MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2013 and 2012

ShawCor

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), is a discussion of the consolidated financial position and results of operations of ShawCor Ltd. ("ShawCor" or "the Company") for the years ended December 31, 2013 and 2012 and should be read together with ShawCor's audited consolidated financial statements and accompanying notes for the same periods. All dollar amounts in this MD&A are in thousands of Canadian dollars except per share amounts or unless otherwise stated.

This MD&A and the audited consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which are also Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward-looking information and reference should be made to Section 13 hereof. As at January 1, 2013, the Company adopted certain new IFRS standards that were implemented with a transition date of January 1, 2012; accordingly, the financial information for the year 2012 and periods therein has been restated to be in accordance with the new IFRS standards that were adopted on January 1, 2013. Please refer to Section 8.3 – New Accounting Standards Adopted and Section 8.4 – Impact of New Accounting Standards for more information.

1.0 EXECUTIVE OVERVIEW

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

1.1 Core Businesses

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

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

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

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

As at December 31, 2013, the Company operated its eight divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 91% of consolidated revenue for the year ended December 31, 2013. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Socotherm and Guardian divisions.

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

- Socotherm provides specialized thermal insulation coatings, anticorrosion coatings, internal coatings, and concrete weight coatings for onshore and offshore pipelines.

Petrochemical and Industrial

The Petrochemical and Industrial segment, which includes the DSG-Canusa and ShawFlex divisions, accounted for 9% of consolidated revenue for the year ended December 31, 2013. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets.

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

1.2 Vision and Objectives

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

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

1.3 Key Performance Drivers

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

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

1.4 Key Performance Indicators

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

Certain of the following key performance indicators used by ShawCor are not measurements in accordance with GAAP, should not be considered as an alternative to net income or any other measure of performance under GAAP and may not necessarily be comparable to similarly titled measures of other entities. Refer to *Section 12 – Reconciliation of Non-GAAP Measures*, for additional information with respect to Non-GAAP measures used by the Company.

Net Income Growth

As part of its performance objectives, the Company has set a goal for average annual net income growth of 15% over the full business cycle, as described in *Section 1.2 – Vision and Objectives*. Net income (attributable to shareholders of the Company) increased by $41.6 million, or 23%, from $178.3 million for the year ended December 31, 2012 to $219.9 million for the year ended December 31, 2013. The increase was mainly attributable to higher revenue in the Asia Pacific and North America regions in the Pipeline and Pipe Services segment as described in *Section 4.2.1 – Pipeline and Pipe Services segment*, partially offset by an increase in selling, general and administrative ("SG&A") expenses of $76.6 million as described in *Section 4.1 – Consolidated Information*.

Return on Invested Capital ("ROIC")

ROIC, a non-GAAP measure, is defined as net income for the year adjusted for after tax interest expense divided by average invested capital for the most recently completed year. ROIC is used by the Company to assess the efficiency of generating profits from each unit of invested capital. As part of its performance objectives, the Company has set an ROIC target of 15%, as described in *Section 1.2 – Vision and Objectives*. The Company's ROIC for the years ended December 31, 2013 and 2012 was 23.5% and 19.5%, respectively. The increase of 4.0 percentage points was primarily due to an increase in net income for the year adjusted for after tax interest expense of $52.0 million and was partially offset by an increase in average invested capital of $65.8 million.

Employees

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

Market Position

The Company's record of successful project execution and the resulting repeat business demonstrate customer loyalty, which is one of many qualitative measures that the Company utilizes to measure customer satisfaction. The following table sets forth the relative market position by division within the markets that the Company operated in during the year ended December 31, 2013:

	Market Position
Bredero Shaw	First
Canusa-CPS	First
Shaw Pipeline Services	First
Flexpipe Systems	Third
Guardian	First
DSG-Canusa	Second
ShawFlex	First
Socotherm	Second

Safety and Environmental Stewardship

The Company maintains a comprehensive HSE management system in place within each of its eight operating divisions and is committed to being an IIF workplace with no damage to the environment. For the years ended December 31, 2013 and December 31, 2012, the Company had recordable injuries per million person hours worked of 5.9 and 6.2, respectively. During 2013, the Company completed 30 HSE audits at manufacturing and service locations across all eight divisions and developed action plans to correct any deficiencies identified in the audits.

1.5 Capability to Deliver Results

Capital Resources

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

Capital expenditures increased by $2.3 million from $74.4 million for the year ended December 31, 2012 to $76.7 million for the year ended December 31, 2013. The Company believes it has sufficient available resources and capacity to meet the market demand for its products and services in the markets where the Company operates. The Company may, however, incur new capital expenditures to facilitate growth in new markets.

The current level of working capital investment is expected to be sufficient to support the level of business activity projected in 2014; however, unexpected increases in business activity or specific pipe coating project requirements may result in higher working capital requirements. Any such increase in requirements will be financed from the Company's cash balances and available committed credit facilities. The Company had cash and cash equivalents and short-term investments of $86.0 million and $362.9 million as at December 31, 2013 and 2012, respectively, and had unutilized lines of credit available of $209.4 million and $164.8 million, as at December 31, 2013 and 2012, respectively.

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

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

Non-Capital Resources

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

On an ongoing basis, the Company monitors its succession planning program in order to mitigate the impact of planned or unplanned departures of key personnel. As at December 31, 2013, the Company believes it has sufficient human resources to operate its businesses at an optimal level and execute its strategic plan.

Systems and Processes

Management regularly reviews the Company's operational systems and processes and develops new ones as required. Key operational programs utilized by the Company during the year ended December 31, 2013 included systems and controls over project bidding, capital expenditures, internal controls over financial reporting, product development, HSE management and human resource development. In addition, the SMS program has been implemented to increase operating efficiency and achieve significant cost savings in each of the Company's eight divisions.

As at December 31, 2013, the Company believes it has sufficient systems and processes in place to operate its businesses at an optimal level and execute its strategic plan.

2.0 FINANCIAL HIGHLIGHTS

2.1 Selected Annual Financial Information

(in thousands of Canadian dollars, except per share amounts)	2013	2012	2011
		Twelve Months Ended December 31,	
		(restated)	
Revenue	$ 1,847,549	$ 1,469,187	$ 1,157,265
Cost of Goods Sold and Services Rendered	1,058,946	895,004	735,266
Gross Profit	788,603	574,183	421,999
Selling, general and administrative expenses	382,755	306,108	269,241
Research and development expenses	15,687	12,242	13,119
Foreign exchange (gains) losses	(4,936)	(109)	1,338
Amortization of property, plant and equipment	66,484	44,985	41,906
Amortization of intangible assets	10,312	7,319	7,244
Loss on assets held for sale	3,683	–	–
Gain on sale of land and other items	(5,156)	(12,101)	–
Impairment of property, plant & equipment	–	4,686	5,244
Income from Operations	319,774	211,053	83,907
(Loss) income on investment in joint ventures	(3,874)	618	–
Finance (costs) income, net	(14,912)	1,360	(4,507)
Income (loss) on investment in associate	–	8,694	(10,133)
Accounting gain on acquisition	–	413	–
Income before income taxes	300,988	222,138	69,267
Income taxes	78,402	43,783	12,987
Non-controlling interests	2,724	45	–
Net Income (attributable to shareholders of the Company)	$ 219,862	$ 178,310	$ 56,280
Net Income (attributable to shareholders of the Company)	$ 219,862	$ 178,310	$ 56,280
Add:			
Non-controlling interest	2,724	45	–
Income taxes	78,402	43,783	12,987
Accounting gain on acquisition	–	(413)	–
Finance (income) costs, net	14,912	(1,360)	4,507
Impairment of property, plant & equipment	–	4,686	5,244
Gain on sale of land and other items	(5,156)	(12,101)	–
Loss on assets held for sale	3,683	–	–
Amortization of property, plant, equipment and intangible assets	76,796	52,304	49,150
EBITDA[(a)]	$ 391,223	$ 265,254	$ 128,168
Earnings Per Share			
Basic (Common in 2013; Classes A and B in 2012 and 2011)	$ 3.55	$ 2.53	$ 0.79
Diluted (Common in 2013; Classes A and B in 2012 and 2011)	$ 3.51	$ 2.50	$ 0.78
Cash Dividends per Share			
Common Shares	$ 1.375	$ –	$ –
Class A	$ 0.100	$ 0.380	$ 0.315
Class B	$ 0.091	$ 0.345	$ 0.286

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Refer to *Section 12 – Reconciliation of non-GAAP measures*, for additional information with respect to other non-GAAP measures used by the Company.

(in thousands of Canadian dollars)	December 30, 2013	December 31, 2012
Total Assets	$ 1,651,928	$ 1,888,873
Total Non-current Liabilities	$ 542,278	$ 211,651

Revenue

Consolidated revenue increased by 26%, or $378.4 million, from $1,469.2 million for the year ended December 31, 2012 to $1,847.6 million for the year ended December 31, 2013, due to an increase of $363.5 million in the Pipeline and Pipe Services segment and $15.4 million in the Petrochemical and Industrial segment (refer to *Section 4.2 – Segment Information* for further details).

Revenue increased by $311.9 million, or 27%, from $1,157.3 million in the year ended December 31, 2011 to $1,469.2 million in the comparable period in 2012, primarily as a result of increased market activity in both the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment (refer to *Section 4.2 – Segment Information* for further details).

Income from Operations

Income from operations increased by $108.7 million from the twelve month period ended December 31, 2012 to $319.8 million during the comparable period in 2013. Operating Income benefited from a year over year increase in gross profit of $214.4 million, an increase in net foreign exchange gain of $4.8 million and an impairment charge of $4.7 million incurred in 2012. This was partially offset by increases in SG&A expenses of $76.6 million, research and development expenses of $3.4 million, amortization of property, plant, equipment and intangible assets of $24.5 million, a lower gain on sale of land of $6.9 million and a loss on assets held for sale of $3.7 million.

Income from operations increased by $127.2 million, or 152%, from $83.9 million in 2011 to $211.1 million in 2012. Revenue increased $311.9 million as explained above, with an increase in gross profit of $152.2 million and a gain on sale of land of $12.1 million, partially offset by an increase in SG&A expenses of $36.9 million and an increase in amortization expenses pertaining to property, plant, equipment and intangibles of $3.2 million.

Net Income

Net income (attributable to shareholders of the Company) increased by $41.6 million, from $178.3 million during the twelve-month period ended December 31, 2012 to $219.9 million during the twelve-month period ended December 31, 2013, mainly due to higher Operating Income of $108.7 million in 2013 as explained above. This was partially offset by increases in net finance costs of $16.3 million, income tax expense of $34.6 million and income on investment in associate of $8.7 million recorded in 2012.

Net income (attributable to shareholders of the Company) increased by $122.0 million, or 217%, from $56.3 million in 2011 to $178.3 million in 2012. The increase was primarily due to the increase in income from operations as explained above, increased income from investment in associate of $18.8 million and an increase in net finance income of $5.9 million, partially offset by an increase in income taxes of $30.8 million.

2.2 Foreign Exchange Impact

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

	Year Ended December 31 2013	2012
US Dollar	1.0324	1.0036
Euro	1.3734	1.2921
British Pound	1.6204	1.5888

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

(in thousands of Canadian dollars)	Year Ended December 31, 2013
Revenue	$ 41,839
Income from operations	13,229
Net income (attributable to shareholders of the Company)	$ 11,963

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $6.3 million in the fourth quarter of 2013, compared to a gain of $0.8 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short-term foreign currency intercompany loans within the group, net of hedging activities.

3.0 BUSINESS DEVELOPMENTS FOR THE PERIOD

Strategic Review and Reorganization

On August 30, 2012, Ms. Virginia Shaw, the Chair of the ShawCor Board of Directors and the indirect controlling shareholder (the "Controlling Shareholder") of the Company, advised the Board of Directors that she was prepared to consider a possible sale of her shares of ShawCor as part of a sale of the Company.

The Board struck a committee of independent directors (the "Special Committee") to conduct a strategic review of alternatives, including canvassing potentially interested third parties to determine if an appropriate transaction was available that would be acceptable to Ms. Shaw and would be in the best interests of ShawCor and its shareholders.

On January 14, 2013, the Company announced that the Board of Directors of ShawCor, after careful analysis, consideration and advice from the Special Committee, and advice from independent financial and legal advisors, had unanimously approved and the Company had entered into a definitive agreement with respect to a reorganization proposal negotiated by the Special Committee with the Controlling Shareholder. The Chair and the Vice-Chair abstained from voting on the transaction.

The proposed reorganization was implemented pursuant to a court-approved Plan of Arrangement ("Arrangement") under the Canada Business Corporations Act. The shareholders' meeting to consider the Arrangement took place on March 14, 2013 where the ShawCor shareholders overwhelmingly approved the transaction.

The Arrangement obtained final approval by the Ontario Superior Court of Justice at a hearing held on March 18, 2013, and the Arrangement became effective on March 20, 2013.

Terms of the Arrangement

The reorganization eliminated ShawCor's dual class share structure through the purchase of all of the Class A subordinate voting and Class B multiple voting shares of ShawCor by a newly formed Canadian corporation. This new corporation purchased all of the Class A subordinate voting shares of ShawCor in exchange for new common shares on a 1:1 basis. The new corporation also acquired all of the Class B multiple voting shares of ShawCor in exchange for a mix of new common shares and cash. The consideration paid for the Class B multiple voting shares of ShawCor was $43.43 in cash or 1.1 new common shares per Class B multiple voting share, such that 90% of the total consideration was paid in cash and 10% of the total consideration was paid in new common shares. At closing, the new corporation and ShawCor amalgamated under the name ShawCor Ltd. As a result of the completion of the Arrangement, the total number of common shares outstanding decreased by 11,356,951 shares or 16.2%. Following closing, a special dividend of $1.00 per common share of ShawCor payable pursuant to the Arrangement was paid on April 19, 2013 to shareholders of record at the close of business on April 4, 2013.

Long Term Senior Notes and Extension of Credit Facilities

On March 20, 2013, the Company completed a private placement of unsecured senior notes ("Senior Notes") in the amount of US$350 million and increased its existing unsecured revolving credit facility by US$100 million to US$250 million, extended the facility's term to five years and obtained a reduction in interest rates payable thereunder.

Acquisition of Remaining 49% of Socotherm Gulf of Mexico, LLC

On April 15, 2013, the Company completed the acquisition of the remaining 49% of Socotherm S.p.A.'s joint venture in the USA for total consideration of approximately $30 million, including the assumption of bank debt. The venture has a strategically located facility in Channelview, Texas which provides anticorrosion and advanced insulation coatings for global offshore applications, including in the Gulf of Mexico and West African markets.

ShawCor Names New President

On September 3, 2013, the Company appointed Steve Orr as President of ShawCor Ltd. Bill Buckley, formerly President and Chief Executive Officer, will continue as Chief Executive Officer. These changes are part of ShawCor's ongoing management succession plan. As President, Mr. Orr will be based in Toronto, Ontario, will report to the Chief Executive Officer and will assume responsibility for the Bredero Shaw, Canusa-CPS, Guardian, DSG-Canusa and ShawFlex divisions of the Company.

Steve Orr most recently held a senior executive position with a leading global energy services company. Over his more than 20 year career with this company, he has served in senior roles in many locations throughout North America, Europe and the Asia Pacific region. He brings to the office of President, ShawCor Ltd. a deep knowledge, skill and experience in the global energy service industry and will support the Company's continuing global growth trajectory.

Sale of Brazilian Joint Venture Interest

On December 4, 2013, the Company announced an agreement for the sale, subject to regulatory approval, of its Socotherm division's joint venture interest in Socotherm Brasil to its joint venture partner, Tenaris. Socotherm Brasil operates a pipe coating facility which is managed by Tenaris and which is located at the Confab welded pipe mill in Pindamonhangaba, Brazil.

From the sale, ShawCor expects to realize net proceeds of approximately US$28.5 million, with a further potential earn out based on future performance. In the fourth quarter, the Company recorded a net loss of $8.3 million from the Brazilian Joint Venture, comprised of a $2.8 million loss on investment in joint venture, a $0.9 million loss on assets held for sale, $2.7 million in income taxes on the sale, and a $1.9 million loss included in non-controlling interest. This non-controlling interest expense represents the minority interest share of the gain reported at the Socotherm subsidiary level, notwithstanding the fact that there is a loss on the sale at a ShawCor consolidated level.

The sale of Socotherm's joint venture interest in Socotherm Brasil is consistent with ShawCor's strategy to focus its pipe coating investments on operations it manages and controls. Following the sale, ShawCor will continue to serve Tenaris' global pipe coating needs and the Brazilian pipe coating market from its global pipe coating plant network.

Development Agreement with Vintri Technologies Inc.

On December 20, 2013, ShawCor entered into a development agreement with Calgary, Alberta based Vintri Technologies Inc. ("Vintri"), whereby Vintri will develop for ShawCor's Bredero Shaw division, a cloud based plant management and shop floor data collection system providing accurate asset identification and traceability. In consideration for the development agreement, ShawCor has been provided a minority equity interest in Vintri for nil consideration.

Equity Investment in Zedi Inc.

On February 20, 2014, ShawCor completed an equity investment in Zedi Inc. ("Zedi"), a Calgary, Alberta based company engaged in end-to-end solutions for production operations management in the oil and gas industry. Zedi has successfully developed and deployed remote field monitoring and related data management solutions for the optimization of oil and gas well production and has recently completed a management led buyout through an Alberta court and shareholder approved plan of arrangement. ShawCor's equity investment in Zedi will consist of a 25% common share interest plus convertible preferred shares for a total investment of approximately $24 million, which will be accounted for using equity accounting. ShawCor and Zedi have also entered into a joint development agreement to work together to develop monitoring and connectivity solutions for pipeline and OCTG applications.

4.0 RESULTS FROM OPERATIONS

4.1 Consolidated Information

Revenue

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

(in thousands of Canadian dollars)	**2013**	2012	Change
Pipeline and Pipe Services	**$ 1,687,768**	$ 1,324,215	$ 363,553
Petrochemical and Industrial	**162,449**	147,068	15,381
Elimination	**(2,668)**	(2,096)	(572)
Consolidated	**$ 1,847,549**	$ 1,469,187	$ 378,362

Consolidated revenue increased by 26%, or $378.4 million, from $1,469.2 million for the twelve month period ended December 31, 2012 to $1,847.5 million for the twelve month period ended December 31, 2013, due to increases of $363.5 million in the Pipeline and Pipe Services segment and $15.4 million in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment in 2013 was $1,687.8 million, $363.6 million, or 27%, higher than in 2012, primarily due to higher revenue in Asia Pacific and North America, partially offset by lower activity in EMAR and Latin America. See *Section 4.2.1 – Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by $15.4 million, or 10%, in 2013 compared to 2012, primarily due to higher activity levels in all regions. See *Section 4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Income from Operations

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

(in thousands of Canadian dollars)	**2013**	2012	Change
Income from Operations	**$ 319,774**	$ 211,053	$ 108,721
Operating Margin[(a)]	**17.3%**	14.4%	28.7%

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

Operating Income increased by $108.7 million from the twelve month period ended December 31, 2012 to $319.8 million for the full year 2013. The increase in Operating Income resulted from a year over year increase in gross profit of $214.4 million, an increase in net foreign exchange gain of $4.8 million and an impairment charge of $4.7 million incurred in 2012. This was partially offset by increases in SG&A expenses of $76.6 million, research and development expenses of $3.4 million, amortization of property, plant, equipment and intangible assets of $24.5 million, a lower gain on sale of land of $6.9 million and a loss on assets held for sale of $3.7 million.

The increase in gross profit resulted from higher revenue of $378.4 million and a 3.6 percentage point improvement in gross margin attributable to favourable project mix and better facility utilization and absorption of overheads, particularly in the Pipeline and Pipe Services segment's Asia Pacific region.

SG&A expenses increased by $76.6 million in 2013 compared to 2012, primarily as a result of higher SG&A costs of $25.3 million following the acquisition and full consolidation of Socotherm, one-time restructuring costs and amended executive retirement arrangements of $10.7 million recorded in the fourth quarter of 2013, and $13.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements, recorded in the first quarter of 2013. In addition, personnel related costs and management incentive compensation expenses were higher by $12.6 million, building rental, insurance and equipment costs were higher by $5.4 million, legal and professional consulting fees were higher by $6.9 million and provisions for bad debts, warranty and other items increased by $6.0 million, partially offset by one-time strategic review expenses of $4.0 million incurred in the fourth quarter of 2012.

Finance Costs, Net

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

(in thousands of Canadian dollars)	**2013**	2012	Change
Interest income on short-term deposits	**$ (1,156)**	$ (2,767)	$ 1,611
Interest expense, other	**5,949**	1,407	4,542
Interest expense on long-term debt	**10,119**	–	10,119
Finance costs (income) – net	**$ 14,912**	$ (1,360)	$ 16,272

In the twelve months ended December 31, 2013, net finance cost was $14.9 million, compared to a net finance income of $1.4 million during the comparable period of 2012, as a result of interest on long-term senior notes issued on March 20, 2013, higher other interest expenses on bank loans and overdrafts and lower interest income on short-term deposits.

Income Taxes

The Company recorded an income tax expense of $78.4 million (26% of income before income taxes) during the twelve-month period ended December 31, 2013, compared to an income tax expense of $43.8 million (20% of income before income taxes) during the twelve-month period ended December 31, 2012. The effective income tax rate for the twelve months ending December 31, 2013 is lower than the expected income tax rate of 27% due to income being earned in jurisdictions where the tax rate is 25% or less, with this benefit partially offset by the incurrence of tax losses in jurisdictions where the Company was unable to record a tax benefit during the year. In 2012, the low tax rate was due to a higher proportion of the Company's taxable income having been earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the tax rate is 25% or less.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

(in thousands of Canadian dollars, except Operating Margin)	**2013**	2012	Change
North America	**$ 671,317**	$ 604,106	$ 67,211
Latin America	**161,627**	164,649	(3,022)
EMAR	**191,814**	221,471	(29,657)
Asia Pacific	**663,010**	333,989	329,021
Total Revenue	**$ 1,687,768**	$ 1,324,215	$ 363,553
Operating Income	**$ 365,122**	$ 236,689	$ 128,433
Operating Margin	**21.6%**	17.9%	3.7%

- For the twelve month period ended December 31, 2013, revenue in the Pipeline and Pipe Services segment was $1,687.7 million, an increase of $363.6 million, or 28%, from $1,324.2 million in the comparable period in the prior year. Activity levels in Asia Pacific and North America were higher in 2013 compared to 2012, partially offset by a decrease in EMAR and Latin America revenue:
- In North America, revenue increased by $67.2 million, or 11%, primarily due to increased flexible composite pipe revenue in the USA, the acquisition of Socotherm Gulf of Mexico, increased pipe weld inspection service revenue in the USA and higher large diameter project revenues in Canada, partially offset by lower pipe coating activity in the USA.
- In Latin America, revenue was lower by $3.0 million, or 2%, mainly due to lower activity levels in Mexico and Brazil, partially offset by the full year inclusion of Socotherm Argentina.
- In EMAR, revenue decreased by $29.7 million, or 13%, primarily due to decreased pipe coating activity levels in Ras al-Khaimah ("RAK") and Leith, Scotland, partially offset by increased volumes at the Orkanger, Norway facility and the full year inclusion of Socotherm, Italy.
- Revenue in Asia Pacific increased by $329.0 million, or 99%, mainly due to execution of the Inpex Ichthys gas export pipeline and the Chevron Wheatstone projects in both Kuantan, Malaysia and Kabil, Indonesia.

Operating Income for the twelve month period ended December 31, 2013 was $365.1 million compared to $236.7 million for the twelve month period ended December 31, 2012, an increase of $128.4 million, or 54%. The increase in Operating Income was due to an increase in gross profit of $203.9 million due to the increase in revenue of $363.6 million, as explained above, and a 3.6 percentage point increase in gross margin due to favourable project mix, better facilities utilization and the absorption of overheads, particularly at the Company's two pipe coating facilities in Asia Pacific. The increase in gross profit was partially offset by higher SG&A expenses and amortization of property, plant, equipment and intangibles as explained in *Section 4.1* above.

4.2.2 Petrochemical and Industrial Segment

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

	2013	2012	Change
North America	$ 101,117	$ 92,551	$ 8,566
EMAR	55,457	50,496	4,961
Asia Pacific	5,875	4,021	1,854
Total Revenue	$ 162,449	$ 147,068	$ 15,381
Operating Income	$ 20,576	$ 19,886	$ 690
Operating Margin	12.7%	13.5%	(0.8)%

Revenue increased in the twelve month period ended December 31, 2013 by $15.4 million, or 11%, to $162.4 million, compared to the comparable period in 2012, due to increased shipments of wire and cable products to the North American electrical utilities, nuclear and oil sands markets combined with increased heat shrink tubing product shipments in all three regions.

Operating Income for the twelve month period ended December 31, 2013 was $20.6 million compared to $19.9 million for the twelve month period ended December 31, 2012, an increase of $0.7 million, or 3%. The increase was primarily due to higher revenue and gross profit, partially offset by higher SG&A costs resulting from the one-time restructuring costs of $3.2 million at the DSG Canusa facilities in Europe.

4.2.3 Financial and Corporate

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

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

(in thousands of Canadian dollars)	2013	2012	Change
Financial and Corporate Expenses	$ (70,860)	$ (45,631)	$ (25,229)

Financial and corporate costs increased by $25.2 million from the twelve month period ended December 31, 2012 to $70.9 million for the twelve month period ended December 31, 2013. The increase was due to one-time costs of restructuring and amended executive retirement arrangements recorded in the fourth quarter of 2013 of $5.5 million, $13.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements and due to increases of $4.7 million in personnel and management incentive compensation costs and $5.9 million in legal, professional consulting and research and development expenses.

5.0 LIQUIDITY AND CAPITALIZATION

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

(in thousands of Canadian dollars)	2013	2012
Net Income	$ 222,586	$ 178,355
Non-cash items	115,603	40,554
Settlement of decommissioning liability obligations	(817)	(1,580)
Settlement of provisions	(19,449)	(7,292)
Increase in non-current deferred revenue	(64,392)	64,392
Change in employee future benefits	(20,994)	1,168
Change in non-cash working capital and foreign exchange	(200,273)	254,915
Cash provided by operating activities	32,264	530,512
Cash used in investing activities	(38,066)	(249,741)
Cash used in financing activities	(215,734)	(52,875)
Effect of foreign exchange on cash and cash equivalents	15,950	548
Net (decrease) increase in cash and cash equivalents	(205,586)	228,444
Cash and cash equivalents, beginning of year	284,981	56,537
Cash and cash equivalents at end of year	$ 79,395	$ 284,981

The Company expects to generate sufficient cash flows and or have access to its credit facilities to meet contractual, obligations, planned development and growth initiatives as and when they are required. The Company expects that working capital investment will be required to support revenue growth consistent with historical working capital measures as noted in Section 5.4 The Company typically utilizes its available cash balances and its committed credit facilities to fund working capital requirements.

5.1 Cash Provided by Operating Activities

Cash provided by operating activities decreased by $498.2 million from $530.5 million during 2012 to $32.3 million during 2013. The decrease was due to a net increase in non-cash working capital and foreign exchange of $455.2 million and a net reduction in non-current deferred revenue of $128.8 million in 2013 compared to the prior year. This was partially offset by an increase in net income of $44.2 million and an increase in non-cash items of $75.0 million. The increase in non-cash working capital and foreign exchange was mainly due to a net decrease in the current portion of deferred revenue of $642.3 million in 2013 compared to 2012, partially offset by increases in accounts receivable of $84.9 million and inventories of $34.5 million in 2012 compared to 2013. Net income increased due to higher revenue and Operating Income as discussed in *Section 4.1*.

5.2 Cash Used in Investing Activities

Cash used in investing activities decreased by $211.7 million from $249.7 million during 2012 to $38.1 million during 2013. The decrease was primarily due to the redemption of short-term investments of $71.3 million in 2013 compared to the purchase of short-term investments of $67.4 million in 2012. This was partially offset by a net reduction of $59.5 million in loans receivable in 2013 compared to the prior year and reduced spending on acquisitions by $26.9 million.

5.3 Cash Used in Financing Activities

Cash used in financing activities increased by $162.9 million, from $52.9 million during 2012 to $215.7 million during 2013. This was primarily due to the purchase of the Company's Class B multiple voting shares under the Company's Plan of Arrangement in the amount of $503.1 million and higher dividend payments of $62.2 million during 2013. This was partially offset by the proceeds of long-term debt net of deferred financing expenses of $356.3 million in 2013.

5.4 Liquidity and Capital Resource Measures

Accounts Receivable

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

(in thousands of Canadian dollars, except DSO)	**2013**	2012	Change
Average trade accounts receivable	**$ 248,944**	$ 272,218	$ (23,274)
DSO(a)	**55**	56	(1)

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-net are outstanding based on a 90-day cycle. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See *Section 12 – Reconciliation of non-GAAP measures* for additional information with respect to DSO.

Average trade accounts receivables decreased by $23.3 million from $272.2 million as at December 31, 2012 to $248.9 million as at December 31, 2013 as a result of decreased business activity. DSO decreased by 1 day from 56 during the fourth quarter of 2012 to 55 during the fourth quarter of 2013, primarily due to the timing of sales and collection of receivables in the fourth quarter of 2013 compared to the fourth quarter of 2012.

Inventories

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

(in thousands of Canadian dollars)	**2013**	2012	Change
Inventories	**$ 180,876**	$ 188,347	$ (7,471)

Inventories decreased by $7.5 million from $188.3 million as at December 31, 2012 to $180.9 million as at December 31, 2013, due to a reduction in work in process inventory of $6.6 million and a reduction in finished goods inventory of $6.9 million, partially offset by an increase in raw materials of $2.7 million.

Accounts Payable

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

(in thousands of Canadian dollars, except DPO)	**2013**	2012	Change
Average accounts payable and accrued liabilities	**$ 240,639**	$ 196,293	$ 44,346
DPO(a)	**88**	68	20

(a) DPO, a non-GAAP measure, is the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See *Section 12 – Reconciliation of non-GAAP* measures, for additional information with respect to DPO.

Average accounts payable and accrued liabilities increased by $44.0 million, or 22%, from $196.3 million as at December 31, 2012, to $240.6 million as at December 31, 2013. DPO increased by 20 days in the same period, driven by an increase in accounts payable and accrued liabilities and the timing of purchases in the fourth quarter of 2013 compared with the prior year.

5.5 Contingencies and Off Balance Sheet Arrangements

Commitments and Contingencies

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

(in thousands of Canadian dollars)	2014	2015	2016	2017	2018	After 2018	Total
Purchase commitments	$ 43,614	$ –	$ –	$ –	$ –	$ –	$ 43,614
Operating leases	17,619	13,449	8,201	6,556	3,624	10,176	59,625
Bank indebtedness	5,290	–	–	–	–	–	5,290
Accounts payable	91,215	–	–	–	–	–	91,215
Decommissioning liabilities	3,412	1,768	4,537	–	967	21,067	31,751
Deferred purchase consideration	21,618	–	–	–	–	–	21,618
Obligations under finance leases	938	1,486	1,486	1,486	1,486	13,892	20,774
Loans payable	126	–	–	–	–	–	126
Long-term debt	–	–	–	–	–	374,381	374,381
Finance costs on long-term debt	13,089	13,089	13,089	13,089	13,089	68,232	133,677
Total contractual obligations	$ 196,921	$ 29,792	$ 27,313	$ 21,131	$ 19,166	$ 487,748	$ 782,071

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

(in thousands of Canadian dollars)	2013
Total future minimum lease payments	$ 20,774
Less: imputed interest	(6,460)
Balance of obligations under finance leases	14,314
Less: current portion	(487)
Non-current obligations under finance leases	$ 13,827

As at December 31, 2013, the Company has not entered into any material commitments for capital expenditures.

Legal Claims

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

Performance, Bid and Surety Bonds

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

The Company utilizes its credit facilities to support the Company's Bonds. The Company had utilized credit facilities of $111.5 million as at December 31, 2013 (December 31, 2012 – $86.9 million).

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

(in thousands of Canadian dollars)	2013	2012
Total available credit facilities	$ 320,910	$ 251,688
Bank Indebtedness, Standby letters of credit for performance, bid and surety bonds	111,496	86,929
Unutilized credit facilities	$ 209,414	$ 164,759

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by US$100 million from US$150 million to US$250 million, with an option to increase the credit limit to US$400 million with the consent of lenders. The Company pays a floating interest rate on this credit facility that is a function of the Company's total debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio.

Allowable credit utilization outside of this facility has been reduced from US$100 million to US$50 million.

Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.5 to 1 and a debt to total EBITDA ratio of less than 3.00 to 1.

The Company was in compliance with the debt covenants detailed above as at December 31, 2013. These debt covenants are non-GAAP measures and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings prescribed by IFRS and are not necessarily comparable to similarly titled measures of other entities. See *Section 12 – Reconciliation of non-GAAP measures*, for additional information with respect to these debt covenants.

5.6 Long-Term Debt

On March 20, 2013, the Company issued Senior Notes for total gross proceeds of US$350 million (CDN$358.3 million at the March 20, 2013 foreign exchange rate) to institutional investors as follows:

(i) US$100 million (CDN$102.4 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 2.98% Senior Notes, Series A, due March 31, 2020 (the "Series A Notes");

(ii) US$100 million (CDN$102.4 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 3.67% Senior Notes, Series B, due March 31, 2023 (the "Series B Notes");

(iii) US$100 million (CDN$102.4 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 3.82% Senior Notes, Series C, due March 31, 2025 (the "Series C Notes");

(iv) US$50 million (CDN$51.2 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 4.07% Senior Notes, Series D, due March 31, 2028 (the "Series D Notes"; and together with the Series A Notes, the Series B Notes, the Series C Notes, collectively, the "Notes").

The total long-term debt balance as at December 31, 2013 is $374.4 million (US$350.0 million). The long-term debt has been designated as a hedge of the Company's net investment in a U.S. dollar functional currency subsidiary as described in Note 25 of the consolidated financial statements for the year ended December 31, 2013.

Financial Ratios

The Company has undertaken to maintain certain covenants in respect of the Long-Term Debt. These are similar to the debt covenants described in *Section 5.5* above for the Company's Unsecured Committed Bank Credit Facility.

The Company was in compliance with all of the financial covenants for the long-term debt as at December 31, 2013.

5.7 Financial Instruments and Other Instruments

5.7.1 Fair Value

IFRS 13, Fair Value Measurement, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs, as used to measure fair value, fall into the following three different levels of the fair value hierarchy:

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

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

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

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

The following table presents the fair value hierarchy levels for the financial assets and liabilities as at December 31, 2013:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 79,395	$ 79,395	$ –	$ –
Short-term investments	6,618	6,618	–	–
Loans receivable	9,242	–	9,242	–
Trade accounts receivable	237,880	–	237,880	–
Other receivables	126,104	–	126,104	–
Derivative financial instruments	624	–	624	–
	$ 459,863	$ 86,013	$ 373,850	$ –
Liabilities				
Bank indebtedness	$ 5,290	$ 5,290	$ –	$ –
Loans payable	126	–	126	–
Accounts payable	91,215	–	91,215	–
Deferred purchase consideration	21,618	–	21,618	–
Long-term debt	374,381	–	374,381	–
Derivative financial instruments	1,632	–	1,632	–
	$ 494,262	$ 5,290	$ 488,972	$ –

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.

5.7.2 Financial Risk Management

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

Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2013, 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 $75.0 million, $18.0 million and $15.1 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by $57.1 million, $38.8 million and $18.3 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.

Net Investment Hedge

The Senior Notes have been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the U.S. dollar as its functional currency. During the year ended December 31, 2013, a loss of $16.1 million on the translation of the Notes was transferred to other comprehensive income to offset the losses on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2013.

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2013:

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial assets				
Cash equivalents	$ –	$ –	$ 552	$ 552
Loans receivable	1,075	4,014	4,153	9,242
	$ 1,075	$ 4,014	$ 4,705	$ 9,794
Financial liabilities				
Bank indebtedness	$ –	$ 5,290	$ –	$ 5,290
Loans payable	126	–	374,381	374,507
	$ 126	$ 5,290	$ 374,381	$ 379,797

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.

For the year ended December 31, 2013, there was one customer who generated approximately 22% of total consolidated revenue (December 31, 2012 no customers who generated revenue greater than 10% of total consolidated revenue). This revenue resulted primarily from a single contract for which a substantial upfront payment was received in 2012 and which was recorded as deferred revenue at that time.

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, 2013, $25.2 million, or 10.3%, 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 years ended December 31, 2013 and 2012:

(in thousands of Canadian dollars)	**December 31 2013**	December 31 2012
Balance – Beginning of year	**$ 9,409**	$ 13,967
Bad debt expense	**3,016**	7,997
Recovery of previously written-off bad debts	**(7)**	(333)
Write-offs of bad debts	**(5,031)**	(11,000)
Impact of change in foreign exchange rates	**(667)**	(1,222)
Balance – End of year	**$ 6,720**	$ 9,409

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, 2013, the Company had cash and cash equivalents totalling $79.4 million (2012 – $285.0 million) and had unutilized lines of credit available to use of $209.4 million (2012 – $164.8 million).

5.8 Outstanding Share Capital

As at February 21, 2014, the Company had 60,003,882 common shares outstanding. In addition, as at February 21, 2014, the Company had stock options and share units outstanding to purchase up to 1,574,607 new common shares.

6.0 QUARTERLY SELECTED FINANCIAL INFORMATION

The following tables set forth the Company's summary of selected financial information for the four quarters of 2013 and 2012:

(in thousands of Canadian dollars except per share amounts)	Q1-2013	Q2-2013	Q3-2013	**Q4-2013**
Operating Results				
Revenue	$ 454,681	$ 457,261	$ 525,848	**$ 409,759**
Income from operations	89,125	78,536	104,877	**47,236**
Net income (attributable to shareholders of the Company)	70,595	53,914	72,956	**22,397**
Net income per share				
Basic	$ 1.02	$ 0.91	$ 1.22	**$ 0.37**
Diluted	$ 1.01	$ 0.90	$ 1.21	**$ 0.37**

(in thousands of Canadian dollars except per share amounts)	Q1-2012	Q2-2012	Q3-2012	Q4-2012
Operating Results				
Revenue	$ 312,268	$ 326,923	$ 390,497	$ 439,499
Income from operations	30,554	23,232	64,305	92,962
Net income (attributable to shareholders of the Company)	23,247	21,377	53,411	80,275
Net income per share				
Basic	$ 0.34	$ 0.30	$ 0.76	$ 1.14
Diluted	$ 0.33	$ 0.30	$ 0.75	$ 1.13

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 91% of the Company's consolidated revenue in 2013, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services segment.
- Over 79% of the Company's revenue in 2013 is transacted in currencies other than Canadian dollars, with a majority transacted in US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars. See *Section 2.2 – Foreign Exchange Impact*, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.
- In the second half of 2012, the Company's revenues increased by 33% over the first half of 2012, primarily due to large projects commencing in the Asia Pacific region. These large projects in the Asia Pacific region were also the main drivers of higher revenue in 2013.

6.1 Fourth Quarter Highlights

Highlights of the Company's 2013 fourth quarter include:

Fourth Quarter 2013 Versus Fourth Quarter 2012

- **Revenue**: Consolidated revenue decreased by $29.7 million, or 7%, from $439.5 million during the fourth quarter of 2012, to $409.8 million during fourth quarter of 2013, due to a decrease of $36.1 million in the Pipeline and Pipe Services segment, partially offset by an increase of $7.0 million in the Petrochemical and Industrial segment. In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2013 was $36.1 million, or 9%, lower than in the fourth quarter of 2012, due to decreased activity in Latin America, North America and Asia Pacific, partially offset by higher revenue in EMAR. See *Section 4.2.1 – Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment. In the Petrochemical and Industrial segment, revenue increased by $7.0 million, or 21%, during the fourth quarter of 2013 compared to the fourth quarter of 2012, due to higher activity levels in all three regions. See *Section 4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.
- **Operating Income**: Operating Income decreased by $45.7 million, from $93.0 million in the fourth quarter of 2012 to $47.2 million during the fourth quarter of 2013. Operating Income was impacted by a decrease in gross profit of $18.8 million, increases in SG&A expenses of $20.0 million, research and development expenses of $1.3 million, amortization of property, plant, equipment and intangible assets of $3.9 million, loss on assets held for sale of $1.1 million and a lower gain on sale of land of $6.9 million. This was partially offset by an increase in net foreign exchange gain of $5.5 million and a charge for impairment of property, plant and equipment of $0.8 million recorded in the fourth quarter of 2012. The decrease in gross profit resulted from lower revenue of $29.7 million and a 1.6 percentage point decrease in gross margin attributable to unfavourable product and project mix and lower facility utilization and absorption of overheads, particularly in the Pipeline and Pipe Services segment's Asia Pacific and Latin America regions. SG&A expenses increased by $20.0 million compared with the fourth quarter of 2012, primarily as a result of higher SG&A costs of $5.8 million following the acquisition and full consolidation of Socotherm and one-time restructuring costs and amended executive retirement arrangements of $10.7 million, as explained above. In addition, building rental and equipment costs

increased by $2.7 million, legal and professional consulting fees were higher by $3.2 million and transportation related expenses increased $1.2 million, partially offset by one-time strategic review expenses of $4.0 million incurred in the fourth quarter of 2012.

- Finance Costs: In the fourth quarter of 2013, net finance cost was $5.4 million, compared to a net finance income of $0.6 million during the fourth quarter of 2012. The increase in net finance costs was a result of interest on the Senior Notes issued on March 20, 2013, higher other interest expenses on bank loans and overdrafts and lower interest income on short-term deposits.
- Income Taxes: The Company recorded an income tax expense of $10.3 million (28% of income before income taxes) in the fourth quarter of 2013, compared to an income tax expense of $18.4 million (19% of income before income taxes) in the fourth quarter of 2012. The effective tax rate in the fourth quarter of 2013 was higher than the Company's expected effective income tax rate of 27%, primarily due to higher losses on investment in joint ventures, which reduced income before income taxes. The Company's tax rate in the fourth quarter of 2012 was lower than the expected rate of 27% primarily due to the fact that a significant portion of the Company's income was earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the expected tax rate was 25% or less.
- Net Income: Net income decreased by $57.9 million, from $80.3 million during the fourth quarter of 2012 to $22.4 million during the fourth quarter of 2013, mainly due to lower Operating Income in the fourth quarter of 2013, as explained in *Section 2.2* above, income from investment in associate recorded in the fourth quarter of 2012 of $6.0 million, a higher net loss on investment in joint ventures of $4.2 million and higher net finance costs of $6.0 million. This was partially offset by a decrease in income tax expenses of $8.1 million.

Fourth Quarter 2013 Versus Third Quarter 2013

- Revenue: Consolidated revenue decreased 22%, or $116.1 million, from $525.8 million during the third quarter of 2013 to $409.8 million during the fourth quarter of 2013, due to a decrease of $112.7 million in the Pipeline and Pipe Services segment and a decrease of $2.7 million in the Petrochemical and Industrial segment. In the Pipeline and Pipe Services segment, revenue decreased 23%, or $112.7 million, from $483.2 million in the third quarter of 2013 to $370.4 million in the fourth quarter of 2013, due to a decrease of 44 %, or $91.0 million, in Asia Pacific and a decrease of 47%, or $20.0 million, in Latin America. See *Section 4.2.1 – Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment. In the Petrochemical and Industrial segment, revenue was lower by $2.7 million, or 6%, in the fourth quarter of 2013, compared to the third quarter of 2013, mainly due to a decrease in revenue of $2.7 million, or 10%, in the North America region. See *Section 4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.
- Operating Income: Operating Income decreased by $57.6 million, from $104.9 million during the third quarter of 2013 to $47.2 million during the fourth quarter of 2013. Operating Income was impacted by a decrease in gross profit of $66.4 million and an increase in SG&A expenses of $6.8 million. This was partially offset by decreases in research and development expenses of $0.9 million, amortization of property, plant, equipment and intangible assets of $1.4 million, an increase in net foreign exchange gain of $8.0 million and a gain on sale of land of $5.2 million. The decrease in gross profit resulted from a 3.9 percentage point decrease in the gross margin from the third quarter of 2013 and the lower revenue, as explained above. The decrease in the gross margin percentage was primarily due to unfavourable product and project mix and lower facility utilization and absorption of overheads, as a result of reduction in revenue in the Pipeline and Pipe Services segment's Asia Pacific region. SG&A expenses increased by $6.8 million, from $96.3 million in the third quarter of 2013 to $103.0 million in the fourth quarter of 2013, primarily due to one-time restructuring costs and amended executive retirement arrangements of $10.7 million, partially offset by lower management incentive compensation expenses of $3.6 million. The one-time restructuring costs and amended executive retirement arrangements were primarily related to reorganizing the organizational structure to more effectively run the business and were comprised of charges of $2.0 million for the Pipeline and Pipe Services segment, $3.2 million for the Petrochemical and Industrial segment and $5.5 million for Finance and Corporate.
- Finance Costs: In the fourth quarter of 2013, net finance cost was $5.4 million, compared to a net finance cost of $4.5 million during the third quarter of 2013, as a result of higher other interest expenses on bank loans and overdrafts, partially offset by higher interest income on short-term deposits.
- Income Taxes: The Company recorded an income tax expense of $10.3 million (28% of income before income taxes) in the fourth quarter of 2013, compared to an income tax expense of $29.4 million (29% of income before income taxes) in the third quarter of 2013. The effective tax rate in the fourth quarter of 2013 was higher than the Company's expected effective income tax rate of 27%, primarily due to higher losses on investment in joint ventures, which reduced income before income taxes. The Company's tax rate in the third quarter of 2013 was slightly higher than expectations primarily due to the incurrence of tax losses in jurisdictions where the Company was unable to record a tax benefit in the quarter.
- Net Income: Net income decreased by $50.6 million, from $73.0 million during the third quarter of 2013 to $22.4 million during the fourth quarter of 2013, mainly due to the lower Operating Income in the fourth quarter of 2013, as explained in *Section 2.2* above and a higher loss on investment in joint ventures of $6.8 million. This was partially offset by lower income tax expense of $19.1 million.

7.0 DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company's Disclosure Controls and Procedures ("DC&Ps") (as defined in the rules of the Canadian Securities Administrators) and the effectiveness of Internal Controls over Financial Reporting ("ICFRs"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as at

December 31, 2013 and 2012. Furthermore, they have concluded that the Company's ICFRs were effective as at December 31, 2013. There were no material changes in either the Company's DC&Ps or its ICFRs during 2013 or 2012.

7.1 Transactions with Related Parties

During the year, 11,716,235 Class B multiple voting shares of the Company's controlling shareholder were acquired by the Company for cash and shares pursuant to the Arrangement which became effective on March 20, 2013. Refer to *Section 3.1 – Business Developments for the Period* and Note 29 of the audited financial statements for the year ended December 31, 2013, for additional information regarding this transaction. In connection with the closing of the Arrangement, the employment terms of the Company's Chair of the Board of Directors and indirect controlling shareholder, and of the Company's Vice Chair of the Board of Directors, were amended to provide that their employment with a Company's subsidiary would terminate and they would receive severance and other benefits of approximately $3.4 million and $3.7 million, respectively. For additional information regarding these transactions, refer to the section entitled Termination & Change of Control Benefits in the Company's Management Proxy Circular dated March 25, 2013, which is filed on SEDAR at www.sedar.com

The Company had no other material transactions with related parties during the year 2013 and all related party transactions were in the normal course of business.

8.0 CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

8.1 Critical Accounting Estimates

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

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

As at December 31, 2013 the Company had $842.3 million of long-lived assets and goodwill. The Company evaluates the carrying values of the CGUs' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether writedowns of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions.

Employee Future Benefit Obligations

As at December 31, 2013, the Company had $25.7 million of employee future benefit obligations included in non-current liabilities. 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

As at December 31, 2013, the Company had $109.2 million of provisions; of this amount $49.8 million was included in current liabilities and $59.4 million was included in non-current 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

As at December 31, 2013, the Company had decommissioning liabilities in the amount of $20.7 million; of this amount $3.4 million was included in the current provisions account and $17.2 million was recorded in the non-current provisions account. 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.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the respective companies.

8.2 Accounting Standards Issued but Not Yet Applied

IFRS 9, Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of *IAS 39* and applies to classification and measurement of financial assets and financial liabilities as defined in *IAS 39*. The standard was initially effective for annual periods beginning on or after January 1, 2015; however, as a result of further amendments to *IFRS 9* there is no longer a mandatory effective date for this standard. In subsequent phases, the IASB amended *IFRS 9* to address hedge accounting, and further amendments for impairment of financial assets are pending. The Company will quantify the effect of adopting *IFRS 9*, when the final standard including all phases is issued.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. *IFRIC 21* is effective for annual periods beginning on or after 1 January 2014. The Company is still evaluating the impact of *IFRIC 21* on its financial statements.

8.3 New Accounting Standards Adopted

IAS 1, Presentation of Financial Statements

Presentation of Items of Other Comprehensive Income

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 and loss at a future point in time now have to be presented separately from items that will never be reclassified. The Company adopted this standard effective January 1, 2013. The Company has modified its Statement of Comprehensive Income to become compliant with the amendments made to *IAS 1*. The amendment affected presentation only and had no impact on the Company's financial position or results of operations.

Clarification of the Requirement for Comparative Information

The amendment to *IAS 1* clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the "Opening Balance Sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The Company has disclosed the Opening Balance Sheet as part of the IFRS transitional note in *Section 8.4*.

IFRS 10, Consolidated Financial Statements

For annual periods beginning on January 1, 2013, *IFRS 10*, Consolidated Financial Statements, which replaced 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. *IFRS 10* changes the definition of control such that an investor is 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. To meet the definition of control in *IFRS 10*, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. 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's adoption of *IFRS 10* effective January 1, 2013 had no material impact on the consolidation of investments by the Company.

IFRS 11, Joint Arrangements

On January 1, 2013, ShawCor adopted *IFRS 11, Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. *IFRS 11* replaces *IAS 31, Interests in Joint Ventures* and *SIC-13, Jointly-controlled Entities – Non-monetary Contributions by Venturers*. *IFRS 11* requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement ("joint venture") or to its share of the assets and liabilities of the joint arrangement ("a joint operation"). A joint venture is accounted for using the equity method and a joint operation is accounted for by including the joint venture partner's share of the assets, liabilities, revenue and expenses in the consolidated financial statements of the joint venture partner.

The application of *IFRS 11* resulted in the Company replacing the proportionate consolidation method of accounting for joint ventures with the equity method of accounting for joint ventures. The effect of *IFRS 11* is described in *Section 8.4*, which includes quantification of the effect on the Company's consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities

On January 1, 2013, the Company adopted *IFRS 12, Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint arrangements and associates, as well as unconsolidated structured entities and replaced existing disclosure requirements. Due to this new standard, the Company is now required to disclose in its annual consolidated financial statements the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities, and the nature of the risks associated with interests in other entities. These consolidated financial statements include those disclosures stipulated by *IFRS 12*.

IFRS 13, Fair Value Measurement

Effective January 1, 2013, the Company has adopted *IFRS 13, Fair Value Measurement*. *IFRS 13* establishes a single source of guidance for all fair value measurements, when fair value is required or permitted by IFRS. *IFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. In addition, fair value will now be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets and liabilities. Upon adoption, the Company has started to use a single framework for measuring fair value and will provide additional disclosures as prescribed by IFRS. The application of *IFRS 13* has not materially impacted the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including *IFRS 7, Financial Instruments: Disclosures*. The Company has provided these prescribed financial statement disclosures in Note 25 of the Company's audited financial statements for the year ended December 31, 2013.

IAS 19R, Employee Benefits

Effective January 1, 2013, ShawCor adopted *IAS 19, Employee Benefits*. *IAS 19R* includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit or loss; expected returns on plan assets are no longer recognized in profit or loss; interest on the net defined benefit liability (asset) is recognized in profit or loss, and is calculated using the discount rate used to measure the defined benefit obligation; and unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. The amended standard impacts the net benefit expense as the expected return on plan assets is calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The transition to *IAS 19R* has had a material impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets and unvested past service costs. The effect of *IAS 19R* is described in *Section 8.4*, which includes quantification of the effect on the Company's consolidated financial statements.

IAS 27, Separate Financial Statements

ShawCor adopted *IAS 27, Separate Financial Statements* effective January 1, 2013. 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. There was no impact from the adoption of this new standard to the Company's consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures

ShawCor adopted *IAS 28, Investments in Associates and Joint Ventures* effective January 1, 2013. As a consequence of the issue of *IFRS 10, IFRS 11* and *IFRS 12*, *IAS 28* has been amended and now provides further accounting guidance for investments in associates and sets 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 or has significant influence over an investee, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28*.

The adoption of *IAS 28* by the Company changed the method of accounting for its joint ventures from the proportionate consolidation method to the equity method. The effect of *IAS 28* is described in Note 5, which includes quantification of the effect on the Company's consolidated financial statements.

IAS 36, Impairment of Assets

In May 2013, the IASB released an amendment to this standard that requires entities to disclose the recoverable amount of an asset or cash generating unit when an impairment loss has been recognized or reversed and certain other information when an impairment loss or reversal is based on fair value less costs to sell. This amendment is required to be applied for accounting periods beginning on or after January 1, 2014. The Company has early adopted this standard. The adoption of this amendment affected disclosure only and has no impact on the consolidated financial statements of the Company.

8.4 Impact of Adopting New Accounting Standards

a) IFRS 11, Joint Ventures

The Company had the following interests in joint ventures as at January 1, 2013.

	Country of Incorporation	Activity	Proportion of Interest Held %
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 S.A.	Argentina	Pipe coating	50
Socotherm Gulf of Mexico, LLC	U.S.A.	Pipe coating	51

Under *IAS 31 Investment in Joint Ventures* (prior to the transition to *IFRS 11*), the Company's interests in all of its joint ventures were classified as jointly controlled entities and the Company's share of the assets, liabilities, revenue, income and expenses was proportionately consolidated in the consolidated financial statements. Upon adoption of *IFRS 11*, the Company has determined all of its interests in joint arrangements are joint ventures, which are now accounted for using the equity method. The Company has applied *IFRS 11* retrospectively to January 1, 2012 with the resulting effect shown in the IFRS transition bridges on the following page.

b) IAS 19R, Employee 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.

IAS 19R has been applied retrospectively from January 1, 2012. As a result, the corridor method is no longer applicable and instead the full funded status of the plan is recognized on the balance sheet with actuarial gains and losses recognized in OCI without subsequent reversal. In addition, expected returns on plan assets of defined benefit plans are not recognized in profit or loss. Instead, interest on the net defined benefit obligation is recognized in profit or loss, calculated using the discount rate used to measure the net pension obligation or asset. Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Company recognizes related restructuring or termination costs. Until 2012, the Company's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to *IAS 19R*, past service costs are recognized immediately in profit or loss, if the benefits have vested immediately following the introduction of, or changes to, a pension plan. The effect of applying *IAS 19R* is shown in the IFRS transition bridges as follows:

IFRS Reconciliation of the Balance Sheet at January 1, 2012

	December 31, 2011	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	**Restated Under IFRS Changes January 1, 2012**
Assets				
Current assets				
Cash and cash equivalents	$ 56,731	$ (194)	$ –	**$ 56,537**
Short-term investments	10,545	–	–	**10,545**
Loan receivable	2,047	–	–	**2,047**
Accounts receivable	279,324	(190)	–	**279,134**
Income taxes receivable	15,981	–	–	**15,981**
Inventories	146,786	(370)	–	**146,416**
Prepaid expenses	24,454	(1)	–	**24,453**
Derivative financial instruments	270	–	–	**270**
	536,138	(755)	–	**535,383**
Non-current assets				
Loans receivable	12,622	–	–	**12,622**
Property, plant and equipment	299,118	(397)	–	**298,721**
Intangible assets	86,362	–	–	**86,362**
Investments in associate	30,095	–	–	**30,095**
Investments in Joint ventures	–	30	–	**30**
Deferred income taxes	30,058	–	4,689	**34,747**
Other assets	12,022	–	(1,907)	**10,115**
Goodwill	220,334			**220,334**
	690,611	(367)	2,782	**693,026**
	$ 1,226,749	$ (1,122)	$ 2,782	**$ 1,228,409**
Liabilities and Equity				
Current liabilities				
Bank indebtedness	$ 12,281	$ –	$ –	**$ 12,281**
Loans payable	5,001	(5,001)	–	**–**
Accounts payable and accrued liabilities	156,064	(1,132)	–	**154,932**
Provisions	12,317	4,018	–	**16,335**
Income taxes payable	35,200	993	–	**36,193**
Derivative financial instruments	419	–	–	**419**
Deferred revenue	27,446	–	–	**27,446**
Obligations under finance lease	268	–	–	**268**
	248,996	(1,122)	–	**247,874**
Non-current liabilities				
Provisions	40,523	–	–	**40,523**
Derivative financial instruments	2,499	–	–	**2,499**
Employee future benefits	10,336	–	15,979	**26,315**
Deferred income taxes	56,984	–	–	**56,984**
	110,342	–	15,979	**126,321**
	359,338	(1,122)	15,979	**374,195**
Equity				
Capital Stock	218,381	–	–	**218,381**
Contributed surplus	16,391	–	–	**16,391**
Retained earnings	664,475	–	–	**664,475**
Accumulated other comprehensive loss	(31,836)	–	(13,197)	**(45,033)**
	867,411	–	(13,197)	**854,214**
	$ 1,226,749	$ (1,122)	$ 2,782	**$ 1,228,409**

IFRS Reconciliation of the Balance Sheet at December 31, 2012

	December 31, 2012	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	**Restated Under IFRS Changes December 31, 2012**
Assets				
Current assets				
Cash and cash equivalents	$ 293,266	$ (8,285)	$ –	**$ 284,981**
Short-term investments	78,747	(797)	–	**77,950**
Loan receivable	604	961	–	**1,565**
Accounts receivable	389,929	(13,141)	–	**376,788**
Income taxes receivable	13,675	(1,838)	–	**11,837**
Inventories	202,887	(14,540)	–	**188,347**
Prepaid expenses	41,370	–	–	**41,370**
Derivative financial instruments	3,988	–	–	**3,988**
	1,024,466	(37,640)	–	**986,826**
Assets held for sale	27,141	–	–	**27,141**
	1,051,607	(37,640)	–	**1,013,967**
Non-current assets				
Loans receivable	6,527	14,376	–	**20,903**
Property, plant and equipment	392,592	(21,008)	–	**371,584**
Intangible assets	144,694	(43,239)	–	**101,455**
Investment Joint venture	–	77,342	–	**77,342**
Deferred income taxes	32,453	(2,385)	6,079	**36,147**
Other assets	13,986	–	(2,807)	**11,179**
Goodwill	285,710	(29,414)	–	**256,296**
	875,962	(4,328)	3,272	**874,906**
	$ 1,927,569	$ (41,968)	$ 3,272	**$ 1,888,873**
Liabilities and Equity				
Current liabilities				
Bank indebtedness	$ 3,868	$ 1,883	$ –	**$ 5,751**
Loans payable	8,328	(8,328)	–	
Accounts payable and accrued liabilities	224,497	(18,446)	–	**206,051**
Provisions	43,193	5,614	–	**48,807**
Income taxes payable	37,991	(2,255)	–	**35,736**
Derivative financial instruments	1,275	–	–	**1,275**
Deferred revenue	377,091	–	–	**377,091**
Obligations under finance lease	1,927	–	–	**1,927**
	698,170	(21,532)	–	**676,638**
Liabilities directly associated with the assets classified as held for sale	11,917	–	–	**11,917**
	710,087	(21,532)	–	**688,555**
Non-current liabilities				
Loans payable	8,682	(6,018)	–	**2,664**
Obligations under finance lease	12,728	–	–	**12,728**
Provisions	44,814	(4,233)		**40,581**
Deferred revenue	64,392	–	–	**64,392**
Employee future benefits	9,337		20,470	**29,807**
Deferred income taxes	71,664	(10,185)	–	**61,479**
	211,617	(20,436)	20,470	**211,651**
	921,704	(41,968)	20,470	**900,206**
Equity				
Share capital	221,687	–	–	**221,687**
Contributed surplus	17,525	–	–	**17,525**
Retained earnings	799,849	–	(108)	**799,741**
Non-controlling interest	(331)	–	–	**(331)**
Accumulated other comprehensive loss	(32,865)	–	(17,090)	**(49,955)**
	1,005,865	–	(17,198)	**988,667**
	$ 1,927,569	$ (41,968)	$ 3,272	**$ 1,888,873**

IFRS Reconciliation of the Statement of Income and Comprehensive Income for the Year Ended December 31, 2012

Consolidated Statement of Income	December 31, 2012	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	**Restated Under IFRS Changes December 31, 2012**
Revenue	$ 1,482,849	$ (13,662)	$ –	**$ 1,469,187**
Cost of goods sold and services rendered	904,362	(9,358)	–	**895,004**
Gross profit	578,487	(4,304)	–	**574,183**
Selling, general and administrative expenses	308,172	(2,209)	145	**306,108**
Research and development expenses	12,242	–	–	**12,242**
Foreign exchange (gains) losses	(119)	10	–	**(109)**
Amortization of property, plant and equipment	45,133	(148)	–	**44,985**
Amortization of intangible assets	8,248	(929)	–	**7,319**
Gain on sale of land	(12,101)	–	–	**(12,101)**
Impairment of property, plant and equipment	4,686	–	–	**4,686**
Income from operations	212,226	(1,028)	(145)	**211,053**
Income on investments in joint ventures	–	618	–	**618**
Finance income, net	1,318	42	–	**1,360**
Income on investments in associate	8,694	–	–	**8,694**
Accounting gain on acquisition	413	–	–	**413**
Income before income taxes	222,651	(368)	(145)	**222,138**
Income taxes	44,188	(368)	(37)	**43,783**
Net Income	$ 178,463	$ –	$ (108)	**$ 178,355**
Net Income attributable to:				
Shareholders of the Company	178,418	–	(108)	**178,310**
Non-controlling interests	45	–	–	**45**
	$ 178,463	$ –	$ (108)	**$ 178,355**
Earnings per share				
Basic	$ 2.53	$ –	$ –	**$ 2.53**
Diluted	$ 2.50	$ –	$ –	**$ 2.50**
Consolidated Statement of Comprehensive Income				
Net income	$ 178,463	$ –	$ (108)	**$ 178,355**
Exchange differences on translation of foreign operations	(826)	469	–	**(357)**
Other comprehensive loss attributable to investments in associates	–	(469)	–	**(469)**
Actuarial loss on defined employee future benefit plans	–	–	(5,246)	**(5,246)**
Income tax expense on defined employee future benefit plans	–	–	1,353	**1,353**
Other comprehensive loss for the period	(826)	–	(3,893)	**(4,719)**
Comprehensive income	$ 177,637	$ –	$ (4,001)	**$ 173,636**
Comprehensive income attributable to:				
Shareholders of the company	$ 177,389	$ –	$ (4,001)	**$ 173,388**
Non-controlling interests	248	–	–	**248**
Comprehensive income	$ 177,637	$ –	$ (4,001)	**$ 173,636**

IFRS Reconciliation of the Statement of Income and Comprehensive Income for the Quarter Ended December 31, 2012

Consolidated Statement of Income	IFRS December 31, 2012	IFRS 11 Joint Arrangements	IAS 19 Employee Future Benefits	**Restated Under IFRS Changes December 31, 2012**
Revenue	$ 448,384	$ (8,885)	$ –	**$ 439,499**
Cost of goods sold and services rendered	266,043	(8,027)	–	**258,016**
Gross profit	182,341	(858)	–	**181,483**
Selling, general and administrative expenses	84,569	(1,597)	36	**83,008**
Research and development expenses	2,127	–	–	**2,127**
Foreign exchange (gains) losses	(835)	9	–	**(826)**
Amortization of property, plant and equipment	13,554	(40)		**13,514**
Amortization of intangible assets	2,896	(929)	–	**1,967**
Gain on land and other items	(12,101)	–	–	**(12,101)**
Impairment of property, plant and equipment	832	–	–	**832**
Income from operations	91,299	1,699	(36)	**92,962**
		–	–	
Loss on investments in joint ventures	–	(1,251)	–	**(1,251)**
Finance income (costs), net	968	(348)	–	**620**
Income on investment in associate	5,968	–	–	**5,968**
Accounting gain on acquisition	413			**413**
Income before income taxes	98,648	100	(36)	**98,712**
Income taxes	18,301	100	(9)	**18,392**
Net income	$ 80,347	$ –	$ (27)	**$ 80,320**
Net income attributable to:				
Shareholders of the Company	$ 80,302	$ –	$ (27)	**$ 80,275**
Non-controlling interest	45	–	–	**45**
	$ 80,347	$ –	$ (27)	**$ 80,320**
Earnings per share				
Basic	$ 1.14	$ –	$ –	**$ 1.14**
Diluted	$ 1.13	$ –	$ –	**$ 1.13**
Consolidated Statement of Comprehensive Income				
Net income	$ 80,347	$ –	$ (27)	**$ 80,320**
Exchange differences on translation of foreign operations	17,467	403	–	**17,870**
Other comprehensive income attributable to investment in associate	605	(469)	–	**136**
Actuarial loss on defined benefit plans	–	–	(1,311)	**(1,311)**
Income tax effect of actuarial loss on defined benefit plans	–		339	**339**
Other comprehensive (loss) income for the period	18,072	(66)	(972)	**17,034**
Comprehensive income	$ 98,419	$ (66)	$ (999)	**$ 97,354**
Comprehensive income attributable to:				
Shareholders of the Company	$ 98,171	$ (66)	$ (999)	**$ 97,106**
Non-controlling interest	248	–	–	**248**
Comprehensive income	$ 98,419	$ (66)	$ (999)	**$ 97,354**

IFRS Reconciliation of Equity

	December 31, 2012	January 1, 2012
Equity as previously reported	$ 1,005,865	$ 867,411
Impact of adopting IAS 19, Employee Benefit	(17,198)	(13,197)
Equity in accordance with IFRS changes	$ 988,667	$ 854,214

9.0 OUTLOOK

Following the record results produced by ShawCor during the full year 2013, the Company expects revenue and earnings to decrease in 2014 in comparison with the full year of 2013. This expected reduction in activity is the result of the fact that in 2013, revenue from the Company's Asia Pacific region has been enhanced by the execution of the $400 million Inpex Ichthys gas export pipeline project, the largest single project in the Company's history and a project size that will not be replicated in 2014. Further detail on the outlook for the Pipeline and Pipe Services segment by region and the Petrochemical and Industrial segment is set out below:

Pipeline and Pipe Services Segment – North America

In 2014, ShawCor's North American Pipeline segment businesses are expected to generate solid revenue growth over 2013 levels. Pipe coating volumes will benefit from a full year of production at the Socotherm Gulf of Mexico plant where the order backlog for deepwater insulation coating projects exceeds $60 million. North American land pipe coating activity is expected to continue at strong levels, consistent with the levels produced in 2013. In other pipeline segment businesses in North America, the prospects for growth in 2014 are quite compelling. Continued shale oil and gas developments are creating growing market demands for the Flexpipe composite pipe and Guardian OCTG pipe inspection and refurbishment businesses while the Company's introduction of new real-time radiography technology to the USA land pipeline market is enabling market share gains in pipeline girth weld inspection.

Pipeline and Pipe Services Segment – Latin America

The Company believes that revenue from Latin America pipe coating operations has the potential for modest growth in 2014 as a result of increased offshore and large diameter gas transmission pipeline opportunities in Mexico, the launch of insulation coating production at the Socotherm Argentina operation, and an expected increase in revenue in Brazil, where production will commence in the first quarter 2014 for the deepwater insulation coating for flowlines and risers for Petrobras' Sapinhoa field in the Santos basin. These sources of revenue growth will be partially offset by the fact that 2013 Latin America revenue had included approximately $55 million from the Technip project that was executed through the deployment of two portable concrete weight coating plants in Trinidad.

Pipeline and Pipe Services Segment – EMAR

The Company's Europe, Middle East, Africa, Russia ("EMAR") region expects to begin to generate significant revenue growth in 2014. In addition to a continuation of strong project revenues from the pipe coating facilities in Orkanger, Norway and Ras Al Khaimah, UAE, revenue gains are expected in 2014 as the Leith, Scotland facility executes the $30 million Edvard Grieg project and Socotherm ramps up production at the Pozzallo, Sicily pipe coating facility to execute a large deepwater insulation project for a new West African oil field development. The Company is also currently bidding on several very large projects in the EMAR region that could produce revenues in excess of $300 million that could potentially start production by the fourth quarter of 2014 and thus contribute to revenue growth in the 2015 to 2016 period.

Pipeline and Pipe Services Segment – Asia Pacific

In 2013, the Company generated record revenues in the Asia Pacific region as a result of the execution of the Inpex Ichthys gas export pipeline, Chevron Wheatstone export pipeline and flowlines, and Apache Julimar flowlines projects. These projects produced over $510 million in revenue in 2013 and contributed to a level of activity that will decline by at least 50% in 2014. Beyond 2014, the Company remains confident that the Asia Pacific region will continue to provide compelling opportunities, particularly with the emergence of deepwater oil and gas developments that will require the Company's operational capability and unique product technologies.

Petrochemical and Industrial Segment

ShawCor's Petrochemical and Industrial segment businesses are significantly exposed to demand in the North American and European automotive, industrial and nuclear refurbishment markets. During 2013, demand in the global industrial markets served by the Petrochemical and Industrial segment businesses has been stable but the Company has achieved gains in market share with the result that revenue increased by approximately 10% year over year. Similar revenue growth in 2014 should be possible provided market conditions remain healthy. Operating income growth should exceed revenue growth due to the one-time charges of $3.2 million incurred in 2013 for staff reductions and other costs related to the completion of the new facility in Germany for the segment's heat shrink tubular business. This new facility should also contribute to the segment's earnings growth potential as a result of the improved operational efficiencies associated with the consolidation of production activities in one facility and the expected improvements in production throughput.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog at December 31, 2013 decreased to $617 million from $646 million at September 30, 2013 and versus $850 million at the end of 2012. The decline in backlog from the start of 2013 has resulted primarily from the execution during the year of the $400 million Inpex Ichthys gas export pipeline project. Although the order backlog may continue to decline over the next few quarters, the Company's bidding activity remains very high with outstanding bids currently exceeding $900 million dollars. The bidding activity is also very well diversified across all of the Company's regions. If a significant portion of these bids are translated into production orders during 2014, the backlog will increase over the course of the year, which would provide a strong indication for growth in revenue and earnings in 2015 and beyond.

10.0 RISKS AND UNCERTAINTIES

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

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

10.1 Economic Risks

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

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

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

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

Revenue generated by the Company's Pipeline and Pipe Services segment accounted for 91% of consolidated sales in 2013. With this proportion expected to continue, the Company's revenue is materially dependent on the global Pipeline and Pipe Services industry. Any reduction in the anticipated growth in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

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

The Company's material financing agreements contain financial and other covenants that, if breached by the Company, may require the Company to redeem, repay, repurchase or refinance its existing debt obligations prior to their scheduled maturity. The Company's ability to refinance such obligations may be restricted due to prevailing conditions in the capital markets, available liquidity and other factors.

The Company is party to a number of financing agreements which contain financial or other covenants. If the Company was to breach the financial or other covenants contained in its financing agreements, the Company may be required to redeem, repay, repurchase or refinance its existing debt obligations prior to their scheduled maturity and the Company's ability to do so may be restricted or limited by the prevailing conditions in the capital markets, available liquidity and other factors. If the Company is unable to refinance any of the Company's debt obligations in such circumstances, its ability to make capital expenditures and its financial condition and cash flows could be adversely impacted. If future debt financing is not available to the Company when required or is not available on acceptable terms, the Company may be unable to grow its business, take advantage of business opportunities, respond to competitive pressure or refinance maturing debt, any of which could have a material adverse effect on the Company's operating results and financial condition.

Economic Risk Mitigation

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

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

10.2 Litigation and Legal Risks

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

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

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

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

Litigation and Legal Risk Mitigation

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

10.3 HSE Risks

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

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

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

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

HSE Risk Mitigation

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

10.4 Political and Regulatory Risks

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

During 2013, the Company derived over 45% of its total revenue from its facilities outside Canada, the US and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

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

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

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

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

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

Political and Regulatory Risk Mitigation

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

11.0 ENVIRONMENTAL MATTERS

While environmental related liabilities are considered immaterial to the Company's financial results, they are important to the Company from a social responsibility standpoint. Refer to *Section 10.3 – HSE Risks* for additional information with respect to the Company's environmental matters.

As at December 31, 2013, the accruals on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $20.7 million. The Company believes the accruals to be sufficient to fully satisfy all liabilities related to known environmental matters.

12.0 RECONCILIATION OF NON-GAAP MEASURES

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

EBITDA

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

Return on Invested Capital ("ROIC")

ROIC, a non-GAAP measure, is defined as net income adjusted for after tax interest expense divided by average invested capital over the year and is used by the Company to assess the efficiency of generating profits from each unit of invested capital.

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

(in thousands of Canadian dollars)	2013	2012
Net income for the year adjusted for after-tax interest expense	$ 231,752	$ 179,756
Average invested capital	$ 987,819	$ 922,005
ROIC	23.5%	19.5%

Days Sales Outstanding ("DSO")

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

(in thousands of Canadian dollars)	2013	2012
Revenue for the fourth quarter	$ 409,759	$ 439,499
Average trade accounts receivable	$ 248,944	$ 272,218
DSO	55	56

Days Payables Outstanding ("DPO")

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

(in thousands of Canadian dollars)	2013	2012
Cost of goods sold for the Fourth quarter	$ 247,114	$ 258,016
Average accounts payable and accrued liabilities	$ 240,639	$ 196,293
DPO	88	68

Working Capital Ratio

Working capital ratio is defined as current assets divided by current liabilities. This metric provides management with an indication of the current liquidity available to the Company before considering long-term debt. The following table sets forth the calculation for the Company's working capital ratio as at:

(in thousands of Canadian dollars)	2013	2012
Current assets	$ 718,558	$ 1,013,967
Current liabilities	$ 451,069	$ 688,555
Working capital ratio	1.59	1.47

Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") plus rental payments divided by interest expense plus rental payments) of more than 2.5 to 1 and a debt to EBITDA ratio of less than 3.00 to 1. The Company is in compliance with these covenants as at December 31, 2013 and 2012.

13.0 FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward-looking information" and "forward-looking statements" (collectively "forward-looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward-looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward-looking information in the Outlook section and elsewhere in respect of, among other things, the completion of the sale of the Company's joint venture interest in Socotherm Brasil and the proceeds therefrom, the timing of major project activity, the sufficiency of resources, capacity and capital to meet market demand, to meet contractual obligations and to execute the Company's development and growth strategy, the impact of the existing order backlog and other factors on the Company's revenue and Operating Income in 2014 and in the longer term, the impact of global economic activity on the demand for the Company's products, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the impact of changing laws for environmental compliance on the Company's capital and operating costs, and the adequacy of the Company's existing accruals in respect thereof and in respect of litigation matters and other claims generally, the level of payments under the Company's performance bonds, the outlook for revenue and Operating Income and the expected development in the Company's order backlog.

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

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

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

To the extent any forward-looking information in this document constitutes future oriented financial information or financial outlooks, within the meaning of securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future oriented financial information and financial outlooks, as with forward-looking information generally, are based on the assumptions and subject to the risks noted above.

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

February 27, 2014