

INTEGRITY IN  
EVERYTHING  
WE DO



## **CORPORATE PROFILE**

Shawcor Ltd is a global energy services company specializing in technology based products and services for the pipeline and pipe services and the petrochemical and industrial markets. The Company operates seven business units with more than 80 manufacturing and service facilities employing over 5,000 people around the world.

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**SHAWCOR'S MISSION**

To be the market leader and technology innovator with a primary focus on the global pipeline industry and to use this base as a platform to build an international energy services company while achieving Shawcor's performance objectives.

**2015 HIGHLIGHTS****Financial Summary**

Year ended December 31 (in thousands of Canadian dollars, except per share amounts)

|                                       | 2015         | 2014         |
|---------------------------------------|--------------|--------------|
| <b>Operating Results</b>              |              |              |
| Revenue                               | \$ 1,810,648 | \$ 1,890,029 |
| Adjusted EBITDA (Note 1)              | 228,478      | 336,701      |
| Income from operations                | 149,429      | 148,676      |
| Net income (Note 2)                   | \$ 98,244    | \$ 94,861    |
| Earnings per share – basic            | \$ 1.52      | \$ 1.55      |
| Earnings per share – diluted          | \$ 1.52      | \$ 1.53      |
| <b>Cash Flow</b>                      |              |              |
| Cash provided by operating activities | \$ 281,041   | \$ 187,985   |
| <b>Financial Position</b>             |              |              |
| Working capital                       | \$ 446,405   | \$ 378,733   |
| Total assets                          | \$ 2,145,705 | \$ 1,939,970 |
| Equity per share                      | \$ 17.44     | \$ 15.20     |

Note 1: Adjusted EBITDA is a non-GAAP measure calculated by adding back to net income the sum of net finance costs, income taxes, depreciation/amortization of property, plant, equipment and intangible assets, gains/losses from assets held for sale, gain from sale of land, impairment of assets and joint ventures, and non-controlling interests. Adjusted EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools.

Note 2: Attributable to shareholders' of the Company.

**2015  
REVENUE****\$1.81B****2015 NET INCOME**  
(attributable to the shareholders' of the Company)**\$98.2M****MARKET CAPITALIZATION**  
at December 31, 2015**\$1.81B**

# INTEGRITY IN EVERYTHING WE DO

**THE PAST YEAR WAS EXTREMELY CHALLENGING FOR THE ENERGY INDUSTRY. GLOBAL OIL PRICES DECLINED OVER 30%, NORTH AMERICAN RIG COUNTS FELL BY OVER 60%, AND BY YEAR-END, THE WORLD'S MAJOR EXPLORATION AND DEVELOPMENT COMPANIES WERE CUTTING CAPITAL EXPENDITURES FOR 2016, AS THEY HAD FOR 2015. WEAKENING OF THE WORLD'S ECONOMY SLOWED DEMAND GROWTH, WHILE MANY SMALLER PRODUCERS, PARTICULARLY THOSE THAT HAD TAKEN ON DEBT IN A HIGHER OIL PRICE ENVIRONMENT, WERE COMPELLED TO MAXIMIZE PRODUCTION IN AN OVER-SUPPLIED MARKET.**

Predictably, these events had an adverse impact on Shawcor's financial results. Revenue declined by 4% in 2015 to \$1.81 billion, primarily the result of lower revenue in our Pipeline and Pipeline Services segment, where lower activity in North America, Latin America and Asia Pacific was partially offset by a strong year in the EMAR region. In contrast, our Petrochemical and Industrial segment experienced another year of revenue growth. Adjusted EBITDA, as defined in the attached Management's Discussion & Analysis, was 32% lower at \$228.5 million, reflecting reduced revenue and lower average margins compared to the previous year, and earnings per share (diluted) declined slightly to \$1.52. Of critical importance in the current environment, Shawcor's cash flow from operating activities increased by 50% to \$281 million and the Company ended 2015 with cash and short term investments of \$264 million.

## 2015 Accomplishments

In spite of the cyclical downturn in the industry, 2015 was a year of significant accomplishment for Shawcor as we continued to improve our operating performance and advance the Company's strategy for long-term growth.

Employee safety has and will always be a top priority for Shawcor and in 2015 we continued to progress towards an injury and accident free workplace environment. In addition to the rigorous discipline inherent in our HSE systems, our efforts to focus our attention on operation specific high risk activities have begun to pay dividends. Today, we track granular key performance indicators on high risk operations, from pipe loading through to driving, that will help ensure we continue to reduce the potential likelihood and severity of incidents in our operations. Although we still have a long way to go on our journey to be injury and incident free, 2015 safety performance was another step forward.

Operationally, we continued to execute well on large projects from the GNEA project in Argentina to the Shah Deniz project in the Caspian. We also safely and efficiently redeployed resources from our facilities in Asia Pacific following the completion of major energy infrastructure projects in that region. At the same time, we responded quickly to lower activity levels in North America by reducing our cost structure in exposed businesses and at the corporate level. By the end of the year, overall staffing levels had been reduced by approximately 26% with salaried staff experiencing a greater than 30% reduction from peak levels. We also shut down operating facilities and co-located sales offices to better align our businesses and reduce costs.

Organizationally, we continued to leverage and integrate our businesses to harness our combined capabilities and strengthen the Shawcor brand. Bredero Shaw and Socotherm merged into a single division. We continued to roll out shared services functions across the Company. And we moved closer to aligning our businesses with the introduction of the Shawcor master brand in May 2015 at the Offshore Technology Conference and an updated website earlier this year.

We took advantage of the industry downturn to continue to advance Shawcor's growth strategy in each of our chosen markets, aided by the acquisitions of Dhatec B.V. and of Flint's Tubular Inspection and Management and Global Poly businesses, as well as through increased equity positions in PFT and Zedi. Important organic growth milestones were also reached with the final step in "FlexFlow's" 6-inch, 750-psi pipe commercialization and the creation of bundled customer solutions in both our Pipeline Performance and Connection Systems growth platforms.



**Steve Orr**  
Chief Executive Officer

“ In our Pipeline Performance growth platform, our priority for the year is rebuilding the backlog with projects currently being tendered that have the potential to come on stream in 2017 and 2018.

As always, technological innovation was at the heart of these efforts. During the past year, we leveraged our investment in Zedi to develop data management technology capabilities that add value, through increased functionality and mobility, to the product and service offerings of Shaw Pipeline Services and Guardian. We also continued to advance foundation technology blocks by leveraging competencies from both our internal resources and our external partner network in the areas of Non-Destructive Testing, Composites, Adhesives, Smart Coatings and Analysis and Modelling. These advancements will help enable the technology differentiation that will be seen in our future commercial offerings.

#### **2016 Priorities**

The cyclical downturn in oil and gas prices led to the delay or cancellation of major energy infrastructure projects, as reflected by the decline in our reported order backlog from \$766 million to \$452 million during 2015. In our **Pipeline Performance** growth platform, our priority for the year is rebuilding the backlog with projects currently being tendered that have the potential to come on stream in 2017 and 2018. At year-end, our multi-disciplinary sales teams were engaged with customers on more than \$2.5 billion in projects for which we have provided firm bids or budget estimates. Although the timing of these projects is not insensitive to the current commodity price environment, the work we are pursuing is largely related to natural gas pipeline infrastructure projects. Given that their economics are based on multi-decade price assumptions, we are confident that the majority of these projects will ultimately proceed.

Our second growth platform is **Composite Production Systems**. Even with today's depressed oilfield activity levels, we are excited by our continued strong growth in a \$2.5 billion market that is still dominated by steel pipe products. Advanced composite pipe systems are much easier to install and maintain, which translates into reduced cost of ownership

and an inevitable industry transition from steel to composite products. Our priorities for 2016 include the continued build out of our large diameter composite platform, "FlexFlow" discrete pipe for gathering line applications in North America, Latin America and the Middle East. At the same time, we will integrate our newly acquired Global Poly business to expand Flexpipe into pipeline liners and continue to build upon Flexpipe's proven performance in Saudi Arabia and Argentina.

Our third growth platform, **Integrity Management**, will continue to be strengthened with strategically acquired expertise. Our customers are looking for lower costs and better ways to mitigate the risk of infrastructure failure and achieve complete life cycle traceability. We are determined to deliver what they want by applying measurement and data technologies to fundamentally alter how pipelines are designed, constructed, operated and maintained.

In 2016, we will continue to advance our progress toward this goal by: integrating the pipeline engineering and integrity management expertise of recently acquired Lake Superior Consulting with Shawcor's advanced non-destructive testing technologies; completing the development of our READDI™ remote data monitoring technology; and transitioning Desert NDT's field service teams into the growing US midstream market.

In our fourth growth platform, **Oilfield Asset Management**, our priority will be to integrate the newly acquired Flint Tubular Inspection Management business into our Guardian business, generate significant cost synergies and offer a more compelling value proposition to our customers. In the current low commodity price environment, a lower cost approach to well construction and completion is more crucial than ever. By providing asset tracking, inspection and repair through one seamless service offering, we will lead the industry by helping customers increase asset utilization and thus, their return on capital.

“ In addition to the foregoing growth initiatives, we are also prioritizing opportunities to take better advantage of Shawcor’s global scale and thereby reduce the cost of business for our operating subsidiaries.

Our final growth platform, **Connection Systems**, is built around the opportunity to migrate the advanced materials and engineering capabilities that we have developed in our Petrochemical and Industrial businesses into new applications in the oilfield. In 2016, we will increase the capacity of our cable and sealing operations to accommodate these efforts and keep pace with the demands of existing customers.

In addition to the foregoing growth initiatives, we are also prioritizing opportunities to take better advantage of Shawcor’s global scale and thereby reduce the cost of business for our operating subsidiaries. We will also remain focused on leveraging the transactional volumes of our business. By building upon our successful shared service foundation that is scalable across the organization, we are making it easier for our businesses to expand into new territories, reduce costs and draw competitive advantage from the presence of other Shawcor operations.

#### Outlook

With global oil and gas prices continuing to be depressed, we do not have adequate visibility on the timing for an improvement in North American drilling and well completion activities, or the resumption of the planning and construction of global oil and gas development projects. In addition, the reductions in capital spending announced by the world’s major exploration and development companies have diminished the near-term outlook in each of our regions. As a result of these developments, we expect that revenue and earnings will decline materially in 2016.

Amid this uncertain environment, we will continue to concentrate on the important matters within our control. This will include advancing the priority initiatives in each of our chosen markets, harnessing economies of scale and minimizing expenses, and where it makes sense, taking advantage of timely opportunities to strengthen our competitive position as a result of the current downturn.

The sustainability of our business rests on several of Shawcor’s distinctive strengths, including the diversity of our revenue streams, the strength of our balance sheet and a global footprint that helps mitigate the impact of regional volatility. No one can predict with certainty when the current downturn will end, but when it does, I am confident that Shawcor will be in an even stronger competitive position.

In closing, I would like to acknowledge the invaluable contributions of Mr. Jack Petch, who retired from his position as Chair of the Board at the end of last year. Mr. Petch served the Company with distinction for many years, and on behalf of everyone at Shawcor, I wish him all the best in his retirement. Finally, I would like to extend my appreciation to the many employees, business partners, customers, communities and investors who have been the key to our success over the years. With your support, I am confident that Shawcor will continue to chart a path of sustainable, long-term growth.

Sincerely,



**Steve Orr**  
Chief Executive Officer

# FINANCIAL REVIEW

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A"), IS A DISCUSSION OF THE CONSOLIDATED FINANCIAL POSITION AND RESULTS OF OPERATIONS OF SHAWCOR LTD. ("SHAWCOR" OR "THE COMPANY") FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND SHOULD BE READ TOGETHER WITH SHAWCOR'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES FOR THE SAME PERIODS. ALL DOLLAR AMOUNTS IN THIS MD&A ARE IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS OR UNLESS OTHERWISE STATED.

THIS MD&A AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND COMPARATIVE INFORMATION HAVE BEEN PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") AS ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD, WHICH ARE ALSO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FOR PUBLICLY ACCOUNTABLE ENTERPRISES IN CANADA. THIS MD&A CONTAINS FORWARD LOOKING INFORMATION AND REFERENCE SHOULD BE MADE TO SECTION 13 HEREOF.

## 1.0 EXECUTIVE OVERVIEW

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

### 1.1 Core Businesses

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

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

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

The primary driver of demand for the Company's products and services is the level of energy industry investment in pipeline infrastructure for hydrocarbon development and transportation around the globe. This investment, in turn, is driven by global levels of economic activity and

the resulting growth in hydrocarbon demand, the impact of resource depletion on the supply of hydrocarbons and the financial position of the major energy companies. The relationship between global hydrocarbon demand and supply and the level of energy industry investment in infrastructure tends to be cyclical.

As at December 31, 2015, the Company operated its seven divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

#### *Pipeline and Pipe Services*

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 90% of consolidated revenue for the year ended December 31, 2015. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Guardian and Desert NDT divisions. During 2015, the Socotherm division was integrated with the Bredero Shaw division.

- Bredero Shaw's product offerings include specialized internal anticorrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.
- Canusa-CPS manufactures heat-shrinkable sleeves, adhesives, sealants and liquid coatings for corrosion protection on onshore and offshore pipelines.
- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.
- Flexpipe Systems manufactures spoolable composite pipe systems used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities.



- Guardian provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.
- Desert NDT provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services.

### ***Petrochemical and Industrial***

The Petrochemical and Industrial segment, which consists of the Connection Systems division, accounted for 10% of consolidated revenue for the year ended December 31, 2015. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets. The Connection Systems division was formed from the 2015 integration of the DSG-Canusa and Shawflex divisions.

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

### **1.2 Vision and Objectives**

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

- generate a Return on Invested Capital ("ROIC") of 15% over the full business cycle;
- generate average annual net income growth of 15% over the full business cycle;
- continuously improve health, safety and environmental ("HSE") performance, as measured by recordable injuries per million person hours worked, to support the Company's commitment to an Incident and Injury Free ("IIF") workplace.

### **1.3 Key Performance Drivers**

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

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

- the ability to identify and execute successful business acquisitions that result in strategic global growth; and
- the ability to attract and retain key personnel.

### **1.4 Key Performance Indicators**

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

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

#### ***Net Income Growth***

As part of its performance objectives, the Company has set a goal for average annual net income growth of 15% over the full business cycle, as described in *Section 1.2 – Vision and Objectives*. Net income (attributable to shareholders of the Company) increased by \$3.4 million, or 4%, from \$94.9 million for the year ended December 31, 2014 to \$98.2 million for the year ended December 31, 2015. The increase was due to the reduction in losses from investment in joint ventures of \$22.4 million and the \$0.8 million increase in Operating Income as explained in section 4.0 below, partially offset by a decrease in gain on assets held for sale of \$6.4 million and an increase in income tax expense of \$10.5 million.

#### ***Return on Invested Capital***

ROIC, a non-GAAP measure, is defined as net income for the year adjusted for after-tax interest expense divided by average invested capital for the most recently completed year. ROIC does not have a standardized meaning under GAAP and may not necessarily be comparable to similar titled measures used by other entities. ROIC is used by the Company to assess the efficiency of generating profits from each unit of invested capital. As part of its performance objectives, the Company has set an ROIC target of 15%, as described in *Section 1.2 – Vision and Objectives*. The Company's ROIC for the years ended December 31, 2015 and 2014 was 7.5% and 8.5%, respectively. The decrease of 1 percentage point was primarily due to an increase of \$3.1 million in net income for the year, adjusted for after-tax interest expense, offset by an increase in average invested capital of \$224.8 million.

#### ***Safety and Environmental Stewardship***

The Company maintains a comprehensive HSE management system in place within each of its seven operating divisions and is committed to being an IIF workplace with no damage to the environment. For the years ended December 31, 2015 and December 31, 2014, the Company had recordable injuries per million person hours worked of 6.7 and 7.0, respectively. During 2015, the Company completed 11 HSE audits at manufacturing and service locations across all seven divisions and developed action plans to correct any deficiencies identified in the audits.

## 1.5 Capability to Deliver Results

### **Capital Resources**

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

Capital expenditures decreased by \$16.4 million from \$77.6 million for the year ended December 31, 2014 to \$61.2 million for the year ended December 31, 2015. The Company believes it has sufficient available resources and capacity to meet the market demand for its products and services in the markets where the Company operates. The Company may, however, incur new capital expenditures to facilitate growth in new markets.

The current level of working capital investment is expected to be sufficient to support the level of business activity projected in 2016; however, unexpected increases in business activity or specific pipe coating project requirements may result in higher working capital requirements. Any such increase in requirements will be financed from the Company's cash balances and available committed credit facilities. The Company had cash and cash equivalents and short term investments of \$263.6 million and \$117.1 million as at December 31, 2015 and 2014, respectively, and had unutilized lines of credit available of \$491.9 million and \$381.0 million, as at December 31, 2015 and 2014, respectively.

As described in *Section 9 – Outlook*, the Company expects to generate materially lower earnings in 2016 compared with 2015. As a result, continued compliance with debt covenants may require the Company to utilize a portion of existing cash balances to reduce outstanding debt. Additionally, the Company has initiated discussions to renegotiate

the terms of its debt covenants with respect to its 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.

Please refer to *Section 5 – Liquidity and Capitalization*, for additional information with respect to the Company's liquidity and financial position.

### **Non-Capital Resources**

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

On an ongoing basis, the Company monitors its succession planning program in order to mitigate the impact of planned or unplanned departures of key personnel. As at December 31, 2015, the Company believes it has sufficient human resources to operate its businesses at an optimal level and execute its strategic plan.

### **Systems and Processes**

Management regularly reviews the Company's operational systems and processes and develops new ones as required. Key operational programs utilized by the Company during the year ended December 31, 2015 included systems and controls over project bidding, capital expenditures, internal controls over financial reporting, product development, HSE management and human resource development. In addition, the Shawcor Manufacturing System ("SMS") program has been implemented to increase operating efficiency and achieve significant cost savings in each of the Company's seven divisions.

As at December 31, 2015, the Company believes it has sufficient systems and processes in place to operate its businesses at an optimal level and execute its strategic plan.

## 2.0 FINANCIAL HIGHLIGHTS

### 2.1 Selected Financial Information

|   | Year Ended December 31, |              |              |
|---|-------------------------|--------------|--------------|
| (in thousands of Canadian dollars)              | 2015                    | 2014         | 2013         |
| <b>Revenue</b>                                  | \$ 1,810,648            | \$ 1,890,029 | \$ 1,847,549 |
| <b>Cost of Goods Sold and Services Rendered</b> | <b>1,204,306</b>        | 1,166,319    | 1,058,946    |
| <b>Gross Profit</b>                             | <b>606,342</b>          | 723,710      | 788,603      |
| Selling, general and administrative expenses    | 371,954                 | 375,153      | 382,755      |
| Research and development expenses               | 13,664                  | 13,053       | 15,687       |
| Foreign exchange gains                          | (7,868)                 | (3,747)      | (4,936)      |
| Amortization of property, plant and equipment   | 58,019                  | 55,219       | 66,484       |
| Amortization of intangible assets               | 21,368                  | 15,587       | 10,312       |
| Gain on sale of land                            | (814)                   | (609)        | (5,156)      |
| Impairment                                      | 590                     | 120,378      | -            |
| <b>Income from Operations</b>                   | <b>149,429</b>          | 148,676      | 323,457      |
| Gain (loss) on assets held for sale             | -                       | 6,427        | (3,683)      |
| (Loss) income from investments in associates    | (114)                   | 877          | -            |
| Loss on investments in joint ventures           | -                       | (22,375)     | (3,874)      |
| Finance costs, net                              | (18,244)                | (18,401)     | (14,912)     |
| <b>Income before Income Taxes</b>               | <b>131,071</b>          | 115,204      | 300,988      |
| Income taxes                                    | 31,551                  | 21,010       | 78,402       |
| <b>Net Income</b>                               | <b>\$ 99,520</b>        | \$ 94,194    | \$ 222,586   |
| <b>Net Income (Loss) Attributable to:</b>       |                         |              |              |
| Shareholders of the Company                     | 98,244                  | 94,861       | 219,862      |
| Non-controlling interests                       | 1,276                   | (667)        | 2,724        |
| <b>Net Income<sup>(a)</sup></b>                 | <b>99,520</b>           | 94,194       | 222,586      |
| <b>Per Share Information:</b>                   |                         |              |              |
| <b>Earnings per Share</b>                       |                         |              |              |
| Basic   | \$ 1.52                 | \$ 1.55      | \$ 3.55      |
| Diluted   | \$ 1.52                 | \$ 1.53      | \$ 3.51      |
| <b>Cash Dividend per Share:</b>                 |                         |              |              |
| Common Shares                                   | \$ 0.600                | \$ 0.575     | \$ 1.375     |
| Class A   | \$ -                    | \$ -         | \$ 0.100     |
| Class B   | \$ -                    | \$ -         | \$ 0.091     |

(a) Please refer to Section 4.1 – Consolidated Information for further details on the variance to net income for 2015 compared to 2014. Please refer to the Company's 2014 MD&A for further details on the variance in net income for 2014 compared to 2013.

|                                      | December 31<br>2015 | December 31<br>2014 | December 31<br>2013 |
|--------------------------------------|---------------------|---------------------|---------------------|
| (in thousands of Canadian dollars)   |                     |                     |                     |
| <b>Total Assets</b>                  | <b>\$ 2,145,705</b> | \$ 1,939,970        | \$ 1,651,928        |
| <b>Total Non-current Liabilities</b> | <b>\$ 579,839</b>   | \$ 524,462          | \$ 542,278          |

## 2.2 EBITDA and ADJUSTED EBITDA

| (in thousands of Canadian dollars)                               | Year Ended December 31 |            |            |
|--|------------------------|------------|------------|
|  | 2015                   | 2014       | 2013       |
| <b>Net Income</b>  | \$ 99,520              | \$ 94,194  | \$ 222,586 |
| <b>Add:</b>  |                        |            |            |
| Income taxes   | 31,551                 | 21,010     | 78,402     |
| Finance costs, net   | 18,244                 | 18,401     | 14,912     |
| Amortization of property, plant, equipment and intangible assets | 79,387                 | 70,806     | 76,796     |
| <b>EBITDA<sup>(a)</sup></b>                                      | \$ 228,702             | \$ 204,411 | \$ 392,696 |
| Gain on sale of land   | (814)                  | (609)      | (5,156)    |
| Impairment   | 590                    | 120,378    | -          |
| Impairment of investments in joint venture                       | -                      | 18,948     | -          |
| (Gain) loss on assets held for sale                              | -                      | (6,427)    | 3,683      |
| <b>ADJUSTED EBITDA<sup>(a)</sup></b>                             | \$ 228,478             | \$ 336,701 | \$ 391,223 |

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure, calculated by adding back to net income the sum of income taxes, net finance costs, depreciation and amortization of property, plant, equipment and intangible assets. The Company uses EBITDA as an indicator of its principal business activities prior to consideration of how its activities are financed and the impact of taxation and non-cash depreciation and amortization. Adjusted EBITDA is a non-GAAP measure calculated by adding back to net income the sum of income taxes, net finance costs, depreciation/amortization of property, plant, equipment and intangible assets, impairment, gains/losses on assets held for sale and gain on sale of land. EBITDA and Adjusted EBITDA do not have standardized meanings prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. EBITDA and Adjusted EBITDA are used by many analysts in the oil and gas industry as one of several important analytical tools. These measures are also considered important by lenders to the Company. They should not be considered in isolation or used as an alternative to net income or any of the other measures of performance prepared in accordance with GAAP. Refer to Section 12.0 – Reconciliation of non-GAAP Measures, for additional information.

## 2.3 Foreign Exchange Impact

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

|               | Year Ended December 31 |        |
|---------------|------------------------|--------|
|               | 2015                   | 2014   |
| US Dollar     | 1.2794                 | 1.1064 |
| Euro          | 1.4231                 | 1.4638 |
| British Pound | 1.9544                 | 1.8178 |

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

| (in thousands of Canadian dollars)                       | Year Ended December 31, 2015 |
|--|------------------------------|
| Revenue  | \$ 106,475                   |
| Income from operations                                   | 6,650                        |
| Net income (attributable to shareholders of the Company) | 8,002                        |

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of \$7.9 million in 2015, compared to a gain of \$3.7 million for the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities.

## 3.0 BUSINESS DEVELOPMENTS

### Acquisition of Dhatec B.V.

On January 5, 2015, the Company announced that it had completed the acquisition of Dhatec B.V. ("Dhatec"). Dhatec is a Netherlands based company which designs, assembles and markets engineered pipe logistics products and services which mitigate damage and enhance safety and efficiency in the manufacturing, coating, handling, transportation, preservation and storage of pipe. Dhatec's revenue in 2014 was approximately US\$25 million.

### Contract to Provide Pipe Coating Services for the GNEA Project in Argentina

On April 22, 2015, the Company announced that its pipe coating division had received two contracts for approximately US\$55 million from Tenaris to provide three layer polyethylene anti-corrosion pipeline coatings for the first and second phase of the Argentina Northeast Gas Pipeline (GNEA) project.

This project is owned by ENARSA, an Argentine state-run energy company, and it includes the construction of a gas pipeline that will transport up to 11,200,000 m<sup>3</sup>/day of natural gas to locations in northeast Argentina. The execution of these contracts has commenced in Shawcor's coating facilities in Argentina and is expected to be completed during the first quarter of 2016.

### Update on the South Stream Offshore Pipeline Project

During the second quarter of 2015, the Company received notification that the suspension of the work on its contracts with Saipem SpA and Europipe GmbH in connection with the South Stream Line 1 project had

been lifted with immediate effect and that work on these contracts was to be resumed. However, the Company was subsequently advised that work on its Saipem contract for the South Stream Line 1 project has been cancelled. The Company's contract with Saipem has been assumed by South Stream Transport BV, but the work will not proceed and thus the Company has removed this contract, and the portions of its other South Stream contracts which remain suspended, from the Company's backlog.

During the third quarter of 2015, the Company was instructed to recommence coating of pipe in its possession in connection with its contract with Marubeni Sumitomo Consortium for the South Stream Line 2 project. The work on this project in connection with pipe not yet in the Company's possession, representing approximately 20% of the total value of the contract, remains suspended.

As of December 31, 2015, approximately \$57.4 million of the work on the Company's South Stream contracts has been completed, and approximately \$47.4 million remains in the Company's backlog.

### Acquires Flint Field Services' Tubular Inspection & Management and Global Poly Businesses

On November 26, 2015, the Company announced that it had completed the acquisition of the assets of the Tubular Inspection and Management ("TIM") and Global Poly businesses operated by Flint Field Services Ltd. for C\$35.5 million, subject to working capital adjustments. 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 estimated revenue in 2015 of these acquired businesses was approximately C\$46 million.

### Shawcor Announces Appointment of New Chair

On December 21, 2015, the Company announced that Mr. John F. (Jack) Petch, the Chair of the Company's Board of Directors, would retire from the Board effective as of the close of business on December 31, 2015. Mr. Petch had been a director of the Company since 2005 and its Chair since 2013. Previously, Mr. Petch served as Lead Director, Chair of the Nominating and Governance Committee and Chair of the Special Committee which was constituted in the fall of 2012 in connection with Shawcor's strategic review process.

The Company also announced that its Board of Directors had appointed independent director Paul G. Robinson as its new Chair of the Board, effective January 1, 2016. Mr. Robinson joined the Shawcor Board in 2001 and currently serves as its Audit Committee Chair. Mr. Robinson was also a member of the Special Committee of the Board constituted in the fall of 2012 in connection with Shawcor's strategic review process.

### Shawcor Ltd. Acquires Lake Superior Consulting

On January 5, 2016, the Company announced that it had acquired the units of Lake Superior Consulting, LLC ("Lake Superior") for an undisclosed sum plus a potential earn out payment payable in 2016. Lake Superior is a Duluth, Minnesota based professional services firm, specializing in pipeline engineering and integrity management services to major pipeline operators. The business operates from facilities in Minnesota, Texas, Nebraska, Kansas and North Dakota, provides pipeline design, engineering, inspection and commissioning as well as integrity management services, and has estimated 2015 revenue of approximately US\$45 million.

The acquisition of Lake Superior adds two new capabilities to the Company – pipeline engineering and integrity engineering. These capabilities, critical to our customers' success, provide Shawcor the access to the domain knowledge we need to continually improve our current portfolio of services and to develop value-added solutions.

## 4.0 RESULTS FROM OPERATIONS

### 4.1 Consolidated Information

#### Revenue

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

(in thousands of Canadian dollars)

|                              | 2015         | 2014         | Change      |
|------------------------------|--------------|--------------|-------------|
| Pipeline and Pipe Services   | \$ 1,631,147 | \$ 1,716,789 | \$ (85,642) |
| Petrochemical and Industrial | 181,867      | 177,033      | 4,834       |
| Elimination                  | (2,366)      | (3,793)      | 1,427       |
| Consolidated                 | 1,810,648    | 1,890,029    | (79,381)    |

Consolidated revenue decreased by \$79.4 million, or 4%, from \$1,890.0 million for the year ended December 31, 2014 to \$1,810.6 million for the year ended December 31, 2015, due to a decrease of \$85.6 million, or 5%, in the Pipeline and Pipe Services segment, partially offset by an increase of \$4.8 million, or 3%, in the Petrochemical and Industrial segment. Consolidated revenue in 2015 benefited from the impact on translation of foreign operations from the weakening Canadian dollar, as noted in section 2.3 above.

Revenue for the Pipeline and Pipe Services segment during 2015 was \$1,631.1 million, or \$85.6 million lower than in 2014, primarily due to lower activity levels in Asia Pacific, North America and Latin America,

partially offset by increased revenue in Europe, Middle East, Africa and Russia ("EMAR"). See Section 4.2.1 – Pipeline and Pipe Services Segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by \$4.8 million during 2015 compared to the same period in 2014, primarily due to higher activity levels in EMAR and Asia Pacific, partially offset by lower revenue in North America. See Section 4.2.2 – Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

**Income from Operations**

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

| (in thousands of Canadian dollars)       | 2015       | 2014       | Change    |
|--|------------|------------|-----------|
| Income from Operations                   | \$ 149,429 | \$ 148,676 | \$ 753    |
| Adjusted Operating Income <sup>(a)</sup> | 150,019    | 269,054    | (119,035) |
| Adjusted Operating Margin <sup>(b)</sup> | 8.3%       | 14.2%      | (5.9%)    |

(a) Adjusted Operating Income is Operating Income excluding impairment charges and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. Please refer to Section 12.0 – Reconciliation of non-GAAP Measures for additional information with respect to non-GAAP measures used by the Company, including a reconciliation of non-GAAP measures to GAAP measures.

(b) Adjusted Operating Margin is defined as Adjusted Operating Income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under IFRS. Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to Section 12.0 – Reconciliation of non-GAAP Measures for additional information with respect to non-GAAP measures used by Company, including a reconciliation of non-GAAP measures to GAAP measures.

Operating Income increased by \$0.8 million from the year ended December 31, 2014, to \$149.4 million in the comparable period in 2015. Operating Income was impacted by a year over year decrease in gross profit of \$117.4 million, increases in research and development expenses of \$0.6 million and amortization of property, plant, equipment and intangible assets of \$8.6 million. These items were more than offset by a decrease in SG&A expenses of \$3.2 million, an increase in gain on sale of land of \$0.2 million and an increase in net foreign exchange gain of \$4.1 million, combined with a decrease in impairment charges of \$119.8 million.

The decrease in gross profit resulted from a 4.8 percentage point decrease in gross margin and the lower revenue, as explained above. The decrease in the gross profit was attributable to changes in product and project mix, labour inefficiencies due to lower facility utilization and

reduced manufacturing overhead absorption compared to the prior year, particularly in the Pipeline and Pipe Services segment's Asia Pacific region, which had previously benefited from high gross margins on several large concrete weight coating projects, and in North American businesses exposed to the decline in oilfield activity.

SG&A expenses decreased by \$3.2 million in the year ended December 31, 2015 compared to 2014, primarily due to a decrease in personnel related and management incentive compensation expenses of \$24.5 million. This was partially offset by an increase in restructuring charges in 2015 of \$11.7 million, an increase in the provision for doubtful accounts of \$3.0 million and an increase in litigation related provisions of \$5.1 million. In addition, in the third quarter of 2014, \$1.5 million was reversed from provisions due to favourable court decisions on certain litigation matters.

**Finance Costs, Net**

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

| (in thousands of Canadian dollars)     | 2015       | 2014       | Change   |
|--|------------|------------|----------|
| Interest income on short-term deposits | \$ (1,009) | \$ (1,229) | \$ 220   |
| Interest expense, other                | 3,359      | 6,210      | (2,851)  |
| Interest expense on long-term debt     | 15,894     | 13,420     | 2,474    |
| Finance costs – net                    | \$ 18,244  | \$ 18,401  | \$ (157) |

For the year ended December 31, 2015, net finance cost was \$18.2 million, compared to a net finance cost of \$18.4 million for the comparable period in the prior year. The decrease in net finance cost was primarily a result of lower interest expense on bank loans and overdrafts, partially offset by higher interest expense on long-term debt due to the foreign exchange rate used to translate US\$ interest expense on the long-term debt.

**Income Taxes**

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

| (in thousands of Canadian dollars) | 2015      | 2014      | Change    |
|------------------------------------|-----------|-----------|-----------|
| Income tax expense                 | \$ 31,551 | \$ 21,010 | \$ 10,541 |

The Company recorded an income tax expense of \$31.6 million (24% of income before income taxes) during the year ended December 31, 2015, compared to an income tax expense of \$21.0 million (18% of income before income taxes) during the year ended December 31, 2014. The Company's tax rate for the year ended December 31, 2015 was lower than the expected income tax rate of 27% primarily due to a portion of the Company's taxable income being earned in jurisdictions where the tax rate is 25% or less, combined with tax losses in certain jurisdictions where the tax rate is 35% or higher.

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

Net income increased by \$3.4 million, from \$94.9 million during the year ended December 31, 2014 to \$98.2 million during the year ended December 31, 2015. This was due to the reduction in losses from investment in joint ventures of \$22.4 million and the \$0.8 million increase in Operating Income as explained above, partially offset by a decrease in gain on assets held for sale of \$6.4 million and an increase in income tax expense of \$10.5 million.

## 4.2 Segment Information

### 4.2.1 Pipeline and Pipe Services Segment

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

| (in thousands of Canadian dollars, except Adjusted Operating Margin) | 2015                | 2014                | Change              |
|--|---------------------|---------------------|---------------------|
| North America  | \$ 730,316          | \$ 787,809          | \$ (57,493)         |
| Latin America  | 150,783             | 185,057             | (34,274)            |
| EMAR   | 579,640             | 400,480             | 179,160             |
| Asia Pacific   | 170,408             | 343,443             | (173,035)           |
| <b>Total Revenue</b>   | <b>\$ 1,631,147</b> | <b>\$ 1,716,789</b> | <b>\$ (85,642)</b>  |
| <b>Adjusted Operating Income<sup>(a)</sup></b>                       | <b>\$ 149,443</b>   | <b>\$ 279,859</b>   | <b>\$ (130,416)</b> |
| <b>Adjusted Operating Margin<sup>(b)</sup></b>                       | <b>9.2%</b>         | <b>16.3%</b>        | <b>(7.1%)</b>       |

(a) Adjusted Operating Income is Operating Income excluding impairment charges and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to Section 12.0 – Reconciliation of non-GAAP Measures for additional information with respect to non-GAAP measures used by the Company.

(b) Adjusted Operating Margin is defined as Adjusted Operating Income divided by revenue and is a non-GAAP measure. Refer to Section 12.0 – Reconciliation of non-GAAP Measures for additional information with respect to non-GAAP measures used by Company.

Revenue in the Pipeline and Pipe Services segment for the year ended December 31, 2015 was \$1,631.1 million, a decrease of \$85.6 million from \$1,716.8 million in the prior year. Consolidated revenue benefited from the impact on translation of foreign operations from the weakening Canadian dollar as noted in section 2.2 above, combined with higher revenue in EMAR, but was more than offset by lower activity levels in Asia Pacific, North America and Latin America:

- Revenue in North America decreased by \$57.5 million, or 7%, primarily due to lower volumes of flexible composite pipe and lower activity levels for small and large diameter pipe coatings in Canada and the USA. This was partially offset by the impact of the Desert NDT acquisition completed in the third quarter of 2014 and an increase in storage tank coating services in Canada.
- In Latin America, revenue was lower by \$34.3 million, or 19%, mainly due to lower activity levels in Brazil on the Sapinhoa project and at the Argentina facilities, combined with lower volumes at the Veracruz and Coatzacoalcos, Mexico facilities.
- Revenue in EMAR increased by \$179.2 million, or 45%, primarily due to increased pipe coating activity levels for the Shah Deniz project in

the Caspian, increased pipe weld services and other field joint projects in the region. This was partially offset by lower activity levels at the Company's Leith, Scotland, RAK and Italian facilities.

- In Asia Pacific, revenue decreased by \$173.0 million, or 50%, mainly due to lower volumes associated with the Inpex Ichthys gas export pipeline and other large projects at Kuantan, Malaysia and Kabil, Indonesia.

Adjusted Operating Income for the year ended December 31, 2015 was \$149.4 million compared to \$279.9 million for the prior year, a decrease of \$130.4 million, or 47%. The decrease in Adjusted Operating Income is primarily due to a decline in gross profit of \$119.3 million, driven by a 5.3 percentage point decrease in gross margin, combined with a decrease in revenue of \$85.6 million, as explained above. The decrease in gross margin was due to unfavourable project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption, particularly in the Asia Pacific region and in North American businesses exposed to the decline in oilfield activity. In addition, amortization of property, plant, equipment and intangible assets was higher in 2015 as compared to 2014.

### 4.2.2 Petrochemical and Industrial Segment

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

| (in thousands of Canadian dollars, except Operating Margin) | 2015              | 2014              | Change          |
|---|-------------------|-------------------|-----------------|
| North America   | \$ 106,984        | \$ 107,338        | \$ (354)        |
| EMAR  | 64,189            | 62,629            | 1,560           |
| Asia Pacific  | 10,694            | 7,066             | 3,628           |
| <b>Total Revenue</b>  | <b>\$ 181,867</b> | <b>\$ 177,033</b> | <b>\$ 4,834</b> |
| <b>Operating Income</b>                                     | <b>\$ 28,686</b>  | <b>\$ 26,750</b>  | <b>\$ 1,936</b> |
| <b>Operating Margin</b>                                     | <b>15.8%</b>      | <b>15.1%</b>      | <b>0.7%</b>     |

Revenue increased in the year ended December 31, 2015 by \$4.8 million, or 3%, to \$181.9 million compared to 2014, due to increased heat shrinkable product shipments in North America and Asia Pacific and the impact of foreign exchange on revenue, as noted in section 2.2 above, partially offset by reduced shipments of wire and cable products to the North American utilities.

Operating Income for the year ended December 31, 2015 was \$28.7 million compared to \$26.8 million in 2014, an increase of \$1.9 million, or 7%. The increase was primarily due to an increase in gross profit of \$1.9 million as a result of an increase in revenue of \$4.8 million, as explained above.

### 4.2.3 Financial and Corporate

Financial and corporate costs include corporate expenses not allocated to the operating segments and other non-operating items, including foreign exchange gains and losses on foreign currency denominated

cash and working capital balances. The corporate division of the Company only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined under IFRS.

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

| (in thousands of Canadian dollars)      | 2015               | 2014               | Change          |
|---|--------------------|--------------------|-----------------|
| <b>Financial and corporate expenses</b> | <b>\$ (36,792)</b> | <b>\$ (41,302)</b> | <b>\$ 4,510</b> |

Financial and corporate costs decreased by \$4.5 million from the year ended December 31, 2014 to \$36.8 million in 2015, primarily due to a decrease in stock-based and long-term management compensation incentive expenses of \$7.9 million. This was partially offset by an

increase in restructuring costs of \$3.0 million, including \$2.0 million in severance and \$1.0 million in co-location costs, and an increase in professional consulting fees of \$1.0 million.

## 5.0 LIQUIDITY AND CAPITALIZATION

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

| (in thousands of Canadian dollars)                          | 2015              | 2014              |
|---|-------------------|-------------------|
| <b>Net Income</b>   | <b>\$ 99,520</b>  | <b>\$ 94,194</b>  |
| Non-cash items  | <b>116,788</b>    | 194,540           |
| Settlement of decommissioning obligations                   | <b>(2,658)</b>    | (215)             |
| Settlement of other provisions                              | <b>(24,143)</b>   | (16,824)          |
| Net change in employee future benefits                      | <b>63</b>         | 33                |
| Net change in non-cash working capital and foreign exchange | <b>91,471</b>     | (83,743)          |
| <b>Cash provided by operating activities</b>                | <b>281,041</b>    | 187,985           |
| <b>Cash used in investing activities</b>                    | <b>(120,900)</b>  | (347,806)         |
| <b>Cash (used in) provided by financing activities</b>      | <b>(46,402)</b>   | 190,463           |
| <b>Foreign exchange impact on cash and cash equivalents</b> | <b>30,350</b>     | 6,519             |
| <b>Net Change in Cash and Cash Equivalents</b>              | <b>144,089</b>    | 37,161            |
| Cash and cash equivalents at beginning of Year              | <b>116,556</b>    | 79,395            |
| <b>Cash and Cash Equivalents at End of Year</b>             | <b>\$ 260,645</b> | <b>\$ 116,556</b> |

The Company expects to generate sufficient cash flows and have continued access to its credit facilities to meet contractual obligations and planned development and growth initiatives as and when they are required. The Company expects that working capital investment will be required to support revenue growth consistent with historical working capital measures as noted in Section 5.4. The Company typically utilizes its available cash balances and its committed credit facilities to fund working capital requirements.

### 5.1 Cash Provided by Operating Activities

Cash provided by operating activities was \$281.0 million in 2015, an improvement of \$93.1 million compared to 2014. The improvement was due to an increase in cash provided by non-cash working capital and foreign exchange of \$175.2 million, an increase in net income of \$5.3 million, partially offset by a decrease in non-cash items of \$77.8 million. The increase in cash provided by non-cash working capital and foreign exchange reflected net decreases in accounts receivable of \$137.8 million, in inventories of \$54.3 million and in prepaid expenses of \$16.5 million and increases in accounts payable and accrued liabilities of \$12.9 million and in income taxes payable of \$28.6 million in 2015 compared to 2014. This was partially offset by the reduction in cash due to net decreases in the current portion of deferred revenue of \$61.5 million and in income taxes receivable of \$22.9 million. Net income increased due to the reasons discussed in Section 4.1 and the reduction in non-cash items reflected the impairment charges reported in 2014.

### 5.2 Cash Used in Investing Activities

Cash used in investing activities decreased by \$226.9 million from \$347.8 million during 2014 to \$120.9 million during 2015. The decrease was primarily due to the third quarter 2014 acquisition of Desert NDT, LLC (Desert) for \$281.0 million (cash costs net of cash acquired), which was partially offset by proceeds from the sale of assets held for sale of \$46.4 million in 2014, and business acquisitions expenditures of \$51.5 million in 2015. In addition, during 2015, the Company reduced spending on the purchase of property, plant and equipment by \$16.5 million, on investments in associates by \$7.6 million, in other assets by \$10.6 million and on the payment of deferred purchase consideration by \$18.8 million.

### 5.3 Cash Provided by (Used in) Financing Activities

Cash used in financing activities during 2015 was \$46.4 million, compared to cash provided by financing activities of \$190.5 million in 2014, a difference of \$236.9 million. The change was primarily due to the issuance of common shares for net proceeds of \$227.7 million in 2014. In addition, during 2015, the Company paid higher dividends of \$3.5 million and paid bank indebtedness and loans payable in the amount of \$6.6 million.



## 5.4 Liquidity and Capital Resource Measures

### Accounts Receivables

The following table sets forth the Company's average trade accounts receivable – net balance and days sales outstanding in trade accounts receivables ("DSO") as at December 31:

| (in thousands of Canadian dollars, except DSO) | 2015       | 2014       | Change      |
|--|------------|------------|-------------|
| Average trade accounts receivable              | \$ 301,966 | \$ 341,218 | \$ (39,252) |
| DSO <sup>(a)</sup>                             | 60         | 61         | (1)         |

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-net (which excludes unbilled and other receivables) are outstanding based on a 90 day cycle. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to Section 12.0 – Reconciliation of non-GAAP Measures for additional information with respect to non-GAAP measures used by Company.

Average trade accounts receivables decreased by \$39.3 million from \$341.2 million as at December 31, 2014 to \$301.9 million as at December 31, 2015 as a result of decreased revenue in the fourth quarter of 2015 compared with the fourth quarter a year ago. DSO

decreased by 1 day from 61 days during the fourth quarter of 2014 to 60 days during the fourth quarter of 2015, primarily due to the timing of sales and collection of receivables in the fourth quarter of 2015 compared to the fourth quarter of 2014.

### Inventory

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

| (in thousands of Canadian dollars) | 2015       | 2014       | Change      |
|------------------------------------|------------|------------|-------------|
| Inventory                          | \$ 167,557 | \$ 194,732 | \$ (27,175) |

Inventories decreased by \$27.2 million from \$194.7 million as at December 31, 2014 to \$167.5 million as at December 31, 2015, due to reduction in raw materials and finished goods of \$22.1 million and \$2.3 million, respectively, and an increase in the inventory obsolescence provisions of \$2.8 million.

### Accounts Payable

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

| (in thousands of Canadian dollars, except DPO)   | 2015       | 2014       | Change    |
|--|------------|------------|-----------|
| Average accounts payable and accrued liabilities | \$ 288,383 | \$ 261,088 | \$ 27,294 |
| DPO <sup>(a)</sup>                               | 86         | 73         | 13        |

(a) DPO, a non-GAAP measure, is the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90 day cycle. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to Section 12.0 – Reconciliation of non-GAAP Measures for additional information with respect to non-GAAP measures used by Company.

Average accounts payable and accrued liabilities increased by \$27.6 million from \$261.1 million as at December 31, 2014, to \$288.7 million as at December 31, 2015. DPO increased by 13 days from 2014 levels, due to changes in the timing of purchases in 2015 compared with the prior year.

## 5.5 Unsecured Credit Facilities

| (in thousands of Canadian dollars)                               | 2015              | 2014              |
|--|-------------------|-------------------|
| Bank indebtedness  | \$ –              | \$ 4,685          |
| Standard letters of credit for performance, bid and surety bonds | 132,052           | 137,667           |
| Total utilized credit facilities                                 | 132,052           | 142,352           |
| Total available credit facilities <sup>(a)</sup>                 | 623,970           | 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.

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility ("Credit Facility") for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by US\$100 million from US\$150 million to US\$250 million, with an option to increase the credit limit to US\$400 million with the consent of lenders. On June 16, 2014, the option to increase the credit limit to US\$400 million was exercised with the

consent of the lenders and a new option to increase the credit limit to US\$550 million with the consent of the lenders was added. The Company pays a floating interest rate on this 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 US\$50 million.

### Debt Covenants

The Company has undertaken to maintain certain covenants in respect of its 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 2.5 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 December 31, 2014.

As described in *Section 9 – Outlook*, the Company expects to generate materially lower earnings in 2016 compared with 2015. As a result, continued compliance with debt covenants may require the Company to utilize existing cash balances to reduce outstanding debt. Additionally, the Company has initiated discussions to renegotiate the terms of its debt covenants with respect to its 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.

These debt covenants are non-GAAP measures and should not be considered in isolation or used as an alternative to net income or any other measure of performance prepared in accordance with IFRS. Non-GAAP measures do not have standardized meanings prescribed by IFRS and are not necessarily comparable to similarly titled measures of other entities.

### 5.6 Long-Term Debt

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

- (i) US\$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) US\$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) US\$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) US\$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 (US\$350.0 million) (2014 – \$406.9 million (US\$350.0 million)). The long-term debt has been designated as a hedge of the Company's net investment in a US dollar functional currency subsidiary as described in section 5.8 below.

### Financial Ratios

The Company has undertaken to maintain certain covenants in respect of the long-term debt that are consistent with the debt covenants described for the Company's Credit Facility above. The Company was in compliance with these covenants as at December 31, 2015 and December 31, 2014. As noted previously under "Unsecured Credit Facilities – Debt Covenants", the Company has initiated discussions with its lenders to renegotiate the terms of its debt covenants under the Senior Notes and the Credit Facility.

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

| (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 leases   | 1,469          | 1,467         | 1,432         | 1,432         | 1,432          | 11,279         | 18,511         |
| Operating leases                   | 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> |

### Commitments and Contingencies

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

The following table sets forth the Company's future minimum finance lease payments:

| (in thousands of Canadian dollars)           | 2015      |
|--|-----------|
| Total future minimum lease payments          | \$ 18,511 |
| Less: imputed interest                       | (4,735)   |
| Balance of obligations under finance leases  | 13,776    |
| Less: current portion                        | 1,176     |
| Non-current obligations under finance leases | \$ 12,600 |

As at December 31, 2015, the Company has not entered into any material commitments for capital expenditures.

### Legal Claims

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and other third parties. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

### Performance, Bid and Surety Bonds

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

The Company utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of \$132.1 million as at December 31, 2015 (December 31, 2014 – \$142.4 million) for support of its bonds.

## 5.8 Financial Instruments and Other Instruments

### Fair Value

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

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

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

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

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

The following table presents the fair value hierarchy levels for the financial assets and liabilities as at 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 current derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market.

### Financial Risk Management

The Company's operations expose it to a variety of financial risks including market risk (including foreign exchange and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance. Risk management is the responsibility of Company management. Material risks are monitored and are regularly reported to the Board of Directors.

### Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at 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 earnings. The Company utilizes foreign exchange forward contracts to manage this foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes. With the exception of the Company's US dollar based operations, the Company does not hedge translation exposures.

#### Foreign Exchange Forward Contracts

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

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at 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                     | US\$  | 14,400  |
| Weighted average rate                  |       | 1.28    |
| US dollars sold for Malaysian ringgits |       |         |
| Less than one year                     | US\$  | 4,500   |
| Weighted average rate                  |       | 4.31    |
| US dollars sold for Euros              |       |         |
| Less than one year                     | US\$  | 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 Kroners 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 Company's Senior Notes has been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the US dollar as its functional currency. During the year ended December 31, 2015, a loss of \$78.3 million on the translation of the Senior Notes was transferred to other comprehensive income to offset the gains on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2015.

#### 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)                       | Non-Interest<br>Bearing | Floating Rate | Fixed<br>Interest Rate | Total      |
|--|-------------------------|---------------|------------------------|------------|
| <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     |
|  | \$ 10,215               | \$ 5,166      | \$ 16,096              | \$ 31,477  |
| <b>Financial liabilities</b>                             |                         |               |                        |            |
| Standard letters of credit for performance and bid bonds | \$ 132,052              | \$ –          | \$ –                   | \$ 132,052 |
| Long-term debt   | –                       | –             | 485,147                | 485,147    |
|  | \$ 132,052              | \$ –          | \$ 485,147             | \$ 617,199 |

The Company's interest rate risk arises primarily from its floating rate bank indebtedness and long-term notes receivable and is not currently considered to be material.

#### Credit Risk

Credit risk arises from cash and cash equivalents held with banks, forward foreign exchange contracts, as well as credit exposure of customers, including outstanding accounts receivable. The maximum credit risk is equal to the carrying value of the financial instruments.

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 credit quality 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.

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

(in thousands of Canadian dollars)

|  | 2015      | 2014      |
|--|-----------|-----------|
| <b>Balance – Beginning of year</b>           | \$ 12,516 | \$ 11,732 |
| Bad debt 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>                 | \$ 5,004  | \$ 12,516 |

#### 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).

For the years ended December 31, 2015, there was one customer who generated approximately 18% of total consolidated revenue (December 31, 2014, no customer generated revenue greater than 10% of total consolidated revenue).

The carrying value of accounts receivable are 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.

#### 5.9 Outstanding Share Capital

As at February 29, 2016, the Company had 64,497,369 common shares outstanding. In addition, as at February 29, 2016, the Company had stock options and share units outstanding to purchase up to 1,430,558 common shares.

#### 5.10 Transactions with Related Parties

The Company had no material transactions with related parties in the year ended December 31, 2015. All related party transactions were in the normal course of business.

## 6.0 QUARTERLY SELECTED FINANCIAL INFORMATION

The following tables set forth the Company's summary of selected financial information for the four quarters of 2015 and 2014:

(in thousands of Canadian dollars except per share amounts)

|   | Q1-2015    | Q2-2015    | Q3-2015    | Q4-2015    |
|---|------------|------------|------------|------------|
| <b>Operating Results</b>  |            |            |            |            |
| Revenue   | \$ 471,940 | \$ 398,020 | \$ 485,428 | \$ 455,260 |
| Income (loss) from operations                                   | 55,616     | (7,078)    | 55,195     | 45,696     |
| Net income (loss) (attributable to shareholders of the Company) | 37,774     | (8,538)    | 38,107     | 30,901     |
| <b>Net income (loss) per share</b>                              |            |            |            |            |
| Basic   | \$ 0.59    | \$ (0.13)  | \$ 0.59    | \$ 0.48    |
| Diluted   | 0.58       | (0.13)     | 0.59       | 0.48       |

(in thousands of Canadian dollars except per share amounts)

|   | Q1-2014    | Q2-2014    | Q3-2014    | Q4-2014    |
|---|------------|------------|------------|------------|
| <b>Operating Results</b>  |            |            |            |            |
| Revenue   | \$ 479,082 | \$ 441,386 | \$ 469,597 | \$ 499,964 |
| Income (loss) from operations                                   | 89,419     | 69,193     | 10,932     | (20,868)   |
| Net income (loss) (attributable to shareholders of the Company) | 61,947     | 47,949     | 5,617      | (20,652)   |
| <b>Net income (loss) per share</b>                              |            |            |            |            |
| Basic   | \$ 1.03    | \$ 0.80    | \$ 0.09    | \$ (0.32)  |
| Diluted   | 1.03       | 0.79       | 0.09       | (0.32)     |

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 90% of the Company's consolidated revenue in 2015, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services segment.
- Over 88% of the Company's revenue in 2015 was transacted in currencies other than Canadian dollars, with a majority transacted in US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars. See *Section 2.3 – Foreign Exchange Impact*, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.

## 6.1 Fourth Quarter Highlights

Highlights of the Company's 2015 fourth quarter include:

### Fourth Quarter 2015 versus Third Quarter 2015

- **Revenue:** Consolidated revenue decreased 6%, or \$30.1 million, from \$485.4 million during the third quarter of 2015 to \$455.3 million during the fourth quarter of 2015, due to decreases of \$28.4 million in the Pipeline and Pipe Services segment and of \$0.6 million in the Petrochemical and Industrial segment. In the Pipeline and Pipe Services segment, revenue decreased 6%, or \$28.4 million, from \$439.2 million in the third quarter of 2015 to \$410.8 million in the fourth quarter of 2015, due to lower activity levels in all regions. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment. In the Petrochemical and Industrial segment, revenue was lower by \$0.6 million, or 1%, in the fourth quarter of 2015, compared to the third quarter of 2015, mainly due to a decrease in revenue of \$1.2 million, or 7%, in EMAR, partially offset by higher activity in the North America and Asia Pacific regions. See *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.
- **Operating Income:** Operating Income decreased by \$9.5 million, from \$55.2 million in the third quarter of 2015 to \$45.7 million during the fourth quarter of 2015. Operating Income was impacted by a decrease in gross profit of \$10.2 million, an increase in selling, general and administration ("SG&A") expenses of \$2.9 million, impairment charges of \$0.6 million recorded in the fourth quarter of 2015 and a gain on sale of land of \$0.8 million recorded in the third quarter of 2015. This was partially offset by an increase in net foreign exchange gain of \$4.9 million. The decrease in gross profit resulted from the lower revenue, as explained above. SG&A expenses increased by

\$2.9 million, from \$86.1 million in the third quarter of 2015 to \$89.0 million in the fourth quarter of 2015, primarily due to a \$3.5 million charge for the restructuring costs of closing Guardian facilities in the USA, a \$5.1 million increase in litigation related provisions, a \$1.2 million increase in loss on sale of fixed assets and a \$4.7 million increase in inventory obsolescence and provision for doubtful accounts. This was partially offset by an \$11.6 million decrease in management incentive compensation expenses.

- **Finance costs:** In the fourth quarter of 2015, net finance cost was \$4.7 million, compared to a net finance cost of \$4.9 million during the third quarter of 2015. The decrease in net finance costs was primarily a result of lower interest expenses on bank loans and overdrafts, partially offset by the foreign exchange rate used to translate the US\$ interest on long-term debt.
- **Income taxes:** The Company recorded an income tax expense of \$9.7 million (24% of income before income taxes) in the fourth quarter of 2015, compared to an income tax expense of \$12.2 million (24% of income before income taxes) in the third quarter of 2015. The effective tax rate in the fourth quarter of 2015 was lower than the expected income tax rate of 27% primarily due to a portion of the Company's taxable income being earned in jurisdictions where the tax rate is 25% or less.
- **Net Income:** Net income decreased by \$7.2 million, from a net income of \$38.1 million during the third quarter of 2015 to a net income of \$30.9 million during the fourth quarter of 2015. This was mainly due to the \$9.5 million decrease in Operating Income, as explained in section 2.2 above. This was partially offset by a decrease in income tax expense of \$2.6 million.

### Fourth Quarter 2015 versus Fourth Quarter 2014

- **Revenue:** Consolidated revenue decreased by \$44.7 million, or 9%, from \$500.0 million during the fourth quarter of 2014, to \$455.3 million during the fourth quarter of 2015, mainly due to a decrease of \$47.8 million in the Pipeline and Pipe Services segment, partially offset by an increase of \$2.9 million in the Petrochemical and Industrial segment.

In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2015 was \$410.8 million, or 10% lower than in the fourth quarter of 2014, due to decreased activity in North America, Latin America and Asia Pacific, partially offset by higher revenue in EMAR. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue was higher by \$2.9 million, or 7%, in the fourth quarter of 2015, compared to the fourth quarter of 2014, due to increased activity levels in all regions. See *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

- **Operating Income:** Operating Income increased by \$66.6 million, from an Operating Loss of \$20.9 million in the fourth quarter of 2014 to an Operating Income of \$45.7 million during the fourth quarter of 2015. Operating Income was impacted by a decrease in gross profit of \$25.5 million, an increase in amortization of property, plant, equipment and intangible assets of \$1.7 million, an increase in research and development expenses of \$1.2 million and a gain on sale of land of \$0.6 million recorded in the fourth quarter of 2014. These items were more than offset by a decrease in SG&A expenses of \$11.3 million, a decrease in impairment charges of \$78.4 million and an increase in net foreign exchange gain of \$5.8 million. The decrease in gross profit resulted from a 2.1 percentage point decrease in gross margin and the lower revenue, as explained above. The decrease in the gross margin percentage was primarily attributable to changes in product and project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption, particularly in the Pipeline and Pipe Services segment.

SG&A expenses in the fourth quarter of 2015 decreased by \$11.3 million, primarily due to a decrease in personnel related and management incentive compensation expenses of \$14.2 million, a reduction in professional consulting fees of \$1.5 million and a decrease in rental costs of \$2.5 million. This was partially offset by an increase in litigation related provisions of \$5.1 million and an increase in restructuring costs relating to the closure of facilities of \$3.5 million.

- **Finance costs:** In the fourth quarter of 2015, net finance cost was \$4.7 million, compared to a net finance cost of \$3.8 million during the fourth quarter of 2014. The increase in net finance cost was primarily a result of higher interest expense on the Senior Notes due to the foreign exchange rate used to translate US\$ interest on long-term debt and lower interest income on short-term deposits, partially offset by lower interest expenses on bank loans and overdrafts.
- **Income taxes:** The Company recorded an income tax expense of \$9.7 million (24% of income before income taxes) in the fourth quarter of 2015, compared to an income tax recovery of \$22.3 million in the fourth quarter of 2014. Excluding the impact of impairment charges (\$97.9 million, deferred tax of \$27.9 million), the Company recorded an income tax expense of \$5.7 million (11% of income before income taxes) in the fourth quarter of 2014. The effective tax rate in the fourth quarter of 2015 was lower than the expected income tax rate of 27% primarily due to a portion of the Company's taxable income being earned in jurisdictions where the tax rate is 25% or less.
- **Net Income:** Net income increased by \$51.6 million, from a net loss of \$20.7 million during the fourth quarter of 2014 to a net income of \$30.9 million during the fourth quarter of 2015. This was mainly due to the \$66.6 million increase in Operating Income, as explained in section 2.2 above and a decrease in losses from investment in joint ventures of \$18.9 million. This was partially offset by an increase in income tax expense of \$31.9 million and an increase in finance costs of \$0.9 million.

## 7.0 DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company's Disclosure Controls and Procedures ("DC&Ps") (as defined in the rules of the Canadian Securities Administrators) and the effectiveness of

Internal Controls over Financial Reporting ("ICFRs"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as at December 31, 2015. Furthermore, they have concluded that the Company's ICFRs were effective as at December 31, 2015. There were no material changes in either the Company's DC&Ps or its ICFRs during 2015.

## 8.0 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

### 8.1 Critical Judgments

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

#### *Materiality*

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

#### *Determination of Reportable Operating Segments*

Management has exercised 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 judgment in determining that the Company's Chief Executive Officer ("CEO") is the Company's Chief Operating Decision Maker ("CODM").

#### *Determination of Cash Generating Units (CGU)*

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

#### *Business Acquisitions*

Significant judgments and assumptions are made in compiling the purchase price allocation for acquired companies. Management has exercised professional judgment 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 judgment in identifying intangible assets and in choosing the appropriate valuation models and techniques to determine their fair values. Management has also exercised professional judgment in characterizing the composition of any residual goodwill.

#### *Provisions and Contingent Liabilities*

As at December 31, 2015, the Company had \$69.6 million of provisions; of this amount \$25.6 million was included in current liabilities and \$44.0 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application

of judgment 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 judgment 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 judgment 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 judgment 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 judgment 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, judgment is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

## **8.2 Critical Accounting Estimates**

The preparation of 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 reported 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***

As at December 31, 2015, the Company had \$1,164.8 million of long-lived assets and goodwill. The Company evaluates the carrying values of the Cash Generating Units ("CGU") goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates

and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions and estimates.

#### ***Employee Future Benefit Obligations***

As at December 31, 2015, the Company had \$21.9 million of employee future benefit obligations. The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the defined benefit obligation recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, rates of employee compensation increases, rates of inflation, and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

#### ***Decommissioning Liabilities***

As at December 31, 2015, the Company had decommissioning liabilities in the amount of \$34.4 million; of this amount \$8.4 million was included in the current provisions account and \$26.0 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

#### ***Financial Instruments***

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

#### ***Income Taxes***

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

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



### 8.3 Accounting Standards Issued but Not Yet Applied

#### *IFRS 9, Financial Instruments*

*IFRS 9*, as issued, by the International Accounting Standards Board ("IASB") replaces *IAS 39* regarding the recognition and measurement of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet determined the impact of this standard on the consolidated financial statements.

#### *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 – Intangibles*

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.

### 8.4 New Accounting Standards Adopted

#### *IFRS 8 – Operating Segments*

During 2015, the Company adopted an amendment that clarifies that an entity must disclose the judgments 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 contribution 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.

### 9.0 OUTLOOK

The decline in global oil and gas prices that started in the fourth quarter of 2014 has impacted the Company's businesses in two distinct ways. First, Shawcor has a number of businesses that generate revenue from our customers' expenditures on the drilling and completion of wells. For Shawcor, the number of wells drilled and completed in North America is particularly critical as approximately 50% of revenue generated in the Company's Pipeline and Pipe Services Segment – North America region is directly attributable to customer capital spending for well completions. Since peaking in 2014, the number of drilling rigs operating in North America has declined by over 60% and until there is a sustained increase in global oil prices, it is unlikely that the number of wells drilled and completed in North America will increase. The second impact of lower oil prices has been a curtailment in large oil and gas greenfield development projects. This impact has been most evident for Shawcor in our international regions where we have seen a decline in customer commitments for new projects as they seek to reduce capital spending in line with reduced operating cash flow. The result has been a decrease in Shawcor's order backlog, as described more fully below.

With global oil and gas prices remaining at a depressed level, the Company lacks visibility on the timing for any improvement in market demand. The Company is encouraged by the strong level of current bidding activity; however, until North American oilfield activity stabilizes and large pipe coating projects that are under bid are awarded, a firm outlook on longer term performance is not possible. Given the \$314 million decrease in order backlog from the level that prevailed a year ago, one should expect that 2016 revenue and earnings will decline materially from 2015. Further detail on the outlook for the Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is set out below:

#### *Pipeline and Pipe Services Segment – North America*

Shawcor's North American Pipeline segment businesses continue to be impacted by the reduction in well completion activity in North America which has reduced expenditures on small diameter gathering lines. The businesses affected include small diameter pipe coating and joint protection, Flexpipe composite pipe, Guardian OCTG pipe inspection and refurbishment and Desert NDT gathering line girth weld inspection. Demand for these products and services has declined significantly since 2014 and was down again in the fourth quarter. Until global oil prices exhibit sustained increases, there can be no certainty when the level of well drilling and completion will stabilize and begin to improve. As a result, the Company expects these businesses to weaken further in 2016 with any improvement in revenue and operating income likely postponed to 2017 at the earliest.

The continued build out and refurbishment of North American large diameter transmission pipeline infrastructure has been an area of strength within the Company's global operations over the past two years. In 2016, however, the Company does expect some weakening in large diameter transmission pipeline projects versus 2015. This weakness, coupled with the reduction in small diameter gathering line activity and much lower insulation pipe coating volumes for Gulf of Mexico projects, will translate into lower overall North American Pipeline segment revenue in 2016 despite the addition of approximately US\$45 million in revenue from the January 2016 acquisition of Lake Superior Consulting.

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

Consistent with all of the Company's Pipeline segment regions, lower spending on oil and gas infrastructure by our customers has translated into a reduction in new project activity. The resulting decline in backlog will be evident in 2016 with revenue declining versus 2015. In 2017, the possibility exists that revenue will recover strongly based on a very large project in Mexico that the Company is currently bidding. Visibility on the likelihood of this project proceeding and the Company's success in obtaining the contract for the work should be known by the beginning of the third quarter. If our bid is successful, the project has the potential to be one of the largest pipe coating projects in the Company's history and a significant contributor to revenue and earnings growth in 2017.

**Pipeline and Pipe Services Segment – EMAR**

The Company's EMAR region provided over 36% of the Pipeline segment's revenue in 2015 and a disproportionate share of operating income as a result of excellent operational performance on Shah Deniz and South Stream project work. In 2015, these projects contributed over \$350 million in revenue, and with the Shah Deniz export pipeline and South Stream Lines 1 and 2 projects scheduled for completion in the first quarter of 2016, a substantial decline in activity in the EMAR region is expected for 2016. Beyond 2016, the potential exists for an improvement in revenue should the Company be successful in securing work that is currently being tendered, with the Nordstream 2 natural gas pipeline project in Northern Europe offering the most compelling opportunity for enhanced activity in 2017 and 2018.

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

Following completion of the large Inpex Ichthys and Chevron Wheatstone Australian LNG projects in 2014, revenue levels in the Asia Pacific region have reverted to historical levels in the annual range of \$150 to \$200 million. In 2016, the global trend of curtailment in large oil and gas greenfield development projects will impact the region with many of the local markets in Southeast Asia expected to provide lower activity levels than were seen in 2015. Somewhat mitigating this weakness will be the Company's plan to execute a portion of the contracted flow assurance gathering line coating for the Shah Deniz project at one of its Asia Pacific facilities. Beyond this project, revenue in the region will remain weak until a sustained improvement in oil and gas production development spending begins.

**Petrochemical and Industrial Segment**

Shawcor's Petrochemical and Industrial segment businesses have again delivered record financial performance in 2015 as exposure to North American and European automotive, industrial and nuclear refurbishment markets provided strong demand and the Company continued to gain market share. In 2016, an environment of modest global economic growth is expected to continue to provide healthy demand for the products supplied by the Company's Petrochemical and Industrial segment businesses, which in turn should enable continued modest growth in revenue and earnings.

**Order Backlog**

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog at December 31, 2015 decreased to \$452 million from \$556 million at September 30, 2015 and from \$766 million a year ago. The decline in backlog from the start of the fourth quarter is attributable to backlog

revenue realized in the quarter in excess of new bookings and in particular from the continued execution of the Shah Deniz and South Stream project work.

In addition to the backlog, the Company closely monitors its bidding activity. The value of outstanding firm bids as of December 31, 2015 is now in excess of \$900 million, an increase from approximately \$600 million at the start of the fourth quarter. In addition, the Company has provided budgetary estimates and is currently working with customers on projects with aggregate values in excess of \$1.6 billion, of which the Company expects to issue firm bids for in excess of \$500 million in the first quarter of 2016. At approximately \$2.5 billion, the current level of project activity that the Company is pursuing is unprecedented in our history. It must be noted that infrastructure projects globally face a range of challenges, from regulatory approvals to increasing scrutiny by global energy companies who are seeking to reduce capital costs and project execution risks. These challenges are impacting the timing of project commencement. However, the Company remains optimistic that the projects that are under bid and development will ultimately proceed. When they do, the Company intends to grow its global market share, deliver backlog growth and then successfully execute on the projects it is awarded to achieve a substantial improvement in financial performance.

**10.0 RISKS AND UNCERTAINTIES**

Operating in an international environment, servicing predominantly the oil and gas industry, Shawcor faces a number of business risks and uncertainties that could materially and adversely affect the Company's projections, business, results of operations and financial condition.

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

**10.1 Economic Risks**

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

The Company's business is materially dependent on the level of global drilling activity, which, in turn depends on global oil and gas demand, prices and production depletion rates. Lower drilling activity decreases demand for the Company's products and services, including small diameter pipe coating, composite pipe, gathering line weld inspection and tubular inspection and inventory management services. These business activities represented approximately 21% of 2015 revenues.

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

Demand for oil and natural gas is influenced by numerous factors, including the North American and worldwide economies as well as activities of the Organization of Petroleum Exporting Countries ("OPEC"). Economic declines impact demand for oil and natural gas and result in a softening of oil and gas prices and projected oil and gas drilling activity. If economic conditions or international markets decline to an extent or for a duration which is unexpected, the Company's projections, business, results of operations and financial condition could be materially adversely affected. In addition, if actions by OPEC and other oil producers to increase production of oil adversely affect world oil prices or result in

the maintenance of existing prices, additional declines in rig counts could result, and the Company's projections, business, results of operations and financial condition could be materially adversely affected. Similarly, demand for the products of the Petrochemical and Industrial segment's businesses is largely dependent on the level of general economic activity in North America and Europe. Decreases in economic activity in these regions could result in significant decreases in activity levels in these businesses.

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

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

Revenue generated by the Company's Pipeline and Pipe Services segment accounted for 90% of consolidated sales in 2015. With this proportion expected to continue, the Company's revenue is materially dependent on the global Pipeline and Pipe Services industry. Any further significant declines in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

The Company is party to a number of financing agreements which contain financial or other covenants. If the Company was to breach the financial or other covenants contained in its financing agreements, the Company may be required to redeem, repay, repurchase or refinance its existing debt obligations prior to their scheduled maturity and the Company's ability to do so may be restricted or limited by the prevailing conditions in the capital markets, available liquidity and other factors. If the Company is unable to refinance any of the Company's debt obligations in such circumstances, its ability to make capital expenditures and its financial condition and cash flows could be adversely impacted.

If future debt financing is not available to the Company when required or is not available on acceptable terms, the Company may be unable to grow its business, take advantage of business opportunities, respond to competitive pressure or refinance maturing debt, any of which could have a material adverse effect on the Company's operating results and financial condition.

**Economic Risk Mitigation**

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

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

**10.2 Litigation and Legal Risks**

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

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

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

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

### Litigation and Legal Risk Mitigation

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

### 10.3 HSE Risks

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

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

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

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

#### HSE Risk Mitigation

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

### 10.4 Political and Regulatory Risks

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

During 2015, the Company derived over 24% of its total revenue from its facilities outside Canada, the US and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

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

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

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

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

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

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

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

#### Political and Regulatory Risk Mitigation

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

## 11.0 ENVIRONMENTAL MATTERS

As at December 31, 2015, the provisions on the annual consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$34.4 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$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 decommissioning liabilities.

| (in thousands of Canadian dollars) | December 31, 2015 |
|------------------------------------|-------------------|
| 2016                               | \$ 8,437          |
| 2017                               | 343               |
| 2018                               | 2,722             |
| 2019                               | 3,153             |
| 2020                               | 3,584             |
| More than five years               | 18,967            |
|                                    | <b>\$ 37,206</b>  |

## 12.0 RECONCILIATION OF NON-GAAP MEASURES

The Company reports on certain non-GAAP measures that are used to evaluate its performance and segments, as well as to determine compliance with debt covenants and to manage the capital structure. Non-GAAP measures do not have standardized meanings under IFRS and are not necessarily comparable to similar measures provided by other companies. The Company discloses these measures because it

believes that they assist readers in understanding the results of the Company's operations and financial position and are meant to provide further information about its financial results to readers. These measures should not be considered in isolation or used in substitution for other measures of performance prepared in accordance with GAAP. The following is a reconciliation of the non-GAAP measures reported by the Company.

### EBITDA, Adjusted EBITDA, Adjusted Net Income, Adjusted EPS and Adjusted Operating Income

| (in thousands of Canadian dollars)                               | Three Months Ended December 31, |                    | Year Ended December 31, |                   |
|--|---------------------------------|--------------------|-------------------------|-------------------|
|  | 2015                            | 2014               | 2015                    | 2014              |
| <b>Net (loss) income for the period</b>                          | <b>\$ 31,467</b>                | <b>\$ (21,501)</b> | <b>\$ 99,520</b>        | <b>\$ 94,194</b>  |
| <b>Add:</b>  |                                 |                    |                         |                   |
| Income taxes expense (recovery)                                  | 9,653                           | (22,253)           | 31,551                  | 21,010            |
| Finance costs, net   | 4,728                           | 3,813              | 18,244                  | 18,401            |
| Amortization of property, plant, equipment and intangible assets | 20,061                          | 18,389             | 79,387                  | 70,806            |
| <b>EBITDA<sup>(a)</sup></b>                                      | <b>\$ 65,909</b>                | <b>\$ (21,552)</b> | <b>\$ 228,702</b>       | <b>\$ 204,411</b> |
| Gain on sale of land   | -                               | (609)              | (814)                   | (609)             |
| Impairment   | 590                             | 78,999             | 590                     | 120,378           |
| Impairment of investments in joint ventures                      | -                               | 18,948             | -                       | 18,948            |
| Loss (gain) on assets held for sale                              | -                               | 593                | -                       | (6,427)           |
| <b>ADJUSTED EBITDA<sup>(a)</sup></b>                             | <b>\$ 66,499</b>                | <b>\$ 76,379</b>   | <b>\$ 228,478</b>       | <b>\$ 336,701</b> |
| <b>Net (loss) income for the period<sup>(b)</sup></b>            | <b>\$ 30,901</b>                | <b>\$ (20,652)</b> | <b>\$ 98,244</b>        | <b>\$ 94,861</b>  |
| <b>Add:</b>  |                                 |                    |                         |                   |
| Impairment   | 590                             | 78,999             | 590                     | 120,378           |
| Impairment of investments in joint ventures                      | -                               | 18,948             | -                       | 18,948            |
| <b>Deduct:</b>   |                                 |                    |                         |                   |
| Deferred Tax Recovery  | 112                             | (27,931)           | 112                     | (39,925)          |
| <b>Adjusted Net Income</b>                                       | <b>\$ 31,603</b>                | <b>\$ 49,364</b>   | <b>\$ 98,946</b>        | <b>\$ 194,262</b> |
| <b>Adjusted EPS (Diluted)<sup>(c)</sup></b>                      | <b>\$ 0.49</b>                  | <b>\$ 0.76</b>     | <b>\$ 1.53</b>          | <b>\$ 3.14</b>    |

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

(b) Attributable to shareholders of the Company.

(c) Adjusted EPS is Adjusted Net Income divided by the weighted average number of shares outstanding (diluted).

### EBITDA and ADJUSTED EBITDA

EBITDA is a non-GAAP measure defined as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA is also a non-GAAP measure defined as EBITDA adjusted for non-operational items and non-controlling interest. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide a

meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business and adjusted for non-controlling interest.

### Adjusted Operating Income

| (in thousands of Canadian dollars)   | Three Months Ended December 31, |             | Year Ended December 31, |            |
|--------------------------------------|---------------------------------|-------------|-------------------------|------------|
|                                      | 2015                            | 2014        | 2015                    | 2014       |
| <b>Income (Loss) from Operations</b> | \$ 45,696                       | \$ (20,868) | \$ 149,429              | \$ 148,676 |
| <b>Add:</b>                          |                                 |             |                         |            |
| Impairment                           | 590                             | 78,999      | 590                     | 120,378    |
| <b>Adjusted Operating Income</b>     | \$ 46,286                       | \$ 58,131   | \$ 150,019              | \$ 269,054 |

### Return on Invested Capital

ROIC, a non-GAAP measure, defined as net income adjusted for after-tax interest expense divided by average invested capital over the year and is used by the Company to assess the efficiency of generating profits from each unit of invested capital.

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

| (in thousands of Canadian dollars)                              | 2015         | 2014         |
|---|--------------|--------------|
| Net income for the year adjusted for after-tax interest expense | \$ 112,202   | \$ 109,093   |
| Average invested capital  | \$ 1,502,588 | \$ 1,277,684 |
| <b>ROIC</b>   | <b>7.5%</b>  | <b>8.5%</b>  |

### Days Sales Outstanding ("DSO")

DSO is defined as the number of days trade accounts receivable are outstanding based on a 90-day cycle and is calculated by dividing the average trade accounts receivable balance for the quarter by the revenue for that same quarter, and multiplying by 90 days. DSO approximates the measure of the average number of days from when the Company recognizes revenue until the cash is collected from the customer. The following table sets forth the calculation for the Company's DSO as at:

| (in thousands of Canadian dollars, except DSO) | 2015       | 2014       |
|--|------------|------------|
| Revenue for the fourth quarter                 | \$ 455,260 | \$ 499,964 |
| Average trade accounts receivable              | \$ 301,966 | \$ 341,218 |
| <b>DSO</b>                                     | <b>60</b>  | <b>61</b>  |

### Days Payables Outstanding ("DPO")

DPO is defined as the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle and is calculated by dividing the average accounts payable and accrued liabilities for the quarter by the cost of goods sold for that same quarter, and multiplying by 90 days. DPO approximates average payment terms granted by the suppliers, an increase in DPO is considered an improvement in the management of accounts payable and accrued liabilities. The following table sets forth the calculation for the Company's DPO as at:

| (in thousands of Canadian dollars, except DPO)   | 2015       | 2014       |
|--|------------|------------|
| Cost of goods sold for the fourth quarter        | \$ 303,510 | \$ 322,725 |
| Average accounts payable and accrued liabilities | \$ 288,383 | \$ 261,088 |
| <b>DPO</b>                                       | <b>86</b>  | <b>73</b>  |

### Adjusted Operating Margin

Adjusted Operating Margin is defined as a measurement of operating income excluding unique or one-time transactions divided by the net sales. It is calculated by dividing adjusted operating income by net sales. The Company believes adjusted operating margin is a useful measure of business performance, which assists in assessing the ability to generate cash to pay interest on debt and to pay dividends. The following table sets forth the calculation for the Company's Operating Margin as at:

| (in thousands of Canadian dollars, except OM) | 2015                | 2014                |
|---|---------------------|---------------------|
| Operating Income                              | \$ 149,429          | \$ 148,676          |
| Add: Impairment                               | 590                 | 120,378             |
| <b>Adjusted Operating Income</b>              | <b>150,019</b>      | <b>269,054</b>      |
| <b>Net Sales</b>                              | <b>\$ 1,810,648</b> | <b>\$ 1,890,029</b> |
| <b>Adjusted Operating Margin</b>              | <b>8.3%</b>         | <b>14.2%</b>        |

### Working Capital Ratio

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

| (in thousands of Canadian dollars) | 2015        | 2014        |
|------------------------------------|-------------|-------------|
| Current assets                     | \$ 887,070  | \$ 813,628  |
| Current liabilities                | \$ 440,665  | \$ 434,895  |
| <b>Working capital ratio</b>       | <b>2.01</b> | <b>1.87</b> |

### 13.0 FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward-looking information" and "forward-looking statements" (collectively "forward-looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward-looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward-looking information in the Outlook section and elsewhere in respect of, among other things, the achievement of key performance objectives, the incurrence of additional capital expenditures as necessary to facilitate growth in new markets, the timing of major project activity, the decline in consolidated revenues and earnings in 2016 from 2015 levels, the growth in revenue and earnings in the Petrochemical and Industrial segment of the Company's business, the use of existing cash balances to reduce indebtedness, the sufficiency of resources, capacity and capital to meet market demand, to meet contractual obligations and to execute the Company's development and growth strategy, the sufficiency of the Company's human resources, systems and processes to operate its business and execute its strategic plan, the impact of the existing order backlog and other factors on the Company's revenue and Operating Income into 2016, the impact of any potential cancellation of contracts included in the order backlog, and in the longer term, the impact of global economic activity on the demand for the Company's products, the impact of the decline in global oil and gas commodity prices on the level of industry investment in oil and gas infrastructure, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the adequacy of the Company's existing accruals in respect of environmental compliance and in respect of litigation matters (including the litigation with CNRL) and other claims generally, the level of payments under the Company's performance bonds and the expected development in the Company's order backlog.

Forward-looking information involves known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted by the forward-looking information. We caution readers not to place undue reliance on forward-looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. Significant risks facing the Company include, but are not limited to: the impact on the Company of reduced demand for its products and services, including the suspension or cancellation of existing contracts, as a result of lower investment in global oil and gas extraction and transportation activity following the continuing declines in the global price of oil and gas, long-term changes in global or regional economic activity and changes in energy supply and demand, which

impact on the level of global pipeline infrastructure construction; exposure to product and other liability claims (including the litigation with CNRL); shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; fluctuations in foreign exchange rates, as well as other risks and uncertainties, as more fully described herein under the heading "Risks and Uncertainties."

These statements of forward-looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of global oil and gas prices, declines in expenditures on oil and gas infrastructures, modest global economic growth, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions and the ability of the Company to satisfy all covenants under its Credit Facilities and the Senior Notes. The Company believes that the expectations reflected in the forward-looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward-looking information included in this document and the Company can give no assurance that such expectations will be achieved.

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

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

### 14.0 ADDITIONAL INFORMATION

Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

March 2nd, 2016

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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The accompanying consolidated financial statements of Shawcor Ltd. included in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. When alternative accounting methods exist, management has selected those it deems to be most appropriate in the circumstances. The consolidated financial statements include estimates based on the experience and judgment of management in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

The management of the Company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfils its responsibilities for financial reporting and internal control with the assistance of its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are Directors who are not officers or employees of Shawcor Ltd. or any of its subsidiaries. The Committee meets periodically to review quarterly financial reports and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors.

These financial statements have been audited by Ernst & Young LLP, the external auditors, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.



**Stephen M. Orr**  
President and Chief Executive Officer



**Gary S. Love**  
Vice-President, Finance and Chief Financial Officer

March 2, 2016



# INDEPENDENT AUDITORS' REPORT

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## TO THE SHAREHOLDERS OF SHAWCOR LTD.

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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

**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</b> (note 12)                                   |                  |                  |
| Basic   | \$ 1.52          | \$ 1.55          |
| Diluted   | \$ 1.52          | \$ 1.53          |
| <b>Weighted Average Number of Shares Outstanding (000s)</b> (note 12) |                  |                  |
| Basic   | 64,512           | 61,374           |
| Diluted   | 64,762           | 61,819           |

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

## 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.

**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.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| For the years ended December 31:<br>(in thousands of Canadian dollars)  | Share<br>Capital | Contributed<br>Surplus | Retained<br>Earnings | Non-controlling<br>Interests | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income | Total<br>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<br>(net of commissions and share issuance<br>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<br>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<br>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.

## 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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## NOTE 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to 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.

## NOTE 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 Judgments in Applying Accounting Policies

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

### ***Business Acquisitions***

Significant judgments and assumptions are made in compiling the purchase price allocation for acquired companies. Management has exercised professional judgment 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 judgment in identifying intangible assets and in choosing the appropriate valuation models and techniques to determine their fair values. Management has also exercised professional judgment 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 judgment 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 judgment 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 judgment 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 judgment 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 judgment 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, judgment 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 judgment 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).

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:

| Balance Sheet Item               | Designation                       |
|----------------------------------|-----------------------------------|
| 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.

**NOTE 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.

**NOTE 4. NEW ACCOUNTING STANDARDS ADOPTED****IFRS 8 – Operating Segments**

During 2015, the Company adopted an amendment that clarifies that an entity must disclose the judgments 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.

**NOTE 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, 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 (US\$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 US oil and gas basins. The acquisition was funded with cash and through available revolving credit facilities.

Significant judgments 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 (US\$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)

|   |                   |
|---|-------------------|
| <b>Consideration</b>  |                   |
| Cash (net of cash acquired of \$2,429)                        | \$ 279,266        |
| <b>Assets acquired and liabilities assumed at fair value:</b> |                   |
| 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> |

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

| (in thousands of Canadian dollars) | December 31<br>2015 | December 31<br>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.

**NOTE 7. FINANCIAL INSTRUMENTS**

The Company has classified its financial instruments as follows:

| (in thousands of Canadian dollars)                             | December 31<br>2015 | December 31<br>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                      | 3,024               | 5,578               |
| Derivative financial instruments – liabilities                 | 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 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   | \$ –       | \$ 3,984   | \$ –      |
| 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 US dollar based operations, the Company does not hedge translation exposures.

### Foreign Exchange Forward Contracts

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

The following table sets out the notional amounts outstanding under foreign exchange 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                     | US\$  | 14,400  |
| Weighted average rate                  |       | 1.28    |
| US dollars sold for Malaysian Ringgits |       |         |
| Less than one year                     | US\$  | 4,500   |
| Weighted average rate                  |       | 4.31    |
| US dollars sold for Euros              |       |         |
| Less than one year                     | US\$  | 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 US 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.

*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)                               | Non-interest<br>Bearing | Floating<br>Rate | Fixed<br>Interest Rate | Total      |
|--|-------------------------|------------------|------------------------|------------|
| <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     |
|  | \$ 10,215               | \$ 5,166         | \$ 16,096              | \$ 31,477  |
| <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    |
|  | \$ 132,052              | \$ -             | \$ 485,147             | \$ 617,199 |

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.

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>                 | \$ 5,004  | \$ 12,516 |

## 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> |

## NOTE 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.

**Segment**

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

| (in thousands of Canadian dollars)                                 | Pipeline<br>and Pipe Services |           | Petrochemical<br>and Industrial |         | Financial<br>and Corporate |          | Eliminations<br>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)     | -         | -         |
| Total revenue  | 1,631,147                     | 1,716,789 | 181,867                         | 177,033 | -                          | -        | (2,366)                         | (3,793)     | 1,810,648 | 1,890,029 |
| Cost of goods sold and<br>services rendered                        | 1,078,964                     | 1,045,317 | 127,709                         | 124,797 | -                          | -        | (2,367)                         | (3,795)     | 1,204,306 | 1,166,319 |
| Gross margin   | 552,183                       | 671,472   | 54,158                          | 52,236  | -                          | -        | 1                               | 2           | 606,342   | 723,710   |
| Operating expense  | 317,249                       | 315,147   | 20,791                          | 21,708  | 26,045                     | 34,549   | 1                               | 2           | 364,086   | 371,406   |
| Research and<br>development expenses                               | 11,430                        | 10,794    | 1,428                           | 1,136   | 806                        | 1,123    | -                               | -           | 13,664    | 13,053    |
| Amortization of property,<br>plant and equipment                   | 52,693                        | 50,085    | 3,253                           | 3,251   | 2,073                      | 1,883    | -                               | -           | 58,019    | 55,219    |
| Amortization of<br>intangible assets                               | 21,368                        | 15,587    | -                               | -       | -                          | -        | -                               | -           | 21,368    | 15,587    |
| Gain on sale of land   | -                             | -         | -                               | (609)   | (814)                      | -        | -                               | -           | (814)     | (609)     |
| Income (loss) from<br>operation for CODM                           | 149,443                       | 279,859   | 28,686                          | 26,750  | (28,110)                   | (37,555) | -                               | -           | 150,019   | 269,054   |
| Impairment   | 590                           | 120,378   | -                               | -       | -                          | -        | -                               | -           | 590       | 120,378   |
| Income (loss)<br>from operations                                   | 148,853                       | 159,481   | 28,686                          | 26,750  | (28,110)                   | (37,555) | -                               | -           | 149,429   | 148,676   |
| Gain on assets held<br>for sale                                    | -                             | 6,427     | -                               | -       | -                          | -        | -                               | -           | -         | 6,427     |
| Loss from investments<br>in joint venture                          | -                             | (22,375)  | -                               | -       | -                          | -        | -                               | -           | -         | (22,375)  |
| (Loss) income from<br>investments in<br>associates                 | -                             | -         | -                               | -       | (114)                      | 877      | -                               | -           | (114)     | 877       |
| Internal interest<br>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<br>other finance cost                         | (2,092)                       | (3,069)   | (68)                            | (13)    | (17,093)                   | (16,549) | -                               | -           | (19,253)  | (19,631)  |
| Income (loss) before<br>income taxes                               | 144,982                       | 122,786   | 26,971                          | 24,914  | (40,882)                   | (32,496) | -                               | -           | 131,071   | 115,204   |
| Income taxes   | -                             | -         | -                               | -       | 31,551                     | 21,010   | -                               | -           | 31,551    | 21,010    |
| Additions to property,<br>plant and equipment,<br>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   |

## 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)      | -            |  |
| Total revenue                     | \$ 493,385 | \$ 343,915 | \$ 150,783    | \$ 643,829          | \$ 181,102   | \$ (2,366)   | \$ 1,810,648 |  |
| 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 <sup>(a)</sup> | 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)      | -            |  |
| Total revenue                     | \$ 592,220 | \$ 302,927 | \$ 185,057    | \$ 463,109          | \$ 350,509   | \$ (3,793)   | \$ 1,890,029 |  |
| 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

## NOTE 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> |

## NOTE 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> |

## NOTE 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            |
|   | 33,746           | 58,440           |
| <b>Deferred Income Taxes</b>            |                  |                  |
| Reversal of temporary differences       | (2,195)          | (37,430)         |
|   | (2,195)          | (37,430)         |
| <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>24.3%</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)       | December 31<br>2015 | December 31<br>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) | December 31<br>2015 | December 31<br>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.

| (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                | <b>3,736</b>                      | <b>(13,672)</b>    |
| <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           | <b>(1,494)</b>                    | <b>(21,717)</b>    |
| <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.

## NOTE 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 (000s)           | 64,512    | 61,374    |
| Dilutive effect of stock options                                       | 250       | 445       |
| Weighted average number of shares outstanding – diluted (000s)         | 64,762    | 61,819    |
| Basic EPS  | \$ 1.52   | \$ 1.55   |
| Diluted EPS  | \$ 1.52   | \$ 1.53   |

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

## NOTE 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**

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

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.

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:

|  | 2015           |  | 2014         |   |
|--|----------------|--|--------------|---|
|  | Total Shares   | Weighted Average Grant Date Fair Value <sup>(a)(b)</sup> | 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  | Weighted Average Grant Date Fair Value <sup>(a)</sup> |
| <b>Balance outstanding – Beginning of year</b> | 99,675         | \$ 38.04  | 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>                                       | <b>99,675</b> | <b>\$ 38.04</b>                                       |

(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)

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

## NOTE 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).

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

| (in thousands of Canadian dollars)                   | December 31<br>2015 | December 31<br>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<br>2015 | December 31<br>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<br>2015 | December 31<br>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)  | December 31<br>2015 | December 31<br>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>        | <b>4,548</b>        |
| 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)   | December 31<br>2015 | December 31<br>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)  | December 31<br>2015 | December 31<br>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>   |

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

| (in thousands of Canadian dollars)                                    | December 31<br>2015 | December 31<br>2014 |
|---|---------------------|---------------------|
| <b>Balance – Beginning of year</b>                                    | <b>\$ 117,452</b>   | <b>\$ 106,644</b>   |
| 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<br>2015 | December 31<br>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                                    |
|---|---|---|
| <b>Canada</b>                               |   |   |
| 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<br>Private with<br>scale CPM-B | CPM 2014<br>Private with<br>scale CPM-B |
| Benefit cost for the year ended December 31 |   |   |
| Discount rate                               | 3.90%                                   | 4.70%                                   |
| Future salary increase                      | 3.50%                                   | 4.00%                                   |
| <b>Norway</b>                               |   |   |
| 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%                                   |
| <b>United Kingdom</b>                       |   |   |
| Defined benefit obligation                  |   |   |
| Discount rate                               | 4.00%                                   | 3.70%                                   |
| Future salary increase                      | n/a                                     | n/a                                     |
| Future pension increase                     | 2.50%                                   | 2.30%                                   |
| Mortality                                   | S1PA (projected)                        | S1PA (projected)                        |
| Benefit cost for the year ended December 31 |   |   |
| Discount rate                               | 3.70%                                   | 4.70%                                   |
| Future salary increase                      | n/a                                     | n/a                                     |
| <b>Indonesia</b>                            |   |   |
| Defined benefit obligation                  |   |   |
| Discount rate                               | 9.00%                                   | 8.40%                                   |
| Future salary increase                      | 10.00% (local),<br>6.00% (expat)        | 10.00% (local),<br>6.00% (expat)        |
| Future pension increase                     | n/a                                     | n/a                                     |
| Mortality                                   | Indonesia's<br>Table 2011               | Indonesia's<br>Table 2011               |
| Benefit cost for the year ended December 31 |   |   |
| Discount rate                               | 8.40%                                   | 8.80%                                   |
| Future salary increase                      | 10.00% (local),<br>6.00% (expat)        | 10.00% (local),<br>6.00% (expat)        |

## Sensitivity Analysis

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

| Significant Assumptions<br>(in thousands of Canadian dollars)          | Impact of Sensitivity Analysis on<br>Defined Benefit Obligation |          |
|--|---|----------|
|  | \$ Change   | % Change |
| 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.

### NOTE 16. CASH AND CASH EQUIVALENTS

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

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

### NOTE 17. LOANS RECEIVABLE

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

| (in thousands of Canadian dollars) | December 31<br>2015 | December 31<br>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 US 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 US\$3,726 (December 31, 2014 – US\$3,813).

### NOTE 18. ACCOUNTS RECEIVABLE

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

| (in thousands of Canadian dollars)       | December 31<br>2015 | December 31<br>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>   |

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

| (in thousands of Canadian dollars)     | December 31<br>2015 | December 31<br>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        | 289,542             | 339,990             |
| Less: allowance for doubtful accounts  | (5,004)             | (12,516)            |
| <b>Trade accounts receivable – net</b> | <b>\$ 284,538</b>   | <b>\$ 327,474</b>   |



## NOTE 19. INVENTORY

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

| (in thousands of Canadian dollars) | December 31<br>2015 | December 31<br>2014 |
|------------------------------------|---------------------|---------------------|
| Raw materials and supplies         | \$ 105,501          | \$ 126,763          |
| Work-in-progress                   | 14,481              | 15,003              |
| Finished goods                     | 70,356              | 72,900              |
| Inventory obsolescence             | (22,781)            | (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.

## NOTE 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<br>Improvements | Buildings         | Machinery and<br>Equipment | Capital<br>Projects-in-<br>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)             |
| Balance – December 31, 2014           | 63,822                        | 213,633           | 742,979                    | 37,794                              | 1,058,228           |
| 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<br>Improvements | Buildings          | Machinery and<br>Equipment | Capital<br>Projects-in-<br>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               |
| Balance – December 31, 2014           | (18,523)                      | (93,811)           | (463,123)                  | –                                   | (575,457)           |
| 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> |

| (in thousands of Canadian dollars) | Land and Land<br>Improvements | Buildings         | Machinery and<br>Equipment | Capital<br>Projects-in-<br>Progress | Total              |
|------------------------------------|-------------------------------|-------------------|----------------------------|-------------------------------------|--------------------|
| <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)           |
| Balance – December 31, 2014        | (2,495)                       | (9,053)           | (35,912)                   | –                                   | (47,460)           |
| 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>  |

## NOTE 21. INTANGIBLE ASSETS

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

| (in thousands of Canadian dollars) | Intellectual<br>Property, with<br>Limited Life <sup>(a)</sup> | Intangible<br>Assets, with<br>Limited Life <sup>(b)</sup> | Intangible<br>Assets, with<br>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.

## NOTE 22. GOODWILL

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

| (in thousands of Canadian dollars)     | December 31<br>2015 | December 31<br>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>      | <b>298,819</b>      |
| 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) | December 31<br>2015 | December 31<br>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 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 judgment, 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<br>2015 | October 31<br>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 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.

**NOTE 23. INVESTMENTS IN JOINT VENTURES**

The Company had the following investments in joint ventures.

|   | Country of<br>Incorporation | Activity     | December 31<br>2015<br>Ownership<br>Interest<br>% | December 31<br>2014<br>Ownership<br>Interest<br>% |
|---|-----------------------------|--------------|---|---|
| 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> |

## NOTE 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, US based company engaged in designing and assembling of electric feed-thru connector systems 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.

## NOTE 25. OTHER ASSETS

The following table details the other assets as at:

| (in thousands of Canadian dollars)              | December 31<br>2015 | December 31<br>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>    |

## NOTE 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.

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

| (in thousands of Canadian dollars)          | Bredero Shaw<br>Brasil <sup>(a)</sup> |                  | Socotherm <sup>(b)</sup> | Brigden <sup>(c)</sup> | Other       | Total             |
|---|---------------------------------------|------------------|--------------------------|------------------------|-------------|-------------------|
| 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>\$ –</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 Servicios 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 Bridgen 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.

## NOTE 27. CREDIT FACILITIES

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

| (in thousands of Canadian dollars)   | December 31<br>2015 | December 31<br>2014 |
|--|---------------------|---------------------|
| Bank indebtedness  | \$ –                | \$ 4,685            |
| Standard letters of credit for performance, bid and surety bonds (note 32) | 132,052             | 137,667             |
| Total utilized credit facilities   | 132,052             | 142,352             |
| Total available credit facilities <sup>(a)</sup>                           | 623,970             | 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.

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility (the "Credit Facility") for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by US\$100 million from US\$150 million to US\$250 million, with an option to increase the credit limit to US\$400 million with the consent of lenders. On June 16, 2014, the option to increase the credit limit to US\$400 million was exercised with the consent of the lenders and a new option to increase the credit limit to US\$550 million with the consent of the lenders was added. The Company pays a floating interest rate on 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 US\$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.

## NOTE 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<br>2015 | December 31<br>2014 |
|------------------------------------|---------------------|---------------------|
| Accounts payable                   | \$ 110,648          | \$ 89,077           |
| Accrued liabilities                | 185,263             | 163,366             |
|                                    | <b>\$ 295,911</b>   | <b>\$ 252,443</b>   |

## NOTE 29. PROVISIONS

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

| (in thousands of Canadian dollars) | Decommissioning<br>Liabilities | Warranties      | Other<br>Provisions | Total            |
|------------------------------------|--------------------------------|-----------------|---------------------|------------------|
| <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> | 24,138                         | 4,455           | 23,731              | 52,324           |
| 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           |
|                                    | <b>\$ 34,361</b>               | <b>\$ 4,332</b> | <b>\$ 30,944</b>    | <b>\$ 69,637</b> |

## Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$372 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.

(in thousands of Canadian dollars)

|            |                  |
|------------|------------------|
| 2016       | \$ 8,437         |
| 2017       | 343              |
| 2018       | 2,722            |
| 2019       | 3,153            |
| 2020       | 3,584            |
| Thereafter | 18,967           |
|            | <b>\$ 37,206</b> |

### 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.

## NOTE 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> | <b>\$ 3,939</b>                 | <b>\$ 20,517</b>                       | <b>\$ –</b>   | <b>\$ 24,456</b> |
| <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                            | <b>\$ 3,939</b>                 | <b>\$ 19,340</b>                       | <b>\$ –</b>   | <b>\$ 23,279</b> |
| Non-current                        | –                               | 1,177                                  | –             | 1,177            |
|                                    | <b>\$ 3,939</b>                 | <b>\$ 20,517</b>                       | <b>\$ –</b>   | <b>\$ 24,456</b> |

## NOTE 31. LONG-TERM DEBT

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

- (i) US \$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) US\$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) US\$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) US\$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 (US\$350.0 million) (2014 – \$406.9 million (US\$350.0 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 7.



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.

## NOTE 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)          | December 31<br>2015 |
|---|---------------------|
| 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. 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<br>Payments | Present<br>Value of<br>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).

**NOTE 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      |
| Balance, December 31, 2014  | 64,493,849 |
| <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         |
| Balance, December 31, 2014  | \$ 533,660 |

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  |

**NOTE 34. SUBSEQUENT EVENT**

The Company completed the acquisition of Lake Superior Consulting ("LSC") on January 4, 2016. LSC is a US 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 US\$45 million.

**NOTE 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.

# SIX-YEAR REVIEW AND QUARTERLY INFORMATION

## SIX-YEAR REVIEW (UNAUDITED)

| For the year ended December 31<br>(in thousands of Canadian dollars except per share information) | 2015<br>IFRS | 2014<br>IFRS | 2013<br>IFRS | 2012<br>IFRS | 2011<br>IFRS | 2010<br>IFRS |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
|   |              |              |              | (Note 5)     |              |              |
| <b>Operating Results</b>  |              |              |              |              |              |              |
| Revenue   | 1,810,648    | 1,890,029    | 1,847,549    | 1,469,187    | 1,157,265    | 1,034,163    |
| Adjusted EBITDA (Note 1)  | 228,478      | 336,701      | 391,223      | 265,254      | 128,168      | 186,035      |
| Net Income (Note 2)   | 98,244       | 94,861       | 219,862      | 178,310      | 56,280       | 95,072       |
| <b>Cash Flow</b>  |              |              |              |              |              |              |
| Cash from operating activities  | 281,041      | 187,985      | 32,264       | 530,512      | 45,325       | 53,244       |
| Purchase of property, plant, and equipment  | 61,153       | 77,645       | 76,729       | 73,505       | 55,982       | 48,723       |
| <b>Financial Position</b>   |              |              |              |              |              |              |
| Working capital (Note 3)  | 446,405      | 378,733      | 267,489      | 325,412      | 287,142      | 283,852      |
| Long-term debt  | 485,147      | 406,926      | 374,381      | -            | -            | 25,005       |
| Equity  | 1,125,201    | 980,613      | 658,581      | 988,667      | 867,411      | 832,243      |
| Total assets  | 2,145,705    | 1,939,970    | 1,651,928    | 1,888,873    | 1,226,749    | 1,224,936    |
| <b>Per Share Information</b><br>(Common, Class A & Class B)                                       |              |              |              |              |              |              |
| Net income  |              |              |              |              |              |              |
| Basic   | 1.52         | 1.55         | 3.55         | 2.53         | 0.79         | 1.35         |
| Diluted   | 1.52         | 1.53         | 3.51         | 2.50         | 0.78         | 1.33         |
| Dividends   |              |              |              |              |              |              |
| Common share  | 0.600        | 0.575        | 1.375        | N/A          | N/A          | N/A          |
| Class A   | -            | -            | 0.100        | 0.380        | 0.315        | 0.295        |
| Class B   | -            | -            | 0.091        | 0.345        | 0.286        | 0.268        |
| Equity per share (Note 4)   | 17.44        | 15.20        | 10.98        | 14.08        | 12.28        | 11.79        |

## QUARTERLY INFORMATION (UNAUDITED)

| (in thousands of Canadian dollars except per share information) |      | First   | Second  | Third   | Fourth   | Total     |
|---|------|---------|---------|---------|----------|-----------|
| Revenue   | 2015 | 471,940 | 398,020 | 485,428 | 455,260  | 1,810,648 |
|   | 2014 | 479,082 | 441,386 | 469,597 | 499,964  | 1,890,029 |
| Net income (Note 2)   | 2015 | 37,774  | [8,538] | 38,107  | 30,901   | 98,244    |
|   | 2014 | 61,947  | 47,949  | 5,617   | [20,652] | 94,861    |
| Net income per share  |      |         |         |         |          |           |
| Diluted   | 2015 | 0.58    | [0.13]  | 0.59    | 0.48     | 1.52      |
|   | 2014 | 1.03    | 0.79    | 0.09    | [0.32]   | 1.53      |

Note 1: Adjusted EBITDA is a non-GAAP measure calculated by adding back to net income the sum of net finance costs, income taxes, depreciation/amortization of property, plant, equipment and intangible assets, gains/losses from assets held for sale, gain from sale of land, impairment of assets and joint ventures and non controlling interest. Adjusted EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools.

Note 2: Attributable to shareholders of the Company, excluding non-controlling interests.

Note 3: Working capital has been calculated as current assets minus current liabilities.

Note 4: Equity per share is Non-GAAP measure calculated by dividing equity by the number of Common, Class A & Class B shares outstanding at the date of the balance sheet

Note 5: Restated due to the adoption of certain new IFRS standards that became effective as at January 1, 2013, but were implemented retrospectively to January 1, 2012.

# SHAWCOR DIRECTORS



**J.T. Baldwin**

*London, England*

Mr. Baldwin recently retired as the Vice President Communications & External Affairs for the Southern Corridor for BP, a position he held since January 2014, and has been a Director of Shawcor since March 2010.



**D.S. Blackwood**

*Houston, Texas*

Mr. Blackwood is the Chief Executive Officer of Vepica Group, a position he has held since September 2015, and has been a Director of Shawcor since May 2011.



**J.W. Derrick**

*Buffalo, New York*

Mr. Derrick is the Chief Executive Officer of Derrick Corporation, a position he has held since 1992, and has been a Director of Shawcor since August 2007.



**K.J. Forbes**

*West Sussex, England*

Mr. Forbes is a partner in Epi-V LLP, a position he has held since September 2009, and has been a Director of Shawcor since May 2014.



**M.S. Hanley**

*Mount-Royal, Quebec*

Mr. Hanley is a Chartered Professional Accountant and from 2009 to 2011, he was the Senior Vice President Operations and Strategy for National Bank of Canada. He has been a Director of Shawcor since May 2015.



**S.M. Orr**

*Toronto, Ontario*

Mr. Orr is the Chief Executive Officer of Shawcor Ltd., a position he has held since May 2014, and has been a Director of Shawcor since May 2014.



**P.S. Pierce**

*Houston, Texas*

Ms. Pierce is the Executive Vice President of and a partner in Ztown Investments, a position she has held since 2005, and has been a Director of Shawcor since June 2014.



**P.G. Robinson**

*Toronto, Ontario*

Mr. Robinson is a Chartered Professional Accountant and the President and Chief Executive Officer of Litens Automotive Group, a position he has held since August 2013, and has been a Director of Shawcor since August 2001.



**E.C. Valiquette**

*Pembroke, Ontario*

Ms. Valiquette is a Chartered Professional Accountant and a former Senior Vice President and Chief Financial Officer of ING Canada Inc. and has been a Director of Shawcor since March 2005.



**D.M. Wishart**

*Calgary, Alberta*

Mr. Wishart is Chairman of the Board of Bruce Power Ltd. He recently retired as the Executive Vice President of Operations and Major Projects for TransCanada Corporation, a position he held since 2005, and has been a Director of Shawcor since May 2015.

# PRIMARY OPERATING LOCATIONS

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## PIPELINE AND PIPE SERVICES

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### Bredero Shaw

3838 N. Sam Houston Pkwy. E.  
Suite 300  
Houston, Texas 77032

T: 281 886 2350

F: 281 886 2351

3200, 450 1st Street SW.  
Calgary, Alberta T2P 5H1

T: 403 263 2255

F: 403 264 3649

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"Le Carrefour"

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#17-01/02 United Square

101 Thomson Road  
Singapore 307591

T: 65 6732 2355

F: 65 6732 9073

Viale Risorgimento 62

45011 Adria (RO) Italy

T: 39 0426 941000

F: 39 0426 901055

### Canusa-CPS

25 Bethridge Road

Toronto, Ontario M9W 1M7

T: 416 743 7111

F: 416 743 5927

### Flexpipe Systems

3501 54th Avenue S.E.

Calgary, Alberta T2C 0A9

T: 403 503 0548

F: 403 503 0547

### Shaw Pipeline Services

4250 N. Sam Houston Pkwy. E.

Suite 180

Houston, Texas 77032

T: 832 601 0850

F: 281 442 1593

### Guardian

950 – 78th Avenue

Edmonton, Alberta T6P 1L7

T: 780 440 1444

F: 780 440 4261

### Desert NDT

4250 N. Sam Houston Pkwy. E.

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Houston, Texas 77032

T: 713 568 3513

F: 832 460 5205

### Dhatec

Elskensakker 8

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The Netherlands (NL)

T: +31 497 542 527

E-Mail: info@dhatec.nl

### Lake Superior Consulting, LLC

130 West Superior Street,

Suite 500

Duluth, Minnesota 55802

T: 218 727 3141

## PETROCHEMICAL AND INDUSTRIAL

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### DSG-Canusa

25 Bethridge Road

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T: 416 743 7111

F: 416 743 7752

### ShawFlex

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F: 416 743 2565

# CORPORATE INFORMATION

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## CORPORATE OFFICERS

**P.G. Robinson**

Chair of the Board

**S.M. Orr**

President and  
Chief Executive Officer

**G.S. Love**

Vice President, Finance and  
Chief Financial Officer

**D.R. Ewert**

Vice President, Corporate  
Affairs and Secretary

## OPERATIONS MANAGEMENT

**J.D. Tikkanen**

Executive Vice President,  
Strategic Planning  
Shawcor

**M.J. Simmons**

Group President,  
Integrity Management

**J.A. Tabak**

Group President, Composite  
Production Systems

**H.A.A.M. Tausch**

Group President,  
Pipeline Performance

**T.Y. Anderson**

Senior Vice President,

Western Hemisphere  
Pipeline Performance

**K.D. Reizer**

Senior Vice President,  
Eastern Hemisphere

Pipeline Performance

**F. Cistrone**

Group President,  
Oilfield Asset Management

**B. McDonald**

Vice President and General  
Manager  
Shaw Pipeline Services

**M. Skrbich**

Vice President and General  
Manager  
Desert NDT

## CORPORATE ADDRESS, STOCK INFORMATION AND ANNUAL MEETING

### Head Office

25 Bethridge Road  
Toronto, Ontario  
Canada M9W 1M7

T: 416 743 7111  
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### Transfer Agent and Registrar

CST Trust Company  
P.O. Box 700, Station B  
Montreal, Quebec  
Canada H3B 3K3

T: 800 387 0825  
416 682 3860  
F: 800 249 6189  
E-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

### Auditors

Ernst & Young LLP

### Stock Listing

The Toronto Stock Exchange  
Common Shares  
Trading Symbol: SCL

### Annual Meeting

Wednesday, May 11, 2016  
4:00 p.m.

Old Mill  
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