ANNUAL REPORT 2011

The ShawCor Difference

ShawCor's Mission

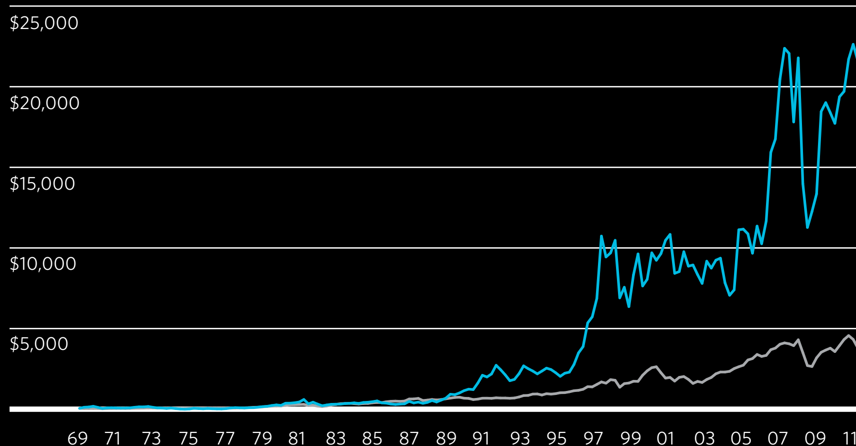
To be the market leader and technology innovator with a primary focus on the global pipeline industry and to use this base as a platform to build an international energy services company while achieving ShawCor's performance objectives.

FINANCIAL SUMMARY

Year ended December 31 (in thousands of Canadian dollars except per share amounts)	2011	2010
OPERATING RESULTS		
Revenue	$ 1,157,265	$ 1,034,163
EBITDA	138,837	186,035
Income from operations	84,443	119,831
Net income NOTE 1	$ 56,086	$ 95,072
Earnings per share, Class A and Class B – basic	$ 0.79	$ 1.35
Earnings per share, Class A and Class B – diluted	$ 0.78	$ 1.33
CASH FLOW		
Cash provided by operating activities	$ 45,327	$ 53,244
FINANCIAL POSITION		
Working capital	$ 281,848	$ 283,852
Total assets	$ 1,223,265	$ 1,224,936
Shareholders' equity per share (Class A and Class B)	$ 12.22	$ 11.79

NOTE 1 Attributable to shareholders of the Company.

42 YEAR HISTORY OF VALUE CREATION



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2011 HIGHLIGHTS

(in Canadian dollars)

1.2 B

REVENUE

56.1 M

NET INCOME

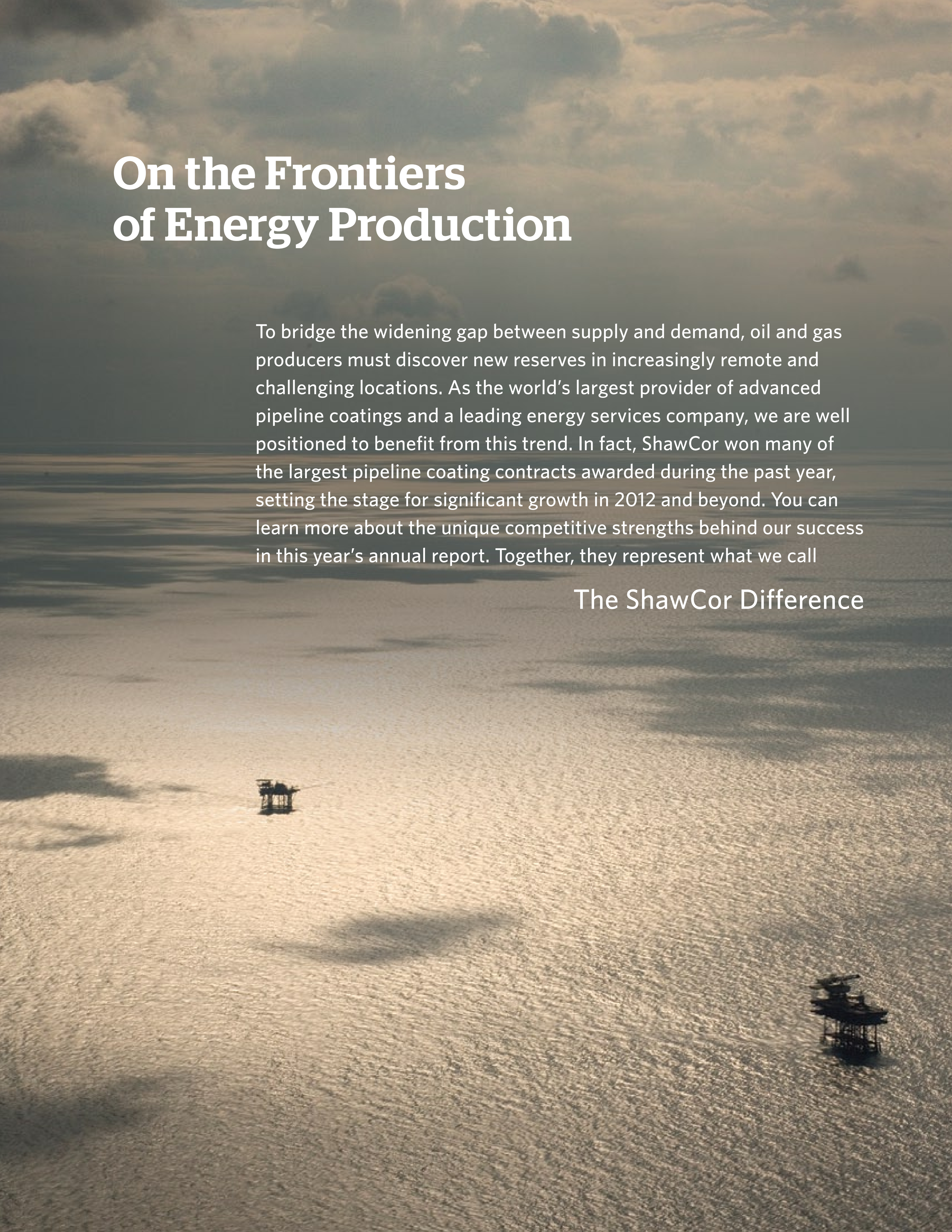
(attributable to shareholders of the Company)

2.3 B

MARKET CAPITALIZATION

CORPORATE PROFILE

ShawCor Ltd. is a global energy services company specializing in technology-based products and services for the pipeline and pipe services and the petrochemical



On the Frontiers of Energy Production

To bridge the widening gap between supply and demand, oil and gas producers must discover new reserves in increasingly remote and challenging locations. As the world's largest provider of advanced pipeline coatings and a leading energy services company, we are well positioned to benefit from this trend. In fact, ShawCor won many of the largest pipeline coating contracts awarded during the past year, setting the stage for significant growth in 2012 and beyond. You can learn more about the unique competitive strengths behind our success in this year's annual report. Together, they represent what we call

The ShawCor Difference

Message to Shareholders

The past year presented us with a combination of disappointing financial results and unprecedented success at winning new business, which will benefit us in 2012 and 2013. The financial crisis caused a "pause" in the final investment decisions on several major energy projects and delayed revenue in our core pipe coating markets. By year-end, however, our success in winning these significant projects resulted in the Company establishing an all-time record for booked customer orders.

Revenue for 2011 increased 12 percent to $1.16 billion as the result of the growth achieved in several of our businesses. In the Pipeline and Pipe Services segment, revenue increased 11 percent, however, operating margins were impacted by weak conditions in the large diameter pipe market, especially in Asia Pacific and Latin America where there was virtually no new energy infrastructure activity. This was partially offset by steady project volumes in Europe and the Middle East and strong demand for our small diameter pipe coatings, composite pipe and joint protection products in North America. The Petrochemical and Industrial segment also performed well with a 19 percent increase in revenue during the year.

Despite the growth in revenue, net income attributable to shareholders of the company declined 41 percent to $56.1 million. The reasons for this included: a much lower volume contribution from our Asia Pacific region's pipe coating business, a $10.1 million loss on our investment in Fineglade, low capacity utilization in our pipe coating facilities in Asia Pacific and Latin America and the decision to maintain workforce levels for a significant ramp up in production beginning in 2012.

A record year for new business

While 2011 was an unusually quiet year for the pipe coating industry, ShawCor secured over US$800 million in major project awards and entered 2012 with a record year-end backlog of $548 million in booked customer orders. This twelve-month rolling backlog included current portions of US$170 million in contracts with Chevron Australia Pty. Ltd. to provide pipe coatings and related products and services in connection with the gas supply trunkline and flow lines for the Wheatstone LNG Project off the northwest coast of Australia. We were also successful in winning a US$400 million contract from Mitsui & Co. Ltd., to provide pipe coatings and related products and services for the gas export pipeline that will serve the massive Ichthys LNG Project, a joint venture between Inpex Corporation and Total E&P. This project will involve advanced coatings for approximately 900 kilometres of 42 inch subsea pipeline from the offshore central processing facility to the onshore LNG facility at Darwin, Australia.

Extending our lead

Continuous investment in market and technological leadership has been an essential part of our success in winning such contracts. The Simulated Service Vessel (SSV), an integral part of ShawCor's new Subsea Test Facility which opened in early 2011, has enabled us to exhaustively test and prove the performance of our most advanced coatings prior to deployment. The unique capabilities of the SSV were recognized earlier this year with the receipt of a Spotlight on New Technology Award. The Spotlight on New Technology Program is designed to highlight the newest and most advanced technologies in the oil and gas sector as presented by companies exhibiting at the Offshore Technology Conference in Houston, Texas. Our remarkable Brigden™ portable coating plant, commissioned in the third quarter for Chevron's Jack/St. Malo Project, is now a proven technology and potential game changer for the completion of remote or tightly scheduled pipeline projects. We also introduced a number of other advanced products, such as Bredero Shaw's Thermotite® ULTRA™ deepwater insulation system and new high-temperature and cyclic pressure composite pipe products from Flexpipe Systems, that have increased our product differentiation and generated new sources of revenue.

In addition, we continued to invest in strategic capabilities that will strengthen ShawCor's position in its chosen markets. In the first quarter, Shaw Pipe Protection acquired the former CSI operations of Altus Energy Services in Western Canada. This acquisition enables Shaw Pipe Protection to supply a broad range of customized coating solutions that are complementary to its current range of anticorrosion, insulation and flow efficiency coatings for oil and gas transmission lines and strengthens our position in pipeline rehabilitation markets.

Strategic capital investments in our existing facilities are also important. In 2011, we improved throughput and pipe handling capabilities on the anticorrosion and insulation lines at our

Kabil, Indonesia and Kuantan, Malaysia facilities, added and prepared new yard space in Kabil following the construction of two new berths at its deepwater port and also added a second new berth at the facility in Kuantan. These improvements played an essential role in winning the Wheatstone, Ichthys and Zawtika contracts and position us for continuing success in the Asia Pacific region.

An improving outlook

In an environment of weak economic growth, global energy demand is expected to rise by about one percent over the next year. However, the annual depletion rate for existing reserves is about six to seven percent. To bridge the gap, the energy industry's major producers are extending their search to challenging new frontiers. We are right there with them as a trusted global supplier of the reliable and technologically advanced products and services essential for their success.

While global economic prospects remain uncertain, we are confident that ShawCor is positioned for success in 2012 and beyond. Our backlog has increased by 16 percent since the end of the past year to an all-time record of $637 million as of February 29, 2012. The largest of these new orders involve energy infrastructure for the long-term supply of LNG to Asian markets where rapid economic growth continues to support increased demand for new energy resources.

The people of ShawCor

As always, our progress has been made possible by the skill and dedication of more than 5,000 employees around the world. We are grateful for their support in building a leading international energy services company. We would also like to thank the Board for its wise counsel over the past year and, in particular, to acknowledge the contribution of retiring Director Murray Mullen and welcome two new members, Derek Blackwood, a Divisional President of global energy services company Wood Group, and Dennis Freeman, a retired partner of KPMG LLP.

Sincerely,

WILLIAM P. BUCKLEY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

VIRGINIA L. SHAW
CHAIR OF THE BOARD

William P. Buckley
President and Chief Executive Officer

Virginia L. Shaw
Chair of the Board

ShawCor At-a-Glance

- Coating facility
- Portable coating plant
- Other operating facility

PIPELINE AND PIPE SERVICES

	Bredero Shaw	Flexpipe Systems	Shaw Pipeline Services
Business Description	The Global Leader in pipe coating solutions for corrosion protection, flow assurance, insulation, field joints and weight coating applications for onshore and offshore pipelines.	Leading manufacturer of flexible composite pipe systems used for oil and gas gathering, water transportation, CO_2 injection and other corrosive applications that benefit from the product's pressure and corrosion resistance capabilities.	A leader in specialized NDT inspection with a primary focus on both the upstream and downstream oil and gas industry where the division is the premier global provider of girth weld inspection services for land and offshore pipelines.
Key Markets	• Pipeline owners • Energy producers • Pipeline contractors	• Energy producers • Gas distributors	• Lay barge operators • Spool bases • Pipeline owners and contractors

ShawCor has established a dominant position in its chosen markets through an unwavering focus on global growth, flawless execution, technological innovation and organizational excellence. With a network of more than 70 modern manufacturing and service facilities around the globe, we are located in the world's primary energy producing regions and on each of the industry's growth frontiers.

5,000+
dedicated employees around the world

70+
manufacturing and service facilities worldwide

15+
countries around the world are home to ShawCor facilities

		PETROCHEMICAL AND INDUSTRIAL	
Canusa-CPS	**Guardian**	**DSG-Canusa**	**ShawFlex**
The market leader in field applied pipeline joint protection and insulation systems for onshore and offshore corrosion and thermal protection applications in the global oil, gas, water and insulated pipeline markets.	Leading provider of a complete range of tubular management solutions including integrated inspection, threading, refurbishment and inventory services as one of the largest OCTG inspection businesses in the USA, Canada and Mexico.	Leading global manufacturer of heat shrinkable tubing, sleeves and moulded products as well as heat shrink accessories and equipment with a manufacturing presence in three key markets: Americas, Europe and Asia Pacific.	World-class manufacturer of specialty wire and cable products for use in severe service industrial environments.
• Oil and gas pipelines • District heating and cooling systems • Water and waste water pipelines	• Drilling contractors • Oil and gas producers • Tubular rental companies	• Automotive • Electrical/Utility • Electronics • Communications	• Petrochemical • Power generation • Pulp and paper • Mining • Automation

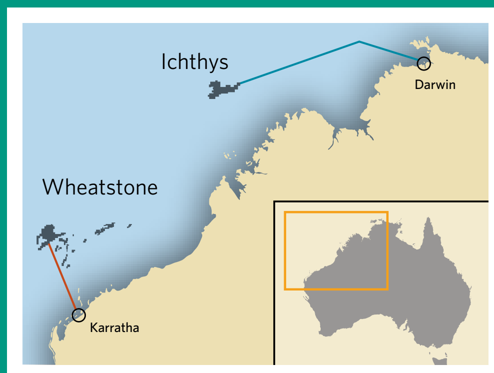
THE SHAWCOR DIFFERENCE
Global Leadership

ShawCor is the world's largest pipe coating company, with a family of complementary energy service businesses that are well positioned in their respective markets. Our global reach, which includes more than 70 manufacturing and service facilities in 18 countries – makes us uniquely capable of meeting customers' needs, even at the frontiers of energy production.

As traditional energy resources mature, the world's leading energy producers have been staking their futures on the new frontiers of energy production, from abundant deepwater deposits to the Canadian oil sands to emerging shale resources in North America and around the world. This trend has created growing demand for new energy infrastructure and enormous opportunities for ShawCor's pipe coating and other energy services businesses.

In 2011, ShawCor secured more than US$800 million in major pipe coating contracts and letters of intent. Our success has come from being in the locations where our customers need us. Today, we are uniquely capable of serving the largest projects from multiple high-capacity coating plants around the world.

This includes the Asia Pacific region, which is becoming an increasingly important source of energy owing to the improving economics of natural



Wheatstone, Ichthys and Asia Pacific

ShawCor secured several major new contracts during 2011 and early 2012 to supply advanced pipe coatings and related products for the Wheatstone and Ichthys projects off the northwest coast of Australia. Rapid economic growth in Asia coupled with a scarcity of domestic resources has fuelled a frenzy of exploration activity in the waters of Southeast Asia and coastal Australia and the development of LNG as an economically viable energy source. ShawCor's regional pipe coating facilities are well positioned to benefit from the substantial investment in energy infrastructure that will accompany this development.

gas liquefaction and burgeoning demand from the world's fastest growing economies. During the past year, ShawCor won contracts for three major projects in Asia Pacific. These included US$170 million in contracts awarded by Chevron Australia Pty. Ltd. to protect approximately 300 kilometres of 10 to 44 inch diameter pipe with advanced anticorrosion, insulation, flow assurance and concrete weight coatings for the gas supply trunkline and the flow lines on the Wheatstone LNG Project off the northwest coast of Australia.

This success was followed by a US$400 million contract with Mitsui & Co. Ltd., the largest contract in the Company's history, in connection with the Ichthys LNG Project for Inpex Corporation and Total E&P. The contract calls for asphalt enamel, flow assurance and concrete weight coatings on an approximately 900 kilometre, 42 inch diameter subsea pipeline from an offshore central processing facility to an onshore LNG plant near Darwin, Australia.

Our Asia Pacific region is also home to the Zawtika Development Project, operated by PTTEP International Limited. ShawCor won this US$60 million contract from Welspun Corp. Limited for three-layer anticorrosion and

Liquid natural gas receiving terminal and regasification plant, Asia Pacific region.

Over the past decade, the Asia Pacific region has experienced the strongest increase in energy demand among all the regions of the world. Driven by limited oil and gas resources and rapidly growing consumption of natural gas, the area has become an important hub for LNG production.

concrete weight coatings on 335 kilometres of 10 to 28 inch diameter subsea pipe.

The year 2011 was also a solid one for our operations in Europe and the Middle East. Our coating plant in Orkanger, Norway won a number of contracts with a total value in excess of US$40 million from Subsea 7 to provide flow assurance coatings for 110 kilometres of 6 to 16 inch diameter pipe for offshore projects in the Norwegian sector of the North Sea. Our Ras Al Khaimah coating plant in the United Arab Emirates is also expected to have a busy year thanks to a US$45 million contract with Hyundai Heavy Industries to provide fusion bonded epoxy anticorrosion and HeviCote® concrete weight coatings for 292 kilometres of up to 24 inch diameter pipe on the Barzan project in the Qatari section of the Arabian Gulf.

In North America, while large diameter transmission activity languished, ShawCor continued to benefit from diverse and steadily improving small diameter coating activity. Although conventional oil and gas production in western Canada technically peaked more than 10 years ago, modern horizontal drilling and fracking technologies continue to give new life to mature deposits and support high levels of exploration activity. Business in the Canadian oil sands also continues to be robust with production projected to increase from an estimated 1.5 million barrels per day in 2010 to 2.2 million barrels per day by 2015. We also continue to benefit from growing exploration and drilling activity in America's shale deposits, which are estimated to contain enough gas to satisfy U.S. energy demands for the next 100 years. Despite weakness in natural gas prices, producers continue to be driven by the pursuit of natural gas liquids, such as propane and butane, which are priced on a barrel-of-oil-equivalent (BOE) basis.

These developments were beneficial to all of our energy services businesses in 2011. Guardian, which established its first U.S. operation in the Marcellus Shale region of Pennsylvania in 2010, continues to expand its presence as a leading provider of tubular management systems in the U.S. Flexpipe Systems also continued to grow on the strength of new products such as FlexPipe HT, an advanced, high-temperature linepipe that can handle continuous service temperatures of up to 82°C, and FlexCord, a steel reinforced composite linepipe with high cyclic pressure capabilities that provides significant cost and performance advantages over welded steel pipe.

While the strong growth of Flexpipe Systems is mostly attributable to its North American operations, the division is also starting to benefit from closer cooperation with ShawCor's other businesses. For instance, Flexpipe Systems' products are now represented by Canusa-CPS in South America and by Guardian in Mexico. This has resulted in new sales orders for Flexpipe Systems in Brazil, Chile and Argentina as well as certification of compliance with a key Pemex standard in Mexico. In addition, excellent feedback

Top: A Flexpipe Systems installation in the oil-rich Eagle Ford shale formation in southern Texas.

Bottom: Guardian is the largest provider of OCTG (oil country tubular goods) management solutions and inspection services in Canada and Mexico with a growing presence in the United States.

New deepwater port facilities in Kabil, Indonesia.

ShawCor CSI Systems – the newest part of Shaw Pipeline Services – provides custom shop and oilfield applied coating solutions for specialized configurations, including the tanks featured here, to customers in western Canada.

from Petrobras and a trial installation with PDVSA in Venezuela bode well for the division's prospects in Latin America.

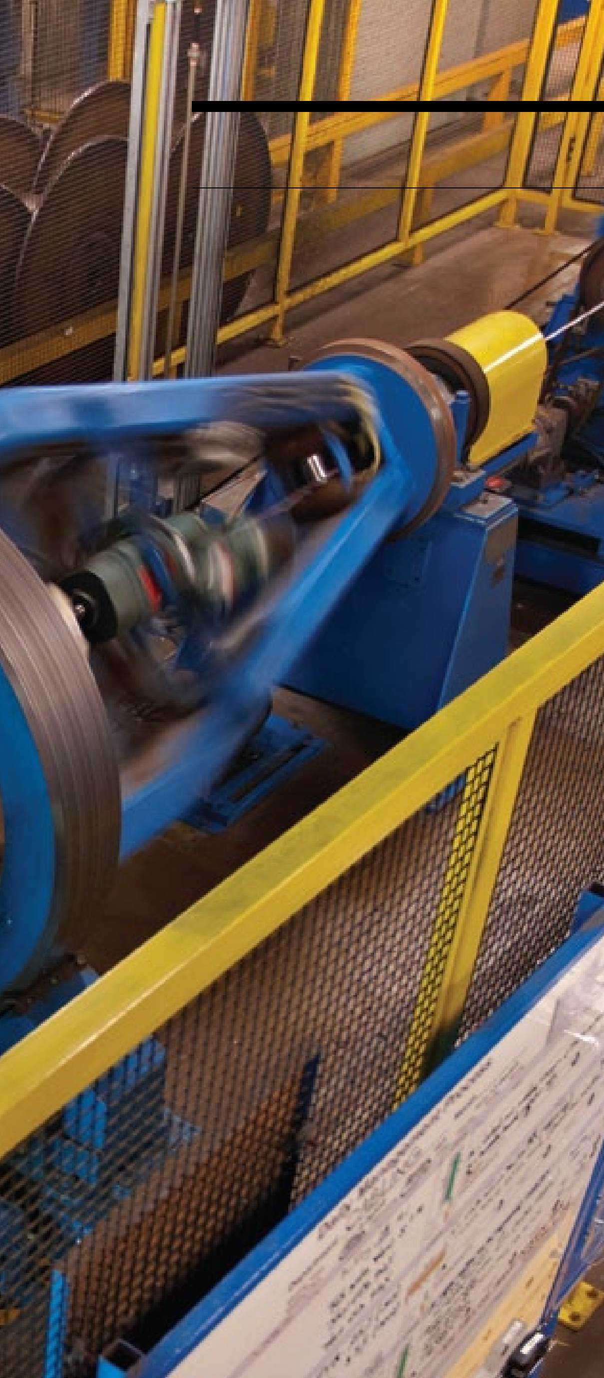
Global leadership also includes investment in selective acquisitions that strengthen our existing operations. The past year was no exception. In March, we acquired a specialty coating business, formerly known as CSI, from Altus Energy Services. This acquisition will allow Shaw Pipe Protection to provide custom shop and field applied coating solutions that are complementary to its existing business and strengthen our position in pipeline rehabilitation markets.

We also continue to invest in the world's largest network of modern, large-diameter pipe coating plants. Over the next few years, we will be delivering record volumes of coated pipe from our facilities in Kabil, Indonesia and Kuantan, Malaysia to fulfill contracts won to date and keep pace with projected energy exploration and production in the Asia Pacific region. Over the past two years, area management has increased anticorrosion and insulation coating capacity, constructed four additional deepwater berths, upgraded crane, loader and truck fleets and added 160 hectares of storage space to increase capacity and efficiency at the Kabil and Kuantan coating facilities.

THE SHAWCOR DIFFERENCE

Superior Execution

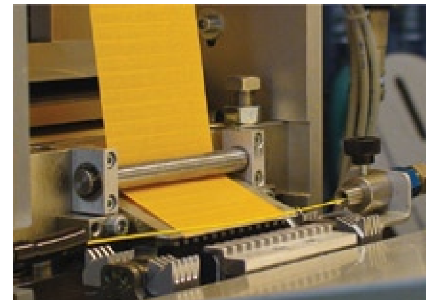
ShawCor's seven divisions are among the strongest competitors in their markets. Individually and together, they are building a hard-earned reputation for fulfilling the most demanding project requirements on time, on budget and in accordance with the highest standards of quality. In 2011, we continued to raise the bar for superior execution with the most advanced manufacturing process management system in the business.



A reputation for superior execution is important in a world of multi-billion dollar energy infrastructure investments where the impact of project delays can be measured in millions of dollars per day. Our customers expect flawless, on time, on budget performance from ShawCor and so do we. It's a commitment that lies at the heart of every ShawCor facility worldwide through the ShawCor Management System (SMS).

First launched in 2006, SMS is an industry-leading continuous improvement program that draws upon the best elements of lean manufacturing, Six Sigma and other world-class manufacturing systems as well as lessons from our own experience over the years. The SMS program combines these elements with a strong corporate culture to drive excellence in ShawCor's manufacturing and business processes.

Today, the performance of each of our manufacturing locations is continuously audited against eight measurable SMS elements that embrace: standardized work, product/service and process launch, product and process engineering, global operations metrics, SMS leadership management, workforce engagement, quality and process control and knowledge sharing.



DSG-Canusa's DERAY® Autoseal is an automated water blocking solution for use in the assembly of automotive wire harnesses.

SMS continued to drive significant cost benefits for ShawCor during 2011. To date, we have achieved more than $25 million in cumulative annual savings as a result of improved efficiencies, material variance reductions, manufacturing process improvements and standardized launch methodologies for new products. Such improvements also translate into multiple benefits for our customers in the form of lower costs, higher quality and better on-time performance.

A higher level of assurance

The commitment to superior execution extends beyond our pipe manufacturing processes to a growing range of onsite energy services. Shaw Pipeline Services is the premier global provider of girth weld inspection services that assure the integrity of onshore and marine pipelines. The company continued to build upon its technological leadership in real time radiographic inspection during the past year with the introduction of HDRTR – the industry's first high definition real time radiography inspection solution. Applicable to any welding technique, including submerged arc welding, HDRTR delivers critical assurance on the growing frontiers of energy production.

Performance at every ShawCor location is continuously audited against eight measurable SMS elements.

SMS continued to produce significant cost benefits for ShawCor during the past year. To date, we have achieved more than $25 million in annual savings as a result of improved efficiencies, material variance reductions, manufacturing process improvements and standardized launch methodologies for new products.

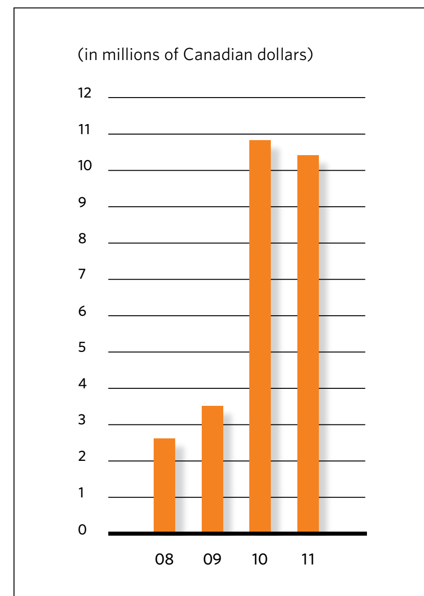
In 2011, our worldwide operations achieved a record SMS compliance score of more than 80 percent against a bar that continues to be raised each year. Our progress during the past year has been particularly impressive across all of the ShawCor manufacturing and pipe coating facilities where SMS has been adopted as a central element of the Company's growth strategy. Our Bredero Shaw plant in Ras Al Khaimah (RAK) in the United Arab Emirates achieved the highest year-over-year improvement in the SMS audit, a performance that helped earn ShawCor's 2011 awards for SMS Achievement and SMS Safety Performance. The RAK facility's impressive achievements included a composite SMS compliance score of 87 percent, reduced material usage, reduced changeover times, increased contribution margins and a Total Recordable Case Frequency rate of zero.

All control systems are built into Brigden's modular design, which eliminates the need for time-consuming installation of lighting, electronics and plumbing on site. As a result, this full-service coating plant can be mobilized and into production in six weeks.

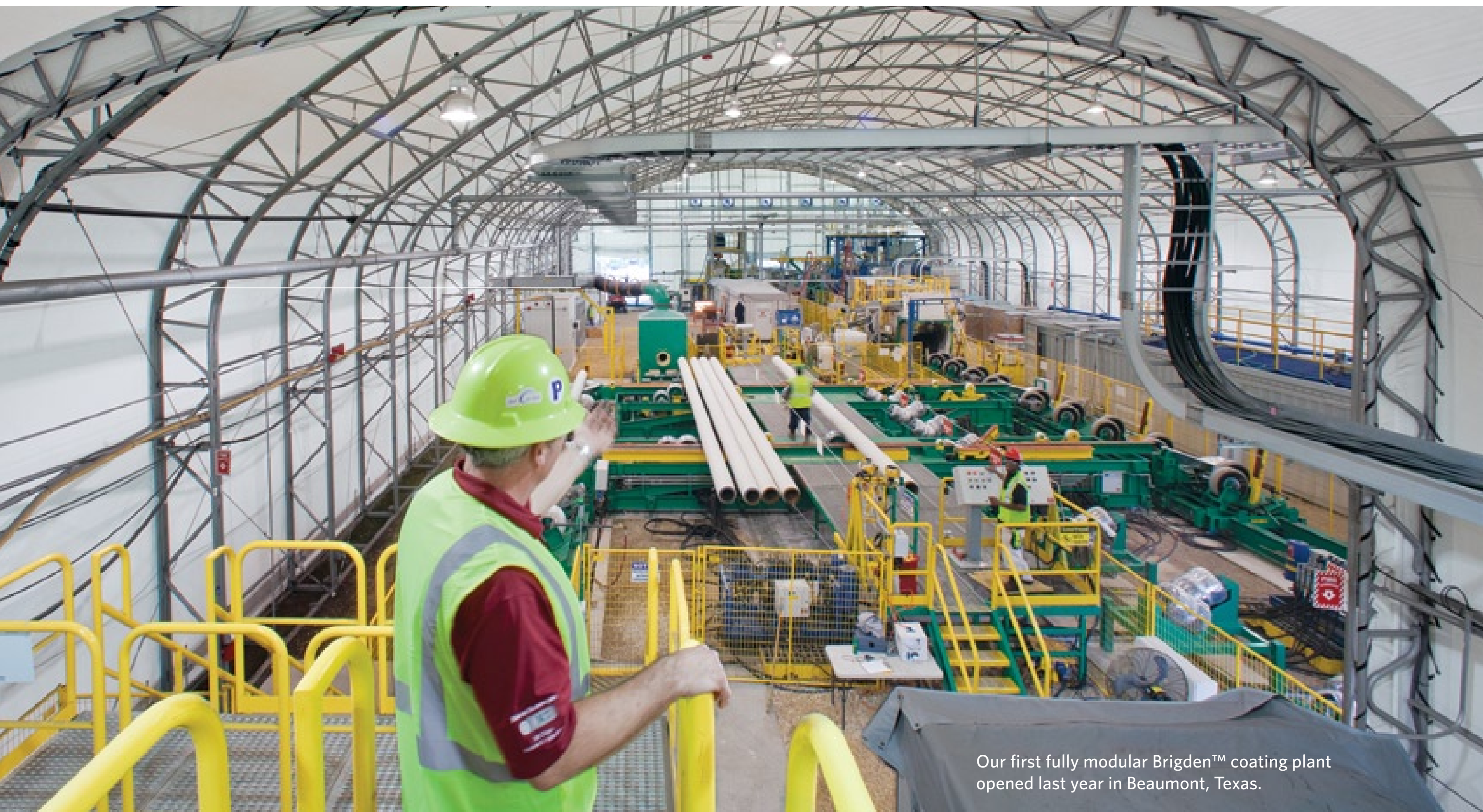
While proud of our progress to date, we see ample opportunity to improve our performance in the years ahead. To achieve our potential, ShawCor's leaders must be able to support, guide and inspire business improvement and possess the knowledge to independently lead SMS initiatives at their respective facilities. In 2010 we introduced the SMS Champion Certification Program, which has now graduated 55 Champions to help make continuous improvement a way of life at ShawCor. This comprehensive program includes over 100 hours of classroom and web-based training, simulations, hands-on applications, online testing and a final assignment on SMS application, personal development and business improvement. With the support of our senior leaders, these graduates have been able to broaden the collective knowledge of their teams, ensuring that we all speak a common language and are able to collaboratively execute meaningful improvements in ShawCor's operating practices and corporate culture.

We also place a high priority on continuing to learn from the experiences and best practices of other industry leaders throughout North America. ShawCor is an active member of the Association for Manufacturing Excellence (AME), North America's premier organization for the exchange of knowledge in organizational excellence through the implementation of techniques such as Lean Tools, Leadership, Lean Product Development, Lean Supply Chain and Lean Accounting. In 2011, the annual AME conference in Dallas, Texas drew more than 2,400 participants

SMS ANNUAL SAVINGS



ShawCor's SMS Program has generated more than $25 million in cumulative annual savings since 2008.



Our first fully modular Brigden™ coating plant opened last year in Beaumont, Texas.

from 37 countries. As in past years, ShawCor's delegation was the largest at the conference with 85 of our people in attendance at both the AME conference and the Company's parallel SMS sessions.

The spirit of continuous improvement unleashed by SMS can also be seen elsewhere in the organization, from the development of new products to the introduction of innovative production technologies. ShawCor has led the industry in the design and construction of portable concrete coating plants to fulfill customer requirements at the most cost effective point in the supply chain. In 2011, we unveiled our most ambitious portable coating facility to date with the opening of our fully modular Brigden™ plant in Beaumont, Texas. The Brigden plant has been designed with the capability to provide a full range of internal and external anticorrosion and flow assurance pipe coatings and robotic end finishing. Each Brigden plant includes fully integrated raw material storage, maintenance, quality control and testing facilities. These mobile plants can be located anywhere in the world, from nearby pipe mills to the most remote oil and gas fields or strategically located ports serving offshore deepwater plays. As a result, they can provide significant advantages in terms of streamlining project logistics, improving safety and reducing the costs of handling and transporting pipe. A Brigden plant ships in standard ISO containers and takes only six weeks to assemble and be fully operational. Built to comply with the same stringent SMS operating standards as our fixed plants, the Brigden concept was successfully commissioned with the application of anticorrosion and thermal insulation coatings for Chevron's Jack/St. Malo Project in the Gulf of Mexico.

As the quest for new energy resources becomes more challenging and expensive, ShawCor's reliability as a supplier becomes increasingly important. We are uniquely capable of serving the largest and most technologically demanding projects in the industry with the world's largest pipe coating facilities, complete pipe mill to pipe installation logistics and the financial strength to fund and execute multiple contracts on time and on budget while achieving projected margins and quality standards.

THE SHAWCOR DIFFERENCE

Technological Innovation

ShawCor's ability to answer new challenges in the continuously evolving search for additional energy resources is based on a strong foundation of technological leadership and innovation. Today, we hold 203 enforceable patents with an additional 15 patents applied for and nine new patents granted or allowed during 2011 in the fields of adhesive technology, anticorrosion science, flow assurance/thermal design, polymer compounding, crosslinking of polymers and specialized concrete systems.

At ShawCor, research and development plays a crucial role in our ability to keep pace with growing demands for new product technologies. As the search for energy continues to push the boundaries of new frontiers, our customers are looking for products that can perform in more extreme environments, reduce long-term operating costs and minimize environmental risk. In 2011, we continued to answer those needs.

The world's subsea hydrocarbon deposits are an increasingly important source of energy production and a growing focus for the industry's major exploration and production companies. These subsea deposits contain more than 200 billion barrels of recoverable reserves according to recent estimates by the International Energy Agency. At the same time, access to these deposits has been made possible by the development of new technologies that have allowed drilling at unprecedented depths.

Technology for new frontiers

A next generation insulation system with unlimited depth capability, ShawCor's Thermotite® ULTRA™ integrated coating and protection system is enabling energy companies to access reserves beyond the reach of conventional technology. During the past year, ShawCor delivered its Thermotite® ULTRA™ insulation system for use on the ENI Norge Goliat Project. One of the first offshore developments in Norway's frigid Barents Sea, Goliat represents a significant technological challenge owing to its depth (up to 1,800 metres below the surface of the ocean), the unusually shallow formation and thus the low temperature of the deposit. Such factors make the performance of the pipeline insulation system a vital element in the performance of the entire field.

In 2011, ShawCor strengthened its leadership in this important energy frontier with the commissioning of our new Subsea Test Facility with its Simulated Service Vessel (SSV) in Toronto, Ontario. This remarkable 82-tonne vessel allows us to thoroughly test and verify the thermal, compression resistance and flow assurance capabilities of newly developed insulation coatings and joint protection systems at an equivalent water depth up to 3,000 metres and an internal pipe temperature up to 180°C. Capable of testing pipe samples up to 6.0 metres in length and 910 mm (36 inches) in diameter, the SSV is the largest and most advanced vessel of its kind in the industry as confirmed by the receipt of a Spotlight on New Technology Award at this year's Offshore Technology Conference in Houston, Texas. Commissioning the ShawCor Subsea Test Facility is just the latest step in

Spotlight on new TECHNOLOGY

Each year, the Offshore Technology Conference recognizes outstanding achievements to the offshore exploration and production industry with the Spotlight on New Technology Award.

Volatile weather conditions in the North Sea make exploration, drilling and the construction of pipelines challenging.

Our Subsea Test Facility and Simulated Service Vessel (SSV), the industry's largest and most technologically advanced, allow ShawCor and its energy industry customers to thoroughly test the thermal, compression resistance and flow assurance capabilities of newly developed insulation coatings and joint protection systems before critical pipelines are installed.

our commitment to provide end-to-end pipeline solutions that meet or exceed customer needs for the deepest and most extreme subsea operating conditions.

During 2011, the SSV played a key role in the development and testing of pipe coatings and joint systems in connection with our success in winning several major pipeline contracts including Chevron's Jack/St. Malo Project, the first project for the Company's Brigden™ portable plant, which involved testing an end-to-end insulation system to a simulated water depth of over 2,000 metres.

One of the advanced products that has been tested utilizing our sophisticated Flow Assurance testing capabilities is Thermotite® ULTRA™, an innovative subsea insulation system with virtually unlimited depth capability that assures complete system integrity during service and reduced energy loss in steady state and transient conditions. Such qualities made Thermotite® ULTRA™ the coating system of choice for the ENI Norge Goliat Project and the winner of the International Pipe Line & Offshore Contractors Association's 2011 New Technologies Award.

We also continue to build upon our leadership in coating technology for new land-based pipelines as well as the growing market for pipeline rehabilitation. Recent failures in North America's existing pipeline infrastructure, including numerous incidents during 2011, represent a growing area of need for ShawCor's products and services. The majority of North America's oil and gas pipelines were constructed prior to 1970. Back then, joints were sometimes protected with pitch or taped in a manner that could trap moisture and accelerate corrosion. The replacement and rehabilitation of aging legacy pipelines represents a potential multi-billion dollar opportunity for ShawCor. We are ready to take advantage of it with a new generation of high performance coating systems such as our High Performance Powder Coating (HPPC), which allowed ShawCor to secure the 82 kilometre 36 inch diameter Wood Buffalo project. Our Shaw Pipeline Services division, which provides ultrasonic and real time radiographic pipeline weld inspection services and our Canusa-CPS division which provides field applied joint protection systems, are also well positioned to benefit.

ShawCor's spirit of continuous innovation could also be seen at work in the introduction of innovative new products from Flexpipe Systems. Advances in horizontal drilling and fracking technology are driving increasing levels of drilling activity in North America, from mature energy basins to new shale resources. Flexpipe continued to earn a larger share of these markets in 2011, aided by growing service capabilities and the successful commercialization of two innovative new products.

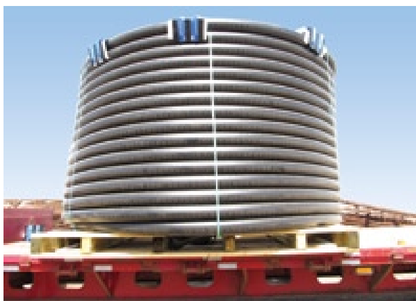
Top: Shaw Pipeline Services' proven HDUT technology provides state-of-the-art mechanized ultrasonic testing technology for the complete inspection of pipeline girth-welds.

Bottom: Canusa-CPS' IntelliCOAT™ is the world's first fully automated system for the application of heat shrinkable sleeves, providing unprecedented precision, consistency and speed of operation for contractors and other customers.

FlexPipe HT High Temperature Linepipe can easily withstand the continuous service temperatures of up to 82°C found in deeper oil and gas reservoirs with the same corrosion resistance and installation benefits of conventional

Subsea Test Facility and Simulated Service Vessel.

FlexPipe Linepipe. FlexCord Linepipe also delivers the same corrosion resistance and installation benefits as FlexPipe Linepipe, but is engineered to handle the high cyclic pressure associated with water injection and other positive displacement pump applications. These products have filled important customer needs while strengthening the company's position as a single source provider.



Flexpipe Systems' new "reel-less" packaging system delivers pipe faster and allows more efficient deployment of product on site while reducing logistics costs.

The same spirit of innovation is also helping Flexpipe Systems find more efficient ways to service its customers. The past year witnessed the introduction of a radical new package design, coined "reel-less pipe", that offers significant advantages over previous shipping methods. This customized deployment technology accommodates 25 percent more product per truckload while significantly improving speed of deployment on site.

ShawCor's ability to anticipate and satisfy the evolving product requirements of our global energy customers depends on our strong commitment to research and development. Today, each of our seven business units uses industry leading technologies thanks to a common commitment to excellence and the extraordinary contributions of ShawCor's research and product development professionals. In addition to the divisions' product development activities, we employ more than 25 scientists at the Company's central research facilities, whose work has set ShawCor apart with 203 enforceable patents and an additional 15 patents applied for and nine new patents granted or allowed during 2011. As the search for new energy sources continues to challenge the ingenuity of the world's major energy producers, ShawCor will be ready with the high performance products and environmentally responsible solutions our customers need.

THE SHAWCOR DIFFERENCE

Organizational Excellence

The quality and determination of our people, and the alignment of their efforts in pursuit of individual and organizational excellence, have always been the foundation of ShawCor's development and success. Thanks to their efforts, we continue to build upon our reputation as a global and market leader in our chosen businesses.

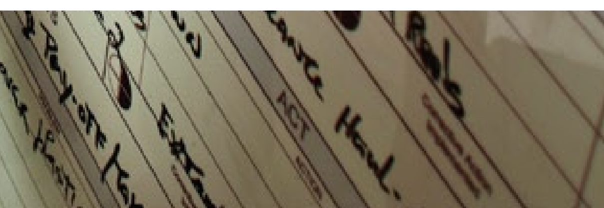
At ShawCor, we believe that our success depends on becoming a higher performing organization every year. Since 2008, we have measured our performance against a common set of objectives across all of our operations. Our overarching aim is to ensure that all executives, managers and other staff are aligned in the pursuit of common strategies for growth, innovation, execution, people and leadership. We keep track of our progress by establishing and linking the personal objectives of more than 1,500 people in the organization with quantifiable performance metrics tied to ShawCor's corporate and divisional objectives. Today, each of them has direct, line-of-sight metrics supporting the company's strategic objectives with closely related, merit-based compensation programs that reward individual and collective accomplishments.

These efforts are complemented by participation in industry forums and company activities that promote continuous organizational improvement. In October 2011, 85 executives and managers from all ShawCor divisions attended the annual Association for Manufacturing Excellence (AME) conference in Dallas, Texas. AME is North America's leading forum for the exchange of best practices in organizational excellence with ShawCor playing a prominent role in the association's activities each year. The AME conference also serves as an ideal backdrop for our own professional development, awards presentations and planning activities. At a private lunch held during this year's conference, ShawCor launched the SMS Program and Strategies 2012 with the support of best practice presentations delivered by representatives from each division. This year's exchange celebrated new performance milestones achieved through SMS and outlined key initiatives for the current year, including the migration of SMS into non-manufacturing areas of our business.

Non-manufacturing operations will be implementing SMS in 2012.

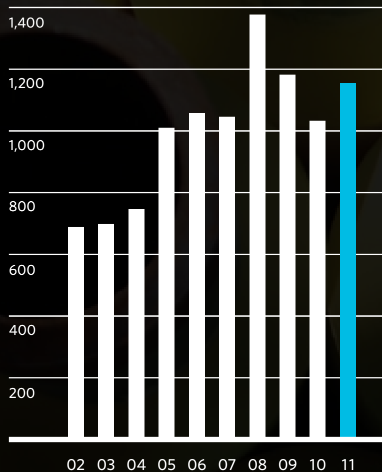
Aiming higher at Ras Al Khaimah

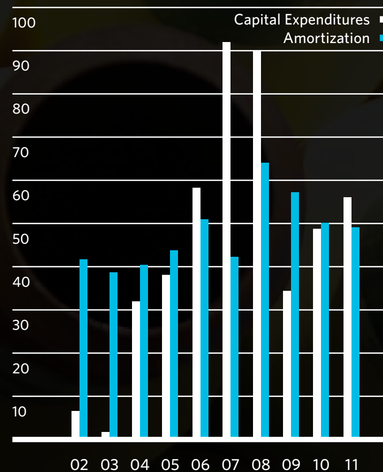
Bredero Shaw's Ras Al Khaimah (RAK) pipe coating plant in the United Arab Emirates distinguished itself with two awards in 2011 for SMS Achievement and SMS Safety Performance. Among the facility's most impressive accomplishments were a record 87 percent compliance score on the SMS Audit, a 35 percent reduction in material waste, a 58 percent decrease in changeover times and a Total Recordable Case Frequency rate of zero.

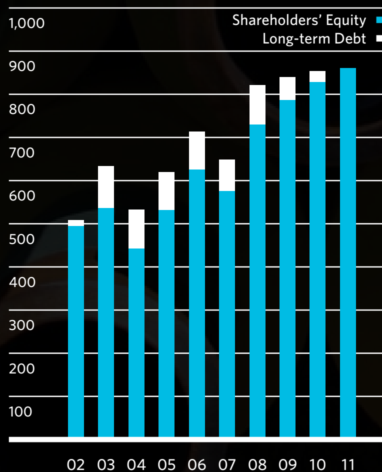


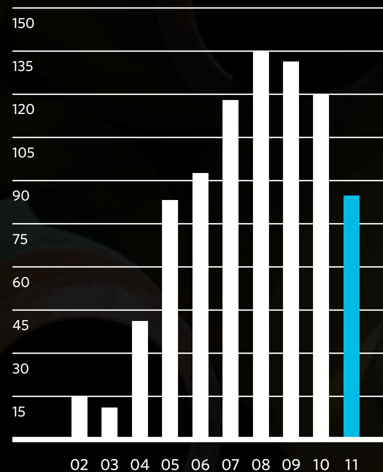
Co-workers share issues and concerns at the Daily Management Process board, a universal element of the ShawCor Management System.

Financial Strength









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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is a discussion of the consolidated financial position and results of operations of ShawCor Ltd. ("ShawCor" or the "Company") for the years ended December 31, 2011 and 2010 and should be read together with ShawCor's audited Consolidated Financial Statements for the same periods. All dollar amounts in this MD&A are in thousands of Canadian dollars except per share amounts or unless otherwise stated.

This MD&A and the Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. For all periods up to and including the year ended December 31, 2010, we prepared our Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). Pursuant to the standard related to the first time adoption of IFRS, our transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been restated to be in accordance with our IFRS accounting policies. The financial information for years prior to 2010 contained within this MD&A has been prepared following CGAAP and, as allowed by the standard related to the first time adoption of IFRS ("IFRS 1"), has not been re-presented on an IFRS basis. Certain amounts in prior years have been reclassified to conform to the current year's IFRS presentation format.

1.0 Executive Overview

ShawCor is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates seven divisions with over 70 manufacturing and service facilities located around the world. The Company is publicly traded on the Toronto Stock Exchange ("TSX").

1.1 Core Businesses

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

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

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

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

As at December 31, 2011, the Company operated its seven divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 88% of consolidated revenue for the year ended December 31, 2011. This segment includes the Bredero Shaw, Canusa–CPS, Shaw Pipeline Services, Flexpipe Systems and Guardian divisions.

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

Petrochemical and Industrial

The Petrochemical and Industrial segment, which includes the DSG–Canusa and ShawFlex divisions, accounted for 12% of consolidated revenue for the year ended December 31, 2011. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets.

- DSG–Canusa is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.
- ShawFlex is a manufacturer of wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

1.2 Vision and Objectives

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

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

1.3 Key Performance Drivers

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

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

1.4 Key Performance Indicators

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

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

Net Income Growth

As part of its performance objectives, the Company has set a goal for average annual net income growth of 15% over the full business cycle, as described in section 1.2 – Vision and Objectives. Net income (attributable to shareholders of the Company) decreased by $39.0 million, or 41%, from $95.1 million for the year ended December 31, 2010 to $56.1 million for the year ended December 31, 2011. The decrease was mainly attributable to lower revenue in the Asia Pacific and Latin America regions in the Pipeline and Pipe Services segment as described in section 4.2.1 – Pipeline and Pipe Services segment, an increase in selling, general and administrative ("SG&A") expenses as described in section 4.1 – Consolidated Information and the accounting gain on acquisition of $13.2 million recorded in 2010.

Return on Equity ("ROE")

ROE is defined as net income for the year divided by average shareholders' equity for the most recently completed year. ROE is used by the Company to assess the efficiency of generating profits from each unit of shareholders' equity. As part of its performance objectives, the Company has set a ROE target of 15%, as described in section 1.2 – Vision and Objectives. The Company's ROE for the years ended December 31, 2011 and 2010 was 6.7% and 11.7%, respectively. The decrease of 5.0 percentage points was primarily due to a decrease in net income of $38.4 million and an increase in average shareholders' equity of $36.5 million.

Free Cash Flow ("FCF")

FCF is defined as cash flow from operating activities less capital expenditures and dividend payments during the year. FCF represents the cash available from operations after spending on maintenance of existing assets and expanding the current asset base and is a measure of the Company's ability to generate cash flow to fund growth. FCF decreased by $16.6 million from a negative cash outflow of $15.9 million during 2010 to a negative cash outflow of $32.6 million during 2011. The change was primarily due to lower cash provided by operating activities of $7.9 million, an increase in capital expenditures of $7.3 million and an increase in dividends paid of $1.5 million.

Employees

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

Market Position

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

The following table sets forth the relative market position by division within the markets that the Company operated in during the year ended December 31, 2011:

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

Safety and Environmental Stewardship

The Company maintains a comprehensive Health, Safety and Environmental ("HSE") management system in place within each of its seven operating divisions and is committed to being an Incident and Injury Free ("IIF") workplace with no damage to the environment. For the years ended December 31, 2011 and December 31, 2010, the Company had recordable injuries per million person hours worked of 6.7 and 7.3, respectively. During 2011, the Company completed 29 HSE audits at manufacturing and service locations across all seven divisions and developed action plans to correct any deficiencies identified in the audits.

1.5 Capability to Deliver Results

Capital Resources

The Company operates in the global energy industry and, as a result, the operations of the Company tend to be cyclical. In addition, the Company can undertake major pipe coating projects anywhere in the world as part of its normal operations. These factors, as well as the Company's growth initiatives, can result in variations in the amount of investment in property, plant and equipment, working capital and project guarantees required to support the Company's businesses. The Company's policy is to manage its financial resources, including debt facilities, so as to maintain sufficient financial capacity to fund these investment requirements.

Capital expenditures increased by $7.3 million from $48.7 million for the year ended December 31, 2010 to $56.0 million for the year ended December 31, 2011. The Company believes it has sufficient available resources and capacity to meet the market demand for its products and services in the markets where the Company operates. The Company may, however, incur new capital expenditures to facilitate growth in new markets.

The current level of working capital investment is expected to be sufficient to support the level of business activity projected in 2012; however, unexpected increases in business activity or specific pipe coating project requirements may result in higher working capital requirements. Any such increase in requirements will be financed from the Company's cash balances and available committed credit facilities. The Company had cash and cash equivalents of $67.3 million and $156.0 million as at December 31, 2011 and 2010, respectively, and had unutilized lines of credit available of $162.3 million and $164.9 million, as at December 31, 2011 and 2010, respectively.

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

Please refer to section 5 – Liquidity and Capitalization, for additional information with respect to the Company's liquidity and financial position.

Non-Capital Resources

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

On an ongoing basis, the Company monitors its succession planning program in order to mitigate the impact of planned or unplanned departures of key personnel. As at December 31, 2011, the Company believes it has sufficient human resources to operate its businesses at an optimal level and execute its strategic plan.

Systems and Processes

Management regularly reviews the Company's operational systems and processes and develops new ones as required. Key operational programs utilized by the Company during the year ended December 31, 2011 included systems and controls over project bidding, capital expenditures, internal controls over financial reporting, product development, HSE management and human resource development. In addition, the ShawCor Manufacturing System ("SMS") program has been implemented to increase operating efficiency and achieve significant cost savings in each of the Company's seven divisions.

As at December 31, 2011, the Company believes it has sufficient systems and processes in place to operate its businesses at an optimal level and execute its strategic plan.

2.0 Financial Highlights

2.1 Selected Annual Information

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

(in thousands of Canadian dollars)	2011	2010	2009[c]
Revenue	**$ 1,157,265**	$ 1,034,163	$ 1,183,978
Cost of goods sold	**734,730**	623,641	695,521
Gross profit	**$ 422,535**	$ 410,522	$ 488,457
Selling, general and administrative expenses	**269,241**	219,084	219,557
Research and development expenses	**13,119**	11,050	10,967
Foreign exchange (gains) losses	**1,338**	(5,647)	3,790
Amortization of property, plant and equipment	**41,906**	45,077	57,244
Amortization of intangible assets	**7,244**	5,038	4,380
Impairment of property, plant and equipment, intangible assets and goodwill	**5,244**	16,089	–
Income from Operations	**$ 84,443**	$ 119,831	$ 192,519
Accounting gain on acquisition	**–**	(13,181)	–
Loss on investment in associate	**10,133**	1,939	–
Finance costs – net	**4,507**	2,805	4,672
Income before income taxes and non-controlling interest	**$ 69,803**	$ 128,268	$ 187,847
Income taxes	**13,120**	33,196	56,397
Non-controlling interest	**597**	–	–
Net Income (attributable to shareholders of the Company)	**$ 56,086**	$ 95,072	$ 131,450
Net Income (attributable to shareholders of the Company)	**$ 56,086**	$ 95,072	$ 131,450
Add:			
Non-controlling interest	**597**	–	–
Income taxes	**13,120**	33,196	56,397
Finance costs – net	**4,507**	2,805	4,672
Impairment of property, plant and equipment, intangible assets and goodwill	**5,244**	16,089	–
Amortization of property, plant, equipment and intangible assets	**49,150**	50,115	61,624
Accounting gain on acquisition	**–**	(13,181)	–
Loss on investment in associate	**10,133**	1,939	–
EBITDA[a]	**$ 138,837**	$ 186,035	$ 254,143
Per Share Information:			
Net Income			
Basic (Classes A and B)	**0.79**	1.35	1.86
Diluted (Classes A and B)	**0.78**	1.33	1.85
Total Assets	**$ 1,223,265**	$ 1,224,936	$ 1,194,027
Total Non-current Liabilities[b]	**$ 110,445**	$ 121,336	$ 128,167

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a Non-GAAP measure and should not be considered as an alternative to net income or any other measure of performance under GAAP. Refer to section 13 – Reconciliation of Non-GAAP Measures, for additional information with respect to Non-GAAP measures used by the Company.

(b) Includes the Company's non-current portion of long-term debt, non-current provisions, deferred income taxes, non-current derivative financial instruments and the non-current portion of obligations under finance leases.

(c) Financial highlights for the Statement of Income and the Schedule of EBITDA for the year ended December 31, 2009 have been prepared under CGAAP.

Revenue

Revenue increased by $123.1 million, or 12%, from $1,034.2 million in 2010 to $1,157.3 million in 2011, primarily as a result of increased market activity in both the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment (refer to section 4.2 – Segment Information for further details), partly offset by the unfavourable effects of foreign exchange fluctuations (refer to section 2.2 – Foreign Exchange Impact).

Income from Operations

Income from operations decreased by $35.4 million, or 30%, from $119.8 million in 2010 to $84.4 million in 2011. Revenue increased $123.1 million as explained above, with an increase in gross profit of $12.0 million and lower impairment charges on property, plant, equipment, goodwill and intangible assets of $10.8 million offset by increased foreign exchange losses of $7.0 million, an increase in research and development expenses of $2.1 million and an increase in SG&A expenses of $50.2 million.

Net Income

Net income (attributable to shareholders of the Company) decreased by $39.0 million, or 41%, from $95.1 million in 2010 to $56.1 million in 2011. The decrease was primarily due to the decrease in income from operations as explained above, an accounting gain on acquisition of $13.2 million reported in 2010, a higher loss on investment in associate of $8.2 million, partially offset by a 7.1 percentage point reduction in the effective income tax rate from 25.9% in 2010 to 18.8% in 2011.

2.2 Foreign Exchange Impact

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

	Year Ended December 31 2011	Year Ended December 31 2010
US Dollar	**0.9931**	1.0351
Euro	**1.3750**	1.3785
British Pound	**1.5854**	1.5987

The following table sets forth the impact on revenue, income from operations and net income (attributable to shareholders of the Company), compared with the prior year period, as a result of foreign exchange fluctuations on the translation of foreign currency operations:

(in thousands of Canadian dollars)	Year Ended December 31 2011
Revenue	**$ (22,378)**
Income from operations	**(4,560)**
Net income (attributable to shareholders of the Company)	**(3,430)**

The Company recorded a foreign exchange loss of $1.3 million in 2011 compared to a gain of $5.6 million in 2010, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short-term foreign currency intercompany loans within the group, net of hedging activities.

3.0 Significant Business Developments

Acquisition of CSI

On April 6, 2011, the Company acquired certain of the coating assets and business of Altus Energy Services Partnership, Altus Energy Services Ltd. and Nusco Northern Manufacturing Ltd. for $12.8 million. The assets purchased constitute a business as defined by IFRS 3, Business Combinations. The coating business, formerly known as CSI, and now known as ShawCor CSI Services ("CSI") provides shop applied coatings at its modern facility in Nisku, Alberta and provides field coating services throughout western Canada.

CSI specializes in the internal and external coating of bends, fittings, elbows and short spools of pipe including the internal corrosion coating of long straight lengths of pipe. The acquisition of the CSI assets will allow the Bredero Shaw division to supply a broad range of internal and external custom coating solutions in Canada that are complementary to its current range of anticorrosion, flow efficiency and insulation coatings for oil and gas gathering and transmission lines. This acquisition will also allow Bredero Shaw to provide a full range of custom coating solutions for pipeline rehabilitation applications.

Investment in Socotherm S.p.A.

On May 18, 2010, the Company announced that the Board of Directors of Socotherm S.p.A. ("Socotherm") had accepted an offer from an investor group consisting of the Company and two private equity firms, 4D Global Energy Advisors of Paris, France and Sophia Capital of Buenos Aires, Argentina (the "Investor Group") whereby the Investor Group would complete a share capital investment in Socotherm of €50 million and attain a 95% ownership interest in Socotherm. The Investor Group also entered into an undertaking to invest a further €25 million in Socotherm, if necessary, to discharge potential liabilities that arise subsequent to the completion of Socotherm's court supervised restructuring. The Company's interest in the Investor Group is 40%.

On July 2, 2010, the Investor Group established a new entity, Fineglade Limited (Ireland) ["Fineglade"] to hold the proposed investment in Socotherm. Also on this date, the Investor Group capitalized Fineglade with €50 million and Fineglade transferred this amount into an escrow account, such funds to be released to Socotherm upon court approval of the share capital investment. The Company's investment in Fineglade was €20 million ($25.7 million). The Company also entered into a shareholders' agreement with the other shareholders of Fineglade that provides the Company with significant influence over the strategic operating, investing and financing activities of Fineglade, without having joint control. Furthermore, on August 17, 2010, the Company made an incremental investment in Fineglade of €4 million ($5.2 million) as its pro rata share of a secured bridge loan provided by Fineglade to Socotherm.

On October 29, 2010, the Court of Vicenza issued a Homologation Decree that approved the share capital investment and the agreement between the Investor Group and Socotherm was subsequently completed. In November 2010, the Company injected an additional €2.6 million ($3.4 million) into Fineglade to discharge additional liabilities of Socotherm.

During 2011, the Company invested an additional US$10.7 million ($10.5 million at the current exchange rates) in Fineglade as its pro rata share of a potential future capital increase by Fineglade in Socotherm and incurred an investment loss on its investment in Fineglade in the amount of $8.1 million.

During the third quarter of 2011, the Company advanced a loan to Fineglade in the amount of US$8.5 million ($8.2 million at the then current exchange rate) with a maturity date of December 31, 2013. The interest rate on this loan is reset on a quarterly basis at the 3-month LIBOR rate + 2.0%.

During the fourth quarter of 2011, the Company advanced another loan to Fineglade in the amount of US$2.0 million ($2.1 million at the then current exchange rate) payable on demand and bearing an upfront fee at 2%.

Significant Business Contracts

In October, 2011, the Company was awarded a contract with a value in excess of US$40.0 million from Subsea 7 to provide flow assurance pipeline coatings for subsea projects in the Norwegian sector of the North Sea. The work, consisting of coating in excess of 110 km of 6" to 16" pipe, will be executed at the Bredero Shaw pipe coating facility in Orkanger, Norway.

In October and November, 2011, the Company was awarded two contracts to provide pipeline coatings and related products and services for the Wheatstone project, from Chevron Australia Pty. Ltd., with a combined value in excess of US$170 million. The contracts involve coating approximately 300 km of 10" to 44" diameter pipe that will be protected with fusion bonded epoxy or three layer anticorrosion coatings, Thermotite® polypropylene insulation coating, SureFlo™ internal coatings and HeviCote® concrete weight coating. In addition, the Company has also received a contract for anode procurement and installation as well as custom coating. The contracts will be executed at the Bredero Shaw facilities in Kabil, Indonesia; Kuantan, Malaysia and Orkanger, Norway. Work will commence during the second quarter of 2012.

In November, 2011, the Company was awarded the Barzan pipeline project in the Qatari sector of the Arabian Gulf from Hyundai Heavy Industries, with a value in excess of US$45 million, to provide corrosion protection and concrete weight coating. The contract will be executed at Bredero Shaw's facility in Ras Al Khaimah in the United Arab Emirates and will involve coating of 292 km of up to 24" pipe with fusion bonded epoxy anticorrosion coating and HeviCote® concrete weight coating. Work on this project is scheduled to commence late in the first quarter of 2012.

In January, 2012, the Company was awarded a significant contract from Technip USA to provide concrete weight coatings, anode installation and other related services for a Latin American pipeline project, consisting of approximately 100 km of 36" pipe to be installed offshore for the transportation of natural gas. Bredero Shaw will mobilize two Compression Coat Technology (CCT) concrete weight coating plants to La Brea, Trinidad for this project. Initial operations are scheduled to commence during the first quarter of 2012, with concrete coating scheduled to start in the third quarter of 2012.

In February, 2012, the Company was awarded the Ichthys LNG project by Mitsui & Co., with a value in excess of US$400 million, to provide pipeline coatings and related products and services for the gas export pipeline. The Ichthys LNG project is a joint venture between INPEX and Total. The contract involves coating 889 km of 42" pipe that will be protected with Asphalt Enamel coating, SureFlo™ internal coating and HeviCote® concrete weight coating. In addition, Bredero Shaw has received a contract for anode procurement and installation as well as custom coating. The Company will execute the work starting in the third quarter of 2012 at Bredero Shaw's facilities in Kabil, Indonesia and Kuantan, Malaysia.

Renewal of Normal Course Issuer Bid ("NCIB")

On November 30, 2011, the Company received approval from the TSX to renew its NCIB for an additional one year period expiring on November 30, 2012. Under the terms of the renewal, the Company is authorized to acquire, through the facilities of the TSX, up to 3,000,000 of the then issued and outstanding Class A Subordinate Voting Shares (the "Class A Shares") and up to 100,000 of the then issued and outstanding Class B Multiple Voting Shares (the "Class B Shares"). These two amounts comprised approximately 5.81% and 9.36% of the public float outstanding as at December 31, 2011 for Class A Shares and Class B Shares, respectively. Daily purchases are limited to 27,449 Class A Shares and 1,000 Class B Shares, other than for block purchase exemptions. All Class A Shares and Class B Shares purchased under the NCIB will be cancelled. Please refer to section 5.8 – Outstanding Share Capital, for additional information with respect to the Company's Class A Shares and Class B Shares.

4.0 Results from Operations

4.1 Consolidated Information

Revenue

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

(in thousands of Canadian dollars)	2011	2010	Change
Pipeline and Pipe Services	**$ 1,021,099**	$ 920,157	$ 100,942
Petrochemical and Industrial	**138,080**	115,783	22,297
Elimination	**(1,914)**	(1,777)	(137)
Consolidated	**$ 1,157,265**	$ 1,034,163	$ 123,102

Consolidated revenue increased by $123.1 million, or 12%, from $1,034.2 million in 2010 to $1,157.3 million in 2011, due to growth of 11% in the Pipeline and Pipe Services segment and growth of 19% in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment was $100.9 million higher in 2011 compared with 2010 due to higher revenue in North America and EMAR of $135.3 million and $57.1 million, respectively, which was partially offset by lower revenue in Asia Pacific and Latin America of $73.5 million and $17.9 million, respectively. See section 4.2.1 – Pipeline and Pipe Services segment for additional information with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment reported strong growth in all regions. See section 4.2.2 – Petrochemical and Industrial segment for additional information with respect to the change in revenue in the Petrochemical and Industrial segment.

Income From Operations ("Operating Income")

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

(in thousands of Canadian dollars)	2011	2010	Change
Income from operations	**$ 84,443**	$ 119,831	$ (35,388)
Operating margin[(a)]	**7.3%**	11.6%	(4.3) points

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

Operating Income decreased by $35.4 million, or 30%, from $119.8 million in 2010 to $84.4 million in 2011, with an increase in gross profit of $12.0 million and lower impairment charges on property, plant, equipment, goodwill and intangible assets of $10.8 million, offset by increased foreign exchange losses of $7.0 million, an increase in research and development expenses of $2.1 million and an increase in SG&A expenses of $50.2 million.

Higher revenue, as explained above, generated increased gross profit, which was somewhat mitigated by a reduction in the gross profit margin of 3.2 percentage points. The main factors in the gross profit margin reduction were the lower overhead absorption in Latin America and Asia Pacific due to low volumes and the inefficient utilization of the Leith, Scotland facility, which experienced significant downtime in the second and third quarters as a result of interruptions in the Laggan–Tormore project production schedule.

SG&A expenses increased by $50.2 million compared with 2010 with three factors accounting for most of the increase. First, SG&A expenses were higher year over year as a result of increased salaries and other personnel related costs of $17.4 million, increased facility and occupancy costs of $6.2 million as a result of the acquisition of CSI in the beginning of the second quarter of 2011 and 50% of the Brazilian joint venture in the third quarter of 2010 and other growth related additions. Second, 2011 SG&A expenses include one-time increases in pension expenses, decommissioning liabilities and inventory obsolescence of $14.2 million and an increase in the allowance for doubtful accounts related to a contract dispute with a customer of $9.6 million. Finally, the 2010 SG&A expenses had been reduced by income under a management services contract, now discontinued, of $2.5 million.

Finance Costs – Net

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

(in thousands of Canadian dollars)	2011	2010	Change
Interest income on short-term deposits	$ (1,024)	$ (1,455)	$ 431
Interest expense, other	4,864	1,933	2,931
Interest expense on long-term debt	667	2,327	(1,660)
Finance costs – net	$ 4,507	$ 2,805	$ 1,702

The finance costs – net balance increased by $1.7 million, from $2.8 million in 2010 to $4.5 million in 2011, mainly due to higher accretion expense on certain non-current liabilities and lower interest income on short-term deposits, partially offset by a decrease in the interest expense on long-term debt of $1.7 million.

Income Taxes

The Company recorded an income tax expense of $13.1 million (19% of income before income taxes) for the year ended December 31, 2011, compared to income tax expense of $33.2 million (26% of income before income taxes) for the year ended December 31, 2010. The effective income tax rate was lower in 2011 than in 2010 primarily due to the Company earning more of its income in jurisdictions where the tax rate is 25% or lower, the recognition of previously unrecognized deferred tax assets in the second quarter of 2011 as a result of reorganizing the corporate structure in certain foreign jurisdictions, and a reduction in a prior year provision as a result of the settlement of certain items in dispute with tax authorities that were settled in the company's favour.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services segment

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

(in thousands of Canadian dollars)	2011	2010	Change
North America	$ 547,881	$ 412,622	$ 135,259
Latin America	38,499	56,400	(17,901)
EMAR	241,885	184,768	57,117
Asia Pacific	192,834	266,367	(73,533)
Total revenue	$ 1,021,099	$ 920,157	$ 100,942
Operating income	$ 96,982	$ 131,637	$ (34,655)
Operating margin	9.5%	14.3%	(4.8%)

Revenue in the Pipeline and Pipe Services segment for the year ended December 31, 2011 was $1,021.1 million, an increase of $100.9 million, or 11%, from the prior year. The increase resulted from stronger demand for small diameter pipe from increased well completions in North America and higher project activity in EMAR, partially offset by lower project activity in Asia Pacific and Latin America and the translation impact of a weaker US dollar and Euro against the Company's Canadian dollar reporting currency:

- The increase in revenue in North America of $135.3 million was primarily due to growth in small diameter project activity in both the US and Canada, a 102% increase in spoolable composite pipe revenue, particularly driven by growth in market share in the United States, increased tubular management services driven by increased drilling activity in Canada and Mexico and revenue from the acquisition of CSI Services.
- A decrease in revenue in Latin America of $17.9 million was due to year over year reductions in pipe coating project activity of 25% in Mexico and 41% in Brazil.
- The increase in EMAR revenue of $57.1 million was mainly due to higher pipe coating volumes at the Company's flow assurance insulation coating facility in Orkanger, Norway and a significant increase in activity at Leith, Scotland to complete the Laggan–Tormore, Breagh and Gundrun projects, partially offset by lower volumes in Saudi Arabia and the UAE.

- In Asia Pacific, revenue decreased by $73.5 million as a result of a reduction in large project activity in 2011 as compared to 2010. In Kembla Grange, Australia, project activity was very low following the first quarter 2011 completion of the EPIC QSN project. At Kabil, Indonesia and Kuantan, Malaysia, activity levels were lower by 15% and 20%, respectively, as a number of large projects were executed in 2010.

Operating Income in the Pipeline and Pipe Services segment for the year ended December 31, 2011 was $97.0 million, a decrease of $34.7 million, or 26%, compared to the prior year. Gross profit increased by $6.9 million; however, the gross profit margin declined by 3.4 percentage points due to the shift in project mix, with 2010 experiencing a higher proportion of the Company's revenue derived from projects in Asia Pacific. Also contributing to lower gross margins was the lower overhead absorption in Latin America and Asia Pacific due to the reduced volumes and the inefficient utilization of the Leith, Scotland facility, which experienced significant downtime in the second and third quarters as a result of interruptions in the Laggan-Tormore project production schedule. The final factor affecting operating income was the increase in SG&A expenses as explained in section 4.1 – Consolidated Information.

4.2.2 Petrochemical and Industrial segment

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

(in thousands of Canadian dollars)	2011	2010	Change
North America	$ 80,762	$ 64,053	$ 16,709
EMAR	54,237	50,002	4,235
Asia Pacific	3,081	1,728	1,353
Total revenue	$ 138,080	$ 115,783	$ 22,297
Operating income	$ 18,242	$ 13,580	$ 4,662
Operating margin	13.2%	11.7%	1.5% P.P.

Revenue in the Petrochemical and Industrial segment increased by $22.3 million, or 19%, from $115.8 million in 2010 to $138.1 million in 2011. The revenue increase resulted from higher shipments of wire and cable products in the oil sands, transit and nuclear markets in North America combined with increased heat-shrink sleeve shipments resulting from a strengthening in industrial and automotive markets in North America, EMAR and Asia Pacific. This was partially offset by the translation impact of a weaker US dollar and Euro versus the Canadian dollar.

Operating income in the Petrochemical and Industrial segment for 2011 was $18.2 million, an increase of $4.7 million, or 34%, over 2010. The operating margin was higher by 1.5 points due to higher gross profit margins and improved overhead absorption due to increased revenue and better facility utilization, partly offset by higher selling, general and administrative expenses of $2.6 million.

4.2.3 Financial and Corporate

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

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

(in thousands of Canadian dollars)	2011	2010	Change
Financial and corporate expenses	$ (29,443)	$ (31,033)	$ 1,590

Financial and corporate expenses decreased by $1.6 million or 5% in 2011 compared to 2010, primarily due to lower professional fees of $1.9 million.

5.0 Liquidity and Capitalization

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

(in thousands of Canadian dollars, except dividends)	2011	2010
Net income	**$ 56,683**	$ 95,072
Non-cash items	**63,854**	54,764
Settlement of decommissioning liability obligations	**(1,074)**	(3,218)
Settlement of provisions	**(2,240)**	(2,027)
Change in employee future benefits	**636**	(3,637)
Change in non-cash working capital and foreign exchange	**(72,532)**	(87,710)
Cash provided by operating activities	**45,327**	53,244
Cash used in investing activities	**(95,428)**	(100,250)
Cash used in financing activities	**(41,058)**	(39,551)
Foreign exchange gain (loss) on foreign cash and cash equivalents	**2,437**	(7,433)
Net increase (decrease) in cash and cash equivalents	**(88,722)**	(93,990)
Cash and cash equivalents, beginning of year	**155,998**	249,988
Cash and cash equivalents at end of period	**$ 67,276**	$ 155,998

5.1 Cash Provided by Operating Activities

Cash provided by operating activities decreased by $7.9 million, or 15%, from $53.2 million in 2010 to $45.3 million in 2011. The change was primarily due to lower net income of $38.4 million, partially offset by an increase in non-cash items of $9.1 million and a decrease in the amount of non-cash working capital and foreign exchange invested of $15.2 million. Net income decreased due to the reasons outlined above. Non-cash items increased due to a higher investment loss in associate of $8.2 million in 2011 compared to 2010, and the accounting gain on acquisition of $13.2 million in 2010. Amounts invested in non-cash working capital and foreign exchange decreased by $15.2 million mainly due to a lower rate of growth in accounts receivable and inventory and increasing growth in accounts payable.

5.2 Cash Used in Investing Activities

Cash used in investing activities decreased $4.8 million as the cash outflow to acquire CSI services in 2011 was lower than the cash outflow for the acquisition of the remaining 50% interest in the two Brazilian joint ventures in 2010.

5.3 Cash Used in Financing Activities

Cash used in financing activities increased by $1.5 million, or 4%, from $39.6 million in 2010 to $41.1 million in 2011, as the incremental amounts that were spent in 2011 to repurchase Class A shares were offset by proceeds from bank indebtedness and funds from the exercise of stock options. Please refer to section 5.5 – Credit Facilities for additional information with respect to changes in bank indebtedness, credit facilities and loans payable.

5.4 Liquidity and Capital Resource Measures

Accounts Receivable

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

(in thousands of Canadian dollars)	2011	2010	Change
Average trade accounts receivable	**$ 236,275**	$ 218,398	$ 17,877
DSO[(a)]	**62**	67	(4)

(a) DSO is the average numbers of days that receivables are outstanding based on a 90-day cycle. See section 13 – Reconciliation of Non-GAAP Measures of this report, for additional information with respect to DSO.

Average accounts receivable of $236.3 million in the fourth quarter of 2011 increased by $17.9 million from $218.4 million in the fourth quarter of 2010, in line with the higher sales volumes.

Inventories

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

(in thousands of Canadian dollars)	2011	2010	Change
Inventories	$ 146,786	$ 126,132	$ 20,654

Inventories increased by $20.7 million, or 16%, from $126.1 million as at December 31, 2010 to $146.8 million as at December 31, 2011. The inventories balance consists primarily of raw materials purchased in advance of project execution. Raw materials as a percentage of inventories were 67% and 70% as at December 31, 2011 and December 31, 2010, respectively. The increase was primarily due to an increase in raw material inventories in the Asia Pacific region that had been built up to support pipe coating projects in late 2011 and higher inventories of composite pipe and joint protection products.

Accounts Payable

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

(in thousands of Canadian dollars)	2011	2010	Change
Average accounts payable and accrued liabilities	$ 144,270	$ 126,278	$ (17,992)
DPO[a]	62	64	(2)

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

Average accounts payable and accrued liabilities of $144.3 million in the fourth quarter of 2011 increased by $18.0 million from $126.3 million in the comparable period of 2010. DPO decreased by 2 days to 62 days in 2011.

5.5 Credit Facilities

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

(in thousands of Canadian dollars)	2011	2010
Total available credit facilities	$ 236,168	$ 240,048
Standby letters of credit for performance, bid and surety bonds[a]	73,836	75,140
Unutilized credit facilities[b]	$ 162,332	$ 164,908

(a) Refer to section 7 – Off-Balance Sheet Arrangements, for additional information with respect to the Company's various bonds.

(b) Excludes the banking facilities of the Company's 30% owned joint venture, Arabian Pipe Coating Company Ltd. ("APCO").

Loan Payable

On February 4, 2010, the Company's Russian joint venture obtained a loan from OOO ArkhTekhnoProm in the amount of 600 million Russian roubles payable on demand. Interest is calculated on this loan at 9.625% per annum and is to be paid over the period of actual use. In the event that the Company's Russian joint venture fails to repay the outstanding loan within the time specified by the loan agreement, a penalty in the amount of 24% per annum will be assessed on the outstanding loan amount on a daily basis. The Company's portion of this loan that has been proportionately consolidated and included on the consolidated balance sheet as at December 31, 2011 in the amount of $5.0 million or 156 million Russian roubles at the current exchange rate (December 31, 2010 – $5.1 million or 156 million Russian roubles at the then current exchange rate).

Long-term Debt ("Senior Notes")

On June 27, 2003, the Company entered into an agreement for the issue and sale, at par, on a private placement basis to institutional investors, of US$75.0 million of Senior Notes due June 30, 2011. Under the terms of the agreement, the Company was required to repay the Senior Notes in three equal installments of US$25.0 million on June 30, 2009, 2010 and 2011. On June 30, 2009, the Company made the first repayment of US$25.0 million ($28.7 million at the then current exchange rate). On June 30, 2010, the Company made the second repayment of US$25.0 million ($26.0 million at the then current exchange rate) ("Second Repayment"). On June 30, 2011, the Company made the third and final repayment of US$25.0 million ($24.4 million at the then current exchange rate) ("Final Payment").

The Company's Senior Notes and associated interest expense were denominated in US dollars. Fluctuations in the exchange rate between the Canadian and US dollar impacted the carrying value of the Senior Notes in terms of Canadian dollars as well as the amount of interest expense that was translated into Canadian dollars. Effective July 3, 2003, the Company designated the Senior Notes as a hedge of a portion of its net investment in the Company's US dollar based operations ("Net Investment"). After the Second Repayment, the remaining balance of the Senior Notes of US$25.0 million ($25.8 million) was hedged against the Net Investment. Upon making the Final Payment and extinguishing the hedge, a foreign exchange gain in the amount of $1.8 million was recognized and included in the consolidated statement of income.

Debt Covenants

Under the terms of the Company's credit facilities, the Company must maintain the following:

- Fixed Charge Coverage Ratio of more than 2.5 to 1; and
- Debt to total capitalization ratio of less than 0.40 to 1.

The Company was in compliance with the debt covenants detailed above as at December 31, 2011. These debt covenants are Non-GAAP measures and should not be considered as an alternative to net income or any other measure of performance under GAAP. See section 13 – Reconciliation of Non-GAAP Measures for additional information with respect to these debt covenants.

5.6 Future Uses of Liquidity

Commitments and Contingencies

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

(in thousands of Canadian dollars)	2012	2013	2014	2015	2016	After 2016	Total
Operating leases	$ 9,755	$ 7,308	$ 5,798	$ 4,341	$ 2,615	$ 11,921	$ 41,738
Decommissioning liabilities	6,001	4,020	3,225	2,057	183	11,206	26,692
Loans payable	5,001	–	–	–	–	–	5,001
Obligations under finance leases	191	88	39	–	–	–	318
Deferred purchase consideration	–	16,721	–	–	–	–	16,721
Total contractual obligations	$ 20,948	$ 28,137	$ 9,062	$ 6,398	$ 2,798	$ 23,127	$ 90,470

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

(in thousands of Canadian dollars)	2011
Total future minimum lease payments	$ 318
Less: imputed interest	(50)
Balance of obligations under finance leases	268
Less: current portion	(165)
Non-current obligations under finance leases	$ 103

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

Litigation Matters

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

5.7 Financial Instruments

5.7.1 Fair Value

IFRS 7, Financial Instruments – Disclosure, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs, as used to measure fair value, fall into the following three different levels of the fair value hierarchy:

Level 1 Quoted prices in active markets for identical instruments that are observable.

Level 2 Quoted prices in active markets for similar instruments; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

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

The following table presents, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2011 and does not include those instruments where the carrying amount is a reasonable approximation of the fair value:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Derivative financial instruments – current	$ 270	$ –	$ 270	$ –
	270	–	270	–
Liabilities				
Derivative financial instruments – current	419	–	419	–
Derivative financial instruments – non-current	2,499	–	–	2,499
	$ 2,918	$ –	$ 419	$ 2,499

The current derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market. The non-current derivative financial instrument liability represents the net fair value of the financial instruments that were entered into by the Company in conjunction with its long-term investment in Fineglade, as described in note 14, and has been valued using a modified Black-Scholes model and unobservable input data. The fair values of the Company's remaining financial instruments are not materially different from their carrying values.

The following table presents the changes in the Level 3 fair value category for the year ended December 31, 2011:

(in thousands of Canadian dollars)	Fair Value
Opening balance – January 1, 2010	$ –
Additions	807
Balance – December 31, 2010	$ 807
Losses recognized in the statement of income	1,692
Closing balance – December 31, 2011	$ 2,499

5.7.2 Financial Risk Management

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

Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2011, fluctuations of +/– 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the year ended by approximately $32.5 million, $6.5 million and $4.7 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total shareholders' equity by $53.5 million, $34.5 million and $19.0 million, respectively.

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

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2011:

		Fixed Interest Rate	
(in thousands of Canadian dollars)	Floating Rate	Maturing in One Year or Less	Total
Financial assets			
Cash equivalents	$ –	$ 5,978	$ 5,978
Long-term notes receivable	3,845	–	3,845
Long-term loan to related party	8,777	2,047	10,824
Total	$ 12,622	$ 8,025	$ 20,647
Financial liabilities			
Bank indebtedness	$ 12,281	$ –	$ 12,281
Loan payable	5,001	–	5,001
Total	$ 17,282	$ –	$ 17,282

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

Credit Risk

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

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

As at December 31, 2011 and 2010, ShawCor had no customers who generated revenue greater than 10% of total consolidated revenue.

The carrying value of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of income with a charge to selling, general and administrative expenses. When a receivable balance is considered to be uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses. As at December 31, 2011, $11.6 million, or 5.1% of trade accounts receivable, were more than 90 days overdue, which is consistent with prior period aging analysis. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired.

The following is an analysis of the change in the allowance for doubtful accounts for the year ended December 31, 2011 and 2010:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010
Balance – Beginning of year	$ 3,775	$ 5,353
Bad debt expense	9,160	697
Recovery of previously written-off bad debts	126	(384)
Write-offs of bad debts	(328)	(1,469)
Impact of change in foreign exchange rates	1,234	(422)
Balance – End of year	$ 13,967	$ 3,775

5.8 Outstanding Share Capital

As at December 31, 2011, the Company had 57,832,572 Class A shares outstanding and 12,784,334 Class B shares outstanding. In addition, as at December 31, 2011, the Company had stock options outstanding to purchase up to 2.3 million Class A shares.

6.0 Quarterly Selected Financial Information

The following tables set forth the Company's summary of selected financial information for the four quarters of 2011 and 2010:

(in thousands of Canadian dollars except per share amounts)	Q1-2011	Q2-2011	Q3-2011	Q4-2011
Operating results				
Revenue	$ 279,466	$ 264,541	$ 271,478	$ 341,780
Income from operations	30,095	22,660	(60)	31,748
Net income (attributable to shareholders of the Company)	20,485	15,703	(3,144)	23,042
Net income per share (Classes A and B)				
Basic	$ 0.29	$ 0.22	$ (0.04)	$ 0.32
Diluted	0.29	0.21	(0.04)	0.32

(in thousands of Canadian dollars except per share amounts)	Q1-2010	Q2-2010	Q3-2010	Q4-2010
Operating results				
Revenue	$ 224,572	$ 234,546	$ 282,959	$ 292,086
Income from operations	18,547	18,944	42,718	39,622
Net income (attributable to shareholders of the Company)	11,739	12,031	32,126	39,176
Net income per share (Classes A and B)				
Basic	$ 0.17	$ 0.17	$ 0.46	$ 0.55
Diluted	0.16	0.17	0.45	0.55

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 88% of the Company's consolidated revenue in 2011, are largely project based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services segment.
- Over 75% of the Company's revenue in 2011 is transacted in currencies other than Canadian dollars, with a majority transacted in US 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. See section 2.2 – Foreign Exchange Impact, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.

7.0 Off-Balance Sheet Arrangements

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

The Company's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of $73.8 million and $75.1 million as at December 31, 2011 and 2010, respectively, in support of its bonds.

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

8.0 Critical Accounting Estimates and Accounting Policy Developments

8.1 Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

The Company evaluates the carrying values of the Cash Generating Units' ("CGU") goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether writedowns of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions.

Future Benefit Obligations

The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, long-term rates of return on pension plan assets, rates of employee compensation increases, rates of inflation, medical costs and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

Provisions and Contingent Liabilities

Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and whether the loss can be reliably measured. When a loss is determined it is charged to the consolidated statement of income. The Company must continually monitor known and potential contingent matters and make appropriate provisions by charges to income when warranted by circumstances.

Decommissioning Liabilities

Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate. A corresponding asset equal to the present value of the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the decommissioning liability and the related long-lived asset. The amount capitalized in property, plant and equipment is depreciated on a straight line basis over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statement of income. Actual expenditures incurred are charged against the accumulated decommissioning liability.

Financial Instruments

The Company has determined the estimated fair values of its financial instruments not traded in an active market based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates, mainly based on market conditions existing at the end of each reporting period. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

Income Taxes

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

8.2 Accounting Standards Issued but Not Yet Applied

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in *IAS 39, Financial Instruments – Recognition and Measurement* for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. *IFRS 9* also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss).

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in *IAS 39*, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income (loss).

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 Consolidated Financial Statements

For annual periods beginning on January 1, 2013, *IFRS 10, Consolidated Financial Statements*, will replace portions of *IAS 27 Consolidated and Separate Financial Statements* and interpretation *SIC-12 Consolidation – Special Purpose Entities*. The new standard requires consolidated financial statements to include all controlled entities under a single control model. The Company will be considered to control an investee when it is exposed, or has rights to variable returns from its involvement with the investee, and has the current ability to affect those returns through its power over the investee. As required by this standard, control is reassessed as facts and circumstances change. All facts and circumstances must be considered to make a judgment about whether the Company controls another entity. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights and principal-agency relationships (including removal rights), all of which may differ from current practice.

IFRS 10 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 11 Joint Arrangements

On January 1, 2013, ShawCor will be required to adopt *IFRS 11, Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting.

Due to the adoption of this new section, the Company will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item.

IFRS 11 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12 Disclosure of Interests in Other Entities

On January 1, 2013, ShawCor will be required to adopt *IFRS 12, Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. Due to this new standard, the Company will be required to disclose the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities and the nature of the risks associated with interests in other entities.

IFRS 12 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13 Fair Value Measurement

On January 1, 2013, ShawCor will be required to adopt *IFRS 13, Fair Value Measurement*. The new standard will generally converge the IFRS and US GAAP requirements on how to measure fair value and the related disclosures. IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the Company will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities.

IFRS 13 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IAS 27 Separate Financial Statements

On January 1, 2013, ShawCor will be required to adopt *IAS 27, Separate Financial Statements*. As a result of the issue of the new consolidation suite of standards, *IAS 27* has been reissued to reflect the changes to the consolidation guidance recently included in *IFRS 10*.

In addition, *IAS 27* will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The Company has not yet assessed the impact of this new accounting standard.

IAS 28 Investments in Associates and Joint Ventures

On January 1, 2013, ShawCor will be required to adopt *IAS 28, Investments in Associates and Joint Venture*s. As a consequence of the issue of *IFRS 10, IFRS 11* and *IFRS 12, IAS 28* has been amended and will provide further accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not include control or joint control of those policy decisions. When it has been determined that the Company has an interest in a joint venture, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28*.

IAS 28 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

8.3 First Time Adoption of IFRS

ShawCor has adopted IFRS on January 1, 2011 with a date of transition to IFRS of January 1, 2010. In accordance with IFRS 1, IFRS is applied retrospectively at the transition date, with any adjustments to the assets and liabilities as a result of the adoption taken to retained earnings unless certain exemptions are applied.

The effect of the Company's transition to IFRS, is summarized as follows:

a) Adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. Generally speaking, IFRS requires that an entity apply all IFRS effective at the end of its first IFRS reporting period on a retrospective basis with any adjustments to the assets and liabilities as a result of the adoption taken to retained earnings. IFRS 1 does, however, provide for certain mandatory exemptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the exemptions available under IFRS 1 that are significant to ShawCor and have been applied in preparing the Company's first financial statements under IFRS.

i) Property, Plant and Equipment

IFRS permits an entity to measure an item of property, plant and equipment at either cost or fair value. ShawCor has elected to retain the historical cost model for all assets. The Company has recalculated the associated historical accumulated depreciation of all fixed assets using a more detailed componentization analysis where applicable, and has reviewed their expected useful life, which, in a number of cases, was extended. This has caused the net book value of property, plant and equipment to increase.

ii) Employee Benefits

Under IAS 19, Employee Benefits, an entity may elect to use a 'corridor' approach that leaves some actuarial gains and losses unrecognized. Retrospective application of this approach requires the entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion. ShawCor has elected to recognize all cumulative actuarial gains and losses at the date of transition to IFRS through an adjustment to the opening retained earnings. This has resulted in an increase in the liability for employee benefits. The Company has elected to adopt the IFRS 1 option to disclose the amounts required by IAS 19 on a prospective basis.

iii) Cumulative Translation Account

IAS 21, the Effects of Changes in Foreign Exchange Rates, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. ShawCor has elected to deem all cumulative translation differences to be zero on transition to IFRS as at January 1, 2010.

iv) Business Combinations

IFRS 1 allows a first time adopter to elect not to apply IFRS 3, Business Combinations, retrospectively to past business combinations that occurred before the date of transition to IFRS. The Company has elected the business combinations exemption in IFRS 1 to not apply IFRS 3 retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

As ShawCor early adopted CICA Handbook Section 1582, Business Combinations, on January 1, 2010, which was harmonized with IFRS 3, there are no IFRS adjustments required for 2010 for the accounting for business combinations completed in 2010.

v) Stock-based Compensation

ShawCor is required to apply IFRS 2, Share-based Payments, to equity instruments that vest after January 1, 2010. ShawCor has consistently used the method of recognizing stock-based compensation expense on a graded vesting schedule. Adopting IFRS has resulted in a $145 thousand additional expense due to the revaluation of compound financial instruments (Share Appreciation Rights "SAR") using the Black-Scholes model, compared to using the intrinsic value of liability under CGAAP.

vi) Borrowing Costs

ShawCor has elected not to capitalize any borrowing costs on a retrospective basis for qualifying assets acquired prior to January 1, 2010, the date of transition to IFRS.

vii) Decommissioning Liabilities

ShawCor has elected, in accordance with IFRS 1, to remeasure these liabilities as of the date of transition to IFRS in accordance with IAS 37, and has adjusted the asset cost and depreciable amount accordingly and will amortize the depreciable amount of the assets over the remaining useful lives.

b) IFRS 1 Guidelines

Under certain circumstances, a first time adopter must adhere to specific guidelines under IFRS 1. ShawCor Ltd. has applied the following guidelines to its opening IFRS statement of financial position as on January 1, 2010:

i) Goodwill

ShawCor is required to apply IAS 36 Impairment of Assets, on transition to IFRS on January 1, 2010. Under CGAAP goodwill is tested for impairment by comparing the carrying value to the fair value at the reporting unit level. Impairment for goodwill under IFRS is tested at the CGU level. There was no impairment recognized on transition from CGAAP to IFRS, based on the testing carried out under IFRS at the CGU level (note 16).

ii) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition from CGAAP to IFRS must be consistent with estimates made in accordance with CGAAP unless there is objective evidence that those estimates were in error. Estimates under IFRS are consistent with the CGAAP estimates.

c) Reconciliations between CGAAP and IFRS

The impact of applying the above noted IFRS exemptions and the accounting policy differences between CGAAP and IFRS are summarized in the following tables and notes:

Reconciliation of the balance sheet under CGAAP to IFRS at January 1, 2010

(in thousands of Canadian dollars)	Note	CGAAP December 31 2009	IFRS FS Reclassification	Effect of Transition to IFRS	Restated under IFRS January 1 2010
ASSETS					
Current Assets					
Cash and cash equivalents		$ 249,988	$ –	$ –	$ 249,988
Accounts receivable		191,821	–	–	191,821
Income taxes receivable		14,055	–	–	14,055
Inventories		109,379	–	–	109,379
Prepaid expenses		14,392	–	–	14,392
Derivative financial instruments		1,782	–	–	1,782
Current future income taxes	i	4,668	(4,668)	–	–
		586,085	(4,668)	–	581,417
Non-current Assets					
Property, plant and equipment	b, d, f	270,219	–	14,072	284,291
Intangible assets		62,784	–	–	62,784
Investment in associates		24	–	–	24
Derivative financial instruments		39	–	–	39
Deferred income taxes	e, i	36,249	4,668	498	41,415
Other assets		16,128	–	(6,520)	9,608
Goodwill		214,449	–	–	214,449
		599,892	4,668	8,050	612,610
Total Assets		$ 1,185,977	$ –	$ 8,050	$ 1,194,027
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	j, i	$ 127,932	$ (8,119)	$ –	$ 119,813
Provisions	d, i	–	8,874	971	9,845
Income taxes payable		42,971	–	–	42,971
Derivative financial instruments		510	–	–	510
Deferred revenue		75,100	–	–	75,100
Current portion of long-term debt		26,235	–	–	26,235
Obligations under finance lease		371	–	–	371
		273,119	755	971	274,845
Non-current Liabilities					
Long-term debt		26,052	–	–	26,052
Obligations under finance lease		492	–	–	492
Deferred income taxes	e	76,552	–	(976)	75,576
Provisions	c, i, d	–	18,585	7,462	26,047
Other non-current liabilities	i	19,340	(19,340)	–	–
		122,436	(755)	6,486	128,167
Total Liabilities		395,555	–	7,457	403,012
SHAREHOLDERS' EQUITY					
Share capital		204,151	–	–	204,151
Contributed surplus		17,277	–	–	17,277
Retained earnings	a	695,800	–	(126,213)	569,587
Accumulated other comprehensive loss	a	(126,806)	–	126,806	–
		790,422	–	593	791,015
Total Liabilities and Shareholders' Equity		$ 1,185,977	$ –	$ 8,050	$ 1,194,027

Reconciliation of the balance sheet under CGAAP to IFRS at December 31, 2010

(in thousands of Canadian dollars)	Note	CGAAP December 31 2010	IFRS FS Reclassification	Effect of Transition to IFRS	Restated under IFRS December 31 2010
ASSETS					
Current Assets					
Cash and cash equivalents		$ 155,998	$ –	$ –	$ 155,998
Accounts receivable		243,955	–	–	243,955
Income taxes receivable		13,823	–	–	13,823
Inventories		126,132	–	–	126,132
Prepaid expenses		14,171	–	–	14,171
Derivative financial instruments		1,130	–	–	1,130
Current future income taxes	i	4,590	(4,590)	–	–
		559,799	(4,590)	–	555,209
Non-current Assets					
Property, plant and equipment	b, d, f	283,286	–	4,411	287,697
Intangible assets		91,353	–	–	91,353
Investment in associates		31,995	–	–	31,995
Deferred income taxes	e, i	29,035	4,590	(70)	33,555
Other assets		15,622	–	(5,699)	9,923
Goodwill		215,204	–	–	215,204
		666,495	4,590	(1,358)	669,727
Total Assets		$ 1,226,294	$ –	$ (1,358)	$ 1,224,936
LIABILITIES					
Current Liabilities					
Loan payable		$ 5,126	$ –	$ –	$ 5,126
Accounts payable and accrued liabilities	j, i	137,669	(4,926)	–	132,743
Provisions	d, i	–	5,595	2,297	7,892
Income taxes payable		44,968	–	–	44,968
Derivative financial instruments		527	–	–	527
Deferred revenue		54,751	–	–	54,751
Current portion of long-term debt		25,005	–	–	25,005
Finance lease obligation		345	–	–	345
		268,391	669	2,297	271,357
Non-current Liabilities					
Long-term finance lease obligation		339	–	–	339
Derivative financial instruments		807	–	–	807
Deferred income taxes	e	78,516	–	(3,349)	75,167
Provisions	c, i, d	–	39,709	5,314	45,023
Other non-current liabilities	i	40,378	(40,378)	–	–
		120,040	(669)	1,965	121,336
Total Liabilities		388,431	–	4,262	392,693
SHAREHOLDERS' EQUITY					
Share capital		206,775	–	–	206,775
Contributed surplus		18,144	–	–	18,144
Retained earnings	a	775,924	–	(131,733)	644,191
Accumulated other comprehensive loss	a	(162,980)	–	126,113	(36,867)
Total Shareholders' Equity		837,863	–	(5,620)	832,243
Total Liabilities and Shareholders' Equity		$ 1,226,294	$ –	$ (1,358)	$ 1,224,936

Reconciliation of the statement of income and comprehensive income under CGAAP to IFRS for the year ended December 31, 2010

(in thousands of Canadian dollars)	Note	CGAAP December 31, 2010	Effect of Transition to IFRS	Restated under IFRS December 31, 2010
CONSOLIDATED STATEMENT OF INCOME				
Revenue		$ 1,034,163	$ –	$ 1,034,163
Cost of Goods Sold		623,641	–	623,641
Gross Profit		410,522	–	410,522
Selling, general and administrative expenses	h, j	221,648	(2,564)	219,084
Research and development expenses		11,050	–	11,050
Foreign exchange (gains) losses	g	(5,745)	98	(5,647)
Amortization of property, plant and equipment	f	50,376	(5,299)	45,077
Amortization of intangible assets		5,038	–	5,038
Impairment of property, plant & equipment	b	–	14,923	14,923
Impairment of intangible assets		958	–	958
Impairment of goodwill		208	–	208
Income from Operations		126,989	(7,158)	119,831
Gain on revaluation of investment		13,181	–	13,181
Loss on investment in associate		(1,939)	–	(1,939)
Interest income on short-term deposits		1,455	–	1,455
Interest expense on bank indebtedness		(1,631)	(302)	(1,933)
Interest expense on long-term debt		(2,327)	–	(2,327)
Income Before Income Taxes		135,728	(7,460)	128,268
Income Taxes		35,136	(1,940)	33,196
Net Income		$ 100,592	$ (5,520)	$ 95,072
Earnings per Share				
Basic		$ 1.43		$ 1.35
Diluted		$ 1.41		$ 1.33
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Net Income		$ 100,592	$ (5,520)	$ 95,072
Unrealized loss on translating financial statements of foreign operations		(37,379)	(693)	(38,072)
Gain on hedges of unrealized foreign currency translation		1,423	–	1,423
Income tax expense		(218)	–	(218)
Other comprehensive loss for the period		(36,174)	(693)	(36,867)
Comprehensive Income		$ 64,418	$ (6,213)	$ 58,205

(in thousands of Canadian dollars)	Note	December 31, 2010	January 1, 2010
RECONCILIATION OF SHAREHOLDERS' EQUITY			
Shareholders' Equity in Accordance with Canadian GAAP		$ 837,863	$ 790,422
Property, plant and equipment	b, f	30,462	25,977
Impairment of property, plant, and equipment	b	(27,087)	(14,275)
Employee future benefits	c, e	(8,170)	(10,547)
Effects of change in FX rates	g	(931)	(396)
Provisions		210	222
Decommissioning of liabilities	d	41	(388)
Share-based compensation	j	(145)	–
Shareholders' Equity in Accordance with IFRS		$ 832,243	$ 791,015

Notes to the Reconciliations

a) Cumulative Translation Account

The Effects of Changes in Foreign Exchange Rates requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. ShawCor has made the election to deem all cumulative translation differences be reset to zero on transition to IFRS as on January 1, 2010. Consequently, the Company has transferred a deficit of $126.8 million to retained earnings from the cumulative translation adjustment account.

b) Property, Plant and Equipment

The adjustment to property, plant and equipment at the January 1, 2010 transition date is a net increase of $14.1 million to the Net Book Value ("NBV"). NBV increased by $28.4 million due to the impact of componentization of property, plant and equipment and revision in the estimated useful life as required by IAS 16. This increase was partly offset by a combined asset impairment loss of $14.3 million recognized on certain Pipeline and Pipe Services segment fixed assets.

Under IFRS, impairment testing is performed by comparing the carrying amount to the recoverable amount, calculated using the value in use method, which uses a risk adjusted pre-tax rate to discount cash flows (i.e. a higher rate than under CGAAP) to their net present value. Under CGAAP, there is a two-step process:

i) A reasonability test using the sum of the undiscounted cash flows and comparing them to the carrying value, and if the test fails

ii) The amount of impairment is calculated using a risk adjusted post-tax rate to discount the cash flows (i.e. a lower rate than under IFRS) to their net present value.

Under CGAAP, no impairment existed on the above assets as of December 31, 2010.

Under IFRS, ShawCor recognized an additional impairment at December 31, 2010 on these fixed assets in the amount of $14.9 million. The impairment recognized has been expensed in the statement of income for the year ended December 31, 2010.

c) Employee Benefits

Under IFRS, the $14.4 million adjustment as at the IFRS Transition Date resulted from ShawCor's election to use the IFRS 1 exemption and adopt IAS 19 on a prospective basis. This 'fresh start or prospective approach' allows that any unrecognized actuarial gains and losses as at the IFRS Transition Date for all plans be immediately recognized through an adjustment to the opening retained earnings and an increase to the defined employee future benefit liability.

For the year ended December 31, 2010, the expense for defined employee future benfits under IFRS was $3.3 million lower than that under CGAAP due to the application of IFRIC 14 and IAS 19 on a prospective basis.

d) Decommissioning Liabilities

As at the IFRS Transition Date, the decommissioning obligation liability increased by $1.1 million on transition to IFRS due to the use of country specific risk free rates under IFRS, as opposed to the use of country specific risk-adjusted discount rates under CGAAP. The use of lower discount rates also resulted in the calculation of higher decommissioning liability balances throughout 2010 under IFRS, which resulted in an IFRS transitional adjustment to the property, plant and equipment account (relating to decommissioning costs) in the amount of $1.6 million as at December 31, 2010.

e) Deferred Income Tax Effect

These are the required deferred tax effects related to the various IFRS adjustments (i.e., property, plant and equipment; employee future benefits; decommissioning liabilities etc.). The rates used were based on the statutory tax rates in the jurisdiction where the adjustment was made.

f) Amortization of Property, Plant and Equipment

The 2010 income statement adjustment was due to the recalculation of depreciation expense on all fixed assets due to the application of a more detailed componentization analysis including their expected useful lives, which, in a number of cases, was extended. This resulted in a decrease in the amortization cost under IFRS versus CGAAP of $5.1 million for the year ended December 31, 2010.

g) Foreign Exchange

Foreign exchange gains decreased by $0.1 million for the twelve months ended December 31, 2010, primarily due to the change in the translation method for certain entities from the Temporal Method under CGAAP to the Current Rate Method under IFRS.

h) Selling, General and Administrative Expense

The selling, general and administrative expense for the year ended December 31, 2010 has decreased by $2.5 million under IFRS versus CGAAP, because of lower defined employee future benefits expense under IFRS of $3.3 million due to the application of IFRIC 14 on transition to IFRS and the application of IAS 19 on a prospective basis, which was partly offset by higher decommissioning liabilities expense of $0.5 million.

i) Account Reclassification

Certain accounts were reclassified for financial statement presentation purposes, including deferred tax assets from current to non-current, reflecting the adoption of IAS 12 and the requirements for provisions to be presented separately by IAS 37.

j) Stock-based Compensation

Adopting IFRS has resulted in a $145 thousand additional expense due to revaluing liability settled instruments (Share Appreciation Rights "SAR") using the Black-Scholes model, compared to using the intrinsic value of liability under CGAAP.

k) Adjustment to the Consolidated Statement of Cash Flows

The changes to the consolidated statement of income and consolidated balance sheet have resulted in various reclassifications on the consolidated statement of cash flows; however, there were no material changes to the net cash flows. As a result, no reconciliations have been presented.

9.0 Disclosure Controls and Internal Controls over Financial Reporting

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company's Disclosure Controls and Procedures ("DC&Ps") (as defined in the rules of the Canadian Securities Administrators) and the effectiveness of Internal Controls over Financial Reporting ("ICFRs"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as at December 31, 2011 and 2010. Furthermore, they have concluded that the Company's ICFRs were adequate and effective to prevent a material misstatement of the Company's annual financial statements as at December 31, 2011. There were no material changes in either the Company's DC&Ps or its ICFRs during 2011.

10.0 General Outlook

In late 2008 and throughout 2009, the global economic recession caused lower energy demand and reduced capital availability for infrastructure investment, which resulted in pipeline project delays and cancellations and fewer well completions. Commencing in 2010 and continuing in 2011, energy demand rebounded strongly and many of the major pipeline projects that had been delayed or deferred during the economic recession were reactivated, with front end engineering, project bidding and, by the end of 2011, the commencement of contract awards. The strengthening of pipeline infrastructure market demand was first indicated early in 2011 when the value of projects, for which ShawCor had provided firm bids, exceeded $1.5 billion for the first time. During the fourth quarter of 2011 and early 2012, the improving outlook for pipeline infrastructure was further evidenced when ShawCor received contracts or letters of intent for projects with a cumulative value exceeding $800 million. As a result of the award of new contracts, ShawCor's order backlog reached a new record level of $548 million at December 31, 2011 and this backlog is expected to lead to revenue growth, particularly in the Company's Pipeline and Pipe Services segment operations in Asia Pacific and Latin America, as noted below.

The outlook for market activity in the Company's Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is outlined below:

Pipeline and Pipe Services Segment – North America

The Company produced strong growth in revenue in North America during 2011 and overall levels of activity are expected to remain strong in 2012 and 2013. The improvement in revenue in 2011 was largely driven by the increased level of well drilling and completions throughout North America, which has bolstered demand for the Company's small diameter pipe coating, composite pipe, joint protection products and drill pipe services. With total well completion volumes expected to stabilize at current levels, growth will be driven by market share gains. This is most evident with the Company's spoolable composite pipe business unit, which has steadily gained market share in the United States following the installation of service centers in locations well positioned to supply pipe demand from emerging shale resources. The Company believes that the potential exists for further gains in market share

and revenue growth in the North American composite pipe market. Another market targeted for share gain is drill string tubular services in the United States. The first US drill string tubular service center was successfully launched in 2011 in Pennsylvania to supply the Marcellus and Utica shale plays and further centers will be opened in the United States in 2012 to support customers in other active shale regions.

In pipe coating, growth in 2012 from projects involving offshore applications is expected to largely offset modest weakening in large diameter project volumes. In the fourth quarter of 2011, the Company commenced production on the $40 million Jack/St. Malo project at the Brigden facility in Beaumont, Texas. The Company has also submitted bids for additional deepwater flow assurance projects in the Gulf of Mexico that, if won, will be executed in 2012 and 2013. In addition, the Company will mobilize a mobile concrete weight coating plant to the Beaumont site to execute a project for a customer in South America.

Pipeline and Pipe Services Segment – Latin America

The Company experienced weak market conditions in both Mexico and Brazil throughout 2011 with revenue well below historical levels. For 2012, the Company has secured several large projects that will deliver significant revenue growth. Offshore Mexico activity is expected to pick up based on the Company's level of bidding activity. In Brazil, the $20 million P55 Risers pipe coating project has finally commenced production after customer delays during 2011. Elsewhere in the Latin America region, the Company has secured a project with Technip for concrete weight coating on a large diameter offshore gas transmission line. This work will be executed in Trinidad and is expected to contribute in excess of $60 million in revenue.

Beyond 2012, the Company expects the Latin America region to be a continuing source of revenue growth as Brazil undertakes the development of pipeline infrastructure necessary to bring to production the vast deepwater oil resources discovered in the pre-salt Santos basin. The Company also expects that Mexico and other markets in South America will offer growth potential for composite pipe products that are now experiencing growing market acceptance in North America.

Pipeline and Pipe Services Segment – EMAR

During 2011, revenue increased over the prior year in the Europe, Middle East, Africa, Russia ("EMAR") region as a result of the execution of the US$93 million Laggan–Tormore project at ShawCor's Leith, Scotland facility. The Company does not expect to be able to fully replace the 2011 Leith volume of activity in 2012. The outlook is thus for a modest slowdown in region revenue, with lower volumes from Leith partially offset by a pick up in facility utilization at the Company's pipe coating plants in Orkanger, Norway and in the UAE. Beyond 2012, the potential for growth exists through expansion opportunities that are under evaluation for several geographic markets in the region where the Company does not currently have pipe coating facilities.

Pipeline and Pipe Services Segment – Asia Pacific

The Company's Asia Pacific region, having experienced a significant reduction in revenue in 2011 versus the prior year, is now in a position, with booked production orders, to generate very strong revenue growth. During 2011 and in the first quarter of 2012, ShawCor has booked production orders or holds letters of intent for projects that will be executed at the Company's facilities in Malaysia and Indonesia with a value that exceeds $700 million. These projects include the PTTEP Zawtika Development Project, the Pearl Energy Ruby pipeline, the trunk line and flow assurance pipe coating contracts for the Chevron Wheatstone LNG project and the Ichthys gas export pipeline. These orders should deliver strong revenue growth for the Company's Asia Pacific region in 2012 and 2013.

In the first quarter of 2012, Asia Pacific revenue will be largely unchanged from the fourth quarter of 2011, while operating margins will be impacted by the costs associated with loading in pipe and ramping up the facilities for the launch of the Wheatstone and Ichthys projects. However, steady growth in revenue and improvement in margins are expected once production begins in the second quarter. By the fourth quarter, the Company's facilities in Malaysia and Indonesia are expected to be operating at record volume levels with resulting strong operating margins. This level of activity, based on the booked orders, will be sustained throughout 2013 and well into 2014.

Petrochemical and Industrial Segment

The improved revenue and operating income generated by the Petrochemical and Industrial segment businesses in 2011 was the result of the recovery from the abrupt decline in activity associated with the global economic recession in late 2008 and in 2009. With continued stability in the global economy, operating performance is expected to continue to improve in 2012 based on a stronger backlog for wire and cable project activity particularly for the oil sands market and the continued ramp up of production and sales in the segment's DSG Canusa China facility. The major risk to this outlook relates to the potential for economic deceleration in Europe and the impact this would have on the Company's automotive and industrial products shipments.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. A majority of the Company's revenue is typically derived from small orders and projects less than $5 million in value. These orders/projects do not typically enter the backlog as they are booked and executed with minimal lead times. In contrast, projects with values exceeding $5 million often have extended lead times before production commences and thus the growth or decline in such project activity will cause the backlog to change over time and signal changes in future revenue. In the third quarter of 2008, the Company's backlog peaked at $529 million and revenue in 2008 reached a record level of $1.38 billion. Subsequent to 2008, the order backlog declined and reached a low level for 2011 of $333 million at the end of first quarter. Since that time, the resurgence of pipeline infrastructure demand and new contract orders has resulted in an increase in the backlog to a new record level of $548 million at December 31, 2011. With the award, in the first quarter of 2012, of the Ichthys GEP project, with a value exceeding $400 million, further growth in the backlog through 2012 is expected.

With a record backlog in hand and further backlog increases expected, the Company has a high degree of confidence in its outlook for growth in revenue in 2012 and 2013. Revenue growth will also lead to gains in facility utilization, the operational driver for operating margin improvement. With a focus on the successful execution of the projects that have been secured, ShawCor is well positioned to generate strong cash flows over the next two years. Increasing cash flows from operations, plus the Company's current healthy financial position, create the resources to allow ShawCor to pursue its strategy of growth through geographic expansion, new product and service introductions in existing and complementary markets and through the acquisition of companies that broaden the Company's market position within the global pipeline and energy services industry.

11.0 Risks and Uncertainties

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

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

11.1 Economic Risks

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

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

A cyclical decline in the level of global pipeline construction could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

The Company's business is materially dependent on the level of global pipeline construction activity, which, in turn, relates to the growth in demand for oil and natural gas and the availability of new supplies to meet this increased demand. Reductions in capital spending by producers could dampen demand for the Company's products and services supplied in pipeline markets.

Revenue generated by the Company's Pipeline and Pipe Services segment accounted for 88% of consolidated sales in 2011. With this proportion expected to continue, the Company's revenue is materially dependent on the global Pipeline and Pipe Services industry. Any reduction in the anticipated growth in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

The Company purchases a broad range of materials and components throughout the world in connection with its manufacturing activities. Major items include polyolefin and other polymeric resins, iron ore, cement, adhesives, sealants and copper and other nonferrous wire. The ability of suppliers to meet performance and quality specifications and delivery schedules is important to the maintenance of customer satisfaction. While the materials required for its manufacturing operations have generally been readily available, cyclical swings in supply and demand can produce short-term shortages and/or price spikes. The Company's ability to pass on any such price increases may be restricted in the short term.

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

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

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

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

11.2 Litigation and Legal Risks

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

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

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

From time to time, the Company is a party to litigation and legal proceedings that it considers to be a part of the ordinary course of business. Although none of the litigation or legal proceedings in which the Company is currently involved could reasonably be expected to have a material adverse effect on the Company's projections, business, results of operations or financial condition, the Company may, however, become involved in material legal proceedings in the future. Such proceedings may include, for example, product liability claims and claims relating to the existence or use of hazardous materials on the Company's property or in its operations, as well as intellectual property disputes and other material legal proceedings with competitors, customers, employees and governmental entities. These proceedings could arise from the Company's current or former actions and operations or the actions or operations of businesses and entities acquired by the Company prior to acquisition. The Company maintains insurance it believes to be commercially reasonable and customary; however, such coverage may be inadequate for or inapplicable to particular claims.

Litigation and Legal Risk Mitigation
The Company cannot completely mitigate legal risks. However, the Company maintains adequate commercial insurance to mitigate most adverse litigation and legal risks.

11.3 HSE Risks

The Company is subject to Health, Safety and Environmental laws and regulations that expose it to potential financial liability.

The Company's operations are regulated under a number of federal, provincial, state, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of hazardous materials. Compliance with these environmental laws is a major consideration in the manufacturing of the Company's products, as the Company uses, generates, stores and disposes of hazardous substances and wastes in its operations. The Company may be subject to material financial liability for any investigation and clean-up of such hazardous materials. In addition, many of the Company's current and former properties are or have been used for industrial purposes. Accordingly, the Company also may be subject to financial liabilities relating to the investigation and remediation of hazardous materials resulting from the actions of previous owners or operators of industrial facilities on those sites. Liability in certain instances may be imposed on the Company regardless of the legality of the original actions relating to the hazardous or toxic substances or whether or not the Company knew of, or was responsible for, the presence of those substances. The Company is also subject to various Canadian and US federal, provincial, state and local laws and regulations as well as foreign laws and regulations relating to safety and health conditions in its manufacturing facilities. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any non-compliance, as well as potential business disruption if any of its facilities or a portion of any facility is required to be temporarily closed as a result of any violation of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

11.4 Political and Regulatory Risks

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

During 2011, the Company derived over 23% of its total revenue from its facilities outside North America and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

- currency fluctuations and devaluations;
- currency restrictions and limitations on repatriation of profits;
- political instability and civil unrest;
- hostile or terrorist activities; and
- restrictions on foreign operations.

The Company's foreign operations may suffer disruptions and may incur losses that would not be covered by insurance. In particular, civil unrest in politically unstable countries may increase the possibility that the Company's operations could be interrupted or adversely affected. The impact of such disruptions could include the Company's inability to ship products in a timely and cost effective manner, its inability to place contractors and employees in various countries or regions, or result in the need for evacuations or similar disruptions.

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

The Company's projections, business, results of operations and financial condition could be adversely affected by actions under Canadian, US or other trade laws.

The Company is a Canadian-based company with significant operations in the United States. The Company also owns and operates international manufacturing operations that support its Canadian and US operations. If actions under Canadian, US or other trade laws were instituted that limited the Company's access to the materials or products necessary for such manufacturing operations, the Company's ability to meet its customers' specifications and delivery requirements would be reduced. Any such reduction in the Company's ability to meet its customers' specifications and delivery requirements could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

Political and Regulatory Risk Mitigation

The Company manages political and regulatory risks by working with government, regulators and other parties to resolve issues, if any. In addition, the Company ensures that it is compliant with the laws and regulations within the jurisdictions where it operates.

12.0 Environmental Matters

While environmental related liabilities are considered immaterial to the Company's financial results, they are important to the Company from a social responsibility standpoint. Refer to section 11.3 – HSE Risks for additional information with respect to the Company's environmental matters.

As at December 31, 2011, the accruals on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $23.4 million. The Company believes the accruals to be sufficient to fully satisfy all liabilities related to known environmental matters.

13.0 Reconciliation of Non-GAAP Measures

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

EBITDA

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, impairment of property, plant, equipment, goodwill and intangible assets, investment losses and gain on revaluation of investment. The Company believes that EBITDA is a useful supplemental measure that provides a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions. Refer to section 2.1 – Selected Annual Information of this report for a reconciliation of the Company's EBITDA to its net income (attributable to shareholders of the Company) in accordance with GAAP.

Return on Equity ("ROE")

ROE is defined as net income divided by average shareholders' equity over the year and is used by the Company to assess the efficiency of generating profits from each unit of shareholders' equity.

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

(in thousands of Canadian dollars)	2011	2010
Net income	$ 56,683	$ 95,072
Average shareholders' equity	848,152	811,629
ROE	6.7%	11.7%

Free Cash Flow ("FCF")

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

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

(in thousands of Canadian dollars)	2011	2010
Cash provided by operating activities	$ 45,327	$ 53,244
Less:		
Capital expenditures	(55,982)	(48,723)
Dividends paid	(21,930)	(20,468)
FCF	$ (32,585)	$ (15,947)

Days Sales Outstanding ("DSO")

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

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

(in thousands of Canadian dollars)	2011	2010
Average accounts receivable	$ 236,275	$ 218,398
Revenue for the fourth quarter	341,780	292,086
DSO	62	67

Days Payables Outstanding ("DPO")

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

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

(in thousands of Canadian dollars)	2011	2010
Average accounts payable and accrued liabilities	$ 144,270	$ 126,278
Cost of goods sold for the fourth quarter	210,449	176,293
DPO	62	64

Working Capital Ratio

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

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

(in thousands of Canadian dollars)	2011	2010
Current assets	**$ 530,607**	$ 555,209
Current liabilities	**248,759**	271,357
Working capital ratio	**2.13**	2.05

Fixed Charge Coverage Ratio

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

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

(in thousands of Canadian dollars)	2011	2010
EBITDA	**$ 138,837**	$ 183,035
Interest expense	**4,507**	2,805
Fixed charge coverage ratio	**31**	65

The Company is in compliance with this debt covenant as at December 31, 2011.

Debt to Total Capitalization Ratio

Debt to total capitalization ratio is defined as the Company's long-term debt divided by the sum of shareholders' equity and long-term debt. The Company is required to maintain a debt to total capitalization ratio of no more than 0.40 to 1. The Company is in compliance with this debt covenant as at December 31, 2011.

14.0 Forward Looking Information

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute forward looking information under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe","predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in respect of, among other things, the impact of the existing order backlog on the Company's revenue, the impact of global economic activity on the demand for the Company's products as well as the prices of commodities used by the Company, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the impact of changing laws for environmental compliance on the Company's capital and operating costs, and the adequacy of the Company's existing accruals in respect thereof, the Company's relationships with its employees, the continued establishment of international operations, the effect of continued development in emerging economies, as well as the Company's plans as they relate to research and development activities and the maintenance of its current dividend policies, the outlook for revenue and operating income and the expected development in the Company's order backlog.

Forward looking information involves known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted by the forward looking information. We caution readers not to place undue reliance on forward looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward looking information. Significant risks facing the Company include, but are not limited to: changes in global economic activity and changes in energy supply and demand, which impact on the level of drilling activity and pipeline construction; exposure to product and other liability claims; shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; fluctuations in foreign exchange rates, as well as other risks and uncertainties, as more fully described herein under the heading "Risks and Uncertainties".

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

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

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

March 29, 2012

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 consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. When alternative accounting methods exist, management has selected those it deems to be most appropriate in the circumstances. The consolidated financial statements include estimates based on the experience and judgment of management in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in the annual report is consistent with that in the consolidated 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.

March 1, 2012

WILLIAM P. BUCKLEY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

GARY S. LOVE
VICE-PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Independent Auditors' Report

To the Shareholders of ShawCor Ltd.

We have audited the accompanying consolidated financial statements of ShawCor Ltd., which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

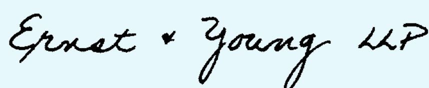
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ShawCor Ltd. as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.



CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Toronto, Canada
March 1, 2012

Consolidated Balance Sheets

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Current Assets			
Cash and cash equivalents NOTE 8	$ 67,276	$ 155,998	$ 249,988
Accounts receivable NOTE 9	279,324	243,955	191,821
Income taxes receivable NOTE 21	15,981	13,823	14,055
Inventories NOTE 10	146,786	126,132	109,379
Prepaid expenses	20,970	14,171	14,392
Derivative financial instruments NOTE 21	270	1,130	1,782
	530,607	555,209	581,417
Non-current Assets			
Property, plant and equipment NOTE 11	299,118	287,697	284,291
Intangible assets NOTE 12	86,362	91,353	62,784
Investment in associate NOTE 14	30,095	31,995	24
Derivative financial instruments NOTE 21	-	-	39
Deferred income taxes NOTE 29	30,058	33,555	41,415
Other assets NOTE 15	26,691	9,923	9,608
Goodwill NOTE 16	220,334	215,204	214,449
	692,658	669,727	612,610
	$ 1,223,265	$ 1,224,936	$ 1,194,027
LIABILITIES			
Current Liabilities			
Bank indebtedness NOTE 19	$ 12,281	$ -	$ -
Loan payable NOTE 27	5,001	5,126	-
Accounts payable and accrued liabilities NOTE 17	155,796	132,743	119,813
Provisions NOTES 18 AND 20	12,317	7,892	9,845
Income taxes payable NOTE 21	35,334	44,968	42,971
Derivative financial instruments NOTE 21	419	527	510
Deferred revenue	27,446	54,751	75,100
Current portion of long-term debt NOTE 19	-	25,005	26,235
Obligations under finance lease NOTE 22	165	345	371
	248,759	271,357	274,845
Non-current Liabilities			
Long-term debt NOTE 19	-	-	26,052
Obligations under finance lease NOTE 22	103	339	492
Provisions NOTES 18 AND 20	50,859	45,024	26,047
Derivative financial instruments NOTE 21	2,499	807	-
Deferred income taxes NOTE 29	56,984	75,166	75,576
	110,445	121,336	128,167
	359,204	392,693	403,012
Equity			
Share capital NOTE 24	218,381	206,775	204,151
Contributed surplus	16,391	18,144	17,277
Retained earnings	654,062	644,191	569,587
Non-controlling interest	7,473	-	-
Accumulated other comprehensive loss	(32,246)	(36,867)	-
	864,061	832,243	791,015
	$ 1,223,265	$ 1,224,936	$ 1,194,027

The accompanying notes are an integral part of these consolidated financial statements.

PAUL G. ROBINSON, DIRECTOR

VIRGINIA L. SHAW, DIRECTOR

Consolidated Statements of Income

For the year ended December 31: (in thousands of Canadian dollars, except per share amounts)	2011	2010
Sale of products	$ 332,242	$ 317,443
Rendering of services	825,023	716,720
Revenue	1,157,265	1,034,163
Cost of Goods Sold	734,730	623,641
Gross Profit	422,535	410,522
Selling, general and administrative expenses	269,241	219,084
Research and development expenses	13,119	11,050
Foreign exchange losses (gains)	1,338	(5,647)
Amortization of property, plant and equipment NOTE 11	41,906	45,077
Amortization of intangible assets NOTE 12	7,244	5,038
Impairment of property, plant & equipment NOTE 13	5,244	14,923
Impairment of intangible assets	–	958
Impairment of goodwill NOTE 16	–	208
Income from Operations	84,443	119,831
Accounting gain on acquisition	–	(13,181)
Loss on investment in associate NOTE 14	10,133	1,939
Finance costs, net	4,507	2,805
Income Before Income Taxes	69,803	128,268
Income taxes NOTE 29	13,120	33,196
Net Income	56,683	95,072
Net Income Attributable to:		
Shareholders of the Company	56,086	95,072
Non-controlling interests	597	–
Net Income	$ 56,683	$ 95,072
Earnings per Share		
Basic NOTE 28	$ 0.79	$ 1.35
Diluted NOTE 28	$ 0.78	$ 1.33
Weighted Average Number of Shares Outstanding (000s)		
Basic NOTE 28	70,725	70,566
Diluted NOTE 28	71,536	71,444

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the year ended December 31: (in thousands of Canadian dollars)	2011	2010
Net Income for the Year	**$ 56,683**	$ 95,072
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on translation of foreign operations	**8,724**	(38,072)
Gain on hedges of unrealized foreign currency translation	**603**	1,423
Gain on hedges of unrealized foreign currency translation transferred to net income during the period	**(1,833)**	(218)
Share of other comprehensive loss attributable to investment in associate	**(3,081)**	–
Income tax on other comprehensive income (loss)		
Gain on hedges of unrealized foreign currency translation	**(103)**	–
Gain on hedges of unrealized foreign currency translation transferred to net income during the period	**311**	–
Other Comprehensive Income (Loss) for the Year, Net of Income Tax	**4,621**	(36,867)
Comprehensive Income for the Year	**$ 61,304**	$ 58,205
Attributable to:		
Shareholders of the Company	**60,707**	58,205
Non-controlling interests	**597**	–

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2011 (in thousands of Canadian dollars)	Capital Stock	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance – January 1, 2010	**$ 204,151**	**$ 17,277**	**$ 569,587**	**$ –**	**$ –**	**$ 791,015**
Net income for the year	–	–	95,072	–	–	95,072
Issued on exercise of stock options	2,013	–	–	–	–	2,013
Compensation cost on exercised options	611	(611)	–	–	–	–
Stock-based compensation expense	–	1,478	–	–	–	1,478
Other comprehensive loss	–	–	–	–	(36,867)	(36,867)
Dividends paid	–	–	(20,468)	–	–	(20,468)
Balance – December 31, 2010	**$ 206,775**	**$ 18,144**	**$ 644,191**	**$ –**	**$ (36,867)**	**$ 832,243**
Net income for the year	–	–	56,086	597	–	56,683
Issued on exercise of stock options	9,878	–	–	–	–	9,878
Compensation cost on exercised options	4,122	(4,122)	–	–	–	–
Compensation cost on exercised RSUs	7	(7)	–	–	–	–
Stock-based compensation expense	–	2,376	–	–	–	2,376
Purchase – Normal Course Issuer Bid	(2,401)	–	–	–	–	(2,401)
Excess of purchase price over stated value of shares	–	–	(14,068)	–	–	(14,068)
Other comprehensive income	–	–	–	–	4,621	4,621
Adjustment for non-controlling interest	–	–	(10,217)	10,217	–	–
Non-cash dividends paid to non-controlling interest	–	–	–	(3,341)	–	(3,341)
Dividends paid NOTE 24	–	–	(21,930)	–	–	(21,930)
Balance – December 31, 2011	**$ 218,381**	**$ 16,391**	**$ 654,062**	**$ 7,473**	**$ (32,246)**	**$ 864,061**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow

For the year ended December 31 (in thousands of Canadian dollars)	2011	2010
OPERATING ACTIVITIES		
Net income for the year	$ 56,683	$ 95,072
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment NOTE 11	41,906	45,077
Amortization of intangible assets NOTE 12	7,244	5,038
Amortization of long-term prepaid expenses	754	4
Decommissioning obligations expense NOTE 18	425	1,096
Stock based and incentive based compensation NOTE 25	4,501	4,487
Other provisions expense NOTE 18	4,362	1,890
Deferred income taxes NOTE 29	(14,686)	(7,472)
Loss (gain) on disposal of property, plant and equipment	180	(1,100)
Loss on derivative financial instruments	2,444	708
Accretion expense on deferred purchase consideration NOTE 18	1,053	189
Accounting gain on acquisition	–	(13,181)
Loss on investment in associate NOTE 14	10,133	1,939
Impairment of property, plant and equipment NOTE 13	5,244	14,923
Impairment of intangible assets NOTE 12	–	958
Impairment of goodwill NOTE 16	–	208
Other	294	–
Settlement of decommissioning liability obligations NOTE 18	(1,074)	(3,218)
Settlement of other provisions NOTE 18	(2,240)	(2,027)
Net change in employee future benefits NOTES 18 AND 20	636	(3,637)
Net change in non-cash working capital and foreign exchange	(72,532)	(87,710)
Cash Provided by Operating Activities	45,327	53,244
INVESTING ACTIVITIES		
Purchases of property, plant and equipment NOTE 11	(55,982)	(48,723)
Proceeds on disposal of property, plant and equipment	745	3,420
Purchase of intangible assets NOTE 12	(392)	(302)
Acquisition of subsidiaries – net of cash acquired NOTE 6	(12,839)	(19,728)
Loan provided to associate NOTES 14 AND 15	(10,347)	–
(Increase) decrease in other assets	(6,096)	–
Investment in associate NOTE 14	(10,517)	(34,917)
Cash Used in Investing Activities	(95,428)	(100,250)
FINANCING ACTIVITIES		
Increase in bank indebtedness NOTE 19	12,281	–
Proceeds from loan NOTE 27	–	5,126
Repayments of obligations under finance lease	(416)	(179)
Repayment of long-term debt NOTE 19	(24,402)	(26,043)
Issuance of shares NOTE 24	9,878	2,013
Repurchase of treasury shares NOTE 24	(16,469)	–
Dividends paid to shareholders NOTE 24	(21,930)	(20,468)
Cash Used in Financing Activities	(41,058)	(39,551)
Effect of Foreign Exchange on Cash and Cash Equivalents	2,437	(7,433)
Net Decrease in Cash and Cash Equivalents for the Year	(88,722)	(93,990)
Cash and Cash Equivalents – Beginning of Year	155,998	249,988
Cash and Cash Equivalents – End of Year	$ 67,276	$ 155,998
Supplemental Information		
Cash interest paid	$ 5,531	$ 5,022
Cash interest received	1,024	1,455
Cash income taxes paid	$ 35,379	$ 38,892

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

NOTE 1
CORPORATE INFORMATION

ShawCor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. ShawCor Ltd., together with its wholly owned subsidiaries (collectively referred to as the "Company" or "ShawCor"), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates seven divisions with over 70 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 5.

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

NOTE 2
BASIS OF PREPARATION AND ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of The Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In these consolidated financial statements, the term "CGAAP" refers to Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board, applicable to the preparation of financial statements, including International Accounting Standard ("IAS") 1, *Presentation of Financial Statements*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Subject to certain transition elections disclosed in note 4, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's audited annual consolidated financial statements for the year ended December 31, 2010.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2011.

Basis of Presentation and Consolidation

The consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 3.

The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand, except when otherwise stated.

The consolidated financial statements comprise the financial statements of the Company and the entities under its control and the Company's proportionate share in joint ventures.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The results of the subsidiaries acquired during the period are included in the consolidated financial statements from the date of the acquisition. Adjustments are made, where necessary, to the financial statements of the subsidiaries and joint ventures to ensure consistency with those policies adopted by the Company. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2011 were authorized for issue by the company's Board of Directors on March 1, 2012.

NOTE 3
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with IFRS. The more significant accounting policies are as follows:

a) Business Combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. The costs of the acquisition transaction costs and any restructuring costs are charged to the consolidated statement of income in the period in which they are incurred.

For an acquisition achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The excess of the aggregate consideration transferred over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

b) Interest in Joint Ventures

The Company has interests in several jointly controlled entities ("joint ventures"), whereby joint control has been established by contractual agreements that establish joint control over the economic activities of the entity. The Company accounts for joint ventures using proportionate consolidation. As a result, the consolidated financial statements include the Company's proportionate share of the joint venture's assets and liabilities, income and expenses, and cash flows with items of a similar nature on a line by line basis, from the effective date that the joint control commenced, up to the date that joint control ceased. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

The Company recognizes the portion of gains or losses on the sale of assets by the Company to the joint venture that is attributable to the other venturers. The Company does not recognize its share of gains or losses from the joint venture that result from the Company's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

A listing of all jointly controlled entities is presented in note 27.

c) Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements of the company are presented in Canadian dollars, which is the parent company's presentation and functional currency.

Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign functional currencies are recognized in the consolidated statement of income, except when deferred in other comprehensive income (loss) as qualifying net investment hedges.

Translation of Foreign Operations

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- income and expenses for each income statement are translated at the average exchange rates prevailing at the dates of the transactions.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and

of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income (loss).

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in accumulated other comprehensive income (loss) are recognized in the consolidated statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

d) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Sale of Goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of Services

Revenue from pipe coating, inspection, repair and other services provided in respect of customer-owned property is recognized as services and are performed under specific contracts. Revenue on these contracts is recognized using the percentage of completion method based on a proportional performance basis using output as a measure of performance. Losses, if any, on these contracts are provided for in full at the time such losses are identified.

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

e) Cash and Cash Equivalents

Cash and cash equivalents consist of balances with banks and other short-term highly liquid investments with original maturity dates on acquisition of 90 days or less. The amounts presented in the consolidated financial statements approximate the fair value of cash and cash equivalents.

f) Inventories

Inventories are measured at the lower of cost or net realizable value. Cost is determined on a first-in, first-out ("FIFO") basis, except in certain project based pipe coating businesses where the average cost basis is employed, and includes direct materials, direct labour and variable and fixed manufacturing overheads. Net realizable value for finished goods, work-in-process and raw materials inventories required for production is the estimated amount that would be realized on eventual sale of completed products, less the estimated costs necessary to complete the sale, while for excess raw materials it is the current market price. Ownership of inbound inventories is recognized at the time title passes to the Company.

g) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost less accumulated amortization and accumulated impairment. Direct costs are included in the asset's carrying amount or recognized as a separate asset, such as borrowing costs for long-term construction projects and major inspections, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

All other repair and maintenance costs are recognized in the consolidated statement of income during the financial period in which they are incurred. The expected cost for the decommissioning and remediation of an asset is included in the cost of the respective asset if the recognition criteria are met.

Property, plant and equipment, other than land and project-related facilities and equipment, are amortized over their useful lives commencing when the asset is available for use on a straight-line basis at the following annual rates:

- 100% for land improvements;
- 4% to 10% on buildings;
- 5% to 50% on machinery and equipment; and
- Project-related facilities are amortized over the estimated project life.

An item of property, plant and equipment is derecognized when no further economic benefits are expected from its use or disposal. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds or the net recoverable amount, and the carrying value of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and methods of amortization are reviewed at the end of each reporting period and adjusted prospectively, if appropriate.

h) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

i) Deferred Costs

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

j) Intangible Assets

Intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the consolidated statement of income during the period in which they are incurred.

Intellectual Property and Intangible Assets with Limited Lives

Intellectual property and intangible assets with limited lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is recorded on a straight-line basis over their estimated useful lives of up to 15 years. The amortization period and the amortization method is reviewed at least at each year-end and adjusted prospectively if appropriate.

Intangible Assets with Indefinite Lives

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, or when there is an indication that the asset may be impaired either individually or at the Cash Generating Unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable; if not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognized in the consolidated statement of income when the asset is derecognized.

k) Impairment of Non-financial Assets

Assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment or when there is an indication that the asset may be impaired.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable Cash Generating Units ("CGU"). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment whenever indicators exist.

l) 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 at the date of acquisition.

Goodwill is deemed to have an indefinite life and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

m) Investments in Associates

The Company accounts for investments in which it has significant influence using the equity method and these investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee, after the date of acquisition.

n) Employee Future Benefits

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The fair value of plan assets is recorded and included in "other assets" on the consolidated balance sheet.

The defined benefit obligation is determined by independent actuaries using the projected benefit method pro-rated on service. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity matching the terms of the related pension obligation. Plan assets are valued at quoted market prices at the consolidated balance sheet date.

Past service costs arising from plan amendments are amortized on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, past service costs are recognized immediately in the consolidated statement of income following the introduction of, or changes to, a pension plan.

Net actuarial gains and losses that exceed 10% of the greater of the benefit obligation and the fair value of plan assets are amortized over the average remaining service lives of the employees who are members of the plan. These actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. For the Company's principal plans, these periods range from 5 years to 22 years.

For the Company's defined contribution plans, costs are determined based on the services provided by the Company's employees and are recognized in the consolidated statement of income as those services are provided.

o) Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases in which substantially all of the benefits and risks of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

p) Trade and Other Receivables

Impairment of trade and other receivables is constantly monitored. Impairments are based on observed customer solvency, the aging of trade and other receivables, historical values and customer specific and industry risks. External credit ratings as well as bank and trade references are reviewed when available.

q) Provisions

A provision is an accrued liability, legal or constructive, resulting from a past event with a high degree of uncertainty with respect to either the timing or amount. Provisions must be probable and should be measurable to be recognized, and are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance costs in the consolidated statement of income.

r) Financial Instruments

Financial assets include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in the consolidated statement of income. Interest income from financial assets at fair value through profit or loss is recognized in the consolidated statement of income as part of other income when the Company's right to receive payments is established.

Held-to-maturity financial assets, loans and receivables and other liabilities not held for trading are accounted for at amortized cost with related expenses charged to selling, general and administrative expenses in the consolidated statement of income.

Available-for-sale financial assets are those non-derivative financial assets that are so designated by the Company or do not fall into another category. Available-for-sale financial assets are carried on the consolidated balance sheet at fair value with gains or losses from changes in fair value in a period included in other comprehensive income (loss).

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss, or other liabilities. Financial liabilities classified as fair value through profit or loss include derivative financial instruments. Any changes in fair value are recognized through the consolidated statement of income.

Loans and borrowings are initially recorded at fair value less any directly attributable transaction costs. After initial recognition, other liabilities are subsequently measured at amortized cost using the effective interest rate method.

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

Balance sheet item	Designation
Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Income taxes receivable	Loans and receivables
Long-term notes receivable	Loans and receivables
Long-term loan to associate	Loans and receivables
Derivative financial instruments	Fair value through profit or loss
Bank indebtedness	Loans and borrowings
Loan payable	Loans and borrowings
Accounts payable and accrued liabilities	Loans and borrowings
Income taxes payable	Loans and borrowings
Deferred purchase consideration	Loans and borrowings
Other provisions	Loans and borrowings
Long-term debt	Loans and borrowings

Derivative Financial Instruments

The Company's policy is to document its risk management objectives and strategy for undertaking various derivative financial instrument transactions. Derivative financial instruments designated as effective net investment hedges are reflected in the consolidated balance sheet at fair value, with any gains or losses resulting from fair value changes included in other comprehensive income (loss) to the extent of hedge effectiveness. Derivative financial instruments not designated as part of a formal hedging relationship are carried at fair value in the consolidated balance sheet, with gains or losses resulting from changes in fair value in a period charged or credited to foreign exchange gains and losses on the consolidated statement of income.

Financial instruments measured at fair value are categorized into one of the following three hierarchy levels for disclosure purposes:

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

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

Derecognition

Financial assets are derecognized where the contractual rights to the receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and rewards associated with the asset. Financial liabilities are derecognized where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognized in the consolidated statement of income in the period in which it is incurred.

Impairment

Financial assets carried at amortized cost are assessed at each reporting date for any potential impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted using the original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and is recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statement of income.

Comprehensive Income

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

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is included in the consolidated balance sheet as a separate component of shareholders' equity, and includes other comprehensive income (loss) accumulated over the years.

s) Share-based and Other Incentive-based Compensation

The Company has various stock-based compensation plans. The Company recognizes compensation expense in respect of all of its stock-based compensation plans. The compensation expense is equal to the estimated fair value, based on an appropriate pricing model, of the incentive options, rights or units granted at the grant date, and is amortized over the vesting period of the incentive options, rights or units.

In accordance with IFRS, for each award of stock-based compensation that vests in installments, the fair value is determined on each installment as a separate award. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the Company revises its estimates of the number of options, rights or incentive units that are expected to vest based on the non-market vesting conditions.

For options, units or rights that are settled with equity, an amount equal to compensation expense is initially credited to contributed surplus and transferred to share capital if and when the option, unit or right is exercised. Options, units or rights that are settled with cash are classified as liability instruments in accordance with IFRS, as their terms require that they be settled in cash. Until the date of settlement, the liability associated with cash-settled options, units or rights is remeasured at the fair value at each reporting period, with any changes in the fair value recognized in the consolidated statement of income. Consideration received on the exercise of a stock option, right or unit is credited to share capital, when additional equity instruments are issued.

For cash-settled awards, the fair value is recalculated at each balance sheet date until the awards are settled based on the estimated number of awards that are expected to vest, adjusting for market and non-market based performance conditions. During the vesting period, a liability is recognized representing the portion of the vesting period that has expired at the balance sheet date multiplied by the fair value of the awards at that date. After vesting, the full fair value of the unsettled awards at each balance date is recognized as a liability. Movements in the liability are recognized in the consolidated statement of income. The fair value is recalculated using an option pricing model.

Awards where the employee has the right to choose whether a share-based transaction is settled in cash or by issuing equity, is accounted for as a compound financial instrument. The Company measures the fair value of the compound financial instrument as at the date of issue, taking into account the terms and conditions of the grant. Stock-based compensation awards that constitute compound financial instruments of the Company are classified as liability instruments on the consolidated balance sheet.

t) Research and Development Costs

In accordance with *IAS 38, Intangible Assets*, research and development expenditures are charged to the consolidated statement of income, except for development costs, which are capitalized as an intangible asset when the following criteria are met:

- the project is clearly defined and the costs are separately identified and reliably measured;
- the technical feasibility of the project is demonstrated;
- the project will generate future economic benefit;
- resources are available to complete the project; and
- the project is intended to be completed.

The intangible asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset commences when development has been completed and the asset is available for use. It is amortized over the period of expected future benefit, generally between three to ten years. During the period of development, the asset is tested for impairment annually. All other development costs are charged to the consolidated statement of income.

u) Income Taxes

Income tax expense for the period comprises current and deferred taxes. Tax is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income (loss).

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

The Company accounts for income taxes using the liability method. Under this method, deferred 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 enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Investment tax credits relating to the acquisition of assets are accounted for using the cost reduction approach, reducing the cost of the asset acquired or amortized into income over the useful life of the asset.

v) Transaction Costs

Transaction costs associated with financial assets carried at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

w) Earnings per Share (“EPS”)

Basic EPS is calculated using the weighted average number of shares outstanding during the period.

Diluted EPS is calculated using the treasury stock method for determining the dilutive effect of outstanding financial instruments issued under the Company’s various stock-based compensation plans. Under this method, the conversion of dilutive financial instruments and related issue of shares is assumed at the beginning of the period (or at the time of award, if later).

The proceeds from the conversion or exercise of dilutive financial instruments plus future period compensation expenses are assumed to be used to purchase common shares at the average market price during the period, and the incremental number of shares (the difference between the number of shares assumed issued and assumed purchased) is included in the denominator of the diluted EPS computation.

x) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Chief Executive Officer.

y) Use of Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

The Company evaluates the carrying values of the CGUs' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether writedowns of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions.

Future Benefit Obligations

The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, long-term rates of return on pension plan assets, rates of employee compensation increases, rates of inflation, and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

Provisions and Contingent Liabilities

Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

The Company is required to determine whether a loss is probable based on judgment and interpretation of laws and regulations and whether the loss can be reliably measured. When a loss is determined it is charged to the consolidated statement of income. The Company must continually monitor known and potential contingent matters and make appropriate provisions by charges to income when warranted by circumstances.

Decommissioning Liabilities

Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk free rate. A corresponding asset equal to the present value of the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the decommissioning liability and the related long-lived asset. The amount capitalized in property, plant and equipment is depreciated on a straight line basis over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statement of income.

Actual expenditures incurred are charged against the accumulated decommissioning liability.

Financial Instruments

The Company has determined the estimated fair values of its financial instruments not traded in an active market based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates, mainly based on market conditions existing at the end of each reporting period. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

Income Taxes

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

z) Accounting Standards Issued But Not Yet Applied

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models in *IAS 39, Financial Instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. *IFRS 9* also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss).

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in *IAS 39*, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income (loss).

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 Consolidated Financial Statements

For annual periods beginning on January 1, 2013, *IFRS 10, Consolidated Financial Statements*, will replace portions of *IAS 27 Consolidated and Separate Financial Statements* and interpretation *SIC-12 Consolidation – Special Purpose Entities*. The new standard requires consolidated financial statements to include all controlled entities under a single control model. The Company will be considered to control an investee when it is exposed, or has rights to variable returns from its involvement with the investee, and has the current ability to affect those returns through its power over the investee. As required by this standard, control is reassessed as facts and circumstances change. All facts and circumstances must be considered to make a judgment about whether the Company controls another entity. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights and principal-agency relationships (including removal rights), all of which may differ from current practice.

IFRS 10 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 11 Joint Arrangements

On January 1, 2013, ShawCor will be required to adopt *IFRS 11, Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting.

IFRS 11 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12 Disclosure of Interests in Other Entities

On January 1, 2013, ShawCor will be required to adopt *IFRS 12, Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. Due to this new standard, the Company will be required to disclose the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities, and nature of the risks associated with interests in other entities.

IFRS 12 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13 Fair Value Measurement

On January 1, 2013, ShawCor will be required to adopt *IFRS 13, Fair Value Measurement*. The new standard will generally converge the IFRS and U.S. Generally Accepted Accounting Principles requirements on how to measure fair value and the related disclosures. *IFRS 13* establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the Company will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities.

IFRS 13 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IAS 27 Separate Financial Statements

On January 1, 2013, ShawCor will be required to adopt *IAS 27, Separate Financial Statements*. As a result of the issue of the new consolidation suite of standards, *IAS 27* has been reissued to reflect the changes to the consolidation guidance recently included in *IFRS 10*.

In addition, *IAS 27* will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The Company has not yet assessed the impact of this new accounting standard.

IAS 28 Investments in Associates and Joint Ventures

On January 1, 2013, ShawCor will be required to adopt *IAS 28, Investments in Associates and Joint Ventures*. As a consequence of the issue of *IFRS 10*, *IFRS 11* and *IFRS 12*, *IAS 28* has been amended and will provide further accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not include control or joint control of those policy decisions. When it has been determined that the Company has an interest in a joint venture, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28*.

IAS 28 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

NOTE 4
FIRST-TIME ADOPTION OF IFRS

ShawCor adopted IFRS on January 1, 2011 with a date of transition to IFRS of January 1, 2010 (the “IFRS Transition Date”). In accordance with IFRS 1, IFRS is applied retrospectively at the transition date, with any adjustments to the assets and liabilities as a result of the adoption taken to retained earnings unless certain exemptions are applied.

The effect of the Company’s transition to IFRS, described in note 2, is summarized in this note as follows:

a) Adoption of IFRS

The adoption of IFRS requires the application of *IFRS 1*, which provides guidance for an entity’s initial adoption of IFRS. Generally speaking, IFRS requires that an entity apply IFRS effective at the end of its first IFRS reporting period on a retrospective basis, with any adjustments to the assets and liabilities as a result of the adoption taken to retained earnings. *IFRS 1* does, however, provide for certain mandatory exemptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the exemptions available under *IFRS 1* that are significant to ShawCor and have been applied in preparing the Company’s first financial statements under IFRS:

i) Property, Plant and Equipment

IFRS permits an entity to measure an item of property, plant and equipment at either cost or fair value. ShawCor has elected to retain the historical cost model for all assets. The Company has recalculated the associated historical accumulated depreciation of all fixed assets using a more detailed componentization analysis where applicable, and has reviewed their expected useful life, which in a number of cases was extended. This has caused the net book value of property, plant and equipment to increase.

ii) Employee Benefits

Under *IAS 19, Employee Benefits*, an entity may elect to use a ‘corridor’ approach that leaves some actuarial gains and losses unrecognized. Retrospective application of this approach requires the entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion. ShawCor has elected to recognize all cumulative actuarial gains and losses at the date of transition to IFRS through an adjustment to the opening retained earnings. This has resulted in an increase in the liability for employee benefits. The Company has elected to adopt the *IFRS 1* option to disclose the amounts required by *IAS 19* on a prospective basis.

iii) Cumulative Translation Account

IAS 21, The Effects of Changes in Foreign Exchange Rates, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. ShawCor has elected to deem all cumulative translation differences be zero on transition to IFRS as at January 1, 2010.

iv) Business Combinations

IFRS 1 allows a first time adopter to elect not to apply *IFRS 3, Business Combinations*, retrospectively to past business combinations that occurred before the date of transition to IFRS. The Company has elected to use the business combinations exemption in *IFRS 1* to not apply *IFRS 3* retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

As ShawCor early adopted *CICA Handbook Section 1582, Business Combinations*, on January 1, 2010, which was harmonized with *IFRS 3*, there are no IFRS adjustments required for 2010 for the accounting for business combinations completed in 2010.

v) Stock-based Compensation

ShawCor is required to apply *IFRS 2, Share-based Payments*, to equity instruments that vest after January 1, 2010. ShawCor has consistently used the method of recognizing stock-based compensation expense on a graded vesting schedule. Adopting IFRS has resulted in a $145 thousand additional expense due to the revaluation of compound financial instruments (Share Appreciation Rights "SAR") using the Black-Scholes model, compared to using the intrinsic value of liability under CGAAP.

vi) Borrowing Costs

ShawCor has elected not to capitalize any borrowing costs on a retrospective basis for qualifying assets acquired prior to January 1, 2010, the date of transition to IFRS.

vii) Decommissioning Liabilities

ShawCor has elected, in accordance with *IFRS 1*, to remeasure these liabilities as of the date of transition to IFRS in accordance with *IAS 37*, and has adjusted the asset cost and depreciable amount accordingly and will amortize the depreciable amount of the assets over the remaining useful lives.

b) IFRS 1 Guidelines

Under certain circumstances, a first time adopter must adhere to specific guidelines under *IFRS 1*. ShawCor Ltd. has applied the following guidelines to its opening IFRS statement of financial position as on January 1, 2010.

i) Goodwill

ShawCor is required to apply *IAS 36, Impairment of Assets*, on transition to IFRS on January 1, 2010. Under CGAAP, goodwill is tested for impairment by comparing the carrying value to the fair value at the reporting unit level. Impairment for goodwill under IFRS is tested at the CGU level. There was no impairment recognized on transition from CGAAP to IFRS, based on the testing carried out under IFRS at the CGU level (note 16).

ii) Estimates

In accordance with *IFRS 1*, an entity's estimates under IFRS at the date of transition from CGAAP to IFRS must be consistent with estimates made in accordance with CGAAP unless there is objective evidence that those estimates were in error. Estimates under IFRS are consistent with the CGAAP estimates.

c) Reconciliations Between CGAAP and IFRS

The impact of applying the above noted IFRS exemptions and the accounting policy differences between CGAAP and IFRS are summarized in the following tables and notes:

Reconciliation of the Balance Sheet Under CGAAP to IFRS at January 1, 2010

(in thousands of Canadian dollars)	Note	CGAAP December 31, 2009	IFRS FS Reclassification	Effect of Transition to IFRS	Restated under IFRS January 1, 2010
ASSETS					
Current Assets					
Cash and cash equivalents		$ 249,988	$ –	$ –	$ 249,988
Accounts receivable		191,821	–	–	191,821
Income taxes receivable		14,055	–	–	14,055
Inventories		109,379	–	–	109,379
Prepaid expenses		14,392	–	–	14,392
Derivative financial instruments		1,782	–	–	1,782
Current future income taxes	i	4,668	(4,668)	–	–
		586,085	(4,668)	–	581,417
Non-current Assets					
Property, plant and equipment	b, d, f	270,219	–	14,072	284,291
Intangible assets		62,784	–	–	62,784
Investment in associates		24	–	–	24
Derivative financial instruments		39	–	–	39
Deferred income taxes	e, i	36,249	4,668	498	41,415
Other assets		16,128	–	(6,520)	9,608
Goodwill		214,449	–	–	214,449
		599,892	4,668	8,050	612,610
Total Assets		$ 1,185,977	$ –	$ 8,050	$ 1,194,027
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	j, i	$ 127,932	$ (8,119)	$ –	$ 119,813
Provisions	d, i	–	8,874	971	9,845
Income taxes payable		42,971	–	–	42,971
Derivative financial instruments		510	–	–	510
Deferred revenue		75,100	–	–	75,100
Current portion of long-term debt		26,235	–	–	26,235
Obligations under finance lease		371	–	–	371
		273,119	755	971	274,845
Non-current Liabilities					
Long-term debt		26,052	–	–	26,052
Obligations under finance lease		492	–	–	492
Deferred income taxes	e	76,552	–	(976)	75,576
Long-term provisions	c, d, i	–	18,585	7,462	26,047
Other non-current liabilities	i	19,340	(19,340)	–	–
		122,436	(755)	6,486	128,167
Total Liabilities		395,555	–	7,457	403,012
SHAREHOLDERS' EQUITY					
Share capital		204,151	–	–	204,151
Contributed surplus		17,277	–	–	17,277
Retained earnings	a	695,800	–	(126,213)	569,587
Accumulated other comprehensive loss	a	(126,806)	–	126,806	–
		790,422	–	593	791,015
Total Liabilities and Shareholders' Equity		$ 1,185,977	$ –	$ 8,050	$ 1,194,027

Reconciliation of the Balance Sheet Under CGAAP to IFRS at December 31, 2010

(in thousands of Canadian dollars)	Note	CGAAP December 31, 2010	IFRS FS Reclassification	Effect of Transition to IFRS	Restated under IFRS December 31, 2010
ASSETS					
Current Assets					
Cash and cash equivalents		$ 155,998	$ –	$ –	$ 155,998
Accounts receivable		243,955	–	–	243,955
Income taxes receivable		13,823	–	–	13,823
Inventories		126,132	–	–	126,132
Prepaid expenses		14,171	–	–	14,171
Derivative financial instruments		1,130	–	–	1,130
Current future income taxes	i	4,590	(4,590)	–	–
		559,799	(4,590)	–	555,209
Non-current Assets					
Property, plant and equipment	b, d, f	283,286	–	4,411	287,697
Intangible assets		91,353	–	–	91,353
Long-term investment		31,995	–	–	31,995
Deferred income taxes	e, i	29,035	4,590	(70)	33,555
Other assets		15,622	–	(5,699)	9,923
Goodwill		215,204	–	–	215,204
		666,495	4,590	(1,358)	669,727
Total Assets		$ 1,226,294	$ –	$ (1,358)	$ 1,224,936
LIABILITIES					
Current Liabilities					
Loan payable		$ 5,126	$ –	$ –	$ 5,126
Accounts payable and accrued liabilities	j, i	137,669	(4,926)	–	132,743
Provisions	d, i	–	5,595	2,297	7,892
Income taxes payable		44,968	–	–	44,968
Derivative financial instruments		527	–	–	527
Deferred revenue		54,751	–	–	54,751
Current portion of long-term debt		25,005	–	–	25,005
Finance lease obligation		345	–	–	345
		268,391	669	2,297	271,357
Non-current Liabilities					
Long-term finance lease obligation		339	–	–	339
Derivative financial instruments		807	–	–	807
Deferred income taxes	e	78,516	–	(3,349)	75,167
Long-term provisions	c, d, i	–	39,709	5,314	45,023
Other non-current liabilities	i	40,378	(40,378)	–	–
		120,040	(669)	1,965	121,336
Total Liabilities		388,431	–	4,262	392,693
SHAREHOLDERS' EQUITY					
Share capital		206,775	–	–	206,775
Contributed surplus		18,144	–	–	18,144
Retained earnings	a	775,924	–	(131,733)	644,191
Accumulated other comprehensive loss	a	(162,980)	–	126,113	(36,867)
Total Shareholders' Equity		837,863	–	(5,620)	832,243
Total Liabilities and Shareholders' Equity		$ 1,226,294	$ –	$ (1,358)	$ 1,224,936

Reconciliation of the Statement of Income and Comprehensive Income Under CGAAP to IFRS for the Year Ended December 31, 2010

(in thousands of Canadian dollars)	Note	CGAAP December 31, 2010	Effect of Transition to IFRS	Restated under IFRS December 31, 2010
CONSOLIDATED STATEMENT OF INCOME				
Revenue		$ 1,034,163	$ –	$ 1,034,163
Cost of Goods Sold		623,641	–	623,641
Gross Profit		410,522	–	410,522
Selling, general and administrative expenses	h, j	221,648	(2,564)	219,084
Research and development expenses		11,050	–	11,050
Foreign exchange (gains) losses	g	(5,745)	98	(5,647)
Amortization of property, plant and equipment	f	50,376	(5,299)	45,077
Amortization of intangible assets		5,038	–	5,038
Impairment of property, plant & equipment	b	–	14,923	14,923
Impairment of intangible assets		958	–	958
Impairment of goodwill		208	–	208
Income from Operations		126,989	(7,158)	119,831
Gain on revaluation of investment		13,181	–	13,181
Investment loss on long-term investment		(1,939)	–	(1,939)
Interest income on short-term deposits		1,455	–	1,455
Interest expense, other	i	(1,631)	(302)	(1,933)
Interest expense on long-term debt		(2,327)	–	(2,327)
Income Before Income Taxes		135,728	(7,460)	128,268
Income Taxes	e	35,136	(1,940)	33,196
Net Income		$ 100,592	$ (5,520)	$ 95,072
Earnings per Share				
Basic		$ 1.43		$ 1.35
Diluted		$ 1.41		$ 1.33
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Net Income		$ 100,592	$ (5,520)	$ 95,072
Unrealized loss on translating financial statements of foreign operations		(37,379)	(693)	(38,072)
Gain on hedges of unrealized foreign currency translation		1,423	–	1,423
Income tax expense		(218)	–	(218)
Other comprehensive loss for the period		(36,174)	(693)	(36,867)
Comprehensive Income		$ 64,418	$ (6,213)	$ 58,205

(in thousands of Canadian dollars)	Note	December 31 2010	January 1 2010
RECONCILIATION OF SHAREHOLDERS' EQUITY			
Shareholders' Equity in Accordance with CGAAP		$ 837,863	$ 790,422
Property, plant and equipment	b, f	30,462	25,977
Impairment of property, plant, and equipment	b, e	(27,087)	(14,275)
Employee future benefits	c, e	(8,170)	(10,547)
Effects of change in FX rates	g	(931)	(396)
Provisions		210	222
Decommissioning of liabilities	d	41	(388)
Share-based compensation	j	(145)	–
Shareholders' Equity in Accordance with IFRS		$ 832,243	$ 791,015

Notes to the Reconciliations

a) Cumulative Translation Account

IAS 21, The Effects of Changes in Foreign Exchange Rates, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. ShawCor has made the election to deem all cumulative translation differences be reset to zero on transition to IFRS as on January 1, 2010. Consequently, the Company has transferred a deficit of $126.8 million to retained earnings from the cumulative translation adjustment account.

b) Property, Plant and Equipment

The adjustment to property, plant and equipment at the January 1, 2010 transition date is a net increase of $14.1 million to the Net Book Value ("NBV"). NBV increased by $28.4 million due to the impact of componentization of property, plant and equipment and revision in the estimated useful life as required by IAS 16. This increase was partly offset by a combined asset impairment loss of $14.3 million recognized on certain Pipeline and Pipe Services segment fixed assets.

Under IFRS, impairment testing is performed by comparing the carrying amount to the recoverable amount, calculated using the value in use method, which uses a risk adjusted pre-tax rate to discount cash flows (i.e. a higher rate than under CGAAP) to their net present value. Under CGAAP, there is a two step process:

i) Reasonability test using the sum of the undiscounted cash flows and comparing them to the carrying value, and if the test fails

ii) The amount of impairment is calculated using a risk adjusted post-tax rate to discount the cash flows (i.e. a lower rate than under IFRS) to their net present value.

Under CGAAP, no impairment existed on the above assets as of December 31, 2010 and 2009.

ShawCor recognized an additional impairment at December 31, 2010 on these fixed assets under IFRS in the amount of $14.9 million. The impairment recognized has been expensed in the statement of income for the year ended December 31, 2010 (note 13).

c) Employee Benefits

Under IFRS, the $14.4 million adjustment as at the IFRS Transition Date resulted from ShawCor's election to use the IFRS 1 exemption and adopt IAS 19 on a prospective basis. This 'fresh start or prospective approach' allows that any unrecognized actuarial gains and losses as at the IFRS Transition Date for all plans be immediately recognized through an adjustment to the opening retained earnings and an increase to the defined employee future benefit liability.

For the year ended December 31, 2010, the expense for defined employee future benefits under IFRS was $3.3 million lower than that under CGAAP due to the application of IFRIC 14 and IAS 19 on a prospective basis.

d) Decommissioning Liabilities

As at the IFRS Transition Date, the decommissioning obligation liability increased by $1.1 million on transition to IFRS due to the use of country specific risk free rates under IFRS, as opposed to the use of country specific risk-adjusted discount rates under CGAAP. The use of lower discount rates also resulted in the calculation of higher decommissioning liability balances throughout 2010 under IFRS, which resulted in an IFRS transitional adjustment to the property, plant and equipment account (relating to decommissioning costs) in the amount of $1.6 million as at December 31, 2010.

e) Deferred Income Tax Effect

These are the required deferred tax effects related to the various IFRS adjustments (i.e. property, plant and equipment; employee future benefits; decommissioning liabilities etc.).

f) Amortization of Property, Plant and Equipment

The 2010 income statement adjustment was due to the recalculation of depreciation expense of all fixed assets due to the application of a more detailed componentization analysis including their expected useful lives, which in a number of cases was extended. This resulted in a decrease in the amortization cost under IFRS versus CGAAP of $5.1 million for the year ended December 31, 2010.

g) Foreign Exchange

Foreign exchange gains decreased by $0.1 million for the twelve months ended December 31, 2010 primarily due to the change in the translation method for certain entities from the Temporal Method under CGAAP to the Current Rate Method under IFRS.

h) Selling, General and Administration Expense

The selling, general and administrative expense for the year ended December 31, 2010 has decreased by $2.5 million under IFRS versus CGAAP, because of lower defined employee future benefits expense under IFRS of $3.3 million due to the application of IFRIC 14 on transition to IFRS and the application of IAS 19 on a prospective basis, which was partly offset by higher decommissioning liabilities expense of $0.5 million.

i) Account Reclassification
Certain accounts were reclassified for financial statement presentation purposes including deferred tax assets from current to non-current reflecting the adoption of IAS 12 and the requirements for provisions to be presented separately by IAS 37.

j) Stock-based Compensation
Adopting IFRS has resulted in a $145 thousand additional expense due to revaluing liability settled instruments (Share Appreciation Rights "SAR") using the Black-Scholes model, compared to using the intrinsic value of liability under CGAAP.

k) Adjustment to the Consolidated Statement of Cash Flows
The changes to the consolidated statement of income and consolidated balance sheet have resulted in various reclassifications on the consolidated statement of cash flows; however, there were no material changes to the net cash flows. As a result, no reconciliations have been presented.

NOTE 5
SEGMENT INFORMATION

ShawCor's operating segments are being reported based on the financial information provided to the Chief Executive Officer, who has been identified as the chief operating decision-maker ("CODM") in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on segment operating income or loss, which is measured differently than operating income or loss in the consolidated financial statements. Interest income, finance costs and income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at December 31, 2011, the Company had two reportable operating segments: Pipeline and Pipe Services and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices.

a) Pipeline and Pipe Services
The Pipeline and Pipe Services segment comprises the following business units:

- Bredero Shaw, which provides pipe coating, lining and insulation products;
- Flexpipe Systems, which provides spoolable composite pipe systems;
- Canusa–CPS, which manufactures heat-shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications;
- Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction; and
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular.

b) Petrochemical and Industrial
The Petrochemical and Industrial segment comprises the following business units:

- ShawFlex, which manufactures wire and cable for process instrumentation and control applications; and
- DSG-Canusa, which manufactures heat-shrinkable tubing for automotive, electrical, electronic and utility applications.

c) Financial and Corporate
The financial and corporate division for ShawCor only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined in IFRS.

Segment Information

The following table sets forth information by segment for the years ended December 31:

(in thousands of Canadian dollars)	Pipeline and pipe services		Petrochemical and industrial		Financial and corporate		Eliminations and adjustments		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenue										
External	$ 1,021,099	$ 920,157	$ 138,080	$ 115,783	$ –	$ –	$ (1,914)	$ (1,777)	$ 1,157,265	$ 1,034,163
Inter-segment	4,617	2,547	216	88	–	–	(4,833)	(2,635)	–	–
	1,025,716	922,704	138,296	115,871	–	–	(6,747)	(4,412)	1,157,265	1,034,163
Operating expense	867,981	720,951	116,534	98,298	27,541	22,241	(6,747)	(4,412)	1,005,309	837,078
Research and development	10,220	8,073	1,285	1,259	1,614	1,718	–	–	13,119	11,050
Amortization of property, plant and equipment	38,045	40,916	2,235	2,734	1,626	1,427	–		41,906	45,077
Amortization of intangible assets	7,244	5,038	–	–	–	–	–		7,244	5,038
Impairment of property, plant and equipment	5,244	14,923	–	–	–	–	–		5,244	14,923
Impairment of intangible assets	–	958	–	–	–	–	–		–	958
Impairment of goodwill	–	208	–	–	–	–	–		–	208
Income (loss) from operations	$ 96,982	$ 131,637	$ 18,242	$ 13,580	$ (30,781)	$ (25,386)	$ –	$ –	$ 84,443	$ 119,831
Gain on revaluation of investment	–	13,181	–	–	–	–	–	–	–	13,181
Loss on investment in associate	–	–	–	–	(10,133)	(1,939)	–	–	(10,133)	(1,939)
Interest income	–	–	–	–	1,024	1,455	–	–	1,024	1,455
Interest expense	–	–	–	–	(5,531)	(4,260)	–	–	(5,531)	(4,260)
Income tax expense	–	–	–	–	(13,120)	(33,196)	–	–	(13,120)	(33,196)
Goodwill	204,718	199,552	15,616	15,652	–	–	–	–	220,334	215,204
Total assets	1,043,722	1,050,281	75,218	102,505	812,480	931,585	(708,155)	(859,435)	1,223,265	1,224,936
Total liabilities	285,930	298,178	20,148	12,547	18,963	72,639	34,163	9,329	359,204	392,693
Additions to property, plant and equipment, net of disposals	$ 50,096	$ 43,204	$ 2,975	$ 2,995	$ 1,986	$ 204	$ –	$ –	$ 55,057	$ 46,403

Geographical Information

The following table sets forth information by geographical region for the years ended December 31, the geographic region is determined by the country or location of operation.

	2011						
(in thousands of Canadian dollars)	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	Total
Revenue							
External	$ 419,856	$ 208,788	$ 38,499	$ 296,122	$ 195,915	$ (1,915)	$ 1,157,265
Inter-segment	4,010	2,223	98	416	–	(6,747)	–
	423,866	211,011	38,597	296,538	195,915	(8,662)	1,157,265
Non-current assets[a]	$ 910,464	$ 198,814	$ 77,809	$ 120,395	$ 91,589	$ (706,413)	$ 692,658

	2010						
	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	Total
Revenue							
External	$ 317,881	$ 158,794	$ 56,400	$ 234,770	$ 268,095	$ (1,777)	$ 1,034,163
Inter-segment	3,040	1,141	–	233	–	(4,414)	–
	320,921	159,935	56,400	235,003	268,095	(6,191)	1,034,163
Non-current assets[a]	$ 899,834	$ 331,293	$ 94,701	$ 123,706	$ 79,627	$ (859,434)	$ 669,727

(a) Excluding financial instruments, deferred tax assets and post-employment benefits.

NOTE 6
ACQUISITION

On April 6, 2011, the Company acquired certain of the coating assets and business of Altus Energy Services Partnership, Altus Energy Services Ltd. and Nusco Northern Manufacturing Ltd. for $12.8 million. The assets purchased constitute a business as defined by IFRS 3, *Business Combinations*.

The coating business, formerly known as CSI, and now known as ShawCor CSI ("CSI"), provides shop applied coatings at its modern facility in Nisku, Alberta and provides field coating services throughout Western Canada.

The acquisition of the CSI assets will allow the Bredero Shaw division to supply a broad range of internal and external custom coating solutions that are complementary to its current range of anticorrosion, flow efficiency and insulation coatings for oil and gas gathering and transmission lines. This acquisition will also allow Bredero Shaw to provide a full range of custom coating solutions for the oil sands and for pipeline rehabilitation applications.

The following table shows the purchase price allocation for the acquisition of CSI, and assigns the total consideration paid to the net assets acquired:

(in thousands of Canadian dollars)	
Current assets (excluding cash)	$ 339
Property, plant and equipment	6,150
Intangible assets	4,543
Goodwill	1,880
Current liabilities assumed	(73)
Net assets acquired, at fair value	$ 12,839
Consideration:	
Cash	$ 12,839

The goodwill acquired represents the acquired assembled workforce and the benefits that the Company expects to earn from the acquisition due to expected synergies and other intangible assets that do not meet the criteria for recognition as identifiable intangible assets.

NOTE 7
EMPLOYEE BENEFITS EXPENSE

The following table sets forth the Company's employee benefits expense for the periods indicated:

(in thousands of Canadian dollars)	2011	2010
Salaries, wages and employee benefits	$ 344,949	$ 299,486
Pension	11,275	6,260
Share-based and other incentive-based compensation NOTE 25	4,501	4,487
Total	$ 360,725	$ 310,233

NOTE 8
CASH AND CASH EQUIVALENTS

The following table sets forth the Company's cash and cash equivalents as at the periods indicated:

(in thousands of Canadian Dollars)	December 31 2011	December 31 2010	January 1 2010
Cash	$ 56,705	$ 59,601	$ 93,011
Cash equivalents	10,571	96,397	156,977
	$ 67,276	$ 155,998	$ 249,988

NOTE 9
ACCOUNTS RECEIVABLE

The following table sets forth the Company's trade and other receivables as at the periods indicated:

(in thousands of Canadian Dollars)	December 31 2011	December 31 2010	January 1 2010
Trade accounts receivables	$ 268,119	$ 225,513	$ 181,505
Allowance for doubtful accounts NOTE 21	(13,967)	(3,775)	(5,353)
Other	25,172	22,217	15,669
	$ 279,324	$ 243,955	$ 191,821

The following tables sets forth the aging of the Company's trade accounts receivable as at the periods indicated:

(in thousands of Canadian Dollars)	December 31 2011	December 31 2010	January 1 2010
Current	$ 157,142	$ 79,549	$ 117,474
Past due 1 to 30 days	44,423	79,610	28,994
Past due 31 to 60 days	28,968	31,160	10,850
Past due 61 to 90 days	13,596	11,392	7,795
Past due for more than 90 days	23,990	23,802	16,392
Total trade accounts receivable	268,119	225,513	181,505
Less: allowance for doubtful accounts	13,967	3,775	5,353
Trade accounts receivable – net[(a)]	$ 254,152	$ 221,738	$ 176,152

(a) The trade accounts receivable – net balance above excludes other receivables outstanding in the amount of $25,172, $22,217 and $15,669 as at December 31, 2011, December 31, 2010 and January 1, 2010, respectively.

NOTE 10
INVENTORIES

The following table sets forth the Company's inventories as at the periods indicated:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Raw materials and supplies	$ 98,688	$ 93,519	$ 74,510
Work-in-progress	14,493	5,253	3,750
Finished goods	43,992	36,071	40,519
Inventory obsolescence	(10,387)	(8,711)	(9,400)
	$ 146,786	$ 126,132	$ 109,379

During the year 2011, the Company recorded an increase of $2.2 million in the provision for inventory obsolescence, due to the build up of certain excess raw materials.

During the year 2010, the Company recorded a recovery of $2.4 million from the provision for inventory obsolescence, due to certain excess raw materials being allocated to new projects.

NOTE 11
PROPERTY, PLANT AND EQUIPMENT

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

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-In-progress	Total
Cost					
Balance – January 1, 2010	$ 47,907	$ 154,419	$ 536,257	$ 4,918	$ 743,501
Exchange differences	(1,697)	(10,282)	25	721	(11,233)
Additions	393	6,563	29,211	12,556	48,723
Acquisitions	229	2,692	10,758	–	13,679
Decommissioning liabilities and other	–	–	5,798	–	5,798
Disposals	(7,897)	(21,896)	(44,780)	–	(74,573)
Balance – December 31, 2010	$ 38,935	$ 131,496	$ 537,269	$ 18,195	$ 725,895
Exchange differences	**1,465**	**235**	**(6,547)**	**(2,804)**	**(7,651)**
Additions	**13**	**6,336**	**45,642**	**3,991**	**55,982**
Acquisitions	**–**	**–**	**6,150**	**–**	**6,150**
Decommissioning liabilities and other	**–**	**–**	**2,026**	**–**	**2,026**
Disposals	**(703)**	**(1,988)**	**(13,075)**	**(46)**	**(15,812)**
Balance – December 31, 2011	**$ 39,710**	**$ 136,079**	**$ 571,465**	**$ 19,336**	**$ 766,590**
Accumulated Amortization					
Balance – January 1, 2010	$ (22,792)	$ (87,883)	$ (344,260)	$ –	$ (444,935)
Exchange differences	2,366	1,101	5,499	–	8,966
Amortization expense	778	(8,280)	(36,063)	–	(43,565)
Decommissioning liabilities and other	–	–	(1,512)	–	(1,512)
Eliminated on disposal	7,897	21,884	42,131	–	71,912
Balance – December 31, 2010	$ (11,751)	$ (73,178)	$ (324,205)	$ –	$ (409,134)
Exchange differences	**947**	**2,915**	**1,697**	**–**	**5,559**
Amortization expense	**(2,334)**	**(7,925)**	**(28,055)**	**–**	**(38,314)**
Decommissioning liabilities and other	**–**	**–**	**(3,592)**	**–**	**(3,592)**
Eliminated on disposal	**569**	**1,494**	**8,701**	**–**	**10,764**
Balance – December 31, 2011	**$ (12,569)**	**$ (76,694)**	**$ (345,454)**	**$ –**	**$ (434,717)**
Accumulated Impairment					
Balance – January 1, 2010	$ (1,105)	$ (3,312)	$ (9,858)	$ –	$ (14,275)
Exchange differences	1	(3)	136	–	134
Impairment	(1,390)	(3,011)	(10,522)	–	(14,923)
Decommissioning liabilities and other	–	–	–	–	–
Eliminated on disposal	–	–	–	–	–
Balance – December 31, 2010	$ (2,494)	$ (6,326)	$ (20,244)	$ –	$ (29,064)
Exchange differences	**8**	**87**	**1,458**	**–**	**1,553**
Impairment	**–**	**(659)**	**(4,585)**	**–**	**(5,244)**
Decommissioning liabilities and other	**–**	**–**	**–**	**–**	**–**
Eliminated on disposal	**–**	**–**	**–**	**–**	**–**
Balance – December 31, 2011	**$ (2,486)**	**$ (6,898)**	**$ (23,371)**	**$ –**	**$ (32,755)**
Net book value					
As at January 1, 2010	$ 24,010	$ 63,224	$ 192,139	$ 4,918	$ 284,291
As at December 31, 2010	$ 24,690	$ 51,992	$ 192,820	$ 18,195	$ 287,697
As at December 31, 2011	**$ 24,655**	**$ 52,487**	**$ 202,640**	**$ 19,336**	**$ 299,118**

NOTE 12
INTANGIBLE ASSETS

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

(in thousands of Canadian dollars)	Intellectual Property, with Limited Life[(a)]	Intangible Assets, with Limited Life[(b)]	Intangible Assets, with Indefinite Life[(c)]	Total
Cost				
Balance – January 1, 2010	$ 57,576	$ 9,547	$ 1,931	$ 69,054
Additions	–	306	–	306
Acquisition of a subsidiary	7,428	26,991	–	34,419
Balance – December 31, 2010	$ 65,004	$ 36,844	$ 1,931	$ 103,779
Exchange differences	(665)	(2,411)	–	(3,076)
Additions	351	41	–	392
Acquisition of a subsidiary	–	3,868	675	4,543
Disposals and write-offs	(227)	(400)	(331)	(958)
Balance – December 31, 2011	**$ 64,463**	**$ 37,942**	**$ 2,275**	**$ 104,680**
Accumulated Amortization				
Balance – January 1, 2010	$ (5,407)	$ (863)	$ –	$ (6,270)
Foreign exchange	–	(160)	–	(160)
Amortization	(4,091)	(947)	–	(5,038)
Balance – December 31, 2010	$ (9,498)	$ (1,970)	$ –	$ (11,468)
Exchange differences	(599)	993	–	394
Amortization	(3,731)	(3,513)	–	(7,244)
Balance – December 31, 2011	**$ (13,828)**	**$ (4,490)**	**$ –**	**$ (18,318)**
Accumulated Impairment				
Balance – January 1, 2010	$ –	$ –	$ –	$ –
Impairment	(227)	(400)	(331)	(958)
Balance – December 31, 2010	$ (227)	$ (400)	$ (331)	$ (958)
Disposals and write-offs	227	400	331	958
Balance – December 31, 2011	**$ –**	**$ –**	**$ –**	**$ –**
Net book value				
As at January 1, 2010	$ 52,169	$ 8,684	$ 1,931	$ 62,784
As at December 31, 2010	$ 55,279	$ 34,474	$ 1,600	$ 91,353
As at December 31, 2011	**$ 50,635**	**$ 33,452**	**$ 2,275**	**$ 86,362**

(a) Intellectual property, with limited life, represents the cost of certain technology and know-how and patents obtained in acquisitions. The Company amortizes the cost of intellectual property over its estimated useful life of 15 years.

(b) Intangible assets, with limited life, represents trademarks, customer relationships and non-competition agreements acquired directly or in conjunction with a past business combination. The Company amortizes the cost of intangible assets with limited life over its estimated useful life of 15 years. The net book value of customer relationship as at December 31, 2011 is $32.9 million, and is included in intangible assets with limited life in the table above.

(c) Intangible assets, with indefinite life, represent the value of brands obtained in the Flexpipe acquisition. As the cost of intangible assets with indefinite life is not amortized, the Company assesses these intangible assets for impairment on an annual basis.

NOTE 13
IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

During fiscal 2011, qualitative factors such as line reductions, reduced levels of drilling activity, project outlook in certain regions and low capacity utilization coupled with the lingering impact of the financial crisis of 2008 had an impact on some CGUs of the Company, which were dependent on a few major projects that were coming close to completion. More specifically, indications were that two production plants in the Company's Bredero Shaw group of CGUs may be impaired.

These two production plants are located in Leith, Scotland and Kembla Grange, Australia. In Leith, the existing facility lease is not likely to be renewed upon expiration and therefore the Company expects to close the facility in 2013. In Kembla Grange, Australia, the project outlook for 2012 and beyond is not encouraging and the Company has decided to close the facility by the third quarter of 2012. In Sharjah, U.A.E., the Company has been awarded a major contract and the outlook for the next 5 years has improved. Consequently, there is a reversal of previously recorded impairment. Each one of these production plants is a separate CGU in the Pipeline and Pipe services segment.

(in thousands of Canadian dollars)	Camrose, Alberta, Canada	Portland, Oregon, USA	Sharjah, U.A.E.	Total
January 1, 2010				
Land and land improvements	$ 1,105	$ –	$ –	$ 1,105
Buildings	3,312	–	–	3,312
Plant, machinery, and equipment	8,420	1,438	–	9,858
Impairment charge	$ 12,837	$ 1,438	$ –	$ 14,275
December 31, 2010				
Land and land improvements	$ 1,390	$ –	$ –	$ 1,390
Buildings	3,011	–	–	3,011
Plant, machinery, and equipment	8,494	700	1,328	10,522
Impairment charge	$ 12,895	$ 700	$ 1,328	$ 14,923

	Leith, Scotland	Kembla Grange Australia	Sharjah, U.A.E.	Total
December 31, 2011				
Land and land improvements	$ –	$ –	$ –	$ –
Buildings	218	461	–	679
Plant, machinery, and equipment	1,831	3,491	(757)	4,565
Impairment charge	$ 2,049	$ 3,952	$ (757)	$ 5,244

Recoverable Amount

The Company determines the recoverable amount for its CGUs as the higher of Value In Use ("VIU") and the CGUs Fair Value Less Costs to Sell ("FVLCS"). For the property, plant and equipment impairment test, the VIU of each of the CGUs (except for Kembla Grange, Australia) was higher than the CGUs FVLCS. The Company determines the recoverable amount for its CGUs using the VIU model for the purpose of testing property, plant and equipment for impairment. VIU calculations use pre-tax cash flow projections based on three-year financial business plans ("Business Plans") approved by the Board of Directors. Management also determined budgeted gross margin based on past performance and its expectations of market developments. Cash flows beyond the three-year period are extrapolated using estimated growth rates as applicable. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The VIU is determined by discounting the future cash flows generated from the Company's continuing use of the respective CGU. The discount rates used are pre-tax and reflect specific risks relating to the CGU. The discounted cash flow model employed by the Company reflects the specific risks of each CGU and its business environment. The model calculates the VIU as the present value of the projected free cash flows and the terminal value of each CGU. To ensure the reasonability of the VIU estimate, the VIU calculation for each CGU was compared to the CGUs FVLCS amount.

Details relating to the discounted cash flow models used in the impairment tests of the property, plant and equipment balances are as follows:

	Camrose, Alberta, Canada	Portland, Oregon, USA	Sharjah, U.A.E.
January 1, 2010			
Valuation basis	Value-in-use	Value-in-use	Value-in-use
Period of specific projected cash flows	5 years	5 years	5 years
Discount rate	18.6%	24.5%	17.2%
Growth rate	0.0%	(a)	(a)
December 31, 2010			
Valuation basis	Value-in-use	Value-in-use	Value-in-use
Period of specific projected cash flows	5 years	5 years	3 years
Discount rate	19.1%	24.1%	17.8%
Growth rate	0.0%	(a)	(a)

	Leith, Scotland	Kembla Grange Australia	Sharjah, U.A.E.
December 31, 2011			
Valuation basis	Value-in-use	FVLCS	Value-in-use
Period of specific projected cash flows	2 years	1 year	3 years
Discount rate	20.1%	–	17.8%
Growth rate	0.0%	n/a	(a)

(a) The property, plant and equipment at the Portland CGU and the Sharjah CGU were assumed to have been redeployed to other sites of the Company at the end of forecast period. The terminal values for the redeployed assets were estimated as the amount that other divisions would be expected to pay for these redeployed assets; as a result, no terminal growth rates were applied at these CGUs.

NOTE 14
INVESTMENT IN ASSOCIATE

The following table sets forth the Company's long-term investment as at December 31:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Investment in company subject to significant influence	**$ 30,095**	$ 31,971	$ –
Other long-term investment classified as available for sale	**–**	24	24
	$ 30,095	$ 31,995	$ 24

Investment in Company Subject to Significant Influence – Fineglade Limited (Ireland)

On July 2, 2010, the Company made an equity investment in Fineglade Limited (Ireland) ("Fineglade") in the amount of US$24.7 million (CDN$25.7 million at the then current exchange rate) to form an investor group with two private equity firms, 4D Global Energy Advisors of Paris, France, and Sophia Capital of Buenos Aires, Argentina, with the Company holding a 40% interest in the investor group. Fineglade was formed to complete a share capital investment in Socotherm S.p.A ("Socotherm") and has resulted in Fineglade attaining a 95% ownership interest in Socotherm. The Company also entered into a shareholders' agreement with the other shareholders of Fineglade that provides the Company with significant influence over the strategic operating, investing and financing activities of Fineglade, without having joint control.

During the fourth quarter of 2010, the Company made an incremental investment in Fineglade of US$5.1 million ($5.2 million at the then current exchange rate) as its pro rata share of a secured bridge loan provided by Fineglade to Socotherm, and a further investment in Socotherm of US$3.3 million ($3.4 million at the then current exchange rate) to discharge additional liabilities. On October 29, 2010, the court of Vicenza issued a homologation decree that approved the share capital investment, and the acquisition between the investor group and Socotherm was subsequently completed.

During the year ended December 31, 2011, the Company invested an additional US$10.7 million ($10.5 million at the then current exchange rate) in Fineglade as its pro rata share of a potential future capital increase by Fineglade in Socotherm. For the year ended December 31, 2011, the Company incurred an investment loss on its investment in Fineglade in the amount of $10.1 million. In addition, the Company recorded its pro-rata share of the associate's other comprehensive loss in the amount of $3.1 million for the year ended December 31, 2011.

In connection with the investment in Fineglade, the Company also entered into a financial instruments agreement that may result in the Company increasing its ownership in Fineglade after January 1, 2013. The net fair value of the financial instruments as at December 31, 2011 was $2.5 million (December 31, 2010 – $0.8 million) and this long-term liability has been classified under long-term derivative financial instruments, a financial liability through profit or loss, on the consolidated balance sheet.

During the third quarter of 2011, the Company advanced a loan to Fineglade in the amount of US$8.5 million ($8.2 million at the then current exchange rate) with a maturity date of December 31, 2013. The interest rate on this loan is reset on a quarterly basis at the three month LIBOR rate plus 2.0%. During the fourth quarter of 2011, the Company advanced a loan to Fineglade in the amount of US$2.0 million

($2.1 million at the then current exchange rate), payable on demand and bearing an upfront fee of 2%. The interest on this loan is fixed at 4% of the principal amount.

NOTE 15
OTHER ASSETS

The following table details the other assets as at December 31:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Long-term prepaid expenses	$ 9,146	$ 3,828	$ 4,193
Long-term notes receivable[(a)]	3,845	3,758	3,943
Long-term loan to associate[(b)]	10,824	–	–
Defined employee future benefit asset	2,876	2,337	1,472
	$ 26,691	$ 9,923	$ 9,608

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual installments beginning no later than March 31, 2018, as set out in the loan agreement terms.

(b) Long-term loan to Fineglade Limited

NOTE 16
GOODWILL

The changes in the carrying amount of goodwill are shown below:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Gross amount of goodwill	$ 215,412	$ 214,449	$ 229,059
Accumulated impairment	(208)	–	–
Balance – Beginning of year	215,204	214,449	229,059
Additions to goodwill on acquisition	1,880	11,649	–
Impairment of goodwill	–	(208)	–
Foreign exchange	3,250	(10,686)	(14,610)
Balance – End of year	$ 220,334	$ 215,204	$ 214,449

In 2010, goodwill acquired during the year was a result of the acquisition of Thermotite Brasil Ltda. ("TTB Ltd.") and BS Servicios de Injeção ("BSSI") (collectively "BSRTL").

The following table summarizes the significant carrying amount of goodwill:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Bredero Shaw (excluding BSRTL)	$ 140,744	$ 133,375	$ 141,825
BSRTL	14,244	16,447	4,927
Flexpipe	49,730	49,730	49,730
DSG-Canusa GmbH	15,616	15,652	17,759
SIS (Shaw Inspection Services)	–	–	208
	$ 220,334	$ 215,204	$ 214,449

(a) Impairment Testing for Each Reporting Unit Containing Goodwill

The Company performed a goodwill impairment test for each specified group of CGUs ("GCGU") that contained goodwill at the IFRS transition date of January 1, 2010 ("IFRS Transition Date"); a second and third goodwill impairment test was also completed on the Company's traditional annual goodwill impairment testing date of October 31, 2010 and October 31, 2011 ("Annual Goodwill Valuation Date"). At the IFRS Transition Date, the Company concluded that there was no impairment of goodwill in any of its GCGUs, as the recoverable amounts for these GCGUs was higher than their respective carrying amounts. At the Annual Goodwill Valuation Date of October 31, 2010, the Company concluded that due to changing market conditions, goodwill pertaining to the Company's Shaw Inspection Services business was impaired, and accordingly a goodwill impairment charge to selling, general and administrative ("SG&A") expense of $208 was recorded in 2010. At the Annual Goodwill Valuation Date of October 31, 2011, the Company concluded there was no impairment of goodwill in any of its GCGUs, as the recoverable amount for these GCGUs was higher than their respective carrying amount.

(b) Recoverable Amount

The Company determines the recoverable amount for its GCGUs as the higher of VIU and the FVLCS. For the goodwill impairment test, the FVLCS of each of the GCGUs was higher than its VIU. FVLCS calculations use post-tax cash flow projections based on three-year financial Business Plans approved by the Company's Board of Directors, which are then projected out for a further period of two years based on management's best estimates. Cash flows beyond the five-year period are extrapolated using estimated growth rates as applicable. The growth rate does not exceed the long-term average growth rate for the business in which the GCGUs operate. The FVLCS is calculated net of selling costs that are estimated at 2%.

The FVLCS is determined by discounting the future free cash flows generated from the Company's continuing use of the respective GCGUs. The discount rates used are post-tax and reflect specific risks relating to the GCGUs. The discounted cash flow model employed by the Company reflects the specific risks of each GCGU and their business environment. The model calculates the FVLCS as the present value of the projected free cash flows and the Terminal Value of each group of GCGUs.

The calculation of FVLCS for each GCGU is most sensitive to the following key assumptions:

- Projected Cash Flows
- Market Assumptions
- Discount Rate
- Growth Rate and Terminal Value

Projected Cash Flows
The Projected Cash Flows for each GCGU are derived from the most recently completed Business Plan, which are projected out for a future time period of two years based on management's best estimates. Projected Cash Flows are estimated by adjusting forecasted annual net income (for the forecast period) for non-cash items (such as amortization, accretion, and foreign exchange), investments in working capital and investments in capital assets. Estimating future earnings requires judgment, consideration of past and actual performance, as well as expected developments in the GCGU's respective markets and in the overall macroeconomic environment.

Market Assumptions
The forecasted revenue for a GCGU in the Business Plan is based on that GCGU securing an estimated number of projects. A change in the number of estimated projects to be secured by a GCGU can have a material impact on the projected future cash flows for that particular GCGU. The gross margin for each GCGU in the Business Plan is also dependent on assumptions made about the price of raw materials in the future; a change in the assumptions of these key inputs can have a material impact on the projected future cash flows for a particular GCGU.

Discount Rate
Discount rates represent the current market assessment of the risks specific to each GCGU, regarding the time value of money and the individual risks of the underlying assets, which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its GCGUs and is derived from the weighted average cost of capital ("WACC") for the consolidated Company. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest bearing borrowings the Company is obliged to service. GCGU specific risk is incorporated by applying individual specific risk factors; these specific risk factors are evaluated annually.

The following are the discount rates used in the calculation of the impairment tests:

	October 31, 2011	October 31, 2010	January 1, 2010
Bredero Shaw (excluding BSRTL)	**11%**	11%	11%
BSRTL	**14%**	14%	14%
Flexpipe	**13%**	14%	14%
DSG-Canusa GmbH	**12%**	12%	12%
SIS (Shaw Inspection Services)	**-**	12%	12%

Terminal Value Growth Rate
The Terminal Value Growth Rate is used to calculate the Terminal Value of the GCGUs at the end of the Projected Free Cash Flow period of five years. A Terminal Value Growth Rate of 3.0% was used (for all goodwill impairment tests) reflecting a conservative expectation of long-term growth in energy infrastructure investment; this figure also reflects the Company's best estimate of the set of economic conditions that are expected to exist over the forecast period.

Sensitivity to Changes in Assumptions
With regard to the assessment of FVLCS of the Bredero Shaw, BSRTL, Flexpipe and the DSG-Canusa GmbH GCGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, as estimated by the GCGU's FVLCS.

NOTE 17
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table sets forth the Company's trade and other payables as at December 31:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Trade payables	**$ 60,556**	$ 50,950	$ 45,859
Accrued liabilities	**95,240**	81,793	73,954
	$ 155,796	$ 132,743	$ 119,813

NOTE 18
PROVISIONS

The following table sets forth the Company's provisions as at:

(in thousands of Canadian dollars)	Decommissioning Liabilities	Deferred Purchase Consideration[(a)]	Defined Employee Future Benefit Liability	Other Provisions	Total
Balance – January 1, 2010	$ 16,923	$ –	$ 11,933	$ 7,036	$ 35,892
Provision adjustments	7,378	13,819	1,700	3,592	26,489
Settlement of liabilities	(3,218)	–	(5,207)	(676)	(9,101)
Accretion expense	302	189	–	–	491
Foreign exchange differences	(1,010)	(739)	(130)	(151)	(2,030)
Loss on settlement	310	–	–	–	310
Other	–	–	865	–	865
Balance – December 31, 2010	$ 20,685	$ 13,269	$ 9,161	$ 9,801	$ 52,916
Provision adjustments	3,188	–	6,020	6,519	15,727
Settlement of liabilities	(1,074)	–	(5,392)	(2,240)	(8,706)
Accretion expense	443	1,053	–	–	1,496
Foreign exchange differences	157	1,205	8	(121)	1,249
Gain on settlement	(18)	–	–	(7)	(25)
Other	–	–	539	(20)	519
Balance – December 31, 2011	$ 23,381	$ 15,527	$ 10,336	$ 13,932	$ 63,176
January 1, 2010					
Current	7,333	–	–	2,512	9,845
Non-current	9,590	–	11,933	4,524	26,047
	$ 16,923	$ –	$ 11,933	$ 7,036	$ 35,892
December 31, 2010					
Current	3,211	–	–	4,681	7,892
Non-current	17,474	13,269	9,161	5,120	45,024
	$ 20,685	$ 13,269	$ 9,161	$ 9,801	$ 52,916
December 31, 2011					
Current	6,001	–	–	6,316	12,317
Non-current	17,380	15,527	10,336	7,616	50,859
	$ 23,381	**$ 15,527**	**$ 10,336**	**$ 13,932**	**$ 63,176**

(a) The deferred purchase consideration represents contingent consideration payable in the amount of $15,153 and $374 payable for non-competition agreements as at December 31, 2011.

Decommissioning Liabilities

The total undiscounted cash flows, which are estimated to be required to settle all decommissioning liabilities, are $26.7 million, $25.4 million and $18.8 million as at December 31, 2011, December 31, 2010 and January 1, 2010, respectively, and the current pre-tax risk-free rate at which the estimated cash flows have been discounted range between 0.15% and 11.12%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

NOTE 19
CREDIT FACILITIES AND LONG-TERM DEBT

a) Credit Facilities

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

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Bank indebtedness[a]	$ 12,281	$ –	$ –
Standard letters of credit for performance, bid and surety bonds NOTE 23	61,555	75,140	61,835
Total utilized credit facilities	73,836	75,140	61,835
Total available credit facilities[b]	236,168	240,048	251,856
Unutilized credit facilities	$ 162,332	$ 164,908	$ 190,021

(a) Excludes the banking facilities of the Company's 30% owned joint venture, Arabian Pipe Coating Company Ltd.

(b) The Company guarantees the bank credit facilities of its subsidiaries.

On June 22, 2011, the Company renewed its Unsecured Committed Bank Credit Facility for a period of four years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was reduced by US$40.0 million from US$190.0 million to US$150.0 million, with an option to increase the credit limit to US$200.0 million with the consent of lenders.

Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Senior Notes and its Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain a Fixed Charge Coverage Ratio (Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") divided by interest expense) of more than 2.5 to 1 and a debt to total capitalization ratio of less than 0.40 to one. The Company is in compliance with these covenants as at December 31, 2011 and 2010.

b) Long-term Debt

The following table sets forth the Company's long-term debt as at:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Current portion of long-term debt	$ –	$ 25,005	$ 26,235
Long-term debt	–	–	26,052
	$ –	$ 25,005	$ 52,287

Long-term debt (Senior Notes)

On June 27, 2003, the Company entered into an agreement for the issue and sale, at par, on a private placement basis to institutional investors, of US$75.0 million of Senior Notes due June 30, 2011. Under the terms of the agreement, the Company was required to repay the Senior Notes in three equal installments of US$25.0 million on June 30, 2009, 2010 and 2011. On June 30, 2009, the Company made the first repayments of US$25.0 million ($28.7 million at the then current exchange rate). On June 30, 2010, the Company made the second repayment of US$25.0 million ($26.0 million at the then current exchange rate). On June 30, 2011, the Company made the third and final repayment of US$25.0 million ($24.4 million at the then current exchange rate). Upon extinguishment of the Senior Notes, foreign exchange gains in the amount of $1.8 million (2010 – $0.2 million) were recognized and included in the consolidated statement of income for the year ended December 31, 2011.

NOTE 20
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 post-retirement life insurance benefit to its Canadian retirees and a post-employment benefit to its hourly and salaried employees in Indonesia.

The total cash payments made by the Company to fund defined benefit and defined contribution pension plans during 2011 were $10.6 million (2010 – $9.9 million). The Company measures the fair value of assets and accrued benefit obligations as at December 31. Actuarial valuations for the Company's six ongoing registered defined benefit pension plans and SERP arrangement are generally required at least every three years. The most recent actuarial valuations of the plans were conducted as at December 31, 2009 (three plans), August 1, 2010 (one plan), December 31, 2010 (one plan) and January 1, 2011 (two plans).

The principal assumptions made by the actuaries for the actuarial valuation of the plans were:

	2011	2010
Canada		
Defined benefit obligation		
Discount rate	4.60%	5.30%
Salary increase	4.00%	4.00%
Increases to pensions in pay	n/a	n/a
Mortality	UP94@2020	UP94@2020
Benefit expense of year ended December 31		
Discount rate	5.30%	6.40%
Expected rate of return on assets	6.50%	6.50%
Salary increase	4.00%	4.00%
Norway		
Defined benefit obligation		
Discount rate	2.60%	4.00%
Salary increase	3.50%	4.00%
Increases to pensions in pay	0.60%	1.90%
Mortality	K2005	K2005
Benefit expense of year ended December 31		
Discount rate	4.00%	4.40%
Expected rate of return on assets	5.40%	5.60%
Salary increase	4.00%	4.25%
United Kingdom		
Defined benefit obligation		
Discount rate	5.00%	5.70%
Salary increase	n/a	n/a
Increases to pensions in pay	2.20%	3.30%
Mortality	S1PA (projected)	S1PA (projected)
Benefit expense of year ended December 31		
Discount rate	5.70%	5.70%
Expected rate of return on assets	6.19%	6.39%
Salary increase	n/a	n/a
Indonesia		
Defined benefit obligation		
Discount rate	6.70%	7.97%
Salary increase	10.00%	10.00%
Inflation rate	n/a	n/a
Mortality	CSO80	CSO80
Benefit expense of year ended December 31		
Discount rate	7.97%	11.00%
Expected rate of return on assets	n/a	n/a
Salary increase	10.00%	10.00%

The overall expected long-term return on plans assets is management's best estimate of long-term future investment returns, taking into account the long-term asset allocation targets for the plans as outlined in the current investment policy and the expected long-term return for each asset class.

The amounts recognized in the consolidated balance sheet are as follows:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Accrued employee future benefit asset			
Pension plans	$ 2,876	$ 2,337	$ 1,472
Post-employment benefit	–	–	–
Post-retirement life insurance	–	–	–
Accrued employee future benefit liability			
Pension plans	(8,309)	(7,544)	(10,620)
Post-employment benefit	(1,757)	(1,357)	(1,072)
Post-retirement life insurance	(270)	(260)	(241)
Net accrued future employee benefit liability	$ (7,460)	$ (6,824)	$ (10,461)

The following were the composition of plan assets at the balance sheet dates as a percentage of total plan assets for the registered Canadian employee future benefit plans:

	2011	2010
Equities	59%	60%
Fixed income	37%	36%
Real estate	0%	0%
Other	4%	4%
	100%	100%

The following were the composition of plan assets at the balance sheet dates as a percentage of total invested plan assets for the SERP plan[(a)]:

	2011	2010
Equities	96%	94%
Fixed income	0%	0%
Real estate	0%	0%
Other	4%	6%
	100%	100%

(a) The amounts in the above table exclude amounts sitting in the refundable tax account held by the CRA.

The amounts recognized in the consolidated statement of income are as follows:

(in thousands of Canadian dollars)	2011	2010
Current service cost	$ 3,289	$ 2,793
Interest costs	4,475	4,564
Expected return on plan assets	(4,537)	(4,067)
Past service costs	100	–
Actuarial gains and losses	1,637	35
Currency (gains) losses	8	(130)
Curtailment and settlement	–	(602)
	4,972	2,593
Impact of IAS 19 paragraph 58/IFRIC 14	1,056	(1,023)
Defined benefit expense recognized	6,028	1,570
Defined contribution expense recognized	5,247	4,690
Total employee benefits expense[(a)]	$ 11,275	$ 6,260

(a) The total amount is included in the consolidated statement of income as SG&A. See note 7 for further information.

Changes in the present value of the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	2011	2010
Balance – Beginning of year	$ 85,192	$ 76,218
Employer portion of current service cost	3,289	2,793
Actuarial losses (gains) and changes in assumptions	9,897	7,119
Employee contributions	0	0
Interest cost	4,475	4,564
Foreign exchange differences	90	(802)
Benefits paid	(2,452)	(4,066)
Curtailment and settlement	0	(634)
Past service cost	100	0
Balance – End of year	$ 100,591	$ 85,192

Changes in the fair value of the plan assets are as follows:

(in thousands of Canadian dollars)	2011	2010
Balance – Beginning of year	$ 74,107	$ 68,788
Valuation effect	(90)	(54)
Actuarial gains (losses)	(3,357)	918
Expected return on plan assets	4,537	4,067
Employer contributions	5,392	5,207
Employee contributions	–	–
Benefits paid	(2,452)	(4,066)
Curtailment and settlement	–	–
Foreign exchange differences	140	(753)
Balance – End of year	$ 78,277	$ 74,107

Amounts for the current and previous period are as follows:

(in thousands of Canadian dollars)	2011	2010
Present value of defined benefit obligation	$ 100,591	$ 85,192
Fair value of plan assets	78,277	74,107
Deficit (surplus) of the funded plans	22,314	11,085
Unrecognized past service costs	–	–
Unrecognized actuarial losses (gains)	17,886	6,215
Liability (asset) before the impact of IAS 19 paragraph 58/IFRIC 14	4,428	4,870
Impact of IAS 19 paragraph 58/IFRIC 14	3,032	1,954
Liability (asset) in the statement of financial position	$ 7,460	$ 6,824
Percentage of plan assets	9.53%	9.21%
Percentage of plan liabilities	7.42%	8.01%

Actual Return on Plan Assets

The actual return on plan assets for the years ended December 31, 2011 and 2010 amounted to $1.180 million and $4.985 million, respectively.

Contributions

The Company expects to contribute $5.3 million to its defined benefit plans for the year ended December 31, 2012.

(in thousands of Canadian dollars)	IFRS December 31 2011	IFRS December 31 2010	IFRS January 1 2010
Present value of defined benefit obligations	$ 100,591	$ 85,192	$ 76,218
Fair value of plan assets	78,277	74,107	68,788
Deficit (surplus) in the plan	$ 22,314	$ 11,085	$ 7,430
Actuarial losses (gains) on plan liabilities in year	9,897	7,119	N/A
Actuarial losses (gains) on plan assets in year	3,357	(918)	N/A

NOTE 21 FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Loans and receivables, measured at amortized cost			
Cash and cash equivalents	$ 67,276	$ 155,998	$ 249,988
Accounts receivable	279,324	243,955	191,821
Income taxes receivable	15,981	13,823	14,055
Long-term notes receivable	3,845	3,758	3,943
Long-term loan to associate	10,824	–	–
Fair value through profit or loss, measured at fair value			
Derivative financial instruments – asset	270	1,130	1,821
Derivative financial instruments – liability	2,918	1,334	510
Loans and borrowings, measured at amortized cost			
Bank indebtedness	12,281	–	–
Loan payable	5,001	5,126	–
Accounts payable and accrued liabilities	155,796	132,743	119,813
Income taxes payable	35,334	44,968	42,971
Deferred purchase consideration	15,529	13,269	–
Other provisions	13,930	9,801	7,038
Finance lease obligations	268	684	863
Long-term debt	$ –	$ 25,005	$ 52,287

Fair Value

IFRS 7, Financial Instruments – Disclosure, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflects the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

The following table presents, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2011 and does not include those instruments where the carrying amount is a reasonable approximation of the fair value:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
ASSETS				
Derivative financial instruments – current	$ 270	$ –	$ 270	$ –
	$ 270	$ –	$ 270	$ –
LIABILITIES				
Derivative financial instruments – current	$ 419	$ –	$ 419	$ –
Derivative financial instruments – long-term	2,499	–	–	2,499
	$ 2,918	$ –	$ 419	$ 2,499

The current derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market. The long-term derivative financial instrument liability represents the net fair value of the financial instruments that were entered into by the Company in conjunction with its long-term investment in Fineglade, as described in note 14, and has been valued using a modified Black-Scholes model and unobservable input data. The fair values of the Company's remaining financial instruments are not materially different from their carrying values.

The following table presents the changes in the Level 3 fair value category for the year ended December 31, 2011:

(in thousands of Canadian dollars)	Fair Value
Opening balance – January 1, 2010	$ –
Additions	807
Balance – December 31, 2010	807
Losses recognized in the statement of income	1,692
Closing balance – December 31, 2011	$ 2,499

Foreign Exchange Forward Contracts and Other Hedging Arrangements

The Company utilizes financial instruments to manage the risk associated with foreign exchange rates. The Company formally documents all relationships between hedging instruments and the hedge items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2011:

(in thousands, except weighted average rate amounts)	
US dollars sold for Canadian dollars	
Less than one year	US$18,000
Weighted average rate	1.00
Euros sold for US dollars	
Less than one year	€5,609
Weighted average rate	1.34

As at December 31, 2011, the Company had notional amounts of $25.8 million of forward contracts outstanding (2010 – $41.9 million) with the fair value of the Company's net benefit from all foreign exchange forward contracts totalling $1.5 million (2010 – $0.6 million, net obligation).

Financial Risk Management

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

Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position, may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars.

As at December 31, 2011, fluctuations of +/– 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income for the year ended by approximately $32.5 million, $6.5 million and $4.7 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total shareholders' equity by $53.5 million, $34.5 million and $19.0 million, respectively.

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

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2011:

(in thousands of Canadian dollars)	Floating Rate	Fixed Interest Rate Maturing in One Year or Less	Total
Financial assets			
Cash equivalents	$ –	$ 5,978	**$ 5,978**
Long-term notes receivable	3,845	–	**3,845**
Long-term loan to related party	8,777	2,047	**10,824**
	$ 12,622	$ 8,025	**$ 20,647**
Financial liabilities			
Bank indebtedness	$ 12,281	$ –	**$ 12,281**
Loan payable	5,001	–	**5,001**
	$ 17,282	$ –	**$ 17,282**

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

Credit Risk

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

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

As at December 31, 2011 and 2010, ShawCor had no customers who generated revenue greater than 10% of total consolidated revenue.

The carrying value of accounts receivable are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of income with a charge to selling, general and administrative expenses. When a receivable balance is considered to be uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses. As at December 31, 2011, $24.0 million, or 9.0% of trade accounts receivable, were more than 90 days overdue, which is consistent with prior period aging analysis. The Company expects to receive full payment on accounts receivables that are neither past due nor impaired.

The following is an analysis of the change in the allowance for doubtful accounts for the year ended December 31, 2011 and 2010:

(in thousands of Canadian dollars)	December 31 2011	December 31 2010
Balance – Beginning of year	**$ 3,775**	$ 5,353
Bad debt expense	**9,160**	697
Recovery of previously written-off bad debts	**126**	(384)
Write-offs of bad debts	**(328)**	(1,469)
Impact of change in foreign exchange rates	**1,234**	(422)
Balance – End of year	**$ 13,967**	$ 3,775

Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at December 31, 2011, the Company has cash and cash equivalents totalling $67.3 million (2010 – $156.0 million) and has unutilized lines of credit available to use of $162.3 million (2010 – $164.9 million).

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2011:

(in thousands of Canadian dollars)	Less than 1 year	1 - 3 years	3 - 5 years	Thereafter	Total
Bank indebtedness	$ 12,281	$ –	$ –	$ –	$ 12,281
Loan payable	5,001	–	–	–	5,001
Accounts payable and accrued liabilities	155,797	–	–	–	155,797
Decommissioning liabilities	6,001	7,245	2,241	11,205	26,692
Deferred purchase consideration	–	16,721	–	–	16,721
Other provisions	6,316	7,616	–	–	13,932
Income taxes payable	35,334	–	–	–	35,334
Derivative financial instruments	419	2,499	–	–	2,918
	$ 221,149	$ 34,081	$ 2,241	$ 11,205	$ 268,676

NOTE 22
CAPITAL MANAGEMENT

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

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

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Bank indebtedness	**$ 12,281**	$ –	$ –
Loan payable	**5,001**	5,126	–
Current portion of long-term debt	**–**	25,005	26,235
Long-term debt	**–**	–	26,052
Current obligations under finance lease	**165**	345	371
Obligations under finance lease	**103**	339	492
Shareholders' equity	**864,061**	832,243	791,015
	$ 881,611	$ 863,058	$ 844,165

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, or adjust the amount of cash, cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its credit facility and long-term debt agreements. Specifically, the Company has undertaken to maintain certain covenants in respect of its Unsecured Committed Bank Credit Facility. The Company is in compliance with these covenants as at December 31, 2011.

NOTE 23
COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has entered into various commercial leases on certain motor vehicles, items of machinery and office and manufacturing sites. These leases have a life of one to sixteen years with no renewal options.

The following table presents the future minimum rental payments payable under the operating leases as at December 31, 2011:

(in thousands of Canadian dollars)	2011
Within one year	$ 9,755
After one year but not more than five years	20,062
More than five years	11,921
	$ 41,738

The lease expenditure charged to the consolidated statement of income during the year is $14.0 million.

Finance Leases

The Company has finance leases and purchase commitments in place for various items of plant and machinery. These leases have terms of renewal but no purchase options. Renewals are at the option of the specific entity that holds the lease. The following table presents the future minimum lease payments under finance leases with the present value of the net minimum lease payments:

	2011	
(in thousands of Canadian dollars)	Minimum Payments	Present Value of Payments
Within one year	$ 191	$ 165
After one year but not more than five years	127	103
After more than five years	–	–
Total minimum lease payments	318	268
Less: Amounts representing interest charges	(50)	–
Present value of minimum lease payments	**$ 268**	**$ 268**

Legal Claims

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

Performance, Bid and Surety Bonds

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

The Company's utilizes its credit facilities to support the Company's Bonds. The Company had utilized credit facilities of $73.8 million as at December 31, 2011 (December 31, 2010 – $75.1 million; January 1, 2010 – $61.8 million) for support of its bonds.

NOTE 24
SHARE CAPITAL

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

	2011		
	Class A	Class B	Total
Number of shares			
Balance outstanding – Beginning of year	57,578,299	13,058,073	70,636,372
Issued on exercise of stock options	622,380	–	622,380
Issued on exercise of RSUs	255		255
Conversions of Class B into Class A	273,738	(273,738)	–
Purchase – normal course issuer bid	(642,100)	–	(642,100)
Balance outstanding – End of year	57,832,572	12,784,335	70,616,907
(in thousands of Canadian dollars)			
Stated value			
Balance outstanding – Beginning of year	$ 205,772	$ 1,003	$ 206,775
Issued – stock options	9,878	–	9,878
Compensation cost on exercised options	4,122	–	4,122
Compensation cost on exercised RSUs	7	–	7
Conversions of Class B into Class A	20	(20)	–
Purchase – normal course issuer	(2,401)	–	(2,401)
Balance outstanding – End of year	$ 217,398	$ 983	$ 218,381

	2010		
	Class A	Class B	Total
Number of shares			
Balance outstanding – Beginning of year	57,458,183	13,059,983	70,518,166
Issued on exercise of stock options	118,206	–	118,206
Conversions of Class B into Class A	1,910	(1,910)	–
Balance outstanding – End of year	57,578,299	13,058,073	70,636,372
(in thousands of Canadian dollars)			
Stated value			
Balance outstanding – Beginning of year	$ 203,148	$ 1,003	$ 204,151
Issued on exercise of stock options	2,013	–	2,013
Compensation cost on exercised options	611	–	611
Conversions of Class B into Class A	–	–	–
Balance outstanding – End of year	$ 205,772	$ 1,003	$ 206,775

All shares have been issued and fully paid and have no par value.

There are an unlimited number of Class A subordinate voting shares (Class A shares) and Class B multiple voting shares (Class B shares) authorized. Holders of Class A shares are entitled to one vote per share and receive a non-cumulative dividend premium of 10% over 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.

Under the terms of the Normal Course Issuer Bid ("NCIB"), the Company was entitled to repurchase up to 3,000,000 Class A shares and up to 100,000 Class B shares between December 1, 2009 and November 30, 2010. The repurchase of shares is made in the open market at prevailing market prices; however, during the year ended December 31, 2010, the Company did not repurchase and cancel any Class A or Class B shares under the NCIB.

The NCIB was renewed on November 30, 2010, entitling the Company to repurchase up to 2,000,000 Class A shares and up to 100,000 Class B shares between December 1, 2010 and November 30, 2011. The NCIB was renewed on November 30, 2011, entitling the Company to repurchase

up to 3,000,000 Class A shares and up to 100,000 Class B shares between December 1, 2011 and November 30, 2012. During the year ended December 31, 2011, 642,100 Class A shares were repurchased and cancelled for total consideration of $16.5 million (refer to Statement of Shareholders' Equity for details).

In 2011, dividends declared and paid during the year were $0.315 per Class A share and $0.286 per Class B share (2010 – $0.295 per Class A share and $0.268 per Class B share).

NOTE 25
SHARE-BASED COMPENSATION AND OTHER INCENTIVE-BASED COMPENSATION

As at December 31, 2011, the Company had the following two stock option plans, both of which were initiated in 2001:

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

   On March 3, 2010, the Board of Directors ("Board") approved the amended 2001 Employee Plan (the "Amended 2001 Employee Plan"). All stock options granted in 2010 under the Amended 2001 Employee Plan have a tandem share appreciation right ("SAR") attached, which allows the option holder to exercise either the option and receive a share, or exercise the SAR and receive a cash payment that is equivalent to the difference between the grant price and fair market value. All stock options granted under the Amended 2001 Employee Plan have the same characteristics as stock options that were granted under the original 2001 Employee Plan, with respect to vesting requirements, term, termination and other provisions.

   On March 31, 2011, the Board modified the Amended 2001 Employee Plan (the "Restated 2001 Employee Plan") to facilitate the cash free exercise of stock options and SARs by the holders of such instruments.

ii) Under the Company's 2001 director plan (the "2001 Director Plan"), options are granted on an annual basis and the maximum number of Class A shares issued in any single grant shall be equal to the number of Class A shares and Class B shares of the Company owned by the individual director, at the date of the option grant, subject to a maximum of 8,000 Class A shares for each of the Chairman and Vice Chair, and 4,000 Class A shares for each of the other eligible directors. The options vest immediately and have a legal life of five years. The grant price equals the closing sale price of the Class A shares on the day prior to the grant. No options have been granted under the 2001 Director Plan since 2006.

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

Stock Options without Tandem Share Appreciation Rights

	2011		2010	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding – Beginning of year	2,702,160	$ 18.93	2,826,366	$ 18.86
Granted	102,260	37.32	–	–
Exercised	(622,380)	15.87	(118,206)	17.02
Forfeited	(17,440)	20.06	(6,000)	21.57
Balance outstanding – End of year	2,164,600	20.67	2,702,160	18.93
Options exercisable	1,548,020	$ 19.35	1,874,256	$ $17.45

	2011				
	Options Outstanding			Options Exercisable	
Range of exercise price	Outstanding as at December 31, 2011	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2011	Weighted Average Exercise Price
$10.00 to $15.00	247,200	1.68	$ 12.06	247,200	$ 12.06
$15.01 to $20.00	1,065,380	4.61	16.32	781,580	16.58
$20.01 to $25.00	44,000	4.55	21.00	38,000	20.85
$25.01 to $30.00	675,760	5.54	27.65	463,240	27.31
$30.01 to $35.00	30,000	6.00	31.77	18,000	31.77
$35.01 to $40.00	102,260	9.00	37.32	–	–
	2,164,600	4.79	$ 20.67	1,548,020	$ 19.35

	2010				
	Options Outstanding			Options Exercisable	
Range of exercise price	Outstanding as at December 31, 2010	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2010	Weighted Average Exercise Price
$10.00 to $15.00	454,800	1.86	$ 12.60	454,800	$ 12.60
$15.01 to $20.00	1,473,120	4.63	16.42	1,033,592	16.70
$20.01 to $25.00	46,000	5.66	21.04	30,800	20.87
$25.01 to $30.00	698,240	6.53	27.67	343,064	27.18
$30.01 to $35.00	30,000	7.01	31.77	12,000	31.77
	2,702,160		$ 18.93	1,874,256	$ 17.45

The Board of Directors approved the granting of 102,260 stock options during the year ended December 31, 2011 under the 2001 Employee Plan (the "Plan"). The total weighted average fair value of the stock options granted during the year ended December 31, 2011 was $1.3 million (2010 – nil), calculated using the Black-Scholes pricing model with the following assumptions:

	2011
Weighted average share price	$ 36.31
Exercise price	$ 37.32
Expected life of options	7.25
Expected stock price volatility	35%
Expected dividend yield	0.8%
Risk-free interest rate	3.2%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 9.25 years.

The fair value of options granted under the Plan will be amortized to compensation expense over the five-year vesting period of options. The compensation cost from the continuing amortization of granted stock options for the year ended December 31, 2011, included in SG&A expenses, was $1.7 million (2010 – $1.1 million).

Stock Options with Tandem Share Appreciation Rights

	2011		2010	
	Total Shares	Weighted Average Fair Value[a]	Total Shares	Weighted Average Fair Value
Balance outstanding – Beginning of year	118,500	$ 12.94	–	$ –
Granted	35,800	12.89	118,500	12.94
Exercised	–	–	–	–
Forfeited	–	–	–	–
Expired	–	–	–	–
Balance outstanding – End of year	154,300	$ 12.93	118,500	$ 12.94
Options exercisable	–	–	–	–

(a) The weighted average fair value refers to the fair value of the underlying shares of the Company on the grant date of the SARs.

The mark-to-market liability for the stock options with SARs as at December 31, 2011, is $0.6 million (2010 – $0.2 million), all of which is included in accounts payable and accrued liabilities on the Consolidated Balance Sheets.

On March 3, 2010, the Board approved a new long-term incentive program (LTIP) for executives and key employees and a deferred share unit plan (DSU) for directors of the Company. Additional details with respect to the LTIP and DSU plan are as follows:

LTIP

The LTIP includes the two existing stock option plans discussed above and two new plans, the value growth plan ("VGP") and the employee share unit plan (ESUP).

VGP

The VGP is a cash-based awards plan, which rewards executives and key employees for improving operating income and revenue over a three year performance period. Units granted to participants vest on the third year of the performance period for which they were granted. The value of units is determined based on the growth rate in operating income and revenue on a cumulative basis for the three consecutive years that comprise the performance period and is measured against the baseline period. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The liability as at December 31, 2011 is $2.6 million (2010 – $1.7 million).

ESUP

The ESUP authorizes the Board to grant awards of restricted units ("RSUs") to employees of the Company as a form of incentive compensation. All RSUs are to be settled with Class A shares and are valued on the basis of the underlying weighted average trading price of the Class A shares over the five trading days preceding the grant date. The valuation is not subsequently adjusted for changes in the market price of the Class A shares prior to the settlement of the award. Each RSU granted under the ESUP represents one Class A share. The ESUP provides that the maximum number of Class A shares that are reserved for issuance from time to time shall be fixed at 1,000,000 Class A shares. The RSUs vest in two tranches over a period of one to five years and four to seven years, respectively, and become payable once vesting is completed. Compensation cost is recognized over the vesting period in accordance with IFRS. All RSUs granted are classified as equity instruments in accordance with IFRS as their terms require that they be settled in shares.

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

	2011		2010	
	Total Shares	Weighted Average Grant Date Fair Value[a]	Total Shares	Weighted Average Grant Date Fair Value[a]
Balance outstanding – Beginning of year[b]	53,563	$ 26.51	–	$ –
Granted	40,772	35.30	53,563	26.51
Exercised	(255)	27.69	–	–
Forfeited	(791)	27.69	–	–
Expired	–	–	–	–
Balance outstanding – End of year	93,289	$ 30.34	53,563	$ 26.51
RSUs exercisable	6,057	$ 26.72	–	$ –

(a) RSU awards do not have an exercise price; as a result grant date weighted average fair value has been calculated.

(b) There were no RSUs issued or granted prior to January 1, 2010.

DSU

Under the Company's DSU plan, all directors (other than the president and chief executive officer) of the Company can elect to receive all or a portion of their compensation for services rendered as a director of the Company, in share units or a combination of share units and cash. The number of DSUs received is equal to the amount to be paid in DSUs divided by the weighted-average trading price of the Class A shares over the five days immediately preceding the date of the grant. DSUs are to be settled at the time that the director ceases to be a member of the Board and each DSU entitles the holder to receive one Class A share or the cash equivalent. DSUs vest immediately on the date of the grant. The value of a DSU and the related compensation expense is determined and recorded based on the current market price of the underlying Class A shares on the date of the grant. Common shares are purchased on the open market to settle outstanding share units.

All DSUs granted will be classified as liability instruments on the date of the grant in accordance with IFRS as the unit holder has the option to settle in cash or shares.

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

	2011		2010	
	Total Shares	Weighted Average Grant Date Fair Value[a]	Total Shares	Weighted Average Grant Date Fair Value[a]
Balance outstanding – Beginning of year[b]	30,260	$ 29.53	–	$ –
Granted	36,910	28.26	30,260	29.53
Exercised	(6,246)	32.55	–	–
Expired	–	–	–	–
Balance outstanding – End of year	60,924	$ 28.45	30,260	$ 29.53
DSUs exercisable[c]	–	–	–	–

(a) DSU awards do not have an exercise price; as a result grant date weighted average fair value has been calculated.

(b) There were no DSUs issued or granted prior to January 1, 2010.

(c) DSU awards cannot be exercised while the director is still a member of the board of directors.

The mark-to-market liability for the DSUs as at December 31, 2011 is $1.8 million (2010 – $1.0 million), all of which is included in accounts payable and accrued liabilities on the consolidated balance sheet.

Incentive-based Compensation

The following table sets forth the incentive-based compensation expense for the years ended December 31:

(in thousands of Canadian dollars)	2011	2010
Stock option expense	$ 1,675	$ 1,096
VGP expense	975	1,665
DSU expense	875	1,030
RSU expense	701	372
SAR expense	275	324
Total incentive-based compensation expense	**$ 4,501**	$ 4,487

NOTE 26
KEY MANAGEMENT COMPENSATION

Key management includes directors (executive and non-executive) and corporate officers. The compensation paid or payable to key management for employee and director services is shown below for the year ended December 31:

(in thousands of Canadian dollars)	2011	2010
Salaries and other short-term employee benefits	$ 3,834	$ 2,975
Post-employment benefits	490	396
Share-based and other long-term incentive payments	1,291	1,110
Director fees and other compensation	1,632	2,165
	$ 7,247	$ 6,646

NOTE 27
INTEREST IN JOINT VENTURES

The following table presents the joint venture interests of the Company as at December 31, 2011, which have been consolidated proportionately:

	Country of incorporation	Activity	Proportion of interest held
Hal Shaw Inc.	USA	Pipe coating	50%
Arabian Pipecoating Company Ltd.	Saudi Arabia	Pipe coating	30%
Shaw & Shaw Ltd.	Canada	Pipe coating	83%
Helicone Holdings Limited	Russia	Pipe coating	25%
TTB Ltd.	Brazil	Pipe coating	(a)
BSSI	Brazil	Pipe coating	(a)

(a) On October 5, 2010, the Company completed the acquisition of the remaining 50% interest in TTB Ltd. and BSSI that they did not previously own; hence, TTB Ltd. and BSSI were not considered to be joint ventures subsequent to October 4, 2010. Prior to this date, the Company held 50% of the interest in each of TTB Ltd. and BSSI.

The following table presents the Company's share of the assets, liabilities, income and expenses of the jointly controlled entities described above for the years ended and as at December 31:

(in thousands of Canadian dollars)	2011	2010
Revenue	$ 27,790	$ 40,356
Operating expenses	28,420	39,200
Income (loss) before income taxes	(630)	1,156
Income taxes	(41)	289
Net Income (loss)	$ (589)	$ 867
Cash provided by (used in)		
Operating activities	$ 569	$ (2,312)
Investing activities	$ (1,331)	$ (1,250)
Financing activities	$ (124)	$ 3,184
Current assets	$ 21,981	$ 23,289
Non-current assets	5,687	6,557
Total assets	$ 27,668	$ 29,846
Current liabilities	$ 11,089	$ 13,368
Non-current liabilities	769	689
Total liabilities	$ 11,858	$ 14,057
Net assets	$ 15,810	$ 15,789

The Company's Russian joint venture has a loan from OOO ArkhTekhnoProm in the amount of 600 million Russian roubles ($21.3 million at the then current exchange rate) payable on demand. The Company's portion of this loan that has been proportionately consolidated and included on the consolidated balance sheet as at December 31, 2011 in the amount of $5.0 million or 156 million Russian roubles at the current exchange rate (December 31, 2010 – $5.1 million or 156 million Russian roubles at the then current exchange rate). Interest is calculated on this loan at 9.625% per annum and is to be paid over the period of actual use. In the event that the Company's Russian joint venture fails to repay the outstanding loan within the time specified by the loan agreement, a penalty in the amount of 24% per annum will be assessed on the outstanding loan amount on a daily basis.

NOTE 28
EARNINGS PER SHARE ("EPS")

The following table details the weighted-average number of shares outstanding for the purposes of calculating basic and diluted EPS for the following periods:

(in thousands of Canadian dollars except share and per share amounts)	2011	2010
Income used to calculate EPS		
Net income for the year	$ 56,086	$ 95,072
Average number of shares outstanding during the year – basic		
Class A	57,941	57,508
Class B	12,784	13,058
	70,725	70,566
Dilutive effect of stock options		
Class A	811	879
Class B	–	–
	811	879
Average number of shares outstanding during the year – diluted		
Class A	58,752	58,386
Class B	12,784	13,058
	71,536	71,444
Basic EPS	$ 0.79	$ 1.35
Diluted EPS	$ 0.78	$ 1.33

NOTE 29
INCOME TAXES

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

(in thousands of Canadian dollars)	2011	2010
Current income tax		
Based on taxable income of current year	$ 37,458	$ 19,052
Adjustment to prior year provision	(9,860)	6,693
Total current income tax expense	27,598	25,745
Deferred income tax		
Deferred income tax (benefit) expense	(14,478)	7,451
Total deferred income tax (benefit) expense	(14,478)	7,451
Total income tax expense	$ 13,120	$ 33,196

Income taxes on items recognized in other comprehensive income were as follow:

(in thousands of Canadian dollars)	2011	2010
Deferred income tax related to items booked directly to equity during the year:		
Gain on hedges of unrealized foreign currency translation	$ 103	$ –
Gain (loss) on hedges of unrealized foreign currency translation transferred to net income during period	(311)	–
Income tax benefit charged to other comprehensive income	$ (208)	$ –

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

	2011	2010
Expected income tax expense based on statutory rate	27.0%	30.5%
Tax rate differential on earnings of foreign subsidiaries	(2.1)%	(4.7)%
Benefit of previously unrecognized tax losses	(1.6)%	(0.5)%
Unrecognized tax losses of foreign subsidiaries	8.9%	1.6%
Unrealized gain on share acquisition	0.0%	(4.2)%
Adjustment to prior year provision	(14.1)%	5.2%
Other	0.7%	(2.0)%
Effective income tax rate	18.8%	25.9%

The expected income tax rate is computed using the average Canadian tax rate based on provincial allocations. The decrease in the statutory income tax rate is due to the enacted reduction in the Federal and Ontario corporation tax rates.

Recognized Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and they relate to the same tax authority on the same taxable entity.

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Deferred tax assets			
Amortizable property, plant and equipment	$ 2,470	$ 17,502	$ 23,463
Provisions and future expenditures	24,008	16,053	17,952
Net operating losses	3,580	0	0
Deferred tax assets	$ 30,058	$ 33,555	$ 41,415
Deferred tax liabilities			
Amortizable property, plant and equipment	(36,873)	(43,455)	(38,208)
Provisions and future expenditures	(20,111)	(31,711)	(37,368)
Deferred tax liabilities	(56,984)	(75,166)	(75,576)
Net deferred tax liability	$ (26,926)	$ (41,611)	$ (34,161)

The Company has recorded deferred tax assets of $3.6 million and $nil at December 31, 2011 and 2010, respectively, pertaining to loss carry forwards based on management's financial projections and the relevant tax legislation in each jurisdiction.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars)	2011	2010
Deferred tax assets		
Amortizable property, plant and equipment	$ 15,032	$ 5,961
Provisions and future expenditures	(7,747)	1,899
Net operating losses	(3,580)	0
Deferred tax assets	$ 3,705	$ 7,860
Deferred tax liabilities		
Amortizable property, plant and equipment	(6,582)	5,247
Provisions and future expenditures	(11,601)	(5,656)
Deferred tax liabilities	(18,183)	(409)
Deferred tax (recovery) expense	$ (14,478)	$ 7,451

The Company has recognised a deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, associates and joint ventures of $nil and $nil for the years ended December 31, 2011 and 2010 respectively as the Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary difference associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, aggregates to $181.9 million and $204.4 million for the years ended December 31, 2011 and 2010, respectively.

The Company has net operating losses of $21.9 million and $15.8 million for the years ended December 31, 2011 and 2010, respectively, in various jurisdictions for which no deferred tax asset has been recognized. These losses expire subsequent to the 2016 fiscal year. The Company has capital losses of $19.3 million and $19.9 million for the years ended December 31, 2011 and 2010, respectively, in various jurisdictions for which no deferred tax asset has been recognized. These capital losses carry forward indefinitely.

The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes and deferred tax represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. The Company may be required to change its provision for income taxes or deferred tax balances when the ultimate deductibility of certain items is successfully challenged by taxing authorities or if estimates used in determining the amount of deferred tax asset to recognized change significantly, or when receipt of new information indicates the need for adjustment in the amount of deferred tax to be recognized. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income tax, deferred tax balances and the effective tax rate. Any such changes could materially affect the amounts reported in the consolidated financial statements in the year these changes occur.

NOTE 30
COMPARATIVE FIGURES

The comparative audited consolidated financial statements have been reclassified from unaudited financial statements previously presented to conform to the presentation of the current year audited consolidated financial statements in accordance with IFRS.

Six-Year Review
(Unaudited)

For the year ended December 31:

(in thousands of Canadian dollars except per share information)	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP (NOTE 5)	2007 CGAAP	2006 CGAAP
OPERATING RESULTS						
Revenue	$ 1,157,265	$ 1,034,163	$ 1,183,978	$ 1,379,577	$ 1,048,099	$ 1,059,619
EBITDA NOTE 1	138,837	186,035	254,143	262,158	201,076	187,828
Net income NOTE 2	56,086	95,072	131,450	145,733	87,357	92,635
Cash flow						
Cash from operating activities	$ 45,327	$ 53,244	$ 299,333	$ 154,361	$ 97,514	$ 189,877
Purchases of property, plant and equipment	55,982	48,723	34,358	89,799	91,855	58,170
FINANCIAL POSITION						
Working capital NOTE 3	$ 281,848	$ 283,852	$ 312,966	$ 229,169	$ 255,625	$ 341,375
Long-term debt		25,005	52,287	91,226	72,726	87,480
Shareholders' equity	864,061	832,243	790,422	732,452	578,787	629,927
Total assets	1,223,265	1,224,936	1,185,977	1,227,289	963,614	1,008,026
PER SHARE INFORMATION						
(Class A and Class B)						
Net income (loss)						
Basic	$ 0.79	$ 1.35	$ 1.86	$ 2.06	$ 1.20	$ 1.25
Diluted	$ 0.78	$ 1.33	$ 1.85	$ 2.03	$ 1.19	$ 1.25
Dividends						
Class A	$ 0.315	$ 0.295	$ 0.535	$ 0.253	$ 0.230	$ 0.135
Class B	$ 0.286	$ 0.268	$ 0.486	$ 0.229	$ 0.209	$ 0.123
Shareholders' equity NOTE 4	$ 12.22	$ 11.79	$ 11.21	$ 10.40	$ 8.12	$ 8.51

Quarterly Information
(Unaudited)

(in thousands of Canadian dollars except per share information)		First	Second	Third	Fourth	Total
Revenue	2011	$ 279,466	$ 264,541	$ 271,478	$ 341,780	$1,157,265
	2010	$ 224,572	$ 234,546	$ 282,959	$ 292,086	$1,034,163
Net income NOTE 2	2011	$ 20,485	$ 15,703	$ (3,144)	$ 23,042	$ 56,086
	2010	$ 11,739	$ 12,031	$ 32,126	$ 39,176	$ 95,072
Net income per share (Class A and Class B)						
Diluted	2011	$ 0.29	$ 0.21	$ (0.04)	$ 0.32	$ 0.78
	2010	$ 0.16	$ 0.17	$ 0.45	$ 0.55	$ 1.33

Note 1 EBITDA is a Non-GAAP measure calculated by adding back to net income, income taxes, finance costs, amortization of property, plant and equipment and intangible assets, and impairment of fixed assets. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools.

Note 2: Attributable to shareholders of the Company.

Note 3: Working capital has been calculated as current assets minus current liabilities.

Note 4: Shareholders' equity per share is a Non-GAAP measure calculated by dividing shareholders' equity by the number of Class A and Class B shares outstanding at the date of the balance sheet.

Note 5: Restated due to the adoption of CICA Handbook section 3064.

ShawCor Directors

J.T. BALDWIN
London, England

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

D.S. BLACKWOOD
Houston, Texas

Mr. Blackwood is President (Americas), Wood Group PSN, a position he has held since April 2011, and has been a Director of ShawCor Ltd. since May 2011.

W.P. BUCKLEY
Toronto, Ontario

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

J.W. DERRICK
Buffalo, New York

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

D.H. FREEMAN
Toronto, Ontario

Mr. Freeman is a Chartered Accountant and from 1983 to 2011 was a partner at KPMG LLP. He has been a Director of ShawCor Ltd. since October 2011.

L.W.J. HUTCHISON
St. James, Barbados, W.I.

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

J.F. PETCH Q.C.
Toronto, Ontario

Mr. Petch is Chair Emeritus of the Governing Council of the University of Toronto and has been a Director of ShawCor Ltd. since March 2005.

R.J. RITCHIE
Calgary, Alberta

Mr. Ritchie was the CEO and a Director of Canadian Pacific Railway Limited from 2001 to 2006, and has been a Director of ShawCor Ltd. since April 1994.

P.G. ROBINSON
Toronto, Ontario

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

H.A. SHAW
Calgary, Alberta

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

V.L. SHAW
St. James, Barbados, W.I.

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

Z.D. SIMO
Oakville, Ontario

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

E.C. VALIQUETTE
Pembroke, Ontario

Ms. Valiquette is a Chartered Accountant and a former Senior Vice President and Chief Financial Officer of ING Canada Inc. and has been a Director of ShawCor Ltd. since March 2005.

Corporate Governance

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

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

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

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

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

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

Primary Operating Locations

Pipeline and Pipe Services

Bredero Shaw

ShawCor Pipe Protection
3838 N. Sam Houston Pkwy. E.
Suite 300
Houston, Texas 77032
T: 281 886 2350
F: 281 886 2351

Bredero Shaw
Lakeside House
1 Furzeground Way
Stockley Park
Uxbridge, Middlesex
England UB11 1BD
T: 44 208 622 3071
F: 44 208 622 3169

Shaw Pipe Protection
3200, 450 1st Street S.W.
Calgary, Alberta T2P 5H1
T: 403 263 2255
F: 403 264 3649

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

Flexpipe Systems

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

Canusa-CPS

25 Bethridge Road
Toronto, Ontario M9W 1M7
T: 416 743 7111
F: 416 743 5927

Shaw Pipeline Services

4250 N. Sam Houston Pkwy. E.
Suite 180
Houston, Texas 77032
T: 832 601 0850
F: 281 442 1593

Guardian

950 – 78th Avenue
Edmonton, Alberta T6P 1L7
T: 780 440 1444
F: 780 440 4261

Petrochemical and Industrial

DSG-Canusa

25 Bethridge Road
Toronto, Ontario M9W 1M7
T: 416 743 7111
F: 416 743 7752

ShawFlex

25 Bethridge Road
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F: 416 743 2565

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Corporate Information

Corporate Officers

V.L. SHAW
Chair of the Board

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

W.P. BUCKLEY
President and
Chief Executive Officer

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

D.R. EWERT
Corporate Secretary

Operations Management

M.J. SIMMONS
Group President
ShawCor Ltd.

D.L. BROUSSARD
President
Flexpipe Systems

J.D. TIKKANEN
President
Bredero Shaw

J.L. BARKHOUSE
Senior Vice President
Americas & Global Operations
Bredero Shaw

P.L. EVANS
Senior Vice President
Asia Pacific
Bredero Shaw

F. CISTRONE
Vice President and
General Manager, Operations
ShawCor Ltd.

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

S.J. EDMONDSON
Vice President
Research & Development
ShawCor Ltd.

F. GALLINA
Vice President
Special Projects
ShawCor Ltd.

B. GARCES
Vice President
ShawCor Manufacturing System
ShawCor Ltd.

D.R. GIBB
Vice President
Information Technology
ShawCor Ltd.

G.L. GRAHAM
Vice President
Corporate Development
ShawCor Ltd.

S.A. HABERER
Vice President
Market Development &
Acquisitions ShawCor Ltd.

T.L. HUTZUL
Vice President, Legal
ShawCor Ltd.

P.A. PIERROZ
Vice President
Human Resources
ShawCor Ltd.

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

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

H.A.A.M. TAUSCH
Vice President and
General Manager
Europe, Middle East, Africa, Russia
Bredero Shaw

J.A. TEPPAN
Vice President and
Assistant General Manager
Guardian

K.C. WILLSON
Vice President and
General Manager
Guardian

Corporate Address, Stock Information and Annual Meeting

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STOCK LISTING
The Toronto Stock Exchange
Class "A" Subordinate Voting
Shares
Trading Symbol: SCL.A
Class "B" Multiple Voting Shares
Trading Symbol: SCL.B

ANNUAL MEETING
Tuesday, May 8, 2012
4:00 p.m.
The Fairmont Royal York Hotel
Toronto, Ontario
Canada

www.shawcor.com

Why ShawCor?

Global Leadership

More than 70 manufacturing and service facilities in over 15 countries give ShawCor unrivalled proximity to every major energy-producing region.

Superior Execution

The industry's most advanced continuous improvement program helps us execute complex customer projects safely, on-time and on-budget, providing superior customer satisfaction.

Technological Innovation

Continuing research and development of market-leading, proprietary technology has created a powerful competitive advantage.

Organizational Excellence

We are becoming a high-performing organization in which everyone is aligned and motivated to advance our strategies for growth.

Strong Industry Fundamentals

Global demand for oil and gas is expected to increase 36% between 2011 and 2035 due to rapid economic growth in developing countries.

Proven Performance

In the past 10 years, ShawCor's Class A Shares have delivered a total return to shareholders of 125%, equivalent to a compound annual return of 31%.