



**Shawcor Ltd.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 and 2014**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Shawcor Ltd.

We have audited the accompanying consolidated financial statements of Shawcor Ltd., which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shawcor Ltd. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

*Ernst + Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada

March 2, 2016

**Shawcor Ltd.**  
Consolidated Statements of Income  
For the years ended December 31:

(in thousands of Canadian dollars, except per share amounts)	2015	2014
<b>Revenue</b>		
Sale of products	\$ 460,690	\$ 613,067
Rendering of services	1,349,958	1,276,962
	<b>1,810,648</b>	<b>1,890,029</b>
<b>Cost of Goods Sold and Services Rendered</b>	<b>1,204,306</b>	<b>1,166,319</b>
<b>Gross Profit</b>	<b>606,342</b>	<b>723,710</b>
Selling, general and administrative expenses	371,954	375,153
Research and development expenses	13,664	13,053
Foreign exchange gains	(7,868)	(3,747)
Amortization of property, plant and equipment (note 20)	58,019	55,219
Amortization of intangible assets (note 21)	21,368	15,587
Gain on sale of land	(814)	(609)
Impairment (note 26)	590	120,378
<b>Income from Operations</b>	<b>149,429</b>	<b>148,676</b>
Gain on assets held for sale	–	6,427
Loss from investments in joint ventures (note 23)	–	(22,375)
(Loss) income from investments in associates	(114)	877
Finance costs, net (note 10)	(18,244)	(18,401)
<b>Income before Income Taxes</b>	<b>131,071</b>	<b>115,204</b>
Income taxes (note 11)	31,551	21,010
<b>Net Income</b>	<b>\$ 99,520</b>	<b>\$ 94,194</b>
<b>Net Income (Loss) Attributable to:</b>		
Shareholders of the Company	\$ 98,244	\$ 94,861
Non-controlling interests	1,276	(667)
<b>Net Income</b>	<b>\$ 99,520</b>	<b>\$ 94,194</b>
<b>Earnings per Share (note 12)</b>		
Basic	\$ 1.52	\$ 1.55
Diluted	\$ 1.52	\$ 1.53
<b>Weighted Average Number of Shares Outstanding (000s) (note 12)</b>		
Basic	64,512	61,374
Diluted	64,762	61,819

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

# Shawcor Ltd.

## Consolidated Statements of Comprehensive Income For the years ended December 31:

(in thousands of Canadian dollars)	2015	2014
<b>Net Income</b>	<b>\$ 99,520</b>	<b>\$ 94,194</b>
<b>Other Comprehensive Income</b>		
<b>Other Comprehensive Income to be Reclassified to Net Income in Subsequent Periods</b>		
Exchange differences on translation of foreign operations	74,137	22,462
Other comprehensive income attributable to investments in joint ventures	–	3,657
Other comprehensive income attributable to investments in associates	1,501	334
<b>Net Other Comprehensive Income to be Reclassified to Net Income in Subsequent Periods</b>	<b>75,638</b>	<b>26,453</b>
<b>Other Comprehensive Income (Loss) not to be Reclassified to Net Income in Subsequent Periods</b>		
Actuarial gains (losses) on defined benefit plans (note 15)	4,924	(633)
Income tax (expense) recovery	(1,415)	152
<b>Net Other Comprehensive Income (Loss) not to be Reclassified to Net Income in Subsequent Periods</b>	<b>3,509</b>	<b>(481)</b>
<b>Other Comprehensive Income, Net of Income Taxes</b>	<b>79,147</b>	<b>25,972</b>
<b>Total Comprehensive Income</b>	<b>\$ 178,667</b>	<b>\$ 120,166</b>
<b>Comprehensive Income Attributable to:</b>		
Shareholders of the Company	\$ 178,258	\$ 120,590
Non-controlling interests	409	(424)
<b>Total Comprehensive Income</b>	<b>\$ 178,667</b>	<b>\$ 120,166</b>

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

# Shawcor Ltd.

## Consolidated Balance Sheets

As at December 31:

(in thousands of Canadian dollars)	2015	2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 16)	\$ 260,645	\$ 116,556
Short-term investments	2,954	550
Accounts receivable (note 18)	396,974	457,610
Income taxes receivable	35,804	11,232
Inventory (note 19)	167,557	194,732
Prepaid expenses	20,112	27,370
Derivative financial instruments (note 7)	3,024	5,578
	<b>887,070</b>	<b>813,628</b>
<b>Non-current Assets</b>		
Loans receivable (note 17)	7,908	7,021
Property, plant and equipment (note 20)	485,555	435,311
Intangible assets (note 21)	223,298	202,736
Investments in associates (note 24)	30,868	19,165
Deferred income tax assets (note 11)	27,668	39,019
Other assets (note 25)	26,268	26,889
Goodwill (note 22)	457,070	396,201
	<b>1,258,635</b>	<b>1,126,342</b>
	<b>\$ 2,145,705</b>	<b>\$ 1,939,970</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 27)	\$ –	\$ 4,685
Accounts payable and accrued liabilities (note 28)	295,911	252,443
Provisions (note 29)	25,562	14,974
Income taxes payable	34,624	33,944
Derivative financial instruments (note 7)	1,984	794
Deferred revenue	58,129	102,005
Obligations under finance lease (note 32)	1,176	1,222
Other liabilities (note 30)	23,279	24,828
	<b>440,665</b>	<b>434,895</b>
<b>Non-current Liabilities</b>		
Long-term debt (note 31)	485,147	406,926
Obligations under finance lease (note 32)	12,600	12,273
Provisions (note 29)	44,075	37,350
Employee future benefits (note 15)	21,942	26,008
Deferred income tax liabilities (note 11)	14,898	24,007
Other liabilities (note 30)	1,177	17,898
	<b>579,839</b>	<b>524,462</b>
	<b>1,020,504</b>	<b>959,357</b>
<b>Equity</b>		
Share capital (note 33)	534,484	533,660
Contributed surplus	18,638	14,625
Retained earnings	492,713	433,177
Non-controlling interests	7,455	7,254
Accumulated other comprehensive income (loss)	71,911	(8,103)
	<b>1,125,201</b>	<b>980,613</b>
	<b>\$ 2,145,705</b>	<b>\$ 1,939,970</b>

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

# Shawcor Ltd.

## Consolidated Statement of Changes in Equity

For the years ended December 31:

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Non- controlling Interests	Accumulated Other Comprehensive (Loss) Income	Total Equity
<b>Balance - December 31, 2013</b>	\$ 303,327	\$ 13,093	\$ 373,574	\$ 2,419	\$ (33,832)	\$ 658,581
Net income	–	–	94,861	(667)	–	94,194
Other comprehensive income	–	–	–	243	25,729	25,972
Comprehensive income	–	–	94,861	(424)	25,729	120,166
Proceeds from issuance of shares (net of commissions and share issuance costs of \$9.7 million) (note 33)	220,524	–	–	–	–	220,524
Issued on exercise of stock options	7,167	–	–	–	–	7,167
Compensation cost on exercised options	2,590	(2,590)	–	–	–	–
Compensation cost on exercised RSUs	52	(52)	–	–	–	–
Stock-based compensation expense	–	4,174	–	–	–	4,174
Dividends declared and paid to shareholders (note 33)	–	–	(35,258)	–	–	(35,258)
Disposal of non-controlling interests in subsidiary	–	–	–	5,548	–	5,548
Purchase of non-controlling interests	–	–	–	(289)	–	(289)
<b>Balance - December 31, 2014</b>	533,660	14,625	433,177	7,254	(8,103)	980,613
Net income	–	–	98,244	1,276	–	99,520
Other comprehensive income	–	–	–	(867)	80,014	79,147
Comprehensive income	–	–	98,244	409	80,014	178,667
Issued on exercise of stock options	508	–	–	–	–	508
Compensation cost on exercised options	197	(197)	–	–	–	–
Compensation cost on exercised RSUs	119	(119)	–	–	–	–
Stock-based compensation expense	–	4,329	–	–	–	4,329
Dividends declared and paid to shareholders (note 33)	–	–	(38,708)	–	–	(38,708)
Purchase of non-controlling interests	–	–	–	(208)	–	(208)
<b>Balance - December 31, 2015</b>	\$ 534,484	\$ 18,638	\$ 492,713	\$ 7,455	\$ 71,911	\$ 1,125,201

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

# Shawcor Ltd.

## Consolidated Statements of Cash Flows

### For the years ended December 31:

(in thousands of Canadian dollars)	2015	2014
<b>Operating Activities</b>		
Net income for the year	\$ 99,520	\$ 94,194
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment	58,019	55,219
Amortization of intangible assets	21,368	15,587
Amortization of long-term prepaid expenses	1,363	1,319
Impairment (note 26)	590	120,378
Decommissioning obligations expense (note 29)	1,588	462
Other provisions expense (note 29)	29,294	14,470
Share-based and other incentive-based compensation (note 14)	2,126	15,487
Deferred income taxes (note 11)	(2,195)	(37,430)
Loss on disposal of property, plant and equipment	1,591	1,018
Gain on sale of land	(814)	(609)
Unrealized loss (income) on derivative financial instruments	3,744	(5,792)
Loss from investments in joint ventures	–	22,375
Loss (Income) from investments in associates	114	(877)
Gain on assets held for sale	–	(6,427)
Other	–	(640)
Settlement of decommissioning liabilities (note 29)	(2,658)	(215)
Settlement of other provisions (note 29)	(24,143)	(16,824)
Net change in employee future benefits (note 15)	63	33
Change in non-cash working capital and foreign exchange	91,471	(83,743)
<b>Cash Provided by Operating Activities</b>	<b>281,041</b>	<b>187,985</b>
<b>Investing Activities</b>		
(Increase) decrease in loans receivable	(146)	2,978
(Increase) decrease in short-term investments	(2,404)	6,068
Purchases of property, plant and equipment	(61,153)	(77,645)
Proceeds on disposal of property, plant and equipment	6,338	3,462
Purchases of intangible assets	(109)	(480)
Proceeds from sale of assets held for sale	–	46,411
Payment of deferred purchase consideration	(1,305)	(18,830)
Investments in associates	(10,477)	(18,031)
(Increase) decrease in other assets	77	(10,495)
Purchase of non-controlling interests	(208)	(289)
Business acquisitions (note 5)	(51,513)	(280,955)
<b>Cash Used in Investing Activities</b>	<b>(120,900)</b>	<b>(347,806)</b>
<b>Financing Activities</b>		
Decrease in bank indebtedness	(4,685)	(544)
Decrease in loans payable	(2,502)	(65)
Payment of obligations under finance lease (note 32)	(1,015)	(1,361)
Issuance of shares (note 33)	508	227,691
Dividends paid to shareholders (note 33)	(38,708)	(35,258)
<b>Cash (Used in) Provided by Financing Activities</b>	<b>(46,402)</b>	<b>190,463</b>
<b>Effect of Foreign Exchange on Cash and Cash Equivalents</b>	<b>30,350</b>	<b>6,519</b>
<b>Net Increase in Cash and Cash Equivalents for the Year</b>	<b>144,089</b>	<b>37,161</b>
<b>Cash and Cash Equivalents – Beginning of Year</b>	<b>116,556</b>	<b>79,395</b>
<b>Cash and Cash Equivalents – End of Year</b>	<b>\$ 260,645</b>	<b>\$ 116,556</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 18,706	\$ 16,727
Interest received	\$ 1,023	\$ 1,049
Income taxes paid	\$ 52,129	\$ 99,756

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Shawcor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. Shawcor Ltd., together with its wholly owned subsidiaries (collectively referred to as the "Company" or "Shawcor"), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates seven divisions with over 80 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 8.

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 1 Basis of Financial Statement Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of financial statements.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at December 31, 2015.

#### Basis of Presentation and Consolidation

The consolidated financial statements have been prepared on the historical cost basis, except for certain current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 2.

The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand, except when otherwise stated.

The consolidated financial statements comprise the financial statements of the Company and the entities under its control and the Company's equity accounted interests in joint ventures and associates.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

The results of the subsidiaries acquired during the year are included in the consolidated financial statements from the date of the acquisition. Adjustments are made, where necessary, to the financial statements of the subsidiaries and joint arrangements

and associates to ensure consistency with those policies adopted by the Company. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 were authorized for issue by the Company's Board of Directors (the "Board") on March 2, 2016.

## 2 Summary of Significant Accounting Policies

The consolidated financial statements have been prepared by management in accordance with IFRS. The more significant accounting policies are as follows:

### a) Critical Judgements in Applying Accounting Policies

The following are the critical judgements that 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

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 judgment 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 Units ("CGUs")

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

#### Provisions and Contingent Liabilities

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 obligation 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 currently is 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.

### **b) Use of Estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical estimates used in preparing the consolidated financial statements include:

### Long-lived Assets and Goodwill

The Company evaluates the carrying values of the groups 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, 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

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

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 entity.

### **c) Business Combinations**

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Acquisition transaction costs and any restructuring costs are charged to the consolidated statements of income in the period in which they are incurred.

For an acquisition achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The excess of the aggregate consideration transferred over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

### **d) Foreign Currency Translation**

#### Functional and Presentation Currency

Amounts included in the financial statements of each of the Company's subsidiaries, joint arrangements and associates are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements of the Company are presented in Canadian dollars, which is the parent company's functional and presentation currency.

#### Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income, except when deferred in other comprehensive income ("OCI") as qualifying net investment hedges.

#### Translation of Foreign Operations

The results and financial position of all the Company's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- income and expenses for each consolidated statement of income are translated at the average exchange rates prevailing for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are reclassified to other comprehensive income (loss).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in accumulated other comprehensive income (loss) are recognized in the consolidated statements of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### e) Financial Instruments

Financial assets recorded at fair value through profit or loss include financial assets held for trading or meeting specified criteria and designated upon initial recognition at fair value through profit or loss as appropriate.

Held-to-maturity financial assets, loans and receivables and other liabilities not held for trading are accounted for at amortized cost.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale by the Company or do not fall into another category. Available-for-sale financial assets are carried on the consolidated balance sheets at fair value with gains or losses from changes in fair value during a period included in other comprehensive income (loss).

Financial assets are recognized initially at fair value.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss, or loans and borrowings.

Financial liabilities classified as fair value through profit or loss include derivative financial instruments. Any changes in fair value are recognized through the consolidated statements of income.

Loans and borrowings are initially recorded at fair value less any directly attributable transaction costs. After initial recognition, these liabilities are subsequently measured at amortized cost using the effective interest rate method.

The following is a summary of the classes of financial instruments included in the Company's consolidated balance sheets as well as their designation by the Company:

<b>Balance Sheet Item</b>	<b>Designation</b>
Cash and Cash Equivalents	Fair value through profit or loss
Short-term Investments	Held-to-maturity
Accounts Receivable	Loans and receivables
Loans Receivable	Loans and receivables
Convertible Preferred Shares	Available-for-sale
Guaranteed Deposits	Held-to-maturity
Derivative Financial Instruments	Fair value through profit or loss
Bank Indebtedness	Loans and borrowings
Loans Payable	Loans and borrowings
Accounts Payable	Loans and borrowings
Deferred Purchase Consideration	Fair value through profit or loss
Long-term Debt	Loans and borrowings

### Derivative Financial Instruments

The Company's policy is to document its risk management objectives and strategy for undertaking various derivative financial instrument transactions. Derivative financial instruments designated as effective net investment hedges are reflected in the consolidated balance sheets at fair value, with any gains or losses resulting from fair value changes included in other comprehensive income (loss) to the extent of hedge effectiveness. Derivative financial instruments not designated as part of a formal hedging relationship are carried at fair value in the consolidated balance sheets, with gains or losses resulting from changes in fair value during a period charged or credited to net income in the consolidated statements of income. As at December 31, 2015, there are no derivative financial instruments that are designated as effective net investment hedges.

### Fair Value

Financial instruments measured at fair value are categorized into one of the following three levels in the fair value hierarchy for disclosure purposes:

- 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.

### Derecognition

Financial assets are derecognized where the contractual rights to the receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and rewards associated with the asset.

Financial liabilities are derecognized where the related obligations are either discharged, cancelled, or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets acquired or liabilities assumed, is recognized in the consolidated statements of income in the period in which it is incurred.

### Impairment

Financial assets carried at amortized cost are assessed at each reporting date for any potential impairment. If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and the impairment loss is recognized in the consolidated statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statements of income.

### Transaction Costs

Transaction costs associated with financial assets carried at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

## **f) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM is responsible for allocating resources and assessing the performance of the operating segments, and has been identified as the Chief Executive Officer of the Company.

## **g) 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.

### Sale of Goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

### Rendering of Services

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. Revenue on these contracts is recognized using the Percentage of Completion Method with completion determined on a Units of Production basis. Losses, if any, on these contracts are

provided for in full at the time such losses are identified.

Services performed in advance of billings are recorded as unbilled revenue pursuant to the contractual terms. In general, amounts become billable upon the achievement of certain milestones 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.

### **h) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **i) Employee Future Benefits**

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The employee future benefits liability recognized on the consolidated balance sheets, in respect of the defined benefit pension plans, represents the deficit position for those defined benefit plans, whose defined benefit obligation exceeds that pension plan's assets. The Company has included in other assets the net surplus position of those defined benefit plans whose pension plan assets exceed the defined benefit obligation.

The defined benefit obligation is determined by independent actuaries using the projected benefit method pro-rated on service. The defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity matching the terms of the related defined benefit arrangements. Plan assets are valued at quoted market prices at the consolidated balance sheet dates.

Past service costs arising from plan amendments are fully recognized in income when the plan amendment or curtailment occurs, or when related restructuring costs or termination benefits are recognized, whichever comes first.

Actuarial gains and losses resulting from experience adjustments and the effect of changes in actuarial assumptions, and actual returns on plan assets, as compared to returns using interest rates of high quality corporate bonds, are recognized in other comprehensive income (loss) in the period in which they arise.

For the Company's defined contribution plans, costs are determined based on the services provided by the Company's employees and are recognized in the consolidated statements of income as those services are provided.

### **j) Share-based and Other Incentive-based Compensation**

The Company has various stock-based compensation plans. The Company recognizes compensation expense in respect of all of its stock-based compensation plans. The compensation expense for equity-settled awards is equal to the estimated fair value, based on an appropriate pricing model, of the incentive options, rights or units granted at the grant date, and is amortized over the vesting period of the incentive options, rights or units.

In accordance with IFRS, for each award of stock-based compensation that vests in installments, the fair value is determined on each installment as a separate award. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the Company revises its estimates of the number of options, rights or incentive units that are expected to vest based on the non-market vesting conditions.

For options, units or rights that are settled with equity, an amount equal to compensation expense is initially credited to contributed surplus as the expense is recognized and transferred to share capital if and when the option, unit or right is exercised.

Consideration received on the exercise of a stock option, right or unit is credited to share capital, when additional equity instruments are issued. Options, units or rights that are settled with cash are classified as liability instruments in accordance with IFRS.

Awards where the employee has the right to choose whether a share-based transaction is settled in cash or by issuing equity are accounted for as liabilities on the consolidated balance sheets.



For cash-settled awards, the fair value of the liability is recalculated at each consolidated balance sheet date until the awards are settled based on the estimated number of awards that are expected to vest, adjusting for market and non-market based performance conditions. During the vesting period, a liability is recognized representing the portion of the vesting period that has expired at the consolidated balance sheet date multiplied by the fair value of the awards at that date. After vesting, the full fair value of the unsettled awards at each balance sheet date is recognized as a liability. Movements in the liability are recognized in the consolidated statements of income. The fair value is recalculated using an option pricing model.

### **k) Research and Development Costs**

In accordance with *IAS 38, Intangible Assets*, research and development costs are charged to the consolidated statements of income, except for development costs, which are capitalized as an intangible asset when the following criteria are met:

- the project is clearly defined and the costs are separately identified and reliably measured;
- the technical feasibility of the project is demonstrated;
- the project will generate future economic benefit;
- resources are available to complete the project; and
- the project is intended to be completed.

The intangible assets are carried at cost less any accumulated amortization and impairment losses if any. Amortization of the asset commences when development has been completed and the asset is available for use. It is amortized over the period of expected future benefit, generally between three to ten years. During the period of development, the asset is tested for impairment annually. All other development costs are charged to the consolidated statements of income.

### **l) Investments in Joint Ventures**

The Company has interests in several joint arrangements, whereby joint control of the respective legal entity has been established by contractual agreements that establish joint control over the economic activities of the entity. The Company accounts for its interests in joint ventures using the equity method.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The aggregate of the Company's share of income or loss of a joint venture is shown separately on the consolidated statements of income and is excluded from income from operations. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in the joint venture. If there is evidence that the investment in the joint venture is impaired, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as "loss from investments in joint ventures" in the consolidated statements of income.

A listing of all joint ventures is presented in note 23.

### **m) Investments in Associates**

The Company accounts for investments in which it has significant influence using the equity method and these investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the income or loss of the investee, after the date of acquisition.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in the associate. If there is evidence that the investment in the associate is impaired, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as loss from investments in associates in the consolidated statements of income.

A listing of all associates is presented in note 24.

### **n) Income Taxes**

Income tax expense comprises current and deferred income taxes. Income taxes are recognized in the consolidated statements



of income, except to the extent that they relate to items recognized in other comprehensive income (loss).

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet dates in the countries where the Company and its subsidiaries operate and generate taxable income.

The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the current income tax balances on a net basis.

Investment tax credits relating to the acquisition of assets are accounted for using the cost reduction approach, reducing the cost of the asset acquired or amortized to income over the useful life of the asset.

### **o) Earnings Per Share**

Basic EPS is calculated using the weighted average number of shares outstanding during the year.

Diluted EPS is calculated using the treasury stock method for determining the dilutive effect of outstanding financial instruments issued under the Company's various stock-based compensation plans. Under this method, the conversion of dilutive financial instruments and related issue of shares is assumed at the beginning of the period (or at the time of award, if later).

The proceeds from the conversion or exercise of dilutive financial instruments plus future period compensation expenses are assumed to be used to purchase common shares at the average market price during the period, and the incremental number of shares (the difference between the number of shares assumed issued and assumed purchased) is included in the denominator of the diluted EPS computation.

### **p) Cash and Cash Equivalents**

Cash and cash equivalents consist of balances with banks and short-term, highly liquid investments with maturity dates on acquisition of 90 days or less. The amounts presented in the consolidated balance sheets approximate the fair value of cash and cash equivalents.

### **q) Short-Term Investments**

Short-term investments consist of liquid investments with maturity dates on acquisition greater than 90 days and less than one year.

### **r) Trade and Other Receivables**

Trade and other receivables are recorded at amortized cost. Impairment of trade and other receivables is constantly monitored. Impairments are based on observed customer solvency, the aging of trade and other receivables, historical values and customer specific and industry risks; external credit ratings as well as bank and trade references are reviewed when available.

### **s) Inventory**

Inventory is measured at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis, except in certain project based pipe coating businesses where the average cost basis is employed, and includes direct materials, direct labour and variable and fixed manufacturing overheads. Net realizable value for finished goods, work-in-process and raw

materials inventory required for production is the estimated amount that would be realized on eventual sale of completed products, less the estimated costs necessary to complete the sale, while for excess raw materials it is the current market price. Ownership of inbound inventory is recognized at the time title passes to the Company.

### t) **Property, Plant and Equipment**

Property, plant and equipment are recorded at historical cost less accumulated amortization and any accumulated impairment. Direct costs are included in the asset's carrying amount, such as borrowing costs for long-term construction projects, major inspections and component replacements, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. For component replacements, the carrying amount of the replaced part is derecognized.

All other repair and maintenance costs are recognized in the consolidated statements of income during the financial period in which they are incurred. The expected cost for the decommissioning and remediation of an asset is included in the cost of the respective asset if the recognition criteria are met.

Property, plant and equipment, other than land and project-related facilities and equipment, are amortized over their estimated useful lives commencing when the asset is available for use on a straight-line basis at the following annual rates:

- Land improvements are amortized over the estimated life of each site;
- 3% to 10% on buildings;
- 5% to 50% on machinery and equipment; and
- Project-related facilities are amortized over the estimated project life.

An item of property, plant and equipment is derecognized when no further economic benefits are expected from its use or disposal. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds or the net recoverable amount, and the carrying value of the asset) are included in the consolidated statements of income in the period the asset is derecognized.

The assets' residual values, useful lives and methods of amortization are reviewed at the end of each reporting period and adjusted prospectively if appropriate.

### u) **Intangible Assets**

Intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the consolidated statements of income during the period in which they are incurred.

#### Intellectual Property and Intangible Assets with Limited Lives

Intellectual property and intangible assets with limited lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is recorded on a straight-line basis over their estimated useful lives of up to 15 years. The amortization period and the amortization method are reviewed at least on an annual basis and adjusted prospectively if appropriate.

#### Intangible Assets with Indefinite Lives

Intangible assets with indefinite lives are not amortized but are tested for impairment annually, or when there is an indication that the asset may be impaired either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable; if not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

### v) **Impairment of Non-financial Assets**

Assets that have indefinite lives are not subject to amortization and are tested annually for impairment or when there is an

indication that the asset may be impaired.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped into CGUs at the lowest level for which there are separately identifiable independent cash inflows. Non-financial assets, other than goodwill, that experienced an impairment are reviewed for possible reversal of the impairment whenever reversal indicators exist.

#### **w) Goodwill**

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising at the date of acquisition.

Goodwill is deemed to have an indefinite life and is tested annually for impairment or when there is an indicator of impairment. Goodwill is carried at cost less accumulated impairment losses, if any. Impairment losses recognized on goodwill are not reversed.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, but are not allocated above the operating segment level at which management monitors the recovery of goodwill.

Gains or losses on the disposal of a CGU or component of a CGU include the carrying amount of goodwill relating to the entity sold.

#### **x) Provisions**

A provision is an accrued liability, legal or constructive, resulting from a past event with a high degree of uncertainty with respect to either the timing or amount. Provisions must be probable and should be measurable to be recognized, and are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance costs in the consolidated statements of income.

#### **y) Leases**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases in which substantially all of the benefits and risks of ownership are not transferred by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of income on a straight-line basis over the term of the lease.

### **3 Accounting Standards Issued but Not Yet Applied**

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

In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, which replaces all phases of the financial instruments project, *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not yet determined the impact of this standard on the consolidated financial statements.

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

In May 2014, the IASB issued *IFRS 15 - 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 in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognizing revenue. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

#### ***IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets***

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

#### ***IFRS 16 – Leases***

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

## **4 New Accounting Standards Adopted**

#### ***IFRS 8 - Operating Segments***

During 2015, the Company adopted an amendment that clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in *IFRS 8*, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar; and the reconciliation of segment assets to total assets is only required to be disclosed if a measure of segment assets is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. This amendment required retrospective application and did not result in a material impact to the consolidated financial statements.

#### ***IAS 19 – Employee Benefits***

The amendments to *IAS 19 – Employee Benefits* require an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to the period of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the period of service. The amendments had no impact on the Company's financial position or results of operations.

## **5 Acquisitions**

### **Flint Field Services Ltd.'s Tubular Inspection & Management and Global Poly Businesses**

On November 26, 2015, the Company completed the acquisition of the assets of the Tubular Inspection and Management ("TIM") and Global Poly businesses operated by Flint Field Services Ltd. for \$34.3 million, including adjustments for changes in working capital. The TIM and Global Poly businesses operate from five owned and five leased facilities in Alberta, British Columbia and Saskatchewan and the TIM business is very similar to the tubular inspection and management business operated by Shawcor's Guardian division. The Global Poly business has been integrated into the Flexpipe division of the Company.

#### **Dhatec B.V.**

On January 5, 2015, the Company completed the acquisition of Dhatec B.V. ("Dhatec") for approximately \$17.3 million (€12.2 million). Dhatec is a Netherlands-based company which designs, assembles and markets engineered pipe logistics products and services which mitigate damage and enhance safety and efficiency in the manufacturing, coating, handling,

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

transportation, preservation and storage of pipe. Dhatec has been integrated into the Pipeline and Pipe Services operating segment of the Company and is part of the Bredero Shaw division.

In the final purchase price equation of the Dhatec acquisition and the preliminary purchase price equation of the Flint acquisition, the approximate value of the tangible assets acquired and tangible liabilities assumed was \$51.7 million and \$17.0 million, respectively; the approximate value of the intangible assets acquired and intangible liabilities assumed was \$19.8 million and \$3.0 million, respectively.

### Desert NDT

On July 8, 2014, the Company completed the acquisition of all of the outstanding shares of Desert NDT, LLC ("Desert") for total consideration of approximately \$281.7 million (U.S.\$263.9 million), including an adjustment for changes in working capital. Desert is a Houston-based provider of non-destructive testing services for new oil and gas gathering pipelines and infrastructure integrity management services. Desert operates over 20 branches located in major U.S. oil and gas basins. The acquisition was funded with cash and through available revolving credit facilities.

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

- For intangible assets associated with customer relationships, the Company based its valuation on the expected future cash flows using the multi-period excess earnings approach. This method employed a discounted cash flow analysis using the present value of the estimated after-tax cash flows expected to be generated from the purchased customer relationships using risk-adjusted discount rates and revenue forecasts, as appropriate, based upon management's best estimate.
- The goodwill acquired represents the acquired human capital and the benefits that the Company expects to earn from the acquisition due to expected synergies and other intangible assets that do not meet the criteria for recognition as identifiable intangible assets. Approximately \$101.8 million (U.S.\$95.4 million) of the goodwill recognized at the date of acquisition is expected to be deductible for income tax purposes.

The following table shows the final purchase price allocation for the acquisition of Desert:

(in thousands of Canadian dollars)

### Consideration

Cash (net of cash acquired of \$2,429)	\$	279,266
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### Assets acquired and liabilities assumed at fair value:

Current assets (excluding cash acquired of \$2,429)	28,114
Property, plant and equipment	8,976
Intangible assets	126,807
Current liabilities	(11,105)
Deferred income tax liabilities	(2,193)

<b>Total identifiable net assets at fair value</b>	<b>150,599</b>
Goodwill	128,667
	<b>\$ 279,266</b>

## 6 Capital Management

The Company defines capital that it manages as the aggregate of its equity and interest bearing liabilities. The Company's objectives when managing capital are to ensure that the Company will continue to operate as a going concern and continue to provide products and services to its customers, preserve its ability to finance expansion opportunities as they arise, and provide returns to its shareholders.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the Company's total managed capital as at:

(in thousands of Canadian dollars)	December 31 2015	December 31 2014
Bank indebtedness	\$ –	\$ 4,685
Loans payable	–	121
Long-term debt	485,147	406,926
Obligations under finance lease	13,776	13,495
Equity	1,125,201	980,613
	<b>\$ 1,624,124</b>	<b>\$ 1,405,840</b>

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its credit facility and long-term debt agreements. Specifically, the Company has undertaken to maintain certain covenants in respect of its unsecured committed bank credit facility and its long-term debt. The Company is in compliance with these covenants as at December 31, 2015.

### 7 Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	December 31 2015	December 31 2014
<b>Loans and receivables, measured at amortized cost</b>		
Loans receivable (note 17)	\$ 7,908	\$ 7,021
Trade accounts receivable, net (note 18)	284,538	327,474
<b>Held-to-maturity</b>		
Short-term investments	2,954	550
Deposit guarantee	960	893
<b>Fair value through profit or loss</b>		
Cash and cash equivalents	260,645	116,556
Derivative financial instruments – assets (note 7)	3,024	5,578
Derivative financial instruments – liabilities (note 7)	1,984	794
<b>Available-for-sale</b>		
Convertible preferred shares	10,000	10,000
<b>Other financial liabilities, measured at amortized cost</b>		
Bank indebtedness	–	4,685
Loans payable	–	121
Accounts payable (note 28)	110,648	89,077
Deferred purchase consideration	3,939	4,873
Long-term debt (note 31)	\$ 485,147	\$ 406,926

### Fair Value

*IFRS 13, Fair Value – Measurement*, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at December 31, 2015:

(in thousands of Canadian dollars)	Fair Value		Level 1		Level 2		Level 3	
<b>Assets</b>								
Cash and cash equivalents	\$	260,645	\$	260,645	\$	–	\$	–
Short-term investments		2,954		2,954		–		–
Derivative financial instruments		3,024		–		3,024		–
Convertible preferred shares		10,000		–		–		10,000
Deposit guarantee		960		–		960		–
	\$	277,583	\$	263,599	\$	3,984	\$	10,000
<b>Liabilities</b>								
Deferred purchase consideration	\$	3,939	\$	–	\$	3,939	\$	–
Long-term debt		427,302		–		427,302		–
Derivative financial instruments		1,984		–		1,984		–
	\$	433,225	\$	–	\$	433,225	\$	–

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 of the underlying contract (hedge rate for a forward contract or an exercise price for an option) 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.

#### Market Risk

##### Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2015, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the year then ended by approximately \$71.0 million, \$6.5 million and \$4.8 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$82.5 million, \$19.0 million and \$63.5 million, respectively.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures associated with the Company's foreign currency denominated cash streams and the resulting variability of the Company's income. The Company utilizes foreign exchange forward contracts to manage this foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes. With the exception of the Company's U.S. dollar based operations, the Company does not hedge translation exposures.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Foreign Exchange Forward Contracts

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

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

(in thousands, except weighted average rate amounts)

Canadian dollars sold for US dollars	
Less than one year	CAD\$ 16,336
Weighted average rate	0.77
US dollars sold for Canadian dollars	
Less than one year	U.S.\$ 14,400
Weighted average rate	1.28
US dollars sold for Malaysian Ringgits	
Less than one year	U.S.\$ 4,500
Weighted average rate	4.31
US dollars sold for Euros	
Less than one year	U.S.\$ 16,747
Weighted average rate	0.90
British pounds sold for US dollars	
Less than one year	£ 3,332
Weighted average rate	1.50
Norwegian Kroner sold for US dollars	
Less than one year	NOK 182,134
Weighted average rate	0.12
Euros sold for US dollars	
Less than one year	€ 29,214
Weighted average rate	1.12

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

As at December 31, 2015, the Company had notional amounts of \$145.7 million of forward contracts outstanding (2014 – \$130.9 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling \$1.0 million (2014 – \$4.7 million net benefit).

### Net Investment Hedge

The long-term debt has been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the U.S. dollar as its functional currency. During the year ended December 31, 2015, a loss of \$78.3 million on the translation of the long-term debt was transferred to other comprehensive income to offset the gain on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2015.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Interest Rate Risk

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

(in thousands of Canadian dollars)	<b>Non-interest Bearing</b>	<b>Floating Rate</b>	<b>Fixed Interest Rate</b>	<b>Total</b>
<b>Financial assets</b>				
Cash equivalents	\$ –	\$ –	\$ 10,615	\$ 10,615
Short-term investments	–	–	2,954	2,954
Loans receivable	215	5,166	2,527	7,908
Convertible preferred shares	10,000	–	–	10,000
	<b>\$ 10,215</b>	<b>\$ 5,166</b>	<b>\$ 16,096</b>	<b>\$ 31,477</b>
<b>Financial liabilities</b>				
Standard letters of credit for performance, bid and surety bonds	\$ 132,052	\$ –	\$ –	\$ 132,052
Long term debt	–	–	485,147	485,147
	<b>\$ 132,052</b>	<b>\$ –</b>	<b>\$ 485,147</b>	<b>\$ 617,199</b>

The Company's interest rate risk arises primarily from its floating rate bank indebtedness and loans receivable 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.

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company is subject to considerable concentration of credit risk since the majority of its customers operate within the global energy industry and are therefore affected to a large extent by the same macroeconomic conditions and risks. The Company manages this credit risk by assessing the creditworthiness of all counterparties, taking into account their financial position, past experience and other factors. Management also establishes and regularly reviews credit limits of counterparties and monitors utilization of those credit limits on an ongoing basis.

For the year ended December 31, 2015, there was one customer who generated approximately 18% of total consolidated revenue (2014 - no customer generated revenue greater than 10% of total consolidated revenue). As at December 31, 2015, this customer accounted for \$29.0 million or 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, 2015, \$36.5 million, or 13%, of trade accounts receivable was more than 90 days overdue, as compared to \$28.1 million or 9%, as at December 31, 2014. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)	2015	2014
<b>Balance - Beginning of year</b>	\$ 12,516	\$ 11,732
Bad debts expense	3,512	748
Acquisition	–	693
Recovery of previously written off bad debts	(731)	(156)
Write off of bad debts	(9,575)	–
Impact of change in foreign exchange rates	(718)	(501)
<b>Balance - End of year</b>	<b>\$ 5,004</b>	<b>\$ 12,516</b>

### Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at December 31, 2015, the Company had cash and cash equivalents totalling \$260.6 million (2014 – \$116.6 million) and had unutilized lines of credit available to use of \$491.9 million (2014 – \$381.0 million).

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2015:

(in thousands of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Purchase commitments	45,492	–	–	–	–	–	45,492
Accounts payable	110,648	–	–	–	–	–	110,648
Deferred purchase consideration	3,939	–	–	–	–	–	3,939
Long-term debt	–	–	–	–	138,660	346,487	485,147
Finance costs on long-term debt	17,339	17,339	17,339	17,339	15,273	57,720	142,349
Obligations under finance lease	1,469	1,467	1,432	1,432	1,432	11,279	18,511
Operating lease commitments	24,148	15,982	11,805	8,098	5,222	10,841	76,096
	<b>203,035</b>	<b>34,788</b>	<b>30,576</b>	<b>26,869</b>	<b>160,587</b>	<b>426,327</b>	<b>882,182</b>

## **8 Segment Information**

Shawcor's operating segments are being reported based on the financial information provided to the CEO, who has been identified as the CODM in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on segment operating income or loss, which is measured differently than income from operations in the consolidated financial statements. Income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at December 31, 2015, the Company had two reportable operating segments: Pipeline and Pipe Services and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices. The aggregation of the reportable segments is based on the customers and markets that the Company serves.

### **Pipeline and Pipe Services**

The Pipeline and Pipe Services segment comprises the following divisions:

- Bredero Shaw, which provides pipe coating, lining and insulation products. During 2015, the Socotherm division was integrated with the Bredero Shaw division;
- Canusa - CPS, which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications;
- Flexpipe Systems, which provides spoolable composite pipe systems;
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular products;
- Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction; and
- Desert, which provides non-destructive testing services for new oil and gas gathering pipelines and infrastructure integrity management services.

### **Petrochemical and Industrial**

The Petrochemical and Industrial segment comprises the Connection Systems division. The Connection Systems division was formed from the 2015 integration of :

- ShawFlex, which manufactures wire and cable for process instrumentation and control applications; and
- DSG-Canusa, which manufactures heat shrinkable tubing for automotive, electrical, electronic and utility applications.

### **Financial and Corporate**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Segment

The following table sets forth information by segment for the years ended December 31:

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue										
External	1,629,116	1,713,363	181,532	176,666	–	–	–	–	1,810,648	1,890,029
Inter-segment	2,031	3,426	335	367	–	–	(2,366)	(3,793)	–	–
<b>Total Revenue</b>	<b>1,631,147</b>	<b>1,716,789</b>	<b>181,867</b>	<b>177,033</b>	<b>–</b>	<b>–</b>	<b>(2,366)</b>	<b>(3,793)</b>	<b>1,810,648</b>	<b>1,890,029</b>
Cost of goods sold and services rendered	1,078,964	1,045,317	127,709	124,797	–	–	(2,367)	(3,795)	1,204,306	1,166,319
<b>Gross margin</b>	<b>552,183</b>	<b>671,472</b>	<b>54,158</b>	<b>52,236</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>2</b>	<b>606,342</b>	<b>723,710</b>
Operating expense	317,249	315,147	20,791	21,708	26,045	34,549	1	2	364,086	371,406
Research and development expenses	11,430	10,794	1,428	1,136	806	1,123	–	–	13,664	13,053
Amortization of property, plant and equipment	52,693	50,085	3,253	3,251	2,073	1,883	–	–	58,019	55,219
Amortization of intangible assets	21,368	15,587	–	–	–	–	–	–	21,368	15,587
Gain on sale of land	–	–	–	(609)	(814)	–	–	–	(814)	(609)
<b>Income (loss) from operation for CODM</b>	<b>149,443</b>	<b>279,859</b>	<b>28,686</b>	<b>26,750</b>	<b>(28,110)</b>	<b>(37,555)</b>	<b>–</b>	<b>–</b>	<b>150,019</b>	<b>269,054</b>
Impairment	590	120,378	–	–	–	–	–	–	590	120,378
<b>Income (loss) from operations</b>	<b>148,853</b>	<b>159,481</b>	<b>28,686</b>	<b>26,750</b>	<b>(28,110)</b>	<b>(37,555)</b>	<b>–</b>	<b>–</b>	<b>149,429</b>	<b>148,676</b>
Gain on assets held for sale	–	6,427	–	–	–	–	–	–	–	6,427
Loss from investments in joint venture	–	(22,375)	–	–	–	–	–	–	–	(22,375)
(Loss) Income from investments in	–	–	–	–	(114)	877	–	–	(114)	877
Internal interest income (expense)	(2,653)	(18,517)	(1,659)	(1,827)	4,312	20,344	–	–	–	–
Interest income	874	839	12	4	123	387	–	–	1,009	1,230
Interest expense and other finance cost	(2,092)	(3,069)	(68)	(13)	(17,093)	(16,549)	–	–	(19,253)	(19,631)
<b>Income (loss) before income taxes</b>	<b>144,982</b>	<b>122,786</b>	<b>26,971</b>	<b>24,914</b>	<b>(40,882)</b>	<b>(32,496)</b>	<b>–</b>	<b>–</b>	<b>131,071</b>	<b>115,204</b>
Income taxes	–	–	–	–	31,551	21,010	–	–	31,551	21,010
Additions to property, plant and equipment, net of disposals	47,751	70,041	1,642	1,767	1,319	1,966	–	–	50,712	73,774
Goodwill	439,181	379,510	17,889	16,691	–	–	–	–	457,070	396,201
Total assets	2,373,313	2,272,764	118,464	106,407	1,048,489	885,505	(1,394,561)	(1,324,706)	2,145,705	1,939,970
Total liabilities	981,499	910,030	27,361	86,879	441,027	460,734	(429,383)	(498,286)	1,020,504	959,357

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Geographical Information

The following table sets forth information by geographic region for the years ended December 31; the geographic region is determined by the country or location of operation.

(in thousands of Canadian dollars) 2015

	Canada	USA	Latin America	EMAR <sup>(a)</sup>	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 491,276	\$ 343,845	\$ 150,597	\$ 643,828	\$ 181,102	\$ –	\$ 1,810,648
Inter-segment	2,109	70	186	1	–	(2,366)	–
<b>Total revenue</b>	<b>\$ 493,385</b>	<b>\$ 343,915</b>	<b>\$ 150,783</b>	<b>\$ 643,829</b>	<b>\$ 181,102</b>	<b>\$ (2,366)</b>	<b>\$ 1,810,648</b>
Non-current assets <sup>(b)</sup>	\$ 283,426	\$ 622,132	\$ 34,154	\$ 174,730	\$ 59,179	\$ –	\$ 1,173,621

(in thousands of Canadian dollars) 2014

	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 590,446	\$ 302,770	\$ 183,196	\$ 463,108	\$ 350,509	\$ –	\$ 1,890,029
Inter-segment	1,774	157	1,861	1	–	(3,793)	–
<b>Total revenue</b>	<b>\$ 592,220</b>	<b>\$ 302,927</b>	<b>\$ 185,057</b>	<b>\$ 463,109</b>	<b>\$ 350,509</b>	<b>\$ (3,793)</b>	<b>\$ 1,890,029</b>
Non-current assets <sup>(b)</sup>	\$ 229,946	\$ 572,002	\$ 24,509	\$ 155,871	\$ 60,474	\$ –	\$ 1,042,802

(a) Refers to the Europe, Middle East, Africa and Russia geographic region

(b) Excluding financial instruments, deferred income tax assets and accrued employee future benefit asset

### 9 Employee Benefits Expense

The following table sets forth the Company's employee benefits expense for the years ended December 31:

(in thousands of Canadian dollars) 2015 2014

Salaries, wages and employee benefits	\$ 580,992	\$ 545,094
Pension (note 15)	11,814	10,358
Share-based and other incentive-based compensation (note 14)	2,166	13,750
<b>Total</b>	<b>\$ 594,972</b>	<b>\$ 569,202</b>

### 10 Finance Costs

The following table sets forth the Company's finance costs for the years ended December 31:

(in thousands of Canadian dollars) 2015 2014

Interest income on short-term deposits	\$ (1,009)	\$ (1,229)
Interest expense, other	3,359	6,210
Interest expense on long term debt	15,894	13,420
<b>Finance costs – net</b>	<b>\$ 18,244</b>	<b>\$ 18,401</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 Income Taxes

The following table sets forth the Company's income tax expense for the years ended December 31:

(in thousands of Canadian dollars)	2015	2014
<b>Current Income Taxes</b>		
Based on taxable income of current year	\$ 31,968	\$ 56,539
Adjustment to prior year provision	1,778	1,901
	<b>33,746</b>	<b>58,440</b>
<b>Deferred Income Taxes</b>		
Reversal of temporary differences	(2,195)	(37,430)
	<b>(2,195)</b>	<b>(37,430)</b>
<b>Total Income Tax Expense</b>	<b>\$ 31,551</b>	<b>\$ 21,010</b>

The following table sets forth the Company's income taxes on items recognized in other comprehensive income (loss) for the years ended December 31:

(in thousands of Canadian dollars)	2015	2014
Income tax expense (recovery) on actuarial gains and losses on defined benefit plans	\$ 1,415	\$ (152)
<b>Income Tax Expense (Recovery) Charged to OCI</b>	<b>\$ 1,415</b>	<b>\$ (152)</b>

The following table sets forth a reconciliation of the Company's effective income tax rate for the years ended December 31:

	2015	2014
	%	%
Expected income tax expense based on statutory rate	26.5	26.5
Tax rate differential on earnings of foreign subsidiaries	(11.6)	(14.9)
Benefit of previously unrecognized tax losses	(4.6)	(0.2)
Unrecognized tax losses of foreign subsidiaries	1.6	1.1
Adjustment to prior year provision	1.4	1.7
Other	10.9	4.0
<b>Effective Income Tax Rate</b>	<b>24.2</b>	<b>18.2</b>

The expected income tax rate is computed using average Canadian federal and provincial income tax rates based on an estimated allocation of income before income taxes to the various provinces.

**Recognized Deferred Income Tax Assets and Liabilities**

The following table sets forth the Company's deferred income tax assets and liabilities as at:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
<b>Deferred Income Tax Assets</b>		
Property, plant and equipment	\$ 4,413	\$ 10,490
Provisions and future expenditures	36,688	40,154
Non-capital losses	17,315	11,508
	<b>58,416</b>	<b>62,152</b>
<b>Deferred Income Tax Liabilities</b>		
Property, plant and equipment	(32,260)	(39,926)
Provisions and future expenditures	(13,386)	(7,214)
	<b>(45,646)</b>	<b>(47,140)</b>
<b>Net Deferred Income Tax Liability</b>	<b>\$ 12,770</b>	<b>\$ 15,012</b>

The following table sets forth the Company's deferred income tax assets and liabilities as presented in the consolidated balance sheets as at:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Deferred income tax assets	\$ 27,668	\$ 39,019
Deferred income tax liabilities	(14,898)	(24,007)
	<b>\$ 12,770</b>	<b>\$ 15,012</b>

The Company has recorded deferred income tax assets of \$17.3 million as at December 31, 2015 (2014 – \$11.5 million), pertaining to loss carryforwards based on management's financial projections and the relevant income tax legislation in each jurisdiction.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars)	Consolidated Statements of Income	
	2015	2014
<b>Deferred Income Tax Assets</b>		
Property, plant and equipment	\$ 6,077	\$ 7,463
Provisions and future expenditures	3,466	(21,170)
Net operating losses	(5,807)	35
Change in deferred income tax assets	3,736	(13,672)
<b>Deferred Income Tax Liabilities</b>		
Property, plant and equipment	(7,666)	20,954
Provisions and future expenditures	6,172	(42,671)
Change in deferred income tax liabilities	(1,494)	(21,717)
<b>Change in Deferred Income Taxes</b>	<b>2,242</b>	<b>(35,389)</b>
Deferred income taxes in other comprehensive income	(1,415)	152
Deferred income taxes acquired through acquisitions	(3,022)	(2,193)
<b>Deferred Income Tax Recovery in Net Income</b>	<b>\$ (2,195)</b>	<b>\$ (37,430)</b>

The Company has not recognized a deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, associates and joint ventures for the years ended December 31, 2015 and 2014, as the Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary difference associated with investments in subsidiaries, associates and joint ventures, for which a deferred income tax liability has not been recognized, aggregated to \$82.3 million and \$162.2 million for the years ended December 31, 2015 and 2014, respectively.

The Company has net operating losses of \$120.9 million for the year ended December 31, 2015 (2014 – \$131.4 million) in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to 2018. The Company has capital losses of \$18.0 million and \$15.3 million for the years ended December 31, 2015 and 2014, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These capital losses can be carried forward indefinitely.

## 12 Earnings Per Share

The following table details the weighted average number of shares outstanding for the purposes of calculating basic and diluted earnings per share ("EPS") for the years ended December 31:

(in thousands of Canadian dollars, except share and per share amounts)	2015	2014
Net income used to calculate EPS		
Net income (attributable to the shareholders of the Company)	\$ 98,244	\$ 94,861
Weighted average number of shares		
outstanding – basic (000's)	64,512	61,374
Dilutive effect of stock options	250	445
Weighted average number of shares outstanding – diluted (000's)	64,762	61,819
Basic EPS	\$ 1.52	\$ 1.55
Diluted EPS	\$ 1.52	\$ 1.53



**13 Key Management Compensation**

Key management includes directors (executive and non-executive) and corporate officers. The compensation paid or payable to key management for employee and director services is shown below for the years ended December 31:

(in thousands of Canadian dollars)	<b>2015</b>		2014	
Salaries and other short-term incentive compensation and employee benefits	\$	<b>2,065</b>	\$	3,714
Post-employment benefits – defined benefit plans		<b>370</b>		630
Share-based and other long-term incentive payments		<b>3,448</b>		5,271
Directors’ fees and other compensation		<b>938</b>		2,368
<b>Total</b>	<b>\$</b>	<b>6,821</b>	<b>\$</b>	11,983

**14 Share-based and Other Incentive-based Compensation**

As at December 31, 2015, the Company had the following stock option plan, which was initiated in 2001:

Under the Company’s 2001 employee stock option plan (the “2001 Employee Plan”), which is a traditional stock option plan, the options granted have a term of approximately ten years from the date of the grant. Exercises of stock options are permitted on the basis of 20% of the optioned shares per year over five years, on a cumulative basis, commencing one year following the date of the grant. The grant price equals the closing sales price of the common shares on the day prior to the grant.

On March 3, 2010, the Board approved the amended 2001 Employee Plan (the “Amended 2001 Employee Plan”). All stock options granted in 2010, and certain options granted thereafter, under the Amended 2001 Employee Plan have a tandem share appreciation right (“SAR”) attached, which allows the option holder to exercise either the option and receive a share, or exercise the SAR and receive a cash payment that is equivalent to the difference between the grant price and fair market value. All stock options granted under the Amended 2001 Employee Plan have the same characteristics as stock options that were granted under the original 2001 Employee Plan with respect to vesting requirements, term, termination and other provisions.

A summary of the status of the Company’s stock option plans and changes during the year is presented below:

**Stock Options without Tandem Share Appreciation Rights**

	<b>2015</b>		2014	
	<b>Total Shares</b>	<b>Weighted Average Exercise Price</b>	Total Shares	Weighted Average Exercise Price
<b>Balance outstanding - Beginning of year</b>	<b>989,870</b>	<b>\$ 31.71</b>	1,255,900	\$ 29.20
Granted	<b>77,700</b>	<b>35.79</b>	46,400	45.73
Exercised	<b>(24,130)</b>	<b>21.05</b>	(303,450)	23.63
Forfeited	–	–	(8,980)	26.41
<b>Balance outstanding - End of year</b>	<b>1,043,440</b>	<b>\$ 32.27</b>	989,870	\$ 31.71
<b>Options exercisable</b>	<b>686,508</b>	<b>\$ 28.90</b>	594,706	\$ 26.73

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Outstanding as at December 31, 2015	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2015	Weighted Average Exercise Price	
\$15.01 to \$20.00	169,520	2.98	\$ 15.51	169,520	\$ 15.51	
\$25.01 to \$30.00	219,160	1.54	27.73	219,160	27.73	
\$30.01 to \$35.00	182,100	5.98	32.81	108,220	32.81	
\$35.01 to \$40.00	179,960	6.71	36.66	81,808	37.32	
\$40.01 to \$45.00	246,300	6.98	41.69	98,520	41.69	
\$45.01 to \$50.00	46,400	7.98	45.73	9,280	45.73	
	<b>1,043,440</b>	<b>5.01</b>	<b>\$ 32.27</b>	<b>686,508</b>	<b>\$ 28.90</b>	

December 31, 2014

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Outstanding as at December 31, 2014	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2014	Weighted Average Exercise Price	
\$15.01 to \$20.00	181,850	3.89	\$ 15.55	181,850	\$ 15.55	
\$20.01 to \$25.00	2,000	3.98	21.95	2,000	21.95	
\$25.01 to \$30.00	228,960	2.53	27.70	228,960	27.70	
\$30.01 to \$35.00	182,100	6.98	32.81	71,280	32.81	
\$35.01 to \$40.00	102,260	5.98	37.32	61,356	37.32	
\$40.01 to \$45.00	246,300	7.98	41.69	49,260	41.69	
\$45.01 to \$50.00	46,400	8.98	45.73	–	–	
	<b>989,870</b>	<b>5.75</b>	<b>\$ 31.71</b>	<b>594,706</b>	<b>\$ 26.73</b>	

The Board approved the granting of 77,700 stock options (2014 – 46,400) during the year ended December 31, 2015 under the 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2015 was \$0.6 million (2014 – \$1.1 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

	2015	2014
Weighted average share price	\$ 35.79	\$ 45.73
Exercise price	\$ 35.79	\$ 45.73
Expected life of options	6.25	6.25
Expected stock price volatility	29.0%	32.0%
Expected dividend yield	1.63%	1.2%
Risk-free interest rate	1.34%	2.0%

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value of options granted under the Amended 2001 Employee Plan will be amortized to compensation expense over the five-year vesting period of the options. The compensation cost from the amortization of granted stock options for the year ended December 31, 2015, included in selling, general and administrative expenses, was \$1.2 million (2014 – \$2.0 million).

### Stock Options with Tandem Share Appreciation Rights

	2015		2014	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value
<b>Balance outstanding - Beginning of year</b>	<b>182,100</b>	<b>\$ 13.29</b>	120,800	\$ 13.05
Granted	94,800	8.62	61,700	13.75
Expired / Other	400	12.94	(400)	12.94
<b>Balance outstanding - End of year</b>	<b>277,300</b>	<b>\$ 11.69</b>	182,100	\$ 13.29
<b>Options exercisable</b>	<b>113,760</b>	<b>\$ 13.07</b>	77,260	\$ 12.97

(a) The weighted average fair value refers to the fair value of the underlying shares of the Company on the grant date of the SARs.

The mark-to-market liability for the stock options with SARs as at December 31, 2015 is \$0.8 million (2014 – \$1.4 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

On March 3, 2010, the Board approved a new long-term incentive program ("LTIP") for executives and key employees and a deferred share unit ("DSU") plan for directors of the Company. Additional details with respect to the LTIP and DSU plan are as follows:

#### LTIP

The LTIP includes the existing stock option plan discussed above, the Value Growth Plan ("VGP") and the Employee Share Unit Plan ("ESUP").

#### VGP

The VGP is a cash-based awards plan, which rewards executives and key employees for improving operating income and revenue over a three-year performance period. Units granted to participants vest at the end of the third year of the performance period for which they were granted. The value of units is determined based on the growth rate in operating revenue and income on a cumulative basis for the three consecutive years that comprise the performance period and is measured against the prior three-year baseline period. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The VGP liability as at December 31, 2015 is \$16.6 million (2014 – \$32.1 million).

#### ESUP

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

The following table sets forth the Company's RSU/PSU reconciliation for the years ended December 31:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2015			2014		
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)(b)</sup>	Total Shares	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	
<b>Balance outstanding - Beginning of year</b>	<b>261,708</b>	<b>\$ 36.69</b>	209,307	\$	33.91	
Granted	231,979	28.77	74,438		43.96	
Exercised	(3,322)	34.21	(1,697)		29.76	
Cancelled	(17,516)	36.27	(20,340)		36.31	
<b>Balance outstanding - End of year</b>	<b>472,849</b>	<b>\$ 32.84</b>	261,708	\$	36.69	
<b>RSUs/PSUs exercisable</b>	<b>95,838</b>	<b>\$ 33.63</b>	57,799	\$	30.80	

(a) RSU awards do not have an exercise price; their weighted average grant date fair value is the weighted average trading price of the common shares over the five trading days preceding the grant date.

(b) PSU awards do not have an exercise price; their weighted average grant date fair value is the weighted average trading price of the common shares over the five trading days preceding the grant date.

### DSU

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

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

The following table sets forth the Company's DSU reconciliation for the years ended December 31:

	2015			2014		
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	
<b>Balance outstanding - Beginning of year</b>	<b>99,675</b>	<b>\$ 38.04</b>	124,980	\$	34.60	
Granted	41,032	31.98	26,120		48.84	
Exercised <sup>(b)</sup>	(30,110)	35.92	(51,425)		35.16	
<b>Balance outstanding - End of year</b>	<b>110,597</b>	<b>\$ 36.37</b>	99,675	\$	38.04	

(a) DSU awards do not have an exercise price; their weighted average grant date fair value is the weighted average trading price of the common shares over the five trading days preceding the grant date.

(b) DSU awards cannot be exercised while the director is still a member of the Board.

The mark-to-market liability for the DSUs as at December 31, 2015 is \$3.1 million (2014 – \$4.2 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

**Incentive-based Compensation**

The following table sets forth the incentive-based compensation expense for the years ended December 31:

(in thousands of Canadian dollars)	<b>2015</b>		2014	
Stock option expense	\$	<b>1,174</b>	\$	1,956
VGP expense		<b>(1,516)</b>		9,428
DSU expense		<b>(40)</b>		1,737
RSU expense		<b>3,155</b>		2,218
SAR expense		<b>(647)</b>		148
<b>Total share-based and other incentive-based compensation expense</b>	<b>\$</b>	<b>2,126</b>	<b>\$</b>	<b>15,487</b>

**15 Employee Future Benefits**

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The defined benefit pension plans are in Canada, the U.K. and Norway and include both flat-dollar plans for hourly employees and final earnings plans for salaried employees. The Company also provides a post-employment life insurance benefit to its Canadian retirees and a post-employment benefit to its hourly and salaried employees in Indonesia.

The Company's funding policy for the Canadian registered pension plans is to fund in accordance with the requirements of applicable pension legislation. The determination of the required funding is made on the basis of periodic actuarial valuations as required under applicable pension legislation. The Company is responsible for the governance of the pension plans, including overseeing investment decisions. The Company has also appointed experienced independent professional experts such as investment managers, actuaries and consultants to assist in the management of the pension plans.

By their nature, defined benefit pension plans carry many types of financial risk. The main financial risks faced by the Company's pension plans can be summarized as follows:

- Longevity risk: the risk that retirees will, on average, collect a pension for a longer period of time than expected based on the mortality assumption;
- Investment risk: the risk that the invested assets of the plan will not yield the assumed rate of return, resulting in insufficient assets to provide for the benefits promised and/or requiring the Company to make additional contributions to fund the deficit;
- Interest rate risk: the risk from changing market interest rates. A decrease in corporate bond yields will increase plan liabilities. This risk is greater to the extent that there is a mismatch between the characteristics of the assets and liabilities;
- Regulatory/legal risk: the risk of regulatory/jurisprudence changes that can alter the benefits promised.

The total cash payments made by the Company to fund the defined benefit pension plans, the post-retirement insurance plans and the post-employment benefit plan during 2015 were \$4.4 million (2014 – \$4.9 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2015 were \$7.3 million (2014 – \$5.4 million).

The Company measures the fair value of plan assets and the defined benefit obligation as at December 31 of each year. Actuarial valuations for the Company's registered defined benefit pension plans and the Supplementary Executive Retirement Plan ("SERP") for Executives of Shawcor Ltd. are generally required at least every three years. The most recent actuarial valuations of the plans were conducted as of August 1, 2015 (one plan), December 31, 2014 (one plan), January 1, 2014 (two plans), December 31, 2013 (three plans) and August 1, 2013 (one plan).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The employee future benefit amounts recognized in the consolidated balance sheets are as follows:

(in thousands of Canadian dollars)	December 31 2015	December 31 2014
<b>Accrued employee future benefit asset</b>		
Pension plans (note 25)	\$ 8,489	\$ 7,694
	<b>8,489</b>	<b>7,694</b>
<b>Accrued employee future benefit liability</b>		
Pension plans	(19,277)	(23,776)
Post-employment benefits	(2,553)	(2,124)
Post-retirement life insurance	(112)	(108)
	<b>(21,942)</b>	<b>(26,008)</b>
<b>Net accrued employee future benefit liability</b>	<b>\$ (13,453)</b>	<b>\$ (18,314)</b>

The following was the composition of plan assets at the consolidated balance sheet dates, for the Canadian registered defined benefit pension plans:

	December 31 2015	December 31 2014
<b>Investments quoted in active markets:</b>		
Cash and cash equivalents	4%	5%
Equity instruments	65%	64%
Debt instruments	31%	31%
	<b>100%</b>	<b>100%</b>

The following was the composition of invested plan assets at the balance sheet dates for the SERP<sup>(a)</sup>:

	December 31 2015	December 31 2014
<b>Investments quoted in active markets:</b>		
Equity instruments	100%	100%

(a) The amounts in the above table exclude amounts held in the refundable tax account by the Canada Revenue Agency.

### Actual Return on Plan Assets

The actual return on plan assets for the years ended December 31, 2015 and 2014 amounted to \$8.2 million and \$11.1 million, respectively.

**Employee Future Benefit Cost**

The employee future benefit cost recognized in the consolidated statements of income is as follows:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Current service costs	\$ 3,619	\$ 3,856
Past service costs and impact of settlements, curtailments and termination benefits	186	254
Interest cost on defined benefit obligation	5,068	5,434
Interest income on plan assets	(4,473)	(4,996)
	<b>4,400</b>	4,548
Impact of asset ceiling/minimum funding requirement	103	368
Defined benefit cost recognized	4,503	4,916
Defined contribution cost recognized	7,311	5,442
<b>Employee future benefit cost recognized<sup>(a)</sup></b>	<b>\$ 11,814</b>	<b>\$ 10,358</b>

(a) The total amount is included in the consolidated statements of income in selling, general and administrative expenses.

The employee future benefit (income) cost recognized in OCI is as follows:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Valuation effect	\$ 707	\$ 29
Return on plan assets (excluding amounts included in interest income)	(3,773)	(6,095)
Net actuarial losses (gains) recognized in the year	(2,499)	12,395
Other changes in asset ceiling/minimum funding requirement not included in net interest cost	395	(5,619)
Foreign currency exchange rate changes	246	(77)
<b>Employee future benefit (income) cost recognized in OCI</b>	<b>\$ (4,924)</b>	<b>\$ 633</b>

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
<b>Balance - Beginning of year</b>	<b>\$ 133,195</b>	<b>\$ 116,569</b>
Employer current service cost	3,619	3,856
Net interest cost	5,068	5,434
Past service costs and impact of settlements, curtailments and termination benefits	186	254
Benefit payments	(6,165)	(4,872)
Actuarial losses due to changes in demographic assumptions	-	627
Actuarial (gains) losses due to changes in economic assumptions	(1,775)	12,806
Experience gains	(724)	(1,038)
Foreign exchange differences	1,648	(441)
<b>Balance - End of year</b>	<b>\$ 135,052</b>	<b>\$ 133,195</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Changes in the fair value of the plan assets for the year ended December 31 are as follows:

(in thousands of Canadian dollars)	2015	2014
<b>Balance - Beginning of year</b>	\$ 117,452	\$ 106,644
Valuation effect	(707)	(29)
Employer contributions	4,440	4,883
Benefit payments	(6,165)	(4,872)
Interest income on plan assets	4,473	4,996
Return on plan assets (excluding amounts included in interest income)	3,773	6,095
Foreign exchange differences	1,782	(265)
<b>Balance - End of year</b>	<b>\$ 125,048</b>	<b>\$ 117,452</b>

The net employee future benefit liability as at the end of the year is calculated as follows:

(in thousands of Canadian dollars)	December 31 2015	December 31 2014
Defined benefit obligation	\$ 135,052	\$ 133,195
Fair value of plan assets	125,048	117,452
Net liability before impact of asset ceiling/minimum funding requirement	10,004	15,743
Impact of asset ceiling/minimum funding requirement	3,449	2,571
<b>Net employee future benefit liability</b>	<b>\$ 13,453</b>	<b>\$ 18,314</b>

The following are the principal assumptions for the actuarial valuation of the plans as at December 31:

	2015	2014
Canada		
Defined benefit obligation		
Discount rate	3.90%	3.90%
Future salary increase	3.50%	3.50%
Future pension increase	n/a	n/a
Mortality	CPM 2014 Private with scale CPM-B	CPM 2014 Private with scale CPM-B
Benefit cost for the year ended December 31		
Discount rate	3.90%	4.70%
Future salary increase	3.50%	4.00%
Norway		
Defined benefit obligation		
Discount rate	2.70%	2.30%
Future salary increase	2.50%	2.75%
Future pension increase	0.00%	0.00%
Mortality	K2013	K2013
Benefit cost for the year ended December 31		
Discount rate	2.30%	4.10%
Future salary increase	2.75%	3.75%



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2015	2014
United Kingdom		
Defined benefit obligation		
Discount rate	4.00%	3.70%
Future salary increase	n/a	n/a
Future pension increase	2.50%	2.30%
Mortality	SIPA (projected)	SIPA (projected)
Benefit cost for the year ended December 31		
Discount rate	3.70%	4.70%
Future salary increase	n/a	n/a
Indonesia		
Defined benefit obligation		
Discount rate	9.00%	8.40%
Future salary increase	10.00% (local), 6.00% (expat)	10.00% (local), 6.00% (expat)
Future pension increase	n/a	n/a
Mortality	Indonesia's Table 2011	Indonesia's Table 2011
Benefit cost for the year ended December 31		
Discount rate	8.40%	8.80%
Future salary increase	10.00% (local), 6.00% (expat)	10.00% (local), 6.00% (expat)

### Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at December 31, 2015 is as shown below:

Significant Assumptions	Impact of Sensitivity Analysis on Defined Benefit Obligation	
	Change	% Change
(in thousands of Canadian dollars)	\$	
Discount rate		
Decrease of 50% basis points	10,664	7.9%
Increase of 50% basis points	(9,494)	(7.0%)
Future salary increase		
Decrease of 50% basis points	(2,476)	(1.8%)
Increase of 50% basis points	2,683	2.0%
Mortality Assumption – Impact of Life Expectancy being one year longer	3,517	2.6%

The sensitivity analysis noted above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring during the year ended December 31, 2015.

### Other Information

The Company expects to contribute \$2.9 million to its defined benefit plans for the year ending December 31, 2016.

The average duration of the defined benefit plans as at December 31, 2015 is 15 years.

## 16 Cash and Cash Equivalents

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

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Cash	\$ 250,030	\$ 112,452
Cash equivalents	10,615	4,104
<b>Total</b>	<b>\$ 260,645</b>	<b>\$ 116,556</b>

## 17 Loans Receivable

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

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	\$ 5,166	\$ 4,434
Loan receivable	2,742	2,587
<b>Total</b>	<b>\$ 7,908</b>	<b>\$ 7,021</b>

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at U.S. prime plus 0.25%, with principal repayments to be made in four semi-annual instalments beginning no later than March 31, 2018, as set out in the loan agreement terms. As at December 31, 2015, the amount of the notes receivable was U.S.\$3,726 (December 31, 2014 – U.S.\$3,813).

## 18 Accounts Receivable

The following table sets forth the Company's trade and other receivables as at:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Trade accounts receivable	\$ 289,542	\$ 339,990
Allowance for doubtful accounts (note 7)	(5,004)	(12,516)
Unbilled revenue and other receivables	112,436	130,136
	<b>\$ 396,974</b>	<b>\$ 457,610</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the aging of the Company's trade accounts receivable as at:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Current	\$ 171,066	\$ 188,545
Past due 1 to 30 days	52,816	93,123
Past due 31 to 60 days	22,489	21,677
Past due 61 to 90 days	6,705	8,591
Past due for more than 90 days	36,466	28,054
Total trade accounts receivable	<b>289,542</b>	339,990
Less: allowance for doubtful accounts	<b>(5,004)</b>	(12,516)
<b>Trade accounts receivable – net</b>	<b>\$ 284,538</b>	<b>\$ 327,474</b>

### 19 Inventory

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

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Raw materials and supplies	\$ 105,501	\$ 126,763
Work-in-progress	14,481	15,003
Finished goods	70,356	72,900
Inventory obsolescence	<b>(22,781)</b>	(19,934)
	<b>\$ 167,557</b>	<b>\$ 194,732</b>

During 2015, the Company recorded an increase of \$2.8 million (2014 – \$2.1 million) in the provision for inventory obsolescence, due to the build-up of certain excess raw materials.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20 Property, Plant and Equipment

The following table sets forth the Company's property, plant and equipment as at the periods indicated:

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
<b>Cost</b>					
Balance - December 31, 2013	\$ 62,867	\$ 212,843	\$ 661,251	\$ 23,991	\$ 960,952
Exchange differences	(3,103)	(2,690)	23,685	(2,437)	15,455
Additions	1,554	4,483	55,368	16,240	77,645
Acquisitions	–	352	10,867	–	11,219
Decommissioning liabilities and other	2,504	122	105	–	2,731
Disposals	–	(1,477)	(8,297)	–	(9,774)
<b>Balance - December 31, 2014</b>	<b>63,822</b>	<b>213,633</b>	<b>742,979</b>	<b>37,794</b>	<b>1,058,228</b>
Exchange differences	1,366	(6,965)	65,026	(256)	59,171
Additions	4,165	5,890	52,772	(1,674)	61,153
Acquisitions	15,238	2,958	9,585	–	27,781
Decommissioning liabilities and other	734	367	2,269	–	3,370
Disposals	–	(2,981)	(35,737)	–	(38,718)
<b>Balance - December 31, 2015</b>	<b>\$ 85,325</b>	<b>\$ 212,902</b>	<b>\$ 836,894</b>	<b>\$ 35,864</b>	<b>\$ 1,170,985</b>

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
<b>Accumulated Amortization</b>					
Balance - December 31, 2013	\$ (17,314)	\$ (90,740)	\$ (408,818)	\$ –	\$ (516,872)
Exchange differences	(147)	2,077	(10,325)	–	(8,395)
Amortization	(409)	(5,529)	(49,281)	–	(55,219)
Decommissioning liabilities and other	(653)	(147)	(73)	–	(873)
Eliminated on disposal	–	528	5,374	–	5,902
<b>Balance - December 31, 2014</b>	<b>(18,523)</b>	<b>(93,811)</b>	<b>(463,123)</b>	<b>–</b>	<b>(575,457)</b>
Exchange differences	197	523	(32,698)	–	(31,978)
Amortization	(636)	(5,116)	(52,267)	–	(58,019)
Decommissioning liabilities and other	(1,806)	(314)	(1,491)	–	(3,611)
Eliminated on disposal	–	1,840	27,104	–	28,944
<b>Balance - December 31, 2015</b>	<b>\$ (20,768)</b>	<b>\$ (96,878)</b>	<b>\$ (522,475)</b>	<b>\$ –</b>	<b>\$ (640,121)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars)	<b>Land and Land Improvements</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Capital Projects-in- Progress</b>	<b>Total</b>
<b>Accumulated Impairment</b>					
Balance - December 31, 2013	\$ (2,495)	\$ (6,514)	\$ (21,784)	\$ –	\$ (30,793)
Exchange differences	–	125	141	–	266
Impairment	–	(2,664)	(14,269)	–	(16,933)
<b>Balance - December 31, 2014</b>	<b>(2,495)</b>	<b>(9,053)</b>	<b>(35,912)</b>	<b>–</b>	<b>(47,460)</b>
Exchange differences	–	525	(3,253)	–	(2,728)
Impairment	–	–	(590)	–	(590)
Eliminated on disposal	–	1,961	3,508	–	5,469
<b>Balance – December 31, 2015</b>	<b>\$ (2,495)</b>	<b>\$ (6,567)</b>	<b>\$ (36,247)</b>	<b>\$ –</b>	<b>\$ (45,309)</b>
<b>Net book value</b>					
As at December 31, 2014	\$ 42,804	\$ 110,769	\$ 243,944	\$ 37,794	\$ 435,311
<b>As at December 31, 2015</b>	<b>\$ 62,062</b>	<b>\$ 109,457</b>	<b>\$ 278,172</b>	<b>\$ 35,864</b>	<b>\$ 485,555</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21 Intangible Assets

The following table sets forth the Company's intangible assets as at the periods indicated:

(in thousands of Canadian dollars)	Intellectual Property, with Limited Life <sup>(a)</sup>	Intangible Assets, with Limited Life <sup>(b)</sup>	Intangible Assets, with Indefinite Life <sup>(c)</sup>	Total
<b>Cost</b>				
Balance - December 31, 2013	\$ 79,481	\$ 80,594	\$ 5,912	\$ 165,987
Exchange differences	1,098	14,346	317	15,761
Additions	128	352	–	480
Acquisition of a subsidiary	225	127,032	–	127,257
Balance - December 31, 2014	80,932	222,324	6,229	309,485
Exchange differences	2,524	33,432	761	36,717
Additions	110	–	–	110
Acquisition of a subsidiary	2,413	9,676	–	12,089
<b>Balance - December 31, 2015</b>	<b>\$ 85,979</b>	<b>\$ 265,432</b>	<b>\$ 6,990</b>	<b>\$ 358,401</b>
<b>Accumulated Amortization</b>				
Balance - December 31, 2013	\$ (23,532)	\$ (12,239)	\$ –	\$ (35,771)
Exchange differences	(94)	(321)	–	(415)
Amortization	(4,882)	(10,705)	–	(15,587)
Balance - December 31, 2014	(28,508)	(23,265)	–	(51,773)
Exchange differences	(322)	(2,571)	–	(2,893)
Amortization	(5,568)	(15,800)	–	(21,368)
<b>Balance - December 31, 2015</b>	<b>\$ (34,398)</b>	<b>\$ (41,636)</b>	<b>\$ –</b>	<b>\$ (76,034)</b>
<b>Accumulated Impairment</b>				
Balance - December 31, 2013	\$ –	\$ –	\$ –	\$ –
Exchange differences	382	211	–	593
Impairment	(4,138)	(51,431)	–	(55,569)
Balance - December 31, 2014	(3,756)	(51,220)	–	(54,976)
Exchange differences	667	(4,760)	–	(4,093)
<b>Balance - December 31, 2015</b>	<b>\$ (3,089)</b>	<b>\$ (55,980)</b>	<b>\$ –</b>	<b>\$ (59,069)</b>
<b>Net book value</b>				
As at December 31, 2014	\$ 48,668	\$ 147,839	\$ 6,229	\$ 202,736
<b>As at December 31, 2015</b>	<b>\$ 48,492</b>	<b>\$ 167,816</b>	<b>\$ 6,990</b>	<b>\$ 223,298</b>

(a) Intellectual property, with limited life, represents the cost of certain technology, know-how and patents obtained mainly through acquisitions. The Company amortizes the cost of intellectual property over its estimated useful life of up to 15 years.

(b) Intangible assets, with limited life, represent customer relationships, trademarks, and non-compete agreements acquired directly or in conjunction with a past business combination. The Company amortizes the cost of intangible assets with limited life over their estimated useful lives of up to 15 years. The net book value of customer relationships as at December 31, 2015 is \$163.1 million (2014 – \$138.0 million), and is included in intangible assets, with limited life, in the table above.

(c) Intangible assets, with indefinite life, represent the value of brands obtained in previous acquisitions. As the Company has the exclusive right to use and benefit from the brands of the acquired companies for an undefined period, certain acquired brands have been classified as intangible assets with indefinite life. As the cost of intangible assets, with indefinite life, is not amortized, the Company assesses these intangible assets for impairment on an annual basis or when there is an indicator of impairment.

**22 Goodwill**

The changes in the carrying amount of goodwill are shown below:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Gross amount of goodwill	\$ 442,847	\$ 298,819
Accumulated impairment of goodwill	(46,646)	–
<b>Net Balance - Beginning of year</b>	<b>396,201</b>	298,819
Acquisition (note 5)	7,756	128,667
Impairment (note 26)	–	(47,078)
Foreign exchange	53,113	15,793
<b>Net Balance - End of year</b>	<b>\$ 457,070</b>	<b>\$ 396,201</b>

The following table summarizes the significant carrying amounts of goodwill:

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Bredero Shaw	\$ 206,042	\$ 173,102
Desert NDT	167,144	140,179
Flexpipe Systems	49,730	49,730
Socotherm S.p.A. <sup>(a)</sup>	–	9,525
Socotherm Americas (Argentina)	6,073	5,094
Dhatec	8,312	–
Shawcor CSI	1,880	1,880
DSG-Canusa GmbH	17,889	16,691
	<b>\$ 457,070</b>	<b>\$ 396,201</b>

(a) Effective January 1, 2015, the operations of Socotherm S.p.A. were integrated into the Bredero Shaw GCGU.

**a) Impairment Testing for Each Cash Generating Unit Containing Goodwill**

The Company performs a goodwill impairment test for each specified group of CGUs ("GCGU") that contains goodwill at the Company's annual goodwill impairment testing date of October 31 ("Annual Goodwill Valuation Date"). At the Annual Goodwill Valuation Date of October 31, 2015, the Company concluded there was no impairment of goodwill in any of its GCGUs, as the recoverable amount for these GCGUs was higher than their respective carrying amounts. On August 31, 2014, the Company also performed an impairment test for its Bredero Shaw Brasil CGU and concluded that its goodwill was fully impaired. At the Annual Goodwill Valuation Date of October 31, 2014, the Company concluded that there was no impairment of goodwill in any of its GCGUs other than the goodwill in the Company's Socotherm Gulf of Mexico division, which was fully impaired.

**b) Recoverable Amount**

The Company determines the recoverable amount for its GCGUs as the higher of Value in Use and the Fair Value Less Cost to Sell ("FVLCS"). For the goodwill impairment tests, the FVLCS of each of the GCGUs was higher than its carrying amount. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation method used.

FVLCS calculations use post-tax cash flow projections based on three-year financial Business Plans approved by the Board, which are then projected out for a further period of two years based on management's best estimates. Cash flows beyond the five-year period are extrapolated using estimated growth rates as applicable. The FVLCS is calculated net of selling costs that are estimated at 2%.

The FVLCS is determined by discounting the future free cash flows generated from the Company's continuing use of the respective GCGUs. The discount rates used are post-tax and reflect specific risks relating to the GCGUs. The discounted cash

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

flow model employed by the Company reflects the specific risks of each GCGU and their business environment. The model calculates the FVLCS as the present value of the projected free cash flows and the Terminal Value of each GCGU.

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

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

### Projected Cash Flows

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

### Market Assumptions

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

### Discount Rate

The discount rate represents the current market assessment of the risks specific to each GCGU, regarding the time value of money and the individual risks of the underlying assets, which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its GCGUs and is derived from the weighted average cost of capital ("WACC") for the consolidated Company. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest bearing borrowings the Company is obliged to service. The GCGU specific risk is incorporated by applying individual specific risk factors; these specific risk factors are evaluated annually.

The following are the discount rates used in the calculation of the valuations:

(in thousands of Canadian dollars)	October 31 2015	October 31 2014
Bredero Shaw (excluding BSRTL)	10%	10%
BSRTL	n/a	14%
Desert NDT	11%	11%
Flexpipe Systems	11%	11%
Socotherm S.p.A. <sup>(a)</sup>	–	14%
Socotherm Americas (Argentina)	18%	18%
Socotherm Gulf of Mexico, LLC	n/a	12%
Shawcor CSI	14%	14%
DSG-Canusa GmbH	12%	12%

(a) Effective January 1, 2015, the operations of Socotherm S.p.A. CGU were integrated into the Bredero Shaw GCGU.

### Terminal Value Growth Rate

The Terminal Value Growth Rate is used to calculate the Terminal Value of the GCGUs at the end of the Projected Free Cash Flow period of five years. A Terminal Value Growth Rate of 3.0% was used (for all goodwill impairment tests) reflecting



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

terminal growth rate expectation of long-term growth in energy infrastructure investment; this figure also reflects the Company's best estimate of the economic conditions that are expected to exist over the forecast period.

### Sensitivity to Changes in Assumptions

With regard to the assessment of FVLCS of all of the Company's GCGUs, except for Socotherm Americas (Argentina), management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of each CGU to materially exceed its recoverable amount, as estimated by the GCGU's FVLCS.

## 23 Investments in Joint Ventures

The Company had the following investments in joint ventures.

	Country of Incorporation	Activity	December 31 2015 Ownership Interest %	December 31 2014 Ownership Interest %
Hal Shaw Inc.	U.S.A.	Pipe coating	50	50
Shaw & Shaw Ltd.	Canada	Pipe coating	83	83
Atlantida Socotherm S.A. <sup>(a)</sup>	Venezuela	Pipe coating	–	50

(a) During the fourth quarter of 2014, the Company recorded an impairment of \$18.9 million related to its joint venture interest in Venezuela, which is included in loss from investments in joint ventures. The investment in the Company's Venezuela joint venture was impaired due to the accelerated devaluation of the local currency in Venezuela, deteriorating business environment and the significant increase in the uncertainty of the Company to realize cash flows from this joint venture in the future.

The following table presents the Company's share of the income and expenses of the joint ventures described above for the years ended December 31:

(in thousands of Canadian dollars)	2015	2014
Revenue	\$ –	\$ 9,143
Cost of goods sold	–	6,713
Selling, general and administrative expenses	–	1,825
Foreign exchange losses	–	2,498
Amortization	–	1,465
Finance costs	–	443
Loss before income taxes	–	(3,801)
Income tax recovery	–	(374)
<b>Net loss for the year</b>	<b>\$ –</b>	<b>\$ (3,427)</b>

## 24 Investments in Associates

On February 20, 2014, Shawcor completed an equity investment in Zedi Inc. ("Zedi"), a Calgary, Alberta based company engaged in end-to-end solutions for production operations management in the oil and gas industry. Zedi has developed and deployed remote field monitoring and related data management solutions for the optimization of oil and gas well production and has recently completed a management buyout through an Alberta court and shareholder approved plan of arrangement. Shawcor's equity investment in Zedi consists of an approximate 38% common share interest totalling \$24.4 million, which is being accounted for using equity accounting, and an investment of \$10.0 million in convertible preferred shares, which is accounted for as an available-for-sale investment and classified in other assets on the Company's consolidated balance sheets.

On August 29, 2014, the Company completed an equity investment in Power Feed-Thru Systems and Connectors, LLC ("PFT"), a Houston, Texas, U.S. based company engaged in designing and assembling of electric feed-thru connector systems

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

specifically for artificial lift installations in the global oil and gas market. Its products are used in oil wells equipped with Electric Submersible Pumps to connect the down-hole oil pump with a surface power supply. Shawcor's equity investment in PFT consists of an approximate 30% common share interest totalling \$6.4 million, which is being accounted for using equity accounting.

### 25 Other Assets

The following table details the other assets as at:

(in thousands of Canadian dollars)	December 31 2015	December 31 2014
Long-term prepaid expenses	\$ 6,819	\$ 8,302
Deposit guarantee	960	893
Convertible preferred shares (note 24)	10,000	10,000
Accrued employee future benefit asset (note 15)	8,489	7,694
	<b>\$ 26,268</b>	<b>\$ 26,889</b>

### 26 Impairment

The following table sets forth the Company's impairment charges for the years ended December 31:

(in thousands of Canadian dollars)	2015	2014
Impairment of inventory	\$ –	\$ 798
Impairment of property, plant and equipment	590	16,933
Impairment of intangible assets	–	55,569
Impairment of goodwill	–	47,078
<b>Total Impairment</b>	<b>\$ 590</b>	<b>\$ 120,378</b>

The following table sets forth the Company's impairment charges for the year ended December 31, 2015:

(in thousands of Canadian dollars)	Shawcor U.K. <sup>(a)</sup>	Total
<b>Impairment of property, plant and equipment</b>	<b>\$ 590</b>	<b>\$ 590</b>

(a) The impairment related to the Leith plant of Bredero Shaw in the U.K.

#### Impairment of Bredero Shaw Leith Plant in EMAR region

The Company performed an impairment test for its Bredero Shaw Leith Plant as of October 31, 2015. Bredero Shaw's facility located in Leith, Scotland is a full service, high capacity coating facility. Due to the likelihood of project delays and lower activity levels as a result of the recent global decline in oil prices, the carrying amount of the property, plant and equipment was deemed to be partially impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the Company's impairment charges for the year ended December 31, 2014:

(in thousands of Canadian dollars)	<b>Bredero Shaw Brasil<sup>(a)</sup></b>	<b>Socotherm<sup>(b)</sup></b>	<b>Brigden<sup>(c)</sup></b>	<b>Other</b>	<b>Total</b>
Impairment of inventory	\$ 798	\$ –	\$ –	\$ –	798
Impairment of property, plant and equipment	7,554	4,261	5,118	–	16,933
Impairment of intangible assets	19,156	35,795	–	618	55,569
Impairment of goodwill	12,941	33,825	–	312	47,078
<b>Impairment</b>	<b>\$ 40,449</b>	<b>\$ 73,881</b>	<b>\$ 5,118</b>	<b>\$ 930</b>	<b>\$ 120,378</b>

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

(b) Socotherm consists of the business entity Socotherm Gulf of Mexico, LLC.

(c) Brigden consists of a mobile plant in the Gulf of Mexico region.

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

The Company performed an impairment test for its BSRTL CGU as of August 31, 2014. At that time, the intangible assets were fully impaired and the carrying value of the anti-corrosion and internal plant assets were written down to approximate scrap value. During 2015, there were no reversal indicators of impairment.

### Impairment Testing for the Socotherm Gulf of Mexico Cash Generating Unit

The Company performed an impairment test for its Socotherm Gulf of Mexico CGU as of October 31, 2014. The write-down of goodwill and intangible assets associated with the Socotherm Gulf of Mexico facility was based primarily on two factors: (i) anticipated market developments in the Gulf of Mexico including the likelihood of project delays as a result of the recent global decline in oil prices, and (ii) the Company's intention to shift non-Gulf of Mexico production from the Channelview, Texas operations to Pozzallo, Italy following the successful launch of production at the Pozzallo facility which is better positioned logistically to service project activity in Europe, the Middle East and Africa. There is no change in 2015 to the above analysis.

### Impairment of Brigden Plant in the Gulf of Mexico Region

The Company operates a fleet of mobile coating plants in the Pipeline and Pipe Services segment. The Brigden mobile coating plant has served the Gulf of Mexico from its current location in Beaumont, Texas since its initial commissioning in 2011. While the mobile nature of this plant provides certain cost saving logistical advantages to the customer (versus a fixed base plant), ultimate utilization of this plant within the segment is dependent on having a sufficient level of project backlog. Due to the likelihood of project delays as a result of the recent global decline in oil prices, the carrying amount of the property, plant and equipment was assessed and based on an independent appraisal of fair market value was deemed to be partially impaired. There is no change in 2015 to the above analysis.

## 27 Credit Facilities

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

(in thousands of Canadian dollars)	<b>December 31 2015</b>	December 31 2014
Bank indebtedness	\$ –	\$ 4,685
Standard letters of credit for performance, bid and surety bonds (note 32)	<b>132,052</b>	137,667
Total utilized credit facilities	<b>132,052</b>	142,352
Total available credit facilities <sup>(a)</sup>	<b>623,970</b>	523,305
<b>Unutilized Credit Facilities</b>	<b>\$ 491,918</b>	<b>\$ 380,953</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility (the "Credit Facility") for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by U.S. \$100 million from U.S. \$150 million to U.S. \$250 million, with an option to increase the credit limit to U.S. \$400 million with the consent of lenders. On June 16, 2014, the option to increase the credit limit to U.S. \$400 million was exercised with the consent of the lenders and a new option to increase the credit limit to U.S. \$550 million with the consent of the lenders was added. The Company pays a floating interest rate on the Credit Facility that is a function of the Company's total debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Allowable credit utilization outside of this facility is U.S. \$50 million.

### Debt Covenants

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

The Company has initiated discussions to renegotiate the terms of its debt covenants with respect to the Credit Facility and long-term debt to improve its flexibility and ability to handle the risks and opportunities posed by the current market environment and to ensure that it remains in compliance with the terms of these agreements.

## 28 Accounts Payable and Accrued Liabilities

The following table sets forth the Company's accounts payable and accrued liabilities as at:

(in thousands of Canadian dollars)	December 31 2015	December 31 2014
Accounts payable	\$ 110,648	\$ 89,077
Accrued liabilities	185,263	163,366
	<b>\$ 295,911</b>	<b>\$ 252,443</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 Provisions

The following table sets forth the Company's provisions as at the periods indicated:

(in thousands of Canadian dollars)	<b>Decommissioning Liabilities</b>		<b>Warranties</b>		<b>Other Provisions</b>		<b>Total</b>
<b>Balance - December 31, 2013</b>	\$	20,651	\$	6,384	\$	26,582	\$ 53,617
Provision adjustments		2,911		2,142		10,144	15,197
Settlement of liabilities		(215)		(4,331)		(12,493)	(17,039)
Accretion expense		477		–		26	503
Foreign exchange differences		391		260		433	1,084
Gain on settlement		(77)		–		(961)	(1,038)
<b>Balance - December 31, 2014</b>		<b>24,138</b>		<b>4,455</b>		<b>23,731</b>	<b>52,324</b>
Provision adjustments		2,832		5,203		23,998	32,033
Acquisition		8,290		–		–	8,290
Settlement of liabilities		(2,658)		(5,977)		(18,166)	(26,801)
Accretion expense		516		–		–	516
Foreign exchange differences		1,323		651		1,381	3,355
Gain on settlement		(80)		–		–	(80)
<b>Balance - December 31, 2015</b>	\$	<b>34,361</b>	\$	<b>4,332</b>	\$	<b>30,944</b>	\$ <b>69,637</b>
<b>December 31, 2014</b>							
Current	\$	3,627	\$	4,455	\$	6,892	\$ 14,974
Non-current		20,511		–		16,839	37,350
	\$	24,138	\$	4,455	\$	23,731	\$ 52,324
<b>December 31, 2015</b>							
Current	\$	8,428	\$	4,332	\$	12,802	\$ 25,562
Non-current		25,933		–		18,142	44,075
	\$	34,361	\$	4,332	\$	30,944	\$ 69,637

#### Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$37.2 million as at December 31, 2015. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.24% and 7.39%. 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 remediating its decommissioning liability obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

2016	\$	8,437
2017		343
2018		2,722
2019		3,153
2020		3,584
Thereafter		18,967
	\$	37,206

### Warranties

Project specific warranties are provided by various divisions in the normal course of business that are usually valid for a term of less than one year.

### Other Provisions

The other provisions are comprised of current and non-current employee related provisions (required by local law in international jurisdictions), provisions for lawsuits and other accrued liabilities related to operations for which there is a higher degree of uncertainty with respect to either the amount or timing of the underlying payment.

### 30 Other Liabilities

The following table sets forth the Company's other liabilities as at the periods indicated:

(in thousands of Canadian dollars)	Deferred Purchase Consideration	Incentive -based Compensation (note 14)	Loans Payable	Total
<b>Balance - December 31, 2013</b>	\$ 21,618	\$ 33,936	\$ 187	\$ 55,741
Adjustments	1,236	11,313	-	12,549
Settlement of liabilities	(18,830)	(8,629)	(65)	(27,524)
Foreign exchange differences	849	1,112	(1)	1,960
<b>Balance - December 31, 2014</b>	4,873	37,732	121	42,726
Adjustments	-	(2,204)	-	(2,204)
Settlement of liabilities	(1,305)	(16,371)	(91)	(17,767)
Foreign exchange differences	371	1,360	(30)	1,701
<b>Balance - December 31, 2015</b>	\$ 3,939	\$ 20,517	\$ -	\$ 24,456
<b>December 31, 2014</b>				
Current	\$ 4,873	\$ 19,897	\$ 58	\$ 24,828
Non-current	-	17,835	63	17,898
	\$ 4,873	\$ 37,732	\$ 121	\$ 42,726
<b>December 31, 2015</b>				
Current	\$ 3,939	\$ 19,340	\$ -	\$ 23,279
Non-current	-	1,177	-	1,177
	\$ 3,939	\$ 20,517	\$ -	\$ 24,456

**31 Long-term Debt**

On March 20, 2013, the Company issued Senior Notes for total gross proceeds of U.S.\$350 million (CDN\$358.3 million at the March 20, 2013 foreign exchange rate) to institutional investors as follows:

- (i) U.S. \$100 million (CDN\$102.4 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 2.98% Senior Notes, Series A, due March 31, 2020 (the “Series A Notes”);
- (ii) U.S. \$100 million (CDN\$102.4 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 3.67% Senior Notes, Series B, due March 31, 2023 (the “Series B Notes”);
- (iii) U.S. \$100 million (CDN\$102.4 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 3.82% Senior Notes, Series C, due March 31, 2025 (the “Series C Notes”);
- (iv) U.S. \$50 million (CDN\$51.2 million at the March 20, 2013 foreign exchange rate) aggregate principal amount of 4.07% Senior Notes, Series D, due March 31, 2028 (the “Series D Notes”); and together with the Series A Notes, the Series B Notes, the Series C Notes, collectively, the “Senior Notes”.

The total long-term debt balance as at December 31, 2015 is \$485.1 million (U.S.\$350.0 million) (2014 – \$406.9 million (U.S.\$350.0 million)). The long-term debt has been designated as a hedge of the Company's net investment in its U.S. dollar functional currency subsidiary as described in note 7.

The Company has undertaken to maintain certain covenants in respect of the long-term debt that are consistent with the debt covenants described in note 27 for the Credit Facility.

The Company was in compliance with these covenants as at December 31, 2015 and December 31, 2014.

The Company has initiated discussions to renegotiate the terms of its debt covenants with respect to the Credit Facility and Senior Notes to improve its flexibility and ability to handle the risks and opportunities posed by the current market environment and to ensure that it remains in compliance with the terms of these agreements.

**32 Leases, Commitments and Contingencies**

**a) Operating Leases**

The Company has entered into various commercial leases for motor vehicles, machinery, equipment, and manufacturing sites. These leases have a life of one to sixteen years with no renewal options.

The following table presents the future minimum rental payments payable under the operating leases as at:

(in thousands of Canadian dollars)	<b>December 31 2015</b>
Within one year	\$ 24,148
After one year but not more than five years	41,107
More than five years	10,841
	<b>\$ 76,096</b>

The lease expenditure charged to the consolidated statements of income during the year was \$35.3 million (2014 – \$32.2 million).

**Finance Leases**

The Company has finance leases and purchase commitments in place for various items of property, plant and machinery. These leases have renewal options but no purchase options. Renewals are at the option of the specific entity that holds the lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the future minimum lease payments under finance leases with the present value of the minimum lease payments:

(in thousands of Canadian dollars)

	December 31, 2015	
	Minimum Payments	Present Value of Payments
Within one year	\$ 1,469	\$ 1,176
After one year but not more than five years	5,763	3,475
After more than five years	11,279	9,125
Total minimum lease payments	18,511	13,776
Less: Amounts representing interest charges	\$ (4,735)	\$ –
<b>Present value of minimum lease payments</b>	<b>\$ 13,776</b>	<b>\$ 13,776</b>

### b) 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.

A statement of claim was filed against a group of three companies, which included Shawcor, in January 2010 and later amended in April 2015, by Canadian Natural Resources Ltd. ("CNRL") for \$68 million in damages in relation to the failure of a high temperature pipeline that was part of the expansion of CNRL's Primrose/Wolf Lake Heavy Oil Project in northeast Alberta.

The multi-party mediation for the case concluded in early February 2016 and subsequently, the Company entered into a settlement agreement with CNRL to settle all claims for an amount currently provided. The settlement is subject to court approval.

### c) 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 that 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 Credit Facility to support its bonds. The Company has utilized total credit facilities of \$132.1 million as at December 31, 2015 (2014 – \$142.4 million).



**33 Share Capital**

There are an unlimited number of common shares authorized. Holders of common shares are entitled to one vote per share. All shares have been issued and fully paid and have no par value.

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

The following table sets forth the changes in the Company's shares for the years ended December 31:

(all dollar amounts in thousands of Canadian dollars)	2015
<b>Number of shares</b>	
Balance, December 31, 2014	64,493,849
Issued on exercise of stock options	24,130
Issued on exercise of RSUs	3,322
<b>Balance, December 31, 2015</b>	<b>64,521,301</b>
<b>Stated value</b>	
Balance, December 31, 2014	\$ 533,660
Issued on exercise of stock options	508
Compensation cost on exercised options	197
Compensation cost on exercised RSUs	119
<b>Balance, December 31, 2015</b>	<b>\$ 534,484</b>

(all dollar amounts in thousands of Canadian dollars)	2014
<b>Number of shares</b>	
Balance, December 31, 2013	59,991,202
Issued on exercise of stock options	303,450
Issued through public offering (net of commissions and share issuance costs of \$9.7 million)	4,197,500
Issued on exercise of RSUs	1,697
<b>Balance, December 31, 2014</b>	<b>64,493,849</b>
<b>Stated value</b>	
Balance, December 31, 2013	\$ 303,327
Issued on exercise of stock options	7,167
Issued through public offering	220,524
Compensation cost on exercised options	2,590
Compensation cost on exercised RSUs	52
<b>Balance, December 31, 2014</b>	<b>\$ 533,660</b>

Dividends declared and paid were as follows:

(in thousands of Canadian dollars, except per share amounts)	2015	2014
Dividends declared and paid to shareholders	\$ 38,708	\$ 35,258
Dividends declared and paid per share	\$ 0.600	\$ 0.575

**34 Subsequent Event**

The Company completed the acquisition of Lake Superior Consulting ("LSC") on January 4, 2016. LSC is a U.S. based company, headquartered in Duluth, Minnesota which is a diversified engineering and consulting company providing integrity management solutions for the energy industry. During 2015, LSC earned revenue of approximately U.S.\$45 million.

**35 Consolidated Financial Statements**

The comparative consolidated financial statements have been reclassified from consolidated financial statements previously presented to conform to the presentation of the 2015 consolidated financial statements in accordance with IFRS.