

# **ShawCor Ltd.**

Unaudited Interim Consolidated Financial Statements  
**March 31, 2015**

(in thousands of Canadian dollars)

# ShawCor Ltd.

## Interim Consolidated Balance Sheets (Unaudited)

(in thousands of Canadian dollars)	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 6)	\$ 97,619	\$ 116,556
Short-term investments	1,694	550
Accounts receivable	482,697	457,610
Income taxes receivable	11,487	11,232
Inventories	211,321	194,732
Prepaid expenses	23,573	27,370
Derivative financial instruments (note 11)	3,840	5,578
	<b>832,231</b>	<b>813,628</b>
<b>Non-current Assets</b>		
Loans receivable (note 7)	7,454	7,021
Property, plant and equipment	448,121	435,311
Intangible assets	223,239	202,736
Investments in associates	19,333	19,165
Deferred income taxes	23,776	39,019
Other assets	26,508	26,889
Goodwill	427,542	396,201
	<b>1,175,973</b>	<b>1,126,342</b>
	<b>\$ 2,008,204</b>	<b>\$ 1,939,970</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 8)	\$ 6,103	\$ 4,685
Accounts payable and accrued liabilities	246,502	252,443
Provisions	16,567	14,974
Income taxes payable	27,100	33,944
Derivative financial instruments (note 11)	1,752	794
Deferred revenue	99,277	102,005
Obligations under finance lease	1,251	1,222
Other liabilities	21,058	24,828
	<b>419,610</b>	<b>434,895</b>
<b>Non-current Liabilities</b>		
Long-term debt (note 10)	442,468	406,926
Obligations under finance lease	11,720	12,273
Provisions	39,836	37,350
Employee future benefits	26,865	26,008
Deferred income taxes	13,027	24,007
Other non-current liabilities	6,512	17,898
	<b>540,428</b>	<b>524,462</b>
	<b>960,038</b>	<b>959,357</b>
<b>Equity</b>		
Share capital (note 12)	533,772	533,660
Contributed surplus	15,642	14,625
Retained earnings	461,276	433,177
Non-controlling interests	8,116	7,254
Accumulated other comprehensive income (loss)	29,360	(8,103)
	<b>1,048,166</b>	<b>980,613</b>
	<b>\$ 2,008,204</b>	<b>\$ 1,939,970</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, except per share amounts)	Three Months Ended	
	March 31,	
	2015	2014
<b>Revenue</b>		
Sale of products	\$ 135,166	\$ 139,091
Rendering of services	336,774	339,991
	<b>471,940</b>	479,082
<b>Cost of Goods Sold and Services Rendered</b>	<b>302,915</b>	280,814
<b>Gross Profit</b>	<b>169,025</b>	198,268
Selling, general and administrative expenses	93,713	89,465
Research and development expenses	4,073	4,174
Foreign exchange gains	(3,097)	(3,031)
Amortization of property, plant and equipment	13,743	15,459
Amortization of intangible assets	4,977	2,782
<b>Income from Operations</b>	<b>55,616</b>	89,419
Loss from investments in joint ventures	–	(1,152)
Loss from investments in associates	(111)	(362)
Finance costs, net (note 15)	(4,448)	(3,727)
<b>Income Before Income Taxes</b>	<b>51,057</b>	84,178
Income taxes	12,790	22,571
<b>Net Income</b>	<b>\$ 38,267</b>	\$ 61,607
<b>Net Income Attributable to:</b>		
Shareholders of the Company	37,774	61,947
Non-controlling interests	493	(340)
<b>Net Income</b>	<b>\$ 38,267</b>	\$ 61,607
<b>Earnings per Share</b>		
Basic (note 16)	\$ 0.59	\$ 1.03
Diluted (note 16)	\$ 0.58	\$ 1.03
<b>Weighted Average Number of Shares Outstanding (000s)</b>		
Basic (note 16)	64,497	60,041
Diluted (note 16)	64,770	60,426

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,	
	2015	2014
<b>Net Income</b>	\$ 38,267	\$ 61,607
<b>Other Comprehensive Income</b>		
<b><u>Other Comprehensive Income to be Reclassified to Net Income in Subsequent Periods</u></b>		
Exchange differences on translation of foreign operations	37,553	7,119
Other comprehensive income attributable to investments in joint ventures	–	427
Other comprehensive income attributable to investments in associates	279	–
<b>Net Other Comprehensive Income to be Reclassified to Net Income in Subsequent Periods</b>	<b>37,832</b>	<b>7,546</b>
<b>Other Comprehensive Income, Net of Income Taxes</b>	<b>37,832</b>	<b>7,546</b>
<b>Total Comprehensive Income</b>	<b>\$ 76,099</b>	<b>\$ 69,153</b>
<b>Comprehensive Income Attributable to:</b>		
Shareholders of the Company	75,237	68,899
Non-controlling interests	862	254
<b>Total Comprehensive Income</b>	<b>\$ 76,099</b>	<b>\$ 69,153</b>

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

# ShawCor Ltd.

## Interim Consolidated Statements of Change in Equity (Unaudited)

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Non- controlling Interests	Accumulated Other Comprehensive Income (Loss)	Total Equity
<b>Balance - December 31, 2014</b>	<b>\$ 533,660</b>	<b>\$ 14,625</b>	<b>\$ 433,177</b>	<b>\$ 7,254</b>	<b>\$ (8,103)</b>	<b>\$ 980,613</b>
Net income	–	–	37,774	493	–	38,267
Other comprehensive income	–	–	–	369	37,463	37,832
Comprehensive income	–	–	37,774	862	37,463	76,099
Issued on exercise of stock options	44	–	–	–	–	44
Compensation cost on exercised options	16	(16)	–	–	–	–
Compensation cost on exercised RSUs	52	(52)	–	–	–	–
Stock-based compensation expense	–	1,085	–	–	–	1,085
Dividends declared and paid to shareholders (note 12)	–	–	(9,675)	–	–	(9,675)
<b>Balance – March 31, 2015</b>	<b>\$533,772</b>	<b>\$15,642</b>	<b>\$ 461,276</b>	<b>\$8,116</b>	<b>\$29,360</b>	<b>\$1,048,166</b>
<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 (loss)	–	–	61,947	(340)	–	61,607
Other comprehensive income	–	–	–	594	6,952	7,546
Comprehensive income	–	–	61,947	254	6,952	69,153
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
Dividends declared and paid to shareholders (note 12)	–	–	(7,512)	–	–	(7,512)
<b>Balance – March 31, 2014</b>	<b>\$ 307,800</b>	<b>\$ 12,985</b>	<b>\$428,009</b>	<b>\$ 2,673</b>	<b>\$ (26,880)</b>	<b>\$ 724,587</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	
	March 31,	
	2015	2014
<b>Operating Activities</b>		
Net income	\$ 38,267	\$ 61,607
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment	13,743	15,459
Amortization of intangible assets	4,977	2,782
Amortization of long-term prepaid expenses	494	207
Decommissioning obligations expense	111	103
Other provision expenses	2,212	1,175
Stock-based compensation and incentive-based compensation (note 13)	1,587	6,746
Deferred income taxes	2,075	(1,569)
Loss on disposal of property, plant and equipment	48	19
Unrealized loss (gain) on derivative financial instruments	2,696	(903)
Loss from investments in associates	111	362
Loss from investments in joint ventures	–	1,152
Other	–	263
Settlement of decommissioning liabilities	(6)	(22)
Settlement of other provisions	(1,207)	(1,941)
Net change in future employee benefits	324	431
Change in non-cash working capital and foreign exchange	(49,137)	(68,588)
<b>Cash Provided by Operating Activities</b>	<b>\$ 16,295</b>	<b>\$ 17,283</b>
<b>Investing Activities</b>		
Decrease in loans receivable	39	1,075
(Increase) decrease in short-term investments	(1,144)	947
Purchases of property, plant and equipment	(15,224)	(12,651)
Proceeds on disposal of property, plant and equipment	574	726
Purchases of intangible assets	(37)	–
Deferred purchase consideration payment	(1,064)	(760)
Investment in associate	–	(13,700)
Increase in other assets	(57)	(10,000)
Business acquisition (note 5)	(17,036)	–
<b>Cash Used in Investing Activities</b>	<b>\$ (33,949)</b>	<b>\$ (34,363)</b>
<b>Financing Activities</b>		
Increase (decrease) in bank indebtedness (note 8)	1,418	(1,379)
Decrease in loans payable	(2,513)	(16)
Repayment of finance lease obligation	(524)	–
Issuance of shares (note 12)	44	3,306
Dividends paid to shareholders (note 12)	(9,675)	(7,512)
<b>Cash Used in Financing Activities</b>	<b>\$ (11,250)</b>	<b>\$ (5,601)</b>
<b>Effect of Foreign Exchange on Cash and Cash Equivalents</b>	<b>9,967</b>	<b>1,831</b>
<b>Net Decrease in Cash and Cash Equivalents for the Period</b>	<b>(18,937)</b>	<b>(20,850)</b>
<b>Cash and Cash Equivalents – Beginning of Period</b>	<b>116,556</b>	<b>79,395</b>
<b>Cash and Cash Equivalents – End of Period</b>	<b>\$ 97,619</b>	<b>\$ 58,545</b>

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

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

### **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 4.

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

### **2 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, 2014 ("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 3.

#### **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, 2015 were authorized for issue by the Company's Board of Directors on May 12, 2015.

### **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.

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

### ***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 – Intangible Assets***

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.

### ***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

*IAS 19* requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. The Company is in the process of reviewing the amendments to determine the impact on the consolidated financial statements.

## **4 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 CODM in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on segment operating income or loss, which is measured differently than income from operations in the consolidated financial statements. Income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at March 31, 2015, 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. The aggregation of the reportable segments is based on the customer and markets that the Company serves.

### **Pipeline and Pipe Services**

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

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

- ShawFlex, which manufactures wire and cable for process instrumentation and control applications; and



## Notes to Interim Consolidated Financial Statements (Unaudited)

- DSG-Canusa, which manufactures heat-shrinkable tubing for automotive, electrical, electronic and utility applications.

### Financial and Corporate

The financial and corporate division for ShawCor does not meet the definition of a reportable operating segment as defined in IFRS, as it does not earn revenue.

### Segment

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	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenue										
External	\$ 428,074	436,494	\$ 43,866	42,588	\$ –	–	\$ –	–	\$ 471,940	479,082
Inter-segment	740	305	374	339	–	–	(1,114)	(644)	–	–
	\$ 428,814	436,799	\$ 44,240	42,927	\$ –	–	\$ (1,114)	(644)	\$ 471,940	479,082
Income (loss) from operations	\$ 55,117	92,184	\$ 6,261	6,063	\$ (5,762)	(8,828)	\$ –	–	\$ 55,616	89,419
Income (loss) before income tax	\$ 51,566	90,085	\$ 5,662	5,033	\$ (6,171)	(10,940)	\$ –	–	\$ 51,057	84,178

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

(in thousands of Canadian dollars)	March 31, 2015	December 31, 2014
Pipeline and Pipe Services	\$ 2,135,124	\$ 2,267,366
Petrochemical and Industrial	107,285	158,936
Financial and Corporate	1,057,001	1,177,262
Elimination and adjustments	(1,291,206)	(1,663,594)
	\$ 2,008,204	\$ 1,939,970

## 5 Acquisition of Dhatec B.V. (Netherlands)

On January 5, 2015, the Company completed the acquisition of Dhatec B.V. ("Dhatec") for approximately \$17.1 million (€12.1 million). Dhatec is a Netherlands based company which designs, assembles and markets engineered pipe logistics products and services which mitigate damage and enhance safety and efficiency in the manufacturing, coating, handling, transportation, preservation and storage of pipe.

## Notes to Interim Consolidated Financial Statements (Unaudited)

### 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 2015	December 31 2014
Cash	\$ 76,871	\$ 112,452
Cash equivalents	20,748	4,104
<b>Total</b>	<b>\$ 97,619</b>	<b>\$ 116,556</b>

### 7 Loans Receivable

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

(in thousands of Canadian dollars)	March 31 2015	December 31 2014
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	\$ 4,782	\$ 4,434
Loan receivable	2,672	2,587
<b>Total</b>	<b>\$ 7,454</b>	<b>\$ 7,021</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 U.S. 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, 2015, the amount of the note receivable was U.S.\$3,782 (December 31, 2014 – U.S.\$3,813).

### 8 Credit Facilities

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

(in thousands of Canadian dollars)	March 31 2015	December 31 2014
Bank indebtedness	\$ 6,103	\$ 4,685
Standard letters of credit for performance, bid and surety bonds (note 9)	129,113	137,667
Total utilized credit facilities	135,216	142,352
Total available credit facilities <sup>(a)</sup>	569,025	523,305
<b>Unutilized Credit Facilities</b>	<b>\$ 433,809</b>	<b>\$ 380,953</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 and a new option to increase the credit limit to U.S.\$550 million with the consent of the lenders was added. 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 is U.S.\$50 million.

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

### **Debt Covenants**

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.50 to 1 and a debt to total EBITDA ratio of less than 3.00 to 1. The Company was in compliance with these covenants as at March 31, 2015 and December 31, 2014.

## **9 Commitments and Contingencies**

### **Performance, Bid and Surety Bonds**

The Company provides standby letters of credit and 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 letter of credit or bond as compensation for the Company's failure to perform. The contracts that these letters of credit and 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 letters of credit and bonds.

The Company's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of \$129.1 million as at March 31, 2015 (December 31, 2014 – \$137.7 million) for support of its bonds. In addition, as at March 31, 2015, the Company had \$118.9 million of outstanding surety bonds through insurance companies (December 31, 2014 – \$108.4 million).

### **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.

## **10 Long-term Debt ("Senior Notes")**

The total long-term debt balance as at March 31, 2015 is \$442.5million (U.S.\$350.0 million) {December 31, 2014 – \$406.9 million (U.S.\$350.0 million)}. The long-term debt has been designated as a hedge of the Company's net investment in an U.S. dollar functional currency subsidiary as described in note 11.

The Company has undertaken to maintain certain covenants in respect of the long-term debt that are consistent with the debt covenants described for the Company's Credit Facility. The Company was in compliance with these covenants as at March 31, 2015 and December 31, 2014.

## Notes to Interim Consolidated Financial Statements (Unaudited)

### 11 Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	March 31 2015	December 31 2014
<b>Loans and Receivables, Measured at Amortized Cost</b>		
Loans receivable	\$ 7,454	\$ 7,021
Trade accounts receivable, net	317,016	327,474
<b>Held-to-maturity</b>		
Short-term investments	1,694	550
<b>Fair Value through Profit or Loss</b>		
Cash and cash equivalents	97,619	116,556
Derivative financial instruments – assets	3,840	5,578
Derivative financial instruments – liabilities	1,752	794
<b>Available-for-sale</b>		
Convertible preferred shares	10,000	10,000
Deposit guarantee	934	893
<b>Other Financial Liabilities, Measured at Amortized Cost</b>		
Bank indebtedness	6,103	4,685
Loans payable	95	121
Accounts payable	88,258	89,077
Deferred purchase consideration	3,906	4,873
Long-term debt	\$ 442,468	\$ 406,926

### 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 which are used to measure fair value fall into the following three different levels of the fair value hierarchy:

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

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

The following table presents the fair value hierarchy levels for the financial assets and liabilities as at March 31, 2015:

## Notes to Interim Consolidated Financial Statements (Unaudited)

(in thousands of Canadian dollars)	Fair Value		Level 1		Level 2		Level 3	
<b>Assets</b>								
Cash and cash equivalents	\$	97,619	\$	97,619	\$	–	\$	–
Short-term investments		1,694		1,694		–		–
Derivative financial instruments		3,840		–		3,840		–
Convertible preferred shares		10,000		–		–		10,000
Deposit guarantee		934		–		934		–
	\$	114,087	\$	99,313	\$	4,774	\$	10,000
<b>Liabilities</b>								
Bank indebtedness	\$	6,103	\$	6,103	\$	–	\$	–
Deferred purchase consideration		3,906		–		3,906		–
Long-term debt		442,468		–		442,468		–
Derivative financial instruments		1,752		–		1,752		–
	\$	454,229	\$	6,103	\$	448,126	\$	–

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

### **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, 2015, 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 then ended by approximately \$17.8 million, \$2.9 million and \$2.2 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 \$78.7 million, \$19.3 million and \$59.4 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.

#### Foreign Exchange Forward Contracts

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

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at March 31, 2015:

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

(in thousands, except weighted average rate amounts)

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Canadian dollars sold for US dollars	
Less than one year	<b>CAD\$ 15,018</b>
Weighted average rate	<b>0.83</b>
US dollars sold for Canadian dollars	
Less than one year	<b>US\$ 14,400</b>
Weighted average rate	<b>1.15</b>
US dollars sold for Euros	
Less than one year	<b>US\$ 258</b>
Weighted average rate	<b>0.89</b>
Euros sold for US dollars	
Less than one year	<b>€ 59,889</b>
Weighted average rate	<b>1.11</b>
British pounds sold for US dollars	
Less than one year	<b>£ 2,584</b>
Weighted average rate	<b>1.55</b>
Norwegian Kroners sold for US dollars	
Less than one year	<b>NOK 136,109</b>
Weighted average rate	<b>0.12</b>
Malaysian ringgits sold for US dollars	
Less than one year	<b>MYR 29,598</b>
Weighted average rate	<b>0.27</b>

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The Company does not apply hedge accounting to account for its foreign exchange forward contracts.

As at March 31, 2015, the Company had notional amounts of \$150.3 million of forward contracts outstanding (December 31, 2014 – \$130.9 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling \$2.1 million (December 31, 2014 – \$4.7 million net gain).

### **Net Investment Hedge**

The Senior Notes have been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the U.S. dollar as its functional currency. During the quarter ended March 31, 2015, a loss of \$35.6 million on the translation of the Senior Notes was transferred to other comprehensive income to offset the gains on translation of the net investment in the U.S. dollar functional currency subsidiary. There was no ineffectiveness of this hedge for the quarter ended March 31, 2015.

## Notes to Interim Consolidated Financial Statements (Unaudited)

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at March 31, 2015:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial Assets</b>				
Cash equivalents	\$ –	\$ –	\$ 20,748	\$ 20,748
Short-term investments	1,694	–	–	1,694
Loans receivable	241	4,782	2,431	7,454
Convertible preferred shares	10,000	–	–	10,000
	\$ 11,935	\$ 4,782	\$ 23,179	\$ 39,896
<b>Financial Liabilities</b>				
Bank indebtedness	\$ –	\$ 6,103	\$ –	\$ 6,103
Loans payable	95	–	–	95
Long-term debt	–	–	442,468	442,468
	\$ 95	\$ 6,103	\$ 442,468	\$ 448,666

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, 2015, the Company had no customer who generated revenue greater 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, 2015, the Company had cash and cash equivalents totalling \$97.6 million (December 31, 2014 – \$116.6 million) and had unutilized lines of credit available to use of \$433.8 million (December 31, 2014 – \$381.0 million).

## Notes to Interim Consolidated Financial Statements (Unaudited)

### 12 Share Capital

The following table sets forth the changes in the Company's shares for the periods indicated:

(all dollar amounts in thousands of Canadian dollars)

#### Number of Shares

Balance, December 31, 2014	64,493,849
Issued on exercise of stock options	2,000
Issued on exercise of Restricted Stock Units ("RSUs")	1,520

**Balance, March 31, 2015** **64,497,369**

#### Stated Value:

Balance, December 31, 2014	\$ 533,660
Proceeds from exercise of stock options	44
Compensation cost on exercised options	16
Compensation cost on exercised RSUs	52

**Balance, March 31, 2015** **\$ 533,772**

(all dollar amounts in thousands of Canadian dollars)

#### Number of Shares

Balance, December 31, 2013	59,991,202
Issued on exercise of stock options	303,450
Issued through public offering (net of commissions and share insurance cost of \$9.7 million)	4,197,500
Issued on exercise of RSUs	1,697

**Balance, December 31, 2014** **64,493,849**

#### Stated Value:

Balance, December 31, 2013	\$ 303,327
Issued on exercise of stock options	7,167
Issued through public offering	220,524
Compensation cost on exercised options	2,590
Compensation cost on exercised RSUs	52

**Balance, December 31, 2014** **\$ 533,660**

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.

Dividends declared and paid were as follows:

(Dollar amounts per share)	March 31, 2015	March 31, 2014
Common shares	\$ 0.15	\$ 0.125



## Notes to Interim Consolidated Financial Statements (Unaudited)

### 13 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, 2015		Year Ended December 31, 2014	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
<b>Balance Outstanding - Beginning of Period</b>	<b>1,029,970</b>	<b>\$ 32.25</b>	1,255,900	\$ 29.20
Granted	138,800	35.79	86,500	45.73
Exercised	(2,000)	21.95	(303,450)	23.63
Forfeited	–	–	(8,980)	26.41
<b>Balance Outstanding - End of Period</b>	<b>1,166,770</b>	<b>\$ 32.69</b>	1,029,970	\$ 32.25
Options exercisable	696,658	\$ 28.46	594,706	\$ 26.73

March 31, 2015	Options Outstanding			Options Exercisable		
Range of Exercise Price	Outstanding as at March 31, 2015	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at March 31, 2015	Weighted Average Exercise Price	
\$15.01 to \$20.00	181,850	3.64	\$ 15.55	181,850	\$ 15.55	
\$20.01 to \$25.00	–	–	–	–	–	
\$25.01 to \$30.00	228,960	2.29	27.70	228,960	27.70	
\$30.01 to \$35.00	182,100	6.74	32.81	108,220	32.81	
\$35.01 to \$40.00	241,060	8.04	36.44	81,808	37.32	
\$40.01 to \$45.00	246,300	7.74	41.69	78,520	41.53	
\$45.01 to \$50.00	86,500	8.74	45.73	17,300	45.73	
	<b>1,166,770</b>	<b>6.01</b>	<b>\$ 32.69</b>	<b>696,658</b>	<b>\$ 28.46</b>	

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2014	Options Outstanding			Options Exercisable		
	Range of Exercise Price	Outstanding as at December 31, 2014	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2014	Weighted Average Exercise Price
\$15.01 to \$20.00	181,850	3.89	\$ 15.55	181,850	\$ 15.55	
\$20.01 to \$25.00	2,000	3.98	21.95	2,000	21.95	
\$25.01 to \$30.00	228,960	2.53	27.70	228,960	27.70	
\$30.01 to \$35.00	182,100	6.98	32.81	71,280	32.81	
\$35.01 to \$40.00	102,260	5.98	37.32	61,356	37.32	
\$40.01 to \$45.00	246,300	7.98	41.69	49,260	41.69	
\$45.01 to \$50.00	86,500	8.98	45.73	–	–	
	1,029,970	5.75	\$ 32.25	594,706	\$ 26.73	

The Board of Directors approved the granting of 138,800 stock options during the three month period ended March 31, 2015 under the 2001 Employee Plan. The total fair value of the stock options granted during the three month period ended March 31, 2015 was \$1.14 million (three month period ended March 31, 2014 – \$1.1 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	Three months Ended	
	March 31, 2015	2014
Weighted average share price	\$ 35.79	\$ 45.73
Exercise price	\$ 35.79	\$ 45.73
Weighted average expected life of options	6.25	6.25
Weighted average expected stock price volatility	29.0%	32.0%
Weighted average expected dividend yield	1.63%	1.2%
Weighted average risk-free interest rate	1.34%	2.0%

The volatility measured at the standard deviation of continuously compounded share returns is based on the statistical analysis of daily share prices over the expected life of the options.

The fair value of options granted will be amortized to compensation expense over the five-year vesting period of the options. The compensation cost from the amortization of stock options for the three month period ended March 31, 2015, included in selling, general and administrative expenses, was \$0.4 million (three month period ended March 31, 2014 – \$0.5 million).

## Notes to Interim Consolidated Financial Statements (Unaudited)

### Stock Options with Tandem Share Appreciation Rights

	Three months Ended March 31, 2015		Year Ended December 31, 2014	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value
<b>Balance Outstanding - Beginning of Period</b>	<b>142,000</b>	<b>\$ 11.55</b>	120,800	\$ 11.16
Granted	33,700	8.62	21,600	13.75
Expired	400	12.94	(400)	12.94
<b>Balance Outstanding - End of Period</b>	<b>176,100</b>	<b>\$ 10.99</b>	142,000	\$ 11.55
Options exercisable	105,740	\$ 15.19	77,260	\$ 15.69

(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, 2015 is \$1.5 million (December 31, 2014 – \$1.4 million), all of which is included in current and non-current 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 revenue and operating income 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 revenue and income 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 VGP liability as at March 31, 2015 is \$18.2 million (December 31, 2014 – \$32.1 million).

#### ESUP

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

The following table sets forth the Company’s RSU/PSUs reconciliation as at the periods indicated:

## Notes to Interim Consolidated Financial Statements (Unaudited)

	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)(b)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)(b)</sup>
<b>Balance Outstanding - Beginning of Period</b>	<b>261,708</b>	<b>\$ 36.69</b>	209,307	\$ 33.91
Granted	94,406	34.86	74,438	43.96
Exercised	(1,520)	34.23	(1,697)	29.25
Cancelled	–	–	(20,340)	35.31
<b>Balance Outstanding - End of Period</b>	<b>354,594</b>	<b>\$ 36.21</b>	261,708	\$ 36.69
<b>RSUs/PSUs exercisable</b>	<b>85,107</b>	<b>\$ 31.68</b>	57,799	\$ 30.80

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

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

### DSU

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

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

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

	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
<b>Balance Outstanding - Beginning of Period</b>	<b>99,675</b>	<b>\$ 38.04</b>	124,980	\$ 34.60
Granted	9,659	36.02	26,120	48.84
Exercised <sup>(b)</sup>	–	–	(51,425)	35.16
<b>Balance Outstanding - End of Period</b>	<b>109,334</b>	<b>\$ 37.86</b>	99,675	\$ 38.04

(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, 2015 is \$3.8 million (December 31, 2014 – \$4.2 million), all of which is included in current other liabilities on the consolidated balance sheets.

## Notes to Interim Consolidated Financial Statements (Unaudited)

### Incentive-based Compensation

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

(in thousands of Canadian dollars)	Three Months Ended		2014
	March 31,		
	2015		
Stock option expense	\$	440	\$ 530
VGP expense		821	4,830
DSU expense		(378)	783
RSU expense		645	529
SAR expense		59	74
<b>Total Share-based and Other Incentive-based Compensation Expense</b>	<b>\$</b>	<b>1,587</b>	<b>\$ 6,746</b>

### 14 Employee Benefits Expense

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, 2015 were \$1.4 million (three month period ended March 31, 2014 – \$1.3 million). The Company's costs for the defined contribution pension arrangements for the three month period ended March 31, 2015 were \$1.3 million (three month period ended March 31, 2014 – \$1.4 million).

### 15 Finance Costs

The following table sets forth the Company's finance costs for the periods ended:

(in thousands of Canadian dollars)	Three Months Ended		2014
	March 31,		
	2015		
Interest income on short-term deposits	\$	(200)	\$ (338)
Interest expense, other		812	829
Interest expense on long term debt		3,836	3,236
<b>Finance Costs – net</b>	<b>\$</b>	<b>4,448</b>	<b>\$ 3,727</b>

## Notes to Interim Consolidated Financial Statements (Unaudited)

### 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, 2015	2014
Net income used to calculate EPS		
Net income (attributable to the shareholders of the Company)	\$ 37,774	\$ 61,947
Weighted average number of shares outstanding – basic (000's)	64,497	60,041
Dilutive effect of stock options	273	385
Weighted average number of shares outstanding – diluted (000's)	64,770	60,426
Basic EPS	\$ 0.59	\$ 1.03
Diluted EPS	\$ 0.58	\$ 1.03

### 17 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 IAS 34.