

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of ShawCor Ltd. included in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

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

The management of the Company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfils its responsibilities for financial reporting and internal control with the assistance of its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are Directors who are not officers or employees of ShawCor Ltd. or any of its subsidiaries. The Committee meets periodically to review quarterly financial reports and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors.

These financial statements have been audited by Ernst & Young LLP, the external auditors, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

February 27, 2014



WILLIAM P. BUCKLEY
Chief Executive Officer



GARY S. LOVE
Vice-President, Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SHAWCOR LTD.

We have audited the accompanying consolidated financial statements of ShawCor Ltd., which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and January 1, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ShawCor Ltd. as at December 31, 2013 and 2012, and January 1, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

CHARTERED ACCOUNTANTS
Licensed Public Accountants

Toronto, Canada
February 27, 2014

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

December 31, 2013 December 31, 2012
Restated (Note 5) Restated (Note 5)

Assets

Current Assets

Cash and cash equivalents (Note 9)	\$ 79,395	\$ 284,981	\$ 56,537
Short-term investments	6,618	77,950	10,545
Loan receivable (Note 10)	1,780	1,565	2,047
Accounts receivable (Note 11)	363,984	376,788	279,134
Income taxes receivable	9,919	11,837	15,981
Inventories (Note 12)	180,876	188,347	146,416
Prepaid expenses	19,176	41,370	24,453
Derivative financial instruments (Note 25)	624	3,988	270
	662,372	986,826	535,383
Assets held for sale (Note 18)	56,186	27,141	-
	718,558	1,013,967	535,383

Non-current Assets

Loans receivable (Note 10)	7,462	20,903	12,622
Property, plant and equipment (Note 13)	413,287	371,584	298,721
Intangible assets (Note 14)	130,216	101,455	86,362
Investments in joint ventures (Note 31)	17,276	77,342	30
Investments in associate (Note 7)	-	-	30,095
Deferred income taxes (Note 33)	48,480	36,147	34,747
Other assets (Note 16)	17,830	11,179	10,115
Goodwill (Note 17)	298,819	256,296	220,334
	933,370	874,906	693,026
	\$ 1,651,928	\$ 1,888,873	\$ 1,228,409

Liabilities and Equity

Current Liabilities

Bank indebtedness (Note 21)	\$ 5,290	\$ 5,751	\$ 12,281
Accounts payable and accrued liabilities (Note 19)	230,974	206,051	154,932
Provisions (Note 20)	49,762	48,807	16,335
Income taxes payable	61,911	35,736	36,193
Derivative financial instruments (Note 25)	1,632	1,275	419
Deferred revenue (Note 23)	84,396	377,091	27,446
Obligations under finance lease (Note 27)	487	1,927	268
	434,452	676,638	247,874
Liabilities directly associated with the assets classified as held for sale (Note 18)	16,617	11,917	-
	451,069	688,555	247,874

Non-current Liabilities

Loans payable	126	2,664	-
Long-term debt (Note 22)	374,381	-	-
Obligations under finance lease (Note 27)	13,827	12,728	-
Provisions (Note 20)	59,409	40,581	40,523
Derivative financial instruments (Note 25)	-	-	2,499
Deferred revenue (Note 23)	-	64,392	-
Employee future benefits (Note 24)	25,678	29,807	26,315
Deferred income taxes (Note 33)	68,857	61,479	56,984
	542,278	211,651	126,321
	993,347	900,206	374,195

Equity

Share capital (Note 28)	303,327	221,687	218,381
Contributed surplus	13,093	17,525	16,391
Retained earnings	373,574	799,741	664,475
Non-controlling interests	2,419	(331)	-
Accumulated other comprehensive loss	(33,832)	(49,955)	(45,033)
	658,581	988,667	854,214
	\$ 1,651,928	\$ 1,888,873	\$ 1,228,409

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 (in thousands of Canadian dollars, except per share amounts)

	2013	2012
		Restated (Note 5)
Revenue		
Sale of products	\$ 451,833	\$ 377,192
Rendering of services	1,395,716	1,091,995
	1,847,549	1,469,187
Cost of Goods Sold and Services Rendered	1,058,946	895,004
Gross Profit	788,603	574,183
Selling, general and administrative expenses	382,755	306,108
Research and development expenses	15,687	12,242
Foreign exchange gains	(4,936)	(109)
Amortization of property, plant and equipment (Note 13)	66,484	44,985
Amortization of intangible assets (Note 14)	10,312	7,319
Loss on assets held for sale (Note 18)	3,683	-
Gain on sale of land and other items (Note 15)	(5,156)	(12,101)
Impairment of property, plant and equipment (Note 15)	-	4,686
Income from Operations	319,774	211,053
(Loss) income on investments in joint ventures (Note 31)	(3,874)	618
Finance (costs) income, net	(14,912)	1,360
Income on investments in associate	-	8,694
Accounting gain on acquisition – net (Note 7)	-	413
Income Before Income Taxes	300,988	222,138
Income taxes (Note 33)	78,402	43,783
Net Income	\$ 222,586	\$ 178,355
Net Income Attributable to:		
Shareholders of the Company	\$ 219,862	\$ 178,310
Non-controlling interests	2,724	45
Net Income	\$ 222,586	\$ 178,355
Earnings per Share		
Basic (Note 32)	\$ 3.55	\$ 2.53
Diluted (Note 32)	\$ 3.51	\$ 2.50
Weighted Average Number of Shares Outstanding (000s)		
Basic (Note 32)	61,972	70,413
Diluted (Note 32)	62,646	71,278

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 (in thousands of Canadian dollars)

	2013	2012
		Restated (Note 5)
Net Income	\$ 222,586	\$ 178,355
Other Comprehensive Income (Loss)		
Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods		
Exchange differences on translation of foreign operations	10,821	(357)
Loss on cash flow hedge	(6,880)	-
Other comprehensive loss attributable to investments in associates	-	(469)
Net Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods	3,941	(826)
Other Comprehensive Income (Loss) not to be Reclassified to Net Income in Subsequent Periods:		
Actuarial gain (loss) on defined employee future benefit plans (Note 24)	16,311	(5,246)
Income tax (expense) recovery	(4,103)	1,353
Net Other Comprehensive Income (Loss) not to be Classified to Net Income in Subsequent Periods	12,208	(3,893)
Other Comprehensive Income (Loss), Net of Income Tax	16,149	(4,719)
Total Comprehensive Income	\$ 238,735	\$ 173,636
Comprehensive Income Attributable to:		
Shareholders of the Company	\$ 235,985	\$ 173,388
Non-controlling interests	2,750	248
Total Comprehensive Income	\$ 238,735	\$ 173,636

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2013 and 2012 (in thousands of Canadian dollars) (Restated – see Note 5)	Share Capital	Contributed Surplus	Retained Earnings	Non- controlling Interests	Accumulated Other Comprehensive Loss	Total Equity
Balance – December 31, 2011	\$ 218,381	\$ 16,391	\$ 664,475	\$ –	\$ (45,033)	\$ 854,214
Net income	–	–	178,310	45	–	178,355
Issued on exercise of stock options	3,988	–	–	–	–	3,988
Compensation cost on exercised options	1,415	(1,415)	–	–	–	–
Compensation cost on exercised RSUs	79	(79)	–	–	–	–
Stock-based compensation expense	–	2,628	–	–	–	2,628
Purchase – Normal Course Issuer Bid	(2,176)	–	–	–	–	(2,176)
Excess of purchase price over stated value of shares	–	–	(16,712)	–	–	(16,712)
Acquisition of non-controlling interests	–	–	–	(579)	–	(579)
Other comprehensive income (loss)	–	–	–	203	(4,922)	(4,719)
Dividends paid to shareholders (Note 28)	–	–	(26,332)	–	–	(26,332)
Balance – December 31, 2012	\$ 221,687	\$ 17,525	\$ 799,741	\$ (331)	\$ (49,955)	\$ 988,667
Net income	–	–	219,862	2,724	–	222,586
Issued on exercise of stock options	19,599	–	–	–	–	19,599
Compensation cost on exercised options	7,579	(7,579)	–	–	–	–
Compensation cost on exercised RSUs	24	(24)	–	–	–	–
Stock-based compensation expense	–	3,171	–	–	–	3,171
Cancellation of Class B shares	54,438	–	(553,215)	–	–	(498,777)
Shares cancellation costs (net of income tax benefit of \$1.5 million) (Note 28)	–	–	(4,312)	–	–	(4,312)
Other comprehensive income	–	–	–	26	16,123	16,149
Dividends paid to shareholders (Note 28)	–	–	(88,502)	–	–	(88,502)
Balance – December 31, 2013	\$ 303,327	\$ 13,093	\$ 373,574	\$ 2,419	\$ (33,832)	\$ 658,581

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in thousands of Canadian dollars)	2013	2012
		Restated (Note 5)
Operating Activities		
Net income for the year	\$ 222,586	\$ 178,355
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment (Note 13)	66,484	44,985
Amortization of intangible assets (Note 14)	10,312	7,319
Amortization of long-term prepaid expenses	807	900
Decommissioning obligations expense (recovery) (Note 20)	395	(472)
Other provision expenses (Note 20)	22,136	2,227
Stock-based compensation and incentive-based compensation (Note 29)	23,594	15,297
Deferred income taxes (Note 33)	(14,959)	(414)
Loss (gain) on disposal of property, plant and equipment	538	(416)
Gain on sale of land and other items (Note 15)	(5,156)	(12,101)
Unrealized loss on derivative financial instruments	3,070	651
Income on investments in associate	-	(8,694)
Loss (income) on investments in joint ventures (Note 31)	3,874	(618)
Loss on assets held for sale (Note 18)	3,683	-
Accounting gain on acquisition (Note 7)	-	(9,445)
Impairment of property, plant and equipment (Note 15)	-	4,686
Other	825	(3,351)
Settlement of decommissioning liabilities (Note 20)	(817)	(1,580)
Settlement of other provisions (Note 20)	(19,449)	(7,292)
(Decrease) increase in non-current deferred revenue	(64,392)	64,392
Net change in employee future benefits (Note 24)	(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
Investing Activities		
Increase in loan receivable (Note 10)	(2,630)	(62,085)
Decrease (increase) in short-term investments	71,332	(67,405)
Purchases of property, plant and equipment (Note 13)	(76,729)	(73,505)
Proceeds on disposal of property, plant and equipment	8,539	14,187
Purchases of intangible assets (Note 14)	(522)	(62)
Investments in joint ventures (Note 31)	(7,398)	-
Investments in associate	-	(2,824)
Business acquisition (Note 7)	(30,163)	(57,091)
Increase in other assets (Note 16)	(495)	(956)
Cash Used in Investing Activities	\$ (38,066)	\$ (249,741)
Financing Activities		
Decrease in bank indebtedness (Note 21)	(461)	(6,597)
Decrease in loans payable	(772)	(4,581)
Payment of obligations under finance lease (Note 27)	(900)	(465)
Proceeds from long-term debt (Note 22)	356,280	-
Proceeds from interest rate swap	2,111	-
Issuance of shares (Note 28)	19,599	3,988
Repurchase of shares (Note 28)	(503,089)	(18,888)
Dividend paid to shareholders (Note 28)	(88,502)	(26,332)
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 for the Year	(205,586)	228,444
Cash and Cash Equivalents – Beginning of Year	284,981	56,537
Cash and Cash Equivalents – End of Year	\$ 79,395	\$ 284,981
Supplemental Information		
Cash interest paid	\$ 10,241	\$ 765
Cash interest received	\$ 1,180	\$ 1,959
Cash income taxes paid	\$ 59,845	\$ 44,047

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

ShawCor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. ShawCor Ltd., together with its wholly owned subsidiaries (collectively referred to as the “Company” or “ShawCor”), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates eight divisions with over 75 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in Note 6.

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

NOTE 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board, applicable to the preparation of financial statements, including International Accounting Standard (“IAS”) 1, *Presentation of Financial Statements*.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2013.

Basis of Presentation and Consolidation

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

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

The consolidated financial statements comprise the financial statements of the Company and the entities under its control and the Company's equity accounted interests in joint ventures and associates.

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

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

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2013 were authorized for issue by the Company's Board of Directors on February 27, 2014.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Business Combinations

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

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

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

b) Interest in Joint Ventures

The Company has interests in several joint arrangements, whereby joint control of the respective legal entity has been established by contractual agreements that establish joint control over the economic activities of the entity. The Company accounts for its interests in its joint ventures using the equity method.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The aggregate of the Company's share of profit or loss of a joint venture is shown on the face of the consolidated statement of income outside of income from operations and represents profit or loss after tax and non-controlling interests in the joint venture. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. If there is evidence that the investment in the joint venture is impaired, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as "loss on investment in joint venture" in the consolidated statements of income.

A listing of all jointly controlled entities is presented in Note 31.

c) Foreign Currency Translation

Functional and Presentation Currency

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

Transactions

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

Translation of Foreign Operations

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income (loss).

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

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

d) Revenue Recognition

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

Sale of Goods

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

Rendering of Services

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

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

e) Cash and Cash Equivalents

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

f) Short-term Investments

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

g) Inventories

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

h) Property, Plant and Equipment

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

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

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

- 100% for land improvements;
- 3% to 10% on buildings;
- 5% to 50% on machinery and equipment; and
- Project related facilities are amortized over the estimated project life.

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

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

i) Borrowing Costs

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

j) Intangible Assets

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

Intellectual Property and Intangible Assets with Limited Lives

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

Intangible Assets with Indefinite Lives

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

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

k) Impairment of Non-financial Assets

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

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

l) Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising at the date of acquisition.

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

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, but are not allocated above the operating segment level at which management monitors the recovery of goodwill.

Gains and losses on the disposal of a CGU or component of a CGU include the carrying amount of goodwill relating to the entity sold.

m) Investments in Associates

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

n) Employee Future Benefits

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The employee future benefits liability recognized on the consolidated balance sheets, in respect of the defined benefit pension plans, represents the deficit position for those defined benefit plans, whose defined benefit obligation exceeds that pension plan's assets. The Company has included in other assets the net surplus position of those defined benefit plans whose pension plan assets exceed the defined benefit obligation.

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

Past service costs arising from plan amendments are fully recognized in income when the plan amendment or curtailment occurs, or when related restructuring costs or termination benefits are recognized, whichever comes first.

Actuarial gains and losses resulting from experience adjustments and the effect of changes in actuarial assumptions and actual returns on plan assets as compared to returns using interest rates of high quality corporate bonds are recognized in other comprehensive income (loss) in the period in which they arise.

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

o) Leases

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

Leases in which substantially all of the benefits and risks of ownership are not transferred by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of income on a straight-line basis over the period of the lease.

p) Trade and Other Receivables

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

q) Provisions

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

r) Financial Instruments

Financial assets recorded at fair value through profit or loss include financial assets meeting specified criteria and designated upon initial recognition at fair value through profit or loss as appropriate.

Held-to-maturity financial assets, loans and receivables and other liabilities not held for trading are accounted for at amortized cost.

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

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

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

The following is a summary of the classes of financial instruments included in the Company's consolidated balance sheets as well as their designation by the Company:

Balance Sheet Item	Designation
Cash and cash equivalents	Loans and receivables
Short-term investments	Loans and receivables
Accounts receivable	Loans and receivables
Loans receivable	Loans and receivables
Long-term loan to associate	Loans and receivables
Derivative financial instruments	Fair value through profit and loss
Bank indebtedness	Loans and borrowings
Loans payable	Loans and borrowings
Accounts payable	Loans and borrowings
Deferred purchase consideration	Loans and borrowings
Long-term debt	Loans and borrowings

Derivative Financial Instruments

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

Fair Value

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

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

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

Derecognition

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

Impairment

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

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

Transaction Costs

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

s) Share-based and Other Incentive-based Compensation

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

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

For options, units or rights that are settled with equity, an amount equal to compensation expense is initially credited to contributed surplus and transferred to share capital if and when the option, unit or right is exercised. Consideration received on the exercise of a stock option, right or unit is credited to share capital, when additional equity instruments are issued.

Options, units or rights that are settled with cash are classified as liability instruments in accordance with IFRS, as their terms require that they be settled in cash. Until the date of settlement, the liability associated with cash-settled options, units or rights is remeasured at the fair value at each reporting period, with any changes in the fair value recognized in the consolidated statements of income.

Awards where the employee has the right to choose whether a share-based transaction is settled in cash or by issuing equity are accounted for as liabilities on the consolidated balance sheets.

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

t) Research and Development Costs

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

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

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

u) Income Taxes

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

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

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

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

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

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

v) Earnings Per Share (“EPS”)

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

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

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

w) Segment Reporting

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

x) Use of Estimates

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

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

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

Future Benefit Obligations

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

Provisions and Contingent Liabilities

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

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

Decommissioning Liabilities

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

NOTE 4. 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 statements 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* effective January 1, 2013 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 information. 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 in Note 5. The amendment to *IAS 1* clarifies related notes are not required for the Opening Balance Sheet.

IFRS 10, Consolidated Financial Statements

On January 1, 2013, ShawCor adopted *IFRS 10, Consolidated Financial Statements*, which replaced portions of *IAS 27, Consolidated and Separate Financial Statements* and interpretation *SIC-12 Consolidation – Special Purpose Entities*. *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 Note 5, 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.

IAS 19R, Employee Benefits

Effective January 1, 2013, ShawCor adopted revised *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 note 5, 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.

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 January 1, 2014. The Company is still evaluating the impact of *IFRIC 21* on its financial statements.

NOTE 5. IMPACT OF ADOPTING NEW ACCOUNTING STANDARDS

a) IFRS 11, Joint Ventures

The Company had the following interests in joint ventures as at January 1, 2012 and December 31, 2012:

	Country of Incorporation	Activity	Proportion of Interest Held	
			Dec 31, 2012	Jan 1, 2012
Hal Shaw Inc.	U.S.A.	Pipe coating	50%	50%
Shaw & Shaw Ltd.	Canada	Pipe coating	83%	83%
Helicone Holdings Limited	Russia	Pipe coating	25%	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 below.

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 as 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				
Share capital	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 as 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
Investments in joint ventures	–	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

	December 31, 2012	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	Restated under IFRS Changes December 31, 2012
Consolidated Statement of Income				
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 Equity

	December 31, 2012	January 1, 2012
Equity as previously reported	\$ 1,005,865	\$ 867,411
Impact of adopting IAS 19R, Employee Benefit (Note 5b)	(17,198)	(13,197)
Equity in accordance with IFRS changes	\$ 988,667	\$ 854,214

NOTE 6. SEGMENT INFORMATION

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

As at December 31, 2013, the Company had two reportable operating segments: Pipeline and Pipe Services and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices.

Pipeline and Pipe Service

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

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

Petrochemical and Industrial

The Petrochemical and Industrial segment comprises the following business units:

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

Financial and Corporate

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

Segment

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

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue										
External	\$1,686,381	\$ 1,323,574	\$ 161,168	\$ 145,613	\$ -	\$ -	\$ -	\$ -	\$1,847,549	\$ 1,469,187
Inter-segment	1,387	641	1,281	1,455	-	-	(2,668)	(2,096)	-	-
	\$1,687,768	\$ 1,324,215	\$ 162,449	\$ 147,068	\$ -	\$ -	\$ (2,668)	\$ (2,096)	\$1,847,549	\$ 1,469,187
Operating expenses	\$1,238,862	\$ 1,037,460	\$ 138,085	\$ 123,859	\$ 62,486	\$ 41,780	\$ (2,668)	\$ (2,096)	\$1,436,765	\$ 1,201,003
Research and development	12,446	9,084	1,452	1,143	1,789	2,015	-	-	15,687	12,242
Amortization of property, plant and equipment	62,499	41,078	2,336	2,180	1,649	1,727	-	-	66,484	44,985
Amortization of intangible assets	10,312	7,319	-	-	-	-	-	-	10,312	7,319
Impairment of property, plant & equipment	-	4,686	-	-	-	-	-	-	-	4,686
Gain on sale of land and other items	(5,156)	(12,101)	-	-	-	-	-	-	(5,156)	(12,101)
Loss on assets held for sale	3,683	-	-	-	-	-	-	-	3,683	-
Income (loss) from operations	\$ 365,122	\$ 236,689	\$ 20,576	\$ 19,886	\$ (65,924)	\$ (45,522)	\$ -	\$ -	\$ 319,774	\$ 211,053
Accounting gain on acquisition	-	413	-	-	-	-	-	-	-	413
Income on investments in associate	-	-	-	-	-	8,694	-	-	-	8,694
Income on investments in joint ventures	(3,874)	618	-	-	-	-	-	-	(3,874)	618
Interest income	727	706	2	2	427	2,059	-	-	1,156	2,767
Interest expense	(5,355)	(3,782)	(86)	(4)	(10,627)	2,379	-	-	(16,068)	(1,407)
Income tax expense	-	-	-	-	(78,402)	(43,783)	-	-	(78,402)	(43,783)
Goodwill	281,431	240,738	17,388	15,558	-	-	-	-	298,819	256,296
Total assets	1,975,028	1,695,155	180,055	124,324	796,816	933,985	(1,299,971)	(864,591)	1,651,928	1,888,873
Total liabilities	960,223	1,019,588	60,299	17,877	425,193	42,447	(452,368)	(179,706)	993,347	900,206
Additions to property, plant and equipment net of disposals	\$ 59,688	\$ 58,781	\$ 14,422	\$ 16,374	\$ 2,081	\$ 1,695	\$ -	\$ -	\$ 76,191	\$ 76,850

Geographical Information

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

							2013
(in thousands of Canadian dollars)	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 520,920	\$ 248,846	\$ 161,627	\$ 247,271	\$ 668,885	\$ –	\$ 1,847,549
Inter-segment	2,604	64	–	–	–	(2,668)	–
	\$ 523,524	\$ 248,910	\$ 161,627	\$ 247,271	\$ 668,885	\$ (2,668)	\$ 1,847,549
Non-current assets ^(a)	\$ 939,673	\$ 480,676	\$ 77,129	\$ 342,024	\$ 87,752	\$ (1,050,393)	\$ 876,861

							2012
(in thousands of Canadian dollars)	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 481,408	\$ 213,170	\$ 164,633	\$ 271,966	\$ 338,010	\$ –	\$ 1,469,187
Inter-segment	2,079	–	16	1	–	(2,096)	–
Total Revenue	\$ 483,487	\$ 213,170	\$ 164,649	\$ 271,967	\$ 338,010	\$ (2,096)	\$ 1,469,187
Non-current assets ^(a)	\$ 499,665	\$ 412,185	\$ 75,627	\$ 170,811	\$ 99,718	\$ (405,478)	\$ 852,528

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

NOTE 7. ACQUISITION

On October 24, 2012, the Company acquired the remaining 60% of Fineglade Limited (“Fineglade”). Fineglade, which currently holds approximately 96% of the outstanding shares of Socotherm S.p.A., was previously owned 40% by ShawCor Ltd. and 60% by an entity controlled by Sophia Capital. Prior to the acquisition, the investment in Fineglade was shown as an investment in associate (January 1, 2012 – \$30.1 million). After the acquisition, the Company fully consolidates Fineglade and the financial results of its subsidiaries.

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

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

- For intangible assets associated with customer relationships, the Company based its valuation on the expected future cash flows using the multi-period excess earnings approach. This method employed a discounted cash flow analysis using the present value of the estimated after-tax cash flows expected to be generated from the purchased intangible assets using risk adjusted discount rates and revenue forecasts as appropriate based upon the geographical regions.
- For the valuation of brand and intellectual property, the relief-from-royalty method was applied which included estimating the cost savings that result from the Company's ownership of trademarks and licenses on which it does not have to pay royalties to a licensor. The intangible assets are then recognized at the present value of these savings. The corporate brand Socotherm was assumed to have an unlimited life due to its long history and respected market position.
- The Company elected to measure the non-controlling interest in Socotherm S.p.A. at the proportionate share of the value of net identifiable assets acquired.

As at December 31, 2012, the purchase price allocation was preliminary, subject to the finalization of the allocation of goodwill and intangible assets to the respective operations of Fineglade. The finalization after allocation of these amounts did not have a significant impact on the December 31, 2012 financial statements.

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

(in thousands of Canadian dollars)

Consideration (including fair value of existing 40% of Fineglade):	
Cash (net of cash acquired of \$21,168)	\$ 46,819
Set off of loan receivable from Sophia Capital	57,406
Deferred purchase consideration	3,348
Loans to be converted to equity	15,953
Fair value of 40% of Fineglade interest before the acquisition	54,207
	\$ 177,733
Assets acquired at fair value:	
Current assets (excluding cash acquired of \$21,168)	\$ 56,603
Property, plant and equipment	81,425
Intangible assets	68,627
Deferred income tax assets	6,394
Other non-current assets	19,369
Assets held for sale (net)	6,430
Current liabilities assumed	(69,135)
Deferred income tax liabilities	(20,957)
Other non-current liabilities assumed	(41,016)
Total identifiable net assets at fair value	\$ 107,740
Non-controlling interest	579
Goodwill	69,414
	\$ 177,733

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

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

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

Socotherm Gulf of Mexico

On April 15, 2013, the Company completed the acquisition of the remaining 49% of Socotherm S.p.A.'s joint venture in the U.S.A. for total consideration of approximately \$23 million, excluding the forgiveness of inter-company debt. The joint 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.

The carrying value of the Company's investment immediately prior to the acquisition of the remaining 49% approximated its fair value.

On acquisition of the remaining 49% of Socotherm's S.p.A.'s joint venture in the U.S.A., on a 100% level, the approximate value of the tangible assets acquired and tangible liabilities assumed was \$34.8 million and \$9.1 million, respectively. The approximate value of the intangible assets acquired and intangible liabilities assumed was \$68.3 million and \$13.2 million, respectively.

NOTE 8. EMPLOYEE BENEFITS EXPENSE

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

(in thousands of Canadian dollars)	2013	2012
Salaries, wages and employee benefits	\$ 475,595	\$ 392,792
Pension	17,082	10,842
Share-based and other incentive-based compensation (Note 29)	23,594	15,297
Total	\$ 516,271	\$ 418,931

NOTE 9. CASH AND CASH EQUIVALENTS

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Cash	\$ 78,843	\$ 252,181
Cash equivalents	552	32,800
Total	\$ 79,395	\$ 284,981

NOTE 10. LOANS RECEIVABLES

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

(in thousands of Canadian dollars)	December 31 2013	December 31, 2012
Current		
Loan receivable	\$ 1,780	\$ 1,565
	\$ 1,780	\$ 1,565
Non-current		
Notes receivable ^(a)	\$ 4,014	\$ 3,745
Loan receivable	3,448	17,158
	\$ 7,462	\$ 20,903
Total	\$ 9,242	\$ 22,468

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual instalments beginning no later than March 31, 2018, as set out in the loan agreement terms. As at December 31, 2013, the amount of the note receivable was U.S.\$3,752 (December 31, 2012 – U.S.\$3,752).

NOTE 11. ACCOUNTS RECEIVABLE

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Trade accounts receivables	\$ 244,600	\$ 272,864
Allowance for doubtful accounts (Note 25)	(6,720)	(9,409)
Unbilled revenue and other receivables	126,104	113,333
	\$ 363,984	\$ 376,788

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Current	\$ 122,445	\$ 111,715
Past due 1 to 30 days	54,456	86,337
Past due 31 to 60 days	25,952	37,004
Past due 61 to 90 days	16,518	14,604
Past due for more than 90 days	25,229	23,204
Total trade accounts receivable	244,600	272,864
Less: allowance for doubtful accounts	(6,720)	(9,409)
Trade accounts receivable – net	\$ 237,880	\$ 263,455

NOTE 12. INVENTORIES

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Raw materials and supplies	\$ 134,216	\$ 132,225
Work-in-progress	13,019	17,119
Finished goods	51,498	51,064
Inventory obsolescence	(17,857)	(12,061)
	\$ 180,876	\$ 188,347

During 2013, the Company recorded an increase of \$5.8 million (December 31, 2012 – \$5.7 million) in the provision for inventory obsolescence, due to the build-up of certain excess raw materials.

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

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

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
Cost					
Balance – January 1, 2012	\$ 39,710	\$ 136,067	\$ 570,861	\$ 19,336	\$ 765,974
Exchange differences	(3,495)	(985)	(3,448)	(2,486)	(10,414)
Additions	4,959	3,015	50,715	15,739	74,428
Acquisitions	7,441	29,462	22,507	3,419	62,829
Assets held for sale	(73)	(976)	(23,063)	–	(24,112)
Decommissioning liabilities and others	11,767	1,868	(10,336)	–	3,299
Disposals	(131)	(4,071)	(25,434)	(1,027)	(30,663)
Balance – December 31, 2012	\$ 60,178	\$ 164,380	\$ 581,802	\$ 34,981	\$ 841,341
Exchange differences	991	15,286	21,637	665	38,579
Additions	2,055	28,069	57,876	(11,271)	76,729
Acquisitions	1,325	7,316	16,238	63	24,942
Assets held for sale	–	96	–	–	96
Decommissioning liabilities and others	(1,344)	(18)	(21)	–	(1,383)
Disposals	(338)	(2,286)	(16,281)	(447)	(19,352)
Balance – December 31, 2013	\$ 62,867	\$ 212,843	\$ 661,251	\$ 23,991	\$ 960,952

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
Accumulated Amortization					
Balance – January 1, 2012	\$ (12,569)	\$ (76,690)	\$ (345,239)	\$ –	\$ (434,498)
Exchange differences	(924)	(2,787)	4,635	–	924
Amortization expense	(2,655)	(3,036)	(38,115)	–	(43,806)
Assets held for sale	17	976	18,616	–	19,609
Decommissioning liabilities and others	(797)	(38)	(344)	–	(1,179)
Eliminated on disposal	–	1,658	18,991	–	20,649
Balance – December 31, 2012	\$ (16,928)	\$ (79,917)	\$ (341,456)	\$ –	\$ (438,301)
Exchange differences	(243)	(6,024)	(19,625)	–	(25,892)
Amortization expense	(364)	(6,286)	(58,664)	–	(65,314)
Decommissioning liabilities and others	150	(110)	(296)	–	(256)
Eliminated on disposal	71	1,597	11,223	–	12,891
Balance – December 31, 2013	\$ (17,314)	\$ (90,740)	\$ (408,818)	\$ –	\$ (516,872)

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
Accumulated Impairment					
Balance – January 1, 2012	\$ (2,486)	\$ (6,898)	\$ (23,371)	\$ –	\$ (32,755)
Exchange differences	(10)	(64)	(1,075)	–	(1,149)
Impairment	–	(234)	(4,452)	–	(4,686)
Eliminated on disposal	–	–	7,134	–	7,134
Balance – December 31, 2012	\$ (2,496)	\$ (7,196)	\$ (21,764)	\$ –	\$ (31,456)
Exchange differences	1	44	(347)	–	(302)
Eliminated on disposal	–	638	327	–	965
Balance – December 31, 2013	\$ (2,495)	\$ (6,514)	\$ (21,784)	\$ –	\$ (30,793)
Net book value					
As at December 31, 2012	\$ 40,754	\$ 77,267	\$ 218,582	\$ 34,981	\$ 371,584
As at December 31, 2013	\$ 43,058	\$ 115,589	\$ 230,649	\$ 23,991	\$ 413,287

NOTE 14. INTANGIBLE ASSETS

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

(in thousands of Canadian dollars)	Intellectual Property, with Limited Life ^(a)	Intangible Assets, with Limited Life ^(b)	Intangible Assets, with Indefinite Life ^(c)	Total
Cost				
Balance – January 1, 2012	\$ 64,463	\$ 37,942	\$ 2,275	\$ 104,680
Exchange differences	(441)	(2,948)	7	(3,382)
Additions	62	–	–	62
Acquisition of a subsidiary	14,621	7,277	3,382	25,280
Balance – December 31, 2012	\$ 78,705	\$ 42,271	\$ 5,664	\$ 126,640
Exchange differences	680	1,099	248	2,027
Additions	96	616	–	712
Acquisition of a subsidiary	–	36,608	–	36,608
Balance – December 31, 2013	\$ 79,481	\$ 80,594	\$ 5,912	\$ 165,987
Accumulated Amortization				
Balance – January 1, 2012	\$ (13,828)	\$ (4,490)	\$ –	\$ (18,318)
Foreign exchange	124	326	–	450
Amortization	(4,565)	(2,752)	–	(7,317)
Balance – December 31, 2012	\$ (18,269)	\$ (6,916)	\$ –	\$ (25,185)
Exchange differences	62	(336)	–	(274)
Amortization	(5,325)	(4,987)	–	(10,312)
Balance – December 31, 2013	\$ (23,532)	\$ (12,239)	\$ –	\$ (35,771)
Net Book Value				
As at January 1, 2012	\$ 50,635	\$ 33,452	\$ 2,275	\$ 86,362
As at December 31, 2012	\$ 60,436	\$ 35,355	\$ 5,664	\$ 101,455
As at December 31, 2013	\$ 55,949	\$ 68,355	\$ 5,912	\$ 130,216

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

(b) Intangible assets, with limited life, represents trademarks, customer relationships and non-competition agreements acquired directly or in conjunction with a past business combination. The Company amortizes the cost of intangible assets with limited life over its respective estimated useful lives of up to 15 years. The net book value of customer relationships as at December 31, 2013 is \$67.6 million (December 31, 2012 – \$34.4 million), and is included in intangible assets with limited life in the table above.

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

NOTE 15. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Company operates several project specific plants in the Pipeline and Pipe Services segment, whose continuing operation is dependent on the expected project backlog. Qualitative factors such as line reductions, reduced levels of drilling activity, project outlook in certain regions and low capacity utilization coupled with the lingering impact of the financial crisis of 2008 had an impact on some CGUs of the Company, which were dependent on a few major projects that were coming close to completion. As a result, the Company assessed the carrying amount of property, plant and equipment for recoverability at four of its CGUs in the Bredero Shaw division in 2013. These four CGUs were in Portland, U.S.A.; Camrose, Canada; Leith, U.K.; and Ras Al-Khaimah, U.A.E. The recoverable amount for each of these four CGUs was found to be higher than the carrying amount.

The project outlook for the Kembla Grange, Australia plant for 2012 and beyond was not encouraging and the Company had decided to close the facility by the third quarter of 2012. During 2012, the closure of the Kembla Grange, Australia facility resulted in an impairment loss of \$4.7 million to dismantle, sell and scrap equipment and buildings in order to make the land ready for sale. During 2013, the Company recorded a gain on the sale of land in Kembla Grange in the amount of \$5.2 million and there were no additional impairment charges.

The following table sets forth the Company's impairment charges for the years ended December 31:

(in thousands of Canadian dollars)	2013	2012
Buildings	\$ –	\$ 234
Plant, machinery and equipment	–	4,452
Impairment charge	\$ –	\$ 4,686

NOTE 16. OTHER ASSETS

The following table details the other assets as at:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Long-term prepaid expenses	\$ 8,615	\$ 9,089
Deposit guarantee	81	212
Long-term investment	1,104	1,348
Defined Pension Plans employee future benefit asset (Note 24)	8,030	530
	\$ 17,830	\$ 11,179

NOTE 17. GOODWILL

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Balance – Beginning of year	\$ 256,296	\$ 220,334
Acquisition	31,267	39,531
Foreign exchange	11,256	(3,569)
Balance – End of year	\$ 298,819	\$ 256,296

In 2013, goodwill acquired during the year was a result of the acquisition of the 49% of Socotherm Gulf of Mexico that was not already owned by a subsidiary of the Company. In 2012, goodwill acquired during the year was a result of the acquisitions of Fineglade and Magnum Tubular Inspection, LLC, which is a part of the Guardian division.

The following table summarizes the significant carrying amounts of goodwill:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Bredero Shaw (excluding BSRTL as defined below)	\$ 174,286	\$ 164,281
Thermotite Brasil Ltda & BS Servicios de Injecao (collectively, "BSRTL")	12,331	13,184
Flexpipe Systems	49,730	49,730
DSG-Canusa GmbH	17,388	15,558
Guardian	305	1,011
Socotherm S.p.A. (Italy)	8,762	8,166
Socotherm Americas (Argentina)	4,685	4,366
Socotherm Gulf of Mexico, LLC	31,332	–
	\$ 298,819	\$ 256,296

a) Impairment Testing for Each Cash Generating Unit Containing Goodwill

The Company performs a goodwill impairment test for each specified group of CGUs ("GCGU") that contains goodwill at the Company's annual goodwill impairment testing date of October 31 ("Annual Goodwill Valuation Date"). At the Annual Goodwill Valuation Dates of October 31, 2013 and October 31, 2012, the Company concluded there was no impairment of goodwill in any of its GCGUs, as the recoverable amount for these GCGUs was higher than their respective carrying amounts.

b) Recoverable Amount

The Company determines the recoverable amount for its GCGUs as the higher of Value in Use (“VIU”) and the Fair Value Less Cost to Sell (“FVLCS”). For the goodwill impairment test, the FVLCS of each of the GCGUs was higher than its VIU. FVLCS calculations use post-tax cash flow projections based on three-year financial Business Plans approved by the Company’s Board of Directors, which are then projected out for a further period of two years based on management’s best estimates. Cash flows beyond the five-year period are extrapolated using estimated growth rates as applicable. The FVLCS is calculated net of selling costs that are estimated at 2%.

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

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

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

Projected Cash Flows

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

Market Assumptions

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

Discount Rate

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

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

	October 31 2013	October 31 2012
Bredero Shaw (excluding BSRTL)	10%	11%
BSRTL	14%	14%
Flexpipe Systems	11%	12%
DSG-Canusa GmbH	12%	12%
Socotherm S.p.A. (Italy)	14%	n/a
Socotherm Americas (Argentina)	18%	n/a
Socotherm Gulf of Mexico, LLC	12%	n/a

Terminal Value Growth Rate

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

Sensitivity to Changes in Assumptions

With regard to the assessment of FVLCS of the all of the Company's GCGUs, except for Socotherm Gulf of Mexico, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, as estimated by the GCGU's FVLCS. A two percent increase in the discount rate would cause the carrying value of the Socotherm Gulf of Mexico GCGU to materially exceed its recoverable amount, as estimated by that GCGU's FVLCS.

NOTE 18. ASSETS CLASSIFIED AS HELD FOR SALE

In October 2012, the Company entered into negotiations with its joint venture partners in Arabian Pipecoating Company Ltd. ("APCO"), located in the Kingdom of Saudi Arabia, for the sale of its 30% investment. As at December 31, 2013, the Company's investment in the joint venture has been classified as assets held for sale and liabilities held for sale, respectively.

In the fourth quarter of 2013, the Company entered into an agreement to sell its interest in Socotherm Brasil to its joint venture partner. As a result, its investment in joint venture has been classified as held for sale as at December 31, 2013.

The following table shows the major classes of assets and liabilities classified as held for sale as at December 31, 2013:

(in thousands of Canadian dollars)	2013	2012
Assets		
Cash	\$ 8,036	\$ 5,984
Accounts receivables	9,031	10,747
Prepays	1,040	976
Inventory	3,177	3,161
Income taxes receivable	40	31
Property, plant and equipment (net of accumulated amortization)	1,968	6,202
Intangible assets	16,530	-
Investments in joint ventures	9,428	-
Deferred income tax assets	12	40
Goodwill	6,924	-
Assets classified as held for sale	\$ 56,186	\$ 27,141
Liabilities		
Accounts payable	(5,061)	(5,694)
Accrued liabilities	-	(3,430)
Income tax payable	(5,712)	(2,793)
Provisions – Non-current	(1,129)	-
Deferred income tax liabilities	(4,715)	-
Liabilities directly associated with assets classified as held for sale	\$ (16,617)	\$ (11,917)
Net assets directly associated with disposal groups	\$ 39,569	\$ 15,224

NOTE 19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Trade payables	\$ 91,215	\$ 82,580
Accrued liabilities	139,759	123,471
	\$ 230,974	\$ 206,051

NOTE 20. PROVISIONS

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

(in thousands of Canadian dollars)	Decommissioning Liabilities	Deferred Purchase Consideration	Incentive -based Compensation (Note 29)	Other Provisions	Total
Balance – January 1, 2012	\$ 23,381	\$ 15,527	\$ 5,568	\$ 12,382	\$ 56,858
Provision adjustments	2,861	–	12,170	(1,694)	13,337
Acquisition	–	3,426	–	21,468	24,894
Settlement of liabilities	(1,580)	–	(10)	(1,168)	(2,758)
Accretion expense	256	867	–	–	1,123
Foreign exchange differences	(52)	(446)	(23)	266	(255)
Gain on settlement	(3,246)	–	–	–	(3,246)
Other	(206)	–	–	(359)	(565)
Balance – December 31, 2012	\$ 21,414	\$ 19,374	\$ 17,705	\$ 30,895	\$ 89,388
Provision adjustments	(1,401)	–	17,789	11,913	28,301
Acquisition	245	–	–	–	245
Settlement of liabilities	(817)	–	(2,189)	(11,607)	(14,613)
Accretion expense	357	697	–	–	1,054
Foreign exchange differences	787	1,547	631	1,765	4,730
Loss on settlement	66	–	–	–	66
Balance – December 31, 2013	\$ 20,651	\$ 21,618	\$ 33,936	\$ 32,966	\$ 109,171
January 1, 2012					
Current	\$ 6,001	\$ –	\$ 3,763	\$ 6,571	\$ 16,335
Non-current	17,380	15,527	1,805	5,811	40,523
	\$ 23,381	\$ 15,527	\$ 5,568	\$ 12,382	\$ 56,858
December 31, 2012					
Current	\$ 3,155	\$ 19,374	\$ 12,605	\$ 13,673	\$ 48,807
Non-current	18,259	–	5,100	17,222	40,581
	\$ 21,414	\$ 19,374	\$ 17,705	\$ 30,895	\$ 89,388
December 31, 2013					
Current	\$ 3,412	\$ 21,618	\$ 12,173	\$ 12,559	\$ 49,762
Non-current	17,239	–	21,763	20,407	59,409
	\$ 20,651	\$ 21,618	\$ 33,936	\$ 32,966	\$ 109,171

Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$31.8 million as at December 31, 2013; the current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.13% and 17.8%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

NOTE 21. CREDIT FACILITIES

Credit Facilities

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Bank indebtedness	\$ 5,290	\$ 5,751
Standard letters of credit for performance, bid and surety bonds (Note 27)	106,206	81,178
Total utilized credit facilities	111,496	86,929
Total available credit facilities ^(a)	320,910	251,688
Unutilized credit facilities	\$ 209,414	\$ 164,759

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

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 its 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 is in compliance with these covenants as at December 31, 2013 and 2012.

NOTE 22. 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.

The Company has undertaken to maintain certain covenants in respect of the long-term debt that are consistent with the debt covenants described in Note 21 for the Company's Unsecured Committed Bank Credit Facility.

NOTE 23. DEFERRED REVENUE

During the year ended December 31, 2012, certain customers provided advance payments on long-term contracts, taking the total value of deferred revenue to \$441.5 million as at December 31, 2012. During 2013, the amount of deferred revenue was drawn down to \$84.4 million, all of which was included in current liabilities.

NOTE 24. EMPLOYEE FUTURE BENEFITS

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The defined benefit pension plans are in Canada, the U.K. and Norway and include both flat-dollar plans for hourly employees and final earnings plans for salaried employees. The Company also provides a post-employment life insurance benefit to its Canadian retirees and a post-employment benefit to its hourly and salaried employees in Indonesia.

The Company's funding policy for the Canadian registered pension plans is to fund in accordance with the requirements of applicable pension legislation. The determination of the required funding is made on the basis of periodic actuarial valuations as required under applicable pension legislation. The Company is responsible for the governance of the pension plans, including overseeing investment decisions. The Company has also appointed experienced independent professional experts such as investment managers, actuaries and consultants to assist in the management of the pension plans.

By their nature, defined benefit pension plans carry many types of financial risk. The main financial risks faced by the Company's pension plans can be summarized as follows:

- **Longevity risk:** the risk that retirees will, on average, collect a pension for a longer period of time than expected based on the mortality assumption.
- **Investment risk:** the risk that the invested assets of the plan will not yield the assumed rate of return, resulting in insufficient assets to provide for the benefits promised and/or requiring the Company to make additional contributions to fund the deficit.
- **Interest rate risk:** the risk from changing market interest rates. A decrease in corporate bond yields will increase plan liabilities. This risk is greater to the extent that there is a mismatch between the characteristics of the assets and liabilities.
- **Regulatory/legal risk:** the risk of regulatory/jurisprudence changes that can alter the benefit promise.

The total cash payments made by the Company to fund the defined benefit pension plans, the post-retirement insurance plans and the post-employment benefit plan during 2013 were \$5.7 million (2012 – \$6.1 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2013 were \$6.7 million (2012 – \$6 million).

The Company measures the fair value of assets and the defined benefit obligation as at December 31. Actuarial valuations for the Company's registered defined benefit pension plans and the SERP arrangement are generally required at least every three years. The most recent actuarial valuations of the plans were conducted as at August 1, 2010 (one plan), December 31, 2012 (four plans), January 1, 2013 (two plans) and August 2, 2013 (one plan).

The employee future benefit amounts recognized in the consolidated balance sheets are as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Accrued employee future benefit asset		
Pension plans (Note 16)	\$ 8,030	\$ 530
	8,030	530
Accrued employee future benefit liability		
Pension plans	(23,648)	(26,844)
Post-employment benefits	(1,930)	(2,614)
Post-retirement life insurance	(100)	(349)
	(25,678)	(29,807)
Net accrued employee future benefit liability	\$ (17,648)	\$ (29,277)

The following was the composition of plan assets at the balance sheet dates, for the Canadian registered defined benefit pension plans:

	December 31 2013	December 31 2012
Investments quoted in active markets:		
Cash and cash equivalents	4%	5%
Equity instruments	66%	62%
Debt instruments	30%	33%
	100%	100%

The following was the composition of invested plan assets at the balance sheet dates, for the SERP plan^(a):

	December 31 2013	December 31 2012
Investments quoted in active markets:		
Cash and cash equivalents	–	1%
Equity instruments	100%	99%
	100%	100%

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

Actual Return on Plan Assets

The actual return on plan assets for the years ended December 31, 2013 and 2012 amounted to \$15.1 million and \$7.7 million, respectively.

Employee Future Benefit Cost

The employee future benefit cost recognized in the consolidated statements of income is as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Current service costs	\$ 4,274	\$ 3,723
Past service costs and impact of settlements, curtailments and termination benefits	4,833	23
Interest cost on defined benefit obligation	4,755	4,515
Interest income on plan assets	(3,630)	(3,615)
	10,232	4,646
Impact of asset ceiling/minimum funding requirement	104	153
Defined benefit cost recognized	10,336	4,799
Defined contribution cost recognized	6,746	6,043
Employee future benefit cost recognized ^(a)	\$ 17,082	\$ 10,842

(a) The total amount is included in the consolidated statement of income as selling, general and administrative expenses.

The employee future benefit (income) cost recognized in other comprehensive income is as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Valuation effect	\$ (202)	\$ 525
Return on plan assets (excluding amounts included in interest income)	(11,443)	(4,131)
Net actuarial losses (gains) recognized in the year	(9,311)	9,799
Other changes in asset ceiling/minimum funding requirement not included in net interest	4,938	(877)
Foreign currency exchange rate changes	(293)	(70)
Employee future benefit cost (income) recognized in OCI	\$ (16,311)	\$ 5,246

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Balance – Beginning of year	\$ 116,178	\$ 100,591
Valuation effect	–	154
Employer current service cost	4,274	3,723
Net interest cost	4,755	4,515
Past service costs and impact of settlements, curtailments and termination benefits	4,833	23
Benefit payments	(4,392)	(2,836)
Actuarial losses due to changes in demographic assumptions	3,950	1,610
Actuarial (gains) losses due to changes in economic assumptions	(11,436)	7,963
Experience (gains) losses	(1,825)	226
Foreign exchange differences	232	209
Balance – End of year	\$ 116,569	\$ 116,178

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Balance – Beginning of year	\$ 89,262	\$ 78,277
Valuation effect	202	(371)
Employer contributions	5,654	6,114
Employee contributions	–	–
Settlements	–	–
Benefits payments	(4,392)	(2,836)
Interest income on plan assets	3,630	3,615
Return on plan assets (excluding amounts included in interest income)	11,443	4,131
Foreign exchange differences	845	332
Balance – End of year	\$ 106,644	\$ 89,262

Amounts for the current and previous period are as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Defined benefit obligation	\$ 116,569	\$ 116,178
Fair value of plan assets	106,644	89,262
Net liability before impact of asset ceiling/minimum funding requirement	9,925	26,916
Impact of asset ceiling/minimum funding requirement	7,723	2,361
Net Employee Future Benefit Liability	\$ 17,648	\$ 29,277

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

	2013	2012
Canada		
Defined benefit obligation		
Discount rate	4.70%	4.00%
Future salary increase	4.00%	4.00%
Future pension increase	n/a	n/a
Mortality ^(a)	UP94 Generational	UP94 Generational
Benefit cost for year ended December 31		
Discount rate	4.00%	4.60%
Future salary increase	4.00%	4.00%
Norway		
Defined benefit obligation		
Discount rate	4.10%	3.90%
Future salary increase	3.75%	3.50%
Future pension increase	0.90%	0.50%
Mortality	K2013	K2005
Benefit cost for year ended December 31		
Discount rate	3.90%	2.60%
Future salary increase	3.50%	3.50%
United Kingdom		
Defined benefit obligation		
Discount rate	4.70%	4.40%
Future salary increase	n/a	n/a
Future pension increase	2.70%	2.60%
Mortality	S1PA (projected)	S1PA (projected)
Benefit cost for year ended December 31		
Discount rate	4.40%	5.00%
Future salary increase	n/a	n/a
Indonesia		
Defined benefit obligation		
Discount rate	8.80%	6.00%
Future salary increase	10.00% (local), 6.00% (expat)	10.00% (local), 6.00% (expat)
Future pension increase	n/a	n/a
Mortality	CSO80	CSO80
Benefit cost for year ended December 31		
Discount rate	6.00%	6.70%
Future salary increase	10.00% (local), 6.00% (expat)	10.00% (local), 10.00% (expat)

(a) In light of preliminary results of a Canadian pension mortality experience study conducted by the Canadian Institute of Actuaries in 2013 indicating improved pensioner mortality not reflected in the above table, the defined benefit obligation as at December 31, 2013 for the Canadian pension plans has been increased by 3.5%.

Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at December 31, 2013 is as shown below:

Significant Assumptions (in thousands of Canadian dollars)	Impact of Sensitivity Analysis on Defined Benefit Obligation	
	Change	% Change
Discount rate		
Decrease of 50bp	\$ 9,070	7.8%
Increase of 50bp	\$ (8,066)	(6.9%)
Future salary increase		
Decrease of 50bp	\$ (2,485)	(2.1%)
Increase of 50bp	\$ 2,751	2.4%
Mortality assumption – Impact of life expectancy being 1 year longer	\$ 2,158	1.9%

The sensitivity analysis noted above has been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring as at December 31, 2013.

Other Information

The Company expects to contribute \$6.5 million to its defined benefit plans for the year ended December 31, 2014.

The average duration of the defined benefit obligation plans as at December 31, 2013 is 15 years.

NOTE 25. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Loans and receivables, measured at amortized cost		
Cash and cash equivalents	\$ 79,395	\$ 284,981
Short-term investments	6,618	77,950
Loans receivable	9,242	22,468
Accounts receivable	363,984	376,788
Fair value through profit or loss, measured at fair value		
Derivative financial instruments – asset	624	3,988
Derivative financial instruments – liability	1,632	1,275
Other financial liabilities, measured at amortized cost		
Bank indebtedness	5,290	5,751
Loans payable	126	2,664
Accounts payable	91,215	82,580
Deferred purchase consideration	21,618	19,374
Long-term debt	\$ 374,381	\$ –

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 reflects the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

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

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

The following table presents 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 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.

Foreign Exchange Forward Contracts and Other Hedging Arrangements

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

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2013:

(in thousands, except weighted average rate amounts)

Canadian dollars sold for U.S. dollars				
Less than one year				CAD\$12,953
Weighted average rate				1.03
U.S. dollars sold for Canadian dollars				
Less than one year				US\$12,000
Weighted average rate				1.04
U.S. dollars sold for Malaysian Ringgits				
Less than one year				US\$25,200
Weighted average rate				3.23
Euros sold for U.S. dollars				
Less than one year				€30,589
Weighted average rate				1.35
Norwegian Kroner sold for U.S. dollars				
Less than one year				NOK 98,235
Weighted average rate				0.16

As at December 31, 2013, the Company had notional amounts of \$115.2 million of forward contracts outstanding (2012 – \$247.7 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling \$1.0 million (2012 – \$2.0 million net benefit).

Financial Risk Management

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

Foreign Exchange Risk

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

(in thousands of Canadian dollars)	2013	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).

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2013:

(in thousands of Canadian dollars)	Less than 1 year	1-3 years	3-5 years	Thereafter	Total
Purchase commitments	\$ 43,614	\$ –	\$ –	\$ –	\$ 43,614
Operating leases	17,619	21,650	10,180	10,176	59,625
Bank indebtedness	5,290	–	–	–	5,290
Accounts payable	91,215	–	–	–	91,215
Decommissioning liabilities	3,412	6,305	967	21,067	31,751
Deferred purchase consideration	21,618	–	–	–	21,618
Obligations under finance lease	938	2,972	2,972	13,892	20,774
Loans payable	126	–	–	–	126
Long-term debt	–	–	–	374,381	374,381
Finance costs on long-term debt	13,089	26,178	26,178	68,232	133,677
	\$ 196,921	\$ 57,105	\$ 40,297	\$ 487,748	\$ 782,071

NOTE 26. CAPITAL MANAGEMENT

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

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Bank indebtedness	\$ 5,290	\$ 5,751
Loans payable	126	2,664
Long-term debt	374,381	–
Obligations under finance lease	14,314	14,655
Equity	658,581	988,667
	\$ 1,052,692	\$ 1,011,737

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, or adjust the amount of cash, cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its credit facility and long-term debt agreements. Specifically, the Company has undertaken to maintain certain covenants in respect of its Unsecured Committed Bank Credit Facility and Senior Notes. The Company is in compliance with these covenants as at December 31, 2013.

NOTE 27. LEASES, COMMITMENTS AND CONTINGENCIES**a) Operating Leases**

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

The following table presents the future minimum rental payments payable under the operating leases as at December 31, 2013:

(in thousands of Canadian dollars)	December 31 2013
Within one year	\$ 17,619
After one year but not more than five years	31,830
More than five years	10,176
	\$ 59,625

The lease expenditure charged to the consolidated statements of income during the year is \$25 million (December 31, 2012 – \$22.6 million).

b) Finance Leases

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

(in thousands of Canadian dollars)	December 31, 2013	
	Minimum Payments	Present Value of Payments
Within one year	\$ 938	\$ 487
After one year but not more than five years	5,944	3,175
After more than five years	13,892	10,652
Total minimum lease payments	20,774	14,314
Less: Amounts representing interest charges	(6,460)	–
Present value of minimum lease payments	\$ 14,314	\$ 14,314

c) Legal Claims

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

d) Performance, Bid and Surety Bonds

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

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

NOTE 28. SHARE CAPITAL

On March 20, 2013, the Company eliminated its dual class share structure pursuant to a shareholder and court approved Plan of Arrangement (the "Arrangement") through the purchase of all of the Class A and Class B shares of the Company by a newly formed Canadian corporation. The Arrangement, a transaction with a related party, eliminated the Company's dual-class share structure through:

- The purchase of all of the issued and outstanding Class A shares in exchange for new common shares ("common shares") on a 1:1 basis; and
- The purchase of all of the issued and outstanding Class B shares in exchange for consideration of \$43.43 in cash or 1.1 common shares per Class B share, such that 90% of the total consideration for the Class B Shares was paid in cash and 10% was paid in common shares. All Class A and B shares were removed from the authorized capital of the Company.

Upon closing, the new corporation and the Company amalgamated, under the name ShawCor Ltd., with the common shares as its only class of share capital. Upon closing, a special dividend of \$1.00 per share was declared on all outstanding common shares which was paid on April 19, 2013.

The Company recognized transaction costs charged directly to retained earnings of \$553.2 million, which was comprised of the \$498.8 million cash payment to the Class B shareholders and the issuance of 1,403,684 common shares to the Class B shareholders with a fair value of \$55.4 million, partially offset by the book value of the Class B shares of \$1.0 million.

In connection with the closing of the Arrangement, the employment terms of the Company's Chair of the Board and indirect controlling shareholder, and of the Company's Vice Chair of the Board, were amended to provide that their employment with the Company's subsidiary would terminate and they would receive severance and other benefits of approximately \$3.4 million and \$3.7 million, respectively.

Under the Arrangement, any stock option outstanding as of March 20, 2013, that had not been duly exercised prior to that date, whether vested or unvested, represents an option (a "New ShawCor Option") to purchase the same number of common shares at the same exercise price. The exercise price, term to expiry, conditions to and manner of exercising, vesting schedule and all other terms and conditions of such New ShawCor Option remain unchanged from the previously issued options with respect to the Class A shares, and any document or agreement previously evidencing the original such options is deemed to evidence such New ShawCor Options.

Any award granted under the employee share unit plan ("Company ESUP Award") that had not been settled prior to March 20, 2013, whether vested or unvested, represents a grant (a "New ShawCor ESUP Award") in respect of the same number of common shares as applied to the acquisition of Class A shares pursuant to the Company ESUP Award. All other terms and conditions of such New ShawCor ESUP Award remain unchanged from the previously issued Company ESUP Awards with respect to the Class A shares, and any document or agreement previously evidencing a Company ESUP Award is deemed to evidence such New ShawCor ESUP Award.

Any grant of deferred share units issued pursuant to the deferred share unit plan ("Company DSU Grant") that had not been settled prior to March 20, 2013, represents a unit (a "New ShawCor DSU Grant") in respect of the same number of common shares as applied to the acquisition of Class A shares pursuant to the Company DSU Grant. All other terms and conditions of such New ShawCor DSU Grant remain unchanged from the previously issued Company DSU Grants with respect to the Class A shares, and any document or agreement previously evidencing a Company DSU Grant is deemed to evidence such New ShawCor DSU Grant.

The following table sets forth the changes in the Company's shares for the years ending December 31:

(all dollar amounts in thousands of Canadian dollars)

				2013
Number of shares	Class A	Class B	New Common	Total
Balance, January 1, 2013	57,491,070	12,760,635	–	70,251,705
Issued on exercise of stock options	72,440	–	1,023,220	1,095,660
Issued on exercise of RSUs	200	–	588	788
Purchase and cancellation of Class A shares	(57,563,710)	–	57,563,710	–
Purchase and cancellation of Class B shares	–	(12,760,635)	1,403,684	(11,356,951)
Balance, December 31, 2013	–	–	59,991,202	59,991,202
Stated value:				
Balance, January 1, 2013	\$ 220,706	\$ 981	\$ –	\$ 221,687
Issued on exercise of stock options	1,372	–	18,227	19,599
Compensation cost on exercised options	531	–	7,048	7,579
Compensation cost on exercised RSUs	5	–	19	24
Purchase and cancellation of Class A shares	(222,614)	–	222,614	–
Purchase and cancellation of Class B shares	–	(981)	55,419	54,438
Balance, December 31, 2013	\$ –	\$ –	\$ 303,327	\$ 303,327

(all dollar amounts in thousands of Canadian dollars)

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

All shares have been issued and fully paid and have no par value. There are an unlimited number of common shares authorized. Holders of common shares are entitled to one vote per share.

In 2013, dividends declared and paid during the year were \$1.375 per New Common share, \$0.100 per Class A share and \$0.091 per Class B share (2012 – \$0.380 per Class A share and \$0.345 per Class B share). The dividends paid on the Class A and Class B shares were before the elimination of the dual class share structure under the Arrangement.

NOTE 29. SHARE-BASED AND OTHER INCENTIVE-BASED COMPENSATION

As at December 31, 2013, the Company had the following stock option plan, which was initiated in 2001:

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

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

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

Stock Options without Tandem Share Appreciation Rights

	2013		2012	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding – Beginning of year	2,106,140	\$ 21.83	2,164,600	\$ 20.67
Granted	251,900	41.68	187,000	32.81
Exercised	(1,095,660)	17.89	(204,060)	19.55
Forfeited	(6,000)	30.97	(41,400)	22.36
Expired	(480)	15.94	–	–
Balance outstanding – End of year	1,255,900	\$ 29.20	2,106,140	\$ 21.83
Options exercisable	716,244	\$ 24.95	1,585,292	\$ 20.03

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Outstanding as at December 31 2013	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31 2013	Weighted Average Exercise Price
\$15.01 to \$20.00	302,020	4.58	\$ 15.70	223,620	\$ 15.77
\$20.01 to \$25.00	5,400	3.10	21.22	3,400	20.79
\$25.01 to \$30.00	400,920	3.58	27.94	400,920	27.94
\$30.01 to \$35.00	197,000	7.78	32.76	47,400	32.59
\$35.01 to \$40.00	102,260	6.99	37.32	40,904	37.32
\$40.01 to \$45.00	248,300	8.99	41.68	–	–
	1,255,900	5.83	\$ 29.20	716,244	\$ 24.95

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

The Board of Directors approved the granting of 251,900 stock options (2012 – 187,000) during the year ended December 31, 2013 under the 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2013 was \$3.3 million (2012 – \$2.1 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	2013	2012
Weighted average share price	\$41.68	\$32.81
Exercise price	\$41.68	\$32.81
Expected life of options	6.25	7.25
Expected stock price volatility	34%	35%
Expected dividend yield	0.9%	0.9%
Risk-free interest rate	1.89%	1.7%

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

The fair value of options granted under the Amended 2001 Employee Plan will be amortized to compensation expense over the five-year vesting period of options. The compensation cost from the amortization of granted stock options for the year ended December 31, 2013, included in selling, general and administrative expenses, was \$1.9 million (2012 – \$1.7 million).

Stock Options with Tandem Share Appreciation Rights

	December 31, 2013		December 31, 2012	
	Total Shares	Weighted Average Fair Value ^(a)	Total Shares	Weighted Average Fair Value
Balance outstanding – Beginning of period	223,200	\$ 12.56	154,300	\$ 12.93
Granted	32,300	13.35	68,900	11.74
Exercised in cash	(134,700)	14.01	–	–
Balance outstanding – End of period	120,800	\$ 11.16	223,200	\$ 12.56
Options exercisable	53,100	\$ 15.09	54,560	\$ 9.56

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

The mark-to-market liability for the stock options with SARs as at December 31, 2013, is \$1.3 million (2012 – \$1.6 million), all of which is included in accounts payable and accrued liabilities on the consolidated balance sheets.

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

LTIP

The LTIP includes the existing stock option plan discussed above and the Value Growth Plan (“VGP”) and the Employee Share Unit Plan (“ESUP”).

VGP

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

The liability as at December 31, 2013 is \$27.2 million (2012 – \$12.3 million).

ESUP

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

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

	2013		2012	
	Total Shares	Weighted Average Grant Date Fair Value ^{(a)(b)}	Total Shares	Weighted Average Grant Date Fair Value ^(a)
Balance outstanding – Beginning of year	134,987	\$ 30.79	93,289	\$ 30.34
Granted	80,998	39.10	306,695	32.85
Exercised	(788)	30.90	(2,738)	28.97
Forfeited	–	–	(10,975)	31.96
Cancelled	(5,890)	34.06	(251,284)	33.11
Balance outstanding – End of year	209,307	\$ 33.91	134,987	\$ 30.79
RSUs/PSUs exercisable	29,594	\$ 29.38	14,984	\$ 29.98

(a) RSU awards do not have an exercise price; their weighted average grant date fair value is the closing stock price on the reporting date.

(b) PSU awards do not have an exercise price; their weighted average grant date fair value is the closing stock price on the reporting date.

DSU

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

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

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

	2013		2012	
	Total Shares	Weighted Average Grant Date Fair Value ^(a)	Total Shares	Weighted Average Grant Date Fair Value ^(a)
Balance outstanding – Beginning of year	97,421	\$ 31.61	60,924	\$ 28.45
Granted	38,299	41.60	36,497	36.87
Exercised ^(b)	(10,740)	32.40	–	–
Balance outstanding – End of year	124,980	\$ 34.60	97,421	\$ 31.61

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

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

The mark-to-market liability for the DSUs as at December 31, 2013 is \$5.3 million (2012 – \$3.8 million), all of which is included in accounts payable and accrued liabilities on the consolidated balance sheets.

Incentive-based Compensation

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

(in thousands of Canadian dollars)	2013	2012
Stock option expense	\$ 1,885	\$ 1,650
VGP expense	17,469	9,663
DSU expense	1,899	2,039
RSU expense	1,286	978
SAR expense	1,055	967
Total share-based and other incentive-based compensation expense	\$ 23,594	\$ 15,297

NOTE 30. KEY MANAGEMENT COMPENSATION

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

(in thousands of Canadian dollars)	2013	2012
Salaries and other short-term incentive compensation and employee benefits	\$ 9,050	\$ 8,508
Post-employment benefits – Defined Benefit Plans	6,394	542
Share-based and other long-term incentive payments	5,874	2,069
Director fees and other compensation	6,591	2,039
	\$ 27,909	\$ 13,158

NOTE 31. INTEREST IN JOINT VENTURES

The Company uses the equity method to account for the following joint venture interests of the Company as at December 31:

	Country of Incorporation	Activity	2013 Proportion of Interest Held %	2012 Proportion of Interest Held %
Hal Shaw Inc.	U.S.A.	Pipe coating	50	50
Shaw & Shaw Ltd.	Canada	Pipe coating	83	83
Helicone Holdings Limited	Russia	Pipe coating	25	25
Atlantida Socotherm S.A.	Argentina	Pipe coating	50	50
Socotherm Gulf of Mexico, LLC ^(a)	U.S.A.	Pipe coating	(a)	51
Socotherm Brasil S.A. ^(b)	Brazil	Pipe coating	50	50

(a) On April 15, 2013, the Company acquired the remaining 49% interest in Socotherm Gulf of Mexico that it did not own as at December 31, 2012. The accounts of SGOM were fully consolidated as at December 31, 2013 (Note 7).

(b) As of December 4, 2013, Socotherm Brasil S.A. has been accounted for as a held-for-sale investment and as a result, the investments in joint ventures account on the Company's consolidated balance sheet as at December 31, 2013 no longer reflects the Company's investment in this entity (Note 18). However, the revenue and expenses disclosed in the table below include the Company's share of this interest, up to the date of reclassification to held-for-sale.

The following table presents the Company's share of the assets, liabilities, income and expenses of the joint ventures described above for the years ended and as at December 31, excluding those joint ventures classified as held for sale.

(in thousands of Canadian dollars)

	2013	2012
Current assets	\$ 13,625	\$ 37,640
Non-current assets	10,937	81,670
Total assets	24,562	119,310
Current liabilities	(5,895)	(21,532)
Non-current liabilities	(1,391)	(20,436)
Total Liabilities	(7,286)	(41,968)
Carrying amount of the investments in joint ventures	\$ 17,276	\$ 77,342

(in thousands of Canadian dollars)

	2013	2012
Revenue	\$ 53,553	\$ 13,662
Cost of goods sold and services rendered	40,884	9,358
Administrative expenses	10,204	2,209
Foreign exchange losses (gains)	47	(10)
Amortization expenses	6,357	1,077
Finance costs	1,083	42
Net (loss) income before taxes	(5,022)	986
Income taxes (recovery) expenses	(1,148)	368
Net (loss) income	\$ (3,874)	\$ 618

NOTE 32. EARNINGS PER SHARE (“EPS”)

The following table details the weighted-average number of shares outstanding for the purposes of calculating basic and diluted EPS for the years ended December 31:

(in thousands of Canadian dollars except share and per share amounts)	2013	2012
Net income used to calculate EPS		
Net income (attributable to the shareholders of the Company)	\$ 219,862	\$ 178,310
Weighted average number of shares outstanding – basic (000s)	61,972	70,413
Dilutive effect of stock options	674	865
Weighted average number of shares outstanding – diluted (000s)	\$ 62,646	\$ 71,278
Basic EPS	\$ 3.55	\$ 2.53
Diluted EPS	\$ 3.51	\$ 2.50

NOTE 33. INCOME TAXES

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

(in thousands of Canadian dollars)	2013	2012
Current Income Tax		
Based on taxable income of current year	\$ 93,620	\$ 51,113
Adjustment to prior year provision	(259)	(6,916)
	93,361	44,197
Deferred Income Tax		
Reversal of temporary differences	(14,959)	(414)
	(14,959)	(414)
Total Income Tax Expense	\$ 78,402	\$ 43,783

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

(in thousands of Canadian dollars)	2013	2012
Income tax on actuarial gains and losses on defined employee future benefit plans	\$ 4,103	\$ (1,353)
Income Tax Expense (recovery) charged to other comprehensive income	\$ 4,103	\$ (1,353)

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

	2013	2012
Expected income tax expense based on statutory rate	27.0%	27.0%
Tax rate differential on earnings of foreign subsidiaries	(8.2%)	(8.6%)
Benefit of previously unrecognized tax losses	(0.6%)	(0.3%)
Unrecognized tax losses of foreign subsidiaries	4.5%	3.1%
Adjustment to prior year provision	(0.1%)	(3.1%)
Other	3.4%	1.6%
Effective Income Tax Rate	26.0%	19.7%

The expected income tax rate is computed using average Canadian federal and provincial income tax rates based on an estimated allocation of net income before tax to the various provinces.

Recognized Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and they relate to the same income tax authority on the same taxable entity. The following table sets forth the Company's deferred income tax assets and liabilities as at:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Deferred Income Tax Assets		
Amortizable property, plant and equipment	\$ 17,953	\$ 11,952
Provisions and future expenditures	18,984	14,649
Non-capital losses	11,543	9,546
	48,480	36,147
Deferred Income Tax Liabilities		
Amortizable property, plant and equipment	(18,972)	(14,604)
Provisions and future expenditures	(49,885)	(46,875)
	(68,857)	(61,479)
Net Deferred Income Tax Liability	\$ (20,377)	\$ (25,332)

The Company has recorded deferred income tax assets of \$11.5 million and \$9.5 million as at December 31, 2013 and 2012, respectively, pertaining to loss carryforwards based on management's financial projections and the relevant income tax legislation in each jurisdiction.

The following table sets forth the changes in the Company's deferred income tax assets and liabilities for the years ended December 31:

(in thousands of Canadian dollars)	2013	2012
Deferred Income Tax Assets		
Amortizable property, plant and equipment	\$ (6,001)	\$ (9,482)
Provisions and future expenditures	(4,335)	14,048
Net operating losses	(1,997)	(5,966)
Deferred income tax assets	(12,333)	(1,400)
Deferred Income Tax Liabilities		
Amortizable property, plant and equipment	4,368	(22,269)
Provisions and future expenditures	3,010	26,764
Deferred income tax liability	7,378	4,495
Change in Deferred Income Tax	(4,955)	3,095
Deferred income tax on OCI	(4,103)	1,353
Deferred income tax acquired through acquisitions	(10,644)	(4,822)
Deferred income tax moved to assets held for sale	4,743	(40)
Deferred Income Tax Recovery in Net Income	\$ (14,959)	\$ (414)

The Company has recognized a deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, associates and joint ventures of nil for the years ended December 31, 2013 and 2012, as the Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary difference associated with investments in subsidiaries, associates and joint ventures, for which a deferred income tax liability has not been recognized aggregates to \$189.9 million and \$146.2 million for the years ended December 31, 2013 and 2012, respectively.

The Company has net operating losses of \$123.0 million and \$73.9 million for the years ended December 31, 2013 and 2012, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to the 2017 fiscal year. The Company has capital losses of \$6.9 million and \$8.0 million for the years ended December 31, 2013 and 2012, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These capital losses are carried forward indefinitely.

NOTE 34. SUBSEQUENT EVENT

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 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.

NOTE 35. COMPARATIVE FIGURES

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