STRONG FUNDAMENTALS

FUNDAMENTAL STRENGTHS

ShawCor

2012 ANNUAL REPORT

Characterized by steadily growing demand and rapid depletion of conventional reserves, the industry we serve is exploring new technologies and new frontiers to meet global energy challenges. These trends play directly to ShawCor's strengths as the world's largest provider of advanced pipeline coatings and related energy services. This year's report takes a look at the combination of strong industry fundamentals and fundamental corporate strengths that will sustain ShawCor's record-breaking performance in the future.

The Bredero Shaw pipecoating plant in Kuantan, Malaysia, one of the largest facilities of its kind in the world.

Financial and Operating Highlights

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.

2012 Highlights (in Canadian dollars)

1.48 B

REVENUE

178.4 M

NET INCOME
(attributable to shareholders of the Company)

2.73 B

MARKET CAPITALIZATION AS OF DEC. 31 2012

Financial Summary

Year ended December 31 (in thousands of Canadian dollars)	2012	2011
OPERATING RESULTS		
Revenue	**$ 1,482,849**	$ 1,157,265
EBITDA	**266,886**	128,168
Income from operations	**212,226**	83,907
Net income NOTE 1	**$ 178,418**	$ 56,280
Earnings per share, Class A and Class B – basic	**$ 2.53**	$ 0.79
Earnings per share, Class A and Class B – diluted	**$ 2.50**	$ 0.78
CASH FLOW		
Cash provided by operating activities	**$ 530,091**	$ 45,325
FINANCIAL POSITION		
Working capital	**$ 326,296**	$ 287,142
Total assets	**$ 1,927,569**	$ 1,226,749
Equity per share (Class A and Class B)	**$ 14.32**	$ 12.29

NOTE 1: Attributable to shareholders of the Company

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 eight business units with more than seventy-five manufacturing and service facilities employing over 8,000 people around the world.

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Record-breaking Performance

During 2012, ShawCor generated record breaking revenue of $1.48 billion, a 28 percent increase over 2011, record net income of $178.4 million, a 217 percent improvement over the prior year, and entered 2013 with a record 12 month backlog of $850 million. Five of ShawCor's business units achieved record revenue in 2012 including Bredero Shaw, Flexpipe Systems, Canusa-CPS, Guardian and ShawFlex. The Company's exceptional performance in 2012 was driven by higher revenue, higher gross margins and higher utilization rates at many of our facilities. I am also pleased to report that ShawCor's commitment to its HSE Program has resulted in improved Health & Safety performance across the Company and the achievement of our Incident and Injury Free (IIF) goal at 50 of our locations in 2012.

WILLIAM P. BUCKLEY
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

In the Pipeline and Pipe Services segment, revenue was up 31 percent to a record $1.34 billion, due to significantly higher activity at Bredero Shaw and at Flexpipe Systems. Revenue in the Petrochemical and Industrial segment, at $147.1 million, was up 7 percent over the prior year.

During 2012, Bredero Shaw commenced production on the $500 million Inpex Ichthys project and the $170 million Chevron Wheatstone trunkline and flow lines projects, with the majority of work on these contracts expected to extend through this year and into 2014. We also started or continued work on five other major pipe coating projects around the world ranging in value from $40 million to $80 million. In addition, a substantial portion of ShawCor's revenue comes from orders that are less than $20 million in value. These smaller orders are often secured through long-term frame agreements and form a strong and stable base of business that typically does not impact the backlog as they are usually executed shortly after receipt.

ShawCor's other businesses also contributed to our record performance in 2012, led by healthy sales gains at Flexpipe Systems. This division continued to grow its market share in North America while expanding its international coverage to meet the demands of new overseas customers.

Other highlights during the year included increased usage of the Canusa-CPS IntelliCOAT® automated sleeve installation technology and the application of the ShawCor Simulated Service Vessel (SSV) to validate pipeline design criteria for the Wasit, Goliat and Wheatstone projects and to conduct validation tests for a new, high temperature version (120°C) of Bredero Shaw's Thermotite® Ultra™ deepwater insulation system. The Brigden® portable coating plant completed the Jack/St. Malo Project in Beaumont, Texas and Bredero Shaw also mobilized two Compression Coat Technology (CCT) portable concrete coating plants to La Brea, Trinidad where they are being used on a major project for Technip.

As mentioned, ShawCor's Health & Safety performance improved during 2012 with a reduction in the Total Recordable Case Frequency rate of 7 percent while incident severity was reduced by 5 percent compared to the 2011 levels. A majority of the Company's locations, 50 out of 86, were IIF during 2012 and our largest division, Bredero Shaw, achieved its best safety performance ever.

A WINNING GROWTH STRATEGY

ShawCor has grown into the world's largest provider of advanced pipeline coatings, with a family of eight energy service businesses that hold leading positions in their respective markets. This growth has been achieved by emphasizing the unique differences that set the Company apart from its competitors. Our success has been driven by expanding strategic capabilities, a commitment to technological leadership in the industries we serve, an unwavering focus on superior execution and a culture of continuous improvement throughout our organization. With over 80 strategically located facilities in 25 countries, ShawCor provides customers with industry-leading logistics advantages. Many of the Company's pipe coating facilities are co-located with pipe mills or at deepwater ports on supply lines from the pipe mills to the major petroleum basins. Examples include our Kabil, Indonesia and Kuantan, Malaysia coating operations where recent investments in additional deepwater berths provide the capacity to meet the requirements of the largest projects. By offering complete pipe mill to pipeline logistics, the broadest array of highly differentiated products and redundant back-up facilities, ShawCor provides customers with both reduced project construction risk and pipeline performance risk. Together, these attributes represent what we call The ShawCor Difference and they continue to guide our efforts to build a larger and even more successful company.

In 2012, we welcomed Socotherm to the ShawCor family as our eighth operating business following the acquisition of the remaining 60 percent interest in the holding company, Fineglade Limited. The second largest provider of advanced pipeline coatings in the world, Socotherm has strengthened ShawCor's global market presence through strategic locations in Europe, South America and the U.S.A., while providing complementary expertise and technological capabilities in deepwater pipeline insulation systems.

Closer to home, we also continued to support the ongoing success of Flexpipe Systems, a business acquired in 2008, whose innovative flexible composite pipe solutions have earned growing acceptance in the rapidly expanding shale oil and gas markets. Our growth strategy for Flexpipe, including broadening the product line by offering higher pressure and temperature capabilities and entering new markets, paid dividends in 2012 as the division achieved record levels of revenue and operating income. In order to sustain this growth, the division added an additional 178,000 square foot facility in Calgary to provide increased manufacturing space for new products and keep pace with North American demand as well as strong sales growth in Australia, Latin America and other international markets.

We are also experiencing strong growth at Guardian, a leading provider of tubular management solutions with a steadily expanding presence in North America's major shale plays. In 2012, Guardian expanded into the Eagle Ford Shale and Permian basins through the acquisition of the assets and business of Magnum Tubular Inspection, LLC in Texas.

While the current and projected pace of pipeline construction bodes well for ShawCor's pipeline coating and related energy services businesses, we also see growing opportunities in the pipeline rehabilitation market. Currently, 10 percent of the Company's North American pipe coating is for pipeline replacement and this is expected to grow as more aging infrastructure is replaced. ShawCor intends to focus increased resources on the development of unique new products to serve this growth market.

These investments are consistent with our focus on the highest growth segments of the energy industry. Today, we have a strong and expanding presence in each of the fastest growing pipeline markets including offshore, deepwater, oil sands, shale plays, enhanced recovery, LNG energy production, pipeline rehabilitation and potable water.

THE PROMISING ROAD AHEAD

ShawCor continued to win most of the major pipe-coating contracts awarded around the world during the past year, as evidenced by the growth in our 12-month backlog. It reached a record $850 million at year end 2012, up $302 million from our previous record year-end backlog of $548 million on December 31, 2011. Including the value of booked orders extending beyond the 12-month time horizon, the Company had a total order book of approximately $1.0 billion at the end of 2012. A list of the more than $1.0 billion in major new projects ShawCor won in 2011 and 2012 can be found on page 12 of this report.

Growth, combined with increasingly rapid depletion of existing reserves, is encouraging the world's energy producers to turn their attention to the new frontiers of energy production to fill the gap in energy supply.

Global energy infrastructure investment is anticipated to remain strong over the next five years and we expect to win a substantial share of the major pipecoating contracts. Pipe coatings represent less than 10 percent of the total installed cost of oil or gas pipelines, but address two high risk issues that could impact pipeline owners and operators: the importance of on-time delivery to the construction schedule and the vital impact that coatings have on the integrity and performance of the pipeline over its working life. As a trusted partner with a hard-earned reputation for superior execution and technological leadership along with a strong record for performance and a leading global position in all of the high growth segments of the pipeline industry, ShawCor is a first-choice supplier on many of the world's leading energy projects.

At the same time, our prospects continue to improve, buoyed by the strong fundamentals of the industry we serve. Environmental concerns continue to support the increased use of clean burning natural gas. With energy projects becoming increasingly complex and costly, leading oil and gas producers are relying on energy services suppliers like ShawCor to provide the technologies needed to ensure such projects are successful.

Energy demand is projected to grow steadily over the next few decades, led by the developing nations of the world. This growth, combined with increasingly rapid depletion of existing reserves, is encouraging the world's energy producers to turn their attention to the new frontiers of energy production to fill the gap in energy supply. This will require growing investment in pipeline infrastructure and ShawCor will be at the forefront of this activity, with a strong global presence and the unrivalled capabilities that are necessary to lower project construction risk, optimize pipeline performance and enable the safe and reliable transportation of hydrocarbon energy to world markets.

SHARE REORGANIZATION

As noted in the letter from the Chair, Virginia Shaw, the Company has recently completed a share reorganization, resulting in the conversion of the Company's share structure to a single class of common shares. The reorganization provides a number of benefits to the Company and its stakeholders including 1. allowing the Company to eliminate the Class B Shares and dual class share structure, thereby transferring control to the general market; 2. providing a widely held single class share structure, which is expected to increase the shareholder base and enhance liquidity for shareholders; 3. providing earnings per share accretion on a pro-forma basis of approximately 12.8 percent; 4. ensuring increased diversification of the shareholder base as many investment mandates exclude investment in companies with dual class share structures; 5. providing the Company with enhanced financing flexibility going forward; and 6. enabling payment to all remaining shareholders after completion of the transaction of a $1.00 per share special dividend.

In order to fund the share reorganization, the Company has issued $350 million in investment grade senior notes at an attractive weighted average 3.65 percent interest rate with a weighted average 10.4-year term. With a capital structure post-transaction that is both appropriate and efficient, including our cash balances and available committed credit lines in excess of $165 million, ShawCor is well positioned to execute the Company's growth agenda, including potential future acquisitions.

In closing, I would like to express my appreciation to each of ShawCor's more than 8,000 employees for helping the Company achieve new records for financial and safety performance. I would also like to thank our customers, suppliers and other business partners for their continued support. As always, the active guidance of ShawCor's Board of Directors has been instrumental to our success. In particular, on behalf of ShawCor's employees and the Board, I wish to thank Virginia Shaw for her unfailing leadership, encouragement and support as a Director, Vice Chair and Chair of the Company over the past 19 years. During this period, ShawCor has established itself as a global leader in pipe coatings and related energy services and created a solid foundation for continuing success in the years ahead.

Sincerely,

WILLIAM P. BUCKLEY

PRESIDENT AND CHIEF EXECUTIVE OFFICER

A Personal Letter from Virginia Shaw

Since becoming a public company in 1969, ShawCor has grown into the world's largest provider of advanced pipeline coatings, with a family of complementary energy service businesses that hold leading positions in their respective markets. This growth has been a result of the hard work and dedication of many employees at ShawCor and its predecessor companies throughout this 44-year period.

The growth story began well before the Company became a publicly traded entity. In the early 1950s my grandfather, Francis E. Shaw, foresaw the advantages of pre-coating pipe prior to shipment to the pipeline right-of-way. Along with my father, Leslie E. Shaw, he opened the Company's first coating facilities in Toronto and south-western Ontario to serve the needs of the gas distribution networks across the province. Subsequently, coating facilities were opened in Western Canada and, by the mid-1960s, the first international coating operations were established in Venezuela, Mexico and Australia. During this period, my father, Leslie Shaw, and my uncle, JR Shaw, joined the family business with my father becoming President of the Company in 1968 and Chair in 1987.

It was also during this period that the company began to broaden its product offering and the markets that it served with the establishment of the predecessor companies of ShawFlex in 1960 and Canusa-CPS in 1967. In February 1969, Shaw Pipe Industries Ltd. became a public company listed on the Toronto Stock Exchange with my uncle, JR Shaw, as Chair and my father, Leslie Shaw, as President and CEO. At that time the Company operated two divisions, the Pipe Protection Division and the Manufacturing Division, with nine plants and

Completion of the acquisition of Socotherm leads us to ShawCor as we know it today with eight operating divisions, over 8,000 employees and more than seventy-five locations in over twenty-five countries around the world.

over 300 employees located across Canada. Beginning in October 1975, the Company paid its first dividend to shareholders of $0.10 per share. Since that time, the Company has regularly increased the dividend payout and the compound annual growth in dividend payments over the past seven years has increased at the rate of 23.8 percent. These dividend payments have augmented gains through share price appreciation and together have provided an average annual total return to shareholders (TRS) of 13.7 percent from February 1969 to the end of 2012, a rate of return that compares quite favourably to the 9.0 percent TRS achieved by the S&P/TSX index during the same period!

By 1977, the Company employed approximately 700 people and, for the first time, participated in a major pipe coating project in the Middle East with the establishment of a joint venture facility in Saudi Arabia for the fusion bond epoxy coating and double jointing of a 774 mile 48" diameter crude oil pipeline. In July 1978, the Company's founder and my grandfather, Francis Shaw, passed away.

By 1981, the Company employed just over 1,200 people and operated sixteen plants across Canada, the U.S., the U.K. and Australia. During the 1980's, growth was impacted by recessions which affected the energy industry in 1983 and again in 1986. Notwithstanding these events, the Company continued to grow with the acquisition of Guardian Inspection Services in 1987. It was also during that year my father, Leslie Shaw, succeeded my uncle, JR Shaw, as Chair. In the following year, 1988, the Company's revenue exceeded $100 million for the first time. In 1993, Shaw Pipeline Services was established to continue the commercialization of the proprietary ultra-sonic pipeline weld inspection system that was initially developed by Guardian Inspection several years earlier.

In 1996, under my father Leslie Shaw's leadership, negotiations were initiated that would change the future of the Company. The outcome was the formation, by Shaw Industries and Dresser Industries, of a joint venture entity that would hold the worldwide assets and businesses of Shaw Pipe Protection and Bredero Price. This new entity, to be known as Bredero Shaw was, and is to this day, the world's largest provider of pipe coatings and related products and services.

In December 1998, the Company acquired the DSG Group of companies, a manufacturer of heat shrink products for automotive, electrical, telecommunications and utility applications with operations in Germany and Poland. Immediately thereafter, the Company's non-pipeline heat shrink operations became known as DSG-Canusa while the pipeline heat shrink operations became known as Canusa-CPS.

As ShawCor's global reach continued to expand and with the advent of the internet and other forms of digital communications, it became apparent that the Company needed to adopt a new and distinctive global brand and trade name reflecting the increasingly global nature of the business. Following a lengthy review of potential alternatives, in May 2001 the Company's name was changed from Shaw Industries Ltd. to ShawCor Ltd. and a new corporate and division image program was implemented.

In a major step that clearly defined the Company's future direction, the remaining 50% interest in the Bredero Shaw joint venture was purchased from the Halliburton Company on October 1, 2002 for US$200 million in cash and shares. As a young man my father, Leslie Shaw, had a dream of building a world-class pipe coating operation. With the acquisition of the Halliburton Company's interest in the joint venture, this goal was achieved as ShawCor became the sole owner of the world's largest pipe coating business.

More recently, the ShawCor growth trajectory has continued with the acquisition, in June 2008, of the flexible composite pipe manufacturer, Flexpipe Systems, a manufacturer of flexible composite pipe used by energy producers for oil and gas gathering systems, water transportation, CO_2 injection and other corrosive applications.

Beginning in July 2010, the Company formed an investor group with two private equity partners which completed a share capital investment in the global pipe coater, Socotherm S.p.A. Subsequently, in October 2012, ShawCor announced the acquisition of its partners' interests in the investor group with the result that the Company now owns approximately 96 percent of Socotherm, which serves the oil and gas industry from operations in Argentina, Brazil, the Gulf of Mexico, Venezuela and Italy. Completion of the effective acquisition

of Socotherm leads us to ShawCor as we know it today with eight operating divisions, over 8,000 employees and more than eighty locations in over twenty-five countries around the world.

Even during the early years of its operations, the Company's management believed strongly that sustainable growth would be achieved by meeting customer needs through the development and introduction of unique, highly differentiated products. ShawCor's ability to answer new challenges in the evolving search for energy resources is based on a strong foundation of technological innovation and leadership as exemplified by the 248 enforceable patents currently held by the company.

Throughout its history, the Company's R&D Group and technical personnel within the divisions have supported the commercialization of many new products based on ShawCor's industry leading technology platforms including: Polymer Compounding, Adhesive Technology, Flow Assurance/Thermal Design, Crosslink Formulation, Specialized Concrete Systems and Anticorrosion Science. These technologies have ensured a steady flow of market-leading products and processes such as the Thermotite® Ultra™ deepwater insulation system, the ShawCor Simulated Service Vessel (SSV) which is the industry's largest and most advanced pressure vessel used for testing subsea pipeline insulation systems at water depths to 3,000 m and temperatures up to 180°C and the Mobile Robotic Cutback System used to finish the ends of pipe coated with insulation. Each of these products and processes I am proud to say has been chosen to receive a Spotlight on New Technology Award at the Offshore Technology Conference in three out of the past four years.

As the third generation of the Shaw family to serve the Company and its stakeholders, I became a Director nineteen years ago in 1994, Vice Chair in 2000 and succeeded my father as Chair of the Board upon his passing early in 2007. During my time on the Board, I have worked diligently to serve the interests of all stakeholders and have supported ShawCor's growth programs by playing a proactive role in the oversight of the Company's strategy and long-term planning.

While I am extremely proud of the impact that I and my family have had on the success achieved by ShawCor during its tenure as a public company over the past 43 years, I recognized that it was the appropriate time to consider the sale of the family's controlling interest in the Company. Completion of the recent share reorganization and the resulting sale of my family's controlling interest in ShawCor mark the end of one era and the beginning of another in the Company's long and distinguished history. On behalf of the Shaw family, I would like to thank each current and former employee for their commitment and enthusiasm without which ShawCor would not be where it is today. I would also like to thank our President and CEO, Bill Buckley, Vice Chair Leslie Hutchison, Lead Director Jack Petch and each of the other past and present members of the Board of Directors for their advice and support during the nineteen years that I have served on the Board. While I will miss working alongside ShawCor employees on a daily basis, I will continue to support the Company as an investor with keen interest. Please accept my best wishes for continued success as ShawCor begins the next exciting chapter in its future.

Sincerely,

VIRGINIA L. SHAW

CHAIR OF THE BOARD

Strong Fundamentals

ShawCor's prospects are supported by the strong, long-term fundamentals of the industry we serve. Between now and 2035, the world's primary energy demand is expected to grow between 1.2 and 1.5 percent per year, led by the fast-growing economies of Asia Pacific and other developing regions. Meanwhile, the depletion rate for existing hydrocarbon reserves is running at about 6.5 to 7.7 percent per year and growing. To bridge the gap, the world's leading energy producers are tapping new energy deposits in increasingly remote and challenging locations. From the high Arctic to the deep oceans, to shale plays and the oil sands, the growth frontiers of oil and gas production are driving the need for new pipeline investment and innovative technological solutions.

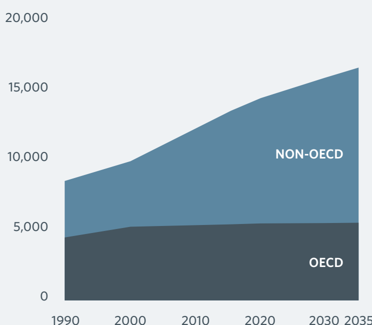
What's more, the amount of capital investment required for the development of each new energy discovery is steadily increasing. During the 10-year period from 1995 to 2004, global capital expenditures on the development of new oil and gas resources exceeded US$2 trillion and resulted in a net increase in crude oil production of approximately 12 million barrels per day. Over the six-year period from 2005 to 2010, the world spent about the same amount but was unable to achieve any increase in production. This trend is expected to continue to drive demand for advanced technological solutions that reduce risk and minimize recovery costs.

Meanwhile, the rehabilitation of existing land pipelines, which already represents 10 percent of land pipe coating revenue, is also supported by strong fundamentals. Sixty-seven percent of the global pipeline infrastructure was installed more than 20 years ago, before the advent of today's advanced coating technologies. Increasing environmental awareness and stricter government regulation will continue to drive growth as aging infrastructure is replaced.

For all of these reasons, global spending on energy infrastructure is expected to remain strong during the upcoming years. As the world's market and technological leader in advanced pipeline coatings and a diversified energy services company active in many of the industry's highest growth markets, ShawCor is ideally positioned to benefit from these trends.

Global energy demand by region

(Millions of Tonnes of Oil Equivalent)

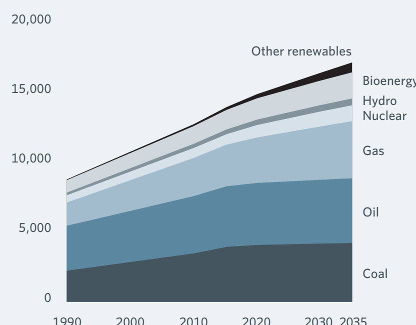


Energy demand is expected to increase more than one third between 2011 and 2035, driven by strong growth in the world's emerging economies.

Source: IEA

Global energy demand by fuel

(Millions of Tonnes of Oil Equivalent)

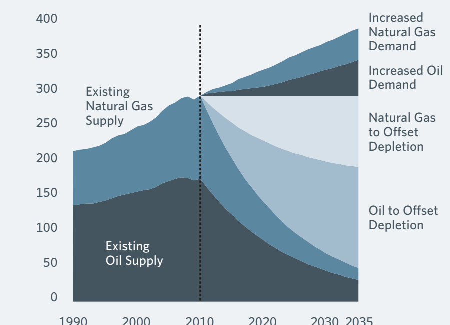


While oil demand rises by 0.5% between 2011 and 2035, demand for natural gas rises at a compound average annual growth rate of 1.6% per year, an increase of 50% during the period.

Source: IEA

The challenge to meet global demand

(Quadrillion BTU)



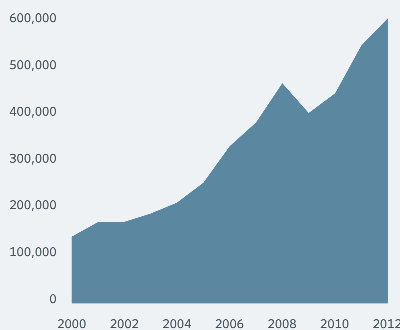
Rising global energy demand and increasing depletion rates require new sources of oil and gas including: deepwater, shale plays, frontier gas, LNG and oil sands.

Source: EIA, IEA

ShawCor is poised for significant growth as global investment in pipelines and related energy infrastructure increases to address the industry's new supply-demand dynamics.

Increasing capital expenditures

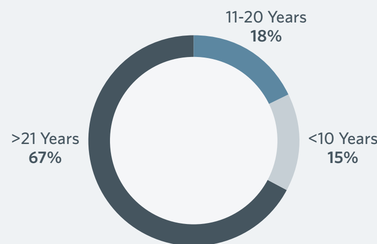
(Oil price $ per bbl)



Rising capital spending to unlock new energy resources will support increased infrastructure investment.

Source: Barclay's Capital May/June 2012 Update, EIA

Aging global pipeline infrastructure

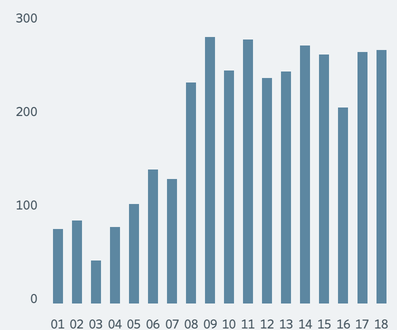


Aging pipeline systems are creating growing demand for pipeline rehabilitation products and services.

Source: Douglas-Westwood

Increasing pipeline investment, 2001-2018

(US$ billions)



Steady growth in energy demand, faster depletion rates, a shift toward increasingly remote and challenging resource plays and an aging pipeline infrastructure point toward a steady increase in pipeline investment to address evolving supply and demand dynamics.

Source: Oil & Gas Journal, Douglas-Westwood

ShawCor At-a-Glance

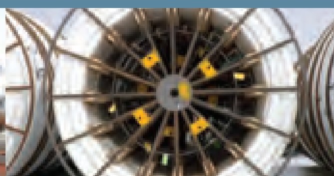
ShawCor has established a leading position in its chosen markets through an unwavering focus on global growth, flawless execution, technological innovation and organizational excellence. With a network of over 75 pipe coating and other operating facilities around the globe, we are located in the world's primary energy producing regions and on each of the industry's fast-growing frontiers.

8,000+
DEDICATED EMPLOYEES AROUND THE WORLD

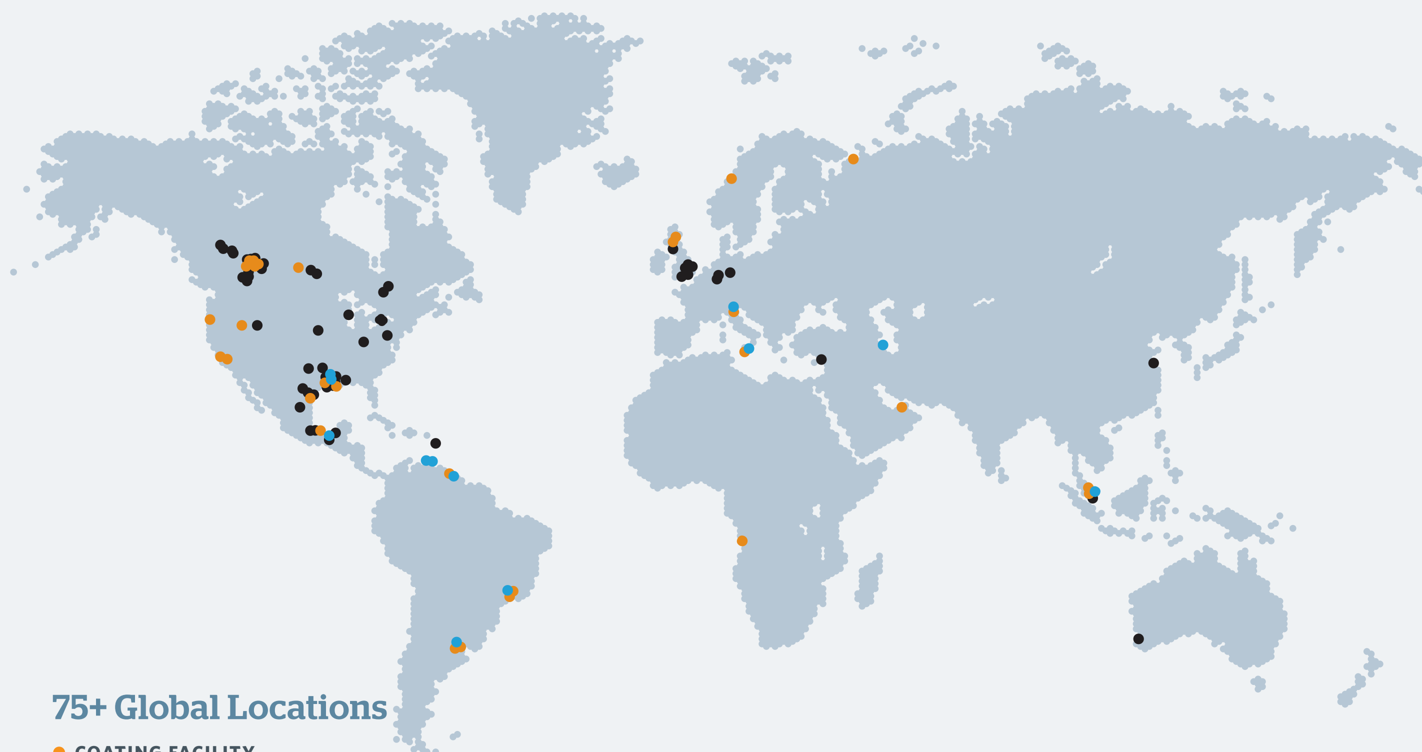
75+
MANUFACTURING, SALES AND SERVICE FACILITIES WORLDWIDE

25+
COUNTRIES AROUND THE WORLD ARE HOME TO SHAWCOR FACILITIES

PIPELINE AND PIPE SERVICES



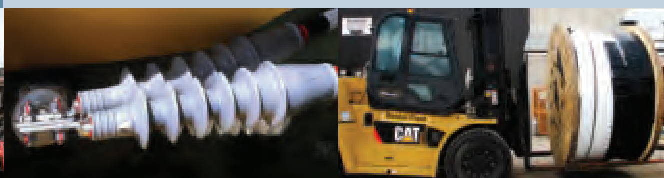
	Bredero Shaw	Flexpipe Systems	Socotherm	Shaw Pipeline Services
BUSINESS DESCRIPTION	The global leader in pipe coating solutions for corrosion protection, flow assurance, insulation, field joints and weight coating applications for onshore and offshore pipelines.	Leading manufacturer of flexible composite pipe systems used for oil and gas gathering, water transportation, CO_2 injection and other corrosive applications that benefit from the product's pressure and corrosion resistance capabilities.	The world's second largest provider of pipe coating solutions for corrosion protection, flow assurance, thermal insulation and concrete weight applications, strategically positioned to serve European, South American, and U.S. offshore markets.	A leader in specialized NDT inspection with a primary focus on both the upstream and downstream oil and gas industry where the division is the premier global provider of girth weld inspection services for land and offshore pipelines.
KEY CUSTOMER SEGMENTS	Pipeline owners Oil and gas producers Pipeline contractors Pipe mills	Oil and gas producers Gas distributors	Oil and gas producers EPC contractors Pipe mills	Lay barge operators Spool bases Pipeline owners and contractors
HIGH GROWTH MARKETS	Deepwater/Offshore Onshore/Oil Sands LNG/Enhanced Recovery Rehabilitation/Shale Plays	Oil and Gas Gathering Enhanced Recovery CO_2 Injection Water Transportation	Deepwater/Offshore Onshore/Rehabilitation LNG/Enhanced Recovery	Deepwater/Offshore Onshore Ultrasonic Inspection Real Time Radiography



75+ Global Locations

- COATING FACILITY
- PORTABLE COATING PLANT
- OTHER OPERATING FACILITY

PETROCHEMICAL AND INDUSTRIAL



	Canusa-CPS	Guardian	DSG-Canusa	ShawFlex
BUSINESS DESCRIPTION	The market leader in field applied pipeline joint protection and insulation systems for onshore and offshore corrosion and thermal protection applications in the global oil, gas, water and insulated pipeline markets.	Leading provider of a complete range of tubular management solutions including integrated inspection, threading, refurbishment and inventory services as one of the largest OCTG inspection businesses in the USA, Canada and Mexico.	Leading global manufacturer of heat shrinkable tubing, sleeves and moulded products as well as heat shrink accessories and equipment with a manufacturing presence in three key markets: Americas, Europe and Asia/Pacific.	World-class manufacturer of specialty wire and cable products for use in severe service industrial environments.
KEY CUSTOMER SEGMENTS	Oil and gas pipelines District heating and cooling systems Water and waste water pipelines	Drilling contractors Oil and gas producers Tubular rental companies	Automotive Electrical/Utility Communications Military/Commercial Mining/Industrial	Petrochemical Power generation Pulp and paper Mining Automation
HIGH GROWTH MARKETS	Deepwater/Offshore Onshore/Oil Sands LNG/Rehabilitation Potable Water/District Heating	Onshore/Shale Offshore Oil and Gas Onshore/Oil Sands (SAGD)	Electrical/Utility Communications Automotive Electronics	Petrochemical/Power Generation Pulp and Paper/Primary Metals Automation/Robotics Automotive

Global Leadership

With a global network of 32 pipe coating facilities, ShawCor is the industry's leading provider of advanced pipeline coatings. Through Bredero Shaw and Socotherm, we command a leading position in all energy producing regions of the world and are positioned for continuing growth on each of the industry's fastest growing frontiers.

Activity in Asia Pacific has been particularly robust owing to the region's fast growing economies, the increasing use of LNG liquefaction to meet rising natural gas demand and the relative scarcity of onshore energy deposits. The coastal waters of Southeast Asia and Australia contain among the world's largest untapped oil and gas reserves, a hydrocarbon bonanza that has attracted growing interest from major energy companies. We are the only industry competitor with two high-capacity coating plants in the region, an important consideration in mitigating supply risk on large infrastructure projects.

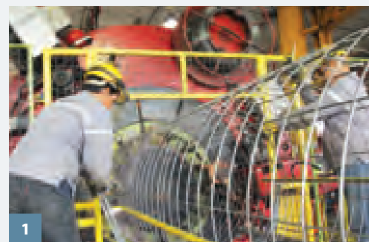
In 2011 and 2012, ShawCor secured more than US$1.0 billion in pipe coating contracts globally. These orders will ensure a record level of activity at many of our facilities over the next two years. This work included a record US$500 million in contracts with Mitsui & Co. Ltd. and McDermott Australia Pty. Ltd., in connection with the Ichthys LNG Project for Inpex Corporation and Total E&P. Also included were US$170 million in contracts awarded by Chevron Australia Pty. Ltd. to protect 300 kilometres of trunk line and flow lines for the Wheatstone LNG project with advanced anti-corrosion, insulation, flow assurance and concrete weight coatings. We expect this trend to continue as the economic advantages of LNG drive further exploration and development across many regions of the world.

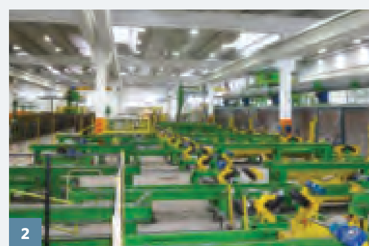
In 2012, ShawCor significantly strengthened its leading market position with the addition of Socotherm as the Company's eighth business division. The second largest pipe coating business in the world, Socotherm has expanded ShawCor's presence in Europe, South America, and the U.S. while providing complementary expertise in offshore and flow assurance pipeline technologies.

We also continued to extend our leadership on other fronts. The exploitation of shale deposits in the U.S. has the potential to make that country a net exporter of energy by 2020 and ShawCor continues to strengthen its position in this high-growth energy frontier. Our Guardian division, a leading supplier of downhole tubular management solutions, acquired Magnum Tubular Inspection in 2012 to accelerate its penetration into the Eagle Ford and Permian Plays. Flexpipe Systems, the market leader in flexible composite pipe solutions for the onshore, enhanced oil recovery and shale oil and gas sectors, expanded its manufacturing facilities in 2012 to keep pace with orders throughout North America and meet increasing international demand. We also continued to expand our capabilities to meet the needs of customers in Canada's oil sands as recently acquired ShawCor CSI Services widened its offering of custom factory- and field-applied coating services for this growing energy sector.

MAJOR PROJECT AWARDS

Project	Value
Chevron Wheatstone	>US$170M
Inpex Ichthys GEP	>US$400M
Inpex Ichthys URF	>US$100M
Exxon Mobile Barzan	>US$45M
Zawtika	>US$60M
North Sea Flow Assurance	>US$40M
Technip, Trinidad	>US$80M
Pearl Energy Ruby	>US$30M
Apache Julimar	>US$45M
Linea 5	>US$40M





1 Preparation of steel reinforcing cages for concrete weight coating on the Inpex Ichthys Project.

2 Socotherm's modern pipecoating facility in Pozzallo, Italy.

"We awarded the Ichthys Gas Export Pipeline Coating Contract to Bredero Shaw, one of ShawCor's pipe coating divisions, because of their industry-leading logistics capabilities, rigorous safety systems and overall reputation for excellence. Bredero Shaw is the only supplier with two major coating facilities in South-East Asia equipped for multiple vessel berthing and both plants were required to provide certainty of supply for the massive Ichthys Gas Export Pipeline Project. Our working relationship has been a model of what's required for the safe and successful execution of a very large and complex project."

Patrick Cresswell
Gas Export Pipeline Manager,
Ichthys Project, INPEX

Coating pipe for the Inpex Ichthys Gas Export Pipeline at the Bredero Shaw facility in Kuantan, Malaysia.

Technological Innovation

ShawCor's ability to answer new challenges in the evolving search for energy resources is based on a strong foundation of technological innovation and leadership. Today, we hold 248 enforceable patents, including 20 awarded in 2012, with an additional 170 patents pending and utilize over 80 proprietary material formulations. Most of these scientific advancements are focused on the introduction of new products and services that enhance performance, reduce operating costs or minimize environmental risk on the growing frontiers of energy production.

Among the most promising sources of new hydrocarbon deposits are the world's oceans, which are estimated by the International Energy Agency to contain more than 200 billion barrels of recoverable reserves. As energy producers move progressively offshore to recover deeper ocean deposits, ShawCor is developing the advanced technological solutions required for such increasingly remote and challenging environments.

One such product is Thermotite® ULTRA™, an innovative subsea insulation system with unlimited depth capability that allows hydrocarbons to keep flowing even though the pipeline is surrounded by frigid ocean temperatures. Developed with energy producing partners and tested in ShawCor's Simulated Service Vessel in Toronto, Thermotite® ULTRA™ has already been used on two major offshore projects during the past two years. In August of last year, we extended the Thermotite® ULTRA™ product line with the trial of a new ULTRA™ product for high temperature flow lines at our pipe coating facility in Kuantan, Malaysia. This new insulation system is now being included in bids for offshore deepwater projects around the world.

Many of the processes used in ShawCor's coating plants and other operating facilities also make use of new and unique technologies. One example of such an industry leading process technology is Bredero Shaw's Mobile Robotic Cutback System, an innovative end machining technology for insulated pipe. This new technology eliminates the manual preparation of pipe ends using wire brushing, grinding and scraping. The new process is safer, quieter, requires less labour and produces consistent high quality cutback profiles while generating recyclable waste. The benefit of these process improvements have been recognized through the receipt of a Spotlight on New Technology Award at the 2013 Offshore Technology Conference in Houston, Texas, the third time in the past four years that ShawCor has received one of these prestigious awards.

The introduction of new technology has also spurred the rapid growth of Flexpipe Systems which has added two new products to the original FlexPipe Linepipe product line. FlexPipe HT High Temperature Linepipe and FlexCord™ Linepipe have solidified the company's position as the single-source market leader for composite line pipe in North America's conventional oil and gas and emerging shale basins. Flexpipe sees its next growth opportunity in the development of a larger six- and eight-inch diameter, impact resistant composite product to replace conventional steel pipe. Produced in standard 44-ft. lengths, FlexFlow Linepipe can be readily shipped, easily installed and quickly and permanently coupled with our newly developed, unique coupling system.

Similar technological innovation can be seen at work in the growing popularity of Canusa-CPS's IntelliCOAT® system, which employs infrared radiation to apply heat-shrinkable sleeves for customers in the field with unprecedented precision, consistency and speed.

Spotlight on new TECHNOLOGY

1 ShawCor has again been chosen to receive a Spotlight on New Technology Award at the 2013 Offshore Technology Conference in Houston, Texas for the Bredero Shaw Mobile Robotic Cutback System.

2 Canusa-CPS IntelliCOAT®, the world's first fully-automated system for heat shrinkable sleeve installation, being used on the Shell Connect DE Project in Germany.

“Always one of ShawCor’s greatest strengths, technological innovation plays an increasingly important role in helping customers meet new challenges in today’s dynamic energy industry. Most of our research and development efforts are focused on creating practical solutions for specific customer needs and involve rigorous process engineering to ensure optimum performance and reliability. One such innovation was a low-dust concrete weight coating product that improves the working environment on lay barges and which won first prize in the offshore division for the Inpex Australia 2013 HSE Awards.”

Dr. Stephen Edmondson
Vice President,
Research & Development, ShawCor

Production trials for a new high temperature (120°C) Thermotite® ULTRA™ deepwater insulation system being conducted for a customer at the Bredero Shaw facility in Kuantan, Malaysia.

Unique Capabilities

Over the past 60 years, ShawCor's pipe coating businesses have developed strong working relationships with the world's leading energy producers, pipe manufacturers and pipeline installation contractors. Today, we are the preferred supplier for technologically advanced pipe coating solutions and coating plant to pipeline right of way logistics. Equally important is our reputation for fulfilling the most demanding project requirements on spec, on time and on budget.

Our capabilities start with an unmatched network of 32 pipe coating facilities that place us in close proximity to all of the world's major hydrocarbon regions. This makes us uniquely capable of handling the largest and most demanding pipe coating contracts anywhere in the world with the additional capacity required to meet any contingency. In 2011 and 2012, we improved throughput and pipe handling capabilities on the anticorrosion and insulation lines at our Kabil, Indonesia and Kuantan, Malaysia facilities, added new yard space in Kabil following construction of two new berths at its deepwater port and also added a second new birth at the facility in Kuantan. These improvements played an essential role in helping ShawCor win most of the major pipe coating contracts awarded in the Asia Pacific region over the past two years. In addition, our fixed plant network is complemented by 14 mobile facilities, including our Brigden® mobile coating plant, which can be assembled and running within six weeks anywhere in the world. Built to perform at the same operating standards as our fixed plants, Brigden was successfully deployed to provide anticorrosion and thermal insulation coatings for the Chevron Jack/St. Malo Project in the Gulf of Mexico during the past year.

We are also uniquely equipped to help our clients minimize risk, an important consideration in the construction of multi-billion dollar energy infrastructure projects. While the coating system typically represents less than 10 percent of the total installed cost of a pipeline project, its performance is absolutely critical to ensure the integrity of the pipeline over its expected lifetime. Our reputation as an industry leader is an important asset with more than 400,000 km of pipelines around the world that are protected by our coating solutions.

Increasingly, however, we are also working with our clients to validate the performance of advanced coating solutions before they are deployed in extreme environments. In 2011, ShawCor inaugurated the Subsea Test Facility and Simulated Service Vessel (SSV) at its headquarters in Toronto, Canada where this state-of-the-art equipment is used to test the thermal, compression resistance and flow assurance capabilities of newly developed insulation coatings and joint protection systems before critical pipelines are installed. In 2012, the SSV was used to validate the performance of the insulation on the flow lines for the Chevron Wheatstone Project prior to the pipe being coated. The largest and most advanced test vessel of its kind, the SSV has proven instrumental in helping ShawCor secure several major deepwater pipe coating contracts awarded since the test facility was commissioned in 2011.

1 Bredero Shaw has added a second berth at its coating facility in Kuantan, Malaysia which is capable of loading and unloading pipe 24 hours per day to meet customer schedules.

2 Bredero Shaw has also added two new berths at its deepwater port in Kabil, Indonesia which provides the capability for simultaneous load-in and load-out of pipe when required to meet demand.

"Quality and reliability of flow assurance coatings are critical elements of deepwater pipeline design. On behalf of clients, I have witnessed the tests and confirmed the data used to validate the performance of pipeline insulation systems undergoing evaluation in the Simulated Service Vessel (SSV) at the ShawCor Subsea Test Facility in Toronto. I have been involved in every step of the testing procedures and guided through the new and unique technologies being employed by ShawCor's extremely competent technical staff, which ensured the completion of a safe and successful project."

Alberto Manfredini
Project Manager,
DNV Canada Ltd.

The Simulated Service Vessel (SSV) at the ShawCor Subsea Test Facility provides unique capabilities to test and validate deepwater insulation and joint protection systems under actual operating conditions.

Superior Execution

A reputation for superior execution is of paramount advantage in a world of multi-billion dollar energy infrastructure investments, where the impact of project delays can be measured in millions of dollars per day. Our customers expect on-time, on-budget performance every time, and so do we. It's a commitment that lies at the heart of every ShawCor facility worldwide through the ShawCor Management System (SMS).

First launched in 2006, SMS is an industry-leading continuous improvement program that draws upon the best elements of lean manufacturing, Six Sigma and other world-class manufacturing systems, as well as lessons from our own manufacturing experience over many years. The SMS program combines these elements with a strong corporate culture to drive excellence in ShawCor's manufacturing and business processes throughout every corner of the organization.

Today, the performance of each of our manufacturing locations is continuously audited against eight measurable SMS elements that address: standardized work, product/service and process launch, product and process engineering, global operations metrics, SMS leadership management, workforce engagement, quality and process control and knowledge sharing.

During the past year, we began to migrate SMS into the non-manufacturing areas of ShawCor's businesses including finance, information technology, human resources and procurement. While this process is not yet complete, it has already contributed toward an additional $12.8 million in SMS-related savings during 2012 as well as procurement savings of almost $6.0 million. To date we have achieved almost $40.0 million in cumulative annual savings as a result of improved efficiencies, material variance reductions, manufacturing process improvements, standardized launch methodologies for new products and a growing number of SMS-related initiatives in our manufacturing and non-manufacturing operations. Equally important, such improvements also translate into multiple benefits for our customers including lower costs, higher quality and better on-time performance.

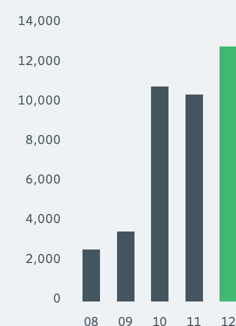
Our commitment to continuous improvement is supported through ShawCor's active participation in the Association for Manufacturing Excellence (AME), which serves as an appropriate setting for the celebration of our ongoing SMS professional development, planning and communication programs. The 2012 AME Conference was attended by 114 ShawCor managers and executives, 40 percent of whom represented non-manufacturing functions.

In 2013, SMS will continue to be rolled out throughout our divisions to support the achievement of continuous improvement as a unified, higher performing organization. This year, we expect to see the benefits of SMS increase in terms of cost savings and organizational strength with superior execution at our operating facilities and in our strategic and business support functions.

After years of growth through the successful integration of several businesses, we also turned our attention during the year to strengthening the ShawCor brand itself. In September, we unveiled a major upgrade to the Company's online presence with new corporate and divisional websites that feature consistent design and branding, an expanded social media presence and a new generation of complementary sales and marketing materials. These efforts were accompanied by an extensive internal communications initiative aimed at unleashing our full potential as an international energy services company.

SMS Cost Savings

(in thousands of Canadian dollars)



The ShawCor Management System (SMS) is continuing to generate increasing cost savings as new SMS-related initiatives are introduced across all of the Company's operations.

1 Leaders and employees use the Daily Management Process to discuss operational performance improvements facilitated through SMS initiatives.

"We continuously advance our capabilities in order to meet increasing customer and industry requirements with confidence. The ShawCor Management System (SMS) is the foundation that guides our leaders and employees in this continuous improvement process. Every year, we seek improvement and set new standards that raise the level of performance in quality, on-time delivery, operating costs and responsiveness to customer needs. By expanding SMS enterprise wide, we will unleash the power of collaboration and accountability across the organization and create a culture committed to superior execution – a vision that only great companies are able to realize."

Bob Garces
Vice President,
ShawCor Manufacturing System

Insulated pipe coated for the Chevron Jack/St. Malo Project in the Gulf of Mexico, at Bredero Shaw's Brigden mobile coating facility in Beaumont, Texas, is loaded for transportation to the lay barge.

STRONG FUNDAMENTALS

Global energy demand is projected to grow by more than one third between 2011 and 2035. Meanwhile, the depletion rate for producing deposits is between 6.5 and 7.7 percent per year and rising. To bridge the gap, energy producers are turning to increasingly remote and challenging locations such as deepwater, oil sands, shale plays and other new frontiers. This has resulted in:

- greater distances between new energy sources and their end markets
- increased investment in new pipeline infrastructure
- higher demand from energy producers for innovative, cost-saving products and support services

FUNDAMENTAL STRENGTHS

All of these fundamental trends play to ShawCor's strengths as the world's largest provider of advanced pipeline coatings and a leading pipeline and energy services company.

Global leadership. Each of our eight business units commands the #1 or #2 position in its market and shares an unwavering focus on global growth.

Unique capabilities. Our global network of over 40 fixed and portable coating plants and over 50 other operating facilities provide unmatched logistics capabilities that allow us to take on the largest and most complex jobs anywhere in the world.

Technological innovation. Market-leading research and development capabilities have enabled ShawCor to offer the most technologically advanced products and services in the industry.

Superior execution. The industry's most advanced continuous improvement program helps us execute complex customer projects safely, on-time and on-budget with consistent customer satisfaction.

Diversified presence. We serve the needs of customers in all high growth sectors including conventional onshore, offshore, deepwater, oil sands, shale plays, enhanced recovery, LNG energy production, pipeline rehabilitation and potable water.

Proven performance. ShawCor secured more than US$1.0 billion in major pipe coating contracts during the past two years and ended 2012 with a record year-end 12 month backlog of $850 million.

Spoolable composite pipe manufactured by Flexpipe Systems is loaded onboard an ocean freighter for shipment to Australia for use on a Santos project.

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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, 2012 and 2011 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 14 hereof.

1.0 Executive Overview

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

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 ("R&D") 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, 2012, 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 90% of consolidated revenue for the year ended December 31, 2012. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Socotherm and Guardian divisions.

- 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.
- Socotherm provides specialized thermal insulation coatings, anticorrosion coatings, internal coatings, and concrete weight coatings for onshore and offshore pipelines.

Petrochemical and Industrial

The Petrochemical and Industrial segment, which includes the DSG–Canusa and ShawFlex divisions, accounted for 10% of consolidated revenue for the year ended December 31, 2012. 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.

- 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 Equity ("ROE") of 15% over the full business cycle;
- generate average annual net income growth of 15% over the full business cycle;
- continuously improve on an industry leading health, safety and environmental ("HSE") management system to support the Company's commitment to an Incident and Injury Free ("IIF") workplace;
- maintain a strong market share with each division being number one or a strong number two in its respective market;
- achieve flawless execution supported by clear lines of accountability and responsibility;
- increase the flow of new products using the New Product Development ("AFPD") system to achieve a minimum of 20% of revenue from new products introduced within the current or previous two years;
- achieve lowest cost producer status using the ShawCor Manufacturing System ("SMS") program combined with effective global procurement;
- provide a reliable organization based on best practices in governance, financial control and business processes; and
- provide a workplace and career growth environment that will attract and retain top calibre employees who are essential to achieving the corporate growth and profitability objectives.

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 Generally Accepted Accounting Principles ("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 $122.1 million, or 217%, from $56.3 million for the year ended December 31, 2011 to $178.4 million for the year ended December 31, 2012. The increase was mainly attributable to higher revenue in the Asia Pacific, North America and Latin America regions in the Pipeline and Pipe Services segment as described in section 4.2.1 – Pipeline and Pipe Services segment, a gain on sale of land of $12.1 million, partially offset by an increase in selling, general and administrative ("SG&A") expenses of $38.9 million as described in section 4.1 – Consolidated Information.

Return on Equity ("ROE")

ROE, a non-GAAP measure, is defined as net income for the year divided by average shareholders' equity for the most recently completed year. ROE is used by the Company to assess the efficiency of generating profits from each unit of shareholders' equity. As part of its performance objectives, the Company has set an ROE target of 15%, as described in section 1.2 – Vision and Objectives. The Company's ROE for the years ended December 31, 2012 and 2011 was 19.8% and 6.7%, respectively. The increase of 13.1 percentage points was primarily due to an increase in net income of $122.1 million, partially offset by an increase in average shareholders' equity of $56.7 million.

Free Cash Flow ("FCF")

FCF, a non-GAAP measure, is defined as cash flow from operating activities less capital expenditures and dividend payments during the year. FCF represents the cash available from operations after spending on maintenance of existing assets and expanding the current asset base and is a measure of the Company's ability to generate cash flow to fund growth. FCF increased by $461.9 million from a negative cash outflow of $32.6 million during 2011 to a cash inflow of $429.3 million during 2012. The change was primarily due to significantly higher cash provided by operating activities of $484.8 million, partially offset by an increase in capital expenditures of $18.5 million and an increase in dividends paid of $4.4 million.

Employees

The Company conducts periodic employee surveys and monitors turnover in key personnel positions in order to assess employee engagement.

Market Position

The Company's record of successful project execution and the resulting repeat business demonstrate customer loyalty, which is one of many qualitative measures that the Company utilizes to measure customer satisfaction. The following table sets forth the relative market position by division within the markets that the Company operated in during the year ended December 31, 2012:

	Market Position
Bredero Shaw	First
Canusa–CPS	First
Shaw Pipeline Services	First
Flexpipe Systems	Second
Guardian	First
DSG–Canusa	Second
ShawFlex	First
Socotherm	Second

Safety and Environmental Stewardship
The Company maintains a comprehensive Health, Safety and Environmental ("HSE") management system in place within each of its eight operating divisions and is committed to being an Incident and Injury Free ("IIF") workplace with no damage to the environment. For the years ended December 31, 2012 and December 31, 2011, the Company had recordable injuries per million person hours worked of 6.2 and 6.7, respectively. During 2012, the Company completed 24 HSE audits at manufacturing and service locations across all eight divisions and developed action plans to correct any deficiencies identified in the audits.

1.5 Capability to Deliver Results

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

Capital expenditures increased by $18.5 million from $56.0 million for the year ended December 31, 2011 to $74.4 million for the year ended December 31, 2012. 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 2013; 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 $372.0 million and $67.3 million as at December 31, 2012 and 2011, respectively, and had unutilized lines of credit available of $166.7 million and $162.3 million, as at December 31, 2012 and 2011, respectively.

The current financial position of the Company is strong and the Company does not foresee any difficulties in maintaining a sufficient level of financial capacity to execute the Company's growth strategy.

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, 2012, 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, 2012 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 eight divisions.

As at December 31, 2012, 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 Annual Financial Information

	Twelve Months Ended December 31		
(in thousands of Canadian dollars, except per share amounts)	2012	2011	2010
Revenue	**$ 1,482,849**	$ 1,157,265	$ 1,034,163
Cost of goods sold and services rendered	**904,362**	735,266	623,641
Gross profit	**578,487**	421,999	410,522
Selling, general and administrative expenses	**308,172**	269,241	219,084
Research and development expenses	**12,242**	13,119	11,050
Foreign exchange (gains) losses	**(119)**	1,338	(5,647)
Amortization of property, plant and equipment	**45,133**	41,906	45,077
Amortization of intangible assets	**8,248**	7,244	5,038
Gain on sale of land and other items	**(12,101)**	–	–
Impairment of property, plant and equipment,intangible assets and goodwill	**4,686**	5,244	16,089
Income from Operations	**212,226**	83,907	119,831
Accounting gain on acquisition	**413**	–	13,181
Income (loss) on investment in associate	**8,694**	(10,133)	(1,989)
Finance income (costs), net	**1,318**	(4,507)	(2,805)
Income before income taxes	**222,651**	69,267	128,268
Income taxes	**44,188**	12,987	33,196
Non-controlling interest	**45**	–	–
Net Income (attributable to shareholders of the company)	**$ 178,418**	$ 56,280	$ 95,072
Net Income (attributable to shareholders of the company)	**$ 178,418**	$ 56,280	$ 95,072
Add:			
Non-controlling interest	**45**	–	–
Income taxes	**44,188**	12,987	33,196
Finance (income) costs, net	**(1,318)**	4,507	2,805
Gain on sale of land	**(12,101)**	–	–
Impairment of property, plant and equipment, intangible assets and goodwill	**4,686**	5,244	16,089
Amortization of property, plant and equipment and intangible assets	**53,381**	49,150	50,115
Accounting gain on acquisition	**(413)**	–	(13,181)
EBITDA[a]	**$ 266,886**	$ 128,168	$ 184,096
Per Share Information:			
Net Income			
Basic (Classes A and B)	**$ 2.53**	$ 0.79	$ 1.35
Diluted (Classes A and B)	**$ 2.50**	$ 0.78	$ 1.33
Cash Dividends per Share			
Class A	**$ 0.380**	$ 0.315	$ 0.295
Class B	**$ 0.345**	$ 0.286	$ 0.268

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Refer to section 9 – Reconciliation of non-GAAP measures, for additional information with respect to non-GAAP measures used by the Company.

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Total Assets	**$ 1,927,569**	$ 1,226,749
Total Non-current Liabilities	**$ 211,617**	$ 110,342

Revenue

Revenue increased by $325.6 million, or 28%, from $1,157.3 million in the year ended December 31, 2011 to $1,482.9 million in the comparable period in 2012, primarily as a result of increased market activity in both the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment (refer to section 4.2 – Segment Information for further details).

Revenue increased by $123.1 million, or 12% from $1,034.2 million in 2010 to $1,157.3 million in 2011, primarily driven by increased revenue in both the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment.

Income from Operations

Income from operations increased by $128.3 million, or 153%, from $83.9 million in 2011 to $212.2 million in 2012. Revenue increased $325.6 million as explained above, with an increase in gross profit of $156.5 million and a gain on sale of land of $12.1 million, partially offset by an increase in SG&A expenses of $38.9 million and an increase in amortization expenses pertaining to property, plant, equipment and intangibles of $4.2 million.

Income from operations decreased by $35.9 million, or 30%, from $119.8 million in 2010 to $83.9 million in 2011. Revenue increased $123.1 million as explained above, with an increase in gross profit of $11.5 million and lower impairment charges on property, plant, equipment, goodwill and intangible assets of $10.8 million offset by increased foreign exchange losses of $7.0 million, an increase in research and development expenses of $2.1 million and an increase in SG&A expenses of $50.2 million.

Net Income

Net income (attributable to shareholders of the Company) increased by $122.1 million, or 217%, from $56.3 million in 2011 to $178.4 million in 2012. The increase was primarily due to the increase in income from operations as explained above, increased income from investment in associate of $18.8 million and an increase in net finance income of $5.8 million, partially offset by an increase in income taxes of $31.2 million.

Net income (attributable to shareholders of the Company) decreased by $38.8 million, or 41%, from $95.1 million in 2010 to $56.3 million in 2011. The decrease was primarily due to the decrease in income from operations as explained above, an accounting gain on acquisition of $13.2 million reported in 2010 and a higher loss on investment in associate of $8.1 million, partially offset by a 7.2 percentage point reduction in the effective income tax rate from 25.9% in 2010 to 18.7% in 2011.

2.2 Foreign Exchange Impact

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

	Year Ended December 31	
	2012	2011
US Dollar	**1.0036**	0.9931
Euro	**1.2921**	1.3750
British Pound	**1.5888**	1.5854

The following table sets forth the impact on revenue, income from operations and net income (attributable to the shareholders of the Company), compared with the prior year period, as a result of foreign exchange fluctuations on the translation of foreign currency operations.

(in thousands of Canadian dollars)	Year Ended December 31, 2012
Revenue	**$ 409**
Income from operations	**2,346**
Net income (attributable to shareholders of the Company)	**3,335**

In addition to the translation impact noted above, for the year ended December 31, 2012, the Company recorded a foreign exchange gain of $0.1 million, compared to a loss of $1.3 million in the year ended December 31, 2011, 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 Significant Business Developments

3.1 Strategic Review and Reorganization

On August 30, 2012, Ms. Virginia Shaw, the Chair of the ShawCor Board of Directors and the indirect controlling shareholder (the "Controlling Shareholder") of the Company, advised the Board of Directors that she was prepared to consider a possible sale of her shares of ShawCor as part of a sale of the Company.

The Board struck a committee of independent directors (the "Special Committee") to conduct a strategic review of alternatives, including canvassing potentially interested third parties to determine if an appropriate transaction was available that would be acceptable to Ms. Shaw and would be in the best interests of ShawCor and its shareholders.

On January 14, 2013, the Company announced that the Board of Directors of ShawCor, after careful analysis, consideration and advice from the Special Committee, and advice from independent financial and legal advisors, had unanimously approved and the Company had entered into a definitive agreement with respect to a reorganization proposal negotiated by the Special Committee with the Controlling Shareholder. The Chair and the Vice-Chair abstained from voting on the transaction.

The proposed reorganization is to be implemented pursuant to a court-approved plan of arrangement under the Canada Business Corporations Act. It has been announced that the shareholders' meeting to consider the arrangement will take place on March 14, 2013. The arrangement will require a special resolution of ShawCor shareholders approving the transaction in addition to approvals required under applicable securities laws.

The arrangement also requires approval by the Ontario Superior Court of Justice at a hearing to be held following the shareholders' meeting. If approved, the arrangement is expected to close late in the first quarter of 2013 or early in the second quarter.

The Special Committee retained TD Securities Inc. ("TD Securities") to act as its financial advisor and to provide an independent fairness opinion, and received independent legal advice from Stikeman Elliott LLP. Kingsdale Shareholder Services Inc. has been retained as proxy solicitation agent.

Terms of the Transaction

The reorganization proposal contemplates the elimination of ShawCor's dual class share structure through the purchase of all of the Class A and Class B shares of ShawCor by a newly formed Canadian corporation. The new corporation would purchase all of the Class A shares of ShawCor in exchange for new common shares on a 1:1 basis. The new corporation would also acquire all of the Class B shares of ShawCor in exchange for a mix of new common shares and cash. The consideration paid for the Class B shares of ShawCor will be $43.43 in cash or 1.1 new common shares per Class B share, such that 90% of the total consideration will be paid in cash and 10% of the total consideration will be paid in new common shares. At closing, the new corporation and ShawCor would amalgamate, under the name ShawCor Ltd. All issued and outstanding shares would, as a result, be the same class of common shares. Following closing, a special dividend of $1.00 per share would be paid on all remaining shares (the payment date for such dividend remains to be determined).

The closing conditions of the reorganization proposal include, among others, receipt of required ShawCor shareholder approvals, receipt of Toronto Stock Exchange approval, receipt of court approvals, there being no material adverse change in the affairs of ShawCor or applicable laws, and sufficient financing being available to complete the transactions contemplated in the reorganization. ShawCor's Board would also retain a "fiduciary out" ability to change its recommendation to shareholders.

Recommendation of the Board and the Special Committee

In approving the definitive agreement and making its recommendation that shareholders (other than the Controlling Shareholder) vote in favour of the reorganization proposal, the Board of Directors and the Special Committee considered the fairness opinion prepared by TD Securities and a number of other factors relating to the fairness of the reorganization proposal.

The factors relating to fairness considered by the Board and the Special Committee included, among others, the following:

a) The reorganization transaction is expected to be accretive to ShawCor from an earnings per share perspective,

b) The premium to the then current trading price and resulting dilution to Class A shareholders is within the range of precedents generally for similar types of transactions,

c) The Special Committee has received a fairness opinion from TD Securities that the consideration to be paid to the Class B shareholders pursuant to the Arrangement is fair, from a financial point of view, to the Class A and Class B shareholders, other than the Controlling Shareholder,

d) The elimination of the Class B shares may facilitate future change of control transactions following the completion of the transaction. It will also result in a widely held single class structure, and is expected to diversify ShawCor's shareholder base, as many investment mandates exclude investment in companies with dual class structures, and to increase liquidity and provide for enhanced financing flexibility going forward,

e) The transaction is subject to shareholder and court approval, and shareholders will be provided with dissent rights, and

f) After completion of the transaction, all remaining shareholders will receive a $1.00 per share special dividend.

Pro Forma Impact of Proposed Transaction on the Company's Financial Condition

(in millions of Canadian dollars, except ratios)	Reported December 31 2012	Adjusted for Proposed Transaction	Pro Forma December 31 2012
Cash and cash equivalents[a]	**$ 372.0**	**$ (223.9)**	**$ 148.1**
Debt:			
Bank indebtedness	**3.8**	**–**	**3.8**
Loan payable	**17.1**	**–**	**17.1**
Obligations under finance leases	**14.6**	**–**	**14.6**
New private placement notes (less DF[b] costs)	**–**	**347.4**	**347.4**
	35.5	–	**382.9**
Equity (including non-controlling interest)	**1,005.9**	**(572.6)**	**433.2**
Total capitalization	**1,041.4**		**816.2**
EBITDA	**266.9**		**266.9**
Total debt/capitalization	**3.41%**		**46.92%**
Net debt/capitalization	**NM[c]**		**28.77%**
Total debt/EBITDA	**0.13**		**1.43**
Net debt[d]/EBITDA	**NM[c]**		**0.88**

(a) Includes short term deposits
(b) Debt financing
(c) NM – Not meaningful
(d) Net debt = Total debt less cash and cash equivalents

Based on the pro forma impact of the proposed transaction on the Company's financial condition, ShawCor believes that the increase in net finance costs and leverage that will result from the completion of the transaction will not be excessive taking into account the cyclicality of the Company's businesses. Furthermore, the Company believes that based on available cash balances of $148 million, combined with available committed credit lines in excess of $165 million, the Company is fully able to carry out its capital expenditure and growth investment strategic plan. The servicing of the proposed new private placement notes, resulting in higher finance costs, is not expected to have any material adverse impact on the Company's cash flows.

3.2 Acquisition of Fineglade

On October 24, 2012, ShawCor Ltd., through one of its subsidiaries, acquired the remaining 60% of Fineglade Limited ("Fineglade"). Fineglade, which currently holds approximately 96% of the outstanding shares of Socotherm S.p.A., was previously owned 40% by ShawCor Ltd. and 60% by an entity controlled by Sophia Capital.

The total consideration for the acquisition of the remaining 60% of Fineglade was $144.7 million, which included a cash payment of $68.0 million (€52.3 million), the set-off of a pre-existing loan from ShawCor to Sophia Capital in the amount of $57.4 million (€44.6 million), deferred purchase consideration of $3.3 million (€2.6 million) and the settlement of other loans provided to Fineglade and the entity controlled by Sophia Capital in the amount of $16.0 million (US$16.0 million).

Socotherm S.p.A., headquartered in Italy, is an international pipe coating contractor primarily serving the oil and gas industry from active operations in Brazil, Argentina, Venezuela, the Gulf of Mexico and Italy.

Significant Business Contracts

In January 2012, the Company was awarded a significant contract from Technip USA to provide concrete weight coatings, anode installation and other related services for a Latin American pipeline project, consisting of approximately 100 km of 36" pipe to be installed offshore for the transportation of natural gas. Bredero Shaw mobilized two Compression Coat Technology (CCT) concrete weight coating plants to La Brea, Trinidad for this project. Initial operations commenced during the first quarter of 2012, with concrete coating beginning in the third quarter of 2012.

In February 2012, the Company was awarded the Ichthys LNG project by Mitsui & Co., with a value in excess of US$400 million, to provide pipeline coatings and related products and services for the gas export pipeline. The Ichthys LNG project is a joint venture between INPEX and Total. The contract involves coating 889 km of 42" pipe that will be protected with asphalt enamel coating, Sureflow™ internal coating and HeviCote® concrete weight coating. In addition, Bredero Shaw has received a contract for anode procurement and installation as well as custom coating. The Company is executing the work, which commenced in the third quarter of 2012, at Bredero Shaw's facilities in Kabil, Indonesia and Kuantan, Malaysia.

In March 2012, the Company was awarded contracts with a value in excess of US$30 million from PEARLOIL (Sebuku) Limited, a wholly-owned subsidiary of Pearl Energy, which is the Southeast Asia operating arm of Mubadala Oil & Gas, a business unit of Mubadala Development Company, to provide pipeline coatings and related products and services for the Ruby Gas Field Development Project. The Ruby Field Development export pipeline will connect the offshore gas field to a dedicated receiving terminal in North Bontang, East Kalimantan, Indonesia and a tie-in pipeline will connect the receiving terminal to Total's onshore facilities at Senipah in East Kalimantan. The contracts will be executed at Bredero Shaw's facilities in Kabil, Indonesia and Kuantan, Malaysia. The export pipeline and related tie-in pipeline contracts involve coating approximately 240 km of 14" diameter pipe that will be protected with three layer and asphalt enamel anticorrosion coatings and concrete weight coating. In addition Bredero Shaw has also received a contract for anode procurement and installation as well as custom coating. The project commenced during the second quarter of 2012.

In May 2012, the Company was awarded a contract from Apache in Australia with a value in excess of US$45 million to provide pipeline coatings and related products and services for the Julimar Development Project. The Apache-operated Julimar Development Project is a joint venture between Apache (65%) and Kuwait Foreign Petroleum Exploration Company – KUFPEC (35%). The project will supply raw gas from the Julimar and Brunello gas fields to the Chevron-operated Wheatstone Project in Western Australia. The contract involves coating 47 km of 18" pipe that will be protected with various configurations of three-layer polypropylene anticorrosion coating, Thermotite® five-layer polypropylene insulation and HeviCote® concrete weight coating. In addition, Bredero Shaw has also received a contract for anode procurement and installation. Work commenced during the second quarter of 2013 at Bredero Shaw's facility in Kuantan, Malaysia.

In July 2012, the Company was awarded contracts with a value in excess of US$40 million from the consortium between Dragados Offshore and Swiber Offshore Construction and from Tubacero S.A. de C.V. to provide pipeline coatings and related products and services for the Linea 5 Pipeline Project operated by Petróleos Mexicanos (PEMEX). The Linea 5 Project will consist of approximately 77 km of 36" pipe to be installed offshore between the Plataforma Enlace Litoral and the Terminal Maritima de Dos Bocas in the Bay of Campeche, Mexico. Natural gas will be transported from the Litoral field to the terminal in Dos Bocas for supply to the PEMEX distribution network in Tabasco, Mexico. The contracts involve coating the pipe with fusion bond epoxy (FBE) anticorrosion coating at Bredero Shaw Mexico's Monterrey plant and the supply of heat shrinkable joint protection sleeves manufactured by ShawCor's Canusa-CPS division. Lastly, Bredero Shaw Mexico will coat the pipe with concrete weight coating using its Compression Coat Technology (CCT) plant in Coatzacoalcos where anode installation will also be completed. Coating for this project began during the third quarter of 2012.

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)	2012	2011	Change
Pipeline and Pipe Services	**$ 1,337,877**	$ 1,021,099	$ 316,778
Petrochemical and Industrial	**147,068**	138,080	8,988
Elimination	**(2,096)**	(1,914)	(182)
Consolidated	**$ 1,482,849**	$ 1,157,265	$ 325,584

Consolidated revenue increased by $325.6 million, or 28%, from $1,157.3 million in 2011 to $1,482.9 million in 2012, due to an increase of $316.8 million, or 31%, in the Pipeline and Pipe Services segment and $9.0 million, or 7%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment in 2012 was $1,337.9 million, or $316.8 million higher than in 2011, due to higher revenue in Asia Pacific, Latin America and North America, partially offset by lower 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.

Revenue for the Petrochemical and Industrial segment increased by $9.0 million in 2012 compared to 2011, primarily due to higher activity levels in North America and Asia Pacific, partially offset by lower revenue in EMAR. 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 income from operations ("Operating Income") and Operating Margin for the following periods:

(in thousands of Canadian dollars)	2012	2011	Change
Income from operations	**$ 212,226**	$ 83,907	$ 128,319
Operating Margin[(a)]	**14.3%**	7.3%	7.0%

(a) Operating Margin is defined as Operating Income divided by revenue.

Operating Income increased by $128.3 million, or 153%, from $83.9 million in 2011 to $212.2 million in 2012. Gross profit increased by $156.5 million, primarily due to higher revenue and a higher gross margin percentage. Detracting from the increase in gross profit was the increase in SG&A expenses of $38.9 million and an increase in amortization expenses pertaining to property, plant, equipment and intangible assets of $4.2 million, partially offset by a gain on sale of land of $12.1 million.

The increase in gross profit resulted from higher revenue of $325.6 million, as explained above, and an increase in gross margin of 2.5 percentage points due to favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $38.9 million in 2012 compared with 2011 primarily due to a $17.3 million increase in salaries and other personnel related costs, a $27.6 million increase in short and long term management incentive compensation accruals and expenses pertaining to the strategic review process of $4.0 million. These cost increases were partially offset by the fact that the 2011 SG&A had included a provision for bad debts of $9.6 million pertaining to a contract dispute with a customer.

Finance Costs, Net

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

(in thousands of Canadian dollars)	2012	2011	Change
Interest income on short-term deposits	**$ (3,001)**	$ (1,024)	$ (1,977)
Interest expense, other	**1,683**	4,864	(3,181)
Interest expense on long-term debt	**–**	667	(667)
Finance (income) costs – net	**$ (1,318)**	$ 4,507	$ (5,825)

The net finance income increased by $5.8 million, from a net finance cost of $4.5 million in 2011 to a net finance income of $1.3 million in 2012, mainly due to lower accretion expense on certain non-current liabilities, no interest expense on long-term debt and higher interest income on short-term deposits.

Income Taxes

The Company recorded an income tax expense of $44.2 million (20% of income before income taxes) in 2012, compared to an income tax expense of $13.0 million (19% of income before income taxes) in 2011. The effective income tax rate for the twelve months ending December 31, 2012 is much lower than the expected income tax rate of 27% due to the significant portion of the Company's taxable income that was earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the expected tax rate is 25% or less.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

(in thousands of Canadian dollars)	2012	2011	Change
North America	**$ 605,196**	$ 547,881	$ 57,315
Latin America	**172,300**	38,499	133,801
EMAR	**226,392**	241,885	(15,493)
Asia Pacific	**333,989**	192,834	141,155
Total Revenue	**$ 1,337,877**	$ 1,021,099	$ 316,778
Operating Income	**$ 237,707**	$ 96,446	$ 141,261
Operating Margin	**17.8%**	9.4%	8.4%

In the Pipeline and Pipe Services segment, revenue for the year ended December 31, 2012 was $1,337.9 million, an increase of $316.8 million, or 31%, from $1,021.1 million in the comparable period in the prior year. Activity level in all regions, except for EMAR, was significantly higher in 2012 compared to 2011:

- In North America, revenue increased by $57.3 million, or 11%, due to increased sales of flexible composite pipe, tubular management services, the CSI acquisition completed in April 2011, small diameter pipe coating and increased large project activity, particularly with the execution of the Jack St. Malo and Cardon IV projects at mobile plants in Beaumont, Texas and several large diameter pipe coating projects in Canada.
- Latin America revenue was higher by $133.8 million, or 348%, due to higher activity levels on the P55 Risers project in Brazil, the Technip project in Trinidad, the Linea 5 project at the Veracruz and Monterrey facilities in Mexico and the acquisition of Socotherm completed in the fourth quarter of 2012.
- EMAR revenue decreased by $15.5 million, or 6%. Increased volumes from the Barzan project in Ras Al Khaimah ("RAK") and higher flow assurance pipe coating volumes in Orkanger, Norway were more than offset by the reduction in volumes at the Leith, Scotland facility where the Total Laggan, Breagh and Gundrun projects had been executed in 2011 and reduced activity levels in pipeline inspection services.
- In Asia Pacific, revenue increased by $141.2 million, or 73%, in 2012, mainly due to increased production levels on large offshore coating projects such as the M9 Zawtika, Pearl Energy Ruby, Inpex Ichthys and Chevron Wheatstone projects. This was partially offset by closure of the Kembla Grange, Australia facility in early 2012.

Operating Income for the year ended December 31, 2012 was $237.7 million compared to $96.4 million for the year ended December 31, 2011, an increase of $141.3 million, or 147%, with the operating margin increasing by 8.4 percentage points to 17.8%. The increase in Operating Income is primarily due to the higher revenues, as explained above, and a 2.5 percentage point increase in gross profit margin due to a favourable change in project mix and better utilization of facilities and absorption of overheads on higher revenues, as explained above, and a gain on sale of land of $12.1 million, partially offset by higher SG&A expenses as explained in section 4.1 – Consolidated Information.

4.2.2 Petrochemical and Industrial Segment

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

(in thousands of Canadian dollars)	2012	2011	Change
North America	**$ 92,551**	$ 80,762	$ 11,789
EMAR	**50,496**	54,237	(3,741)
Asia Pacific	**4,021**	3,081	940
Total Revenue	**$ 147,068**	$ 138,080	$ 8,988
Operating Income	**$ 19,886**	$ 18,242	$ 1,644
Operating Margin	**13.5%**	13.2%	0.3%

Revenue in the Petrochemical and Industrial segment increased in 2012 by $9.0 million, or 7%, to $147.1 million, compared to the comparable period in 2011 due to increased shipments of wire and cable products to the oil sands and electrical utilities markets and increased heat shrinkable product shipments in North America. This was partially offset by lower automotive shipments to EMAR due to a weaker European economy.

Operating Income for 2012 was $19.9 million compared to $18.2 million for 2011, an increase of $1.6 million, or 9%. The increase was primarily due to higher revenue, 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 years ended December 31:

(in thousands of Canadian dollars)	2012	2011	Change
Financial and corporate expenses	**$ (45,486)**	$ (29,443)	$ (16,043)

Financial and corporate costs increased by $16.0 million, from the year ended December 31, 2011, to $45.5 million for the year ended December 31, 2012, primarily as a result of an increase in salaries and personnel related expenses of $1.8 million, increased accruals for short and long-term management incentive compensation of $12.0 million and expenses related to the strategic review process of $4.0 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)	2012	2011
Net Income	**$ 178,463**	$ 56,280
Non-cash items	**40,361**	63,854
Settlement of decommissioning liability obligations	**(1,580)**	(1,074)
Settlement of provisions	**(7,292)**	(2,240)
Increase in non-current deferred revenue	**64,392**	–
Change in employee future benefits	**1,168**	636
Change in non-cash working capital and foreign exchange	**254,579**	(72,131)
Cash provided by operating activities	**530,091**	45,325
Cash used in investing activities	**(243,405)**	(105,973)
Cash used in financing activities	**(50,699)**	(41,056)
Foreign exchange gain (loss) on foreign cash and cash equivalents	**548**	2,437
Net increase (decrease) in cash and cash equivalents	**236,535**	(99,267)
Cash and cash equivalents, beginning of year	**56,731**	155,998
Cash and cash equivalents at end of period	**$ 293,266**	$ 56,731

The Company expects to generate sufficient cash flows and have access to its credit facilities to meet contractual obligations, planned development and growth initiatives as and when they are required.

5.1 Cash Provided by Operating Activities

Cash provided by operating activities increased by $484.8 million from $45.3 million during 2011 to $530.1 million during 2012, primarily due to an increase in net income of $122.2 million, an increase in non-current deferred revenue of $64.4 million and an increase in non-cash working capital and foreign exchange of $326.7 million. This was partially offset by a decrease in cash provided by other non-cash items of $23.5 million. The cash provided by the change in non-cash working capital and foreign exchange increased by $331.7 million in 2012, mainly because of an increase in the current portion of deferred revenue of $349.6 million compared to a decrease of $27.3 million during 2011, and was partially offset by an increase in accounts receivable and inventory related to higher revenue.

5.2 Cash Used in Investing Activities

Cash used in investing activities increased by $137.4 million from $106.0 million during 2011 to $243.4 million during 2012, mainly due to higher purchases of short-term investments of $57.7 million, an increase of $51.1 million in loans receivable, an increase in the investment in property, plant and equipment of $18.5 million and the acquisition of Fineglade, which increased cash acquisition costs by $36.2 million over 2011.

5.3 Cash Used in Financing Activities

Cash used in financing activities increased by $9.6 million from $41.1 million during 2011 to $50.7 million during 2012, mainly due to an increase in dividend payments of $4.4 million and an increase of $2.4 million spent to repurchase the Company's shares in 2012 over 2011.

5.4 Liquidity and Capital Resource Measures

Accounts Receivable

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

(in thousands of Canadian dollars, except DSO)	2012	2011	Change
Average trade accounts receivable	**$ 281,625**	$ 236,275	$ 45,350
DSO[(a)]	**57**	62	5

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivable-net are outstanding based on a 90-day cycle. 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. See section 12 – Reconciliation of non-GAAP measures for additional information with respect to DSO.

Average trade accounts receivable increased by $45.4 million from $236.3 million as at December 31, 2011 to $281.6 million as at December 31, 2012 as a result of increased business activity. DSO decreased by 5 days from 62 during the same period, primarily due to the timing of sales and collection of receivables in the fourth quarter of 2012 compared to the fourth quarter of 2011.

Inventories

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

(in thousands of Canadian dollars)	2012	2011	Change
Inventories	**$ 202,887**	$ 146,786	$ 56,101

Inventories increased by $56.1 million from $146.8 million as at December 31, 2011 to $202.9 million as at December 31, 2012, due to an increase in raw materials inventory of approximately $47.4 million, an increase of $3.8 million in work in process and an increase of $10.6 million in finished goods inventory, in anticipation of work to be completed in the first half of 2013.

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)	2012	2011	Change
Average accounts payable and accrued liabilities	**$ 206,901**	$ 144,270	$ 62,631
DPO[(a)]	**70**	62	8

(a) DPO, a non-GAAP measure, is 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. 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. See section 12 – Reconciliation of non-GAAP measures, for additional information with respect to DPO.

Average accounts payable and accrued liabilities increased by $62.6 million, or 43%, from $144.3 million as at December 31, 2011, to $206.9 million as at December 31, 2012. DPO increased by 8 days in the same period, driven by an increase in accounts payable and accrued liabilities and the timing of purchases in the fourth quarter of 2012 compared with the prior year.

5.5 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)	2013	2014	2015	2016	2017	After 2017	Total
Operating leases	20,421	10,942	9,987	7,341	3,827	11,747	64,265
Decommissioning liabilities	3,109	1,314	5,627	142	–	24,172	34,364
Loans payable	8,395	8,682	–	–	–	–	17,077
Obligations under finance leases	2,566	4,922	1,684	1,684	1,684	8,664	21,204
Deferred purchase consideration	19,374	–	–	–	–	–	19,374
Total contractual obligations	53,865	25,860	17,298	9,167	5,511	44,583	156,284

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

(in thousands of Canadian dollars)	**2012**
Total future minimum lease payments	**$ 21,204**
Less: imputed interest	**(6,549)**
Balance of obligations under finance leases	**14,655**
Less: current portion	**(1,927)**
Non-current obligations under finance leases	**$ 12,728**

Legal Claims

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers, ex-employees 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. If the Company is unwilling to issue performance and other types of bonds, it could have a materially adverse effect on the ability of the Company to generate revenue. 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's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of $81.2 million as at December 31, 2012 (December 31, 2011 – $61.6 million) in support of its bonds.

The following table presents the Company's total credit facilities as at December 31:

(in thousands of Canadian dollars)	**2012**	2011
Total available credit facilities	**$ 251,688**	$ 236,168
Bank Indebtedness, Standby letters of credit for performance, bid and surety bonds	**84,979**	73,836
Unutilized credit facilities[(a)]	**$ 166,709**	$ 162,332

(a) Excludes the banking facilities of the Company's 30% owned joint venture, Arabian Pipe Coating Company Ltd. ("APCO"), which is held for sale.

On June 22, 2011, the Company renewed its Unsecured Committed Bank Credit Facility for a period of four years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was reduced from US$190.0 million to US$150.0 million, with an option to increase the credit limit to US$200.0 million with the consent of lenders.

Loans Payable

The Company's Russian joint venture has loans from OOO ArkhTekhnoProm and TES Limited Liability Company in the amount of 627 million Russian roubles payable on demand. The Company's portion of these loans has been proportionately consolidated and included on the consolidated balance sheet as at December 31, 2012 in the amount of $5.1 million or 157 million Russian roubles at the current exchange rate (December 31, 2011 – $5.1 million or 156 million Russian roubles at the then current exchange rate). Interest is calculated on these loans at 9.625% to 14.40% per annum and is to be paid over the period of actual use. In the event that the Company's Russian joint venture fails to repay the outstanding loan within the time specified by the loan agreement, a penalty in the amount of 24% per annum will be assessed on the outstanding loan amount on a daily basis.

The Company's Socotherm division and its subsidiaries had approximately $11.6 million of loans payable to joint venture partners and other parties. These loans are non-interest bearing and without additional covenants or restrictions. The current portion of these loans are payable upon demand.

Debt Covenants

Under the terms of the Company's credit facilities, the Company must maintain the following:

- Fixed Charge Coverage Ratio of more than 2.5 to 1; and
- Debt to total capitalization ratio of less than 0.40 to 1.

The Company was in compliance with the debt covenants detailed above as at December 31, 2012. These debt covenants are non-GAAP measures and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings prescribed by IFRS and are not necessarily comparable to similarly titled measures of other entities. See section 12 – Reconciliation of non-GAAP measures, for additional information with respect to these debt covenants.

5.6 Financial Instruments and Other Instruments

5.6.1 Fair Value

IFRS 7, Financial Instruments – Disclosure, 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, as 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, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2012 and does not include those instruments where the carrying amount is a reasonable approximation of the fair value:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Derivative financial instruments – current	$ 3,988	$ –	$ 3,988	$ –
	3,988	–	3,988	–
Liabilities				
Derivative financial instruments – current	1,275	–	1,275	–
	$ 1,275	$ –	$ 1,275	$ –

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. The fair values of the Company's remaining financial instruments are not materially different from their carrying values.

The following table presents the changes in the Level 3 fair value category for the year ended December 31, 2012:

(in thousands of Canadian dollars)	Fair value
Opening balance – January 1, 2011	$ 807
Additions	1,692
Balance – December 31, 2011	2,499
Gains recognized in the statement of income	(2,499)
Closing balance – December 31, 2012	**–**

5.6.2 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, 2012, 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 $50.5 million, $13.9 million and $10.5 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total shareholders' equity by $72.0 million, $52.0 million and $20.0 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.

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2012:

(in thousands of Canadian dollars)	Non Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial assets				
Cash equivalents	$ –	$ –	$ 32,800	$ 32,800
Loans receivable	3,386	3,745	–	7,131
	3,386	3,745	32,800	39,931
Financial liabilities				
Bank indebtedness	–	3,801	–	3,801
Loans payable	11,646	5,431	–	17,077
	$ 11,646	$ 9,232	$ –	$ 20,878

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 counter-party 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 counter parties, taking into account their financial position, past experience and other factors. Management also establishes and regularly reviews credit limits of counter parties and monitors utilization of those credit limits on an ongoing basis.

As at December 31, 2012 and 2011, ShawCor had no customers who generated revenue greater than 10% of total consolidated revenue.

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 statement 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, 2012, $26.6 million, or 9.3% of trade accounts receivable, were more than 90 days overdue, which is consistent with prior period aging analysis. 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 year ended December 31, 2012 and 2011:

(in thousands of Canadian dollars)	2012	2011
Balance – Beginning of year	$ **13,967**	3,775
Bad debt expense	**7,997**	9,160
Recovery of previously written-off bad debts	**(333)**	126
Write-offs of bad debts	**(11,000)**	(328)
Impact of change in foreign exchange rates	**(1,222)**	1,234
Balance – End of year	$ **9,409**	13,967

5.7 Outstanding Share Capital

As at February 22, 2013, the Company had 57,527,550 Class A Subordinate Voting shares outstanding and 12,760,635 Class B Multiple Voting shares outstanding. In addition, as at February 22, 2013, the Company had stock options outstanding to purchase up to 2,427,847 Class A Subordinate Voting shares.

6.0 Quarterly Selected Financial Information

The following tables set forth the Company's summary of selected financial information for the four quarters of 2012 and 2011:

(in thousands of Canadian dollars except per share amounts)	Q1-2012	Q2-2012	Q3-2012	Q4-2012
Operating Results				
Revenue	$ 312,268	$ 326,922	$ 395,275	$ **448,384**
Income from operations	30,855	22,795	67,277	**91,299**
Net income (attributable to shareholders of the Company)	23,274	21,404	53,438	**80,302**
Net income per share (Classes A and B)				
Basic	$ 0.33	$ 0.30	$ 0.76	$ **1.14**
Diluted	0.33	0.30	0.75	**1.13**

(in thousands of Canadian dollars except per share amounts)	Q1-2011	Q2-2011	Q3-2011	Q4-2011
Operating Results				
Revenue	$ 279,466	$ 264,541	$ 271,478	$ 341,780
Income from operations	30,095	22,660	(60)	31,212
Net income (attributable to shareholders of the Company)	20,485	15,703	(3,144)	23,236
Net income per share (Classes A and B)				
Basic	$ 0.29	$ 0.22	$ (0.04)	$ 0.32
Diluted	0.29	0.21	(0.04)	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 2012, 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 74% of the Company's revenue in 2012 is 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 2.2 - Foreign Exchange Impact, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.
- In the second half of 2012, the Company's revenue increased by 33% over the first half of 2012, primarily due to large projects commencing in the Asia Pacific region.

6.1 Fourth Quarter Highlights

Highlights of the Company's 2012 fourth quarter include:

Fourth Quarter 2012 Versus Fourth Quarter 2011

- **Revenue:** Consolidated revenue increased 31%, or $106.6 million, from $341.8 million during the fourth quarter of 2011 to $448.4 million during the fourth quarter of 2012, due to an increase of $109.6 million, or 36%, in the Pipeline and Pipe Services segment, partially offset by a decrease of $3.1 million, or 9% in the Petrochemical and Industrial segment. Revenue for the Pipeline and Pipe Services segment was significantly higher in the fourth quarter of 2012 than in the fourth quarter of 2011, as a result of increased activity in Asia Pacific and Latin America, partially offset by lower revenue in North America and EMAR. Revenue for the Petrochemical and Industrial segment was lower in the fourth quarter of 2012 than in the fourth quarter of 2011, mainly because of a decrease of 11% in North American revenue.
- **Operating Income:** Operating Income increased by $60.1 million, from $31.2 million during the fourth quarter of 2011 to $91.3 million during the fourth quarter of 2012. Gross profit increased by $51.5 million, primarily due to higher revenue and a higher gross margin percentage, a gain on sale of land of $12.1 million, a lower impairment loss on property, plant and equipment of $4.4 million, lower research and development expenses of $1.8 million and a foreign exchange gain of $0.8 million in the fourth quarter of 2012 compared to a foreign exchange loss of $0.5 million in the fourth quarter of 2011. These sources of income growth were partially offset by an increase in selling, general and administration ("SG&A") expenses of $6.8 million and an increase in amortization expenses pertaining to property, plant, equipment and intangible assets of $4.3 million. Higher revenue of $106.6 million, as explained above, combined with a 2.4 percentage point increase in gross margin, generated the increased gross profit, with the gross margin percentage improvement driven by favourable product and project mix and better facility utilization and absorption of overheads. SG&A expenses increased by $6.8 million compared with the fourth quarter of 2011 primarily due to a $3.0 million increase in salaries and other personnel related costs, expenses of $4.0 million related to the strategic review process announced in September 2012 and a $7.2 million increase in short and long term management incentive compensation accruals. These increases were partially offset by lower expenses for pensions and the provision for doubtful debts of $6.1 million. A $0.8 million impairment charge was recorded in the fourth quarter of 2012 to provide for costs to dismantle the plant, machinery and buildings at the Kembla Grange, Australia facility in anticipation of the sale of that facility's land that is expected to be completed in the next few months.
- **Finance Costs:** In the fourth quarter of 2012, net finance income was $1.0 million, compared to a net finance cost of $1.2 million during the fourth quarter of 2011, as a result of lower accretion expense on certain non-current liabilities and higher interest income on short-term deposits.
- **Income Taxes:** The Company recorded an income tax expense of $18.3 million (19% of income before income taxes) in the fourth quarter of 2012, compared to an income tax expense of $4.8 million (17% of income before income taxes) in the fourth quarter of 2011. The effective tax rate in the fourth quarter of 2012 was lower than the Company's expected effective income tax rate of 27%, due to the significant portion of the Company's taxable income that was earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the expected tax rate is 25% or less.
- **Net Income:** Net income increased by $57.1 million, from $23.2 million during the fourth quarter ended December 31, 2011 to $80.3 million during the fourth quarter ended December 31, 2012, mainly due to higher revenue and gross profit margins as explained above. In addition, an increase in the income on investment in associate (Fineglade Ltd., prior to the completion of the acquisition noted in section 1.0) of $8.0 million and a gain on the sale of land of $12.1 million were partially offset by higher income taxes of $13.5 million.

Fourth Quarter 2012 Versus Third Quarter 2012

- **Revenue:** Consolidated revenue increased by $53.1 million, or 13%, from $395.3 million during the third quarter of 2012 to $448.4 million during the fourth quarter of 2012, due to an increase of $55.9 million, or 16%, in the Pipeline and Pipe Services segment, partially offset by a decrease of $3.0 million, or 8%, in the Petrochemical and Industrial segment. Revenue for the Pipeline and Pipe Services segment in the fourth quarter of 2012 was $415.5 million, or $55.9 million higher than in the third quarter of 2012, primarily due to increased activity in Asia Pacific and Latin America, partially offset by lower revenue in EMAR and North America. Revenue for the Petrochemical and Industrial segment decreased by $3.0 million during the fourth quarter of 2012 compared to the third quarter of 2012, primarily due to lower activity levels in North America.
- **Operating Income:** Operating Income increased by $24.0 million from the third quarter of 2012 to $91.3 million during the fourth quarter of 2012. Gross profit increased by $18.3 million, primarily due to higher revenue of $53.1 million. Also contributing to the increase in operating income was a reduction in research and development expenses and the charge for impairment of property, plant and equipment of $1.2 million and $3.0 million, respectively, and a gain on sale of land of $12.1 million. These sources of higher income were partially offset by an increase in SG&A expenses of $7.5 million and higher amortization of property, plant, equipment and intangible assets of $3.5 million. SG&A expenses increased by $7.5 million compared with the third quarter of 2012 due to expenses of $4.0 million, related to the strategic review process and a $3.2 million increase in salaries and other personnel related costs. A $0.8 million impairment charge was recorded in the fourth quarter 2012 as noted above, compared to a charge of $3.9 million in the third quarter of 2012 pertaining to the Kembla Grange, Australia facility.
- **Finance Costs:** In the fourth quarter of 2012, net finance income was $1.0 million, compared to a net finance income of $0.2 million during the third quarter of 2012, as a result of the elimination of accretion expense on certain non-current liabilities.
- **Income Taxes:** The Company recorded an income tax expense of $18.3 million (19% of income before income taxes) in the fourth quarter of 2012, compared to an income tax expense of $14 million (21% of income before income taxes) in the third quarter of 2012. The effective tax rate in the fourth quarter of 2012 was lower than the Company's expected effective income tax rate of 27%, due to the significant portion of the Company's taxable income that was earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the expected tax rate is 25% or less.
- **Net Income:** Net income increased by $26.9 million, from $53.4 million during the third quarter ended September 30, 2012 to $80.3 million during the fourth quarter ended December 31, 2012, mainly due to higher revenue as explained above. In addition, a gain on the sale of land of $12.1 million and income on investment in associate of $6.0 million was partially offset by higher income taxes of $4.3 million and higher SG&A expenses of $7.5 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, 2012 and 2011. Furthermore, they have concluded that the Company's ICFRs were effective as at December 31, 2012. There were no material changes in either the Company's DC&Ps or its ICFRs during 2012.

7.1 Transactions with Related Parties

The Company had no material transactions with related parties during the year 2012 and all related party transactions were in the normal course of business, except for the proposed transaction with the Company's controlling shareholder described in section 3 – Significant Business Developments.

8.0 Critical Accounting Estimates and Accounting Policy Developments

8.1 Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets, liabilities and contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management's best 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

The Company evaluates the carrying values of the Cash Generating Units' ("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 writedowns 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.

Future Benefit Obligations

The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, long-term rates of return on pension plan assets, 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.

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 account of 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 statement 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

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. A corresponding asset equal to the present value of the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the decommissioning liability and the related long-lived asset. The amount capitalized in property, plant and equipment is depreciated on a straight line basis over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statement of income.

Actual expenditures incurred are charged against the accumulated decommissioning liability.

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, earnings and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada.

8.2 Accounting Standards Issues but Not Yet Applied

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models in *IAS 39, Financial Instruments – Recognition and Measurement,* for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. *IFRS 9* also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss).

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in *IAS 39,* except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income (loss).

The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to *IFRS 9* Mandatory Effective Date of *IFRS 9* and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015 with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 Consolidated Financial Statements

For annual periods beginning on January 1, 2013, *IFRS 10, Consolidated Financial Statements,* will replace portions of *IAS 27 Consolidated and Separate Financial Statements* and interpretation *SIC-12 Consolidation – Special Purpose Entities.* The new standard requires consolidated financial statements to include all controlled entities under a single control model. The Company will be considered to control an investee when it is exposed, or has rights to variable returns from its involvement with the investee, and has the current ability to affect those returns through its power over the investee. As required by this standard, control is reassessed as facts and circumstances change. All facts and circumstances must be considered to make a judgment about whether the Company controls another entity. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights and principal-agency relationships (including removal rights), all of which may differ from current practice.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 10* and will begin to report using *IFRS 10* starting in 2013.

IFRS 11 Joint Arrangements

On January 1, 2013, ShawCor will be required to adopt *IFRS 11, Joint Arrangements,* which applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 11* and will begin to report using *IFRS 11* starting in 2013.

IFRS 12 Disclosure of Interests in Other Entities

On January 1, 2013, ShawCor will be required to adopt *IFRS 12, Disclosure of Interests in Other Entities,* which includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. Due to this new standard, the Company will be required to disclose the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities and nature of the risks associated with interests in other entities.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 12* and will begin to report using *IFRS 12* starting in 2013.

IFRS 13 Fair Value Measurement

On January 1, 2013, ShawCor will be required to adopt *IFRS 13, Fair Value Measurement.* The new standard will generally converge the IFRS and U.S. Generally Accepted Accounting Principles requirements on how to measure fair value and the related disclosures. *IFRS 13* establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the Company will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 13* and will begin to report using *IFRS 13* starting in 2013.

IAS 1 Presentation of Financial Statements

The IASB amended *IAS 1, Presentation of Financial Statements,* by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit or loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted.

The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements and will begin to report using *IAS 1* amendments starting in 2013.

IAS 19 Employee Benefits

On January 1, 2013, ShawCor will be required to adopt *IAS 19, Employee Benefits.* The IASB has issued numerous amendments to *IAS 19*. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendments become effective for annual periods beginning on or after 1 January 2013. *IAS 19* is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IAS 19* and will begin to report using *IAS 19* starting in 2013.

IAS 27 Separate Financial Statements

On January 1, 2013, ShawCor will be required to adopt *IAS 27, Separate Financial Statements.* As a result of the issue of the new consolidation suite of standards, *IAS 27* has been reissued to reflect the changes to the consolidation guidance recently included in *IFRS 10.* In addition, *IAS 27* will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IAS 27* and will begin to report using *IAS 27* starting in 2013.

IAS 28 Investments in Associates and Joint Ventures

On January 1, 2013, ShawCor will be required to adopt *IAS 28, Investments in Associates and Joint Ventures.* As a consequence of the issue of *IFRS 10, IFRS 11 and IFRS 12, IAS 28* has been amended and will provide further accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not include control or joint control of those policy decisions. When it has been determined that the Company has an interest in a joint venture, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28.*

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IAS 28* and will begin to report using *IAS 28* starting in 2013.

9.0 Outlook

The outlook for market activity in the Company's Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is outlined below:

Pipeline and Pipe Services Segment – North America

Following a 10% increase in revenue in 2012, the Company expects that revenue from the pipeline and pipe services segment businesses in North America in 2013 will be consistent with 2012. The Company expects that increasing market share gains in spoolable composite pipe and at ShawCor's Guardian OCTG pipe inspection and refurbishment business, where the previously announced expansion into the Eagle Ford region of Texas is underway, should offset any weakness in well drilling and completions. The Company is currently experiencing healthy demand for large diameter pipe coating projects in Canada and this is expected to continue for the next few years based on bidding activity. Also expected to bolster activity in North America is the increase in project activity in the Gulf of Mexico which should translate into consistent project activity at the Company's Bredero Shaw and Socotherm facilities that supply the Gulf of Mexico offshore market.

Pipeline and Pipe Services Segment – Latin America

ShawCor expects that 2013 revenue for the Latin America region will be a continued source of growth for the Company particularly in light of the acquisition of Socotherm and its strong position in Argentina, Venezuela and Brazil. In 2012, the Company's Latin America region produced revenue growth of 348% with the launch in the second half of the year of the Company's mobile concrete coating site in Trinidad for the $90 million Technip project as well as the $40 million Linea 5 project at the Company's concrete coating facility in Mexico. Production on the Technip project will continue in the first half of 2013 with approximately half of the project complete at year end 2012. While activity in Mexico is expected to remain strong and consistent, the Company's Bredero Shaw facility in Brazil will likely not see a significant improvement in volumes until 2014.

Pipeline and Pipe Services Segment – EMAR

The Company's Europe, Middle East, Africa, Russia ("EMAR") region has experienced strong project revenue from the pipe coating facilities in Orkanger, Norway and Ras Al Khaimah, UAE and this is expected to continue in 2013, supported by the Company's recent acquisition of Socotherm which will contribute revenue from its facilities in Europe.

Pipeline and Pipe Services Segment – Asia Pacific

In 2012, the 73% growth in revenue generated by the Company's Asia Pacific region, particularly in the second half of 2012, was instrumental in the Company's overall growth. In 2013, Asia Pacific will again be the key source of growth for ShawCor. At December 31, 2012, the Company's backlog includes large projects for Chevron Wheatstone, Inpex Ichthys and Apache Julimar. With this backlog in hand, strong revenue growth from the Asia Pacific region is assured. The gains in facility utilization and strong operational performance on these projects already evident in the fourth quarter of 2012 indicate that 2013 revenue growth should be matched by gains in operating income.

Petrochemical and Industrial Segment

ShawCor's Petrochemical and Industrial segment businesses are significantly exposed to demand in the North American and European automotive and industrial markets. Although the outlook for demand in industrial markets in developed economies remains uncertain, the Company's strong order book should generate modest growth in 2013. In addition, the Company will be focused on seeking to capture market opportunities in areas less sensitive to the performance of the developed economies, such as growth in Asia at the DSG-Canusa China facility and the demand for highly engineered wire and cable systems related to nuclear facility refurbishment and continued oil sands and other resource development projects.

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, 2012 reached a new record level of $850 million, an increase of 17.7% from the level of $722 million at September 30, 2012 and also up 55.1% from the $548 million level reported one year ago. The reported backlog increased by $65 million in the quarter as a result of the completion of the Socotherm acquisition. Also contributing to backlog growth was the inclusion of a greater percentage of the orders booked in the Asia Pacific region that are expected to be executed in the upcoming twelve months. Including the value of booked projects that are expected to be executed beyond the next twelve months, the Company's order book at December 31, 2012 is approximately one billion dollars. In addition, the Company currently has outstanding bids with a value that exceeds one billion dollars. This order backlog and longer term order book supports our outlook for continued strong 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

An economic downturn could adversely affect demand for the Company's products and services and, consequently, its projections, business, results of operations and financial condition.

Demand for oil and natural gas is influenced by numerous factors, including the North American and worldwide economies as well as activities of the Organization of Petroleum Exporting Countries ("OPEC"). Economic declines impact demand for oil and natural gas and result in a softening of oil and gas prices and projected oil and gas drilling activity. If economic conditions or international markets decline unexpectedly, 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, additional declines in rig counts could result, particularly internationally, 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 2012. With this proportion expected to continue, the Company's revenue is materially dependent on the global Pipeline and Pipe Services industry. Any reduction in the anticipated growth 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.

A decline in global drilling activity 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 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 and tubular inspection and inventory management services.

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 in which it has completed detailed environmental audits at manufacturing and service locations across all eight divisions. Furthermore, the Company is committed to being an IIF workplace.

10.4 Political and Regulatory Risks

The Company's international 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 2012, the Company derived over 40% 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.

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 or 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 projections, business, results of operations and financial condition could be adversely affected by actions under Canadian, US 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 and US operations. If actions under Canadian, US 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 governments, 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

While environmental related liabilities are considered immaterial to the Company's financial results, they are important to the Company from a social responsibility standpoint. Refer to section 10.3 – HSE Risks for additional information with respect to the Company's environmental matters.

As at December 31, 2012, the accruals on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $22.9 million. The Company believes the accruals to be sufficient to fully satisfy all liabilities related to known environmental matters.

12.0 Reconciliation of Non-GAAP Measures

The Company evaluates its performance using a number of different measures that are not in accordance with GAAP and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings prescribed by IFRS. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities.

EBITDA

EBITDA, a non-GAAP measure, is defined as earnings before interest, income taxes, depreciation and amortization, impairment of property, plant, equipment, goodwill and intangible assets, gain on sale of land and accounting gain on acquisition. 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. Refer to section 2.1 – Selected Annual Information of this report for a reconciliation of the Company's EBITDA to its net income in accordance with GAAP.

Return on Equity ("ROE")

ROE, a non-GAAP measure, is defined as net income divided by average shareholders' equity over the year and is used by the Company to assess the efficiency of generating profits from each unit of shareholders' equity.

The following table sets forth the calculation of the Company's ROE as at December 31:

(in thousands of Canadian dollars)	2012	2011
Net income for the year	$ 178,418	$ 56,280
Average shareholders' equity	899,665	842,974
ROE	**19.8%**	6.7%

Free Cash Flow ("FCF")

FCF, a non-GAAP measure, is defined as operating cash flow less capital expenditures and dividends paid during the year. FCF is intended to demonstrate the amount of cash the Company has available to invest in capital growth initiatives and the ability to generate cash flows to maintain operations.

The following table sets forth the calculation of the Company's FCF as at December 31:

(in thousands of Canadian dollars)	2012	2011
Cash provided by operating activities	$ 530,091	$ 45,325
Less:		
Capital expenditures	(74,439)	(55,982)
Dividends paid	(26,332)	(21,930)
FCF	**$ 429,320**	$ (32,587)

Days Sales Outstanding ("DSO")

DSO is defined as the average 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 December 31:

(in thousands of Canadian dollars)	2012	2011
Average trade accounts receivable	**$ 281,625**	$ 236,275
Revenue for the fourth quarter	**448,384**	341,780
DSO	**57**	62

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. The following table sets forth the calculation for the Company's DPO as at December 31:

(in thousands of Canadian dollars)	2012	2011
Average accounts payable and accrued liabilities	**$ 206,901**	$ 144,270
Cost of goods sold for the Fourth quarter	**266,043**	210,985
DPO	**70**	62

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 December 31:

(in thousands of Canadian dollars)	2012	2011
Current assets	**$ 1,024,466**	$ 536,138
Current liabilities	**698,170**	248,996
Working capital ratio	**1.47**	2.15

Fixed Charge Coverage Ratio

Fixed Charge Coverage Ratio is defined as EBITDA divided by interest expense. The Company is required to maintain a fixed charge coverage ratio of more than 2.5 to 1 under the terms of its credit facilities. The following table sets forth the calculation of the Company's fixed charge coverage ratio for the twelve-month periods ended December 31, 2012 and December 31, 2011:

(in thousands of Canadian dollars)	2012	2011
EBITDA	**$ 266,886**	$ 128,168
Interest expense	**1,683**	5,531
Fixed charge coverage ratio	**158.6**	23.2

The Company is in compliance with this debt covenant as at December 31, 2012.

Debt to Total Capitalization Ratio

Debt to total capitalization ratio is defined as the sum of the Company's long-term debt and long-term bonds divided by the sum of shareholders' equity, long-term debt and long-term bonds. The Company is required to maintain a debt to total capitalization ratio of no more than 0.40 to 1. The Company is in compliance with this debt covenant as at December 31, 2012.

13.0 Subsequent Events

On March 20, 2013, the Company eliminated its dual-class share structure, as per its previously announced Plan of Arrangement ("Arrangement"), as laid out in section 3.1 – Strategic Review and Reorganization. The Arrangement was overwhelmingly approved by shareholders of ShawCor at a special meeting held on March 14, 2013. The Ontario Superior Court of Justice (Commercial List) issued a final order approving the Arrangement on March 18, 2013.

The Company also closed its previously announced unsecured senior note private placement in the amount of US$350 million and the increase of its existing unsecured revolving credit facility by US$100 million to US$250 million, the extension of the facility's term to five years and the reduction in interest rates payable thereunder. The Board of Directors of ShawCor has declared that the special dividend of $1.00 per common share of ShawCor, payable pursuant to the Arrangement, will be payable on April 19, 2013 to shareholders of record at the close of business on April 4, 2013.

14.0 Forward-Looking Information

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward-looking information" and "forward-looking statements" (collectively "forward-looking information) under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward-looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward-looking information in the Outlook section and elsewhere in respect of, among other things, the ability to achieve performance objectives, the sufficiency of resources and capital to meet market demand and to execute the Company's growth strategy, the timing of major project activity, the impact of the existing order backlog and other factors on the Company's revenue and operating income, the impact of global economic activity on the demand for the Company's products, 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 impact of changing laws for environmental compliance on the Company's capital and operating costs, and the adequacy of the Company's existing accruals in respect thereof and in respect of litigation matters generally, the level of payments under the Company's performance bonds, the outlook for revenue and operating income 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: changes in global or regional economic activity and changes in energy supply and demand, which impact on the level of drilling activity and pipeline 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 continued global economic recovery, increased investment in global energy infrastructure, 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 and the maintenance of operations in major oil and gas producing regions. 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.

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

March 1, 2013

Management's Responsibility for Financial Statements

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.

February 28, 2013

WILLIAM P. BUCKLEY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

GARY S. LOVE
VICE-PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Independent Auditors' Report

To the Shareholders of ShawCor Ltd.

We have audited the accompanying consolidated financial statements of ShawCor Ltd., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flow for the years ended December 31, 2012 and 2011, 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 audit 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, 2012 and 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Toronto, Canada
February 28, 2013

Consolidated Balance Sheets

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
ASSETS		
Current Assets		
Cash and cash equivalents NOTE 7	$ 293,266	$ 56,731
Short-term investments NOTE 8	78,747	10,545
Loan receivable NOTE 9	604	2,047
Accounts receivable NOTE 10	389,929	279,324
Income taxes receivable NOTE 24	13,675	15,981
Inventories NOTE 11	202,887	146,786
Prepaid expenses	41,370	24,454
Derivative financial instruments NOTE 24	3,988	270
	1,024,466	536,138
Non-current Assets		
Loans receivable NOTE 9	6,527	12,622
Property, plant and equipment NOTE 12	392,592	299,118
Intangible assets NOTE 13	144,694	86,362
Long-term Investment NOTE 15	1,348	30,095
Deferred income taxes NOTE 32	32,453	30,058
Other assets NOTE 16	12,638	12,022
Goodwill NOTE 17	285,710	220,334
	875,962	690,611
Assets held for sale NOTE 18	27,141	–
	$ 1,927,569	$ 1,226,749
LIABILITIES		
Current Liabilities		
Bank indebtedness NOTE 21	$ 3,801	$ 12,281
Loans payable NOTE 21	8,395	5,001
Accounts payable and accrued liabilities NOTE 19	224,497	156,064
Provisions NOTE 20	43,193	12,317
Income taxes payable NOTE 24	37,991	35,200
Derivative financial instruments NOTE 24	1,275	419
Deferred revenue NOTE 22	377,091	27,446
Obligations under finance lease NOTE 26	1,927	268
	698,170	248,996
Non-current Liabilities		
Loans payable NOTE 21	8,682	–
Obligations under finance lease NOTE 26	12,728	–
Provisions NOTE 20	54,151	50,859
Deferred revenue NOTE 22	64,392	–
Derivative financial instruments NOTE 24	–	2,499
Deferred income taxes NOTE 32	71,664	56,984
	211,617	110,342
Liabilities directly associated with the assets classified as held for sale NOTE 18	11,917	–
	921,704	359,338
Equity		
Share capital NOTE 27	221,687	218,381
Contributed surplus	17,525	16,391
Retained earnings	799,849	664,475
Non-controlling interest	(331)	–
Accumulated other comprehensive loss	(32,865)	(31,836)
	1,005,865	867,411
	$ 1,927,569	$ 1,226,749

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

PAUL G. ROBINSON, DIRECTOR

VIRGINIA L. SHAW, DIRECTOR

Consolidated Statements of Income

For the year ended December 31 (in thousands of Canadian dollars, except per share amounts)	2012	2011
Sale of products	$ 385,933	$ 332,242
Rendering of services	1,096,916	825,023
Revenue	1,482,849	1,157,265
Cost of Goods Sold and Services Rendered	904,362	735,266
Gross Profit	578,487	421,999
Selling, general and administrative expenses	308,172	269,241
Research and development expenses	12,242	13,119
Foreign exchange (gains) losses	(119)	1,338
Amortization of property, plant and equipment NOTE 12	45,133	41,906
Amortization of intangible assets NOTE 13	8,248	7,244
Gain on sale of land	(12,101)	–
Impairment of property, plant and equipment NOTE 14	4,686	5,244
Income from Operations	212,226	83,907
Accounting gain on acquisition – net NOTE 5	413	–
Income (loss) on investment in associate	8,694	(10,133)
Finance income (costs), net	1,318	(4,507)
Income Before Income Taxes	222,651	69,267
Income taxes NOTE 32	44,188	12,987
Net Income	178,463	56,280
Net Income Attributable to:		
Shareholders of the Company	178,418	56,280
Non-controlling interests	45	–
Net Income	$ 178,463	$ 56,280
Earnings per Share		
Basic NOTE 31	$ 2.53	$ 0.79
Diluted NOTE 31	$ 2.50	$ 0.78
Weighted Average Number of Shares Outstanding (000s)		
Basic NOTE 31	70,413	70,725
Diluted NOTE 31	71,278	71,536

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

Consolidated Statements of Comprehensive Income

For the year ended December 31 (in thousands of Canadian dollars)	2012	2011
Net Income for the Year	**$ 178,463**	$ 56,280
Other Comprehensive (Loss) Income		
Unrealized (loss) gain on translation of foreign operations	**(826)**	9,134
Gain on hedges of unrealized foreign currency translation	**–**	603
Gain on hedges of unrealized foreign currency translation transferred to net income during the period	**–**	(1,833)
Share of other comprehensive loss attributable to investment in associate	**–**	(3,081)
Income tax on other comprehensive (loss) income		
Gain on hedges of unrealized foreign currency translation	**–**	(103)
Gain on hedges of unrealized foreign currency translation transferred to net income during the period	**–**	311
Other Comprehensive (Loss) Income for the Year, Net of Income Tax	**(826)**	5,031
Comprehensive Income for the Year	**177,637**	61,311
Comprehensive Income Attributable to:		
Shareholders of the Company	**177,389**	61,311
Non-controlling interests	**248**	–
Comprehensive Income for the Year	**177,637**	61,311

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2012 (in thousands of Canadian dollars)	Capital Stock	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balance – December 31, 2010	**$ 206,775**	**$ 18,144**	**$ 644,191**	**$ –**	**$ (36,867)**	**$ 832,243**
Net income for the year	–	–	56,280	–	–	56,280
Issued on exercise of stock options	9,878	–	–	–	–	9,878
Compensation cost on exercised options	4,122	(4,122)	–	–	–	–
Compensation cost on exercised RSUs	7	(7)	–	–	–	–
Stock-based compensation expense	–	2,376	–	–	–	2,376
Purchase – Normal Course Issuer Bid	(2,401)	–	–	–	–	(2,401)
Excess of purchase price over stated value of shares	–	–	(14,066)	–	–	(14,066)
Other comprehensive income	–	–	–	–	5,031	5,031
Dividends paid NOTE 27	–	–	(21,930)	–	–	(21,930)
Balance – December 31, 2011	**$ 218,381**	**$ 16,391**	**$ 664,475**	**$ –**	**$ (31,836)**	**$ 867,411**
Net income for the year	**–**	**–**	**178,418**	**45**	**–**	**178,463**
Issued on exercise of stock options	**3,988**	**–**	**–**	**–**	**–**	**3,988**
Compensation cost on exercised options	**1,415**	**(1,415)**	**–**	**–**	**–**	**–**
Compensation cost on exercised RSUs	**79**	**(79)**	**–**	**–**	**–**	**–**
Stock-based compensation expense	**–**	**2,628**	**–**	**–**	**–**	**2,628**
Purchase – Normal Course Issuer Bid	**(2,176)**		**–**	**–**	**–**	**(2,176)**
Excess of purchase price over stated value of shares	**–**	**–**	**(16,712)**	**–**	**–**	**(16,712)**
Other comprehensive (loss) income	**–**	**–**	**–**	**203**	**(1,029)**	**(826)**
Acquisition of non-controlling interest	**–**	**–**	**–**	**(579)**	**–**	**(579)**
Dividends paid NOTE 27	**–**	**–**	**(26,332)**	**–**	**–**	**(26,332)**
Balance – December 31, 2012	**$ 221,687**	**$ 17,525**	**$ 799,849**	**$ (331)**	**$ (32,865)**	**$1,005,865**

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

Consolidated Statements of Cash Flow

For the year ended December 31 (in thousands of Canadian dollars)	2012	2011
OPERATING ACTIVITIES		
Net income for the year	$ 178,463	$ 56,280
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment NOTE 12	45,133	41,906
Amortization of intangible assets NOTE 13	8,248	7,244
Amortization of long-term prepaid expenses	900	754
Decommissioning obligations expense NOTE 20	(472)	425
Other provisions expense NOTE 20	1,457	4,362
Stock based and incentive based compensation NOTE 28	15,297	4,501
Deferred income taxes NOTE 32	(881)	(14,686)
(Gain) loss on disposal of property, plant and equipment	(416)	180
(Gain) on sale of land and other items	(12,101)	–
Accounting (gain) on acquisition NOTE 5	(9,445)	–
Investment (income) loss on long-term investment	(8,694)	10,133
Impairment of property, plant and equipment NOTE 14	4,686	5,244
Other	(3,351)	3,791
Settlement of decommissioning liability obligations NOTE 20	(1,580)	(1,074)
Settlement of other provisions NOTE 20	(7,292)	(2,240)
Increase in non-current deferred revenue	64,392	–
Net change in employee future benefits NOTES 20 AND 23	1,168	636
Net change in non-cash working capital and foreign exchange	254,579	(72,131)
Cash Provided by Operating Activities	530,091	45,325
INVESTING ACTIVITIES		
(Increase) in loan receivable	(62,085)	(10,911)
Net purchase of short term investments	(68,202)	(10,545)
Purchases of property, plant and equipment NOTE 12	(74,439)	(55,982)
Proceeds on disposal of land	12,722	–
Proceeds on disposal of property, plant and equipment	1,465	745
Purchase of intangible assets NOTE 13	(62)	(392)
Investment in associate NOTE 15	(2,824)	(10,517)
Loan provided to associate NOTES 9 AND 15	–	(10,347)
(Increase) decrease in other assets	(956)	4,815
Business acquisition NOTE 5	(49,024)	(12,839)
Cash Used in Investing Activities	(243,405)	(105,973)
FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness NOTE 21	(8,480)	12,281
Repayment of loan NOTE 30	(522)	–
Repayments of obligations under finance lease	(465)	(416)
Repayment of long-term debt NOTE 21	–	(24,402)
Issuance of shares on exercise of stock options NOTE 27	3,988	9,878
Repurchase of treasury shares NOTE 27	(18,888)	(16,467)
Dividends paid to shareholders NOTE 27	(26,332)	(21,930)
Cash Used in Financing Activities	(50,699)	(41,056)
Effect of Foreign Exchange on Cash and Cash Equivalents	548	2,437
Net Increase (Decrease) in Cash and Cash Equivalents for the Year	236,535	(99,267)
Cash and Cash Equivalents – Beginning of Year	56,731	155,998
Cash and Cash Equivalents – End of Year	$ 293,266	$ 56,731
Supplemental Information		
Cash interest paid	$ 765	$ 5,531
Cash interest received	1,959	1,024
Cash income taxes paid	$ 44,047	$ 35,379

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

Notes to the Consolidated Financial Statements

NOTE 1
CORPORATE INFORMATION

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 eight divisions with over 75 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 4.

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

NOTE 2
BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, applicable to the preparation of financial statements, including International Accounting Standard ("IAS") 1, *Presentation of Financial Statements*.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2012.

Basis of Presentation and Consolidation

The consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 3.

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 proportionate share in joint ventures.

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 3.

The results of the subsidiaries acquired during the period 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 ventures 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, 2012 were authorized for issue by the company's Board of Directors on February 28, 2013.

NOTE 3
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) 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. The costs of the acquisition transaction costs and any restructuring costs are charged to the consolidated statement 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.

b) Interest in Joint Ventures

The Company has interests in several jointly controlled entities ("joint ventures"), whereby joint control has been established by contractual agreements that establish joint control over the economic activities of the entity. The Company accounts for joint ventures using proportionate consolidation. As a result, the consolidated financial statements include the Company's proportionate share of the joint venture's assets and liabilities, income and expenses, and cash flow with items of a similar nature on a line by line basis, from the effective date that the joint control commenced, up to the date that joint control ceased. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

The Company recognizes the portion of gains or losses on the sale of assets by the Company to the joint venture that is attributable to the other venturers. The Company does not recognize its share of gains or losses from the joint venture that result from the Company's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

A listing of all jointly controlled entities is presented in note 30.

c) Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Company's entities 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 presentation and functional 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 period-end exchange rates of monetary assets and liabilities denominated in foreign functional currencies are recognized in the consolidated statement of income, except when deferred in other comprehensive income (loss) as qualifying net investment hedges.

Translation of Foreign Operations

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

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

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 taken 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 statement 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.

d) 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 excluding 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 and are performed under specific contracts. Revenue on these contracts is recognized using the percentage of completion method based on a proportional performance basis using output as a measure of performance. 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 until earned and realization is assured.

e) Cash and Cash Equivalents

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

f) Inventories

Inventories are measured at the lower of cost or net realizable value. Cost is determined on a first-in, first-out ("FIFO") 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 inventories 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 inventories is recognized at the time title passes to the Company.

g) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost less accumulated amortization and accumulated impairment. Direct costs are included in the asset's carrying amount or recognized as a separate asset, such as borrowing costs for long-term construction projects and major inspections, 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. The carrying amount of the replaced part is derecognized.

All other repair and maintenance costs are recognized in the consolidated statement 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 useful lives commencing when the asset is available for use on a straight line basis at the following annual rates:

- 100% for land improvements;
- 4% 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) is included in the consolidated statement of income in the year 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.

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) Deferred Costs

Costs related to the mobilization of project-specific plants for fixed term projects are included in work-in-process inventories and are charged to costs of goods sold on a percentage of completion basis. Such costs are to be included in inventories only if incurred after the Company is awarded the project and if directly related to the performance of the contract.

j) Intangible Assets

Intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is the fair value as 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 statement 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 the useful economic life 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 is reviewed at least at each year-end and adjusted prospectively if appropriate.

Intangible Assets with Indefinite Lives

Intangible assets with indefinite useful 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 Cash Generating Unit ("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 assets and are recognized in the consolidated statement of income when the asset is derecognized.

k) Impairment of Non-financial Assets

Assets that have indefinite useful 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 for 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 at the lowest levels for which there is a separately identifiable CGU. Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment whenever indicators exist.

l) 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 and carried at cost less accumulated impairment losses. Impairment losses 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, identified according to operating segment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 profit or loss of the investee, after the date of acquisition.

n) Employee Future Benefits

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The fair value of plan assets is recorded and included in "other assets" on the consolidated balance sheet.

The defined benefit obligation is determined by independent actuaries using the projected benefit method pro-rated on service. The present value of 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 pension obligation. Plan assets are valued at quoted market prices at the consolidated balance sheet date.

Past service costs arising from plan amendments are amortized on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, past service costs are recognized immediately in the consolidated statement of income following the introduction of, or changes to, a pension plan.

Net actuarial gains and losses that exceed 10% of the greater of the benefit obligation and the fair value of plan assets are amortized over the average remaining service lives of the employees who are members of the plan. For the Company's principal plans, these periods range from 5 years to 21 years.

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 statement of income as those services are provided.

o) 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 retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

p) Trade and Other Receivables

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.

q) 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 statement of income.

r) Financial Instruments

Financial assets include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in the consolidated statement of income. Interest income from financial assets at fair value through profit or loss is recognized in the consolidated statement of income as part of other income when the Company's right to receive payments is established.

Held-to-maturity financial assets, loans and receivables and other liabilities not held for trading are accounted for at amortized cost with related expenses charged to selling, general and administrative expenses in the consolidated statement of income.

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

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss, or other liabilities. Financial liabilities classified as fair value through profit or loss include derivative financial instruments. Any changes in fair value are recognized through the consolidated statement of income.

Loans and borrowings are initially recorded at fair value less any directly attributable transaction costs. After initial recognition, other 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 sheet as well as their designation by the Company under the new accounting standards:

Balance Sheet Item	Designation
Cash and cash equivalents	Loans and receivables
Short-term investments	Loans and receivables
Accounts receivable	Loans and receivables
Income taxes receivable	Loans and receivables
Loans receivable	Loans and receivables
Derivative financial instruments	Fair value through profit and loss
Assets held for sale	Available for sale financial assets
Bank indebtedness	Loans and borrowings
Loans payable	Loans and borrowings
Accounts payable and accrued liabilities	Loans and borrowings
Income taxes payable	Loans and borrowings
Deferred purchase consideration	Loans and borrowings
Other provisions	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 sheet 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 sheet, with gains or losses resulting from changes in fair value in a period charged or credited to foreign exchange gains and losses on the consolidated statement of income.

Financial instruments measured at fair value are categorized into one of the following three hierarchy levels 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 or liabilities assumed, is recognized in the consolidated statement 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 been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of 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 is recognized in the consolidated statement 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 statement of income.

Comprehensive Income
The Company's comprehensive income comprises net income and other comprehensive income (loss), which is made up of unrealized foreign currency gains or losses on the translation of the financial statements of foreign operations, unrealized gains or losses on available-for-sale financial assets, and changes in unrealized gains or losses on financial instruments designated as effective net investment hedges.

Accumulated Other Comprehensive Loss
Accumulated other comprehensive loss is included in the consolidated balance sheet as a separate component of shareholders' equity, and includes other comprehensive income (loss) accumulated over the years.

s) 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 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 and transferred to share capital if and when the option, unit or right is exercised. Options, units or rights that are settled with cash are classified as liability instruments in accordance with IFRS, as their terms require that they be settled in cash. Until the date of settlement, the liability associated with cash-settled options, units or rights is remeasured at the fair value at each reporting period, with any changes in the fair value recognized in the consolidated statement of income. Consideration received on the exercise of a stock option, right or unit is credited to share capital, when additional equity instruments are issued.

For cash-settled awards, the fair value is recalculated at each 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 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 statement of income. The fair value is recalculated using an option pricing model.

Awards where the employee has the right to choose whether a share-based transaction is settled in cash or by issuing equity, is accounted for as a compound financial instrument. The Company measures the fair value of the compound financial instrument as at the date of issue, taking into account the terms and conditions of the grant. Stock-based compensation awards that constitute compound financial instruments of the Company are classified as liability instruments on the consolidated balance sheet.

t) Research and Development Costs
In accordance with *IAS 38, Intangible Assets,* research and development expenditures are charged to the consolidated statement 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 asset is carried at cost less any accumulated amortization and accumulated impairment losses. 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 statement of income.

u) Income Taxes

Income tax expense for the period comprises current and deferred taxes. Tax is recognized in the consolidated statement of income, except to the extent that it relates 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 date 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 tax is not accounted for if it arises 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 profit 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 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 into income over the useful life of the asset.

v) 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.

w) Earnings Per Share (“EPS”)

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

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.

x) Segment Reporting

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

y) Use of Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent 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 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 writedowns 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.

Future Benefit Obligations

The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, long-term rates of return on pension plan assets, 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.

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 account of 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 statement 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

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. A corresponding asset equal to the present value of the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the decommissioning liability and the related long-lived asset. The amount capitalized in property, plant and equipment is depreciated on a straight line basis over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statement of income.

Actual expenditures incurred are charged against the accumulated decommissioning liability.

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, earnings and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada.

z) Accounting Standards Issued but Not Yet Applied

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models in *IAS 39, Financial Instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. *IFRS 9* also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss).

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in *IAS 39*, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income (loss).

The standard was initially effective for annual periods beginning on or after January 1, 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9* and *Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015 with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 Consolidated Financial Statements

For annual periods beginning on January 1, 2013, *IFRS 10, Consolidated Financial Statements*, will replace portions of *IAS 27 Consolidated and Separate Financial Statements* and interpretation *SIC-12 Consolidation – Special Purpose Entities*. The new standard requires consolidated financial statements to include all controlled entities under a single control model. The Company will be considered to control an investee when it is exposed, or has rights to variable returns from its involvement with the investee, and has the current ability to affect those returns through its power over the investee. As required by this standard, control is reassessed as facts and circumstances change. All facts and circumstances must be considered to make a judgment about whether the Company controls another entity. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights and principal-agency relationships (including removal rights), all of which may differ from current practice.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 10* and will begin to report using *IFRS 10* starting in 2013.

IFRS 11 Joint Arrangements

On January 1, 2013, ShawCor will be required to adopt *IFRS 11, Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 11* and will begin to report using *IFRS 11* starting in 2013.

IFRS 12 Disclosure of Interests in Other Entities

On January 1, 2013, ShawCor will be required to adopt *IFRS 12, Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. Due to this new standard, the Company will be required to disclose the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities and nature of the risks associated with interests in other entities.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 12* and will begin to report using *IFRS 12* starting in 2013.

IFRS 13 Fair Value Measurement

On January 1, 2013, ShawCor will be required to adopt *IFRS 13, Fair Value Measurement*. The new standard will generally converge the IFRS and U.S. Generally Accepted Accounting Principles requirements on how to measure fair value and the related disclosures. *IFRS 13* establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the Company will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IFRS 13* and will begin to report using *IFRS 13* starting in 2013.

IAS 1 Presentation of Financial Statements

The IASB amended *IAS 1, Presentation of Financial Statements*, by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit or loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted.

The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements and will begin to report using *IAS 1* amendments starting in 2013.

IAS 19 Employee Benefits

On January 1, 2013, ShawCor will be required to adopt *IAS 19, Employee Benefits*. The IASB has issued numerous amendments to *IAS 19*. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the

same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013. *IAS 19* is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IAS 19* and will begin to report using *IAS 19* starting in 2013.

IAS 27 Separate Financial Statements
On January 1, 2013, ShawCor will be required to adopt *IAS 27, Separate Financial Statements*. As a result of the issue of the new consolidation suite of standards, *IAS 27* has been reissued to reflect the changes to the consolidation guidance recently included in *IFRS 10*. In addition, *IAS 27* will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IAS 27* and will begin to report using *IAS 27* starting in 2013.

IAS 28 Investments in Associates and Joint Ventures
On January 1, 2013, ShawCor will be required to adopt *IAS 28, Investments in Associates and Joint Ventures*. As a consequence of the issue of *IFRS 10, IFRS 11* and *IFRS 12, IAS 28* has been amended and will provide further accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not include control or joint control of those policy decisions. When it has been determined that the Company has an interest in a joint venture, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28*.

The Company has not yet completed the process of evaluating the effect of and the planning for the transition to *IAS 28* and will begin to report using *IAS 28* starting in 2013.

NOTE 4
SEGMENT INFORMATION

ShawCor's operating segments are being reported based on the financial information provided to the Chief Executive Officer, who has been identified as the Chief Operating Decision-Maker ("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 operating income or loss in the consolidated financial statements. Interest income, finance costs and income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at December 31, 2012, 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.

Pipeline and Pipe Service
The Pipeline and Pipe Services segment comprises the following business units:

- Bredero Shaw, which provides pipe-coating, lining and insulation products;
- Flexpipe Systems, which provides spoolable composite pipe systems;
- Canusa–CPS, which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications;
- Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction;
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular; and
- Socotherm, which provides pipe coating, lining and insulation products.

Petrochemical and Industrial
The Petrochemical and Industrial segment comprises the following business units:

- 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 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 in IFRS.

Segment Information

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

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenue										
External	$ 1,337,236	$ 1,019,400	$ 145,613	$ 137,865	$ –	$ –	$ –	$ –	$ 1,482,849	$ 1,157,265
Inter-segment	641	1,699	1,455	215	–	–	(2,096)	(1,914)	–	–
	1,337,877	1,021,099	147,068	138,080	–	–	(2,096)	(1,914)	1,482,849	1,157,265
Operating expense	1,049,026	863,900	123,859	116,318	41,626	27,541	(2,096)	(1,914)	1,212,415	1,005,845
Research and development	9,084	10,220	1,143	1,285	2,015	1,614	–	–	12,242	13,119
Amortization of property, plant and equipment	41,227	38,045	2,180	2,235	1,726	1,626	–	–	45,133	41,906
Amortization of intangible assets	8,248	7,244	–	–	–	–	–	–	8,248	7,244
Impairment of property, plant and equipment	4,686	5,244	–	–	–	–	–	–	4,686	5,244
(Gain) on sale of land	(12,101)	–	–	–	–	–	–	–	(12,101)	–
Income (loss) from operations	$ 237,707	$ 96,446	$ 19,886	$ 18,242	$ (45,367)	$ (30,781)	$ –	$ –	$ 212,226	$ 83,907
Accounting gain on acquisition	413	–	–	–	–	–	–	–	413	–
Income (loss) on investment in associate	–	–	–	–	8,694	(10,133)	–	–	8,694	(10,133)
Interest income	940	–	2	–	2,059	1,024	–	–	3,001	1,024
Interest expense	(4,058)	–	(4)	–	2,379	(5,531)	–	–	(1,683)	(5,531)
Income tax expense	–	–	–	–	(44,188)	(12,987)	–	–	(44,188)	(12,987)
Goodwill	270,152	204,718	15,558	15,616	–	–	–	–	285,710	220,334
Total assets	1,733,851	1,047,206	124,324	75,218	933,985	812,480	(864,591)	(708,155)	1,927,569	1,226,749
Total liabilities	1,041,086	286,064	17,877	20,148	42,447	18,963	(179,706)	34,163	921,704	359,338
Additions to property, plant and equipment, net of disposals	$ 58,781	$ 50,096	$ 16,374	$ 2,975	$ 1,695	$ 1,986	$ –	$ –	$ 76,850	$ 55,057

Geographical Information

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

(in thousands of Canadian dollars)	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	2012 Total
Revenue							
External	$ 481,408	$ 214,260	$ 172,284	$ 276,887	$ 338,010	$ –	$ 1,482,849
Inter-segment	2,079	–	16	1	–	(2,096)	–
	483,487	214,260	172,300	276,888	338,010	(2,096)	1,482,849
Non-current assets[(a)]	$ 505,657	$ 412,185	$ 75,627	$ 170,756	$ 99,859	$ (405,852)	$ 858,232

(in thousands of Canadian dollars)	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	2011 Total
Revenue							
External	$ 418,258	$ 208,570	$ 38,401	$ 296,121	$ 195,915	$ –	$ 1,157,265
Inter-segment	1,598	218	97	1	–	(1,914)	–
	419,856	208,788	38,498	296,122	195,915	(1,914)	1,157,265
Non-current assets[(a)]	$ 569,652	$ 222,708	$ 72,457	$ 107,733	$ 91,077	$ (403,902)	$ 659,725

(a) Excluding financial instruments, deferred tax assets and post-employment benefits

NOTE 5
ACQUISITION

On October 24, 2012, the Company acquired the remaining 60% of Fineglade Limited (“Fineglade”). Fineglade which currently holds approximately 96% of the outstanding shares of Socotherm S.p.A., was previously owned 40% by ShawCor Ltd. and 60% by an entity controlled by Sophia Capital. Prior to the acquisition, the investment in Fineglade was shown as an investment in associate (December 31, 2011 – $30.1 million). After the acquisition the Company fully consolidates Fineglade and the financial results of its subsidiaries.

The total consideration for the acquisition of the remaining 60% of Fineglade was $144.7 million satisfied by a cash payment of $68.0 million (€52.3 million), the set-off of a pre-existing loan from ShawCor to Sophia Capital in the amount of $57.4 million (€44.6 million), deferred purchase consideration of $3.3 million (€2.6 million) and the settlement of other loans provided to Fineglade and the entity controlled by Sophia Capital in the amount of $16.0 million (US$16.0 million).

Significant judgments and assumptions made regarding the provisional purchase price allocation in the course of the acquisition of Fineglade and its ownership of Socotherm S.p.A. 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 intangible asset using risk adjusted discount rates and revenue forecasts as appropriate based upon the geographical regions.
- For the valuation of brand and intellectual property, the relief-from-royalty method was applied which included estimating the cost savings that result from the Company’s ownership of trademarks and licenses on which it does not have to pay royalties to a licensor. The intangible assets are then recognized at the present value of these savings. The corporate brand Socotherm was assumed to have an unlimited life due to its long history and respected market position.
- The Company has elected to measure the non-controlling interest in Socotherm S.p.A. at their proportionate share of the value of net identifiable assets acquired.

The following table shows the provisional purchase price allocation for the acquisition of Fineglade, and assigns the total consideration paid to the net assets acquired:

(in thousands of Canadian dollars)

Consideration (including fair value of existing 40% of Fineglade):	
Cash (net of cash acquired of $21,217)	**$ 46,819**
Set off of loan receivable from Sophia Capital	**57,406**
Deferred purchase consideration	**3,348**
Loans to be converted to equity	**15,953**
Fair value of 40% of Fineglade interest before the acquisition	**54,207**
	$ 177,733
Assets acquired at fair value:	
Current assets (excluding cash acquired of $21,217)	**$ 56,528**
Property, plant and equipment	**81,425**
Intangible assets	**68,627**
Deferred income tax assets	**6,067**
Other non-current assets	**19,369**
Assets held for sale (net)	**6,430**
Current liabilities assumed	**(69,135)**
Deferred income tax liabilities	**(19,127)**
Other non-current liabilities assumed	**(40,941)**
Total identifiable net assets at fair value	**$ 109,243**
Non-controlling interest	**579**
Goodwill	**67,911**
	$ 177,733

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.

The acquisition of the remaining 60% of Fineglade resulted in an accounting gain on acquisition, as follows:

Revaluation of the equity interest in Fineglade before the acquisition	**$ 13,131**
Other comprehensive income associated with previously held equity interest	**(3,685)**
Acquisition related costs	**(9,033)**
Accounting gain on acquisition – net	**$ 413**

NOTE 6
EMPLOYEE BENEFITS EXPENSE

The following table sets forth the Company's employee benefits expense for the periods indicated:

(in thousands of Canadian dollars)	**2012**	2011
Salaries, wages and employee benefits	**$ 392,704**	$ 344,949
Pension	**10,897**	11,275
Share-based and other incentive-based compensation NOTE 28	**15,297**	4,501
Total	**$ 418,898**	$ 360,725

NOTE 7
CASH AND CASH EQUIVALENTS

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

(in thousands of Canadian dollars)	**December 31 2012**	December 31 2011
Cash	**$ 260,466**	$ 56,731
Cash equivalents	**32,800**	–
	$ 293,266	$ 56,731

NOTE 8
SHORT-TERM INVESTMENTS

Short-term investments consist of liquid financial instruments with a maturity date greater than 90 days and less than one year.

NOTE 9
LOANS RECEIVABLE

The following table details the loans receivable as at:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Current		
Loan to associate[a]	$ –	$ 2,047
Loans receivable	604	–
	604	2,047
Non-current		
Notes receivable[b]	$ 3,745	$ 3,845
Loans receivable	2,782	–
Loan to associate[a]	–	8,777
	6,527	12,622
Total	$ 7,131	$ 14,669

(a) Loan to Fineglade.

(b) 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.

NOTE 10
ACCOUNTS RECEIVABLE

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

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Trade accounts receivable	$ 286,005	$ 268,119
Allowance for doubtful accounts NOTE 24	(9,409)	(13,967)
Unbilled revenue and other receivables	113,333	25,172
	$ 389,929	$ 279,324

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

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Current	$ 116,252	$ 157,142
Past due 1 to 30 days	88,588	44,423
Past due 31 to 60 days	38,815	28,968
Past due 61 to 90 days	15,703	13,596
Past due for more than 90 days	26,647	23,990
Total trade accounts receivable	286,005	268,119
Less: allowance for doubtful accounts	(9,409)	(13,967)
Trade accounts receivable – net[a]	$ 276,596	$ 254,152

(a) The trade accounts receivable – net balance above excludes unbilled revenue and other receivables outstanding in the amount of $113.3M and $25.2M as at December 31, 2012, December 31, 2011, respectively.

NOTE 11
INVENTORIES

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

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Raw materials and supplies	$ 146,049	$ 98,688
Work-in-progress	18,725	14,493
Finished goods	54,601	43,992
Inventory obsolescence	(16,038)	(10,387)
	$ 202,887	$ 146,786

During the year 2012, the Company recorded an increase of $5.7 million in the provision for inventory obsolescence, due to the build-up of certain excess raw materials. During the year 2011, the Company recorded a recovery of $0.6 million on the provision for inventory obsolescence, due to certain excess raw materials being allocated to new projects.

NOTE 12
PROPERTY, PLANT AND EQUIPMENT

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

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in-Progress	Total
Cost					
Balance – January 1, 2011	$ 38,935	$ 131,496	$ 537,269	$ 18,195	$ 725,895
Exchange differences	1,465	235	(6,547)	(2,804)	(7,651)
Additions	13	6,336	45,642	3,991	55,982
Acquisitions	–	–	6,150	–	6,150
Decommissioning liabilities and others	–	–	2,026	–	2,026
Disposals	(703)	(1,988)	(13,075)	(46)	(15,812)
Balance – December 31, 2011	$ 39,710	$ 136,079	$ 571,465	$ 19,336	$ 766,590
Exchange differences	**(3,495)**	**(981)**	**(3,510)**	**(2,486)**	**(10,472)**
Additions	**4,959**	**3,015**	**50,726**	**15,739**	**74,439**
Acquisitions	**7,942**	**37,806**	**33,632**	**3,760**	**83,140**
Assets held for sale	**(73)**	**(976)**	**(23,063)**	**–**	**(24,112)**
Decommissioning liabilities and others	**11,767**	**1,868**	**(9,438)**	**–**	**4,197**
Disposals	**(131)**	**(4,071)**	**(25,434)**	**(1,027)**	**(30,663)**
Balance – December 31, 2012	**$ 60,679**	**$ 172,740**	**$ 594,378**	**$ 35,322**	**$ 863,119**
Accumulated Amortization					
Balance – January 1, 2011	$ (11,751)	$ (73,178)	$ (324,205)	$ –	$ (409,134)
Exchange differences	947	2,915	1,697	–	5,559
Amortization expense	(2,334)	(7,925)	(28,055)	–	(38,314)
Decommissioning liabilities and others	–	–	(3,592)	–	(3,592)
Eliminated on disposal	569	1,494	8,701	–	10,764
Balance – December 31, 2011	$ (12,569)	$ (76,694)	$ (345,454)	$ –	$ (434,717)
Exchange differences	**(924)**	**(2,783)**	**4,850**	**–**	**1,143**
Amortization expense	**(2,655)**	**(3,039)**	**(38,260)**	**–**	**(43,954)**
Assets held for sale	**17**	**976**	**18,616**	**–**	**19,609**
Decommissioning liabilities and others	**(797)**	**(38)**	**(344)**	**–**	**(1,179)**
Eliminated on disposal	**–**	**1,658**	**18,369**	**–**	**20,027**
Balance – December 31, 2012	**$ (16,928)**	**$ (79,920)**	**$ (342,223)**	**$ –**	**$ (439,071)**
Accumulated Impairment					
Balance – January 1, 2011	$ (2,494)	$ (6,326)	$ (20,244)	$ –	$ (29,064)
Exchange differences	8	87	1,458	–	1,553
Impairment	–	(659)	(4,585)	–	(5,244)
Eliminated on disposal	–	–	–	–	–
Balance – December 31, 2011	$ (2,486)	$ (6,898)	$ (23,371)	$ –	$ (32,755)
Exchange differences	**(10)**	**(64)**	**(1,075)**	**–**	**(1,149)**
Impairment	**–**	**(234)**	**(4,452)**	**–**	**(4,686)**
Eliminated on disposal	**–**	**–**	**7,134**	**–**	**7,134**
Balance – December 31, 2012	**$ (2,496)**	**$ (7,196)**	**$ (21,764)**	**$ –**	**$ (31,456)**
Net Book Value					
As at January 1, 2012	24,655	52,487	202,640	19,336	299,118
As at December 31, 2012	**$ 41,255**	**$ 85,624**	**$ 230,391**	**$ 35,322**	**$ 392,592**

NOTE 13
INTANGIBLE ASSETS

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

(in thousands of Canadian dollars)	Intellectual Property, with Limited Life[(a)]	Intangible Assets, with Limited Life[(b)]	Intangible Assets, with Indefinite Life[(c)]	Total
Cost				
Balance – January 1, 2011	$ 65,004	$ 36,844	$ 1,931	$ 103,779
Exchange differences	(665)	(2,411)	–	(3,076)
Additions	351	41	–	392
Acquisition of a subsidiary	–	3,868	675	4,543
Disposals and write-offs	(227)	(400)	(331)	(958)
Balance – December 31, 2011	$ 64,463	$ 37,942	$ 2,275	$ 104,680
Exchange differences	**(441)**	**(2,845)**	**7**	**(3,279)**
Additions	**62**	**–**	**–**	**62**
Acquisition of a subsidiary	**14,621**	**51,338**	**3,382**	**69,341**
Disposals and write-offs	**–**	**–**	**–**	**–**
Balance – December 31, 2012	**$ 78,705**	**$ 86,435**	**$ 5,664**	**$ 170,804**
Accumulated Amortization				
Balance – January 1, 2011	$ (9,498)	$ (1,970)	$ –	$ (11,468)
Foreign exchange	(599)	993	–	394
Amortization	(3,731)	(3,513)	–	(7,244)
Balance – December 31, 2011	$ (13,828)	$ (4,490)	$ –	$ (18,318)
Exchange differences	**124**	**332**	**–**	**456**
Amortization	**(4,565)**	**(3,683)**	**–**	**(8,248)**
Balance – December 31, 2012	**$ (18,269)**	**$ (7,841)**	**$ –**	**$ (26,110)**
Accumulated Impairment				
Balance – January 1, 2011	$ (227)	$ (400)	$ (331)	$ (958)
Disposals and write-offs	227	400	331	958
Balance – December 31, 2011	$ –	$ –	$ –	$ –
Disposals and write-offs	**–**	**–**	**–**	**–**
Balance – December 31, 2012	**$ –**	**$ –**	**$ –**	**$ –**
Net Book Value				
As at January 1, 2011	$ 55,279	$ 34,474	$ 1,600	$ 91,353
As at December 31, 2011	$ 50,635	$ 33,452	$ 2,275	$ 86,362
As at December 31, 2012	**$ 60,436**	**$ 78,594**	**$ 5,664**	**$ 144,694**

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

(b) Intangible assets, with limited life, represents trademarks, customer relationships and non-competition agreements acquired directly or in conjunction with a past business combination. The Company amortizes the cost of intangible assets with limited life over its estimated useful life of 15 years. The net book value of customer relationship as at December 31, 2012 is $75.6 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 the Flexpipe and the Socotherm acquisitions. 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 14
IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

During 2012, the closure of the Kembla Grange, Australia facility resulted in a further impairment loss of $4.7 million to dismantle, sell and scrap equipment and buildings in order to make the land ready for sale.

During fiscal 2011, qualitative factors such as line reductions, reduced levels of drilling activity, project outlook in certain regions and low capacity utilization coupled with the lingering impact of the financial crisis of 2008 had an impact on some CGUs of the Company, which were dependent on a few major projects that were coming close to completion. More specifically, indications were that two production plants in the Company's Bredero Shaw group of CGUs may be impaired. These two production plants are located in Leith, United Kingdom and Kembla Grange, Australia. In Leith, the existing facility lease was not likely to be renewed upon expiration and therefore the Company expected to close the facility in 2013. In Kembla Grange, Australia, the project outlook for 2012 and beyond was not encouraging and the Company had decided to close the facility by the third quarter of 2012. In Sharjah, U.A.E., the Company had been awarded a major contract and the outlook for the next 5 years had improved. Consequently, there was a reversal of previously recorded impairment. Each one of these production plants is a separate CGU in the Pipeline and Pipe services segment.

(in thousands of Canadian dollars)	Leith, Scotland	Kembla Grange, Australia	Sharjah, U.A.E.	Total
December 31, 2011				
Buildings	$ 218	$ 461	$ –	$ 679
Plant, machinery, and equipment	1,831	3,491	(757)	4,565
Impairment charge	$ 2,049	$ 3,952	$ (757)	$ 5,244

(in thousands of Canadian dollars)	**Leith, Scotland**	**Kembla Grange, Australia**	**Sharjah, U.A.E.**	**Total**
December 31, 2012				
Buildings	**$ –**	**$ 234**	**$ –**	**$ 234**
Plant, machinery, and equipment	**–**	**4,452**	**–**	**4,452**
Impairment charge	**$ –**	**$ 4,686**	**$ –**	**$ 4,686**

Recoverable Amount

The Company determines the recoverable amount for its CGUs, as the higher of Value In Use ("VIU") and the CGUs Fair Value Less Costs to Sell ("FVLCS"). For the property, plant and equipment impairment test, the VIU of each of the CGUs (except for Kembla Grange, Australia) was higher than the CGUs FVLCS. The Company determines the recoverable amount for its CGUs using the VIU model for the purpose of testing property, plant and equipment for impairment. VIU calculations use pre-tax cash flow projections based on three-year financial business plans ("Business Plans") approved by the Board of Directors. Management also determined budgeted gross margin based on past performance and its expectations of market developments. Cash flows beyond the three-year period are extrapolated using estimated growth rates as applicable. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The VIU is determined by discounting the future cash flows generated from the Company's continuing use of the respective CGU. The discount rates used are pre-tax and reflect specific risks relating to the CGU. The discounted cash flow model employed by the Company reflects the specific risks of each CGU and its business environment. The model calculates the VIU as the present value of the projected free cash flows and the terminal value of each CGU. To ensure the reasonability of the VIU estimate, the VIU calculation for each CGU was compared to the CGUs FVLCS amount.

Details relating to the discounted cash flow models used in the impairment tests of the property, plant and equipment balances are as follows:

	Leith, Scotland	Kembla Grange, Australia	Sharjah, U.A.E.
December 31, 2011			
Valuation basis	Value-in-use	FVLCS	Value-in-use
Period of specific projected cash flows	2 years	1 year	3 years
Discount rate	20.1%	–	15.7%
Growth rate	0.0%	n/a	(a)

	Leith, Scotland	**Kembla Grange, Australia**	**Sharjah, U.A.E.**
December 31, 2012			
Valuation basis	**Value-in-use**	**FVLCS**	**Value-in-use**
Period of specific projected cash flows	**1 year**	**–**	**2 years**
Discount rate	**20.1%**	**–**	**15.7%**
Growth rate	**n/a**	**n/a**	**(a)**

(a) The property, plant and equipment at the Sharjah CGU were assumed to have been redeployed to other sites of the Company at the end of forecast period. The terminal values for the redeployed assets were estimated as the amount that other divisions would be expected to pay for these redeployed assets; as a result, no terminal growth rates were applied to this CGU.

NOTE 15 LONG-TERM INVESTMENTS

The following table sets forth the Company's long-term investment as at December 31:

(in thousands of Canadian dollars)	**December 31 2012**	December 31 2011
Investment in associate subject to significant influence (refer to note 5)	**$ –**	$ 30,095
Other long-term investment	**1,348**	–
	$ 1,348	$ 30,095

Other Long-term Investment

The equity investment carried at a cost of $1,348 is primarily related to a Socotherm Americas S.A. investment in an agricultural company in Argentina. Socotherm Americas S.A. is a subsidiary of Socotherm S.p.A.

NOTE 16 OTHER ASSETS

The following table details the other assets as at December 31:

(in thousands of Canadian dollars)	**December 31 2012**	December 31 2011
Long-term prepaid expenses	**$ 9,089**	$ 9,146
Deposit guarantee	**212**	–
Defined employee future benefit asset	**3,337**	2,876
	$ 12,638	$ 12,022

NOTE 17 GOODWILL

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

(in thousands of Canadian Dollars)	**December 31 2012**	December 31 2011
Gross amount of goodwill	**$ 220,542**	$ 215,412
Accumulated impairment	**(208)**	(208)
Balance – Beginning of year	**220,334**	215,204
Acquisitions	**68,945**	1,880
Foreign exchange	**(3,569)**	3,250
Balance – End of year	**$ 285,710**	$ 220,334

In 2012, goodwill acquired during the year was a result of the acquisitions of Fineglade and Magnum Tubular Inspection, LLC, which is a part of the Guardian division. During 2011, the Company acquired certain coating assets and business of Altus Energy Services.

The following table summarizes the significant carrying amounts of goodwill:

(in thousands of Canadian dollars)	**December 31 2012**	December 31 2011
Bredero Shaw (excluding BSRTL)	**$ 138,614**	$ 140,744
Thermotite Brasil Ltda & BS Servicios de Injecao (collectively BSRTL)	**13,184**	14,244
Flexpipe Systems	**49,730**	49,730
DSG-Canusa GmbH	**15,558**	15,616
Guardian	**1,011**	–
Socotherm S.p.A.	**67,613**	–
	$ 285,710	$ 220,334

a) Impairment Testing for Each Reporting Unit Containing Goodwill

The Company performs a goodwill impairment test for each specified Group of CGUs ("GCGU") that contains goodwill at the Company's traditional annual goodwill impairment testing date of October 31 ("Annual Goodwill Valuation Date"). At the Annual Goodwill Valuation Date of October 31, 2011 and October 31, 2012, 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 amount.

b) Recoverable Amount

The Company determines the recoverable amount for its GCGUs as the higher of VIU and the FVLCS. For the goodwill impairment test, the FVLCS of each of the GCGUs was higher than its VIU. FVLCS calculations use post-tax cash flow projections based on three-year financial Business Plans approved by the Company's Board of Directors, 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 growth rate does not exceed the long-term average growth rate for the business in which the GCGUs operate. 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 flow and the Terminal Value of each GCGU.

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

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

Projected Cash Flow

The Projected Cash Flow for each GCGU is derived from the most recently completed 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 capital assets. Estimating future earnings 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 flow for a particular GCGU.

Discount Rate

Discount rates represent 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. 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 impairment tests:

(in thousands of Canadian dollars)	**October 31, 2012**	October 31, 2011
Bredero Shaw (excluding BSRTL)	**11%**	11%
Thermotite Brasil Ltda & BS Servicios de Injeção (collectively BSRTL)	**14%**	14%
Flexpipe Systems	**12%**	13%
DSG-Canusa GmbH	**12%**	12%

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

Sensitivity to Changes in Assumptions

With regard to the assessment of FVLCS of the Bredero Shaw, BSRTL, Flexpipe Systems and DSG-Canusa GmbH GCGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, as estimated by the GCGU's FVLCS.

NOTE 18
ASSETS CLASSIFIED AS HELD FOR SALE

In October 2012, the Company entered into negotiations with its joint venture partners in Arabian Pipecoating Company Ltd. ("APCO"), located in the Kingdom of Saudi Arabia, for the sale of its 30% investment. Up to September 30, 2012, the financial results of APCO were consolidated proportionately as the Company's share of the joint venture. As at December 31, 2012, the Company's proportionate share of the assets and liabilities in the joint venture have been reclassified as assets held for sale and liabilities held for sale, respectively.

With the acquisition of Fineglade, and its subsidiaries, additional assets and liabilities are classified as held for sale.

The following table shows the major classes of assets and liabilities of APCO and Fineglade and its subsidiaries classified as held for sale as at December 31, 2012:

(in thousands of Canadian dollars)	2012
Assets	
Cash	$ 5,984
Trade receivables (net of bad debt provision)	10,747
Prepaids	976
Inventory	3,161
Property, plant and equipment (net of accumulated amortization)	6,202
Deferred tax assets	40
Income taxes receivable	31
Assets classified as held for sale	$ 27,141
Liabilities	
Trade payables	(5,694)
Accrued liabilities	(3,430)
Income and withholding taxes payable	(2,793)
Liabilities directly associated with assets classified as held for sale	(11,917)
Net assets directly associated with disposal groups	**$ 15,224**

NOTE 19
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table sets forth the Company's trade and other payables as at December 31:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Trade payables	$ 87,052	$ 60,556
Accrued liabilities	137,445	95,508
	$ 224,497	$ 156,064

NOTE 20
PROVISIONS

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

(in thousands of Canadian dollars)	Decommissioning Liabilities	Deferred Purchase Consideration[(a)]	Defined Employee Future Benefit Liability	Other Provisions	Total
Balance – January 1, 2011	$ 20,685	$ 13,269	$ 9,161	$ 9,801	$ 52,916
Provision adjustments	3,188	–	6,020	6,519	15,727
Settlement of liabilities	(1,074)	–	(5,392)	(2,240)	(8,706)
Accretion expense	443	1,053	–	–	1,496
Foreign exchange differences	157	1,205	8	(121)	1,249
Loss on settlement	(18)	–	–	(7)	(25)
Other	–	–	539	(20)	519
Balance – December 31, 2011	$ 23,381	$ 15,527	$ 10,336	$ 13,932	$ 63,176
Provision adjustments	**3,301**	**3,426**	**4,619**	**35,006**	**46,352**
Settlement of liabilities	**(1,580)**	**–**	**(6,114)**	**(1,178)**	**(8,872)**
Accretion expense	**256**	**867**	**–**	**–**	**1,123**
Foreign exchange differences	**(52)**	**(446)**	**(35)**	**348**	**(185)**
Loss on settlement	**(3,246)**	**–**	**–**	**–**	**(3,246)**
Other	**(206)**	**–**	**531**	**(1,329)**	**(1,004)**
Balance – December 31, 2012	**$ 21,854**	**$ 19,374**	**$ 9,337**	**$ 46,779**	**$ 97,344**
January 1, 2011					
Current	3,211	–	–	4,681	7,892
Non-current	17,474	13,269	9,161	5,120	45,024
	$ 20,685	$ 13,269	$ 9,161	$ 9,801	$ 52,916
December 31, 2011					
Current	6,001	–	–	6,316	12,317
Non-current	17,380	15,527	10,336	7,616	50,859
	$ 23,381	$ 15,527	$ 10,336	$ 13,932	$ 63,176
December 31, 2012					
Current	**3,155**	**19,374**	**–**	**20,664**	**43,193**
Non-current	**18,699**	**–**	**9,337**	**26,115**	**54,151**
	$ 21,854	**$ 19,374**	**$ 9,337**	**$ 46,779**	**$ 97,344**

(a) The deferred purchase consideration represents contingent consideration payable in the amount of $3,426 in connection with the acquisition of SO-4 and Fineglade, and $15,948 of contingent consideration payable in connection with the previous acquisition of Thermotite Brasil Ltda. and BS Servicios de Injeção.

Decommissioning Liabilities

The total undiscounted cash flow which is estimated to be required to settle all decommissioning liabilities is $34.4 million, $26.7 million and $25.4 million as at December 31, 2012, December 31, 2011 and January 1, 2011, respectively, and the current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.25% and 17.8%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

NOTE 21
CREDIT FACILITIES AND LONG-TERM DEBT

Credit Facilities

The following table sets forth the Company's total credit facilities as at December 31:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Bank indebtedness[a]	$ 3,801	$ 12,281
Standard letters of credit for performance, bid and surety bonds NOTE 26	81,178	61,555
Total utilized credit facilities	84,979	73,836
Total available credit facilities[b]	251,688	236,168
Unutilized credit facilities	$ 166,709	$ 162,332

(a) Excludes the banking facilities of the Company's 30% owned joint venture, Arabian Pipe Coating Company Ltd.

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

On June 22, 2011, the Company renewed its Unsecured Committed Bank Credit Facility for a period of four years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was reduced by US$40.0 million from US$190.0 million to US$150.0 million, with an option to increase the credit limit to US$200.0 million with the consent of lenders.

Debt Covenants

The Company has undertaken to maintain certain covenants in respect of its Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain a Fixed Charge Coverage Ratio (Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") divided by interest expense) of more than 2.5 to 1 and a debt to total capitalization ratio of less than 0.40 to 1. The Company is in compliance with these covenants as at December 31, 2012 and 2011.

Loans Payable

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

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Loans payable – current	$ 8,395	$ 5,001
Loans payable – non-current	8,682	–
	$ 17,077	$ 5,001

NOTE 22
DEFERRED REVENUE

During the year ended December 31, 2012, certain customers provided advance payments on long-term contracts, taking the total value of deferred revenue to $441.5 million as at December 31, 2012. Of this amount $377.1 million was included in current liabilities and $64.4 million in non-current liabilities.

NOTE 23
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 earning plans for salaried employees. The Company also provides a post-retirement life insurance benefit to its Canadian retirees and a post-employment benefit to its hourly and salaried employees in Indonesia.

The total cash payments made by the Company to fund defined benefit and defined contribution pension plans during 2012 were $13.0 million (2011 – $10.6 million). The Company measures the fair value of assets and accrued benefit obligations as at December 31. Actuarial valuations for the Company's six ongoing registered defined benefit pension plans and the SERP arrangement are generally required at least every three years. The most recent actuarial valuations of the plans were conducted as at December 31, 2009 (two plans), January 1, 2011 (one plan), August 1, 2010 (one plan), December 31, 2011 (two plans) and January 1, 2012 (one plan).

The principal assumptions made by the actuaries for the actuarial valuation of the plans were:

	2012	2011
Canada		
Defined benefit obligation		
Discount rate	**4.00%**	4.60%
Salary increase	**4.00%**	4.00%
Increases to pensions in pay	**n/a**	n/a
Mortality	**UP94 (generational)**	UP94@2020
Benefit expense of year ended December 31		
Discount rate	**4.60%**	5.30%
Expected rate of return on assets	**6.25%**	6.50%
Salary increase	**4.00%**	4.00%
Norway		
Defined benefit obligation		
Discount rate	**3.90%**	2.60%
Salary increase	**3.50%**	3.50%
Increases to pensions in pay	**0.50%**	0.60%
Mortality	**K2005**	K2005
Benefit expense of year ended December 31		
Discount rate	**2.60%**	4.00%
Expected rate of return on assets	**4.10%**	5.40%
Salary increase	**3.50%**	4.00%
United Kingdom		
Defined benefit obligation		
Discount rate	**4.40%**	5.00%
Salary increase	**n/a**	n/a
Increases to pensions in pay	**2.60%**	2.20%
Mortality	**S1PA (projected)**	S1PA (projected)
Benefit expense of year ended December 31		
Discount rate	**5.00%**	5.70%
Expected rate of return on assets	**4.96%**	6.19%
Salary increase	**n/a**	n/a
Indonesia		
Defined benefit obligation		
Discount rate	**6.00%**	6.70%
Salary increase	**10.00%**	10.00%
Inflation rate	**n/a**	n/a
Mortality	**CSO80**	CSO80
Benefit expense of year ended December 31		
Discount rate	**6.70%**	7.97%
Expected rate of return on assets	**n/a**	n/a
Salary increase	**10.00%**	10.00%

The overall expected long-term return on plan assets is management's best estimate of long-term future investment returns, taking into account the long-term asset allocation targets for the plans as outlined in the current investment policy and the expected long-term return for each asset class.

The amounts recognized in the consolidated balance sheet are as follows:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Accrued employee future benefit asset		
Pension plans	**$ 3,337**	$ 2,876
Post-employment benefit	**–**	–
Post-retirement life insurance	**–**	–
Accrued employee future benefit liability		
Pension plans	**(7,000)**	(8,309)
Post-employment benefit	**(2,051)**	(1,757)
Post-retirement life insurance	**(286)**	(270)
Net accrued future employee benefit liability	**$ (6,000)**	$ (7,460)

The following was the composition of plan assets at the balance sheet dates, as a percentage of total plan assets, for the registered Canadian employee future benefit plans:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Equities	**62%**	59%
Fixed income	**33%**	37%
Real estate	**–**	–
Other	**5%**	4%
	100%	100%

The following was the composition of plan assets at the balance sheet dates, as a percentage of total invested plan assets, for the SERP plan[a]:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Equities	**99%**	96%
Fixed income	**–**	–
Real estate	**–**	–
Other	**1%**	4%
	100%	100%

(a) The amounts in the above table exclude amounts sitting in the refundable tax account held by the CRA.

The amounts recognized in the consolidated statement of income are as follows:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Current service cost	$ 3,723	$ 3,289
Interest costs	4,515	4,475
Expected return on plan assets	(4,509)	(4,537)
Past service costs	12	100
Actuarial gains and losses	1,671	1,637
Currency (gains) losses	(35)	8
Curtailment and settlement	–	–
	5,377	4,972
Impact of IAS 19 paragraph 58/IFRIC 14	(723)	1,056
Defined benefit expense recognized	4,654	6,028
Defined contribution expense recognized	6,243	5,247
Total employee benefits expense[a]	$ 10,897	$ 11,275

(a) The total amount is included in the consolidated statement of income as SG&A. See note 6 for further information.

Changes in the present value of the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Balance – Beginning of year	$ 100,591	$ 85,192
Valuation effect	154	–
Employer portion of current service cost	3,723	3,289
Actuarial losses and changes in assumptions	9,799	9,897
Employee contributions	–	–
Interest cost	4,515	4,475
Foreign exchange differences	209	90
Benefits paid	(2,836)	(2,452)
Curtailment and settlement	–	–
Past service cost	23	100
Balance – End of year	$ 116,178	$ 100,591

Changes in the fair value of the plan assets are as follows:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Balance – Beginning of year	$ 78,277	$ 74,107
Valuation effect	(371)	(90)
Actuarial gains (losses)	3,237	(3,357)
Expected return on plan assets	4,509	4,537
Employer contributions	6,114	5,392
Employee contributions	–	–
Benefits paid	(2,836)	(2,452)
Curtailment and settlement	–	–
Foreign exchange differences	332	140
Balance – End of year	$ 89,262	$ 78,277

Amounts for the current and previous period are as follows:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Present value of defined benefit obligation	$ 116,178	$ 100,591
Fair value of plan assets	89,262	78,277
Deficit of the funded plans	26,916	22,314
Unrecognized past service costs	11	–
Unrecognized actuarial losses	23,266	17,886
Liability before the impact of IAS 19 paragraph 58/IFRIC 14	3,639	4,428
Impact of IAS 19 paragraph 58/IFRIC 14	2,361	3,032
Liability in the statement of financial position	$ 6,000	$ 7,460
Percentage of plan assets	6.72%	9.53%
Percentage of plan liabilities	5.16%	7.42%

Actual Return on Plan Assets

The actual return on plan assets for the years ended December 31, 2012 and 2011 amounted to $7.75 million and $1.18 million, respectively.

Contributions

The Company expects to contribute $6.75 million to its defined benefit plans for the year ended December 31, 2013.

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Present value of defined benefit obligations	$ 116,178	$ 100,591
Fair value of plan assets	89,262	78,277
Deficit in the plan	26,916	22,314
Actuarial losses on plan liabilities in year	9,799	9,897
Actuarial (gains) losses on plan assets in year	$ (3,237)	$ 3,357

NOTE 24 FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Loans and receivables, measured at amortized cost		
Cash and cash equivalents	$ 293,266	$ 56,731
Short-term investments	78,747	10,545
Loans receivable	7,131	14,669
Accounts receivable	389,929	279,324
Income taxes receivable	13,675	15,981
Fair value through profit or loss, measured at fair value		
Derivative financial instruments – asset	3,988	270
Derivative financial instruments – liability	1,275	2,918
Loans and borrowings, measured at amortized cost		
Bank indebtedness	3,801	12,281
Loans payable	17,077	5,001
Accounts payable and accrued liabilities	224,497	156,064
Income taxes payable	37,991	35,200
Deferred purchase consideration	19,374	15,527
Other provisions	47,407	13,932
Finance lease obligations	$ 14,655	$ 268

Fair Value

IFRS 7, Financial Instruments – Disclosure, 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, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2012 and does not include those instruments where the carrying amount is a reasonable approximation of the fair value:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
ASSETS				
Derivative financial instruments – current	$ 3,988	$ –	$ 3,988	$ –
	$ 3,988	$ –	$ 3,988	$ –
LIABILITIES				
Derivative financial instruments – current	$ 1,275	$ –	$ 1,275	$ –
	$ 1,275	$ –	$ 1,275	$ –

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. The fair values of the Company's remaining financial instruments are not materially different from their carrying values.

The following table presents the changes in the Level 3 fair value category for the year ended December 31, 2012:

(in thousands of Canadian dollars)	Fair Value
Opening balance – January 1, 2011	$ 807
Additions	1,692
Balance – December 31, 2011	2,499
Losses recognized in the statement of income	(2,499)
Closing balance – December 31, 2012	$ –

Foreign Exchange Forward Contracts and Other Hedging Arrangements

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, 2012:

(in thousands, except weighted average rate amounts)	
US dollars sold for Canadian dollars	
Less than one year	**US$18,000**
Weighted average rate	**1.01**
US dollars sold for Euros	
Less than one year	**US$87,575**
Weighted average rate	**1.29**
US dollars sold for Malaysian Ringgits	
Less than one year	**US$32,328**
Weighted average rate	**0.46**
Euros sold for US dollars	
Less than one year	**€61,962**
Weighted average rate	**1.30**
British Pound sold for US dollars	
Less than one year	**£5,000**
Weighted average rate	**1.59**
NOK sold for US dollars	
Less than one year	**NOK 114,936**
Weighted average rate	**0.17**

As at December 31, 2012, the Company had notional amounts of $247.7 million of forward contracts outstanding (2011 – $25.8 million) with the fair value of the Company's net benefit from all foreign exchange forward contracts totalling $2.0 million (2011 – $1.5 million net benefit).

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, 2012, 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 $50.5 million, $13.9 million and $10.5 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total shareholders' equity by $72.0 million, $52.0 million and $20.0 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.

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2012:

(in thousands of Canadian dollars)	Non Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial assets				
Cash equivalents	$ –	$ –	$ 32,800	$ 32,800
Loans receivable	3,386	3,745	–	7,131
	$ 3,386	$ 3,745	$ 32,800	$ 39,931
Financial liabilities				
Bank indebtedness	$ –	$ 3,801	$ –	$ 3,801
Loans payable	11,646	5,431	–	17,077
	$ 11,646	$ 9,232	$ –	$ 20,878

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 counter-party 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 counter parties, taking into account their financial position, past experience and other factors. Management also establishes and regularly reviews credit limits of counter parties and monitors utilization of those credit limits on an ongoing basis.

As at December 31, 2012 and 2011, the Company had no customers who 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 statement 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, 2012, $26.6 million, or 9.3% of trade accounts receivable, were more than 90 days overdue, which is consistent with prior period aging analysis. 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 year ended December 31, 2012 and 2011:

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Balance – Beginning of year	**$ 13,967**	$ 3,775
Bad debt expense	**7,997**	9,160
Recovery of previously written-off bad debts	**(333)**	126
Write-offs of bad debts	**(11,000)**	(328)
Impact of change in foreign exchange rates	**(1,222)**	1,234
Balance – End of year	**$ 9,409**	$ 13,967

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, 2012, the Company had cash and cash equivalents totalling $293.3 million (2011 – $56.7 million) and had unutilized lines of credit available to use of $166.7 million (2011 – $162.3 million).

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2012:

(in thousands of Canadian dollars)	Less than 1 year	1 – 3 years	3 – 5 years	Thereafter	Total
Bank indebtedness	$ 3,801	$ –	$ –	$ –	$ 3,801
Loans payables	8,395	8,682	–	–	17,077
Accounts payable and accrued liabilities	224,497	–	–	–	224,497
Decommissioning liabilities	3,109	6,941	142	24,172	34,364
Deferred purchase consideration	19,374	–	–	–	19,374
Other provisions	20,664	9,415	–	16,700	46,779
Income taxes payable	37,991	–	–	–	37,991
	$ 317,831	$ 25,038	$ 142	$ 40,872	$ 383,883

NOTE 25
CAPITAL MANAGEMENT

The Company defines capital that it manages as the aggregate of its equity and interest bearing debt. 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 2012	December 31 2011
Bank indebtedness	**$ 3,801**	$ 12,281
Loans payable	**17,077**	5,001
Obligations under finance leases	**14,655**	268
Equity	**1,005,865**	867,411
	$ 1,041,398	$ 884,961

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, 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. The Company is in compliance with these covenants as at December 31, 2012.

NOTE 26
COMMITMENTS AND CONTINGENCIES

a) Operating Leases

The Company has entered into various commercial leases on certain motor vehicles, items of machinery and office 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 December 31, 2012:

(in thousands of Canadian dollars)	December 31 2012
Within one year	$ 20,421
After one year but not more than five years	32,097
More than five years	11,747
	$ 64,265

The lease expenditure charged to the consolidated statement of income during the year is $22.6 million.

b) Finance Leases

The Company has finance leases and purchase commitments in place for various items of plant and machinery. These leases have terms of renewal 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 net minimum lease payments:

	2012	
(in thousands of Canadian dollars)	Minimum Payments	Present Value of Payments
Within one year	$ 2,567	$ 1,927
After one year but not more than five years	4,922	2,535
After more than five years	13,715	10,193
Total minimum lease payments	21,204	14,655
Less: Amounts representing interest charges	(6,549)	–
Present value of minimum lease payments	**$ 14,655**	**$ 14,655**

c) 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.

d) 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 $85.0 million as at December 31, 2012 (December 31, 2011 – $73.8 million).

NOTE 27
SHARE CAPITAL

The following table sets forth the Company's shares outstanding as at December 31:

(all dollar amounts in thousands of Canadian dollars)	2012		
	Class A	Class B	Total
Number of Shares			
Balance, January 1, 2012	**57,832,572**	**12,784,335**	**70,616,907**
Issued on exercise of stock options	**204,060**	**–**	**204,060**
Issued on exercise of RSUs	**2,738**	**–**	**2,738**
Conversions of Class B into Class A	**23,700**	**(23,700)**	**–**
Purchase – normal course issuer bid	**(572,000)**	**–**	**(572,000)**
Balance, December 31, 2012	**57,491,070**	**12,760,635**	**70,251,705**
Stated Value			
Balance, January 1, 2012	**$ 217,398**	**$ 983**	**$ 218,381**
Issued – stock options	**3,988**	**–**	**3,988**
Compensation cost on exercised options	**1,415**	**–**	**1,415**
Compensation cost on exercised RSUs	**79**	**–**	**79**
Conversions of Class B into Class A	**2**	**(2)**	**–**
Purchase – normal course issuer	**(2,176)**	**–**	**(2,176)**
Balance, December 31, 2012	**$ 220,706**	**$ 981**	**$ 221,687**

	2011		
	Class A	Class B	Total
Number of Shares			
Balance, January 1, 2011	57,578,299	13,058,073	70,636,372
Issued on exercise of stock options	622,380	–	622,380
Issued on exercise of RSUs	255	–	255
Conversions of Class B into Class A	273,738	(273,738)	–
Purchase – normal course issuer bid	(642,100)	–	(642,100)
Balance, December 31, 2011	57,832,572	12,784,335	70,616,907
Stated Value			
Balance, January 1, 2011	$ 205,772	$ 1,003	$ 206,775
Issued – stock options	9,878	–	9,878
Compensation cost on exercised options	4,122	–	4,122
Compensation cost on exercised RSUs	7	–	7
Conversions of Class B into Class A	20	(20)	–
Purchase – normal course issuer	(2,401)	–	(2,401)
Balance, December 31, 2011	$ 217,398	$ 983	$ 218,381

All shares have been issued and fully paid and have no par value.

There are an unlimited number of Class A subordinate voting shares (Class A shares) and Class B multiple voting shares (Class B shares) authorized. Holders of Class A shares are entitled to one vote per share and receive a non-cumulative dividend premium of 10% over the dividends paid to holders of Class B shares. Holders of Class B shares are entitled to ten votes per share and are convertible at any time into Class A shares on a one-for-one basis.

Under the terms of the Normal Course Issuer Bid ("NCIB"), the Company was entitled to repurchase up to 2,000,000 Class A shares and up to 100,000 Class B shares between December 1, 2010 and November 30, 2011.

The NCIB was renewed on November 30, 2011 entitling the Company to repurchase up to 3,000,000 Class A shares and up to 100,000 Class B Shares between December 1, 2011 and November 30, 2012.

During the year ended December 31, 2012, 572,000 Class A shares were repurchased and cancelled for total consideration of $18.9 million.

In 2012, dividends declared and paid during the year were $0.380 per Class A share and $0.345 per Class B share (2011 – $0.315 per Class A share and $0.286 per Class B share).

NOTE 28
SHARE-BASED COMPENSATION AND OTHER INCENTIVE-BASED COMPENSATION

As at December 31, 2012, the Company had the following two stock option plans, both of which were initiated in 2001:

i. 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 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 sale price of the Class A shares on the day prior to the grant.

   On March 3, 2010, the Board of Directors ("Board") approved the amended 2001 Employee Plan (the "Amended 2001 Employee Plan"). All stock options granted in 2010 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.

   On March 3, 2011, the Board modified the Amended 2001 Employee Plan (the "Restated 2001 Employee Plan") to facilitate the cashless exercise of stock options and SARs by the holders of such instruments.

ii. Under the Company's 2001 director plan (the "2001 Director Plan"), options are granted on an annual basis and the maximum number of Class A shares issued in any single grant shall be equal to the number of Class A shares and Class B shares of the Company owned by the individual director, at the date of the option grant, subject to a maximum of 8,000 Class A shares for each of the Chairman and Vice Chair, and 4,000 Class A shares for each of the other eligible directors. The options vest immediately and have a legal life of five years. The grant price equals the closing sale price of the Class A shares on the day prior to the grant. No options have been granted under the 2001 Director Plan since 2006 and none are currently outstanding.

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

	2012		2011	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding – Beginning of year	**2,164,600**	**$ 20.67**	2,702,160	$ 18.93
Granted	**187,000**	**32.81**	102,260	37.32
Exercised	**(204,060)**	**19.55**	(622,380)	15.87
Forfeited	**(41,400)**	**22.36**	(17,440)	20.06
Balance outstanding – End of year	**2,106,140**	**21.83**	2,164,600	20.67
Options exercisable	**1,585,292**	**$ 20.03**	1,548,020	$ 19.35

Range of Exercise Price	**Outstanding as at December 31, 2012**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**	**Exercisable as at December 31, 2012**	**Weighted Average Exercise Price**
	Options Outstanding			**Options Exercisable**	
$10.00 to $15.00	**236,400**	**0.70**	**$ 12.01**	**236,400**	**$ 12.01**
$15.01 to $20.00	**916,980**	**3.86**	**16.32**	**742,580**	**16.49**
$20.01 to $25.00	**44,000**	**3.54**	**21.00**	**40,000**	**20.91**
$25.01 to $30.00	**589,500**	**4.55**	**27.71**	**521,860**	**27.43**
$30.01 to $35.00	**217,000**	**8.45**	**32.67**	**24,000**	**31.77**
$35.01 to $40.00	**102,260**	**8.00**	**37.32**	**20,452**	**37.32**
	2,106,140	**4.37**	**$ 21.83**	**1,585,292**	**$ 20.03**

Range of Exercise Price	Outstanding as at December 31, 2011	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2011	Weighted Average Exercise Price
	Options Outstanding			Options Exercisable	
$10.00 to $15.00	247,200	1.68	$ 12.06	247,200	$ 12.06
$15.01 to $20.00	1,065,380	4.61	16.32	781,580	16.58
$20.01 to $25.00	44,000	4.55	21.00	38,000	20.85
$25.01 to $30.00	675,760	5.54	27.65	463,240	27.31
$30.01 to $35.00	30,000	6.00	31.77	18,000	31.77
$35.01 to $40.00	102,260	9.00	37.32	–	–
	2,164,600	4.79	$ 20.67	1,548,020	$ 19.35

The Board of Directors approved the granting of 187,000 stock options during the year ended December 31, 2012 under the 2001 Employee Plan (the "Plan"). The total fair value of the stock options granted during the year ended December 31, 2012 was $2.1 million (2011 – $1.3 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	2012	2011
Weighted average share price	**$ 32.81**	$ 36.31
Exercise price	**$ 32.81**	$ 37.32
Expected life of options	**7.25**	7.25
Expected stock price volatility	**35%**	35%
Expected dividend yield	**0.9%**	0.8%
Risk-free interest rate	**1.7%**	3.2%

The volatility measured at the standard deviation of continuously compounded share returns is based on the statistical analysis of daily share prices over the last ten years.

The fair value of options granted under the Plan will be amortized to compensation expense over the five-year vesting period of options. The compensation cost from the amortization of granted stock options for the year ended December 31, 2012, included in selling, general and administrative expenses, was $1.7 million (2011 – $1.7 million).

Stock Options with Tandem Share Appreciation Rights

	2012		2011	
	Total Shares	Weighted Average Fair Value[a]	Total Shares	Weighted Average Fair Value
Balance outstanding – Beginning of period	**154,300**	**$ 12.93**	118,500	$ 12.94
Granted	**68,900**	**11.74**	35,800	12.89
Exercised	**–**	**–**	–	–
Forfeited	**–**	**–**	–	–
Expired	**–**	**–**	–	–
Balance outstanding – End of period	**223,200**	**12.56**	154,300	12.93
Options exercisable	**54,560**	**$ 9.56**	–	$ –

(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, 2012, is $1.6 million (2011 – $0.6 million), all of which is included in accounts payable and accrued 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 and two new plans, 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 income and revenue 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 liability as at December 31, 2012 is $12.3 million (2011 – $2.6 million).

ESUP

The ESUP authorizes the Board to grant awards of restricted share units ("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 Class A shares and are valued on the basis of the underlying weighted average trading price of the Class A shares over the five trading days preceding the grant date. The valuation is not subsequently adjusted for changes in the market price of the Class A shares prior to the settlement of the award. Each RSU and PSU granted under the ESUP represents one Class A share. The ESUP provides that the maximum number of Class A shares that are reserved for issuance from time to time shall be fixed at 1,000,000 Class A 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.

During the second quarter of 2012, the Company issued 251,284 PSUs to consultants which were subsequently cancelled in the fourth quarter of 2012.

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

	2012		2011	
	Total Shares	Weighted Average Grant Date Fair Value[a][b]	Total Shares	Weighted Average Grant Date Fair Value[a]
Balance outstanding – Beginning of year	**93,289**	**$ 30.34**	53,563	$ 26.51
Granted	**306,695**	**32.85**	40,772	35.30
Exercised	**(2,738)**	**28.97**	(255)	27.69
Forfeited	**(10,975)**	**31.96**	(791)	27.69
Cancelled	**(251,284)**	**33.11**	–	–
Balance outstanding – End of year	**134,987**	**30.79**	93,289	30.34
RSU/PSUs exercisable	**14,984**	**$ 29.98**	6,057	$ 26.72

(a) RSU awards do not have an exercise price; as a result grant date weighted average fair value has been calculated.

(b) PSU awards do not have an exercise price; their weighted average fair value is the closing stock price on the reporting 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 amount to be paid in DSUs divided by the weighted average trading price of the Class A 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 Class A 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 Class A 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 unit holder 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:

	2012		2011	
	Total Shares	Weighted Average Grant Date Fair Value[a]	Total Shares	Weighted Average Grant Date Fair Value[a]
Balance outstanding – Beginning of year	**60,924**	**$ 28.45**	30,260	$ 29.53
Granted	**36,497**	**36.87**	36,910	28.26
Exercised[b]	**–**	**–**	(6,246)	32.55
Balance outstanding – End of year	**97,421**	**31.61**	60,924	28.45
DSUs exercisable	**–**	**$ –**	–	$ –

(a) DSU awards do not have an exercise price; as a result grant date weighted average fair value has been calculated.

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

The mark-to-market liability for the DSUs as at December 31, 2012 is $3.8 million (2011 – $1.8 million), all of which is included in accounts payable and accrued 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)	2012	2011
Stock option expense	$ 1,650	$ 1,675
VGP expense	9,663	975
DSU expense	2,039	875
RSU expense	978	701
SAR expense	967	275
Total incentive-based compensation expense	**$ 15,297**	$ 4,501

NOTE 29
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 year ended December 31:

(in thousands of Canadian dollars)	2012	2011
Salaries and other short-term incentive compensation and employee benefits	$ 8,508	$ 3,834
Post-employment benefits	542	490
Share-based and other long-term incentive payments	2,069	1,291
Director fees and other compensation	2,039	1,632
	$ 13,158	$ 7,247

NOTE 30
INTEREST IN JOINT VENTURES

The following table presents the joint venture interests of the Company as at December 31, 2012, which have been consolidated proportionately:

	Country of Incorporation	Activity	Proportion of Interest Held
Hal Shaw Inc.	U.S.A.	Pipe coating	50%
Shaw & Shaw Ltd.	Canada	Pipe coating	83%
Helicone Holdings Limited	Russia	Pipe coating	25%
Socotherm Brasil S.A.	Brazil	Pipe coating	50%
Atlantida Socotherm S.A.	Venezuela	Pipe coating	50%
Socotherm La Barge LLC	U.S.A.	Pipe coating	51%

The following table presents the Company's share of the assets, liabilities, income and expenses of the jointly controlled entities described above for the years ended and as at December 31:

(in thousands of Canadian dollars)	2012	2011
Revenue	$ 58,524	$ 27,790
Operating expenses	55,493	28,420
Income (loss) before income taxes	3,031	(630)
Income taxes	(6,972)	(41)
Net loss	$ (3,941)	$ (589)
Cash Provided by (used in)		
Operating activities	$ 4,715	$ 569
Investing activities	$ –	$ (1,331)
Financing activities	$ 3,268	$ (124)
Current assets	$ 39,262	$ 21,981
Non-current assets	26,531	5,687
Total assets	$ 65,793	$ 27,668
Current liabilities	$ 46,755	$ 11,089
Non-current liabilities	39,572	769
Total Liabilities	$ 86,327	$ 11,858
Net assets	$ (20,534)	$ 15,810

The Company's Russian joint venture has loans from OOO ArkhTekhnoProm and TES Limited Liability Company in the amount of 627 million Russian roubles payable on demand. The Company's portion of these loans has been proportionately consolidated and included on the consolidated balance sheet as at December 31, 2012 in the amount of $5.1 million or 157 million Russian roubles at the current exchange rate (December 31, 2011 – $5.1 million or 156 million Russian roubles at the then current exchange rate). Interest is calculated on these loans at 9.625% to 14.40% per annum and is to be paid over the period of actual use. In the event that the Company's Russian joint venture fails to repay the outstanding loan within the time specified by the loan agreement, a penalty in the amount of 24% per annum will be assessed on the outstanding loan amount on a daily basis.

NOTE 31
EARNINGS PER SHARE ("EPS")

The following table details the weighted-average number of shares outstanding for the purposes of calculating basic and diluted EPS for the following periods:

	2012	2011
Income used to calculate EPS		
Net income for the year[(a)]	$ **178,418**	$ 56,280
Average number of shares outstanding during the year – basic		
Class A	**57,652**	57,941
Class B	**12,761**	12,784
	70,413	70,725
Dilutive effect of stock options		
Class A	**865**	811
Class B	**–**	–
	865	811
Average number of shares outstanding during the year – diluted		
Class A	**58,517**	58,752
Class B	**12,761**	12,784
	71,278	71,536
Basic EPS	$ **2.53**	$ 0.79
Diluted EPS	$ **2.50**	$ 0.78

(a) Attributable to shareholders of the Company

NOTE 32
INCOME TAXES

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

(in thousands of Canadian dollars)	2012	2011
Current tax		
Based on taxable income of current year	$ **51,985**	$ 37,533
Adjustment to prior year provision	**(6,916)**	(9,860)
Total current taxation expense for the year	**45,069**	27,673
Deferred income tax		
Reversal of temporary differences	**(881)**	(14,686)
Total deferred tax expense	**(881)**	(14,686)
Total Income Tax Expense	$ **44,188**	$ 12,987

Income taxes on items recognized in other comprehensive income were as follows:

(in thousands of Canadian dollars)	2012	2011
Deferred income tax related to items booked directly to equity during the year:		
Gain on hedges of unrealized foreign currency translation	$ **–**	$ 103
Gain (loss) on hedges of unrealized foreign currency translation transferred to net income during period	**–**	(311)
Income tax benefit charged to other comprehensive income	$ **–**	$ (208)

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

	2012	2011
Expected income tax expense based on statutory rate	**27.0%**	27.0%
Tax rate differential on earnings of foreign subsidiaries	**(8.6%)**	(2.1%)
Benefit of previously unrecognized tax losses	**(0.3%)**	(1.6%)
Unrecognized tax losses of foreign subsidiaries	**3.1%**	8.9%
Adjustment to prior year provision	**(3.1%)**	(14.1%)
Other	**1.7%**	0.7%
Effective Income Tax Rate	**19.8%**	18.8%

Recognized Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and they relate to the same tax authority on the same taxable entity.

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Deferred Tax Assets		
Amortizable property, plant and equipment	$ **11,952**	$ 2,470
Provisions and future expenditures	**10,955**	24,008
Net operating losses	**9,546**	3,580
Deferred income tax assets	$ **32,453**	$ 30,058
Deferred Tax Liabilities		
Amortizable property, plant and equipment	**(14,604)**	(36,873)
Provisions and future expenditures	**(57,060)**	(20,111)
Deferred income tax liabilities	**(71,664)**	(56,984)
Net Deferred Tax Liability	$ **(39,211)**	$ (26,926)

The Company has recorded deferred tax assets of $9.5 million and $3.6 million at December 31, 2012 and 2011, respectively, pertaining to loss carry forwards based on management's financial projections and the relevant tax legislation in each jurisdiction.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars)	2012	2011
Deferred Tax Assets		
Amortizable property, plant and equipment	$ **(9,482)**	$ 15,032
Provisions and future expenditures	**13,053**	(7,955)
Net operating losses	**(5,966)**	(3,580)
Deferred income tax assets	**(2,395)**	3,497
Deferred Tax Liabilities		
Amortizable property, plant and equipment	**(22,269)**	(6,582)
Provisions and future expenditures	**36,949**	(11,601)
Deferred income tax liabilities	**14,680**	(18,183)
Change in deferred tax	**12,285**	(14,686)
Deferred tax assets acquired through acquisitions	**(13,166)**	–
Deferred Tax Recovery	$ **(881)**	$ (14,686)

The Company has recognized a deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, associates and joint ventures of $nil and $nil for the years ended December 31, 2012 and 2011, respectively, 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 tax liability has not been recognized aggregates to $146.2 million and $181.9 million for the years ended December 31, 2012 and 2011, respectively.

The Company has net operating losses of $73.9 million and $21.9 million for the years ended December 31, 2012 and 2011, respectively, in various jurisdictions for which no deferred tax asset has been recognized. These losses expire subsequent to the 2017 fiscal year. The Company has capital losses of $8.0 million and $19.3 million for the years ended December 31, 2012 and 2011, respectively, in various jurisdictions for which no deferred tax asset has been recognized. These capital losses carry forward indefinitely.

The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes and deferred tax represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. The Company may be required to change its provision for income taxes or deferred tax balances when the ultimate deductibility of certain items is successfully challenged by taxing authorities or if estimates used in determining the amount of deferred tax asset to recognized change significantly, or when receipt of new information indicates the need for adjustment in the amount of deferred tax to be recognized. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income tax, deferred tax balances and the effective tax rate. Any such changes could materially affect the amounts reported in the consolidated financial statements in the year these changes occur.

NOTE 33
COMPARATIVE FIGURES

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

Six-Year Review (UNAUDITED)

For the year ended December 31:

(in thousands of Canadian dollars except per share information)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP (NOTE 5)	2008 CGAAP	2007 CGAAP
OPERATING RESULTS						
Revenue	**$ 1,482,849**	$ 1,157,265	$ 1,034,163	$ 1,183,978	$ 1,379,577	$ 1,048,099
EBITDA NOTE 1	**266,886**	128,168	186,035	254,143	262,158	201,076
Net income NOTE 2	**178,418**	56,280	95,072	131,450	145,733	87,357
Cash flow						
Cash from operating activities	**$ 530,091**	$ 45,325	$ 53,244	$ 299,333	$ 154,361	$ 97,514
Purchases of property, plant and equipment	**74,439**	55,982	48,723	34,358	89,799	91,855
FINANCIAL POSITION						
Working capital NOTE 3	**$ 326,296**	$ 287,142	$ 283,852	$ 312,966	$ 229,169	$ 255,625
Long-term debt	**–**	–	25,005	52,287	91,226	72,726
Equity	**1,005,865**	867,411	832,243	790,422	732,452	578,787
Total assets	**1,927,569**	1,226,749	1,224,936	1,185,977	1,227,289	963,614
PER SHARE INFORMATION						
(Class A and Class B)						
Net income (loss)						
Basic	**$ 2.53**	$ 0.79	$ 1.35	$ 1.86	$ 2.06	$ 1.20
Diluted	**$ 2.50**	$ 0.78	$ 1.33	$ 1.85	$ 2.03	$ 1.19
Dividends						
Class A	**$ 0.380**	$ 0.315	$ 0.295	$ 0.535	$ 0.253	$ 0.230
Class B	**$ 0.345**	$ 0.286	$ 0.268	$ 0.486	$ 0.229	$ 0.209
Shareholders' equity per share NOTE 4	**$ 14.32**	$ 12.28	$ 11.79	$ 11.21	$ 10.40	$ 8.12

Quarterly Information (UNAUDITED)

(in thousands of Canadian dollars except per share information)		First	Second	Third	Fourth	Total
Revenue	**2012**	**$ 312,268**	**$ 326,922**	**$ 395,275**	**$ 448,384**	**$ 1,482,849**
	2011	$ 279,466	$ 264,541	$ 271,478	$ 341,780	$ 1,157,265
Net income NOTE 2	**2012**	**$ 23,274**	**$ 21,404**	**$ 53,438**	**$ 80,302**	**$ 178,418**
	2011	$ 20,485	$ 15,703	$ (3,144)	$ 23,236	$ 56,280
Net income per share (Class A and Class B)						
Diluted	**2012**	**$ 0.33**	**$ 0.30**	**$ 0.75**	**$ 1.13**	**$ 2.50**
	2011	$ 0.29	$ 0.21	$ (0.04)	$ 0.32	$ 0.78

Note 1: EBITDA is a Non-GAAP measure calculated by adding back to net income, income taxes, finance costs, amortization of property, plant and equipment and intangible assets, and impairment of fixed assets. 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.

Note 2: Attributable to shareholders of the Company.

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

Note 4: Equity per share is a Non-GAAP measure calculated by dividing shareholders' equity by the number of Class A and Class B shares outstanding at the date of the balance sheet.

Note 5: Restated due to the adoption of CICA Handbook section 3064.

ShawCor Directors

J.T. BALDWIN
London, England
Mr. Baldwin is the Vice President for the Southern Corridor for BP, a position he has held since July 2012, and has been a Director of ShawCor Ltd. since March 2010.

D.S. BLACKWOOD
Houston, Texas
Mr. Blackwood is President (Americas), Wood Group PSN, a position he has held since April 2011, and has been a Director of ShawCor Ltd. since May 2011.

W.P. BUCKLEY
Toronto, Ontario
Mr. Buckley is President and CEO of ShawCor Ltd., a position he has held since June 2005, and has been a Director of the Company since August 2005.

J.W. DERRICK
Buffalo, New York
Mr. Derrick is Chief Executive Officer of Derrick Corporation, a position he has held since 1992, and has been a Director of ShawCor Ltd. since August 2007.

D.H. FREEMAN
Toronto, Ontario
Mr. Freeman is a Chartered Accountant and from 1983 to 2011 was a partner at KPMG LLP. He has been a Director of ShawCor Ltd. since October 2011.

L.W.J. HUTCHISON
St. James, Barbados, W.I.
Mr. Hutchison joined ShawCor in 1998 and is Managing Director of ShawCor Global Services Limited, a position he has held since November 2007, and has been a Director and Vice Chair of the Company since February 2008.

J.F. PETCH Q.C.
Toronto, Ontario
Mr. Petch is Chair of the University of Toronto Asset Management Corporation and Chair Emeritus of the University's Governing Council and has been a Director of ShawCor Ltd. since March 2005.

R.J. RITCHIE
Calgary, Alberta
Mr. Ritchie was the CEO and a Director of Canadian Pacific Railway Limited from 2001 to 2006, and has been a Director of ShawCor Ltd. since April 1994.

P.G. ROBINSON
Toronto, Ontario
Mr. Robinson is President and General Manager of Litens Automotive Group, a position he has held since 2001, and has been a Director of ShawCor Ltd. since August 2001.

H.A. SHAW
Calgary, Alberta
Ms. Shaw is the Executive Chair of Corus Entertainment Inc., a position she has held since September 1999, and has been a Director of ShawCor Ltd. since May 2008.

V.L. SHAW
St. James, Barbados, W.I.
Ms. Shaw was appointed Chair of the Board of ShawCor Ltd. in February 2007, was Vice Chair of the Board from August 2000 until February 2007, and has been a Director of the Company since April 1994.

Z.D. SIMO
Oakville, Ontario
Mr. Simo is a former President and CEO of Tecsyn International Inc. and has been a Director of ShawCor Ltd. since August 1987.

E.C. VALIQUETTE
Pembroke, Ontario
Ms. Valiquette is a Chartered Accountant and a former Senior Vice President and Chief Financial Officer of ING Canada Inc. and has been a Director of ShawCor Ltd. since March 2005.

Corporate Governance

The Board of Directors (the "Board") and management of the Company recognize that effective corporate governance is central to the prudent direction and operation of the Company in a manner that ultimately enhances shareholder value. The following discussion outlines the Company's system of corporate governance.

The business and affairs of the Company are managed under the supervision of the Board. Broadly, the Board approves overall corporate strategy and assesses management's implementation of agreed strategies, and reviews the results achieved. The Board's role consists of the approval of strategic plans, the review of corporate risks identified by management and monitoring the Company's practices and policies for dealing with these risks, management succession planning, the monitoring of business practices and assessment of the integrity of the Company's internal controls and information and governance systems.

The Board oversees the Company's strategic planning process, reviews and approves strategies, and assesses management's success in implementing the strategies. This is done regularly and through an annual special purpose Board Meeting held each year to review and approve the Company's strategic and annual business plan. The strategic plan is updated each year so that it always projects the next three-year period. Management reports to the Board quarterly, highlighting and commenting upon divisional performance compared with annual business plan forecasts and prior year results. As part of the strategic plan review process, the Board identifies and evaluates the principal opportunities and risks of the Company's businesses, and seeks to ensure that management puts in place appropriate systems to manage the principal risks.

The Audit, Compensation and Corporate Governance Committees of the Board are each comprised of independent directors. The Executive Committee is comprised of the Chair, the Chief Executive Officer and three independent directors. Ten of thirteen members of the Board are considered to be independent.

The corporate governance practices and policies of the Company have been developed under the general stewardship of the Corporate Governance Committee. The Committee believes that the corporate governance practices of the Company are appropriate for the Company. As a result of evolving laws, policies and practices, the Corporate Governance Committee regularly reviews the corporate governance practices and policies of the Company in order to facilitate compliance with applicable requirements and implements best practices appropriate to its operations. In recent years, the following steps have been taken by the Committee as part of the ongoing process of enhancing the Company's corporate governance:

- instituted and updated mandatory share ownership guidelines for all directors, the Chief Executive Officer and other designated executives
- reviewed and revised the mandate of the Board of Directors
- reviewed and revised the charters for the Audit, Compensation and Corporate Governance Committees and appointed only independent directors to these Committees
- completed evaluations of the Board's performance as well as individual director's performance reviews
- reviewed and updated the Company's Code of Conduct for directors, officers and employees, a copy of which may be found on SEDAR (www.sedar.com)
- instituted a whistleblower hotline to assist employees in reporting suspected violations of the Code of Conduct
- created a charter for and appointed an Executive Committee
- established and appointed a Lead Director
- instituted a majority voting policy for directors
- instituted a DSU plan for directors
- reviewed and updated the Company's Confidentiality, Insider Trading and Disclosure policies
- eliminated the Company's dual class share structure through a shareholder and court approved plan of arrangement

Primary Operating Locations

PIPELINE AND PIPE SERVICES

Bredero Shaw

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Bredero Shaw
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Flexpipe Systems

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F: 403 503 0547

Socotherm

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Canusa-CPS

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Corporate Information

Corporate Officers

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Chair of the Board

L.W.J. HUTCHISON
Vice Chair of the Board

W.P. BUCKLEY
President and
Chief Executive Officer

G.S. LOVE
Vice President, Finance and
Chief Financial Officer

D.R. EWERT
Corporate Secretary

Operations Management

M.J. SIMMONS
Group President
ShawCor Ltd.

D.L. BROUSSARD
President
Flexpipe Systems

J.D. TIKKANEN
President
Bredero Shaw

J.D.B. GIBSON
Chief Executive Officer
Socotherm

J.L. BARKHOUSE
Senior Vice President
Americas & Global Operations
Bredero Shaw

P.L. EVANS
Senior Vice President
Asia Pacific
Bredero Shaw

F. CISTRONE
Vice President and
General Manager, Operations
ShawCor Ltd.

R.J. DUNN
Vice President and
General Manager
Canusa-CPS

S.J. EDMONDSON
Vice President
Research & Development
ShawCor Ltd.

F. GALLINA
Vice President
Special Projects
ShawCor Ltd.

M.L. GARCES
Vice President
ShawCor Manufacturing System
ShawCor Ltd.

D.R. GIBB
Vice President
Information Technology
ShawCor Ltd.

G.L. GRAHAM
Vice President
Corporate Services
ShawCor Ltd.

S.A. HABERER
Vice President
Market Development &
Acquisitions ShawCor Ltd.

T.L. HUTZUL
Vice President, Legal
ShawCor Ltd.

G.G. PASSLER
Vice President, and
General Manager
ShawFlex

P.A. PIERROZ
Vice President
Human Resources
ShawCor Ltd.

J.A. TABAK
Vice President and
General Manager
DSG-Canusa

H.A.A.M. TAUSCH
Vice President and
General Manager
Europe, Middle East, Africa, Russia
Bredero Shaw

J.A. TEPPAN
Vice President and
General Manager
Guardian

Corporate Address, Stock Information and Annual Meeting

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TRANSFER AGENT AND REGISTRAR
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Company Inc.
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STOCK LISTING
The Toronto Stock Exchange
Common Shares
Trading Symbol: SCL

ANNUAL MEETING
Thursday, May 16, 2013
4:00 p.m.
The Fairmont Royal York Hotel
Toronto, Ontario
Canada

www.shawcor.com

Why ShawCor?

Global Leadership

More than 75 manufacturing and service facilities in over 25 countries give ShawCor unrivalled proximity to every major energy-producing region.

Superior Execution

The industry's most advanced continuous improvement program helps us execute complex customer projects safely, on-time and on-budget, providing superior customer satisfaction.

Technological Innovation

Continuing research and development of market-leading, proprietary technology has created a powerful competitive advantage.

Organizational Excellence

We are a high-performing organization in which everyone is aligned and motivated to advance our strategies for growth.

Strong Industry Fundamentals

Global demand for oil and gas is expected to increase 30% between 2011 and 2035 due to rapid economic growth in developing countries.

Proven Performance

In the past 10 years, ShawCor's common shares have delivered a total return to shareholders of 207%, equivalent to a compound annual return of 12%.

ShawCor