

ShawCor Ltd.

Unaudited Interim Consolidated Financial Statements
March 31, 2014

(in thousands of Canadian dollars)

ShawCor Ltd.

Interim Consolidated Balance Sheets (Unaudited)

(in thousands of Canadian dollars)	March 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents (note 6)	\$ 58,545	\$ 79,395
Short-term investments	5,671	6,618
Loan receivable (note 7)	1,919	1,780
Accounts receivable	438,901	363,984
Income taxes receivable	11,256	9,919
Inventories	169,541	180,876
Prepaid expenses	20,353	19,176
Derivative financial instruments (note 12)	792	624
	706,978	662,372
Assets held for sale	58,362	56,186
	765,340	718,558
Non-current Assets		
Loans receivable (note 7)	6,742	7,462
Property, plant and equipment	420,949	413,287
Intangible assets	131,016	130,216
Investments in joint ventures	16,550	17,276
Investment in associate (note 8)	13,338	–
Deferred income taxes	35,638	48,480
Other assets (note 8)	28,419	17,830
Goodwill	306,489	298,819
	959,141	933,370
	\$ 1,724,481	\$ 1,651,928
LIABILITIES AND EQUITY		
Current Liabilities		
Bank indebtedness (note 9)	\$ 3,911	\$ 5,290
Accounts payable and accrued liabilities	240,701	230,974
Provisions	14,351	15,971
Income taxes payable	74,662	61,911
Derivative financial instruments (note 12)	897	1,632
Deferred revenue	67,056	84,396
Obligations under finance lease	500	487
Other current liabilities	44,016	33,791
	446,094	434,452
Liabilities directly associated with the assets classified as held for sale	17,284	16,617
	463,378	451,069
Non-current Liabilities		
Loans payable	120	126
Long-term debt (note 11)	387,172	374,381
Obligations under finance lease	14,088	13,827
Provisions	39,358	37,646
Employee future benefits	28,036	25,678
Deferred income taxes	54,768	68,857
Other non-current liabilities	12,974	21,763
	536,516	542,278
	999,894	993,347
Equity		
Share capital (note 13)	307,800	303,327
Contributed surplus	12,985	13,093
Retained earnings	428,009	373,574
Non-controlling interests	2,673	2,419
Accumulated other comprehensive loss	(26,880)	(33,832)
	724,587	658,581
	\$ 1,724,481	\$ 1,651,928

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

ShawCor Ltd.

Interim Consolidated Statements of Income (Unaudited)

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended	
	March 31,	
	2014	2013
Revenue		
Sale of products	\$ 139,090	\$ 105,857
Rendering of Services	339,991	348,824
	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
Losses on investments in joint ventures	(1,152)	(671)
Loss on investment in associates	(362)	–
Finance costs, net	(3,727)	(849)
Income Before Income Taxes	84,178	87,605
Income taxes	22,571	17,079
Net Income	\$ 61,607	\$ 70,526
Net Income Attributable to:		
Shareholders of the Company	61,947	70,595
Non-controlling interests	(340)	(69)
Net Income	\$ 61,607	\$ 70,526
Earnings per Share		
Basic (note 16)	\$ 1.03	\$ 1.02
Diluted (note 16)	\$ 1.03	\$ 1.01
Weighted Average Number of Shares Outstanding (000s)		
Basic (note 16)	60,041	68,903
Diluted (note 16)	60,426	69,849

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

ShawCor Ltd.

Interim Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands of Canadian dollars)	Three Months Ended	
	March 31,	
	2014	2013
Net Income	\$ 61,607	\$ 70,526
Other Comprehensive Income (Loss)		
<u>Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods</u>		
Exchange differences on translation of foreign operations	7,119	6,065
Loss on cash flow hedge	-	(6,880)
Other comprehensive loss (income) attributable to investments in joint ventures	427	(449)
Net Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods	7,546	(1,264)
Other Comprehensive Income (Loss), Net of Income Tax	7,546	(1,264)
Total Comprehensive Income	\$ 69,153	\$ 69,262
Comprehensive Income Attributable to:		
Shareholders of the Company	68,899	68,982
Non-controlling interests	254	280
Total Comprehensive Income	\$ 69,153	\$ 69,262

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ShawCor Ltd.

Interim Consolidated Statements of Changes in Equity (Unaudited)

(in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Non- Controlling Interests	Accumulated Other Comprehensive Loss	Total Equity
Balance - December 31, 2013	\$ 303,327	\$ 13,093	\$ 373,574	\$ 2,419	\$ (33,832)	\$ 658,581
Net income	–	–	61,947	(340)	–	61,607
Issued on exercise of stock options	3,306	–	–	–	–	3,306
Compensation cost on exercised options	1,165	(1,165)	–	–	–	–
Compensation cost on exercised RSUs	2	(2)	–	–	–	–
Stock-based compensation expense	–	1,059	–	–	–	1,059
Other comprehensive income	–	–	–	594	6,952	7,546
Dividends declared and paid to shareholders (note 13)	–	–	(7,512)	–	–	(7,512)
Balance – March 31, 2014	\$ 307,800	\$ 12,985	\$ 428,009	\$ 2,673	\$ (26,880)	\$ 724,587
Balance – December 31, 2012	\$ 221,687	\$ 17,525	\$ 799,741	\$ (331)	\$ (49,955)	\$ 988,667
Net income	–	–	70,595	(69)	–	70,526
Issued on exercise of stock options	6,715	–	–	–	–	6,715
Compensation cost on exercised options	2,629	(2,629)	–	–	–	–
Compensation cost on exercised RSUs	24	(24)	–	–	–	–
Stock-based compensation expense	–	629	–	–	–	629
Cancellation of Class B shares	54,438	–	(553,215)	–	–	(498,777)
Shares cancellation costs (net of income tax benefit of \$1.5 million) (note 13)	–	–	(4,312)	–	–	(4,312)
Other comprehensive income (loss)	–	–	–	349	(1,613)	(1,264)
Dividends declared and paid to shareholders (note 13)	–	–	(6,916)	–	–	(6,916)
Balance - March 31, 2013	\$ 285,493	\$ 15,501	\$ 305,893	\$ (51)	\$ (51,568)	\$ 555,268

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

ShawCor Ltd.

Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	Three Months Ended	
	March 31,	
	2014	2013
Operating activities		
Net income for the year	\$ 61,607	\$ 70,526
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment	15,459	14,215
Amortization of intangible assets	2,782	2,109
Amortization of long-term prepaid expenses	207	109
Decommissioning obligations expense	103	401
Other provision expenses (recovery)	1,175	(1,391)
Stock-based compensation and incentive-based compensation (note 14)	6,746	7,014
Deferred income taxes	(1,569)	(7,282)
Loss on disposal of property, plant and equipment	19	42
Unrealized (gain) loss on derivative financial instruments	(903)	441
Loss on investments in associate (note 8)	362	–
Loss on investments in joint ventures	1,152	671
Gain on assets held for sale	–	(503)
Other	456	(12)
Settlement of decommissioning liabilities	(22)	(551)
Settlement of other provisions	(1,941)	(3,995)
Settlement of other liabilities	(6,281)	–
Decrease in deferred revenue non-current	–	(62,609)
Net change in future employee 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
Investing Activities		
Decrease (increase) in loan receivable (note 7)	1,075	(3,819)
Decrease in short term investments	947	71,662
Purchases of property, plant and equipment	(12,651)	(16,106)
Proceeds on disposal of property, plant and equipment	726	–
Purchases of intangible assets	–	(59)
Investments in associate (note 8)	(13,700)	–
(Increase) decrease in other assets (note 8)	(10,000)	109
Cash (Used in) Provided by Investing Activities	\$ (33,603)	\$ 51,787
Financing Activities		
Decrease in bank indebtedness (note 9)	(1,379)	(74)
(Decrease) increase in loans payable	(16)	2,342
Proceeds from long-term debt	–	356,280
Proceeds from interest rate swap	–	2,111
Issuance of shares (note 13)	3,306	6,715
Repurchase of shares (note 13)	–	(503,089)
Dividend paid to shareholders (note 13)	(7,512)	(6,916)
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 for the Period	(20,850)	(59,533)
Cash and Cash Equivalents – Beginning of Period	79,395	284,981
Cash and Cash Equivalents – End of Period	\$ 58,545	\$ 225,448

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

Notes to Interim consolidated Financial Statements

1. Corporate information

ShawCor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. ShawCor Ltd., together with its wholly owned subsidiaries (collectively referred to as the "Company" or "ShawCor"), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates eight divisions with over 75 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 5.

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

2. Basis of preparation of International Financial Reporting Standards

Basis of preparation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and thus should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2013 ("Annual Consolidated Financial Statements"). The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Annual Consolidated Financial Statements, except as set out in note 4.

Basis of Presentation and Consolidation

The interim consolidated financial statements have been prepared on the historical cost basis, except for financial instruments, which are measured at fair value, as explained in the accounting policies set out in the Company's Annual Consolidated Financial Statements.

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

The interim 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 interim 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 these interim consolidated financial statements, are described in note 3 of the Company's Annual Consolidated Financial Statements.

The results of the subsidiaries acquired during the period are included in the interim 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 interim consolidated financial statements and accompanying notes as at and for the three-month period ended March 31, 2014 were authorized for issue by the Company's Board of Directors on May 1, 2014.

Notes to Interim consolidated Financial Statements

3. 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.

4. 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 January 1, 2014. The Company's adoption of *IFRS 21* did not have a material financial impact on the Company's unaudited interim consolidated financial statements.

5. 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 interim 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 March 31, 2014, 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 Services

The Pipeline and Pipe Services operating 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.

Notes to Interim consolidated Financial Statements

Petrochemical and Industrial

The Petrochemical and Industrial operating 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 under IFRS.

Segment Information

The following table sets forth information by segment for the quarter ended March 31:

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue										
External	\$ 436,493	416,371	\$ 42,588	38,310	\$ --	--	\$ --	--	\$ 479,081	454,681
Inter-segment	306	303	339	262	--	--	(645)	(565)	--	--
	\$ 436,799	416,674	\$ 42,927	38,572	\$ --	--	\$ (645)	(565)	\$ 479,081	454,681
Income (loss) from operations	\$ 92,184	109,226	\$ 6,063	5,017	\$ (8,828)	(25,118)	\$ --	--	\$ 89,419	89,125
Income (loss) before income tax	\$ 90,085	104,853	\$ 5,033	3,300	\$ (10,940)	(20,548)	\$ --	--	\$ 84,178	87,605

The following table sets forth information for total assets by segment as at:

(in thousands of Canadian dollars)	March 31, 2014	December 31, 2013
Pipeline and Pipe Services	\$ 2,035,040	\$ 1,975,028
Petrochemical and Industrial	188,741	180,055
Financial and Corporate	753,340	796,816
Elimination and adjustments	(1,252,640)	(1,299,971)
	\$ 1,724,481	\$ 1,651,928

Notes to Interim consolidated Financial Statements

6. Cash and Cash Equivalents

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

(in thousands of Canadian dollars)	March 31, 2014	December 31, 2013
Cash	\$ 56,917	\$ 78,843
Cash equivalents	1,628	552
Total	\$ 58,545	\$ 79,395

7. Loan Receivable

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

(in thousands of Canadian dollars)	March 31, 2014	December 31, 2013
Current		
Loan receivable	\$ 1,919	\$ 1,780
	1,919	1,780
Non-current		
Notes receivable ^(a)	\$ 4,183	\$ 4,014
Loan receivable	2,559	3,448
	6,742	7,462
Total	\$ 8,661	\$ 9,242

(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 March 31, 2014, the amount of the loan receivable was U.S.\$3,782 (December 31, 2013 – U.S.\$3,752).

8. Investment in Associate

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 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 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 and classified in other assets on the Company's unaudited interim consolidated balance sheet.

Notes to Interim consolidated Financial Statements

9. Credit Facilities

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

(in thousands of Canadian dollars)	March 31, 2014	December 31, 2013
Bank indebtedness	\$ 3,911	\$ 5,290
Standard letters of credit for performance, bid and surety bonds (note 10)	110,716	106,206
Total utilized credit facilities	114,627	111,496
Total available credit facilities ^(a)	331,890	320,910
Unutilized credit facilities	\$ 217,263	\$ 209,414

(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 U.S.\$100 million from U.S.\$150 million to U.S.\$250 million, with an option to increase the credit limit to U.S.\$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 U.S.\$100 million to U.S.\$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 March 31, 2014 and December 31, 2013.

10. Commitments and Contingencies

Performance, Bid and Surety Bonds

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

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

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

Notes to Interim consolidated Financial Statements

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.

11. 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 12.

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 9 for the Company's Unsecured Committed Bank Credit Facility. The Company is in compliance with these covenants as at March 31, 2014 and December 31, 2013.

12. Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	March 31, 2014	December 31, 2013
Loans and receivables, measured at amortized cost		
Cash and cash equivalents	\$ 58,545	\$ 79,395
Short-term investments	5,671	6,618
Loans receivable	8,661	9,242
Accounts receivable	438,901	363,984
Fair value through profit or loss, measured at fair value		
Derivative financial instruments – asset	\$ 792	\$ 624
Derivative financial instruments – liability	897	1,632
Other financial liabilities, measured at amortized cost		
Bank Indebtedness	\$ 3,911	\$ 5,290
Loans payable	120	126
Accounts payable	96,568	91,215
Deferred purchase consideration	22,367	21,618
Long-term debt	\$ 387,172	\$ 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.

Notes to Interim consolidated Financial Statements

The following table presents the fair value hierarchy levels for the financial assets and liabilities that are measured at fair value on a recurring basis as at March 31, 2014 and for financial assets and liabilities where fair values are disclosed 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	\$	–
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 value 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:

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(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 Norwegian Kroner	
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
Norwegian Kroner 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.

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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 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
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 totalling \$58.5 million (December 31, 2013 –

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\$79.4 million) and had unutilized lines of credit available to use of \$217.3 million (December 31, 2013 - \$209.4 million).

13. Share Capital

The following table sets forth the Company's share capital continuity schedule:

(all dollar amounts in thousands of Canadian dollars)		2014
		New Common
Number of shares		
Balance, December 31, 2013		59,991,202
Issued on exercise of stock options		141,460
Issued on exercise of RSUs		86
Balance, March 31, 2014		60,132,748
Stated value:		
Balance, December 31, 2013	\$	303,327
Issued on exercise of stock options		3,306
Compensation cost on exercised		1,165
Compensation cost on exercised		2
Balance, March 31, 2014	\$	307,800

(all dollar amounts in thousands of Canadian dollars)		2013			
	Class A	Class B	New Common	Total	
Number of Shares					
Balance, December 31, 2012	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	(57,563,710)	–	57,563,710	–	
Purchase and cancellation of Class B	–	(12,760,635)	1,403,684	(11,356,951)	
Balance, December 31, 2013	–	–	59,991,202	59,991,202	
Stated Value					
Balance, December 31, 2012	\$ 220,706	\$ 981	\$ –	\$ 221,687	
Issued on exercise of stock options	1,372	–	18,227	19,599	
Compensation cost on exercised	531	–	7,048	7,579	
Compensation cost on exercised	5	–	19	24	
Purchase and cancellation of Class A	(222,614)	–	222,614	–	
Purchase and cancellation of Class B	–	(981)	55,419	54,438	
Balance, December 31, 2013	\$ –	\$ –	\$ 303,327	\$ 303,327	

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.

The Company declared and paid dividends of \$0.125 per common share for the three months ended March 31, 2014. (three months ended March 31, 2013 - \$0.10 per Class A share and \$0.091 per Class B share). The

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dividends paid in 2013 on the Class A and Class B shares were paid before the elimination of the dual class share structure under the court approved plan of Arrangement as described in the Annual Consolidated Financial Statements.

14. Share-based and Other Incentive-based Compensation

A summary of the status of the Company's stock option and other incentive-based compensation plans and changes during the period is presented below:

Stock Options without Tandem Share Appreciation Rights

	Three months Ended March 31, 2014		Year Ended December 31, 2013	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding - Beginning of period	1,255,900	\$ 29.20	2,106,140	\$ 21.83
Granted	86,500	45.73	251,900	41.68
Exercised	(141,460)	23.37	(1,095,660)	17.89
Forfeited	(6,000)	20.97	(6,000)	30.97
Expired	—	—	(480)	15.94
Balance outstanding - End of period	1,194,940	\$ 31.13	1,255,900	\$ 29.20
Options exercisable	734,696	\$ 25.68	716,244	\$ 24.95

March 31, 2014	Options Outstanding			Options Exercisable		
Range of Exercise Price	Outstanding as at March 31, 2014	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at March 31, 2014	Weighted Average Exercise Price	
\$15.01 to \$20.00	238,760	4.44	\$ 15.66	238,760	\$ 15.66	
\$20.01 to \$25.00	2,000	4.74	21.95	—	—	
\$25.01 to \$30.00	332,720	3.31	27.79	332,720	27.79	
\$30.01 to \$35.00	184,400	7.74	32.81	72,200	32.81	
\$35.01 to \$40.00	102,260	6.74	37.32	61,356	37.32	
\$40.01 to \$45.00	248,300	8.74	41.68	29,660	41.28	
\$45.01 to \$50.00	86,500	9.74	45.73	—	—	
	1,194,940	6.11	\$ 31.13	734,696	\$ 25.68	

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December 31, 2013		Options Outstanding		Options Exercisable	
Range of Exercise Price	Outstanding as at December 31, 2013	Weighted Average Remaining 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

The Board of Directors approved the granting of 86,500 stock options during the three months ended March 31, 2014 under the 2001 Employee Plan. The total fair value of the stock options granted during the three months ended March 31, 2014 ended was \$1.13 million (three months ended March 31, 2013 – \$1.9 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	Three months Ended March 31,	
	2014	2013
Weighted average share price	\$ 45.73	\$ 41.28
Exercise price	\$ 45.73	\$ 41.28
Expected life of options	6.25	6.25
Expected stock price volatility	32%	34%
Expected dividend yield	1.2%	0.9%
Risk-free interest rate	2.0%	1.6%

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 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 three months ended March 31, 2014, included in selling, general and administrative expenses, was \$0.5 million (three months ended March 31, 2013 – \$0.4 million).

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Stock Options with Tandem Share Appreciation Rights

	Three months Ended March 31, 2014		Year Ended December 31, 2013	
	Total Shares	Weighted Average Fair Value ^(a)	Total Shares	Weighted Average Fair Value
Balance outstanding - Beginning of period	120,800	\$ 11.16	223,200	\$ 12.56
Granted	21,600	13.75	32,300	13.35
Exercised in cash	–	–	(134,700)	14.01
Balance outstanding - End of period	142,400	\$ 11.55	120,800	\$ 11.16
Options exercisable	77,260	\$ 17.06	53,100	\$ 15.09

(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 March 31, 2014, is \$1.4 million (December 31, 2013 - \$1.3 million), all of which is included in other 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, 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 March 31, 2014 is \$27.0 million (December 31, 2013 - \$27.2 million).

ESUP

The ESUP authorizes the Board to grant awards of restricted share units ("RSUs") to employees of the Company as a form of incentive compensation. All RSUs 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 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

Notes to Interim consolidated Financial Statements

the vesting period in accordance with IFRS. All RSUs 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 reconciliation as at the periods indicated:

	Three Months Ended March 31, 2014		Year Ended December 31, 2013	
	Total Shares	Weighted Average Grant Date Fair Value^{(a)(b)}	Total Shares	Weighted Average Grant Date Fair Value^(a)
Balance outstanding - Beginning of period	209,307	\$ 33.91	134,987	\$ 30.79
Granted	59,644	42.50	80,998	39.10
Exercised	(86)	25.18	(788)	30.90
Cancelled	(470)	31.72	(5,890)	34.06
Balance outstanding - End of period	268,395	\$ 35.83	209,307	\$ 33.91
RSUs exercisable	49,655	\$ 22.15	29,594	\$ 29.38

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.

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 unit holder has the option to settle in cash or in shares.

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

	Three Months Ended March 31, 2014		Year Ended December 31, 2013	
	Total Shares	Weighted Average Grant Date Fair Value ^(a)	Total Shares	Weighted Average Grant Date Fair Value ^(a)
Balance outstanding - Beginning of period	124,980	\$ 34.60	97,421	\$ 31.61
Granted	7,162	44.98	38,299	41.60
Exercised ^(b)	–	–	(10,740)	32.40
Balance outstanding - End of period	132,142	\$ 35.16	124,980	\$ 34.60

(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 March 31, 2014 is \$6.2 million (December 31, 2013 - \$5.3 million), all of which is included in other liabilities on the interim consolidated balance sheets.

Incentive-based Compensation

The following table sets forth the incentive-based compensation expense for the periods indicated:

(in thousands of Canadian dollars)	Three Months Ended March 31,	
	2014	2013
Stock option expense	\$ 530	\$ 398
VGP expense	4,830	5,361
DSU expense	783	851
RSU expense	529	231
SAR expense	74	173
Total share-based and other incentive-based compensation expense	\$ 6,746	\$ 7,014

15. Employee Future Benefits

The Company's costs for the defined benefit pension plans, the post-retirement life insurance plans and the post-employment benefit plan for the three month period ended March 31, 2014 were \$1.3 million (three month period ended March 31, 2013 – \$6.3 million). The Company's costs for the defined contribution pension arrangements for the three month period ended March 31, 2014 were \$1.4 million (three month period ended March 31, 2013 – \$1.3 million).

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16. Earnings Per Share ("EPS")

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

(in thousands of Canadian dollars except share and per share amounts)	Three Months Ended	
	March 31,	
	2014	2013
Net income used to calculate EPS		
Net income (attributable to the shareholders of the Company)	\$ 61,947	\$ 70,595
Weighted average number of shares outstanding – basic (000's)	60,041	68,903
Dilutive effect of stock options	385	946
Weighted average number of shares outstanding – diluted (000's)	60,426	69,849
Basic EPS	\$ 1.03	\$ 1.02
Diluted EPS	\$ 1.03	\$ 1.01

17. Subsequent Events

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.

18. Comparative Figures

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