

# **ShawCor Ltd.**

Unaudited Interim Consolidated Financial Statements  
**September 30, 2014**

(in thousands of Canadian dollars)

# ShawCor Ltd.

## Interim Consolidated Balance Sheets (Unaudited)

(in thousands of Canadian dollars)	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 7)	\$ 97,594	\$ 79,395
Short-term investments	6,375	6,618
Loans receivable (note 8)	1,826	1,780
Accounts receivable	463,342	363,984
Income taxes receivable	9,153	9,919
Inventories	188,959	180,876
Prepaid expenses	33,887	19,176
Derivative financial instruments (note 13)	3,314	624
	<b>804,450</b>	<b>662,372</b>
Assets held for sale	1,425	56,186
	<b>805,875</b>	<b>718,558</b>
<b>Non-current Assets</b>		
Loans receivable (note 8)	6,655	7,462
Property, plant and equipment	431,910	413,287
Intangible assets (note 6)	236,359	130,216
Investments in joint ventures	17,377	17,276
Investments in associates (note 9)	17,076	–
Deferred income taxes	30,810	48,480
Other assets	28,095	17,830
Goodwill (note 6)	439,891	298,819
	<b>1,208,173</b>	<b>933,370</b>
	<b>\$ 2,014,048</b>	<b>\$ 1,651,928</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 10)	\$ 87,488	\$ 5,290
Accounts payable and accrued liabilities	260,066	230,974
Provisions	13,735	15,971
Income taxes payable	41,986	61,911
Derivative financial instruments (note 13)	1,282	1,632
Deferred revenue	73,319	84,396
Obligations under finance lease	1,195	487
Other current liabilities	25,596	33,791
	<b>504,667</b>	<b>434,452</b>
Liabilities directly associated with the assets classified as held for sale	1,049	16,617
	<b>505,716</b>	<b>451,069</b>
<b>Non-current Liabilities</b>		
Long-term debt (note 11)	390,495	374,381
Obligations under finance lease	12,665	13,827
Provisions	34,027	37,646
Employee future benefits	28,125	25,678
Deferred income taxes	65,257	68,857
Other non-current liabilities	20,552	21,889
	<b>551,121</b>	<b>542,278</b>
	<b>1,056,837</b>	<b>993,347</b>
<b>Equity</b>		
Share capital (note 14)	504,692	303,327
Contributed surplus	13,741	13,093
Retained earnings	463,502	373,574
Non-controlling interests	3,167	2,419
Accumulated other comprehensive loss	(27,891)	(33,832)
	<b>957,211</b>	<b>658,581</b>
	<b>\$ 2,014,048</b>	<b>\$ 1,651,928</b>

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)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenue</b>				
Sale of products	\$ 161,687	\$ 90,725	\$ 444,035	\$ 310,014
Rendering of services	307,910	435,123	946,030	1,127,776
	<b>469,597</b>	525,848	<b>1,390,065</b>	1,437,790
<b>Cost of Goods Sold and Services Rendered</b>	<b>300,680</b>	296,777	<b>843,594</b>	811,832
<b>Gross Profit</b>	<b>168,917</b>	229,071	<b>546,471</b>	625,958
Selling, general and administrative expenses	96,498	96,252	274,825	279,740
Research and development expenses	2,293	4,246	11,603	12,297
Foreign exchange (gains) losses	(1,295)	1,713	(3,297)	1,380
Amortization of property, plant and equipment	13,709	18,028	41,445	49,857
Amortization of intangible assets	5,401	2,686	10,972	7,585
Impairment (note 17)	41,379	–	41,379	–
<b>Income from Operations</b>	<b>10,932</b>	106,146	<b>169,544</b>	275,099
Gain (loss) on assets held for sale	4,495	(1,269)	7,020	(2,561)
Income from investments in associates	444	–	409	–
(Loss) income from investments in joint ventures	(580)	1,420	(3,427)	1,543
Finance costs, net	(6,245)	(4,527)	(14,588)	(9,525)
<b>Income before Income Taxes</b>	<b>9,046</b>	101,770	<b>158,958</b>	264,556
Income taxes	2,701	29,386	43,263	68,124
<b>Net Income for the Period</b>	<b>\$ 6,345</b>	\$ 72,384	<b>\$ 115,695</b>	\$ 196,432
<b>Net Income Attributable to:</b>				
Shareholders of the Company	\$ 5,617	\$ 72,956	\$ 115,513	\$ 197,465
Non-controlling interests	728	(572)	182	(1,033)
<b>Net Income for the Period</b>	<b>\$ 6,345</b>	\$ 72,384	<b>\$ 115,695</b>	\$ 196,432
<b>Earnings per Share (note 18)</b>				
Basic	\$ 0.09	\$ 1.22	\$ 1.91	\$ 3.15
Diluted	\$ 0.09	\$ 1.21	\$ 1.90	\$ 3.11
<b>Weighted Average Number of Shares Outstanding (000's) (note 18)</b>				
Basic	60,744	59,713	60,328	62,646
Diluted	61,242	60,278	60,780	63,394

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Net Income for the Period</b>	\$ 6,345	\$ 72,384	\$ 115,695	\$ 196,432
<b>Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods</b>				
Exchange differences on translation of foreign operations	8,976	2,572	2,979	6,045
Other comprehensive income (loss) attributable to investments in joint ventures	1,873	(1,375)	3,528	(1,667)
Loss on cash flow hedge	–	–	–	(6,880)
<b>Net Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods</b>	<b>10,849</b>	1,197	<b>6,507</b>	(2,502)
<b>Other Comprehensive Income (Loss), Net of Income Tax</b>	<b>10,849</b>	1,197	<b>6,507</b>	(2,502)
<b>Total Comprehensive Income for the Period</b>	<b>\$ 17,194</b>	\$ 73,581	<b>\$ 122,202</b>	\$ 193,930
<b>Comprehensive Income Attributable to:</b>				
Shareholders of the Company	\$ 16,716	\$ 74,150	\$ 121,454	\$ 194,597
Non-controlling interests	478	(569)	748	(667)
<b>Total Comprehensive Income for the Period</b>	<b>\$ 17,194</b>	\$ 73,581	<b>\$ 122,202</b>	\$ 193,930

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

# 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
<b>Balance - December 31, 2013</b>	<b>\$ 303,327</b>	<b>\$ 13,093</b>	<b>\$ 373,574</b>	<b>\$ 2,419</b>	<b>\$ (33,832)</b>	<b>\$ 658,581</b>
Net income	–	–	115,513	182	–	115,695
Issued new shares (net of commissions and share issuance costs of \$8.5 million)	191,694	–	–	–	–	191,694
Issued on exercise of stock options	7,070	–	–	–	–	7,070
Compensation cost on exercised options	2,549	(2,549)	–	–	–	–
Compensation cost on exercised RSUs	52	(52)	–	–	–	–
Stock-based compensation expense	–	3,249	–	–	–	3,249
Other comprehensive income (loss)	–	–	–	566	5,941	6,507
Dividends paid to shareholders (note 14)	–	–	(25,585)	–	–	(25,585)
<b>Balance – September 30, 2014</b>	<b>\$ 504,692</b>	<b>\$ 13,741</b>	<b>\$ 463,502</b>	<b>\$ 3,167</b>	<b>\$ (27,891)</b>	<b>\$ 957,211</b>
Balance – December 31, 2012	\$ 221,687	\$ 17,525	\$ 799,741	\$ (331)	\$ (49,955)	\$ 988,667
Net income for the period	–	–	197,465	(1,033)	–	196,432
Issued on exercise of stock options	18,870	–	–	–	–	18,870
Compensation cost on exercised options	7,315	(7,315)	–	–	–	–
Compensation cost on exercised RSUs	24	(24)	–	–	–	–
Stock-based compensation expense	–	2,144	–	–	–	2,144
Cancellation of Class B shares	54,438	–	(553,215)	–	–	(498,777)
Share cancellation costs (net of income tax benefit of \$1.5 million)	–	–	(4,312)	–	–	(4,312)
Other comprehensive income (loss)	–	–	–	366	(2,868)	(2,502)
Dividends paid to shareholders (note 14)	–	–	(81,005)	–	–	(81,005)
<b>Balance - September 30, 2013</b>	<b>\$ 302,334</b>	<b>\$ 12,330</b>	<b>\$ 358,674</b>	<b>\$ (998)</b>	<b>\$ (52,823)</b>	<b>\$ 619,517</b>

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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Operating Activities</b>				
Net income for the period	\$ 6,345	\$ 72,384	\$ 115,695	\$ 196,432
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	13,709	18,028	41,445	49,857
Amortization of intangible assets	5,401	2,686	10,972	7,585
Amortization of long-term prepaid expenses	312	261	801	699
Impairment (note 17)	41,379	–	41,379	–
Decommissioning liabilities expenses	119	55	343	288
Other provisions (recovery) expenses	(690)	776	2,122	17,844
Stock-based and incentive based compensation (note 15)	4,882	6,155	18,289	17,513
Deferred income taxes	(7,109)	605	(9,445)	(8,702)
(Gain) loss on disposal of property, plant and equipment	(324)	496	(405)	538
(Gain) loss on derivative financial instruments	(1,604)	2,368	(3,040)	3,988
Income from investments in associates	(444)	–	(409)	–
Loss (income) from investments in joint ventures	580	(1,420)	3,427	(1,543)
(Gain) loss on assets held for sale	(4,495)	1,269	(7,020)	2,561
Other	1,597	193	59	820
Settlement of decommissioning liabilities	(88)	(58)	(169)	(667)
Settlement of other provisions	(1,724)	(4,256)	(9,414)	(15,956)
Net change in non-current deferred revenue	–	(478)	–	(64,392)
Net change in employee future benefits	879	1,239	1,591	(4,452)
Net change in non-cash working capital and foreign exchange	7,631	(94,829)	(109,161)	(195,100)
<b>Cash Provided by Operating Activities</b>	<b>66,356</b>	<b>5,474</b>	<b>97,060</b>	<b>7,313</b>
<b>Investing Activities</b>				
Decrease in loans receivable	–	964	1,075	2,028
(Purchase) redemption of short-term investments, net	(5,816)	4,988	243	69,602
Purchase of property, plant and equipment	(21,988)	(19,224)	(54,743)	(57,471)
Proceeds on disposal of property, plant and equipment	652	145	1,688	445
Purchase of intangible assets	(32)	(450)	(90)	(522)
Investment in joint venture	–	–	–	(7,398)
Proceeds from sale of assets held for sale	32,319	–	45,136	–
Payment of deferred purchase consideration	–	–	(18,830)	–
Investments in associates (note 9)	(2,816)	–	(16,516)	–
Increase in other assets	–	(416)	(10,000)	(312)
Business acquisition (note 6)	(279,814)	–	(281,503)	(30,163)
<b>Cash Used in Investing Activities</b>	<b>(277,495)</b>	<b>(13,993)</b>	<b>(333,540)</b>	<b>(23,791)</b>
<b>Financing Activities</b>				
Increase in bank indebtedness	75,695	30,832	82,198	35,925
Decrease in loans payable	–	(1,579)	–	(755)
Payment of obligations under finance lease	(526)	(900)	(996)	(900)
Proceeds from long-term debt	–	–	–	356,280
Proceeds from interest rate swap	–	–	–	2,111
Issuance of shares	193,145	6,688	198,764	18,870
Repurchase of shares (note 14)	–	–	–	(503,089)
Dividend paid to shareholders	(9,043)	(7,457)	(25,585)	(81,005)
<b>Cash Provided by (Used in) Financing Activities</b>	<b>259,271</b>	<b>27,584</b>	<b>254,381</b>	<b>(172,563)</b>
<b>Foreign Exchange Impact on Cash and Cash Equivalents</b>	<b>(33)</b>	<b>178</b>	<b>298</b>	<b>7,175</b>
<b>Net change in Cash and Cash Equivalents for the Period</b>	<b>48,099</b>	<b>19,243</b>	<b>18,199</b>	<b>(181,866)</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>49,495</b>	<b>83,872</b>	<b>79,395</b>	<b>284,981</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 97,594</b>	<b>\$ 103,115</b>	<b>\$ 97,594</b>	<b>\$ 103,115</b>

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

## **Notes to the 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 nine divisions with over 90 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, under 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 these 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 *IAS 34* 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, 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 and nine-month periods ended September 30, 2014 were authorized for issue by the Company's Board of Directors on November 6, 2014.

## **Notes to the Interim Consolidated Financial Statements**

### **3. Accounting Standards Issued but not yet Applied**

#### ***IFRS 9 – Financial Instruments***

*IFRS 9*, as issued, by the International Accounting Standards Board ("IASB") replaces *IAS 39* regarding the recognition and measurement of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet determined the impact of this standard on the consolidated financial statements.

#### ***IFRS 15 – Revenue from Contracts with Customers***

In May 2014, the IASB issued *IFRS 15*, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. *IFRS 15* is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

#### ***IAS 16 – Property, Plant and Equipment and IAS 38 – Intangibles***

In May 2014, the IASB issued amendments to *IAS 16* and *IAS 38*, prohibiting the use of revenue based depreciation for property, plant and equipment and significantly limiting the use of revenue based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company is in the process of reviewing the amendments to determine the impact on the consolidated financial statements.

### **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 *IFRIC 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 September 30, 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:



## Notes to the Interim Consolidated Financial Statements

- 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;
- Socotherm, which provides pipe coating, lining and insulation products; and
- Desert NDT, which provides non-destructive testing services for new oil and gas gathering pipelines and infrastructure integrity management services.

### **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 September 30:

(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	\$ 423,747	483,075	\$ 45,850	42,773	\$ –	–	\$ –	–	\$ 469,597	525,848
Inter-segment	913	99	357	344	–	–	(1,270)	(443)	–	–
	\$ 424,660	483,174	\$ 46,207	43,117	\$ –	–	\$ (1,270)	(443)	\$ 469,597	525,848
Income (loss) from operations	\$ 13,345	113,069	\$ 6,977	7,890	\$ (9,390)	(14,813)	\$ –	–	\$ 10,932	106,146
Income (loss) before income tax	\$ 13,675	109,752	\$ 3,758	6,997	\$ (8,387)	(14,979)	\$ –	–	\$ 9,046	101,770

The following table sets forth information by segment for the nine months ended September 30:

## Notes to the Interim Consolidated Financial Statements

(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	\$ 1,256,745	1,316,693	\$ 133,320	121,097	\$ –	–	\$ –	–	\$ 1,390,065	1,437,790
Inter-segment	1,485	598	1,024	943	–	–	(2,509)	(1,541)	–	–
	\$ 1,258,230	1,317,291	\$ 134,344	122,040	\$ –	–	\$ (2,509)	(1,541)	\$ 1,390,065	1,437,790
Income (loss) from operations	\$ 180,231	309,532	\$ 20,958	17,963	\$ (31,645)	(52,396)	\$ –	–	\$ 169,544	275,099
Income (loss) before income tax	\$ 173,925	298,877	\$ 15,363	14,530	\$ (30,330)	(48,851)	\$ –	–	\$ 158,958	264,556

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

(in thousands of Canadian dollars)	September 30, 2014	December 31, 2013
Pipeline and Pipe Services	\$ 2,100,992	\$ 1,975,028
Petrochemical and Industrial	110,438	180,055
Financial and Corporate	1,206,055	796,816
Elimination and adjustments	(1,403,437)	(1,299,971)
	\$ 2,014,048	\$ 1,651,928

## 6. Acquisition

On July 8, 2014, the Company completed the acquisition of all of the outstanding shares of Desert NDT LLC ("Desert"), for total consideration of approximately \$282.2 million (US\$264.4 million), including an adjustment for changes in working capital. Desert is a Houston-based provider of non-destructive testing ("NDT") services for new oil and gas gathering pipelines and infrastructure integrity management services. Desert operates through 18 branches located in major U.S. oil and gas basins. The acquisition was funded with cash and through available revolving credit facilities.

Significant judgments and assumptions made in the preliminary purchase price allocation in the course of the acquisition of Desert include the following:

- For intangible assets associated with customer relationships, the Company based its valuation on the expected future cash flows using the multi-period excess earnings approach. This method employed a discounted cash flow analysis using the present value of the estimated after-tax cash flows expected to be generated from the purchased customer relationships using risk adjusted discount rates and revenue forecasts as appropriate, based upon management's best estimate.
- The goodwill acquired represents the acquired human capital and the benefits that the Company expects to earn from the acquisition due to expected synergies and other intangible assets that do not meet the criteria for recognition as identifiable intangible assets.

The following table shows the preliminary purchase price allocation for the acquisition of Desert, pending the finalization of the goodwill, deferred tax assets and liabilities, and assigns the total consideration paid for the net assets acquired:

## Notes to the Interim Consolidated Financial Statements

(in thousands of Canadian dollars)

### Consideration

Cash (net of cash acquired of \$2,429)	\$	279,814
	\$	279,814

### Assets acquired at fair value:

Current assets (excluding cash acquired of \$2,429)	\$	28,113
Property, plant and equipment		8,976
Intangible assets		126,807
Current liabilities assumed		(10,843)
Deferred income tax liabilities		(14,879)
<b>Total identifiable net assets at fair value</b>	\$	<b>138,174</b>
Non-controlling interest		–
Goodwill		141,640
	\$	279,814

## 7. Cash and Cash Equivalents

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

(in thousands of Canadian dollars)	September 30, 2014	December 31, 2013
Cash	\$ 97,585	\$ 78,843
Cash equivalents	9	552
<b>Total</b>	<b>\$ 97,594</b>	<b>\$ 79,395</b>

## 8. Loan Receivable

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

(in thousands of Canadian dollars)	September 30, 2014	December 31, 2013
<b>Current</b>		
Loan receivable	\$ 1,826	\$ 1,780
	1,826	1,780
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	\$ 4,221	\$ 4,014
Loan receivable	2,434	3,448
	6,655	7,462
<b>Total</b>	<b>\$ 8,481</b>	<b>\$ 9,242</b>

(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 September 30, 2014, the amount of the loan receivable was U.S.\$3,782 (December 31, 2013 – U.S.\$3,752).

## Notes to the Interim Consolidated Financial Statements

### 9. 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 \$13.8 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.

On August 29, 2014, the Company completed an equity investment for a 20% interest in Power Feed-Thru Systems and Connectors, LLC ("PFT") for approximately \$2.9 million (U.S.\$2.6 million). PFT is a designer and assembler of electric feed-thru connector systems specifically for artificial lift installations in the global Oil and Gas market. Its products are used in oil wells equipped with Electric Submersible Pumps to connect the down-hole oil pump with a surface power supply and is based in Houston, Texas, U.S.

### 10. Credit Facilities

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

(in thousands of Canadian dollars)	September 30, 2014	December 31, 2013
Bank indebtedness	\$ 87,488	\$ 5,290
Defeased Banker's Acceptances	175,000	—
Standard letters of credit for performance, bid and surety bonds (note 12)	132,150	106,206
Total utilized credit facilities	394,638	111,496
Total available credit facilities <sup>(a)</sup>	502,155	320,910
<b>Unutilized credit facilities</b>	<b>\$ 107,517</b>	<b>\$ 209,414</b>

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

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility ("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. On June 16, 2014, the option to increase the credit limit to U.S.\$400 million was exercised with the consent of the 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.

#### Defeased Banker's Acceptances

On July 4, 2014, the Company obtained advances through its Credit Facility in the form of banker's acceptances ("Acceptances") in the aggregate face amount of \$175.0 million, maturing on October 3, 2014 ("Maturity Date"). On September 30, 2014, the Company fully defeased these Acceptances by paying \$175.0 million under a separate legally binding Defeasement Agreement, which would release the funds to the syndicate of lenders under the Credit Facility on the Maturity Date. As part of the Defeasance agreement, the Company's credit facilities were reduced by the amount of the defeased Acceptances from September 30, 2014 to the Maturity Date. Following the maturity of the defeased Acceptances on October 3, 2014 the unutilized credit facilities available to the Company will increase by \$175.0 million.

## **Notes to the Interim Consolidated Financial Statements**

### **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 was in compliance with these covenants as at September 30, 2014 and December 31, 2013.

### **11. Long-Term Debt**

The total long-term debt balance as at September 30, 2014 is \$390.5 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 subsidiaries as described in note 13.

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 10 for the Company's Unsecured Committed Bank Credit Facility. The Company was in compliance with these covenants as at September 30, 2014 and December 31, 2013.

### **12. 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 \$132.2 million as at September 30, 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 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.

## Notes to the Interim Consolidated Financial Statements

### 13. Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	<b>September 30, 2014</b>	December 31, 2013
<b>Loans and receivables, measured at amortized cost</b>		
Cash and cash equivalents	\$ 97,594	\$ 79,395
Short-term investments	6,375	6,618
Loans receivable	8,481	9,242
Accounts receivable	463,342	363,984
<b>Fair value through profit or loss, measured at fair value</b>		
Derivative financial instruments – asset	\$ 3,314	\$ 624
Derivative financial instruments – liability	1,282	1,632
<b>Other financial liabilities, measured at amortized cost</b>		
Bank indebtedness	\$ 87,488	\$ 5,290
Loans payable	142	126
Accounts payable	119,549	91,215
Deferred purchase consideration	3,905	21,618
Long-term debt	\$ 390,495	\$ 374,381

#### Fair Value

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

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

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

The following table presents the fair value hierarchy levels for the financial assets and liabilities that are measured at fair value on a recurring basis as at September 30, 2014 and for financial assets and liabilities where fair values are disclosed as at September 30, 2014:

## Notes to the Interim Consolidated Financial Statements

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 97,594	\$ 97,594	\$ –	\$ –
Short-term investments	6,375	6,375	–	–
Loans receivable	8,481	–	8,481	–
Trade accounts receivable	318,703	–	318,703	–
Other receivables	144,639	–	144,639	–
Derivative financial instruments	3,314	–	3,314	–
	<b>\$ 579,106</b>	<b>\$ 103,969</b>	<b>\$ 475,137</b>	<b>\$ –</b>
<b>Liabilities</b>				
Bank indebtedness	\$ 87,488	\$ 87,488	\$ –	\$ –
Loans payable	142	–	142	–
Accounts payable	119,549	–	119,549	–
Deferred purchase consideration	3,905	–	3,905	–
Long-term debt	390,495	–	390,495	–
Derivative financial instruments	1,282	–	1,282	–
	<b>\$ 602,861</b>	<b>\$ 87,488</b>	<b>\$ 515,373</b>	<b>\$ –</b>

The current derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market. The fair 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 September 30, 2014:

(in thousands, except weighted average rate amounts)

Canadian dollars sold for U.S. dollars		
Less than one year	CAD\$	14,025
Weighted average rate		0.89
U.S. dollars sold for Euros		
Less than one year	US\$	470
Weighted average rate		0.76
U.S. dollars sold for Canadian dollars		
Less than one year	US\$	13,800
Weighted average rate		1.09
U.S. dollars sold for Malaysian Ringgits		
Less than one year	US\$	18,747
Weighted average rate		3.22
Malaysian Ringgits sold for U.S. dollars		
Less than one year	MYR	76,500
Weighted average rate		0.31

## Notes to the Interim Consolidated Financial Statements

(in thousands, except weighted average rate amounts)

Australian dollars sold for U.S. dollars		
Less than one year	<b>AUD</b>	<b>\$3,554</b>
Weighted average rate		<b>0.88</b>
British pounds sold for Euros		
Less than one year	<b>£</b>	<b>2,349</b>
Weighted average rate		<b>1.23</b>
British pounds sold for U.S. dollars		
Less than one year	<b>£</b>	<b>3,316</b>
Weighted average rate		<b>1.63</b>
Euros sold for U.S. dollars		
Less than one year	<b>€</b>	<b>29,791</b>
Weighted average rate		<b>1.35</b>
Norwegian Kroners sold for U.S. dollars		
Less than one year	<b>NOK</b>	<b>65,274</b>
Weighted average rate		<b>0.15</b>

As at September 30, 2014, the Company had notional amounts of \$144.1 million of forward contracts outstanding (December 31, 2013 - \$115.2 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling \$2.0 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 September 30, 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 nine-month period ended September 30, 2014 by approximately \$45.8 million, \$8.4 million and \$6.4 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 \$66.9 million, \$22.0 million and \$44.9 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.



## Notes to the Interim Consolidated Financial Statements

### *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 Company's long-term debt has 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 nine-month period ended September 30, 2014, a loss of \$16.2 million on the translation of this debt 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 September 30, 2014.

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at September 30, 2014:

(in thousands of Canadian dollars)	<b>Non-Interest Bearing</b>		<b>Floating Rate</b>		<b>Fixed Interest Rate</b>		<b>Total</b>
<b>Financial assets</b>							
Cash equivalents	\$	–	\$	–	\$	9	\$ 9
Loans receivable		–		4,221		4,260	8,481
	\$	–	\$	4,221	\$	4,269	\$ 8,490
<b>Financial liabilities</b>							
Bank indebtedness	\$	–	\$	9,590	\$	77,898	\$ 87,488
Loans payable		142		–		–	142
Long term debt		–		–		390,495	390,495
	\$	142	\$	9,590	\$	468,393	\$ 478,125

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 September 30, 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 September 30, 2014, the Company had cash and cash equivalents totalling \$97.6 million (December 31, 2013 – \$79.4 million) and had unutilized lines of credit available to use of \$107.5 million (December 31, 2013 - \$209.4 million). Following the maturity of the defeased Acceptances on October 3, 2014 the unutilized credit facilities available to the Company will increase by \$175.0 million.

## Notes to the Interim Consolidated Financial Statements

### 14. 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
<b>Number of Shares</b>		
Balance, December 31, 2013		59,991,202
Issued through public offering		3,650,000
Issued on exercise of stock options		298,250
Issued on exercise of RSUs		1,697
<b>Balance, September 30, 2014</b>		<b>63,941,149</b>
<b>Stated Value:</b>		
Balance, December 31, 2013		\$ 303,327
Issued through public offering		191,694
Issued on exercise of stock options		7,070
Compensation cost on exercised options		2,549
Compensation cost on exercised RSUs		52
<b>Balance, September 30, 2014</b>		<b>\$ 504,692</b>

(all dollar amounts in thousands of Canadian dollars)					2013
	Class A	Class B	New Common	Total	
<b>Number of Shares</b>					
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 shares	(57,563,710)	–	57,563,710	–	
Purchase and cancellation of Class B shares	–	(12,760,635)	1,403,684	(11,356,951)	
<b>Balance, December 31, 2013</b>	–	–	59,991,202	59,991,202	
<b>Stated Value:</b>					
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 options	531	–	7,048	7,579	
Compensation cost on exercised RSUs	5	–	19	24	
Purchase and cancellation of Class A shares	(222,614)	–	222,614	–	
Purchase and cancellation of Class B shares	–	(981)	55,419	54,438	
<b>Balance, December 31, 2013</b>	\$ –	\$ –	\$ 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.

On September 19, 2014, the Company issued 3,650,000 common shares at a price of \$54.85 per share through a bought public offering for gross proceeds of \$200.2 million (the "Offering"). On October 3, 2014, the syndicate of underwriters to the Offering exercised their over-allotment option in full, which resulted in the Company issuing an additional 547,500 common shares of the Company at a price of CAD\$54.85 per common share, for additional gross proceeds of \$30.0 million.

## Notes to the Interim Consolidated Financial Statements

The Company declared and paid dividends of \$0.15 per common share for the three months ended September 30, 2014 (three months ended September 30, 2013 - \$0.125 per common share). Dividends declared and paid for the nine months ended September 30, 2014 were \$0.425 per common share (nine months ended September 30, 2013 - \$1.25 per common share, \$0.10 per Class A share and \$0.091 per Class B share). The 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.

### 15. 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

	Nine Months Ended September 30, 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	(298,250)	23.70	(1,095,660)	17.89
Forfeited	(6,000)	20.97	(6,000)	30.97
Expired	-	-	(480)	15.94
Balance outstanding - End of period	1,038,150	\$ 32.20	1,255,900	\$ 29.20
Options exercisable	599,906	\$ 26.66	716,244	\$ 24.95

September 30, 2014	Options Outstanding			Options Exercisable		
Range of Exercise Price	Outstanding as at September 30, 2014	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at September 30, 2014	Weighted Average Exercise Price	
\$15.01 to \$20.00	186,450	4.07	\$ 15.60	186,450	\$ 15.60	
\$20.01 to \$25.00	2,000	4.25	21.95	2,000	21.95	
\$25.01 to \$30.00	229,560	2.80	27.71	229,560	27.71	
\$30.01 to \$35.00	183,480	7.25	32.81	71,280	32.81	
\$35.01 to \$40.00	102,260	6.25	37.32	61,356	37.32	
\$40.01 to \$45.00	247,900	8.25	41.68	49,260	41.69	
\$45.01 to \$50.00	86,500	9.25	45.73	-	-	
	1,038,150	5.99	\$ 32.20	599,906	\$ 26.66	

## Notes to the Interim Consolidated Financial Statements

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 nine months ended September 30, 2014 under the 2001 Employee Plan. The total fair value of the stock options granted during the nine months ended September 30, 2014 ended was \$1.1 million (nine months ended September 30, 2013 – \$3.3 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	Nine Months Ended	
	September 30, 2014	2013
Weighted average share price	\$ 45.73	\$ 41.68
Exercise price	\$ 45.73	\$ 41.68
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%	1.89%

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 nine months ended September 30, 2014, included in selling, general and administrative expenses, was \$1.5 million (nine months ended September 30, 2013 – \$1.3 million).

## Notes to the Interim Consolidated Financial Statements

### Stock Options with Tandem Share Appreciation Rights

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value <sup>(a)</sup>
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
Cancelled	(400)	17.41	-	-
Balance outstanding - End of period	142,000	\$ 11.54	120,800	\$ 11.16
Options exercisable	76,860	\$ 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 September 30, 2014, is \$1.5 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 September 30, 2014 is \$35.4 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

## Notes to the Interim Consolidated Financial Statements

seven years, respectively, and become payable once vesting is completed. Compensation cost is recognized over 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:

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
Balance outstanding - Beginning of period	209,307	\$ 33.91	134,987	\$ 30.79
Granted	68,817	43.77	80,998	39.10
Exercised	(1,697)	29.25	(788)	30.90
Cancelled	(470)	31.72	(5,890)	34.06
Balance outstanding - End of period	275,957	\$ 36.40	209,307	\$ 33.91
RSUs exercisable	58,027	\$ 31.35	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. The following table sets forth the Company's DSU reconciliation as at the periods indicated:

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
Balance outstanding - Beginning of period	124,980	\$ 34.60	97,421	\$ 31.61
Granted	18,045	51.68	38,299	41.60
Exercised <sup>(b)</sup>	(51,425)	35.16	(10,740)	32.40
Balance outstanding - End of period	91,600	\$ 37.65	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.

## Notes to the Interim Consolidated Financial Statements

The mark-to-market liability for the DSUs as at September 30, 2014 is \$5.2 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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Stock option expense	\$ 482	\$ 510	\$ 1,509	\$ 1,326
VGP expense	3,604	4,675	12,130	12,916
DSU expense	88	538	2,686	1,629
RSU/PSU expense	633	363	1,740	818
SAR expense	75	69	224	824
Total incentive-based compensation expense	\$ 4,882	\$ 6,155	\$ 18,289	\$ 17,513

### 16. 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 and nine-month periods ended September 30, 2014 were \$1.3 million and \$3.9 million, respectively (three-month and nine-month periods ended September 30, 2013 – \$1.6 and \$9.8 million, respectively). The Company's costs for the defined contribution pension arrangements for the three-month and nine-month periods ended September 30, 2014 were \$1.4 million and \$4.3 million, respectively (three-month and nine-month periods ended September 30, 2013 – \$1.2 and \$3.9 million, respectively).

### 17. Impairment

The following table sets forth the Company's impairment charges for the quarter ended September 30, 2014:

(in thousands of Canadian dollars)	Bredero Shaw		Other	Total
	Brasil <sup>(a)</sup>			
Impairment of inventory	\$ 798	\$ –	\$ –	\$ 798
Impairment of property, plant and equipment	7,554	–	–	7,554
Impairment of intangible assets	19,156	–	618	19,774
Impairment of goodwill	12,941	–	312	13,253
<b>Impairment</b>	<b>\$ 40,449</b>	<b>\$ 930</b>	<b>\$ –</b>	<b>\$ 41,379</b>
<b>Deferred income tax related to above items</b>	<b>(11,994)</b>	<b>–</b>	<b>–</b>	<b>(11,994)</b>
<b>Net impairment</b>	<b>28,455</b>	<b>930</b>	<b>–</b>	<b>29,385</b>

(a) Bredero Shaw Brasil consists of Bredero Shaw Rev de Tubos Ltda., Bredero Shaw Brasil Participacoes Ltda. and BS Servicos de Injecao Ltda. (collectively, "BSRTL")

## Notes to the Interim Consolidated Financial Statements

### **Bredero Shaw Brasil**

#### Impairment Testing for the Bredero Shaw Cash Generating Unit

The Company performed an impairment test for its BSRTL Cash Generating Unit ("BSCGU") as at August 30, 2014. Currently, the BSCGU is in the process of completing the Sapinhora North pipe coating project for Petrobras but has been unsuccessful in securing project work to sustain operations at current levels and will have no backlog in Brazil at the beginning of 2015. Beyond 2015, uncertainty regarding Petrobras' development plans for the pre-salt Santos basin has impacted the Company's outlook for the deepwater insulation pipe coating market in Brazil and thus the recoverable amount for BSCGU.

#### Recoverable Amount

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

The FVLCS is determined by discounting the future free cash flows to be generated from the Company's continuing use of the BSCGU. The discount rate used is post-tax and reflects specific risks relating to the BSCGU. The discounted cash flow model employed by the Company reflects the specific risks of the BSCGU and its business environment. The model calculates the FVLCS as the present value of the projected free cash flows and the Terminal Value of the BSCGU.

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

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

#### Projected Cash Flows

The Projected Cash Flow for the BSCGU is derived from the most recently completed 3-Year Business Plan, which is projected out for a future time period of two years based on management's best estimates. Projected Cash Flow is estimated by adjusting forecasted annual net income (for the forecast period) for non-cash items (such as amortization, accretion, and foreign exchange), investments in working capital and investments in capital assets. Estimating future earnings requires judgment, consideration of past and actual performance, as well as expected developments in the BSCGU's respective markets and in the overall macroeconomic environment.

#### Market Assumptions

The forecasted revenue for the BSCGU in the 3-Year Business Plan is based on securing an estimated number of projects. A change in the number of projects estimated to be secured by the BSCGU can have a material impact on the projected future cash flows. The gross margin for the BSCGU in the Business Plan is also dependent on assumptions made about the price of raw materials in the future; a change in the assumptions of these key inputs can have a material impact on the projected future cash flows.



## Notes to the Interim Consolidated Financial Statements

### Discount Rate

The Discount rate represents the current market assessment of the risks specific to the BSCGU, regarding the time value of money and the individual risks of the underlying assets, which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and the BSCGU and is derived from the weighted average cost of capital ("WACC") for the consolidated Company. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest bearing borrowings the Company is obliged to service. The BSCGU specific risk is incorporated by applying individual specific risk factors and for the above impairment test, a 15% discount rate has been applied.

### Growth Rate and Terminal Value

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

### Sensitivity to Changes in Assumptions

A two percent increase in the discount rate would have caused the fair value of the BSCGU to decrease by \$0.9 million. A one percent increase in the Terminal Value Growth Rate increases the fair value of the BSCGU by \$0.1 million.

## **18. 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)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
Net income used to calculate EPS				
Net income (attributable to shareholders of the Company) for the period	\$ <b>5,617</b>	\$ 72,956	\$ <b>115,513</b>	\$ 197,465
Weighted average number of shares outstanding – basic (000's)	<b>60,744</b>	59,713	<b>60,328</b>	62,646
Dilutive effect of stock options	<b>498</b>	565	<b>452</b>	748
Weighted average number of shares outstanding – diluted (000's)	<b>61,242</b>	60,278	<b>60,780</b>	63,394
Basic EPS	\$ <b>0.09</b>	\$ 1.22	\$ <b>1.91</b>	\$ 3.15
Diluted EPS	\$ <b>0.09</b>	\$ 1.21	\$ <b>1.90</b>	\$ 3.11

## **19. 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.