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

The following Management's Discussion and Analysis ("MD&A"), is a discussion of the consolidated financial position and results of operations of Shawcor Ltd. ("Shawcor" or the "Company") for the three and nine months ended September 30, 2016 and 2015 and should be read together with Shawcor's interim unaudited consolidated financial statements and accompanying notes for the same periods and the MD&A included in the Company's 2015 Annual Report. All dollar amounts in this MD&A are in thousands of Canadian dollars, except per share amounts or unless otherwise stated.

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

1.0 Executive Overview

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

1.1 Core Businesses

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

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

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

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

As at September 30, 2016, the Company operated its eight divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 84% of consolidated revenue for the nine months ended September 30, 2016. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Guardian, Desert NDT and Lake Superior Consulting divisions.

- Bredero Shaw's product offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines. During 2015, the Socotherm division was integrated with the Bredero Shaw division.
- Canusa-CPS manufactures heat-shrinkable sleeves, adhesives, sealants and liquid coatings for corrosion protection on onshore and offshore pipelines.
- Flexpipe Systems manufactures spoolable composite pipe systems used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities.
- Guardian provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.
- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.
- Desert NDT provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

Petrochemical and Industrial

The Petrochemical and Industrial segment, which consists of the Connection Systems division, accounted for 16% of consolidated revenue for the nine months ended September 30, 2016. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets. The Connection Systems division was formed from the 2015 integration of the DSG-Canusa and Shawflex divisions.

- Connection Systems is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.
- Connection Systems also manufactures wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

2.0 Financial Highlights

2.1 Selected Financial Information

(in thousands of Canadian dollars)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Revenue	**$ 259,139**	$ 485,428	**$ 880,077**	$ 1,355,388
Cost of Goods Sold and Services Rendered	**172,162**	323,460	**595,295**	900,796
	86,977	161,968	**284,782**	454,592
Selling, general and administrative expenses	**79,047**	86,130	**248,883**	282,907
Research and development expenses	**1,904**	2,414	**10,934**	11,026
Foreign exchange (gains) losses	**(1,400)**	(1,409)	**39**	(1,586)
Amortization of property, plant and equipment	**14,340**	15,104	**43,422**	43,478
Amortization of intangible assets	**5,599**	5,348	**17,941**	15,848
Gain on sale of land	**(420)**	(814)	**(931)**	(814)
Impairment	**155,882**	–	**157,311**	–
(Loss) Income from Operations	**(167,975)**	55,195	**(192,817)**	103,733
Loss from investments in associates	**(559)**	(9)	**(1,727)**	(266)
Finance costs, net	**(4,330)**	(4,855)	**(13,047)**	(13,516)
Costs associated with repayment and modification of long-term debt	**–**	–	**(2,061)**	–
(Loss) income before Income Taxes	**(172,864)**	50,331	**(209,652)**	89,951
Income taxes	**2,481**	12,219	**(747)**	21,898
Net (Loss) Income	**$ (175,345)**	$ 38,112	**$ (208,905)**	$ 68,053
Net (Loss) Income attributable to:				
Shareholder of the Company	**(174,019)**	38,107	**(208,236)**	67,343
Non-controlling interests	**(1,326)**	5	**(669)**	710
Net (Loss) Income	**(175,345)**	38,112	**(208,905)**	68,053
Per Share Information:				
Earnings (Loss) per Share				
Basic	**$ (2.69)**	$ 0.59	**$ (3.22)**	$ 1.04
Diluted	**$ (2.69)**	$ 0.59	**$ (3.22)**	$ 1.04
Cash Dividend per Share:				
Common Shares	**$ 0.150**	$ 0.150	**$ 0.450**	$ 0.450

(in thousands of Canadian dollars)	**September 30, 2016**	**December 31, 2015**
Total Assets	**$ 1,633,241**	$ 2,145,705
Total Non-current Liabilities	**$ 448,341**	$ 579,839

2.2 EBITDA

(in thousands of Canadian dollars)	Three Months Ended September 30, **2016**	2015	Nine Months Ended September 30, **2016**	2015
Net Income	**(175,345)**	38,112	**(208,905)**	68,053
Add:				
Income taxes	**2,481**	12,219	**(747)**	21,898
Finance costs, net	**4,330**	4,855	**13,047**	13,516
Amortization of property, plant, equipment and intangible assets	**19,939**	20,452	**61,363**	59,326
EBITDA[(a)]	**(148,595)**	75,638	**(135,242)**	162,793
Costs associated with repayment and modification of long-term debt	**–**	–	**2,061**	–
Impairment	**155,882**	–	**157,311**	–
Gain on sale of land	**(420)**	(814)	**(931)**	(814)
ADJUSTED EBITDA[(a)]	**6,867**	74,824	**23,199**	161,979

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure, calculated by adding back to net income the sum of income taxes, net finance costs, depreciation and amortization of property, plant, equipment and intangible assets. The Company uses EBITDA as an indicator of its principal business activities prior to consideration of how its activities are financed and the impact of taxation and non-cash depreciation and amortization. Adjusted EBITDA is a non-GAAP measure calculated by adding back to EBITDA the sum of impairment, gain on sale of land and costs associated with repayment and modification of long-term debt. EBITDA and Adjusted EBITDA do not have standardized meanings prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. EBITDA and Adjusted EBITDA are used by many analysts in the oil and gas industry as one of several important analytical tools. These measures are also considered important by lenders to the Company. They should not be considered in isolation or used as an alternative to net income or any of the other measures of performance prepared in accordance with GAAP.

2.3 Foreign Exchange Impact

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

	Three Months Ended September 30, **2016**	2015	Nine Months Ended September 30, **2016**	2015
U.S. dollar	**1.3273**	1.2989	**1.3243**	1.2588
Euro	**1.4723**	1.4442	**1.4708**	1.4124
British Pounds	**1.8687**	2.0089	**1.8426**	1.9323

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

(in thousands of Canadian dollars)		Q3-2016 Versus Q2-2016	Q3-2016 versus Q3-2015	Q3-2016 YTD versus Q3-2015 YTD
Revenue	**$**	**845**	**(5,161)**	**5,391**
Operating income		**(1,479)**	**(249)**	**(7,038)**
Net income		**(1,523)**	**(853)**	**(7,503)**

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $1.4 million in the third quarter of 2016, similar to a gain of $1.4 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities.

3.0 Business Developments

Sur de Texas – Tuxpan Contract Award

On July 8, 2016, the Company announced that it had been awarded a conditional contract with a value in excess of $300 million from Infraestructura Marina del Golfo (IMG), a Mexican company majority-owned by TransCanada Corporation and partially owned by IEnova, for pipeline coating for the CFE Sur de Texas – Tuxpan gas pipeline project, a 690 km offshore pipeline that will run from the USA/Mexico international border near Brownsville, Texas to a location near Tuxpan, Mexico. The contract has since been finalized and is scheduled to be executed from two coating plants in Altamira, Mexico and involves the application of concrete weight coating. Coating is expected to commence in early 2017 with completion expected by the end of 2017.

The Company has also received a contract for anti-corrosion coating of pipe that will be coated at the Company's facilities in Asia Pacific and then transported to Mexico for concrete coating and delivery to the client for the Sur de Texas – Tuxpan pipeline. Including the anti-corrosion coating, the Sur de Texas – Tuxpan project has an estimated revenue value to Shawcor in excess of $350 million.

4.0 Results from Operations

4.1 Consolidated Information

Revenue

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

(in thousands of Canadian dollars)	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Pipeline and Pipe Services	**$ 213,135**	$ 206,990	$ 439,205	**$ 737,105**	$ 1,220,356
Petrochemical and Industrial	**46,406**	48,818	46,168	**144,097**	136,252
Elimination[(a)]	**(402)**	(449)	55	**(1,125)**	(1,220)
	$ 259,139	$ 255,359	$ 485,428	**$ 880,077**	$ 1,355,388

(a) Represents the elimination of the inter-segment sales between the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment.

Third Quarter 2016 versus Second Quarter 2016

Consolidated revenue increased 1%, or $3.8 million, from $255.4 million during the second quarter of 2016 to $259.1 million during the third quarter of 2016, mainly due to an increase of $6.1 million in the Pipeline and Pipe Services segment, partially offset by a decrease of $2.4 million in the Petrochemical and Industrial segment.

Revenue increased by 3% in the Pipeline and Pipe Services segment, or $6.1 million, from $207.0 million in the second quarter of 2016 to $213.1 million in the third quarter of 2016 due to higher activity levels in Asia Pacific and North America, partially offset by lower revenue in the Europe, Middle East, Africa and Russia ("EMAR") region. See Section 4.2.1 – Pipeline and Pipe Services Segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue was lower by $2.4 million, or 5%, in the third quarter of 2016, compared to the second quarter of 2016 due to lower activity levels in the EMAR and North American regions. See Section 4.2.2 – Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Third Quarter 2016 versus Third Quarter 2015

Consolidated revenue decreased by $226.3 million, or 47%, from $485.4 million during the third quarter of 2015, to $259.1 million during the third quarter of 2016, mainly due to a decrease of $226.1 million in the Pipeline and Pipe Services segment.

In the Pipeline and Pipe Services segment, revenue in the third quarter of 2016 was $213.1 million, or 51% lower than in the third quarter of 2015, due to decreased activity levels in all regions. See Section 4.2.1 – Pipeline and Pipe Services Segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue increased by $0.2 million, or 1%, during the third quarter of 2016 compared to the third quarter of 2015, due to higher activity levels in North America and Asia Pacific, partially offset by lower activity in EMAR. See Section 4.2.2 – Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Consolidated revenue decreased by $475.3 million, or 35%, from $1,355.4 million for the nine month period ended September 30, 2015 to $880.1 million for the nine month period ended September 30, 2016, due to a decrease of $483.3 million, or 40%, in the Pipeline and Pipe Services segment, partially offset by an increase of $7.8 million, or 6%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during the first nine months of 2016 was $737.1 million, or $483.3 million lower than in the comparable period in 2015, due to lower activity levels in all regions. See Section 4.2.1 – Pipeline and Pipe Services Segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by $7.8 million in the first nine months of 2016 compared to the same period in 2015, due to higher activity levels in North America and Asia Pacific regions, partially offset by lower revenue in EMAR. See Section 4.2.2– Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

(Loss) Income from Operations

The following table sets forth Operating Income and Operating Margin for the following periods:

(in thousands of Canadian dollars)	**Three Months Ended**			**Nine Months Ended**	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
(Loss) Income from Operations	**$ (167,975)**	$ (40,792)	$ 55,195	$ **(192,817)**	$ 103,733
Operating Margin[(a)]	**(64.8%)**	(16.0%)	11.4%	**(21.9%)**	7.7%

(a) Operating Margin is defined as Operating Income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies.

Third Quarter 2016 versus Second Quarter 2016

In the third quarter, Operating Loss increased by $127.2 million, from an Operating Loss of $40.8 million during the second quarter of 2016 to an Operating Loss of $168.0 million in the third quarter of 2016. While Operating Loss was positively impacted by an increase in gross profit of $16.1 million and an increase in net foreign exchange gain of $1.1 million and by decreases in selling, general and administrative ("SG&A") expenses of $7.0 million, in research and development expenses of $2.8 million and in amortization of property, plant, equipment and intangible assets of $0.4 million, these factors were more than offset by higher impairment charges of $154.5 million recorded in the third quarter of 2016.

The increase in gross profit resulted from a 5.8 percentage point increase in the gross margin from the second quarter of 2016 and the higher revenue, as explained above. The increase in the gross margin percentage was primarily due to a higher percentage of the Company's revenue derived from large pipe coating project activity in the Asia Pacific region and labour cost efficiencies due to higher facility utilization and increased absorption of manufacturing overheads as a result of the restructuring completed in the second quarter of 2016.

SG&A expenses decreased by $7.0 million, from $86.0 million in the second quarter of 2016 to $79.0 million in the third quarter of 2016, primarily due to restructuring charges of $12.1 million recorded in the second quarter of 2016 and $1.9 million lower personnel related expenses in the third quarter. This was partially offset by an increase in management incentive compensation expenses of $7.1 million as a result of the Company's improvement in shareholder returns compared to its peer group, which is one of the primary factors in the Company's incentive compensation program.

Third Quarter 2016 versus Third Quarter 2015

Operating Income (Loss) decreased by $223.2 million, from an Operating Income of $55.2 million in the third quarter of 2015 to an Operating Loss of $168.0 million during the third quarter of 2016. While Operating Loss was impacted by decreases in gross profit of $75.0 million and in impairment charges of $155.9 million recorded in the third quarter of 2016, these factors were partially offset by decreases in SG&A expenses of $7.1 million, in research and development expenses of $0.5 million and in amortization of property, plant, equipment and intangible assets of $0.5 million.

The decrease in gross profit resulted from the lower revenue, as explained above, partially offset by a 0.2 percentage point increase in gross margin. The increase in the gross margin percentage was primarily attributable to changes in product and project mix.

SG&A expenses in the third quarter of 2016 decreased by $7.1 million primarily due to reductions in personnel related and management incentive compensation expenses of $7.1 million and lower professional, legal consulting fees and bank charges of $2.5 million. This was partially offset by higher equipment and other costs of $2.5 million.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Operating Income (Loss) decreased by $296.5 million, from an Operating income of $103.7 million in the nine month period ended September 30, 2015, to an Operating Loss of $192.8 million in the nine month period ended September 30, 2016. Operating Loss was impacted by a year over year decrease in gross profit of $169.8 million and increases in amortization of property, plant, equipment and intangible assets of $2.0 million, in net foreign exchange loss of $1.6 million and in impairment charges of $157.3 million. These items were partially offset by a decrease in SG&A expenses of $34.0 million.

The decrease in gross profit resulted from a 1.2 percentage point decrease in gross margin and the lower revenue, as explained above. The decrease in the gross margin was attributable to changes in product and project mix and labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption compared to the prior year, particularly in the Pipeline and Pipe Services segment.

SG&A expenses decreased by $34.0 million in the first nine months of 2016 compared to the comparable period in 2015, primarily due to reductions in personnel related and management incentive compensation expenses of $26.9 million, a decrease in rental and building costs of $3.7 million, primarily associated with decreased activity in the Asia Pacific region, and $3.2 million in lower bank charges mostly associated with letters of guarantee and other costs.

Finance Costs, Net

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

(in thousands of Canadian dollars)	Three Months Ended						Nine Months Ended			
	September 30, 2016			June 30, 2016		September 30, 2015	**September 30, 2016**			September 30, 2015
Interest income	**$**	**(334)**	**$**	(183)	$	(338)	**$**	**(834)**	$	(733)
Interest expense, other		**1,152**		1,418		1,109		**3,485**		2,551
Interest expense on long-term debt		**3,512**		2,738		4,084		**10,396**		11,698
Finance costs, net	**$**	**4,330**	$	3,973	$	4,855	**$**	**13,047**	$	13,516

Third Quarter 2016 versus Second Quarter 2016

In the third quarter of 2016, net finance costs were $4.3 million, compared to a net finance cost of $4.0 million during the second quarter of 2016. The increase in net finance cost was primarily a result of higher interest expense on long term debt due to foreign exchange and a slightly higher interest rate for the quarter. This was partially offset by lower interest expense on other bank borrowing and facilities.

Third Quarter 2016 versus Third Quarter 2015

In the third quarter of 2016, net finance costs were $4.3 million, compared to a net finance cost of $4.9 million during the third quarter of 2015. The decrease in net finance cost was primarily a result of lower interest expense on long term debt due to the repayment of US$78.2 million in the second quarter of 2016.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

For the nine months ended September 30, 2016, net finance costs were at $13.0 million, $0.5 million lower than in the comparable period in the prior year. Interest expense on long term debt was lower due to the repayment of US$78.2 million in the second quarter of 2016, but was partially offset by higher interest expense on other bank borrowing and facilities.

Income Taxes

The following table sets forth the income taxes for the following periods:

(in thousands of Canadian dollars)	Three Months Ended						Nine Months Ended			
	September 30, 2016			June 30, 2016		September 30, 2015	**September 30, 2016**			September 30, 2015
Income taxes	**$**	**2,481**	$	(5,826)	$	12,219	**$**	**(747)**	$	21,898

Third Quarter 2016 versus Second Quarter 2016

The Company recorded an income tax expense of $2.5 million in the third quarter of 2016, compared to an income tax recovery of $5.8 million (12% of loss before income taxes) in the second quarter of 2016. The recording of an income tax expense in the third quarter of 2016, rather than an expected tax recovery, was due to the fact that a tax expense was incurred in jurisdictions where the Company was profitable, while the losses in the quarter were generated in jurisdictions where the Company is unable to record a tax benefit.

Third Quarter 2016 versus Third Quarter 2015

The Company recorded an income tax expense of $2.5 million in the third quarter of 2016, compared to an income tax expense of $12.2 million (24% of loss before income taxes) in the third quarter of 2015. The recording of an income tax expense in the third quarter of 2016, rather than an expected tax recovery, was due to the fact that a tax expense was incurred in jurisdictions where the Company was profitable, while the losses in the quarter were generated in jurisdictions where the Company is unable to record a tax benefit.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

The Company recorded an income tax recovery of $0.7 million during the nine month period ended September 30, 2016, compared to an income tax expense of $21.9 million (24% of income before income taxes) during the nine-month period ended September 30, 2015. The Company's rate of tax recovery for the nine month period ended September 30, 2016 was significantly lower than the Company's expected effective income tax rate of 27%, primarily due to the incurrence of tax losses and impairment charges in jurisdictions where the Company is unable to record a tax benefit.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

(in thousands of Canadian dollars)	**Three Months Ended**			**Nine Months Ended**	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
North America	**$ 109,113**	$ 99,359	$ 184,241	**$ 346,239**	$ 550,699
Latin America	**8,398**	8,392	38,459	**44,937**	115,533
EMAR	**65,438**	89,802	171,379	**283,754**	417,912
Asia Pacific	**30,186**	9,437	45,126	**62,175**	136,212
Total Revenue	**$ 213,135**	$ 206,990	$ 439,205	**$ 737,105**	$ 1,220,356
Operating (Loss) Income	**$ (170,044)**	$ (43,490)	$ 54,153	**$ (197,341)**	$ 111,175
Operating Margin[(a)]	**(79.8%)**	(21.0%)	12.3%	**(26.8%)**	9.1%

(a) Operating Margin is defined as Operating Income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies.

Third Quarter 2016 versus Second Quarter 2016

Third quarter revenue increased by $6.1 million, to $213.1 million, from $207.0 million in the second quarter of 2016. Activity levels were higher in Asia Pacific and North America, partially offset by lower revenue in the EMAR region:

- North America revenue increased by $9.8 million, or 10%, as a result of higher activity levels for small diameter pipe coating and tubular management services in Canada, increased flexible composite pipe volumes and higher pipeline weld inspection and other NDT services in the USA, partially offset by decreased activity levels for large diameter pipe coating.
- In Latin America, revenue was flat primarily as a result of lower activity levels at the Company's Argentina facilities offset by higher volumes at the Monterrey, Mexico facility.
- EMAR revenue decreased by $24.4 million, or 27%, primarily due to lower volumes from the Company's Ras Al Khaimah, UAE ("RAK"), Orkanger, Norway and Italian facilities. This was partially offset by higher volumes at the Leith, Scotland facility.
- Asia Pacific revenue increased by $20.8 million, or 220%, mainly due to the higher Shah Deniz project activity levels in Kabil, Indonesia. This was partially offset by lower project volumes in Kuantan, Malaysia.

In the third quarter of 2016, the Operating Loss was $170.0 million compared to an Operating Loss of $43.5 million in the second quarter of 2016, an increase of $126.6 million. The increase in Operating Loss was primarily due to impairment charges of $155.9 million recorded in the third quarter of 2016. These charges were partially offset by an increase in gross profit of $19.5 million, due to the increase in revenue of $6.2 million, as explained above, and a 8.4 percentage point increase in the gross margin. The increase in gross margin was due to a higher percentage of the Company's revenue derived from large pipe coating project activity in the Asia Pacific region and labour cost efficiencies due to higher facility utilization and increased absorption of manufacturing overheads as a result of the restructuring completed in the second quarter of 2016.

Third Quarter 2016 versus Third Quarter 2015

Revenue was $213.1 million in the third quarter of 2016, a decrease of $226.1 million, or 51%, from $439.2 million in the comparable period of 2015. Revenue was negatively impacted by lower activity levels in all regions:

- North America revenue decreased by $75.1 million, or 41%, primarily due to lower activity levels of large and small diameter pipe coating activity in both Canada and the USA, decreased revenue from flexible composite pipe sales, a decrease in tubular management services in Canada and decreased land-based pipe weld inspection services revenue in the USA. This was partially offset by the revenue generated by the newly acquired Lake Superior Consulting business.

- In Latin America, revenue decreased by $30.1 million, or 78%, primarily due to decreased activity levels at the Monterrey, Veracruz and Coatzacoalcos, Mexico facilities and the Company's Argentina facilities.

- In EMAR, revenue decreased by $105.9 million, or 62%, primarily due to lower activity levels at the Company's pipe coating facilities in RAK, Orkanger, Norway and Italy, on the Shah Deniz project in the Caspian and on field joint projects in the region. This was partially offset by higher activity levels at the Company's Leith, Scotland facility.

- Asia Pacific revenue decreased by $14.9 million, or 33%, due to the lower large project volumes associated with the Company's Kabil, Indonesia and Kuantan, Malaysia facilities and lower pipe weld inspection services revenue in the region.

In the third quarter of 2016, the Operating Loss was $170.0 million compared to Operating Income of $54.2 million in the third quarter of 2015, a decrease in Operating Income of $224.2 million. This reduction was mainly due to impairment charges of $155.9 million recorded in the third quarter 2016 combined with a decrease in gross profit of $73.7 million as a result of the reduction in revenue of $226.1 million, as explained above, partially offset by a 1.1 percentage point increase in gross margin. The increase in gross margin was due to favourable project and product mix, partially offset by labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption. This was partially offset by lower SG&A expenses, as explained in section 2.2 above.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Revenue in the Pipeline and Pipe Services segment for the nine month period ended September 30, 2016 was $737.1 million, a decrease of $483.3 million, from $1,220.4 million in the comparable period in the prior year. Segment revenue benefitted from the impact on translation of foreign operations from the weakening Canadian dollar, as noted in section 2.3 above, but was more than offset by lower activity levels in all regions:

- In North America, revenue decreased by $204.5 million, or 37%, primarily due to lower activity levels of large and small diameter pipe coating activity in both Canada and the USA, decreased revenue from flexible composite pipe sales and a decrease in tubular management services in Canada. This was partially offset by the revenue generated by the newly acquired Lake Superior Consulting business.
- Latin America revenue was lower by $70.6 million, or 61%, mainly due to lower activity levels in Brazil and lower volumes at the Coatzacoalcos, Veracruz and Monterrey, Mexico facilities and at the Company's Argentina facilities.

- EMAR revenue decreased by $134.2 million, or 32%, primarily due to decreased pipe coating activity levels in RAK and Orkanger, Norway, on the Shah Deniz project in the Caspian and on other field joint projects, and decreased pipe weld services in the region. This was partially offset by higher activity levels at the Company's Italian and Leith, Scotland facilities.
- In Asia Pacific, revenue decreased by $74.0 million, or 54%, mainly due to lower volumes associated with large projects at Kuantan, Malaysia and Kabil, Indonesia and lower pipe weld inspection services revenue in the region.

Operating Loss for the nine month period ended September 30, 2016 was $197.3 million compared to an Operating Income of $111.2 million for the nine month period ended September 30, 2015, a decrease in Operating Income of $308.5 million. The decrease in Operating Income is primarily due to impairment charges of $157.3 million recorded in 2016 combined with a decline in gross profit of $171.0 million as a result of the decrease in revenue of $483.3 million, as explained above, and a 0.9 percentage point decrease in gross margin. The decline in gross margin was due to unfavourable project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption. This was partially offset by lower SG&A expenses, as explained in section 2.2 above.

4.2.2 Petrochemical and Industrial Segment

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

(in thousands of Canadian dollars)	**Three Months Ended**			**Nine Months Ended**	
	September 30, 2016	June 30, 2016	September 30, 2015	**September30, 2016**	September 30, 2015
North America	**$ 28,706**	$ 29,837	$ 27,001	**$ 88,154**	$ 79,922
EMAR	**14,591**	16,277	16,669	**47,376**	48,765
Asia Pacific	**3,109**	2,704	$ 2,498	**8,567**	7,565
Total Revenue	**$ 46,406**	$ 48,818	46,168	**$ 144,097**	$ 136,252
Operating Income	**$ 6,371**	$ 9,751	$ 8,175	**$ 23,717**	$ 21,407
Operating Margin[(a)]	**13.7%**	20.0%	17.7%	**16.5%**	15.7%

a) Operating Margin is defined as Operating Income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies.

Third Quarter 2016 versus Second Quarter 2016

Revenue of $46.4 million was $2.4 million, or 5%, lower in the third quarter of 2016, compared to the second quarter of 2016, due to lower shipments of wire and cable products in North America and lower volumes of heat shrink tubing products in the EMAR region, partially offset by increased heat shrink tubing product sales in North America and Asia Pacific regions.

Operating Income of $6.4 million in the third quarter of 2016 was $3.4 million, or 35%, lower than in the second quarter of 2016. Operating Income was lower due to a decrease in gross profit of $2.3 million as a result of lower revenue, as explained above, and a 3.4 percentage point decrease in gross margin, primarily due to unfavourable product mix, particularly in wire and cable product sales. SG&A expenses were also higher due to higher personnel and management incentive compensation expenses.

Third Quarter 2016 versus Third Quarter 2015

In the third quarter of 2016, revenue was mostly unchanged at $46.4 million compared to $46.2 million in the third quarter of 2015, an increase of $0.2 million, or 1%.

Operating Income in the third quarter of 2016 was $6.4 million compared to $8.2 million in the third quarter of 2015, a decrease of $1.8 million, or 22%. The decrease in Operating Income was due to a decrease in gross profit of $1.2 million as a result of a 2.9 percentage point decrease in gross margin, primarily due to a less favourable product mix, partially offset by higher revenue of $0.2 million, as explained above. In addition, SG&A expenses were higher by $0.7 million.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Revenue increased in the nine months ended September 30, 2016 by $7.8 million, or 6%, to $144.1 million compared to the comparable period in 2015, due to increased shipments of wire and cable products in North America, combined with increased heat shrinkable product shipments in North America and Asia Pacific and the impact of foreign exchange on revenue, as noted in section 2.3 above, partially offset by slightly lower activity levels in EMAR.

Operating Income for the nine months ended September 30, 2016 was $23.7 million compared to $21.4 million for the nine months ended September 30, 2015, an increase of $2.3 million, or 11%. Operating Income was higher due to an increase in gross profit of $1.2 million as a result of the increase in revenue of $7.8 million, as explained above, and lower SG&A expenses.

4.2.3 Financial and Corporate

Financial and corporate costs include corporate expenses not allocated to the operating segments and other non-operating items, including foreign exchange gains and losses on foreign currency denominated cash and working capital balances. The financial and corporate division of Shawcor does not meet the definition of a reportable operating segment as defined in IFRS, as it does not earn revenue.

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

(in thousands of Canadian dollars)	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Financial and corporate expenses	**$ (6,122)**	$ (7,327)	$ (9,356)	**$ (19,574)**	$ (31,249)

Third Quarter 2016 versus Second Quarter 2016

Financial and corporate costs decreased by $1.2 million from $7.3 million during the second quarter of 2016 to $6.1 million in the third quarter of 2016, primarily due to restructuring costs of $1.4 million recorded in the second quarter of 2016.

Third Quarter 2016 versus Third Quarter 2015

Financial and corporate costs decreased by $3.2 million from the third quarter of 2015 to $6.1 million in the third quarter of 2016. The decrease was primarily due to a $2.0 million decrease in personnel and management incentive compensation expenses, $0.7 million in lower professional and legal consulting fees and a $0.5 million reduction in net other costs.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Financial and corporate costs decreased by $11.7 million from the nine month period ended September 30, 2015 to $19.6 million for the nine month period ended September 30, 2016, primarily due to a decrease in personnel and management incentive compensation expenses of $3.9 million, a $6.0 million decrease as a result of higher charge outs to divisions of information systems expenses and a reduction of $1.8 million in bank and other costs.

5.0 Liquidity and Capitalization

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

(in thousands of Canadian dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Net (Loss) Income for the Period	**$ (175,345)**	$ 38,112	**$ (208,905)**	$ 68,053
Non-cash items	**178,471**	25,317	**225,682**	80,986
Settlement of decommissioning obligations	**–**	(1,579)	**(6)**	(1,585)
Settlement of other provisions	**(3,383)**	(5,060)	**(14,675)**	(7,868)
Net change in employee future benefits	**1,124**	24	**811**	51
Net change in non-cash working capital and foreign exchange	**21,706**	(27,922)	**73,694**	13,300
Cash provided by operating activities	**22,573**	28,892	**76,601**	152,937
Cash used in investing activities	**(13,334)**	(16,398)	**(78,528)**	(72,269)
Cash (used in) provided by financing activities	**(9,374)**	(9,829)	**(129,757)**	(36,480)
Effect of foreign exchange on cash and cash equivalents	**(1,068)**	11,744	**(14,548)**	19,034
Net Change in Cash and Cash Equivalents	**(1,203)**	14,409	**(146,232)**	63,222
Cash and cash equivalents at beginning of period	**115,616**	165,369	**260,645**	116,556
Cash and Cash Equivalents at End of Period	**$ 114,413**	$ 179,778	**$ 114,413**	$ 179,778

The Company expects to generate sufficient cash flows and have continued access to its credit facilities to meet contractual obligations and planned development and growth initiatives as and when they are required. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in section 5.5. The Company expects that working capital investment will be required to support revenue growth consistent with historical working capital measures as noted in Section 5.4. The Company typically utilizes its available cash balances and its committed credit facilities to fund working capital requirements.

5.1 Cash Provided by Operating Activities

Third Quarter 2016 versus Third Quarter 2015

Cash provided by operating activities was $22.6 million in the third quarter of 2016, a decrease of $6.3 million from $28.9 million in the third quarter of 2015. The decrease was due to an increase in net loss of $213.5 million as outlined in section 4.1, partially offset by increases in non-cash items of $153.2 million, in cash provided by non-cash working capital and in foreign exchange of $49.6 million, increases in the settlement of decommissioning obligations of $1.6 million and of other provisions of $1.7 million and in employee future benefits of $1.1 million.

The increase in cash provided by non-cash working capital and foreign exchange reflected net decreases in accounts receivable of $64.1 million, in net taxes receivable of $5.1 million, an increase in Deferred Revenue of $58.5 million and an increase in other current liabilities of $0.4 million. This was partially offset by an increase in inventory of $12.6 million, an increase in prepaid expenses of $5.2 million, a decrease in accounts payable and accrued liabilities of $45.2 million and a change in the movement of foreign currency items of $15.4 million.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Cash provided by operating activities was $76.6 million during the nine month period ended September 2016, a decrease of $76.3 million, from $152.9 million in the nine month period ended September 2015. The decrease was primarily due to an increase in net loss of $277.0 million, as discussed in section 4.1 above, and a decrease in settlement of other provisions of $6.8 million. This was partially offset by increases in non-cash items of $144.7 million and in non-cash working capital and foreign exchange of $60.4 million, an increase in settlement of decommissioning obligations of $1.6 million and an increase in employee future benefits of $0.8 million.

The increase in cash provided by non-cash working capital and foreign exchange reflected decreases in accounts receivable of $141.4 million, in inventory of $29.6 million, in net taxes receivable of $17.5 million and in other current liabilities of $2.0 million and an increase in deferred revenue of $48.8 million. This was partially offset by net decreases in accounts payable and accrued liabilities of $136.2 million, a change in the movement of foreign currency items of $35.4 million and an increase in prepaid expenses of $7.4 million.

5.2 Cash Used in Investing Activities

Third Quarter 2016 versus Third Quarter 2015

Cash used in investing activities decreased by $3.1 million, from $16.4 million in the third quarter of 2015 to $13.3 million in the third quarter of 2016. The decrease is primarily attributed to decreases in other assets of $4.1 million, in investment in associates of $3.2 million and in proceeds on disposal of property, plant and equipment of $0.4 million. This was partially offset by an increase in capital expenditure of property, plant and equipment of $4.3 million and in short-term investment of $0.2 million.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Cash used in investing activities increased by $6.3 million, from $72.3 million during the nine month period ended September 2015 to $78.5 million during the nine month period ended September 2016. This was mainly due to higher spending on business acquisitions of $15.1 million and an increase in the purchase of property, plant and equipment of $9.4 million. This was partially offset by decreases in short-term investments of $7.3 million, in investment in associates of $6.5 million, lower disbursements for deferred purchase consideration of $1.3 million, in other assets of $1.0 million and an increase in proceeds on disposals of property, plant and equipment of $2.1 million.

5.3 Cash Used in Financing Activities

Third Quarter 2016 versus Third Quarter 2015

Cash used in financing activities decreased by $0.4 million, from $9.8 million in the third quarter of 2015 to $9.4 million in the third quarter of 2016. This was mainly due to an increase in issuance of shares of $0.6 million, partially offset by an increase in dividends paid to shareholders of $0.2 million.

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

Cash used in financing activities increased by $93.3 million, from $36.5 million in the nine month period ended September 2015 to $129.8 million during the nine months ended September 2016. This was mainly due to the repayment of US$78.2 million (CDN$101.8 million) of Senior Notes, partially offset by a decrease in bank indebtedness repayment of $4.7 million, a decrease in repayment of other loans of $2.0 million and an increase in issuance of shares of $1.7 million.

5.4 Liquidity and Capital Resource Measures

Accounts Receivables

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

(in thousands of Canadian dollars, except DSO)		**September 30, 2016**		December 31, 2015		Change
Average trade accounts receivable	**$**	**186,792**	$	301,966	$	(115,174)
DSO[(a)]		**65**		60		5

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-net (which excludes unbilled and other receivables) are outstanding based on a 90 day cycle. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. . Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to *Section 10.0 – Reconciliation of non-GAAP Measures* for additional information with respect to non-GAAP measures used by the Company.

Average trade accounts receivables decreased by $115.2 million, from $302.0 million as at December 31, 2015 to $186.8 million as at September 30, 2016, primarily as a result of decreased revenue in the third quarter of 2016 compared with the fourth quarter of 2015. DSO increased by 5 days during the third quarter of 2016 as compared to the fourth quarter of 2015, mainly due to the timing of revenue generation and collections.

Inventory

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

(in thousands of Canadian dollars)		**September 30, 2016**		December 31, 2015		Change
Inventories	**$**	**127,637**	$	167,557	$	(39,920)

Inventories decreased by $40.0 million, from $167.6 million as at December 31, 2015 to $127.6 million as at September 30, 2016, as a result of decreases in raw materials and supplies of $19.4 million, in finished goods of $17.7 million and in inventory obsolescence of $1.7 million.

Accounts Payable

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

(in thousands of Canadian dollars, except DPO)		**September 30, 2016**		December 31, 2015		Change
Average accounts payable and accrued liabilities	**$**	**196,257**	$	288,383	$	(92,126)
DPO[(a)]		**103**		86		17

(a) DPO, a non-GAAP measure, is the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90 day cycle. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to *Section 10.0 – Reconciliation of non-GAAP Measures* for additional information with respect to non-GAAP measures used by the Company.

Average accounts payable and accrued liabilities decreased by $92.1 million, from $288.4 million as at December 31, 2015, to $196.3 million as at September 30, 2016, primarily due to the reduction in activity levels. DPO increased by 17 days from 2015 levels, due to changes in the timing of purchases and payments in the third quarter of 2016 compared with the fourth quarter of 2015.

5.5 Credit Facilities

(in thousands of Canadian dollars)		September 30, 2016		December 31, 2015
Bank indebtedness	$	–	$	–
Standard letters of credit for performance and bid bonds		99,990		132,052
Total utilized credit facilities		99,990		132,052
Total available credit facilities[(a)]		491,025		623,970
Unutilized credit facilities	$	391,035	$	491,918

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

On March 20, 2013, the Company renewed its unsecured committed Bank credit facility (the "Credit Facility") for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by US$100 million from US$150 million to US$250 million, with an option to increase the credit limit to US$400 million with the consent of the lenders. On June 16, 2015, the option to increase the credit limit to US$400 million was exercised with the consent of the lenders and a new option to increase the credit limit to US $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 EBITDA ratio. Allowable credit utilization outside of this facility is US $50 million. In May 2016, the Company and the lenders agreed to certain amendments to the Credit Facility, including a reduction in the credit limit to US$325 million as described below in the section captioned, “Amendments to Senior Notes Agreement and Credit Facility”.

Repurchase of US$78 Million of Long-term Debt ("Senior Notes")

In the second quarter of 2016, the Company utilized a portion of its existing cash balances to repurchase approximately US$78 million of its Senior Notes at a purchase price of approximately US$79 million plus accrued interest.

Amendments to Senior Notes Agreement and Credit Facility

On May 10, 2016, the Company entered into amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Credit Facility. The principal amendments to the agreements with the holders of the Senior Notes and to the Credit Facility were as follows:

a) an increase in the Company’s permitted Total Debt to EBITDA covenant (the "Leverage Ratio") (currently a maximum of 3.00 to 1.00) to 4.25 to 1.00 for the fiscal quarters ending September 30, 2016 and December 31, 2016;

b) at the Company’s option, an increase in the Leverage Ratio to 3.75 to 1.00 and 3.5 to 1.00 for the quarters ending March 31, 2017 and June 30, 2017, respectively;

c) increased interest rates and standby and other fees payable to Senior Notes holders, and under the Credit Facility during any period when the Company is permitted an increased Leverage Ratio (an "Increased Leverage Period");

d) a reduction in the size of the Credit Facility from US$400 million to US$325 million; and

e) a change to the definition of the Leverage Ratio, which currently permits deductions from Total Debt of up to US$75 million in letters of credit which are performance guarantees ("Performance Guarantees"), to permit deduction from Total Debt of up to US$100 million in Performance Guarantees on a permanent basis and up to US$150 million in Performance Guarantees on a temporary basis during any Increased Leverage Period.

The Company incurred fees and expenses of $2.1 million to implement these amendments in the second quarter of 2016.

Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the 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 1.00 and Leverage Ratio of 4.25 to 1.00 for the quarters ended September 30 and December 31, 2016. The Company may elect to increase the Leverage Ratio to 3.75 to 1.00 and 3.50 to 1.00 for the quarters ended March 31 and June 30, 2017, respectively. The Company was in compliance with the Leverage Ratio and the Interest Coverage Ratio as at September 30, 2016 and December 31, 2015.

During October 2016, the Company initiated discussions to renegotiate the terms of its debt covenants with respect to its Credit Facility and Senior Notes in order to address the risks that the Company may not comply with its debt covenants as of December 31, 2016, the next date at which covenant compliance will be measured. It has received commitments, subject to certain customary conditions, for covenant amendments and an extension of the facility maturity from the two lead banks of the Credit Facility and is in discussions with the other participants in the Credit Facility and its Senior Note holders to obtain their consent for the proposed amendments. While the Company believes that the requisite consents will be obtained, as no agreements have yet been reached, there can be no assurance that the amendments to the covenants will be completed.

5.6 Senior Notes

The Senior Notes balance as at September 30, 2016 is $355.7 million (US$271.8 million) (December 31, 2015 – $485.1 million (US$350.0 million)). The Senior Notes have been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in section 5.8 below.

The Company has undertaken to maintain certain covenants in respect of the Senior Notes that are consistent with the debt covenants described for the Company’s Credit Facility. The Company was in compliance with these covenants as at September 30, 2016 and December 31, 2015. Please refer to section 5.5 for a description of the Senior Note repayments made in the second quarter of 2016 and for a description of the changes made to the debt covenants under the Credit Facility and Senior Notes during May 2016. The Company has made a further offer to repurchase up to US$75 million of its Senior Notes from its lenders, the completion of which is conditional on the agreement of the relevant parties for the proposed covenant amendments. Until the conditions are met, there can be no assurance that the Notes will be repurchased.

5.7 Contingencies and Off Balance Sheet Arrangements

Commitments and Contingencies

As part of the Company’s normal operations, it often enters into contracts, such as leases and purchase contracts, which obligate the Company to make disbursements in the future.

The following table summarizes these future payments required in respect of the Company's contractual obligations:

(in thousands of Canadian dollars)	**2016**	**2017**	**2018**	**2019**	**2020**	**After 2020**	**Total**
Purchase commitments	$56,485	$ 2,896	$ 2,035	$ 1,061	$ –	$ –	$ 62,477
Accounts payable	60,418	1,479	–	–	–	–	61,897
Deferred purchase consideration	–	–	–	–	–	–	–
Long-term debt	–	–	–	–	104,414	251,293	355,707
Finance costs on long-term debt	3,189	12,688	12,688	12,688	10,351	39,154	90,758
Obligations under finance leases	264	1,397	1,389	1,389	1,389	10,999	16,827
Operating leases	8,554	21,426	14,728	10,380	7,645	16,564	79,297
Total contractual obligations	$ 128,910	$ 39,886	$ 30,840	$ 25,518	$123,799	$ 318,010	$ 666,963

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.

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 $100 million as at September 30, 2016 (December 31, 2015 – $132.1 million) for support of its bonds. In addition, as at September 30, 2016, the Company had $100.8 million of outstanding surety bonds through insurance companies (December 31, 2015– $130.8 million).

In May 2016, the Company entered into agreements to, among other things, reduce the size of its Credit Facility and amend certain covenants under the Credit Facility and its Senior Notes and in October 2016, the Company initiated discussions to further amend certain covenants under the Credit Facility and the Senior Notes. Please refer to Section 5.5 for a description of the reduction in the size of the Credit Facility and the amended covenants and the proposed further amendments to the covenants applicable to the Credit Facility and Senior Notes.

5.8 Financial Instruments and Other Instruments

Fair Value

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

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

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

The following table presents the fair value hierarchy levels for the financial assets and liabilities as at September 30, 2016:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 114,413	$ 114,413	$ –	$ –
Short-term investments	2,798	2,798	–	–
Derivative financial instruments	1,095	–	1,095	–
Convertible preferred shares	10,000	–	–	10,000
Deposit guarantee	189	–	189	–
	$ 128,495	$ 117,211	$ 1,284	$ 10,000
Liabilities				
Deferred purchase consideration	3,821	–	3,821	–
Long-term debt	331,747	–	331,747	–
Derivative financial instruments	2,610	–	2,610	–
	$ 338,178	$ –	$ 338,178	$ –

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 September 30, 2016, 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 then ended by approximately $35.7 million, $6.4 million and $6.3 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by $57.6 million, $16.2 million and $41.4 million, respectively, as at September 30, 2016.

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 US 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 September 30, 2016:

(in thousands, except weighted average rate amounts)	
Canadian dollars sold for US dollars	
Less than one year	**C$ 6,445**
Weighted average rate	**0.76**
US dollars sold for Canadian dollars	
Less than one year	**US$ 12,600**
Weighted average rate	**1.32**
US dollars sold for Euros	
Less than one year	**US$ 27,730**
Weighted average rate	**0.89**
Euros sold for US dollars	
Less than one year	**€ 26,211**
Weighted average rate	**1.13**
Euros sold for British Pounds Sterling	
Less than one year	**€ 1,200**
Weighted average rate	**0.81**
US dollars sold for British Pounds Sterling	
Less than one year	**US$ 1,302**
Weighted average rate	**0.77**
British Pounds Sterling sold for US dollars	
Less than one year	**£ 407**
Weighted average rate	**1.44**
Norwegian Kroners sold for US dollars	
Less than one year	**NOK 117,135**
Weighted average rate	**0.12**

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

As at September 30, 2016, the Company had notional amounts of $121.0 million of foreign exchange forward contracts outstanding (December 31, 2015 – $145.7 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling $1.3 million (December 31, 2015 – $1.0 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 US dollar as its functional currency. During the nine-month period ended September 30, 2016, a gain of $27.6 million on the translation of the Senior Notes was transferred to other comprehensive income to offset the losses on translation of the net investment in the US dollar functional currency subsidiary. There was no ineffectiveness of this hedge for the nine month period ended September 30, 2016.

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at September 30, 2016:

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial assets				
Cash equivalents	$ –	$ –	$ 12,484	$ 12,484
Short-term investments	2,798	–	–	2,798
Loans receivable	195	4,919	2,512	7,626
Convertible preferred shares	10,000	–	–	10,000
	$ 12,993	$ 4,919	$ 14,996	$ 32,908
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	$ 99,990	$ –	$ –	$ 99,990
Long-term debt[(a)]	–	–	355,711	355,711
	$ 99,990	$ –	$ 355,711	$ 455,701

(a) As per the amendment to the Senior Notes Agreement and Credit Facility in May, 2016, during any period when the Company is permitted an increased Leverage Ratio, increased interest rates and standby and other fees are payable to the Senior Notes holders and under the Credit Facility.

The Company's interest rate risk arises primarily from its floating rate on its loans 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 nine-month ended September 30, 2016, 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 September 30, 2016, the Company had cash and cash equivalents totaling $114.4 million (December 31, 2015 – $260.6 million) and had unutilized lines of credit available to use of $391.0 million (December 31, 2015 - $491.9 million).

As described in Section 5.5 – Credit Facilities, the Company has initiated discussions to renegotiate the terms of its debt covenants with respect to its Credit Facility and Senior Notes in order to ensure continued compliance with its debt covenants.

5.9 Outstanding Share Capital

As at November 4, 2016, the Company had 64,626,397 common shares outstanding and stock options and share units outstanding to purchase up to 2,070,579 common shares.

5.10 Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three-month period ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

5.11 Transactions with Related Parties

The Company had no material transactions with related parties during the nine-month period ended September 30, 2016. All related party transactions were in the normal course of business.

6.0 Critical Accounting Judgments, Estimates and Accounting Policy Developments

6.1 Critical Judgments

The following are critical judgments management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the interim unaudited consolidated financial statements.

Materiality

Management must make assessments about whether line items are sufficiently material to warrant separate presentation in the primary financial statements and, if not, whether they are sufficiently material to warrant separate presentation in the financial statement notes.

Determination of Reportable Operating Segments

Management has exercised judgement in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Management has also exercised professional judgement in determining that the Company's Chief Executive Officer ("CEO") is the Company's Chief Operating Decision Maker ("CODM").

Determination of Cash Generating Unit ("CGU")

Management has exercised judgement in identifying the CGUs of the Company. In performing impairment assessments of long-lived assets, assets that cannot be assessed individually are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determination of CGUs is also required for impairment testing of goodwill.

Business Acquisitions

Significant judgments and assumptions are made in compiling the purchase price allocation for acquired companies. Management has exercised professional judgement in determining the total consideration paid in an acquisition, including any contingent consideration, and in determining the assets and liabilities that should be part of the purchase price accounting. Management has also exercised judgement in identifying intangible assets and in choosing the appropriate valuation models and techniques to determine their fair values. Management has also exercised professional judgement in characterizing the composition of any residual goodwill.

Provisions and Contingent Liabilities

As at September 30, 2016, the Company had $59.9 million of provisions; of this amount $19.8 million was included in current liabilities and $40.1 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

Decommissioning liabilities

Management is required to apply judgement in determining whether any legal or constructive obligations exist to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its properties. Management is required to make significant assumptions in determining the obligation for decommissioning liabilities. There are numerous factors that will affect the liability payable including the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates.

Income Taxes

The calculation of income taxes requires judgement in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The tax filings also are subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. Management believes that it has sufficient amounts accrued for outstanding tax matters based on information that is currently available.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Management judgement is used to determine the amounts of deferred tax assets and liabilities to be recognized, based upon the likely timing and the level of future taxable profit together with future tax planning strategies. In particular, judgement is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

6.2 Critical Accounting Estimates

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

Critical estimates used in preparing the interim unaudited consolidated financial statements include:

Long-lived Assets and Goodwill

As at September 30, 2016, the Company had $993.7 million of long-lived assets and goodwill. The Company evaluates the carrying values of the Cash Generating Units' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions and estimates.

Employee Future Benefit Obligations

As at September 30, 2016, the Company had $33.2 million of employee future benefit obligations. The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the defined benefit obligation recognized in the interim unaudited consolidated financial statements includes a number of assumptions regarding discount rates, rates of employee compensation increases, rates of inflation, and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

Decommissioning Liabilities

As at September 30, 2016, the Company had decommissioning liabilities in the amount of $32.1 million; of this amount $8.0 million was included in the current provisions account and $24.1 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the interim unaudited consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

Financial Instruments

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

Income Taxes

The recording of income tax expense includes certain estimations related to the impact in the current year of future events. Differences between the estimated and actual impact of these events could impact tax expense, current taxes payable or deferred taxes. In particular, income and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the losses can be utilized.

Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and tax expense already recorded. The Company establishes liabilities, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such liabilities is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of the respective entities.

6.3 Accounting Standards Issued but Not Yet Applied

IFRS 2, Share-based Payment

In September 2016, the IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The Company has not yet determined the impact of this standard on the consolidated financial statements.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, which replaces all phases of the financial instruments project, *IAS 39 – Financial Instruments*: *Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. 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. Under *IFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognizing revenue.

In April 2016, certain amendments were made to the original standard issued in May 2014. The amendments to the Revenue Standard do not change the underlying principles of the Standard but clarify how those principles should be applied.

The amendments clarify how to:

- identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a licence should be recognised at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 16 – Leases

IFRS 16, issued by the IASB in January 2016, supersedes *IAS 17* Leases (and related Interpretations). The standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for entities that have also adopted *IFRS 15*, *Revenue from Contracts with Customers*. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant effect of the new requirements will be an increase in leased assets and financial liabilities. The Company has not yet determined the impact of this standard on the consolidated financial statements.

6.4 New Accounting Standards Adopted

Amendments to IAS 1 Disclosure Initiative

The amendments to *IAS 1* clarify, rather than significantly change, existing *IAS 1* requirements. The amendments clarify:

- The materiality requirements in *IAS 1*;
- That specific line items in the statements of income, comprehensive income and financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of income and comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company's adoption of these amendments did not have a material impact on the interim 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 adoption of these amendments did not have a material impact on the interim consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to *IFRS 11* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *IFRS 3 Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to *IFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The Company's adoption of these amendments did not have an impact on the interim consolidated financial statements.

7.0 Outlook

Since global oil and gas prices first declined in the second half of 2014, the Company has experienced weak market conditions that have impacted demand for the Company's products and services. Lower expenditures by customers on the drilling and completion of wells has affected the Pipeline and Pipe Services Segment - North America region and the curtailment in large oil and gas greenfield development projects has impacted the international regions of the Pipeline and Pipe Services Segment. These trends were evident in the Company's weak financial performance in the second and third quarters of this year.

Going forward however, there are indications that the Company's financial performance will now sustain a trend of improving results. In the fourth quarter, performance will benefit from the full production of flow assurance gathering line coating for the Shah Deniz project at the Kabil, Indonesia facility and anti-corrosion coating of pipe destined for the Sur de Texas – Tuxpan project in Mexico. In the first quarter of 2017, the pace of improvement should accelerate with a return to profitable levels of operating activity based on the planned ramp up of production on the concrete coating scope of work for the Sur de Texas – Tuxpan project. The Sur de Texas – Tuxpan pipeline project, with an estimated revenue value of in excess of $350 million, combined with a modest but steady improvement in North American well completion activity, is expected to enable the Company to deliver strong growth in financial performance in 2017.

Further detail on the outlook for the Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is set out below.

Pipeline and Pipe Services Segment - North America

Shawcor's North American Pipeline segment businesses continue to be impacted by the reduction in well completion activity in North America which has reduced demand for small diameter pipe coating and joint protection, composite pipe for gathering line applications, OCTG pipe inspection and refurbishment and gathering line girth weld inspection. Demand for these products and services is not expected to begin to recover until global oil prices exhibit sustained increases and the number of wells drilled and completed begins to increase. Based on recent increases in drilling rig counts in North America, some modest improvement for these businesses is possible in 2017. Also contributing will be increased shipments of composite pipe to international markets. This revenue, included within the North America segment due to production location, will be a positive factor in the fourth quarter with further potential growth in 2017.

The build of new large diameter transmission pipeline infrastructure is the other key driver of revenue in the Company's North American Pipeline segment and in the fourth quarter a modest improvement in activity associated with large diameter pipeline girth weld inspection is forecast based on work now booked in the order backlog.

Pipeline and Pipe Services Segment - Latin America

Consistent with all of the Company's Pipeline segment regions, lower spending on oil and gas infrastructure by our clients continues to reduce new project activity in 2016 and will not be reversed until the Sur de Texas – Tuxpan project in Mexico begins to ramp up production in the first quarter of 2017. Once in full production, this project, with an estimated revenue value in excess of $350 million, provides confidence that revenue in the region will recover strongly and provide a strong source for improved Shawcor financial performance.

Pipeline and Pipe Services Segment – Europe, Middle East, Africa and Russia ("EMAR")

Revenue in the EMAR region in the fourth quarter of 2016 is expected to mirror the third quarter but is likely to move lower in 2017 as a result of the completion of the concrete coating for the Shah Deniz project and the two South Stream pipe coating projects in 2016 and the fact that pipeline operators continue to defer capital spending projects, particularly those that involve greenfield offshore oil developments.

Pipeline and Pipe Services Segment - Asia Pacific

Following steep declines in revenue in the first half of 2016, the Company is now expecting revenue to grow modestly in the Asia Pacific region based on ramp up of full production of the flow assurance work for the Shah Deniz project and the commencement of anti-corrosion coating for pipe destined for Mexico for the Sur de Texas – Tuxpan project. In 2017, modest growth is expected to continue based on booked projects included in the order backlog and bidding opportunities that are approaching award.

Petrochemical and Industrial Segment

Shawcor's Petrochemical and Industrial segment businesses continue to deliver steady growth in revenue and earnings based on consistent demand growth in the North American and European automotive, industrial and nuclear refurbishment markets served by the segment. This trend is expected to continue in the fourth quarter of

2016 and beyond with the segment targeting increased revenue growth in 2017 as new capacity for control cable and sealing and insulation products enters production.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog at September 30, 2016 of $606 million improved by 20% from $506 million at June 30, 2016. The increase in the backlog is due primarily to the increasing inclusion of the booked order for the Sur de Texas – Tuxpan project in Mexico. This project has an estimated value in excess of $350 million of which approximately 65% is now included in the backlog at September 30, 2016 with the remainder set to enter the backlog between now and December 31, 2016 based on the twelve month forecast production.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids is currently in excess of $500 million. In addition, the Company has provided budgetary estimates and is currently working with customers on projects with aggregate values of in excess of $2 billion. These projects provide a solid basis for potential backlog growth in 2017 and beyond.

8.0 Risks and Uncertainties

Operating in an international environment, servicing predominantly the oil and gas industry, Shawcor faces a number of business risks and uncertainties that could materially and adversely affect the Company's projections, business, results of operations and financial condition. A more complete outline of the risks and uncertainties facing the Company is included in the annual MD&A contained in the Company's 2015 Annual Report. There were no other material changes in the nature or magnitude of such business risks during the nine-month period ended September 30, 2016, other than as noted in *Section 5.5* under Debt Covenants**.**

9.0 Environmental Matters

As at September 30, 2016, the provisions on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $32.1 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

The total undiscounted cash flows estimated to settle all decommissioning liabilities is $42.8 million as at September 30, 2016. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.13% and 6.98%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

The Company expects the following cash outflows over the next five years and thereafter for decommissioning liabilities.

(in thousands of Canadian dollars)		**September 30, 2016**
2016	**$**	7,948
2017		327
2018		1,928
2019		3,110
2020		3,441
More than five years		26,005
	$	**42,759**

10.0 Reconciliation of Non-GAAP Measures

The Company reports on certain non-GAAP measures that are used to evaluate its performance and segments, as well as to determine compliance with debt covenants and to manage the capital structure. Non-GAAP measures do not have standardized meanings under IFRS and are not necessarily comparable to similar measures provided by other companies. The Company discloses these measures because it believes that they assist readers in understanding the results of the Company's operations and financial position and are meant to provide further information about its financial results to readers. These measures should not be considered in isolation or used in substitution for other measures of performance prepared in accordance with GAAP. The following is a reconciliation of the non-GAAP measures reported by the Company.

EBITDA and ADJUSTED EBITDA

(in thousands of Canadian dollars)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2016	2015	**2016**	2015
Net Income	**(175,345)**	38,112	**(208,905)**	68,053
Add:				
Income taxes	**2,481**	12,219	**(747)**	21,898
Finance costs, net	**4,330**	4,855	**13,047**	13,516
Amortization of property, plant, equipment and intangible assets	**19,939**	20,452	**61,363**	59,326
EBITDA[(a)]	**(148,595)**	75,638	**(135,242)**	162,793
Costs associated with repayment and modification of long-term debt	**–**	–	**2,061**	–
Impairment	**155,882**	–	**157,311**	–
Gain on sale of land	**(420)**	(814)	**(931)**	(814)
ADJUSTED EBITDA[(a)]	**6,867**	74,824	**23,199**	161,979

(a) Adjusted EBITDA and EBITDA are used by many analysts in the oil and gas industry as one of several important analytical tools.

EBITDA is a non-GAAP measure defined as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA is also a non-GAAP measure defined as EBITDA adjusted for non-operational items. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business.

Days Sales Outstanding

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

The following table sets forth the calculation for the Company's DSO as at:

(in thousands of Canadian dollars, except DSO)	**September 30, 2016**	December 31, 2015
Revenue for the quarter	**$ 259,139**	$ 455,260
Average trade accounts receivable	**$ 186,792**	$ 301,966
DSO	**65**	60

Days Payables Outstanding

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

The following table sets forth the calculation for the Company's DPO as at:

(in thousands of Canadian dollars, except DPO)	**September 30, 2016**	December 31, 2015
Cost of goods sold and services rendered for the quarter	**$ 172,162**	$ 303,510
Average accounts payable and accrued liabilities	**$ 196,257**	$ 288,383
DPO	**103**	86

11.0 Summary of Quarterly Results

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

(in thousands of Canadian dollars, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue					
2016	**365,579**	**255,359**	**259,139**	**–**	**–**
2015	471,940	398,020	485,428	455,260	1,810,648
2014	479,082	441,386	469,597	499,964	1,890,029
Income (loss) from operations					
2016	**15,950**	**(40,792)**	**(167,975)**	**–**	**–**
2015	55,616	(7,078)	55,195	45,696	149,429
2014	89,419	69,193	10,932	(20,868)	148,676
Net income (loss)[(a)]					
2016	**7,461**	**(41,678)**	**(174,019)**	**–**	**–**
2015	37,774	(8,538)	38,107	30,901	98,244
2014	61,947	47,949	5,617	(20,652)	94,861
Income (loss) from operations per share					
Basic					
2016	**0.25**	**(0.63)**	**(2.60)**	–	–
2015	0.86	(0.11)	0.86	0.70	2.31
2014	1.49	1.15	0.18	(0.32)	2.42
Diluted					
2016	**0.25**	**(0.63)**	**(2.60)**	–	**–**
2015	0.86	(0.11)	0.86	0.71	2.32
2014	1.48	1.14	0.18	(0.32)	2.41
Net income (loss) per share					
Basic					
2016	**0.12**	**(0.65)**	**(2.69)**	–	**–**
2015	0.59	(0.13)	0.59	0.48	1.52
2014	1.03	0.80	0.09	(0.32)	1.55
Diluted					
2016	**0.12**	**(0.65)**	**(2.69)**	–	**–**
2015	0.58	(0.13)	0.59	0.48	1.52
2014	1.03	0.79	0.09	(0.32)	1.53

(a) Represents the net income attributable to shareholders of the Company.

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

The Company's operations in the Pipeline and Pipe Services segment, representing approximately 82% and 84%, of the Company's consolidated revenue in the three-month and nine-month periods ended September 30, 2016, respectively, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company’s operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services market segment. The comparability of the quarterly information disclosed above is also impacted by movements in exchange rates as the majority of the Company’s revenue is transacted in currencies other than Canadian dollars, primarily US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars.

12.0 Forward-Looking Information

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward looking information" and "forward looking statements" (collectively "forward looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgements and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook section and elsewhere in respect of, among other things, the achievement of key performance objectives, the incurrence of additional capital expenditures as necessary to facilitate growth in new markets, the timing of major project activity, including the commencement of the Sur de Texas – Tuxpan contract, the decline in consolidated revenues and earnings in 2016 from 2015 levels, the reduced activity levels and the decline in revenue and earnings in the Pipeline and Pipe Services segment of the Company's business and the timing of recovery in respect thereof, the growth in revenue and earnings in the Petrochemical and Industrial segment of the Company's business, the amendments to the Credit Facility and Senior Notes and the repurchase of a portion of the Senior Notes, the sufficiency of resources, capacity and capital to meet market demand, to meet contractual obligations and to execute the Company's development and growth strategy, the sufficiency of the Company's human resources, systems and processes to operate its business and execute its strategic plan, the impact of the existing order backlog and other factors on the Company's revenue and Operating Income in 2016 and beyond, the impact of global economic activity on the demand for the Company's products, the impact of the decline in global oil and gas commodity prices on the level of industry investment in oil and gas infrastructure, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the adequacy of the Company's existing accruals in respect of taxes, environmental compliance and in respect of litigation matters and other claims generally, the level of payments under the Company's performance bonds, the outcome of the Company's outstanding bids and the expected development in the Company's order backlog.

Forward looking information involves known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted by the forward looking information. We caution readers not to place undue reliance on forward looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward looking information. Significant risks facing the Company include, but are not limited to: the impact on the Company of reduced demand for its products and services, including the suspension or cancellation of existing contracts, as a result of lower investment in global oil and gas extraction and transportation activity following the declines in the global price of oil and gas and as a result of delays in obtaining regulatory approvals; long term changes in global or regional economic activity and changes in energy supply and demand, which impact on the level of global pipeline infrastructure construction; the continued ability to comply with its debt covenants; exposure to product and other liability claims; shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; fluctuations in foreign exchange rates, as well as other risks and uncertainties, as more fully described herein under the heading "Risks and Uncertainties."

These statements of forward looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of global oil and gas prices, declines in expenditures on oil and gas infrastructures, modest global economic growth, the Company's ability to execute projects under contract, the Company's success in existing and future contract bids, the continued supply of and stable pricing for commodities used by the Company, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions and the ability of the Company to renegotiate the terms of certain covenants under its Credit Facility and the Senior Notes or to otherwise satisfy all covenants under its

Credit Facility and the Senior Notes. The Company believes that the expectations reflected in the forward looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward looking information included in this document and the Company can give no assurance that such expectations will be achieved.

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

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

13.0 Additional Information

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

November 9, 2016