



ShawCor Ltd.
Consolidated Financial Statements
December 31, 2011

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

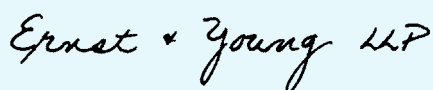
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

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 | 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.

| (in thousands of Canadian dollars) | 2011 | | | | | | |
|------------------------------------|------------|------------|---------------|------------|--------------|--------------|--------------|
| | 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 |

| (in thousands of Canadian dollars) | 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 |
| 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 Servicos 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) |
| Curtailed 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) |
| Curtailed 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) |
| Curtailed 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.

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

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.

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:

| (in thousands of Canadian dollars) | 2011 | |
|--|---------------------|------------------------------|
| | 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 | | | | | | |
|-------------------------|-------------------------------------|---|---------------------------------|-------------------------------------|---------------------------------|--|
| Range of exercise price | Options Outstanding | | | Options Exercisable | | |
| | 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 | | | | | | |
|-------------------------|-------------------------------------|---|---------------------------------|-------------------------------------|---------------------------------|--|
| Range of exercise price | Options Outstanding | | | Options Exercisable | | |
| | 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 ArkhTehnoProm 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.