawCor's external relationships with customers and suppliers and enable division management to operate their businesses more efficiently by helping employees at all levels to be more productive and effective in their job-related activities.

Revenue during 2007 totaled $1.05 billion, a decrease of 1.1 percent in comparison to the record level of $1.06 billion that was reached during the prior year. Record income from continuing operations of $117.8 million in 2007 increased by 26.8 percent over the $92.9 million achieved during 2006. This industry leading performance was achieved despite the impact of the strong Canadian dollar on the translation of the Company's U.S. dollar-denominated revenue and operating expenses which reduced reported revenue and net income in Canadian dollars by approximately $32.2 million and $7.7 million, respectively.

Each of ShawCor's six divisions posted operating income from continuing operations at or close to record levels as total operating income from continuing operations for the Company rose by 15.3 percent in comparison with the year before. Performance in the Pipeline and Pipe Services segment gained strength as operating income from continuing operations rose by 11.2 percent during the

### OPERATING HIGHLIGHTS

- Revenue exceeded $1.0 billion in 2007 for the third consecutive year.
- Income from continuing operations reached a new record of $117.8 million in 2007.
- Capital investment in the form of additions to property, plant and equipment reached a record level of $91.9 million, a 57.9 percent increase over the $58.2 million invested during 2006.
- Class A shares repurchased during 2007 totaled 2,999,900 at an average cost of $30.67.
- ShawCor's performance supported a 41.1 percent increase in the closing price of the Company's Class A shares based on the last trading day in 2007 versus the beginning of the year.

**William P. Buckley**
President and
Chief Executive Officer

**Virginia L. Shaw**
Chair of the Board

year and operating income from continuing operations in the Petrochemical and Industrial segment increased by 18.9 percent on a year-over-year basis.

## SHAWCOR – THE GLOBAL LEADER

ShawCor's industry leading financial performance, global industry experience, state-of-the-art business processes, research and development innovations, commitment to industry leading health, safety and environmental programs and the strength and depth of the Company's personnel form the basis for ShawCor's Global Leadership Position in its sector of the energy industry. Over 60 facilities around the world are backed by a strong balance sheet which ensures customer confidence in the Company's ability to meet their changing product, capacity and locational needs.

ShawCor's corporate and division management have proactively implemented a number of industry leading business processes throughout the organization. Key examples of these programs include the Global Project Tracking System, Key Account Management Program, a New Product/Process Development System, the use of "Best in Class" Benchmarking and the development and implementation of the ShawCor Manufacturing System (SMS).

ShawCor has succeeded by combining industry leading innovation and business processes, a focused strategy of organic growth and the introduction of highly differentiated new products and services along with a selective approach to acquisitions and joint ventures in order to generate sustainable earnings growth.

ShawCor management is committed to the achievement of the Company's Corporate Long-Term Goals through a culture of growth, continuous improvement and value creation that is shared by employees at all levels of the organization.

During the fourth quarter of 2007 and the first few months of 2008, worldwide economic activity slowed in response to the worsening financial crisis which began in the American banking industry and spread rapidly to financial markets in other parts of the world. While many industries will feel the impact of this slowdown before a sustained economic recovery begins, it is not anticipated that the energy industry will be affected to the same degree. Although global energy consumption will likely moderate slightly in the near term, the ongoing depletion of conventional oil and gas reserves and future growth in demand will ensure that investment in petroleum infrastructure, including new oil and gas pipelines, occurs at a strong pace.

## DIVISION HIGHLIGHTS

ShawCor's six divisions are either number 1 or number 2 in their respective market segments. At Bredero Shaw, division personnel continued to maintain close and early contact with pipeline clients as a growing number of major pipeline projects were announced or moved closer to the implementation phase during 2007. Although the

## With major capital investments completed or in progress, ShawCor is poised to take advantage of the energy infrastructure growth cycle which is underway and, based on anticipated activity levels, will extend beyond 2010.

timing and scope may be subject to adjustment depending on commercial, economic, environmental and other factors, the majority of these projects are fully committed and will proceed to completion. During 2007, Bredero Shaw was the Global Leader in securing a number of important large-diameter projects in the Americas, Europe, the Middle East and the Far East.

In early June, ShawCor announced the completion of the acquisition of X-Tek Industrial Limited in Great Yarmouth, U.K. The company, renamed Shaw Inspection Systems Limited, is a Global Leader in the development of specialized, real time/digital non-destructive testing systems. The company's technologies provide particular benefits for inspection in the pipeline industry including the ability to inspect welds on clad pipe at the high inspection rates required when laying offshore pipelines. Shaw Inspection Systems provides digital radiographic inspection equipment for aerospace, nuclear and other high technology applications and will work closely with Shaw Pipeline Services to extend the use of its digital, real time weld inspection technology for both onshore and offshore pipeline applications.

Canusa-CPS continued to expand its Product Leadership position through the introduction of new, high performance sleeve products for onshore, offshore and water pipelines and insulated pipe systems. Many of these products incorporate polypropylene backing materials and unique, low preheat adhesives that combine higher operating temperature capabilities with increased ease of installation under difficult field conditions.

### CORPORATE LONG-TERM GOALS

- Maintain 15% Return on Equity
- Achieve 15% Net Income Growth
- Commit to Incident and Injury Free (IIF) Environment within ShawCor
- Challenge each Division to be #1 or #2 in its Respective Market(s)
- Improve Execution Capability by Driving Accountability and Responsibility Principles Down Through Organization
- Continue Flow of New Product Introductions
- Drive Toward "Lowest Cost Producer" Status Through Successful Implementation of ShawCor Manufacturing System (SMS)
- Dedicate Resources to Ensure Adequate Governance and Internal Controls are in Place
- Provide a Workplace and Career Growth Environment That Will Attract and Retain Top Caliber Employees

Higher inventories of gas in storage combined with lower gas prices served to depress gas drilling in Western Canada during the past year. While oil drilling has strengthened, the total well count in Western Canada declined from over 23,000 wells in 2006 to a final tally of 18,606 wells drilled in 2007 and the count is expected to decline again to just 14,500 wells in 2008. The lower well count reduced Guardian's core Western Canadian drilling inspection business during the year but much of the impact was

offset through Service Leadership demonstrated by increased volumes at the division's new premium threading and inspection facility in Nisku, Alberta and by continuing growth of the division's inspection and repair operations in Mexico.

ShawFlex continued to maintain its Market Leadership presence in Western Canada through participation in many of the major oil sands production and upgrading projects. The division also responded to increased demands from utility customers in Eastern Canada and distributors serving utility markets in the United States.

At DSG-Canusa, revenue and profitability reached record levels as the division focused on growth opportunities through Technology Leadership in the automotive, electrical and utility market segments. DSG-Canusa introduced new heat shrinkable products to broaden its product range and also expanded sales of medium voltage accessories including cold shrink and gel products for utility applications.

## LOOKING FORWARD

During the past three years, ShawCor has established an enviable record of earnings growth. Looking forward, growing energy consumption, rising depletion rates, increasing concerns about energy security and the long-term growth in energy consumption will support increased pipeline infrastructure investment. These projects will require increasing volumes of the products and services provided by all of ShawCor's businesses and will create significant opportunities to extend the Company's growth cycle for the foreseeable future. With major capital investments completed or in progress in Western Canada to serve the oil sands and other markets, in Brazil to meet the needs of offshore deepwater reservoir development projects, in the Gulf of Mexico, the Middle East and the Far East, ShawCor is poised to take advantage of the energy infrastructure growth cycle which is underway and, based on anticipated activity levels, will extend beyond 2010. Supported by its strong balance sheet, ShawCor will also continue to seek appropriate acquisition opportunities that consolidate or extend the Company's presence in the markets it serves.

It is with pleasure that we welcome James W. (Jim) Derrick, Chief Executive Officer of Derrick Corporation, a world leader in the manufacture of fine screening equipment and screen surface technology and Leslie W.J. (Les) Hutchinson, Managing Director of Shaw Global Services Limited, who joined the ShawCor Board in 2007 and 2008, respectively.

**William P. Buckley**
President and Chief Executive Officer

**Virginia L. Shaw**
Chair of the Board

# Global Energy Supply Challenges

## The ongoing depletion of conventional oil and gas reserves and continuing growth in demand will ensure that investment in new energy infrastructure occurs at a strong pace.

According to the International Energy Agency (IEA), the world's primary energy needs are projected to grow by 55% between 2005 and 2030, at an average annual rate of 1.8% per year. Fossil fuels remain the dominant source of primary energy, accounting for 84% of the overall increase in demand between 2005 and 2030. Oil remains the single largest fuel, though its share of global demand is expected to fall from 35% to 32% while the share of global demand for natural gas rises from 21% to 22%.

Rising global energy demand poses a real and growing threat to the world's energy security. The depletion of conventional oil and gas reservoirs is accelerating and production decline rates are increasing, particularly for new, deepwater and other sources including tight gas and shale gas plays. As a result, production is moving further afield, adding greater distances between producing reserves and end-use markets with the requirement for longer pipelines.

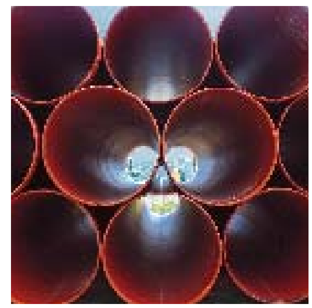
As demand continues to outpace supply and countries attempt to diversify energy sources to offset heightened short-term energy insecurity, investment in new pipeline infrastructure is continuing to rise at a rapid rate. New pipeline projects to carry synthetic crude oil from the Alberta oil sands to refineries in the U.S. Midwest and Gulf Coast are currently underway or planned. Progress is also being made toward the eventual construction of pipelines to carry gas from the Alaska north slope and the Mackenzie Delta in Canada although pipe coating requirements are still several years in the future with completion of these projects likely in the 2012-2018 time frame.

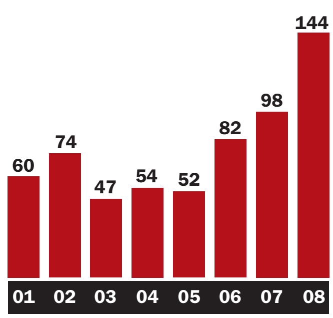
Elsewhere, new pipeline projects have been announced to serve growing European gas demand from sources as distant as the Caspian region and eventually the Middle East. Major new projects are being planned to ship Middle Eastern gas to new markets in India and Pakistan and new pipeline projects have also been announced to serve markets in the Far East including the Australian Northwest Shelf and Latin America.

Bredero Shaw has been successful in securing a significant number of important large-diameter projects in the Americas, Europe, the Middle East and the Far East regions including: the Southern Access II, Southern Lights II, Deep Panuke, BC-10, Hybrid, MedGaz, Pearl, Qatar Gas III & IV and Pluto projects. Looking forward, ShawCor is well positioned to capture a large share of the growing requirements for coatings, weld inspection services and joint protection materials required for future large-diameter pipeline projects.

## Key Drivers

Growth in Energy Demand + Rising Depletion + New Reserves in More Challenging Locations = Increased Investment in Pipeline Infrastructure






**PLANNED PIPELINES**

Thousands of miles of pipelines planned or under construction.
(Source: Pipeline & Gas Journal)

# Dominant Global Position

## ShawCor has implemented the largest capital program in the Company's history with the investment in 2007 of $91.9 million in new plants and facilities, capacity upgrades and facility conversions.

Bredero Shaw is the largest pipe coater in the world, although a major round of capacity expansions at pipe mills in North America, increased pipe imports and growth in several other markets are placing unprecedented demands on the division's facilities in Canada, the U.S., the Middle East and the Far East. ShawCor has responded by implementing the largest capital program in the Company's history with the investment in 2007 of $91.9 million in new plants and facilities along with capacity upgrades and the conversion of existing facilities to new processes and products.

Major capital programs implemented during the past year at Bredero Shaw include the purchase of over 400 acres of land and the construction of new Yellow Jacket®, Fusion Bond Epoxy, Insul-8® and Internal Paint coating lines at the Camrose, Alberta facility; additional Fusion Bond Epoxy coating capacity at the Regina, Saskatchewan facility; the conversion of the Ras al Khaimah, U.A.E. facility from a coal tar enamel coating line to a state-of-the-art plant offering 3-Layer PE/PP, Fusion Bond Epoxy and Internal Paint coatings and a major capacity expansion at the Arabian Pipe Coating Company facility in Jubail in the Kingdom of Saudi Arabia. A number of smaller expansion and upgrade programs were also implemented during the year at facilities in Beaumont and Pearland, Texas; Coatzacoalcos and Veracruz, Mexico; Belo Horizonte, Brazil; Kabil, Indonesia and Kuantan, Malaysia. Completion of these capacity expansion and upgrade programs will ensure that Bredero Shaw maintains and extends its Global Leadership Position as the pipe coater of choice for clients undertaking large, high-risk pipeline projects the world over.

ShawCor's other divisions also invested to upgrade facilities and add capacity to meet the future needs of customers in their respective markets. Shaw Pipeline Services enhanced its pipeline weld inspection capability by introducing the division's proprietary hybrid phased array inspection system; Canusa-CPS added new extrusion and sheet stretching capacity; Guardian completed the commissioning of its highly automated inspection and premium threading facility in Nisku, Alberta; ShawFlex invested in a new drum twist cabler and additional jacket extrusion capacity and DSG-Canusa installed additional Splicemelt capacity in its North American manufacturing operations to serve customers in the automotive industry.

## Expanding Global Reach

Major Capital Programs to Provide Increased Capacity and Capabilities = New or Expanded Facilities including: Camrose, Regina, Portland, Beaumont, Pearland, Coatzacoalcos, Veracruz, Belo Horizonte, Orkanger, Jubail, Ras al Khaimah, Kuantan and Kabil

Over 60 manufacturing and service facilities around the world.
(multiple facilities in several locations)

# Focus on Innovation

During 2007, ShawCor's businesses extended their market leadership positions through the introduction of innovative new products and services that bring increased performance capabilities and added value to clients.

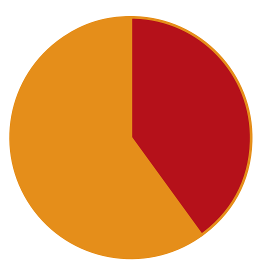
Every ShawCor division is continually responding to competitive challenges in its respective markets. During 2007, ShawCor's businesses extended their market leadership positions through the introduction of innovative new products and services that bring increased performance capabilities and added value to clients undertaking technologically challenging projects for deepwater, northern and other demanding applications. Examples of these innovative products and services include: Bredero Shaw's Insul-8® HT, a high operating temperature, polyurethane insulation for oil sands applications; Shaw Pipeline Services' Real Time Radiography, a digital, radiographic weld inspection system for clad-lined offshore pipelines; Canusa-CPS' GTS-PP tubular sleeves which achieved the fastest field joint cycle time ever recorded on a pipelay vessel; Guardian's over-the-well tubing inspection service which uses a non-contact sensor system to provide the most sensitive well site EMI inspection available; ShawFlex's introduction of lead-free Restriction on Hazardous Substances (RoHS) cable insulation materials and DSG-Canusa's FCFW Quickwrap sleeve which was developed to address safety issues in electrical utility infrastructure applications.

ShawCor's corporate and division management have proactively implemented a number of industry leading business processes throughout the organization. Programs like the Global Project Tracking System and Key Account Management Program help division personnel establish close working relationships with client personnel in the early stages of major projects. The New Product/Process Development System requires a customer development sponsor for each new product development program ensuring that resources are allocated only to meet specific customer needs. The use of "Best in Class" Benchmarking and the development and implementation of the ShawCor Manufacturing System (SMS) provide operations personnel with the data necessary to achieve "Lowest Cost Producer Status" in each of the Company's manufacturing operations. There are several discrete elements that together make up the SMS program including the completion of process mapping at all major pipe coating facilities and the adoption of global operations metrics which results in the use of consistent, optimized process parameters on similar production lines around the world.

ShawCor has succeeded by combining industry leading innovation and business processes, a focused strategy of organic growth and the introduction of highly differentiated new products and services along with a selective approach to acquisitions and joint ventures in order to generate sustainable earnings growth.

## Uniquely Positioned

Value-added Marketing Programs **+** Innovative Business Processes **+** New Product Development Programs **=** High Quality, Sustainable Earnings Growth



**2007 REVENUE**

Over 40% of revenue is from patented or proprietary products.

# Corporate Social Responsibility

ShawCor's vision is an incident and injury free workplace, with no harm to people and no damage to the environment.

## HEALTH, SAFETY AND ENVIRONMENT

ShawCor and its divisions view Health, Safety and Environment (HSE) as a core value and an integral part of all business activities. ShawCor is committed globally to achieving HSE excellence in each of its manufacturing and service facilities around the world. By integrating HSE into all Company business activities, ShawCor employees ensure industry leadership in HSE performance is a fundamental component of the Company's Global Leadership Position. Establishing and incorporating HSE responsibility and accountability into every level of the organization creates value for all of the Company's stakeholders.

Management at every level of the Company provides leadership toward achieving a workplace that is free of incidents and injuries and that causes no damage to the environment. All ShawCor personnel participate in the Company's Incident and Injury Free (IIF) initiatives which ensure that safety is a value which will not be compromised. These initiatives provide the foundation for the Company's culture which is based upon the belief that it is unacceptable for anyone to be injured while at work.

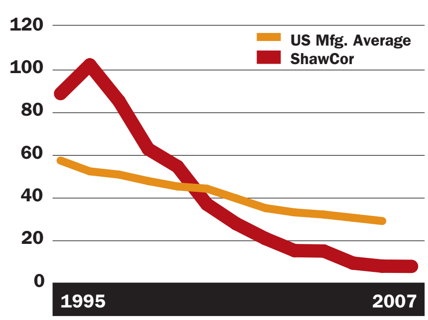
ShawCor personnel strongly believe that it is by means of the thoughtful and integrated application of the Company's HSE Management System that optimum results will be achieved, and that these results will extend beyond the workplace to the home and community.

## EMPLOYEES

ShawCor operates six divisions with more than 60 manufacturing and service facilities employing over 5,000 people around the world. ShawCor's international operations employ local personnel at all levels, many of whom have been prepared to take on increasing responsibility as they progress through the organization. ShawCor trains its employees and runs its operations while respecting and being sensitive to local cultural values. Most of ShawCor's international facilities are managed by local and regional personnel who are committed to the pursuit of the Company's long-term goals. The high level of cultural and ethnic diversity among ShawCor management and operating personnel provides a significant added dimension to the Company's Global Leadership Position in its sector of the energy industry.

## Policies and Procedures

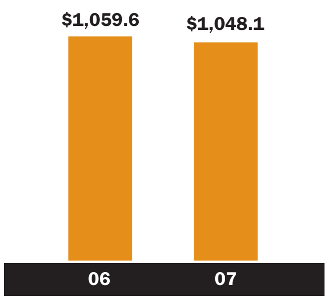
Communication and Documentation + Auditing and Accountability + Training and Development = Global HSE Excellence




**RECORDABLE INJURY FREQUENCY PER MILLION PERSON-HOURS WORKED 1995 – 2007**

# Financial Overview

ShawCor has a strong balance sheet with over $175 million of cash and cash equivalents and a conservative debt to capitalization ratio of less than 12%. The Company invested over $91 million in new plants and facilities along with capacity upgrades and the conversion of existing facilities to new processes and products in 2007.




**REVENUE**

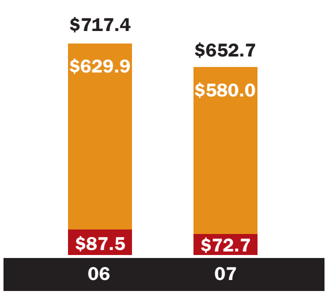
($ millions)


**CAPITAL EXPENDITURES AND AMORTIZATION**

($ millions)

Capital Expenditures

Amortization

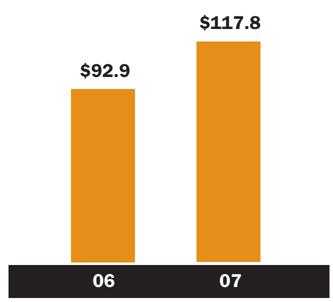



**CAPITALIZATION**

($ millions)

Shareholders' Equity

Long-Term Debt




**INCOME FROM CONTINUING OPERATIONS**

($ millions)

## ShawCor is a Canadian-based, growth-oriented company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the global energy industry.

ShawCor Ltd. ("ShawCor" or the "Company") operates through six divisions producing specialized products and providing value-added services through a network of over 60 manufacturing and service facilities located around the world.

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 86% of consolidated revenue in 2007. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services and Guardian divisions. Bredero Shaw's product offerings include specialized internal and external corrosion protection systems, custom coating and field joint applications, insulation coating systems and weight coating systems for onshore and offshore pipelines. Canusa-CPS is a leading global developer, manufacturer and marketer of heat shrinkable sleeves, adhesives, sealants and liquid coatings. Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline construction contractors, owners and operators worldwide for both onshore and offshore pipeline applications. Guardian provides a complete range of tubular management services including mobile and in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.

The Petrochemical and Industrial segment, which accounted for 14% of consolidated revenue in 2007, includes the DSG-Canusa and ShawFlex divisions. DSG-Canusa is a global manufacturer of heat shrinkable products including thin, medium and heavy-walled tubing, sleeves and moulded products as well as heat shrink accessories and equipment. ShawFlex is a manufacturer of control and instrumentation wire and cable for thermocouple, power, marine and robotics applications. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in other markets.

The primary driver of demand for the Company's products and services is the level of energy industry investment in infrastructure for hydrocarbon exploration, development and transportation around the world. This investment, in turn, is driven by global levels of economic activity, the impact of supply, demand and depletion within the hydrocarbon 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, differentiated products and services to meet the evolving needs of customers; the capability to execute projects as planned; 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.

### 2007 FINANCIAL RESULTS

*REVENUE*

**Consolidated Results**

| Years ended December 31 (in thousands of Canadian dollars) | **2007** | 2006 |
|---|---|---|
| Pipeline and Pipe Services segment | **$ 903,427** | $ 922,328 |
| Petrochemical and Industrial segment | **143,665** | 138,938 |
| Intersegment eliminations | **1,007** | (1,647) |
| Consolidated | **$ 1,048,099** | $ 1,059,619 |

Consolidated revenue for 2007 totaled $1.05 billion compared to $1.06 billion in 2006, with the decrease of 1% achieved despite the significant strengthening of the Canadian dollar during the year. The Canadian dollar was, on average, 16% stronger compared with the U.S. dollar in 2007 than during 2006. This adversely impacted the translation of the Company's U.S. dollar-denominated revenue into Canadian dollars and adversely impacted consolidated revenue by approximately 3%.

### Pipeline and Pipe Services Segment

Revenue in the Pipeline and Pipe Services segment in 2007 totaled $903.4 million compared to $922.3 million in the prior year with the decrease mainly reflecting the impact of the stronger Canadian dollar during the period. Revenue in the segment for the year would have been approximately $30 million higher than reported had the Canadian/U.S. dollar remained at the 2006 level.

Revenue at Bredero Shaw was 93% of the level achieved in 2006 as stronger large-diameter pipe coating volume in North America was offset by lower small-diameter pipe coating volume in Western Canada, reduced activity in the division's other regions and by the adverse impact of the stronger Canadian dollar on the translation of the division's mainly U.S. dollar-based revenue. In North America, business activity in Canada increased significantly, underpinned by several large-diameter pipe coating projects including the Rockies Express and Corridor projects, which resulted in high levels of utilization at the division's plants in Camrose, Alberta and Regina, Saskatchewan. Large-diameter pipe coating activity was also strong during the year at the division's U.S. plants where the Golden Pass and Shenzi projects contributed to the region's revenue growth. Revenue in the Middle East region decreased from the prior year reflecting the impact of a temporary shut-down of the division's plant in Ras Al Khamiah, U.A.E. during a planned plant upgrade and expansion, partially offset by increased activity at Arabian Pipecoating Company Limited, the Company's Saudi Arabia-based 30%-owned joint venture. Revenue in the Far East region also decreased from levels in 2006, reflecting lower large-diameter coating activity at the division's Indonesian facility.

Revenue at Shaw Pipeline Services in 2007 increased 30% from the level achieved in 2006 reflecting continuing growth in the ultrasonic offshore girth weld inspection business as well as growth in U.S. land pipeline activity. Revenue at Guardian and Canusa-CPS was broadly in line with 2006 despite weakness in Western Canadian drilling activity and the impact on Canusa-CPS of the stronger Canadian dollar on the translation of that division's mainly U.S. dollar-based revenue stream.

### Petrochemical and Industrial Segment

Revenue in the Petrochemical and Industrial segment in 2007 of $143.7 million increased 3% over the level achieved in 2006 as revenue growth at DSG-Canusa was partially offset by reduced revenue at ShawFlex. At DSG-Canusa, revenue increased 7% over the prior year despite the impact of the stronger Canadian dollar on the translation of the division's mainly U.S. dollar and Euro-based revenue stream, reflecting improved sales volumes in North America and Europe. Revenue at ShawFlex was slightly lower than the level in 2006 and was adversely impacted by lower activity levels in the markets served by that division, particularly in the Western Canadian oil sands.

## OPERATING INCOME FROM CONTINUING OPERATIONS

### Consolidated Results

| Years ended December 31<br>(in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Revenue from continuing operations | $ 1,048,099 | $ 1,059,619 |
| Operating income from continuing operations | $ 160,001 | $ 138,780 |
| Operating margin | 15.3% | 13.1% |

Consolidated income from continuing operations before interest, income taxes and non-controlling interest (operating income from continuing operations) totaled $160.0 million (15.3% of consolidated revenue from continuing operations) in 2007 and improved 15% over the $138.8 million (13.1% of consolidated revenue from continuing operations) reported in 2006.

### Pipeline and Pipe Services Segment

| Years ended December 31<br>(in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Revenue from continuing operations | $ 903,427 | $ 922,328 |
| Operating income from continuing operations | $ 153,932 | $ 138,483 |
| Operating margin | 17.0% | 15.0% |

In the Pipeline and Pipe Services segment, operating income from continuing operations totaled $153.9 million (17.0% of revenue from continuing operations) compared to $138.5 million (15.0% of revenue from continuing operations) in 2006. At Bredero Shaw, operating margins (operating income from continuing operations divided by revenue from continuing operations) improved four percentage points, reflecting improving operational efficiencies at the division during the year, particularly in the division's North American operations and at the division's Saudi Arabian joint venture, together with reduced losses at the division's operations in Nigeria. Operating income at the Pipeline and Pipe Services segment's other divisions decreased from the prior year in absolute terms as well as in terms of operating margins, reflecting the adverse impact on margins of the stronger Canadian dollar in the year.

### Petrochemical and Industrial Segment

| Years ended December 31 (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Revenue from continuing operations | $ 143,665 | $ 138,938 |
| Operating income from continuing operations | $ 22,822 | $ 19,192 |
| Operating margin | 15.9% | 13.8% |

In the Petrochemical and Industrial segment, operating income from continuing operations totaled $22.8 million (15.9% of revenue from continuing operations) in 2007 compared to $19.2 million (13.8% of revenue from continuing operations) in the prior year, with the improvement in operating margins reflecting increased factory throughput at DSG-Canusa, particularly in Europe, partially offset by the impact of the stronger Canadian dollar on the translation of the division's mainly U.S. dollar-based revenue. Operating margins at ShawFlex decreased from the prior year reflecting the impact of lower business volumes and higher prices for raw materials.

### Financial and Corporate

Financial and corporate costs include corporate expenses not allocated to the operating segments and other non-operating items including foreign exchange gains and losses on foreign currency-denominated cash balances. In 2007, unallocated corporate expenses totaled $17.2 million and compared to $19.9 million in the prior year, with the improvement reflecting higher allocations to operating divisions and reduced corporate spending levels. Foreign exchange gains in the year totaled $475 thousand compared to $970 thousand in 2006 and mainly resulted from the translation of foreign cash and working capital balances.

## NON-OPERATING INCOME AND EXPENSES

Consolidated net interest income in 2007 totaled $4.4 million compared to $2.8 million in 2006, and reflected the impact of higher average interest rates applied to cash balances in the year compared to the prior year, together with the impact of the stronger Canadian dollar on the translation of interest expense on the Company's U.S. dollar-denominated Senior Notes.

Consolidated income taxes totaled $47.2 million (28.7% of income from continuing operations before income taxes and non-controlling interest) in 2007, compared to $46.8 million (33.1% of income from continuing operations before income taxes and non-controlling interest) in 2006, with the improvement from the prior year reflecting utilization of previously unrecognized tax loss carry forwards in certain countries, particularly Nigeria.

Non-controlling interest in the net losses of non-wholly owned subsidiaries totaled $642 thousand in 2007. In 2006, non-controlling interest in the net income of non-wholly owned subsidiaries totaled $1.8 million. The change from 2006 resulted from lower levels of profit at the Company's non-wholly owned subsidiaries, primarily Indonesia, compared with the prior year.

Net income from continuing operations in 2007 totaled $117.8 million ($1.60 per share, diluted) and increased 27% over the $92.9 million ($1.25 per share, diluted) in 2006, with the 28% increase in diluted earnings per share reflective of the higher net income together with the reduction in shares outstanding as a result of share repurchases during the year under the Company's Normal Course Issuer Bid ("NCIB").

## DISCONTINUED OPERATIONS

Losses from discontinued operations totaled $30.5 million ($0.41 per share) in 2007 compared to $289 thousand ($0.00 per share) in 2006, and represent costs associated with the Company's closed pipe coating facility in Mobile, Alabama, less associated income tax recoveries. On November 1, 2007, a Mobile, Alabama jury awarded a verdict in a lawsuit commenced in the Circuit Court of Mobile County, Alabama in 2005 concerning claimed improper disposal of hazardous solid waste related to the Company's former pipe coating site in Mobile, Alabama, totaling $100 million in compensatory damages and $8 million in punitive damages against the Company and co-defendant, Halliburton Energy Services Inc. ("HESI"). Each of the Company and HESI are responsible for 50% of the award and the Company and HESI have announced that they will launch an appeal of the jury verdict and damage award.

Although the Company and HESI plan to launch an appeal of the judgment, the Company has adjusted its provision to fully provide for its 50% share of the verdict, less associated income tax recoveries.

### NET INCOME AND EARNINGS PER SHARE

Consolidated net income totaled $87.4 million ($1.19 per share, diluted) in 2007 compared to $92.6 million ($1.25 per share, diluted) in 2006 with the decrease the result of the charge to discontinued operations related to the Alabama verdict partially offset by a 27% increase in income from continuing operations over the prior year.

### CASH FLOWS

Cash flow generated from continuing operations in 2007 totaled $97.5 million compared to $189.9 million in 2006, with the decrease in cash generation reflecting higher levels of working capital investment in the period, particularly in the form of higher inventory and accounts receivable balances in support of higher business levels experienced in the fourth quarter of 2007 and expected in 2008, and also reflecting lower taxes payable balances resulting from payments for income taxes.

Cash flow used in continuing investing activities totaled $99.4 million in 2007 compared to $74.0 million in the prior year, and was comprised mainly of purchases of property, plant and equipment of $91.9 million, increases in deferred project costs of $5.2 million and $2.8 million paid on the acquisition of X-Tek Systems Limited. Major capital expenditures in the year included $42.7 million for the expansion of pipe coating capacity at Bredero Shaw's facility in Camrose, Alberta and $20.5 million related to the upgrade of the pipe coating facility at Ras Al Khaimah, U.A.E. X-Tek Systems Limited provides specialized, real-time digital and other non-destructive x-ray inspection technologies for aerospace, nuclear, pipeline and other industrial applications and is based in the United Kingdom. It was acquired on June 1, 2007 and was subsequently renamed Shaw Inspection Systems Limited.

Cash flow used in continuing financing activities totaled $107.7 million and was comprised of dividends paid to shareholders of $16.5 million, $91.9 million paid to repurchase 2,999,900 Class A Subordinate Voting Shares ("Class A shares") under the Company's NCIB and $4.3 million used to repay bank indebtedness, partially offset by $5.0 million received on the exercise of stock options. In 2006, cash flow used in continuing financing activities totaled $14.9 million and included $7.8 million paid to repurchase 432,900 Class A shares under the NCIB and dividends paid to shareholders of $9.8 million, partially offset by $2.1 million received on the exercise of stock options and $1.1 million received on an increase of bank indebtedness.

Cash flow used in discontinued operations totaled $3.1 million and reflected payments for the early termination of leases related to the shuttered pipe coating facility in Mobile, Alabama. In 2006, cash flow generated from discontinued operations totaled $3.9 million in the year and reflected proceeds recorded at the Mobile plant on the sale of equipment to other operations within the Company, partially offset by cash outflows related to ongoing costs.

Cash and cash equivalents decreased $134.3 million during 2007 to $175.0 million at the end of the year. In 2006, cash and cash equivalents increased $109.0 million during the year to $309.3 million.

### DIVIDENDS

Dividends per share paid in 2007 were $0.23 for Class A Subordinate Voting Shares ("Class A shares") (2006 – $0.135) and $0.209 for Class B Multiple Voting Shares ("Class B shares") (2006 – $0.1227). 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 quarterly 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, 2007, the Company recorded a working capital ratio of 1.98 to 1 compared to 2.37 to 1 at December 31, 2006. Operating working capital, excluding cash and cash equivalents and working capital related to discontinued operations, of $115.7 million increased $71.9 million, reflecting higher inventory and accounts receivable balances in support of higher business levels experienced in the fourth quarter of 2007 and expected in 2008, as well as lower taxes payable balances resulting from payments for income taxes. The current level of working capital investment is expected to be sufficient to support the level of business activity projected in 2008; however, unexpected increases in business activity or specific pipe coating project requirements may result in higher working capital requirements in the future.

Property, plant and equipment, net of accumulated amortization, of $242.8 million increased $40.7 million over the prior year reflecting capital expenditures during the year of $91.9 million, partially offset by amortization during the year of $40.4 million and the impact of the stronger Canadian dollar on the translation of property, plant and equipment of foreign operations of $11.3 million.

Goodwill decreased $14.8 million during the year to $161.0 million reflecting the impact of the stronger Canadian dollar on the translation of the U.S. dollar and Euro-denominated goodwill related to Bredero Shaw and the European operations of DSG-Canusa, respectively, partially offset by an addition of $2.1 million of goodwill recorded on the Company's acquisition of X-Tek Systems Limited.

Shareholders' equity decreased $49.9 million during the year to $580.0 million at December 31, 2007. The stated value of capital stock decreased $3.6 million, reflecting the $10.2 million impact of the repurchase of 2,999,900 Class A shares during the year under the NCIB, partially offset by the $6.6 million impact of the issuance of 320,295 Class A shares on the exercise of stock options. Contributed surplus increased $1.1 million during the year, reflecting expenses of $2.8 million recorded in relation to stock-based compensation, reduced by the impact of the exercise of stock options during the year.

Retained earnings decreased $11.4 million in the year to $486.5 million at December 31 reflecting net income for the year of $87.4 million, partially offset by cash dividends paid in the year of $16.5 million, the excess of the purchase price paid over the stated value of shares purchased under the NCIB in the amount of $81.7 million and the impact of a $585 thousand transitional adjustment to retained earnings on the implementation of new accounting standards related to financial instruments.

Accumulated other comprehensive loss increased by $36.0 million in 2007 to $121.5 million from $85.5 million as a result of the impact of the strengthening of the Canadian dollar on the translation of the net assets of the Company's U.S. dollar-based, self-sustaining subsidiaries and by the impact of a decrease in the fair market value of the Company's investment in Garneau Inc. This was partially offset by the impact of the translation of the Company's U.S. dollar-denominated Senior Notes, which are designated as a hedge of a portion of the Company's investment in the U.S. dollar net assets of Bredero Shaw, and by the impact of increases in the fair value of forward exchange contracts designated as cash flow hedges.

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 necessary 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 very strong and the Company does not foresee any difficulties in maintaining a sufficient level of financial capacity.

At December 31, 2007, the Company had total operating credit lines of $172.0 million (2006 – $204.1 million), of which $107.1 million has been utilized for various standby letters of credit for performance, bid and surety bonds (2006 – $74.1 million) and bank indebtedness of nil (2006 – $3.0 million), to yield unutilized credit facilities of $64.9 million (2006 – $127.0 million) excluding the banking facilities of its 30%-owned joint venture, Arabian Pipecoating Company Limited.

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) | 2008 | 2009 | 2010 | 2011 | 2012 | After 2012 | Total |
|---|---|---|---|---|---|---|---|
| Operating leases | $ 9,991 | $ 9,182 | $ 7,846 | $ 7,365 | $ 6,581 | $ 19,633 | $ 60,598 |
| Capital leases | 284 | 110 | 35 | 4 | — | — | 433 |
| Purchase commitments | 60,312 | 22,291 | 16,694 | — | — | — | 99,297 |
| Capital expenditure commitments | 8,655 | — | — | — | — | — | 8,655 |
| Asset retirement obligations | 6,349 | 805 | 932 | 285 | 5,342 | 3,201 | 16,914 |
| Total contractual obligations | $ 85,591 | $ 32,388 | $ 25,507 | $ 7,654 | $ 11,923 | $ 22,834 | $ 185,897 |

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) | 2007 | 2006 | 2005 |
|---|---|---|---|
| Revenue | **$ 1,048,099** | $ 1,059,619 | $ 1,012,453 |
| Operating income from continuing operations | **160,001** | 138,780 | 95,454 |
| Income from continuing operations | **117,819** | 92,924 | 82,790 |
| Income (loss) from discontinued operations | **(30,462)** | (289) | 56,050 |
| Net income | **87,357** | 92,635 | 138,840 |
| Operating income from continuing operations per share (Classes A and B) | | | |
| Basic | **2.21** | 1.87 | 1.27 |
| Diluted | **2.18** | 1.87 | 1.27 |
| Income from continuing operations per share (Classes A and B) | | | |
| Basic | **1.62** | 1.25 | 1.10 |
| Diluted | **1.60** | 1.25 | 1.10 |
| Income (loss) from discontinued operations per share (Classes A and B) | | | |
| Basic | **(0.42)** | 0.00 | 0.75 |
| Diluted | **(0.41)** | 0.00 | 0.75 |
| Net income per share (Classes A and B) | | | |
| Basic | **1.20** | 1.25 | 1.85 |
| Diluted | **1.19** | 1.25 | 1.85 |
| Total assets | **960,326** | 1,008,026 | 919,846 |
| Total long-term financial liabilities | **72,726** | 87,480 | 87,210 |
| Cash dividends per share | | | |
| Class A | **0.23** | 0.135 | 0.09 |
| Class B | **0.209** | 0.1227 | 0.0818 |
| Number of outstanding shares | | | |
| Class A | **58,234,570** | 60,914,175 | 61,006,045 |
| Class B | **13,078,142** | 13,078,142 | 13,088,015 |
| Total | **71,312,712** | 73,992,317 | 74,094,060 |

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. In 2006, the U.S. dollar was, on average, approximately 6% lower than in 2005, and in 2007, the U.S. dollar was, on average, approximately 6% lower than in 2006. In 2007, a 1¢ change in the U.S. dollar, *vis-à-vis* the Canadian dollar, impacted revenue by approximately $5 million and net income by $3 million ($0.04 per share).

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.

On November 1, 2007, the Company received an adverse verdict in a legal action concerning the Company's closed Mobile, Alabama facility. As a result of the verdict, the Company recorded a charge to discontinued operations of US$30.3 million, net of related income tax recoveries, in the fourth quarter of 2007.

## 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 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| **2007** | **$ 221,329** | **$ 276,440** | **$ 264,892** | **$ 285,438** | **$1,048,099** |
| 2006 | 262,547 | 269,433 | 251,324 | 276,315 | 1,059,619 |
| Operating income from continuing operations | | | | | |
| **2007** | **27,972** | **47,036** | **45,500** | **39,493** | **160,001** |
| 2006 | 37,478 | 35,835 | 23,677 | 41,790 | 138,780 |
| Income from continuing operations | | | | | |
| **2007** | **23,308** | **30,267** | **30,191** | **34,053** | **117,819** |
| 2006 | 24,755 | 24,898 | 16,549 | 26,722 | 92,924 |
| Income (loss) from discontinued operations | | | | | |
| **2007** | **(55)** | **(48)** | **(59)** | **(30,300)** | **(30,462)** |
| 2006 | (35) | (192) | 7 | (69) | (289) |
| Net income | | | | | |
| **2007** | **23,253** | **30,219** | **30,132** | **3,753** | **87,357** |
| 2006 | 24,720 | 24,706 | 16,556 | 26,653 | 92,635 |
| Operating income from continuing operations per share (Classes A and B) | | | | | |
| Basic | | | | | |
| **2007** | **0.38** | **0.64** | **0.63** | **0.55** | **2.21** |
| 2006 | 0.51 | 0.48 | 0.32 | 0.56 | 1.87 |
| Diluted | | | | | |
| **2007** | **0.37** | **0.63** | **0.63** | **0.54** | **2.18** |
| 2006 | 0.51 | 0.48 | 0.32 | 0.56 | 1.87 |

# Management's Discussion and Analysis

| (in thousands of Canadian dollars except per share amounts) | First | Second | Third | Fourth | Full Year |
|---|---|---|---|---|---|
| Income from continuing operations per share | | | | | |
| (Classes A and B) | | | | | |
| Basic | | | | | |
| **2007** | **0.31** | **0.41** | **0.42** | **0.48** | **1.62** |
| 2006 | 0.33 | 0.34 | 0.22 | 0.36 | 1.25 |
| Diluted | | | | | |
| **2007** | **0.31** | **0.41** | **0.42** | **0.47** | **1.60** |
| 2006 | 0.33 | 0.34 | 0.22 | 0.36 | 1.25 |
| Income (loss) from discontinued operations per share | | | | | |
| (Classes A and B) | | | | | |
| Basic | | | | | |
| **2007** | **0.00** | **0.00** | **0.00** | **(0.42)** | **(0.42)** |
| 2006 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Diluted | | | | | |
| **2007** | **0.00** | **0.00** | **0.00** | **(0.42)** | **(0.41)** |
| 2006 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net income per share (Classes A and B) | | | | | |
| Basic | | | | | |
| **2007** | **0.31** | **0.41** | **0.42** | **0.06** | **1.20** |
| 2006 | 0.33 | 0.34 | 0.22 | 0.36 | 1.25 |
| Diluted | | | | | |
| **2007** | **0.31** | **0.41** | **0.42** | **0.05** | **1.19** |
| 2006 | 0.33 | 0.34 | 0.22 | 0.36 | 1.25 |

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

The Company's operations in the Pipeline and Pipe Services segment, representing 86% of the Company's consolidated revenue in 2007, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality particularly in the Pipeline and Pipe Services market segment. The following are additional key factors impacting the comparability of the quarterly information disclosed above:

The majority of the Company's revenue is transacted in currencies other than Canadian dollars, with a majority transacted in U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars.

On November 1, 2007, the Company received an adverse verdict in a legal action concerning the Company's closed Mobile, Alabama facility. As a result of the verdict, the Company recorded a charge to discontinued operations of US$30.3 million, net of related income tax recoveries, in the fourth quarter of 2007.

## FOURTH QUARTER RESULTS

### *REVENUE*

### Consolidated Results

| (in thousands of Canadian dollars) | Three months ended Dec. 31 2007 | Sept. 30 2007 | Dec. 31 2006 |
|---|---|---|---|
| Pipeline and Pipe Services segment | **$ 254,316** | $ 227,779 | $ 243,951 |
| Petrochemical and Industrial segment | **28,450** | 37,517 | 32,795 |
| Intersegment eliminations | **2,672** | (404) | (431) |
| Consolidated | **$ 285,438** | $ 264,892 | $ 276,315 |

***Current Quarter versus Fourth Quarter 2006***

Consolidated revenue from continuing operations in the fourth quarter of the year totaled $285.4 million compared to $276.3 million in the fourth quarter of last year, with the increase achieved despite the adverse impact of the stronger Canadian dollar on the translation of foreign currency based revenue in the period. The Canadian dollar was approximately 15% stronger on average, in terms of the U.S. dollar, in the fourth quarter of 2007 compared with the fourth quarter of 2006, while it was 9% stronger in terms of the U.K. pound and 3% stronger in terms of the Euro. The Company's fourth quarter 2007 revenue would have been higher than reported by approximately $28 million, had exchange rates been the same as in the fourth quarter of 2006.

***Current Quarter versus Third Quarter 2007***

Consolidated revenue in the fourth quarter was 8% higher than in the third quarter of the year as increased revenue in the Pipeline and Pipe Services segment was partially offset by lower revenue generated by the Petrochemical and Industrial segment.

### Pipeline and Pipe Services Segment

***Current Quarter versus Fourth Quarter 2006***

Revenue in the quarter for the Pipeline and Pipe Services segment totaled $254.3 million, 104% of the level achieved in the fourth quarter of last year, despite the impact of the stronger Canadian dollar in the period. Revenue at Bredero Shaw in the period was largely the same as in the fourth quarter of 2006, in terms of Canadian dollars; however, revenue was 14% higher in terms of U.S. dollars, the division's functional currency. In the North American region, revenue increased 30% over the fourth quarter of last year, in U.S. dollar terms, driven by significantly higher pipe coating volume at the division's large-diameter plants in Canada and the United States which more than offset the decline in small-diameter volume associated with lower Western Canadian drilling activity. In the Far East region, U.S. dollar revenue increased 62% from levels in the fourth quarter of 2006 reflecting increased pipe coating volume at all of the region's plants. Revenue in the Middle East region declined from levels in the corresponding quarter of last year reflecting the impact of the temporary idling of the plant in Ras Al Khaimah, U.A.E. during a planned upgrade and capacity expansion program.

In the segment's other divisions, revenue at Shaw Pipeline Services was 28% higher than in the fourth quarter of 2006, while revenue at Guardian and Canusa-CPS decreased with revenue at Canusa-CPS adversely impacted by the stronger Canadian dollar and both divisions affected by the aforementioned impact of lower Western Canadian drilling activity.

***Current Quarter versus Third Quarter 2007***

Revenue in the Pipeline and Pipe Services segment in the fourth quarter increased 12% over the prior quarter as revenue growth at Bredero Shaw and Shaw Pipeline Services was partially offset by declines at Canusa-CPS and Guardian. At Bredero Shaw, revenue growth resulted from increased large-diameter pipe coating activity in Canada and the United States, increased business activity at the division's Thermotite pipe coating plant in Orkanger, Norway and commencement of the Balearic pipe coating project at a project plant mobilized in Alicante, Spain.

Revenue at Shaw Pipeline Services increased 23% over the prior quarter as a result of increased ultrasonic girth weld inspection activity and strong land pipeline construction in the United States. Revenue at Canusa-CPS and Guardian both decreased from third quarter levels with Canusa-CPS particularly impacted by the strengthening of the Canadian dollar.

### Petrochemical and Industrial Segment

#### *Current Quarter versus Fourth Quarter 2006*

Revenue in the quarter for the Petrochemical and Industrial segment decreased 13% from the level achieved in the fourth quarter of 2006 with reductions experienced at both DSG-Canusa and ShawFlex. At DSG-Canusa, business levels in the United States were in line with the fourth quarter of last year while at the division's European operations, sales volumes increased modestly; however, the stronger Canadian dollar in the fourth quarter of 2007, compared to the fourth quarter of the prior year, resulted in lower reported revenue for the division in Canadian dollar terms. At ShawFlex, revenue in the quarter was adversely impacted by temporarily reduced demand for the division's products for Western Canadian oil sands development projects, the result of the tight labour market and increasing costs in that region.

#### *Current Quarter versus Third Quarter 2007*

Revenue in the fourth quarter for the segment decreased by 24% from the level achieved in the third quarter of the year. At DSG-Canusa, revenue in the quarter decreased 9% from the level in the prior quarter in line with the historical seasonal trend while revenue at ShawFlex was significantly lower as the result of the temporary slow-down in Western Canadian oil sands development projects discussed above.

## OPERATING INCOME FROM CONTINUING OPERATIONS

### Consolidated Results

| | Three months ended | | |
|---|---|---|---|
| (in thousands of Canadian dollars) | **Dec. 31 2007** | Sept. 30 2007 | Dec. 31 2006 |
| Revenue from continuing operations | **$ 285,438** | $ 264,892 | $ 276,315 |
| Operating income from continuing operations | **39,493** | 45,500 | 41,790 |
| Operating margin | **13.8%** | 17.2% | 15.1% |

#### *Current Quarter versus Fourth Quarter 2006*

Consolidated income from continuing operations before interest, income taxes and non-controlling interest (operating income from continuing operations) totaled $39.5 million (13.8% of consolidated revenue from continuing operations) in the fourth quarter of 2007 compared to $41.8 million (15.1% of consolidated revenue from continuing operations) in the fourth quarter of 2006, with the decrease reflecting the adverse impact on operating margins of the stronger Canadian dollar compared to the fourth quarter of the prior year. Certain of the Company's Canadian-based operations have large U.S. dollar-based revenue streams but incur the majority of their production and operating costs in Canadian dollars. As a result, a strengthening of the Canadian dollar reduces the Canadian dollar value of those U.S. dollar revenue streams, which in turn has the impact of reducing the operating margins of those divisions. The stronger Canadian dollar had an adverse impact on operating income from continuing operations of approximately $8 million in the quarter, when compared to the fourth quarter of the prior year, and a three percentage point adverse effect on operating margins.

#### *Current Quarter versus Third Quarter 2007*

Consolidated operating income from continuing operations in the fourth quarter was 87% of the level achieved in the prior quarter due mainly to lower operating margins at Bredero Shaw, the impact of the strengthening in the quarter of the Canadian dollar on the operating margins of non-Bredero Shaw divisions and increased corporate and financial costs in the quarter.

### Pipeline and Pipe Services Segment

| | Three months ended | | |
|---|---|---|---|
| (in thousands of Canadian dollars) | **Dec. 31 2007** | Sept. 30 2007 | Dec. 31 2006 |
| Revenue from continuing operations | **$ 254,316** | $ 227,779 | $ 243,951 |
| Operating income from continuing operations | **40,280** | 42,738 | 40,816 |
| Operating margin | **15.8%** | 18.8% | 16.7% |

#### *Current Quarter versus Fourth Quarter 2006*

In the Pipeline and Pipe Services segment, operating income from continuing operations in the quarter of $40.3 million (15.8% of revenue from continuing operations) was in line with the level achieved in the fourth quarter of 2006, while operating margins decreased 0.9 percentage points. In Bredero Shaw, both operating income and operating margins were improved over the prior year, reflecting margin expansion in North America due to increased production throughput particularly in the region's large-diameter plants, and reduced losses in Nigeria and the North Sea region. The operating margin improvements at Bredero Shaw were offset by lower operating margins at Canusa-CPS due in large part to the stronger Canadian dollar in the quarter compared to in the fourth quarter of 2006.

### *Current Quarter versus Third Quarter 2007*

Operating income from continuing operations for the segment in the fourth quarter decreased 6% from the third quarter of the year while operating margins decreased 3.0 percentage points. Operating income from continuing operations and operating margins at Bredero Shaw decreased from the prior quarter as a result of the shut-down of the plant at Ras Al Khamiah, U.A.E. during a scheduled plant upgrade and capacity expansion program and by start-up costs associated with the Hasdrubal pipe coating project at the division's project-specific plant established in Gabes, Tunisia, partially offset by improvements in Canada and the United States stemming from increased factory throughput in the quarter.

At Guardian, operating income from continuing operations and operating margins increased from the prior quarter due to reduced fixed costs, while at Shaw Pipeline Services, operating income increased in line with the increased revenue while operating margins declined due to a greater proportion of lower margin radiographic inspection work in the quarter's revenue. Operating income from continuing operations decreased at Canusa-CPS from levels in the prior quarter as did operating margins, largely reflecting the negative impact of the stronger Canadian dollar on the division's operating margins.

## Petrochemical and Industrial Segment

| (in thousands of Canadian dollars) | Three months ended Dec. 31 2007 | Sept. 30 2007 | Dec. 31 2006 |
|---|---|---|---|
| Revenue from continuing operations | $ 28,450 | $ 37,517 | $ 32,795 |
| Operating income from continuing operations | 3,065 | 6,274 | 5,589 |
| Operating margin | 10.8% | 16.7% | 17.0% |

### *Current Quarter versus Fourth Quarter 2006*

In the Petrochemical and Industrial segment, operating income from continuing operations in the fourth quarter of $3.1 million (10.8% of revenue from continuing operations) decreased $2.5 million from the level achieved in the fourth quarter of last year while operating margins decreased 6.2 percentage points. The decrease resulted from lower revenue at DSG-Canusa and ShawFlex in the quarter as well as from the impact of the stronger Canadian dollar on the operating margins of DSG-Canusa's North American operations.

### *Current Quarter versus Third Quarter 2007*

Operating income for the segment in the fourth quarter was 49% of the level in the prior quarter while operating margins decreased 5.9 percentage points. Operating income performance in the quarter reflected the lower level of revenue in the quarter as well as the adverse effect on the operating margins at DSG-Canusa's North American operations of the stronger Canadian dollar in the period.

## Financial and Corporate

### *Current Quarter versus Fourth Quarter 2006*

Financial and corporate costs in the quarter consisted of unallocated corporate expenses of $3.9 million, net of foreign exchange gains of $47 thousand on the translation of foreign cash and working capital balances, compared to $4.6 million, including foreign exchange losses of $1.0 million, in the fourth quarter of last year, with the increase in corporate expenses reflecting higher management compensation expenses in line with the Company's improved consolidated financial results.

### *Current Quarter versus Third Quarter 2007*

Financial and corporate costs in the quarter, excluding foreign exchange gains and losses, decreased $1.1 million over the level in the third quarter of the year, mainly as a result of lower levels of corporate spending in the quarter. Foreign exchange gains in the quarter, stemming from foreign currency cash balances and working capital, totaled $47 thousand compared to $1.5 million in the third quarter of the year.

## NON-OPERATING INCOME AND EXPENSES

### Interest Income

Consolidated net interest income totaled $743 thousand in the fourth quarter compared to $811 thousand in the prior quarter and $1.4 million in the fourth quarter of last year, with the decrease reflecting lower average cash balances in the quarter and the impact of the stronger Canadian dollar on the translation of interest expense related to the Company's U.S. dollar-denominated Senior Notes.

### Income Tax Expense

Income tax expense related to continuing operations totaled $6.3 million (15.6% of income from continuing operations before income taxes) compared to $15.9 million (34.4% of income from continuing operations before income taxes) in the prior quarter and $15.7 million (36.4% of income from continuing operations before income taxes) in the fourth quarter of 2006. The income tax rate in the fourth quarter of 2007 was favourably impacted by the utilization of previously unrecognized tax loss carry forwards in certain countries, particularly Nigeria. This benefit reduced the effective tax rate in the fourth quarter by approximately 15 percentage points. The tax rate also benefited from the impact on Canadian future tax balances of announced reductions in future income tax rates.

### Income from Continuing Operations

Consolidated income from continuing operations for the quarter totaled $34.1 million ($0.47 per share, diluted), compared to $30.2 million ($0.42 per share, diluted) in the third quarter and $26.7 million ($0.36 per share, diluted) in the fourth quarter of last year.

## DISCONTINUED OPERATIONS

Loss from discontinued operations for the quarter totaled $30.3 million ($0.42 per share, diluted) and reflected provisions recorded in the quarter of $46.7 million, less the related income tax benefit of $16.3 million, in response to an adverse verdict in a lawsuit relating to the Company's shuttered facility in Mobile, Alabama. Although the Company intends to appeal, it has fully provided for its share of the jury verdict. Loss from discontinued operations was $59 thousand ($0.00 per share) in the prior quarter and $69 thousand ($0.00 per share) in the fourth quarter of last year.

## NET INCOME AND EARNINGS PER SHARE

Consolidated net income for the fourth quarter of the year was $3.8 million ($0.05 per share, diluted) compared to $30.1 million ($0.42 per share, diluted) in the third quarter and $26.7 million ($0.36 per share, diluted) in the fourth quarter of 2006.

## CASH FLOW

Cash provided by continuing operating activities in the quarter totaled $8.7 million compared to cash provided by continuing operating activities of $38.7 million in the fourth quarter of 2006, and reflected increased levels of working capital investment in support of higher levels of business activity experienced in the quarter and expected to continue in 2008.

Cash used in continuing investing activities in the quarter totaled $33.2 million, comprised mainly of capital expenditures of $28.6 million and increases in deferred project costs of $4.7 million. Major additions to property, plant and equipment in the quarter included continuing pipe coating capacity expansions at Bredero Shaw's facilities in Camrose, Alberta and Ras Al Khaimah, U.A.E. In the fourth quarter of 2006, cash used in continuing investing activities totaled $14.9 million, mainly reflecting capital expenditures of $15.6 million less the proceeds on disposal of property, plant and equipment of $1.3 million.

Cash used in continuing financing activities totaled $17.8 million in the quarter, mainly consisting of $14.0 million paid to repurchase 425,300 Class A shares under the Company's NCIB and dividends paid to shareholders of $4.0 million. In the fourth quarter of 2006, cash provided by continuing financing activities totaled $899 thousand, comprised of dividends paid to shareholders of $3.3 million, partially offset by $3.0 million received on an increase in bank indebtedness and $1.2 million received from the issuance of Class A shares on the exercise of stock options.

Overall, cash and cash equivalents decreased $40.8 million during the quarter to $175.0 million, compared with an increase of $39.2 million during the fourth quarter of 2006 to $309.3 million.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management's best judgment given the information available at the time; however, actual results could differ from the estimates. There have been no material changes to any of these estimates during the last two years. Critical estimates used in preparing the consolidated financial statements include:

### Long-Lived Assets and Goodwill

The Company evaluates the carrying values 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 carrying values of long-lived assets whenever circumstances arise that could indicate 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 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 owned and 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 capital. 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 judgment 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.

## CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*. As required, these new accounting standards have been adopted prospectively with an adjustment to accumulated other comprehensive income. Prior year figures have not been restated. The following adjustments were made to the Company's balance sheet as a result of these changes:

| (in thousands of Canadian dollars) | January 1, 2007 |
|---|---|
| Decrease in assets: | |
| Other assets | $ (1,345) |
| Total decrease in assets | $ (1,345) |
| Increase (decrease) in liabilities: | |
| Derivative financial instruments | $ 925 |
| Current future income taxes | (315) |
| Future income taxes | 253 |
| Long-term debt | (1,504) |
| Total decrease in liabilities | (641) |
| Increase (decrease) in shareholders' equity: | |
| Retained earnings | (585) |
| Accumulated other comprehensive income related to available-for-sale financial assets | 491 |
| Accumulated other comprehensive income related to cash flow hedges | (610) |
| Total decrease in shareholders' equity | (704) |
| Total decrease in liabilities and shareholders' equity | $ (1,345) |

The following is a description of the accounting policies adopted by the Company as a result of implementing these accounting changes:

### a) Comprehensive Income

The Company's comprehensive income is comprised of net income and other comprehensive income, which is made up of unrealized foreign currency gains or losses on the translation of the financial statements of self-sustaining foreign operations, unrealized gains or losses on available-for-sale financial assets and changes in unrealized gains or losses on derivatives designated as effective cash flow hedges.

### b) Accumulated Other Comprehensive Income

Accumulated other comprehensive income is included on the consolidated balance sheet as a separate component of shareholders' equity and includes accumulated unrealized foreign currency gains or losses on the translation of the financial statements of self-sustaining foreign operations, accumulated unrealized gains or losses on available-for-sale financial assets and accumulated unrealized gains or losses on derivatives designated as effective cash flow hedges.

### c) Financial Instruments

Held-for-trading financial assets are financial assets which are acquired for resale prior to maturity. Held-for-trading financial assets are reflected in the consolidated balance sheet at fair value with changes in fair value during a period charged to operating expenses. Available-for-sale financial assets are those non-derivative financial assets which are so designated by the Company or that do not fall into another category. Available-for-sale financial assets are carried on the consolidated balance sheet at fair value with gains or losses from changes in fair value in a period included in other comprehensive income. Held-to-maturity financial assets, loans and receivables, and other liabilities not held for trading are accounted for at amortized cost with related expenses charged to interest income or interest expense.

The following is a summary of the classes of financial instruments included in the Company's consolidated balance sheet as well as their designation by the Company under the new accounting standards:

| Balance sheet item | Designation |
|---|---|
| Cash | Held-for-trading |
| Cash equivalents | Held-to-maturity |
| Accounts receivable | Loans and receivables |
| Long-term investments | Available-for-sale |
| Accounts payable and accrued liabilities | Other liabilities |
| Long-term debt | Other liabilities |
| Bank indebtedness | Other liabilities |

### d) Derivative Financial Instruments

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 the 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.

Derivative financial instruments designated as effective cash flow hedges are reflected in the consolidated balance sheet at fair value with any gains or losses resulting from fair value changes included in other comprehensive income to the extent of hedge effectiveness. Derivatives with positive exposures are classified as assets while those with negative exposures are classified as liabilities. Derivative financial instruments not designated as effective cash flow hedges are carried at fair value in the consolidated balance sheet with gains or losses resulting from changes in fair value in a period charged to operating expenses.

### e) Transaction Costs

Transaction costs related to the acquisition or issue of held-for-trading financial instruments are charged to net income as incurred. Transaction costs related to financial instruments not designated as held-for-trading are included in the financial instrument's initial recognition amount.

## UPCOMING ACCOUNTING CHANGES

In 2007, the CICA issued the following new Handbook sections: 1400, *General Standards of Financial Statement Presentation*; 1535, *Capital Disclosures*; 3031, *Inventories*; 3862, *Financial Instruments – Disclosures*; and 3863, *Financial Instruments – Presentation*. These new accounting standards must be adopted by the Company on January 1, 2008 and will be adopted prospectively in accordance with the transitional provisions prescribed by the standards. In February 2008, the CICA issued new Handbook section 3064, *Goodwill and Intangible Assets*, which is effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of the new accounting standards on its financial position, results of operations and disclosures.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and of the design of internal controls over financial reporting ("ICFR"). Based on that evaluation, they have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007. Furthermore, they have concluded that the Company's design of ICFR was adequate and effective to prevent a material misstatement of the Company's annual financial statements as at December 31, 2007. There were no material changes in either the Company's disclosure control or its ICFR during the fourth quarter of 2007.

## FINANCIAL INSTRUMENTS

### a) Fair Value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment 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:

#### *Cash Equivalents, Accounts Receivable, Income Taxes Receivable, Bank Indebtedness, Accounts Payable and Accrued Liabilities, and Income Taxes Payable.*

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.

#### *Long-Term Investment*

The fair value of the Company's long-term investment is based on quoted market prices and is not different from its carrying value.

#### *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:

### b) Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk at December 31, 2007:

| | | Fixed interest rate maturing in | | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | Floating rate | 1 year or less | Greater than 1 year | Total |
| **Financial Assets** | | | | |
| Cash and cash equivalents | $ 122,655 | $ 52,362 | $ — | $ 175,017 |
| Total | $ 122,655 | $ 52,362 | $ — | $ 175,017 |
| Average fixed rate of cash equivalents | — | 4.48% | — | |
| **Financial Liabilities** | | | | |
| Bank indebtedness | $ 107 | $ — | $ — | $ 107 |
| Long-term debt | — | — | 72,726 | 72,726 |
| Total | $ 107 | $ — | $ 72,726 | $ 72,833 |
| Average fixed rate of debt | — | — | 5.11% | |

### c) 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.

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.

### d) 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 loses 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 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 accumulated other comprehensive income.

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, 2007:

| Maturity | |
|---|---|
| (in thousands) | December 31, 2007 |
| **U.S. dollars sold for Canadian dollars** | |
| Less than one year | US$12,000 |
| Weighted average rate | 1.0540 |
| **Euros sold for U.S. dollars** | |
| Less than one year | EUR 883 |
| Weighted average rate | 1.4150 |
| One year to two years | EUR 2,150 |
| Weighted average rate | 1.4545 |
| Two years to three years | EUR 2,150 |
| Weighted average rate | 1.4490 |
| Three years to four years | EUR 2,200 |
| Weighted average rate | 1.4465 |
| **U.S. dollars sold for Norwegian Kroners** | |
| Less than one year | US$6,243 |
| Weighted average rate | 5.3980 |
| **U.S. dollars sold for Malaysian Ringgit** | |
| Less than one year | US$7,250 |
| Weighted average rate | 3.4062 |

At December 31, 2007, the Company had notional amounts of $35.7 million of forward contracts outstanding (December 31, 2006 – $38.7 million). These amounts are used to express the volume of transactions and are not recognized in the consolidated financial statements.

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, 2007. The fair value of the Company's net benefit for all foreign exchange forward contracts at December 31, 2007 was $1.5 million (December 31, 2006 – $3.1 million net liability, which was not recorded in other comprehensive income) and has been recognized on the consolidated balance sheet through a charge to other comprehensive income. Estimated net gains in accumulated other comprehensive income expected to be transferred to net income within the next twelve months totals $1.5 million.

## RISKS AND UNCERTAINTIES

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

**A cyclical decline in the level of pipeline construction in North American and/or international markets could have a material adverse effect on the Company's projections, business, results of operations and financial condition.**

The Company's business is materially dependent on the level of North American and international pipeline construction activity which in turn relates to the growth in demand for oil and natural gas and the availability of new supplies to meet this increased demand. Notwithstanding the current elevated energy price environment, the industry remains volatile, affecting the enthusiasm of producers to generate growth through new capital spending programs. A cautious investment policy could dampen demand for the Company's products and services supplied to exploration and production markets.

Revenue generated by the Company's four Pipeline and Pipe Services divisions accounted for 86% of consolidated sales in 2007, making the Company's revenue materially dependent on the worldwide pipeline and pipe services industry. Any reduction in the anticipated growth in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**The Company's international operations may experience interruptions due to political, economic or other risks, which could adversely affect the Company's projections, business, results of operations and financial condition.**

During 2007, the Company derived 42% of its total revenue from its facilities outside Canada, the United States and Europe. In addition, part of the Company's sales from its locations in Canada and the United States were for use in other countries. The Company's operations in certain international locations, including Brazil, Mexico, Nigeria, 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;
- hostile or terrorist activities, and
- restrictions on foreign operations.

The Company's foreign operations may suffer disruptions and may incur losses that will not be covered by insurance. In particular, civil unrest in politically unstable countries such as Nigeria increase the possibility that the Company's operations could be interrupted or adversely affected. 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.

Any material currency fluctuations or devaluations or political unrest that disrupt oil and gas exploration and production or the movement of funds and assets could materially adversely affect the Company's business, results of operations and financial condition.

**An economic downturn could adversely affect demand for the Company's products and services and, consequently, its projections, business, results of operations and financial condition.**

Demand for oil and natural gas is influenced by numerous factors, including the North American and worldwide economies as well as activities of the Organization of Petroleum Exporting Countries ("OPEC"). Economic declines impact demand for natural gas and result in a softening of gas prices and projected natural gas drilling activity. If economic conditions or international markets decline unexpectedly, the Company's projections, business, results of operations and financial condition could be materially adversely affected. In addition, if actions by OPEC and other oil producers to increase production of oil adversely affect world oil prices, additional declines in rig counts could result, particularly internationally, and the Company's projections, business, results of operations and financial condition could be materially adversely affected. Similarly, demand for the products of the Petrochemical and Industrial segment businesses is largely dependent on the level of general economic activity in North America and Europe. Decreases in economic activity in these regions could result in significant decreases in business activity in these businesses.

**Increases in the prices and/or shortages in the supply of raw materials used in the Company's manufacturing processes could adversely affect the competitiveness of the Company, its ability to serve its customers' needs and its financial performance.**

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 nonferrous wire. 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.

**A decline in drilling activity in North America and worldwide could have a material adverse effect on the Company's projections, business, results of operations and financial condition.**

The Company's business is materially dependent on the level of drilling activity which in turn depends on oil and gas demand, prices and production decline rates in North America and worldwide. Lower drilling activity decreases demand for the Company's products and services, including small-diameter pipe coating and tubular inspection and inventory management services.

**The Company could be subject to substantial liability claims, which could adversely affect its projections, business, results of operations and financial condition.**

Some of the Company's products are used in hazardous applications where an accident or a failure of a product could cause personal injury, loss of life, damage to property, equipment or the environment, as well as the suspension of the end-user's operations. If the Company's products were to be involved in any of these difficulties, the Company could face litigation and may be held liable for those losses. The Company's insurance coverage may not be adequate in risk coverage or policy limits to cover all losses or liabilities that it may incur. Moreover, the Company may not be able in the future to maintain insurance at levels of risk coverage or policy limits that management deems adequate. Any claims made under the Company's policies likely will cause its premiums to increase. Any future damages deemed to be caused by the Company's products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**The Company is subject to environmental, health and safety laws and regulations that expose it to potential financial liability.**

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, generates, stores and disposes of hazardous substances and wastes in its operations, and the Company may be subject to material financial liability for any investigation and clean-up of such 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 actions of previous owners or operators of industrial facilities on those sites. Liability in certain instances may be imposed on the Company regardless of the legality of the original actions relating to the hazardous or toxic substances or whether or not the Company knew of, or was responsible for, the presence of those substances. 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 disruptions 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. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**The Company is subject to litigation and could be subject to future litigation and significant potential financial liability.**

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 could reasonably be expected to have a material adverse effect on the Company's projections, business, results of operations and financial condition, the Company may, however, become involved in material legal proceedings in the future. A predecessor of the Company and several foreign indirect subsidiaries of Bredero Shaw historically used felt wrap containing asbestos in their pipe coating processes. After about 1994, asbestos in the felt was replaced with glass fibre. Some of Bredero Shaw's subsidiaries' pipe coating assets were purchased from parties which utilized asbestos encapsulated felt or unencapsulated asbestos as part of their pipe coating processes. Some of the Company's plants have or had equipment and/or building materials containing asbestos. Some parts purchased for resale in Canada by the Company also contain asbestos, but meet current environmental regulations in this regard. There are not, and to the Company's knowledge, never have been, any lawsuits against it, Bredero Shaw or any of their respective subsidiaries relating to the use of asbestos. There is no certainty that claims relating to asbestos use or exposure may not be initiated in the future and, if initiated, such claims would not result in an award against the Company, Bredero Shaw and/or any of their respective subsidiaries. The Company maintains insurance it believes to be commercially reasonable and customary; however, such coverage may be inadequate for or inapplicable to particular claims.

**The Company's projections and results of operations could be adversely affected by actions under Canadian and U.S. trade laws.**

The Company is a Canadian-based company with significant operations in the United States. The Company also owns and operates international manufacturing operations that support its Canadian and U.S. operations. If actions under Canadian or

U.S. trade laws were instituted that limited the Company's access to the materials or products necessary for such manufacturing operations, the Company's ability to meet its customer specifications and delivery requirements would be reduced. Any such reduction in the Company's ability to meet its customer specifications and delivery requirements could have a material adverse affect on the Company's projections, business, results of operations and financial condition.

The Company also conducts business in countries permitted by Canadian law that would be prohibited by U.S. trade laws if the Company were a U.S. entity or controlled by a U.S. entity or person. While the Company believes that it and its subsidiaries currently are in compliance with applicable U.S. trade laws, changes in these regulations or the interpretation of these regulations, or changes in the control of the Company, could adversely affect the Company's business.

### OUTLOOK

Demand for the products and services of the Company's largest market segment, the Pipeline and Pipe Services segment, is mainly driven by the level of pipeline infrastructure investment. This investment, in turn, is determined by energy supply and demand, which itself is a function of global economic activity. Demand for the products and services of the Petrochemical and Industrial segment is driven by the general level of economic activity in the regions where the segment operates, primarily North America and Western Europe. The pace of economic growth in North America and Western Europe is expected to slow during 2008 from the high level experienced in 2007; however, it is expected to remain robust in the developing economies, particularly in the large economies of China and India.

Growth in economic activity translates into strong demand for energy. Since energy supply is limited in the medium-term, oil prices are expected to remain strong; however, at levels below those experienced during most of 2007. Strong demand together with limited supply and depletion of existing energy reserves should encourage additional production and infrastructure development. In addition, record profits and cash flows at the major energy producers during the past few years have strengthened their balance sheets and put them in a position to fund major expansion programs. These factors should result in increased pipeline construction and translate into favourable business prospects for the Company over the next several years.

In North America, new pipeline construction activity is currently resulting in high levels of utilization at the Company's large-diameter pipe coating facilities. With the North American pipe coating market projected to remain strong and the Company adding capacity in both Canada and the United States, the North American region will be a key source of growth over the next few years. In the Middle East, the Company's facility in Ras Al Khaimah, U.A.E. will begin production in the first quarter 2008 following nine months of downtime to allow for a complete plant refurbishment and capacity expansion. Additionally, strong growth prospects are evident in the Far East with the Company launching the recently awarded Pluto project in mid-2008 and future growth potential expected to result from pipeline infrastructure developments in Malaysia, Indonesia and the northwest shelf of Australia.

In Europe, the recently awarded Gjoa project coupled with bidding activity on North Sea pipe coating projects will enable the Company to remobilize its currently inactive facility in Leith, Scotland. It should be noted however that the Company does not now expect to participate in the pipe coating of the Nord Stream pipeline project. The Company has been advised by Nord Stream that it intends to award the pipe coating contract to a competitor and the Company understands that the pricing and contractual terms at which the pipe coating work will be awarded is below the level the Company requires to obtain a satisfactory financial return and ensure timely and adequate execution given the scope and risks associated with meeting Nord Stream's requirement that the project be executed through greenfield facilities in Germany and Finland. Notwithstanding this development, the remobilization of the Leith facility coupled with continued strong growth at the Company's Orkanger, Norway deepwater insulating facility and newly launched concrete weight coating plants in Spain and Tunisia offer the prospect for growth in Europe in 2008 and beyond.

As a result of the above factors, ShawCor's consolidated revenue is forecast to increase moderately in 2008 followed by more robust growth in 2009 as the Company benefits from the anticipated pipe coating market growth and realizes the benefit of the capacity expansions now being put in place to accommodate these anticipated projects. Growth is also expected in the businesses of the Petrochemical and Industrial segment as they benefit from the continuing, moderate economic growth in North America and Europe and from increasing Western Canadian oil sands development.

Consolidated order backlog, representing customer orders expected to be completed within one year, totaled $460.1 million at December 31, 2007, compared to $411.2 million at the end of the third quarter, and $367.8 million at the beginning of the year.

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

## OUTSTANDING SHARE CAPITAL

As at January 31, 2008, the Company had 58,234,570 Class A Subordinate Voting Shares outstanding and 13,078,142 Class B Multiple Voting Shares outstanding. In addition, as at January 31, 2008, the Company had stock options outstanding to purchase up to 2,173,980 Class A Subordinate Voting Shares.

## FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for ShawCor's future performance, opportunities and growth which constitute forward-looking information under applicable securities laws. Such statements, except to the extent that they contain historical facts, are forward-looking and accordingly involve estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may," "will," "should," "anticipate," "expect," "believe," "predict," "estimate," "continue," "intend," "plan," and variations of these words or other similar expressions. These statements are based on assumptions, estimates and analysis made by ShawCor management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. Although ShawCor believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions in light of currently available information, ShawCor can give no assurance that such expectations will be achieved.

Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted, expressed or implied by the forward-looking statements. Significant risks facing ShawCor include, but are not limited to: changes in global economic activity and changes in energy supply and demand which impact on the level of drilling activity and pipeline construction; political, economic and other risks arising from ShawCor's international operations; compliance with environmental, trade and other laws; liability claims; fluctuations in foreign exchange rates; fluctuations in prices of raw materials, as well as other risks and uncertainties.

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

February 19, 2008

# 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 judgment 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 Directors who are not officers or employees of ShawCor Ltd. or any of its subsidiaries and have accounting or related financial experience. 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 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 8, 2008

William Buckley
President and Chief Executive Officer

Gary Love
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, 2007 and 2006 and the consolidated statements of income, retained earnings, comprehensive income 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, 2007 and 2006 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 8, 2008 Licensed Public Accountants

# Consolidated Balance Sheets

| December 31<br>(in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents (note 4) | $ 175,017 | $ 309,322 |
| Accounts receivable | 203,547 | 188,865 |
| Taxes receivable | 3,169 | 4,293 |
| Inventories (note 5) | 102,486 | 79,662 |
| Prepaid expenses | 11,362 | 8,264 |
| Derivative financial instruments | 1,508 | — |
| Current future income taxes (note 22) | 2,770 | — |
| Current assets of discontinued operation (note 23) | 16,305 | 156 |
| | 516,164 | 590,562 |
| Property, plant and equipment, net (note 6) | 242,783 | 202,078 |
| Goodwill (note 7) | 161,038 | 175,813 |
| Future income taxes (note 22) | 24,463 | 25,404 |
| Other assets (note 8) | 15,878 | 14,169 |
| | $ 960,326 | $ 1,008,026 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank indebtedness (note 10) | $ 107 | $ 4,094 |
| Accounts payable and accrued liabilities | 153,116 | 169,387 |
| Taxes payable | 32,030 | 57,010 |
| Deferred revenue | 24,021 | 10,907 |
| Current liabilities of discontinued operation (note 23) | 51,265 | 7,789 |
| | 260,539 | 249,187 |
| Long-term debt (note 10) | 72,726 | 87,480 |
| Future income taxes (note 22) | 33,006 | 30,496 |
| Other non-current liabilities (note 11) | 10,740 | 5,923 |
| | 377,011 | 373,086 |
| Non-controlling interest in subsidiaries | 3,283 | 5,013 |
| Commitments and contingencies (note 13) | | |
| **Shareholders' Equity** | | |
| Capital stock (note 14) | 203,252 | 206,852 |
| Contributed surplus (note 15) | 11,729 | 10,603 |
| Retained earnings | 486,548 | 498,001 |
| Accumulated other comprehensive loss (note 18) | (121,497) | (85,529) |
| | 580,032 | 629,927 |
| | $ 960,326 | $ 1,008,026 |

See accompanying notes.

On behalf of the Board

Director

Director

# Consolidated Statements of Income

| Years ended December 31<br>(in thousands of Canadian dollars except per share information) | 2007 | 2006 |
|---|---|---|
| Revenue | $ 1,048,099 | $ 1,059,619 |
| Operating expenses (notes 9, 17 and 19) | 839,167 | 863,889 |
| Amortization (note 20) | 42,165 | 50,868 |
| Research and development | 6,766 | 6,082 |
| | 888,098 | 920,839 |
| Operating income from continuing operations | 160,001 | 138,780 |
| Interest income, net (note 21) | 4,381 | 2,804 |
| Income from continuing operations before income taxes and non-controlling interest | 164,382 | 141,584 |
| Income taxes (note 22) | 47,205 | 46,840 |
| Income from continuing operations before non-controlling interest | 117,177 | 94,744 |
| Non-controlling interest | 642 | (1,820) |
| Income from continuing operations | 117,819 | 92,924 |
| Loss from discontinued operation (note 23) | (30,462) | (289) |
| Net income for the year | $ 87,357 | $ 92,635 |
| Earnings per share, Class A and Class B | | |
| Basic (note 24) | | |
| From continuing operations | $ 1.62 | $ 1.25 |
| From discontinued operations | (0.42) | — |
| Total | $ 1.20 | $ 1.25 |
| Diluted (note 24) | | |
| From continuing operations | $ 1.60 | $ 1.25 |
| From discontinued operations | (0.41) | — |
| Total | $ 1.19 | $ 1.25 |

See accompanying notes.

# Consolidated Statements of Retained Earnings

| Years ended December 31<br>(in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Balance, at beginning of year | $ 498,001 | $ 421,547 |
| Transitional adjustment (note 2) | (585) | — |
| Adjusted balance, at beginning of year | 497,416 | 421,547 |
| Net income for the year | 87,357 | 92,635 |
| | 584,773 | 514,182 |
| Excess of purchase price paid over stated value of shares (note 14) | (81,756) | (6,356) |
| Dividends paid | (16,469) | (9,825) |
| Balance, at end of year | $ 486,548 | $ 498,001 |

See accompanying notes.

# Consolidated Statements of Comprehensive Income

Years ended December 31

| (in thousands of Canadian dollars) | | 2007 | | 2006 |
|---|---|---|---|---|
| Net income for the year | $ | 87,357 | $ | 92,635 |
| Other comprehensive income (loss), net of income taxes: | | | | |
| Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations | | (49,954) | | 15,001 |
| Gain on hedges of unrealized foreign currency translation | | 13,830 | | (270) |
| Unrealized foreign currency translation gain (loss), net of hedging activities | | (36,124) | | 14,731 |
| Unrealized loss on available-for-sale financial asset | | (1,331) | | — |
| Change in unrealized loss on available-for-sale financial asset | | (1,331) | | — |
| Gain on derivatives designated as cash flow hedges | | 4,112 | | — |
| Income tax expense | | (1,398) | | — |
| Gain on derivatives designated as cash flow hedges in prior periods transferred to net income in the year | | (1,679) | | — |
| Income tax expenses transferred to net income in the year | | 571 | | — |
| Change in gain on derivatives designated as cash flow hedges | | 1,606 | | — |
| Other comprehensive income (loss) for the year | | (35,849) | | 14,731 |
| Comprehensive income for the year | $ | 51,508 | $ | 107,366 |

See accompanying notes.

# Consolidated Statements of Cash Flow

| Years ended December 31<br>(in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| **Operating Activities** | | |
| Income from continuing operations | $ 117,819 | $ 92,924 |
| Add (deduct) items not affecting cash: | | |
| Amortization | 42,165 | 50,868 |
| Asset retirement obligations expense | 1,147 | 4,947 |
| Stock-based compensation expense (note 17) | 2,765 | 2,798 |
| Future income taxes (note 22) | 681 | (3,498) |
| Gain on disposal of property, plant and equipment | (372) | (56) |
| Non-controlling interest in losses of subsidiaries | (642) | 1,820 |
| Settlement of asset retirement obligations (note 12) | (1,906) | (1,276) |
| Change in employee future benefits (note 9) | 176 | 221 |
| Change in non-cash working capital and unrealized foreign exchange | (64,319) | 41,129 |
| Cash provided by continuing operating activities | 97,514 | 189,877 |
| **Investing Activities** | | |
| Purchases of property, plant and equipment | (91,855) | (58,170) |
| Proceeds on disposal of property, plant and equipment | 732 | 1,451 |
| Increase in deferred project costs | (5,150) | (8,159) |
| Acquisition of subsidiary (note 3) | (2,786) | — |
| Acquisition of joint-venture interest (note 3) | — | (9,099) |
| Investment in available-for-sale financial asset | (301) | — |
| Cash used in continuing investing activities | (99,360) | (73,977) |
| **Financing Activities** | | |
| Increase (decrease) in bank indebtedness | (4,275) | 1,183 |
| Increase in deferred financing costs | — | (655) |
| Issue of shares (note 14) | 4,955 | 2,147 |
| Purchase of shares for cancellation | (91,950) | (7,797) |
| Dividends paid to shareholders | (16,469) | (9,825) |
| Cash used in continuing financing activities | (107,739) | (14,947) |
| Foreign exchange on foreign cash and cash equivalents | (21,585) | 4,167 |
| Net cash provided by (used in) continuing operations | (131,170) | 105,120 |
| Net cash provided by (used in) discontinued operations (note 23) | (3,135) | 3,867 |
| Cash and cash equivalents, at beginning of year | 309,322 | 200,335 |
| Cash and cash equivalents, at end of year | $ 175,017 | $ 309,322 |
| Supplemental information: | | |
| Cash interest paid | $ 4,659 | $ 1,906 |
| Cash income taxes paid | $ 54,075 | $ 39,500 |

See accompanying notes.

# Notes to Consolidated Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in Canadian dollars in accordance with Canadian generally accepted accounting principles ("GAAP"). The more significant accounting policies are as follows:

**a) Principles of Consolidation**

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

**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 accumulated other comprehensive income. The appropriate amounts of exchange gains and losses accumulated in accumulated other comprehensive income 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. Revenue 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 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) 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. Cost consists of the cost of materials and direct labour applied to production as well as the applicable share of variable manufacturing overhead. Raw materials and work-in-process inventories are recorded using a specific cost identification method. Market value is net realizably 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.

**f) 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 100% for land improvements, 4% to 10% on buildings and 10% to 50% on machinery and 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.

### g) 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. 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 2007, 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, 2007.

### h) Investments

The Company accounts for investments in which it has significant influence using the equity method. Other investments, which are considered to be available-for-sale financial instruments, are recorded at fair market value with changes in fair market value charged to other comprehensive income. Reductions in fair market value that are considered to be other than temporary are charged to non-operating expenses. Investments which are jointly controlled by the Company and one or more unrelated parties are accounted for using the proportionate consolidation method.

### i) Deferred 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.

Costs related to negotiating and arranging banking and credit facilities are deferred and amortized on a straight-line basis over the terms of the agreements to which they relate.

### j) 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 increases in carrying value of the assets are amortized over the useful life of the asset. The asset retirement obligations are accreted over the period to settlement with a corresponding charge to operating expenses.

### k) 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 revenues until earned and realization is assured.

### l) Operating Leases

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

### m) Employee Future Benefits

The Company provides future benefits 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.

### n) Stock-Based Compensation

The Company has three stock option plans, which are described in note 16. 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.

### o) 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 reported net of investment tax credits. Investment tax credits are recorded to income in the year the related expenditures are made and totaled $288 thousand in 2007 (2006 – $342 thousand).

### p) 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 substantively enacted tax rates and laws that will be in effect, when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

### q) 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. CHANGE IN ACCOUNTING POLICY

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*. As required, these new accounting standards have been adopted prospectively with an adjustment to accumulated other comprehensive income. Prior year figures have not been restated except that the translation impact of self-sustaining foreign operations has been reclassified from cumulative translation account to accumulated other comprehensive income in accordance with the transitional provisions of the accounting standards. The following adjustments were made to the Company's balance sheet as a result of adopting these new accounting standards:

| (in thousands of Canadian dollars) | | January 1, 2007 |
|---|---|---|
| Decrease in assets: | | |
| Other assets | $ | (1,345) |
| Total decrease in assets | $ | (1,345) |
| Increase (decrease) in liabilities: | | |
| Derivative financial instruments | $ | 925 |
| Current future income taxes | | (315) |
| Future income taxes | | 253 |
| Long-term debt | | (1,504) |
| Total decrease in liabilities | $ | (641) |
| Increase (decrease) in shareholders' equity: | | |
| Retained earnings | $ | (585) |
| Accumulated other comprehensive income related to available-for-sale financial assets | | 491 |
| Accumulated other comprehensive income related to cash flow hedges | | (610) |
| Total decrease in shareholders' equity | $ | (704) |
| Total decrease in liabilities and shareholders' equity | $ | (1,345) |

The following is a description of the accounting policies adopted by the Company as a result of implementing these accounting changes:

### a) Comprehensive Income

The Company's comprehensive income is comprised of net income and other comprehensive income, which is made up of unrealized foreign currency gains or losses on the translation of the financial statements of self-sustaining foreign operations, unrealized gains or losses on available-for-sale financial assets and changes in unrealized gains or losses on financial instruments designated as effective net investment hedges and derivatives designated as effective cash flow hedges.

### b) Accumulated Other Comprehensive Income

Accumulated other comprehensive income is included on the consolidated balance sheet as a separate component of shareholders' equity and includes accumulated unrealized foreign currency gains or losses on the translation of the financial statements of self-sustaining foreign operations, accumulated unrealized gains or losses on available-for-sale financial assets and accumulated unrealized gains or losses on financial instruments designated as effective net investment hedges and derivatives designated as effective cash flow hedges.

### c) Financial Instruments

Held-for-trading financial assets are financial assets which are acquired for resale prior to maturity. Held-for-trading financial assets are reflected in the consolidated balance sheet at fair value with changes in fair value during a period charged to operating expenses. Available-for-sale financial assets are those non-derivative financial assets which are so designated by the Company or that do not fall into another category. Available-for-sale financial assets are carried on the consolidated balance sheet at fair value with gains or losses from changes in fair value in a period included in other comprehensive income. Held-to-maturity financial assets, loans and receivables and other liabilities not held for trading are accounted for at amortized cost with related expenses charged to interest income or interest expense.

The following is a summary of the classes of financial instruments included in the Company's consolidated balance sheet as well as their designation by the Company under the new accounting standards:

| Balance sheet item | Designation |
|---|---|
| Cash | Held-for-trading |
| Cash equivalents | Held-to-maturity |
| Accounts receivable | Loans and receivables |
| Long-term investments | Available-for-sale |
| Accounts payable and accrued liabilities | Other liabilities |
| Long-term debt | Other liabilities |
| Bank indebtedness | Other liabilities |

### d) Derivative Financial Instruments

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 the 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.

# Notes to Consolidated Financial Statements

Derivative financial instruments designated as effective cash flow hedges are reflected in the consolidated balance sheet at fair value with any gains or losses resulting from fair value changes included in other comprehensive income to the extent of hedge effectiveness. Derivatives with positive exposures are classified as assets while those with negative exposures are classified as liabilities. Derivative financial instruments not designated as effective cash flow hedges are carried at fair value in the consolidated balance sheet with gains or losses resulting from changes in fair value in a period charged to operating expenses.

### e) Transaction Costs

Transaction costs related to the acquisition or issue of held-for-trading financial instruments are charged to net income as incurred. Transaction costs related to financial instruments not designated as held-for-trading are included in the financial instrument's initial recognition amount.

## 3. ACQUISITIONS

a) On June 6, 2007, the Company purchased all of the outstanding shares of X-Tek Industrial Limited from X-Tek Systems Limited. The name of the company was subsequently changed to Shaw Inspection Systems Limited ("SISL"). SISL provides specialized, real-time digital and other non-destructive x-ray inspection technologies for aerospace, nuclear, pipeline and other industrial applications and is based in the United Kingdom. Preliminary details of this acquisition follow. The Company expects to finalize the purchase details before the end of the second quarter of 2008:

(in thousands of Canadian dollars)

| | |
|---|---|
| Net assets acquired at assigned values: | |
| Current assets | $ 2,324 |
| Property, plant and equipment | 329 |
| Goodwill | 2,117 |
| Current liabilities | (1,984) |
| | $ 2,786 |
| Consideration given: | |
| Cash | $ 2,786 |
| | $ 2,786 |

b) On August 8, 2006, the Company announced the acquisition of a 50% interest in Eupec Brasil Ltda., which operates a pipe coating plant adjacent to the Vallourec & Mannesmann pipe mill in Belo Horizonte, Brazil. Eupec Brasil Ltda. was subsequently renamed Bredero Shaw Revestimentos de Tubos Ltda. Details of this acquisition follow:

(in thousands of Canadian dollars)

| | |
|---|---|
| Net assets acquired at assigned values: | |
| Current assets | $ 1,972 |
| Property, plant and equipment | 3,625 |
| Goodwill | 4,390 |
| Current liabilities | (888) |
| | $ 9,099 |
| Consideration given: | |
| Cash, net of cash acquired of $1,149 | $ 9,099 |
| | $ 9,099 |

## 4. CASH AND CASH EQUIVALENTS

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Cash | $ 122,655 | $ 170,159 |
| Cash equivalents | 52,362 | 139,163 |
| | $ 175,017 | $ 309,322 |

## 5. INVENTORIES

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Raw materials and supplies | $ 75,020 | $ 56,603 |
| Work in progress | 6,609 | 6,517 |
| Finished goods | 20,857 | 16,542 |
| | $ 102,486 | $ 79,662 |

## 6. PROPERTY, PLANT AND EQUIPMENT

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Cost | | |
| Land and land improvements | $ 46,335 | $ 39,128 |
| Buildings | 90,738 | 93,039 |
| Machinery and equipment | 452,497 | 437,373 |
| Capital projects in progress | 27,410 | 9,040 |
| | 616,980 | 578,580 |
| Accumulated amortization and write-downs | | |
| Land improvements | 24,616 | 25,395 |
| Buildings | 55,410 | 54,928 |
| Machinery and equipment | 294,171 | 296,179 |
| | 374,197 | 376,502 |
| | $ 242,783 | $ 202,078 |

## 7. GOODWILL

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Balance at beginning of year | **$ 175,813** | $ 167,172 |
| Additions to goodwill on acquisitions (note 3) | **2,117** | 4,390 |
| Translation of self-sustaining foreign operations | **(16,892)** | 4,251 |
| Balance at end of year | **$ 161,038** | $ 175,813 |

## 8. OTHER ASSETS

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Long-term investment | **$ 2,589** | $ 2,875 |
| Deferred financing costs | **—** | 2,089 |
| Deferred project costs | **8,491** | 4,633 |
| Accrued employee future benefit asset (note 9) | **4,798** | 4,572 |
| | **$ 15,878** | $ 14,169 |

Long-term investments at December 31, 2007 represented an investment in Garneau Inc., a Canadian-based, publicly traded pipe coating company. This investment is classified as available-for-sale and accordingly, subsequent to January 1, 2007, is carried at fair market value with changes in fair value charged to other comprehensive income.

## 9. 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 earnings plans for salaried employees. The Company also provides a post-retirement life insurance benefit to its Canadian retirees and a post-employment benefit to its hourly and salaried employees in Indonesia.

The total cash payments made by the Company during 2007 were $10.5 million (2006 – $9.2 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 August 1, 2004 (one plan), January 1, 2005 (one plan), December 31, 2005 (one plan), December 31, 2006 (one plan) and January 1, 2007 (five plans).

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

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Net benefit cost for the year: | | |
| Employer portion of current service cost | **$ 3,683** | $ 3,874 |
| Interest on accrued benefit obligation | **3,941** | 3,628 |
| Actual return on plan assets | **(676)** | (6,049) |
| Actuarial losses and changes in assumptions | **(5,888)** | 1,337 |
| Currency losses | **123** | — |
| Curtailment/settlement | **—** | 198 |
| Elements of employee future costs before adjustments to recognize the long-term nature of employee future benefit costs | **1,183** | 2,988 |
| Adjustments to recognize the long-term nature of employee benefit costs: | | |
| Difference between expected return and actual return on plan assets for the year | **(3,427)** | 2,557 |
| Difference between actuarial loss recognized for the year and actual actuarial loss and assumption changes on accrued benefit obligation for the year | **6,309** | (561) |
| Difference between currency loss recognized for the year and actual currency loss | **(123)** | — |
| Difference between amortization of past service costs for the year and actual plan amendment costs for the year | **286** | 286 |

# Notes to Consolidated Financial Statements

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Amortization of transitional obligations | 111 | 136 |
| Extraordinary items | 9 | — |
| Valuation allowance provided against accrued benefit assets | 1,008 | — |
| Subtotal | 4,173 | 2,418 |
| Defined benefit cost recognized | 5,356 | 5,406 |
| Defined contribution employee future benefit expense | 5,159 | 3,989 |
| Employee future benefit cost | $ 10,515 | $ 9,395 |
| Accrued benefit obligation, at beginning of year | $ 77,802 | $ 68,486 |
| Employer portion of current service cost | 3,683 | 3,914 |
| Actuarial losses and changes in assumptions | (5,888) | 972 |
| Interest cost | 3,941 | 3,628 |
| Valuation effect | — | 1,744 |
| Foreign currency loss | (1,445) | 1,840 |
| Benefits paid | (3,988) | (2,620) |
| Curtailment/settlement | — | (162) |
| Adoption of CICA 3461 | 712 | — |
| Accrued benefit obligation, at end of year | 74,817 | 77,802 |
| Fair value of plan assets, at beginning of year | 65,549 | 55,446 |
| Valuation effect | — | (25) |
| Actual return on plan assets | 676 | 6,049 |
| Employer contributions | 5,047 | 5,224 |
| Benefits paid | (3,988) | (2,620) |
| Effect of foreign currency exchange rates | (1,567) | 1,475 |
| Fair value of plan assets, at end of year | 65,717 | 65,549 |
| Funded status – plan deficit | (9,100) | (12,253) |
| Unamortized actuarial loss | 10,263 | 12,984 |
| Unamortized past service costs | 597 | 883 |
| Unamortized net transitional obligation | 1,283 | — |
| Valuation allowance | (1,008) | 596 |
| Net accrued future employee benefit asset | $ 2,035 | $ 2,210 |

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

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Accrued employee future benefit asset | $ 4,798 | $ 4,572 |
| Accrued employee future benefit liability | (2,763) | (2,362) |
| Net accrued future employee benefit asset | $ 2,035 | $ 2,210 |

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 of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Accrued future employee obligation | $ 52,919 | $ 67,796 |
| Fair value of plan assets | 41,597 | 54,223 |
| Funded status – plan (deficit) | $ (11,322) | $ (13,573) |

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) | 2007 | 2006 |
|---|---|---|
| Registered Canadian employee future benefit plans | | |
| Equities | 63% | 60% |
| Fixed income | 32% | 34% |
| Real estate | 0% | 0% |
| Other | 5% | 6% |
| Total | 100% | 100% |

| (percentage of plan assets) | 2007 | 2006 |
|---|---|---|
| SERP plan | | |
| Equities | 95% | 95% |
| Fixed income | 0% | 0% |
| Real estate | 0% | 0% |
| Other | 5% | 5% |
| Total | 100% | 100% |

Significant assumptions used:

| | 2007 | 2006 |
|---|---|---|
| Canada | | |
| Accrued benefit obligation as of December 31: | | |
| Discount rate | 5.4% | 5.0% |
| Salary increases | 4.0% | 4.0% |
| Benefit cost of year ended December 31: | | |
| Discount rate | 5.0% | 5.0% |
| Expected rate of return on assets | 6.5% | 6.5% |
| Rate of compensation increase | 4.0% | 4.0% |
| Norway | | |
| Accrued benefit obligation as of December 31: | | |
| Discount rate | 4.7% | 4.4% |
| Salary increases | 4.5% | 4.5% |
| Increases to pensions in pay | 1.6% | 1.6% |
| Benefit cost of year ended December 31: | | |
| Discount rate | 4.4% | 4.8% |
| Expected rate of return on assets | 5.4% | 6.0% |
| Rate of compensation increase | 4.5% | 3.3% |
| Increases to pensions in pay | 1.6% | 2.5% |
| UK | | |
| Accrued benefit obligation as of December 31: | | |
| Discount rate | 5.8% | 5.0% |
| Salary increases | 0.0% | 0.0% |
| Increases to pensions in pay | 3.2% | 3.1% |
| Benefit cost of year ended December 31: | | |
| Discount rate | 5.0% | 4.8% |
| Expected rate of return on assets | 7.2% | 6.9% |
| Rate of compensation increase | 0.0% | 3.0% |
| Increases to pensions in pay | 3.1% | 2.7% |
| Indonesia | | |
| Accrued benefit obligation as of December 31: | | |
| Discount rate | 10.0% | n/a |
| Salary increases | 9.0% | n/a |

## 10. BANK INDEBTEDNESS AND LONG-TERM DEBT

a) Long-term debt consists of the following:

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| 5.11% Senior Notes due in equal installments of US$25 million on June 30, 2009, 2010 and 2011 (US$75 million) | $ 72,726 | $ 87,480 |

Under the terms of the Senior Notes, the Company has the option of early repayment; however, such early repayment would result in the Company making a "make-whole" payment to the holders of the notes equal to the excess of the discounted value, calculated using the current market yield to maturity plus 50 basis points, of all remaining scheduled payments over the principal amount of the Senior Notes.

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

| (in thousands of Canadian dollars) | |
|---|---|
| 2008 | $ — |
| 2009 | 24,550 |
| 2010 | 24,550 |
| 2011 | 24,550 |
| Total | $ 73,650 |

b) At December 31, 2007, the Company had total operating credit lines of $172.0 million (2006 – $204.1 million), of which $107.1 million has been drawn for various standby letters of credit for performance, bid and surety bonds (2006 – $74.1 million) and bank indebtedness of nil (2006 – $3.0 million), to yield unutilized credit facilities of $64.7 million (2006 – $127.0 million), excluding the Company's proportionate share of the bank indebtedness of its joint venture, Arabian Pipecoating Company Limited of $107 thousand (2006 – $1.1 million).

c) The Company has undertaken to maintain certain covenants in respect of the US$75.0 million of 5.11% Senior Notes and its 5-Year Unsecured Committed Bank Credit Facility. The Company is in compliance with these covenants at December 31, 2007.

# Notes to Consolidated Financial Statements

## 11. OTHER NON-CURRENT LIABILITIES

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Non-current asset retirement obligations (note 12) | $ 7,977 | $ 3,561 |
| Accrued employee future benefit obligations (note 9) | 2,763 | 2,362 |
| | $ 10,740 | $ 5,923 |

## 12. ASSET RETIREMENT OBLIGATIONS

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Balance, at beginning of year | $ 15,235 | $ 8,042 |
| Liabilities settled in year | (1,906) | (1,276) |
| Liabilities incurred in year | 1,004 | 8,049 |
| Accretion expense | 779 | 443 |
| Translation of self-sustaining foreign operations | (1,030) | (23) |
| Balance, at end of year | $ 14,082 | $ 15,235 |

Asset retirement obligations are included in the consolidated balance sheets as follows:

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 6,105 | $ 11,674 |
| Other non-current liabilities | 7,977 | 3,561 |
| Total asset retirement obligations | $ 14,082 | $ 15,235 |

The total undiscounted cash flows which are estimated to be required to settle all asset retirement obligations is $16.9 million (2006 – $16.1 million) and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted is 5.11%.

## 13. COMMITMENTS AND CONTINGENCIES

### a) Contractual Commitments

At December 31, 2007, the aggregate minimum amounts payable under non-cancellable contracts related to continuing operations were as follows:

| (in thousands of Canadian dollars) | 2008 | 2009 | 2010 | 2011 | 2012 | After 2012 | Total |
|---|---|---|---|---|---|---|---|
| Leases | $ 10,275 | $ 9,292 | $ 7,881 | $ 7,369 | $ 6,581 | $ 19,633 | $ 61,031 |
| Purchase commitments | 68,967 | 22,291 | 16,694 | — | — | — | 107,952 |
| Total | $ 79,242 | $ 31,583 | $ 24,575 | $ 7,369 | $ 6,581 | $ 19,633 | $ 168,983 |

### b) 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.

## 14. CAPITAL STOCK

As at December 31, the following shares were outstanding:

| (in thousands of Canadian dollars except number of shares information) | 2007 Class A | 2007 Class B | 2007 Total | 2006 Class A | 2006 Class B | 2006 Total |
|---|---|---|---|---|---|---|
| **Number of Shares** | | | | | | |
| Balance, beginning of year | **60,914,175** | **13,078,142** | **73,992,317** | 61,006,045 | 13,088,015 | 74,094,060 |
| Issued on exercise of stock options | **320,295** | **—** | **320,295** | 331,157 | — | 331,157 |
| Conversions Class B to Class A | **—** | **—** | **—** | 9,873 | (9,873) | — |
| Purchased and cancelled under Normal Course Issuer Bid | **(2,999,900)** | **—** | **(2,999,900)** | (432,900) | — | (432,900) |
| Balance, end of year | **58,234,570** | **13,078,142** | **71,312,712** | 60,914,175 | 13,078,142 | 73,992,317 |
| **Stated Value** | | | | | | |
| Balance, beginning of year | **$ 205,848** | **$ 1,004** | **$ 206,852** | $ 203,716 | $ 1,004 | $ 204,720 |
| Issued on exercise of stock options | **4,955** | **—** | **4,955** | 2,147 | — | 2,147 |
| Compensation cost on exercised options | **1,639** | **—** | **1,639** | 1,426 | — | 1,426 |
| Conversions Class B to Class A | **—** | **—** | **—** | — | — | — |
| Purchased and cancelled under Normal Course Issuer Bid | **(10,194)** | **—** | **(10,194)** | (1,441) | — | (1,441) |
| Balance, end of year | **$ 202,248** | **$ 1,004** | **$ 203,252** | $ 205,848 | $ 1,004 | $ 206,852 |

There are an unlimited number of Class A Subordinate Voting Shares ("Class A shares") and Class B Multiple Voting Shares ("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 2007, the Company repurchased and cancelled 2,999,900 Class A shares (2006 – 432,900) under the terms of a Normal Course Issurer Bid ("NCIB"). The $81.8 million (2006 – $6.4 million) excess of cost over stated capital of the acquired shares was charged to retained earnings. Under the terms of the NCIB, which was renewed on November 29, 2007, the Company is entitled to repurchase up to 5,000,000 Class A shares and up to 100,000 Class B shares between December 3, 2007 and November 30, 2008. The repurchase of shares is made on the open market at prevailing market prices.

## 15. CONTRIBUTED SURPLUS

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Balance, at beginning of year | **$ 10,603** | $ 9,231 |
| Fair value of stock options exercised (note 14) | **(1,639)** | (1,426) |
| Stock-based compensation expense (note 17) | **2,765** | 2,798 |
| Balance, at end of year | **$ 11,729** | $ 10,603 |

## 16. STOCK OPTION PLANS

During 2007, the Company had three stock option plans, one initiated in 1989 and two in 2001. 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 were to be exercised on or before March 7, 2007 and all options not exercised expired on that date.

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 granted have a term of ten years from the date of the grant. Exercises are 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 equals 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 equals 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:

| | 2007 | | | | 2006 | |
|---|---|---|---|---|---|---|
| | Market Growth Plan(1) | Other Plans | Total Shares | Weighted Average Exercise Price | Total Shares | Weighted Average Exercise Price |
| Balance outstanding, beginning of year | 7,875 | 2,261,520 | 2,269,395 | $ 15.76 | 2,578,165 | $ 15.76 |
| Granted | — | 371,800 | 371,800 | 25.02 | 457,700 | 17.27 |
| Exercised | (2,955) | (317,340) | (320,295) | 15.64 | (331,157) | 16.43 |
| Forfeited | — | (142,000) | (142,000) | 17.42 | (66,890) | 15.75 |
| Expired | (4,920) | — | (4,920) | 17.91 | (368,423) | 17.31 |
| Balance outstanding, end of year | — | 2,173,980 | 2,173,980 | $ 17.24 | 2,269,395 | $ 15.76 |

(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, 2007 | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Exercisable at December 31, 2007 | Weighted Average Exercise Price |
| $10.00 to $15.00 | 518,620 | 5.28 | $ 12.69 | 387,616 | $ 12.80 |
| $15.01 to $20.00 | 1,259,760 | 6.36 | $ 16.81 | 645,568 | $ 16.71 |
| $20.01 to $25.00 | 40,000 | 7.51 | $ 20.90 | 11,200 | $ 21.19 |
| $25.01 to $30.00 | 355,600 | 9.01 | $ 25.02 | — | — |
| | 2,173,980 | | | 1,044,384 | |

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Outstanding at December 31, 2006 | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Exercisable at December 31, 2006 | Weighted Average Exercise Price |
| $10.00 to $15.00 | 626,920 | 6.13 | $ 12.78 | 626,920 | $ 12.78 |
| $15.01 to $20.00 | 1,600,475 | 7.26 | $ 16.79 | 1,237,275 | $ 16.75 |
| $20.01 to $25.00 | 42,000 | 8.53 | $ 20.90 | 4,000 | $ 21.90 |
| | 2,269,395 | | | 1,868,195 | |

## 17. STOCK-BASED COMPENSATION

The weighted average fair value of options granted during 2007 was $8.15 (2006 – $6.05). Compensation cost was calculated using the fair value of each stock option which was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

| | **2007** | 2006 |
|---|---|---|
| Expected life of options | **6.25 years** | 5.9 years |
| Expected stock price volatility | **29.02%** | 29.44% |
| Expected dividend yield | **0.92%** | 1.03% |
| Risk-free interest rate | **4.04%** | 4.08% |

The compensation cost recognized in operating expenses for the year ended December 31, 2007 was $2.8 million (2006 – $2.8 million).

## 18. ACCUMULATED OTHER COMPREHENSIVE LOSS

| (in thousands of Canadian dollars) | **2007** | 2006 |
|---|---|---|
| Unrealized foreign currency translation losses, net of hedging activities | **$ (121,653)** | $ (85,529) |
| Unrealized loss on available-for-sale financial assets | **(840)** | — |
| Gain on derivatives designated as cash flow hedges | **996** | — |
| Balance, at end of year | **$ (121,497)** | $ (85,529) |

During 2007, the Canadian dollar strengthened 15.8% (2006 – weakened 0.3%) against the U.S. dollar, strengthened 6.1% (2006 – weakened 11.8%) against the Euro and strengthened 14.2% (2006 – weakened 14.0%) against the U.K. pound.

## 19. FOREIGN EXCHANGE GAINS AND LOSSES

Included in operating expenses are foreign exchange gains, primarily related to the translation of foreign currency cash and working capital balances, totaling $475 thousand (2006 – $970 thousand loss).

## 20. AMORTIZATION EXPENSE

| (in thousands of Canadian dollars) | **2007** | 2006 |
|---|---|---|
| Amortization of property, plant and equipment | **$ 40,433** | $ 46,745 |
| Amortization of deferred project costs | **1,291** | 3,526 |
| Amortization of deferred financing costs | **441** | 597 |
| | **$ 42,165** | $ 50,868 |

## 21. INTEREST INCOME (EXPENSE)

| (in thousands of Canadian dollars) | **2007** | 2006 |
|---|---|---|
| Interest income on short-term deposits | **$ 10,224** | $ 9,566 |
| Interest expense on bank indebtedness | **(707)** | (1,456) |
| Interest expense on long-term debt | **(5,136)** | (5,306) |
| | **$ 4,381** | $ 2,804 |

## 22. INCOME TAXES

a) The income tax expense is comprised of:

| (in thousands of Canadian dollars) | **2007** | 2006 |
|---|---|---|
| Current | **$ 46,524** | $ 50,338 |
| Future | **681** | (3,498) |
| | **$ 47,205** | $ 46,840 |

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

| | **2007** | 2006 |
|---|---|---|
| Combined basic Canadian federal and provincial income tax rate | **36.1 %** | 36.1 % |
| Canadian manufacturing and processing profits deduction | **(2.0)** | (2.0) |
| Expected rate | **34.1 %** | 34.1 % |
| Tax rate differential on earnings of foreign subsidiaries | **(2.1)** | (5.3) |
| Benefit of previously unrecognized tax losses of foreign subsidiaries | **(6.4)** | (4.4) |
| Unrecognized tax losses of foreign subsidiaries | **0.9** | 3.9 |
| Permanent differences between accounting and taxable income | **1.1** | 2.1 |
| Other | **1.1** | 2.7 |
| | **28.7 %** | 33.1 % |

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

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Current future tax asset | | |
| Provisions and future expenditures | $ 1,884 | $ — |
| Net operating losses carry forward | 886 | — |
| | 2,770 | — |
| Non-current future tax asset | | |
| Amortizable property, plant and equipment | 23,024 | 17,574 |
| Provisions and future expenditures | 1,439 | 6,975 |
| Net operating losses carry forward non-current | 3,828 | 15,343 |
| Less: valuation allowance | (3,828) | (14,488) |
| | 24,463 | 25,404 |
| Total future tax asset | $ 27,233 | $ 25,404 |
| Non-current future tax liability | | |
| Amortizable property, plant and equipment | $ 21,213 | $ 26,629 |
| Provisions and future expenditures | 10,966 | 3,867 |
| Other comprehensive income | 827 | — |
| Total future tax liability | $ 33,006 | $ 30,496 |

The Company has income tax losses totaling $3.0 million (2006 – $3.2 million) carried forward for which tax benefits have been recorded as future tax assets and net operating losses of $11.6 million (2006 – $51.2 million) and capital losses of $19.2 million (2006 – $19.2 million) in various jurisdictions for which no future tax asset has been recognized. These losses will expire as follows, with the "Thereafter" category including losses which carry forward indefinitely:

| (in thousands of Canadian dollars) | |
|---|---|
| 2008 | $ 279 |
| 2009 | 2,366 |
| 2010 | 1,860 |
| 2011 | 386 |
| 2012 | 2,000 |
| Thereafter | 7,666 |
| Total | $ 14,557 |

## 23. DISCONTINUED OPERATIONS

On November 2, 2004, the Company announced its decision to close the Mobile, Alabama pipe coating facility (the "Mobile Facility") and by December 31, 2005, operations at the facility had ceased. The Company adopted discontinued operation accounting treatment for the facility in 2005. The Mobile Facility was part of the Pipeline and Pipe Services market segment.

On December 31, 2005, the Company accrued $6.3 million related to the Mobile Facility, representing the present value of future lease and other cost obligations for properties where it had ceased using the rights conveyed by the leases. During 2007, the Company reached an agreement with some of these lessors whereby the Company exited some leases prior to their expiration. The settlement costs of these leases approximated the related accruals. The ongoing costs related to the remaining leases will result in the following annual undiscounted cash outflows over the remaining terms of the leases:

| (in thousands of Canadian dollars) | |
|---|---|
| 2008 | $ 142 |
| 2009 | 142 |
| 2010 | 143 |
| 2011 | 143 |
| 2012 | 131 |
| Thereafter | 166 |
| Total | $ 867 |

Prior to December 31, 2005, the Company had accrued US$6.5 million for potential damages related to environmental issues arising from operations at the Mobile facility.

On November 1, 2007, the Company announced a jury verdict of US$100 million in compensatory damages and US$8 million in punitive damages against the Company and Halliburton Energy Services Inc. ("HESI"), with the Company and HESI each responsible for 50% of the total award. The verdict resulted from a lawsuit brought by Dirt, Inc., a Mobile, Alabama-based non-hazardous waste landfill operator, and related to the disposal of industrial waste from the operations of the Mobile Facility. The Company has reviewed the verdict with legal counsel and has determined that it has strong grounds for an appeal, which will be initiated as soon as possible.

As a result of the verdict, the Company has increased its accrual related to this issue to US$54 million, this being the Company's share of the verdict. The total charge to discontinued operations in the year was $46.6 million, less estimated income tax recoveries of $16.3 million.

The following table summarizes the financial results and cash flows from discontinued operations for the years ended December 31, 2007 and 2006 and the assets and liabilities of the discontinued operations as at those dates:

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Revenue | $ — | $ 60 |
| Loss from operations | (46,765) | (289) |
| Income tax recovery | (16,303) | — |
| Net loss from discontinued operation | $ (30,462) | $ (289) |
| Cash flow used in operating activities | $ (3,135) | $ (4,107) |
| Cash flow provided by investing activities | — | 7,974 |
| Net cash provided by discontinued operations | $ (3,135) | $ 3,867 |
| Current assets | $ 16,305 | $ 156 |
| Current liabilities | $ 51,265 | $ 7,789 |

## 24. EARNINGS PER SHARE

The weighted average number of common shares for the purpose of the earnings per share calculations was as follows:

| (number of shares) | 2007 | 2006 |
|---|---|---|
| Basic | | |
| Class A | 59,472,114 | 60,916,786 |
| Class B | 13,078,142 | 13,078,142 |
| Total | 72,550,256 | 73,994,928 |
| Diluted | | |
| Class A | 60,350,112 | 61,035,758 |
| Class B | 13,078,142 | 13,078,142 |
| Total | 73,428,254 | 74,113,900 |

## 25. JOINT VENTURE OPERATIONS

On August 8, 2006, the Company announced the acquisition of a 50% interest in Eupec Brasil Ltda. Subsequent to the transaction, the name of the joint venture company was changed to Bredero Shaw Revestimentos de Tubos Ltda. The Company also has a 50% interest in Thermotite Brasil Ltda. and 30% ownership in the jointly controlled Arabian Pipecoating Company Limited located in Saudi Arabia. All of these investments have been accounted for through proportionate consolidation with the Company's share of each joint venture's assets, liabilities, revenue, expenses, net income and cash flows consolidated based on the Company's ownership position.

The figures related to these joint ventures included in the Company's consolidated financial statements are summarized as follows:

| (in thousands of Canadian dollars) | 2007 | 2006 |
|---|---|---|
| Revenue | $ 65,213 | $ 25,919 |
| Operating expenses | 48,663 | 20,803 |
| Net income before income taxes | 16,550 | 5,116 |
| Income taxes | 2,016 | 312 |
| Net income | $ 14,534 | $ 4,804 |
| Cash provided by (used in): | | |
| Operating activities | $ 6,805 | $ 2,566 |
| Investing activities | (978) | (3,298) |
| Financing activities | (7,864) | (76) |
| Current assets | 25,597 | 9,318 |
| Property, plant and equipment | 11,877 | 9,984 |
| Goodwill | 4,521 | 4,451 |
| Current liabilities | 17,103 | 5,868 |

## 26. FINANCIAL INSTRUMENTS

### a) Fair Value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment 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:

***Cash Equivalents, Accounts Receivable, Income Taxes Receivable, Bank Indebtedness, Accounts Payable and Accrued Liabilities, and Income Taxes Payable.***

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.

***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:

### b) Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk at December 31, 2007:

| | | Fixed interest rate maturing in | | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | Floating rate | 1 year or less | Greater than 1 year | Total |
| **Financial Assets** | | | | |
| Cash and cash equivalents | $ 122,655 | $ 52,362 | $ — | $ 175,017 |
| Total | $ 122,655 | $ 52,362 | $ — | $ 175,017 |
| Average fixed rate of cash equivalents | — | 4.48% | — | |
| **Financial Liabilities** | | | | |
| Bank indebtedness | $ 107 | $ — | $ — | $ 107 |
| Long-term debt | — | — | 72,726 | 72,726 |
| Total | $ 107 | $ — | $ 72,726 | $ 72,833 |
| Average fixed rate of debt | — | — | 5.11% | |

### c) 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.

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.

### d) 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 loses 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 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 accumulated other comprehensive income.

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, 2007:

Maturity

| (in thousands) | December 31, 2007 |
|---|---|
| **U.S. dollars sold for Canadian dollars** | |
| Less than one year | US$12,000 |
| Weighted average rate | 1.0540 |
| **Euros sold for U.S. dollars** | |
| Less than one year | EUR 883 |
| Weighted average rate | 1.4150 |
| One year to two years | EUR 2,150 |
| Weighted average rate | 1.4545 |
| Two years to three years | EUR 2,150 |
| Weighted average rate | 1.4490 |
| Three years to four years | EUR 2,200 |
| Weighted average rate | 1.4465 |
| **U.S. dollars sold for Norwegian Kroners** | |
| Less than one year | US$6,243 |
| Weighted average rate | 5.3980 |
| **U.S. dollars sold for Malaysian Ringgit** | |
| Less than one year | US$7,250 |
| Weighted average rate | 3.4062 |

At December 31, 2007, the Company had notional amounts of $35.7 million of forward contracts outstanding (December 31, 2006 – $38.7 million). These amounts are used to express the volume of transactions and are not recognized in the consolidated financial statements.

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, 2007. The fair value of the Company's net benefit for all foreign exchange forward contracts at December 31, 2007 was $1.5 million (December 31, 2006 – $3.1 million net liability, which was not recorded in other comprehensive income) and has been recognized on the consolidated balance sheet through a charge to other comprehensive income. Estimated net gains in accumulated other comprehensive income expected to be transferred to net income within the next twelve months totals $1.5 million.

## 27. 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. Intersegment transactions are accounted for at negotiated transfer prices.

# Notes to Consolidated Financial Statements

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

| (in thousands of Canadian dollars) | Pipeline and Pipe Services | | Petrochemical and Industrial | | Financial and Corporate | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Revenue – customer | **906,547** | 922,052 | **141,552** | 137,567 | **—** | — | **—** | — | **1,048,099** | 1,059,619 |
| – intersegment | **(3,120)** | 276 | **2,113** | 1,371 | **—** | — | **1,007** | (1,647) | **—** | — |
| – total | **903,427** | 922,328 | **143,665** | 138,938 | **—** | — | **1,007** | (1,647) | **1,048,099** | 1,059,619 |
| Operating expenses | **710,831** | 739,475 | **114,876** | 114,058 | **14,185** | 16,126 | **1,007** | (1,647) | **840,899** | 868,012 |
| Amortization of property, plant and equipment | **34,089** | 40,640 | **4,929** | 4,706 | **1,415** | 1,399 | **—** | — | **40,433** | 46,745 |
| Research and development | **4,575** | 3,730 | **1,038** | 982 | **1,153** | 1,370 | **—** | — | **6,766** | 6,082 |
| | **749,495** | 783,845 | **120,843** | 119,746 | **16,753** | 18,895 | **1,007** | (1,647) | **888,098** | 920,839 |
| Income (loss) from operations | **153,932** | 138,483 | **22,822** | 19,192 | **(16,753)** | (18,895) | **—** | — | **160,001** | 138,780 |
| Interest income, net | **—** | — | **—** | — | **4,381** | 2,804 | **—** | — | **4,381** | 2,804 |
| Income tax expense | **—** | — | **—** | — | **47,205** | 46,840 | **—** | — | **47,205** | 46,840 |
| Total assets | **976,635** | 984,850 | **74,480** | 110,965 | **880,381** | 1,235,684 | **(971,170)** | (1,323,473) | **960,326** | 1,008,026 |
| Goodwill | **143,960** | 157,630 | **17,078** | 18,183 | **—** | — | **—** | — | **161,038** | 175,813 |
| Purchases of property, plant and equipment | **87,072** | 52,773 | **2,535** | 4,774 | **2,248** | 623 | **—** | — | **91,855** | 58,170 |

Revenues and property, plant and equipment by geographic segment are as follows. The geographical segment is determined by the location of the Company's country of operation:

| (in thousands of Canadian dollars) | Canada | | United States and Latin America | | Europe | | Far East, Africa and Middle East | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Revenue | | | | | | | | | | | | |
| – customer | **289,393** | 261,330 | **293,028** | 243,765 | **228,351** | 266,456 | **237,327** | 288,068 | **—** | — | **1,048,099** | 1,059,619 |
| – intersegment | **66,807** | 77,647 | **5,840** | 4,845 | **2,389** | 3,868 | **—** | — | **(75,036)** | (86,360) | **—** | — |
| – total | **356,200** | 338,977 | **298,868** | 248,610 | **230,740** | 270,324 | **237,327** | 288,068 | **(75,036)** | (86,360) | **1,048,099** | 1,059,619 |
| Property, plant and equipment, net | **113,758** | 74,225 | **34,903** | 42,139 | **21,902** | 27,080 | **72,220** | 58,634 | **—** | — | **242,783** | 202,078 |
| Goodwill | **61,784** | 53,909 | **45,574** | 63,209 | **31,893** | 48,475 | **21,787** | 10,220 | **—** | — | **161,038** | 175,813 |
| Total Assets | **1,060,247** | 1,114,934 | **373,760** | 500,492 | **157,009** | 233,924 | **242,542** | 162,212 | **(873,232)** | (1,003,536) | **960,326** | 1,008,026 |

## 28. UPCOMING ACCOUNTING CHANGES

In 2007, the CICA issued the following new Handbook sections: 1400, *General Standards of Financial Statement Presentation*; 1535, *Capital Disclosures*; 3031, *Inventories*; 3862, *Financial Instruments – Disclosures*; and 3863, *Financial Instruments – Presentation*. These new accounting standards must be adopted by the Company on January 1, 2008 and will be adopted prospectively in accordance with the transitional provisions prescribed by the standards. In February 2008, the CICA issued new Handbook section 3064, *Goodwill and Intangible Assets*, which is effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of the new accounting standards on its financial position, results of operations and disclosures.

## 29. COMPARATIVE FIGURES

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

## Six Year Review (Unaudited)

(in thousands of Canadian dollars except per share information)

| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| | | | Restated (note 1) | Restated (note 1) | Restated (note 1) | Restated (note 1) |
| **Operating Results** | | | | | | |
| Revenue | **$ 1,048,099** | $ 1,059,619 | $ 1,012,453 | $ 746,511 | $ 699,339 | $ 690,574 |
| EBITDA (note 2) | **202,808** | 187,828 | 140,214 | 108,355 | 107,709 | 84,032 |
| Net income (loss) for the year | **87,357** | 92,635 | 138,840 | (86,661) | 24,351 | 1,134 |
| **Cash Flow** | | | | | | |
| Cash provided by continuing operating activities | **$ 97,514** | $ 189,877 | $ 79,890 | $ 72,132 | $ 139,125 | $ 39,849 |
| Purchases of property, plant and equipment | **91,855** | 58,170 | 38,141 | 31,882 | 6,454 | 1,679 |
| **Financial Position** | | | | | | |
| Working capital | **$ 255,624** | $ 341,375 | $ 274,103 | $ 153,452 | $ 155,207 | $ (74,178) |
| Long-term debt | **72,726** | 87,480 | 87,210 | 90,360 | 97,095 | 13,069 |
| Shareholders' equity | **580,032** | 629,927 | 535,238 | 443,406 | 543,670 | 497,206 |
| Total assets | **960,326** | 1,008,026 | 919,846 | 805,437 | 826,996 | 988,701 |
| **Per Share Information (Class A and Class B)** | | | | | | |
| Net income (loss) | | | | | | |
| Basic | **$ 1.20** | $ 1.25 | $ 1.85 | $ (1.16) | $ 0.35 | $ 0.02 |
| Diluted | **$ 1.19** | $ 1.25 | $ 1.85 | $ (1.16) | $ 0.34 | $ 0.02 |
| Dividends | | | | | | |
| Class A | **$ 0.23** | $ 0.135 | $ 0.09 | $ 0.0808 | $ 0.0808 | $ 0.0808 |
| Class B | **$ 0.209** | $ 0.1227 | $ 0.0818 | $ 0.0734 | $ 0.0734 | $ 0.0734 |
| Shareholders' equity (note 3) | **$ 8.13** | $ 8.51 | $ 7.22 | $ 5.91 | $ 7.25 | $ 7.24 |

Note 1: Restated to exclude discontinued operations and to reflect the adoption of proportionate consolidation for the Company's investment in Arabian Pipecoating Company Limited.

Note 2: EBITDA is a non-GAAP measure and can be calculated by adding back to income from continuing operations, reported income taxes, net interest income and amortization, excluding the impact of non-controlling interest in non-wholly owned subsidiaries. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures prescribed by other companies. EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools.

Note 3: 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.

## Quarterly Information (Unaudited)

| (in thousands of Canadian dollars except per share information) | | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|---|
| Revenue | – **2007** | **$ 221,329** | **$ 276,440** | **$ 264,892** | **$ 285,438** | **$ 1,048,099** |
| | – 2006 | $ 262,547 | $ 269,433 | $ 251,324 | $ 276,315 | $ 1,059,619 |
| Net income | – **2007** | **$ 23,253** | **$ 30,219** | **$ 30,132** | **$ 3,753** | **$ 87,357** |
| | – 2006 | $ 24,720 | $ 24,706 | $ 16,556 | $ 26,653 | $ 92,635 |
| Net income per share (Class A and Class B) | | | | | | |
| Diluted | – **2007** | **$ 0.31** | **$ 0.41** | **$ 0.42** | **$ 0.05** | **$ 1.19** |
| | – 2006 | $ 0.33 | $ 0.34 | $ 0.22 | $ 0.36 | $ 1.25 |

# ShawCor Directors

Front Row (left to right):

**W.J.V. Sheridan**
Toronto, Ontario

Mr. Sheridan is a partner with Lang Michener LLP, a position he has held since March 1974 and has been a Director of ShawCor Ltd. since December 2000.

**E.C. Valiquette**
Cobden, Ontario

Ms. Valiquette was Senior Vice President and Chief Financial Officer of ING Canada Inc. from 2000 to 2002, was a management consultant from 2002 to 2004 and has been a Director of ShawCor Ltd. since March 2005.

**J.W. Derrick**
Buffalo, New York

Mr. Derrick is Chief Executive Officer of Derrick Corporation, a position he has held since 1992 and has been a Director of ShawCor Ltd. since August 2007.

**V.L. Shaw**
St. James, Barbados

Ms. Shaw was elected Chair of the Board of ShawCor Ltd. in February 2007, was Vice Chair of the Board from August 2000 until February 2007 and has been a Director of the Company since April 1994.

**W.P. Buckley**
Toronto, Ontario

Mr. Buckley is President and CEO of ShawCor Ltd., a position he has held since June 2005 and has been a Director of the Company since August 2005.

**D.C. Vaughn**
The Woodlands, Texas

Mr. Vaughn was President and COO of Dresser Industries, Inc. from 1996 to 1999, was Vice Chairman of Haliburton Company from 1999 to 2001 and has been a Director of ShawCor Ltd. since November 2001.

**G.F. Hyland**
Caledon, Ontario

Mr. Hyland has been a Director of the Company since December 1987 and was President and CEO of ShawCor Ltd. from December 1994 until his retirement in June 2005.

Back Row (left to right):

**P.G. Robinson**
Toronto, Ontario

Mr. Robinson is President and General Manager of Litens Automotive Group, a position he has held since 2001 and has been a Director of ShawCor Ltd. since August 2001.

**L.W.J. Hutchison**
St. James, Barbados

Mr. Hutchison joined ShawCor in 1998 and is Managing Director of Shaw Global Services Limited, a position he has held since November 2007 and has been a Director and Vice Chair of the Company since February 2008.

**M.K. Mullen**
Calgary, Alberta

Mr. Mullen is Chairman and Chief Executive Officer of Mullen Group Income Fund and has been a Director of ShawCor Ltd. since August 2003.

**Z.D. Simo**
Oakville, Ontario

Mr. Simo is a former President and CEO of Tecsyn International Inc. and has been a Director of ShawCor Ltd. since August 1987.

**J.F. Petch, Q.C.**
Toronto, Ontario

Mr. Petch serves as Counsel to Osler, Hoskin & Harcourt LLP and has been a Director of ShawCor Ltd. since March 2005.

**R.J. Ritchie**
Calgary, Alberta

Mr. Ritchie was the President of the CP Rail Systems division of Canadian Pacific Limited from 1990 until 2001, retired as CEO and a Director of Canadian Pacific Railway Limited in 2006 and has been a Director of ShawCor Ltd. since April 1994.

# Corporate Governance

The Board of Directors (the "Board") and management of the Company recognize that effective corporate governance is central to the prudent direction and operation of the Company in a manner that ultimately enhances shareholder value. The following discussion outlines the Company's system of corporate governance.

The business and affairs of the Company are managed under the supervision of the Board. Broadly, the Board approves overall corporate strategy, assesses management's implementation of agreed strategies and reviews the results obtained. The Board's duties consist of approval of strategic plans, review of corporate risks identified by management and monitoring the Company's practices and policies for dealing with these risks, management succession planning, monitoring business practices and assessment of the integrity of the Company's internal controls, information and governance systems.

The Board ensures that a strategic planning process is in place, reviews and approves strategies and assesses management's success in implementing the strategies. This is done through an annual special purpose Board Meeting held each year to review and approve the Company's strategic and annual business plan. The strategic plan is updated each year so that it always projects the next three-year period. Management reports to the Board quarterly, highlighting and commenting upon divisional performance compared with annual business plan forecasts and prior year results. As part of the strategic plan review process, the Board identifies and evaluates the principal risks of the Company's businesses and ensures that management puts in place appropriate policies and procedures to manage those risks.

The corporate governance practices and policies of the Company have been developed under the general stewardship of the Corporate Governance Committee. The Committee believes that the corporate governance practices of the Company are appropriate for the Company. As a result of evolving laws, policies and practices, the Corporate Governance Committee regularly reviews the corporate governance practices and policies of the Company to ensure that the Company complies with all applicable requirements and implements best practices appropriate to its operations.

# Corporate Information

## Corporate Officers

V.L. Shaw
Chair of the Board

L.W.J. Hutchison
Vice Chair of the Board

W.P. Buckley
President and
Chief Executive Officer

G.S. Love
Vice President, Finance
and Chief Financial Officer

W.J.V. Sheridan
Secretary

## Operations Management

J.D. Tikkanen
President
Bredero Shaw

E.J. Boufarah
Vice President and
General Manager,
Middle East
Bredero Shaw

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

S.J. Edmondson
Vice President,
Research & Development
ShawCor Ltd.

P.L. Evans
Senior Vice President,
Far East
Bredero Shaw

F. Gallina
Vice President, Operations
ShawCor Ltd.

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

N.W. Gritis
Senior Vice President,
Canada
Bredero Shaw

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

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

G.R. Prentice
Vice President and
General Manager
Shaw Pipeline Services

K.D. Reizer
Vice President and
General Manager,
Europe
Bredero Shaw

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

K.C. Willson
Vice President and
General Manager
Guardian

## Primary Operating Locations

### Pipeline and Pipe Services

Bredero Shaw
ShawCor Pipe Protection
3838 N. Sam Houston Pkwy. E.
Suite 300
Houston, Texas 77032
t: 281-886-2350
f: 281-886-2351

Bredero Shaw
Imperial Dock
Leith, Edinburgh
Scotland EH6 7DT
t: 44-131-554-6232
f: 44-131-553-9604

Shaw Pipe Protection
Two Executive Place
1824 Crowchild Trail N.W.
Calgary, Alberta T2M 3Y7
t: 403-263-2255
f: 403-264-3649

Bredero Shaw
#17-01/02 United Square
101 Thomson Road
Singapore 307591
t: 65-6732-2355
f: 65-6732-9073

Canusa-CPS
25 Bethridge Road
Toronto, Ontario M9W 1M7
t: 416-743-7111
f: 416-743-5927

Shaw Pipeline Services
4250 N. Sam Houston Pkwy. E.
Suite 180
Houston, Texas 77032
t: 832-601-0850
f: 281-442-1593

Guardian
950 – 78th Avenue
Edmonton, Alberta T6P 1L7
t: 780-440-1444
f: 780-440-4261

### Petrochemical and Industrial

DSG-Canusa
25 Bethridge Road
Toronto, Ontario M9W 1M7
t: 416-743-7111
f: 416-743-7752

ShawFlex
25 Bethridge Road
Toronto, Ontario M9W 1M7
t: 416-743-7111
f: 416-743-2565

ShawCor


**HEAD OFFICE**
25 Bethridge Road
Toronto, Ontario
Canada M9W 1M7

Telephone: 416-743-7111
Facsimile: 416-743-7199

**AUDITORS**
Ernst & Young LLP

**TRANSFER AGENT AND REGISTRAR**
CIBC Mellon Trust Company

**STOCK LISTING**
The Toronto Stock Exchange

Class "A"
Subordinate Voting Shares
Trading Symbol: SCL.A

Class "B"
Multiple Voting Shares
Trading Symbol: SCL.B

**ANNUAL MEETING**
Friday, May 9, 2008
11:30 a.m.
The Fairmont Royal York Hotel
Toronto, Ontario
Canada

www.shawcor.com