ShawCor

2009 Annual Report


# Global Leadership and Reliability

## GLOBAL LEADERSHIP IN ENERGY SERVICES

1. Pipeline Coatings
   [Bredero Shaw]
   - Anticorrosion
   - Flow Assurance
   - Weight/Protective
   - Internal Flow Efficiency

2. Spoolable Composite Pipe
   [Flexpipe Systems]
   - Oil and Gas Gathering Systems
   - Oilfield Water Applications
   - $CO_2$ Injection

3. Pipeline Weld Inspection
   [Shaw Pipeline Services]
   - Automated Digital Radiographic and Ultrasonic Girth Weld Inspection

4. Pipeline Joint Protection
   [Canusa–CPS]
   - Heat Shrinkable and Liquid Based Joint Protection Systems
   - Field Joint and Custom Coating Services
   - Application Engineering and Equipment

5. Tubular Management
   [Guardian]
   - Drill Pipe/Tubular Inspection
   - OCTG and Premium Threading
   - Down Hole Tool Manufacturing and Repair
   - Inventory Management Services

6. Heat Shrink
   [DSG–Canusa]
   - Heat Shrink Tubing and Sleeves
   - Medium Voltage Products and Kits
   - Custom Kits and Shrink Appliances

7. Wire and Cable
   [ShawFlex]
   - Control and Instrumentation Wire and Cable
   - Power, Marine and Robotics Cables
   - Thermocouple Wire and Cable

## CONTENTS

# The ShawCor Brand

ENERGY SERVICES • GLOBAL SOLUTIONS

ShawCor is a growth oriented, global Energy Services Company that develops and markets innovative products and services for the energy industry.

ShawCor's global presence is defined by over 5,000 dedicated employees who serve customers from more than 70 operating facilities worldwide.

ShawCor is committed to providing unique, high performance solutions that create value for clients while differentiating the Company from its competitors.


SHAWCOR'S MISSION IS TO BE THE MARKET LEADER AND TECHNOLOGY INNOVATOR WITH A PRIMARY FOCUS ON THE GLOBAL PIPELINE INDUSTRY AND TO USE THIS BASE AS A PLATFORM TO BUILD AN INTERNATIONAL ENERGY SERVICES COMPANY WHILE ACHIEVING SHAWCOR'S PERFORMANCE OBJECTIVES.

ShawCor

# Strength in Numbers

## SHAWCOR – IN A CLASS OF ITS OWN

### FINANCIAL SUMMARY

Years ended December 31
*(in thousands of Canadian dollars except per share amounts)*

| | 2009 | 2008 *[note 1]* |
|---|---|---|
| **OPERATING RESULTS** | | |
| Revenue | **$ 1,183,978** | $ 1,379,577 |
| EBITDA [note 2] | **$ 253,799** | $ 262,158 |
| Operating income from continuing operations | **$ 192,175** | $ 196,011 |
| Income from continuing operations for the year | **$ 131,106** | $ 134,722 |
| Income from discontinued operations for the year | **$ 344** | $ 11,011 |
| Net income for the year | **$ 131,450** | $ 145,733 |
| Earnings per share, Class A and Class B | | |
| Basic – From continuing operations | **$ 1.86** | $ 1.90 |
| – From discontinued operations | **$ —** | $ 0.16 |
| Total | **$ 1.86** | $ 2.06 |
| Diluted – From continuing operations | **$ 1.85** | $ 1.88 |
| – From discontinued operations | **$ —** | $ 0.15 |
| Total | **$ 1.85** | $ 2.03 |
| **CASH FLOW** | | |
| Cash provided by continuing operating activities | **$ 287,132** | $ 154,361 |
| Purchases of property, plant and equipment | **$ 34,358** | $ 89,799 |
| **FINANCIAL POSITION** | | |
| Working capital | **$ 307,567** | $ 229,169 |
| Total assets | **$ 1,185,977** | $ 1,227,289 |
| Shareholders' equity per share (Class A and Class B) [note 3] | **$ 11.21** | $ 10.40 |

Note 1: Prior year figures have been restated as a result of the adoption of recent accounting policy changes and reclassified to conform to current year presentation. Refer to notes 4 and 28 in the accompanying notes to the audited consolidated financial statements for additional information.
Note 2: EBITDA is a non-GAAP measure calculated by adding back to income from continuing operations, reported income taxes, net interest income (expense), and amortization of property, plant and equipment. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided 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.

**42+**

technicians at
3 international
R&D facilities

**50+**

leading
technologies

**175+**

active patents

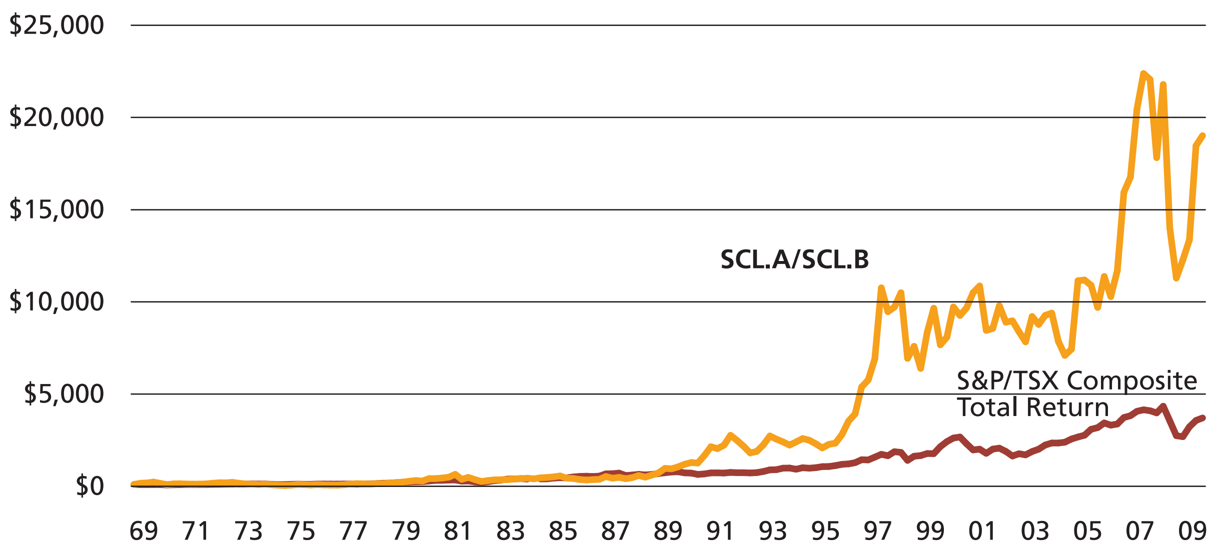
SHAWCOR BENEFITS FROM A STRONG COMPETITIVE POSITION BASED ON GLOBAL LOCATIONS, PROPRIETARY PRODUCTS AND A SOLID BALANCE SHEET WHICH MEANS THE COMPANY IS THE ONLY CAPABLE SUPPLIER ON MANY PROJECTS

**$1.2**
billion in revenue

**$130+**
million in net income

**$2.0**
billion market capitalization
(as at 2/26/2010)

## 40 YEARS OF CREATING SHAREHOLDER VALUE

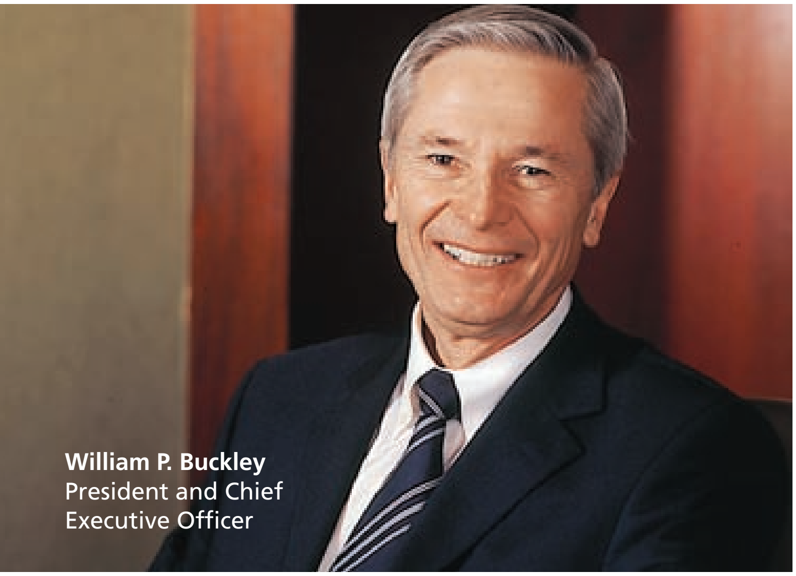



**20+**
countries around the world are home to ShawCor facilities

**70+**
manufacturing, sales and service facilities worldwide

**300+**
projects completed per year

# To Our Shareholders



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

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

## 2009 IN REVIEW

In 2009, ShawCor's fully diluted earnings per share from continuing operations decreased to $1.85 compared to $1.88 during the prior year. While not fully immune to the impact of the global recession on the energy industry, efforts made to reduce costs and improve operating efficiencies contributed to a year over year increase in ShawCor's operating income margin by 2.0 points from 14.2% to 16.2%. In addition, strong cash generation as the year progressed supported an 86.0% increase in cash flow provided by continuing operating activities, from $154.4 million in 2008 to $287.1 million in 2009.

While the reduction in overall market activity caused a 14.2% revenue decline to $1.18 billion from $1.38 billion in 2008, the improvement in operating margins resulted in a smaller 3.2% decrease in EBITDA from $262.2 million in 2008 to $253.8 million in 2009. Lower expenses for depreciation and interest led to income from continuing operations declining by 2.7% from $134.7 million in 2008 to $131.1 million in 2009. During the year, ShawCor responded strongly to the challenges faced by all participants in the energy industry characterized by reduced levels of North American drilling activity, global project delays due to reduced demand, lower commodity prices and tightened access to capital. Although financial performance was impacted by the decline in worldwide economic activity, ShawCor's performance relative to its peers improved. The Company also strengthened its global position through an expanded international reach and continued investment in its innovation and global growth strategy.

During the year, ShawCor's strong performance in 2009 was supported by the execution of two major international pipeline projects. The ability to rapidly deploy two mobile concrete coating plants to a remote location offered tremendous logistic advantages and was key to securing and executing the Trinidad North East Offshore (NEO) and Tobago Pipeline Projects. Also in 2009, the benefit to clients of Bredero Shaw's innovative products and competitive global locations was evident with the use of three proprietary technologies to complete the Woodside Pluto LNG Project at three facilities in Indonesia, Malaysia and Norway to meet the client's schedule.

## SHAWCOR HAS ESTABLISHED GLOBAL LEADERSHIP IN THE MARKETS IT SERVES THROUGH ITS STRATEGIC LOCATIONS SUPPORTED BY A FOCUS ON INTERNATIONAL GROWTH, INNOVATION AND FLAWLESS EXECUTION.


Two major pipe coating projects secured during 2009 were Epic Energy's US$42.0 million QSN3 Project in Australia and the US$185.0 million Esso Highlands PNG LNG Project in Papua New Guinea. These projects will be executed beginning in 2010.

As 2009 progressed, a number of actions were taken to reduce the Company's cost structure to match market activity levels and to focus resources on markets including Asia Pacific where investment in pipeline infrastructure is continuing at a healthy pace. These restructuring programs were combined with other cost reduction efforts and margin improvement programs in all divisions to preserve and strengthen ShawCor's balance sheet and overall financial position.

Through ShawCor's capability to undertake and complete simultaneous, complex, technically demanding projects, the Company has earned a reputation for reliable execution that ensures repeat business from a broad range of clients worldwide.

### SHAWCOR – GLOBAL LEADERSHIP AND RELIABILITY

ShawCor management continues to strengthen the Company's competitive position by advancing key elements of ShawCor's business model. ShawCor executes more than 300 projects per year at over 70 manufacturing, sales and service facilities world - wide. By focusing on strategic initiatives, including flawless execution, innovative new products and international growth, ShawCor's divisions have established global leadership in the markets they serve. The Company has become the global leader in its sector of the energy services industry through its systems and controls over project bidding, contract management and capital expenditures. Execution has been further strengthened by the ShawCor Manufacturing System (SMS) and by health and safety, talent management and leadership development programs aimed at building a high performance organization to support the Company's growth while strengthening the organization's culture and practices.

One measure of the focus on the development of innovative products was the application for nine new patents during 2009 which, when granted, will add to over 175 patents covering broad segments of the Company's base of more than 50 proprietary technologies. Some of the most significant

# 40 years on the TSX

| 1969 | 1975 | 1980 | 1982 | 1987 | 1988 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|
| Shaw Pipe Industries Ltd. listed on TSX | First dividend declared of $0.10 per share to be paid semi-annually | 2 for 1 stock split | New Research & Development facility opens in Rexdale | Leslie Shaw appointed Chair of the Board; Guardian Inspection Services acquired | Revenue exceeds $100 million for first time; Each common share converted into Class A share | 2 for 1 stock split of both Class A and B shares | 3 for 2 stock split of both Class A and B shares |


technology developments included Bredero Shaw's introduction of the Thermotite® Ultra™ family of proprietary new insulation systems with unique mechanical and thermal properties for deepwater oil and gas flowlines and the development of a portable plant capability for the division's wrap applied, bendable Rock Jacket® concrete pipe coating. Canusa–CPS introduced a new district heating casing that improves overall installation integrity in the field and an advanced, low preheat version of the GTS PP polypropylene sleeve. Shaw Pipeline Services completed conversion to their new Hybrid Phased Array system and qualified this technology to DNV 2007 OS-F101, a certification not held by any of the division's competitors.

During the year, DSG–Canusa opened a new manufacturing operation in Suzhou, China and Guardian announced the acquisition of Ideal Precision Machining in Grande Prairie, Alberta. In addition, Bredero Shaw announced, early in 2010, the formation of a joint venture to provide concrete weight coatings for offshore pipelines in the Russian Arctic.

ShawCor's emphasis on employee safety through the Incident and Injury Free (IIF) program continued to pay dividends during 2009 as the Total Recordable Case Frequency improved by 31.5% to a record low of 5.0 per million person hours worked.

The year 2009 marked ShawCor's 40th anniversary as a publicly traded corporation. During this period, the Compound Average Growth Rate (CAGR) in the total return to ShawCor shareholders averaged 13.8% in comparison to the CAGR in the total return of the S&P TSX Index which averaged 9.3% over the same period.

## LOOKING FORWARD

A gradual improvement in market outlook was evident during the fourth quarter of 2009 as ShawCor's booked order backlog improved from $240.0 million at the end of the third quarter to reach $410.5 million at the end of the year. This increase in the backlog will support stronger revenue generation beginning during the second half of 2010.

The recovery of energy demand growth coupled with the need to offset the depletion of existing reserves

- **1993** — Shaw Pipeline Services established
- **1996** — World's largest pipe coating business is formed as joint venture between Shaw and Dresser Industries
- **1998** — 3 for 1 stock split of both Class A and B shares; Canusa–EMI acquires German-based DSG group and adopts the DSG–Canusa name globally
- **2001** — Company name changed to ShawCor Ltd.
- **2002** — ShawCor acquires Halliburton Company's 50% interest in Bredero Shaw
- **2007** — Virginia L. Shaw appointed Chair of the Board
- **2008** — Flexpipe Systems acquired
- **2009** — ShawCor reaches 40th Anniversary as publicly traded company


will support continued investment in new energy infrastructure in the future. As the global economy begins to gather momentum, ShawCor's strong financial position will allow the Company to pursue growth on several fronts. These will include new opportunities for organic growth, development of new products, investment in new markets and selective acquisitions that will strengthen ShawCor's market position while broadening the Company's technology base and the markets it serves.

During 2009, the ShawCor Board of Directors committed to seeking an expanded level of inter - national expertise while achieving a broader global perspective in keeping with the Company's world - wide mandate. In support of this commitment, we would like to welcome John T. Baldwin, the Group Political Advisor of BP Group, an integrated oil and gas company with global operations, who joined the Board of Directors in March 2010.

Continued development of the high performance organization will provide the management and operational skills necessary to achieve ShawCor's growth objectives in 2010 and beyond while extending the Company's 40-year history of delivering long-term value to shareholders. The performance achieved by the Company during 2009 and the capability to achieve the Company's future goals are based on the commitment, motivation and hard work of more than 5,000 ShawCor employees at over seventy facilities in over twenty countries around the world. We extend our appreciation for their efforts which have made ShawCor the successful energy service business it is today.

William P. Buckley
President and
Chief Executive Officer

Virginia L. Shaw
Chair of the Board

# The Global Leader

## SHAWCOR'S GLOBAL CAPABILITY ENSURES CLIENT CONFIDENCE THAT EACH PROJECT WILL BE COMPLETED ON TIME AND ON BUDGET – EVERY TIME.

ShawCor is the number one ranked provider of pipe coatings and related services in the world. With over 5,000 dedicated employees and financial stability evidenced by a strong balance sheet with no net debt, ShawCor's seven divisions are able to provide products and services or simultaneously mobilize and execute pipeline projects at multiple locations anywhere in the world. This global capability ensures client confidence that each project will be completed on time and on budget – every time.

One example of the Company's unique, global capabilities that adds value to client projects is demonstrated by Bredero Shaw's proprietary, portable Compression Coat Technology (CCT) concrete weight coating plants. Bredero Shaw's CCT technology provides complete, containerized concrete coating facilities which can be quickly mobilized to a location close to where the concrete coated pipe will ultimately be used, with all of the equipment necessary to apply concrete coatings up to 6 inches thick on pipe up to 48 inches in diameter. Use of Bredero Shaw's portable CCT plants significantly reduces pipe transportation and handling costs, ultimately providing more cost-effective management of the client's pipe coating needs.

**REACH:** ONE EXAMPLE OF SHAWCOR'S UNIQUE, GLOBAL CAPABILITIES IS THE MOBILIZATION OF TWO BREDERO SHAW PROPRIETARY, PORTABLE COMPRESSION COAT TECHNOLOGY (CCT) CONCRETE WEIGHT COATING PLANTS TO LA BREA, TRINIDAD TO COMPLETE THE NORTH EAST OFFSHORE PROJECT AND THE TOBAGO PIPELINE PROJECT.

In 2009, Bredero Shaw mobilized two CCT plants to La Brea, Trinidad to simultaneously complete the 94 km, 36 inch diameter North East Offshore (NEO) Project and the 54 km 12 inch diameter Tobago Pipeline Project. Additional examples of recent projects that demonstrate the global capability of Bredero Shaw's portable CCT plants include the EnCana Deep Panuke Project in Nova Scotia, the Hasdrubal Project in Tunisia and the Balearic Gas Project in Spain.

As the global leader in its field, ShawCor is continuing to focus on international growth. The high growth economies of China, India and the rest of the Far East will require new sources of energy while increased gas demand and a desire for greater energy security in Europe and rising domestic requirements in the Middle East will lead to increased investment in energy infrastructure, including pipelines. One such example of an emerging source of energy is the Russian Arctic. To access this new market ShawCor announced, early in 2010, that Bredero Shaw has formed a joint venture with the leading Russian offshore pipeline contractor to provide advanced concrete weight coating services for offshore pipelines as the Northern Russian gas and oil fields are developed.

# Reliable Execution

SHAWCOR'S ABILITY TO MEET DEMANDING CUSTOMER REQUIREMENTS UNDER CHALLENGING CONDITIONS WITH TIGHT SCHEDULE REQUIREMENTS SETS THE STANDARD FOR RELIABLE EXECUTION IN THE GLOBAL PIPELINE INDUSTRY.

ShawCor's focus on reliable execution is a key element in the Company's commitment to achieving complete customer satisfaction on every project and with the sale of every product or service. In 2009, reliable execution reached a new level with the continued implementation of the SMS eight point program for improved execution across all manufacturing divisions in the Company. At a Global Operations Summit, employees were provided with an opportunity to learn methodologies and techniques from their peers for use in achieving SMS goals such as increased productivity, reduced downtime and reduced material usage. Improved performance in pursuit of these goals during 2009 supported progress toward the achievement of flawless execution and lowest cost producer status at each of the Company's seven divisions.

ShawCor's Global Procurement Group worked with suppliers to achieve raw material cost reductions and volume rebates with a value of over $12.0 million, ensuring that many key materials were procured at the lowest total acquisition cost. The group approved additional suppliers for key raw materials and also identified several new emerging market suppliers with the potential to provide acceptable materials at lower acquisition costs.

**SCOPE:** AN EXAMPLE OF SHAWCOR'S BREADTH IS THE PROVISION OF ANTICORROSION, INSULATION, FLOW ASSURANCE, CONCRETE WEIGHT AND INTERNAL FLOW EFFICIENCY COATINGS, ULTRASONIC AND RADIOGRAPHIC WELD INSPECTION SERVICES AND JOINT PROTECTION SYSTEMS FOR THE WOODSIDE PLUTO LNG PROJECT IN WESTERN AUSTRALIA.

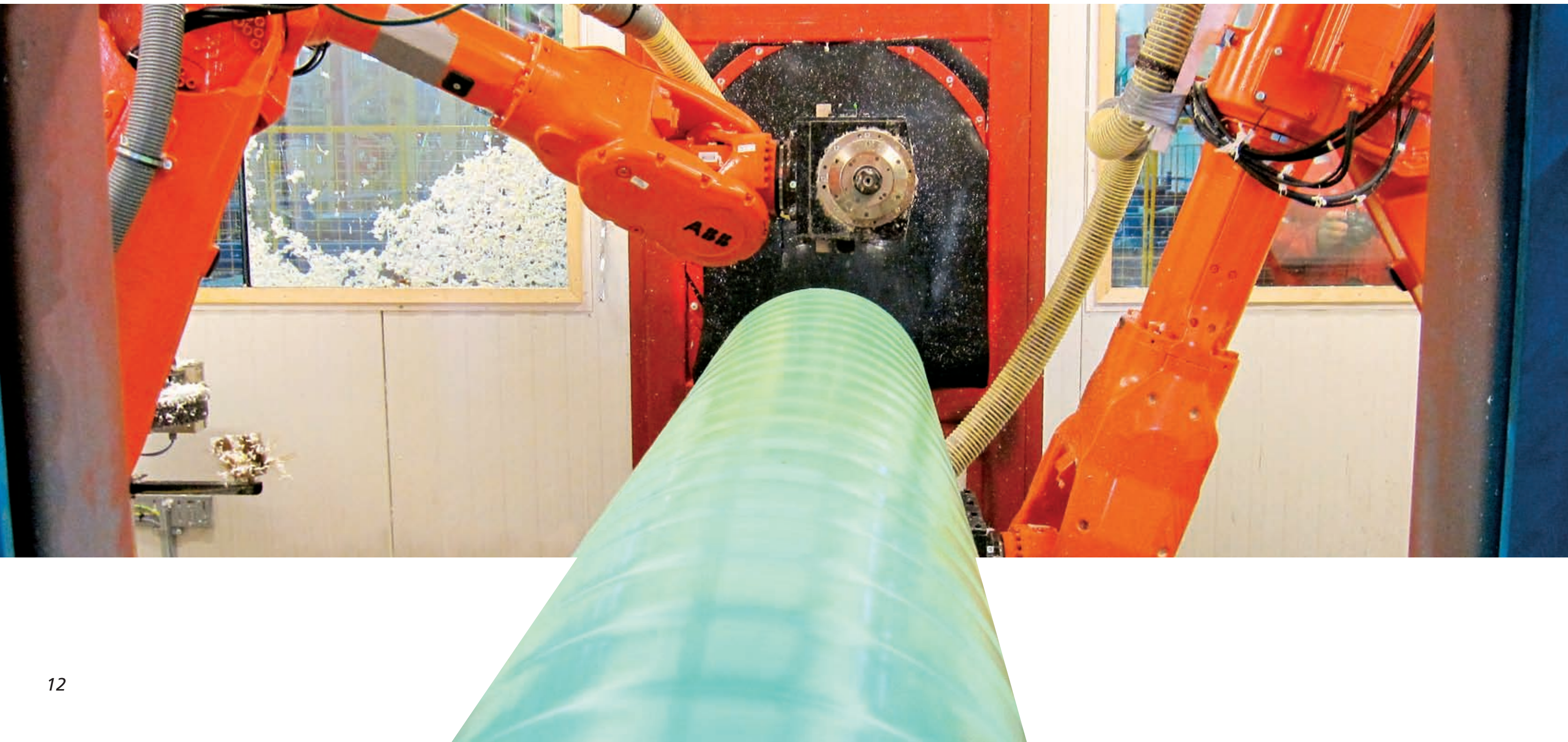
Many large pipeline transmission projects, both offshore and onshore, benefit from reliable execution by two or more ShawCor divisions. This capability to provide multiple products and services during the construction of new pipelines is another example of ShawCor's global leadership in the pipeline industry. For many clients, pipeline infrastructure is a key component of major projects such as LNG liquefaction and regasification facilities needed to bring stranded reserves to market. An example of the breadth of ShawCor's pipeline products and services is the Woodside Pluto LNG Project in Western Australia. Here Bredero Shaw, Shaw Pipeline Services and Canusa–CPS provided anticorrosion, insulation, flow assurance, concrete weight and internal flow efficiency coatings, ultrasonic and radiographic weld inspection services and joint protection systems. These products met the client's needs on this complex offshore pipeline system with multiple pipeline diameters operating in a wide range of water depths. ShawCor's ability to meet demanding customer requirements under challenging conditions with tight schedule requirements while completing over 300 projects each year sets the standard for reliable execution in the global pipeline industry.

# Innovative Solutions

INNOVATION IS AT THE HEART OF THE COMPANY'S EFFORTS TO DEVELOP PROPRIETARY NEW PROCESSES TO MANUFACTURE THE COMPANY'S HIGHLY DIFFERENTIATED PRODUCTS AND SERVICES.

ShawCor's research and development teams operate from R&D centers in Toronto, Calgary and Orkanger, Norway. Research personnel at these facilities work closely with clients and the engineering teams at ShawCor operating divisions to develop innovative solutions that meet customers' unique requirements for cost and performance.

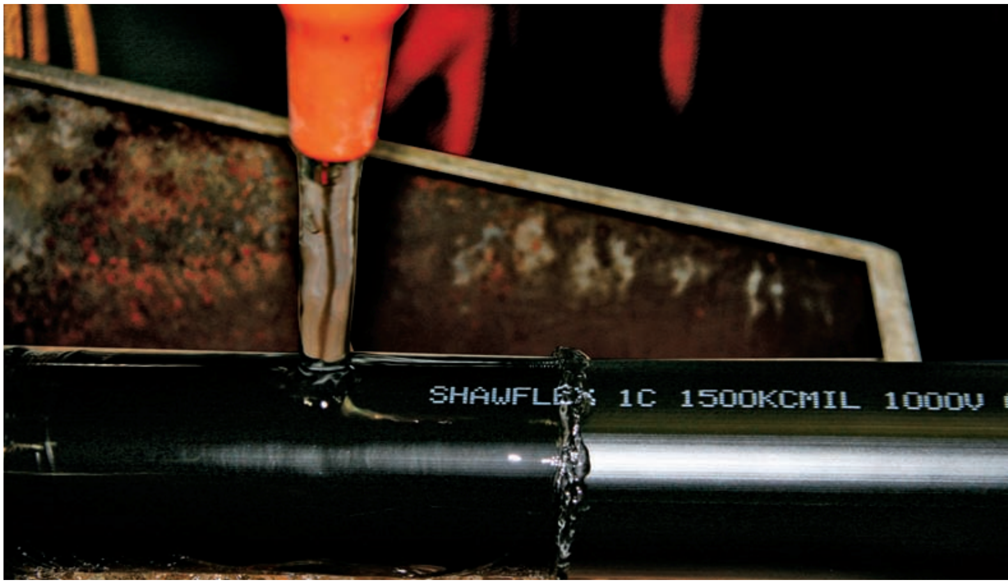
ShawCor's innovative solutions form the basis for new, high value-added products and services that offer customers improved performance at a lower installed cost. At Flexpipe Systems, new grades of thermoplastic materials are being used to boost the temperature rating of the division's reinforced composite pipe, allowing customers to benefit from the Flexpipe value proposition over an expanded application range. Canusa–CPS commercialized a new modified and reinforced visco-elastic adhesive-based tape system that provides an effective corrosion protection barrier which prevents water and oxygen from reaching the pipe surface. DSG–Canusa introduced the world's first heat shrink product that can protect critical electronic and wireless devices from unwanted radio frequency interference while ShawFlex developed custom designed cables to upgrade cell phone towers in preparation for the next generation of wireless communication networks.



**INNOVATION:** DURING 2009, SHAWCOR FILED 9 NEW PATENT APPLICATIONS WHICH WILL JOIN OVER 175 ACTIVE PATENTS COVERING MORE THAN 50 LEADING TECHNOLOGIES THAT SUPPORT THE DEVELOPMENT OF INNOVATIVE SOLUTIONS WHICH MEET UNIQUE CUSTOMER REQUIREMENTS IN EACH MARKET THE COMPANY SERVES.

Innovation is also at the heart of the Company's efforts to develop proprietary new processes to manufacture the Company's highly differentiated products and services. During 2009, Bredero Shaw pioneered the use of robotic cutting tools that provide increased consistency and reduce the production time for insulation coating. At Shaw Pipeline Services, the division developed two unique patented inspection systems that utilize digital real-time radiography for clearer identification of weld defects. Guardian designed and installed a unique, state-of-the-art plasma cutting and welding station to improve quality and reduce the cost of hardband application and removal, a service that is vital in the exploitation of shale oil and gas resources. DSG–Canusa introduced Auto Seal, a patented water blocking process for automotive wire harnesses which can be incorporated into existing wire process equipment leading to reduced cost and improved quality. At ShawFlex, the division added the capability to process large diameter power conductors and expanded heavy wall insulating capabilities using DSG–Canusa's curing technology to offer larger conductor and insulation combinations that meet a broader range of customer needs.

During 2009, ShawCor filed 9 new patent applications which, if granted, will join over 175 active patents covering more than 50 leading technologies that support the development of innovative solutions which meet unique customer requirements in each market the Company serves.



# Corporate Responsibility

## SHAWCOR IS COMMITTED TO PROVIDING A SAFE AND HEALTHY WORKPLACE AND TO CONDUCTING ITS BUSINESS ACTIVITIES IN A MANNER THAT PROTECTS THE ENVIRONMENT.

ShawCor is a multinational company with seven operating divisions, more than seventy manufacturing, sales and service facilities and over 5,000 people around the globe. ShawCor is committed to providing a safe and healthy workplace and to conducting its business activities in a manner that protects the environment.

Through the ShawCor Incident and Injury Free (IIF) program, there is an ongoing focus to eliminate all incidents and injuries, no matter how minor. Employees from the shop floor through senior management are actively involved in the IIF process and regularly engage in activities that make the workplace safer.

ShawCor is committed to a long-term goal of continually reducing its impact on the environment. In order to achieve this objective, ShawCor tracks and monitors its global greenhouse gas emissions and has implemented improved operating practices that have reduced $CO_2$ emissions by 19.8% compared to 2008. The company's Corporate R&D team worked rigorously to come up with new processes that eliminate the use of hazardous chemicals. A comprehensive chemical management system was recently implemented across all ShawCor divisions that tracks approximately 4,500 compounds which are being used by the Company. The implementation of this system allows ShawCor to not only meet, but exceed, government compliance obligations, provide safety information in a timely and accurate manner and help to reduce the administrative burden associated with managing hazardous materials.

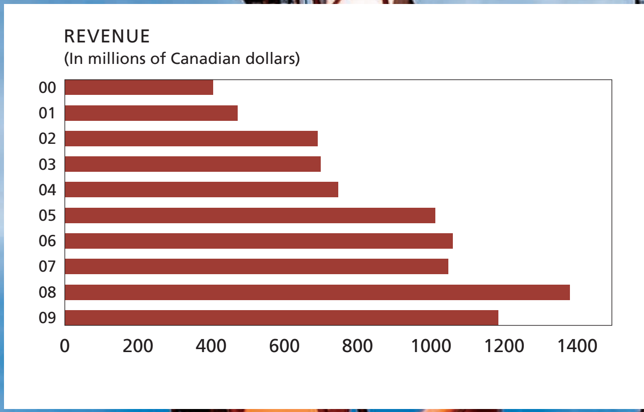
DIVERSITY: THE SHAWCOR CULTURE IS ENHANCED BY THE RICHNESS AND DIVERSITY OF ITS GLOBAL WORKFORCE AND THE COMPANY'S COMMITMENT TO EMPLOY LOCAL PERSONNEL AT THE OPERATING AND MANAGEMENT LEVEL IN ALL OF ITS OPERATIONS WORLDWIDE.

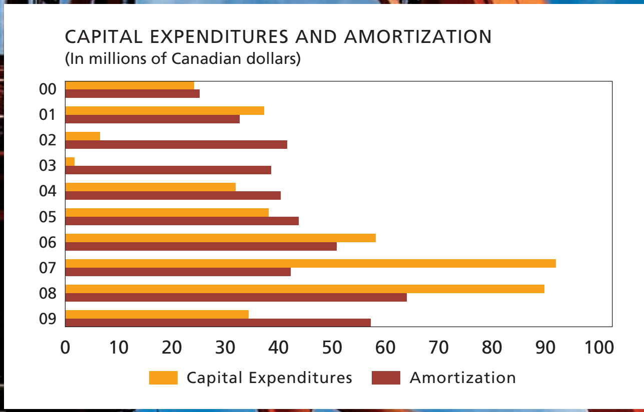
In addition, ShawCor encourages the development and sharing of environmentally friendly technologies. When one of ShawCor's divisions implemented a change to process equipment that reduced water usage, the technology was quickly implemented at another applicable division. This activity has helped ShawCor reduce water usage by 35% compared to 2008 levels.

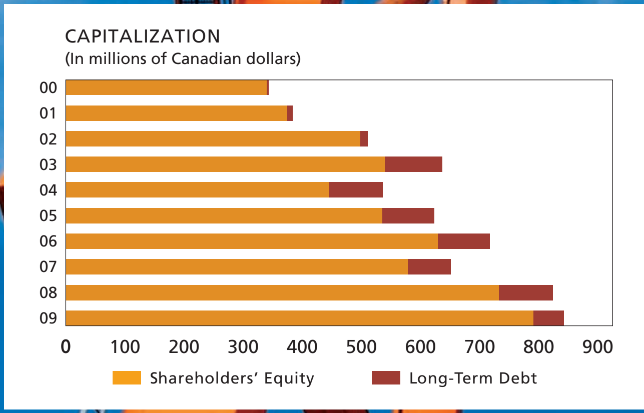
ShawCor has a culture of taking care of the communities it operates in. The Company's employees are continuously involved in promoting local causes including each local United Way and charities such as the Multiple Sclerosis Society while raising funds to provide support for orphanages, schools and victims of natural disasters in Indonesia and Haiti.

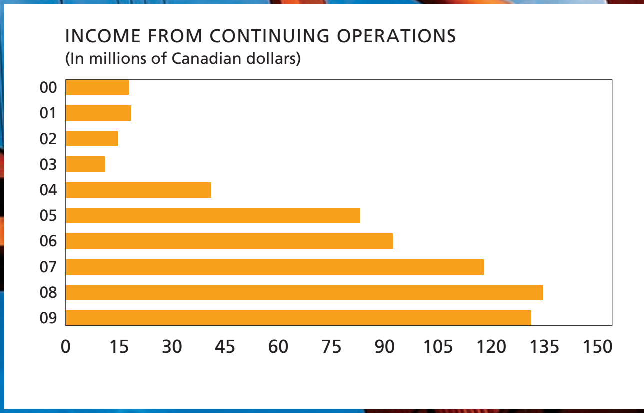
ShawCor is an equal opportunity employer that operates in 25 countries spanning 5 continents. The ShawCor culture is enhanced by the richness and diversity of its global workforce and the Company's commitment to employ local personnel at the operating and management level in all of its operations worldwide.

# Financial Strength

# Financial Review

# Management's Discussion and Analysis

*The following Management's Discussion and Analysis ("MD&A") is a discussion of the consolidated financial position and results of operations of ShawCor Ltd. ("ShawCor" or "the Company") for the years ended December 31, 2009 and 2008, and should be read together with ShawCor's audited consolidated financial statements for the same periods.*

## 1. EXECUTIVE OVERVIEW

ShawCor is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates seven divisions with over seventy manufacturing, sales and service facilities located around the world. The Company is publicly traded on the Toronto Stock Exchange ("TSX").

### 1.1 Core Businesses

ShawCor provides a broad range of products and services which include high quality pipe coating services, manufacturing and sales of spoolable composite pipe, onshore and offshore pipeline corrosion and thermal protection, state-of-the-art ultrasonic and radiographic inspection services, tubular management services, manufacturing of heat-shrinkable polymer tubing and the manufacturing of control and instrumentation wire and cables.

The Company has designed, engineered, marketed and sold these products and services worldwide for over 50 years. ShawCor has made substantial investments in research and development ("R&D") initiatives and earned strong customer loyalty based on a history of project execution success.

The Company operates in a highly competitive international business market with its success attributed to its strategic global locations, its extensive portfolio of proprietary technologies and its commitment to the use of industry-leading business processes and programs. ShawCor is the world's largest applicator of pipeline coatings for the oil and gas industry for both onshore and offshore pipelines.

The primary driver of demand for the Company's products and services is the level of energy industry investment in pipeline infrastructure for hydrocarbon development and transportation around the globe. This investment, in turn, is driven by global levels of economic activity and the resulting growth in hydrocarbon demand, the impact of resource depletion on the supply of hydrocarbons and the financial position of the major energy companies. The relationship between global hydrocarbon supply and demand and the level of energy industry investment in infrastructure tends to be cyclical.

As at December 31, 2009, the Company operated its seven divisions through two reportable operating segments, Pipeline and Pipe Services, and Petrochemical and Industrial:

*Pipeline and Pipe Services*
The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 90.6% of consolidated revenue for the year ended December 31, 2009. This segment includes the Bredero Shaw, Canusa–CPS, Shaw Pipeline Services, Flexpipe Systems and Guardian divisions.

- Bredero Shaw's product offerings include specialized internal and external anti-corrosion and flow efficiency pipe coating systems, insulation coating systems and weight coating systems for onshore and offshore pipelines.
- Canusa–CPS is a leading global manufacturer and marketer of heat shrinkable sleeves, adhesives, sealants, liquid coatings and custom coating and field joint application services for corrosion protection on onshore and offshore pipelines.
- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipeline applications.
- Flexpipe Systems manufactures and sells spoolable composite pipe systems used for oil and gas gathering, water disposal, $CO_2$ injection pipelines and other applications requiring corrosion resistance and high pressure capabilities.
- Guardian provides a complete range of tubular management services including inventory management systems, mobile and in-plant inspection and the refurbishment and threading of drill pipe, production tubing and casing.

*Petrochemical and Industrial*

The Petrochemical and Industrial segment, which accounted for 9.4% of consolidated revenue for the year ended December 31, 2009, includes the DSG–Canusa and ShawFlex divisions. Operations within this segment utilize polymer and adhesive technology that was developed for the Pipeline and Pipe Services segment and is now being applied to applications in Petrochemical and Industrial markets.

- 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.

### 1.2 Vision and Objectives

ShawCor's vision and business strategy is to be the market leader and technology innovator with a primary focus on the global pipeline industry and to use this base as a platform to build an international energy services company while achieving the following key performance objectives:

- generate a Return on Equity ("ROE") of 15% over the full business cycle;
- generate average annual net income growth of 15%;
- maintain an industry-leading health, safety and environmental ("HSE") management system to support the Company's commitment to an Incident and Injury Free ("IIF") workplace;
- maintain a strong market share at each division;
- achieve flawless execution supported by clear lines of accountability and responsibility;
- increase the flow of new products using the New Product Development ("AFPD") system to achieve a minimum of 20% of revenue from new products;
- achieve lowest cost producer status using the ShawCor Management System ("SMS") program combined with effective global procurement;
- provide a reliable organization based on best practices in governance, financial control and business processes; and
- provide a workplace and career growth environment that will attract and retain top caliber employees who are essential to achieving the corporate growth and profitability objectives.

### 1.3 Key Performance Drivers

The Company believes the following key performance drivers are critical to the success of its business:

- demand for the Company's products and services that is primarily determined by investment in new energy infrastructure necessary to supply global energy needs;
- current and forecasted oil and gas commodity prices and availability of capital to enable customers to finance energy infrastructure investment;
- the Company's competitive position globally and its ability to maintain operations in each of the major oil and gas producing regions;
- the Company's technologies and its ability to research and commercialize innovative products that provide added value to customers and lead to competitive differentiation;
- the Company's operational effectiveness and its ability to maintain efficient utilization of productive capacity at each geographic location;
- access to capital and maintenance of sufficient available liquidity to support continuing operations and finance growth activities;
- the ability to identify and execute successful business acquisitions that result in strategic global growth; and
- the ability to attract and retain key personnel.

### 1.4 Key Performance Indicators

Several of the drivers identified above are beyond the Company's control; however there are certain key performance indicators that the Company utilizes to monitor progress in achieving its vision and performance objectives. These indicators are detailed below.

The following key performance indicators used by ShawCor are not measurements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and should not be considered as an alternative to net income or any other measure of performance under GAAP. Refer to section 13 Reconciliation of Non-GAAP Measures for additional information with respect to non-GAAP measures used by the Company.

*Net Income Growth*
The Company has set a target for average annual net income growth of 15% as part of its performance objectives, as described in section 1.2 Vision and Objectives. Net income for the years ended December 31, 2009 and 2008, was $131.4 million and $145.7 million, respectively, a decrease of $14.3 million, or 9.8%. The decrease was mainly due to foreign exchange losses of $3.8 million in 2009 compared to gains of $8.2 million in 2008 and the $10.7 million change in income from discontinued operations relating to the lawsuit settlement recorded in 2008.

*ROE*
ROE is defined as income from continuing operations divided by average shareholders' equity over the most recently completed five quarters. ROE is used by the Company to assess the efficiency of generating profits from each unit of shareholders' equity. The Company has set a target of 15% as part of its performance objectives as described in section 1.2 Vision and Objectives. The Company's ROE for the years ended December 31, 2009 and 2008, was 17.2% and 20.9%, respectively. The decrease of 3.7 percentage points was primarily due to a decrease in operating income and an increase in retained earnings.

*Free Cash Flow ("FCF")*
FCF is defined as operating cash flow less capital expenditures and dividends paid during the year. FCF represents the cash available from operations after spending on maintenance of existing assets and expanding the current asset base and is a measure of the Company's ability to generate cash flow to maintain operations. FCF for the years ended December 31, 2009 and 2008, was $215.7 million and $47.0 million, respectively, an increase of $168.8 million year over year. The increase was primarily due to an increase in operating cash flows and a decrease in capital expenditures in 2009 compared to 2008.

*Employees*
The Company conducts periodic employee surveys and monitors turnover in key personnel positions in order to assess employee satisfaction.

*Market Position*
The Company's record of successful project execution and the resulting repeat business demonstrates customer loyalty, which is one of many qualitative measures that the Company utilizes to measure customer satisfaction.

The following table sets forth the relative market position by division within the markets that the Company operated in during the year ended December 31, 2009:

| | Market Position |
|---|---|
| Bredero Shaw | First |
| Canusa–CPS | First |
| Shaw Pipeline Services | First |
| Flexpipe Systems | Second |
| Guardian | First |
| DSG–Canusa | Second |
| ShawFlex | First |

*Safety and Environmental Stewardship*
The Company maintains a comprehensive HSE management system within each of its seven operating divisions and is committed to being an IIF workplace with no damage to the environment. For the years ended December 31, 2009 and 2008, the Company had a lost time accident frequency on a per million person hours worked basis of 5.0 and 7.3, respectively, an improvement of 31.5% year over year.

During 2009, the Company completed 41 HSE audits at manufacturing and service locations across all seven divisions and developed action plans to improve any deficiencies identified in the audits.

## 1.5 Capability to Deliver Results

*Capital Resources*
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 in property, plant and equipment, working capital and project guarantees, required 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.

Capital expenditures totaled $34.4 million and $89.8 million for the years ended December 31, 2009 and 2008, respectively, a decrease of $55.4 million. During 2007 and 2008, the Company incurred capital expenditures totaling $181.7 million to expand manufacturing capacity in each of the regions where the Company operates globally. With the completion of these programs in 2008, capital spending has declined significantly. In addition, with the increase in manufacturing capacity over this period, the Company believes it has sufficient available resources and capacity to meet the market demand for its products and services in the markets where the Company operates. The Company may however incur new capital expenditures to facilitate growth in new markets.

The current level of working capital investment is expected to be sufficient to support the level of business activity projected in 2010; however, unexpected increases in business activity or specific pipe coating project requirements may result in higher working capital requirements. Any such increase in requirements will be financed from the Company's cash balances and available committed credit facilities. The Company had cash and cash equivalents of $250.0 million and $78.9 million as at December 31, 2009 and 2008, respectively, and had unutilized lines of credit available of $190.0 million and $198.0 million, respectively.

The current financial position of the Company is strong and the Company does not foresee any difficulties in maintaining a sufficient level of financial capacity to execute the Company's growth strategy.

Refer to section 5 Liquidity and Capitalization for additional information with respect to the Company's liquidity and financial position.

*Non-Capital Resources*

The Company considers its people as the most significant non-capital resource required in order to achieve its vision and objectives identified above. The Company's executives are comprised of senior business leaders who bring a broad range of experience and skill sets in the oil and gas industry, finance, tax, law and corporate governance. The leadership teams experience, combined with the employees' knowledge and dedication to excellence, has resulted in a long history of proven financial success and stability; with the resulting creation of value for the Company's stakeholders.

On an ongoing basis, the Company monitors its succession planning program in order to mitigate the impact of planned or unplanned departures of key personnel. As at December 31, 2009, the Company believes it has sufficient human resources to operate its business at an optimal level and execute its strategic plan.

*Systems and Processes*

Management regularly reviews the Company's operational systems and processes and develops new ones as required. Key operational programs utilized by the Company during the year ended December 31, 2009, include systems and controls over project bidding, capital expenditures, internal controls over financial reporting, product development, HSE management and human resource development. In addition, the SMS program has been implemented to increase operating efficiency and achieve significant cost savings in each of the Company's seven divisions.

As at December 31, 2009, the Company believes it has sufficient systems and processes in place to operate its business at an optimal level and execute its strategic plan.

## 2. FINANCIAL HIGHLIGHTS

### 2.1 Selected Annual Information

The following sets forth the Company's financial highlights for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change ($) |
|---|---|---|---|
| Revenue | **$ 1,183,978** | $ 1,379,577 | $ (195,599) |
| Gross profit | **488,457** | 486,640 | 1,817 |
| Selling, general and administrative expense | **219,901** | 224,789 | (4,888) |
| Foreign exchange losses (gains) | **3,790** | (8,180) | 11,970 |
| Research and development expense | **10,967** | 8,121 | 2,846 |
| Non-controlling interest | **—** | 248 | (248) |
| **EBITDA**[(a)] | **253,799** | 262,158 | (8,359) |
| Amortization of property, plant and equipment | **57,244** | 63,997 | (6,753) |
| Amortization of intangible assets | **4,380** | 1,902 | 2,478 |
| **Operating income from continuing operations** | **192,175** | 196,259 | (4,084) |
| Interest expense – net | **4,672** | 5,659 | (987) |
| Income taxes | **56,397** | 55,878 | 519 |
| **Income from continuing operations** | **131,106** | 134,722 | (3,616) |
| Income from discontinued operations | **344** | 11,011 | (10,667) |
| **Net income** | **$ 131,450** | $ 145,733 | $ (14,283) |
| Total assets | **$ 1,185,977** | $ 1,227,289 | |
| Total long-term financial liabilities[(b)] | **$ 26,544** | $ 60,943 | |
| **Per share information:** | | | |
| Operating income from continuing operations | | | |
| Basic (Classes A and B) | **2.73** | 2.76 | |
| Diluted (Classes A and B) | **2.71** | 2.74 | |
| Income from continuing operations | | | |
| Basic (Classes A and B) | **1.86** | 1.90 | |
| Diluted (Classes A and B) | **1.85** | 1.88 | |
| Income from discontinued operations | | | |
| Basic (Classes A and B) | **0.00** | 0.16 | |
| Diluted (Classes A and B) | **0.00** | 0.15 | |
| Net income | | | |
| Basic (Classes A and B) | **1.86** | 2.06 | |
| Diluted (Classes A and B) | **1.85** | 2.03 | |
| Cash dividends | | | |
| Class A[(c)] | **0.5350** | 0.2525 | |
| Class B[(d)] | **0.4864** | 0.2293 | |

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure and should not be considered as an alternative to net income or any other measure of performance under GAAP. Refer to section 13 Reconciliation of Non-GAAP Measures for additional information with respect to non-GAAP measures used by the Company.
(b) Includes the Company's long-term debt and obligations under capital leases.
(c) Includes regular quarterly dividends of 0.2750 and 0.2525 for 2009 and 2008, respectively and a special dividend of 0.2600 and nil for 2009 and 2008, respectively.
(d) Includes regular quarterly dividends of 0.25004 and 0.22930 for 2009 and 2008, respectively and a special dividend of 0.23636 and nil for 2009 and 2008 respectively.

*Revenue*
Revenue decreased by $195.6 million or 14.2% in 2009 compared to 2008, primarily due to lower revenue as a result of reduced market activity, particularly in North America and the Europe, Middle East, Africa and Russia ("EMAR") regions, partially offset by the favourable effect of foreign exchange fluctuations.

*Operating Income from Continuing Operations*
Operating income from continuing operations decreased by $3.8 million or 2.0% in 2009 compared to 2008, primarily due to the decrease in revenue explained above and the movement in foreign exchange gains and losses, partially offset by a decrease in cost of goods sold and the favourable effect of foreign exchange fluctuations. Cost of goods sold decreased at a greater rate than revenue primarily due to the mix of pipeline coating projects, various cost reduction initiatives and increased operating efficiencies associated with efforts under the SMS program.

*Net Income*
Net income decreased to $131.4 million in 2009 compared to $145.7 million in 2008, a decrease of $14.3 million or 9.8%. The decrease was primarily due to the decrease in operating income explained above and the change in income from discontinued operations relating to the lawsuit settlement recorded in 2008.

### 2.2 Foreign Exchange Impact
The following table sets forth the impact on revenue, operating income from continuing operations and net income, compared with the comparable prior year period, as a result of foreign exchange fluctuations on the translation of foreign currency operations for the following periods:

| *(in thousands of Canadian dollars)* | **Year Ended December 31, 2009** | **Three Months Ended December 31, 2009** |
|---|---|---|
| Revenue | **$ 34,568** | **$ (27,167)** |
| Operating income from continuing operations | **$ 14,173** | **$ (6,703)** |
| Net income | **$ 10,213** | **$ (5,940)** |

The following table sets forth the significant currencies in which the Company operates and the foreign year-to-date average exchange rates for these currencies versus the Canadian dollar, for the following periods:

| | Year Ended December 31, | | Three Months Ended December 31, | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| U.S. Dollar | **1.1450** | 1.0686 | **1.0544** | 1.2483 |
| Euro | **1.5958** | 1.5639 | **1.5569** | 1.6370 |
| British Pound | **1.7763** | 1.9632 | **1.7154** | 1.9038 |

## 3. SIGNIFICANT BUSINESS DEVELOPMENTS

*Significant Business Contracts*
In December 2009, the Company was awarded contracts with a value of approximately US$185.0 million from Mitsui & Co. Ltd. to provide pipeline coatings and related products and services for the Papua New Guinea ("PNG") LNG project (the "PNG project") operated by Esso Highlands Limited. The PNG project is located in Papua New Guinea and will be executed at the Bredero Shaw pipe coating facilities in Kabil, Indonesia and Kuantan, Malaysia. The PNG project is expected to commence during the middle of 2010.

In November 2009, the Company entered into a contract agreement with Marubeni-Itochu Steel Inc. to provide pipeline coatings for the Epic Energy Corporation QSN3 Pipeline Project (the "Epic project") with a value in excess of approximately US$42.0 million. The Epic project will be executed at the Bredero Shaw pipe coating facilities in Kembla Grange, Australia and in Kuantan, Malaysia and is expected to commence during the second quarter of 2010.

*New Joint Venture Agreement*
In January 2010, the Company entered into a joint venture agreement with OOO ArkhTekhnoProm, an affiliate of OAO Mezhregiontruboprovodstroi, the leading Russian offshore pipeline contractor. The joint venture will establish a pipe coating facility in the Arkhangelsk Region, Russian Federation, that will provide advanced concrete weight coating services for the emerging northern Russia offshore pipeline market.

The joint venture involves the formation of a company owned 75% by OOO ArkhTekhnoProm and 25% by the Company. The first contract to be executed by the joint venture is expected to commence during the second quarter of 2010. The joint venture will be accounted for through proportionate consolidation in accordance with GAAP.

*Repayment of 5.11% Senior Notes ("Senior Notes")*
Under the terms of the Senior Notes, the Company is required to repay the Senior Notes in three equal installments of US$25.0 million on June 30, 2009, 2010 and 2011. On June 30, 2009, the Company made the first repayment of US$25.0 million ($28.7 million at the then current exchange rate) (the "2009 Repayment"). The 2009 Repayment of US$25.0 million was funded by permanently repatriated funds from the Company's U.S. dollar-based operations. The payment of dividends from the subsidiary operations including the repatriation gave rise to a net foreign exchange loss of $678 thousand and was transferred from accumulated other comprehensive income to the consolidated statement of income during the second quarter of 2009. Refer to section 5.5 Credit Facilities for additional information with respect to the Company's Senior Notes.

*Renewal of Normal Course Issuer Bid ("NCIB")*
On November 30, 2009, the Company received approval from the TSX to renew its NCIB for an additional one year period expiring on November 30, 2010. Under the terms of the renewal, the Company is authorized to acquire, through the facilities of the TSX, up to 3,000,000 of the currently issued and outstanding Class A Subordinate Voting Shares (the "Class A Shares") and up to 100,000 of the currently issued and outstanding Class B Multiple Voting Shares (the "Class B Shares"). These two amounts comprise approximately 5.2% and 0.8% % of the public float outstanding as at February 16, 2010, for Class A Shares and Class B Shares, respectively. Daily purchases will be limited to 40,555 Class A Shares and 1,000 Class B Shares, other than block purchase exemptions. All Class A Shares and Class B Shares purchased under the NCIB will be cancelled. Refer to section 5.8 Outstanding Share Capital for additional information with respect to the Company's Class A Shares and Class B Shares.

## 4. RESULTS FROM OPERATIONS

### 4.1 Consolidated Information

REVENUE

The following table sets forth revenue by reportable operating segment for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change ($) |
|---|---|---|---|
| Pipeline and Pipe Services | **$ 1,072,858** | $ 1,239,893 | $ (167,035) |
| Petrochemical and Industrial | **111,120** | 139,684 | (28,564) |
| Consolidated | **$ 1,183,978** | $ 1,379,577 | $ (195,599) |

Consolidated revenue decreased to $1.18 billion in 2009, a decrease of $195.6 million or 14.2%. The decrease was due to lower revenue in both of the Company's operating segments, partially offset by the favourable impact of foreign exchange fluctuations as noted in section 2.2 Foreign Exchange Impact.

The decrease in Pipeline and Pipe Services was primarily due to lower revenue in EMAR and North America of $155.5 million and $152.5 million, respectively, partially offset by an increase in Latin America of $115.2 million. See section 4.2 Segment Information for additional information with respect to the change in revenue in Pipeline and Pipe Services.

The decrease in the Petrochemical and Industrial segment was mainly due to lower revenues, compared to the prior year, in North America and EMAR of $15.1 million and $13.5 million, respectively. See section 4.2 Segment Information for additional information with respect to the change in revenue in Petrochemical and Industrial.

OPERATING INCOME FROM CONTINUING OPERATIONS

The following table sets forth operating income from continuing operations and operating margin for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change |
|---|---|---|---|
| Operating income from continuing operations | **$ 192,175** | $ 196,011 | $ (3,836) |
| Operating margin[(a)] | **16.2%** | 14.2% | 2.0% points |

(a) Operating margin is defined as operating income from continuing operations divided by revenue.

Operating income from continuing operations decreased by $3.8 million in 2009 compared to 2008, while operating margin increased by 2.0 percentage points. The decrease was primarily due to the reduction in revenue explained above and the movement in foreign exchange losses (gains), partially offset by a decrease in cost of goods sold and the favourable effect of foreign exchange fluctuations. Cost of goods sold decreased primarily due to the mix of pipeline coating projects and to various cost reduction initiatives and increased operating efficiencies associated with the SMS program.

INTEREST EXPENSE – NET

The following table sets forth the components of interest expense – net for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change ($) |
|---|---|---|---|
| Interest income on short-term deposits | **$ (916)** | $ (1,895) | $ 979 |
| Interest expense on bank indebtedness | **1,780** | 2,518 | (738) |
| Interest expense on long-term debt | **3,808** | 5,036 | (1,228) |
| Interest expense – net | **$ 4,672** | $ 5,659 | $ (987) |

Interest expense – net decreased by $987 thousand in 2009 compared to 2008. The decrease was primarily due to lower interest expense on bank indebtedness and long-term debt. The decrease in interest expense on bank indebtedness was mainly due to lower debt levels in 2009 compared to 2008. The decrease in interest expense on long-term debt was due to lower debt levels in 2009 compared to 2008 as a result of the repayment of Senior Notes made in the second quarter of 2009. See section 5.5 Credit Facilities for additional information with respect to the 2009 Repayment.

INCOME TAXES

The Company recorded income tax expense of $56.4 million (30.1% of income from continuing operations before income taxes and non-controlling interest) in 2009, compared to tax expense of $55.9 million (29.4% of income from continuing operations before income taxes and non-controlling interest) in 2008. The effective tax rate in 2009 was largely in line with the rate in the prior year and was lower than the Company's expected effective tax rate of 31.0%. The reduction from the expected rate resulted primarily from income generated in lower-taxed foreign jurisdictions.

DISCONTINUED OPERATIONS

Income from discontinued operations was $344 thousand in 2009 compared to $11.0 million in 2008, a decrease of $10.7 million, as the Company had recorded in 2008 a settlement of a lawsuit connected to the Company's closed pipe coating plant in Mobile, Alabama.

### 4.2 Segment Information

PIPELINE AND PIPE SERVICES SEGMENT

The following table sets forth, by geographic location, the revenue, operating income from continuing operations and operating margin for the Pipeline and Pipe Services segment for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change |
|---|---|---|---|
| **Revenue** | | | |
| North America | **$ 393,925** | $ 546,445 | $ (152,520) |
| Latin America | **188,758** | 73,582 | 115,176 |
| EMAR | **260,861** | 416,313 | (155,452) |
| Asia Pacific | **229,314** | 203,553 | 25,761 |
| **Total revenue** | **$ 1,072,858** | $ 1,239,893 | $ (167,035) |
| **Operating income from continuing operations** | **$ 212,779** | $ 194,976 | $ 17,803 |
| **Operating margin** | **19.8%** | 15.7% | 4.1% points |

Revenue in 2009 was $1.07 billion, a decrease of $167.0 million or 13.5% compared to 2008. The decrease was due to lower revenue in EMAR and North America of $155.5 million and $152.5 million, respectively, partially offset by an increase in Latin America and Asia Pacific of $115.2 million and $25.8 million, respectively.

The decrease in North America resulted from the significant decline in oil and gas drilling activity as a result of the global economic recession. Reduced drilling and well completions in Canada and the U.S. negatively impacted volumes in several of the Company's key product markets including small diameter pipe coating, spoolable composite pipe and drill pipe services.

The decrease in EMAR was mainly due to lower pipe coating volumes in Europe and the Middle East. The record activity levels for insulation coating at the Company's facility in Orkanger, Norway in 2008 were not repeated in 2009 due to reduced project activity in the North Sea and the 2008 completion of the Pluto project. Elsewhere in the region, concrete coating volumes for offshore pipelines also declined on reduced project activity in the North Sea and offshore Middle East.

The increase in Latin America was due to the $81 million Trinidad North East Offshore and Tobago Pipeline projects in 2009 and strong growth in Mexico on increased pipeline investment by Pemex, the national oil company of Mexico.

The increase in Asia Pacific was primarily due to a higher level of pipe coating activity at the region's plants in Indonesia and Malaysia as a result of continuing growth in oil and gas demand within Asia coupled with growth in investment by energy producing companies to develop new oil and gas resources in the region.

Operating income from continuing operations in 2009 was $212.8 million compared to $195.0 in 2008, an increase of $17.8 million or 9.1%, while the operating margin improved by 4.1 percentage points. The increase was primarily due to the favourable effect of foreign exchange fluctuations and various cost reduction initiatives and operating efficiency improvements associated with efforts under the SMS program.

PETROCHEMICAL AND INDUSTRIAL SEGMENT

The following table sets forth, by geographic location, the revenue, operating income from continuing operations and operating margin for the Petrochemical and Industrial segment for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change |
|---|---|---|---|
| **Revenue** | | | |
| North America | **$ 65,904** | $ 81,014 | $ (15,110) |
| EMAR | **45,216** | 58,670 | (13,454) |
| **Total revenue** | **$ 111,120** | $ 139,684 | $ (28,564) |
| **Operating income from continuing operations** | **$ 5,062** | $ 19,087 | $ (14,025) |
| **Operating margin** | **4.6%** | 13.7% | (9.1)% points |

Revenue was $111.1 million in 2009, a decrease of $28.6 million or 20.4% compared to 2008. The decrease was primarily due to lower revenue in North America and EMAR of $15.1 million and $13.5 million, respectively.

The decrease in North America resulted from a significant decrease in 2009 in the number of industrial building permits issued in Canada with a resulting impact on the demand for wire and cable, lower wire and cable prices as a result of reductions in the price of copper in 2009 compared to 2008 and the impact of the global economic recession in 2009, particularly on demand for heat shrinkable products in the industrial and automotive industries. The decrease in EMAR was primarily due to a decline in demand in the automotive and electrical markets in Europe as a result of the global economic recession in 2009 and tighter capital markets.

Operating income from continuing operations in 2009 was $5.1 million compared to $19.1 million in 2008, a decrease of $14.0 million or 73.5%, while operating margin decreased by 9.1 percentage points. The decrease was primarily due to the lower revenue discussed above, the impact of lower business activity on factory utilization and one-time costs of approximately $3.0 million related to the restructuring of operations in EMAR including the closure of a facility in Poland.

FINANCIAL AND CORPORATE

The following table sets forth the Company's unallocated financial and corporate expense, before foreign exchange gains and losses, for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change ($) |
|---|---|---|---|
| Financial and corporate expense | **$ 21,876** | $ 26,231 | $ (4,355) |

Financial and corporate expense includes corporate expenses not allocated to the operating segments and other non-operating items including foreign exchange gains and losses on foreign currency denominated cash and working capital balances. The corporate division of the Company only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined under GAAP.

Financial and corporate expense, before foreign exchange gains and losses, decreased by $4.4 million or 16.6% in 2009 compared to 2008. The decrease was primarily due to the reversal of a provision related to resolved workers compensation claims, lower professional fees in 2009 compared to 2008, a higher allocation of corporate costs to R&D expense reported in the Pipeline and Pipe Services segment due to increased R&D activity and lower compensation costs reflecting the lower profits of the Company in 2009 compared to 2008.

## 5. LIQUIDITY AND CAPITALIZATION

The following table sets forth the Company's cash flows by activity and cash balance as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Income from continuing operations | **$ 131,106** | $ 134,722 |
| Non-cash items | **59,446** | 93,938 |
| Settlement of asset retirement obligations | **(1,307)** | (891) |
| Change in employee future benefits | **(457)** | (1,400) |
| Change in non-cash working capital and foreign exchange | **98,344** | (72,008) |
| Cash provided by continuing operating activities | **287,132** | 154,361 |
| Cash used in continuing investing activities | **(37,695)** | (209,757) |
| Cash used in continuing financing activities | **(79,608)** | (30,715) |
| Foreign exchange on foreign cash and cash equivalents | **(10,974)** | 25,776 |
| Net cash provided by (used in) continuing operations | **158,855** | (60,335) |
| Net cash provided by (used in) discontinued operations | **12,201** | (35,750) |
| Net increase (decrease) in cash and cash equivalents | **171,056** | (96,085) |
| Cash and cash equivalents, beginning of year | **78,932** | 175,017 |
| **Cash and cash equivalents, end of year** | **$ 249,988** | $ 78,932 |

### 5.1 Cash provided by Continuing Operating Activities

Cash provided by continuing operating activities increased by $132.8 million or 86.0% in 2009 compared to 2008, primarily due to the movement in non-cash working capital and foreign exchange of $170.4 million, partially offset by a decrease in the movement of non-cash items. Non-cash working capital increased mainly due to reduced accounts receivable, inventories and higher deferred revenue, partially offset by lower accounts payable. Non-cash items decreased mainly due to changes in future income taxes combined with a decrease in amortization of property, plant and equipment and impairment charges recorded in 2008 for asset retirement obligations and available-for-sale financial assets.

### 5.2 Cash used in Continuing Investing Activities

Cash used in continuing investing activities decreased by $172.1 million or 82.0% in 2009 compared to 2008, as a result of a decrease in capital expenditures in 2009 and the acquisition of Flexpipe Systems in 2008.

### 5.3 Cash used in Continuing Financing Activities

Cash used in continuing financing activities increased by $48.9 million or 159.2% in 2009 compared to 2008, primarily due to the repayment on the Senior Notes in the second quarter of 2009, a decrease in bank indebtedness and the $18.0 million special dividend paid during 2009. See section 5.5 Credit Facilities for additional information with respect to the 2009 repayment.

### 5.4 Liquidity and Capital Resource Measures

*Trade Receivables*

The following table sets forth the Company's trade receivables balance and days' sales outstanding in trade receivables ("DSO") as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change ($) |
|---|---|---|---|
| Trade receivables | **$ 176,152** | $ 290,028 | $ (113,876) |
| DSO[(a)] | **61** | 60 | |

(a) DSO is the average number of days that accounts receivables are outstand - ing based on a 90 day cycle. See section 13 Reconciliation of Non-GAAP Measures for additional information with respect to DSO.

Trade receivables decreased to $176.2 million as at December 31, 2009, from $290.0 million as at December 31, 2008, a decrease of $113.9 million, primarily as a result of lower sales volumes in 2009 compared to 2008. DSO was relatively increased by one day in the fourth quarter of 2009 compared to the fourth quarter of 2008 due to the proportionately higher decline in trade receivables as compared to the revenue.

*Inventories*

The following table sets forth the Company's inventories balance as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change ($) |
|---|---|---|---|
| Inventories | **$ 109,379** | $ 152,284 | $ (42,905) |

Inventories decreased to $109.4 million as at December 31, 2009, from $152.3 million as at December 31, 2008, a decrease of $42.9 million. The inventories balance mostly consists of raw materials purchased in advance of project execution. Raw materials as a percentage of total inventories were 68.1% and 74.6% as at December 31, 2009 and 2008, respectively. The decrease was primarily due to a reduction in raw material inventories that had been built up at the end of 2008 to support pipe coating projects in early 2009.

*Trade Payables*

The following table sets forth the Company's trade payables balance and days' payable outstanding in trade payables ("DPO") as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 | Change |
|---|---|---|---|
| Trade payables | **$ 133,275** | $ 192,705 | $ (59,430) |
| DPO[(a)] | **78** | 64 | |

(a) DPO is the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90 day cycle. See section 13 Reconciliation of Non-GAAP Measures for additional information with respect to DPO.

Trade payables decreased to $133.3 million as at December 31, 2009, from $192.7 million as at December 31, 2008, a decrease of $59.4 million. DPO increased by 14 days in the fourth quarter of 2009 compared to the fourth quarter of 2008. The increase was primarily due to the reduction in business activity levels in the fourth quarter of 2009 compared to the fourth quarter of 2008.

*Working Capital*

The following table presents key working capital measures utilized by the Company to monitor liquidity as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Working capital ratio[(a)] | **2.10** | 1.65 |
| Operating working capital[(b)] | **$ 79,573** | $ 181,785 |
| Days working capital[(c)] | **43** | 59 |

(a) Working capital ratio is defined as current assets divided by current liabilities.
(b) Operating working capital is defined as working capital minus cash and cash equivalents, bank indebtedness, the current portion of long-term debt and working capital related to discontinued operations. Refer to section 13 Reconciliation of Non-GAAP Measures for additional information with respect to operating working capital.
(c) Days working capital is defined as average working capital multiplied by 365 days and divided by revenue for the year.

Operating working capital decreased to $79.6 million during the year ended December 31, 2009, and days working capital decreased by 16 days, reflecting lower inventories and accounts receivable balances as a result of a decline in business activities.

### 5.5 Credit Facilities

The following table presents the Company's total credit facilities as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Standby letters of credit for performance, bid and surety bonds[(a)] | **$ 61,835** | $ 81,506 |
| Bank indebtedness[(b)] | **—** | 13,961 |
| Total utilized credit facilities | **61,835** | 95,467 |
| Total available credit facilities | **251,856** | 293,472 |
| Unutilized credit facilities | **$ 190,021** | $ 198,005 |

(a) Refer to section 7 Off-Balance Sheet Arrangements for additional information with respect to the Company's various bonds.
(b) Excludes the banking facilities of the Company's 30% owned joint venture, Arabian Pipecoating Company Ltd. ("APCO").

*Senior Notes*

On June 27, 2003, the Company entered into an agreement for the issue and sale, at par, on a private placement basis to institutional investors, US$75.0 million of Senior Notes due June 30, 2011. Under the terms of the agreement, the Company is required to repay the Senior Notes in three equal installments of US$25.0 million on June 30, 2009, 2010 and 2011. On June 30, 2009, the Company made the 2009 Repayment of US$25.0 million ($28.7 million at the then current exchange rate). As at December 31, 2009, $52.3 million was outstanding under the Senior Notes, of which $26.2 million has been classified as current portion of long-term debt.

On July 3, 2003, the Company designated the Senior Notes as a hedge of a portion of its net investment in the Company's U.S. dollar-based operations (the "Net Investment"). On April 1, 2009, the Company de-designated US$25.0 million of the hedge against the Net Investment leaving the remaining balance of the Senior Notes of US$50.0 million as a designated hedge against the Net Investment. See note 23 of the accompanying audited consolidated financial statements for additional information with respect to the de-designation.

*Debt Covenants*

Under the terms of the Company's credit facilities and long-term debt agreements, the Company must maintain the following:

- Fixed Charge Coverage Ratio of more than 2.5 to 1; and
- Debt to total capitalization ratio of less than 0.45 to 1.

The Company was in compliance with the debt covenants detailed above as at December 31, 2009. These debt covenants are non-GAAP measures and should not be considered as an alternative to net income or any other measure of performance under GAAP. See section 13 Reconciliation of Non-GAAP Measures for additional information with respect to these debt covenants.

### 5.6 Future Uses of Liquidity

*Commitments and Contingencies*

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)* | **Less than 1 Year** | 1-2 Years | 3-4 Years | After 2014 | Total |
|---|---|---|---|---|---|
| Operating leases | **$ 14,559** | $ 22,029 | $ 16,227 | $ 15,771 | $ 68,586 |
| Obligations under capital leases | **371** | 385 | 107 | — | 863 |
| Interest on obligations under capital leases | **53** | 64 | 17 | — | 134 |
| Purchase commitments | **32,990** | 373 | 412 | — | 33,775 |
| Long-term debt[(a)] | **26,235** | 26,235 | — | — | 52,470 |
| Asset retirement obligations | **6,217** | 2,189 | 8,181 | 2,171 | 18,758 |
| Total contractual obligations | **$ 80,425** | $ 51,275 | $ 24,944 | $ 17,942 | $ 174,586 |

(a) The payments are based on the annual US$25.0 million payments required under the terms of the Senior Notes and have been calculated based on current exchange rates.

The following table sets forth the Company's future minimum capital lease payments:

*(in thousands of Canadian dollars)*

| | |
|---|---|
| Total future minimum lease payments | $ 997 |
| Less: imputed interest | (134) |
| Balance of obligations under capital leases | 863 |
| Less: current portion | (371) |
| Long-term obligations under capital leases | $ 492 |

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

*Litigation Matters*

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.

## 5.7 Financial Instruments

FAIR VALUE

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

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.

As discussed in section 8.2 Changes in Accounting Policies, the Company adopted CICA HB 3862, *Fair Value and Liquidity Risk Disclosure* ("HB 3862") as at October 1, 2009, and categorized its financial instruments into one of the three hierarchy levels as defined by HB 3862. The Company had no financial instruments that required the use of unobservable inputs (Level 3) as at December 31, 2009. For additional information with respect to the Company's fair value hierarchy, refer to note 23 of the accompanying audited consolidated financial statements.

The methods and assumptions used to estimate the fair value of financial instruments and the related hierarchy level are described below:

*Long-term Investments*

The fair value of the Company's long-term investments is based on quoted market prices and is not different from its carrying value. (Level 1)

*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. (Level 2)

*Other Financial Assets and Liabilities*

Other financial assets and liabilities recorded at fair value include: accounts receivable, income taxes receivable, 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. (Level 1)

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of financial risks including: market risk (including foreign exchange and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance. Risk management is the responsibility of Company management. Material risks are monitored and are regularly reported to the Board of Directors. Refer to note 23 of the accompanying audited consolidated financial statements for additional information with respect to the Company's financial risk management.

*Foreign Exchange Risk*

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2009, fluctuations of ±5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, operating income from continuing operations and income from continuing operations for the year ended December 31, 2009, by approximately $42.4 million, $13.4 million and $10.6 million, respectively, prior to hedging activities, of which $31.3 million, $10.9 million and $8.3 million, respectively, is due to ±5% fluctuations in the Canadian dollar relative to the U.S. dollar. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total shareholders' equity by $50.6 million, $17.3 million and $33.3 million, respectively. The Company utilizes foreign exchange forward contracts to manage foreign exchange risk from its underlying customer contracts. The Company does not enter into foreign exchange contracts for speculative purposes.

The Company has designated the Senior Notes as a hedge of a portion of its Net Investment. Refer to section 5.5 Credit Facilities for additional information with respect to the Company's hedge investment. As of December 31, 2009, fluctuations of ±5% in the Canadian dollar, relative to the U.S. dollar, would impact the Company's accumulated other comprehensive income by $2.6 million for the year ended December 31, 2009.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures associated with the Company's foreign currency–denominated cash streams and the resulting variability of the Company's earnings. The Company utilizes foreign exchange forward contracts to manage this foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes. With the exception of the Company's U.S. dollar-based operations, the Company does not hedge translation exposures.

*Interest Rate Risk*

The Company's interest rate risk arises primarily from its floating rate bank indebtedness and long-term notes receivable and is not currently considered to be material.

*Credit Risk*

Credit risk arises from cash and cash equivalents held with banks, forward foreign exchange contracts and credit exposure to customers, including outstanding accounts receivable. The maximum credit risk is equal to the carrying value of the financial instruments.

The objective of managing counter party credit risk is to prevent losses in financial assets. The Company is subject to considerable concentration of credit risk since the majority of its customers operate within the global energy industry and are therefore affected to a large extent by the same macroeconomic conditions and risks. The Company manages this credit risk by assessing the credit quality of all counter parties, taking into account their financial position, past experience and other factors. Management also establishes and regularly reviews credit limits of counter parties and monitors utilization of those credit limits on an ongoing basis.

The carrying value of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the income statement with a charge to selling, general and administrative ("SG&A") expenses. When a receivable balance is considered to be uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A expenses.

The following table sets forth the aging of the Company's trade accounts receivable as at December 31:

| *(in thousands of Canadian dollars)* | 2009 |
|---|---|
| Not past due | $ 117,474 |
| Past due 1 to 30 days | 28,994 |
| Past due 31 to 60 days | 10,850 |
| Past due 61 to 90 days | 7,795 |
| Past due for more than 90 days | 16,392 |
| Total trade receivables | 181,505 |
| Less: allowance for doubtful accounts | 5,353 |
| Net receivables | $ 176,152 |

### 5.8 Outstanding Share Capital

As at February 16, 2010, the Company had 57,458,193 Class A shares outstanding and 13,059,973 Class B shares outstanding. In addition, as at February 16, 2010, the Company had stock options outstanding to purchase up to 2,826,366 Class A shares.

## 6. SUMMARY OF QUARTERLY RESULTS

### 6.1 Quarterly Selected Financial Information

The following tables set forth the Company's summary of selected financial information for the four quarters of 2009:

| *(in thousands of Canadian dollars)* | First Quarter 2009 | Second Quarter 2009 | Third Quarter 2009 | Fourth Quarter 2009 |
|---|---|---|---|---|
| Revenue | **$ 307,464** | **$ 312,791** | **$ 302,812** | **$ 260,911** |
| Operating income from continuing operations | **$ 50,434** | **$ 53,178** | **$ 49,972** | **$ 38,591** |
| Income from continuing operations | **$ 31,520** | **$ 34,343** | **$ 33,690** | **$ 31,553** |
| Income (loss) from discontinued operations | **$ 21** | **$ 293** | **$ 57** | **$ (27)** |
| Net income | **$ 31,541** | **$ 34,636** | **$ 33,747** | **$ 31,526** |
| **Per share information** | | | | |
| Operating income from continuing operations | | | | |
| Basic | **0.72** | **0.76** | **0.71** | **0.54** |
| Diluted | **0.72** | **0.76** | **0.70** | **0.53** |
| Net income from continuing operations | | | | |
| Basic | **0.45** | **0.49** | **0.48** | **0.44** |
| Diluted | **0.45** | **0.49** | **0.48** | **0.43** |
| Net income from discontinued operations | | | | |
| Basic | **0.00** | **0.00** | **0.00** | **0.00** |
| Diluted | **0.00** | **0.00** | **0.00** | **0.00** |

The following tables set forth the Company's summary of selected financial information for the four quarters of 2008:

| *(in thousands of Canadian dollars)* | First Quarter 2008 | Second Quarter 2008 | Third Quarter 2008 | Fourth Quarter 2008 |
|---|---|---|---|---|
| Revenue | $ 293,357 | $ 295,118 | $ 357,249 | $ 433,853 |
| Operating income from continuing operations | $ 40,919 | $ 27,189 | $ 52,315 | $ 75,588 |
| Income from continuing operations | $ 26,952 | $ 17,825 | $ 33,962 | $ 56,014 |
| Income (loss) from discontinued operations | $ (69) | $ 10,553 | $ $(82) | $ 609 |
| Net income | $ 26,852 | $ 28,378 | $ 33,880 | $ 56,623 |
| **Per share information** | | | | |
| Operating income from continuing operations | | | | |
| Basic | 0.57 | 0.38 | 0.74 | 1.07 |
| Diluted | 0.57 | 0.38 | 0.73 | 1.07 |
| Net income from continuing operations | | | | |
| Basic | 0.38 | 0.25 | 0.48 | 0.79 |
| Diluted | 0.37 | 0.25 | 0.47 | 0.79 |
| Net income from discontinued operations | | | | |
| Basic | 0.00 | 0.15 | 0.00 | 0.01 |
| Diluted | 0.00 | 0.15 | 0.00 | 0.00 |

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 90.6% of the Company's consolidated revenue in 2009, 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 segment.
- Over 78% of the Company's revenue in 2009 is transacted in currencies other than Canadian dollars, with a majority transacted in U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amounts of this revenue when it is translated into Canadian dollars. See section 2.2 Foreign Exchange Impact for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.

### 6.2 Fourth Quarter Highlights

Highlights of the Company's 2009 fourth quarter include:

FOURTH QUARTER 2009 VERSUS FOURTH QUARTER 2008

- **Revenue:** Consolidated revenue decreased by $172.9 million or 40.0% in the fourth quarter of 2009 compared to the fourth quarter of 2008. The decrease was due to declines in both the Pipeline and Pipe Services and the Petrochemical and Industrial segments of $166.0 million and $7.0 million, respectively. Revenue declined in Pipeline and Pipe Services as a result of lower levels of drilling activity which impacted small diameter pipe coating volumes and shipments of flexible composite pipe. Also contributing to the Pipeline and Pipe Services revenue decline was a reduction in pipe coating project activity in EMAR and the unfavourable impact of foreign exchange fluctuations. Revenue declined in Petrochemical and Industrial primarily due to the weaker market for wire and cable associated with a decline in industrial capital investment in the fourth quarter of 2009 compared with the prior year.
- **Operating income from continuing operations:** Operating income from continuing operations decreased by $37.0 million or 49.0% in the fourth quarter of 2009 compared to the fourth quarter of 2008. The decrease was primarily due to the decline in revenue across both of the Company's operating segments as discussed above and the impact of the lower revenue on facility utilization and overhead absorption.
- **Interest expense – net:** Interest expense – net was $762 thousand in the fourth quarter of 2009 compared to $2.2 million in the fourth quarter of 2008, a decrease of $1.4 million or 64.6%. The decrease was primarily due to lower interest expense on bank indebtedness and long-term debt in 2009 compared to 2008 mainly as a result of the repayment of Senior Notes made in the second quarter of 2009.
- **Income taxes:** Income tax expense relating to continuing operations in the fourth quarter of 2009 totaled $6.3 million (16.6% of income from continuing operations before non-controlling interest and income taxes) compared to $17.5 million (23.8% of income from continuing operations before non-controlling interest and income taxes) in the fourth quarter of 2008. The effective tax rate for the quarter was considerably lower than the Company's expected tax rate of 31.0%, mainly as a result of a larger proportion of the Company's income being generated in lower-tax foreign jurisdictions, primarily in the Asia Pacific region and a $1.5 million benefit from the utilization of tax losses not previously recognized.
- **Financial and corporate expense:** Financial and corporate expense decreased by $4.3 million or 49.2% in the fourth quarter of 2009 compared to the fourth quarter of 2008. The decrease was primarily due to a one-time $1.3 million write-down of the Company's investment in Garneau Inc. in the fourth quarter of 2008 and higher management compensation expenses in the fourth quarter of 2008 compared to the fourth quarter of 2009.

FOURTH QUARTER 2009 VERSUS THIRD QUARTER 2009

- **Revenue:** Consolidated revenue decreased by $41.9 million or 13.8% in the fourth quarter of 2009 compared to the third quarter of 2009. The decrease was due to declines in both the Pipeline and Pipe Services and the Petrochemical and Industrial segments of $37.5 million and $4.4 million, respectively. The decrease in Pipeline and Pipe Services was primarily due to the completion of several significant pipe coating projects in the third quarter for Trinidad and the U.S. Gulf of Mexico. Partially offsetting this decline was an increase in activity in the Company's facilities in Malaysia, Scotland and Norway relating to the Gumusut, Skarv and various offshore concrete coating projects. The decrease in Petrochemical and Industrial was primarily due to large project sales in the third quarter of 2009 and continuing weakness in the segments' automotive and industrial markets.
- **Operating income from continuing operations:** Operating income from continuing operations decreased by $11.4 million or 22.8% in the fourth quarter of 2009 compared to the third quarter of 2009. The decrease was primarily due to a decline in revenue across both of the Company's operating segments as discussed above.

Overall operating income margins decreased from 16.5% in the third quarter 2009 to 14.8% in the fourth quarter as lower revenue significantly impacted utilization and fixed cost overhead absorption.

- **Interest expense – net:** Interest expense – net was $762 thousand in the fourth quarter of 2009 compared to $675 thousand in the third quarter of 2009, a marginal increase of $87 thousand, due to lower interest rates on invested cash balances.
- **Income taxes:** Income tax expense relating to continuing operations in the fourth quarter of 2009 totaled $6.3 million (16.6% of income from continuing operations before non-controlling interest and income taxes) compared to $15.6 million (31.7% of income from continuing operations before non-controlling interest and income taxes) in the third quarter of 2009. The effective tax rate for the quarter was considerably lower than the Company's expected tax rate of 31.0%, mainly as a result of a larger proportion of the Company's income being generated in lower-tax foreign jurisdictions, primarily in the Asia Pacific region.
- **Financial and corporate expense:** Financial and corporate expense increased by $1.2 million or 37.5% in the fourth quarter of 2009 compared to the third quarter of 2009. The increase was primarily as a result of a lower allocation of corporate R&D expense to operating divisions due to increased corporate R&D activity.

## 7. OFF-BALANCE SHEET ARRANGEMENTS

The Company provides standby letters of credit for performance, bid and surety bonds through financial intermediaries to various customers as required under various project contracts. If the Company fails to perform under the terms of the contract, the customer has the ability to draw upon all or a portion of the bond as compensation for the Company's failure to perform. The contracts which these performance bonds support generally have a term of one to three years, but could extend beyond such periods. Bid bonds typically have a term of less than one year and are renewed, if required, over the term of the applicable contract. If the Company is unwilling to issue performance and other types of bonds, it could have a materially adverse effect on the ability of the Company to generate revenue. Historically, the Company has not made and does not anticipate that it will be required to make material payments under these types of bonds.

The Company utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of $61.8 million and $81.5 million as at December 31, 2009 and 2008, respectively, in support of its bonds.

See section 5.5 Credit Facilities for additional information with respect to the Company's various bonds and credit facilities.

## 8. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

### 8.1 Critical Accounting Estimates

The preparation of the audited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management's best judgment given the information available at the time; however, actual results could differ from the estimates. There have been no significant 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 value of goodwill on an annual basis on October 1 of each year 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.

The impairment test for 2009 indicated that no impairment was required on the Company's goodwill. The carrying value of goodwill as at December 31, 2009 and 2008, was $214.4 million and $229.1 million, respectively.

*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.

## 8.2 Changes in Accounting Policies

The following is a description of accounting policies adopted by the Company since January 1, 2009:

*Goodwill and Intangible Assets*
On January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064, *Goodwill and Intangible Assets* ("HB 3064"). Also as of this date, as is required on adoption of HB 3064, the Company no longer applies Emerging Issues Committee Abstract EIC-27, *Revenues and Expenditures During the Pre-operating Period*. As required, this accounting standard has been adopted retrospectively with restatement of prior year figures. The following adjustments were made to the Company's consolidated financial statements as a result of adopting this accounting standard:

Change in Consolidated Balance Sheets:

| *(in thousands of Canadian dollars)* | As at December 31, 2008 |
|---|---|
| Increase in inventories | $ 1,678 |
| Decrease in other assets | (3,285) |
| Increase in future taxes | 484 |
| Decrease in total assets | $ (1,123) |
| Future income taxes | $ — |
| Decrease in retained earnings | (1,123) |
| Decrease in total liabilities and shareholders' equity | $ (1,123) |

Change in Consolidated Statement of Income:

| *(in thousands of Canadian dollars)* | For the Year Ended December 31, 2008 |
|---|---|
| Increase in cost of goods sold | $ 5,707 |
| Decrease in income taxes | (1,712) |
| Decrease in income from continuing operations | $ (3,995) |
| Decrease in net income | $ (3,995) |
| Earnings per share | |
| Basic | |
| Continuing operations | $ (0.06) |
| Total | $ (0.06) |
| Diluted | |
| Continuing operations | $ (0.06) |
| Total | $ (0.06) |

The following is a description of the revised accounting policy adopted by the Company as a result of implementing this accounting change:

Costs incurred in the mobilization of project-specific plants for fixed term projects are included in work-in-process inventories and are charged to costs of goods sold on a percentage-of-completion basis. Such costs are to be included in inventories only if incurred after the Company is awarded the project and if directly related to the performance of the contract.

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*
On January 1, 2009, the Company adopted EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The adoption of this accounting standard had no effect on the Company's audited consolidated financial statements.

*Fair Value Measurement Disclosure*
In June 2009, the CICA amended HB 3862 to improve fair value and liquidity disclosure. The amendment to HB 3862 is effective for fiscal years beginning on or after October 1, 2009, and now requires that all financial instruments measured at fair value be categorized into one of following three hierarchy levels for disclosure purposes:

- **Level 1:** Quoted prices in active markets for identical instruments that are observable;
- **Level 2:** Quoted prices in active markets for similar instruments and inputs other than quoted prices that are observable and derived from or corroborated by market data; or
- **Level 3:** Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The three levels distinguish between the levels of observable inputs when measuring fair value. The Company has adopted this amendment effective October 1, 2009. The amendment only affects the Company's fair value disclosure in the notes to the audited consolidated financial statements. The adoption of HB 3862 did not have an impact on the results of operations and financial condition of the Company. Refer to note 23 of the accompanying audited consolidated financial statements and section 5.7 Financial Instruments for additional information with respect to the Company's fair value measurement disclosure.

### 8.3 Upcoming Accounting Changes

*International Financial Reporting Standards ("IFRS")*
During 2008, the Canadian Accounting Standards Board (the "AcSB") confirmed that publicly accountable enterprises, including the Company, will be required to adopt IFRS in place of GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

The Company commenced the transition process to IFRS during 2008 and has developed a project plan in this regard. A project team has been assembled led by senior finance management. The project team includes individuals from throughout the Company and is being advised by the Company's external auditors.

The project plan consists of five main phases: diagnostic, design and planning, solution development, implementation and post implementation review. The Company undertook the first two phases in 2008 and completed the following:

- identification of the main differences between GAAP and IFRS;
- development of implementation priorities based on the expected impact on the Company;
- development of a detailed implementation plan and timeline, including definition of process and training needs; and
- the establishment of the project team.

The third phase of the project, solution development, which involves the training of project team members and the development of new IFRS accounting policies and implementation guidance, was completed in 2009 in accordance with the timeline described in the Company's 2008 Management's Discussion and Analysis.

During 2010, the Company will initiate the implementation phase of the project, which includes executing the changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting that will be required to implement IFRS. This phase of the project is expected to be completed by the end of 2010. Regular reporting of progress is provided to the Company's senior executive management and to the Audit Committee of the Board of Directors.

The following table describes the major identified differences between the Company's current GAAP accounting policies and the accounting policies that the Company expects to adopt on the conversion to IFRS on January 1, 2011:

| Current Accounting Policy | Proposed IFRS Accounting Policy |
|---|---|
| *Principles of Consolidation*<br>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. | The consolidated financial statements comprise the financial statements of the Company and the entities under its control ("subsidiaries"). Control is defined as the ability to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of the holdings of actual and potential voting rights are considered.<br><br>The results of the subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of the acquisition up to the date of disposal. Adjustments are made, where necessary, to the financial statements of the subsidiaries to ensure consistency with those policies adopted by the Company. All inter-company transactions, balances, income and expenses are eliminated upon consolidation.<br><br>Minority interests represent the portion of the profit or loss and net assets of the subsidiaries that are not held by the Company and are shown separately within the Equity section of the consolidated balance sheet and in the consolidated income statement. |
| *Foreign Currency Translation*<br>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.<br><br>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.<br><br>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. | The Company's consolidated financial statements are prepared in Canadian dollars, which is the Company's functional currency. Functional currency is the currency of the primary economic environment in which the Company operates. Each of the Company's entities determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the balance sheet date. All resulting differences are charged to foreign exchange gains or losses in the income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the income statement. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.<br><br>The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement. |

| Current Accounting Policy | Proposed IFRS Accounting Policy |
| --- | --- |
| *Business Combinations (not included in 2008 consolidated financial statements)*<br>Business combinations are accounted for using the purchase method. Under this method, the Company allocates the purchase price to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition with the excess of the purchase price over the estimated fair value of the net assets acquired allocated to goodwill. The purchase price is comprised of cash paid less cash acquired and includes direct transaction costs including legal and other professional fees. Where the fair value of the net assets acquired exceeds the purchase price, the fair values of the tangible and intangible assets acquired are written-down by the amount of the excess. | Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities assumed at the date of exchange. Transaction costs associated with the business combination are expensed in the income statement. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.<br><br>Goodwill is initially measured at cost being the excess of the cost of the business combination over the acquirer's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of the acquisition is less than the fair value of the net assets of the acquiree, the difference is recognized directly in the income statement as a gain. |
| *Property, Plant and Equipment*<br>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. | Property, plant and equipment are recorded at cost which includes the borrowing costs for long-term construction projects where the recognition criteria are met. Likewise, where a major inspection is performed, its cost is recognized in the carrying value amount of the plant and equipment as a replacement if the recognition criteria are met. All other repair and maintenance costs are recognized in the income statement as incurred. The expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria are met.<br><br>Property, plant and equipment, 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.<br><br>An item of property, plant and equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) are included in the income statement in the year the asset is derecognized.<br><br>The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate. |

| Current Accounting Policy | Proposed IFRS Accounting Policy |
|---|---|
| *Intangible Assets*<br>Intangible assets and intellectual property are recorded at their allocated cost at the date of acquisition of the related subsidiary. Amortization is recorded for intangible assets and intellectual property with limited lives on a straight-line basis over their estimated useful lives of up to 15 years. | Intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement when incurred.<br><br>The useful lives of intangible assets are assessed as either finite or indefinite.<br><br>Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method is reviewed at least at each year end and adjusted prospectively if appropriate.<br><br>Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable, if not, the change in useful life from indefinite to finite is made on a prospective basis.<br><br>Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognized in the income statement when the asset is derecognized. |
| *Asset Retirement Obligations*<br>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. | Decommissioning costs (formerly referred to as asset retirement obligations) are provided at the present value of the expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The obligation is accreted over the period to settlement with the resulting charge made to the income statement as a finance cost. The estimated future costs of decommissioning are reviewed at least annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset. |

| Current Accounting Policy | Proposed IFRS Accounting Policy |
|---|---|
| *Employee Future Benefits*<br>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. | 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.<br><br>Past service costs arising from plan amendments are amortized on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, past service costs are recognized immediately in the income statement following the introduction of, or changes to, a pension plan.<br><br>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.<br><br>For the Company's defined contribution plans, costs are determined based on the services provided to the Company's employees and are recognized in the income statement as those services are provided. |

*Business Combinations*

In January 2009, the AcSB issued the following new Handbook sections: 1582, *Business Combinations*, 1601, *Consolidations* and 1602, *Non-Controlling Interests*. These standards are effective January 1, 2011. The Company has not yet determined the impact of the adoption of these standards on its audited consolidated financial statements.

Refer to note 3 of the accompanying audited consolidated financial statements for additional information with respect to upcoming accounting changes.

## 9. 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 ("DC&Ps") (as defined in the rules of the Canadian Securities Administrators) and the effectiveness of internal controls over financial reporting ("ICFRs"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as of December 31, 2009. Furthermore, they have concluded that the Company's ICFRs were adequate and effective to prevent a material misstatement of the Company's annual financial statements as at December 31, 2009. There were no material changes in either the Company's DC&Ps or its ICFRs during the fourth quarter of 2009.

## 10. GENERAL OUTLOOK

The primary driver of demand for the Company's products and services in the Pipeline and Pipe Services segment is the level of energy industry investment in pipeline infrastructure for hydrocarbon development and transportation around the globe. This investment, in turn, is driven by global levels of economic activity and the resulting growth in hydrocarbon demand, the need to replace the supply of hydrocarbons as a result of resource depletion and the financial position of the major energy companies. The relationship between global hydrocarbon demand and supply and the level of energy industry investment in infrastructure tends to be cyclical.

In 2009, the global economic recession resulted in reduced energy demand and tighter capital markets. Total world liquid fuel consumption decreased by 1.9% in 2009 compared to 2008, the first year over year decline in 25 years. Lower energy demand and reduced capital available for investment resulted in pipeline project delays and cancellations in Europe and the Middle East and a 42% decline in well completions in North America, with a resulting impact on small diameter pipe coating orders. However, as a result of strong project activity in Asia Pacific and the Trinidad project, coupled with the implementation of various cost savings initiatives, the Company was able to continue to produce strong financial results.

A gradual improvement in market outlook is indicated by the Company's order backlog, representing customer orders expected to be completed within one year, which totaled $410.5 million at December 31, 2009, an improvement from $239.9 million at the end of the third quarter of 2009. The two largest projects included in the backlog, the PNG project and Epic project, are scheduled for production in the second half of 2010 with the result that the Company expects that both revenue and operating income should strengthen as the year progresses.

While global economic activity appears to have stabilized, overall market demand for ShawCor's products and services is not likely to return to pre-recession levels until after 2010, an expectation reinforced by the fact that the order backlog, while improved, remains 10% below the level of $456 million at the beginning of 2009.

The Petrochemical and Industrial segment's markets should show some improvement from 2009 with the Company's new facility in China providing access to the growing market for automotive and electrical products in China as well as a low cost source for product that can be exported to North America and Europe. In the Pipeline and Pipe Services segment, market activity is expected to vary significantly from region to region as noted below:

*North America*
The number of drilling rigs active in North America improved during the second half of 2009 but active rig counts remain 27% below the peak levels of 2007. If current drilling levels continue in 2010 then ShawCor expects that the Company's businesses that are related to well completions, primarily small diameter pipe coating, flexible composite pipe and pipe joint protection, will see a modest improvement in volumes over 2009 levels. ShawCor businesses that are related to transmission pipeline construction, primarily large diameter pipe coating, will continue to be driven by project activity. In this area the volume expectations are largely consistent with the prior year.

*Latin America and Caribbean*
In 2009 revenue was supported by the $81.3 million Trinidad North East Offshore and Tobago Pipeline projects which are now complete. The decline in revenue from the completion of these projects may be partially offset by expected increases in activity in South America.

*EMAR*
Project activity in EMAR was greatly affected by the economic recession in 2009 with a number of projects delayed or cancelled. Thus the potential exists for a modest upturn in project activity in the second half of 2010 if customer investment decisions lead to new project commencement. Of strategic importance is the Company's new pipe coating venture in Russia that will start operations in 2010 and provide concrete weight coatings for offshore pipelines in the Russian Arctic. This joint venture will contribute modest revenue in 2010 but could provide growth opportunities in the longer term as Northern Russian gas and oil fields are developed.

*Asia Pacific*
In contrast to other global regions, the level of project activity in Asia Pacific is expected to increase significantly commencing in the second half of 2010. The Company has been awarded two large pipe coating contracts that will start production in mid-2010, the $185.0 million PNG LNG project and the $40.0 million Epic Energy QSN3 project in Eastern Australia. Other markets in South East Asia, where the Company has maintained a significant market share, are also expected to be strong in 2010. Beyond 2010, the Company expects that increasing energy demand in the region will necessitate increasing investment in pipeline infrastructure as new sources of oil and gas are developed and connected to growing markets in India, China and South East Asia. There are a large number of potential LNG projects being evaluated to develop natural gas resources from offshore fields in North West Australia, from coal seam resources in Eastern Australia and from other gas fields in the region, that are expected to sustain a high level of demand for new pipeline infrastructure over an extended timeframe.

During 2009, the Company's financial position continued to strengthen with the result that it has the financial capacity to fund significant growth opportunities through geographic expansion into emerging markets, new product introductions and through the acquisition of companies that complement current business activities and that provide new product and service offerings within the Company's core pipeline focus. Execution of these growth initiatives should provide the potential for continued growth for the Company in the years ahead.

## 11. 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 and adversely affect the Company's projections, business, results of operations and financial condition.

The following summarizes the Company's risks and uncertainties and how it manages and mitigates each risk:

### 11.1 Economic Risks

**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 oil and natural gas and result in a softening of oil and gas prices and projected oil and 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's 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 activity levels in these businesses.

**A cyclical decline in the level of global pipeline construction 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 global 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. The recent decline in the commodity prices for oil and natural gas has impacted the ability of producers to maintain capital spending. Reductions in capital spending by producers could dampen demand for the Company's products and services supplied in pipeline markets.

Revenue generated by the Company's Pipeline and Pipe Services segment accounted for 90.6% of consolidated sales in 2009. With this proportion expected to continue, the Company's revenue is materially dependent on the global 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.

**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. 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.

**A decline in global drilling activity 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 global drilling activity which in turn depends on global oil and gas demand, prices and production depletion rates. Lower drilling activity decreases demand for the Company's products and services, including small diameter pipe coating and tubular inspection and inventory management services.

*Economic Risk Mitigation*

The Company cannot completely mitigate economic risks. However, the Company maintains a competitive geographical presence in a diverse number of regions and has implemented several systems and processes to manage operational risks and to achieve continuous improvements in operational effectiveness in addition to various cost reduction initiatives. Through these efforts, economic risk is mitigated.

Refer to section 1.5 Capability to Deliver Results for additional information with respect to the Company's systems and processes.

### 11.2 Litigation and Legal Risks

**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 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 or financial condition, the Company may, however, become involved in material legal proceedings in the future. Such proceedings may include, for example, product liability claims, and claims relating to the existence or use of hazardous materials on the Company's property or in its operations or the handling or disposal thereof, as well as intellectual property disputes and other material legal proceedings with competitors, customers, employees and governmental entities. Such proceedings could arise from the Company's current or former actions and operations or the actions and operations of businesses and entities acquired by the Company prior to acquisition. The Company maintains insurance it believes to be commercially reasonable and customary; however, such coverage may be inadequate for or inapplicable to particular claims.

*Litigation and Legal Risk Mitigation*

The Company cannot completely mitigate legal risks. However, the Company maintains adequate commercial insurance to mitigate any adverse litigation and legal risks.

### 11.3 Health, Safety and Environmental Risks

**The Company is subject to HSE 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 disruption if any of its facilities or a portion of any facility is required to be temporarily closed as a result of any violation of those laws and regulations. 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.

**Demand for the Company's products and services could be adversely affected by changes to Canadian, U.S. or other countries' laws or regulations pertaining to the emission of $CO_2$ and other Greenhouse Gases ("GHGs") into the atmosphere.**

Although the Company is not a large producer of GHGs, the products and services of the Company are mainly related to the transmission of hydrocarbons including crude oil and natural gas, whose ultimate consumption are major sources of GHG emissions. Changes in the regulations concerning the release of GHG into the atmosphere, including the introduction of so-called carbon taxes or limitations over the emissions of GHGs, may adversely impact the demand for hydrocarbons and ultimately, the demand for the Company's products and services.

*HSE Risk Mitigation*
To minimize risks associated with environmental matters, the Company has implemented a comprehensive audit program in which it has completed detailed environmental audits at manufacturing and service locations across all seven divisions. Furthermore, the Company is committed to being an IIF workplace.

### 11.4 Political and Regulatory Risks

**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 2009, the Company derived 35.3% of its total revenue from its facilities outside North America and EMAR. In addition, part of the Company's sales from its locations in Canada and the U.S. were for use in other countries. The Company's operations in certain international locations 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 may increase the possibility that the Company's operations could be interrupted or adversely affected. The impact of such disruptions could include the Company's inability to ship products in a timely and cost-effective manner, its inability to place contractors and employees in various countries or regions, or result in the need for evacuations or similar disruptions.

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

**The Company's projections, business, results of operations and financial condition could be adversely affected by actions under Canadian, U.S. or other 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, U.S. or other trade laws were instituted that limited or prevented the Company's access to the materials or products necessary for such manufacturing operations, the Company's ability to meet its customer's specifications and delivery requirements would be reduced. Any such reduction in the Company's ability to meet its customer's specifications and delivery requirements could have a material adverse effect 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.

*Political and Regulatory Risk Mitigation*
The Company manages political and regulatory risks by working with governments, regulators and other parties to resolve issues, if any. In addition, the Company ensures that it is compliant with the laws and regulations in the jurisdictions where it operates.

## 12. ENVIRONMENTAL MATTERS

While environmental related liabilities are considered immaterial to the Company's financial results, they are important to the Company from a social responsibility standpoint. Refer to section 11 Health, Safety and Environmental Risks for additional information with respect to the Company's environmental matters.

As at December 31, 2009, the accruals on the audited consolidated balance sheet related to environmental matters and included as asset retirement obligations were $16.1 million. The Company believes the accruals to be sufficient to satisfy and reasonably estimate environmental liabilities related to known environmental matters.

## 13. RECONCILIATION OF NON-GAAP MEASURES

The Company evaluates its performance using a number of different measures that are not in accordance with GAAP and should not be considered as an alternative to net income or any other measure of performance under GAAP. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities.

***EBITDA***

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. The Company believes that EBITDA is a useful supplemental measure that provides a meaningful indication of the Company's results from principle business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions. Refer to section 2.1 Selected Annual Information for a reconciliation of the Company's EBITDA to its net income in accordance with GAAP.

***ROE***

ROE is defined as income from continuing operations divided by average shareholders' equity over the most recently completed five quarters and is used by the Company to assess the efficiency of generating profits from each unit of shareholder's equity.

The following table sets forth the calculation of the Company's ROE as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Income from continuing operations | **$ 131,106** | $ 134,722 |
| Average shareholders' equity | **$ 762,259** | $ 645,068 |
| ROE | **17.2%** | 20.9% |

***FCF***

FCF is defined as operating cash flow less capital expenditures and dividends paid during the year. FCF is intended to demonstrate the amount of cash the Company has available to invest in capital growth initiatives and the ability to generate cash flows to maintain operations.

The following table sets forth the calculation for the Company's FCF as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Cash provided by continuing operations | **$ 287,132** | $ 154,361 |
| Less: | | |
| Capital expenditures | **34,358** | 89,799 |
| Dividends paid | **37,057** | 17,597 |
| FCF | **$ 215,717** | $ 46,965 |

***DSO***

DSO is defined as the number of days that accounts receivable are outstanding based on a 90 day cycle and is calculated by dividing the quarter end accounts receivable balance by revenue for the quarter and multiplying by 90 days. DSO approximates the measure of the average number of days from when the Company recognizes revenue until the cash is collected from the customer.

The following table sets forth the calculation for the Company's DSO as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Revenue for the fourth quarter | **$ 260,911** | $ 433,853 |
| Trade receivable | **$ 176,152** | $ 290,028 |
| DSO | **61** | 60 |

***DPO***

DPO is defined as the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90 day cycle and is calculated by dividing the quarter end trade and other accounts payable balance by the cost of goods sold for the quarter and multiplying by 90 days.

The following table sets forth the calculation for the Company's DPO as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Cost of goods sold for the fourth quarter | **$ 154,183** | $ 269,236 |
| Trade and other accounts payable | **$ 133,275** | $ 192,705 |
| DPO | **78** | 64 |

***Working Capital Ratio***

Working capital ratio is defined as current assets divided by current liabilities. This metric provides management with an indication of the current liquidity available to the Company before considering long-term debt.

The following table sets forth the calculation for the Company's working capital ratio as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Current assets | **$ 586,085** | $ 579,146 |
| Current liabilities | **$ 278,518** | $ 349,977 |
| Working Capital Ratio | **2.10** | 1.65 |

***Operating Working Capital***

Operating working capital is defined as working capital less cash and cash equivalents, current future tax asset, bank indebtedness, the current portion of long-term debt, current obligations under capital leases and working capital related to discontinued operations. This metric measures the liquidity of the company without taking into account any non-interest bearing current assets and liabilities.

The following table sets forth the calculation for the Company's operating working capital as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Current assets | **$ 586,085** | $ 579,146 |
| Less: | | |
| Cash and cash equivalents | **249,988** | 78,932 |
| Current future tax asset | **4,668** | 3,322 |
| Current assets of discontinued operations | **—** | 12,256 |
| Net current assets | **$ 331,429** | $ 484,636 |
| Current liabilities | **$ 278,518** | $ 349,977 |
| Less: | | |
| Bank indebtedness | **—** | 15,418 |
| Current portion of long-term debt | **26,235** | 30,672 |
| Current obligations under capital leases | **371** | 581 |
| Current liabilities of discontinued operations | **56** | 455 |
| Net current liabilities | **$ 251,856** | $ 302,851 |
| Operating working capital | **$ 79,573** | $ 181,785 |

***Days Working Capital***

Days working capital is defined as average annual working capital multiplied by 365 days and divided by revenue for the year. The Company uses this metric to calculate how many days it will take to convert its working capital into revenue.

The following table sets forth the calculation for the Company's days working capital as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Average working capital | **$ 139,009** | $ 223,368 |
| Revenue | **$ 1,183,978** | $ 1,379,577 |
| Days working capital | **43** | 59 |

***Fixed Charge Coverage Ratio***

Fixed Charge Coverage Ratio is defined as EBITDA divided by interest expense. The Company is required to maintain a fixed charge coverage ratio of more than 2.5 to 1 under the terms of its credit facilities and long-term debt.

The following table sets forth the calculation of the Company's fixed charge coverage ratio as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| EBITDA | **$ 253,799** | $ 262,158 |
| Interest expense | **$ 4,672** | $ 5,659 |
| Fixed charge coverage ratio | **54.32** | 46.33 |

The Company is in compliance with this debt covenant as at December 31, 2009.

***Debt to Total Capitalization Ratio***

Debt to total capitalization ratio is defined as the sum of the Company's long-term debt and long-term bonds divided by the sum of shareholders' equity, long-term debt and long-term bonds. The Company is required to maintain a debt to total capitalization ratio of no more than 0.45 to 1. The Company is in compliance with this debt covenant as at December 31, 2009.

## 14. FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute forward-looking information under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward-looking information involves 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. Specifically, this document includes forward-looking information in respect of, among other things, the impact of global economic activity on the demand for the Company's products as well as the prices of commodities used by the Company, the impact of changing energy demand, supply and prices, the impact of changes in competitive conditions in the markets in which the Company participates, the impact of changing laws for environmental compliance on the Company's capital and operating costs, the Company's relationships with its employees, the continued establishment of international operations, the effect of continued development in emerging economies, as well as the Company's plans as they relate to research and development activities and the maintenance of its current dividend policies.

Forward-looking information involves known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted by the forward-looking information. We caution readers not to place undue reliance on forward-looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. Significant risks facing the Company 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; exposure to product and other liability claims; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; fluctuations in foreign exchange rates, as well as other risks and uncertainties, as more fully described herein under the heading "Risks and Uncertainties".

These statements of forward-looking information are based on assumptions, estimates and analyses made by 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. These assumptions include assumptions in respect of the potential for improvement in demand for the Company's products and services as a result of continued global economic recovery, the potential for increased investment in global energy infrastructure as a result of stabilization of capital markets, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company and the availability of personnel resources sufficient for the Company to operate its businesses. The Company believes that the expectations reflected in the forward-looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward-looking information included in this document and the Company can give no assurance that such expectations will be achieved.

When considering the forward-looking information in making decisions with respect to the Company, readers should carefully consider the foregoing factors and other uncertainties and potential events. ShawCor Ltd. does not assume the obligation to revise or update forward-looking information after the date of this document, or to revise it to reflect the occurrence of future unanticipated events, except as may be required under applicable securities laws.

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

February 22, 2010

## 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 Directors who are not officers or employees of ShawCor Ltd. or any of its subsidiaries. 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 22, 2010

William P. Buckley
President and Chief Executive Officer

Gary S. 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, 2009 and 2008 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, 2009 and 2008, 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 22, 2010

Chartered Accountants
Licensed Public Accountants

## Consolidated Balance Sheets

| *As at December 31*<br>*(in thousands of Canadian dollars)* | **2009** | 2008<br>*[notes 4 & 28]* |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents [note 7] | **$ 249,988** | $ 78,932 |
| Accounts receivable [note 23] | **191,821** | 307,933 |
| Taxes receivable | **14,055** | 9,261 |
| Inventories [note 8] | **109,379** | 152,284 |
| Prepaid expenses | **14,392** | 14,635 |
| Derivative financial instruments [note 23] | **1,782** | 523 |
| Current future income taxes [note 22] | **4,668** | 3,322 |
| Current assets of discontinued operation [note 27] | **—** | 12,256 |
| | **586,085** | 579,146 |
| Property, plant and equipment, net [note 9] | **270,219** | 307,735 |
| Goodwill [note 10] | **214,449** | 229,059 |
| Intangible assets [note 11] | **62,784** | 67,152 |
| Future income taxes [note 22] | **36,249** | 31,173 |
| Derivative financial instruments [note 23] | **39** | — |
| Other assets [note 12] | **16,152** | 13,024 |
| | **$ 1,185,977** | $ 1,227,289 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Bank indebtedness [note 14] | **$ —** | $ 15,418 |
| Accounts payable and accrued liabilities [note 23] | **133,275** | 192,705 |
| Taxes payable | **42,971** | 53,405 |
| Derivative financial instruments [note 23] | **510** | 2,049 |
| Deferred revenue | **75,100** | 54,692 |
| Current portion of long-term debt [note 14] | **26,235** | 30,672 |
| Current obligations under capital leases [note 17] | **371** | 581 |
| Current liabilities of discontinued operation [note 27] | **56** | 455 |
| | **278,518** | 349,977 |
| Long-term debt [note 14] | **26,052** | 60,554 |
| Obligations under capital leases [note 17] | **492** | 389 |
| Future income taxes [note 22] | **76,552** | 73,939 |
| Other non-current liabilities [note 15] | **13,941** | 9,978 |
| | **395,555** | 494,837 |
| **SHAREHOLDERS' EQUITY** | | |
| Capital stock [note 18] | **204,151** | 202,073 |
| Contributed surplus [note 19] | **17,277** | 14,512 |
| Retained earnings | **695,800** | 601,407 |
| Accumulated other comprehensive loss [note 20] | **(126,806)** | (85,540) |
| | **790,422** | 732,452 |
| | **$ 1,185,977** | $ 1,227,289 |

*See accompanying notes.*

On behalf of the Board

Paul G. Robinson, Director

Virginia L. Shaw, Director

# Consolidated Statements of Income

| *Years Ended December 31*<br>*(in thousands of Canadian dollars except per share amounts)* | **2009** | 2008<br>*[notes 4 & 28]* |
|---|---|---|
| Revenue | **$ 1,183,978** | $ 1,379,577 |
| Cost of goods sold | **695,521** | 892,937 |
| Gross profit | **488,457** | 486,640 |
| Selling, general and administrative expenses | **219,901** | 224,789 |
| Amortization of property, plant and equipment | **57,244** | 63,997 |
| Amortization of intangible assets | **4,380** | 1,902 |
| Foreign exchange losses (gains) | **3,790** | (8,180) |
| Research and development expenses | **10,967** | 8,121 |
| Operating income from continuing operations | **192,175** | 196,011 |
| Interest income on short term deposits | **916** | 1,895 |
| Interest expense on bank indebtedness | **(1,780)** | (2,518) |
| Interest expense on long-term debt | **(3,808)** | (5,036) |
| Income before income taxes and non-controlling interest | **187,503** | 190,352 |
| Income taxes | **56,397** | 55,878 |
| Income before non-controlling interest | **131,106** | 134,474 |
| Non-controlling interest | **—** | 248 |
| Income from continuing operations | **131,106** | 134,722 |
| Income from discontinued operation [note 27] | **344** | 11,011 |
| Net income for the year | **$ 131,450** | $ 145,733 |
| Earnings per share [note 25] | | |
| Basic | | |
| Continuing operations | **$ 1.86** | $ 1.90 |
| Discontinued operations | **—** | 0.16 |
| Total | **$ 1.86** | $ 2.06 |
| Diluted | | |
| Continuing operations | **$ 1.85** | $ 1.88 |
| Discontinued operations | **—** | 0.15 |
| Total | **$ 1.85** | $ 2.03 |

*See accompanying notes.*

# Consolidated Statements of Retained Earnings

| *Years Ended December 31* *(in thousands of Canadian dollars)* | **2009** | 2008 *[notes 4 & 28]* |
|---|---|---|
| Balance, beginning of year | **$ 601,407** | $ 492,903 |
| Transitional adjustment [note 4] | **—** | 2,872 |
| Adjusted balance, beginning of year | **601,407** | 495,775 |
| Net income for the year | **131,450** | 145,733 |
| | **732,857** | 641,508 |
| Excess of purchase price paid over stated value of shares | **—** | (22,504) |
| Dividends declared. | **(37,057)** | (17,597) |
| Balance, end of year | **$ 695,800** | $ 601,407 |

*See accompanying notes.*

# Consolidated Statements of Comprehensive Income

| *Years Ended December 31* *(in thousands of Canadian dollars)* | **2009** | 2008 *[notes 4 & 28]* |
|---|---|---|
| Net income for the year | **$ 131,450** | $ 145,733 |
| Other comprehensive income (loss), net of income taxes: | | |
| Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations | **(49,149)** | 55,627 |
| Loss on translating financial statements of self-sustaining foreign operations transferred to net income in the current period | **678** | — |
| Gain (loss) on hedges of unrealized foreign currency translation | **8,428** | (18,060) |
| Income tax benefit (expense) | **(1,223)** | 3,079 |
| Unrealized foreign currency translation gain (loss), net of hedging activities | **(41,266)** | 40,646 |
| Unrealized loss on available-for-sale financial asset arising in the year | **(336)** | (2,229) |
| Unrealized loss on available-for-sale financial asset transferred to net income in the current period | **336** | 2,816 |
| Income tax expense transferred to net income in the year | **—** | 253 |
| Change in unrealized loss on available-for-sale financial asset | **—** | 840 |
| Gain on derivatives designated as cash flow hedges in prior periods transferred to net income in the year | **—** | (1,508) |
| Income tax expense transferred to net income in the year | **—** | 512 |
| Change in gain on derivatives designated as cash flow hedges | **—** | (996) |
| Other comprehensive income (loss) for the year | **(41,266)** | 40,490 |
| Comprehensive income for the year | **$ 90,184** | $ 186,223 |

*See accompanying notes.*

# Consolidated Statements of Cash Flow

| *Years Ended December 31* *(in thousands of Canadian dollars)* | **2009** | 2008 *[notes 4 & 28]* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Income from continuing operations | **$ 131,106** | $ 134,722 |
| Add (deduct) items not affecting cash: | | |
| Amortization of property, plant and equipment | **57,244** | 63,997 |
| Amortization of intangible assets | **4,380** | 1,902 |
| Amortization of transaction costs | **444** | 440 |
| Amortization of long-term prepaid expenses | **1,173** | 930 |
| Asset retirement obligations expense [note 16] | **(4,852)** | 703 |
| Stock-based compensation [note 21] | **3,165** | 3,359 |
| Future income taxes | **(3,809)** | 11,777 |
| Loss on disposal of property, plant and equipment | **1,365** | 404 |
| Impairment of asset retirement obligation asset | **—** | 7,770 |
| Impairment of available-for-sale financial asset | **336** | 2,816 |
| Impairment of intangibles assets | **—** | 600 |
| Impairment of goodwill | **—** | 352 |
| Non-controlling interest in earnings of subsidiaries | **—** | (248) |
| Gain on disposal of subsidiary | **—** | (864) |
| Settlement of asset retirement obligations [note 16] | **(1,307)** | (891) |
| Change in employee future benefits | **(457)** | (1,400) |
| Change in non-cash working capital and foreign exchange | **98,344** | (72,008) |
| Cash provided by continuing operating activities | **287,132** | 154,361 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | **(34,358)** | (89,799) |
| Proceeds on disposal of property, plant and equipment | **606** | 46 |
| Acquisition of subsidiary | **—** | (125,723) |
| Increase in long-term notes receivable | **(3,943)** | — |
| Proceeds on disposal of subsidiaries | **—** | 5,719 |
| Cash used in continuing investing activities | **(37,695)** | (209,757) |
| **FINANCING ACTIVITIES** | | |
| Increase (decrease) in bank indebtedness | **(15,418)** | 10,311 |
| Increase (decrease) in capital leases | **(107)** | 830 |
| Repayment of long-term debt | **(28,705)** | — |
| Issue of shares [note 18] | **1,679** | 1,763 |
| Purchase of shares for cancellation | **—** | (26,022) |
| Dividends paid to shareholders | **(37,057)** | (17,597) |
| Cash used in continuing financing activities | **(79,608)** | (30,715) |
| Foreign exchange on foreign cash and cash equivalents | **(10,974)** | 25,776 |
| Net cash provided by (used in) continuing operations | **158,855** | (60,335) |
| Net cash provided by (used in) discontinued operations [note 27] | **12,201** | (35,750) |
| Cash and cash equivalents, beginning of year | **78,932** | 175,017 |
| Cash and cash equivalents, end of year | **$ 249,988** | $ 78,932 |
| Supplemental information: | | |
| Cash interest paid | **$ 5,487** | $ 7,472 |
| Cash income taxes paid | **$ 41,105** | $ 48,522 |

*See accompanying notes.*

# Notes to Consolidated Financial Statements

## 1. CORPORATE INFORMATION

ShawCor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. The company, together with its subsidiaries (collectively referred to as the "Company" or "ShawCor"), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates seven divisions with over seventy manufacturing, sales and service facilities located around the world. Further information as it pertains to the nature of the operations is set out in note 5.

The head office, principal address and registered office of the Company is 25 Bethridge Rd, Toronto, Ontario, M9W 1M7.

## 2. 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 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 remaining maturity dates on acquisition of 90 days or less.

### e) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis, except in certain project-based pipe coating businesses where the average cost basis is employed, and includes direct materials, direct labour and variable and fixed manufacturing overheads based on normal capacity. Net realizable value for finished goods, work-in-process and raw materials inventories required for production is the amount which would be realized on eventual sale of completed products, less the costs to complete and the cost of transport, while for excess raw materials it is the replacement cost. 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 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.

### h) Intangible Assets

Intangible assets and intellectual property are recorded at their allocated cost at the date of acquisition of the related subsidiary. Amortization is recorded for intangible assets and intellectual property with definite lives on a straight-line basis over their estimated useful lives of up to 15 years.

### i) 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 selling, general and administrative expenses. Investments which are jointly controlled by the Company and one or more unrelated parties are accounted for using the proportionate consolidation method.

### j) Deferred Costs

Costs incurred in the mobilization of project-specific plants for fixed term projects are included in work-in-process inventories and are charged to costs of goods sold on a percentage-of-completion basis. Such costs are to be included in inventories only if incurred after the Company is awarded the project and if directly related to the performance of the contract.

### k) Asset Retirement Obligations

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

### l) Revenue Recognition

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

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

### m) Leases

Leases entered into by the Company, in which substantially all of the benefits and risks of ownership are transferred to the Company, are recorded as obligations under capital leases, and under the corresponding category of property, plant and equipment. Obligations under capital leases reflect the present value of future minimum lease payments, discounted at an appropriate interest rate, and are reduced by rental payments net of imputed interest. Property, plant and equipment under capital leases is depreciated based on the useful life of the asset. All other leases are classified as operating leases. Payments for these leases are charged to income on a straight-line basis over the life of the assets.

### n) 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.

### o) Stock-Based Compensation

The Company has two stock option plans, which are described in note 21. The Company recognizes compensation expense in respect of stock options granted under both plans. The compensation expense is equal to the estimated fair value of the option at its grant date and is amortized over the vesting period of the option. An amount equal to compensation expense is initially credited to contributed surplus and transferred to share capital if and when the option is exercised. Consideration received on the exercise of stock options is credited to share capital.

### p) Research and Development Costs ("R&D")

R&D costs other than property, plant and equipment acquisitions are charged against income in the year incurred unless they meet GAAP requirements for deferral. R&D costs are reported net of investment tax credits. Investment tax credits are recorded to income in the year the related investment expenditures are made and totaled $489 thousand and $384 thousand in 2009 and 2008, respectively.

### q) Income Taxes

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

### r) Earnings Per Share ("EPS")

Basic EPS is calculated using the weighted average number of shares outstanding during the year. Diluted EPS is 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 plus future period compensation expense 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 EPS computation.

### s) Financial Instruments

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.

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.

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 selling general and administrative 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:

| *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 |

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 anticipated 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 selling, general and administrative expenses. As at December 31, 2009 and 2008, there were no derivatives designated as cash flow hedges.

### t) 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. RECENT ACCOUNTING PRONOUNCEMENTS

On February 13, 2008, The Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011, and the Company will be required to report using IFRS beginning on this date. The Company commenced the transition process to IFRS during 2008 and had developed a project plan in this regard. During 2009, the Company completed the solution development phase of the transition to IFRS, which involves the training of project team members and the development of new IFRS accounting policies and implementation guidance. The impact of the ultimate adoption of IFRS on the Company has not yet been finalized.

In January 2009, the AcSB issued the following new Handbook sections: 1582 – *Business Combinations*, 1601 – *Consolidations*, and 1602 – *Non-Controlling Interests*. These standards are effective January 1, 2011. The Company has not yet determined the impact of the adoption of these standards on its consolidated financial statements.

## 4. CHANGES IN ACCOUNTING POLICIES

### Goodwill and Intangible Assets

On January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064, *Goodwill and Intangible Assets* ("HB 3064"). Also as of this date, as is required on adoption of HB 3064, the Company no longer applies Emerging Issues Committee ("EIC") Abstract EIC-27, *Revenues and Expenditures During the Pre-operating Period*. As required, this accounting standard has been adopted retrospectively with restatement of prior year figures. The following adjustments were made to the Company's consolidated financial statements as a result of adopting this accounting standard:

Change in Consolidated Balance Sheets:

| (in thousands of Canadian dollars) | As at December 31, 2008 |
|---|---|
| Increase in inventories | $ 1,678 |
| Decrease in other assets | (3,285) |
| Increase in future taxes | 484 |
| Decrease in total assets | $ (1,123) |
| Future income taxes | $ — |
| Decrease in retained earnings | (1,123) |
| Decrease in total liabilities and shareholders' equity | $ (1,123) |

Change in Consolidated Statement of Income:

| (in thousands of Canadian dollars) | For the Year Ended December 31, 2008 |
|---|---|
| Increase in cost of goods sold | $ 5,707 |
| Decrease in income taxes | (1,712) |
| Decrease in income from continuing operations | $ (3,995) |
| Decrease in net income | $ (3,995) |
| Earnings per share | |
| Basic | |
| Continuing operations | $ (0.06) |
| Total | $ (0.06) |
| Diluted | |
| Continuing operations | $ (0.06) |
| Total | $ (0.06) |

### Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 1, 2009, the Company adopted EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The adoption of this accounting standard had no material effect on the Company's audited consolidated financial statements.

### Fair Value Measurement Disclosure

In June 2009, the CICA amended CICA HB 3862, *Fair Value and Liquidity Risk Disclosure* ("HB 3862") to improve fair value and liquidity disclosure. The amendment to HB 3862 is effective for fiscal years beginning on or after October 1, 2009, and now requires that all financial instruments measured at fair value be categorized into one of the following three hierarchy levels for disclosure purposes:

- **Level 1:** Quoted prices in active markets for identical instruments that are observable;
- **Level 2:** Quoted prices in active markets for similar instruments and inputs other than quoted prices that are observable and derived from or corroborated by market data; or
- **Level 3:** Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The three levels distinguish between the levels of observable inputs when measuring fair value. The Company has adopted this amendment effective October 1, 2009. The amendment only affects the Company's fair value disclosure in the notes to the audited consolidated financial statements and did not have an impact on the results of operations and financial condition of the Company. Refer to note 23 for additional information with respect to the Company's fair value and liquidity disclosure.

## 5. SEGMENTED INFORMATION

As at December 31, 2009, the Company had the following two reportable operating segments:

- Pipeline and Pipe Services; and
- Petrochemical and Industrial.

### Pipeline and Pipe Services

The Pipeline and Pipe Services segment is comprised of Bredero Shaw, which provides pipe-coating, lining and insulation products, Flexpipe Systems, which provides spoolable composite pipe systems, 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.

### Petrochemical and Industrial

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. Inter-segment transactions are accounted for at negotiated transfer prices.

### Financial and Corporate

The financial and corporate division of ShawCor only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined in accordance with GAAP.

The following table sets forth the Company's financial information by reportable operating segment for the years ended December 31:

| *(in thousands of Canadian dollars)* | Pipeline and Pipe Services | | Petrochemical and Industrial | | Financial and Corporate | | Eliminations and Adjustments | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008[(a)] | **2009** | 2008[(a)] | **2009** | 2008[(a)] | **2009** | 2008[(a)] | **2009** | 2008[(a)] |
| **Revenue** | | | | | | | | | | |
| External | **1,072,858** | 1,239,893 | **111,120** | 139,684 | **—** | — | **—** | — | **1,183,978** | 1,379,577 |
| Inter-segment | **1,045** | 2,849 | **3,901** | 2,324 | **—** | — | **(4,946)** | (5,173) | **—** | — |
| **Total Revenue** | **1,073,903** | 1,242,742 | **115,021** | 142,008 | **—** | — | **(4,946)** | (5,173) | **1,183,978** | 1,379,577 |
| Operating expenses | **796,789** | 982,906 | **105,129** | 116,477 | **22,240** | 15,336 | **(4,946)** | (5,173) | **919,212** | 1,109,546 |
| Amortization of property, plant and equipment | **52,164** | 57,622 | **3,609** | 5,197 | **1,471** | 1,178 | **—** | — | **57,244** | 63,997 |
| Amortization of intangibles | **4,380** | 1,902 | **—** | — | **—** | — | **—** | — | **4,380** | 1,902 |
| R&D expense | **7,791** | 5,336 | **1,221** | 1,247 | **1,955** | 1,538 | **—** | — | **10,967** | 8,121 |
| Operating income from continuing operations | **212,779** | 194,976 | **5,062** | 19,087 | **(25,666)** | (18,052) | **—** | — | **192,175** | 196,011 |
| Interest income | **—** | — | **—** | — | **916** | 1,895 | **—** | — | **916** | 1,895 |
| Interest expense | **—** | — | **—** | — | **(5,588)** | (7,554) | **—** | — | **(5,588)** | (7,554) |
| Income taxes | **—** | — | **—** | — | **56,397** | 55,898 | **—** | — | **56,397** | 55,898 |
| Total assets | **1,359,449** | 1,357,520 | **68,589** | 87,726 | **882,782** | 814,913 | **(1,124,843)** | (1,032,870) | **1,185,977** | 1,227,289 |
| Goodwill | **196,690** | 209,547 | **17,759** | 20,002 | **—** | — | **—** | — | **214,449** | 229,549 |
| Additions to property, plant and equipment, net of disposals | **29,972** | 85,585 | **2,312** | 2,973 | **1,468** | 1,195 | **—** | — | **33,752** | 89,753 |

(a) Prior year figures have been restated for changes in accounting policies and reclassified to conform to current year presentation. Refer to notes 4 and 28 for additional information.

The following table sets forth the Company's revenue, property, plant and equipment, goodwill and total assets by geographic segment. The geographical segment is determined by the location of the Company's country of operation:

| *(in thousands of Canadian dollars)* | North America | | Latin America | | EMAR[(a)] | | Asia Pacific | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008[(b)] | **2009** | 2008[(b)] | **2009** | 2008[(b)] | **2009** | 2008[(b)] | **2009** | 2008[(b)] | **2009** | 2008[(b)] |
| **Revenue** | | | | | | | | | | | | |
| External | **459,829** | 627,459 | **188,758** | 73,582 | **306,077** | 474,983 | **229,314** | 203,553 | **—** | — | **1,183,978** | 1,379,577 |
| Inter-segment | **3,225** | 4,994 | **—** | — | **1,721** | 179 | **—** | — | **(4,946)** | (5,173) | **—** | — |
| **Total Revenue** | **463,054** | 632,453 | **188,758** | 73,582 | **307,798** | 475,162 | **229,314** | 203,553 | **(4,946)** | (5,173) | **1,183,978** | 1,379,577 |
| Property, plant and equipment, net | **193,552** | 216,467 | **6,638** | 6,305 | **42,745** | 55,336 | **27,284** | 29,627 | **—** | — | **270,219** | 307,735 |
| Goodwill | **104,431** | 107,177 | **12,902** | 13,545 | **76,547** | 84,860 | **20,569** | 23,967 | **—** | — | **214,449** | 229,549 |
| Total Assets | **1,681,934** | 1,634,147 | **66,289** | 57,555 | **221,290** | 306,307 | **135,599** | 149,951 | **(919,135)** | (920,671) | **1,185,977** | 1,227,289 |

(a) EMAR is defined as the Europe, Middle East, Africa and Russia regions.
(b) Prior year figures have been restated for changes in accounting policies and reclassified to conform to current year presentation. Refer to notes 4 and 28 for additional information.

## 6. ACQUISITIONS AND DIVESTITURES

### 2009

The Company did not acquire or divest any significant or material businesses during the year ended December 31, 2009.

### 2008

On April 14, 2008, the Company acquired 20% of the outstanding shares of PT Bredero Shaw Indonesia for $2.5 million and on November 26, 2008, the remaining 5% minority interest was acquired for the amount of $771 thousand. The excess of the proportionate fair value of the net assets of this company over the amount of the disbursement that was made to acquire the shares has been allocated as a reduction to the proportional fair value of fixed assets acquired. Subsequent to this transaction, the Company owns 100% of the outstanding shares of this subsidiary.

On June 27, 2008, the Company announced the acquisition of 100% of the outstanding shares of Flexpipe Systems Inc.

("Flexpipe"). Flexpipe is based in Canada and is a leading manufacturer of spoolable, composite line pipe which is used by oil and gas producers in applications that benefit from the product's ease and speed of installation and its pressure and corrosion resistance capabilities. This transaction was accounted for using the purchase method with the balance sheet and financial results of Flexpipe included in the Company's consolidated financial statements from the date of acquisition. The following are the details of the acquisition on the date of acquisition:

| *(in thousands of Canadian dollars)* | |
|---|---|
| Net assets acquired at assigned values: | |
| Current assets | $ 33,566 |
| Property, plant and equipment, net | 18,578 |
| Goodwill | 50,220 |
| Other intangible assets | 67,260 |
| Current liabilities | (25,068) |
| Future income taxes | (21,435) |
| Other long-term liabilities | (640) |
| | $ 122,481 |
| Consideration given: | |
| Cash, net of cash acquired of $1,376 | $ 122,481 |
| | $ 122,481 |

On June 30, 2008, the Company recorded the sale of its wholly-owned subsidiaries Bredero Shaw Nigeria Ltd. ("BSNL") and Bredero Port Harcourt Ltd. ("BPHL") for proceeds of $5.7 million and consequently recorded a gain of $864 thousand representing the excess of the purchase price over the carrying value of the net assets sold. The following is the summarized balance sheets of BSNL and BPHL at the time of sale:

| *(in thousands of Canadian dollars)* | |
|---|---|
| Current assets | $ 5,635 |
| Property, plant and equipment, net | $ 172 |
| Current liabilities | $ 953 |

## 7. CASH AND CASH EQUIVALENTS

The following table sets forth the Company's cash and cash equivalents as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Cash | **$ 93,011** | $ 78,932 |
| Cash equivalents | **156,977** | — |
| | **$ 249,988** | $ 78,932 |

## 8. INVENTORIES

The following table sets forth the Company's inventories as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008[(a)] |
|---|---|---|
| Raw materials and supplies | **$ 74,510** | $ 113,662 |
| Work in progress | **3,750** | 8,251 |
| Finished goods | **40,519** | 39,862 |
| Inventory in obsolescence | **(9,400)** | (9,491) |
| Inventories – net | **$ 109,379** | $ 152,284 |

(a) Restated as a result of the adoption of HB 3064. Refer to note 4 for additional information.

The Company recorded a charge of $547 thousand and $4.3 million during 2009 and 2008, respectively, to reduce the carrying value of certain excess raw material inventories to net realizable value.

The Company recognized $3.2 million and $6.5 million of inventories as an expense during 2009 and 2008, respectively, including the write-down discussed above.

## 9. PROPERTY, PLANT AND EQUIPMENT, NET

The following table sets forth the Company's property, plant and equipment, net as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| **Cost** | | |
| Land and land improvements | **$ 48,074** | $ 44,894 |
| Buildings | **124,776** | 109,293 |
| Machinery and equipment | **542,002** | 589,677 |
| Capital projects in progress | **4,918** | 16,555 |
| Assets under capital leases | **1,774** | 2,060 |
| **Total Cost** | **721,544** | 762,479 |
| **Accumulated amortization and write-downs** | | |
| Land and land improvements | **23,789** | 23,043 |
| Buildings | **68,619** | 62,082 |
| Machinery and equipment | **358,291** | 368,978 |
| Assets under capital leases | **626** | 641 |
| **Total accumulated amortization and write-downs** | **451,325** | 454,744 |
| **Property, plant and equipment, net** | **$ 270,219** | $ 307,735 |

## 10. GOODWILL

The following table sets forth the Company's goodwill as at December 31:

| *(in thousands of Canadian dollars)* | 2009 | 2008(a) |
|---|---|---|
| Balance, beginning of year | **$ 229,059** | $ 159,480 |
| Additions to goodwill on acquisition [note 4] | **—** | 50,220 |
| Impairment of goodwill | **—** | (352) |
| Translation of self-sustaining foreign operations | **(14,610)** | 20,201 |
| Other | **—** | (490) |
| Balance, end of year | **$ 214,449** | $ 229,059 |

(a) Prior year figures have been reclassified to conform to current year presentation, refer to note 28 for additional information.

During 2009, the Company assessed the fair value of the reporting units to which the underlying goodwill is attributable and determined that the Company's goodwill was not impaired.

During the year ended December 31, 2008, the Company assessed the fair value of the reporting units to which the underlying goodwill is attributable. This review determined that due to changing market conditions, goodwill pertaining to the Company's Shaw Inspection Services business was impaired, and accordingly a goodwill impairment charge to selling, general and administrative ("SG&A") expenses of $352 thousand was recorded in 2008.

## 11. INTANGIBLE ASSETS

The following table sets forth the Company's intangible assets as at December 31:

| *(in thousands of Canadian dollars)* | 2009 | 2008(a) |
|---|---|---|
| Cost | | |
| Intellectual property ("IP") with limited life(b) | **$ 57,576** | $ 57,576 |
| Intangible assets with limited life(c) | **9,547** | 9,547 |
| Intangible assets with indefinite life(c) | **1,931** | 1,931 |
| | **$ 69,054** | $ 69,054 |
| Accumulated amortization of of IP with limited life | **6,270** | 1,902 |
| | **$ 62,784** | $ 67,152 |

(a) Prior year figures have been reclassified to conform to current year presentation, refer to note 28 for additional information.
(b) IP represents the costs of certain technology and know-how and patents obtained in acquisitions.
(c) Intangible assets include trademarks, brand names and customer relationships obtained in acquisitions.

## 12. OTHER ASSETS

The following table sets forth the Company's other assets as at December 31:

| *(in thousands of Canadian dollars)* | 2009 | 2008(a) |
|---|---|---|
| Long-term investments | **$ 24** | $ 360 |
| Long-term prepaid expenses | **4,193** | 5,931 |
| Long-term notes receivable(b) | **3,943** | — |
| Accrued employee future benefit asset [note 13] | **7,992** | 6,733 |
| | **$ 16,152** | $ 13,024 |

(a) Restated as a result of the adoption of HB 3064. Refer to note 4 for additional information.
(b) Long-term notes receivable as at December 31, 2009, relates to amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at U.S. prime plus 0.25% with principal repayments to be made in four equal semi-annual installments, beginning no later than March 31, 2018, as set out by the terms of the loan.

Long-term investments as at December 31, 2009, represented an investment in Garneau Inc., a Canadian-based, publicly traded pipe coating company ("Garneau"). The Company has reviewed the 2008 financial performance of Garneau, as outlined in its public filings, and the protracted decline in its share price and has concluded that the decrease in fair value, based on quoted market prices, of the investment from original cost is other than temporary. The Company has recorded a charge to SG&A expense, in the financial and corporate segment, during the years ended December 31, 2009 and 2008, of $336 thousand and $2.8 million, respectively.

## 13. 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 United Kingdom ("U.K.") and Norway and include both flat-dollar plans for hourly employees and final earning plans for salaried employees. The Company also provides a 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 the years ended December 31, 2009 and 2008, were $8.8 million and $10.1 million, respectively. 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 seven defined benefit pension plans are generally required at least every three years. The most recent actuarial valuations of the plans were conducted as at December 31, 2006 (one plan), January 1, 2007 (one plan), August 1, 2007 (one plan), January 1, 2008 (one plan), December 31, 2008 (one plan) and January 1, 2009 (four plans).

The following tables set forth information about the Company's employee future benefits as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Net benefit cost for the year: | | |
| Employer portion of current service cost | **$ 2,640** | $ 3,988 |
| Interest on accrued benefit obligation | **4,531** | 4,201 |
| Actual return on plan assets | **(7,727)** | 8,330 |
| Actuarial losses and changes in assumptions | **8,008** | (16,542) |
| Currency (gains) losses | **101** | — |
| Curtailment/settlement/plan amendments | **—** | 159 |
| Elements of employee future costs before adjustments to recognize the long-term nature of employee future benefit costs | **7,553** | 136 |
| Adjustments to recognize the long-term nature of employee benefit costs | | |
| Difference between expected return and actual return on plan assets for the year | **4,130** | (12,490) |
| Difference between actuarial loss recognized for the year and actual actuarial loss and assumption changes on accrued benefit obligation for the year | **(7,848)** | 16,891 |
| Difference between currency loss recognized for the year and actual currency loss | **(101)** | — |
| Difference between amortization of past service costs for the year and actual plan amendment costs for the year | **315** | 232 |
| Amortization of transitional obligation | **156** | 159 |
| Extraordinary items | **565** | 19 |
| Valuation allowance provided against accrued benefit assets | **(65)** | (819) |
| Subtotal | **(2,848)** | 3,992 |
| Defined benefit cost recognized | **4,705** | 4,128 |
| Defined contribution employee future benefit expense | **3,657** | 4,405 |
| | **$ 8,362** | $ 8,533 |

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Accrued benefit obligation, beginning of year | **$ 63,392** | $ 74,817 |
| Valuations effect | **651** | — |
| Employer portion of current service cost | **2,640** | 3,988 |
| Actuarial losses (gains) and changes in assumptions | **8,008** | (16,533) |
| Interest cost | **4,531** | 4,201 |
| Foreign currency (gains) | **(256)** | (854) |
| Benefits paid | **(3,313)** | (2,386) |
| Extraordinary items | **565** | — |
| Plan amendments | **—** | 159 |
| Accrued benefit obligation, end of year | **76,218** | 63,392 |
| Fair value of plan assets, beginning of year | **59,815** | 65,717 |
| Valuations effect | **(246)** | — |
| Actual return on plan assets | **7,727** | (8,330) |
| Employer contributions | **5,162** | 5,659 |
| Benefits paid | **(3,313)** | (2,386) |
| Effect of foreign currency exchange rates | **(357)** | (845) |
| Fair value of plan assets, end of year | **68,788** | 59,815 |
| Funded status – plan deficit | **(7,430)** | (3,577) |
| Unamortized actuarial loss | **10,578** | 5,862 |
| Unamortized past service costs | **50** | 365 |
| Unamortized net transitional obligation | **818** | 974 |
| Valuation allowance | **(124)** | (189) |
| Net accrued future employee benefit asset | **$ 3,892** | $ 3,435 |

The following table sets forth the Company's plan assets where the accrued benefit obligation exceeds the fair value of plan assets as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| **Canada** | | |
| Fair value of plan assets | **$ 46,666** | $ 39,559 |
| Accrued benefit obligation | **$ 52,266** | $ 42,624 |
| **Norway** | | |
| Fair value of plan assets | **$ 3,147** | $ 2,801 |
| Accrued benefit obligation | **$ 5,501** | $ 4,364 |
| **Indonesia** | | |
| Fair value of plan assets | **$ —** | $ — |
| Accrued benefit obligation | **$ 1,072** | $ 910 |

The accrued benefit asset is included in the audited consolidated balance sheet at December 31 as follows:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Accrued employee future benefit asset | **$ 7,992** | $ 6,733 |
| Accrued employee future benefit liability | **(4,100)** | (3,298) |
| Net accrued future employee benefit asset | **$ 3,892** | $ 3,435 |

Included in the accrued benefit obligation and fair value of plan assets as at December 31 are the following amounts in respect of plans that are not fully funded:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Accrued future employee obligation | **$ 48,909** | $ 39,391 |
| Fair value of plan assets | **38,881** | 33,236 |
| Funded status – deficit | **$ (10,028)** | $ (6,155) |

The following table sets forth the composition of plan assets as at December 31:

| *(percentage of plan assets)* | **2009** | 2008 |
|---|---|---|
| Registered Canadian employee future benefit plans: | | |
| Equities | **58%** | 55% |
| Fixed income | **38%** | 39% |
| Other | **4%** | 6% |
| Total | **100%** | 100% |
| Supplemental Executive Retirement Plan ("SERP") | | |
| Equities | **92%** | 99% |
| Other | **8%** | 1% |
| Total | **100%** | 100% |

The following table sets forth the significant assumptions used in the calculation of the accrued benefit obligations and net defined benefit cost:

| *(percentage of plan assets)* | **2009** | 2008 |
|---|---|---|
| **Canada** | | |
| Accrued benefit obligation as at December 31: | | |
| Discount rate | **6.4%** | 7.3% |
| Salary increases | **4.0%** | 4.0% |
| Benefit cost for the year ended December 31: | | |
| Discount rate | **7.3%** | 5.4% |
| Expected rate of return on assets | **6.5%** | 6.5% |
| Rate of compensation increase | **4.0%** | 4.0% |
| **Norway** | | |
| Accrued benefit obligation as at December 31: | | |
| Discount rate | **4.4%** | 3.8% |
| Salary increases | **4.3%** | 4.0% |
| Increases to pension in pay | **2.1%** | 1.5% |
| Benefit cost for the year ended December 31: | | |
| Discount rate | **3.8%** | 4.7% |
| Expected rate of return on assets | **5.8%** | 5.8% |
| Rate of compensation increase | **4.0%** | 4.5% |
| Increases to pension in pay | **2.3%** | 1.6% |

| *(percentage of plan assets)* | **2009** | 2008 |
|---|---|---|
| **U.K.** | | |
| Accrued benefit obligation as at December 31: | | |
| Discount rate | **5.7%** | 6.2% |
| Salary increases | **N/A** | N/A |
| Increases to pension in pay | **3.8%** | 2.9% |
| Benefit cost for the year ended December 31: | | |
| Discount rate | **6.2%** | 5.8% |
| Expected rate of return on assets | **6.2%** | 7.3% |
| Rate of compensation increase | **N/A** | N/A |
| Increases to pension in pay | **2.9%** | 3.2% |
| **Indonesia** | | |
| Accrued benefit obligation as at December 31: | | |
| Discount rate | **11.0%** | 12.0% |
| Salary increases | **10.0%** | 11.0% |

## 14. BANK INDEBTEDNESS AND LONG-TERM DEBT

### 5.11% Senior Notes ("Senior Notes")

On June 27, 2003, the Company entered into an agreement for the issue and sale, at par, on a private placement basis to institutional investors, US$75.0 million of Senior Notes due June 30, 2011. Under the terms of the agreement, the Company is required to repay the Senior Notes in three equal installments of US$25.0 million on June 30, 2009, 2010 and 2011. Refer to note 23 for additional information with respect to the repayment. On June 30, 2009, the Company made the first repayment of $28.7 million using current exchange rates (the "2009 Repayment"). The 2009 Repayment of US$25.0 million was funded by permanently repatriated funds from the Company's U.S. dollar-based operations. The payment of dividends from the subsidiary operations including the repatriation gave rise to a net foreign exchange loss of $678 thousand and was transferred from accumulated other comprehensive income to the consolidated statement of income during the second quarter of 2009. As at December 31, 2009, $52.3 million was outstanding under the Senior Notes, of which $26.2 million has been classified as current portion of long-term debt.

The following table sets forth the long-term debt repayments during each of the next two years at current rates of exchange:

| *(in thousands of Canadian dollars)* | |
|---|---|
| 2010 | $ 26,235 |
| 2011 | 26,235 |
| Total | $ 52,470 |

### Credit Facilities

The following table sets forth the Company's total credit facilities as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Standby letters of credit for performance, bid and surety bonds [note 17] | **$ 61,835** | $ 81,506 |
| Bank indebtedness[(a)] | **—** | 13,961 |
| Total utilized credit facilities | **61,835** | 95,467 |
| Total available credit facilities[(b)] | **251,856** | 293,472 |
| Utilized credit facilities | **$ 190,021** | $ 198,005 |

(a) Excludes the banking facilities of the Company's 30% owned joint venture, Arabian Pipecoating Company Ltd. ("APCO").
(b) The Company guarantees the bank credit facilities of its subsidiaries.

### Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Senior Notes and its 5-Year Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain a Fixed Charge Coverage Ratio (Earnings Before Interest, Taxes, Depreciation and Amortization ["EBITDA"] divided by interest expense) of more than 2.5 to 1 and a debt to total capitalization ratio of less than 0.45 to one. The Company's capital structure at December 31, 2009, was within the parameters established by these agreements.

## 15. OTHER NON-CURRENT LIABILITIES

The following table sets forth the Company's other non-current liabilities as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Non-current asset retirement obligation [note 16] | **$ 9,841** | $ 6,680 |
| Accrued employee future benefit obligations [note 13] | **4,100** | 3,298 |
| | **$ 13,941** | $ 9,978 |

## 16. ASSET RETIREMENT OBLIGATIONS

The following table sets forth the Company's asset retirement obligations reconciliation associated with various production and plant facilities for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Balance, beginning of year | **$ 22,606** | $ 14,082 |
| Liabilities settled in year | **(1,307)** | (891) |
| Liabilities incurred in year | **—** | 8,675 |
| Revisions to cash flow estimates | **(5,950)** | — |
| Accretion expense | **1,098** | 703 |
| Translation of self-sustaining foreign operations | **(389)** | 37 |
| Balance, end of year | **$ 16,058** | $ 22,606 |

Asset retirement obligations are included in the audited consolidated balance sheet at December 31 as follows:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Accounts payable and accrued liabilities | **$ 6,217** | $ 15,926 |
| Other non-current liabilities | **9,841** | 6,680 |
| Total asset retirement obligations | **$ 16,058** | $ 22,606 |

The total undiscounted cash flows which are estimated to be required to settle all asset retirement obligations is $18.8 million and $24.0 million as at December 31, 2009 and 2008, respectively, and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted is 5.11%. Settlement for all asset retirement obligations is expected to be funded by future cash flows from the Company's operations.

## 17. COMMITMENTS AND CONTINGENCIES

### Commitments

The following table sets forth the aggregate minimum amounts payable under non-cancellable contracts related to continuing operations as at December 31, 2009:

| *(in thousands of Canadian dollars)* | **2010** | 2011 | 2012 | 2013 | After 2014 | 2014 | Total |
|---|---|---|---|---|---|---|---|
| Operating leases | **$ 14,559** | $ 12,147 | $ 9,882 | $ 8,857 | $ 7,370 | $ 15,771 | $ 68,586 |
| Capital leases | **371** | 249 | 136 | 89 | 18 | — | 863 |
| Purchase commitments | **32,990** | 182 | 191 | 201 | 211 | — | 33,775 |
| Total contractual obligations | **$ 47,920** | $ 12,578 | $ 10,209 | $ 9,147 | $ 7,599 | $ 15,771 | $ 103,224 |

### Performance, Bid and Surety Bonds

The Company provides standby letters of credit for performance, bid and surety bonds through financial intermediaries to various customers in support of project contracts for the successful execution of these contracts. If the Company fails to perform under the terms of the contract, the customer has the ability to draw upon all or a portion of the bond as compensation for the Company's failure to perform. The contracts which these performance bonds support generally have a term of one to three years, but could extend up to four years. Bid bonds typically have a term of less than one year and are renewed, if required, over the term of the applicable contract. Historically, the Company has not made and does not anticipate that it will be required to make material payments under these types of bonds.

The Company utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of $61.8 million and $81.5 million as at December 31, 2009 and 2008, respectively, in support of its bonds.

### Leases

The Company has entered into several capital lease agreements for various machinery and equipment with terms varying up to 62 months and interest varying from 1.0% to 16.1%. The obligations are payable on a monthly basis including interest.

The following table sets forth the Company's future minimum capital lease payments:

| *(in thousands of Canadian dollars)* | |
|---|---|
| Total future minimum lease payments | $ 997 |
| Less: imputed interest | (134) |
| Balance of obligations under capital leases | 863 |
| Less: current portion | (371) |
| Long-term obligations under capital leases | $ 492 |

### Legal Contingencies

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.

## 18. CAPITAL STOCK

The following table sets forth the Company's shares outstanding as at December 31:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| *(in thousands of Canadian dollars, except number of shares information)* | **Class A** | **Class B** | **Total** | Class A | Class B | Total |
| **Number of Shares:** | | | | | | |
| Balance, beginning of year | **57,358,537** | **13,060,209** | **70,418,746** | 58,234,570 | 13,078,142 | 71,312,712 |
| Issued on exercise of stock options | **99,420** | **—** | **99,420** | 113,234 | — | 113,234 |
| Conversions Class B to Class A | **226** | **(226)** | **—** | 17,933 | (17,933) | — |
| Purchased – Normal Course Issuer Bid ("NCIB") | **—** | **—** | **—** | (1,007,200) | — | (1,007,200) |
| Balance, end of year | **57,458,183** | **13,059,983** | **70,518,166** | 57,358,537 | 13,060,209 | 70,418,746 |
| **Stated Value:** | | | | | | |
| Balance, beginning of year | **$ 201,070** | **$ 1,003** | **$ 202,073** | $ 202,248 | $ 1,004 | $ 203,252 |
| Issued on exercise of stock options | **1,679** | **—** | **1,679** | 1,763 | — | 1,763 |
| Compensation cost on exercised options | **400** | **—** | **400** | 576 | — | 576 |
| Conversions Class B to Class A | **—** | **—** | **—** | 1 | (1) | — |
| Purchased – NCIB | **—** | **—** | **—** | (3,518) | — | (3,518) |
| Other | **(1)** | **—** | **(1)** | — | — | — |
| Balance, end of year | **$ 203,148** | **$ 1,003** | **$ 204,151** | $ 201,070 | $ 1,003 | $ 202,073 |

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.

The Company repurchased and cancelled nil and 1,007,200 Class A shares during 2009 and 2008, respectively, under the terms of a NCIB. The excess of cost over stated capital of the acquired shares of $nil and $22.5 million during 2009 and 2008, respectively, was charged to retained earnings. Under the terms of the NCIB, which was renewed on November 30, 2009, the Company is entitled to repurchase up to 3,000,000 Class A shares and up to 100,000 Class B shares between December 1, 2009 and November 30, 2010. The repurchase of shares is made on the open market at prevailing market prices.

## 19. CONTRIBUTED SURPLUS

The following table sets forth the Company's contributed surplus reconciliation for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Balance, beginning of year | **$ 14,512** | $ 11,729 |
| Fair value of stock options exercised [note 18] | **(400)** | (576) |
| Stock-based compensation expense | **3,165** | 3,359 |
| Balance, end of year | **$ 17,277** | $ 14,512 |

## 20. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the Company's accumulated other comprehensive loss reconciliation for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Unrealized foreign currency translation losses, net of hedging activities | **$ (126,806)** | $ (85,540) |
| | **$ (126,806)** | $ (85,540) |

## 21. STOCK OPTION PLANS

During 2009, the Company had the following two stock option plans, both of which were initiated in 2001:

i) Under the Company's 2001 employee stock option plan (the "2001 Employee Plan"), which 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.

ii) 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.

The following table sets forth the Company's stock option plans reconciliation for the years ended December 31:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Total Shares** | **Weighted Average Exercise Price** | Total Shares | Weighted Average Exercise Price |
| Balance outstanding, beginning of year | **2,470,466** | **$ 19.14** | 2,173,980 | $ 17.24 |
| Granted | **520,200** | **15.70** | 428,600 | 30.03 |
| Exercised | **(99,420)** | **16.88** | (113,234) | 15.56 |
| Forfeited | **(64,880)** | **22.03** | (16,880) | 19.24 |
| Expired | **—** | **—** | (2,000) | 15.94 |
| Balance outstanding, end of year | **2,826,366** | **$ 18.86** | 2,470,466 | $ 19.14 |

The following tables set forth a summary of the Company's options outstanding and exercisable as at December 31, 2009 and 2008:

| | **2009** | | | | |
|---|---|---|---|---|---|
| | | **Options Outstanding** | | **Options Exercisable** | |
| **Range of Exercise Prices** | **Outstanding at December 31, 2009** | **Weighted Average Remaining Contractual Life in Years** | **Weighted Average Exercise Price** | **Exercisable at December 31, 2009** | **Weighted Average Exercise Price** |
| $10.00 to $15.00 | **463,526** | **3.45** | **$ 12.62** | **463,526** | **$ 12.62** |
| $15.01 to $20.00 | **1,576,840** | **5.80** | **$ 16.44** | **897,000** | **$ 16.77** |
| $20.01 to $25.00 | **50,000** | **6.20** | **$ 21.11** | **25,600** | **$ 20.96** |
| $25.01 to $30.00 | **706,000** | **7.54** | **$ 27.66** | **206,120** | **$ 26.83** |
| $30.01 to $35.00 | **30,000** | **8.01** | **$ 31.77** | **6,000** | **$ 31.77** |
| | **2,826,366** | | | **1,598,246** | |

| | 2008 | | | | |
|---|---|---|---|---|---|
| | Options Outstanding | | | Options Exercisable | |
| Range of Exercise Prices | Outstanding at December 31, 2008 | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Exercisable at December 31, 2008 | Weighted Average Exercise Price |
| $10.00 to $15.00 | 474,966 | 4.41 | $ 12.63 | 444,486 | $ 12.73 |
| $15.01 to $20.00 | 1,181,100 | 5.41 | $ 16.84 | 791,304 | $ 16.77 |
| $20.01 to $25.00 | 40,000 | 6.50 | $ 20.90 | 18,400 | $ 21.03 |
| $25.01 to $30.00 | 744,400 | 8.54 | $ 27.62 | 69,560 | $ 25.02 |
| $30.01 to $35.00 | 30,000 | 9.01 | $ 31.77 | — | $ — |
| | 2,470,466 | | | 1,323,750 | |

### Stock-Based Compensation

The weighted average fair value of options granted during 2009 and 2008 was $5.63 and $10.54, respectively. 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:

| | 2009 | 2008 |
|---|---|---|
| Expected life of options | **6.25 years** | 6.25 years |
| Expected stock price volatility | **34.79%** | 29.63% |
| Expected dividend yield | **1.41%** | 0.75% |
| Risk-free interest rate | **2.60%** | 3.20% |

The compensation cost recognized in SG&A expenses for the years ended December 31, 2009 and 2008, was $3.2 million and $3.4 million, respectively.

## 22. INCOME TAXES

The following table sets forth the Company's income tax expense for the years ended December 31:

| | 2009 | 2008(a) |
|---|---|---|
| Current | **$ 60,206** | $ 44,101 |
| Future | **(3,809)** | 11,777 |
| Total income taxes | **$ 56,397** | $ 55,878 |

(a) Restated as a result of the adoption of HB 3064. Refer to note 4 for additional information.

The following table sets forth a reconciliation of the Company's effective income tax rate for the years ended December 31:

| | 2009 | 2008 |
|---|---|---|
| Combined basic federal and provincial income tax rate | **33.0%** | 33.5% |
| Canadian manufacturing and processing profits deduction | **(2.0)%** | (2.0)% |
| Expected rate | **31.0%** | 31.5% |
| Tax rate differential on earnings of foreign subsidiaries | **(2.9)%** | (2.3)% |
| Benefit of previously unrecognized tax losses of foreign subsidiaries | **(0.7)%** | (0.6)% |
| Unrecognized tax losses of foreign subsidiaries | **0.7%** | 1.3% |
| Other | **2.0%** | (0.5)% |
| Effective income tax rate | **30.1%** | 29.4% |

The following table sets forth the components of future income taxes as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Current future tax asset | | |
| Provisions and future expenditures | **$ 3,813** | $ 3,532 |
| Net operating losses carry forward | **855** | — |
| | **4,668** | 3,532 |
| Non-current future tax asset | | |
| Amortizable property, plant and equipment | **22,965** | 23,263 |
| Provisions and future expenditures | **13,284** | 7,480 |
| Net operating losses carry forward non-current | **1,509** | 2,604 |
| Less: valuation allowance | **(1,509)** | (2,604) |
| | **36,249** | 30,743 |
| Total future tax asset | **$ 40,917** | $ 34,275 |
| Non-current future tax liability | | |
| Amortizable property, plant and equipment | **$ 39,184** | $ 49,759 |
| Provisions and future expenditures | **37,368** | 24,234 |
| Total future tax liability | **$ 76,552** | $ 73,993 |

The Company has income tax losses totaling $3.1 million and $nil for the years ended December 31, 2009 and 2008, respectively, carried forward, for which tax benefits have been recorded as future tax assets and net operating losses of $5.3 million and $13.8 million for 2009 and 2008, respectively, for which no future tax asset has been recognized.

The operating losses will expire as follows, with the "Thereafter" category including losses which carry forward indefinitely, while the capital losses carry forward indefinitely:

| | |
|---|---|
| 2010 | $ 188 |
| 2011 | 506 |
| 2012 | 369 |
| 2013 | 234 |
| 2014 | 85 |
| Thereafter | 7,000 |
| Total | $ 8,382 |

## 23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Categories of Financial Assets and Financial Liabilities

The Company has classified its financial instruments as follows as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| **Financial assets:** | | |
| Held for trading, measured at fair value | | |
| Cash | **$ 93,011** | $ 78,932 |
| Held to maturity, recorded at amortized cost | | |
| Cash equivalents | **$ 156,977** | $ — |
| Loans and receivables, recorded at amortized cost | | |
| Accounts receivable | **$ 191,821** | $ 307,933 |
| Taxes receivable | **$ 14,055** | $ 9,261 |
| Long-term notes receivable | **$ 3,943** | $ — |
| Available for sale, measured at fair value | | |
| Long-term investments | **$ 24** | $ 360 |
| Derivatives, measured at fair value | | |
| Derivative financial instruments | **$ 1,821** | $ 523 |
| **Financial liabilities:** | | |
| Other liabilities, recorded at amortized cost | | |
| Bank indebtedness | **$ —** | $ 15,418 |
| Accounts payable and accrued liabilities | **$ 133,275** | $ 193,675 |
| Taxes payable | **$ 42,971** | $ 53,405 |
| Current portion of long-term debt | **$ 26,235** | $ 30,672 |
| Long-term debt | **$ 26,052** | $ 60,554 |
| Derivatives, measured at fair value | | |
| Derivative financial instruments | **$ 510** | $ 2,049 |

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. The fair values of the Company's financial instruments are not materially different from their carrying values.

### Fair Value of Financial Instruments

HB 3862 provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

- **Level 1** – Quoted prices in active markets for identical instruments that are observable.
- **Level 2** – Quoted prices in active markets for similar instruments and inputs other than quoted prices that are observable and derived from or corroborated by observable market data.
- **Level 3** – Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The hierarchy requires the use of observable market data when available.

The following table presents, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009, and does not include those instruments where the carrying amount is a reasonable approximation of the fair value:

| *(in thousands of Canadian dollars)* | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative financial instruments | $ 1,821 | $ — | $ 1,821 | $ — |
| Long-term investments | 24 | 24 | — | — |
| Total assets | $ 1,845 | $ 24 | $ 1,821 | $ — |
| **Liabilities** | | | | |
| Derivative financial instruments | $ 510 | $ — | $ 510 | $ — |
| Total liabilities | $ 510 | $ — | $ 510 | $ — |

Derivative financial instruments relate to the foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market.

Long-term investments represent an investment made by the Company in Garneau. The fair value of the investment has been valued based on quoted market prices. See note 12 for additional information with respect to the long-term investment.

### Foreign Exchange Forward Contracts and Other Hedging Arrangements

The Company utilizes financial instruments to manage the risk associated with foreign exchange rates.

The Company formally documents all relationships between hedging instruments and the hedge items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2009:

| | | |
|---|---|---|
| **U.S. dollars sold for Canadian dollars** | | |
| Less than one year | US$ | 40,800 |
| Weighted-average rate | | 1.0735 |
| **U.S. dollars sold for Euros** | | |
| Less than one year | US$ | 3,191 |
| Weighted-average rate | | 1.4840 |
| **U.S. dollars sold for British Pounds** | | |
| Less than one year | US$ | 5,000 |
| Weighted-average rate | | 1.5509 |
| **Euros sold for U.S. dollars** | | |
| Less than one year | Euro | 2,150 |
| Weighted-average rate | | 1.4490 |
| One year to two years | Euro | 2,200 |
| Weighted-average rate | | 1.4465 |
| **Euros sold for British Pounds** | | |
| Less than one year | Euro | 231 |
| Weighted-average rate | | 1.1821 |
| **Euros sold for Norwegian Kroners** | | |
| Less than one year | Euro | 1,681 |
| Weighted-average rate | | 8,7647 |

As at December 31, 2009 and 2008, the Company had notional amounts of $60.8 million and $25.5 million, respectively, of forward contracts outstanding with the fair value of the Company's net benefit from all foreign exchange forward contracts totaling $1.3 million as at December 31, 2009 and a net obligation totaling $1.5 million as at December 31, 2008.

### Financial Risk Management

The Company's operations expose it to a variety of financial risks including: market risk (including foreign exchange and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance. Risk management is the responsibility of Company management. Material risks are monitored and are regularly reported to the Board of Directors.

### Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2009, fluctuations of ±5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, operating income from continuing operations and income from continuing operations for the year ended by approximately $42.4 million, $13.4 million and $10.6 million, respectively, prior to hedging activities, of which $31.3 million, $10.9 million and $8.3 million, respectively, is due to ±5% fluctuations in the Canadian dollar relative to the U.S. dollar. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total shareholders' equity by $50.6 million, $17.3 million and $33.3 million, respectively. The Company utilizes foreign exchange forward contracts to manage foreign exchange risk from its underlying customer contracts. The Company does not enter into foreign exchange contracts for speculative purposes.

The Company's Senior Notes and associated interest expense are denominated in U.S. dollars. Fluctuations in the exchange rate between the Canadian and U.S. dollar would impact the carrying value of the Senior Notes in terms of Canadian dollars as well as the amount of interest expense when translated into Canadian dollars. Effective July 3, 2003, the Company designated the Senior Notes as a hedge of a portion of its net investment in the Company's U.S. dollar-based operations ("Net Investment"). On April 1, 2009, The Company de-designated US$25.0 million of the hedge against the Net Investment. As a result, on April 1, 2009 the remaining balance of the Senior Notes of US$50.0 million was hedged against the Net Investment. The de-designation gave rise to a $2.1 million foreign exchange gain during the second quarter of 2009, which was recognized in the consolidated statement of income. Foreign exchange gains and losses from the hedged portion of the Senior Notes are not included in the consolidated statement of income, but are shown in accumulated other comprehensive income. As at December 31, 2009, fluctuations of ±5% in the Canadian dollar, relative to the U.S. dollar, would impact the Company's accumulated other comprehensive income by $2.6 million for the year ended December 31, 2009.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures associated with the Company's foreign currency-denominated cash streams and the resulting variability of the Company's earnings. The Company utilizes foreign exchange forward contracts to manage this foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes. With the exception of the Company's U.S. dollar-based operations, the Company does not hedge translation exposures.

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2009:

| | | Fixed Interest Rate | | |
|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | Floating Rate | Maturing in One Year or Less | Maturing after One Year | Total |
| **Financial assets** | | | | |
| Cash equivalents | $ 156,977 | $ — | $ — | $ 156,977 |
| Long-term notes receivable | 3,943 | — | — | 3,943 |
| Total | $ 160,920 | $ — | $ — | $ 160,920 |
| **Financial liabilities** | | | | |
| Bank indebtedness | $ — | $ — | $ — | $ — |
| Current portion of long-term debt | | 26,235 | | 26,235 |
| Long-term debt | — | — | 26,052 | 26,052 |
| Total | $ — | $ 26,235 | $ 26,052 | $ 52,287 |
| Weighted-average fixed rate of debt | — | 5.11% | 5.11% | |

The Company's interest rate risk arises primarily from its floating rate bank indebtedness and long-term notes receivable and is not currently considered to be material.

### Credit Risk

Credit risk arises from cash and cash equivalents held with banks, forward foreign exchange contracts, as well as credit exposure of customers, including outstanding accounts receivable. The maximum credit risk is equal to the carrying value of the financial instruments.

The objective of managing counter party credit risk is to prevent losses in financial assets. The Company is subject to considerable concentration of credit risk since the majority of its customers operate within the global energy industry and are therefore affected to a large extent by the same macroeconomic conditions and risks. The Company manages this credit risk by assessing the credit quality of all counter parties, taking into account their financial position, past experience and other factors. Management also establishes and regularly reviews credit limits of counter parties and monitors utilization of those credit limits on an ongoing basis.

The carrying value of accounts receivable are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the income statement with a charge to SG&A expenses. When a receivable balance is considered to be uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A expenses.

The following table sets forth the aging of the Company's trade accounts receivable as at December 31:

| *(in thousands of Canadian dollars)* | **2009** |
|---|---|
| Not past due | $ 117,474 |
| Past due 1 to 30 days | 28,994 |
| Past due 31 to 60 days | 10,850 |
| Past due 61 to 90 days | 7,795 |
| Past due for more than 90 days | 16,392 |
| Total trade receivables | 181,505 |
| Less: allowance for doubtful accounts | 5,353 |
| Net receivables | $ 176,152 |

The following is an analysis of the change in the allowance for doubtful accounts for the years ended December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Balance, beginning of year | **$ 6,237** | $ 4,165 |
| Bad debt expense | **2,055** | 2,944 |
| Write-off of bad debts | **(1,780)** | (877) |
| Recovery of previously written-off amounts | **(1,228)** | — |
| Impact of change in foreign exchange rates | **69** | 5 |
| Balance, end of year | **$ 5,353** | $ 6,237 |

### Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at December 31, 2009 and 2008, the Company has cash and cash equivalents totaling $250.0 million and $78.9 million, respectively, and has unutilized lines of credit available to use of $190.0 million and $198.0 million, respectively.

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2009:

| *(in thousands of Canadian dollars)* | 1 Year | Less than 1–2 Years | 3–4 Years | Thereafter | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities[(a)] | $ 127,058 | $ — | $ — | $ — | $ 127,058 |
| Asset retirement obligations | 6,217 | 2,189 | 8,181 | 2,171 | 18,758 |
| Long-term debt | 26,235 | 26,235 | — | — | 52,470 |
| Interest on long-term debt | 2,011 | 670 | — | — | 2,681 |
| Obligations under capital leases | 371 | 385 | 107 | — | 863 |
| Interest on obligations under capital leases | 53 | 64 | 17 | — | 134 |
| Derivative financial instruments | 510 | — | — | — | 510 |
| Total | $ 162,455 | $ 29,543 | $ 8,305 | $ 2,171 | $ 202,474 |

(a) Excludes asset retirement obligations included in accounts payable and accrued liabilities on the audited consolidated balance sheet.

## 24. CAPITAL MANAGEMENT

The Company defines capital that it manages as the aggregate of its shareholders' equity and interest bearing debt. The Company's objectives when managing capital are to ensure that the Company will continue to operate as a going concern and continue to provide products and services to its customers, preserve its ability to finance expansion opportunities as they arise, and provide returns to its shareholders.

The following table sets forth the Company's total managed capital as at December 31:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Bank indebtedness | $ — | $ 15,418 |
| Current portion of long-term debt | **26,235** | 30,672 |
| Current obligations under capital lease | **371** | 581 |
| Long-term debt | **26,052** | 60,554 |
| Obligations under capital lease | **492** | 389 |
| Shareholders' equity | **790,422** | 732,452 |
| | **$ 843,572** | $ 840,066 |

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, or adjust the amount of cash, cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its credit facility and long-term debt agreements. Specifically, the Company has undertaken to maintain certain covenants in respect of the Senior Notes and its 5-Year Unsecured Committed Bank Credit Facility. The Company is in compliance with these covenants as at December 31, 2009.

## 25. EPS

The Company calculates EPS based on Class A shares using the "treasury stock" method. The weighted average number of common shares for the purpose of the EPS calculation at December 31 was as follows:

| | **2009** | 2008 |
|---|---|---|
| Basic | | |
| Class A | **57,397,485** | 57,846,083 |
| Class B | **13,059,983** | 13,060,209 |
| Total | **70,457,468** | 70,906,292 |
| Dilutive effect of stock options | | |
| Class A | **510,502** | 645,897 |
| Class B | **—** | — |
| Total | **510,502** | 645,897 |
| Diluted | | |
| Class A | **57,907,987** | 58,491,980 |
| Class B | **13,059,983** | 13,060,209 |
| Total | **70,967,970** | 71,552,189 |

### 26. JOINT VENTURE OPERATIONS

The Company's joint venture operations 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 at December 31 as follows:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Revenue | **$ 63,933** | $ 121,021 |
| Operating expenses | **51,623** | 90,363 |
| Net income before income taxes | **12,310** | 30,658 |
| Income taxes | **2,083** | 8,753 |
| Net income | **$ 10,227** | $ 21,905 |
| Cash provided by (used in): | | |
| Operating activities | **$ 16,760** | $ 18,224 |
| Investing activities | **$ (3,099)** | $ (3,913) |
| Financing activities | **$ (9,895)** | $ (15,942) |
| Current assets | **$ 24,604** | $ 30,892 |
| Long-term assets | **$ 18,181** | $ 21,158 |
| Current liabilities | **$ 8,463** | $ 18,200 |
| Long-term liabilities | **$ 654** | $ 733 |

In the fourth quarter of 2009, the Company entered into a joint venture agreement with OOO ArkhTekhnoProm, an affiliate of OAO Mezhregiontruboprovodstroi, the leading Russian offshore pipeline contractor. The joint venture involves the formation of a company owned 75% by OOO ArkhTekhnoProm and 25% by the Company. As at December 31, 2009, the Company did not have any reportable results. The joint venture will be accounted for through the proportionate consolidation method in accordance with GAAP.

### 27. 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 Mobile Facility had ceased. The Company adopted discontinued operation accounting treatment for the Mobile Facility in 2005. The Mobile Facility was part of the Pipeline and Pipe Services market segment.

The Company previously announced that it had reached a settlement of the Alabama lawsuit brought by Dirt, Inc. against Bredero Price Company, Bredero Shaw LLC, ShawCor Ltd. and Halliburton Energy Services, Inc., which resulted in the previously announced verdict of US$100.0 million in compensatory damages and punitive damages of US$2.0 million against each defendant plus interest. In 2007, the Company accrued $46.6 million for its share of the damages less anticipated tax recoveries of $16.3 million. The matter was settled, at a mediation ordered by the Alabama Supreme Court as part of the appeal proceedings, for a total of US$43.5 million against all parties. As a result of this settlement, in the second quarter of 2008, the Company reduced its reserves related to this lawsuit to $36.0 million, less anticipated income tax recoveries of $12.6 million. During the three months ended September 30, 2008, all amounts related to the settlement were paid.

The following table summarizes the financial results and cash flows from discontinued operations for the years ended December 31, 2009 and 2008, and the assets and liabilities of the discontinued operations as at those dates:

| *(in thousands of Canadian dollars)* | **2009** | 2008 |
|---|---|---|
| Revenue | **$ —** | $ — |
| Income from operations | **344** | 17,960 |
| Income tax expense | **—** | 6,949 |
| Income from discontinued operations | **$ 344** | $ 11,011 |
| Cash flow provided by (used in) operating activities | **$ 12,201** | $ (35,750) |
| Cash flow provided by (used in) discontinued operations | **$ 12,201** | $ (35,750) |
| Current assets | **$ —** | $ 12,256 |
| Property, plant and equipment, net | **$ —** | $ — |
| Current liabilities | **$ 56** | $ 455 |

### 28. COMPARATIVE FIGURES

The comparative audited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year audited consolidated financial statements and to show the effects of retrospective application of a new accounting policy. See note 4 for additional information with respect to the adoption of a new accounting policy.

# Six Year Review (Unaudited)

| *(in thousands of Canadian dollars except per share information)* | **2009** [note 1] | 2008 [note 1] | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| **OPERATING RESULTS** | | | | | | |
| Revenue | **$ 1,183,978** | $ 1,379,577 | $ 1,048,099 | $ 1,059,619 | $ 1,012,453 | $ 746,511 |
| EBITDA [note 2] | **253,799** | 262,158 | 201,076 | 187,828 | 140,447 | 111,277 |
| Net income (loss) for the year | **131,450** | 145,733 | 87,357 | 92,635 | 138,840 | (86,661) |
| Cash Flow | | | | | | |
| Cash from operating activities | **$ 287,132** | $ 154,361 | $ 97,514 | $ 189,877 | $ 79,890 | $ 72,132 |
| Purchases of property, plant and equipment | **34,358** | 89,799 | 91,855 | 58,170 | 38,141 | 31,882 |
| **FINANCIAL POSITION** | | | | | | |
| Working capital | **$ 307,567** | $ 229,169 | $ 255,625 | $ 341,375 | $ 274,103 | $ 153,452 |
| Long-term debt | **52,287** | 91,226 | 72,726 | 87,480 | 87,210 | 90,360 |
| Shareholders' equity | **790,422** | 732,452 | 578,787 | 629,927 | 535,238 | 443,406 |
| Total assets | **1,185,977** | 1,227,289 | 963,614 | 1,008,026 | 919,846 | 805,437 |
| **PER SHARE INFORMATION** | | | | | | |
| (Class A and Class B) | | | | | | |
| Net Income (loss) | | | | | | |
| Basic | **$ 1.86** | $ 2.06 | $ 1.20 | $ 1.25 | $ 1.85 | $ (1.16) |
| Diluted | **$ 1.85** | $ 2.03 | $ 1.19 | $ 1.25 | $ 1.85 | $ (1.16) |
| Dividends | | | | | | |
| Class A | **$ 0.5350** | $ 0.2525 | $ 0.2300 | $ 0.1350 | $ 0.0900 | $ 0.0808 |
| Class B | **$ 0.4864** | $ 0.2293 | $ 0.2090 | $ 0.1227 | $ 0.0818 | $ 0.0734 |
| Shareholders' equity [note 3] | **$ 11.21** | $ 10.40 | $ 8.12 | $ 8.51 | $ 7.22 | $ 5.91 |

Note 1: Restated due to the adoption of HB 3064. Refer to notes 4 and 28 of the accompanying audited consolidated financial statements for additional information.
Note 2: EBITDA is a non-GAAP measure calculated by adding back to income from continuing operations, reported income taxes, net interest income (expense), and amortization of property, plant and equipment. 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 | **– 2009** | **$ 307,464** | **$ 312,791** | **$ 302,812** | **$ 260,911** | **$ 1,183,978** |
| | – 2008 | $ 293,357 | $ 295,118 | $ 357,249 | $ 433,853 | $ 1,379,577 |
| Net income | **– 2009** | **$ 31,541** | **$ 34,636** | **$ 33,747** | **$ 31,526** | **$ 131,450** |
| | – 2008 | $ 26,852 | $ 28,378 | $ 33,880 | $ 56,623 | $ 145,733 |
| Net income per share (Class A and Class B) | | | | | | |
| Diluted | **– 2009** | **$ 0.45** | **$ 0.49** | **$ 0.48** | **$ 0.43** | **$ 1.85** |
| | – 2008 | $ 0.37 | $ 0.40 | $ 0.47 | $ 0.79 | $ 2.03 |

## ShawCor Directors

**J.T. Baldwin**
London, England

Mr. Baldwin is the Group Political Advisor of BP, a position he has held since October 2007, and has been a Director of ShawCor Ltd. since March 2010.

**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.

**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.

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

Mr. Hutchison joined ShawCor in 1998 and is Managing Director of ShawCor 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.

**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.

**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.

**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.

**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.

**H.A. Shaw**
Calgary, Alberta

Ms. Shaw is the Executive Chair of Corus Entertainment Inc., a position she has held since September 1999, and has been a Director of ShawCor Ltd. since May 2008.

**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.

**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.

**E.C. Valiquette**
Pembroke, 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.

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

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

# 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. The Board's role consists of approval of strategic plans, approval of the Company's financial results, 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 provides oversight to the Company's strategic planning process, reviews and approves overall corporate strategies, assesses management's success in implementing the agreed strategies and reviews the results obtained. This is done regularly and 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, management identifies and evaluates the principal risks of the Company's businesses and the Board seeks to ensure that management puts in place appropriate policies and procedures to manage those risks.

During 2008, the position of Lead Director was established and is currently being filled by John F. Petch. The Lead Director facilitates the Board's ability to function independently of management of the Company and the non-independent Directors. The Lead Director promotes best practices and high standards of corporate governance, consistent with enhancing and promoting the effectiveness and performance of the Board. The Vice Chair of the Board, Leslie W.J. Hutchison, provides back-up to the Chair, Virginia L. Shaw.

The Audit, Compensation and Corporate Governance Committees of the Board are each comprised of independent Directors. The Executive Committee is comprised of the Chair, the Chief Executive Officer and three independent Directors. Ten of fourteen members of the Board are considered to be independent.

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 these corporate governance practices and policies 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

**D.R. Ewert**
Corporate Secretary

## OPERATIONS MANAGEMENT

**J.D. Tikkanen**
President
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,
Asia Pacific
Bredero Shaw

**F. Gallina**
Vice President, Operations
ShawCor Ltd.

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

**F. Hutchings**
Vice President and
General Manager,
Acquisitions

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

**Y.F. Paletta**
Senior Vice President,
Europe, Middle East,
Africa, Russia and Latin
America
Bredero Shaw

**P.A. Pierroz**
Vice President,
Human Resources
ShawCor Ltd.

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

**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

#### Flexpipe Systems

3501 54th Avenue S.E.
Calgary, Alberta
T2C 0A9
T: 403-503-0548
F: 403-503-0547

#### 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

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18 Trees preserved for the future

501 lbs of solid waste not generated

8,247 gallons of wastewater flow saved

1,712 lbs net of greenhouse gases prevented

6,000,000 BTUs energy not consumed

ShawCor

### Head Office

25 Bethridge Road
Toronto, Ontario, Canada
M9W 1M7

Tel: 416.743.7111
Fax: 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 7, 2010
4:00 p.m.
The Fairmont Royal York Hotel
Toronto, Ontario
Canada

www.shawcor.com