**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 years ended December 31, 2018 and 2017 and should be read together with Shawcor's audited consolidated financial statements and accompanying notes for the same periods. 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 audited 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 14 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 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 one of 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 December 31, 2018, 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 86% of consolidated revenue for the year ended December 31, 2018. This segment includes the Bredero Shaw, Pipeline and Pipe Services Products, Flexpipe Systems, Guardian, Shaw Pipeline Services, Shawcor Inspection Services (formerly "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.
- Pipeline and Pipe Services Products includes Canusa-CPS, that manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Dhatec, that designs and assembles engineered pipe logistics products and services.
- Flexpipe Systems manufactures spoolable and stick composite pipe systems and high density polyethylene pipe 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.
- Shawcor Inspection Services (formerly "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 14% of consolidated revenue for the year ended December 31, 2018. 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.

## 1.2 Vision and Objectives

Shawcor’s vision and business strategy is to be a market leader and technology innovator with a primary focus on the global pipeline industry and to use this base as a platform to build a global integrated energy services company while achieving the following key performance objectives:

- generate a Return on Invested Capital ("ROIC") of 15% over the full business cycle;
- generate average annual net income growth of 15% over the full business cycle;

- continuously improve health, safety and environmental ("HSE") performance, as measured by recordable injuries per million person hours worked, to support the Company's commitment to an Incident and Injury Free ("IIF") workplace.

### 1.3 Key Performance Drivers

The Company believes the following key performance drivers are critical to the success of its businesses:

- demand for the Company's products and services that is primarily determined by investment in new energy infrastructure necessary to supply global energy needs;
- current and forecasted oil and gas commodity prices and availability of capital to enable customers to finance energy infrastructure investment;
- the Company's competitive position globally and its ability to maintain operations in each of the major oil and gas producing regions;
- the Company's technology and its ability to research and commercialize innovative products that provide added value to customers and provide competitive differentiation;
- the Company's operational effectiveness and its ability to maintain efficient utilization of productive capacity at each geographic location;
- access to capital and maintenance of sufficient available liquidity to support continuing operations and finance growth activities;
- the ability to identify and execute successful business acquisitions that result in strategic global growth; and
- the ability to attract and retain key personnel.

### 1.4 Key Performance Indicators

Several of the drivers identified above are beyond the Company's control; however, there are certain key performance indicators that the Company utilizes to monitor its progress in achieving its vision and performance objectives. These indicators are detailed below.

Certain of the following key performance indicators used by Shawcor are not measurements in accordance with GAAP, should not be considered as an alternative to net income or any other measure of performance under GAAP and may not necessarily be comparable to similarly titled measures of other entities. Refer to *Section 12 – Reconciliation of Non-GAAP Measures*, for additional information with respect to Non-GAAP measures used by the Company.

***Net Income Growth***

As part of its performance objectives, the Company has set a goal for average annual net income growth of 15% over the full business cycle, as described in *Section 1.2 – Vision and Objectives*. Net income (attributable to shareholders of the Company) decreased by $45.3 million from a net income of $71.2 million for the year ended December 31, 2017 to a net income of $25.9 million for the year ended December 31, 2018. This was mainly due to the $77.4 million decrease in operating income and a $4.8 million net monetary loss in Argentina. This was partially offset by a $26.1 million decrease in income tax expense, a $6.6 million decrease in loss from investment in associates and a $4.7 million decrease in finance cost.

### *Return on Invested Capital*

Return on Invested Capital ("ROIC"), a non-GAAP measure, is defined as net income for the year adjusted for after tax interest expense divided by average invested capital for the most recently completed year. ROIC does not have a standardized meaning under GAAP and may not necessarily be comparable to similarly titled measures used by other entities. ROIC is used by the Company to assess the efficiency of generating profits from each unit of invested capital. See *Section 12.0 – Reconciliation of Non-GAAP Measures*. As part of its performance objectives, the Company has set an ROIC target of 15%, as described in *Section 1.2 – Vision and Objectives.* The Company's ROIC for the years ended December 31, 2018 and 2017 was 2.8% and 6.5%, respectively. This decrease was primarily due to a decrease of $47.7 million in net income for the most recent year, adjusted for after-tax interest expense.

### *Safety and Environmental Stewardship*

The Company maintains a comprehensive HSE management system in place within each of its eight operating divisions and is committed to be an IIF workplace with no damage to the environment. For the years ended December 31, 2018 and December 31, 2017, the Company had recordable injuries per million person hours worked of 6.2 and 4.5, respectively. During 2018, the Company completed 11 HSE audits at manufacturing and service locations across all eight divisions and developed action plans to correct any deficiencies identified in the audits.

## 1.5 Capability to Deliver Results

### *Capital Resources*

The Company operates in the global energy industry and, as a result, the operations of the Company tend to be cyclical. In addition, the Company can undertake major pipe coating projects anywhere in the world as part of its normal operations. These factors, as well as the Company's growth initiatives, can result in variations in the amount of investment in property, plant and equipment, working capital and project guarantees required to support the Company's businesses. The Company's policy is to manage its financial resources, including debt facilities, so as to maintain sufficient financial capacity to fund these investment requirements.

Capital expenditures increased by $35.1 million from $41.1 million for the year ended December 31, 2017 to $76.2 million for the year ended December 31, 2018, mainly due to an increase in growth capital spend in the Company's pipe coating, composite products and integrity inspection field services businesses, The Company believes it has sufficient available resources and capacity to meet the market demand for its products and services in the markets where the Company operates. The Company may, however, incur new capital expenditures to respond to market demand growth and to facilitate growth in new markets.

The Company expects the current level of net working capital will be sufficient to support the level of business activity projected in 2019; however, unexpected increases in business activity or specific project requirements may result in higher investment in working capital. Any such increase in requirements will be financed from the Company's cash balances and available committed credit facilities. The Company had cash and cash equivalents and short term investments of $219.3 million and $289.1 million as at December 31, 2018 and 2017, respectively, and had unutilized lines of credit available of $456.6 million and $389.1 million, as at December 31, 2018 and 2017, respectively.

Please refer to *Section 5.0 – Liquidity and Capitalization,* for additional information with respect to the Company's liquidity and financial position.

### *Non-Capital Resources*

The Company considers its people as the most significant non-capital resource required in order to achieve the vision and objectives identified above. The Company's executives are comprised of senior business leaders who bring a broad range of experience and skill sets in the oil and gas industry, finance, tax, law and corporate governance. The leadership team's experience combined with the employees' knowledge and dedication to excellence has resulted in a long history of proven financial success and stability, with the resulting creation of value for the Company's stakeholders.

On an ongoing basis, the Company monitors its succession planning program in order to mitigate the impact of planned or unplanned departures of key personnel. As at December 31, 2018, the Company believes it has sufficient human resources to continue to operate its businesses and execute its strategic plan.

### *Systems and Processes*

Management regularly reviews the Company's operational systems and processes and develops new ones as required. Key operational programs utilized by the Company during the year ended December 31, 2018 included systems and controls over project bidding, capital expenditures, internal controls over financial reporting, product development, HSE management and human resource development. In addition, the Shawcor Management System program has been implemented to increase operating efficiency and achieve significant cost savings in each of the Company's eight divisions.

As at December 31, 2018, the Company believes it has sufficient systems and processes in place to continue to operate its businesses and execute its strategic plan.

## 2.0 Financial Highlights

### 2.1 Selected Financial Information

| (in thousands of Canadian dollars) | | 2018[b] | | 2017[a] | | 2016 |
|---|---|---|---|---|---|---|
| | | **Year Ended December 31,** | | | | |
| **Revenue** | **$** | **1,408,872** | $ | 1,565,499 | $ | 1,209,259 |
| **Cost of Goods Sold and Services Rendered** | | **974,795** | | 980,021 | | 816,775 |
| **Gross Profit** | | **434,077** | | 585,478 | | 392,484 |
| Selling, general and administrative expenses | | **300,294** | | 342,991 | | 320,643 |
| Research and development expenses | | **11,876** | | 10,536 | | 13,239 |
| Foreign exchange gains | | **(11,929)** | | (249) | | (1,386) |
| Amortization of property, plant and equipment | | **64,789** | | 77,267 | | 57,255 |
| Amortization of intangible assets | | **18,434** | | 19,170 | | 23,035 |
| Gain on sale of land | | **–** | | (311) | | (6,493) |
| Impairment | | **–** | | 8,073 | | 157,311 |
| **Income (Loss) from Operations** | | **50,613** | | 128,001 | | (171,120) |
| Income (loss) from investments in associates | | **282** | | (6,271) | | (3,536) |
| Finance costs, net | | **(12,092)** | | (16,817) | | (15,915) |
| Costs associated with repayment and modification of long-term debt | | **–** | | – | | (3,009) |
| Gain from arbitration award | | **–** | | – | | 19,221 |
| Net monetary loss | | **(4,796)** | | – | | – |
| **Income (Loss) before Income Taxes** | | **34,007** | | 104,913 | | (174,359) |
| Income taxes | | **7,828** | | 33,885 | | 6,207 |
| **Net Income (Loss)** | **$** | **26,179** | $ | 71,028 | $ | (180,566) |
| **Net Income (Loss) Attributable to:** | | | | | | |
| **Shareholders of the Company** | **$** | **25,876** | $ | 71,155 | $ | (180,960) |
| **Non-controlling interests** | | **303** | | (127) | | 394 |
| **Net Income (Loss)** | **$** | **26,179** | $ | 71,028 | $ | (180,566) |
| **Per Share Information:** | | | | | | |
| **Earnings (Loss) per Share** | | | | | | |
| Basic | **$** | **0.37** | $ | 1.02 | $ | (2.80) |
| Diluted | **$** | **0.37** | $ | 1.02 | $ | (2.80) |
| **Cash Dividend per Share:** | | | | | | |
| Common Shares | **$** | **0.600** | $ | 0.600 | $ | 0.600 |

| (in thousands of Canadian dollars) | | **December 31 2018[b]** | | December 31 2017[a] | | December 31 2016 |
|---|---|---|---|---|---|---|
| **Total Assets** | **$** | **1,702,125** | **$** | 1,698,001 | $ | 1,777,791 |
| **Total Non-Current Liabilities** | **$** | **343,229** | **$** | 322,235 | $ | 339,298 |

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

## 2.2 Foreign Exchange Impact

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

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| US Dollar | **1.2958** | 1.2999 |
| Euro | **1.5290** | 1.4700 |
| British Pound | **1.7273** | 1.6829 |

The following table sets forth the impact on revenue, operating income and net income (attributable to shareholders of the Company), 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) | | Year Ended December 31, 2018 |
|---|---|---|
| Revenue | **$** | **(20,577)** |
| Income from operations | | **(7,091)** |
| Net income (attributable to shareholders of the Company) | | **(2,651)** |

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $11.9 million in 2018, compared to a foreign exchange gain of $0.2 million 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, primarily in Latin America.

## 3.0 Business Developments

**Shawcor to acquire ZCL Composites**

On January 20, 2019, the Company announced that it had entered into an arrangement agreement ("Arrangement") to acquire all of the shares of ZCL Composites Inc. ("ZCL") for $10.00 per share in cash and by way of a statutory plan of arrangement. The price per share implies an aggregate fully diluted equity value for ZCL of approximately $308 million. ZCL is North America's largest manufacturer and supplier of environmentally friendly fiberglass reinforced plastic underground storage tanks. ZCL has two plants in Canada, four in the US and one in The Netherlands serving the Fuel, Water & Wastewater and Oil & Gas markets. The arrangement will be considered by ZCL shareholders on March 26, 2019 and requires the approval of 66 2/3$^{rd}$ % of the votes cast at the meeting. Subject to receipt of shareholder and court approval, closing of the transaction is expected in early April 2019.

Shawcor has entered into a commitment letter with the Toronto-Dominion Bank and National Bank of Canada as co-lead arrangers providing a US$500 million, four-year senior unsecured revolving credit facility (the "Credit Facility"). The Credit Facility will be used to fund the Arrangement and replace Shawcor's existing senior credit facility. Shawcor anticipates that a portion of the Credit Facility will be syndicated to other banks or financial institutions. It is anticipated that the Credit Facility will be entered into prior to the end of the first quarter of 2019.

On January 30, 2019, the Company gave notice to the Senior Note holders that it will repay on March 7, 2019 the entire principal amount outstanding with accrued interest, approximately US$199.8 million, and a make whole amount estimated at approximately US$5.2 million.

**Offshore Guyana Deepwater Projects**

On October 4, 2018, the Company announced that its pipe coating division had been assigned work from Saipem valued at approximately C$110 million to provide thermal insulation and anticorrosion coating services for the Liza I and II deepwater development projects located offshore Guyana.

Coating work under the Liza I project commenced in March 2018 at Shawcor's Channelview, Texas facility and additional work will be completed at Shawcor's Veracruz, Mexico facility. Work on Liza I is expected to be completed during the first quarter of 2019. Coating work under the larger Liza II project, which is conditional on a Final Investment Decision, or "FID", by the pipeline operator, is expected to be executed at the Veracruz and Channelview facilities.

## 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) | **2018[c]** | 2017[b] | Change |
|---|---|---|---|
| Pipeline and Pipe Services | **$ 1,208,247** | $ 1,372,556 | $ (164,309) |
| Petrochemical and Industrial | **202,254** | 194,207 | 8,047 |
| Elimination[a] | **(1,629)** | (1,264) | (365) |
| Consolidated | **$ 1,408,872** | $ 1,565,499 | $ (156,627) |

(a) Represents the elimination of the inter-segment sales between the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment.
(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

Consolidated revenue decreased by $156.6 million, or 10%, from $1,565.5 million for the year ended December 31, 2017 to $1,408.9 million for the year ended December 31, 2018, reflecting a decrease of $164.3 million, or 12%, in the Pipeline and Pipe Services segment, partially offset by a $8.1 million, or 4%, increase in revenue in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during the year ended December 31, 2018 was $1,208.3 million, or $164.3 million lower than in the comparable period in 2017, primarily due to lower large project activity in Latin America and decreased activity levels in Asia Pacific and Europe, Middle East, Africa and Russia ("EMAR"), partially offset by higher revenue in the North American region. In addition, revenue was negatively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0*. 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 $8.1 million in the year ended December 31, 2018 compared to the same period in 2017, due to higher activity levels in EMAR and North America, partially offset by lower revenue in Asia Pacific. See *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

### *Income from Operations ("Operating Income")*

The following table sets forth operating income and operating margin for the following periods:

| (in thousands of Canadian dollars) | | **2018[c]** | | 2017[b] | | Change |
|---|---|---|---|---|---|---|
| Operating income | **$** | **50,613** | $ | 128,001 | $ | (77,388) |
| Operating margin[a] | | **3.6%** | | 8.2% | | (4.6%) |

(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. See *Section 12.0 - Reconciliation of Non-GAAP Measures*.

(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.

(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

Operating income decreased by $77.4 million, from $128.0 million in the year ended December 31, 2017, to $50.6 million in the year ended December 31, 2018. Operating income was negatively impacted by a year-over-year decrease in gross profit of $151.4 million and a $1.3 million increase in research and development expenses. This was partially offset by decreases of $42.7 million in selling, general and administrative ("SG&A") expenses and $13.2 million in amortization of property, plant, equipment and intangible assets, a $11.7 million increase in net foreign exchange gains and a $8.1 million impairment charge recorded in the fourth quarter of 2017. In addition, operating income was negatively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0*.

The decrease in gross profit resulted from the lower revenue, as explained above, and a 6.6 percentage point decrease in the gross margin from the prior year. The decrease in the gross margin percentage was primarily due to lower large project activity in Latin America and lower utilization in EMAR and Asia Pacific facilities and the related impact on the absorption of manufacturing overheads.

SG&A expenses decreased by $42.7 million in the year ended December 31, 2018 compared to the comparable period in 2017, primarily due to a $36.6 million decrease in compensation and other personnel related costs, where the prior year period included an increase in government mandated employee profit sharing on large project activity in Latin America, a $2.2 million decrease in professional consulting and legal fees and a $3.9 million decrease in insurance, management information systems, product development 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) | | **2018[a]** | | 2017 | | Change |
|---|---|---|---|---|---|---|
| Interest income on short-term deposits | **$** | **(2,990)** | $ | (1,556) | $ | (1,434) |
| Interest expense, other | | **5,986** | | 5,539 | | 447 |
| Interest expense on long-term debt | | **9,096** | | 12,834 | | (3,738) |
| Finance costs, net | **$** | **12,092** | $ | 16,817 | $ | (4,725) |

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

For the year ended December 31, 2018, net finance costs were $12.1 million, compared to $16.8 million in the prior year. The decrease in net finance costs was primarily a result of $3.7 million in lower interest expense on long term debt due to lower interest rates and $1.4 million in higher interest income on short term deposits. This was partially offset by a $0.5 million increase in other financing expenses.

***Income Taxes***

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

| (in thousands of Canadian dollars) | **2018[b]** | 2017[a] | Change |
|---|---|---|---|
| Income tax expense | $ **7,828** | $ 33,885 | $ (26,057) |

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

The Company recorded an income tax expense of $7.8 million (23% of income before income taxes) during the year ended December 31, 2018, compared to an income tax expense of $33.9 million (32% of income before income taxes) during the year ended December 31, 2017. The effective tax rate for the year ended December 31, 2018 was lower than the Company's statutory income tax rate of 27%, primarily due to the mix of jurisdictions where the income was earned and the impact of improved results in jurisdictions where the Company is benefiting from previously unrecognized deferred tax assets.

***Net Income (attributable to shareholders of the Company)***

Net income decreased by $45.3 million, from $71.2 million during the year ended December 31, 2017 to $25.9 million during the year ended December 31, 2018, mainly due to the $77.4 million decrease in operating income, as explained above, and a $4.8 million increase in net monetary loss from hyperinflationary accounting. This was partially offset by a $26.1 million decrease in income tax expense, a $6.6 million increase in net gain from investments in associates and a $4.7 million decrease in finance costs.

## 4.2 Segment Information

### 4.2.1 Pipeline and Pipe Services Segment

The following table sets forth, by geographic location, the revenue, operating income and operating margin for the Pipeline and Pipe Services segment for the following periods:

| (in thousands of Canadian dollars, except operating margin) | **2018[c]** | 2017[b] | Change |
|---|---|---|---|
| North America | **$ 822,465** | $ 621,825 | $ 200,640 |
| Latin America | **118,102** | 383,538 | (265,436) |
| EMAR | **181,240** | 203,437 | (22,197) |
| Asia Pacific | **86,440** | 163,756 | (77,316) |
| **Total Revenue** | **$ 1,208,247** | $ 1,372,556 | $ (164,309) |
| **Operating income** | **$ 29,129** | $ 125,446 | $ (96,317) |
| **Operating margin[a]** | **2.4%** | 9.1% | (6.7%) |

(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. See *section 12.0 - Reconciliation of Non-GAAP Measures.*
(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

Revenue in the Pipeline and Pipe Services segment for the year ended December 31, 2018 was $1,208.3 million, a decrease of $164.3 million, from $1,372.6 million in the prior year. Segment revenue was adversely affected by the impact on translation of foreign operations, as noted in *Section 2.2* above, and by lower activity levels in Latin America, EMAR and Asia Pacific, partially offset by higher revenue in North America:

- In North America revenue increased by $200.6 million, or 32%, primarily due to increased revenue from flexible composite pipe sales, pipe weld inspection services, large diameter pipe coating in Canada, small diameter pipe coating in the USA and engineering services. This was partially offset by lower activity levels in large diameter pipe coating in the USA and small diameter pipe coating in Canada.

- Latin America revenue was lower by $265.4 million, or 69%, mainly due to lower large project activity related to Sur de Texas-Tuxpan project, partially offset by higher volumes at the Company’s Argentina and Brazilian facilities.

- Revenue in EMAR decreased by $22.2 million, or 11%, primarily due to decreased pipe coating activity levels in the Orkanger, Norway and Leith, Scotland facilities, and the absence of the Shah Deniz project work in the Caspian. This was partially offset by higher volumes at the Ras Al Khaimah UAE ("RAK") and the Italian facilities and increased revenue in pipe weld inspection services.

- Asia Pacific revenue decreased by $77.3 million, or 47%, mainly due to lower pipe coating project activity at the Kabil, Indonesia and Kuantan, Malaysia facilities.

Operating income for the year ended December 31, 2018 was $29.1 million compared to $125.5 million for the year ended December 31, 2017, a decrease of $96.3 million. The decrease in operating income is primarily due to the $151.6 million decrease in gross profit as a result of the decrease in revenue, as explained above, and a 7.3 percentage point decrease in gross margin. The decrease in gross margin percentage was primarily due to lower large project activity in Latin America, lower utilization in EMAR and Asia Pacific facilities and the related impact on the absorption of manufacturing overheads. This was partially offset by decreases in amortization of property, plant and equipment and SG&A expenses, as explained in *Section 4.1* above, and the $8.1 million impairment charge recorded in the fourth quarter of 2017.

### 4.2.2 Petrochemical and Industrial Segment

The following table sets forth, by geographic location, the revenue, operating income and operating margin for the Petrochemical and Industrial segment for the following periods:

| (in thousands of Canadian dollars, except operating margin) | | **2018** | | 2017 | | Change |
|---|---|---|---|---|---|---|
| North America | **$** | **115,069** | $ | 113,973 | $ | 1,096 |
| EMAR | | **76,070** | | 67,857 | | 8,213 |
| Asia Pacific | | **11,115** | | 12,377 | | (1,262) |
| **Total Revenue** | **$** | **202,254** | $ | 194,207 | $ | 8,047 |
| **Operating income** | **$** | **32,658** | $ | 31,825 | $ | 833 |
| **Operating margin**[(a)] | | **16.1%** | | 16.4% | | (0.3%) |

(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. See *Section 12.0 - Reconciliation of Non-GAAP Measures.*

Revenue increased in the year ended December 31, 2018 by $8.1 million, or 4%, to $202.3 million compared to the comparable period in 2017, due to increased shipments of heat shrink products in EMAR and North America, partially offset by lower activity levels for wire and cable products in North America.

Operating income increased $0.8 million for the year ended December 31, 2018 to $32.7 million compared to the year ended December 31, 2017. The increase in operating income was primarily due to an increase in gross profit of $0.2 million and a decrease in SG&A expenses, as explained above. Gross profit was higher as a result of the increase in revenue, as explained above, partially offset by a 1.1 percentage point decrease in gross margin. The decrease in gross margin was mainly due to unfavourable product mix.

### 4.2.3 Financial and Corporate

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

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

| (in thousands of Canadian dollars) | | **2018** | | 2017 | | Change |
|---|---|---|---|---|---|---|
| Financial and corporate expenses | **$** | **(23,103)** | $ | (29,830) | $ | 6,727 |

Financial and corporate costs decreased by $6.7 million from the year ended December 31, 2017 to $23.1 million for the year ended December 31, 2018. The decrease was primarily due to a $6.1 million decrease in compensation and other related personnel costs and a decrease of $1.3 million in professional consulting and legal fees, partially offset by an increase of $0.6 million in building and management information system 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) | | **2018[(b)]** | | 2017[(a)] |
|---|---|---|---|---|
| **Net Income** | **$** | **26,179** | $ | 71,028 |
| Non-cash items | | **91,571** | | 132,446 |
| Settlement of decommissioning liabilities | | **(435)** | | (765) |
| Settlement of other provisions | | **(10,478)** | | (3,791) |
| Net change in employee future benefits | | **(183)** | | 3,152 |
| Net change in non-cash working capital and foreign exchange | | **(76,109)** | | (23,624) |
| **Cash provided by operating activities** | | **30,545** | | 178,446 |
| **Cash used in investing activities** | | **(73,331)** | | (31,958) |
| **Cash used in financing activities** | | **(41,012)** | | (44,960) |
| **Foreign exchange impact on cash and cash equivalents and net monetary loss** | | **11,997** | | (7,287) |
| **Net Change in Cash and Cash Equivalents** | | **(71,801)** | | 94,241 |
| Cash and cash equivalents at beginning of Year | | **289,065** | | 194,824 |
| **Cash and Cash Equivalents at End of Year** | **$** | **217,264** | $ | 289,065 |

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

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

Cash provided by operating activities was $30.5 million in 2018, a reduction of $147.9 million compared to the prior year. The change in cash provided by operating activities was primarily due to decreases of $44.8 million in net income, $52.5 million in net change in non-cash working capital and foreign exchange and $40.9 million in non-cash items, a $6.7 million increase in settlements of other provisions and a $3.3 million net change in employee future benefits.

### 5.2 Cash Used in Investing Activities

Cash used in investing activities was $73.3 million, an increase of $41.4 million compared to the prior year. This was primarily due to increases of $35.1 million in the purchase of property, plant and equipment, mainly due to an increase in growth capital spend in the Company's pipe coating, composite products and integrity inspection field services businesses, $3.9 million in short term investment, $2.8 million in other assets and $2.3 million in loan receivable. This was partially offset by an increase of $2.8 million in proceeds on disposal of property, plant and equipment.

### 5.3 Cash Used in Financing Activities

Cash used in financing activities during 2018 was $41.0 million, a decrease of $3.9 million compared to the prior year. The change was primarily due to a $2.5 million bank indebtedness payment made in the first quarter of 2017 and a $1.1 million increase in the value of shares issued related to executive compensation in 2018.

### 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 receivable as at December 31:

| (in thousands of Canadian dollars, except DSO) | | **2018** | | 2017 | | Change |
|---|---|---|---|---|---|---|
| Average trade accounts receivable - net | **$** | **221,911** | $ | 208,104 | $ | 13,807 |
| DSO[(a)] | | **56** | | 44 | | 12 |

(a) The Company calculates DSO as the average number of days that trade accounts receivables-net (which excludes contract assets and other receivables) are outstanding based on a 90-day cycle. DSO is a non-GAAP measure and does not have a standardized meaning and the Company's method of calculating may differ from that used by other entities, and as a result may not necessarily be comparable to measures used by others. See *Section 12.0 – Reconciliation of Non-GAAP Measures*.

Average trade accounts receivables increased by $13.8 million or 6.6% as at December 31, 2018 compared to December 31, 2017, primarily as a result of the timing of billing and collections related to large project activity in the fourth quarter of 2017. DSO increased by 12 days due to the decrease in revenue in the fourth quarter of 2018 compared to the same period in the prior year, as explained in *Section 6.1 – Fourth Quarter Highlights*, and the increase in the average trade accounts receivables as explained above.

***Inventory***

The following table sets forth the Company's inventory balance as at December 31:

| (in thousands of Canadian dollars) | | **2018** | | 2017[(a)] | | Change |
|---|---|---|---|---|---|---|
| Inventory | **$** | **136,997** | $ | 115,018 | $ | 21,979 |

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.

Inventories increased by $22.0 million or 19% as at December 31, 2018 compared to December 31, 2017, due to increases of $12.0 million in finished goods, $8.5 million in raw materials and supplies and $1.8 million in work in process, reflecting higher activity levels.

### *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 December 31:

| (in thousands of Canadian dollars, except DPO) | | **2018** | | 2017 | | Change |
|---|---|---|---|---|---|---|
| Average accounts payable and accrued liabilities | **$** | **197,695** | $ | 203,497 | $ | (5,802) |
| DPO[(a)] | | **70** | | 69 | | 1 |

(a) The Company calculates DPO as 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. DPO is a non-GAAP measure and does not have a standardized meaning and the Company's method of calculating may differ from that used by other entities, and as a result may not necessarily be comparable to measures used by others. See *Section 12.0 – Reconciliation of Non-GAAP Measures*.

Average accounts payable and accrued liabilities decreased by $5.8 million or 3% as at December 31, 2018 compared to December 31, 2017. DPO increased by 1 day from 2017 levels, due to the timing of purchases and payments in the fourth quarter of 2018 compared with the fourth quarter of 2017.

## 5.5 Credit Facilities

| (in thousands of Canadian dollars) | | **2018** | | 2017 |
|---|---|---|---|---|
| Standard letters of credit for performance, bid and surety bonds | **$** | **43,879** | $ | 71,175 |
| Total utilized credit facilities | | **43,879** | | 71,175 |
| Total available credit facilities[(a)] | | **500,498** | | 460,251 |
| **Unutilized credit facilities** | **$** | **456,619** | $ | 389,076 |

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

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility ("Existing 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, 2014, 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 Existing Facility that is a function of the Company's Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. On December 6, 2016, the Company entered into amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Existing Facility, the results of which amendments included an extension of the term of the Existing Facility from March 20, 2018 to December 6, 2019 and a reduction in the size of the Existing Facility from US$325 million to US$317 million.

The Company is required to maintain an Interest Coverage Ratio of more than 2.50 to 1.00 and a Leverage Ratio of less than 3.00 to 1.00.

The Company was in compliance with the covenants under the Existing Facility as at December 31, 2018 and December 31, 2017.

The Credit Facility will replace the Existing Facility and is expected to be completed in the first quarter of 2019. The financial covenants under the Credit Facility are more favourable to the Company than those under the Existing Facility.

## 5.6 Long-Term Debt

On March 20, 2013, the Company issued Senior Notes for total gross proceeds of US$350 million (CAD$358.3 million at the March 20, 2013 foreign exchange rate) to institutional investors. The principal balances outstanding at December 31, 2018 and 2017 are as follows:

| (in millions of Canadian dollars) | Due Date | Interest Rate | **December 31 2018 (US$)** | December 31 2017 (US$) | **December 31 2018 (CAD$)** | December 31 2017 (CAD$) |
|---|---|---|---|---|---|---|
| Senior Notes, Series A | March 31, 2020 | 2.98% | **62** | 62 | **84** | 77 |
| Senior Notes, Series B | March 31, 2023 | 3.67% | **57** | 57 | **78** | 71 |
| Senior Notes, Series C | March 31, 2025 | 3.82% | **52** | 52 | **71** | 66 |
| Senior Notes, Series D | March 31, 2028 | 4.07% | **26** | 26 | **36** | 33 |
| | | | **197** | 197 | **269** | 247 |

The total long-term debt balance as at December 31, 2018 is $267.8 million (US$196.8 million) (2017 – $246.2 million (US$196.8 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 7 of the Consolidated Financial Statements.

In respect of the long-term debt, the Company is required to maintain certain covenants that are consistent with the debt covenants described in *Section 5.5* above for the Credit Facility. The Company was in compliance with these covenants as at December 31, 2018 and December 31, 2017.

On January 30, 2019, the Company gave notice to the Senior Note holders that it will repay on March 7, 2019 the entire principal amount outstanding with accrued interest, approximately US$199.8 million, and a make whole amount estimated at approximately US$5.2 million.

### 5.7 Commitments, Leases, Contingencies and Off Balance Sheet Arrangements

| (in thousands of Canadian dollars) | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Purchase commitments | 96,914 | 83 | 14 | 14 | 28 | – | 97,053 |
| Accounts payable | 95,794 | – | – | – | – | – | 95,794 |
| Long-term debt | – | 83,835 | – | – | 77,551 | 107,121 | 268,507 |
| Finance costs on long-term debt | 9,526 | 7,649 | 7,027 | 7,027 | 4,884 | 9,605 | 45,718 |
| Obligations under finance lease | 1,696 | 1,460 | 1,446 | 1,439 | 1,439 | 7,271 | 14,751 |
| Operating leases | 21,953 | 14,210 | 11,164 | 8,969 | 6,196 | 11,957 | 74,449 |
| Other obligations | 1,875 | 1,763 | 1,517 | 1,294 | 944 | 4,118 | 11,511 |
| **Total** | **227,758** | **109,000** | **21,168** | **18,743** | **91,042** | **140,072** | **607,783** |

***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 sets forth the Company's future minimum finance lease payments as at December 31, 2018:

| (in thousands of Canadian dollars) | | 2018 |
|---|---|---|
| Total future minimum lease payments | **$** | **14,751** |
| Less: imputed interest | | **(3,208)** |
| Balance of obligations under finance leases | | **11,543** |
| Less: current portion | | **1,155** |
| Non – current obligations under finance leases | **$** | **10,388** |

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

The Company utilizes the Existing Facility to support its bonds. The Company has utilized total credit facilities of $43.9 million as at December 31, 2018 (December 31, 2017 – $71.2 million) for support of its bonds. In addition, as at December 31, 2018, the Company had $66.3 million of outstanding surety bonds through insurance companies (December 31, 2017 – $48.4 million).

### 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 that reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs which are used to measure fair value fall into the following three different levels of the fair value hierarchy:

**Level 1** – Quoted prices in active markets for identical instruments that are observable.

**Level 2** – Quoted prices in active markets for similar instruments; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

**Level 3** – Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

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

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at December 31, 2018:

| (in thousands of Canadian dollars) | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ **217,264** | $ **217,264** | $ **–** | $ **–** |
| Short-term investments | **2,046** | **2,046** | **–** | **–** |
| Loans receivable | **3,037** | **–** | **3,037** | **–** |
| Derivative financial instruments | **1,102** | **–** | **1,102** | **–** |
| Deposit guarantee | **261** | **–** | **261** | **–** |
| | $ **223,710** | $ **219,310** | $ **4,400** | $ **–** |
| **Liabilities** | | | | |
| Long-term debt | **243,327** | **–** | **243,327** | – |
| Derivative financial instruments | **226** | **–** | **226** | **–** |
| | $ **243,553** | $ **–** | $ **243,553** | $ **–** |

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 year-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 risk 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 the Company's management. Material risks are monitored and are regularly reported to the Board of Directors.

***Market Risk***

<u>*Foreign Exchange Risk*</u>

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 December 31, 2018, 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 year ended December 31, 2018 by approximately $46.6 million, $1.0 million and $0.7 million, respectively, prior to foreign exchange forward contract activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by approximately $56.2 million, $11.2 million and $45.0 million, respectively, as at December 31, 2018. Please also refer to *Section 13.0 – Financial Reporting in Hyperinflationary Economies*, for the impact of adopting IAS 29 for Argentina.

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 forward contracts for speculative purposes. With the exception of the Company's US dollar based operations, the Company does not hedge translation exposures.

<u>*Foreign Exchange Forward Contracts*</u>

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 hedged 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 December 31, 2018:

| (in thousands, except weighted average rate amounts) | |
|---|---|
| US dollars sold for Euros | |
| Less than one year | US$ 13,500 |
| Weighted average rate | 0.87 |
| Euros sold for US dollars | |
| Less than one year | € 18,013 |
| Weighted average rate | 1.19 |
| Norwegian Kroners sold for US dollars | |
| Less than one year | NOK 87,184 |
| Weighted average rate | 0.11 |

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

As at December 31, 2018, the Company had notional amounts of $60.3 million of foreign exchange forward contracts outstanding (December 31, 2017 – $83.8 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling $0.9 million (December 31, 2017 – $1.5 million net loss).

*Net Investment Hedge*

The US dollar denominated long-term debt has 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 year ended December 31, 2018, a loss of $21.6 million (2017 – gain of $17.4 million) on the translation of the long-term debt was transferred to other comprehensive income to offset the loss on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2018.

*Interest Rate Risk*

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2018:

| (in thousands of Canadian dollars) | | Non-Interest Bearing | | Floating Rate | | Fixed Interest Rate | | Total |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Cash equivalents | **$** | **–** | **$** | **–** | **$** | **47,560** | **$** | **47,560** |
| Loans receivable | | **36** | | **3,001** | | **–** | | **3,037** |
| | **$** | **36** | **$** | **3,001** | **$** | **47,560** | **$** | **50,597** |
| **Financial Liabilities** | | | | | | | | |
| Standard letters of credit for performance, bid and surety bonds | **$** | **43,879** | **$** | **–** | **$** | **–** | **$** | **43,879** |
| Long-term debt | | **–** | | **–** | | **267,781** | | **267,781** |
| | **$** | **43,879** | **$** | **–** | **$** | **267,781** | **$** | **311,660** |

The Company's interest rate risk arises primarily from the floating rate on its Existing Facility and is not currently considered to be material.

***Credit Risk***

Credit risk arises from cash and cash equivalents held with banks, foreign exchange forward 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 year ended December 31, 2018, there was no customer who generated more than 10% of total consolidated revenue (2017 – one customer generated approximately 22% of total consolidated revenue). As at December 31, 2018, no customer accounted for more than 10% of the Company's total trade accounts receivable (2017 – no customer accounted for more than 10% of the Company's total trade accounts receivable).

The carrying value of accounts receivable is reduced through the use of an allowance for doubtful accounts, and the amount of the loss is recognized in the consolidated statements of income with a charge to selling, general and administrative expenses. When a receivable balance is considered to be uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses.

As at December 31, 2018, $13.3 million, or 6%, of trade accounts receivable was more than 90 days overdue, compared to $8.1 million, or 5%, as at December 31, 2017. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired.

The following is an analysis of the change in the allowance for doubtful accounts for the years ended December 31:

| (in thousands of Canadian dollars) | **2018** | 2017 |
|---|---|---|
| **Balance - Beginning of Year** | **$ (2,809)** | $ (4,865) |
| Bad debt expense | **(2,402)** | (910) |
| Recovery of amounts previously provided for | **401** | 2,015 |
| Bad debts written off | **178** | 519 |
| Impact of change in foreign exchange rates | **(139)** | 432 |
| **Balance - End of Year** | **$ (4,771)** | $ (2,809) |

***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. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in *Section 5.5 – Credit Facilities*. As at December 31, 2018, the Company had cash and cash equivalents totaling $217.3 million (December 31, 2017 – $289.1 million) and had unutilized lines of credit available to use of $456.6 million (December 31, 2017 – $389.1 million).

## 5.9 Outstanding Share Capital

As at March 4, 2019, the Company had 70,127,386 common shares outstanding and stock options and share units outstanding to purchase up to 2,276,128 common shares.

## 5.10 Transactions with Related Parties

The Company had no material transactions with related parties in the year ended December 31, 2018. All related party transactions were in the normal course of business.

## 6.0 Quarterly Selected Financial Information

The following tables set forth the Company's summary of selected financial information for the four quarters of 2018 and 2017:

| (in thousands of Canadian dollars except per share amounts) | Q1-2018[c] | Q2-2018[c] | Q3-2018[d] | **Q4-2018[d]** |
|---|---|---|---|---|
| **Operating Results** | | | | |
| Revenue | $ 350,767 | $ 353,368 | $ 350,589 | **$ 354,148** |
| Income from operations | 10,765 | 13,465 | 17,057 | **9,326** |
| Net income[a] | 3,829 | 7,308 | 10,373 | **4,366** |
| | | | | |
| **Earnings per share** | | | | |
| Basic | $ 0.05 | $ 0.10 | $ 0.15 | **$ 0.06** |
| Diluted | 0.05 | 0.10 | 0.15 | **0.06** |

| (in thousands of Canadian dollars except per share amounts) | Q1-2017[b] | Q2-2017[b] | Q3-2017[b] | Q4-2017[b] |
|---|---|---|---|---|
| **Operating Results** | | | | |
| Revenue | $ 360,060 | $ 383,571 | $ 395,052 | $ 426,816 |
| Income from operations | 26,138 | 28,023 | 39,368 | 34,472 |
| Net income[a] | 15,393 | 15,877 | 19,540 | 20,345 |
| | | | | |
| **Earnings per share** | | | | |
| Basic | $ 0.22 | $ 0.23 | $ 0.28 | $ 0.29 |
| Diluted | 0.22 | 0.23 | 0.28 | 0.29 |

(a) Attributable to shareholders of the Company.
(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(c) Restated due to the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina effective July 1, 2018 but implemented retrospectively to January 1, 2018. See *Section 13.0 – Financial Reporting in Hyperinflation Economies.*
(d) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina effective July 1, 2018 but implemented retrospectively to January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 86% of the Company's consolidated revenue in 2018, 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 segment.
- Over 75% of the Company's revenue in 2018 was transacted in currencies other than Canadian dollars, with a majority transacted in US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of revenue when it is translated into Canadian dollars. Please refer to *Section 2.2 - Foreign Exchange Impact*, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.

## 6.1 Fourth Quarter Highlights

Highlights of the Company's 2018 fourth quarter include:

**FOURTH QUARTER 2018 VERSUS THIRD QUARTER 2018**

- **Revenue:** Consolidated revenue increased $3.6 million, from $350.6 million during the third quarter of 2018 to $354.2 million during the fourth quarter of 2018, due to a $4.8 million increase in the Pipeline and Pipe Services segment, partially offset by a $1.4 million decrease in the Petrochemical and Industrial segment.

  Revenue increased by 2% in the Pipeline and Pipe Services segment, or $4.8 million, from $302.0 million in the third quarter of 2018 to $306.9 million in the fourth quarter of 2018. The increase is primarily due to the positive impact from the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0* and higher activity levels in Latin America. This is partially offset by lower volumes in North America and EMAR regions. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

  In the Petrochemical and Industrial segment, revenue was lower by $1.4 million, or 3%, in the fourth quarter of 2018, compared to the third quarter of 2018, primarily due to lower activity levels in the EMAR region. See *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

- **Operating Income:** Operating income decreased by $7.7 million, from $17.1 million in the third quarter of 2018 to $9.3 million in the fourth quarter of 2018. Operating income was negatively impacted by a decrease of $3.7 million in gross profit, a $3.7 million increase in selling, general and administrative ("SG&A") expenses and a $2.6 million increase in amortization of property, plant, equipment and intangible assets, partially offset by a $2.2 million increase in net foreign exchange gains. In addition, operating income was positively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0*.

  The decrease in gross profit resulted from a 1.3 percentage point decrease in the gross margin from the third quarter of 2018, partially offset by the increase in revenue, as explained above. The decrease in the gross margin percentage was primarily due to product and project mix and lower utilization in EMAR and Asia facilities and the related impact on the absorption of manufacturing overheads.

  SG&A expenses increased by $3.7 million, from $68.6 million in the third quarter of 2018 to $72.3 million in the fourth quarter of 2018, primarily due to increases of $0.3 million in compensation and other personnel related costs, $2.9 million in advertisement, equipment costs and professional consulting and legal fees and $0.5 million in insurance and other costs.

- **Finance costs:** In the fourth quarter of 2018, net finance costs were $3.6 million, compared to net finance costs of $2.9 million during the third quarter of 2018. The increase in net finance costs was primarily due to a $0.7 million increase in other financing expenses.

- **Income taxes:** The Company recorded an income tax recovery of $1.4 million (54% of income before income taxes) in the fourth quarter of 2018, compared to an income tax expense of $3.2 million (23% of income before income taxes) in the third quarter of 2018. The effective tax rate in the fourth quarter of 2018 was lower than the Company’s statutory income tax rate of 27% primarily due to the mix of jurisdictions where the income is earned and improved results in jurisdictions where the Company is benefiting from previously unrecognized deferred tax assets.

- **Net Income:** Net income decreased by $6.0 million, from $10.4 million during the third quarter of 2018 to $4.4 million during the fourth quarter of 2018. This was mainly due to the $7.7 million decrease in operating income, as explained above and increases of $1.9 million in net monetary loss from hyperinflationary accounting, $0.8 million in net finance costs and $0.8 million in loss from investment in associates. This was partially offset by a $4.7 million decrease in income tax expense.

**FOURTH QUARTER 2018 VERSUS FOURTH QUARTER 2017**

- **Revenue:** Consolidated revenue decreased by $72.7 million, or 17%, from $426.8 million during the fourth quarter of 2017, to $354.2 million during the fourth quarter of 2018, reflecting a $75.7 million revenue decrease in the Pipeline and Pipe Services segment, partially offset by a $3.3 million revenue increase in the Petrochemical and Industrial segment.

  In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2018 was $306.9 million, or 20% lower than in the fourth quarter of 2017, primarily due to lower large project activity in Latin America and decreased activity levels in Asia Pacific and EMAR, partially offset by higher revenue levels in North America. In addition, this was partially offset by a positive impact on the quarter by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0*. 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 $3.3 million higher during the fourth quarter of 2018, compared to $44.4 million in the fourth quarter of 2017, primarily due to increased activity levels in the North America and EMAR 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.

- **Operating Income:** Operating income decreased by $25.2 million, from $34.5 million in the fourth quarter of 2017 to $9.3 million during the fourth quarter of 2018. Operating income was negatively impacted by a $62.1 million decrease in gross profit. This was partially offset by a decrease of $21.0 million in SG&A expenses, a $3.5 million increase in net foreign exchange gains, a $8.1 million impairment charge recorded in the fourth quarter of 2017 and a $5.1 million decrease in amortization of property, plant, equipment, and intangible assets primarily related to the substantial completion of the Sur de Texas – Tuxpan project demobilization. In addition, operating income was positively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0.*

  The decrease in gross profit resulted from the lower revenue, as explained above, and a 9.7 percentage point decrease in the gross margin from the fourth quarter of 2017. The decrease in the gross margin percentage was primarily due to lower large project activity in Latin America, lower utilization in EMAR and Asia Pacific facilities and the related impact on the absorption of manufacturing overheads.

  SG&A expenses in the fourth quarter of 2018 decreased by $21.0 million compared to the fourth quarter of 2017, primarily due to a $16.3 million decrease in compensation and other personnel related costs, where the prior year period included an increase in government mandated employee profit sharing on large project activity in Latin America, and decreases of $0.8 million in professional consulting and legal fees and $3.9 million in insurance, management information systems, product development and other costs.

- **Finance costs:** In the fourth quarter of 2018, net finance costs were $3.6 million, in line with the finance costs in the fourth quarter of 2017. In the fourth quarter of 2018, interest income on short term deposits increased by $0.4 million, partially offset by a $0.3 million increase in other financing expenses compared to the fourth quarter of 2017.

- **Income taxes:** The Company recorded an income tax recovery of $1.4 million (54% of income before income taxes) in the fourth quarter of 2018, compared to an income tax expense of $10.0 million (33% of income before income taxes) in the fourth quarter of 2017. The effective tax rate in the fourth quarter of 2018 was lower than the Company’s statutory income tax rate of 27% primarily due to the mix of jurisdictions where the income is earned and improved results in jurisdictions where the Company is benefiting from previously unrecognized deferred tax assets.

- **Net Income:** Net income decreased by $16.0 million, from $20.3 million during the fourth quarter of 2017 to $4.4 million during the fourth quarter of 2018. This was mainly due to the $25.2 million decrease in operating income, as explained above, and a $2.7 million increase in net monetary loss from hyperinflationary accounting. This was partially offset by a decrease of $11.4 million in income tax expense.

## 7.0 Disclosure Controls and Internal Controls Over Financial Reporting

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company’s Disclosure Controls and Procedures ("DC&Ps") (as defined in the rules of the Canadian Securities Administrators) and the effectiveness of Internal Controls Over Financial Reporting ("ICFR"). Based on that evaluation, they have concluded that the Company’s DC&Ps were effective as at December 31, 2018. Furthermore, they have concluded that the Company’s ICFR was effective as at December 31, 2018. There were no changes in the Company’s ICFR during 2018 that had or are reasonably likely to have a material impact on the Company’s ICFR.

## 8.0 Critical Accounting Judgements, Estimates and Accounting Policy Developments

### 8.1 Critical judgements

The following are critical judgements management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the 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 judgements and assumptions are made in determining 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 December 31, 2018, the Company had $58.9 million of provisions; of this amount $23.9 million was included in current liabilities and $35.0 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.

## 8.2 Critical Accounting Estimates

The preparation of the 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 judgement given the information available at the time; however, actual results could differ from the estimates.

Critical estimates used in preparing the consolidated financial statements include:

***Long-lived Assets and Goodwill***

As at December 31, 2018, the Company had $948.8 million of long-lived assets and goodwill. The Company evaluates the carrying values of the CGUs' 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 December 31, 2018, the Company had $15.2 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 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 December 31, 2018, the Company had decommissioning liabilities in the amount of $30.7 million; of this amount $6.2 million was included in the current provisions account and $24.5 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 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.

## 8.3 Accounting Standards Issued but Not Yet Applied

### 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. This standard eliminates the classification of leases as either operating or finance lease for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as lease assets. The Company will elect to use the exemptions in the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The service component of a lease agreement should be separated from the value of the asset and is not reported on the consolidated balance sheet; however, there is a practical expedient to combine lease and non-lease components. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities will not include variable lease payments other than those that depend on an index or rate. The most significant effect of the new requirements will be the recognition of the right-of-use ("ROU") leased assets and their corresponding lease obligations on the consolidated balance sheet.

The Company has completed its implementation plan and process for reviewing its lease contracts. A software subscription system has been obtained, to assist the Company in compiling the lease information and calculating the related accounting impacts to comply with the requirements of the standard and manage its lease arrangements. On initial adoption, the Company plans to apply the standard using the modified retrospective approach, which does not require a restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings as at January 1, 2019.

The adoption of IFRS 16 will result in the recognition of operating leases mainly related to real estate and land. As a result, the Company expects to account for ROU assets of approximately $55 – $65 million, lease liabilities of approximately $55 – $65 million and a reduction of shareholders’ equity of approximately $2 – $3 million.

### *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)

In October 2017, the IASB issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28). The amendments clarify that a company applies IFRS 9, *Financial Instruments*, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are effective from January 1, 2019, with early application permitted. The Company performed an impact assessment of the amendment to IAS 28 and determined that there will be no material impact on its consolidated financial statements on adoption of this standard.

**IFRIC 23, *Uncertainty over Income Tax Treatments***

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*, effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgement in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The Company performed an impact assessment of all aspects of IFRIC 23 and determined that there will be no material impact on its consolidated financial statements on adoption of this standard.

## 8.4 New Accounting Standards Adopted

**IFRS 2, *Share-based Payment***

In June 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 were 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. The Company adopted the new standard effective January 1, 2018. The Company performed an impact assessment on the classification and measurement of the amendments and determined that there was no material impact of adopting this standard on its consolidated financial statements.

**IFRS 9, *Financial Instruments***

In July 2015, 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 was effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company adopted the new standard effective January 1, 2018. The Company performed an impact assessment of all aspects of IFRS 9 and determined that there was no material impact on its consolidated financial statements on adoption of this standard. The Company elected to designate an investment in equity instruments as Fair Value through Other Comprehensive Income ("FVOCI").

**IFRIC 22, *Foreign Currency Transactions and Advance Consideration***

IFRIC 22, *Foreign Currency Transactions and Advance Consideration,* clarifies that the date of foreign currency transactions for purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation was effective for periods beginning on or after January 1, 2018 and may be applied either retrospectively or prospectively. The

Company adopted this standard on January 1, 2018 and has determined that there was no material impact of adopting this standard on its consolidated financial statements.

**IFRS 15, *Revenue from Contracts with Customers***

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue 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 to in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more prescriptive approach to measuring and recognizing revenue. The standard was effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard using the full retrospective method, effective January 1, 2018.

The Company has performed contract reviews in all divisions to identify the impact of the new standard and concluded that the sale of goods will continue to be recognized at a point in time and rendering of services will be recognized over time. The Company has identified minor changes in how revenue is allocated to performance obligations and the resulting timing of revenue recognition from some contracts originating in the Pipeline and Pipe Services segment, primarily related to field joint contracts. Previously, tasks associated with customer contract requirements were recognized into revenue based on task completion outlined in contracts. Under the new standard, some of these tasks are not defined as distinct performance obligations but rather are recognized as part of the primary performance obligation. The Company also concluded that some costs incurred in those contracts meet the definition of costs to fulfill.

To enhance clarity, comparability and utility of financial information post-implementation of the standard, the Company applied the standard retrospectively subject to permitted and elected practical expedients including:

i. No restatement for contracts that began and ended within the same annual reporting period.

ii. No restatement for contracts that were completed or modified prior to January 1, 2017.

iii. No disclosure of the aggregate transaction prices allocated to the remaining unfulfilled or partially unfulfilled performance obligations for periods ended prior to January 1, 2018.

For the purposes of applying the new standard on an ongoing basis, the Company will be using the practical expedient to not disclose the transaction prices allocated to the remaining unfulfilled, or partially unfulfilled performance obligations from contracts originally expected to have a duration of one year or less.

The impact of the adoption of the standard on the Company’s consolidated balance sheets primarily relates to reclassifications among financial statement accounts to align with the new standard. Most notably, contracts in process for which the Company has rendered service in advance of billing are presented as contract assets as opposed to unbilled revenue assets within accounts receivable. Additionally, capitalized costs to fulfill contracts are included within contract assets. Advance payments and deferred revenue are combined and presented as contract liabilities.

The impact of adopting the standard on the year ended December 31, 2017 for revenue, cost of goods sold, net loss and basic and diluted EPS was as follows:

| (in thousands of Canadian dollars, except per share amounts) | Year Ended December 31, 2017 |
|---|---|
| | $ |
| Revenue | (1,153) |
| Cost of Goods Sold and Services Rendered | (898) |
| Loss before Income Taxes | (255) |
| Income Taxes | (103) |
| Net Loss | (152) |
| | |
| Basic Earnings per Share | 0.00 |
| Diluted Earnings per Share | 0.00 |

The cumulative impact to retained earnings as at January 1, 2017 was a reduction of $0.05 million.

***Revenue Recognition***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and net of taxes or duty.

The Company has concluded that it is the principal in its revenue arrangements since it is the primary obligor, has pricing latitude and is exposed to inventory and credit risks. Revenue is recognized when or as control of a good or service is transferred to a customer as satisfaction of a performance obligation. The majority of the Company's revenue is from short-term contracts associated with the sale of goods or the rendering of services from pipe coating, inspection, repair and other services provided in respect of customer-owned property.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in IFRS 15. A contract's price is allocated to distinct performance obligations on a standalone selling price basis. The majority of the Company's contracts have a single performance obligation as the promise to transfer the goods or services is not separately identifiable from other promises in the contracts and, therefore, are not distinct. For contracts with multiple performance obligations, the allocation of the transaction price is done using management's best estimate of the standalone selling price of distinct goods or services in the contract using a cost plus gross margin approach within typical and reasonable variance ranges for similar contracts.

<u>Sale of Goods</u>

Revenue from the sale of goods is recognized when the control of the goods has passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue for the sale of goods is recognized at a point in time, upon transfer of control of the goods based upon the specified delivery terms.

<u>Rendering of Services</u>

Revenue from pipe coating, inspection, repair and other services provided in respect of customer-owned property is recognized as services are performed under specific contracts and recognized by reference to the stage of completion. Stage of completion is determined based on surveys of work performed as measured by units of production to date multiplied by contractually agreed-upon rates. Revenue from the rendering of services is usually recognized as the performance obligations are satisfied over time as the work progresses. Substantially all of the revenue from the rendering of services is recognized over time. Revenue recognized over time is done using both input and output measures, depending upon the service being provided. For input measures, the cost incurred to date relative to the total estimated project costs at completion is used to measure progress. For output measures, the units of pipe coating or hours of service completed are used to measure progress.

Services performed in advance of billings are recorded as contract assets pursuant to contractual terms. In general, amounts become billable upon the achievement of contract milestones (such as the commencement of coating) or in accordance with predetermined payment schedules. Changes in the scope of work are not included in net revenue unless the changes are probable and can be reliably measured.

The Company records payments received in advance of revenue recognition from customers as contract liabilities, which are then recognized as revenue as goods are delivered and as services are performed.

**Contract Assets –** Contract assets include unbilled amounts typically resulting from sales under contracts when an input or output method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Amounts may not exceed their net realizable value. Additionally, capitalized costs to fulfill contracts are included within contract assets. Contract assets are generally classified as current.

**Contract Liabilities –** Contract liabilities consist of advance payments and billings in excess of revenue recognized. Contract assets and liabilities are reported on a net position on a contract by contract basis at the end of each reporting period. Advance payments and deferred revenue are combined and presented as contract liabilities under current liabilities. Contract liabilities as at December 31, 2018 were $23.6 million (December 31, 2017 – Deferred revenue of $44.8 million), of which $70.0 million was deducted and recognized as revenue during the year ended December 31, 2018, and $48.8 million was added during the year ended December 31, 2018.

**Impacts of application of IFRS 15, *Revenue from Contracts with Customers***

a) IFRS 15, *Revenue from Contracts with Customers*, impacted the fiscal 2017 comparative amounts reported in the Company's fiscal 2018 consolidated statement of income as follows:

| (in thousands of Canadian dollars) | Year Ended December 31, 2017 | IFRS 15 - Revenue Effects | Restated Year Ended December 31, 2017 |
|---|---|---|---|
| | $ | $ | **$** |
| **Revenue** | | | |
| Sale of products | 509,491 | – | **509,491** |
| Rendering of services | 1,057,161 | (1,153) | **1,056,008** |
| | 1,566,652 | (1,153) | **1,565,499** |
| **Cost of Goods Sold and Services Rendered** | 980,919 | (898) | **980,021** |
| **Gross Profit** | 585,733 | (255) | **585,478** |
| Selling, general and administrative expenses | 342,991 | – | **342,991** |
| Research and development expenses | 10,536 | – | **10,536** |
| Foreign exchange gains | (249) | – | **(249)** |
| Amortization of property, plant and equipment | 77,267 | – | **77,267** |
| Amortization of intangible assets | 19,170 | – | **19,170** |
| Gain on sale of land | (311) | – | **(311)** |
| Impairment | 8,073 | – | **8,073** |
| **Income from Operations** | 128,256 | (255) | **128,001** |
| Loss from investment in associates | (6,271) | – | **(6,271)** |
| Finance costs, net | (16,817) | – | **(16,817)** |
| **Income before Income Taxes** | 105,168 | (255) | **104,913** |
| Income taxes | 33,988 | (103) | **33,885** |
| **Net Income** | 71,180 | (152) | **71,028** |
| **Net Income (Loss) Attributable to:** | | | |
| Shareholders of the company | 71,307 | (152) | **71,155** |
| Non-controlling interests | (127) | – | **(127)** |
| **Net Income** | 71,180 | (152) | **71,028** |
| **Earnings per Share** | | | |
| Basic | 1.02 | | **1.02** |
| Diluted | 1.02 | | **1.02** |
| **Weighted Average Number of Shares Outstanding (000s)** | | | |
| Basic | 69,926 | | **69,926** |
| Diluted | 70,102 | | **70,102** |

b) IFRS 15, *Revenue from Contracts with Customers*, affected the fiscal 2017 comparative amounts reported in the Company's fiscal 2018 consolidated balance sheet as follows:

| (in thousands of Canadian dollars) | December 31, 2017 | IFRS 15 - Effects | December 31, 2017 Restated 2017 | Excluding Effects of IFRS 15 | IFRS 15 – Effects | Pro Forma |
|---|---|---|---|---|---|---|
| **ASSETS** | | **December 31, 2017** | | | January 1, 2017 | |
| **Current assets** | | | | | | |
| Cash and cash equivalents | $ 289,065 | $ – | **$ 289,065** | $ 194,824 | $ – | $ 194,824 |
| Short-term investments | – | – | **–** | 1,890 | – | 1,890 |
| Loans receivable | 2,448 | – | **2,448** | 3,832 | – | 3,832 |
| Accounts receivable | 259,694 | (65,255) | **194,439** | 294,397 | (84,233) | 210,164 |
| Contract assets | – | 65,413 | **65,413** | – | 84,161 | 84,161 |
| Income taxes receivable | 20,205 | – | **20,205** | 35,141 | – | 35,141 |
| Inventories | 115,479 | (461) | **115,018** | 113,485 | – | 113,485 |
| Prepaid expenses | 21,931 | – | **21,931** | 22,477 | – | 22,477 |
| Derivative financial instruments | 382 | – | **382** | 9,393 | – | 9,393 |
| **Total current assets** | 709,204 | (303) | **708,901** | 675,439 | (72) | 675,367 |
| | | | | | | |
| **Non-current assets** | | | | | | |
| Loans Receivable | 2,283 | – | **2,283** | 5,058 | – | 5,058 |
| Property, plant and equipment | 417,781 | – | **417,781** | 471,468 | – | 471,468 |
| Intangible assets | 164,872 | – | **164,872** | 192,907 | – | 192,907 |
| Investments in associates | 20,188 | – | **20,188** | 26,739 | – | 26,739 |
| Deferred income tax assets | 33,876 | 103 | **33,979** | 28,955 | 24 | 28,979 |
| Other assets | 20,606 | – | **20,606** | 26,407 | – | 26,407 |
| Goodwill | 329,391 | – | **329,391** | 350,818 | – | 350,818 |
| **Total non-current assets** | 988,997 | 103 | **989,100** | 1,102,352 | 24 | 1,102,376 |
| **TOTAL ASSETS** | $ 1,698,201 | $ (200) | **$ 1,698,001** | $ 1,777,791 | $ (48) | $ 1,777,743 |
| | | | | | | |
| **LIABILITIES AND EQUITY** | | | | | | |
| **Current liabilities** | | | | | | |
| Bank indebtedness | $ – | $ – | **$ –** | $ 2,463 | $ – | $ 2,463 |
| Accounts payable and accrued liabilities | 201,017 | – | **201,017** | 212,539 | – | 212,539 |
| Provisions | 27,361 | – | **27,361** | 21,104 | – | 21,104 |
| Income taxes payable | 42,904 | – | **42,904** | 39,011 | – | 39,011 |
| Derivative financial instruments | 1,915 | – | **1,915** | 3,759 | – | 3,759 |
| Contract liabilities | 44,826 | – | **44,826** | 103,584 | – | 103,584 |
| Obligations under finance lease | 1,111 | – | **1,111** | 950 | – | 950 |
| Other liabilities | 11,848 | – | **11,848** | 12,043 | – | 12,043 |
| **Total current liabilities** | 330,982 | – | **330,982** | 395,453 | – | 395,453 |
| | | | | | | |
| **Non-current liabilities** | | | | | | |
| Long-term debt | 246,175 | – | **246,175** | 263,528 | – | 263,528 |
| Obligations under finance lease | 10,840 | – | **10,840** | 11,019 | – | 11,019 |
| Provisions | 36,555 | – | **36,555** | 35,304 | – | 35,304 |
| Employee future benefits | 18,552 | – | **18,552** | 20,727 | – | 20,727 |
| Deferred income tax liabilities | 6,448 | – | **6,448** | 7,484 | – | 7,484 |
| Other liabilities | 3,665 | – | **3,665** | 1,236 | – | 1,236 |
| **Total non-current liabilities** | 322,235 | – | **322,235** | 339,298 | – | 339,298 |
| **Total liabilities** | 653,217 | – | **653,217** | 734,751 | – | 734,751 |
| | | | | | | |
| **Equity** | | | | | | |
| Share capital | 704,956 | – | **704,956** | 703,316 | – | 703,316 |
| Contributed surplus | 27,651 | – | **27,651** | 23,379 | – | 23,379 |
| Retained earnings | 302,406 | (200) | **302,206** | 273,045 | (48) | 272,997 |
| Non-controlling interests | 5,848 | – | **5,848** | 5,892 | – | 5,892 |
| Accumulated other comprehensive income | 4,123 | – | **4,123** | 37,408 | – | 37,408 |
| **Total equity** | 1,044,984 | (200) | **1,044,784** | 1,043,040 | (48) | 1,042,992 |
| **TOTAL LIABILITIES AND EQUITY** | $ 1,698,201 | $ (200) | **$ 1,698,001** | $ 1,777,791 | $ (48) | $ 1,777,743 |

## 9.0 Outlook

Shawcor's financial performance is correlated with oil and gas infrastructure spending and the resultant demand for the Company's products and services. Adjusted EBITDA[1] for the fourth quarter of 2018 was in line with expectations and reflected typical seasonal slowdowns in several of the Company's businesses along with the ongoing investments in the pipe coating business for idle assets and project pursuit costs in preparation for the expected increase in activity in the second half of 2019 and beyond. The fourth quarter saw continued momentum in North American demand for Shawcor's products and services, specifically in composite pipe technologies, pipe coating products and integrity management field services. Full year 2018 results were slightly better than the expectations the Company communicated a year ago, based on the annualized Adjusted EBITDA[1] run rate of the fourth quarter of 2016.

2018 was a pivotal year as it demonstrated that the Company can deliver profitable results on its diversified base business despite having no contribution from the core pipe coating business or a large pipe coating project. The Company expects that its operating results in the first half of 2019 will be negatively impacted by the continued lower pipe coating activity, higher costs for idle assets and large project pursuits and a very soft winter drilling and completion season in Western Canada. The Company expects revenues to sequentially improve throughout 2019, particularly in the second half of the year, and to deliver improved annual operating results over 2018. This expectation reflects stable demand throughout the year for the base business, particularly in North America, and increased activity in pipe coating in the second half of the year from international and offshore projects.

The Company believes that 2018 represented the bottom of the offshore global oil & gas capex cycle and that this market is poised for consistent growth over the next several years. The likelihood of large projects being sanctioned to replace production in the near to medium term is strengthening, driven by several years of absent investment or short cycle investment prioritization in the industry now coming to an end as key reservoirs are no longer able to sustain peak production levels, the increase in high decline rate shale production and geopolitical challenges which are affecting several important producing regions. Additionally, the increased demand for greener technology will be supportive of investments in gas, specifically LNG. The Company continues to see demand growth in North America land markets and an increased level of activity in the international and offshore markets, as evidenced in its current bids outstanding. The Company remains well positioned to capitalize on this continuing positive trend in project activity through its global footprint, technology portfolio and execution history.

The Company continued its strategic efforts to position itself as the partner of choice in the pursuit of several large projects, which are characterized as greater than $100 million in revenue. In the fourth quarter of 2018, the Liza I & II awards, representing approximately $110 million of work related to deep water development projects located offshore Guyana, provided further evidence that the low point in the offshore pipe coating cycle has been reached. Liza I and II is a multi-phase project, and characteristic of the type of project planning that the Company is seeing with greater frequency. In an effort to reduce large project costs, operators are engaging large global Engineering-Procurement-Contracting (EPC) companies, who are utilizing standardized engineering approaches and selecting preferred suppliers to participate in the planning process significantly earlier than in the past. This new contracting approach gives Shawcor greater visibility and awareness on future possible project wins. Recently, this same process was followed in an as yet unsanctioned offshore Australia project where a conditional, non-binding letter of award was signed between the selected EPC company and Shawcor for a scope of work that is estimated at over $100 million in revenue for 2020.

[1] *EBITDA and Adjusted EBITDA are Non-GAAP measures and do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 12.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of EBITDA and Adjusted EBITDA.*

Although the exact timing of when large projects are sanctioned is difficult to predict, the Company believes that there is still a strong likelihood that some of these projects will be sanctioned in 2019 and beyond because they are not directly linked to oil and gas commodity prices as they involve energy security or reservoir access considerations. Based on this, the Company believes that its diversified base business and expected higher pipe coating activity in 2019 will deliver improved operating results, particularly in the second half of the year. However, the Company has confidence to deliver stronger results in 2020 from the expected build in backlog in 2019.

As confidence has increased that the investment in international projects will be sanctioned with a positive impact on the offshore pipe coating business, Shawcor continued its growth strategy of diversifying the base business through organic and inorganic initiatives. Investments in expanding the composite product offering (both in operating envelope and geographic reach), deployment of next generation inspection technology and capacity expansion in the automotive heat shrink market have been made. In addition, the Company announced that it had entered into an arrangement agreement to acquire all of the shares of ZCL Composites Inc., North America's largest manufacturer and supplier of environmentally friendly fiberglass reinforced plastic underground storage tanks. This inorganic investment is supported by long-term fundamental drivers similar to those which support Shawcor, such as aging infrastructure, and it leverages Shawcor's material science expertise in advanced composite materials to provide customers with superior systems for both their conveyance and storage needs. It further demonstrates Shawcor's commitment to diversifying its portfolio and increasing its base business to provide a foundation for long-term technology developments and profitable base business growth.

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***

Market demand in Shawcor's North American Pipeline segment businesses is closely tied to well completions and the build out of new and the repair/replacement of old transmission pipeline infrastructure. These activities drive the 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. It is expected that demand in North American land activity will continue in line with rig counts and wells completed, particularly in the United States; however, the rate of growth will slow down in the first half of 2019 due to the lack of take-away capacity in the Permian basin and early indications that suggest a soft winter season in Western Canada, and resume in the second half of 2019 as take-away capacity in the Permian is addressed through several transmission pipeline projects currently underway. The increased breadth of the Company's portfolio, as well as the continued adoption rate of Shawcor's composite pipe systems technology over traditional steel products, is helping to absorb these slight headwinds. In addition, the Company continues to experience strong demand for its pipe coating capabilities from increased activity in the Gulf of Mexico and larger diameter onshore transmission line projects, which is improving the utilization of our U.S. based coating facilities.

***Pipeline and Pipe Services Segment - Latin America***

The Company continues to expect increased activity in the recently reactivated facilities in Mexico and Brazil related to the continued activity in the Gulf of Mexico and smaller offshore Brazilian projects. This is supported by the Liza II project that is now under contract, which is expected to be executed in the Company's Veracruz facility and contribute positive results in the second half of 2019.

***Pipeline and Pipe Services Segment – EMAR***

Shawcor's EMAR Pipeline region continues to be negatively impacted by reduced capital spending by national and international energy companies. The Company will continue executing work on the awarded contract to provide anti-corrosion and concrete weight coatings related to an offshore Qatar pipeline. The Company continues to pursue several large projects in the region that, if won, could provide significant work beyond 2019.

***Pipeline and Pipe Services Segment - Asia Pacific***

The region's project activity will continue to be depressed due to the lack of offshore project investments. The Company is actively pursuing several large projects that are related to the development of gas reservoirs that could be awarded in 2019. In addition, composite products have recommenced their penetration in the Australian onshore market and are gaining traction in several other countries in the region as composites gain further acceptance.

***Petrochemical and Industrial Segment***

Shawcor's Petrochemical and Industrial segment businesses continue to deliver solid revenue and operating income based on stable demand in the global automotive market and European and North American industrial markets. These markets generally follow GDP activity; however, the Segment is well positioned to capture the growing trend of electrification on automobiles with specified sealing, water blocking and insulating systems along with customized application equipment for Tier I assembly customers. Demand for wire and cable products continues to be strong and supply chain constraints for drawn wire from copper rods have eased from the third quarter of 2018.

***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 of $459 million as at December 31, 2018 was above the $395 million order backlog as at September 30, 2018, reflecting the inclusion of the Liza II project and other awards moving from bid to backlog.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids is over $1.0 billion, up $160 million from last quarter due to increasing bidding activity for pipe coating in the offshore and international markets. Included in the firm bid is an as yet unsanctioned offshore Australia project where a conditional, non-binding letter of award was signed between the selected EPC company and Shawcor for a scope of work that is estimated at over $100 million in revenue for 2020. The Company is also working with customers on a number of other projects and the budgetary estimates at the end of the fourth quarter were almost $1.9 billion. Although the timing of these projects remains uncertain, the Company's bid and budgetary figures represent a diverse portfolio of opportunities to sustain and build the backlog through 2019 and beyond.

## 10.0 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.

The following summarizes the Company's risks and uncertainties and how it manages and mitigates each risk:

### 10.1 Economic Risks

**A decline in global drilling activity as a consequence of lower global oil and gas prices would have a material adverse effect on the Company's projections, business, results of operations and financial condition.**

The Company’s business is materially dependent on the level of global drilling activity, which, in turn depends on global oil and gas demand, prices and production depletion rates. Lower drilling activity decreases demand for the Company’s products and services, including small diameter pipe coating, composite pipe, gathering line weld inspection and tubular inspection and inventory management services. These business activities represented approximately 35% of 2018 revenues.

**An economic downturn or a continued global decline in energy prices could materially adversely affect demand for the Company’s products and services and, consequently, its projections, business, results of operations and financial condition.**

Demand for oil and natural gas is influenced by numerous factors, including the North American and worldwide economies as well as activities of the Organization of Petroleum Exporting Countries ("OPEC"). Economic declines impact demand for oil and natural gas and result in a softening of oil and gas prices and projected oil and gas drilling activity. If economic conditions or international markets decline to an extent or for a duration which is unexpected, the Company’s projections, business, results of operations and financial condition could be materially adversely affected. In addition, if actions by OPEC and other oil producers to increase production of oil adversely affect world oil prices or result in the maintenance of existing prices, additional declines in rig counts could result, and the Company’s projections, business, results of operations and financial condition could be materially adversely affected. Similarly, demand for the products of the Petrochemical and Industrial segment’s businesses is largely dependent on the level of general economic activity in North America and Europe. Decreases in economic activity in these regions could result in significant decreases in activity levels in these businesses.

**A cyclical decline in the level of global pipeline construction could have a material adverse effect on the Company's projections, business, results of operations and financial condition.**

The Company's business is materially dependent on the level of global pipeline construction activity which in turn relates to the growth in demand for oil and natural gas and the availability of new supplies to meet this increased demand. Reductions in capital spending by producers could dampen demand for the Company’s products and services supplied in pipeline markets.

Revenue generated by the Company’s Pipeline and Pipe Services segment accounted for 86% of consolidated sales in 2018. With this proportion expected to continue, the Company’s revenue is materially dependent on the global Pipeline and Pipe Services industry. Any significant declines in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**Increases in the prices and/or shortages in the supply of raw materials used in the Company’s manufacturing processes could adversely affect the competitiveness of the Company, its ability to serve its customers’ needs and its financial performance.**

The Company purchases a broad range of materials and components throughout the world in connection with its manufacturing activities. Major items include polyolefin and other polymeric resins, iron ore, cement, adhesives, sealants and copper and other nonferrous wire. The ability of suppliers to meet performance and quality specifications and delivery schedules is important to the maintenance of customer satisfaction. While the materials required for the Company’s manufacturing operations have generally been readily available, cyclical swings in supply and demand can produce short-term shortages and/or price spikes. The Company’s ability to pass on any such price increases may be restricted in the short term.

**The Company's material financing agreements contain financial and other covenants that, if breached by the Company, may require the Company to redeem, repay, repurchase or refinance its existing debt obligations prior to their scheduled maturity. The Company's ability to refinance such obligations may be restricted due to prevailing conditions in the capital markets, available liquidity and other factors.**

The Company is party to a number of financing agreements which contain financial or other covenants. If the Company was to breach the financial or other covenants contained in its financing agreements, the Company may be required to redeem, repay, repurchase or refinance its existing debt obligations prior to their scheduled maturity and the Company's ability to do so may be restricted or limited by the prevailing conditions in the capital markets, available liquidity and other factors. If the Company is unable to refinance any of the Company's debt obligations in such circumstances, its ability to make capital expenditures and its financial condition and cash flows could be adversely impacted. If future debt financing is not available to the Company when required or is not available on acceptable terms, the Company may be unable to grow its business, take advantage of business opportunities, respond to competitive pressure or refinance maturing debt, any of which could have a material adverse effect on the Company's operating results and financial condition.

**Economic Risk Mitigation**

The Company cannot completely mitigate economic risks. However, the Company maintains a competitive geographical presence in a diverse number of regions and has implemented several systems and processes to manage operational risks and to achieve continuous improvements in operational effectiveness, in addition to various cost reduction initiatives. Through these efforts, economic risk is mitigated.

Refer to *Section 1.5 - Capability to Deliver Results*, for additional information with respect to the Company's systems and processes.

### 10.2 Litigation and Legal Risks

**The Company could be subject to substantial liability claims, which could adversely affect its projections, business, results of operations and financial condition.**

Some of the Company's products are used in hazardous applications where an accident or a failure of a product could cause personal injury, loss of life, damage to property, equipment or the environment, as well as the suspension of the end-user's operations. If the Company's products were to be involved in any of these difficulties, the Company could face litigation and may be held liable for those losses. The Company's insurance coverage may not be adequate in risk coverage or policy limits to cover all losses or liabilities that it may incur. Moreover, the Company may not be able in the future to maintain insurance at levels of risk coverage or policy limits that management deems adequate. Any claims made under the Company's policies likely will cause its premiums to increase. Any future damages deemed to be caused by the Company's products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**The Company is subject to litigation and could be subject to future litigation and significant potential financial liability.**

From time to time, the Company is a party to litigation and legal proceedings that it considers to be a part of the ordinary course of business. Although none of the litigation or legal proceedings in which the Company is currently involved could reasonably be expected to have a material adverse effect on the Company's projections, business, results of operations or financial condition, the Company may, however, become involved in material legal proceedings in the future. Such proceedings may include, for example, product liability claims and claims relating to the existence or use of hazardous materials on the Company's property or in its operations, as well as intellectual property disputes and other material legal proceedings with competitors, customers, employees and governmental entities. These proceedings could arise from the Company's current or former actions and operations or the actions or operations of businesses and entities acquired by the Company prior to acquisition. The Company maintains insurance it believes to be commercially reasonable and customary; however, such coverage may be inadequate for or inapplicable to particular claims.

**Litigation and Legal Risk Mitigation**

The Company cannot completely mitigate legal risks. However, the Company believes that it maintains adequate commercial insurance to mitigate most adverse litigation and legal risks.

### 10.3 HSE Risks

**The Company is subject to Health, Safety and Environmental laws and regulations that expose it to potential financial liability.**

The Company's operations are regulated under a number of federal, provincial, state, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the ground, air and water as well as the handling, storage and disposal of hazardous materials. Compliance with these environmental laws is a major consideration in the manufacturing of the Company's products, as the Company uses, generates, stores and disposes of hazardous substances and wastes in its operations. The Company may be subject to material financial liability for any investigation and clean-up of such hazardous materials. In addition, many of the Company's current and former properties are or have been used for industrial purposes. Accordingly, the Company also may be subject to financial liabilities relating to the investigation and remediation of hazardous materials resulting from the actions of previous owners or operators of industrial facilities on those sites. Liability in certain instances may be imposed on the Company regardless of the legality of the original actions relating to the hazardous or toxic substances or whether or not the Company knew of, or was responsible for, the presence of those substances. The Company is also subject to various Canadian and US federal, provincial, state and local laws and regulations as well as foreign laws and regulations relating to safety and health conditions in its manufacturing facilities. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any non-compliance, as well as potential business disruption if any of its facilities or a portion of any facility is required to be temporarily closed as a result of any violation of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**Demand for the Company's products and services could be adversely affected by changes to Canadian, US or other countries' laws or regulations pertaining to the emission of Carbon Dioxide and other Greenhouse Gases ("GHGs") into the atmosphere.**

Although the Company is not a large producer of GHGs, the products and services of the Company's production are mainly related to the transmission of hydrocarbons including crude oil and natural gas, whose ultimate consumption are major sources of GHG emissions. Changes in the regulations concerning the release of GHGs into the atmosphere, including the introduction of so-called carbon taxes or limitations over the emissions of GHGs, may adversely impact the demand for hydrocarbons and ultimately, the demand for the Company's products and services.

**HSE Risk Mitigation**

To minimize risks associated with HSE matters, the Company has implemented a comprehensive audit program and has completed detailed environmental audits at manufacturing and service locations across all eight divisions. Furthermore, the Company is committed to be an IIF workplace.

### 10.4 Political and Regulatory Risks

**The Company's operations may experience interruptions due to political, economic or other risks, which could adversely affect the Company's projections, business, results of operations and financial condition.**

During 2018, the Company derived over 18% of its total revenue from its facilities outside Canada, the US and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

- currency fluctuations and devaluations;
- currency restrictions and limitations on repatriation of profits;
- political instability and civil unrest;
- hostile or terrorist activities; and
- restrictions on foreign operations.

In addition, the Company is specifically exposed to risks relating to economic or political developments in Argentina, Mexico and other developing countries.

The Company's foreign operations may suffer disruptions and may incur losses that would not be covered by insurance. In particular, civil unrest in politically unstable countries may increase the possibility that the Company's operations could be interrupted or adversely affected. The impact of such disruptions could include the Company's inability to ship products in a timely and cost effective manner, its inability to place contractors and employees in various countries or regions, or result in the need for evacuations or similar disruptions.

Any material currency fluctuations, devaluations or political unrest that may disrupt oil and gas exploration and production or the movement of funds and assets could materially adversely affect the Company's projections, business, results of operations and financial condition.

The Company's operations could be affected by regulatory approval processes that could delay or prevent the construction of new pipeline infrastructure.

**The Company's projections, business, results of operations and financial condition could be adversely affected by actions under Canadian, US, European or other trade or tax laws.**

The Company is a Canadian-based company with significant operations in the United States. The Company also owns and operates international manufacturing operations that support its Canadian, US and European operations. If actions under Canadian, US, European or other trade or tax laws were instituted that limited the Company's access to the materials or products necessary for such manufacturing operations, the Company's ability to meet its customers' specifications and delivery requirements would be reduced. Any such reduction in the Company's ability to meet its customers' specifications and delivery requirements could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

The Company has various facilities that export products to the United States and other countries. Any changes to trade or tax laws, including amendments to or the cancellation of the North American Free Trade Agreement, that negatively impact the competitiveness of the Company's exports or products could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

***Political and Regulatory Risk Mitigation***

The Company manages political and regulatory risks by working with government, regulators and other parties to resolve issues, if any. In addition, the Company ensures that it is compliant with the laws and regulations within the jurisdictions where it operates.

## 11.0 Environmental Matters

As at December 31, 2018, the provisions on the annual consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $30.7 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 were $40 million as at December 31, 2018. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 20%. 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) | | **December 31, 2018** |
|---|---|---|
| 2019 | $ | 6,202 |
| 2020 | | 7,224 |
| 2021 | | 4,605 |
| 2022 | | 518 |
| 2023 | | 1,381 |
| More than five years | | 20,526 |
| | **$** | **40,456** |

## 12.0 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 its capital structure. These 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 provide further information and assist readers in understanding the results of the Company's operations and financial position. 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***

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 items which do not impact day to day operations. 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 and for comparing its operating performance with the performance of other companies that have different financing, capital or tax structures. 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 or day to day operations. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools to evaluate financial performance and is a key metric in business valuations. It is also considered important by lenders to the Company and is included in the financial covenants of the Company's debt agreements.

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | **2018** | 2017[b] | **2018[c]** | 2017[b] |
| **Net income** | **$ 4,096** | $ 20,513 | **$ 26,179** | $ 71,028 |
| **Add:** | | | | |
| Income tax | **(1,434)** | 9,998 | **7,828** | 33,885 |
| Finance costs, net | **3,596** | 3,562 | **12,092** | 16,817 |
| Amortization of property, plant, equipment and intangible assets | **19,806** | 24,869 | **83,223** | 96,437 |
| **EBITDA[a]** | **$ 26,064** | $ 58,942 | **$ 129,322** | $ 218,167 |
| Impairment | **–** | 8,073 | **–** | 8,073 |
| Gain on sale of land | **–** | – | **–** | (311) |
| Hyperinflation adjustment for Argentina[c] | **(1,841)** | – | **5,548** | – |
| **ADJUSTED EBITDA[a]** | **$ 24,223** | $ 67,015 | **$ 134,870** | $ 225,929 |

(a) Adjusted EBITDA and EBITDA are used by many analysts in the oil and gas industry as one of several important analytical tools.
(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

### *Operating Margin*

Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. The Company believes that operating margin is a useful supplemental measure that provides meaningful assessment of the business performance of the Company and its Operating Segments. The Company uses this measure as a key indicator of financial performance, operating efficiency and cost control based on volume of business generated.

***Return on Invested Capital***

ROIC, a non-GAAP measure, is defined as net income adjusted for after tax interest expense divided by average invested capital over the year. Average invested capital is calculated as the average over the year of bank indebtedness, long-term debt and equity and is used by the Company to assess the efficiency of generating profits from each unit of invested capital, independent of the Company's financing choice. Investors use this measure to evaluate how well the Company is using its invested capital to generate returns and for comparing its long term return performance to the performance of other companies.

The following table sets forth the calculation of the Company's ROIC as at:

| (in thousands of Canadian dollars, except percentage) | | **2018[c]** | | 2017[b] |
|---|---|---|---|---|
| Net income[a] | **$** | **25,876** | $ | 71,155 |
| Add: After-tax interest expense | | **10,934** | | 13,321 |
| Net income adjusted for after-tax interest expense | **$** | **36,810** | $ | 84,476 |
| Average invested capital | **$** | **1,305,660** | $ | 1,301,380 |
| **ROIC** | | **2.8%** | | 6.5% |

(a) Attributable to shareholders of the Company.
(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

***Days Sales Outstanding ("DSO")***

DSO is defined as the number of days trade accounts receivable are outstanding based on a 90 day cycle and is calculated by dividing the average trade accounts receivable balance for the quarter by the revenue for that same quarter and multiplying by 90 days. DSO approximates the measure of the average number of days from when the Company recognizes revenue until the cash is collected from the customer. This measure is important in assessing the Company's ability to generate cash from its outstanding trade accounts receivable. The Company monitors this measure to manage cash flow from its operations. The following table sets forth the calculation for the Company's DSO as at:

| (in thousands of Canadian dollars, except DSO) | | **2018[b]** | | 2017[a] |
|---|---|---|---|---|
| Revenue for the fourth quarter | **$** | **354,148** | $ | 426,816 |
| Average trade accounts receivable | **$** | **221,911** | $ | 208,104 |
| **DSO** | | **56** | | 44 |

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
*(b)* Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

***Days Payables Outstanding ("DPO")***

DPO is defined as the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle and is calculated by dividing the average accounts payable and accrued liabilities for the quarter by the cost of goods sold for that same quarter and multiplying by 90 days. DPO approximates average payment terms granted by the Company's suppliers, and an increase in DPO is generally considered an improvement in the management of accounts payable and accrued liabilities. This measure is important in assessing the Company's ability to ensure optimal cash flow management while meeting its financial obligations in a timely manner. The Company monitors this measure to manage cash flows from its operations. The following table sets forth the calculation for the Company's DPO as at:

| (in thousands of Canadian dollars, except DPO) | | **2018[b]** | | 2017[a] |
|---|---|---|---|---|
| Cost of goods sold for the fourth quarter | **$** | **254,360** | $ | 264,959 |
| Average accounts payable and accrued liabilities | **$** | **197,695** | $ | 203,497 |
| **DPO** | | **70** | | 69 |

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
*(b)* Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

### *Working Capital Ratio*

Working capital ratio is defined as current assets divided by current liabilities. This metric provides management with an indication of the current liquidity available to the Company before considering long-term debt. The following table sets forth the calculation for the Company's working capital ratio as at:

| (in thousands of Canadian dollars) | | **2018[b]** | | 2017[a] |
|---|---|---|---|---|
| Current assets | **$** | **682,394** | $ | 708,901 |
| Current liabilities | **$** | **289,246** | $ | 330,982 |
| **Working capital ratio** | | **2.36** | | 2.14 |

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 - New Accounting Standards Adopted* for further details.
(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 - Financial Reporting in Hyperinflationary Economies.*

## 13.0 Financial Reporting in Hyperinflationary Economies

In July 2018, the Argentine three-year cumulative rate of inflation for consumer prices and wholesale prices reached a level in excess of 100%. As a result, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*, Argentina was considered a hyperinflationary economy, effective January 1, 2018. Accordingly, the presentation of IFRS financial statements includes adjustments and reclassifications for the changes in the general purchasing power of the Argentine peso.

On the application of IAS 29, the Company used the conversion coefficient derived from the consumer price index ("CPI") in the Greater Buenos Aires area published by the National Statistics and Census Institution in Argentina. The CPIs for the current and the prior year and the corresponding conversion coefficient since the year when the Argentine subsidiary was acquired were as follows:

| **Year** | **Index** | **Conversion coefficient** | **CAD/ARS exchange rate** |
|---|---|---|---|
| 2012 | 117.67 | 6.0105 | 0.211471 |
| 2017 | 483.30 | 1.4634 | 0.067396 |
| 2018 - March | 514.58 | 1.3744 | 0.063925 |
| 2018 - June | 562.37 | 1.2576 | 0.045528 |
| 2018 - September | 616.55 | 1.1471 | 0.031353 |
| 2018 - December | 707.26 | 1.0000 | 0.036229 |

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at December 31, 2018. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at December 31, 2018) are restated by applying the index at the end of the reporting period. The effect of inflation on the Argentine subsidiary's net monetary position is included in the consolidated statements of income as a net monetary loss.

The application of IAS 29 results in the adjustment for the loss of purchasing power of the Argentine peso recorded in the consolidated statements of income. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, which results in a loss on the net monetary position. This loss/gain is derived as the difference resulting from the restatement of non-monetary assets, liabilities and equity.

As per IAS 21, *The Effects of Changes in Foreign Exchange Rates*, all amounts (i.e. assets, liabilities, equity, revenue and expenses) are translated at the closing foreign exchange rate at the date of the most recent consolidated balance sheet, except that comparative amounts are not adjusted for subsequent changes in the price level or subsequent changes in exchange rates. Similarly, in the period during which the functional currency of a foreign subsidiary becomes hyperinflationary and applies IAS 29 for the first time, the parent's consolidated financial statements for the comparative period are not restated for the effects of hyperinflation.

The opening equity adjustment of $4.3 million relates to the hyperinflation adjustments for non-monetary assets, liabilities and equity items in the consolidated balance sheet as at January 1, 2018. This is as a result of an increase to total assets of $4.8 million, and an increase to total liabilities of $0.5 million.

The impact of IAS 29 for selected items on our consolidated statements of income for the year was as follows:

| | **Three months ended** | | | | **Year ended** |
|---|---|---|---|---|---|
| (in thousands of Canadian dollars, except per share amounts) | **March 31, 2018** | **June 30, 2018** | **September 30, 2018** | **December 31, 2018** | **December 31, 2018** |
| | $ | $ | $ | **$** | **$** |
| **Revenue** | 248 | (4,519) | (7,053) | **8,645** | **(2,679)** |
| **Gross profit (loss)** | 66 | (1,164) | (2,102) | **2,820** | **(380)** |
| Foreign exchange (gain) loss | (20) | 1,206 | 2,772 | **(3,237)** | **721** |
| **(Loss) Income from operations** | (672) | (2,217) | (3,670) | **2,498** | **(4,061)** |
| Net monetary loss | (475) | (748) | (852) | **(2,721)** | **(4,796)** |
| **Loss before income taxes** | (1,147) | (2,966) | (4,514) | **(227)** | **(8,854)** |
| Income tax expense (recovery) | 234 | (360) | (1,151) | **1,062** | **(215)** |
| **Net Loss** | (1,381) | (2,606) | (3,363) | **(1,289)** | **(8,639)** |
| | | | | | |
| **Earnings per Share** | | | | | |
| Basic | (0.02) | (0.04) | (0.05) | **(0.02)** | **(0.12)** |
| Diluted | (0.02) | (0.04) | (0.05) | **(0.02)** | **(0.12)** |

## 14.0 Forward-Looking Information

This document includes certain statements that reflect management’s expectations and objectives for the Company’s future performance, opportunities and growth, which statements constitute "forward looking information" and "forward looking statements" (collectively "forward looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook Section and elsewhere in respect of, among other things, the establishment of a manufacturing facility in the Middle East by the Flexpipe Systems division, the level of investment therein, its impact on production capacity and the timing thereof, the achievement of key performance objectives, the completion of the acquisition by the Company of ZCL and the timing thereof, the entering into of the new Credit Facility and the terms and timing thereof, the voluntary repayment of the Senior Notes and the timing thereof, the timing to complete the Liza I project, the timing of Final Investment Decisions on Liza II and additional large projects, , the sanctioning of large projects in 2019 and the impact thereof on the Company’s business, the level of financial performance in the first quarter of 2019 and throughout the balance of 2019, the effect of the Company’s diversified portfolio of products on revenue and operating income, growth in revenue and operating income in the Petrochemical and Industrial segment of the Company’s business, the demand for the Company’s products in the North American Pipeline and Pipe Services segment and the Petrochemical and Industrial segment of the Company’s business, 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 processes and systems to operate its business and execute its strategic plan, the expected development of the Company’s order backlog and the impact thereof on the Company’s revenue and operating income, including the award of contracts on outstanding bids, the impact of global economic activity on the demand for the Company's products, the impact of continuing demand for oil and gas and prior years’ absence of investments in larger projects on the level of industry investment in oil and gas infrastructure, the impact of global oil and gas commodity prices, 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 environmental compliance and in respect of litigation and tax matters and other claims generally, and the level of payments under the Company's performance bonds.

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 previous declines in the global price of oil and gas, long term changes in global or regional economic activity and changes in energy supply and demand, which with other factors, impact on the level of global pipeline infrastructure construction; exposure to product and other liability claims; shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company’s international operations; and fluctuations in foreign exchange rates, as well as other risks and uncertainties described under "Risks and Uncertainties" in the Company’s annual MD&A and in the Company’s Annual Information Form under "Risk Factors".

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, including , increases in expenditures on natural gas infrastructures, modest global economic growth, stable demand in the global automotive market and in the European and North American industrial markets as such apply to the Company's Petrochemical and Industrial segment, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, increases in rail and transportation costs, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions, the successful completion of the acquisition of ZCL, the repayment of the Senior Notes, the entering into of the Credit Facility on the anticipated terms, and the ability of the Company to satisfy all covenants under the Credit Facility. 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.

Shawcor will be hosting a Shareholder and Analyst Conference Call and Webcast on Thursday March 7th, 2019 at 10:00AM ET, which will discuss the Company's Fourth Quarter and Year End 2018 Financial Results.

To participate via telephone, please dial 1-877-776-4039 or 1-315-625-6955. Conference Call ID: 5889475; alternatively, please go to the following website address to participate via webcast:
https://edge.media-server.com/m6/p/837ysv4b

## 15.0 Additional Information

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

March 6, 2019