

# **ShawCor Ltd.**

## **Consolidated Financial Statements December 31, 2012**

(in thousands of Canadian dollars)

## 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, 2012 and 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011, 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.

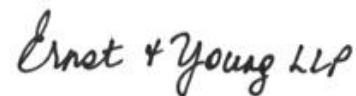
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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, 2012 and 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Toronto, Canada  
February 28, 2013

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

Chartered Accountants  
Licensed Public Accountants

# ShawCor Ltd.

## Consolidated Balance Sheet

As at December 31:

(in thousands of Canadian dollars)

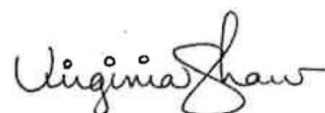
	2012 \$	2011 \$
<b>Current Assets</b>		
Cash and cash equivalents (note 7)	293,266	56,731
Short-term investments (note 8)	78,747	10,545
Loan receivable (note 9)	604	2,047
Accounts receivable (note 10)	389,929	279,324
Income taxes receivable (note 24)	13,675	15,981
Inventories (note 11)	202,887	146,786
Prepaid expenses	41,370	24,454
Derivative financial instruments (note 24)	3,988	270
	<b>1,024,466</b>	<b>536,138</b>
<b>Non-current Assets</b>		
Loans receivable (note 9)	6,527	12,622
Property, plant and equipment (note 12)	392,592	299,118
Intangible assets (note 13)	144,694	86,362
Long-term Investment (note 15)	1,348	30,095
Deferred income taxes (note 32)	32,453	30,058
Other assets (note 16)	12,638	12,022
Goodwill (note 17)	285,710	220,334
	<b>875,962</b>	<b>690,611</b>
Assets held for Sale (note 18)	27,141	–
	<b>1,927,569</b>	<b>1,226,749</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 21)	3,801	12,281
Loans payable (note 21)	8,395	5,001
Accounts payable and accrued liabilities (note 19)	224,497	156,064
Provisions (notes 20)	43,193	12,317
Income taxes payable (note 24)	37,991	35,200
Derivative financial instruments (note 24)	1,275	419
Deferred revenue (note 22)	377,091	27,446
Obligations under finance lease (note 26)	1,927	268
	<b>698,170</b>	<b>248,996</b>
<b>Non-current Liabilities</b>		
Loans payable (note 21)	8,682	–
Obligations under finance lease (note 26)	12,728	–
Provisions (notes 20)	54,151	50,859
Deferred revenue (note 22)	64,392	–
Derivative financial instruments (note 24)	–	2,499
Deferred income taxes (note 32)	71,664	56,984
	<b>211,617</b>	<b>110,342</b>
Liabilities directly associated with the assets classified as held for sale (note 18)	11,917	–
	<b>921,704</b>	<b>359,338</b>
<b>Equity</b>		
Share capital (note 27)	221,687	218,381
Contributed surplus	17,525	16,391
Retained earnings	799,849	664,475
Non-controlling interest	(331)	–
Accumulated other comprehensive loss	(32,865)	(31,836)
	<b>1,005,865</b>	<b>867,411</b>
	<b>1,927,569</b>	<b>1,226,749</b>

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

Director



Director



# ShawCor Ltd.

## Consolidated Statement of Income For the year ended December 31:

(in thousands of Canadian dollars, except per share amounts)

	2012	2011
	\$	\$
Sale of products	385,933	332,242
Rendering of Services	1,096,916	825,023
<b>Revenue</b>	<b>1,482,849</b>	1,157,265
<b>Cost of Goods Sold</b>	<b>904,362</b>	735,266
<b>Gross Profit</b>	<b>578,487</b>	421,999
Selling, general and administrative expenses	308,172	269,241
Research and development expenses	12,242	13,119
Foreign exchange (gains) losses	(119)	1,338
Amortization of property, plant and equipment (note 12)	45,133	41,906
Amortization of intangible assets (note 13)	8,248	7,244
Gain on sale of land	(12,101)	–
Impairment of property, plant & equipment (note 14)	4,686	5,244
<b>Income from Operations</b>	<b>212,226</b>	83,907
Accounting gain on acquisition – net (note 5)	413	–
Income (loss) on investment in associate	8,694	(10,133)
Finance income (costs), net	1,318	(4,507)
<b>Income Before Income Taxes</b>	<b>222,651</b>	69,267
Income Taxes (note 32)	44,188	12,987
<b>Net Income</b>	<b>178,463</b>	56,280
<b>Net Income Attributable to:</b>		
Shareholders of the Company	178,418	56,280
Non-controlling interests	45	–
<b>Net Income</b>	<b>178,463</b>	56,280
<b>Earnings per Share</b>		
Basic (note 31)	2.53	0.79
Diluted (note 31)	2.50	0.78
<b>Weighted Average Number of Shares Outstanding (000s)</b>		
Basic (note 31)	70,413	70,725
Diluted (note 31)	71,278	71,536

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

# ShawCor Ltd.

## Consolidated Statement of Comprehensive Income For the year ended December 31:

(in thousands of Canadian dollars)

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>Net Income for the Year</b>	<b>178,463</b>	56,280
<b>Other Comprehensive Income (Loss)</b>		
Unrealized gain (loss) on translation of foreign operations	<b>(826)</b>	9,134
Gain on hedges of unrealized foreign currency translation	–	603
Gain on hedges of unrealized foreign currency translation transferred to net income during the period	–	(1,833)
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
<b>Other Comprehensive (Loss) Income for the Year, Net of Income Tax</b>	<b>(826)</b>	5,031
<b>Comprehensive Income</b>	<b>177,637</b>	61,311
<b>Comprehensive Income Attributable to:</b>		
Shareholders of the Company	<b>177,389</b>	61,311
Non-controlling interests	<b>248</b>	–
<b>Comprehensive Income</b>	<b>177,637</b>	61,311

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

# ShawCor Ltd.

## Consolidated Statement of Changes in Equity For the year ended December 31:

(in thousands of Canadian dollars)

	Capital stock \$	Contributed surplus \$	Retained earnings \$	Non controlling Interest \$	Accumulated other comprehensive (loss) income \$	Total shareholders' equity \$
<b>Balance - December 31, 2010</b>	<b>206,775</b>	<b>18,144</b>	<b>644,191</b>	–	<b>(36,867)</b>	<b>832,243</b>
Net income for the year	–	–	56,280	–	–	56,280
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	–	–	(14,066)	–	–	(14,066)
Other comprehensive income	–	–	–	–	5,031	5,031
Dividends paid (note 27)	–	–	(21,930)	–	–	(21,930)
<b>Balance - December 31, 2011</b>	<b>218,381</b>	<b>16,391</b>	<b>664,475</b>	–	<b>(31,836)</b>	<b>867,411</b>
Net income for the year	–	–	178,418	45	–	178,463
Issued on exercise of stock options	3,988	–	–	–	–	3,988
Compensation cost on exercised options	1,415	(1,415)	–	–	–	–
Compensation cost on exercised RSUs	79	(79)	–	–	–	–
Stock-based compensation expense	–	2,628	–	–	–	2,628
Purchase – Normal Course Issuer Bid	(2,176)	–	–	–	–	(2,176)
Excess of purchase price over stated value of shares	–	–	(16,712)	–	–	(16,712)
Other comprehensive income	–	–	–	203	(1,029)	(826)
Acquisition of non-controlling interest	–	–	–	(579)	–	(579)
Dividends paid (note 27)	–	–	(26,332)	–	–	(26,332)
<b>Balance - December 31, 2012</b>	<b>221,687</b>	<b>17,525</b>	<b>799,849</b>	<b>(331)</b>	<b>(32,865)</b>	<b>1,005,865</b>

# ShawCor Ltd.

## Consolidated Statement of Cash Flows

### For the year ended December 31:

(in thousands of Canadian dollars)

	2012 \$	2011 \$
<b>Operating activities</b>		
Net income for the year	178,463	56,280
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment (note 12)	45,133	41,906
Amortization of intangible assets (note 13)	8,248	7,244
Amortization of long-term prepaid expenses	900	754
Decommissioning obligations expense (note 20)	(472)	425
Other provisions expense (note 20)	1,457	4,362
Stock based and incentive based compensation (note 28)	15,297	4,501
Deferred income taxes (note 32)	(881)	(14,686)
(Gain) loss on disposal of property, plant and equipment	(416)	180
(Gain) on sale of land and other items	(12,101)	-
Accounting (gain) on acquisition (note 5)	(9,445)	-
Investment (income) loss on long term investment	(8,694)	10,133
Impairment of property, plant and equipment (note 14)	4,686	5,244
Other	(3,351)	3,791
Settlement of decommissioning liability obligations (note 20)	(1,580)	(1,074)
Settlement of other provisions (note 20)	(7,292)	(2,240)
Increase in non-current deferred revenue	64,392	-
Net change in employee future benefits (note 20 and 23)	1,168	636
Net change in non-cash working capital and foreign exchange	254,579	(72,131)
<b>Cash Provided by Operating Activities</b>	<b>530,091</b>	<b>45,325</b>
<b>Investing Activities</b>		
(Increase) in loan receivable	(62,085)	(10,911)
Net purchase of short term investments	(68,202)	(10,545)
Purchases of property, plant and equipment (note 12)	(74,439)	(55,982)
Proceeds on disposal of land	12,722	-
Proceeds on disposal of property, plant and equipment	1,465	745
Purchase of intangible assets (note 13)	(62)	(392)
Investment in associate (note 15)	(2,824)	(10,517)
Loan provided to associate (notes 9 and 15)	-	(10,347)
(Increase) decrease in other assets	(956)	4,815
Business acquisition (Note 5)	(49,024)	(12,839)
<b>Cash Used in Investing Activities</b>	<b>(243,405)</b>	<b>(105,973)</b>
<b>Financing Activities</b>		
(Decrease) increase in bank indebtedness (note 21)	(8,480)	12,281
Repayment of loan	(522)	-
Repayments of obligations under finance lease	(465)	(416)
Repayment of long-term debt (note 21)	-	(24,402)
Issuance of shares on exercise of stock options (note 27)	3,988	9,878
Repurchase of treasury shares (note 27)	(18,888)	(16,467)
Dividends paid to shareholders (note 27)	(26,332)	(21,930)
<b>Cash Used in Financing Activities</b>	<b>(50,699)</b>	<b>(41,056)</b>
<b>Effect of Foreign Exchange on Cash and Cash Equivalents</b>	<b>548</b>	<b>2,437</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents for the Year</b>	<b>236,535</b>	<b>(99,267)</b>
<b>Cash and Cash Equivalents – Beginning of Year</b>	<b>56,731</b>	<b>155,998</b>
<b>Cash and Cash Equivalents – End of Year</b>	<b>293,266</b>	<b>56,731</b>
<b>Supplemental Information</b>		
Cash interest paid	765	5,531
Cash interest received	1,959	1,024
Cash income taxes paid	44,047	35,379

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

## **1 Corporate information**

ShawCor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. 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 eight divisions with over 75 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 4.

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

## **2 Basis of preparation**

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*.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2012.

### **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, 2012 were authorized for issue by the company’s Board of Directors on February 28, 2013.



### **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 30.

#### **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 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 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 or when there is an indicator of 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 prorated 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. For the Company's principal plans, these periods range from 5 years to 21 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:

<b>Balance Sheet Item</b>	<b>Designation</b>
Cash and cash equivalents	Loans and receivables
Short-term investments	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 and loss
Assets held for sale	Available for sale financial assets
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

#### 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 sheet 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, 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 Effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

#### ***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).

The standard was initially effective for annual periods beginning on or after January 1, 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 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.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to IFRS 10 and will begin to report using IFRS 10 starting in 2013.

#### ***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.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to IFRS 11 and will begin to report using IFRS 11 starting in 2013.

#### ***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.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to IFRS 12 and will begin to report using IFRS 12 starting in 2013.

#### ***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.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to IFRS 13 and will begin to report using IFRS 13 starting in 2013.

#### ***IAS 1 Presentation of Financial Statements***

The IASB amended *IAS 1, Presentation of Financial Statements*, by revising how certain items are presented in other comprehensive income (“OCI”). Items within OCI that may be reclassified to profit or 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 will begin to report using IAS 1 amendments starting in 2013.

### ***IAS 19 Employee Benefits***

On January 1, 2013, ShawCor will be required to adopt *IAS 19, Employee Benefits*. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013. IAS 19 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet completed the process of evaluating the effect of and the planning for the transition to IAS 19 and will begin to report using IAS 19 starting in 2013.

### ***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 completed the process of evaluating the effect of and the planning for the transition to *IAS 27* and will begin to report using *IAS 27* starting in 2013.

### ***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*.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IAS 28* and will begin to report using *IAS 28* starting in 2013.

## 4 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, 2012, 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.

### Pipeline and Pipe Service

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;
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular; and
- Socotherm, which provides pipe coating, lining and insulation products.

### 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.

### 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

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

	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
(in thousands of Canadian dollars)	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$
<b>Revenue</b>										
External	1,337,236	1,019,400	145,613	137,865	–	–	–	–	1,482,849	1,157,265
Inter-segment	641	1,699	1,455	215	–	–	(2,096)	(1,914)	–	–
	<b>1,337,877</b>	<b>1,021,099</b>	<b>147,068</b>	<b>138,080</b>	<b>–</b>	<b>–</b>	<b>(2,096)</b>	<b>(1,914)</b>	<b>1,482,849</b>	<b>1,157,265</b>
Operating expense	1,049,026	863,900	123,859	116,318	41,626	27,541	(2,096)	(1,914)	1,212,415	1,005,845
Research and development	9,084	10,220	1,143	1,285	2,015	1,614	–	–	12,242	13,119
Amortization of property, plant and equipment	41,227	38,045	2,180	2,235	1,726	1,626	–	–	45,133	41,906
Amortization of intangible assets	8,248	7,244	–	–	–	–	–	–	8,248	7,244
Impairment of property, plant & equipment	4,686	5,244	–	–	–	–	–	–	4,686	5,244
(Gain) on sale of land	(12,101)	–	–	–	–	–	–	–	(12,101)	–
<b>Income (loss) from operations</b>	<b>237,707</b>	<b>96,446</b>	<b>19,886</b>	<b>18,242</b>	<b>(45,367)</b>	<b>(30,781)</b>	<b>–</b>	<b>–</b>	<b>212,226</b>	<b>83,907</b>
Accounting gain on acquisition	413	–	–	–	–	–	–	–	413	–
Income (loss) on investment in associate	–	–	–	–	8,694	(10,133)	–	–	8,694	(10,133)
Interest income	940	–	2	–	2,059	1,024	–	–	3,001	1,024
Interest expense	(4,058)	–	(4)	–	2,379	(5,531)	–	–	(1,683)	(5,531)
Income tax expense	–	–	–	–	(44,188)	(12,987)	–	–	(44,188)	(12,987)
Goodwill	270,152	204,718	15,558	15,616	–	–	–	–	285,710	220,334
<b>Total assets</b>	<b>1,733,851</b>	<b>1,047,206</b>	<b>124,324</b>	<b>75,218</b>	<b>933,985</b>	<b>812,480</b>	<b>(864,591)</b>	<b>(708,155)</b>	<b>1,927,569</b>	<b>1,226,749</b>
<b>Total liabilities</b>	<b>1,041,086</b>	<b>286,064</b>	<b>17,877</b>	<b>20,148</b>	<b>42,447</b>	<b>18,963</b>	<b>(179,706)</b>	<b>34,163</b>	<b>921,704</b>	<b>359,338</b>
Additions to property, plant and equipment, net of disposals	58,781	50,096	16,374	2,975	1,695	1,986	–	–	76,850	55,057



## Geographical Information

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

(in thousands of Canadian dollars)	2012						Total \$
	Canada \$	USA \$	Latin America \$	EMAR \$	Asia Pacific \$	Eliminations \$	
Revenue							
External	481,408	214,260	172,284	276,887	338,010	–	1,482,849
Inter-segment	2,079	–	16	1	–	(2,096)	–
	<b>483,487</b>	<b>214,260</b>	<b>172,300</b>	<b>276,888</b>	<b>338,010</b>	<b>(2,096)</b>	<b>1,482,849</b>
Non-current assets <sup>(a)</sup>	<b>505,657</b>	<b>412,185</b>	<b>75,627</b>	<b>170,756</b>	<b>99,859</b>	<b>(405,852)</b>	<b>858,232</b>
							2011
	Canada \$	USA \$	Latin America \$	EMAR \$	Asia Pacific \$	Eliminations \$	Total \$
Revenue							
External	418,258	208,570	38,401	296,121	195,915	–	1,157,265
Inter-segment	1,598	218	97	1	–	(1,914)	–
	<b>419,856</b>	<b>208,788</b>	<b>38,498</b>	<b>296,122</b>	<b>195,915</b>	<b>(1,914)</b>	<b>1,157,265</b>
Non-current assets <sup>(a)</sup>	<b>569,652</b>	<b>222,708</b>	<b>72,457</b>	<b>107,733</b>	<b>91,077</b>	<b>(403,902)</b>	<b>659,725</b>

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

## 5 Acquisition

On October 24, 2012, the Company acquired the remaining 60% of Fineglade Limited (“Fineglade”). Fineglade 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. Prior to the acquisition, the investment in Fineglade was shown as an investment in associate (December 31, 2011 – \$30.1 million). After the acquisition the Company fully consolidates Fineglade and the financial results of its subsidiaries.

The total consideration for the acquisition of the remaining 60% of Fineglade was \$144.7 million satisfied by a cash payment of \$68.0 million (€52.3 million), the set-off of a pre-existing loan from ShawCor to Sophia Capital in the amount of \$57.4 million (€44.6 million), deferred purchase consideration of \$3.3 million (€2.6 million) and the settlement of other loans provided to Fineglade and the entity controlled by Sophia Capital in the amount of \$16.0 million (US\$16.0 million).

Significant judgments and assumptions made regarding the provisional purchase price allocation in the course of the acquisition of Fineglade and its ownership of Socotherm S.p.A. include the following:

- For intangible assets associated with customer relationships, the Company based its valuation on the expected future cash flows using the multi-period excess earnings approach. This method employed a discounted cash flow analysis using the present value of the estimated after-tax cash flows expected to be generated from the purchased intangible asset using risk adjusted discount rates and revenue forecasts as appropriate based upon the geographical regions.

- For the valuation of brand and intellectual property, the relief-from-royalty method was applied which included estimating the cost savings that result from the Company's ownership of trademarks and licenses on which it does not have to pay royalties to a licensor. The intangible assets are then recognized at the present value of these savings. The corporate brand Socotherm was assumed to have an unlimited life due to its long history and respected market position.
- The Company has elected to measure the non-controlling interest in Socotherm S.p.A. at their proportionate share of the value of net identifiable assets acquired.

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

(in thousands of Canadian dollars)

	\$
<b>Consideration (including fair value of existing 40% of Fineglade):</b>	
Cash (net of cash acquired of \$21,217)	46,819
Set off of loan receivable from Sophia Capital	57,406
Deferred purchase consideration	3,348
Loans to be converted to equity	15,953
Fair value of 40% of Fineglade interest before the acquisition	54,207
	<u><b>177,733</b></u>
<b>Assets acquired at fair value:</b>	
Current assets (excluding cash acquired of \$21,217)	56,528
Property, plant and equipment	81,425
Intangible assets	68,627
Deferred income tax assets	6,067
Other non-current assets	19,369
Assets held for sale (net)	6,430
Current liabilities assumed	(69,135)
Deferred income tax liabilities	(19,127)
Other non-current liabilities assumed	(40,941)
<b>Total identifiable net assets at fair value</b>	<u>109,243</u>
Non-controlling interest	579
Goodwill	67,911
	<u><b>177,733</b></u>

The goodwill acquired represents the acquired human capital 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.

The acquisition of the remaining 60% of Fineglade resulted in an accounting gain on acquisition, as follows:

	\$
Revaluation of the equity interest in Fineglade before the acquisition	13,131
Other comprehensive income associated with previously held equity interest	(3,685)
Acquisition related costs	(9,033)
<b>Accounting gain on acquisition - net</b>	<b>413</b>

## 6 Employee Benefits Expense

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

(in thousands of Canadian dollars)	<b>2012</b>	<b>2011</b>
	\$	\$
Salaries, wages and employee benefits	<b>392,704</b>	344,949
Pension	<b>10,897</b>	11,275
Share-based and other incentive-based compensation (note 28)	<b>15,297</b>	4,501
Total	<b>418,898</b>	360,725

## 7 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)	<b>December 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
	\$	\$
Cash	<b>260,466</b>	56,731
Cash equivalents	<b>32,800</b>	-
	<b>293,266</b>	56,731

## 8 Short Term Investments

Short term investments consist of liquid financial instruments with a maturity date greater than 90 days and less than one year.

## 9 Loan Receivable

The following table details the long term loan receivable as at:

(in thousands of Canadian dollars)

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
	\$	\$
<b>Current</b>		
Loan to associate <sup>(a)</sup>	–	2,047
Loan receivable	<b>604</b>	–
	<b>604</b>	<b>2,047</b>
<b>Non-current</b>		
Notes receivable <sup>(b)</sup>	<b>3,745</b>	3,845
Loan receivable	<b>2,782</b>	–
Loan to associate <sup>(a)</sup>	–	8,777
	<b>6,527</b>	<b>12,622</b>
<b>Total</b>	<b>7,131</b>	<b>14,669</b>

(a) Loan to Fineglade.

(b) 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 instalments beginning no later than March 31, 2018, as set out in the loan agreement terms.

## 10 Accounts Receivable

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

(in thousands of Canadian Dollars)

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
	\$	\$
Trade accounts receivables	<b>286,005</b>	268,119
Allowance for doubtful accounts (note 24)	<b>(9,409)</b>	(13,967)
Unbilled revenue and other receivables	<b>113,333</b>	25,172
	<b>389,929</b>	<b>279,324</b>

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

(in thousands of Canadian Dollars)

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
	\$	\$
<b>Current</b>	<b>116,252</b>	157,142
Past due 1 to 30 days	<b>88,588</b>	44,423
Past due 31 to 60 days	<b>38,815</b>	28,968
Past due 61 to 90 days	<b>15,703</b>	13,596
Past due for more than 90 days	<b>26,647</b>	23,990
Total trade accounts receivable	<b>286,005</b>	268,119
Less: allowance for doubtful accounts	<b>(9,409)</b>	(13,967)
Trade accounts receivable – net(a)	<b>276,596</b>	254,152

(a) The trade accounts receivable – net balance above excludes unbilled revenue and other receivables outstanding in the amount of \$113.3M and \$25.2M as at December 31, 2012, December 31, 2011 respectively.

## 11 Inventories

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

(in thousands of Canadian dollars)	<b>December 31, 2012</b>	<b>December 31, 2011</b>
	\$	\$
Raw materials and supplies	<b>146,049</b>	98,688
Work-in-progress	<b>18,275</b>	14,493
Finished goods	<b>54,601</b>	43,992
Inventory obsolescence	<b>(16,038)</b>	(10,387)
	<b>202,887</b>	146,786

During the year 2012, the Company recorded an increase of \$5.7 million in the provision for inventory obsolescence, due to the build-up of certain excess raw materials. During the year 2011, the Company recorded a recovery of \$0.6 million on the provision for inventory obsolescence, due to certain excess raw materials being allocated to new projects.

## 12 Property, Plant and Equipment

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

(in thousands of Canadian dollars)	<b>Land and Land Improvements</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Capital Projects-in- Progress</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance - January 1, 2011	<b>38,935</b>	<b>131,496</b>	<b>537,269</b>	<b>18,195</b>	<b>725,895</b>
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 others	-	-	2,026	-	2,026
Disposals	(703)	(1,988)	(13,075)	(46)	(15,812)
Balance - December 31, 2011	<b>39,710</b>	<b>136,079</b>	<b>571,465</b>	<b>19,336</b>	<b>766,590</b>
Exchange differences	(3,495)	(981)	(3,510)	(2,486)	(10,472)
Additions	4,959	3,015	50,726	15,739	74,439
Acquisitions	7,942	37,806	33,632	3,760	83,140
Assets held for sale	(73)	(976)	(23,063)	-	(24,112)
Decommissioning liabilities and others	11,767	1,868	(9,438)	-	4,197
Disposals	(131)	(4,071)	(25,434)	(1,027)	(30,663)
<b>Balance - December 31, 2012</b>	<b>60,679</b>	<b>172,740</b>	<b>594,378</b>	<b>35,322</b>	<b>863,119</b>

	<b>Land and Land Improvements</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Capital Projects-in- Progress</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Accumulated Amortization</b>					
Balance – January 1, 2011	(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)
Acquisitions	–	–	(3,592)	–	(3,592)
Decommissioning liabilities and others	–	–	–	–	–
Eliminated on disposal	569	1,494	8,701	–	10,764
<b>Balance – December 31, 2011</b>	<b>(12,569)</b>	<b>(76,694)</b>	<b>(345,454)</b>	<b>–</b>	<b>(434,717)</b>
Exchange differences	(924)	(2,783)	4,850	–	1,143
Amortization expense	(2,655)	(3,039)	(38,260)	–	(43,954)
Assets held for sale	17	976	18,616	–	19,609
Decommissioning liabilities and others	(797)	(38)	(344)	–	(1,179)
Eliminated on disposal	–	1,658	18,369	–	20,027
<b>Balance – December 31, 2012</b>	<b>(16,928)</b>	<b>(79,920)</b>	<b>(342,223)</b>	<b>–</b>	<b>(439,071)</b>
<b>Accumulated Impairment</b>					
Balance – January 1, 2011	(2,494)	(6,326)	(20,244)	–	(29,064)
Exchange differences	8	87	1,458		1,553
Impairment	–	(659)	(4,585)		(5,244)
Acquisitions	–	–	–	–	–
Decommissioning liabilities and others	–	–	–	–	–
Eliminated on disposal	–	–	–	–	–
<b>Balance – December 31, 2011</b>	<b>(2,486)</b>	<b>(6,898)</b>	<b>(23,371)</b>	<b>–</b>	<b>(32,755)</b>
Exchange differences	(10)	(64)	(1,075)	–	(1,149)
Impairment	–	(234)	(4,452)	–	(4,686)
Acquisitions	–	–	–	–	–
Decommissioning liabilities and others	–	–	–	–	–
Eliminated on disposal	–	–	7,134	–	7,134
<b>Balance – December 31, 2012</b>	<b>(2,496)</b>	<b>(7,196)</b>	<b>(21,764)</b>	<b>–</b>	<b>(31,456)</b>
Net book value					
As at January 1, 2012	24,655	52,487	202,640	19,336	299,118
<b>As at December 31, 2012</b>	<b>41,255</b>	<b>85,624</b>	<b>230,391</b>	<b>35,322</b>	<b>392,592</b>

### 13 Intangible Assets

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

(in thousands of Canadian dollars)	<b>Intellectual Property, with Limited Life<sup>(a)</sup></b>	<b>Intangible Assets, with Limited Life<sup>(b)</sup></b>	<b>Intangible Assets, with Indefinite Life<sup>(c)</sup></b>	<b>Total</b>
	\$	\$	\$	\$
<b>Cost</b>				
Balance – January 1, 2011	<b>65,004</b>	<b>36,844</b>	<b>1,931</b>	<b>103,779</b>
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)
<b>Balance – December 31, 2011</b>	<b>64,463</b>	<b>37,942</b>	<b>2,275</b>	<b>104,680</b>
Exchange differences	(441)	(2,845)	7	(3,279)
Additions	62	–	–	62
Acquisition of a subsidiary	14,621	51,338	3,382	69,341
Disposals and write-offs	–	–	–	–
<b>Balance – December 31, 2012</b>	<b>78,705</b>	<b>86,435</b>	<b>5,664</b>	<b>170,804</b>

(in thousands of Canadian dollars)	<b>Intellectual Property, with Limited Life<sup>(a)</sup></b>	<b>Intangible Assets, with Limited Life<sup>(b)</sup></b>	<b>Intangible Assets, with Indefinite Life<sup>(c)</sup></b>	<b>Total</b>
	\$	\$	\$	\$
<b>Accumulated Amortization</b>				
Balance – January 1, 2011	(9,498)	(1,970)	–	(11,468)
Foreign exchange	(599)	993	–	394
Amortization	(3,731)	(3,513)	–	(7,244)
Balance – December 31, 2011	(13,828)	(4,490)	–	(18,318)
Exchange differences	124	332	–	456
Amortization	(4,565)	(3,683)	–	(8,248)
<b>Balance – December 31, 2012</b>	<b>(18,269)</b>	<b>(7,841)</b>	<b>–</b>	<b>(26,110)</b>
<b>Accumulated Impairment</b>				
Balance – January 1, 2011	(227)	(400)	(331)	(958)
Disposals and write-offs	227	400	331	958
Balance – December 31, 2011	–	–	–	–
Disposals and write-offs	–	–	–	–
<b>Balance – December 31, 2012</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net book value</b>				
As at January 1, 2011	55,279	34,474	1,600	91,353
As at December 31, 2011	50,635	33,452	2,275	86,362
<b>As at December 31, 2012</b>	<b>60,436</b>	<b>78,594</b>	<b>5,664</b>	<b>144,694</b>
(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, 2012 is \$75.6 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 and the Socotherm acquisitions. As the cost of intangible assets with indefinite life is not amortized, the Company assesses these intangible assets for impairment on an annual basis or when there is an indicator of impairment.			

## 14 Impairment of Property, Plant and Equipment

During 2012, the closure of the Kembla Grange, Australia facility resulted in a further impairment loss of \$4.7 million to dismantle, sell and scrap equipment and buildings in order to make the land ready for sale.

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, United Kingdom and Kembla Grange, Australia. In Leith, the existing facility lease was not likely to be renewed upon expiration and therefore the Company expected to close the facility in 2013. In Kembla Grange, Australia, the project outlook for 2012 and beyond was not encouraging and the Company had decided to close the facility by the third quarter of 2012. In Sharjah, U.A.E., the Company had been awarded a major contract and the outlook for the next 5 years



had improved. Consequently, there was 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)

	<b>Leith, Scotland</b>	<b>Kembla Grange, Australia</b>	<b>Sharjah, U.A.E.</b>	<b>Total</b>
	\$	\$	\$	\$
<b>December 31, 2011</b>				
Buildings	218	461	–	679
Plant, machinery, and equipment	1,831	3,491	(757)	4,565
<b>Impairment charge</b>	<b>2,049</b>	<b>3,952</b>	<b>(757)</b>	<b>5,244</b>
<b>December 31, 2012</b>				
Buildings	–	234	–	234
Plant, machinery, and equipment	–	4,452	–	4,452
<b>Impairment charge</b>	<b>–</b>	<b>4,686</b>	<b>–</b>	<b>4,686</b>

### Recoverable Amount

The Company determines the recoverable amount for its CGU 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:

	<b>Leith, Scotland</b>	<b>Kembla Grange Australia</b>	<b>Sharjah, U.A.E.</b>
<b>December 31, 2011</b>			
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%	–	15.7%
Growth rate	0.0%	n/a	(a)

	<b>Leith, Scotland</b>	<b>Kembla Grange Australia</b>	<b>Sharjah, U.A.E.</b>
<b>December 31, 2012</b>			
Valuation basis	Value-in-use	FVLCS	Value-in-use
Period of specific projected cash flows	1 year	–	2 years
Discount rate	20.1%	–	15.7%
Growth rate	n/a	n/a	(a)

- (a) The property, plant and equipment at 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.

## 15 Long-term Investments

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

(in thousands of Canadian dollars)

	<b>December 31 2012</b>	December 31 2011
	\$	\$
Investment in associate subject to significant influence (refer to note 5)	–	30,095
Other long-term investment	<b>1,348</b>	–
	<b>1,348</b>	30,095

### Other Long-term Investment

The equity investment carried at a cost of \$1,348 is primarily related to a Socotherm Americas S.A. investment in an agricultural company in Argentina. Socotherm Americas S.A. is a subsidiary of Socotherm S.p.A.

## 16 Other Assets

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

(in thousands of Canadian dollars)

	<b>December 31 2012</b>	December 31 2011
	\$	\$
Long-term prepaid expenses	<b>9,089</b>	9,146
Deposit guarantee	<b>212</b>	–
Defined employee future benefit asset	<b>3,337</b>	2,876
	<b>12,638</b>	12,022

## 17 Goodwill

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

(in thousands of Canadian dollars)

	<b>December 31 2012</b>	December 31 2011
	\$	\$
Gross amount of goodwill	<b>220,542</b>	215,412
Accumulated impairment	<b>(208)</b>	(208)
<b>Balance - Beginning of year</b>	<b>220,334</b>	215,204
Acquisitions	<b>68,945</b>	1,880
Foreign exchange	<b>(3,569)</b>	3,250
<b>Balance - End of year</b>	<b>285,710</b>	220,334

In 2012, goodwill acquired during the year was a result of the acquisitions of Fineglade and Magnum Tubular Inspection, LLC, which is a part of the Guardian division. During 2011, the Company acquired certain coating assets and business of Altus Energy Services

The following table summarizes the significant carrying amounts of goodwill:

(in thousands of Canadian dollars)

	<b>December 31 2012</b>	December 31 2011
	\$	\$
Bredero Shaw (excluding BSRTL)	<b>138,614</b>	140,744
Thermotite Brasil Ltda & BS Servicios de Injecao (collectively BSRTL)	<b>13,184</b>	14,244
Flexpipe	<b>49,730</b>	49,730
DSG-Canusa GmbH	<b>15,558</b>	15,616
Guardian	<b>1,011</b>	–
Socotherm S.p.A.	<b>67,613</b>	–
	<b>285,710</b>	220,334

### a) Impairment Testing for Each Reporting Unit Containing Goodwill

The Company performs a goodwill impairment test for each specified group of CGUs (“GCGU”) that contains goodwill at on the Company’s traditional annual goodwill impairment testing date of October 31 (“Annual Goodwill Valuation Date”). At the Annual Goodwill Valuation Date of October 31, 2012 and 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 CGUs.

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:

(in thousands of Canadian dollars)

	<b>October 31 2012</b>	October 31 2011
Bredero Shaw (excluding BSRTL)	11%	11%
Thermotite Brasil Ltda & BS Servicios de Injecao (collectively BSRTL)	14%	14%
Flexpipe	12%	13%
DSG-Canusa GmbH	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.

## **18 Assets classified as held for sale**

In October 2012, the Company entered into negotiations with its joint venture partners in Arabian Pipecoating Company Ltd. ("APCO"), located in the Kingdom of Saudi Arabia, for the sale of its 30% investment. Up to September 30, 2012, the financial results of APCO were consolidated proportionately at the Company's share of the joint venture. As at December 31, 2012, the Company's proportionate share of the assets and liabilities in the joint venture have been reclassified as assets held for sale and liabilities held for sale respectively.

With the acquisition of Fineglade, and its subsidiaries, additional assets and liabilities are classified as held for sale.

The following table shows the major classes of assets and liabilities of APCO and Fineglade and its subsidiaries classified as held for sale as at December 31, 2012:

(in thousands of Canadian dollars)

	<b>2012</b>
<b>Assets</b>	<b>\$</b>
Cash	5,984
Trade receivables(net of bad debt provision)	10,747
Prepays	976
Inventory	3,161
Property, plant and equipment(net of accumulated amortization)	6,202
Deferred Tax Assets	40
Income taxes receivable	31
<b>Assets classified as held for sale</b>	<b>\$ 27,141</b>
<b>Liabilities</b>	
Trade payables	(5,694)
Accrued liabilities	(3,430)
Income & Withholding taxes payable	(2,793)
<b>Liabilities directly associated with assets classified as held for sale</b>	<b>(11,917)</b>
<b>Net assets directly associated with disposal groups</b>	<b>\$ 15,224</b>

## 19 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)

	<b>December 31 2012</b>	December 31 2011
	<b>\$</b>	<b>\$</b>
Trade payables	<b>87,052</b>	60,556
Accrued liabilities	<b>137,445</b>	95,508
	<b>224,497</b>	156,064

## 20 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 \$
<b>Balance - January 1, 2011</b>	<b>20,685</b>	<b>13,269</b>	<b>9,161</b>	<b>9,801</b>	<b>52,916</b>
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
Loss on settlement	(18)	–	–	(7)	(25)
Other	–	–	539	(20)	519
<b>Balance - December 31, 2011</b>	<b>23,381</b>	<b>15,527</b>	<b>10,336</b>	<b>13,932</b>	<b>63,176</b>
Provision adjustments	3,301	3,426	4,619	35,006	46,352
Settlement of liabilities	(1,580)	–	(6,114)	(1,178)	(8,872)
Accretion expense	256	867	–	–	1,123
Foreign exchange differences	(52)	(446)	(35)	348	(185)
Loss on settlement	(3,246)	–	–	–	(3,246)
Other	(206)	–	531	(1,329)	(1,004)
<b>Balance - December 31, 2012</b>	<b>21,854</b>	<b>19,374</b>	<b>9,337</b>	<b>46,779</b>	<b>97,344</b>
<b>January 1, 2011</b>					
Current	3,211	–	–	4,681	7,892
Non-current	17,474	13,269	9,161	5,120	45,024
	<b>20,685</b>	<b>13,269</b>	<b>9,161</b>	<b>9,801</b>	<b>52,916</b>
<b>December 31, 2011</b>					
Current	6,001	–	–	6,316	12,317
Non-current	17,380	15,527	10,336	7,616	50,859
	<b>23,381</b>	<b>15,527</b>	<b>10,336</b>	<b>13,932</b>	<b>63,176</b>
<b>December 31, 2012</b>					
Current	3,155	19,374	–	20,664	43,193
Non-current	18,699	–	9,337	26,115	54,151
	<b>21,854</b>	<b>19,374</b>	<b>9,337</b>	<b>46,779</b>	<b>97,344</b>

(a) The deferred purchase consideration represents contingent consideration payable in the amount of \$3,426 in connection with the acquisition of SO-4 and Fineglade, and \$15,948 of contingent consideration payable in connection with the previous acquisition of Thermitite Brasil Ltda. and BS Servicos de Injeção.

## Decommissioning Liabilities

The total undiscounted cash flows which are estimated to be required to settle all decommissioning liabilities is \$34.4 million, \$26.7 million and \$25.4 million as at December 31, 2012, December 31, 2011 and January 1, 2011, respectively, and the current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.25% and 17.8%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

## 21 Credit Facilities and Long-term Debt

### Credit Facilities

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

(in thousands of Canadian dollars)	December 31 2012 \$	December 31 2011 \$
Bank indebtedness <sup>(a)</sup>	3,801	12,281
Standard letters of credit for performance, bid and surety bonds (note 26)	81,178	61,555
Total utilized credit facilities	84,979	73,836
Total available credit facilities <sup>(b)</sup>	251,688	236,168
<b>Unutilized credit facilities</b>	<b>166,709</b>	<b>162,332</b>

(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 U.S.\$40.0 million from U.S.\$190.0 million to U.S.\$150.0 million, with an option to increase the credit limit to U.S.\$200.0 million with the consent of lenders.

### Debt Covenants

The Company has undertaken to maintain certain covenants in respect of 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 1. The Company is in compliance with these covenants as at December 31, 2012 and 2011.

### Loans payable

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

(in thousands of Canadian dollars)	December 31 2012 \$	December 31 2011 \$
Loans payable – current	8,395	5,001
Loans payable – non-current	8,682	–
	<b>17,077</b>	<b>5,001</b>



## 22 Deferred Revenue

During the year ended December 31, 2012, certain customers provided advance payments on long term contracts, taking the total value of deferred revenue to \$441.5 million as at December 31, 2012. Of this amount \$377.1million was included in current liabilities and \$64.4 million in non-current liabilities.

## 23 Employee Future Benefits

The Company provides 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 2012 were \$13.0 million (2011 - \$10.6 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 the 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 (two plans), January 1, 2011 (one plan), August 1, 2010 (one plan), December 31, 2011 (two plans) and January 1, 2012 (one plan).

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

	<b>2012</b>	2011
Canada		
Defined benefit obligation		
Discount rate	<b>4.00%</b>	4.60%
Salary increase	<b>4.00%</b>	4.00%
Increases to pensions in pay	<b>n/a</b>	n/a
Mortality	<b>UP94 Generational</b>	UP94@2020
Benefit expense of year ended December 31		
Discount rate	<b>4.60%</b>	5.30%
Expected rate of return on assets	<b>6.25%</b>	6.50%
Salary increase	<b>4.00%</b>	4.00%
Norway		
Defined benefit obligation		
Discount rate	<b>3.90%</b>	2.60%
Salary increase	<b>3.50%</b>	3.50%
Increases to pensions in pay	<b>0.50%</b>	0.60%
Mortality	<b>K2005</b>	K2005
Benefit expense of year ended December 31		
Discount rate	<b>2.60%</b>	4.00%
Expected rate of return on assets	<b>4.10%</b>	5.40%
Salary increase	<b>3.50%</b>	4.00%
United Kingdom		
Defined benefit obligation		
Discount rate	<b>4.40%</b>	5.00%

	2012	2011
Salary increase	n/a	n/a
Increases to pensions in pay	2.60%	2.20%
Mortality	S1PA (projected)	S1PA (projected)
Benefit expense of year ended December 31		
Discount rate	5.00%	5.70%
Expected rate of return on assets	4.96%	6.19%
Salary increase	n/a	n/a

#### Indonesia

Defined benefit obligation		
Discount rate	6.00%	6.70%
Salary increase	10.00%	10.00%
Inflation rate	n/a	n/a
Mortality	CSO80	CSO80
Benefit expense of year ended December 31		
Discount rate	6.70%	7.97%
Expected rate of return on assets	n/a	n/a
Salary increase	10.00%	10.00%

The overall expected long-term return on plan 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)

	2012 December 31 \$	2011 December 31 \$
<b>Accrued employee future benefit asset</b>		
Pension plans	3,337	2,876
Post-employment benefit	-	-
Post-retirement life insurance	-	-
<b>Accrued employee future benefit liability</b>		
Pension plans	(7,000)	(8,309)
Post-employment benefit	(2,051)	(1,757)
Post-retirement life insurance	(286)	(270)
<b>Net accrued future employee benefit liability</b>	<b>(6,000)</b>	<b>(7,460)</b>

The following was 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:

(in thousands of Canadian dollars)	<b>December 31 2012 %</b>	December 31 2011 %
Equities	<b>62</b>	59
Fixed income	<b>33</b>	37
Real estate	—	—
Other	<b>5</b>	4
	<b>100</b>	100

The following was the composition of plan assets at the balance sheet dates, as a percentage of total invested plan assets, for the SERP plan<sup>(a)</sup>:

(in thousands of Canadian dollars)	<b>December 31 2012 %</b>	December, 31 2011 %
Equities	<b>99</b>	96
Fixed income	-	-
Real estate	-	-
Other	<b>1</b>	4
	<b>100</b>	100

<sup>(a)</sup> 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)	<b>December 31 2012 \$</b>	December 31 2011 \$
Current service cost	<b>3,723</b>	3,289
Interest costs	<b>4,515</b>	4,475
Expected return on plan assets	<b>(4,509)</b>	(4,537)
Past service costs	<b>12</b>	100
Actuarial gains and losses	<b>1,671</b>	1,637
Currency (gains) losses	<b>(35)</b>	8
Curtailement and settlement	—	—
	<b>5,377</b>	4,972
Impact of IAS 19 paragraph 58/IFRIC 14	<b>(723)</b>	1,056
Defined benefit expense recognized	<b>4,654</b>	6,028
Defined contribution expense recognized	<b>6,243</b>	5,247
Total employee benefits expense <sup>(a)</sup>	<b>10,897</b>	11,275

**a)** The total amount is included in the consolidated statement of income as selling, general and administrative expenses. See note 6 for further information.

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

(in thousands of Canadian dollars)	<b>December 31 2012</b>	December 31
	\$	2011 \$
Balance - Beginning of year	<b>100,591</b>	85,192
Valuation effect	<b>154</b>	-
Employer portion of current service cost	<b>3,723</b>	3,289
Actuarial losses and changes in assumptions	<b>9,799</b>	9,897
Employee contributions	-	-
Interest cost	<b>4,515</b>	4,475
Foreign exchange differences	<b>209</b>	90
Benefits paid	<b>(2,836)</b>	(2,452)
Curtailement and settlement	-	-
Past service cost	<b>23</b>	100
Balance - End of year	<b>116,178</b>	100,591

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

(in thousands of Canadian dollars)	<b>December 31 2012</b>	December 31
	\$	2011 \$
<b>Balance - Beginning of year</b>	<b>78,277</b>	74,107
Valuation effect	<b>(371)</b>	(90)
Actuarial gains (losses)	<b>3,237</b>	(3,357)
Expected return on plan assets	<b>4,509</b>	4,537
Employer contributions	<b>6,114</b>	5,392
Employee contributions	-	-
Benefits paid	<b>(2,836)</b>	(2,452)
Curtailement and settlement	-	-
Foreign exchange differences	<b>332</b>	140
<b>Balance - End of year</b>	<b>89,262</b>	78,277

Amounts for the current and previous period are as follows:

(in thousands of Canadian dollars)	<b>December 31 2012</b>	December 31 2011
	\$	\$
Present value of defined benefit obligation	<b>116,178</b>	100,591
Fair value of plan assets	<b>89,262</b>	78,277
Deficit of the funded plans	<b>26,916</b>	22,314
Unrecognized past service costs	<b>11</b>	–
Unrecognized actuarial losses	<b>23,266</b>	17,886
Liability before the impact of IAS 19 paragraph 58/IFRIC 14	<b>3,639</b>	4,428
Impact of IAS 19 paragraph 58/IFRIC 14	<b>2,361</b>	3,032
Liability in the statement of financial position	<b>6,000</b>	7,460
Percentage of plan assets	<b>6.72%</b>	9.53%
Percentage of plan liabilities	<b>5.16%</b>	7.42%

### Actual Return on Plan Assets

The actual return on plan assets for the years ended December 31, 2012 and 2011 amounted to \$7.75 million and \$1.18 million, respectively.

### Contributions

The Company expects to contribute \$6.75 million to its defined benefit plans for the year ended December 31, 2013.

(in thousands of Canadian dollars)	<b>December 31 2012</b>	December 31 2011
	\$	\$
Present value of defined benefit obligations	<b>116,178</b>	100,591
Fair value of plan assets	<b>89,262</b>	78,277
Deficit in the plan	<b>26,916</b>	22,314
Actuarial losses on plan liabilities in year	<b>9,799</b>	9,897
Actuarial (gains) losses on plan assets in year	<b>(3,237)</b>	3,357

## 24 Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)

	<b>December 31</b>	December 31
	<b>2012</b>	2011
	\$	\$
<hr/>		
<b>Loans and receivables, measured at amortized cost</b>		
Cash and cash equivalents	<b>293,266</b>	56,731
Short-term investments	<b>78,747</b>	10,545
Loans receivable	<b>7,131</b>	14,669
Accounts receivable	<b>389,929</b>	279,324
Income taxes receivable	<b>13,675</b>	15,981
<b>Fair value through profit or loss, measured at fair value</b>		
Derivative financial instruments – asset	<b>3,988</b>	270
Derivative financial instruments – liability	<b>1,275</b>	2,918
<b>Loans and borrowings, measured at amortized cost</b>		
Bank Indebtedness	<b>3,801</b>	12,281
Loans payable	<b>17,077</b>	5,001
Accounts payable and accrued liabilities	<b>224,497</b>	156,064
Income taxes payable	<b>37,991</b>	35,200
Deferred purchase consideration	<b>19,374</b>	15,527
Other provisions	<b>46,779</b>	13,932
Finance lease obligations	<b>14,655</b>	268

### 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:

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

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

The following table presents, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2012 and does not include those instruments where the carrying amount is a reasonable approximation of the fair value:

(in thousands of Canadian dollars)	<b>Fair Value</b> \$	<b>Level 1</b> \$	<b>Level 2</b> \$	<b>Level 3</b> \$
<b>Assets</b>				
Derivative financial instruments - current	<b>3,988</b>	–	<b>3,988</b>	–
	<b>3,988</b>	–	<b>3,988</b>	–
<b>Liabilities</b>				
Derivative financial instruments - current	<b>1,275</b>	–	<b>1,275</b>	–
	<b>1,275</b>	–	<b>1,275</b>	–

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 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, 2012:

(in thousands of Canadian dollars)	<b>Fair value</b> \$
<b>Opening balance - January 1, 2011</b>	807
Additions	1,692
<b>Balance – December 31, 2011</b>	2,499
Gain recognized in the statement of income	(2,499)
<b>Closing balance - December 31, 2012</b>	–

### **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, 2012:

(in thousands, except weighted average rate amounts)

US dollars sold for Canadian dollars	
Less than one year	US\$18,000
Weighted average rate	1.01
US dollars sold for Euros	
Less than one year	US\$ 87,575
Weighted average rate	1.29
US dollars sold for Malaysian Ringgits	
Less than one year	US\$ 32,328
Weighted average rate	0.46
Euros sold for US dollars	
Less than one year	€61,962
Weighted average rate	1.30
British Pound sold for US dollars	
Less than one year	£5,000
Weighted average rate	1.59
NOK sold for US dollars	
Less than one year	NOK 114,936
Weighted average rate	0.17

As at December 31, 2012, the Company had notional amounts of \$247.7 million of forward contracts outstanding (2011 - \$25.8 million) with the fair value of the Company's net benefit from all foreign exchange forward contracts totalling \$2.0 million (2011 - \$1.5 million net benefit).

### **Financial Risk Management**

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

### **Foreign Exchange Risk**

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2012, fluctuations of +/- 5% in the Canadian dollar,



relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the year then ended by approximately \$50.5 million, \$13.9 million and \$10.5 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 \$72.0 million, \$52.0 million and \$20.0 million, respectively.

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

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2012:

(in thousands of Canadian dollars)

	<b>Non Interest Bearing</b>	<b>Floating Rate</b>	<b>Fixed Interest Rate</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash equivalents	–	–	32,800	32,800
Loans receivable	3,386	3,745	–	7,131
	<b>3,386</b>	<b>3,745</b>	<b>32,800</b>	<b>39,931</b>
<b>Financial liabilities</b>				
Bank indebtedness	–	3,801	–	3,801
Loans payable	11,646	5,431	–	17,077
	<b>11,646</b>	<b>9,232</b>	–	<b>20,878</b>

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

### Credit Risk

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

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

As at December 31, 2012 and 2011, the Company 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, 2012, \$26.6 million, or 9.3% 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, 2012 and 2011:

(in thousands of Canadian dollars)

	2012 \$	2011 \$
Balance - Beginning of year	13,967	3,775
Bad debt expense	7,997	9,160
Recovery of previously written-off bad debts	(333)	126
Write-offs of bad debts	(11,000)	(328)
Impact of change in foreign exchange rates	(1,222)	1,234
Balance - End of year	<b>9,409</b>	13,967

### 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, 2012, the Company had cash and cash equivalents totalling \$293.3 million (2011 - \$56.7 million) and had unutilized lines of credit available to use of \$166.7 million (2011 - \$162.3 million).

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2012:

(in thousands of Canadian dollars)	Less than 1 year \$	1 – 3 years \$	3 - 5 years \$	Thereafter \$	Total \$
Bank indebtedness	3,801	–	–	–	3,801
Loan payable	8,395	8,682	–	–	17,077
Accounts payable and accrued liabilities	224,497	–	–	–	224,497
Decommissioning liabilities	3,109	6,941	142	24,172	34,364
Deferred purchase consideration	19,374	–	–	–	19,374
Other provisions	20,664	9,415	–	16,700	46,779
Income taxes payable	37,991	–	–	–	37,991
	<b>317,831</b>	<b>25,038</b>	<b>142</b>	<b>40,872</b>	<b>383,883</b>

## 25 Capital Management

The Company defines capital that it manages as the aggregate of its 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)	<b>December 31 2012</b>	December 31 2011
	\$	\$
Bank indebtedness	<b>3,801</b>	12,281
Loans payable	<b>17,077</b>	5,001
Obligations under finance lease	<b>14,655</b>	268
Equity	<b>1,005,865</b>	867,411
	<b>1,041,398</b>	884,961

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, 2012.

## 26 Commitments and Contingencies

### a) 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:

(in thousands of Canadian dollars)	<b>December 31 2012</b>
	\$
Within one year	<b>20,421</b>
After one year but not more than five years	<b>32,097</b>
More than five years	<b>11,747</b>
	<b>64,265</b>

The lease expenditure charged to the consolidated statement of income during the year is \$22.6 million.

## b) 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)	<b>Minimum Payments</b> \$	<b>2012 Present Value of Payments</b> \$
Within one year	2,567	1,927
After one year but not more than five years	4,922	2,535
After more than five years	13,715	10,193
Total minimum lease payments	21,204	14,655
Less: Amounts representing interest charges	(6,549)	–
Present value of minimum lease payments	14,655	14,655

## c) 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.

## d) 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 \$85.0 million as at December 31, 2012 (December 31, 2011 – \$73.8 million).

## 27 Share Capital

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

(all dollar amounts in thousands of Canadian dollars)

	<b>2012</b>		
	<b>Class A</b>	<b>Class B</b>	<b>Total</b>
<b>Number of Shares</b>			
Balance, January 1, 2012	<b>57,832,572</b>	<b>12,784,335</b>	<b>70,616,907</b>
Issued on exercise of stock options	204,060	–	204,060
Issued on exercise of RSUs	2,738	–	2,738
Conversions of Class B into Class A	23,700	(23,700)	–
Purchase – normal course issuer bid	(572,000)	–	(572,000)
<b>Balance, December 31, 2012</b>	<b>57,491,070</b>	<b>12,760,635</b>	<b>70,251,705</b>
<b>Stated Value</b>			
Balance, January 1, 2012	\$ 217,398	\$ 983	\$ 218,381
Issued - stock options	3,988	–	3,988
Compensation cost on exercised options	1,415	–	1,415
Compensation cost on exercised RSUs	79	–	79
Conversions of Class B into Class A	2	(2)	–
Purchase – normal course issuer	(2,176)	–	(2,176)
<b>Balance, December 31, 2012</b>	<b>\$ 220,706</b>	<b>\$ 981</b>	<b>\$ 221,687</b>
	<b>2011</b>		
	Class A	Class B	Total
<b>Number of shares</b>			
Balance, January 1, 2011	<b>57,578,299</b>	<b>13,058,073</b>	<b>70,636,372</b>
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)
<b>Balance, December 31, 2011</b>	<b>57,832,572</b>	<b>12,784,335</b>	<b>70,616,907</b>
<b>Stated value</b>			
Balance, January 1, 2011	\$ 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)
<b>Balance, December 31, 2011</b>	<b>\$ 217,398</b>	<b>\$ 983</b>	<b>\$ 218,381</b>

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 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, 2012, 572,000 Class A shares were repurchased and cancelled for total consideration of \$18.9 million.

In 2012, dividends declared and paid during the year were \$0.380 per Class A share and \$0.345 per Class B share (2011 - \$0.315 per Class A share and \$0.286 per Class B share).

## **28 Share-based Compensation and Other Incentive-based Compensation**

As at December 31, 2012, 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 approximately 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 3, 2011, the Board modified the Amended 2001 Employee Plan (the "Restated 2001 Employee Plan") to facilitate the cashless 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 and none are currently outstanding.

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

**Stock Options without Tandem Share Appreciation Rights**

	2012		2011	
	Total Shares	Weighted Average Exercise Price \$	Total Shares	Weighted Average Exercise Price \$
Balance outstanding - Beginning of year	2,164,600	20.67	2,702,160	18.93
Granted	187,000	32.81	102,260	37.32
Exercised	(204,060)	19.55	(622,380)	15.87
Forfeited	(41,400)	22.36	(17,440)	20.06
Balance outstanding - End of year	2,106,140	21.83	2,164,600	20.67
Options exercisable	1,585,292	\$20.03	1,548,020	19.35

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Outstanding as at December 31 2012	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price \$	Exercisable as at December 31 2012	Weighted Average Exercise Price \$
\$10.00 to \$15.00	236,400	0.70	12.01	236,400	12.01
\$15.01 to \$20.00	916,980	3.86	16.32	742,580	16.49
\$20.01 to \$25.00	44,000	3.54	21.00	40,000	20.91
\$25.01 to \$30.00	589,500	4.55	27.71	521,860	27.43
\$30.01 to \$35.00	217,000	8.45	32.67	24,000	31.77
\$35.01 to \$40.00	102,260	8.00	37.32	20,452	37.32
	2,106,140	4.37	\$21.83	1,585,292	20.03

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	—	—
	<u>2,164,600</u>	<u>4.79</u>	<u>20.67</u>	<u>1,548,020</u>	<u>19.35</u>

The Board of Directors approved the granting of 187,000 stock options during the year ended December 31, 2012 under the 2001 Employee Plan (the “Plan”). The total fair value of the stock options granted during the year ended December 31, 2012 was \$2.1 million (2011 – \$1.3 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	2012	2011
Weighted average share price	<b>\$32.81</b>	\$36.31
Exercise price	<b>\$32.81</b>	\$37.32
Expected life of options	<b>7.25</b>	7.25
Expected stock price volatility	<b>35%</b>	35%
Expected dividend yield	<b>0.9%</b>	0.8%
Risk-free interest rate	<b>1.7%</b>	3.2%

The volatility measured at the standard deviation of continuously compounded share returns is based on the statistical analysis of daily share prices over the last ten 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 amortization of granted stock options for the year ended December 31, 2012, included in selling, general and administrative expenses, was \$1.7 million (2011 – \$1.7 million).



## Stock options with Tandem Share Appreciation Rights

	December 31 2012		December 31 2011	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup> \$	Total Shares	Weighted Average Fair Value \$
Balance outstanding - Beginning of period	154,300	12.93	118,500	12.94
Granted	68,900	11.74	35,800	12.89
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	—	—	—	—
Balance outstanding - End of period	<b>223,200</b>	<b>12.56</b>	154,300	12.93
Options exercisable	<b>54,560</b>	<b>9.56</b>	—	—

(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, 2012, is \$1.6 million (2011 - \$0.6 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 ("DSU") plan for directors of the Company. Additional details with respect to the LTIP and DSU plan are as follows:

### LTIP

The LTIP includes the existing stock option plan 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 at the end of 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 prior three year 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, 2012 is \$12.3 million (2011 - \$2.6 million).

### ESUP

The ESUP authorizes the Board to grant awards of restricted share units ("RSUs") and performance share units ("PSUs") to employees of the Company as a form of incentive compensation. All RSUs and PSUs 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 and PSU 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 and PSUs granted are classified as equity instruments in accordance with IFRS as their terms require that they be settled in shares.

During the second quarter of 2012, the Company issued 251,284 PSUs to consultants which were subsequently cancelled in the fourth quarter of 2012.

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

	2012		2011	
	Total	Weighted Average Grant Date Fair Value (a)(b)	Total	Weighted Average Grant Date Fair Value (a)
	Shares	\$	Shares	\$
Balance outstanding - Beginning of year	93,289	30.34	53,563	26.51
Granted	306,695	32.85	40,772	35.30
Exercised	(2,738)	28.97	(255)	27.69
Forfeited	(10,975)	31.96	(791)	27.69
Cancelled	(251,284)	33.11	-	-
Balance outstanding - End of year	<b>134,987</b>	<b>30.79</b>	93,289	30.34
RSU/PSUs exercisable	<b>14,984</b>	<b>\$29.98</b>	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) PSU awards do not have an exercise price; their weighted average fair value is the closing stock price on the reporting date.

## 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 in shares.

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

	2012		2011	
	Total	Weighted Average Grant Date Fair Value	Total	Weighted Average Grant Date Fair Value
	Shares	(a) \$	Shares	(a) \$
Balance outstanding - Beginning of year	<b>60,924</b>	<b>28.45</b>	30,260	29.53
Granted	<b>36,497</b>	<b>36.87</b>	36,910	28.26
Exercised <sup>(b)</sup>	—	—	(6,246)	32.55
Balance outstanding - End of year	<b>97,421</b>	<b>31.61</b>	60,924	28.45
DSUs exercisable	—	—	—	—

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

(b) 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, 2012 is \$3.8 million (2011 - \$1.8 million), all of which is included in accounts payable and accrued liabilities on the consolidated balance sheets.

### Incentive-based Compensation

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

(in thousands of Canadian dollars)	2012	2011
	\$	\$
Stock option expense	<b>1,650</b>	1,675
VGP expense	<b>9,663</b>	975
DSU expense	<b>2,039</b>	875
RSU expense	<b>978</b>	701
SAR expense	<b>967</b>	275
Total incentive-based compensation expense	<b>15,297</b>	4,501

## 29 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)

	<b>2012</b>	2011
	\$	\$
Salaries and other short-term incentive compensation and employee benefits	<b>8,508</b>	3,834
Post-employment benefits	<b>542</b>	490
Share-based and other long-term incentive payments	<b>2,069</b>	1,291
Director fees and other compensation	<b>2,039</b>	1,632
	<b>13,158</b>	7,247

## 30 Interest in Joint Ventures

The following table presents the joint venture interests of the Company as at December 31, 2012, which have been consolidated proportionately:

	<b>Country of Incorporation</b>	<b>Activity</b>	<b>Proportion of Interest Held %</b>
Hal Shaw Inc.	U.S.A.	Pipe coating	50
Shaw & Shaw Ltd.	Canada	Pipe coating	83
Helicone Holdings Limited	Russia	Pipe coating	25
Socotherm Brasil S.A.	Brazil	Pipe coating	50
Atlantida Socotherm	Argentina	Pipe coating	50
Socotherm La Barge	U.S.A.	Pipe coating	51

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)

	<b>2012</b>	2011
	\$	\$
Revenue	<b>58,524</b>	27,790
Operating expenses	<b>55,493</b>	28,420
Income (loss) before income taxes	<b>3,031</b>	(630)
Income taxes	<b>(6,972)</b>	(41)
Net Income (loss)	<b>(3,941)</b>	(589)

(in thousands of Canadian dollars)

	<b>2012</b>	2011
	\$	\$
<b>Cash Provided by (used in)</b>		
Operating activities	<b>4,715</b>	569
Investing activities	–	(1,331)
Financing activities	<b>3,268</b>	(124)
Current assets	<b>39,262</b>	21,981
Non-current assets	<b>26,531</b>	5,687
Total assets	<b>65,793</b>	27,668
Current liabilities	<b>46,755</b>	11,089
Non-current liabilities	<b>39,572</b>	769
Total Liabilities	<b>86,327</b>	11,858
Net assets	<b>(20,534)</b>	15,810

The Company's Russian joint venture has loans from OOO ArkhTekhnoProm and TES Limited Liability Company in the amount of 627 million Russian roubles payable on demand. The Company's portion of these loans has been proportionately consolidated and included on the consolidated balance sheet as at December 31, 2012 in the amount of \$5.1 million or 157 million Russian roubles at the current exchange rate (December 31, 2011 – \$5.1 million or 156 million Russian roubles at the then current exchange rate). Interest is calculated on these loans at 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.

### 31 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:

	2012	2011
	\$	\$
Income used to calculate EPS		
Net income for the year	<b>178,418</b>	56,280
Average number of shares outstanding during the year - basic		
Class A	<b>57,652</b>	57,941
Class B	<b>12,761</b>	12,784
	<b>70,413</b>	70,725
Dilutive effect of stock options		
Class A	<b>865</b>	811
Class B	-	-
	<b>865</b>	811
Average number of shares outstanding during the year - diluted		
Class A	<b>58,517</b>	58,752
Class B	<b>12,761</b>	12,784
	<b>71,278</b>	71,536
Basic EPS	<b>2.53</b>	0.79
Diluted EPS	<b>2.50</b>	0.78

### 32 Income Taxes

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

(in thousands of Canadian dollars)	2012	2011
	\$	\$
Current tax		
Based on taxable income of current year	<b>51,985</b>	37,533
Adjustment to prior year provision	<b>(6,916)</b>	(9,860)
Total current taxation expense for the year	<b>45,069</b>	27,673
Deferred income tax		
Reversal of temporary differences	<b>(881)</b>	(14,686)
Total deferred tax expense	<b>(881)</b>	(14,478)
<b>Total Income Tax Expense</b>	<b>44,188</b>	12,987

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

(in thousands of Canadian dollars)	<b>2012</b>	2011
	\$	\$
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)
<b>Income tax benefit charged to other comprehensive income</b>	<b>–</b>	<b>(208)</b>

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

	<b>2012</b>	2011
Expected income tax expense based on statutory rate	<b>27.0%</b>	27.0%
Tax rate differential on earnings of foreign subsidiaries	<b>(8.6%)</b>	(2.1%)
Benefit of previously unrecognized tax losses	<b>(0.3%)</b>	(1.6%)
Unrecognized tax losses of foreign subsidiaries	<b>3.1%</b>	8.9%
Adjustment to prior year provision	<b>(3.1%)</b>	(14.1%)
Other	<b>1.7%</b>	0.7%
<b>Effective Income Tax Rate</b>	<b>19.8%</b>	18.8%

### 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.

(in thousands of Canadian dollars)

	<b>Consolidated Balance Sheet</b>	
	<b>December 31</b>	December 31
	<b>2012</b>	2011
	\$	\$
<b>Deferred Tax Assets</b>		
Amortizable property, plant and equipment	<b>11,952</b>	2,470
Provisions and future expenditures	<b>10,955</b>	24,008
Net operating losses	<b>9,546</b>	3,580
Deferred income tax assets	<b>32,453</b>	30,058
<b>Deferred Tax Liabilities</b>		
Amortizable property, plant and equipment	<b>(14,604)</b>	(36,873)
Provisions and future expenditures	<b>(57,060)</b>	(20,111)
Deferred income tax liability	<b>(71,664)</b>	(56,984)
<b>Net Deferred Tax Liability</b>	<b>(39,211)</b>	(26,926)

The Company has recorded deferred tax assets of \$9.5 million and \$3.6 million at December 31, 2012 and 2011, respectively, pertaining to loss carry forwards based on management's financial projections and the relevant tax legislation in each jurisdiction.

(in thousands of Canadian dollars)

**Consolidated Statement of Income**

	<b>December 31 2012</b>	December 31 2011
	\$	\$
<b>Deferred Tax Assets</b>		
Amortizable property, plant and equipment	<b>(9,482)</b>	15,032
Provisions and future expenditures	<b>13,053</b>	(7,955)
Net operating losses	<b>(5,966)</b>	(3,580)
Deferred income tax assets	<b>(2,395)</b>	3,497
<b>Deferred Tax Liabilities</b>		
Amortizable property, plant and equipment	<b>(22,269)</b>	(6,582)
Provisions and future expenditures	<b>36,949</b>	(11,601)
Deferred income tax liability	<b>14,680</b>	(18,183)
<b>Change in deferred tax</b>	<b>12,285</b>	(14,686)
Deferred tax assets acquired through acquisitions	<b>(13,166)</b>	-
<b>Deferred Tax Recovery</b>	<b>(881)</b>	(14,686)

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, 2012 and 2011 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 \$146.2 million and \$181.9 million for the years ended December 31, 2012 and 2011, respectively.

The Company has net operating losses of \$73.9 million and \$21.9 million for the years ended December 31, 2012 and 2011, respectively, in various jurisdictions for which no deferred tax asset has been recognized. These losses expire subsequent to the 2017 fiscal year. The Company has capital losses of \$8.0 million and \$19.3 million for the years ended December 31, 2012 and 2011, 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.



**33 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.