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

The following Management's Discussion and Analysis ("MD&A"), is a discussion of the consolidated financial position and results of operations of Shawcor Ltd. ("Shawcor" or the "Company") for the three months ended March 31, 2016 and 2015 and should be read together with Shawcor's interim unaudited consolidated financial statements and accompanying notes for the same periods and the MD&A included in the Company's 2015 Annual Report. All dollar amounts in this MD&A are in thousands of Canadian dollars, except per share amounts or unless otherwise stated.

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

1.0 Executive Overview

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

1.1 Core Businesses

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

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

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

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

As at March 31, 2016, the Company operated its eight divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 87% of consolidated revenue for the quarter ended March 31, 2016. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Guardian, Desert NDT and Lake Superior Consulting divisions.

- Bredero Shaw's product offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.

- 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.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

Petrochemical and Industrial

The Petrochemical and Industrial segment, which consists of the Connection Systems division, accounted for 13% of consolidated revenue for the quarter ended March 31, 2016. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets. The Connection Systems division was formed from the 2015 integration of the DSG-Canusa and Shawflex divisions.

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

2.0 Financial Highlights

2.1 Selected Financial Information

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended March 31, 2016	2015
Revenue	**$ 365,579**	$ 471,940
Cost of Goods Sold and Services Rendered	**238,644**	302,915
Gross Profit	**126,935**	169,025
Selling, general and administrative expenses	**83,831**	93,713
Research and development expenses	**4,308**	4,073
Foreign exchange losses (gains)	**1,713**	(3,097)
Amortization of property, plant and equipment	**14,829**	13,743
Amortization of intangible assets	**6,304**	4,977
Income from Operations	**15,950**	55,616
Loss from investments in associates	**(453)**	(111)
Finance costs, net	**(4,744)**	(4,448)
Income before Income Taxes	**10,753**	51,057
Income taxes	**2,598**	12,790
Net Income	**$ 8,155**	$ 38,267
Net Income Attributable to:		
Shareholders of the Company	**7,461**	37,774
Non-controlling interests	**694**	493
Net Income	**8,155**	38,267
Per Share Information:		
Earnings per Share		
Basic	**$ 0.12**	$ 0.59
Diluted	**$ 0.12**	$ 0.58
Cash Dividends per Share:		
Common Shares	**$ 0.15**	$ 0.15

(in thousands of Canadian dollars)	March 31, 2016	December 31, 2015
Total Assets	**$ 1,981,862**	$ 2,145,705
Total Non-current Liabilities	**$ 543,176**	$ 579,839

2.2 EBITDA

(in thousands of Canadian dollars)		Three Months Ended March 31, **2016**		2015
Net Income	**$**	**8,155**	$	38,267
Add:				
Income taxes		**2,598**		12,790
Finance costs, net		**4,744**		4,448
Amortization of property, plant, equipment and intangible assets		**21,133**		18,720
EBITDA[(a)]	**$**	**36,630**	$	74,225

(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. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools. This measure is also considered important by lenders to the Company. It should not be considered in isolation or used as an alternative to net income or any of the other measurers of performance prepared in accordance with GAAP.

2.3 Foreign Exchange Impact

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

	Three Months Ended **March 31, 2016**	December 31, 2015	March 31, 2015
US Dollar	**1.3623**	1.3463	1.2360
Euro	**1.5009**	1.4671	1.4078
British Pounds	**1.9549**	2.0294	1.8817

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)		**Q1-2016 versus Q4-2015**		**Q1-2016 versus Q1-2015**
Revenue	**$**	**(6,828)**	**$**	**8,913**
Income from operations		**(1,960)**		**(1,404)**
Net income	**$**	**(1,819)**	**$**	**(730)**

In addition to the translation impact noted above, the Company recorded a foreign exchange loss of $1.7 million in the first quarter of 2016, compared to a gain of $3.1 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities.

3.0 Business Developments

Acquisition of Lake Superior Consulting

On January 5, 2016, the Company announced that it had acquired the units of Lake Superior Consulting, LLC ("Lake Superior") for approximately $37.9 million inclusive of an 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 had 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 it needs to continually improve its current portfolio of services and to develop value-added solutions. Lake Superior's highly regarded professional team of over 300 engineers, technicians and specialists bring decades of pipeline engineering and operational expertise to Shawcor.

Repurchase of US$78 Million of Senior Notes

In April 2016, the Company utilized a portion of its existing cash balances to repurchase approximately US$78 million of its long-term debt ("Senior Notes") at a purchase price of approximately US$79 million plus accrued interest. The Company had previously announced the repurchase of US$75 million of its Senior Notes and subsequently acquired an additional US$3 million of its Senior Notes.

Amendments to Senior Notes Agreement and Credit Facility

On May 10, 2016, the Company announced that it had entered into amending agreements with its Senior Note holders and the syndicate of lenders under its unsecured bank credit facility (the "Credit Facility"). The principal amendments to the agreements with the Senior Note holders and to the Credit Facility were:

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

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

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

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

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

The Company will incur fees and expenses to implement these amendments of approximately US$1.5 million in the second quarter of 2016. Thereafter, the Company expects that the increased interest rates, standby fees and other amounts payable to the Senior Note holders and under the Credit Facility during the Increased Leverage Period will be more than offset by lower interest charges resulting from the overall debt reduction reflected in the US$78 million repurchase of Senior Notes and by lower standby fees resulting from the US$75 million reduction in the Credit Facility.

4.0 Results from Operations

4.1 Consolidated Information

Revenue

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

	Three Months Ended		
(in thousands of Canadian dollars)	**March 31, 2016**	December 31, 2015	March 31, 2015
Pipeline and Pipe Services	**$ 316,980**	$ 410,791	$ 428,814
Petrochemical and Industrial	**48,873**	45,615	44,240
Elimination[(a)]	**(274)**	(1,146)	(1,114)
Consolidated	**$ 365,579**	$ 455,260	$ 471,940

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

First Quarter 2016 versus Fourth Quarter 2015

Consolidated revenue decreased $89.7 million, or 20%, from $455.3 million during the fourth quarter of 2015 to $365.6 million during the first quarter of 2016, due to a decrease of $93.8 million in the Pipeline and Pipe Services segment, partially offset by an increase of $3.3 million in the Petrochemical and Industrial segment..

Pipeline and Pipe Services segment revenue decreased by $93.8 million, from $410.8 million in the fourth quarter of 2015 to $317.0 million in the first quarter of 2016, 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.

Petrochemical and Industrial segment revenue was higher by $3.3 million, or 7%, in the first quarter of 2016, compared to the fourth quarter of 2015, mainly due to higher revenue in North America and Europe, Middle East, Africa and Russia ("EMAR"), partially offset by lower activity in the Asia Pacific region. See Section 4.2.2 – Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

First Quarter 2016 versus First Quarter 2015

Consolidated revenue decreased by $106.4 million, or 23%, from $471.9 million during the first quarter of 2015, to $365.6 million during the first quarter of 2016, due to a decrease of $111.8 million in the Pipeline and Pipe Services segment, partially offset by an increase of $4.6 million in the Petrochemical and Industrial segment.

Pipeline and Pipe Services segment revenue in the first quarter of 2016 was $317.0 million, or 26% lower than in the first quarter of 2015, due to lower revenue 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.

Petrochemical and Industrial segment revenue increased by $4.6 million, or 11%, during the first quarter of 2016 compared to the first quarter of 2015, due to higher 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.

Income from Operations

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

	Three Months Ended		
(in thousands of Canadian dollars, except Operating Margin)	**March 31, 2016**	December 31, 2015	March 31, 2015
Income from Operations	**$ 15,950**	$ 45,696	$ 55,616
Operating Margin[(a)]	**4.4%**	10.0%	11.8%

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

First Quarter 2016 versus Fourth Quarter 2015

Operating Income in the first quarter of 2016 was $16.0 million and was $29.7 million, or 65%, lower than in the fourth quarter of 2015. Operating Income was impacted by a decrease in gross profit of $24.8 million, an $8.0 million higher net foreign exchange loss, an increase in amortization of property, plant, equipment and intangible assets of $1.1 million and an increase in research and development expenses of $1.7 million. This was partially offset by a decrease in selling, general and administrative ("SG&A") expenses of $5.2 million.

The decrease in gross profit resulted from the decrease in revenue of $89.7 million, as explained above, partially offset by a 1.4 percentage point increase in the gross margin from the fourth quarter of 2015. The increase in the gross margin percentage was primarily due to project and product mix.

SG&A expenses decreased by $5.2 million, from $89.0 million in the fourth quarter of 2015 to $83.8 million in the first quarter of 2016. SG&A expenses decreased primarily due to charges recorded in the fourth quarter of 2015, consisting of a $3.5 million charge for the restructuring costs of Guardian USA, a $5.1 million litigation related provision, an inventory obsolescence provision of $1.6 million and a loss on disposal of fixed assets of $1.1 million. In addition, in the first quarter of 2016, there was a gain on the disposal of fixed assets of $1.0 million and a $1.2 million decrease in professional consulting fees. These sources of SG&A decreases were partially offset by higher personnel related costs of $9.1 million due to the acquisition of Lake Superior and the reversal of accruals for management incentive compensation expenses and defined pension benefits recorded in the fourth quarter of 2015 of $8.2 million and $1.2 million, respectively.

First Quarter 2016 versus First Quarter 2015

Operating Income in the first quarter of 2016 was $16.0 million and was $39.7 million, or 71%, lower than in the first quarter of 2015. Operating income was impacted by a decrease in gross profit of $42.1 million, an increase in net foreign exchange loss of $4.8 million and an increase in amortization of property, plant, equipment and intangible assets of $2.4 million. This was partially offset by a $9.9 million decrease in SG&A expenses.

The decrease in gross profit resulted in part from the decrease in revenue of $106.4 million, as explained above, and a 1.1 percentage point decrease in gross margin. The decrease in the gross margin percentage was primarily due to labour cost inefficiencies due to lower facility utilization and reduced absorption of manufacturing overheads as a result of the decrease in revenue in the Pipeline and Pipe Services segment.

SG&A expenses decreased by $9.9 million in the first quarter of 2016 compared to the first quarter of 2015. The decrease in SG&A expenses was primarily due to a reduction in personnel related costs and management incentive compensation of $8.7 million and a $3.7 million reduction in other costs. This was partially offset by a $2.5 million increase in costs due to the acquisition of Lake Superior.

Finance Costs, Net

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

	Three Months Ended		
(in thousands of Canadian dollars)	**March 31, 2016**	December 31, 2015	March 31, 2015
Interest income	**$ (316)**	$ (276)	$ (200)
Interest expense, other	**914**	808	812
Interest expense on long- term debt	**4,146**	4,196	3,836
Finance costs, net	**$ 4,744**	$ 4,728	$ 4,448

First Quarter 2016 versus Fourth Quarter 2015

In the first quarter of 2016, net finance costs were $4.7 million, compared to net finance costs of $4.7 million during the fourth quarter of 2015. The slight increase in interest income and the slight reduction in interest expense on long-term debt was offset by higher interest expense on other items.

First Quarter 2016 versus First Quarter 2015

In the first quarter of 2016, net finance costs were $4.7 million, compared to net finance costs of $4.4 million during the first quarter of 2015. The increase in net finance costs was primarily a result of higher interest on long term debt due to the strengthening of the US dollar.

Income Taxes

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

	Three Months Ended		
(in thousands of Canadian dollars)	**March 31, 2016**	December 31, 2015	March 31, 2015
Income tax expense	**$ 2,598**	$ 9,653	$ 12,790

First Quarter 2016 versus Fourth Quarter 2015

The Company recorded an income tax expense of $2.6 million (24% of income before income taxes) in the first quarter of 2016 compared to an income tax expense of $9.7 million (24% of income before income taxes) in the fourth quarter of 2015. The effective tax rate in the first quarter of 2016 was lower than the Company's expected effective 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.

First Quarter 2016 versus First Quarter 2015

The Company recorded an income tax expense of $2.6 million (24% of income before income taxes) in the first quarter of 2016 compared to an income tax expense of $12.8 million (25% of income before income taxes) in the comparable period of the prior year. The effective tax rate in the first quarter of 2016 was lower than the Company's expected effective 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.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

	Three Months Ended		
(in thousands of Canadian dollars, except Operating Margin)	**March 31, 2016**	December 31, 2015	March 31, 2015
North America	**$ 137,767**	$ 179,617	$ 203,637
Latin America	**28,147**	35,250	37,488
EMAR	**128,514**	161,728	130,879
Asia Pacific	**22,552**	34,196	56,810
Total Revenue	**$ 316,980**	$ 410,791	$ 428,814
Operating Income	**$ 16,193**	$ 38,268	$ 55,117
Operating Margin[(a)]	**5.1%**	9.3%	12.9%

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

First Quarter 2016 versus Fourth Quarter 2015

First quarter 2016 revenue decreased by $93.8 million, or 23%, to $317.0 million, from $410.8 million in the fourth quarter of 2015. All regions experienced lower activity levels:

- In North America, revenue decreased by $41.9 million, or 23%, as a result of reduced levels of large diameter pipe coating in Canada and the US and lower volumes of small diameter pipe coating in Canada, lower flexible composite pipe volumes, lower activity levels in tubular management services in Canada and decreased pipe weld inspection service revenue in the USA. This was partially offset by revenue generated by the newly acquired Lake Superior business.
- Latin America revenue decreased by $7.1 million, or 20%, primarily as a result of lower activity levels in Mexico at the Veracruz facility and at the Company’s Argentina facilities.
- In EMAR, revenue decreased by $33.2 million, or 21%, primarily due to the winding down of the Shah Deniz project in the Caspian and decreased activity levels at Orkanger, Norway and at Leith, Scotland. This was partially offset by higher revenues at Ras Al Khaimah, UAE (“RAK”) and at the Pozzallo, Italy facility.
- In Asia Pacific, revenue decreased by $11.6 million, or 34%, mainly due to a decrease in pipe coating project activity at the Kabil, Indonesia facility and lower pipe weld inspection service revenue in the region. This was partially offset by higher activity levels at the Kuantan, Malaysia facility.

In the first quarter of 2016, Operating Income was $16.2 million compared to $38.3 million in the fourth quarter of 2015, a decrease of $22.1 million, or 58%. The lower Operating Income was the result of a $24.0 million decrease in gross profit, primarily due to the decrease in revenue of $93.8 million, as explained above, partially offset by a 2.4 percentage point increase in gross margin due to project and product mix and the impact of the Company’s restructuring efforts. The reduction in gross profit was partially offset by lower SG&A expenses, as explained in section 4.1 above.

First Quarter 2016 versus First Quarter 2015

Revenue was $317.0 million in the first quarter of 2016, a decrease of $111.8 million, or 26%, from $428.8 million in the comparable period of 2015. All regions experienced lower activity levels:

- In North America, revenue decreased by $65.9 million, or 32%, as a result of lower large and small diameter pipe coating activity level in Canada and the US, lower flexible composite pipe volumes, lower activity levels in tubular management services in Canada and decreased pipe weld inspection service revenue in the USA. This was partially offset by revenue generated by the newly acquired Lake Superior business.
- In Latin America, revenue decreased by $9.3 million, or 25%, primarily due to decreased activity at the pipe coating facilities in Monterrey and Coatzacoalcos, Mexico and the Company’s Argentina facilities. This was partially offset by increased activity levels at the Veracruz, Mexico facility.
- EMAR revenue decreased by $2.4 million, or 2%, primarily due to lower activity levels at RAK, Orkanger, Norway, the Shah Deniz II project in the Caspian and the Company’s Italian facilities. This was partially offset by higher activity at the Leith, Scotland facility and field joint projects in the region.
- Asia Pacific revenue decreased by $34.3 million, or 60%, primarily due to the lower volumes associated with a lack of large projects at both Kabil, Indonesia and Kuantan, Malaysia.

In the first quarter of 2016, Operating Income was $16.2 million, $38.9 million lower than the Operating Income of $55.1 million in the first quarter of 2015. The lower Operating Income was the result of a $41.6 million decrease in gross profit, partly due to the decrease in revenue of $111.8 million, as explained above, and a 0.3 percentage point decrease in gross margin due to unfavourable project and product mix. The reduction in gross profit was partially offset by lower SG&A expenses, as explained in section 4.1 above.

4.2.2 Petrochemical and Industrial Segment

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

(in thousands of Canadian dollars, except Operating Margin)	Three Months Ended **March 31, 2016**	December 31, 2015	March 31, 2015
North America	**$ 29,611**	$ 27,062	$ 25,506
EMAR	**16,508**	15,424	16,316
Asia Pacific	**2,754**	3,129	2,418
Total Revenue	**$ 48,873**	$ 45,615	$ 44,240
Operating Income	**$ 7,595**	$ 7,279	$ 6,261
Operating Margin[(a)]	**15.5%**	16.0%	14.2%

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

First Quarter 2016 versus Fourth Quarter 2015

In the first quarter of 2016, revenue increased by $3.3 million, or 7%, to $48.9 million, compared to the fourth quarter of 2015, primarily due to higher shipments of heat shrink tubing products in North America and EMAR and higher shipments of wire and cable products to the North American electrical utilities and other industrial customers.

Operating Income of $7.6 million in the first quarter of 2016 was $0.3 million, or 4%, higher than in the fourth quarter of 2015. The increase in Operating Income was primarily due to a $0.2 million increase in gross profit on higher sales, as explained above.

First Quarter 2016 versus First Quarter 2015

First quarter 2016 revenue totaled $48.9 million compared to $44.2 million in the first quarter of 2015, an increase of $4.6 million, or 10%. The increase was driven by higher heat shrink tubing product volumes in North America and Asia Pacific and higher shipments of wire and cable products to North American industrial customers.

Operating Income in the first quarter of 2016 was $7.6 million compared to $6.3 million in the first quarter of 2015, an increase of $1.3 million. The increase in Operating Income was mainly due to the $1.0 million reduction in SG&A expenses.

4.2.3 Financial and Corporate

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

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

(in thousands of Canadian dollars)	Three Months Ended **March 31, 2016**	December 31, 2015	March 31, 2015
Financial and Corporate	**$ (6,125)**	$ (5,543)	$ (8,859)

First Quarter 2016 versus Fourth Quarter 2015

Financial and corporate costs increased by $0.6 million from $5.5 million during the fourth quarter of 2015 to $6.1 million in the first quarter of 2016. The increase was due to a $3.8 million increase in stock based and long term management incentive compensation expenses and a $1.2 million increase in employee defined benefit costs, primarily due to the reversal of accruals in the fourth quarter of 2015. This was partially offset by a $4.1 million decrease in professional consulting fees, information technology and other personnel related expenses in the first quarter of 2016.

First Quarter 2016 versus First Quarter 2015

Financial and corporate costs decreased by $2.7 million from the first quarter of 2015 to $6.1 million in the first quarter of 2016. This was primarily due to a $2.4 million decrease in personnel related costs in the first quarter of 2016 versus the prior year.

5.0 Liquidity and Capitalization

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

	Three Months Ended March 31,	
(in thousands of Canadian dollars)	**2016**	2015
Net Income	**$ 8,155**	$ 38,267
Non-cash items	**22,557**	28,054
Settlement of decommissioning obligations	**(3)**	(6)
Settlement of other provisions	**(7,739)**	(1,207)
Change in employee future benefits	**603**	324
Change in non-cash working capital and foreign exchange	**61,896**	(49,137)
Cash provided by operating activities	**85,469**	16,295
Cash used in investing activities	**(43,398)**	(33,949)
Cash used in financing activities	**(9,511)**	(11,250)
Effect of foreign exchange on cash and cash equivalents	**(15,028)**	9,967
Net increase (decrease) in cash and cash equivalents	**17,532**	(18,937)
Cash and cash equivalents, beginning of period	**260,645**	116,556
Cash and Cash Equivalents at End of period	**$ 278,177**	$ 97,619

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

First Quarter 2016 versus First Quarter 2015

Cash provided by operating activities was $85.5 million in the first quarter of 2016, an improvement of $69.2 million from the first quarter of 2015. The improvement was due to an increase in cash provided by non-cash working capital and foreign exchange of $111.0 million, partially offset by a reduction in net income of $30.1 million and a decrease in non-cash items of $5.5 million. The increase in cash provided by non-cash working capital and foreign exchange reflected net decreases in accounts receivable of $143.4 million, in inventory of $49.8 million and in taxes receivable of $4.5 million. This was partially offset by net decreases in accounts payable and accrued liabilities of $41.7 million, in deferred revenue of $24.5 million and a change in the movement of foreign currency items of $28.6 million. Net income decreased primarily due to the reasons discussed in section 4.1 above.

5.2 Cash Used in Investing Activities

First Quarter 2016 versus First Quarter 2015

Cash used in investing activities increased by $9.5 million, from $33.9 million in the first quarter of 2015 to $43.4 million in the first quarter of 2016. The increase is attributed to higher spending on business acquisitions of $8.5 million, an increase in the purchase of property, plant and equipment net of proceeds of $2.3 million, partially offset by a decrease in short-term investments of $1.3 million.

5.3 Cash Used in Financing Activities

First Quarter 2016 versus First Quarter 2015

Cash used in financing activities decreased by $1.7 million, from $11.2 million in the first quarter of 2015 to $9.5 million in the first quarter of 2016. This was mainly due to an increase of $0.5 million from the issuance of shares, a $2.3 million decrease in net loan repayments and a $0.3 million decrease in capital lease payments, partially offset by a $1.4 million decrease in bank indebtedness.

5.4 Liquidity and Capital Resource Measures

Accounts Receivables

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

(in thousands of Canadian dollars, except DSO)		**March 31, 2016**		December 31, 2015		Change
Average trade accounts receivable	**$**	**245,334**	$	301,966	$	(56,632)
DSO[a]		**60**		60		–

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

Average trade accounts receivables decreased by $56.6 million, from $302.0 million as at December 31, 2015 to $245.3 million as at March 31, 2016, as a result of decreased revenue in the first quarter of 2016 compared with the fourth quarter of 2015. DSO remained the same at 60 days during the first quarter of 2016 as compared to the fourth quarter of 2015.

Inventory

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

(in thousands of Canadian dollars)		**March 31, 2016**		December 31, 2015		Change
Inventory	**$**	**131,668**	$	167,557	$	(35,889)

Inventories decreased by $35.9 million, from $167.6 million as at December 31, 2015 to $131.7 million as at March 31, 2016, as a result of decreases in raw materials and supplies of $22.0 million, work-in-process of $3.9 million and finished goods inventory of $11.3 million, partially offset by a decrease in inventory obsolescence of $1.4 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)		**March 31, 2016**		December 31, 2015		Change
Average accounts payable and accrued liabilities	**$**	**276,237**	$	288,383	$	(12,146)
DPO[(a)]		**104**		86		18

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

Average accounts payable and accrued liabilities decreased by $12.2 million, from $288.4 million as at December 31, 2015, to $276.2 million as at March 31, 2016. DPO increased by 18 days from 2015 levels, due to changes in the timing of purchases and delayed payments in the first quarter of 2016 compared with the fourth quarter of 2015.

5.5 Unsecured Credit Facilities

(in thousands of Canadian dollars)		**March 31, 2016**		December 31, 2015
Standard letters of credit for performance, bid and surety bonds	**$**	**81,363**	$	132,052
Total utilized credit facilities		**81,363**		132,052
Total available credit facilities[(a)]		**586,170**		623,970
Unutilized credit facilities	**$**	**504,807**	$	491,918

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

On March 20, 2013, the Company renewed its 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, 2015, the option to increase the credit limit to US$400 million was exercised with the consent of the lenders and a new option to increase the credit limit to US $550 million with the consent of the lenders was added. The Company pays a floating interest rate on this credit facility that is a function of the Company's Total Debt to EBITDA ratio. Allowable credit utilization outside of this facility is US $50 million. In May 2016, the Company entered into agreements to, among other things, reduce the size of its Credit Facility and to amend certain covenants under the Credit Facility and its Senior Notes. Please refer to Section 3.0 for a description of the reduction in the size of Credit Facility.

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 Total Debt to EBITDA ratio of less than 3.00 to 1. The Company was in compliance with these covenants as at March 31, 2016 and December 31, 2015. Please refer to section 3.0 for a description of the changes made to the debt covenants under the Credit Facility and Senior Notes during May 2016.

5.6 Senior Notes

The total Senior Notes balance as at March 31, 2016 is $455.7 million (US$350.0 million) (December 31, 2015 – $485.1 million (US$350.0 million)). The Senior Notes have been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 5 in the interim consolidated financial statements.

The Company has undertaken to maintain certain covenants in respect of the Senior Notes that are consistent with the debt covenants described for the Company's Credit Facility. The Company was in compliance with these covenants as at March 31, 2016 and December 31, 2015. Please refer to section 3.0 for a description of the Senior Note repayments made in April 2016 and the changes made to the debt covenants under the Senior Notes agreement during May 2016.

5.7 Contingencies and Off Balance Sheet Arrangements

Commitments and Contingencies

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

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

(in thousands of Canadian dollars)	2016	2017	2018	2019	2020	After 2020	Total
Purchase commitments	$ 32,701	$ –	$ –	$ –	$ –	$ –	$ 32,701
Accounts payable	90,713	–	–	–	–	–	90,713
Deferred purchase consideration	10,584	–	–	–	–	–	10,584
Long-term debt	–	–	–	–	130,260	325,468	455,728
Finance costs on long-term debt	6,608	13,206	13,215	13,216	11,606	43,350	101,201
Obligations under finance leases	1,060	1,092	1,082	1,072	1,072	8,487	13,865
Operating leases	19,455	14,933	12,816	9,408	7,046	22,308	85,966
Total contractual obligations	$ 161,121	$ 29,231	$ 27,113	$ 23,696	$149,984	$ 399,613	$ 790,758

Legal Claims

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

Performance, Bid and Surety Bonds

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

The Company's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of $81.4 million as at March 31, 2016 (December 31, 2015 – $132.1 million) for support of its bonds. In addition, as at March 31, 2016, the Company had $125.3 million of outstanding surety bonds through insurance companies (December 31, 2015– $130.8 million). In May 2016, the Company entered into agreements to, among other things, reduce the size of its Credit Facility and to amend certain covenants under the Credit Facility and its Senior Notes. Please refer to Section 3.0 for a description of the reduction in the size of Credit Facility.

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 March 31, 2016:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	**$ 278,177**	**$ 278,177**	**$ –**	**$ –**
Short-term investments	**2,778**	**2,778**	**–**	**–**
Derivative financial instruments	**643**	**–**	**643**	**–**
Convertible preferred shares	**10,000**	**–**	**–**	**10,000**
Deposit guarantee	**903**	**–**	**903**	**–**
	$ 292,501	**$ 280,955**	**$ 1,546**	**$ 10,000**
Liabilities				
Deferred purchase consideration	**10,584**	**–**	**10,584**	**–**
Long-term debt	**416,863**	**–**	**416,863**	**–**
Derivative financial instruments	**2,247**	**–**	**2,247**	**–**
	$ 429,694	**$ –**	**$ 429,694**	**$ –**

The derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market.

Financial Risk Management

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

<u>Foreign Exchange Risk</u>

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are based in foreign currencies. As a result, the Company’s consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at March 31, 2016, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company’s consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the quarter ended by approximately $15.2 million, $1.4 million and $1.3 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company’s consolidated total assets, consolidated total liabilities and consolidated total equity by $81.1 million, $21.1 million and $60.0 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 March 31, 2016:

(in thousands, except weighted average rate amounts)	
Canadian dollars sold for US dollars	
Less than one year	**C$ 8,386**
Weighted average rate	**0.75**
US dollars sold for Canadian dollars	
Less than one year	**US$ 13,800**
Weighted average rate	**1.30**
US dollars sold for Euros	
Less than one year	**US$ 16,479**
Weighted average rate	**0.89**
Euros sold for US dollars	
Less than one year	**€ 28,560**
Weighted average rate	**1.12**
Norwegian Kroners sold for US dollars	
Less than one year	**NOK 161,359**
Weighted average rate	**0.12**

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

As at March 31, 2016, the Company had notional amounts of $115.1 million of foreign exchange forward contracts outstanding (December 31, 2015 – $145.7 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling $1.6 million (December 31, 2015 – $1.0 million net gain).

Net Investment Hedge

The Company’s Senior Notes have been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the US dollar as its functional currency. During the quarter ended March 31, 2016, a gain of $29.4 million on the translation of the Senior Notes was transferred to other comprehensive income to offset the losses on translation of the net investment in the US dollar functional currency subsidiary. There was no ineffectiveness of this hedge for the quarter ended March 31, 2016.

Interest Rate Risk

The following table summarizes the Company’s exposure to interest rate risk as at March 31, 2016:

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial assets				
Cash equivalents	**$ –**	**$ –**	**$ 41,054**	**$ 41,054**
Short-term investments	**2,778**	**–**	**–**	**2,778**
Loans receivable	**180**	**4,893**	**2,493**	**7,566**
Convertible preferred shares	**10,000**	**–**	**–**	**10,000**
	$ 12,958	**$ 4,893**	**$ 43,547**	**$ 61,398**
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	**$ 81,363**	**$ –**	**$ –**	**$ 81,363**
Long-term debt	**–**	**–**	**455,728**	**455,728**
	$ 81,363	**$ –**	**$ 455,728**	**$ 537,091**

The Company’s interest rate risk arises primarily from its floating rate on its loans receivable and is not currently considered to be material.

Credit Risk

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

For the quarter ended March 31, 2016, the Company had no customer who generated revenue greater than 10% of total consolidated revenue.

Liquidity Risk

The Company’s objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at March 31, 2016, the Company had cash and cash equivalents totalling $278.2 million (December 31, 2015 – $260.6 million) and had unutilized lines of credit available to use of $504.8 million (December 31, 2015 - $491.9 million).

5.9 Outstanding Share Capital

As at May 6, 2016, the Company had 64,594,349 common shares outstanding. In addition, as at May 6, 2016, the Company had stock options and share units outstanding to purchase up to 2,068,647 common shares.

5.10 Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

5.11 Transactions with Related Parties

The Company had no material transactions with related parties in the first quarter of 2016. All related party transactions were in the normal course of business.

6.0 Critical Accounting Judgments, Estimates and Accounting Policy Developments

6.1 Critical Judgments

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

Materiality

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

Determination of Reportable Operating Segments

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

Determination of Cash Generating Unit (“CGU”)

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

Business Acquisitions

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

Provisions and Contingent Liabilities

As at March 31, 2016, the Company had $59.5 million of provisions; of this amount $19.2 million was included in current liabilities and $40.3 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

Decommissioning liabilities

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

Income Taxes

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

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

6.2 Critical Accounting Estimates

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

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

As at March 31, 2016, the Company had $1,155.2 million of long-lived assets and goodwill. The Company evaluates the carrying values of the Cash Generating Units' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions and estimates.

Employee Future Benefit Obligations

As at March 31, 2016, the Company had $23.4 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 March 31, 2016, the Company had decommissioning liabilities in the amount of $31.5 million; of this amount $7.8 million was included in the current provisions account and $23.7 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

Financial Instruments

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

Income Taxes

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

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

6.3 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*, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. *IFRS 15* is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of reviewing the standard to determine the impact on the interim consolidated financial statements.

IFRS 16 – Leases

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

6.4 New Accounting Standards Adopted

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

In May 2014, the IASB issued amendments to *IAS 16* and *IAS 38*, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The adoption of these amendments did not have a material impact on the consolidated financial statements.

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

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

7.0 Outlook

The Company noted in the Outlook included in Shawcor's 2015 Annual Management's Discussion and Analysis that the decline in global oil and gas prices has had two significant impacts on the Company's business. First, it has caused a reduction in expenditures by customers on the drilling and completion of wells which has particularly impacted Shawcor's Pipeline and Pipe Services Segment - North America region. Second, lower oil prices have contributed to the curtailment in large oil and gas greenfield development projects which in turn has impacted the international regions of the Pipeline and Pipe Services Segment. These trends are continuing with the result that the Company's financial performance will decline materially during the second quarter and the Company expects to report a significant operating loss. In the third quarter, performance will benefit from the launch of flow assurance gathering line coating for the Shah Deniz project, however, revenue and earnings are likely to continue to lag first quarter levels.

The Company is encouraged by the strong level of current bidding activity as noted below; 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. Further detail on the outlook for the Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is set out below.

Pipeline and Pipe Services Segment - North America

Shawcor's North American Pipeline segment businesses continue to be impacted by the reduction in well completion activity in North America which has reduced demand for small diameter pipe coating and joint protection, Flexpipe composite pipe, Guardian OCTG pipe inspection and refurbishment and Desert NDT gathering line girth weld inspection. Demand for these products and services is expected to continue to decline until global oil prices exhibit sustained increases and the number of wells drilled and completed begins to increase. The Company does not expect this to happen until 2017 at the earliest.

Also contributing to an expected decline in revenue and earnings in the Company's North American Pipeline segment during 2016 will be a slowdown in the build of new large diameter transmission pipeline infrastructure, partially as a result of regulatory delays and partially due to capital expenditure constraints by pipeline operators. This weakness, coupled with the weakness 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 during the balance of 2016 despite the addition of approximately US$45 million in revenue from the January 2016 acquisition of Lake Superior.

Pipeline and Pipe Services Segment - Latin America

Consistent with all of the Company's Pipeline segment regions, lower spending on oil and gas infrastructure by our clients translated into a reduction in new project activity in the first quarter, which is expected to continue throughout 2016. In 2017, the possibility exists that revenue will recover strongly if the Company is awarded a very large project in Mexico that it 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 end of the third quarter. If our bid is successful, the project has the potential to be a significant contributor to revenue and earnings growth in 2017.

Pipeline and Pipe Services Segment - EMAR

With the completion of the concrete coating component of the Shah Deniz project and the near completion of the two South Stream pipe coating projects that have been key contributors to strong performance at the Company's EMAR region, a substantial decline in activity in the EMAR region is expected for the balance of 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 best opportunity for enhanced activity in 2017 and 2018.

Pipeline and Pipe Services Segment - Asia Pacific

In the first quarter of 2016, the global trend of curtailment in large oil and gas greenfield development projects has impacted the Asia Pacific region. The reduced level of activity is expected to continue in the second quarter but will improve in the second half of 2016 with the launch of contracted flow assurance gathering line coating for the Shah Deniz project at one of the region's facilities. Beyond 2016, 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 continue to deliver steady growth in revenue and earnings based on consistent demand growth in the North American and European automotive, industrial and nuclear refurbishment markets served by the segment's business units. 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 March 31, 2016 decreased to $358 million from $452 million at December 31, 2015 and from $703 million a year ago. The decline in backlog from the start of the first 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 and the value of outstanding firm bids as of March 31, 2016 was approximately $2.0 billion. In addition, the Company has provided budgetary estimates and is currently working with customers on projects with aggregate values of approximately of $0.6 billion. At approximately $2.6 billion, the current level of project activity that the Company is pursuing is unprecedented in our history. Not surprisingly, a number of the projects 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. However, several of the largest projects the Company is bidding are long term natural gas pipeline infrastructure projects for which the likelihood that the projects will advance, even in the current commodity price environment, is high. Confirmation that the projects will proceed and the likelihood of the Company securing one or more, should be known by the end of the third quarter of this year.

8.0 Risks and Uncertainties

Operating in an international environment, servicing predominantly the oil and gas industry, Shawcor faces a number of business risks and uncertainties that could materially and adversely affect the Company's projections, business, results of operations and financial condition. A more complete outline of the risks and uncertainties facing the Company is included in the annual MD&A contained in the Company's 2015 Annual Report. There were no other material changes in the nature or magnitude of such business risks during the quarter**.**

9.0 Environmental Matters

As at March 31, 2016, the provisions on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $31.5 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 $34.5 million as at March 31, 2016. 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)		**March 31, 2016**
2016	**$**	7,832
2017		325
2018		2,445
2019		3,263
2020		3,474
More than five years		17,178
	$	34,517

10.0 Reconciliation of Non-GAAP Measures

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

EBITDA

(in thousands of Canadian dollars)		Three Months Ended March 31, 2016	2015
Net income for the period	$	**8,155**	38,267
Add:			
Income tax expense		**2,598**	12,790
Finance costs, net		**4,744**	4,448
Amortization of property, plant, equipment and intangible assets		**21,133**	18,720
EBITDA[(a)]	$	**36,630**	74,225

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

EBITDA is a non-GAAP measure defined as earnings before interest, income taxes, depreciation and amortization. The Company believes that EBITDA is a useful supplemental measure that provides 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.

Days Sales Outstanding

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

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

(in thousands of Canadian dollars, except DSO)		**March 31, 2016**		December 31, 2015
Revenue for the quarter	**$**	**365,579**	$	455,260
Average trade accounts receivable	**$**	**245,334**	$	301,966
DSO		**60**		60

Days Payables Outstanding

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.

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

(in thousands of Canadian dollars, except DPO)		**March 31, 2016**		December 31, 2015
Cost of goods sold and services rendered for the quarter	**$**	**238,644**	$	303,510
Average accounts payable and accrued liabilities	**$**	**276,237**	$	288,383
DPO		**104**		86

11.0 Summary of Quarterly Results

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

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

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

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

The Company's operations in the Pipeline and Pipe Services segment, representing approximately 87% of the Company's consolidated revenue, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services market segment. The comparability of the quarterly information disclosed above is also impacted by movements in exchange rates as the majority of the Company's revenue is transacted in currencies other than Canadian dollars, primarily US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars.

12.0 Forward-Looking Information

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

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

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

13.0 Additional Information

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

May 11th, 2016