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

The following Management's Discussion and Analysis ("MD&A"), is a discussion of the consolidated financial position and results of operations of ShawCor Ltd. ("ShawCor" or "the Company") for the three months ended March 31, 2014 and 2013 and should be read together with ShawCor's interim unaudited consolidated financial statements and accompanying notes for the same periods and the MD&A included in the Company's 2013 Annual Report. All dollar amounts in this MD&A are in thousands of Canadian dollars except per share amounts or unless otherwise stated.

This MD&A and the interim unaudited consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward looking information and reference should be made to section 12 hereof.

1.0 Executive Overview

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

1.1 Core Businesses

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

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

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

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

As at March 31, 2014, the Company operated its eight divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

<u>Pipeline and Pipe Services</u>

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 91% of consolidated revenue for the quarter ended March 31, 2014. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Guardian and Socotherm divisions.

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

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

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

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

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

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

Petrochemical and Industrial

The Petrochemical and Industrial segment, which includes the DSG-Canusa and ShawFlex divisions, accounted for 9% of consolidated revenue for the quarter ended March 31, 2014. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets.

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

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

2.0 Financial Highlights

2.1 Selected Annual Financial Information

(in thousands of Canadian dollars, except per share amounts)		Three Months ended March 31, **2014**		2013
Revenue	**$**	**479,081**	$	454,681
Cost of Goods Sold and Services Rendered		**280,813**		253,439
Gross Profit		**198,268**		201,242
Selling, general and administrative expenses		**89,465**		91,519
Research and development expenses		**4,174**		3,939
Foreign exchange (gains) losses		**(3,031)**		838
Amortization of property, plant and equipment		**15,459**		14,215
Amortization of intangible assets		**2,782**		2,109
Gains on assets held for sale		**–**		(503)
Income from Operations		**89,419**		89,125
Loss on investments in joint ventures		**(1,152)**		(671)
Loss on investment in associate		**(362)**		–
Finance costs, net		**(3,727)**		(849)
Income before income taxes		**84,178**		87,605
Income taxes		**22,571**		17,079
Non-controlling interests		**340**		69
Net Income (attributable to shareholders of the Company)	**$**	**61,947**	$	70,595
Net Income (attributable to shareholders of the Company)	**$**	**61,947**	$	70,595
Add:				
Non-controlling interest		**340**		69
Income taxes		**22,571**		17,079
Finance costs, net		**3,727**		849
Gain on assets held for sale		**–**		(503)
Amortization of property, plant, equipment and intangible assets		**18,241**		16,324
EBITDA[(a)]	**$**	**106,146**	$	104,275
Per Share Information:				
Net Income				
Basic	**$**	**1.03**	$	1.02
Diluted	**$**	**1.03**	$	1.01
Cash Dividends per share				
Common Shares	**$**	**0.125**	$	–
Class A	**$**	–	$	0.100
Class B	**$**	–	$	0.091

(a) Earnings before interest, income taxes, depreciation and amortization (″EBITDA″) is a non-GAAP measure and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Refer to section 10 – *Reconciliation of non-GAAP Measures,* for additional information with respect to other non-GAAP measures used by the Company.

(in thousands of Canadian dollars)		**March 31, 2014**		December 31, 2013
Total Assets	**$**	**1,724,481**	$	1,651,928
Total Non-current Liabilities	**$**	**536,516**	$	542,278

Revenue

Consolidated revenue increased by $24.4 million, or 5%, from $454.7 million during the first quarter of 2013, to $479.1 million during first quarter of 2014, due to increases of $20.1 million in the Pipeline and Pipe Services segment and $4.4 million in the Petrochemical and Industrial segment.

Income from Operations

Income from operations ("Operating Income") increased by $0.3 million, from $89.1 million in the first quarter of 2013 to $89.4 million during the first quarter of 2014. Operating Income was impacted by decreases in SG&A expenses of $2.1 million and a net increase in foreign exchange gain of $3.9 million. This was partially offset by a decrease in gross profit of $3.0 million, an increase in amortization of property, plant, equipment and intangible assets of $1.9 million and a lower gain on assets held for sale of $0.5 million.

The decrease in gross profit resulted from a 2.9 percentage point decrease in gross margin, attributable to changes in product and project mix compared to the first quarter of 2013, particularly in the Pipeline and Pipe Services segment's Asia Pacific and Latin America regions which had benefitted from high gross margins on several large concrete weight coating projects.

SG&A expenses decreased by $2.1 million, primarily as a result of one-time costs of $7.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements of $5.0 million incurred in the first quarter of 2013. This was partially offset by increases over the prior year in personnel related costs of $4.2 million, other SG&A expenses due to the acquisition of Socotherm Gulf of Mexico of $2.4 million, higher legal and professional consulting fees of $1.0 million and increases in rental and building costs primarily associated with pipe storage of $2.1 million.

Net Income (attributable to shareholders of the Company)

Net income decreased by $8.6 million, from $70.6 million during the first quarter of 2013 to $61.9 million during the first quarter of 2014, mainly due to a higher loss from investment in joint ventures in the first quarter of 2014 of $0.5 million, higher net finance costs of $2.9 million and an increase in income tax expenses of $5.5 million.

2.2 Foreign Exchange Impact

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

	Three Months ended		
	March 31, 2014	December 31, 2013	March 31, 2013
U.S. dollar	**1.1019**	1.0515	1.0105
Euro	**1.5050**	1.4362	1.3297
British Pounds	**1.8269**	1.7090	1.5710

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

(in thousands of Canadian dollars)	**Q1-2014 versus Q4-2013**	**Q1-2014 versus Q1-2013**
Revenue	**$ 12,593**	**$ 20,415**
Income from operations	**3,520**	**5,810**
Net income (attributable to shareholders of the Company)	$ **2,942**	**$ 4,968**

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $3.0 million in the first quarter of 2014, compared to a loss of $0.8 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities.

3.0 Business Developments for the Quarter

Equity investment in ZEDI Inc.

On February 20, 2014, ShawCor completed an equity investment in Zedi Inc. ("Zedi"), a Calgary, Alberta based company engaged in end-to-end solutions for production operations management in the oil and gas industry. Zedi has successfully developed and deployed remote field monitoring and related data management solutions for the optimization of oil and gas well production and has recently completed a management led buyout through an Alberta court and shareholder approved plan of arrangement. ShawCor's equity investment in Zedi consists of a 25% common share interest totalling $13.7 million, which is being accounted for using equity accounting and an investment of $10.0 million in convertible preferred shares, which is accounted for as an available for sale investment. 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.

Moho Nord Subsea Project in Congo

On February 25, 2014, ShawCor, through its Socotherm pipe coating division, received a contract with a value in excess of US $40 million from Tenaris S.A. to provide pipeline coatings for the Moho Nord Oil Pipeline project. The Moho Nord project is located in water depths of 650 to 1,150 metres approximately 75 kilometers off the Congo coast in West Africa. The contract will be executed primarily at the Socotherm pipe coating facility in Pozzallo, Italy with additional work to be completed at Socotherm's facilities in Adria, Italy and Escobar, Argentina.

South Stream Offshore Pipeline

On February 26, 2014, ShawCor, through its Bredero Shaw pipe coating division, received a contract with a value of approximately US $50 million from EUROPIPE GmbH for the concrete weight coating of Line 1 of the South Stream Offshore Pipeline. The South Stream Offshore Pipeline system is comprised of 4 pipelines that will cross the Black Sea and transport gas from Russia to Bulgaria and on to Central and Southern Europe. The contract will be executed at the Bredero Shaw pipe coating facility in Leith, Scotland. This contract involves coating approximately 148km of 32" pipe with concrete weight coating. Coating is expected to commence during the second half of 2014 and be completed in 2015.

Retirement of Bill Buckley and Appointment of Steve Orr as CEO

On February 27, 2014, ShawCor announced that Bill Buckley will retire as Chief Executive Officer at the Company's Annual Meeting on May 1, 2014, but will stand for re-election as a director of the Company. Current President, Steve Orr will succeed him as CEO on that date and will also stand for election as a director at the meeting.

Steve Orr was appointed President of ShawCor in September 2013 following a more than 20 year career with a leading global energy services company where he served in senior executive positions in many locations throughout North America, Russia, Europe and the Asia Pacific region.

Acquisition of Scotia Automated Inspection Service

On April 23, 2014, the Company acquired the assets and business of Scotia Automated Inspection Service ("SAIS"), a provider of Non Destructive Testing ("NDT") services based in the North of Scotland (Inverness).

SAIS currently markets its services into the North Sea region – UK, Norway and Netherlands.

SAIS' current offerings include traditional NDT services such as film radiography, manual ultrasonic, magnetic particle and liquid penetrate inspections. The acquisition of the SAIS business will allow the Company's Shaw Pipeline Services ("SPS") division to expand its global offshore pipeline inspection market position by providing SAIS with advanced NDT technologies that further enhance SAIS' relationships with current and new customers.

4.0 Results from Operations

4.1 Consolidated Information

Revenue

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

	Three Months ended		
(in thousands of Canadian dollars)	**March 31, 2014**	December 31, 2013	March 31, 2013
Pipeline and Pipe Services	**$ 436,799**	$ 370,477	$ 416,674
Petrochemical and Industrial	**42,927**	40,409	38,572
Elimination	**(645)**	(1,127)	(565)
Consolidated	**$ 479,081**	$ 409,759	$ 454,681

First Quarter 2014 versus Fourth Quarter 2013

Consolidated revenue increased 17%, or $69.3 million, from $409.8 million during the fourth quarter of 2013 to $479.1 million during the first quarter of 2014, due to increases of $66.3 million in the Pipeline and Pipe Services segment and $2.5 million in the Petrochemical and Industrial segment.

In the Pipeline and Pipe Services segment, revenue increased 18%, or $66.3 million, from $370.5 million in the fourth quarter of 2013 to $436.8 million in the first quarter of 2014 due to higher activity levels in all four regions. See section *4.2.1 – Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue was higher by $2.5 million, or 6%, in the first quarter of 2014, compared to the fourth quarter of 2013, mainly due to an increase in revenue of $3.7 million, or 27%, in the Europe, Middle East, Africa, Russia (“EMAR”) region. See section *4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

First Quarter 2014 versus First Quarter 2013

Consolidated revenue increased by $24.4 million, or 5%, from $454.7 million during the first quarter of 2013, to $479.1 million during first quarter of 2014, due to increases of $20.1 million in the Pipeline and Pipe Services segment and $4.4 million in the Petrochemical and Industrial segment.

In the Pipeline and Pipe Services segment, revenue in the first quarter of 2014 was $436.8 million, or 5% higher than in the first quarter of 2013, due to increased activity in North America and EMAR, partially offset by lower revenue in Asia Pacific and Latin America. See *section 4.2.1 – Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue increased by $4.4 million, or 11%, during the first quarter of 2014 compared to the first quarter of 2013, due to higher activity levels in all three regions. See *section 4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the

Petrochemical and Industrial segment.

Income from Operations

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

	Three Months ended		
(in thousands of Canadian dollars)	**March 31, 2014**	December 31, 2013	March 31, 2013
Income from Operations	**$ 89,419**	$ 47,236	$ 89,125
Operating Margin[(a)]	**18.7%**	11.6%	19.6%

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

First Quarter 2014 versus Fourth Quarter 2013

Operating Income increased by $42.2 million, from $47.2 million during the fourth quarter of 2013 to $89.4 million in the first quarter of 2014. Operating Income was impacted by an increase in gross profit of $35.6 million, a decrease in amortization of property, plant, equipment and intangible assets of $1.1 million and a decrease in SG&A expenses of $13.6 million. This was partially offset by increases in research and development expenses of $0.8 million, a decrease in net foreign exchange gain of $3.3 million and a gain on sale of land of $5.2 million recorded in the fourth quarter of 2013.

The increase in gross profit resulted from a 1.7 percentage point increase in the gross margin from the fourth quarter of 2013 and the higher revenue, as explained above. The increase in the gross margin percentage was primarily due to favourable product and project mix and higher facility utilization and absorption of overheads, as a result of the increase in revenue in the Pipeline and Pipe Services segment.

SG&A expenses decreased by $13.6 million, from $103.0 million in the fourth quarter of 2013 to $89.5 million in the first quarter of 2014, primarily due to one-time restructuring costs and amended executive retirement arrangements of $10.7 million recorded in the fourth quarter of 2013. In addition, professional consulting, legal and other expenses were lower by $2.9 million in the first quarter of 2014. The one-time restructuring costs and amended executive retirement arrangements in the fourth quarter of 2013 were primarily related to reorganizing the organizational structure to more effectively manage the Company's business and were comprised of charges of $2.0 million for the Pipeline and Pipe Services segment, $3.2 million for the Petrochemical and Industrial segment and $5.5 million for Finance and Corporate.

First Quarter 2014 versus First Quarter 2013

Operating Income increased by $0.3 million, from $89.1 million in the first quarter of 2013 to $89.4 million during the first quarter of 2014. Operating Income was impacted by decreases in SG&A expenses of $2.1 million and a net increase in foreign exchange gain of $3.9 million. This was partially offset by a decrease in gross profit of $3.0 million, an increase in amortization of property, plant, equipment and intangible assets of $1.9 million and a lower gain on assets held for sale of $0.5 million.

The decrease in gross profit resulted from a 2.9 percentage point decrease in gross margin, attributable to changes in product and project mix compared to the first quarter of 2013, particularly in the Pipeline and Pipe Services segment's Asia Pacific and Latin America regions which had benefitted from high gross margins on several large concrete weight coating projects.

SG&A expenses decreased by $2.1 million, primarily as a result of one-time costs of $7.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements of $5.0 million incurred in the first quarter of 2013. This was partially offset by increases over the prior year in personnel related costs of $4.2 million, other SG&A expenses due to the acquisition of Socotherm Gulf of Mexico of $2.4 million, legal and professional consulting fees of $1.0 million and rental and building costs primarily associated with pipe storage of $2.1 million.

Finance Costs, net

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

	Three Months ended		
(in thousands of Canadian dollars)	**March 31, 2014**	December 31, 2013	March 31, 2013
Interest income on short-term deposits	**$ (338)**	$ (452)	$ (470)
Interest expense, other	**829**	2,559	919
Interest expense on long term debt	**3,236**	3,280	400
Finance costs – net	**$ 3,727**	$ 5,387	$ 849

First Quarter 2014 versus Fourth Quarter 2013

In the first quarter of 2014, net finance cost was $3.7 million, compared to a net finance cost of $5.4 million during the fourth quarter of 2013 primarily as a result of lower interest expenses on bank loans and overdrafts.

First Quarter 2014 versus First Quarter 2013

In the first quarter of 2014, net finance cost was $3.7 million, compared to a net finance cost of $0.8 million during the first quarter of 2013. The increase in net finance costs was primarily as a result of higher interest on long-term debt (“Senior Notes”) that were issued on March 20, 2013.

Income Taxes

The following table sets forth the income tax expenses for the following periods:

	Three Months ended		
(in thousands of Canadian dollars)	**March 31, 2014**	December 31, 2013	March 31, 2013
Income tax expense	**$ 22,571**	$ 10,278	$ 17,079

First Quarter 2014 versus Fourth Quarter 2013

The Company recorded an income tax expense of $22.6 million (27% of income before income taxes) in the first quarter of 2014, compared to an income tax expense of $10.3 million (28% of income before income taxes) in the fourth quarter of 2013. The effective tax rate in the first quarter of 2014 was at the Company's expected effective income tax rate of 27%. The Company’s tax rate in the fourth quarter was slightly higher than the expected rate of 27 % primarily due to the incurrence of tax losses in jurisdictions where the Company was unable to record a tax benefit in the quarter.

First Quarter 2014 versus First Quarter 2013

The Company recorded an income tax expense of $22.6 million (27% of income before income taxes) in the first quarter of 2014, compared to an income tax expense of $17.1 million (19% of income before income taxes) in the first quarter of 2013. The effective tax rate in the first quarter of 2014 was at the Company's expected effective income tax rate of 27%. The Company’s tax rate in the first quarter of 2013 was lower than the expected rate of

27% primarily due to the fact that a significant portion of the Company's income was earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the expected tax rate is 25% or less.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

	Three Months ended		
(in thousands of Canadian dollars, except Operating Margin)	**March 31, 2014**	December 31, 2013	March 31, 2013
North America	**$ 189,373**	$ 175,442	$ 157,355
Latin America	**43,068**	29,478	60,319
EMAR	**68,748**	51,179	34,039
Asia Pacific	**135,610**	114,378	164,961
Total Revenue	**$ 436,799**	$ 370,477	$ 416,674
Operating Income	**$ 92,184**	$ 58,151	$ 109,226
Operating Margin	**21.1%**	15.7%	26.2%

First Quarter 2014 versus Fourth Quarter 2013

First quarter revenue increased by $66.3 million to $436.8 million, from $370.5 million in the fourth quarter of 2013. Consolidated revenue benefitted from the impact on translation of foreign operations from the weakening Canadian dollar as noted in section 2.2 above, but more importantly was driven by increased activity levels in all four regions:

- North America revenue increased by $13.9 million, or 8%, as a result of increased activity from Socotherm's Gulf of Mexico operation and higher activity levels in small diameter pipe coating in both Canada and the USA, partially offset by lower pipe weld inspection service revenue in the USA, decreased tubular management service revenue in Canada and lower flexible composite pipe volumes.

- In Latin America, revenue increased by $13.6 million, or 46%, primarily as a result of increased activity at the Coatzacoalcos, Mexico concrete weight coating facility.

- In EMAR, revenue increased by $17.6 million, or 34%, primarily due to increased activity at Leith, Scotland for the Edvard Grieg project, partially offset by lower volumes at Orkanger, Norway.

- Asia Pacific revenue increased by $21.2 million, or 19%, mainly due to the launch of full production on the Inpex Ichthys flowlines project in Kabil, Indonesia and in Kuantan, Malaysia.

In the first quarter of 2014, Operating Income was $92.2 million compared to $58.2 million in the fourth quarter of 2013, an increase of $34.0 million, or 59%. The increase in Operating Income was due to an increase in gross profit of $34.7 million due to the increase in revenue of $66.3 million as explained above, and a 1.7 percentage point increase in the gross margin due to favourable product and project mix and higher facilities' utilization and the absorption of overheads. In addition to the increase in gross profit, SG&A expenses were also lower as explained in section 4.1 above.

First Quarter 2014 versus First Quarter 2013

Revenue was $436.8 million in the first quarter of 2014, an increase of $20.1 million, or 5%, from $416.7 million in the comparable period of 2013. Consolidated revenue benefitted from the impact on translation of foreign operations from the weakening Canadian dollar as noted in section 2.2 above, combined with higher revenue in North America and EMAR, partially offset by lower activity levels in Asia Pacific and Latin America:

- North America revenue increased by $32.0 million, or 20%, primarily due to the acquisition of Socotherm Gulf of Mexico, increased pipe weld inspection service revenue in the USA and continued growth in flexible composite pipe volumes in both Canada and the USA.

- Latin America revenue decreased by $17.3 million, or 29%, due to lower activity levels on the Technip project in Trinidad, partially offset by increased volumes at the Coatzacoalcos, Mexico concrete weight coating facility.

- In EMAR, revenue increased by $34.7 million, or 102%, primarily due to higher activity levels at the Company's pipe coating facilities in Leith, Scotland on the Edvard Grieg project and at Socotherm Italy, partially offset by reduced volumes from Orkanger, Norway and Ras Al Khaimah ("RAK"), UAE.

- Asia Pacific revenue decreased by $29.4 million, or 18%, due to the lower volumes associated with the Inpex Ichthys gas export pipeline and Chevron Wheatstone projects in Kabil, Indonesia and Kuantan, Malaysia.

In the first quarter of 2014, Operating Income was $92.2 million compared to $109.2 million in the first quarter of 2013, a decrease of $17.0 million, or 16%, due to a reduction in gross profit of $4.4 million as a result of a 3.1 percentage point decrease in gross margin due to unfavourable project mix compared to the first quarter of 2013, partially offset by the increase in revenue of $20.1 million, as explained above. In addition to the decrease in gross profit, SG&A expenses increased by $9.8 million, amortization of property, plant, equipment and intangibles increased by $1.6 million and first quarter 2013 results included a non-recurring gain on assets held for sale of $0.5 million.

4.2.2 Petrochemical and Industrial Segment

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

(in thousands of Canadian dollars, except Operating Margin)	Three Months ended **March 31, 2014**	 December 31, 2013	 March 31, 2013
North America	**$ 24,030**	$ 25,230	$ 23,349
EMAR	**17,316**	13,622	13,968
Asia Pacific	**1,581**	1,557	1,255
Total Revenue	**$ 42,927**	$ 40,409	$ 38,572
Operating Income	**$ 6,063**	$ 2,613	$ 5,017
Operating Margin	**14.1%**	6.5%	13.0%

First Quarter 2014 versus Fourth Quarter 2013

Revenue increased in the first quarter of 2014 by $2.5 million, or 6%, to $42.9 million, compared to the fourth quarter of 2013 due to strong growth in the heat shrink tubing product volumes in EMAR combined with the impact of foreign exchange on revenue, as noted in section 2.2 above.

Operating Income of $6.1 million in the first quarter of 2014 was $3.5 million, or 132%, higher than in the fourth quarter of 2013. The increase in Operating Income was due to higher gross profit of $0.8 million as a result of the higher revenue of $2.5 million, as explained above. In addition, SG&A expenses were lower primarily due to one-time restructuring costs of $3.2 million at the DSG Canusa facilities in Europe incurred in the fourth quarter of 2013, as noted in section 4.1 above.

First Quarter 2014 versus First Quarter 2013

In the first quarter of 2014, revenue totaled $42.9 million compared to $38.6 million in the first quarter of 2013, an increase of $4.4 million, or 11%. The increase was driven by higher heat shrink tubing product volumes, particularly in the EMAR market, combined with the impact of foreign exchange on revenue, as noted in section 2.2 above.

Operating Income in the first quarter of 2014 was $6.1 million compared to $5.0 million in the first quarter of 2013, an increase of $1.1 million, or 21%. The increase in Operating Income was due to higher gross profit of $1.4 million as a result of the increase in revenue of $4.4 million, as explained above, and a 0.2 percentage point increase in gross margin, primarily due to product mix.

4.2.3 Financial and Corporate

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

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

	Three Months ended		
(in thousands of Canadian dollars)	**March 31, 2014**	December 31, 2013	March 31, 2013
Financial and corporate expenses	**$ (11,859)**	$ (19,844)	$ (24,280)

First Quarter 2014 versus Fourth Quarter 2013

Financial and corporate costs decreased by $8.1 million from $19.8 million during the fourth quarter of 2013 to $11.8 million in the first quarter of 2014, primarily due to one-time restructuring costs and amended executive retirement arrangements of $5.5 million recorded in the fourth quarter of 2013, as explained in section 4.1 above, and lower professional consulting, insurance and information technology expenses.

First Quarter 2014 versus First Quarter 2013

Financial and corporate costs decreased by $12.4 million from the first quarter of 2013 to $11.8 million in the first quarter of 2014, primarily as a result of one-time costs of $7.6 million incurred to complete the Company’s Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements of $5.0 million incurred in the first quarter of 2013.

5.0 Liquidity and Capitalization

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

	Three Months Ended March 31,	
(in thousands of Canadian dollars)	**2014**	2013
Net Income	**$ 61,607**	$ 70,526
Non-cash items	**25,989**	15,814
Settlement of decommissioning liability obligations	**(22)**	(551)
Settlement of other provisions	**(1,941)**	(3,995)
Settlement of other liabilities	**(6,281)**	–
Decrease in non-current deferred revenue	**–**	(62,609)
Change in employee future benefits	**431**	5,246
Change in non-cash working capital and foreign exchange	**(63,260)**	5,110
Cash provided by operating activities	**16,523**	29,541
Cash (used in) provided by investing activities	**(33,603)**	51,787
Cash used in financing activities	**(5,601)**	(142,631)
Effect of Foreign Exchange on Cash and Cash Equivalents	**1,831**	1,770
Net decrease in cash and cash equivalents	**(20,850)**	(59,533)
Cash and cash equivalents, beginning of year	**79,395**	284,981
Cash and cash equivalents at end of year	**$ 58,545**	$ 225,448

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

5.1 Cash Provided by Operating Activities

First Quarter 2014 versus First Quarter 2013

Cash provided by operating activities decreased by $13.0 million, from $29.5 million in the first quarter of 2013 to $16.5 million in the first quarter of 2014. The decrease was due to a decrease in net income for the period of $8.9 million, change in the movement of non-cash working capital and foreign exchange of $68.4 million and an increase in the settlement of liabilities of $3.7 million. This was partially offset by an increase in non-cash items of $10.2 million and a decrease in non-current deferred revenue of $62.6 million recorded in the first quarter of 2013. In the first quarter of 2014, non-cash working capital and foreign exchange increased by $63.3 million primarily as a result of an increase in accounts receivable of $74.9 million and a decrease in deferred revenue of $17.3 million. This was partially offset by a decrease in inventories of $11.3 million, an increase in accounts payable and accrued liabilities of $9.7 million and an increase in income taxes payable of $12.8 million. Net income decreased primarily due to higher income tax expenses and net finance costs as discussed in section 2.1 above.

5.2 Cash (Used in) Provided by Investing Activities

First Quarter 2014 versus First Quarter 2013

Cash used in investing activities was $33.6 million in the first quarter of 2014 compared to cash provided by investing activities of $51.8 million in the first quarter of 2013. The decrease of $85.4 million was primarily due to the redemption of short term investments of $71.7 million in the first quarter of 2013, combined with a $13.7 million investment in associate and a $10.0 million investment in other assets, both of which being in respect of the Zedi Inc. acquisition in the first quarter of 2014.

5.3 Cash Used in Financing Activities

First Quarter 2014 versus First Quarter 2013

Cash used in financing activities decreased by $137.0 million, from $142.6 million in the first quarter of 2013 to $5.6 million in the first quarter of 2014. This was primarily due to the purchase of Class B shares under the Company's Plan of Arrangement in the amount of $503.1 million completed in the first quarter of 2013, partially offset by the proceeds of long term debt net of deferred financing expenses of $356.3 received in the first quarter of 2013.

5.4 Liquidity and Capital Resource Measures

Accounts Receivables

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

	Three Months ended		
(in thousands of Canadian dollars, except DSO)	**March 31, 2014**	December 31, 2013	Change
Average trade accounts receivable	**$ 253,338**	$ 248,944	$ 4,394
DSO[(a)]	**48**	55	(7)

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-net are outstanding based on a 90 day cycle. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See section 10 – Reconciliation of non-GAAP measures for additional information with respect to DSO.

Average trade accounts receivables increased by $4.4 million from $248.9 million as at December 31, 2013 to $253.3 million as at March 31, 2014 as a result of increased business activity. DSO decreased by 7 days from 55 during the fourth quarter of 2013 to 48 during the first quarter of 2014, primarily due to the timing of sales and collection of receivables in the first quarter of 2014 compared to the fourth quarter of 2013.

Inventories

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

	Three Months ended		
(in thousands of Canadian dollars)	**March 31, 2014**	December 31, 2013	Change
Inventories	**$ 169,541**	$ 180,876	$ (11,335)

Inventories decreased by $11.3 million from $180.9 million as at December 31, 2013 to $169.5 million as at March 31, 2014, due to a reduction in raw materials of $16.4 million, partially offset by an increase in finished goods inventory of $5.9 million.

Accounts Payable

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

(in thousands of Canadian dollars, except DPO)	Three Months ended March 31, 2014	December 31, 2013	Change
Average accounts payable and accrued liabilities	**$ 243,548**	$ 240,639	$ 2,909
DPO[(a)]	**78**	88	(10)

(a) DPO, a non-GAAP measure, is the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90 day cycle. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See section 10 – Reconciliation of non-GAAP measures, for additional information with respect to DPO.

Average accounts payable and accrued liabilities increased by 1.2% from $240.6 million for the quarter ended December 31, 2013, to $243.6 million for the quarter ended March 31, 2014. DPO decreased by 10 days in the same period, driven by an increase in cost of goods sold of $33.7 million, or 14%, from the fourth quarter of 2013 to the first quarter of 2014.

5.5 Unsecured Credit Facilities

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

(in thousands of Canadian dollars)	March 31 2014	December 31, 2013
Bank indebtedness[(a)]	**$ 3,911**	$ 5,290
Standard letters of credit for performance, bid and surety bonds	**110,716**	106,206
Total utilized credit facilities	**114,627**	111,496
Total available credit facilities[(b)]	**331,890**	320,910
Unutilized credit facilities	$ **217,263**	$ 209,414

a) Excludes the banking facilities of the Company's equity accounted investments.
b) 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 dropped from US$100 million to US$50 million.

Debt Covenants

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

The Company was in compliance with these covenants as at March 31, 2014 and December 31, 2013. These debt covenants are non-GAAP measures and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings prescribed by IFRS and are not necessarily comparable to similarly titled measures of other entities. See *section 10 – Reconciliation of non-GAAP measures*, for additional information with respect to these debt covenants.

5.6 Long-Term Debt

The total long-term debt balance as at March 31, 2014 is $387.2 million (U.S.$350.0 million) {December 31, 2013 - $374.4 million (U.S.$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 13 of the interim unaudited consolidated financial statements for the quarter ended March 31, 2014.

Financial Ratios

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

The Company was in compliance with all of the financial covenants for the long-term debt as at March 31, 2014.

5.7 Contingencies and Off Balance Sheet Arrangements

Commitments and Contingencies

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

(in thousands of Canadian dollars)	**2014**	**2015**	**2016**	**2017**	**2018**	**After 2018**	**Total**
	$	$	$	$	$	$	$
Purchase commitments	72,529	–	–	–	–	–	72,529
Operating leases	13,877	13,340	9,297	6,964	5,735	11,816	61,029
Bank indebtedness	3,911	–	–	–	–	–	3,911
Accounts payable	96,568	–	–	–	–	–	96,568
Decommissioning liabilities	2,236	3,085	5,993	–	1,000	27,459	39,773
Deferred purchase consideration	22,367	–	–	–	–	–	22,367
Obligations under finance leases	1,763	1,375	1,259	1,281	1,094	13,326	20,098
Loans payable	120	–	–	–	–	–	120
Long-term debt	–	–	–	–	–	387,172	387,172
Finance costs on long-term debt	13,970	13,970	14,008	13,970	13,970	72,823	142,711
Total contractual obligations	**227,341**	**31,770**	**30,557**	**22,215**	**21,799**	**512,596**	**846,278**

Legal Claims

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

Performance, Bid and Surety Bonds

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

The Company's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of $110.7 million as at March 31, 2014 (December 31, 2013 – $106.2 million) for support of its bonds.

5.8 Financial Instruments and Other Instruments

Fair Value

IFRS 7, Financial Instruments - Disclosure, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect 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 March 31, 2014:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 58,545	$ 58,545	$ –	$ –
Short-term investments	5,671	5,671	–	–
Loans receivable	8,661	–	8,661	–
Trade accounts receivable	275,161	–	275,161	–
Other receivables	163,740	–	163,740	–
Derivative financial instruments	792	–	792	–
	$ 512,570	$ 64,216	$ 448,354	$ –

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Liabilities				
Bank indebtedness	$ 3,911	$ 3,911	$ –	$ –
Loans payable	120	–	120	–
Accounts payable	96,568	–	96,568	–
Deferred purchase consideration	22,367	–	22,367	–
Long-term debt	387,172	–	387,172	–
Derivative financial instruments	897	–	897	–
	$ 511,035	$ 3,911	$ 507,124	$ –

The current derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market. The fair values of the Company's remaining financial instruments are not materially different from their carrying values.

Foreign Exchange Forward Contracts

The Company utilizes financial instruments to manage the risk associated with foreign exchange rates.

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 March 31, 2014:

(in thousands, except weighted average rate amounts)	
Canadian dollars sold for U.S. dollars	
Less than one year	CAD$13,452
Weighted average rate	0.93
Canadian dollars sold for Norweigian Krones	
Less than one year	CAD$8,875
Weighted average rate	5.41
U.S. dollars sold for Canadian dollars	
Less than one year	US$ 12,600
Weighted average rate	1.07
U.S. dollars sold for Malaysian Ringgits	
Less than one year	US$ 13,750
Weighted average rate	3.36
British pound sold for U.S. dollars	
Less than one year	£2,095
Weighted average rate	1.67
Euros sold for U.S. dollars	
Less than one year	€35,985
Weighted average rate	1.37
Norweigian Krones sold for U.S. dollars	
Less than one year	NOK 84,848
Weighted average rate	0.17

As at March 31, 2014, the Company had notional amounts of $125.1 million of forward contracts outstanding (December 31, 2013 - $115.2 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling $0.1 million (December 31, 2013 - $1.0 million net loss).

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 March 31, 2014, 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 quarter ended March 31, 2014 by approximately $17.5 million, $4.5 million and $3.4 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 $57.4 million, $23.2 million and $34.2 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 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 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 quarter ended March 31, 2014, a loss of $12.8 million on the translation of the Senior Notes was transferred to other comprehensive income to offset the gains on translation of the net investment in the U.S. dollar functional subsidiaries. There was no ineffectiveness of this hedge for the quarter ended March 31, 2014.

Interest Rate Risk

The following table summarizes the Company’s exposure to interest rate risk as at March 31, 2014:

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial assets				
Cash equivalents	$ –	$ –	$ 1,628	$ 1,628
Loans receivable	–	4,183	4,478	8,661
	$ –	**$ 4,183**	**$ 6,106**	**$ 10,289**

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial liabilities				
Bank indebtedness	$ –	$ 3,911	$ –	$ 3,911
Loans payable	120	–	387,172	387,292
	$ 120	**$ 3,911**	**$ 387,172**	**$ 391,203**

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. For the quarter ended March 31, 2014 there was no customer that generated more than 10% of total consolidated revenue.

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 March 31, 2014, the Company had cash and cash equivalents totaling $58.5 million (December 31, 2013 – $79.4 million) and had unutilized lines of credit available to use of $217.3 million (December 31, 2013 - $209.4 million).

5.9 Outstanding Share Capital

As at April 21, 2014, the Company had 60,146,108 common shares outstanding. In addition, as at April 21, 2014, the Company had stock options and share units outstanding to purchase up to 1,635,295 common shares.

5.10 Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2014 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

5.11 Transactions with Related Parties

The Company had no material transactions with related parties in the first quarter of 2014. All related party transactions were in the normal course of business.

6.0 Critical Accounting Estimates and Accounting Policy Developments

6.1 Critical Accounting Estimates

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

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

As at March 31, 2014, the Company had $858.4 million of long-lived assets and goodwill. The Company evaluates the carrying values of the Cash Generating Units' ("CGU") goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions.

Employee Future Benefit Obligations

As at March 31, 2014, the Company had $28.0 million of employee future benefit obligations included in non-current liabilities. The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, long-term rates of return on pension plan assets, rates of employee compensation increases, rates of inflation, and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

Provisions and Contingent Liabilities

As at March 31, 2014, the Company had $53.7 million of provisions; of this amount $14.3 million was included in current liabilities and $39.4 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances. The Company is required to determine whether a loss is probable based on judgment and interpretation of laws and regulations and whether the loss can be reliably measured. When a loss is determined it is charged to the consolidated statement of income. The Company must continually monitor known and potential contingent matters and make appropriate provisions by charges to income when warranted by circumstances.

Decommissioning Liabilities

As at March 31, 2014, the Company had decommissioning liabilities in the amount of $22.0 million; of this amount $2.2 million was included in the current provisions account and $19.8 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the interim unaudited consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk free rate. A corresponding asset equal to the present value of the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the decommissioning liability and the related long-lived asset. The amount capitalized in property, plant and equipment is depreciated on a straight line basis over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statement of income.

Actual expenditures incurred are charged against the accumulated decommissioning liability.

Financial Instruments

The Company has determined the estimated fair values of its financial instruments not traded in an active market based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates, mainly based on market conditions existing at the end of each reporting period. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

Income Taxes

The recording of income tax expense includes certain estimations related to the impact in the current year of future events. Differences between the estimated and actual impact of these events could impact tax expense, current taxes payable or deferred taxes. In particular, earnings and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management 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.

6.2 Accounting Standards Issued but not yet Applied

IFRS 9, Financial Instruments

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

6.3 New Accounting Standards Adopted

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Company's adoption of IFRS 21 did not have a material financial impact on the Company's interim unaudited consolidated financial statements.

7.0 Outlook

In the Company's 2013 year end Outlook, the Company stated that it expected revenue and earnings to decrease in 2014 in comparison with the record results of 2013. This expectation continues and is premised on the fact that in 2013, revenue from the Company's Asia Pacific region had been enhanced by the execution of the $400 million Inpex Ichthys gas export pipeline project, the largest single project in the Company's history and a project size that will not be replicated in 2014. Further detail on the outlook for the Pipeline and Pipe Services segment by region and the Petrochemical and Industrial segment is set out below:

Pipeline and Pipe Services Segment - North America

In 2014, ShawCor's North American Pipeline segment businesses are expected to generate solid revenue growth over 2013 levels and this expectation for growth was clearly evident in the first quarter. Revenue growth in 2014 will be led by pipe coating volumes from a full year of production at the Socotherm Gulf of Mexico plant, and by activity in several of the Company's pipeline segment businesses that are benefitting from continued shale oil and gas developments such as the Flexpipe composite pipe and Guardian OCTG pipe inspection and refurbishment businesses. Also, the Company's introduction of new real-time radiography technology to the USA land pipeline market is enabling market share gains in pipeline girth weld inspection.

Pipeline and Pipe Services Segment - Latin America

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

Pipeline and Pipe Services Segment - EMAR

The Company's EMAR region expects to begin to generate significant revenue growth in 2014. In addition to a continuation of strong project revenues from the pipe coating facilities in Orkanger, Norway and Ras Al Khaimah, UAE, revenue gains are expected in 2014 at the Leith, Scotland facility where the $30 million Edvard Grieg project was executed in the first quarter and start of production on the South Stream line 1 project is scheduled for the second half of this year. Also contributing to revenue growth will be the ramp up of production at Socotherm's Pozzallo, Sicily pipe coating facility to execute the Moho Nord deepwater insulation project.

Pipeline and Pipe Services Segment - Asia Pacific

In 2013, the Company generated record revenues in the Asia Pacific region as a result of the execution of the Inpex Ichthys gas export pipeline, Chevron Wheatstone export pipeline and flowlines, and Apache Julimar flowlines projects. These projects produced over $510 million in revenue in 2013 and contributed to a level of activity that will decline by at least 50% in 2014. In the first quarter, Asia Pacific revenue benefitted from full production volumes on the Inpex Ichthys Flowlines project, however with this project scheduled for completion in the second quarter, we expect that revenue and earnings in the second half of this year will decline compared with the performance from the first quarter. Beyond 2014, the Company remains confident that the Asia Pacific region will continue to provide compelling opportunities, particularly with the emergence of deepwater oil and gas developments that will require the Company's operational capability and unique product technologies.

Petrochemical and Industrial Segment

ShawCor's Petrochemical and Industrial segment businesses are significantly exposed to demand in the North

American and European automotive, industrial and nuclear refurbishment markets. The Company expects that demand in the global industrial markets served by the Petrochemical and Industrial segment businesses will enable the Company to achieve modest growth in revenue in 2014. Operating income growth should exceed revenue growth due to the one-time charges of $3.2 million incurred in 2013 and as a result of improved operational efficiencies associated with the consolidation of production activities at the new DSG-Canusa's EMAR facility in Rheinbach, Germany.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog at March 31, 2014 increased to $642 million from $617 million at December 31, 2013. The increase in backlog from the start of the year reflects the award of the South Stream line 1 concrete coating contract, the first of several contract awards that the Company is pursuing in the EMAR region. Although the order backlog may fluctuate over the next few quarters, the Company's bidding activity remains very high with outstanding bids currently exceeding $800 million dollars. The bidding activity coupled with the recently announced contract awards in the EMAR region highlight the potential for backlog growth during the second half of 2014.

8.0 Risks and Uncertainties

Operating in an international environment, servicing predominantly the oil and gas industry, ShawCor faces a number of business risks and uncertainties that could materially and adversely affect its projections, businesses, results of operations and financial condition. During the quarter, ShawCor was awarded a contract in connection with the South Stream Offshore Pipeline Project. If the current unrest in the Ukraine escalates, it is possible that this project and other pipeline activity in the region could be delayed or otherwise impacted. There were no other material changes in the nature or magnitude of such business risks during the quarter. A more complete outline of the risks and uncertainties facing the Company is included in the annual MD&A contained in the Company's 2013 Annual Report.

9.0 Environmental Matters

As at March 31, 2014, the provisions on the interim consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $22.0 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

10.0 Reconciliation of Non-GAAP Measures

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

<u>EBITDA</u>

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

Days Sales Outstanding ("DSO")

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

(in thousands of Canadian dollars)	**March 31 2014**	December 31, 2013
Revenue for the first quarter	**$ 479,081**	$ 409,759
Average trade accounts receivable	**$ 253,338**	$ 248,944
DSO	**48**	55

Days Payables Outstanding ("DPO")

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

(in thousands of Canadian dollars)	**March 31 2014**	December 31, 2013
Cost of goods sold for the fourth quarter	**$ 280,813**	$ 247,114
Average accounts payable and accrued liabilities	**$ 243,548**	$ 240,639
DPO	**78**	88

11.0 Summary of Quarterly Results

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

(in thousands of Canadian dollars, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue					
2014	**479,081**	–	–	–	–
2013	454,681	457,261	525,848	409,759	1,847,549
2012	312,268	326,923	390,497	439,499	1,469,187
Income (loss) from operations					
2014	**89,419**	–	–	–	–
2013	89,125	78,536	104,877	47,236	319,774
2012	30,554	23,232	64,305	92,962	211,053
Net income (loss)[(a)]					
2014	**61,947**	–	–	–	–
2013	70,595	53,914	72,956	22,397	219,862
2012	23,247	21,377	53,411	80,275	178,310
Income from operations per share[(b)]					
Basic					
2014	**1.48**	–	–	–	–
2013	1.29	1.32	1.76	0.79	5.16
2012	0.43	0.33	0.92	1.32	3.00
Diluted					
2014	**1.48**	–	–	–	–
2013	1.28	1.31	1.74	0.78	5.11
2012	0.43	0.33	0.91	1.30	2.97
Net income (loss) per share[(b)]					
Basic					
2014	**1.03**	–	–	–	–
2013	1.02	0.91	1.22	0.37	3.55
2012	0.34	0.30	0.76	1.14	2.53
Diluted					
2014	**1.03**	–	–	–	–
2013	1.01	0.90	1.21	0.37	3.51
2012	0.33	0.30	0.75	1.13	2.50

(a) Represents the net income attributable to shareholders of the Company.
(b) Based on the Class A and Class B shares for periods up to March 20, 2013; based on the common shares thereafter.

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

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

12.0 Forward-Looking Information

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

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

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

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

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

13.0 Additional Information

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

May 1st, 2014