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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the ShawCor 2014 Third Quarter Results Conference Call. (Operator Instructions) Please note, today's conference is being recorded.

I would now hand the conference over to Gary Love, Chief Financial Officer. Please go ahead.

Gary Love - *ShawCor Ltd. - CFO*

Well, thank you and good morning. Before we begin this morning's conference call, I would like to take a moment to remind all listeners that today's conference call includes forward-looking statements that involve estimates, judgments, risks, and uncertainties that may cause actual results to differ materially from those projected.

The complete text of ShawCor's statement on forward-looking information is included in Section 4 of the third quarter 2014 earnings press release. It is available on SEDAR and also on the company's website at shawcor.com.

I'll now turn the call over to ShawCor's CEO, Steve Orr.

Stephen Orr - *ShawCor Ltd. - CEO*

Thank you, Gary. And thank you, ladies and gentlemen, for participating in this morning's conference call. ShawCor released our third quarter financial results yesterday evening. As expected, the revenue at $470 million did decline from a year-ago level as the completion of large projects in Asia Pacific offset benefits of the incremental contribution of $30 million in revenue from the acquisition of Desert NDT, solid year-over-year growth in the number of product lines in North America and strong growth in pipeline coating volumes in EMAR and in the Latin America region.

Of particular importance in the third quarter was the growth in revenue in our EMAR region with the successful start-up of production at the Socotherm Pozzallo facility and the launch of the South Stream Line 2 and South Caucasus pipeline projects at our pipe coating facilities in the UAE. These two facilities will be increasingly important for ShawCor in the upcoming quarters as we execute several large booked pipe coating projects.

As mentioned, revenue, although down from prior year, was still quite strong and did in fact increase by around 6% for this second quarter. Margins, however, were relatively weak with our consolidated gross margin at 36% down 8 percentage points from the prior year. The lower gross margin can mainly be attributed to the shift in revenue weight from higher margin project work in Asia Pacific which declined by $156 million on a year-over-year basis.

Simply stated, recent revenue growth does not have the level of margins that we experienced from late 2012 to the first half of this year. In addition, underabsorption is negatively impacting Asia Pacific with the completion of the large projects and in our EMAR facilities as volumes ramp up. For us, this indicates that the third quarter represents a trough period for margins and income.

Continued growth in our backlog and strengthening in bidding activities suggests that the decline in financial performance that we are experiencing in the second half of 2014 will be temporary and that we see the emergence of growth in revenue and earnings in 2015.

Of course, we are not immune to the potential effects of the pull-back in (inaudible) investment due to sub-$80 per barrel oil. However, much of our backlog is derived from natural gas infrastructure projects that are not linked to global oil prices.

I'll comment further on our outlook in a moment, but first I'll ask Gary Love, our CFO, to guide you with some of the key details on the third quarter financial results.

Gary Love - *ShawCor Ltd. - CFO*

Okay. Thanks, Steve. We are recording revenue of $470 million in the third quarter. That's a decrease of 11% from the third quarter of 2013 but, as Steve noted, it is an increase of 6% from the second quarter of this year. Compared to the prior year, revenue increased in every region in both segments with the exception of Asia Pacific Pipeline.

The largest source of growth in the Pipeline segment was EMAR. Revenue was up $53 million or almost double. This was the result of the ramp up of the Socotherm Pozzallo plant and the launch of the South Stream and South Caucasus projects at Ras Al Khaimah.

Also increasing $27 million or approximately 15% was North American Pipeline. We added $30 million from the Desert NDT acquisition and we had solid revenue growth from Flexpipe and at the Socotherm Channelview facility. But within North America, we did see a year-over-year reduction in large diameter pipe coating and that was largely due to project timing.

These increases were not sufficient however to offset the $156 million or 76% decline in revenue in Asia Pacific in comparison with the year-ago, when the impact of the Ichthys, Wheatstone and Julimar projects had been in full production.

Now compared to the second quarter of this year, the $28 million or 6% revenue increase was largely attributable to a 27% strengthening in North America and this of course was from the Desert NDT contribution and continued gains at Flexpipe. We also saw increases in Latin America and EMAR but again, these increases were partially offset by a $64 million or 56% decline in Asia Pacific and that followed the completion in the second quarter of the final phase of the large project activity and that was the Ichthys flowlines project.

On a consolidated basis, gross margins in the third quarter are 36%. They are down four points from the 40.6% we recorded in the second quarter and, as Steve mentioned, they are down almost 8 percentage points from a year ago.

Specifically, the Pipeline segment gross margin was 36.9% and this is versus 41.6% and 44% in the second quarter and year-ago quarters, respectively. The Petrochemical segment gross margin decreased to 26.2%. That compares with 31% and 33% in the third quarter and year-ago quarters, respectively, with the decrease due to, primarily, shifts in our wire and cable product mix. With both revenue and gross margins lower, gross profit decreased by $60 million or 26% from the prior year.

SG&A expenses were basically unchanged from the prior year. This was due to reductions in incentive compensation accruals that offset both salary cost inflation and the addition of $4.8 million in SG&A from the acquisition of Desert NDT.

We are reporting adjusted EBITDA for the third quarter of $71.3 million, a decrease of $57 million or 44% from a year-ago and it's also down from $83 million in the second quarter. The consolidated adjusted EBITDA margin in the third quarter is 15.2% with the pipeline segment at 17% and the petrochemical industrial segment at 16.8%.

Depreciation and amortization in the third quarter is $19.1 million. This is up from $15.1 million in the second quarter but down from $20.7 million a year ago. The increase over the second quarter is substantially due to approximately $2.6 million of amortization form the Desert NDT acquisition.

Now the final impact to operating income in the third quarter was the Brazil impairment charge of $41.4 million. You should note there is a $12 million offset to this charge in the tax provision. This yields a net impairment loss of approximately $30 million.

Below operating income, we have reported a gain from the sale of the Socotherm Brazil and APCO joint ventures of $4.5 million. The gains are primarily due to currency adjustments that we booked this quarter once those joint venture sales were finally closed.

We financed the closing of the Desert NDT purchase with debt at the start of the quarter and as a result, net finance cost increased to $6.2 million from $4.5 million in both the second quarter and year-ago quarters. We are reporting EPS in the quarter of $0.09 per share. This however includes a net impact from both the impairment loss and the gain on asset sales of approximately $0.42 per share. This would imply then that our operating EPS for the third quarter is about 0.51 per share on a diluted basis.

Now, turning to cash flows, before changes in non-cash working capital, the cash flow provided by continuing operations was $56.3 million, this compares with $61.6 million and $100 million in the second quarter and year ago quarters, respectively. The decrease was significantly lower on a proportionate basis than the decrease in net income and this of course is due to the significant non-cash items recorded in the third quarter.

The change in non-cash working capital was a net cash inflow of $10 million and that's versus a cash outflow of $48 million in the second quarter and a very significant cash outflow of $95 million in the third quarter a year ago. The positive change in working capital primarily reflects the change in the movement of deferred revenue and a build in accounts payable this quarter.

Cash flow used in investing activities in the third quarter excluding reductions in short-term investments was $272 million and this included the Desert NDT transaction at $280 million on investments in a company PFT of $2.8 million and capital expenditures on property plant and equipment of $22 million. These investments were partially offset by $32 million in proceeds from the sale of the Socotherm Brazil joint venture interest.

Cash flow provided by financing activities in the third quarter was $259 million and that consists of the net share issuance proceeds of $193 million, net debt issued at $75 million. These were partially offset by cash used for our regular quarterly dividend of $9 million. Based on the net cash flows in the quarter, our cash plus short-term investments increased to $104 million from $50 million at the start of the quarter. Including available credit facilities, the company now has over $380 million of available liquidity as of quarter end.

I'll now turn it back to Steve for his commentary on our outlook.

Stephen Orr - *ShawCor Ltd. - CEO*

Thank you, Gary. As I noted at the outset of this call we continue to expect that earnings in the second half will lag the performance that we reported for the first six months of this year, but as this will represent a drop in our performance as the projects that we have built up in our backlog are executed. The one factor that we are watching closely and could impact this outlook would be a sustained pullback in oil field investment as a result of oil prices that remain below $80 per barrel.

For ShawCor this impact would be largely felt by our North American businesses that are leveraged to oil well drilling and completion including small diameter pipe coating, composite pipe, OCTG, tubular management and repair and gathering line weld inspection. These businesses represent less than 30% of ShawCor's 2014 revenue and any decrease in the market activity would likely not be felt until the second half of 2015 if at all.

Beyond the North American upstream businesses, the company's outlook continues to be positive. We continue to secure large pipe coating projects and we reported an overall increase in the company's order backlog which ended the quarter at $739 million up from $684 million at the start of the year. The most important contract awards in the third quarter was the $200 million in contracts for BP for insulation coatings and advance works for the BP led Shah Deniz gas development in the Caspian Sea.

ShawCor is currently bidding on additional work for the Shah Deniz gas export pipeline and the decision on this award and the final scope is expected towards the end of the year.

Also in the quarter we secured additional awards for over $50 million in value for joint protection products for the South Stream offshore pipeline project. The company now had secured over $150 million in contract awards for Lines 1 and 2 of the South Stream project and is now processing bids for Lines 3 and 4.

Our future outlook is supported not only by the growth in backlog but also by the continued growth in outstanding bid list, with a value of currently outstanding firm bids exceeding $1 billion. In addition to the work for Shah Deniz and South Stream, we have bids currently outstanding in Asia Pacific, Latin America, and both East and West Africa.

While some of this activity may be deferred in an environment of low oil prices, much of our large project activity is related to national gas infrastructure projects that aren't dependent on short-term oil prices for economic viability. The continued strength of our bidding activity provides us with optimism that we will see further backlog growth in the fourth quarter of this year.

While bidding, securing, and executing large pipe coating projects remains a key objective for the company, we are also focused on executing our strategic growth plan. During the third quarter, we completed the acquisition of Desert NDT. The acquisition was immediately accretive to our margins and earnings in this quarter and more importantly, we have began the process of developing synergies by deploying event NDT technologies through the Desert network of branches throughout the USA.

Desert NDT plus our existing Shaw Pipeline Services business provides us with a solid platform and wish to grow our pipeline and relay these infrastructure and integrity management business. In addition, our strategy to grow in the oil field connectivity space was advanced with an investment in Power, Feed Through Systems and Connectors. PFC is a recognized connector brand in the oil field and our investment provides a channel to market for the products and services of DSG-Canusa and ShawFlex.

Another critical strategic development for ShawCor in the quarter was the successful completion of the $200 million offering of common shares with the completion of the overall allotment option in early October. The equity offerings have generated net proceeds to ShawCor in excess of $220 million. While the immediate use of proceeds was to pay down debt, we fully intend to deploy the proceeds from the equity offering in growth investments.

We have an extensive list of potential acquisition targets in each of ShawCor's five growth themes and we expect to continue to target and close strategic acquisitions over the next 12 months. On that note, I'll now turn the call over to the operator, [Karen], for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Jeremy Mersereau from National Bank.

Jeremy Mersereau - *National Bank - Analyst*

Good morning, everyone.

Stephen Orr - *ShawCor Ltd. - CEO*

Good morning.

Jeremy Mersereau - *National Bank - Analyst*

Just based on the last comment you had, Steve, have you seen more interest or better multiples from companies trying to sell their businesses given today's environment?

Stephen Orr - *ShawCor Ltd. - CEO*

So, Jeremy, what we're actually seeing is a larger gap between what the sellers are prepared to release their assets or to sell versus what we are prepared to pay. And I think this is pretty normal because sellers are optimistic on the outlook and buyers potentially are a little bit more conservative. So we're seeing an unrealistic gap right now.

And what I can say is this is really affecting future deals not ones that we currently have at the top of the list. But I think we all watch multiples and through cycles we see there is a period of time that the gap becomes and then there's a potential area where there was no trades for awhile until the sellers have realized the new values. And then you see an accelerated volume of trades.

I think what's really important for us is that we will continue to resource and pursue our acquisitions throughout the cycle. And often it provides opportunity. But we will continue to put the effort in.

Jeremy Mersereau - *National Bank - Analyst*

Thanks. Do you still expect to hear a possible award on the first stage of the Chevron IDD project for the end of 2014, given they made their (inaudible) a few weeks back?

Stephen Orr - *ShawCor Ltd. - CEO*

So I think it's highly unlikely. So with the dynamics that are happening currently in Indonesia what we forecast is that the current bids and activities are out for the pricing. These will all come to the determination time, so they won't be extended. And it will start up again in early 2015.

And a lot of it is about the geopolitics in the area and how it associates with the production sharing agreements. We have high confidence that Chevron IDD will happen but not with awards in 2014. Certainly it will start again in '15.

Gary Love - *ShawCor Ltd. - CFO*

I would add that we would expect that to be a best case scenario for 2016 project for execution.

Jeremy Mersereau - *National Bank - Analyst*

Okay. And speaking of geopolitics, any differences from the last time for the South Stream Project today compared to Q2?

Stephen Orr - *ShawCor Ltd. - CEO*

So what we are seeing is the Line 1 and 2 continue on plan. There was a slight delay and I would say delay within a couple of weeks of executions of PQTs ongoing but it's on plan. Surprisingly, what we're seeing is increased acceleration of bidding and contractual discussions on Line 3 and 4. So the geopolitics are, I think, accelerating the discussions and then I think the big question is, if anything was to move on Line 3and 4, it would be towards this funding of the projects.

But today,we are moving quite rapidly as we mentioned. Our EMAR facility is [coating] the anti-corrosion components of Line 2 and our Canusa division, CPS, in Bulgaria is executing the field coatings. So it's full steam right now.

Jeremy Mersereau - *National Bank - Analyst*

Thank you very much.

Operator

Thank you. And our next question comes from the line of Dana Benner from AltaCorp Capital.

Dana Benner - *AltaCorp Capital Inc. - Analyst*

Good morning, gentlemen.

Stephen Orr - *ShawCor Ltd. - CEO*

Good morning.

Dana Benner - *AltaCorp Capital Inc. - Analyst*

I wonder if you could weigh in on -- the Asia Pac wind down has been well telegraphed. Were there any charges in the quarter due to lower work force provisioning, et cetera that may have also rippled through the numbers?

Gary Love - *ShawCor Ltd. - CFO*

Yes. But there're a couple of factors. We are reducing some of the cost structure and that's an ongoing process. It certainly started earlier this year but it obviously accelerated in the third quarter and there are costs associated with that.

Probably the bigger factor though would be the underutilization in the third quarter, certainly on a comparative basis to the past but also even on an absolute basis. So we would expect to see better utilization in Asia Pac in 2015 and beyond than we experienced in the third quarter. It was low, I think, both obviously from a comparative basis to recent quarters but even in terms of relative to our outlook for the future.

The other factor though is that where we are ramping up revenue which is in EMAR, we're also not yet getting full potential margins. And that's not unusual in an environment where you're conducting PQTs and so there was a very extensive program of PQTs. We're adding personnel as I say, we're ramping up volumes.

So we are not yet seeing anywhere close to the let's say full potential margins that we will see on EMAR going forward. So again, that was certainly a negative factor in the third quarter.

Dana Benner - *AltaCorp Capital Inc. - Analyst*

Right. Okay. It's helpful. And then, I guess, secondly the bid log remaining over a $1 billion notwithstanding the fact that you've done very well in EMAR. Would that speak partially to maybe the acceleration of South Stream 3, 4 discussions, et cetera, or is it considerably broader than that?

Gary Love - *ShawCor Ltd. - CFO*

Well, it's considerably boarder than that. And quite honestly, we would not -- I'm not sure we formally bid Line 3 and 4 yet.

Stephen Orr - *ShawCor Ltd. - CEO*

They're not in the $1 billion that I quoted. They're still in the non-firm bid process yet. So the submissions are not until into December, but we expect for them to go in. So they would not be in that number. So I would say our geographical fit in this $1 billion that we quoted, there has been a change quarter-on-quarter where the shift is now moving away from EMAR as large projects are now being secured.

Dana Benner - *AltaCorp Capital Inc. - Analyst*

Could you update us on the Gulf of Mexico? Notwithstanding the fact that it's been a little volatile commodity price wise, seemed to be some pretty good things coming along in that market. Any additional color would be helpful.

Gary Love - *ShawCor Ltd. - CFO*

There're a lot of projects that we're currently bidding or have feasibility on. And so we expect generally that Gulf of Mexico is going to be an active region. I would have to say though that it is -- we're talking about deepwater oil developments. And so in the context of lower oil prices, it would probably be more at risk than some of the other areas where we have either strong bidding or project feasibility.

I think Steve mentioned the fact that for us our exposure is generally tilted very heavily towards natural gas infrastructure. That's the nature of the pipelines. But that's not the case in Gulf of Mexico. The Gulf of Mexico is deepwater oil pipe, so we'd be more at risk to the current commodity environment.

Dana Benner - *AltaCorp Capital Inc. - Analyst*

Right. Just one last question for me if I may. You mentioned ongoing success with Flexpipe in the US and in Latin America, not that it's not going well in Canada. But I would imagine these are perhaps notable successes. So any additional color that would be helpful as well.

Stephen Orr - *ShawCor Ltd. - CEO*

Maybe the positives in the quarter and we probably don't have enough time to go through all the positives in the quarter in Flexpipe because it is quite an exciting quarter. So if I look at geographical expansion, we continue to move our FlexCord into Venezuela. And our limitation is really the security of payment from the National Oil Company there.

So the way it works is we receive payment and then we ship. So this continues to be a highlight and we expected that at the year end it will demonstrate the strongest growth. So that's probably the big story in Latin America.

If you look at other positive stories on the international market, we are now getting a repetitive revenue stream for the application of Flexpipe, the core product, the composite in Saudi Arabia. And they're probably -- it's a unique opportunity where they're using the [tool] associated with early production. So they are spooning it out, they're running it for pad testing and early reservoir characterization and then they're redoing it, so we're starting to associate Flexpipe now with full testing set of equipments, so we're working through all the large service companies.

In addition, we actually have now revenue streams that are coming from Continental Europe, which was the first time we were able to secure that, and it happened this quarter.

In terms of product expansion, we were able to be successful in our deployment of FlexFlow in another early adopter. So now we have several lines installed for our FlexFlow product. And to remind those on the call, this is our 6- and 8-inch stick product platform that we hope to expand larger.

In addition, Flexpipe made a forward movement on the commercialization line for FlexFlow, and we're now boxing up the commercial tape winder. And if you recall, today, we wind one tape at a time to make our FlexFlow product, and we'll now move it so that we will do six tapes at the same time. So we would be able to do a joint in less than 10 minutes, where today a joint takes the better part of the day.

The other thing, I'll add, is we have finalized -- and this happened only in the last couple of days -- long-term supply chain, which was a concern on the expansion of FlexFlow. So we are now in a great position to expand our catalog from the 2- and 4-inch and below core products and our FlexCord anti-buoyant product, we're now set up very nicely and in 2015 we will have revenue from FlexFlow, which is quite exciting because it will also help our core product. There are operators today that want to buy from one supplier. So having 6- and 8-inch is pretty pivotal for us.

Dana Benner - *AltaCorp Capital Inc. - Analyst*

Okay. Very thorough, thank you.

Operator

Thank you. Our next question comes from the line of Sarah Hughes from Cormark Securities.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

Good morning. I guess just starting on the bid book, would you be able at all to provide us an approximate percentage of the bid book that would be leveraged to natural gas versus oil on the project side?

Gary Love - *ShawCor Ltd. - CFO*

Off the top of my head, it's at least two-thirds.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

It's on nat gas. Okay.

Gary Love - *ShawCor Ltd. - CFO*

Yes, absolutely. If not even significantly higher than that.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

Okay. Very helpful. Okay. And then in terms of EMAR, and you talked about kind of the ramp up impact to margins this quarter, just trying to get a sense, when you look back and see that the things that constricted margins, was that all expected? Was there anything in there that you had to go in and fix? Or was is it just a normal ramp up?

Stephen Orr - *ShawCor Ltd. - CEO*

Within the EMAR numbers, of course, are the Socotherm and Pozzallo ramp up. So we talked in previous calls that we were concerned and there was an area of focus on starting the Pozzallo plant as it was a dormant plant (inaudible).

And there is, within the quarter, there was about a week of delay in the start-up and in production, so this is a surprise and unexpected. But it's only about a week. And in all fairness, it's a hit and miss often if we start up exactly on time as PQTs are assigned and we clear them, right?

So this was the only surprise. I can say that the (inaudible) team and our facility that we have in the Middle East has executed outstanding. To date, and I think we reviewed it this quarter, they have been successful on 20 PQTs for product qualifications, 20 times the first time. So the last 20 PQTs they've done on first projects, they've been successful on every time. And we're now seeing from our customers that this is critical and is recognized, and we're able to exploit it.

So, Sarah, to answer your question on the production, there's about a week -- in terms of mobilization and executing Pozzallo about a week.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

And so as we look into Q4 in 2015, the ramp-up costs, will they be all completed in Q4? You start to see the margin, the more normalized margin in 2015, is that how you're thinking about it?

Stephen Orr - *ShawCor Ltd. - CEO*

By the time we exit Q4, we should have the absorption concern finalized in EMAR, yes.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

Okay. And then moving on to Asia Pacific, I think Gary mentioned you're expecting things to improve in 2015 to help margins there. That improvement that you're looking for is that in the backlog today or is it stuff that you're bidding on?

Stephen Orr - *ShawCor Ltd. - CEO*

Sarah, I think what you're going to see in Asia Pacific is they're going to go back down to historical numbers. And in the historical numbers was a much larger percentage of what I would call reoccurring revenue associated with the domestic. So if you look what's in the backlog, I'm trying to think of -- Gary's having a quick look at the numbers here to confirm.

Gary Love - *ShawCor Ltd. - CFO*

Yes, the work certainly in the near term, so let's say the fourth quarter and then maybe the first one or two quarters in 2015, the work is very much local work. So in our Kabil facility we're going to be executing domestic Indonesian projects and in our Kuantan facility in Malaysia, we have work with Shell, but primarily it's for Petronas Carigali is the work, so again local work. So over the next couple of quarters that's what we expect.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

Okay. And based on that revenues that you see to date in the next couple of quarters, will that help you see a bit of a sequential improvement in margins in Asia Pac? Is there enough revenue there? Or will it stay low until you get some bigger projects?

Gary Love - *ShawCor Ltd. - CFO*

It will stay low probably through the next, let's say three or four quarters. Really, when we look at our overall picture and we obviously noted the consolidated gross margin at 36%, that's quite low for us. We haven't seen a consolidated gross margin at that level since 2011. So when we look at that level and we see that transitioning to a 40% to 42% gross margin, the primary driver for that will be EMAR.

Unfortunately, Asia Pac is not going to help us in that regard over the next three, four quarters. Beyond the next three, four quarters, we would then expect to hopefully see some contribution towards increasing margins then coming from Asia Pac. But in the near term it will be EMAR. And the point is we are confident that we will see margins slowly moving back to the 40% range, not in the fourth quarter but certainly in the first half of 2015 and it will be primarily EMAR.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

Okay. And then, just lastly, can you talk a little bit about Socotherm and how things are going there in terms of the turnaround on the margin side of things?

Stephen Orr - *ShawCor Ltd. - CEO*

So the margin improvement for Socotherm we've communicated, Sarah, I think several times. And we see it as kind of a 36-month journey and two components, which is the pricing and the second, of course, is the operational effectiveness.

Probably we underestimated the time it's taking to get poorly priced projects through the funnel. So when we look at this quarter and we back calculate the margins for projects that are being executed and the impact of not raising or absorbing or having these contracts passed on to us, we have not yet got the full effect of new pricing that we pushed out in 2014 related to Socotherm.

So we're not there yet, so we still have movement on pricing. But we are moving it substantially especially in the Channelview and I would say projects that are being done internationally out of Pozzallo or Italy.

On fixing the operational performance, Pozzallo, I mentioned is a highlight and they're executing at new pricing and margins that were bid. So this is a positive note, but we are struggling to get Channelview. We had a real setback this quarter. We had a major HSE incident in the Channelview facility and this is an indication. And often I've mentioned that HSE is a good indicator of how well the operation is running. All the leading indicators were quite positive; Channelview we took a little bit of a setback.

So Channelview is not there. So we're, I would say, more than a year away from being able to put the full processes that are in place in Bredero Shaw into the facilities of Channelview and the rest of Socotherm. But Pozzallo, which was a start-up, proved to be easier because we were starting from scratch, so we still have a ways to go.

Sarah Hughes - *Cormark Securities, Inc. - Analyst*

Okay. That's it for me and thank you very much.

Operator

Thank you. (Operation Instruction) Our next question comes from the line of Scott Treadwell from TD Securities.

Scott Treadwell - *TD Securities - Analyst*

Thanks. Good morning, guys. I wanted to start maybe build on Dana's question on the deepwater. This morning, one of the big drillers announced some bad news and outlook on their view of the world. Understanding that that's not directly what drives your business, but is certainly part of some of the cycles, can you characterize the global outlook for deepwater? Would you characterize it as really being just an oversupply of rigs or has this commodity change and maybe an attention to capital on the part of this project proponents slowed things down, is it more than just maybe a pause?

Stephen Orr - *ShawCor Ltd. - CEO*

So Scott, we're a little bit downstream from (inaudible) the rigs drill, of course, we're in the planning cycle. But what I can say about deepwater in general is the promised price seldom meets the expectation. So if I look at Brazil, consistently Petrobras, both in terms of their operations and the number of well heads that they want and the number of rigs and the number of FTSOs they want built, has never met what the expectations are.

I think West Africa is the same way and with the exception of the Gulf of Mexico gaining traction. I think what we're seeing is a calibration of expected activity in deepwater versus the true reality of what's going to happen. Deepwater investments are large, require a lot of capital and I think in today's environment and even without the oil prices they are starting to have more and more scrutiny, and over runs on the cost of the deepwater projects are driving them to be delayed. So it's a correction, that's how I see it.

For us, our pursuit of deepwater projects and the ones that we speak about in most cases have already FID and they're going to happen. So we're in a different stage. We're not in the -- on the evaluation of deepwater which drives a lot of the other service companies. By the time we get involved, the reserves are confirmed, it's now or the economics and then, by the time we land a contract, the pipe has been ordered and we're just executing a post FID approval, right.

Scott Treadwell - *TD Securities - Analyst*

Okay. That's what I thought, I just wondered if any of that maybe negative sentiment had made its way far downstream to you guys or if it was as you said more about correction at the frontend.

I wanted to move on to Flexpipe, you mentioned that you had secured some supply chain enhancements for FlexFlow. Can you just characterize that? Is that a distribution network? Is that just securing the inputs? Is it storage? Is it a combination that's allowing you to go and think about commercial revenues for that line next year?

Stephen Orr - *ShawCor Ltd. - CEO*

So one of the biggest challenges on FlexFlow is the volumes in which we think we are going to have to produce. And today, one of the core components of our FlexFlow offering is the tape. And the tape is made locally here in the Toronto area.

And so because we were increasing the speed in which we're going to wind pipe and how much we expect we can move and introduce into the industry, the tape manufacturer that we get it from and this is a critical component because it's the core competence. So you have to have quality control and we're unable to find Chinese suppliers that can make -- they can make volumes, but they can't make consistency in the -- for example, across the tape you'll have to have to have the same weighting across the whole dimension of the tape. And we're going to make right at the limits of the widest tape made and it can be made, but not in the quality where you have equal weighting.

So what we have done is we've worked with the Canadian suppliers to take over the licensing and we are moving it in-house with their full support. We have qualified the supplier. We work with them to see if they can move the volume. And this confidence in getting the volume made a decision that we're going to take a license from them and a technology transfer agreement and to move it in-house. And it was concluded I see yesterday, which is very exciting for us because now we're in control of our destiny and we're vertically integrated.

Scott Treadwell - *TD Securities - Analyst*

Okay. Perfect. That clears it up for me. I appreciate the color guys, I'll turn it back.

Gary Love - *ShawCor Ltd. - CFO*

Thanks.

Operator

Thank you. And that concludes the question-and-answer session for today. I would like to turn the conference back to the management for any closing comments.

Stephen Orr - *ShawCor Ltd. - CEO*

Right. So on behalf of the management team, I thank everybody for attending the call and look forward to catching up with you during the quarter for some of you and the end of next quarter. Thank you very much.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone have a good day.