



ShawCor Ltd. is a growth-oriented, global energy services company that operates through seven business units which focus on technology-based products and services for pipeline, exploration and production, and petrochemical and industrial markets with manufacturing and service facilities located in over fifteen countries around the world.

## FINANCIAL SUMMARY

(In thousands of Canadian Dollars except per share amounts)

### OPERATING RESULTS

	2004	2003
Revenue	\$ 863,430	\$ 824,397
EBITDA (Note 1)	\$ 52,593	\$ 113,709
Income (loss) from operations (Note 2)	\$ (8,145)	\$ 52,613
Asset impairment charges	\$ (50,390)	\$ —
Net income (loss) for the year	\$ (86,661)	\$ 24,351
Earnings (loss) per share, Class A and Class B – Basic	\$ (1.16)	\$ 0.35
Earnings (loss) per share, Class A and Class B – Diluted	\$ (1.16)	\$ 0.34

### CASH FLOW

Cash provided by operating activities	\$ 26,427	\$ 150,754
Additions to property, plant and equipment	\$ 32,712	\$ 16,657

### FINANCIAL POSITION

Working capital	\$ 144,413	\$ 152,420
Total assets	\$ 776,079	\$ 825,617
Shareholders' equity per share (Class A and Class B) (Note 3)	\$ 5.91	\$ 7.25

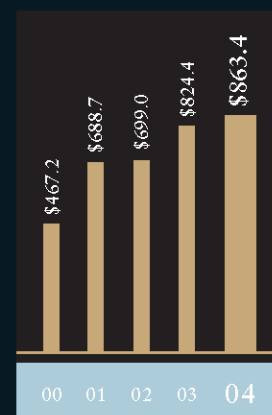
Note 1: EBITDA is a non-GAAP measure calculated by adding back to net income, taxes, net interest, depreciation and amortization, and asset impairment charges.

Note 2: Before asset impairment charges.

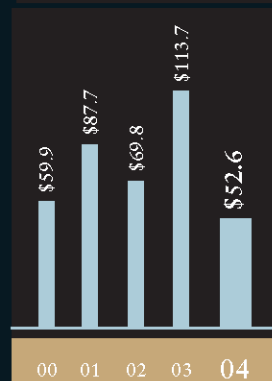
Note 3: Shareholders' equity per share is a non-GAAP measure calculated by dividing shareholders' equity by the number of Class A and Class B share outstanding at the date of the balance sheet.

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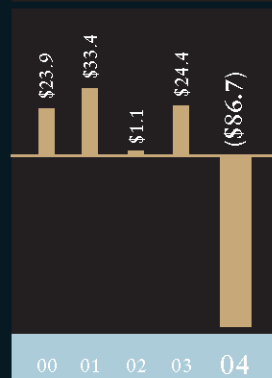
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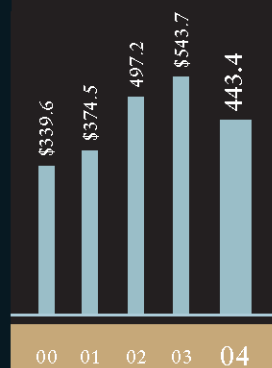
REVENUE  
(\$ millions)



EBITDA  
(\$ millions)



NET INCOME (LOSS)  
(\$ millions)



SHAREHOLDERS'  
EQUITY  
(\$ millions)

## A Message to Our Shareholders

The past year was a challenging one for ShawCor as, following a thorough strategic review, the decision was made to close the Bredero Shaw deepwater coating and fabrication facility in Mobile, Alabama.

The past year was a particularly challenging one for ShawCor as the company was unable to achieve the performance objectives established at the beginning of the period. The operating, impairment and other costs associated with the Mobile, Alabama coating and fabrication facility resulted in a net loss for the year, the first in the company's history, of \$86.7 million (\$1.16 per share). In response to these unsatisfactory results, significant changes were made in the management group and organizational structure within the Bredero Shaw division and the decision was taken to close the Mobile operation. These actions will support Bredero Shaw's return to profitability and allow the division to establish a renewed focus on marketing, operations and product development.

The Bredero Shaw Mobile facility, which was designed as a coating and fabrication operation to serve global deepwater markets, has continued to generate losses despite the best efforts of employees at the site and throughout the organization. A thorough strategic review confirmed that the profitability risk at this location was unacceptable. It was determined that this was primarily due to the complex execution requirements applicable to the demanding fabrication work being developed and provided at the Mobile facility at prices that were insufficient to compensate the company for the challenges associated with these leading edge technologies. In addition, high initial volumes of work declined as the level of infrastructure investment in the deepwater sector of the Gulf of Mexico receded to a cyclical low. As an offset to this cyclicity, it had been anticipated that the Mobile operation would be able to secure additional specialized coating and fabrication work for deepwater projects in Latin America and West Africa but much of this work is now being done in those countries to achieve local content requirements.

The review also concluded that the market outlook for the products and services offered at the Mobile location would be soft for the next several years. Accordingly, the decision was taken to close the facility following the completion of current customer commitments. Bredero Shaw remains committed to the deepwater flow assurance market worldwide and will continue to serve this market from its existing facilities including Pearland, Texas and other locations.

(l. to r.)  
Geoffrey F. Hyland  
President and Chief  
Executive Officer

Leslie E. Shaw  
Chairman of the  
Board



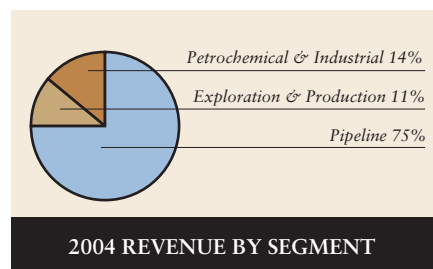
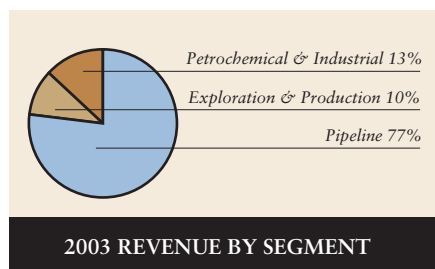
ShawCor's consolidated revenue increased by 4.7% year-over-year with the increase spread across each of the company's three industry segments – Pipeline, Exploration and Production, and Petrochemical and Industrial.

The situation at Mobile overshadowed the completion of a positive year in the rest of ShawCor. In particular, ShawCor's other Pipeline businesses generated increased operating income in comparison to the prior year and the company's drilling and tubular inspection businesses generated increased revenue and operating income as they benefited from strong activity in both North American and international markets. The Petrochemical and Industrial businesses also experienced higher volumes and profitability as the overall level of economic activity improved in North America and Europe.

For ShawCor's Pipeline businesses, the rising demand for energy is providing increased impetus to the drivers of pipeline construction activity. With demand rising beyond the levels that can be met from existing fields, energy producers are continuing to increase investment in the development of new onshore and offshore oil and gas reserves located at greater distances from major energy markets. As producers undertake to deliver new energy supplies to existing markets and increase supplies to expanding markets in high growth economies, these programs will support the development of plans for a number of new, long distance pipelines. Based upon projects that have been announced or are under consideration, it is probable that international pipeline construction activity will continue at a high level for the foreseeable future.

Improving economics are allowing the commercialization of stranded natural gas reserves through large scale LNG projects with producer countries moving rapidly to secure long-term supply contracts in order to support major investments in new liquifaction capacity. Countries with rapid demand growth like China or those with declining conventional reserves, such as the United States and various countries in Europe, have recently begun to approve new regasification projects in order to secure a share of the available supply. Although LNG is shipped by sea in large, cryogenic bulk tankers, most of these projects will require pipelines in both the producing and consuming countries to complete the process of transporting this gas from the wells to the ultimate destinations.

With the expectation that energy prices may be sustained at or near current levels and energy demand continues to increase, oil and gas producers are becoming more confident planning long-term, multi-year projects at price levels well above those utilized in the recent past. Each of these projects, whether the development of new oil and gas reserves, the expansion of pipeline transmission capacity to serve existing or expanding gas consumption markets or the rapidly growing demand for LNG, will support increased activity levels in pipeline construction markets. Many of these pipeline projects will provide opportunities for participation by ShawCor's Pipeline businesses.



As markets become more competitive and more technologically driven, every ShawCor business is placing greater emphasis on customer-focused marketing, the introduction of unique, new products that meet or exceed customer requirements and being the lowest-cost producer.



## 2005 and Beyond

Notwithstanding the focus on Bredero Shaw's profitability, corporate management and division management in the other ShawCor businesses continued to concentrate on various programs to improve profitability during the year. These activities, initiated in 2003 and continued during 2004, successfully contributed to improved profitability at each of the company's other businesses and will again be a management priority during the current year. Company personnel at all levels will also be continuing their commitment to improving quality levels at every location throughout ShawCor in 2005.

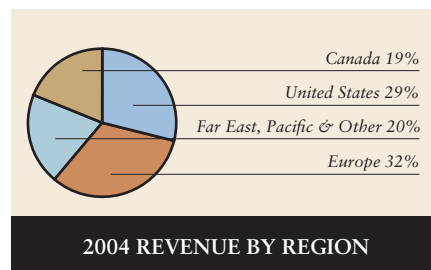
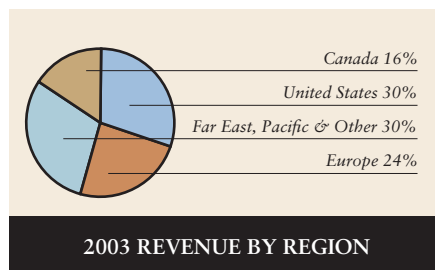
Looking forward, ShawCor has developed and is implementing a plan to ensure that Bredero Shaw, and therefore the company as a whole, return to the levels of profitability and shareholder value creation achieved in the past. This game plan focuses on the adoption by Bredero Shaw of many of the strategies that have permitted the achievement, under competitive market conditions, of the number one or two position held by each of the other ShawCor businesses in their respective markets. Bredero Shaw is the global leader in pipe coating solutions but the coatings market is becoming more competitive and more technologically driven. The division has responded by placing a greater emphasis on customer-focused marketing and developing the ability to secure future pipe coating projects based upon the introduction of unique, new products that meet or exceed customer requirements.

Many of these changes are already underway including the reorganization of the marketing function at Bredero Shaw under a new, senior management team with experience in other ShawCor businesses. The division is committed to an increased emphasis on product development and the use of technology to differentiate the division's manufacturing processes to achieve lowest-cost, highest-quality producer status. Bredero Shaw personnel will also continue to focus on the achievement of Best-In-Class customer satisfaction levels in 2005 and beyond.

While 2004 was a year of transition and change, particularly at Bredero Shaw, it is because of the hard work and dedication of all ShawCor employees worldwide that the company is well positioned to reach its profitability and shareholder value objectives in 2005. We would also like to acknowledge and thank A.F. "Tony" Griffiths, who stepped down from the ShawCor Board in April 2004, for his many contributions during a twenty-four year period of service as a Director of the company.

Geoffrey F. Hyland  
President and Chief Executive Officer

Leslie E. Shaw  
Chairman of the Board



# Pipeline



ShawCor's Pipeline businesses include: Bredero Shaw, the global leader in pipe coating solutions; Shaw Pipeline Services, the leading provider of ultrasonic and radiographic girth weld inspection services; and Canusa-CPS, the leading manufacturer of heat shrinkable pipeline joint protection systems, adhesives, sealants and liquids-based coating systems for land and marine pipelines worldwide. These three Pipeline divisions form the company's primary area of activity and generated 75% of ShawCor's consolidated revenue in 2004.

The pipeline segment of the energy industry is becoming an increasingly competitive market where success is achieved through customer-focused, service-oriented

marketing. While this customer, service and product-driven approach is based on the maintenance of close customer relationships, it is the development of market-leading technologies that solve challenging customer applications in the field which ensures the ability to secure a growing share of these markets now and in the future.

ShawCor's Pipeline businesses are continuously developing new products, processes and services to provide customer-focused solutions for new applications. Examples include Bredero Shaw's High Performance Composite Coating (HPCC), Shaw Pipeline Services' recently introduced Auto Detection software and Canusa-CPS's market leading

polypropylene (PP) joint protection systems for high temperature pipelines. ShawCor's direct R&D spending for the development of new products and services exceeded \$6 million in 2004.

The Bredero Shaw pipe coating business faced challenging operating conditions at several locations during 2004. In addition to the issues that led to the decision to close the Mobile, Alabama deepwater coating and fabrication facility, several West African coating projects that were initially scheduled for 2004 will now instead be completed by the division's Nigerian operations during 2005. Notwithstanding these timing issues, Bredero Shaw has received commitments



**MARK DUNS**  
General Manager  
Bredero Shaw, Farsund

Coating work for the Langede Transportation System is being carried out at the Bredero Shaw facility in Farsund, Norway.



*The Langeled Transportation System, a 1,200-km link between Nyhamna on the northwest coast of Norway and Easington on the east coast of England, will be the longest subsea gas pipeline system in the world.*

The Godin Lake Loop on TransCanada PipeLines' Peerless Lake Project in Northern Alberta was the site for a successful trial installation of pipe coated with Bredero Shaw's HPCC coating which also utilized Canusa-CPS's GTS-65 sleeves.



for both ongoing work and a number of projects in Nigeria and is expanding the division's operations in that country with a new facility at the Onne Free Port. Bredero Shaw was also successful in securing the concrete weight coating for the West Africa Gas Pipeline (WAGP) which will be installed at a new facility to be located in Ghana.

At mid-year, Bredero Shaw's North Sea operations in Farsund, Norway began the application of the corrosion coating, internal lining and concrete weight coating for the Langeled Transportation System which will link the Nyhamna Terminal on the northwest coast of Norway with Easington on the east coast of England. This pipeline, with a total length of about 1,200 km, will be

the longest subsea gas pipeline system in the world. The mobilization in Farsund presented operating personnel with several challenges as this facility had been mothballed since the completion of the last major offshore projects in the Norwegian sector of the North Sea in 2000. In addition to refurbishing the existing plant equipment, a significant portion of this facility was also upgraded to handle the heavy wall 44-inch diameter pipe required for the Langeled project. Late in the year, the division's coating facility in Leith, Scotland began the coating work for the twin pipelines required to connect the offshore Ormen Lange Field to the Nyhamna Terminal. Completion of these projects and the

240-km Balgzand-Bacton pipeline, which will connect the Netherlands to England, will keep these plants busy during most of 2005 and into 2006.

In other markets, the Bredero Shaw facility at Kuantan in Malaysia completed work on the Trans-Thai-Malaysia (TTM) and Bayu Darwin gas pipelines and continued coating work for a portion of the giant Sakhalin II oil and gas development in Russia's far eastern region. The division's coating plants in western Canada and the United States were busy with large volumes of small diameter pipe for use in the expansion of oil and gas gathering systems as drilling activity reached record levels. A temporary facility, requiring two concrete

# Pipeline

*ShawCor's Pipeline businesses succeed through customer-focused, service-oriented marketing and the development of market-leading technologies that solve challenging customer applications in the field.*

coating plants, was established in Trinidad, with the Bredero Shaw project team meeting the challenge of getting this "greenfield" operation installed and coating pipe with a very short lead-time. Initially for the Angostura Project, this facility has been subsequently used for two additional projects, Bud and Dolphin Deep, in the Trinidad offshore market. The Mexican operations were also quite active at the Monterrey and Veracruz facilities and at a new coating plant installed at Coatzacoalcos to provide concrete weight coatings for offshore pipelines. Bredero Shaw's Saudi Arabian joint venture, Arabian Pipe Coating Company Ltd. (APCO), was busy with several projects and, late in the year, began the installation of a second

three-layer polyethylene (3LPE) coating line to increase capacity and provide for the coating of large diameter water pipe.

In the flow assurance market, Bredero Shaw's Thermotite facility at Orkhanger in Norway worked on the joint development of new, low-density, high-strength polypropylene foam insulation systems for shallow water applications such as the Tyrihans Project. Thermotite's multi-layer Deep Foam technology was utilized on the Thunder Horse Project and a new, seven-layer syntactic and blown polypropylene foam system was developed for use on the Kizomba B Project offshore Angola in West Africa.

In Canada, the Bredero Shaw marketing group

developed and introduced a software program that allows customers to utilize their own design parameters and other variables to determine the economic benefits obtainable by using the division's HPCC, particularly in the difficult terrain and conditions that are often encountered in the Canadian far north. The Godin Lake Loop on TransCanada PipeLines' Peerless Lake Project in Northern Alberta was the site for a successful trial installation involving new, high-strength pipe utilizing strain-based design concepts that was coated with HPCC and also utilized Canusa-CPS's GTS-65 sleeves. This trial installation proved that both of these products are well suited for the low temperatures encountered during northern Canadian winters.



**BEN BERWICK**  
Engineering Manager  
Shaw Pipeline Services,  
Houston

A Shaw Pipeline Services ultrasonic transducer array being used to inspect pipeline girth welds.



*Examples of unique applications based on technologies developed within ShawCor's Pipeline segment include: Shaw Pipeline Services' new ultrasonic system for inspecting clad (dual-metal) pipelines and Canusa-CPS's high performance polypropylene sleeve systems for high temperature pipelines.*

Heat is applied to shrink a Canusa-CPS polypropylene sleeve to protect a welded joint on the Sadra offshore pipeline project.

**DILIP TAILOR**  
Manager Advanced Products  
Canusa-CPS, Toronto



The introduction of new products also played an important role in the growth and increased profitability at Shaw Pipeline Services and Canusa-CPS during 2004. Shaw Pipeline Services continued to provide unique, customer-oriented solutions for technologically challenging weld inspection applications including a new ultrasonic system for the inspection of clad or dual-metal wall pipelines. This system effectively resolved technical issues that had been a challenge to the pipeline industry for some time as it is the first system capable of finding defects in these high technology dual-metal, carbon steel and inconel pipelines. Shaw Pipeline Services also made additional technological advances to its proprietary processes for inspecting

internal welds and pipe-in-pipe systems including the introduction of new software that provides an audit function during the inspection of pipeline girth welds.

Canusa-CPS enjoyed an excellent year by securing orders for its proprietary joint protection systems on a number of significant international pipeline projects. Again in 2004, the division was able to demonstrate the superior installation and performance capabilities of its polypropylene systems for high temperature onshore and offshore pipeline applications. An example is the 540-km Greenstream Pipeline that was installed across the Mediterranean Sea from North Africa to Italy. With sections of this 32-inch diameter pipeline

laid in water depths of over 1,125 meters, the project established a world record for the deepest, large diameter pipelay ever accomplished. This project utilized a polypropylene joint protection system specifically designed by Canusa-CPS to withstand the rigors of the pipeline's installation and in-service conditions. With its broad range of pipeline joint protection products, Canusa-CPS is able to provide casings, sleeves or liquids-based coatings for almost every type of land or marine pipeline including insulated district heating systems and municipal sewer and water lines anywhere in the world.

# Exploration and Production



ShawCor operates two businesses in its Exploration and Production segment: OMSCO, a leading manufacturer of high performance drill string components including drill pipe, heavy-weight drill pipe, drill collars, kellys and other drill string accessories; and Guardian, which provides a complete range of tubular management services including mobile and in-plant inspection, machine shop services and computerized, web-based inventory management systems for drill pipe, production tubing and casing. The two Exploration and Production divisions generated 11% of ShawCor's consolidated revenue in 2004.

The proportion of oil and gas wells targeted at deeper formations or utilizing deviated well bores has grown in recent years, resulting in an increase in the

stress and wear on drill pipe and other drill string components. The impact of these increased stresses is primarily evident in the shortening of the life cycle of the threaded tool joints used to connect each piece of drill pipe in the string. Drill pipe manufacturers have developed threaded connections capable of withstanding the torsional loads that occur in highly deviated wells but these products often require more running time resulting in rapidly mounting costs per well at today's rig rates. OMSCO's engineering team has developed a new family of high strength TorqMaster™ connections that are capable of withstanding the elevated stresses and severe service conditions encountered in highly deviated or deep offshore wells while

requiring similar running time in comparison to conventional API drill pipe. Extensive testing of the TorqMaster™ TM4 connection prior to its introduction confirmed that it is currently the most advanced double-shouldered drill pipe connection, exceeding the torque capacity of standard API connections by 1.5 to 2.0 times depending on the size.

Although the market for new drill pipe recovered more slowly than initially anticipated in 2004, with a steady increase in orders beginning in the second quarter of the year, OMSCO entered 2005 with the strongest backlog ever. Although raw material costs for seamless tubes and bar stock have risen dramatically during the past year, the division was able to mitigate

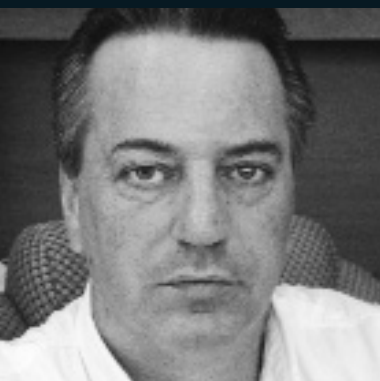


**HENRY WILLIAMS**  
Senior Applications Engineer  
OMSCO, Houston

A drill string equipped with OMSCO's high performance TorqMaster™ TM4 connections received extensive testing on this drill rig at a well site in Oklahoma.

Guardian's operations in Mexico have grown to five locations providing inspection, repair and inventory management services for customer owned and rental drilling components including Stabil Drill stabilizers and other down hole tools.

**CHARLIE PRICE**  
Business Manager  
Guardian, Villahermosa



*ShawCor's Exploration and Production businesses, OMSCO and Guardian, together provide customers with new drill string components and a complete inspection, maintenance and inventory management system that maximizes productivity throughout the service life of these products.*

these increases by passing through the higher costs. OMSCO also implemented the recommendations of several cost reduction task teams that measured and developed plans to improve efficiencies and productivity in all aspects of the division's production processes.

Guardian's tubular inspection and repair business benefited from the high level of drilling activity in the western Canadian sedimentary basin. The division faced an ongoing challenge of maintaining high customer service levels as more drilling activity moved into northeastern British Columbia, north-western Alberta and the Northwest Territories. In order to service these growing markets, Guardian implemented plans in 2004 to expand facilities and add capacity in Grande Prairie,

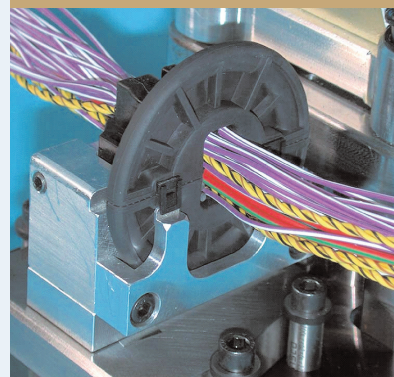
Alberta and in Fort Nelson and Fort St. John, British Columbia where new facilities had been opened during the prior year.

Drilling contractors and rental companies need to maintain control over large inventories of drilling components that are constantly being moved between storage yards, well sites and repair facilities. Guardian's recently introduced, web-based Electronic Tubular Management System continued to impress customers with its ability to track individual pipe joints throughout their life cycle allowing for more efficient maintenance and use of drilling component inventories. The benefits of utilizing this system were a key factor that allowed Guardian to secure a contract with a major oilfield rental company to manage

all of its tubulars, down-hole fishing tools and under-balanced equipment at multiple locations across Canada.

In Mexico, Guardian expanded its operations by adding inspection facilities at Veracruz and Ciudad del Carmen and a repair facility at Villahermosa in order to support a new alliance with Stabil Drill Specialties LLC. Under this arrangement, Guardian's Mexican operation will look after the rental, sale, inspection and maintenance of Stabil Drill's inventory of stabilizers and other down hole tools in that country. This program is an ideal expansion opportunity that is complementary to Guardian's existing tubular inspection and repair business and the sale of OMSCO drill pipe to PEMEX and other customers in Mexico.

# Petrochemical and Industrial



**CHRISTOPH VON PUPKA**  
Automotive Marketing Manager  
DSG-Canusa, Meckenheim

The Petrochemical and Industrial segment includes two businesses: DSG-Canusa, a leading global manufacturer of heat shrinkable and moulded products used to protect wire and cable connections in automotive, electrical/utility, electronic and communications applications; and ShawFlex, which is a manufacturer of custom designed instrumentation and control cable for the petrochemical, resource processing and utility markets in North America. ShawCor's Petrochemical and Industrial divisions accounted for 14% of the company's consolidated revenue in 2004.

At DSG-Canusa, the division continued to target the control of fixed costs while concentrating on the

development and introduction of new products aimed at the automotive and electrical/utility markets. In North America, recent introductions included an improved replacement for translucent nylon heat shrinkable tubing for crimp-seal applications and additions to the division's range of medium voltage termination and splice kits. These new products assisted DSG-Canusa in securing additional customer approvals at engineering firms and utilities serving North American power markets. The division also successfully secured new contracts for the supply of heat shrinkable tubing to a major wiring harness supplier that serves several U.S. automotive assembly plants. In addition to its

heat shrinkable products, DSG-Canusa has developed and manufactures specialized equipment, including shrink ovens, utilized for the automated application of heat shrinkable tubing on automotive wiring harnesses and other similar wire and cable products. DSG-Canusa's customers regard this unique equipment as being the best in the world.

In Europe, DSG-Canusa was successful in obtaining new approvals that will result in increased usage of the Coldmelt automotive barrier system and the Splicemelt moisture blocking system by several automotive customers. Overall revenue and profitability growth at DSG-Canusa's operations exceeded anticipated levels, leading to increased confi-

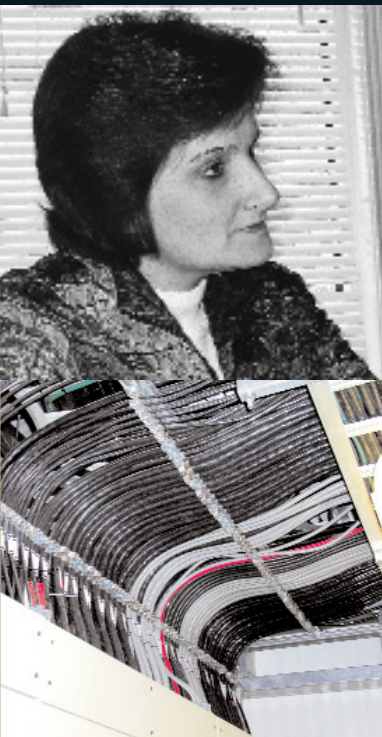
Specialized equipment used to apply DSG-Canusa's Coldmelt II system to seal a wire bundle for an automotive wiring harness during manufacture.



*ShawCor's Petrochemical and Industrial businesses, DSG-Canusa and ShawFlex, share materials and processing technologies including expertise in polyolefin formulations, radiation cross-linking and adhesives to provide customers with innovative product solutions.*

ShawFlex  
manufactures  
instrumentation  
and control cables  
such as the ones  
shown below  
installed on an oil  
sands project in  
western Canada.

**BRENDA KNUTSON**  
Western Canada Sales Manager  
ShawFlex, Edmonton



dence that the division's performance will continue to improve as economic activity gains strength in 2005.

Influenced by the cyclical downturn in the North American wire and cable markets in 2003, ShawFlex assumed a proactive strategy of cost containment in order to maintain profitability while remaining flexible to pursue upside opportunities. This strategy allowed the division to respond quickly to higher production requirements as the markets strengthened in 2004. As a result, the division completely recovered from the downturn experienced in the prior year.

ShawFlex's strong end-user focus and product differentiation programs are just two elements of the

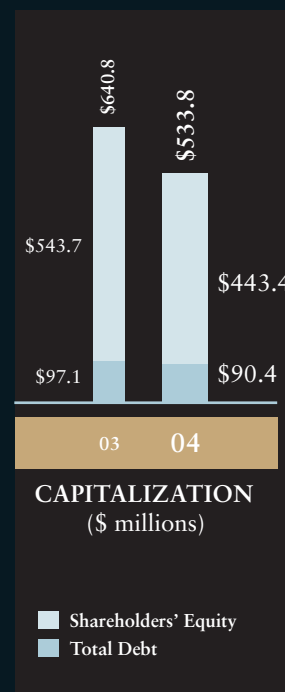
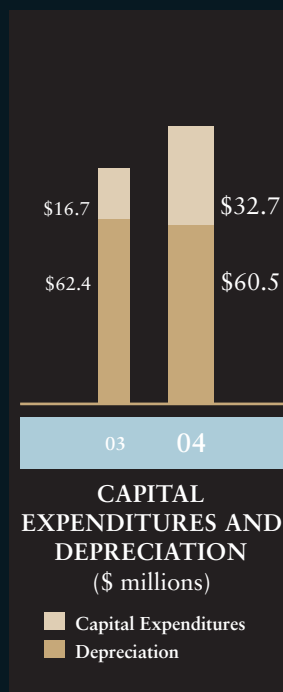
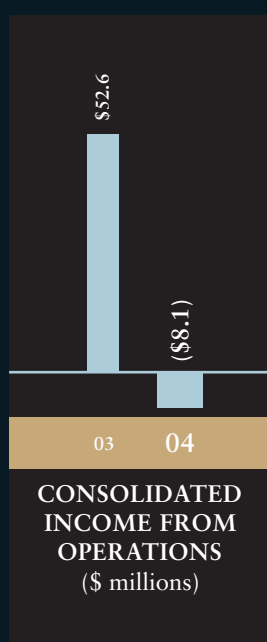
division's strategy to maintain world-class performance in a cyclical market environment. The success of these programs was just one of the reasons ShawFlex was able to secure major orders for the Syncrude UE-1 and Suncor oil sands projects and to achieve an increase in sales in the competitive U.S. wire and cable market. Another reason for ShawFlex's success in growing its U.S. sales is the addition of new distributors and utility customers that were attracted by the division's focus on all aspects of providing a superior customer service experience.

An important aspect of ShawFlex's world-class performance is listening to customer needs and developing product solutions that

meet or exceed the requirements of challenging field applications. For example, an oil sands customer wanted cables that could be installed without damage at  $-25^{\circ}\text{C}$  and not require prewarming. ShawFlex was the first manufacturer to run tests that challenged these previous  $-25^{\circ}\text{C}$  cold installation practices. The tests confirmed that ShawFlex cables do not need prewarming at this temperature and this capability has now been accepted as an Alberta industry standard. ShawFlex is also one of only a few manufacturers whose tray cables pass the CSA  $-40^{\circ}\text{C}$  cold bend and impact tests which proves their toughness and suitability for demanding outdoor applications in the oil sands.



ShawCor is a customer-focused, product-driven and service-oriented company that utilizes its extensive capabilities, broad technology base, global reach and commitment to continuous improvement to be the ideal supplier and partner for the day-to-day and project needs of clients throughout the energy industry.



# Management Discussion and Analysis

*ShawCor Ltd. operates through seven divisions, with manufacturing and services facilities located around the world. The Company classifies its operations into three market segments: Pipeline, Exploration and Production, and Petrochemical and Industrial.*

ShawCor Ltd. is a Canadian-based, growth-oriented company serving the pipeline, exploration and production, and petrochemical and industrial segments of the global energy industry. The company operates through seven divisions that produce specialized products and provide value-added services through a network of manufacturing and service facilities located around the world. The company classifies its operations into three market segments: pipeline, exploration and production, and petrochemical and industrial.

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

The exploration and production segment includes OMSCO and Guardian. OMSCO manufactures drill pipe and other drill string components. Guardian provides drill string inspection, refurbishment and tubular management services.

The petrochemical and industrial segment includes DSG-Canusa and ShawFlex. DSG-Canusa produces heat shrinkable tubing, sleeves, moulded products and kits for the automotive, electrical/utility, electronic and communications markets. ShawFlex produces specialty instrumentation and control wire and cables for the petrochemical, resource processing and utility markets.

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

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

## 2004 FINANCIAL RESULTS

### Revenue

Consolidated revenue for 2004 was \$863.4 million, a 5% increase over 2003 levels, despite the 5% negative impact from the weakening of the U.S. Dollar, vis-à-vis the Canadian Dollar, on the translation of ShawCor's U.S. Dollar revenue into Canadian Dollars.

Revenue in the pipeline segment was \$649.6 million in 2004 compared to \$636.8 million in 2003, a result of overall volume increases in pipe coating and joint protection products, more than offsetting the unfavourable foreign exchange conditions and slightly lower weld inspection revenue.

At Bredero Shaw, volume increases in the North Sea and Americas regions were tempered by weaker revenue in Africa and a temporary slowing in the Far East region. Revenue increased in the North Sea region due to the mid-year start-up of the U.S.\$225 million Langede project, which is being performed at the company's Farsund, Norway plant. This plant was reactivated during the first half of the year and production commenced in the third quarter. Pipe coating activity on this project is scheduled to continue until the first half of 2006. The Americas region of Bredero Shaw also saw an increase in project revenue in Mexico and the Caribbean. Higher small-diameter pipe coating volumes in Canada also contributed to the region's increased revenue. In the Far East region, revenue decreased from the previous year due to lower project activity at the company's Indonesian plant; however, activity remained strong at Bredero Shaw's Malaysian plant, which undertook several large transmission pipeline projects during the year.

Revenue at Canusa-CPS increased over the prior year, primarily due to several large, international offshore projects, while revenue at Shaw Pipeline Services decreased from the prior year due to softer market conditions and a move out of lower margin product lines.

Revenue in the exploration and production segment was \$92.8 million in 2004 and increased nearly 12% from the prior year as OMSCO and Guardian experienced strong growth. Demand for drill pipe and drill string components produced by OMSCO increased in the second half of the year as rig counts remained high throughout 2004 and drilling contractors' drill pipe inventories, left over from the prior market cycle, finally showed signs of depletion. The improved market conditions and continuing market acceptance of the division's tubular goods tracking system also had a favourable impact on Guardian's revenue during the year.

In the petrochemical and industrial segment, revenue in 2004 of \$122.7 million increased 15% over revenue in 2003 with growth achieved at both DSG-Canusa and ShawFlex. Revenue at DSG-Canusa increased 7% over the prior year with growth in both North America and Europe, the latter despite continuing sluggish economic conditions in Western Europe. This growth was the result of ongoing, focused marketing and product development programs, and reflects a strengthened market position in all of the division's markets. Revenue at ShawFlex increased nearly 40% over the prior year as demand for

the division's specialty wiring and cable products rebounded from cyclical lows in late 2003.

## Income from Operations

Consolidated loss from operations for 2004, before interest and income taxes and asset impairment charges, totaled \$8.1 million compared to income of \$52.6 million in the previous year. Excluding the operating losses recorded at the Mobile, Alabama pipe coating facility, operating profit for the year was \$69.2 million compared to the equivalent figure for 2003 of \$73.1 million.

In the pipeline segment, income from operations in 2004, excluding Mobile, totaled \$56.4 million compared to \$62.3 million in 2003. Improved operating results in the joint protection and weld inspection businesses as well as the North American onshore pipe coating operations were more than offset by first half weakness in the North Sea, a second half slowing in the Far East, increased margin pressures in certain locations and significant increases in the landed cost of certain raw materials. The operating losses at Mobile, the result of lower than expected throughput rates and higher than expected rework costs on technically challenging coating and fabrication projects, totaled \$77.4 million for the year compared to \$20.5 million in 2003. The 2004 amount includes a provision for the estimated contribution margin losses to be incurred in 2005 to complete current contract work as well as other costs and provisions associated with the closure of the Mobile facility.

At Canusa-CPS, income from operations grew in step with the increased revenue. Income from operations for the year also increased substantially at Shaw Pipeline Services despite lower sales, the result of cost reduction initiatives that were successfully implemented during the year.

Income from operations in the exploration and production segment was \$8.8 million in 2004 as OMSCO and Guardian both recorded improvements as a result of stronger market conditions. For comparison, income from operations in 2003 was \$2.2 million before inclusion of a one-time, pre-tax gain of \$5.3 million on the sale of OMSCO's manufacturing assets in Scotland.

In the petrochemical and industrial segment, income from operations in 2004 increased 177% from the prior year to \$15.8 million. At DSG-Canusa, increased revenue and successful cost reduction initiatives, implemented

late in 2003 following a change in divisional management, resulted in significantly improved earnings performance in 2004. Operating income at ShawFlex also improved sharply from the previous year, the result of increased revenue stemming from much improved market conditions.

Financial and corporate costs include corporate expenses not charged to the operating divisions and other non-operating items including foreign exchange gains and losses on foreign currency denominated cash balances. In 2004, financial and corporate costs consisted of unallocated corporate office costs of \$11.7 million, net of foreign exchange gains of \$1.6 million and a gain on the sale of shares of Compagnie Générale de Géophysique (“CGG”) of \$4.7 million. The CGG shares were acquired in September 2000 as consideration for the sale of the operating assets of Mark Products. In 2003, financial and corporate costs consisted of unallocated corporate office costs of \$2.4 million, net of foreign exchange gains of \$10.5 million and a gain on the sale of CGG shares of \$4.0 million. 2003 also included costs associated with certain claims made by adjoining landowners at Bredero Shaw’s Mobile, Alabama facility. The increase in 2004 unallocated corporate costs over the previous year resulted from the centralization of certain activities previously performed by some operating divisions, in order to realize economies of scale, and by the recognition of expenses associated with the adoption of new accounting standards related to stock based compensation.

Depreciation and amortization expense was \$60.5 million in 2004 compared to \$62.4 million in 2003. Research and development costs totaled \$6.2 million compared to \$7.2 million in the prior year.

## Non-Operating Income and Expenses

A one-time charge of \$50.4 million was recorded in 2004 related to the closure of Bredero Shaw’s Mobile, Alabama deepwater pipe coating and fabrication facility reflecting the recognition of an impairment loss on the carrying value of plant and equipment. Current projects will be completed before operations at the site cease, which is expected to be during the second quarter of 2005.

Interest expense on long-term debt and bank indebtedness, net of interest income on short-term deposits was \$5.3 million in 2004 compared to \$7.3 million in 2003 and reflected the impact of lower levels of borrowing and higher cash balances during the year compared to the previous year. In addition, the weaker U.S. Dollar had a

favourable impact on interest expense since the majority of the company’s indebtedness was denominated in U.S. Dollars and the translation of the interest on this debt into Canadian Dollars was favourably impacted by the lower exchange rate.

Income tax expense of \$23.1 million in 2004 compares to \$19.7 million in the prior year. Operating losses and asset impairment charges, which were recorded in the year related to the Mobile, Alabama operation of Bredero Shaw, were not tax effected; nor were operating losses at the company’s African subsidiary. This resulted in a much higher than normal income tax rate in 2004 (please refer to Note 15 to the consolidated financial statements). Similarly, certain costs and provision associated with the Mobile facility in 2003 were not tax effected, thereby increasing the effective tax rate in that year.

Minority interest in the losses of subsidiary companies was \$256 thousand in 2004. In 2003, the minority interest in income of subsidiary companies was \$1.3 million.

The overall net loss for the year of \$86.7 million (\$1.16 per share) includes operating losses and special charges relating to the Mobile operations of \$127.8 million (\$1.70 per share). The net profit for 2003 of \$24.4 million included net after-tax operating losses from Mobile of \$15.6 million.

## Cash Flows

Cash flow generated from operations totaled \$26.4 million in 2004, including decreases in working capital balances and other of \$5.8 million. In 2003, cash flow from operations totaled \$150.8 million including \$86.2 million generated through the reduction of working capital balances.

Cash used in investing activities in 2004 totaled \$28.5 million as capital expenditures totaling \$32.7 million and a \$2.9 million investment in shares of Garneau Inc. were partially offset by proceeds of \$350 thousand from the disposal of plant and equipment and proceeds of \$6.7 million on the sale of the remaining shares of CGG. In the second quarter of 2004, the company purchased 2,206,765 common shares of Garneau Inc. (TSX:GAR), a Canadian pipe coating company, representing 19.5% of the outstanding shares of the company. The purchase of the shares was made for investment purposes. In 2003, cash used in investing activities totaled \$29 thousand as capital expenditures of \$16.7 million were offset by proceeds on the disposal of property, plant and equipment of

\$7.5 million and proceeds on the disposal of shares of CGG of \$9.1 million.

Cash flow used in financing activities totaled \$6.2 million in 2004, consisting mainly of cash dividends paid to shareholders of \$6.0 million. 50,000 Class A Subordinate Voting Shares were purchased in December under the recently announced Normal Course Issuer Bid, for \$568 thousand, and proceeds from the issue of Class A Subordinate Voting Shares under the employee and Directors' stock option plans totaled \$359 thousand. In 2003, cash flow used in financing activities totaled \$96.4 million as cash dividends of \$5.7 million were paid to shareholders and proceeds of \$85.9 million on the sale of common shares and \$97.8 million raised through the sale of Senior Notes were used to repay \$239.4 million of short-term bank indebtedness and long-term debt and a \$35.0 million note related to the 2002 acquisition of the portion of Bredero Shaw not already owned by the company.

Cash and short-term deposit balances totaled \$72.0 million at the end of 2004, a decrease of \$8.3 million from the beginning of the year. In 2003, cash and short-term deposits increased \$54.3 million during the year to \$80.3 million.

## Dividends

Dividends per share paid in 2004 and 2003 were \$0.0808 for Class A Subordinate Voting Shares and \$0.0734 for Class B Multiple Voting Shares. The dividend applicable to Class A shares includes a non-cumulative premium of 10% above that applicable to Class B shares. The Board of Directors determines dividend payments based on consideration of net earnings over a period of years and the company's overall financial standing.

## Liquidity and Capitalization

At December 31, 2004, the company recorded a working capital ratio of 1.69 to 1 compared to 2.00 to 1 at December 31, 2003. Operating working capital (excluding cash and short-term deposits) of \$72.4 million was essentially unchanged during the year, despite significantly higher sales, reflecting the company's continued emphasis on efficient management of working capital.

Property, plant and equipment, net of accumulated depreciation, decreased \$83.0 million during the year to \$222.8 million. Depreciation of \$60.5 million, the asset

impairment charge related to the Mobile, Alabama facility of \$50.4 million and a translation impact of \$4.8 million, were partially offset by capital expenditures in the year of \$32.7 million. The translation impact related to the translation of the assets of self-sustaining foreign subsidiaries, mainly Bredero Shaw's foreign operations, at a lower exchange rate than at the beginning of the year.

Goodwill decreased \$9.6 million during the year to \$176.4 million at December 31, 2004, the result of translating goodwill related to Bredero Shaw at the lower U.S. Dollar exchange rate.

Other assets decreased \$7.7 million during the year to \$17.5 million at December 31, 2004. Deferred project costs decreased \$4.4 million as a result of foreign currency translation and the amortization of costs, which were incurred and deferred last year, against the projects to which they relate. Future income taxes decreased \$3.6 million during the year due to currency translation and the transfer of certain loss carry-forward amounts, which are expected to be realized within the next twelve months, to current assets.

Shareholders' equity decreased \$100.3 million during 2004 to \$443.4 million at December 31. Contributed surplus increased \$4.2 million in the year to \$7.2 million, reflecting the adoption of The Canadian Institute of Chartered Accountants ("CICA") amended recommendations dealing with stock-based compensation (please refer to Note 9 to the consolidated financial statements). Retained earnings decreased \$95.2 million in the year to \$300.8 million, the result of the net loss for the year of \$86.7 million, dividends paid of \$6.0 million, a charge of \$2.2 million against opening retained earnings on initial adoption of CICA's amended recommendations dealing with stock-based compensation and a \$400 thousand charge to retained earnings related to shares of the company acquired under the Normal Course Issuer Bid.

The cumulative translation account decreased \$9.6 million in 2004 to negative \$71.5 million, reflecting the impact of the weaker U.S. Dollar on the translation of the net assets of the company's U.S. Dollar-based, self-sustaining subsidiaries, partially offset by the impact of the translation of the company's U.S. Dollar-denominated Senior Notes. These notes are designated as a hedge of the company's investment in the net assets of Bredero Shaw.



The following table summarizes future payments required in respect of the company's contractual obligations:

(in thousands of Canadian Dollars)	2005	2006	2007	2008	2009	After 2009	Total
Long-term debt	\$ —	\$ —	\$ —	\$ —	\$ 30,120	\$ 60,240	\$ 90,360
Operating leases	14,600	11,127	9,335	6,548	5,854	15,181	62,645
Purchase commitments	42,004	—	—	—	—	—	42,004
Total contractual obligations	\$ 56,604	\$ 11,127	\$ 9,335	\$ 6,548	\$ 35,974	\$ 75,421	\$ 195,009

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

## Selected Annual Information

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

(in thousands of Canadian Dollars except per share and outstanding share amounts)	2004	2003	2002
Revenue	\$ 863,430	\$ 824,397	\$ 698,982
Income (loss) from operations (Note 1)	(8,145)	52,613	26,505
Asset impairment charges	(50,390)	—	(17,000)
Net income (loss)	(86,661)	24,351	1,134
Income (loss) from operations per share (Classes A and B) (Note 1)			
Basic	(0.11)	0.75	0.42
Diluted	(0.11)	0.74	0.41
Net income (loss) per share (Classes A and B)			
Basic	(1.16)	0.35	0.02
Diluted	(1.16)	0.34	0.02
Total assets	776,079	825,617	985,900
Total long-term financial liabilities	90,360	97,095	6,739
Cash dividends per share			
Class A	0.0808	0.0808	0.0808
Class B	0.0734	0.0734	0.0734
Number of outstanding shares			
Class A	61,224,968	61,206,202	54,851,303
Class B	13,745,965	13,769,995	13,814,595
Total	74,970,933	74,976,197	68,665,898

Note 1: Before asset impairment charges

The following are key factors effecting the comparability of the annual information disclosed previously.

Effective October 1, 2002, ShawCor completed the acquisition of the remaining 50% of the Bredero Shaw joint venture that it did not already own. Accordingly, ShawCor's consolidated revenue, earnings, cash flows, assets and liabilities after this date include 100% of Bredero Shaw, whereas prior to this date Bredero Shaw was included in ShawCor's consolidated financial statements in proportion to ShawCor's 50% ownership.

Over 80% of the company's revenue is transacted in currencies other than Canadian Dollars, with a majority transacted in U.S. Dollars. Changes in the rates of exchange between the Canadian Dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian Dollars. For

example, in 2003, the U.S. Dollar was on average, approximately 11% lower in terms of Canadian Dollars, than in 2002. In 2004, the U.S. Dollar was on average, approximately 7% lower than in 2003. In 2004, a \$0.01 change in the U.S. Dollar, vis-à-vis the Canadian Dollar, would impact revenue by approximately \$4 million and net income by \$1 million (\$0.01 per share).

In November 2004, the company announced the closure of its Mobile, Alabama facility. This event had a significant impact on the financial results of 2004 and is described in more detail in the section sub-titled Non-Operating Income and Expenses.

## Summary of Quarterly Results

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

(in thousands of Canadian Dollars except per share amounts)	First	Second	Third	Fourth	Full Year
<b>Revenue</b>					
2004	\$ 183,899	\$ 201,947	\$ 208,862	\$ 268,722	\$ 863,430
2003	235,664	215,456	178,323	194,954	824,397
<b>Income (loss) from operations (Note 1)</b>					
2004	7,829	1,166	(5,386)	(11,754)	(8,145)
2003	20,224	17,192	2,889	12,308	52,613
<b>Asset impairment charges</b>					
2004	—	—	—	(50,390)	(50,390)
2003	—	—	—	—	—
<b>Net income (loss)</b>					
2004	3,585	(3,489)	(8,658)	(78,099)	(86,661)
2003	10,622	8,596	97	5,036	24,351
<b>Income (loss) from operations per share (Classes A and B) (Note 1)</b>					
<b>Basic</b>					
2004	0.10	0.02	(0.07)	(0.16)	(0.11)
2003	0.29	0.25	0.04	0.17	0.75
<b>Diluted</b>					
2004	0.10	0.02	(0.07)	(0.16)	(0.11)
2003	0.29	0.25	0.04	0.16	0.74
<b>Net income (loss) per share (Classes A and B)</b>					
<b>Basic</b>					
2004	0.05	(0.05)	(0.11)	(1.05)	(1.16)
2003	0.15	0.13	0.00	0.07	0.35
<b>Diluted</b>					
2004	0.05	(0.05)	(0.11)	(1.05)	(1.16)
2003	0.15	0.12	0.00	0.07	0.34

Note 1: Before asset impairment charges

The following are key factors effecting the comparability of the quarterly information disclosed previously.

Fluctuations in the rates of exchange between the Canadian Dollar and other currencies could have a significant effect on foreign currency-denominated revenue when it is translated into Canadian Dollars. This fluctuation could result in quarter-to-quarter variability in revenue and profitability.

In November 2004, the company announced the closure of its Mobile, Alabama facility. This event had a significant impact on the financial results for the fourth quarter of 2004. This impact is described in more detail in the section sub-titled Non-Operating Income and Expenses.

## FOURTH QUARTER RESULTS

### Revenue

Consolidated revenue for the fourth quarter totaled \$268.7 million representing a 29% increase over the prior quarter and a 38% increase over the fourth quarter of 2003 with significant improvements realized by all market segments.

Pipeline segment revenue for the fourth quarter totaled \$211.5 million compared to \$153.8 million in the third quarter and \$146.9 million in the fourth quarter of the prior year. Revenue at Bredero Shaw increased substantially from both the prior quarter and the corresponding quarter of last year and reflected a full quarter of revenue from the Langeled project at the Farsund, Norway plant as well as continuing strength in the North American small diameter markets. ShawCor's joint protection and weld inspection businesses also reported good results.

Revenue in the exploration and production segment in the quarter totaled \$30.9 million and increased 25% over the third quarter of 2004 and 31% over the fourth quarter of last year as OMSCO and Guardian both experienced double-digit growth. Business activity at both

divisions was strong and market conditions continued to improve as North American rig counts improved throughout the year and customers continued to deplete drill pipe inventories left over from the previous peak in the drilling cycle.

Petrochemical and industrial segment revenue in the fourth quarter was \$26.8 million, 8% higher than in the same quarter of last year with the improvement the result of increased business activity and improved market conditions at both DSG-Canusa and ShawFlex. Fourth quarter revenue decreased seasonally from levels in the prior quarter with the fourth quarter generally being the slowest of the year for both divisions.

### Income from Operations

Consolidated income from operations in the quarter totaled \$31.6 million before operating losses at Mobile of \$43.3 million, inclusive of provision for 2005 expected contribution margin losses to complete existing contract commitments and other costs and provisions related to the closure of the Mobile facility. This represented a significant improvement over the comparable figures for both the previous two quarters of \$14.1 million and \$9.5 million, respectively, and the fourth quarter of last year of \$16.9 million.

In the pipeline segment, income from operations in the quarter totaled \$26.4 million, excluding the Mobile operating losses, and reflected profitability improvements in all other components of the segment. Income from operations for the segment, excluding Mobile, was \$7.6 million in the third quarter and \$18.3 million in the fourth quarter of last year.

Income from operations for the exploration and production segment totaled \$5.8 million in the fourth quarter of the year compared to \$1.9 million in the prior quarter and \$1.1 million in the fourth quarter of the prior year, with the improvement primarily the result of revenue growth.

The petrochemical and industrial segment generated income from operations of \$3.1 million for the quarter compared to \$4.1 million in the third quarter with earnings reflecting seasonally lower revenue during the

quarter. Fourth quarter 2004 earnings improved significantly from the loss of \$0.9 million in the fourth quarter of 2003, reflecting both revenue growth and profitability improvements in the segment.

## Non-Operating Income and Expenses

The decision was taken in the fourth quarter of 2004 to close the Mobile, Alabama pipe coating and fabrication facility after completion of the projects on hand, which is expected to extend into the second quarter of 2005. As a result, fourth quarter earnings included charges totaling \$50.4 million (\$0.67 per share), for non-cash asset impairment charges.

Financial and corporate costs totaled \$3.7 million in the fourth quarter of 2004, net of foreign exchange gains of \$0.2 million. This compares to \$4.1 million in the third quarter, including a foreign exchange loss of \$0.9 million.

Net interest expense was \$1.1 million in the fourth quarter of 2004 compared to \$1.3 million in the third quarter and \$1.6 million in the fourth quarter of 2003.

Income tax expense in the fourth quarter was \$14.5 million compared to \$2.2 million in the third quarter and \$6.0 million in the fourth quarter of last year. The operating losses and asset impairment charges, related to the Mobile, Alabama facility in the fourth quarter, were not tax-effected.

Net income for the quarter was \$15.6 million (\$0.21 per share), excluding the Mobile-related losses and provisions of \$93.7 million (\$1.25 per share). Net income before Mobile net losses in 2003 totaled \$11.6 million (\$0.16 per share).

## Cash Flows

Cash flow generated from operations for the quarter was \$8.8 million, mainly resulting from reductions in working capital balances, compared to \$19.2 million in the fourth quarter of last year and cash flow used in operations of \$881 thousand in the prior quarter.

Cash flow used in investing activities totaled \$8.3 million for the quarter, consisting entirely of additions to property, plant and equipment, compared to \$6.5 million in the prior quarter. The fourth quarter of 2003 saw cash flow generated from investing activities of \$2.0 million as

capital expenditures of \$6.7 million were offset by proceeds on the disposal of long-lived assets and investments of \$1.3 million and \$7.3 million, respectively.

Cash flow used in financing activities for the quarter totaled \$8.5 million as cash dividends of \$3.0 million were paid to shareholders and bank indebtedness of \$5.0 million was repaid. In the prior quarter, financing activities generated \$5.0 million of cash flow as bank indebtedness was increased. In the fourth quarter of 2003, financing activities generated cash flow of \$3.6 million as \$85.9 million of proceeds from the sale of the company's shares were used to repay short-term bank indebtedness and a portion of long-term debt.

Overall, cash and short-term deposits decreased \$8.0 million during the fourth quarter to \$72.0 million.

## Critical Accounting Estimates

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

### *Long-Lived Assets and Goodwill*

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

### *Future Benefit Obligations*

The company provides employee future benefits to its employees under a number of defined benefit and defined contribution arrangements. The calculation of the accrued benefit obligation recognized in the 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.

### **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.

### **Changes in Accounting Policies Including Initial Adoption**

On January 1, 2004, the company adopted new amendments to section 3870 of the Canadian Institute of Chartered Accountants' Handbook (CICA Handbook) – *Stock-Based Compensation and Other Stock-Based Payments*. Adoption of this policy requires that the fair market value of stock options, as determined using the Black-Scholes or some other method, be recognized as a charge against earnings at the time that they are granted. The company has accounted for the change in accounting policy retroactively without restatement. As a result, the company has recorded a charge to opening retained earnings of \$2.2 million with a corresponding increase to contributed surplus as compensation costs related to prior years for stock options granted under the 2001 Employee Plan and 2001 Director Plan that had not previously been expensed. One of the company's plans, the 1989 employee market growth stock option plan, had been expensed since January 1, 2002.

Also on January 1, 2004, the company adopted the new section 3110 of the CICA Handbook – *Asset Retirement Obligations*. The company estimated and accrued its obligations to restore certain leased premises at the end of their respective lease terms. The impact of adopting the standard was not material to the company's consolidated financial statements.

### **Financial Instruments**

The company manages interest rate risk and foreign exchange risk through the use of derivative financial instruments including foreign exchange option contracts and forward exchange contracts. These instruments are used to hedge exposures related to commercial activities only; the company does not use these instruments for speculative purposes. Using fair value accounting, these financial instruments are generally marked to market monthly with the unrealized gains and losses included in income for the period. The notional amounts of derivatives are not recognized in the consolidated financial statements. Short-term movements on financial instruments acquired as a hedge of a specific foreign currency purchase obligation or revenue source are deferred and matched with the specific transaction.

At December 31, 2004, the company had notional amounts of \$67.2 million of forward contracts outstanding (December 31, 2003 – \$10.8 million). These amounts are used to express the volume of transactions and do not represent exposure to loss.

### **Risks and Uncertainties**

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

### **Markets**

The company's business is materially dependent on the level of world-wide drilling and pipeline construction activity which in turn depends on the growth in demand for oil and natural gas and the availability of new supplies to meet this increased demand. Reductions in activity levels in either of these industries would reduce demand for the company's products and services.



### *Availability of Raw Materials*

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

### *Political Risk*

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

### *Liability Claims*

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

### *Environmental Risk*

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

## **OUTLOOK**

Demand for the products and services provided by ShawCor's pipeline and exploration and production market segments are primarily driven by the level of energy industry investment in pipeline infrastructure and by levels of world-wide drilling activity. These in turn are driven by global levels of economic activity and the resultant demand for oil and natural gas, together with the level of hydrocarbon supplies available to the marketplace and the financial position of the major energy companies. Demand for the products produced by the petrochemical and industrial segment of the company is mainly driven by the general level of economic activity in North America and Europe.

Global economic activity in 2005 is expected to remain at a similar level to that of 2004 and, accordingly, global demand for oil and gas is also expected to remain strong. This bodes well for the company as the supply and demand situation is expected to drive increased drilling activity to find and develop additional sources of supply, and new pipeline line projects to transport this production to market.

Ongoing productivity improvements and the strengthening of the pipe coating operations is expected to have a positive impact on earnings growth.

Consolidated order backlog, representing customer orders expected to be completed within one year, increased to \$474 million from \$231 million at the end of the prior year. This increase was broadly based across all segments and all divisions possessed strong backlog positions and order intake trends entering 2005. In the short-term, profitability will be impacted by work currently under contract at Mobile as the company fulfils its existing contractual obligations over the first half of 2005. The curtailment of the Mobile losses together with positive market conditions, as evidenced by the strong backlog, point to improved financial performance in 2005.

## OUTSTANDING SHARE CAPITAL

As at January 31, 2005, the company had 61,226,668 Class A Subordinate Voting Shares outstanding and 13,744,265 Class B Multiple Voting Shares outstanding. Each Class B Multiple Voting Share is convertible into a Class A Subordinate Voting Share at the option of the holder. In addition, as at January 31, 2005, the company had stock options outstanding to purchase up to 2,596,205 Class A Subordinate Voting Shares.

This document contains forward-looking statements, which are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such statements.

Further information on the company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

February 24, 2005

# Management's Responsibility for Financial Statements

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

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

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

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

The Audit Committee is appointed by the Board and all of its members are 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 24, 2005



Geoffrey F. Hyland  
President and Chief Executive Officer



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

## Auditors' Report

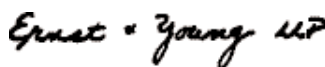
To the Shareholders of ShawCor Ltd.

We have audited the consolidated balance sheets of ShawCor Ltd. as at December 31, 2004 and 2003 and the consolidated statements of income (loss), retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Toronto, Canada  
February 16, 2005

# Consolidated Balance Sheets

December 31 (in thousands of Canadian Dollars)	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 72,002	\$ 80,260
Accounts receivable	172,801	151,735
Inventories (Note 2)	94,444	63,912
Prepaid expenses	10,889	8,356
Future income taxes (Note 15)	5,010	348
	355,146	304,611
Property, plant and equipment, net (Note 3)	222,765	305,753
Goodwill	176,393	185,965
Investment in associated company	4,226	4,017
Other assets (Note 4)	17,549	25,271
	\$ 776,079	\$ 825,617
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 188,591	\$ 134,885
Taxes payable	22,142	17,306
	210,733	152,191
Long-term debt (Note 6)	90,360	97,095
Future income taxes (Note 15)	28,262	28,818
Non-controlling interest in subsidiaries	3,318	3,843
	332,673	281,947
<b>Shareholders' Equity</b>		
Capital stock (Note 7)	206,904	206,511
Contributed surplus (Note 9)	7,196	3,027
Retained earnings	300,815	396,037
Cumulative translation account (Note 11)	(71,509)	(61,905)
	443,406	543,670
	\$ 776,079	\$ 825,617

See accompanying notes.

On behalf of the Board



Geoffrey F. Hyland  
Director



Leslie E. Shaw  
Director

## Consolidated Statements of Income (Loss)

Years Ended December 31 (in thousands of Canadian Dollars except per share information)	2004	2003
Revenue	\$ 863,430	\$ 824,397
Operating expenses	808,407	706,571
Depreciation and amortization	60,481	62,359
Research and development	6,168	7,248
	875,056	776,178
Share of earnings in associated company	3,481	4,394
Income (loss) from operations	(8,145)	52,613
Asset impairment charges (Note 13)	(50,390)	—
Interest expense, net (Note 14)	(5,257)	(7,333)
Income (loss) before income taxes and non-controlling interest	(63,792)	45,280
Income taxes (Note 15)	23,125	19,666
Income (loss) before non-controlling interest	(86,917)	25,614
Non-controlling interest	256	(1,263)
Net income (loss) for the year	\$ (86,661)	\$ 24,351
Earnings (loss) per share, Class A and Class B – Basic	\$ (1.16)	\$ 0.35
Earnings (loss) per share, Class A and Class B – Diluted	\$ (1.16)	\$ 0.34

## Consolidated Statements of Retained Earnings

Years Ended December 31 (in thousands of Canadian Dollars)	2004	2003
Balance at beginning of year	\$ 396,037	\$ 377,387
Adjustment for stock-based compensation (Note 9)	(2,201)	—
Balance at beginning of year, adjusted	393,836	377,387
Net income (loss) for the year	(86,661)	24,351
	307,175	401,738
Excess of purchase price paid over stated value of shares (Note 7)	400	—
Dividends paid	5,960	5,701
Balance at end of year	\$ 300,815	\$ 396,037

See accompanying notes.



# Consolidated Statements of Cash Flow

Years Ended December 31  
(in thousands of Canadian Dollars)

	2004	2003
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	\$ (86,661)	\$ 24,351
Items not requiring an outlay of cash:		
Asset impairment charges	50,390	—
Depreciation and amortization	60,481	62,359
Gain on disposal of investment in shares	(4,710)	(4,003)
Change in deferred project costs	3,553	(9,468)
Future income taxes	(1,668)	(11,573)
Non-controlling interest in earnings of subsidiaries	(256)	1,263
Share of earnings of associated company	(526)	1,622
Change in non-cash working capital and other	5,824	86,203
Cash provided by operating activities	26,427	150,754
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(32,712)	(16,657)
Proceeds on disposal of property, plant and equipment	350	7,542
Proceeds on disposal of investment in shares	6,728	9,086
Investment in shares	(2,875)	—
Cash used in investing activities	(28,509)	(29)
<b>FINANCING ACTIVITIES</b>		
Decrease in bank indebtedness	—	(231,298)
Repayment of long-term debt (Note 6)	—	(78,658)
Increase in long-term debt	—	168,427
Repayment of note payable	—	(35,041)
Dividends paid to shareholders	(5,960)	(5,701)
Dividends paid to minority shareholders of subsidiaries	(7)	(45)
Purchase of shares for cancellation (Note 7)	(568)	—
Issue of shares (Notes 7 and 9)	359	85,906
Cash used in financing activities	(6,176)	(96,410)
Net increase (decrease) in cash during the year	(8,258)	54,315
Cash and cash equivalents at beginning of year	80,260	25,945
Cash and cash equivalents at end of year	\$ 72,002	\$ 80,260

See accompanying notes.

# Notes to Consolidated Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

### *a) Principles of Consolidation*

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

### *b) Use of Estimates*

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

### *c) Revenue Recognition*

Revenue from the sale of products is recognized as products are shipped or accepted by the customer. 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 and other arrangements.

### *d) Deferred Project Costs*

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

### *e) Foreign Currency Translation*

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

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

Monetary assets and liabilities of the Company and its integrated foreign operations denominated in foreign currencies are translated at year-end exchange rates. All other assets and liabilities, along with depreciation expense denominated in foreign currencies are translated at historical exchange rates. Income and expense items other than depreciation 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.

### *f) Cash and Cash Equivalents*

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

### *g) Derivative Financial Instruments*

The Company manages interest rate and foreign exchange risk through the use of derivative financial instruments. Using fair value accounting, these financial instruments are generally marked to market and the unrealized gains and losses are recognized in income in the period. The notional amounts of derivatives are not recognized in the consolidated financial statements. Short term movements on financial instruments acquired as a hedge of a specific foreign currency purchase obligation or revenue source are deferred and matched with the specific transaction. The effectiveness of individual derivative financial instruments in mitigating the risks they are meant to hedge is evaluated on a regular basis and, if a financial instrument is no longer considered to be an effective hedge, hedge accounting is discontinued.

### *h) Inventories*

Inventories are valued at the lower of cost and net realizable value for finished goods and work in progress and replacement cost for raw materials. The first-in, first-out basis is used to calculate lower of cost, except in most pipeline businesses where the average cost basis is employed.

### *i) Property, Plant and Equipment*

Property, plant and equipment are recorded at cost and, other than project-related facilities and equipment, are depreciated over their useful lives commencing when the asset is available for use on a straight-line basis at annual rates of 4% to 10% on buildings, 10% to 20% on machinery and equipment and 33% to 50% for computer equipment. Project-related facilities are depreciated

over the initial estimated project life, generally no longer than seven years. The Company evaluates, at least annually, the recoverable value of its long-lived assets and, when the carrying value of a particular asset is deemed to exceed recoverable value, such assets are written down to their fair value and a corresponding charge to earnings is recorded.

#### *j) Asset Retirement Obligations*

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

#### *k) Goodwill*

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions. No amortization is recorded for years ended after December 31, 2001. The Company determines, at least once annually, whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings. During 2004, the Company assessed the fair value of reporting units to which the underlying goodwill is attributable and determined that no charge for impairment of goodwill was required for the year ended December 31, 2004.

#### *l) Investments*

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

#### *m) Employee Future Benefits*

The Company provides pensions to its employees under a number of defined benefit and defined contribution arrangements. The cost of the defined benefit plans is determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retire-

ment 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 market. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service lives of the employees who are members of the plan. Net actuarial gains and losses that exceed 10% of the greater of the benefit obligation and the value of plan assets are amortized over the average remaining service lives of the employees who are members of the plan. For the Company's principal plans, these periods range from 14 years to 22 years.

#### *n) Stock-Based Compensation*

The Company has three stock option plans, which are described in Note 8. Effective January 1, 2004, the Company recognizes compensation expense in respect of stock options granted under all three plans. For stock option units granted under the 1989 employee market growth stock option plan (the "1989 Plan"), compensation expense has been recognized since January 1, 2002. The compensation expense is equal to the estimated fair value of the option at its grant date and is amortized over the vesting period of the option. An amount equal to compensation expense is initially credited to contributed surplus and transferred to share capital if and when the option is exercised. Consideration received on the exercise of stock options is credited to share capital.

#### *o) Income Taxes*

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that are expected to be in effect, based on substantially enacted tax regulations, when the differences are expected to reverse.

#### *p) Operating Leases*

Payments for operating leases are charged to income in the year they are incurred.

#### *q) Earnings Per Share*

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of

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

*r) Change in Accounting Policy for  
Asset Retirement Obligations*

Effective 2004, the Company retroactively changed its accounting for asset retirement obligations. This change did not have a material impact on the previous year's financial statements.

*s) Comparative Figures*

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

## 2. INVENTORIES

(in thousands)	2004	2003
Raw materials and supplies	\$ 71,744	\$ 47,632
Work in progress	9,181	6,013
Finished goods	13,519	10,267
	<b>\$ 94,444</b>	<b>\$ 63,912</b>

## 3. PROPERTY, PLANT AND EQUIPMENT

(in thousands)	2004	2003
Cost		
Land and land improvements	\$ 59,508	\$ 56,686
Buildings	107,291	105,524
Machinery and equipment	489,230	485,958
Capital projects in progress	5,238	3,474
	<b>661,267</b>	<b>651,642</b>
Accumulated depreciation and write-downs		
Land improvements	42,518	22,468
Buildings	67,478	52,294
Machinery and equipment	328,506	271,127
	<b>438,502</b>	<b>345,889</b>
	<b>\$ 222,765</b>	<b>\$ 305,753</b>

## 4. OTHER ASSETS

(in thousands)	2004	2003
Long-term investment	\$ 2,875	\$ 2,018
Deferred project costs	7,260	11,618
Deferred financing costs	2,627	3,298
Future income taxes (Note 15)	4,787	8,337
	<b>\$ 17,549</b>	<b>\$ 25,271</b>

Long-term investment at December 31, 2004 represented an investment in Garneau Inc., a Canadian-based, publicly traded pipe coating company with a quoted year-end market value of \$2.2 million. Long-term investment at December 31, 2003 represented an investment in shares of Compagnie Générale de Géophysique ("CGG"); the Company recorded a gain of \$4.7 million on the sale of these shares in the second quarter of 2004. Deferred projects costs are costs incurred in the mobilization of production facilities for fixed term projects and are amortized on a basis to match the costs with the revenue from production on the specific projects. Deferred financing costs are amortized over the terms of the long-term debt.

## 5. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange options and forward exchange contracts are used to hedge foreign exchange exposures related to commercial activities. They are not used by the Company for speculative purposes. At December 31, 2004, the Company had notional amounts of \$67.2 million (2003 – \$10.8 million) of forward contracts outstanding. The amounts are used to express the volume of the transactions and do not represent exposure to loss. The difference between the carrying values and fair values of each of these contracts was not significant and was charged to earnings in the current year except for \$46.7 million of the above amount which represent forward currency sales contracts related to a specific Euro sales project in the U.K. and a specific U.S. Dollar sales project in Canada. All derivative financial instruments are contracted with major chartered banks. As a result, credit and liquidity risks related to these instruments are considered to be low.

## 6. BANK INDEBTEDNESS AND LONG-TERM DEBT

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, U.S.\$75.0 million of 5.11% Senior Notes due June 30, 2011. Interest is payable quarterly and fixed repayment amounts of U.S.\$25.0 million are due on June 30, 2009, 2010 and 2011. The notes are unsecured and rank pari passu with the bank credit facility and all other present and future unsecured indebtedness and trade obligations of the Company.

On June 27, 2003, the Company also entered into an agreement with a group of six North American Banks for a 3-Year Unsecured Committed Bank Credit Facility to a maximum of U.S.\$190.0 million. Various interest options are available to the Company under this credit facility. Both of these facilities were funded on July 3, 2003 and the proceeds were used to repay existing short-term debt.

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

(in thousands of Canadian dollars)	Dec. 31. 2004	Dec. 31. 2003
5.11% Senior Notes due in equal installments of U.S.\$25 million on June 30, 2009, 2010 and 2011 (U.S.\$75.0 million)	\$ 90,360	\$ 97,095

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

2005 to 2008	\$ —
2009	30,120
Thereafter	60,240
	<u>\$ 90,360</u>

c) As at December 31, 2004 the Company had unused operating lines of credit of \$193.0 million, net of \$61.5 million for various types of standby letters of credit for performance and bid bonds.

d) The Company has undertaken to maintain certain covenants in respect of the U.S.\$75.0 million of 5.11% Senior Notes and the 3-Year Unsecured Committed Bank Credit Facility described above. The Company believes that it is in compliance with these covenants at December 31, 2004.

## 7. CAPITAL STOCK

As at December 31, the following shares were outstanding:

(in thousands except number of shares information)	2004			2003		
	Class A	Class B	Total	Class A	Class B	Total
Number of shares:						
Balance, beginning of year	61,206,202	13,769,995	74,976,197	54,851,303	13,814,595	68,665,898
Issued – stock options	44,736	—	44,736	10,299	—	10,299
Conversions Class B to Class A	24,030	(24,030)	—	44,600	(44,600)	—
Share issuance	—	—	—	6,300,000	—	6,300,000
Purchases – normal course issuer bid	(50,000)	—	(50,000)	—	—	—
Balance, end of year	61,224,968	13,745,965	74,970,933	61,206,202	13,769,995	74,976,197
Stated value:						
Balance, beginning of year	\$205,454	\$ 1,057	\$206,511	\$119,441	\$ 1,060	\$120,501
Issued – stock options	561	—	561	—	—	—
Conversions Class B to Class A	2	(2)	—	3	(3)	—
Share issuance	—	—	—	85,906	—	85,906
Purchases – normal course issuer bid	(168)	—	(168)	—	—	—
Compensation cost on exercised options	—	—	—	104	—	104
Balance, end of year	\$205,849	\$ 1,055	\$206,904	\$205,454	\$ 1,057	\$206,511



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.

On October 10, 2003, the Company completed a public offering of 6,300,000 Class A Subordinate Voting Shares at a price of \$14.30 per share, for gross proceeds of \$90,090,000 before underwriters commissions and other costs of issue.

## 8. STOCK OPTION PLANS

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

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

Under the Company's 1995 director stock option plan (the "1995 Plan"), options to purchase Class A shares were granted at a price being the fair market value at the date of the grant. The maximum number of Class A Subordinate Voting Shares which could be purchased by a

director pursuant to any single grant of options was equal to the lesser of 9,000 Class A Subordinate Voting Shares and a number equal to twice the number of Class A Subordinate Voting Shares and Class B Multiple Voting Shares owned by the eligible director at the date of the grant. No additional options will be granted under the 1995 Plan which has been replaced by the 2001 Director Plan.

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

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

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

	2004				2003	
	Market Growth Plan <sup>(1)</sup>	Other Plans	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding, beginning of year	1,126,605	1,077,150	2,203,755	\$ 14.73	1,925,215	\$ 14.36
Granted	—	722,600	722,600	14.94	734,950	13.25
Exercised	(9,736)	(35,000)	(44,736)	10.20	(10,299)	11.24
Forfeited/expired	(118,214)	(167,200)	(285,414)	14.29	(446,111)	14.02
Balance outstanding, end of year	998,655	1,597,550	2,596,205	\$ 14.91	2,203,755	\$ 14.73

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

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Outstanding at December 31, 2004	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable at December 31, 2004	Weighted Average Exercise Price	
\$10.00 – \$15.00	1,221,040	6.70	\$ 12.71	563,327	\$ 12.63	
\$15.01 – \$20.00	1,375,165	7.35	\$ 16.87	454,947	\$ 17.52	
	2,596,205			1,018,274		

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable at December 31, 2003	Weighted Average Exercise Price	
\$10.00 – \$15.00	1,274,345	5.76	\$ 12.80	482,374	\$ 12.24	
\$15.01 – \$20.00	929,410	4.62	\$ 17.38	345,924	\$ 17.42	
	2,203,755			828,298		

## 9. STOCK-BASED COMPENSATION

Effective January 1, 2004, The Canadian Institute of Chartered Accountants (“CICA”) issued amended recommendations dealing with stock-based compensation. All public companies are now required to expense over the vesting period all stock-based compensation awards, which includes stock options issued to employees, senior executives and board members. The Company has accounted for the change in accounting policy retroactively without restatement. As a result, the Company has recorded a charge to opening retained earnings of \$2.2 million with a corresponding increase to contributed surplus as compensation costs related to prior years for stock options granted under the 2001 Employee Plan and the 2001 Director Plan that had not previously been expensed. Compensation costs relating to the 1989 Plan had been expensed since January 1, 2002. The weighted average fair value of all options granted is \$4.52. Compensation cost is calculated using the fair value of each stock option which is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: expected life of options from 3.25 years to 8.25 years, expected stock price volatility ranges from 16% to 38%, expected dividend yield 0.4% to 0.5% and risk free interest rate ranging from 2.25% to 5.8% over the life of the options. The compensation cost recognized in the accounts for the year ended December 31, 2004 was \$2.2 million (2003 – \$464 thousand).

## 10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to the shareholders by the weighted average number of common shares outstanding during

the year which was 75,010,829, (2003 – 70,102,279 shares). Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. The weighted average number of common shares outstanding during the period plus the dilutive effect of outstanding stock options was 75,010,829 (2003 – 71,280,395).

## 11. CUMULATIVE TRANSLATION ACCOUNT

(in thousands)	2004	2003
Balance at beginning of year	\$ (61,905)	\$ (3,349)
Translation of self-sustaining foreign operations	(9,604)	(58,556)
Balance at end of year	\$ (71,509)	\$ (61,905)

During 2004, the Canadian dollar gained 7.0% (2003 gained 18.0%) against the U.S. Dollar, weakened 1.4% (2003 gained 1.9%) against the Euro and weakened 0.8% (2003 gained 9.4%) against the U.K. pound.

## 12. EMPLOYEE FUTURE BENEFITS

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

The total cash payments made by the Company during 2004 were \$10.0 million (2003 – \$8.9 million). The cash payments consisted of contributions required to fund both the defined benefit and defined contribution plans.

The Company measures the fair value of assets and accrued benefit obligations as of December 31. Actuarial valuations for the Company's nine defined benefit pension plans are generally required at least every three years. The most recent actuarial valuations of the plans were conducted at January 1, 2002 (two plans), January 1, 2003 (two plans), January 1, 2004 (four plans) and August 1, 2004 (one plan). The net benefit asset for employee future benefit plans are reported in the Company's balance sheet under Prepaid Expenses.

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

(in thousands)	2004	2003
<b>ACCRUED BENEFIT OBLIGATIONS</b>		
Accrued benefit obligations, beginning of year	\$ 47,194	\$ 42,973
Current service cost	2,933	2,801
Actuarial loss (gain)	6,543	(130)
Interest cost	2,968	2,805
Valuation effect	(1,127)	624
Foreign currency loss (gain)	180	(1,184)
Past service cost	—	218
Benefits paid	(1,308)	(913)
Accrued benefit obligations, end of year	\$ 57,383	\$ 47,194
<b>PLAN ASSETS</b>		
Fair value of plan assets, beginning of year	\$ 41,147	\$ 36,387
Valuation effect	(3)	(253)
Actual return on plan assets	3,847	3,921
Contributions	4,148	2,822
Benefits paid	(1,308)	(913)
Effect of foreign currency exchange rates	122	(817)
Fair value of plan assets, end of year	\$ 47,953	\$ 41,147
<b>FUNDED STATUS – PLAN (DEFICIT)</b>	<b>\$ (9,430)</b>	<b>\$ (6,047)</b>
Unamortized net actuarial losses	9,382	5,023
Unamortized past service cost	923	1,127
Unamortized net transitional obligation	841	977
Net accrued benefit asset	\$ 1,716	\$ 1,080

(in thousands)	2004	2003
<b>NET BENEFIT COST FOR THE YEAR</b>		
Employer portion of current service cost	\$ 2,882	\$ 2,732
Interest on accrued benefit obligations	2,968	2,805
Actual return on plan assets	(3,847)	(3,921)
Actuarial (gains) losses	4,395	(161)
Plan amendments	—	218
Defined benefit costs before adjustments to reflect the long-term nature of employee future benefit costs	6,398	1,673
Difference between expected and actual return on plan assets for the year	1,055	1,429
Difference between recognized and actual actuarial loss accrued benefit obligations for year	(4,331)	426
Difference between amortization of past service cost and actual plan amendments cost for year	204	(35)
Amortization of net transitional (asset) amount	136	136
Net defined benefit costs	3,462	3,629
Defined contribution pension expenses	5,821	6,034
<b>Total pension benefit costs</b>	<b>\$ 9,283</b>	<b>\$ 9,663</b>

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

(in thousands)	2004	2003
Accrued benefit obligations	\$ 50,179	\$ 40,626
Fair value of plan assets	38,723	32,521
<b>Funded status – (deficit)</b>	<b>\$ (11,456)</b>	<b>\$ (8,105)</b>

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

(percentage of plans assets)	2004	2003
<i>(registered Canadian pension plans)</i>		
Equities	51%	49%
Fixed Income	39%	43%
Real Estate	0%	0%
Other	10%	8%
Total	100%	100%

(percentage of plans assets)	2004	2003
<i>(SERP plan invested assets)</i>		
Equities	95%	96%
Fixed Income	0%	0%
Real Estate	0%	0%
Other	5%	4%
Total	100%	100%

Significant assumptions used Canada	2004	2003
Accrued benefit obligations as of December 31:		
Discount rate	6.00%	6.25%
Salary increases	4.00%	4.00%
Benefit cost for year ended December 31:		
Discount rate	6.25%	6.25%
Expected rate of return on assets	7.00%	7.50%
Rate of compensation increase	4.00%	4.00%

Significant assumptions used Norway/UK (weighted average)	2004	2003
Accrued benefit obligations as of December 31:		
Discount rate	5.15%	5.69%
Salary increases	3.23%	3.22%
Benefit cost for year ended December 31:		
Discount rate	5.69%	5.69%
Expected rate of return on assets	7.13%	7.13%
Rate of compensation increase	3.22%	3.22%

### 13. ASSET IMPAIRMENT CHARGES

On November 2, 2004, the Company announced its decision to close the Mobile, Alabama pipe coating facility at the completion of projects currently under contract, which are expected to be complete, except for load-out, early in the second quarter of 2005. The fourth quarter 2004 operating loss for Mobile includes a provision for the estimated contribution margin losses to be incurred in completing those contracts as well as other costs and provisions associated with the closure of the facility. In addition to overhead costs associated with the completion of the remaining contracts, fixed costs of approximately \$2.0 million per annum will continue to be incurred until the site is vacated. The Company also recorded asset impairment charges in the fourth quarter of 2004, totaling \$50.4 million (\$0.67 per share) for the write-down of capital property and equipment to its estimated recoverable value, based on technical and market studies. The Mobile facility is a component of the pipeline market segment.

The following table outlines the financial results of the Mobile facility over the last eight quarters and for the full years 2004 and 2003:

(in thousands)	First	Second	Third	Fourth	Full Year
Revenue					
2004	\$ 12,384	\$ 12,717	\$ 17,688	\$ 21,174	\$ 63,963
2003	29,870	18,558	13,931	16,852	79,211
Income (loss) from operations					
2004	(6,226)	(12,894)	(14,932)	(43,336)	(77,388)
2003	(2,100)	(8,196)	(5,582)	(4,626)	(20,504)
Asset impairment charges					
2004	—	—	—	(50,390)	(50,390)
2003	—	—	—	—	—
Income (loss) from operations after asset impairment, asset restructuring charges and provisions					
2004	(6,226)	(12,894)	(14,932)	(93,726)	(127,778)
2003	(2,100)	(8,196)	(5,582)	(4,626)	(20,504)
Depreciation expense					
2004	4,741	4,916	4,591	2,591	16,839
2003	5,460	5,046	4,999	4,902	20,407

#### 14. INTEREST EXPENSE (INCOME)

(in thousands)	2004	2003
Interest income on short-term deposits	\$ (1,025)	\$ (1,086)
Interest on bank indebtedness	579	4,443
Interest on long-term debt	5 703	3,976
	\$ 5,257	\$ 7,333

#### 15. INCOME TAXES

a) The income tax expense is comprised of:

(in thousands)	2004	2003
Current	\$ 24,793	\$ 31,239
Future	(1,668)	(11,573)
	\$ 23,125	\$ 19,666

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

	2004	2003
Combined basic Canadian federal and provincial income tax rate	43.1 %	41.6 %
Canadian manufacturing and processing profits deductions	(9.0)	(8.5)
Expected rate	34.1	33.1
Tax rate differential on earnings of foreign subsidiaries	2.0	0.7
Unrecognized tax losses of foreign subsidiaries	(66.8)	8.4
Other	(5.5)	1.2
	(36.2)%	43.4 %



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

(in thousands)	2004	2003
<b>Future tax asset</b>		
Net operating losses carry forward – current	\$ 5,010	\$ 348
Net operating losses carry forward – non-current	4,787	8,337
Net future tax asset	\$ 9,797	\$ 8,685
<b>Future tax liability</b>		
Depreciable capital assets	\$ 17,658	\$ 25,495
Provisions and future expenditures	10,604	3,323
Total future tax liability	\$ 28,262	\$ 28,818

The Company has income tax losses carried forward of \$34.9 million (2003 – \$30.6 million) for which the tax benefit of these loss carry-forwards has been recorded as a future tax asset. These tax losses may be utilized to offset taxable income from certain jurisdictions in future years. Tax losses of \$0.8 million will expire in 2009, the remainder will carry forward beyond 2009. Income taxes of \$16.6 million (2003 – \$12.8 million) were paid during the year. The Company has net losses of \$123.1 million (2003 – \$10.8 million) in various jurisdictions for which no future tax asset has been recognized. The majority of these losses expire beyond 2010.

## 16. OTHER COMMITMENTS

### a) Operating leases

At December 31, 2004, the aggregate minimum annual obligations under non-cancelable operating leases were as follows:

(in thousands)	
2005	\$ 14,600
2006	11,127
2007	9,335
2008	6,548
2009	5,854
Subsequent to 2009	15,181
	\$ 62,645

b) Estimated obligations related to exiting certain leased properties at the end of their respective terms, which will occur between 2005 and 2020, total \$5.0 million and are included in Accrued Liabilities. The total undiscounted cash flows which are estimated to be required to settle these obligations is \$5.4 million and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted is 5.11%.

### c) General

In the ordinary course of business activities, the Company may be contingently liable for litigation with and claims from 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.

## 17. FOREIGN EXCHANGE GAINS AND LOSSES

Included in income from operations are foreign exchange gains, primarily related to the translation of foreign currency cash and working capital balances, totaling \$1.6 million (2003 – \$13.5 million).

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

## 18. SEGMENTED INFORMATION

The Company provides products and services to three general segments of the global energy industry: pipeline, exploration and production, and petrochemical and industrial. The pipeline segment is comprised of Bredero Shaw which provides pipe coating, lining and insulation products, Canusa-CPS which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Shaw Pipeline Services which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction. The exploration and production segment is comprised of OMSCO, which manufactures drill string components and Guardian which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubulars as well as selling OMSCO products in Canada and Mexico. The petrochemical and industrial segment is comprised of DSG-Canusa which manufactures heat shrinkable tubing for automotive, electrical/utility, electronic and communications applications and ShawFlex which manufactures wire and cable for process instrumentation and control applications.

Financial information by operating segment is as follows (in thousands of dollars):

	Pipeline		Exploration and Production		Petrochemical and Industrial		Financial and Corporate		Eliminations		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue – customer	649,113	636,439	92,832	82,918	121,485	105,040	—	—	—	—	863,430	824,397
– intersegment	479	397	—	—	1,178	1,469	—	—	(1,657)	(1,866)	—	—
– total	649,592	636,836	92,832	82,918	122,663	106,509	—	—	(1,657)	(1,866)	863,430	824,397
Operating expenses	616,471	538,761	79,254	70,587	101,654	95,027	9,204	(332)	(1,657)	(1,866)	804,926	702,177
Depreciation of capital assets	50,485	51,761	4,242	4,593	4,343	4,557	1,411	1,448	—	—	60,481	62,359
Research and development	3,623	4,478	545	195	915	1,244	1,085	1,331	—	—	6,168	7,248
	670,579	595,000	84,041	75,375	106,912	100,828	11,700	2,447	(1,657)	(1,866)	871,575	771,784
Income (loss) from operations	(20,987)	41,836	8,791	7,543	15,751	5,681	(11,700)	(2,447)	—	—	(8,145)	52,613
Asset impairment charges	50,390	—	—	—	—	—	—	—	—	—	50,390	—
Interest expense, net	—	—	—	—	—	—	5,257	7,333	—	—	5,257	7,333
Income tax expense	—	—	—	—	—	—	23,125	19,666	—	—	23,125	19,666
Total assets	840,613	857,203	66,599	64,272	73,610	73,606	818,169	872,799	(1,022,912)	(1,042,263)	776,079	825,617
Goodwill	156,984	166,824	—	—	19,409	19,141	—	—	—	—	176,393	185,965
Capital expenditures, net of disposals	29,106	13,499	1,411	(5,710)	1,469	910	376	416	—	—	32,362	9,115

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

	Canada		United States		Europe		Far East, Pacific and Other		Eliminations		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue – customer	160,675	133,484	254,305	242,254	279,887	199,366	168,563	249,293	—	—	863,430	824,397
– intersegment	61,648	52,712	13,146	11,898	2,160	2,925	—	198	(76,954)	(67,733)	—	—
– total	222,323	186,196	267,451	254,152	282,047	202,291	168,563	249,491	(76,954)	(67,733)	863,430	824,397
Property, plant and equipment, net	71,076	96,108	58,153	130,450	55,815	50,117	37,721	29,078	—	—	222,765	305,753

## SIX YEAR REVIEW

(in thousands except per share information)	2004	2003	2002	2001	2000	1999
<b>OPERATING RESULTS</b>						
Revenue (Note 1)	\$ 863,430	\$ 824,397	\$ 698,982	\$ 688,682	\$ 467,208	\$ 525,226
EBITDA (Note 2)	52,593	113,709	69,806	87,728	59,880	89,098
Net income (loss) for the year	(86,661)	24,351	1,134	33,376	23,860	30,761
<b>CASH FLOW</b>						
Cash from operating activities	\$ 26,427	\$ 150,754	\$ (2,813)	\$ 30,346	\$ 31,995	\$ 85,639
Additions to property, plant and equipment	32,712	16,657	31,594	86,458	24,394	29,450
<b>FINANCIAL POSITION</b>						
Working capital	\$ 144,413	\$ 152,420	\$ (79,611)	\$ 80,363	\$ 119,135	\$ 127,544
Long-term debt	90,360	97,095	13,069	8,881	3,242	20,151
Shareholders' equity	443,406	543,670	497,206	374,529	339,554	322,632
Total assets	776,079	825,617	985,900	620,625	468,523	479,441
<b>PER SHARE INFORMATION (CLASS A AND CLASS B)</b>						
Net income (loss)						
Basic	\$ (1.16)	\$ 0.35	\$ 0.02	\$ 0.55	\$ 0.39	\$ 0.51
Diluted	\$ (1.16)	\$ 0.34	\$ 0.02	\$ 0.54	\$ 0.39	\$ 0.50
Dividends						
Class A	\$ 0.0808	\$ 0.0808	\$ 0.0808	\$ 0.0808	\$ 0.0808	\$ 0.0808
Class B	\$ 0.0734	\$ 0.0734	\$ 0.0734	\$ 0.0734	\$ 0.0734	\$ 0.0734
Shareholders' equity	\$ 5.91	\$ 7.25	\$ 7.24	\$ 6.16	\$ 5.60	\$ 5.34

Note 1: Restated to exclude discontinued operations in 1999.

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

## QUARTERLY INFORMATION (Unaudited)

(in thousands except per share information)	First	Second	Third	Fourth	Total
Revenue – 2004	\$ 183,899	\$ 201,947	\$ 208,862	\$ 268,722	\$ 863,430
– 2003	\$ 235,664	\$ 215,456	\$ 178,323	\$ 194,954	\$ 824,397
Net income (loss) – 2004	\$ 3,585	\$ (3,489)	\$ (8,658)	\$ (78,099)	\$ (86,661)
– 2003	\$ 10,622	\$ 8,596	\$ 97	\$ 5,036	\$ 24,351
<b>Net income (loss) per share (Class A and Class B)</b>					
Basic – 2004	\$ 0.05	\$ (0.05)	\$ (0.11)	\$ (1.05)	\$ (1.16)
– 2003	\$ 0.15	\$ 0.13	\$ 0.00	\$ 0.07	\$ 0.35
Diluted – 2004	\$ 0.05	\$ (0.05)	\$ (0.11)	\$ (1.05)	\$ (1.16)
– 2003	\$ 0.15	\$ 0.12	\$ 0.00	\$ 0.07	\$ 0.34

# Directors, Corporate Officers and Operations Management

## DIRECTORS

**G.F. Hyland**  
Toronto  
President and  
Chief Executive Officer  
ShawCor Ltd.

**M.K. Mullen** <sup>(2) (3)</sup>  
Aldersyde, Alberta  
Chairman, President and  
Chief Executive Officer  
Mullen Transportation Inc.

**J.J. Murphy**  
Dallas  
Private Investor

**R.J. Ritchie** <sup>(1)</sup>  
Calgary  
President and  
Chief Executive Officer  
Canadian Pacific Railway  
Company

**P.G. Robinson** <sup>(1)</sup>  
Woodbridge  
President and  
General Manager  
Litens Automotive Group

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

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

**V.L. Shaw** <sup>(3)</sup>  
Toronto  
Vice Chair of the Board  
ShawCor Ltd.

**W.J.V. Sheridan**  
Toronto  
Partner  
Lang Michener

**Z.D. Simo** <sup>(2) (3)</sup>  
Oakville  
Corporate Director

**D.C. Vaughn** <sup>(1)</sup>  
Houston  
Consultant

## CORPORATE OFFICERS

**L.E. Shaw**  
Chairman of the Board

**V.L. Shaw**  
Vice Chair of the Board

**G.F. Hyland**  
President and  
Chief Executive Officer

**W.P. Buckley**  
Executive Vice President and  
Chief Operating Officer  
President, Bredero Shaw

**B.J. Conroy**  
Senior Vice President

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

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

**R.E. Steele**  
Vice President, Technology

**W.J.V. Sheridan**  
Secretary

## OPERATIONAL MANAGEMENT

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

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

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

**L.W.J. Hutchison**  
Vice President and  
General Manager  
OMSCO  
Shaw Pipeline Services

**J.T. King**  
Senior Vice President  
Europe/Africa  
Bredero Shaw

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

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

**J.D. Tikkanen**  
Senior Vice President  
Americas  
Bredero Shaw

**K.C. Willson**  
Vice President and  
General Manager  
Guardian

# Primary Operating Locations

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**Bredero Shaw**  
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Scotland EH6 7DT  
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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.SV.A

Class "B"

Multiple Voting Shares  
Trading symbol: SCL.MV.B

ANNUAL MEETING

Thursday, May 5, 2005  
4:30 p.m.  
The Fairmont Royal York Hotel  
Toronto, Ontario, Canada