ShawCor Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A"), is a discussion of the consolidated financial position and results of operations of ShawCor Ltd. ("ShawCor" or "the Company") for the three-month and nine-month periods ended September 30, 2012 and 2011 and should be read together with ShawCor's interim unaudited consolidated financial statements and accompanying notes for the same periods and the MD&A included in the Company's 2011 Annual Report. All dollar amounts in this MD&A are in thousands of Canadian dollars except per share amounts or unless otherwise stated.

This MD&A and the interim unaudited consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward looking information and reference should be made to section 11 hereof.

1.0 Executive Overview

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

1.1 Core Businesses

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

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

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

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

As at September 30, 2012, the Company operated its seven divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

<u>Pipeline and Pipe Services</u>

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 91% of consolidated revenue for the three months ended September 30, 2012. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems and Guardian divisions.

- Bredero Shaw's product offerings include specialized internal anticorrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.

- Canusa-CPS manufactures heat-shrinkable sleeves, adhesives, sealants and liquid coatings for corrosion protection on onshore and offshore pipelines.

- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.

- Flexpipe Systems manufactures spoolable composite pipe systems used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities.

- Guardian provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.

Petrochemical and Industrial

The Petrochemical and Industrial segment, which includes the DSG-Canusa and ShawFlex divisions, accounted for 9% of consolidated revenue for the three months ended September 30, 2012. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets.

- DSG-Canusa is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.

- ShawFlex is a manufacturer of wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

2.0 Financial Highlights

2.1 Selected Third Quarter and Year to Date Financial Information

(in thousands of Canadian dollars)	Three Months ended September 30,		Nine Months ended September 30,	
	2012	2011	**2012**	2011
Revenue	**$ 395,275**	$ 271,478	**$ 1,034,465**	$ 815,485
Cost of goods sold	**231,266**	179,974	**638,319**	524,281
Gross profit	**164,009**	91,504	**396,146**	291,204
Selling, general and administrative expenses	**77,067**	69,829	**223,603**	191,498
Research and development expenses	**3,350**	2,617	**10,115**	9,225
Foreign exchange (gains) losses	**(528)**	6,510	**716**	795
Amortization of property, plant and equipment	**11,252**	10,766	**31,579**	31,553
Amortization of intangible assets	**1,737**	1,842	**5,352**	5,438
Impairment of property, plant & equipment	**3,854**	–	**3,854**	–
Income(Loss) from Operations	**67,277**	(60)	**120,927**	52,695
(Gain) loss on investment in associate	**(8)**	3,114	**(2,726)**	8,132
Finance (income)/ costs, net	**(159)**	1,140	**(350)**	3,353
Income(Loss) before income taxes	**67,444**	(4,314)	**124,003**	41,210
Income taxes (recovery)	**14,006**	(1,170)	**25,887**	8,166
Net Income(Loss) for the Period	**$ 53,438**	**$** (3,144)	**$ 98,116**	$ 33,044
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Add:				
Income taxes	**14,006**	(1,170)	**25, 887**	8,166
Finance (income) costs, net	**(159)**	1,140	**(350)**	3,353
(Gain) loss on investment in associate	**(8)**	3,114	**(2,726)**	8,132
Impairment of property, plant & equipment	**3,854**	–	**3,854**	–
Amortization of property, plant, equipment and intangible assets	**12,989**	12,608	**36,931**	36,991
EBITDA[(a)]	**$ 84,120**	$ 12,548	**$ 161,712**	$ 89,686
Per Share Information				
Net Income(Loss)				
Basic (Classes A and B)	**$ 0.76**	$ (0.04)	**$ 1.39**	$ 0.47
Diluted (Classes A and B)	**$ 0.75**	$ (0.04)	**$ 1.38**	$ 0.46

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Refer to section 9 - Reconciliation of non-GAAP measures, for additional information with respect to non-GAAP measures used by the Company.

(in thousands of Canadian dollars)	**September 30, 2012**	December 31, 2011
Total Assets	**$ 1,734,839**	$ 1,226,749
Total Non-current Liabilities	**$ 245,589**	$ 110,342

Revenue

Consolidated revenue increased 46%, or $123.8 million, from $271.5 million during the third quarter of 2011 to $395.3 million during the third quarter of 2012, due to increases of $119.2 million, or 50%, in the Pipeline and Pipe Services segment and $3.9 million, or 12%, in the Petrochemical and Industrial segment.

Consolidated revenue increased by $219.0 million, or 27%, from $815.5 million for the nine month period ended September 30, 2011 to $1,034.5 million for the nine month period ended September 30, 2012, due to an increase of $ 207.1 million, or 29%, in the Pipeline and Pipe Services segment and $12.1 million, or 12%, in the Petrochemical and Industrial segment.

Income from Operations

Operating Income increased by $67.4 million, from an operating loss of $0.1 million during the third quarter of 2011 to operating income of $67.3 million during the third quarter of 2012. Gross profit increased by $72.5 million, primarily due to higher revenue and a higher gross margin percentage and a foreign exchange gain of $0.5 million recorded in the third quarter of 2012 compared to a foreign exchange loss of $6.5 million in the third quarter of 2011, partially offset by an increase in selling, general and administration expenses ("SG&A") of $7.2 million and an impairment loss on property, plant and equipment of $3.9 million.

Higher revenue of $123.8 million, as explained above, combined with a 7.8 percentage point increase in gross margin, generated the increased gross profit, with the gross margin percentage improvement driven by favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $7.2 million compared with the third quarter of 2011 primarily due to a $5.3 million increase in salaries and other personnel related costs and a $11.9 million increase in short and long term management incentive compensation accruals. These cost increases were partially offset by the fact that the third quarter of 2011 SG&A had included a provision for bad debts of $9.6 million. A $3.9 million impairment charge was recorded in the third quarter of 2012 to provide for the costs to dismantle plant and machinery at the Kembla Grange, Australia facility in anticipation of the sale of that facility's land and building that is expected to be completed in the next few months.

Operating Income increased by $68.2 million during the nine month period ended September 30, 2012 to $120.9 million, with gross profit increasing by $104.9 million on higher revenues and a higher gross margin percentage, partially offset by an increase in SG&A expenses of $32.1 million and an impairment loss on property plant and equipment of $3.9 million.

The increase in gross profit resulted from higher revenue of $219.0 million, as explained above, and an increase in gross margin of 2.6 percentage points due to favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $32.1 million in 2012 compared with 2011 primarily due to a $12.3 million increase in salaries and other personnel related costs, a $20.4 increase in short and long term management incentive compensation accruals, an increase in pension accruals of $3.0 million, higher building and land rental expenses of $3.5 million and restructuring charges for personnel reductions at the Leith, Scotland and Kembla Grange, Australia facilities totaling $1.9 million. These cost increases were partially offset by the fact that the 2011 SG&A had included a provision for bad debts of $9.6 million. A $3.9 million impairment charge was recorded in the third quarter of 2012 to provide for the costs to dismantle plant and machinery at the Kembla Grange, Australia facility in anticipation of the sale of the facility land and building that is expected to be completed in the next few months.

Net Income

Net income increased by $56.6 million, from a net loss of $3.1 million during the quarter ended September 30, 2011 to $53.4 million during the quarter ended September 30, 2012, mainly due to higher revenue and gross profit margins as explained above, a small gain on investment in associate and finance income of $0.2 million during the third quarter of 2012, compared to a loss on investment in associate of $3.1 million and finance costs of $1.2 million during the third quarter of 2011, respectively, partially offset by higher income taxes of $15.2 million.

Net income increased by $65.1 million from $33.0 million during the nine months ended September 30, 2011 to $98.1 million during the nine months ended September 30, 2012, mainly due to higher revenue and gross profit margins as explained above, a gain on investment in associate of $2.7 million and finance income of $0.4 million during 2012, compared to a loss on investment in associate of $8.2 million and finance costs of $3.4 million during 2011, partially offset by higher income taxes of $17.7 million.

2.2 Foreign Exchange Impact

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

	Three Months ended September 30,		**Nine Months ended September 30,**	
	2012	2011	**2012**	2011
U.S. dollar	**1.0038**	0.9854	**1.0058**	0.9833
Euro	**1.2584**	1.3925	**1.2904**	1.3757
British Pounds	**1.5856**	1.5818	**1.5846**	1.5800

The following table sets forth the impact on revenue, income from operations and net income, compared with the prior year period, as a result of foreign exchange fluctuations on the translation of foreign currency operations.

(in thousands of Canadian dollars)	**Q3-2012 Versus Q2-2012**	Q3-2012 versus Q3-2011	Q3-2012 YTD versus Q3-2011 YTD
Revenue	**$ (2,278)**	$ 1,028	$ 6,217
Income from operations	**(513)**	1,240	3,109
Net income	**$ (335)**	$ 1,137	$ 3,386

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $0.5 million in the third quarter of 2012 compared to a loss of $6.5 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities. The Company recorded a foreign exchange loss of $0.7 million for the nine months ended September 30, 2012 compared to a loss of $0.8 million in the comparable period in 2011.

3.0 Results from Operations

3.1 Business Developments for the Period

Strategic Review

On September 5, 2012, Ms. Virginia Shaw, the Chair of the ShawCor Board of Directors and the controlling shareholder of the Company (indirectly through a holding company), advised the Board of Directors that she is prepared to consider a possible sale of her shares of ShawCor as part of a sale of the Company.

The Board has struck a committee of independent directors to conduct a strategic review of alternatives, including canvassing potentially interested third parties to determine if an appropriate transaction is available that would be acceptable to Ms. Shaw and would be in the best interests of ShawCor and its shareholders. The independent committee has engaged Credit Suisse Canada as financial advisors and the strategic review is currently in progress.

There can be no assurance that a sale or any other transaction will occur. There is no defined timeline for completion of the strategic review. In addition, the Company does not intend to comment further regarding the strategic review until such time, if any, as the Company enters into a definitive agreement in respect of a particular transaction or otherwise determines that disclosure is appropriate or required.

Acquisition of Fineglade

On October 24, 2012, ShawCor Ltd., through one of its subsidiaries, acquired the remaining 60% of Fineglade Limited. Fineglade Limited, which currently holds approximately 96% of the outstanding shares of Socotherm S.p.A, was previously owned 40% by ShawCor Ltd. and 60% by an entity controlled by Sophia Capital.

The purchase price to acquire Sophia Capital's interest in Fineglade was approximately C$135 million and was satisfied by a cash payment of approximately C$77 million and the set-off of a pre-existing loan from ShawCor to Sophia Capital in the amount of approximately C$58 million.

Socotherm S.p.A., headquartered in Italy, is an international pipe coating contractor primarily serving the oil and gas industry from active operations in Brazil, Argentina, Venezuela, the Gulf of Mexico and Italy.

Renewal of Normal Course Issuer Bid ("NCIB")

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

During the nine month periods ended September 30, 2012, 572,000 Class A Subordinate Voting Shares were repurchased and cancelled for total consideration of $18.9 million, compared to 642,000 Class A Subordinate Voting Shares for a total consideration of $15.3 million in the comparable period in 2011.

3.2 Consolidated Information

Revenue

The following table sets forth revenue by reportable operating segment for the following periods:

(in thousands of Canadian dollars)	Three Months ended			Nine Months ended	
	September 30, 2012	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Pipeline and Pipe Services	**$ 359,591**	$ 287,931	$ 240,360	**$ 922,419**	$ 715,292
Petrochemical and Industrial	**36,374**	39,528	32,468	**113,655**	101,543
Elimination	**(690)**	(536)	(1,350)	**(1,609)**	(1,350)
	$ 395,275	$ 326,923	$ 271,478	**$ 1,034,465**	$ 815,485

Third Quarter 2012 versus Third Quarter 2011

Consolidated revenue increased 46%, or $123.8 million, from $271.5 million during the third quarter of 2011 to $395.3 million during the third quarter of 2012, due to increases of $119.2 million, or 50%, in the Pipeline and Pipe Services segment and $3.9 million, or 12%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment was significantly higher in the third quarter of 2012 than in the third quarter of 2011, because of increased activity in all regions, particularly in Latin America and Asia Pacific. See section 3.3.1 – Pipeline and Pipe Services segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment was higher in the third quarter of 2012 than in the third quarter of 2011, mainly because of an increase of 27% in North American revenues, partially offset by decreased activity in Europe, Middle East, Africa and Russia ("EMAR"). See section 3.3.2 – Petrochemical and Industrial segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Third Quarter 2012 versus Second Quarter 2012

Consolidated revenue increased by $68.4 million, or 21%, from $326.9 million during the second quarter of 2012 to $395.3 million during the third quarter of 2012, due to an increase of $71.7 million, or 25%, in the Pipeline and Pipe Services segment, partially offset by a decrease of $3.2 million, or 8%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment in the third quarter of 2012 was $359.6 million, or $71.7 million higher than in the second quarter of 2012, primarily due to increased activity in Latin America, Asia Pacific and North America, partially offset by lower revenue in EMAR. See section 3.3.1 – Pipeline and Pipe Services segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment decreased by $3.2 million during the third quarter of 2012 compared to the second quarter of 2012, primarily due to lower activity levels in North America and EMAR. See section 3.3.2 – Petrochemical and Industrial segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Consolidated revenue increased by $219.0 million, or 27%, from $815.5 million for the nine month period ended September 30, 2011 to $1,034.5 million for the nine month period ended September 30, 2012, due to an increase of $ 207.1 million, or 29 %, in the Pipeline and Pipe Services segment and $12.1 million, or 12%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment in 2012 was $922.4 million, or $207.1 million higher than in 2011, due to higher revenue in all regions, in particular North America and Latin America. See section 3.3.1 – Pipeline and Pipe Services segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by $12.1 million in 2012 compared to 2011, primarily due to higher activity levels in North America and Asia Pacific, partially offset by lower revenue in EMAR. See section 3.3.2 – Petrochemical and Industrial segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Income from Operations

The following table sets forth income from operations ("Operating Income") and Operating Margin for the following periods:

(in thousands of Canadian dollars)	**Three Months ended**			**Nine Months ended**	
	September 30, 2012	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Operating Income	**$ 67,277**	$ 22,795	$ (60)	**$ 120,927**	$ 52,695
Operating Margin[(a)]	**17.0%**	7.0%	0.0%	**11.7%**	6.5%

(a) Operating Margin is defined as Operating Income divided by revenue.

Third Quarter 2012 versus Third Quarter 2011

Operating Income increased by $67.4 million, from an operating loss of $0.1 million during the third quarter of 2011 to operating income of $67.3 million during the third quarter of 2012. Gross profit increased by $72.5 million, primarily due to higher revenue and a higher gross margin percentage and a foreign exchange gain of $0.5 million recorded in the third quarter of 2012 compared to a foreign exchange loss of $6.5 million in the third quarter of 2011, partially offset by an increase in SG&A expenses of $7.2 million and an impairment loss on property, plant and equipment of $3.9 million.

Higher revenue of $123.8 million, as explained above, combined with a 7.8 percentage point increase in gross margin, generated the increased gross profit, with the gross margin percentage improvement driven by favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $7.2 million compared with the third quarter of 2011 primarily due to a $5.3 million increase in salaries and other personnel related costs, and a $11.9 million increase in short and long term management incentive compensation accruals. These cost increases were partially offset by the fact that the third quarter 2011 SG&A had included a provision for bad debts of $9.6 million.

A $3.9 million impairment charge was recorded in the third quarter 2012 to provide for the costs to dismantle plant and machinery at the Kembla Grange, Australia facility in anticipation of the sale of that facility's land and building that is expected to be completed in the next few months.

Third Quarter 2012 versus Second Quarter 2012

Operating Income increased by $44.5 million from the second quarter of 2012 to $67.3 million during the third quarter of 2012. Gross profit increased by $50.4 million, primarily due to higher revenue, and a higher gross margin percentage and a foreign exchange gain of $0.5 million recorded in the third quarter of 2012 compared to a foreign exchange loss of $0.4 million in the second quarter of 2012, partially offset by an increase in SG&A expenses of $2.5 million and an impairment loss on property plant and equipment of $3.9 million.

Higher revenue of $68.4 million, as explained above, combined with a 6.7 percentage point increase in gross margin, generated the increased gross profit, with the gross margin percentage improvement driven by favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $2.5 million compared with the second quarter of 2012 due to a $4.3 million increase in short and long term management incentive compensation accruals partially offset by reduced building rental costs and various other provisions. In addition, a $3.9 million impairment charge was recorded in the third quarter 2012 as noted above.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Operating Income increased by $68.2 million during the nine month period ended September 30, 2011 to $120.9 million during the comparable period in 2012, with gross profit increasing by $104.9 million on higher revenues and a higher gross margin percentage, partially offset by an increase in SG&A expenses of $32.1 million, and an impairment loss on property plant and equipment of $3.9 million.

The increase in gross profit resulted from higher revenue of $219.0 million, as explained above, and an increase in gross margin of 2.6 percentage points due to favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $32.1 million in 2012 compared with 2011 primarily due to a $12.3 million increase in salaries and other personnel related costs, a $20.4 increase in short and long term management incentive compensation accruals, an increase in pension accruals of $3.0 million, higher building and land rental expenses of $3.5 million, and restructuring charges for personnel reductions at the Leith, Scotland and Kembla Grange, Australia facilities totaling $1.9 million. These cost increases were partially offset by the fact that the 2011 SG&A had included a provision for bad debts of $9.6 million.

A $3.9 million impairment charge was recorded in the third quarter 2012 to provide for the costs to dismantle plant and machinery at the Kembla Grange, Australia facility in anticipation of the sale of that facility’s land and building that is expected to be completed in the next few months.

Finance Costs, net

The following table sets forth the components of finance costs, net for the following periods:

(in thousands of Canadian dollars)	Three Months ended			Nine Months ended	
	September 30, 2012	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Interest income in short-term deposits	**$ (940)**	$ (1,001)	$ (229)	**$ (2,033)**	$ (731)
Interest expense, other	**781**	397	1,384	**1,683**	3,417
Interest expense on long-term debt	**–**	–	(15)	**–**	667
Finance (income) costs, net	**$ (159)**	$ (604)	$ 1,140	**$ (350)**	$ 3,353

<u>Third Quarter 2012 versus Third Quarter 2011</u>

In the third quarter of 2012, net finance income was $0.2 million, compared to a net finance cost of $1.1 million during the third quarter of 2011, as a result of lower accretion expense on certain non-current liabilities, no interest expense on long term debt and higher interest income on short-term deposits.

<u>Third Quarter 2012 versus Second Quarter 2012</u>

In the third quarter of 2012, net finance income was $0.2 million, compared to a net finance income of $0.6 million during the second quarter of 2012, as a result of higher accretion expense on certain non-current liabilities and lower interest income on short-term deposits.

<u>Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011</u>

In the nine months ended September 30, 2012, net finance income was $0.4 million, compared to a net finance cost of $3.4 million during the comparable period of 2011, as a result of lower accretion expense on certain non-current liabilities, no interest expense on long term debt and higher interest income on short-term deposits.

Income Taxes

<u>Third Quarter 2012 versus Third Quarter 2011</u>

The Company recorded an income tax expense of $14.0 million (21% of income before income taxes) in the third quarter of 2012, compared to an income tax recovery of $1.2 million (27% of loss before income taxes) in the third quarter of 2011. The effective tax rate in the third quarter of 2012 was lower than the Company's expected effective income tax rate of 27%, due to the significant portion of the Company’s taxable income that was earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the expected tax rate is 25% or less.

<u>Third Quarter 2012 versus Second Quarter 2012</u>

The Company recorded an income tax expense of $14.0 million (21% of income before income taxes) in the third quarter of 2012, compared to an income tax expense of $4.3 million (17% of income before income taxes) in the second quarter of 2012. The effective income tax rate in the second quarter of 2012 was much lower than in the third quarter of 2012 due to the reversal of tax reserves resulting from the favourable settlement of certain items in dispute with tax authorities.

<u>Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011</u>

The Company recorded an income tax expense of $25.9 million (21% of income before income taxes) during the nine-month period ended September 30, 2012, compared to an income tax expense of $8.2 million (20% of income before income taxes) during the nine-month period ended September 30, 2011. The effective income tax rate for the nine months ending September 30, 2012 is much lower than the expected income tax rate of 27% for the reasons discussed above.

3.3 Segment Information

3.3.1 Pipeline and Pipe Services Segment

The following table sets forth, by geographic location, the Revenue, Operating Income and Operating Margin for the Pipeline and Pipe Services segment for the following periods:

(in thousands of Canadian dollars)	Three Months ended			Nine Months ended	
	September 30, 2012	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
North America	**$ 162,633**	$ 146,054	$ 145,852	**$ 463,001**	$ 386,445
Latin America	**58,391**	21,990	9,635	**95,314**	20,051
EMAR	**54,489**	68,661	49,378	**181,580**	160,950
Asia Pacific	**84,078**	51,226	35,495	**182,524**	147,846
Total Revenue	**$ 359,591**	$ 287,931	$ 240,360	**$ 922,419**	$ 715,292
Operating Income	**$ 74,192**	$ 26,309	$ 9,183	**$ 138,047**	$ 62,278
Operating Margin	**20.6%**	9.1%	3.8%	**15.0%**	8.7%

Third Quarter 2012 versus Third Quarter 2011

Revenue in the third quarter of 2012 was $359.6 million, an increase of $119.2 million, or 50%, over the third quarter of 2011. This was driven by revenue increases in all regions with significant volume improvements in Asia Pacific and Latin America:

- In North America, revenue increased by $16.8 million, or 12%, as a result of strong growth in flexible composite pipe volumes, significantly increased activity from the Cardon IV, Enbridge Line 6B and Jack St. Malo projects, and increased market share in tubular management services in the US. These increases were partially offset by lower large diameter activity in Canada.

- Revenue in Latin America increased by $48.8 million as a result of the increased production on the Technip project in Trinidad, plus increased activity on the Linea 5 project in Mexico.

- EMAR revenue increased by $5.1 million, or 10%, due to increased volume from the Barzan project at Ras Al Khaimah, UAE ("RAK") and increased project activity in Orkanger, Norway and Russia, partially offset by lower volumes at Leith, Scotland.

- In Asia Pacific, revenue increased $48.6 million, or 137%, from the third quarter of 2011, mainly due to an increase in large project volumes with the Pearl Energy Ruby and Wheatstone projects reaching full production. This was partially offset by the closure of the Kembla Grange, Australia facility in early 2012.

Operating Income in the third quarter of 2012 was $74.2 million compared to $9.2 million in the third quarter of 2011, an increase of $65.0 million, or 708%, primarily due to the increase in revenue as explained above and an increase in the gross margin by 8.4 percentage points due to significantly better facilities utilization and the absorption of overheads in all regions. The increase in gross profit was partially offset by higher SG&A expenses in 2012, as explained in section 2.1 above. Finally, third quarter 2011 results had included a $9.6 million provision for bad debts.

Third Quarter 2012 versus Second Quarter 2012

Revenue was $359.6 million in the third quarter of 2012, an increase of $71.7 million, or 25%, from $287.9 million in the second quarter of 2012. Revenues in Asia Pacific, Latin America and North America were significantly higher in the third quarter of 2012 compared to the second quarter of 2011, partially offset by a decrease in EMAR revenue:

- Revenue in North America increased by $16.6 million, or 11%, due to strong sales of flexible composite pipe, particularly in Canada, after the weather impacted second quarter, and increased large diameter pipe coating volumes at the Canadian facilities.

- In Latin America, revenue was higher by $36.4 million, or 166%, due to full production volumes from the Technip project in Trinidad and Linea 5 project in Mexico.

- EMAR revenue decreased by $14.2 million, or 21%, primarily due to decreased volumes from the Barzan project in RAK and the Skuld and Tordis projects in Orkanger, Norway, partially offset by higher activity in Russia at the Arkangelsk joint venture facility.

- Revenue in Asia Pacific increased by $32.9 million, or 64%, mainly due to an increase in large project volumes with the Pearl Energy Ruby and Wheatstone projects reaching full production.

Operating Income in the third quarter of 2012 was $74.2 million compared to $26.3 million in the second quarter of 2012, an increase of $47.9 million, or 182%, with the operating margin increasing by 11.5 percentage points to 20.6%. The increase in operating income is primarily due to an 8.0 percentage point increase in gross profit margin due to a favourable change in project mix and significantly better facilities utilization and absorption of overheads on higher revenues, as explained above.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Revenue in the Pipeline and Pipe Services segment for the nine month period ended September 30, 2012 was $922.4 million, an increase of $207.1 million, or 29%, from $715.3 million in the comparable period in the prior year. Activity level in all regions was significantly higher in 2012 compared to 2011:

- Revenue in North America increased by $76.6 million, or 20%, due to increased sales of small diameter pipe coating, flexible composite pipe, tubular management services, the CSI acquisition, and increased large project activity particularly with the execution of the Jack St. Malo and Cardon IV projects at mobile plants in Beaumont Texas.

- In Latin America, revenue was higher by $75.3 million, or 375%, due to higher activity levels on the P55 Risers project in Brazil, the Technip project in Trinidad and the Linea 5 project at the Veracruz and Monterrey facilities in Mexico.

- EMAR revenue increased by $20.6 million, or 13%, primarily due to increased activity levels on the Barzan project in RAK and higher flow assurance pipe coating volumes in Orkanger, Norway, partially offset by the reduction in volumes at the Leith, Scotland facility where the Total Laggan project had been executed in 2011.

- Revenue in Asia Pacific increased by $34.7 million, or 24%, in 2012, mainly due to increased production levels on large offshore concrete weight coating projects such as M9 Zawtika, Pearl Energy Ruby and Wheatstone. This was partially offset by closure of the Kembla Grange, Australia facility in early 2012.

Operating Income for the nine month period ended September 30, 2012 was $138.1 million compared to $62.3 million for the nine month period ended September 30, 2011, an increase of $75.8 million, or 122%, with the operating margin increasing by 6.3 percentage points to 15.0%. The increase in operating income is primarily due to a 2.6 percentage point increase in gross profit margin due to a favourable change in project mix and better utilization of facilities and absorption of overheads on higher revenues, as explained above, partially offset by higher SG&A expenses as explained in section 2.1.

3.3.2 Petrochemical and Industrial Segment

The following table sets forth, by geographic location, the revenue, Operating Income and Operating Margin for the Petrochemical and Industrial segment for the following periods:

(in thousands of Canadian dollars)	Three Months ended			Nine Months ended	
	September 30, 2012	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
North America	**$ 23,827**	$ 25,313	$ 18,823	**$ 71,733**	$ 57,295
EMAR	**11,468**	13,220	13,020	**39,062**	41,857
Asia Pacific	**$ 1,079**	$ 995	$ 625	**$ 2,860**	$ 2,391
Total Revenue	**36,374**	39,528	32,468	**113,655**	101,543
Operating Income	**$ 4,911**	$ 5,424	3,544	**$ 15,375**	$ 11,540
Operating Margin	**13.5%**	13.7%	10.9%	**13.5%**	11.4%

Third Quarter 2012 versus Third Quarter 2011

Revenue increased in the third quarter by $3.9 million, or 12 %, to $36.4 million, compared to the third quarter of 2011 due to increased heat shrinkable product shipments in North America and higher shipments of wire and cable products to the oil sands markets and North American electrical utilities, partially offset by softness in EMAR due to reduced automotive shipments.

Operating Income of $4.9 million in the third quarter of 2012 increased by $1.4 million, or 38%, compared to $3.5 million in the third quarter of 2011. The increase was primarily due to the higher revenue as explained above and a 2.6 percentage point increase in operating margin due to favourable product mix on wire and cable products.

Third Quarter 2012 versus Second Quarter 2012

In the third quarter of 2012, revenue totaled $36.4 million compared to $39.5 million in the second quarter of 2012, a decrease of $3.1 million, or 8%. The decrease was driven by slightly lower shipments of wire and cable products to North American electrical utilities and lower revenues in the EMAR automotive market.

Operating Income in the third quarter of 2012 was $4.9 million compared to $5.4 million in the second quarter of 2012, primarily due to the lower revenue as explained above.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Revenue increased in the nine months ended September 30, 2012 by $12.1 million, or 12%, to $113.7 million, compared to the comparable period in 2011 due to increased shipments of wire and cable products to the oil sands and electrical utilities markets and increased heat shrinkable product shipments in North America. This was partially offset by lower volumes in EMAR due to reduced automotive shipments.

Operating Income for the nine months ended September 30, 2012 was $15.4 million compared to $11.5 million for the nine months ended September 30, 2011, an increase of $3.8 million, or 33%. The increase was primarily due to higher revenue, as explained above, and a 2.1 percentage point increase in operating margin due to improved overhead absorption from better facility utilization favourable product mix on wire and cable products.

3.3.3 Financial and Corporate

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

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

(in thousands of Canadian dollars)	**Three Months ended**			**Nine Months ended**	
	September 30, 2012	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Financial and Corporate Expenses	**$ (12,354)**	$ (8,539)	$ (6,277)	**$ (31,779)**	$ (20,328)

Third Quarter 2012 versus Third Quarter 2011

Financial and corporate costs increased by $6.1 million from $6.3 million during the third quarter of 2011, to $12.4 million during the third quarter of 2012, primarily as a result of an increase in the recorded expense for short and long term management incentive compensation of $6.9 million.

Third Quarter 2012 versus Second Quarter 2012

Financial and corporate costs increased by $3.9 million from the second quarter of 2012 to $12.4 million in the third quarter of 2012, primarily due to an increase in the recorded expense for short and long term management incentive compensation of $2.0 million, changes in various provisions of $1.2 million, and the reclassification of decommissioning obligation costs to the Pipeline and Pipe Services segment in the second quarter of 2012, which were previously recorded in the Financial and Corporate segment.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Financial and corporate costs increased by $11.5 million from the nine month period ended September 30, 2011 to $31.8 million for the nine month period ended September 30, 2012, primarily due to an increase in the recorded expense for short and long term management incentive compensation of $9.1 million, and higher personnel related expenses in 2012 as compared to 2011 of $1.8 million.

4.0 Liquidity and Capitalization

The following table sets forth the Company's cash flows by activity and cash balances for the following periods:

(in thousands of Canadian dollars)	Three Months ended September 30,		Nine Months ended September 30,	
	2012	2011	**2012**	2011
Net Income for the Period	**$ 53,438**	$ (3,144)	**$ 98,116**	$ 33,044
Non-cash items	**21,867**	13,043	**44,864**	54,308
Settlement of decommissioning obligations	**(790)**	(284)	**(1,331)**	(284)
Settlement of other provisions	**(72)**	1,285	**(482)**	(1,839)
(Decrease) Increase in non-current deferred revenue	**(55,396)**	–	**150,480**	–
Change in employee future benefits	**(150)**	–	**654**	–
Change in non-cash working capital and foreign exchange	**(35,993)**	(11,712)	**139,026**	(61,749)
Cash (used in) provided by operating activities	**(17,096)**	(812)	**431,327**	23,480
Cash used in investing activities	**(75,006)**	(23,512)	**(307,899)**	(68,610)
Cash used in financing activities	**(8,691)**	(12,217)	**(46,029)**	(46,953)
Foreign exchange gain (loss) on foreign cash and cash	**(674)**	5,862	**(517)**	3,319
Net change in cash and cash equivalents	**(101,467)**	(30,679)	**76,882**	(88,764)
Cash and cash equivalents at beginning of period	**235,080**	97,913	**56,731**	155,998
Cash and Cash Equivalents at End of Period	**$ 133,613**	$ 67,234	**$ 133,613**	$ 67,234

4.1 Cash (Used in) Provided by Operating Activities

Third Quarter 2012 versus Third Quarter 2011

Cash used in operating activities increased by $16.3 million from $0.8 million in the third quarter of 2011 to $17.1 million in the third quarter of 2012. The increase was primarily due to a decrease in non-current deferred revenue of $55.4 million and an increase in non-cash working capital and foreign exchange of $24.3 million. This was partially offset by an increase in net income for the period of $56.6 million and an increase in non-cash items of $8.8 million. The increase in non-cash working capital and foreign exchange was due to an increase in accounts receivable of $125.9 million, partially offset by an increase in the current portion of deferred revenue of $68.8 million, an increase of $22.6 million in accounts payable and accrued liabilities, and a decrease of $11.9 million in inventory in the quarter. Net income increased due to higher revenue and operating income as discussed in section 3.2 – Consolidated Information. Non-cash items increased mainly as result of an increase of $5.1 million in stock-based and incentive-based compensation and an increase of $3.9 million from impairment of property, plant and equipment during the third quarter of 2012 compared to the third quarter of 2011.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Cash provided by operating activities increased by $407.8 million from $23.5 million during the nine month period ended September 30, 2011 to $431.3 million during the nine month period ended September 30, 2012. The increase was primarily due to an increase in non-current deferred revenue of $150.5 million and a decrease of $200.8 million in non-cash working capital and foreign exchange. Net income for the period also increased by $65.1million, partially offset by a reduction in non-cash items of $9.4 million. The increase in non-current deferred revenue was related to certain customer advances being received on long-term contracts. Under these contracts, the customer advances will be repaid through the provision of pipe coating services over the term of these contracts. The decrease in non-cash working capital and foreign exchange was primarily due to an increase in the current portion of deferred revenue of $307.8 million, partially offset by an increase in accounts receivable of $123.4 million. Net income increased due to higher revenue and operating income as discussed in section 3.2 – Consolidated Information. Non-cash items decreased mainly as a result of a gain of $2.7 million on investment in associate for the nine month period ended September 30, 2012 compared to a loss of $8.1 million for the nine month period ended September 30, 2011.

4.2 Cash Used in Investing Activities

Third Quarter 2012 versus Third Quarter 2011

Cash used in investing activities increased by $51.5 million from $23.5 million during the third quarter of 2011 to $75.0 million during the third quarter of 2012, mainly due to an increase in short-term investments of $56.8 million and an increase in property, plant and equipment purchases of $5.1 million, partially offset by a decrease in loan receivable of $10.9 million.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Cash used in investing activities increased by $239.3 million from $68.6 million for the nine month period ended September 30, 2011 to $307.9 million for the nine month period ended September 30, 2012, mainly due to an increase in loan receivable of $50.7 million and an increase in short-term investments of $201.3 million, partially offset by a decrease of $10.5 million in investment in an associate and a decrease of $10.6 million in business acquisition during the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011.

4.3 Cash Used in Financing Activities

Third Quarter 2012 versus Third Quarter 2011

Cash used in financing activities decreased by $3.5 million from $12.2 million during the third quarter of 2011 to $8.7 million during the third quarter of 2012, mainly due to the repurchase of shares in the amount of $12.3 million compared to nil in the third quarter of 2012, partially offset by the issuance of shares of $7.5 million in the third quarter of 2011 compared to $0.1 million in the third quarter of 2012. Refer to section 3.1 – Business Developments for the Period – Renewal of Normal Course Issuer Bid for additional information.

Nine Months ended September 30, 2012 versus Nine Months ended September 30, 2011

Cash used in financing activities decreased by $0.9 million from $46.9 million for the nine month period ended September 30, 2011 to $46.0 million for the nine month period ended September 30, 2012, mainly due to the repayment of long term debt of $24.4 million during the nine months ended September 30, 2011 compared to nil in the nine month ended September 30, 2012, partially offset by a decrease in bank indebtedness of $12.2 million and an increase in the issuance of shares in the amount of $6.2 million in 2012 compared to 2011.

4.4 Liquidity and Capital Resource Measures

Accounts Receivables

The following table sets forth the Company’s trade accounts receivable – net balance and days sales outstanding in trade accounts receivables (″DSO″) as at:

(in thousands of Canadian dollars)	**September 30, 2012**	December 31, 2011	Change
Average trade accounts receivables	**$ 340,604**	$ 236,275	$ 104,329
DSO[(a)]	**78**	62	16

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-net are outstanding based on a 90 day cycle. The Company’s method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See section 9 – Reconciliation of non-GAAP measures for additional information with respect to DSO.

Average trade accounts receivables increased by $104.3 million from $236.3 million as at December 31, 2011 to $340.6 million as at September 30, 2012 and DSO increased by 16 days from 62 during the fourth quarter of 2011 to 78 during the third quarter of 2012, primarily due to the timing of sales and collection of receivables in the third quarter of 2012 compared to the fourth quarter of 2011.

Inventories

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

(in thousands of Canadian dollars)		**September 30, 2012**		December 31, 2011		Change
Inventories	**$**	**187,675**	$	146,786	$	40,889

Inventories increased by $40.9 million from $146.8 million as at December 31, 2011 to $187.7 million as at September 30, 2012, due to an increase of raw materials inventory of approximately $30.4 million, an increase of $3.8 million in work in process and an increase of $6.7 million in finished goods inventory, in anticipation of work to be completed in the fourth quarter of 2012.

Accounts Payable

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

(in thousands of Canadian dollars)		**September 30, 2012**		December 31, 2011		Change
Average accounts payable and accrued liabilities	**$**	**175,904**	$	144,270	**$**	31,634
DPO[(a)]		**68**		62		6

(a) DPO, a non-GAAP measure, is the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90 day cycle. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See section 9 – Reconciliation of non-GAAP measures, for additional information with respect to DPO.

Average accounts payable and accrued liabilities increased by $31.6 million, or 22%, from $144.3 million as at December 31, 2011, to $175.9 million as at September 30, 2012. DPO increased by 6 days in the third quarter of 2012 compared to the fourth quarter of 2011, driven by an increase in accounts payable and accrued liabilities and the timing of the purchases.

Loan Payable

The Company's Russian joint venture has loans from OOO ArkhTekhnoProm and TES Limited Liability Company in the amount of 832 million Russian roubles payable on demand. The Company's portion of these loans, $6.5 million or 208 million Russian roubles at the current exchange rate (December 31, 2011 – $5.0 million or 156 million Russian roubles at the then current exchange rate), have been proportionately consolidated and included on the interim consolidated balance sheet as at September 30, 2012,. Interest is calculated on these loans at interest rates in the range of 9.625% to 14.40% 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.

4.5 Commitments, Contingencies and Off Balance Sheet Arrangements

Legal Claims

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers, ex-employees 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. If the Company is unwilling to issue performance and other types of bonds, it could have a materially adverse effect on the ability of the Company to generate revenue. Historically, the Company has not made and does not anticipate that it will be required to make material payments under these types of bonds.

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

(in thousands of Canadian dollars)	September 30, 2012	December 31, 2011
Bank indebtedness	**54**	$ 12,281
Standard letters of credit for performance, bid and surety bonds	**$ 86,572**	$ 61,555
Total utilized credit facilities	**86,626**	73,836
Total available credit facilities	**228,897**	236,168
Unutilized credit facilities[(a)]	**$ 142,271**	$ 162,332

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

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 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 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 1. The Company was in compliance with these covenants as at September 30, 2012 and December 31, 2011. These debt covenants are non-GAAP measures and do not have standardized meanings prescribed by IFRS and are not necessarily comparable to other similarly titled measures of other companies. Refer to section 9 – *Reconciliation of Non-GAAP Measures* for additional information with respect to Non-GAAP measures used by the Company.

4.6 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. Please refer to note 21 of the 2011 audited annual consolidated financial statements contained in the 2011 Annual Report for additional information with respect to the Company's financial risk management.

4.7 Outstanding Share Capital

As at October 31, 2012, the Company had 57,428,092 Class A Subordinate Voting shares outstanding and 12,784,335 Class B Multiple Voting shares outstanding. In addition, as at October 31, 2012, the Company had stock options outstanding to purchase up to 2,373,700 Class A Subordinate Voting shares.

4.8 Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three-month period ended September 30, 2012 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

4.9 Transactions with Related Parties

The Company had no material transactions with related parties during the year 2012. All related party transactions were in the normal course of business.

5.0 Critical Accounting Estimates and Accounting Policy Developments

5.1 Critical Accounting Estimates

The preparation of the unaudited interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets, liabilities and contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management’s best judgment given the information available at the time; however, actual results could differ from the estimates.

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

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

Future Benefit Obligations

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

Provisions and Contingent Liabilities

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

5.2 Accounting Standards Issued but not yet Applied

IAS 1 Presentation of Financial Statements

The IASB amended IAS 1, Financial Instruments, by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements and has not yet determined whether it will adopt the standard early.

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, 2015, 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.

6.0 Outlook

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

Pipeline Segment - North America

The Company expects that revenues from the pipeline segment businesses in North America in the fourth quarter of 2012 will be consistent with the third quarter. The Company expects that increasing market share gains in spoolable composite pipe and at ShawCor's Guardian OCTG pipe inspection and refurbishment business, where the previously announced expansion into the Eagleford region of Texas is underway, should offset any weakness in well drilling and completions. Furthermore, the Company is expecting to see an increase in large diameter pipe coating projects in Canada based on bidding activity and a recently awarded project with a value in excess of $30 million. In the fourth quarter, this pick up in large diameter pipe coating activity will largely offset the reduction in offshore activity following the completion of the Jack St. Malo and Cardon IV projects.

Pipeline Segment - Latin America

The Company's Latin America region delivered the expected growth in revenue in the third quarter from the launch of full production at the Company's mobile concrete coating site in Trinidad for the $90 million Technip project as well as the $40 million Linea 5 project at the Company's concrete coating facility in Mexico. Production on these orders will continue in the fourth quarter and into 2013 and will be complemented by higher production levels at ShawCor's pipe coating facility in Belo Horizonte, Brazil.

Pipeline Segment - EMAR

The Company's EMAR region has experienced strong project revenues from the pipe coating facilities in Orkanger, Norway and Ras Al Khaimah, UAE and this is expected to continue in the fourth quarter at a modestly reduced level due to the completion of the $45 million Barzan project.

Pipeline Segment - Asia Pacific

The Company's Asia Pacific region commenced full production of the Pearl Energy and Wheatstone gas supply trunk line pipeline projects in the third quarter and is on schedule to commence production on the Ichthys gas export pipeline in the fourth quarter. With the successful ramp up in production volumes, the Company's Asia Pacific facilities reached record revenue and operating income levels in the third quarter. With the addition of the Ichthys project volumes in the fourth quarter, further gains in revenue and operating income are expected.

Petrochemical and Industrial Segment

ShawCor's Petrochemical and Industrial segment businesses are significantly exposed to demand in the North American and European automotive and industrial markets. As a result, the onset of recession in Europe and any deceleration of economic activity in North America will negatively impact segment revenue and profit. Although order backlogs continue to be at high levels, the prospect for a weakening trend has increased and the Company will be focused on seeking to capture market opportunities in areas less sensitive to the performance of the developed economies, such as growth in Asia at the DSG-Canusa China facility and the demand for highly engineered wire and cable systems related to continued oil sands development.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog at September 30, 2012 was $722 million, down 3.6% from the record level of $749 million at June 30, 2012, but up 93.0% from the $374 million level reported one year ago. The small decline in the reported backlog over the quarter is due to the appreciation of the Canadian dollar as the backlog in US dollars has continued to grow from the level at the start of the third quarter. Including the value of booked projects that are expected to be executed beyond the next twelve months, the Company's order book at September 30, 2012 is approximately one billion dollars. This order backlog and longer term order book supports our outlook for continued strong performance in the quarters ahead.

7.0 Risks and Uncertainties

Operating in an international environment, servicing predominantly the oil and gas industry, ShawCor faces a number of business risks and uncertainties that could materially and adversely affect its projections, businesses, results of operations and financial condition. There were no material changes in the nature or magnitude of such business risks during the quarter. A more complete outline of the risks and uncertainties facing the Company is included in the annual MD&A contained in the Company's 2011 Annual Report.

8.0 Environmental Matters

While environmental related liabilities are considered immaterial to the Company's financial results, they are important to the Company from a social responsibility standpoint.

As at September 30, 2012, the provisions on the interim consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $22.9 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

9.0 Reconciliation of Non-GAAP Measures

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

EBITDA

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

Days Sales Outstanding ("DSO")

DSO is defined as the number of days trade accounts receivable are outstanding based on a 90 day cycle and is calculated by dividing the average trade accounts receivable balance for the quarter by the revenue for that same quarter, and multiplying by 90 days. DSO approximates the measure of the average number of days from when the Company recognizes revenue until the cash is collected from the customer. The following table sets forth the calculation for the Company's DSO as at:

(in thousands of Canadian dollars)	**September 30, 2012**	December 31, 2011
Revenue for the quarter	**$ 395,275**	$ 341,780
Average trade accounts receivables	**340,604**	236,275
DSO	**78**	62

Days Payables Outstanding ("DPO")

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

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

(in thousands of Canadian dollars)		**September 30, 2012**		December 31, 2011
Cost of goods sold for the quarter	**$**	**231,266**	$	210,449
Average accounts payable and accrued liabilities		**175,904**		144,270
DPO		**68**		62

Working Capital Ratio

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

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

(in thousands of Canadian dollars)		**September 30, 2012**		December 31, 2011
Current assets	$	**1,057,253**	$	536,138
Current liabilities	$	**575,687**	$	248,996
Working capital ratio		**1.83**		2.15

Fixed Charge Coverage Ratio

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

The following table sets forth the calculation of the Company's fixed charge coverage ratio for the nine-month period ended September 30, 2012:

(in thousands of Canadian dollars)		**September 30, 2012**
EBITDA	$	**161,712**
Interest expense, other		**1,683**
Fixed charge coverage ratio		**96**

The Company is in compliance with this debt covenant as at September 30, 2012.

Debt to Total Capitalization Ratio

Debt to total capitalization ratio is defined as the sum of the Company's long-term debt and long-term bonds divided by the sum of shareholders' equity, long-term debt and long-term bonds. The Company is required to maintain a debt to total capitalization ratio of no more than 0.40 to 1. The Company is in compliance with this debt covenant as at September 30, 2012.

10.0 Summary of Quarterly Results

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

(in thousands of Canadian dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue					
2012	**312,268**	**326,923**	**395,275**	**–**	**–**
2011	279,466	264,541	271,478	341,780	1,157,265
2010	224,572	234,546	282,959	292,086	1,034,163
Income (loss) from operations					
2012	**30,855**	**22,795**	**67,277**	**–**	**–**
2011	30,099	22,660	(60)	31,744	84,443
2010	18,547	18,944	42,718	39,622	119,831
Net income (loss)[(a)]					
2012	**23,274**	**21,404**	**53,438**	**–**	**–**
2011	20,485	15,703	(3,144)	23,042	56,086
2010	11,739	12,031	32,126	39,176	95,072
Income from operations per share (Classes A and B)					
Basic					
2012	**0.44**	**0.32**	**0.96**	**–**	**–**
2011	0.43	0.32	0.00	0.44	1.19
2010	0.26	0.27	0.60	0.57	1.70
Diluted					
2012	**0.43**	**0.32**	**0.95**	**–**	**–**
2011	0.42	0.32	0.00	0.44	1.18
2010	0.26	0.27	0.60	0.55	1.68
Net income (loss) per share (Classes A and B)					
Basic					
2012	**0.33**	**0.30**	**0.76**	**–**	**–**
2011	0.29	0.22	(0.04)	0.32	0.79
2010	0.17	0.17	0.46	0.55	1.35
Diluted					
2012	**0.33**	**0.30**	**0.75**	**–**	**–**
2011	0.29	0.21	(0.04)	0.32	0.78
2010	0.16	0.17	0.45	0.55	1.33

(a) Represents the net income attributable to shareholders of the Company.

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

The Company's operations in the Pipeline and Pipe Services segment, representing approximately 91% of the Company's consolidated revenue, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services market segment. The comparability of the quarterly information disclosed above is also impacted by movements in exchange rates as the majority of the Company's revenue is transacted in currencies other than Canadian dollars, primarily U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars.

11.0 Forward-Looking Information

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute forward looking information under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook section and elsewhere in respect of, among other things, the timing of major project activity, the completion of the sale of the Kemla Grange facility, the impact of the existing order backlog and other factors on the Company's revenue and operating income, the impact of global economic activity on the demand for the Company's products, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the impact of changing laws for environmental compliance on the Company's capital and operating costs, and the adequacy of the Company's existing accruals in respect thereof and in respect of litigation matters generally, the level of payments under the Company's performance bonds, the outlook for revenue and operating income and the expected development in the Company's order backlog.

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

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

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

ShawCor will be hosting a Shareholder and Analyst Conference Call and Webcast on Friday, November 9th, 2012 at 10:00 AM EDT, which will discuss the Company's third quarter financial results.

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

Please visit our website at www.shawcor.com for further details.

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