



STRONG  
FUNDAMENTALS

FUNDAMENTAL  
STRENGTHS



# STRONG FUNDAMENTALS

## 2013 REVENUE

1.85B

## 2013 NET INCOME

(attributable to shareholders of the Company)

219.9M

## MARKET CAPITALIZATION

(as of December 31, 2013)

2.55B

All above amounts in Canadian dollars.

## 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.

## FINANCIAL SUMMARY

Year ended December 31 (in thousands of Canadian dollars)	2013	2012
<b>Operating Results</b>		
Revenue	\$ 1,847,549	\$ 1,469,187
EBITDA	391,223	265,254
Income from operations	319,774	211,053
Net income (Note 1)	\$ 219,862	\$ 178,310
Earnings per share (Common, Class A and Class B) – basic	\$ 3.55	\$ 2.53
Earnings per share (Common, Class A and Class B) – diluted	\$ 3.51	\$ 2.50

## Cash Flow

Cash provided by operating activities	\$ 32,264	\$ 530,512
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## Financial Position

Working capital	\$ 267,489	\$ 325,412
Total assets	\$ 1,651,928	\$ 1,888,873
Equity per share (Common, Class A and Class B)	\$ 10.98	\$ 14.07

Note 1: Attributable to shareholders' of the Company.

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## 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 75 manufacturing and service facilities employing over 8,000 people around the world.

**On the Cover (Top):** The industry's leading concrete coating system, HeviCote<sup>®</sup> provides negative buoyancy and mechanical protection for pipelines in subsea and wet environments.

**(Bottom):** FlexPipe's spoolable composite pipe has generated growing demand in Latin America, Australia and other export markets.

Spurred by steadily growing demand and rapid depletion of existing hydrocarbon reserves, the industry we serve is exploring new frontiers and technologies to meet global energy challenges. These trends play directly to ShawCor's strengths as the world's leading provider of advanced pipeline coatings and related energy products and services. This report describes the combination of strong industry fundamentals and fundamental corporate strengths that will sustain ShawCor's long-term performance.

# FUNDAMENTAL STRENGTHS



Fiscal 2013 was another year for the record books with revenue increasing 26% to \$1.85 billion, EBITDA up 47% to \$391 million and earnings per share (diluted) rising 40% to \$3.51. Over the past 20 years, ShawCor has achieved a compound annual growth rate of 14.8% in net income and, since going public in 1969, the company's shares have generated a total return to shareholders of 13.0%, significantly outperforming the 9.1% average of the TSX over the same period.

# RECORD PERFORMANCE

Of foremost importance, our record results were accompanied by ongoing improvement in our health and safety performance, with 32 of our 65 manufacturing locations achieving incident and injury free (IIF) status in 2013. This performance included more than eight million hours of work at Bredero Shaw's Kuantan, Malaysia and Kabil, Indonesia plants during the ramp up and execution of the Chevron Wheatstone project and the \$400 million Inpex Ichthys gas export pipeline project, the latter representing the largest and one of the most complex pipe coating contracts in the Company's history.

We also ended the year in a stronger competitive position. ShawCor is the undisputed leader in advanced pipeline coatings with a family of related energy services companies that command a significant share in their respective markets. Our global network of more than 75 locations in 18 countries places ShawCor exactly where our customers need us, with a strong presence close to all of the world's major oil and gas basins. Through continuous research and development of new technologies

and an unrelenting commitment to flawless execution, we have also succeeded in making ShawCor a trusted partner in the fastest growing segments of the energy industry, including the deepwater, shale, LNG and pipeline rehabilitation markets.

## Our Strategy at Work

In April 2013, ShawCor completed the acquisition of the remaining 49 percent interest in Socotherm's joint venture in Channelview, Texas. Formerly our largest pipe coating competitor, Socotherm has neatly complemented ShawCor's strategic profile with critically important locations in the Gulf of Mexico, Europe and South America. It has also brought us well-established client relationships, industry-leading technology in sub-sea insulation coatings and a project backlog that exceeded \$130 million at year-end. Having obtained full control of Socotherm in late 2012, we turned our attention to optimizing the division's performance. Our main thrust is to bring operating standards up to the same level as Bredero Shaw's through the application of the ShawCor

Management System (SMS), while at the same time supporting the development of Socotherm's next-generation deepwater insulation systems with ShawCor's research and development capabilities and the ShawCor Subsea Test Facility.

We were also pleased with the extraordinary growth of FlexPipe, which continues to expand both its geographic reach and product line. FlexPipe is benefiting from an industry shift to spoolable composite pipe, which now commands approximately 20 percent of the market for oil and gas gathering lines up to 8 inches in diameter. This trend is expected to accelerate against a backdrop of growing activity in North American shale plays. At the same time, FlexPipe's products have attracted growing interest in Australia and Latin America with international revenues expected to double during the next three years. In 2013, FlexPipe also began to conduct field trials of the 6-inch version of FlexFlow™, its discreet length composite line pipe. Commercialization of the 6–8 inch FlexFlow™ composite products will expand FlexPipe's potential market to greater than \$4 billion.



Chief Executive Officer, William P. Buckley (left) with President, Steve Orr.

We have also strengthened our position in pipeline rehabilitation, which is expected to steadily grow to exceed 20 percent of ShawCor's pipe coating revenue over the next 10 years. Sixty-two percent of North American pipeline infrastructure and forty-six percent of international pipeline infrastructure is over 21 years old. Rehabilitation of aging infrastructure is attracting growing investment in the wake of recent accidents and stricter regulatory standards. This trend also spells opportunity for Shaw Pipeline Services (SPS), whose latest real-time radiography system has achieved broad market acceptance upon introduction to the USA land market last year. Our Canusa-CPS division also completed the successful commercialization of the IntelliCOAT® system, which has automated the installation of field-applied joint protection and insulation systems with material improvements in speed, precision and cost.

#### Abundant Opportunity for Growth

As described elsewhere in this report, the growth prospects for all of our divisions are supported by positive long-term fundamentals. Energy demand is expected to increase 33 percent between now and 2035, led by economic growth in non-OECD nations. Meanwhile, the depletion rate for conventional energy reserves is expected to range

between 6.2 percent and 7.5 percent each year. Energy producers will turn to progressively remote and challenging locations to bridge the gap, with an attendant increase in capital spending on new pipeline infrastructure and advanced technology. ShawCor is ideally positioned to benefit from these trends.

As for the immediate future, the focus of infrastructure investment is shifting to the Americas, Western Asia, Europe and Africa. With the Wheatstone and Inpex Ichthys projects largely behind us, ShawCor is projecting lower revenue and earnings in 2014, in spite of expected growth in Bredero Shaw's regions other than Asia Pacific as well as ShawCor's other divisions. This relative lull in our large project pipe coating business is expected to be short-lived. At year-end, ShawCor had issued firm bids on more than \$900 million in new pipe coating projects, and was tracking in excess of \$1 billion in additional projects that are in various stages of engineering or feasibility evaluation.

#### Passing the Torch

I'd like to personally thank the ShawCor Board of Directors for its support and to acknowledge the contribution of retiring Board members, Robert Ritchie, Heather Shaw and Zoltan Simo.

It has been said that the measure of a good CEO is how well the company

performs following their departure. After 20 years with ShawCor, including almost nine at the helm, I'd like to think this old adage is true. Among my reasons for confidence in ShawCor's future is the appointment of Steve Orr to succeed me as President and CEO on May 1, 2014. Steve is a proven international energy services veteran, with extensive experience in the development and commercialization of new technologies and the acquisition and integration of new businesses.

In closing, I would like to extend my thanks and best wishes to all the people of ShawCor, many of whom I have had the privilege to know personally over the past 20 years. During this time, our annual revenues have increased from about \$228 million to close to \$2 billion today. Along the way, we succeeded in creating one of the world's leading energy services companies. I am proud of what we have accomplished together and equally certain that the best chapters in ShawCor's story are yet to be written.

Sincerely,

**WILLIAM P. BUCKLEY**  
Chief Executive Officer

8,000 DEDICATED EMPLOYEES

# INDUSTRY LEADERSHIP



## PIPELINE AND PIPE SERVICES

### Bredero Shaw



The global leader in pipe coating solutions for corrosion protection, flow assurance, insulation, field joints and weight coating applications for onshore and offshore pipelines.

- Pipeline owners
- Oil and gas producers
- Pipeline contractors
- Pipe mills

- Deepwater/Offshore
- Onshore/Oil Sands
- LNG/Enhanced Recovery
- Rehabilitation/Shale Plays

### FlexPipe Systems



Leading manufacturer of flexible composite pipe systems used for oil and gas gathering, water transportation, CO<sub>2</sub> injection and other corrosive applications that benefit from the product's pressure and corrosion resistance capabilities.

- Oil and gas producers
- Pipeline owners
- Gas distributors

- Oil and Gas Gathering
- Enhanced Recovery
- CO<sub>2</sub> Injection
- Water Transportation

### Socotherm



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, West African, South American and U.S. offshore markets.

- Oil and gas producers
- EPC contractors
- Pipe mills

- Deepwater/Offshore
- Onshore/Rehabilitation
- Enhanced Recovery

### Shaw Pipeline Services



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.

- Lay barge operators
- Spool bases
- Pipeline owners and contractors

- Deepwater/Offshore
- Onshore
- Ultrasonic Inspection
- Real Time Radiography

Business Description

Key Customer Segments

High Growth Markets



PETROCHEMICAL AND INDUSTRIAL

Canusa-CPS



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.

- Oil and gas pipelines
- District heating and cooling systems
- Water and waste water pipelines

- Deepwater/Offshore
- Onshore/Oil Sands
- LNG/Rehabilitation
- Potable Water/District Heating

Guardian



Leading provider of a complete range of tubular management solutions including integrated inspection, threading, refurbishment and inventory management. One of the largest OCTG inspection businesses in the USA, Canada and Mexico.

- Drilling contractors
- Oil and gas producers
- Tubular rental companies

- Onshore/Shale
- Offshore Oil and Gas
- Onshore/Oil Sands (SAGD)

DSG-Canusa

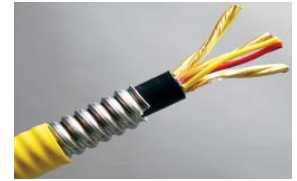


Leading global manufacturer of heat shrinkable tubing, sleeves and moulded products as well as heat shrink accessories and equipment with a manufacturing presence in three key markets: Americas, Europe and Asia/Pacific.

- Automotive
- Electrical/Utility
- Communications
- Aerospace/Defence/Mass Transit
- Industrial

- Automotive
- Communications
- Aerospace/Defence/Mass Transit

ShawFlex



World-class manufacturer of specialty wire and cable products for use in severe service industrial environments.

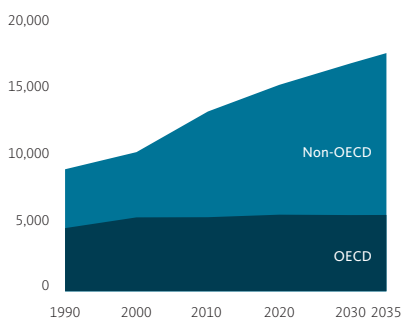
- Petrochemical
- Power generation
- Pulp and paper
- Mining
- Automation

- Petrochemical/Power Generation/Nuclear
- Primary Metals
- Control & Automation/Robotics
- Light Rail/Rapid Transit

Global energy producers are investing as never before in new pipeline infrastructure and advanced technological solutions to bring increasingly remote and challenging hydrocarbon resources to market. This is good news for ShawCor, the world's leading pipe coating and related energy services company.

# STRONG FUNDAMENTALS

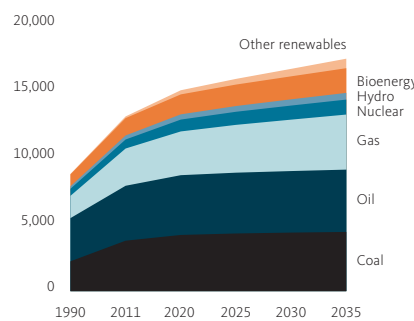
**GLOBAL ENERGY DEMAND BY REGION**  
(millions of tonnes of oil equivalent)



Energy demand is expected to grow at 1.2% annually until 2035 with 96% of the demand coming from non-OECD countries in East Asia, the Middle East, Latin America and parts of Africa.

Source: IEA World Energy Outlook to 2035

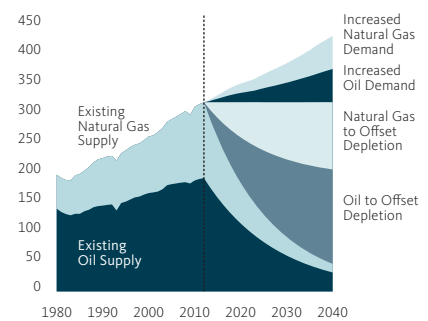
**GLOBAL ENERGY DEMAND BY FUEL**  
(millions of tonnes of oil equivalent)



While oil demand rises by a compound average growth rate of 0.5% until 2035, the corresponding growth rate for gas will be 1.6%, which translates to an increase of 50% during the period.

Source: IEA

**THE CHALLENGE TO MEET GLOBAL DEMAND**  
(quadrillion BTU)



Meanwhile, depletion rates that average 6.2% to 7.5% per year will keep driving producers to remote or technologically challenging hydrocarbon sources including deepwater, shale plays, LNG and oil sands.

Source: EIA, IEA



ShawCor's growth 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 at a compound average annual growth rate of 1.2 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 6.2 to 7.5 percent per year and growing. To bridge this widening gap, the world's leading energy producers are exploring and developing new energy deposits in increasingly remote and challenging locations. From the high Arctic to the deep oceans, to the shale plays and oil sands, the growth frontiers of oil and gas production are driving the need for new pipeline investment and innovative technological solutions.

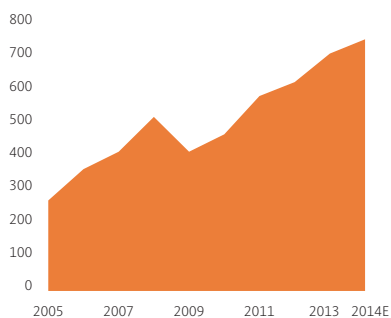
What's more, the capital investment required for the development of new hydrocarbon deposits is steadily increasing. During the 10-year period from 1995 to 2004, global capital expenditures on the development of new oil and gas resources exceeded US\$2 trillion and resulted in a net increase in oil production of about 12 million barrels per day. Over the six-year period from 2005 to 2010, the energy

industry invested about the same amount of capital without a corresponding net increase in production due to increasing rates of depletion in developed resources. This trend is expected to keep driving the level of investment as well as the related demand for advanced technological solutions that reduce risk and minimize recovery costs.

Meanwhile, expenditures on the maintenance and rehabilitation of existing land pipelines are expected to grow substantially. More than two-thirds of the global pipeline infrastructure was installed more than 20 years ago, before the advent of today's advanced coating technologies. Increasing public awareness and tightening government regulation will continue to drive growth as aging infrastructure is inspected and replaced.

For all of these reasons, global spending on energy infrastructure is expected to remain strong in the years ahead. As the world's market and technological leader in advanced pipeline coating systems and a diversified energy services company active in all of the industry's high-growth segments, ShawCor will continue to benefit from these trends.

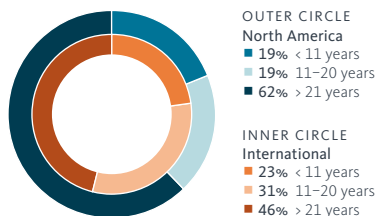
#### INCREASING CAPITAL EXPENDITURES (\$ billions)



Global exploration and development CAPEX has accelerated, averaging a compound annual growth rate of 0.9% between 1984 and 1999 compared to a corresponding average of 14.9% from 2010 to 2013.

Source: Barclays 2014 E&P Spending Outlook

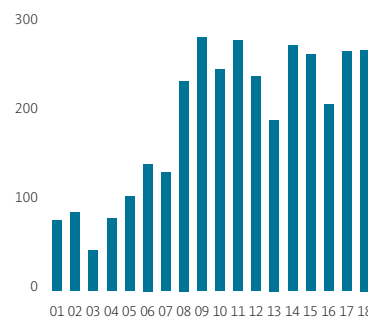
#### AGING GLOBAL PIPELINE INFRASTRUCTURE (%)



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

Source: Welling

#### INCREASING PIPELINE INVESTMENT (US\$ billions)



Steadily growing energy demand, high depletion rates, increasingly remote and challenging resource plays and an aging pipeline infrastructure point to a high level of pipeline investment over the next five years.

Source: Oil and Gas Journal, Douglas-Westwood

ShawCor is the world's largest provider of advanced pipeline coating systems and related energy services. Supported by an unrivaled network of strategic locations, market-leading technology, strong customer relationships and a reputation for superior execution, we are positioned for continuing growth in every important segment of the energy industry.



# FUNDAMENTAL STRENGTHS

## Unrivaled Global Network

ShawCor is the industry's leading provider of advanced pipeline coatings with a network of 31 dedicated facilities. This means we are where our customers need us – in or near every one of the world's major hydrocarbon basins. Our fixed coating plant network is augmented by seven mobile facilities including our Brigden® coating plant, which can be assembled and running within six weeks, anywhere in the world.

This unrivaled network also gives ShawCor the capacity to take on the world's largest pipe coating projects. We are the only industry competitor, for instance, with two high-capacity coating plants in Asia Pacific. This has

been an important factor in our success at securing recent contracts in the region. In 2013, our facilities in Kuantan, Malaysia and Kabil, Indonesia combined to provide fulfillment on the \$170 million Chevron Wheatstone project as well as the \$400 million Inpex Ichthys gas export pipeline project. Our network of facilities in North America, Latin America, Europe and the Middle East positions us equally well as the bulk of new energy infrastructure investment shifts to those regions over the next two years.

ShawCor's global network, including the facilities of our complementary composite pipe, joint protection, girth weld inspection and tubular management

Right: Strategic capital investments in our pipe coating facilities at Kabil, Indonesia (above right) and Kuantan, Malaysia helped ShawCor achieve record revenue in Asia Pacific during the past year.

WE SERVE  
CUSTOMERS  
FROM OVER  
**75 FACILITIES**  
LOCATED IN  
**18 COUNTRIES**  
WORLDWIDE



FUNDAMENTAL STRENGTHS

# WE HAVE A STRONG FOUNDATION IN INNOVATIVE TECHNOLOGY





**Opposite:** Shaw Pipeline Services' proprietary Real Time Radiography (RTR) inspection system has proved the viability of RTR technology in any pipeline environment.

**Far left:** Our Brigden™ portable coating plant can be assembled and fully operational within six weeks, anywhere in the world.

**Left:** DSG-Canusa's newly built German headquarters will increase capacity and reduce operating costs.

SHAWCOR LEADS  
THE INDUSTRY WITH

270  
ISSUED PATENTS

164  
PATENTS PENDING

86  
PROPRIETARY  
FORMULATIONS

businesses, is also situated to ensure that we are strategically located to serve the fastest growing segments of the energy industry including deepwater, LNG, shale and pipeline rehabilitation.

#### Technological Leadership

ShawCor's ability to develop the next-generation pipe coating systems required on new energy frontiers draws upon a rich heritage of scientific research and product development. Today, ShawCor holds 270 patents, with another 164 patents pending. We have also developed an additional 86 proprietary formulations. We work in close collaboration with our clients to help them overcome technological barriers and introduce innovative products to the market every year. For example, in 2013 ShawCor developed SureBond™, which joins ShawCor's High Performance Powder Coatings (HPPC) to provide next-generation coating solutions that are higher performing, tougher than existing systems and offer improved pipeline integrity.

One of today's most vital energy frontiers is deepwater and ultra-deepwater oil and gas production, which is expected to increase by 40 percent to 21.5 million barrels per

day by 2018. To get there, the industry will have to overcome the limitations of conventional insulation coating systems, which cannot withstand the extreme temperatures and pressures deep below the ocean's surface. In 2009, ShawCor introduced a solution to this problem with Thermitite® ULTRA™, an advanced insulation coating system that can withstand temperatures of up to 120°C and unlimited depths in its solid configuration. Today, we are working on new products to help gain access to ultra-deep hydrocarbon deposits (8,200 feet below sea level and 16,400 feet below the ocean floor), as well as the development of a non-polymer based material that will withstand temperatures of up to 200°C and pressures of up to 4,300 psi.

All of these revolutionary products are tested at our Subsea Test Facility in a Simulated Service Vessel where state-of-the-art equipment is used to test and prove the thermal, compression resistance and flow-assurance capabilities of tomorrow's insulation coatings and joint protection systems prior to installation.

The introduction of new technology also plays a key role in the market leadership of our other businesses. Canusa-CPS's revolutionary IntelliCOAT®,

\$60M

IN CUMULATIVE ANNUALIZED SAVINGS HAVE BEEN ATTAINED FROM SMS, WHILE DELIVERING LOWER COST, HIGHER QUALITY AND BETTER PERFORMANCE TO CLIENTS.

the world's first fully automated system for the application of heat-shrinkable sleeves, has gained market acceptance in the land pipeline markets.

Another key advancement for ShawCor has been the development and deployment of Shaw Pipeline Service's (SPS) proprietary Real Time Radiography weld inspection system. It helped fuel record financial performance at SPS in 2013, but more importantly, has served to prove the viability of RTR technology in an industry that is highly motivated to improve pipeline integrity.

### Superior Execution

Although pipe coating typically represents less than five percent of the total installed cost of new pipeline systems, it is considered a critical, strategic procurement item. Pipeline integrity is critical to the continuous operation of the world's capital-intensive energy infrastructure projects and



WE ARE  
UNIQUELY  
CAPABLE OF  
EXECUTING  
THE WORLD'S  
LARGEST  
PROJECTS



**Top:** Socotherm's advanced Wetsokote® thermal insulation coating system undergoes infrared heating.

**Left:** Investments at our Pozzallo, Italy facility are optimizing Socotherm's performance and advancing the division's leadership in deepwater insulation systems.

the coating systems we develop must satisfy strict performance specifications, sometimes for several decades. That is why the qualification process is lengthy and complex for both the products and production sites of pipe coating providers. As a result of these factors, clients tend to buy repeatedly from trusted and proven partners.

As the world's largest provider of advanced pipeline coatings, ShawCor enjoys strong and well-established relationships with all of the major energy companies, pipe mills, pipeline owners and energy pipeline contractors in our industry. We have earned their trust over many years with a track record of superior project execution, including the consistent delivery of high-quality products and services, and on-time, on-budget performance.

The ShawCor Management System (SMS) is at the heart of our reputation for superior execution. First launched

in 2006, SMS is an industry-leading continuous improvement program that combines the best elements of lean manufacturing, Six Sigma and other world-class manufacturing systems to drive excellence in ShawCor's manufacturing and business processes. To date, we have achieved almost \$60 million in cumulative annualized savings as a result of improved efficiencies, material variance reductions, manufacturing process improvements, standardized launch methodologies for new products and optimization of other business processes. Equally important, these improvements have translated into lower costs, higher quality and better on-time performance for our customers.

### Broad Product Offering

Because our clients prefer to deal with a few trusted suppliers who can meet most or all of their requirements, one of our key growth strategies is to deliver



**Left:** FlexPipe entered the large diameter composite market space with the first field trials of FlexFlow™ 6-inch discreet length composite line pipe.

**Right:** Canusa-CPS' IntelliCOAT™ has automated the installation of field-applied joint protection and insulation systems.

**Bottom:** Pipe coated with Socotherm's Wetsokote® five-layer insulation system destined for a subsea project.

2013 MARKED THE DEVELOPMENT OF FLEXFLOW™, FLEXPIPE'S FIRST LARGE DIAMETER COMPOSITE PIPE, INTO A TOTAL COMPOSITE MARKET PRESENTLY VALUED AT IN EXCESS OF

**\$4.0B**



more compelling end-to-end solutions every year. Today, for example, ShawCor creates value at a number of the important stages in the pipeline construction process, including: the research, development and testing of new materials; providing a large range of insulation, flow-assurance, weight and anti-buoyancy pipe coatings; project logistics; onsite welding inspection; and the automated application of joint protection systems. Through the manufacture of flexible composite pipe systems and the provision of advanced tubular management solutions, we are also able to serve our clients in multiple energy segments.

Acquisitions will continue to play a major role in advancing ShawCor's end-to-end solution strategy and in fact will be a higher priority over the next few years. Our future focus will be on transactions that leverage our market position and technological leadership and will result in portfolio expansion into differentiated products and services.

### Solid Foundations

Another important factor in the competition for pipe coating business is the financial strength of the supplier. The construction of the world's largest energy infrastructure projects can extend over years and the enormous capital investment involved compels builders to minimize supply risk for all vital project components.

ShawCor has one of the strongest balance sheets in the industry and we intend to continue to limit net debt to capital to below 45 percent and net debt to EBITDA to below 1.5 times. With strong cash flow generation and in excess of \$295 million in cash and available committed credit facilities at year-end, we have ample liquidity to make selective growth investments while maintaining our investment-grade profile.



WE DELIVER  
INNOVATIVE  
AND HIGHLY  
DIFFERENTIATED  
PRODUCTS





# FINANCIAL STRENGTH

**20 YEAR NET INCOME**  
(in thousands of Canadian dollars)

Data for 2004 and 2005 reflects income from continuing operations.



ShawCor is committed to achieving long term growth in net income of 15% per annum coupled with a return on invested capital ("ROIC") in excess of 15%. Over the past 20 years, growth in net income has reached 14.8% on a compound annual basis and over the last 5 years the ROIC has averaged 15.4%.

**20 YEAR TOTAL SHAREHOLDER RETURN**  
(in thousands of Canadian dollars)

Legend: ShawCor Ltd. (orange line), S&P/TSX Composite Index (blue line)



ShawCor generated a 785% total return to shareholders over the last 20 years, yielding a compound annual growth rate of 11.5% (accounting for stock splits and assuming reinvested dividends). This compares favourably to the S&P/TSX Composite Index which realized 391% total return to shareholders (8.3% CAGR) over the same time period.

# FINANCIAL REVIEW

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), is a discussion of the consolidated financial position and results of operations of ShawCor Ltd. ("ShawCor" or "the Company") for the years ended December 31, 2013 and 2012 and should be read together with ShawCor's audited consolidated financial statements and accompanying notes for the same periods. All dollar amounts in this MD&A are in thousands of Canadian dollars except per share amounts or unless otherwise stated.

This MD&A and the audited consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which are also Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward-looking information and reference should be made to Section 13 hereof. As at January 1, 2013, the Company adopted certain new IFRS standards that were implemented with a transition date of January 1, 2012; accordingly, the financial information for the year 2012 and periods therein has been restated to be in accordance with the new IFRS standards that were adopted on January 1, 2013. Please refer to Section 8.3 – New Accounting Standards Adopted and Section 8.4 – Impact of New Accounting Standards for more information.

## 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.

### 1.1 Core Businesses

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

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

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

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

major energy companies. The relationship between global hydrocarbon demand and supply and the level of energy industry investment in infrastructure tends to be cyclical.

As at December 31, 2013, 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 91% of consolidated revenue for the year ended December 31, 2013. 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 9% of consolidated revenue for the year ended December 31, 2013. 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 Invested Capital ("ROIC") of 15% over the full business cycle;
- generate average annual net income growth of 15% over the full business cycle;
- continuously improve 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 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 Management 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 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 \$41.6 million, or 23%, from \$178.3 million for the year ended December 31, 2012 to \$219.9 million for the year ended December 31, 2013. The increase was mainly attributable to higher revenue in the Asia Pacific and North America regions in the Pipeline and Pipe Services segment as described in *Section 4.2.1 – Pipeline and Pipe Services segment*, partially offset by an increase in selling, general and administrative ("SG&A") expenses of \$76.6 million as described in *Section 4.1 – Consolidated Information*.

#### *Return on Invested Capital ("ROIC")*

ROIC, a non-GAAP measure, is defined as net income for the year adjusted for after tax interest expense divided by average invested capital for the most recently completed year. ROIC is used by the Company to assess the efficiency of generating profits from each unit of invested capital. As part of its performance objectives, the Company has set an ROIC target of 15%, as described in *Section 1.2 – Vision and Objectives*. The Company's ROIC for the years ended December 31, 2013 and 2012 was 23.5% and 19.5%, respectively. The increase of 4.0 percentage points was primarily due to an increase in net income for the year adjusted for after tax interest expense of \$52.0 million and was partially offset by an increase in average invested capital of \$65.8 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, 2013:

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

*Safety and Environmental Stewardship*

The Company maintains a comprehensive HSE management system in place within each of its eight operating divisions and is committed to being an IIF workplace with no damage to the environment. For the years ended December 31, 2013 and December 31, 2012, the Company had recordable injuries per million person hours worked of 5.9 and 6.2, respectively. During 2013, the Company completed 30 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 \$2.3 million from \$74.4 million for the year ended December 31, 2012 to \$76.7 million for the year ended December 31, 2013. 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 2014; 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 \$86.0 million and \$362.9 million as at December 31, 2013 and 2012, respectively, and had unutilized lines of credit available of \$209.4 million and \$164.8 million, as at December 31, 2013 and 2012, 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, 2013, 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, 2013 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 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, 2013, 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

(in thousands of Canadian dollars, except per share amounts)	Twelve Months Ended December 31,		
	2013	2012	2011
<b>Revenue</b>	<b>\$ 1,847,549</b>	(restated) \$ 1,469,187	\$ 1,157,265
<b>Cost of Goods Sold and Services Rendered</b>	<b>1,058,946</b>	895,004	735,266
<b>Gross Profit</b>	<b>788,603</b>	574,183	421,999
Selling, general and administrative expenses	382,755	306,108	269,241
Research and development expenses	15,687	12,242	13,119
Foreign exchange (gains) losses	(4,936)	(109)	1,338
Amortization of property, plant and equipment	66,484	44,985	41,906
Amortization of intangible assets	10,312	7,319	7,244
Loss on assets held for sale	3,683	-	-
Gain on sale of land and other items	(5,156)	(12,101)	-
Impairment of property, plant & equipment	-	4,686	5,244
<b>Income from Operations</b>	<b>319,774</b>	211,053	83,907
(Loss) income on investment in joint ventures	(3,874)	618	-
Finance (costs) income, net	(14,912)	1,360	(4,507)
Income (loss) on investment in associate	-	8,694	(10,133)
Accounting gain on acquisition	-	413	-
Income before income taxes	300,988	222,138	69,267
Income taxes	78,402	43,783	12,987
Non-controlling interests	2,724	45	-
<b>Net Income (attributable to shareholders of the Company)</b>	<b>\$ 219,862</b>	\$ 178,310	\$ 56,280
<b>Net Income (attributable to shareholders of the Company)</b>	<b>\$ 219,862</b>	\$ 178,310	\$ 56,280
Add:			
Non-controlling interest	2,724	45	-
Income taxes	78,402	43,783	12,987
Accounting gain on acquisition	-	(413)	-
Finance (income) costs, net	14,912	(1,360)	4,507
Impairment of property, plant & equipment	-	4,686	5,244
Gain on sale of land and other items	(5,156)	(12,101)	-
Loss on assets held for sale	3,683	-	-
Amortization of property, plant, equipment and intangible assets	76,796	52,304	49,150
<b>EBITDA<sup>(a)</sup></b>	<b>\$ 391,223</b>	\$ 265,254	\$ 128,168
<b>Earnings Per Share</b>			
Basic (Common in 2013; Classes A and B in 2012 and 2011)	\$ 3.55	\$ 2.53	\$ 0.79
Diluted (Common in 2013; Classes A and B in 2012 and 2011)	\$ 3.51	\$ 2.50	\$ 0.78
<b>Cash Dividends per Share</b>			
Common Shares	\$ 1.375	\$ -	\$ -
Class A	\$ 0.100	\$ 0.380	\$ 0.315
Class B	\$ 0.091	\$ 0.345	\$ 0.286

(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 12 – Reconciliation of non-GAAP measures, for additional information with respect to other non-GAAP measures used by the Company.

(in thousands of Canadian dollars)	December 30, 2013	December 31, 2012
<b>Total Assets</b>	<b>\$ 1,651,928</b>	\$ 1,888,873
<b>Total Non-current Liabilities</b>	<b>\$ 542,278</b>	\$ 211,651

### Revenue

Consolidated revenue increased by 26%, or \$378.4 million, from \$1,469.2 million for the year ended December 31, 2012 to \$1,847.6 million for the year ended December 31, 2013, due to an increase of \$363.5 million in the Pipeline and Pipe Services segment and \$15.4 million in the Petrochemical and Industrial segment (refer to *Section 4.2 – Segment Information* for further details).

Revenue increased by \$311.9 million, or 27%, from \$1,157.3 million in the year ended December 31, 2011 to \$1,469.2 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).

### Income from Operations

Income from operations increased by \$108.7 million from the twelve month period ended December 31, 2012 to \$319.8 million during the comparable period in 2013. Operating Income benefited from a year over year increase in gross profit of \$214.4 million, an increase in net foreign exchange gain of \$4.8 million and an impairment charge of \$4.7 million incurred in 2012. This was partially offset by increases in SG&A expenses of \$76.6 million, research and development expenses of \$3.4 million, amortization of property, plant, equipment and intangible assets of \$24.5 million, a lower gain on sale of land of \$6.9 million and a loss on assets held for sale of \$3.7 million.

Income from operations increased by \$127.2 million, or 152%, from \$83.9 million in 2011 to \$211.1 million in 2012. Revenue increased \$311.9 million as explained above, with an increase in gross profit of \$152.2 million and a gain on sale of land of \$12.1 million, partially offset by an increase in SG&A expenses of \$36.9 million and an increase in amortization expenses pertaining to property, plant, equipment and intangibles of \$3.2 million.

### Net Income

Net income (attributable to shareholders of the Company) increased by \$41.6 million, from \$178.3 million during the twelve-month period ended December 31, 2012 to \$219.9 million during the twelve-month period ended December 31, 2013, mainly due to higher Operating Income of \$108.7 million in 2013 as explained above. This was partially offset by increases in net finance costs of \$16.3 million, income tax expense of \$34.6 million and income on investment in associate of \$8.7 million recorded in 2012.

Net income (attributable to shareholders of the Company) increased by \$122.0 million, or 217%, from \$56.3 million in 2011 to \$178.3 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 \$5.9 million, partially offset by an increase in income taxes of \$30.8 million.

## 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	
	2013	2012
US Dollar	<b>1.0324</b>	1.0036
Euro	<b>1.3734</b>	1.2921
British Pound	<b>1.6204</b>	1.5888

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, 2013	
Revenue	<b>\$</b>	<b>41,839</b>
Income from operations		<b>13,229</b>
Net income (attributable to shareholders of the Company)	<b>\$</b>	<b>11,963</b>

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of \$6.3 million in the fourth quarter of 2013, compared to a gain of \$0.8 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short-term foreign currency intercompany loans within the group, net of hedging activities.

## 3.0 BUSINESS DEVELOPMENTS FOR THE PERIOD

### 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 was implemented pursuant to a court-approved Plan of Arrangement ("Arrangement") under the Canada Business Corporations Act. The shareholders' meeting to consider the Arrangement took place on March 14, 2013 where the ShawCor shareholders overwhelmingly approved the transaction.



The Arrangement obtained final approval by the Ontario Superior Court of Justice at a hearing held on March 18, 2013, and the Arrangement became effective on March 20, 2013.

#### *Terms of the Arrangement*

The reorganization eliminated ShawCor's dual class share structure through the purchase of all of the Class A subordinate voting and Class B multiple voting shares of ShawCor by a newly formed Canadian corporation. This new corporation purchased all of the Class A subordinate voting shares of ShawCor in exchange for new common shares on a 1:1 basis. The new corporation also acquired all of the Class B multiple voting shares of ShawCor in exchange for a mix of new common shares and cash. The consideration paid for the Class B multiple voting shares of ShawCor was \$43.43 in cash or 1.1 new common shares per Class B multiple voting share, such that 90% of the total consideration was paid in cash and 10% of the total consideration was paid in new common shares. At closing, the new corporation and ShawCor amalgamated under the name ShawCor Ltd. As a result of the completion of the Arrangement, the total number of common shares outstanding decreased by 11,356,951 shares or 16.2%. Following closing, a special dividend of \$1.00 per common share of ShawCor payable pursuant to the Arrangement was paid on April 19, 2013 to shareholders of record at the close of business on April 4, 2013.

#### *Long Term Senior Notes and Extension of Credit Facilities*

On March 20, 2013, the Company completed a private placement of unsecured senior notes ("Senior Notes") in the amount of US\$350 million and increased its existing unsecured revolving credit facility by US\$100 million to US\$250 million, extended the facility's term to five years and obtained a reduction in interest rates payable thereunder.

#### **Acquisition of Remaining 49% of Socotherm Gulf of Mexico, LLC**

On April 15, 2013, the Company completed the acquisition of the remaining 49% of Socotherm S.p.A.'s joint venture in the USA for total consideration of approximately \$30 million, including the assumption of bank debt. The venture has a strategically located facility in Channelview, Texas which provides anticorrosion and advanced insulation coatings for global offshore applications, including in the Gulf of Mexico and West African markets.

#### **ShawCor Names New President**

On September 3, 2013, the Company appointed Steve Orr as President of ShawCor Ltd. Bill Buckley, formerly President and Chief Executive Officer, will continue as Chief Executive Officer. These changes are part of ShawCor's ongoing management succession plan. As President, Mr. Orr will be based in Toronto, Ontario, will report to the Chief Executive Officer and will assume responsibility for the Bredero Shaw, Canusa-CPS, Guardian, DSG-Canusa and ShawFlex divisions of the Company.

Steve Orr most recently held a senior executive position with a leading global energy services company. Over his more than 20 year career with this company, he has served in senior roles in many locations throughout North America, Europe and the Asia Pacific region. He brings to the office of President, ShawCor Ltd. a deep knowledge, skill and experience in the global energy service industry and will support the Company's continuing global growth trajectory.

#### **Sale of Brazilian Joint Venture Interest**

On December 4, 2013, the Company announced an agreement for the sale, subject to regulatory approval, of its Socotherm division's joint venture interest in Socotherm Brasil to its joint venture partner, Tenaris. Socotherm Brasil operates a pipe coating facility which is managed by Tenaris and which is located at the Confab welded pipe mill in Pindamonhangaba, Brazil.

From the sale, ShawCor expects to realize net proceeds of approximately US\$28.5 million, with a further potential earn out based on future performance. In the fourth quarter, the Company recorded a net loss of \$8.3 million from the Brazilian Joint Venture, comprised of a \$2.8 million loss on investment in joint venture, a \$0.9 million loss on assets held for sale, \$2.7 million in income taxes on the sale, and a \$1.9 million loss included in non-controlling interest. This non-controlling interest expense represents the minority interest share of the gain reported at the Socotherm subsidiary level, notwithstanding the fact that there is a loss on the sale at a ShawCor consolidated level.

The sale of Socotherm's joint venture interest in Socotherm Brasil is consistent with ShawCor's strategy to focus its pipe coating investments on operations it manages and controls. Following the sale, ShawCor will continue to serve Tenaris' global pipe coating needs and the Brazilian pipe coating market from its global pipe coating plant network.

#### **Development Agreement with Vintri Technologies Inc.**

On December 20, 2013, ShawCor entered into a development agreement with Calgary, Alberta based Vintri Technologies Inc. ("Vintri"), whereby Vintri will develop for ShawCor's Bredero Shaw division, a cloud based plant management and shop floor data collection system providing accurate asset identification and traceability. In consideration for the development agreement, ShawCor has been provided a minority equity interest in Vintri for nil consideration.

#### **Equity Investment in Zedi Inc.**

On February 20, 2014, ShawCor completed an equity investment in Zedi Inc. ("Zedi"), a Calgary, Alberta based company engaged in end-to-end solutions for production operations management in the oil and gas industry. Zedi has successfully developed and deployed remote field monitoring and related data management solutions for the optimization of oil and gas well production and has recently completed a management led buyout through an Alberta court and shareholder approved plan of arrangement. ShawCor's equity investment in Zedi will consist of a 25% common share interest plus convertible preferred shares for a total investment of approximately \$24 million, which will be accounted for using equity accounting. ShawCor and Zedi have also entered into a joint development agreement to work together to develop monitoring and connectivity solutions for pipeline and OCTG applications.

## 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)	2013	2012	Change
Pipeline and Pipe Services	\$ 1,687,768	\$ 1,324,215	\$ 363,553
Petrochemical and Industrial	162,449	147,068	15,381
Elimination	(2,668)	(2,096)	(572)
Consolidated	\$ 1,847,549	\$ 1,469,187	\$ 378,362

Consolidated revenue increased by 26%, or \$378.4 million, from \$1,469.2 million for the twelve month period ended December 31, 2012 to \$1,847.5 million for the twelve month period ended December 31, 2013, due to increases of \$363.5 million in the Pipeline and Pipe Services segment and \$15.4 million in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment in 2013 was \$1,687.8 million, \$363.6 million, or 27%, higher than in 2012, primarily due to higher revenue in Asia Pacific and North America, partially offset

by lower activity in EMAR and Latin America. 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 \$15.4 million, or 10%, in 2013 compared to 2012, primarily due to higher activity levels in all regions. See *Section 4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

#### Income from Operations

The following table sets forth income from operations (“Operating Income”) and Operating Margin for the following periods:

(in thousands of Canadian dollars)	2013	2012	Change
Income from Operations	\$ 319,774	\$ 211,053	\$ 108,721
Operating Margin <sup>(a)</sup>	17.3%	14.4%	28.7%

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

Operating Income increased by \$108.7 million from the twelve month period ended December 31, 2012 to \$319.8 million for the full year 2013. The increase in Operating Income resulted from a year over year increase in gross profit of \$214.4 million, an increase in net foreign exchange gain of \$4.8 million and an impairment charge of \$4.7 million incurred in 2012. This was partially offset by increases in SG&A expenses of \$76.6 million, research and development expenses of \$3.4 million, amortization of property, plant, equipment and intangible assets of \$24.5 million, a lower gain on sale of land of \$6.9 million and a loss on assets held for sale of \$3.7 million.

The increase in gross profit resulted from higher revenue of \$378.4 million and a 3.6 percentage point improvement in gross margin attributable to favourable project mix and better facility utilization and absorption of overheads, particularly in the Pipeline and Pipe Services segment's Asia Pacific region.

SG&A expenses increased by \$76.6 million in 2013 compared to 2012, primarily as a result of higher SG&A costs of \$25.3 million following the acquisition and full consolidation of Socotherm, one-time restructuring costs and amended executive retirement arrangements of \$10.7 million recorded in the fourth quarter of 2013, and \$13.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements, recorded in the first quarter of 2013. In addition, personnel related costs and management incentive compensation expenses were higher by \$12.6 million, building rental, insurance and equipment costs were higher by \$5.4 million, legal and professional consulting fees were higher by \$6.9 million and provisions for bad debts, warranty and other items increased by \$6.0 million, partially offset by one-time strategic review expenses of \$4.0 million incurred in the fourth quarter of 2012.

#### Finance Costs, Net

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

(in thousands of Canadian dollars)	2013	2012	Change
Interest income on short-term deposits	\$ (1,156)	\$ (2,767)	\$ 1,611
Interest expense, other	5,949	1,407	4,542
Interest expense on long-term debt	10,119	–	10,119
Finance costs (income) – net	\$ 14,912	\$ (1,360)	\$ 16,272

In the twelve months ended December 31, 2013, net finance cost was \$14.9 million, compared to a net finance income of \$1.4 million during the comparable period of 2012, as a result of interest on long-term senior notes issued on March 20, 2013, higher other interest expenses on bank loans and overdrafts and lower interest income on short-term deposits.

#### Income Taxes

The Company recorded an income tax expense of \$78.4 million (26% of income before income taxes) during the twelve-month period ended December 31, 2013, compared to an income tax expense of \$43.8 million (20% of income before income taxes) during the twelve-month period

ended December 31, 2012. The effective income tax rate for the twelve months ending December 31, 2013 is lower than the expected income tax rate of 27% due to income being earned in jurisdictions where the tax rate is 25% or less, with this benefit partially offset by the incurrence of tax losses in jurisdictions where the Company was unable to record a tax benefit during the year. In 2012, the low tax rate was due to a higher proportion of the Company's taxable income having been earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the tax rate is 25% or less.

## 4.2 Segment Information

### 4.2.1 Pipeline and Pipe Services Segment

The following table sets forth, 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, except Operating Margin)	2013	2012	Change
North America	\$ 671,317	\$ 604,106	\$ 67,211
Latin America	161,627	164,649	(3,022)
EMAR	191,814	221,471	(29,657)
Asia Pacific	663,010	333,989	329,021
<b>Total Revenue</b>	<b>\$ 1,687,768</b>	<b>\$ 1,324,215</b>	<b>\$ 363,553</b>
<b>Operating Income</b>	<b>\$ 365,122</b>	<b>\$ 236,689</b>	<b>\$ 128,433</b>
<b>Operating Margin</b>	<b>21.6%</b>	<b>17.9%</b>	<b>3.7%</b>

- For the twelve month period ended December 31, 2013, revenue in the Pipeline and Pipe Services segment was \$1,687.7 million, an increase of \$363.6 million, or 28%, from \$1,324.2 million in the comparable period in the prior year. Activity levels in Asia Pacific and North America were higher in 2013 compared to 2012, partially offset by a decrease in EMAR and Latin America revenue:
- In North America, revenue increased by \$67.2 million, or 11%, primarily due to increased flexible composite pipe revenue in the USA, the acquisition of Socotherm Gulf of Mexico, increased pipe weld inspection service revenue in the USA and higher large diameter project revenues in Canada, partially offset by lower pipe coating activity in the USA.
- In Latin America, revenue was lower by \$3.0 million, or 2%, mainly due to lower activity levels in Mexico and Brazil, partially offset by the full year inclusion of Socotherm Argentina.
- In EMAR, revenue decreased by \$29.7 million, or 13%, primarily due to decreased pipe coating activity levels in Ras al-Khaimah ("RAK") and Leith, Scotland, partially offset by increased volumes at the Orkanger, Norway facility and the full year inclusion of Socotherm, Italy.
- Revenue in Asia Pacific increased by \$329.0 million, or 99%, mainly due to execution of the Inpex Ichthys gas export pipeline and the Chevron Wheatstone projects in both Kuantan, Malaysia and Kabil, Indonesia.

Operating Income for the twelve month period ended December 31, 2013 was \$365.1 million compared to \$236.7 million for the twelve month period ended December 31, 2012, an increase of \$128.4 million, or 54%. The increase in Operating Income was due to an increase in gross profit of \$203.9 million due to the increase in revenue of \$363.6 million, as explained above, and a 3.6 percentage point increase in gross margin due to favourable project mix, better facilities utilization and the absorption of overheads, particularly at the Company's two pipe coating facilities in Asia Pacific. The increase in gross profit was partially offset by higher SG&A expenses and amortization of property, plant, equipment and intangibles as explained in *Section 4.1* above.

#### 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:

	2013	2012	Change
North America	\$ 101,117	\$ 92,551	\$ 8,566
EMAR	55,457	50,496	4,961
Asia Pacific	5,875	4,021	1,854
<b>Total Revenue</b>	<b>\$ 162,449</b>	<b>\$ 147,068</b>	<b>\$ 15,381</b>
<b>Operating Income</b>	<b>\$ 20,576</b>	<b>\$ 19,886</b>	<b>\$ 690</b>
<b>Operating Margin</b>	<b>12.7%</b>	<b>13.5%</b>	<b>(0.8)%</b>

Revenue increased in the twelve month period ended December 31, 2013 by \$15.4 million, or 11%, to \$162.4 million, compared to the comparable period in 2012, due to increased shipments of wire and cable products to the North American electrical utilities, nuclear and oil sands markets combined with increased heat shrink tubing product shipments in all three regions.

Operating Income for the twelve month period ended December 31, 2013 was \$20.6 million compared to \$19.9 million for the twelve month period ended December 31, 2012, an increase of \$0.7 million, or 3%. The increase was primarily due to higher revenue and gross profit, partially offset by higher SG&A costs resulting from the one-time restructuring costs of \$3.2 million at the DSG Canusa facilities in Europe.

#### 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)	2013	2012	Change
<b>Financial and Corporate Expenses</b>	<b>\$ (70,860)</b>	<b>\$ (45,631)</b>	<b>\$ (25,229)</b>

Financial and corporate costs increased by \$25.2 million from the twelve month period ended December 31, 2012 to \$70.9 million for the twelve month period ended December 31, 2013. The increase was due to one-time costs of restructuring and amended executive retirement arrangements recorded in the fourth quarter of 2013 of \$5.5 million, \$13.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements and due to increases of \$4.7 million in personnel and management incentive compensation costs and \$5.9 million in legal, professional consulting and research and development expenses.

## 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)	2013	2012
<b>Net Income</b>	<b>\$ 222,586</b>	<b>\$ 178,355</b>
Non-cash items	115,603	40,554
Settlement of decommissioning liability obligations	(817)	(1,580)
Settlement of provisions	(19,449)	(7,292)
Increase in non-current deferred revenue	(64,392)	64,392
Change in employee future benefits	(20,994)	1,168
Change in non-cash working capital and foreign exchange	(200,273)	254,915
<b>Cash provided by operating activities</b>	<b>32,264</b>	<b>530,512</b>
<b>Cash used in investing activities</b>	<b>(38,066)</b>	<b>(249,741)</b>
<b>Cash used in financing activities</b>	<b>(215,734)</b>	<b>(52,875)</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<b>15,950</b>	<b>548</b>
Net (decrease) increase in cash and cash equivalents	(205,586)	228,444
Cash and cash equivalents, beginning of year	284,981	56,537
<b>Cash and cash equivalents at end of year</b>	<b>\$ 79,395</b>	<b>\$ 284,981</b>

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

### 5.1 Cash Provided by Operating Activities

Cash provided by operating activities decreased by \$498.2 million from \$530.5 million during 2012 to \$32.3 million during 2013. The decrease was due to a net increase in non-cash working capital and foreign exchange of \$455.2 million and a net reduction in non-current deferred revenue of \$128.8 million in 2013 compared to the prior year. This was partially offset by an increase in net income of \$44.2 million and an increase in non-cash items of \$75.0 million. The increase in non-cash working capital and foreign exchange was mainly due to a net decrease in the current portion of deferred revenue of \$642.3 million in 2013 compared to 2012, partially offset by increases in accounts receivable of

\$84.9 million and inventories of \$34.5 million in 2012 compared to 2013. Net income increased due to higher revenue and Operating Income as discussed in Section 4.1.

### 5.2 Cash Used in Investing Activities

Cash used in investing activities decreased by \$211.7 million from \$249.7 million during 2012 to \$38.1 million during 2013. The decrease was primarily due to the redemption of short-term investments of \$71.3 million in 2013 compared to the purchase of short-term investments of \$67.4 million in 2012. This was partially offset by a net reduction of \$59.5 million in loans receivable in 2013 compared to the prior year and reduced spending on acquisitions by \$26.9 million.

### 5.3 Cash Used in Financing Activities

Cash used in financing activities increased by \$162.9 million, from \$52.9 million during 2012 to \$215.7 million during 2013. This was primarily due to the purchase of the Company's Class B multiple voting shares under the Company's Plan of Arrangement in the amount of \$503.1 million and higher dividend payments of \$62.2 million during 2013. This was partially offset by the proceeds of long-term debt net of deferred financing expenses of \$356.3 million in 2013.

## 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 receivables (“DSO”) as at:

(in thousands of Canadian dollars, except DSO)	2013	2012	Change
Average trade accounts receivable	\$ 248,944	\$ 272,218	\$ (23,274)
DSO <sup>(a)</sup>	55	56	(1)

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-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 receivables decreased by \$23.3 million from \$272.2 million as at December 31, 2012 to \$248.9 million as at December 31, 2013 as a result of decreased business activity. DSO decreased by 1 day from 56 during the fourth quarter of 2012 to 55 during the fourth quarter of 2013, primarily due to the timing of sales and collection of receivables in the fourth quarter of 2013 compared to the fourth quarter of 2012.

### Inventories

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

(in thousands of Canadian dollars)	2013	2012	Change
Inventories	\$ 180,876	\$ 188,347	\$ (7,471)

Inventories decreased by \$7.5 million from \$188.3 million as at December 31, 2012 to \$180.9 million as at December 31, 2013, due to a reduction in work in process inventory of \$6.6 million and a reduction in finished goods inventory of \$6.9 million, partially offset by an increase in raw materials of \$2.7 million.

### Accounts Payable

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

(in thousands of Canadian dollars, except DPO)	2013	2012	Change
Average accounts payable and accrued liabilities	\$ 240,639	\$ 196,293	\$ 44,346
DPO <sup>(a)</sup>	88	68	20

(a) DPO, a non-GAAP measure, is the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle. 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 \$44.0 million, or 22%, from \$196.3 million as at December 31, 2012, to \$240.6 million as at December 31, 2013. DPO increased by 20 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 2013 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)	2014	2015	2016	2017	2018	After 2018	Total
Purchase commitments	\$ 43,614	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 43,614
Operating leases	17,619	13,449	8,201	6,556	3,624	10,176	59,625
Bank indebtedness	5,290	–	–	–	–	–	5,290
Accounts payable	91,215	–	–	–	–	–	91,215
Decommissioning liabilities	3,412	1,768	4,537	–	967	21,067	31,751
Deferred purchase consideration	21,618	–	–	–	–	–	21,618
Obligations under finance leases	938	1,486	1,486	1,486	1,486	13,892	20,774
Loans payable	126	–	–	–	–	–	126
Long-term debt	–	–	–	–	–	374,381	374,381
Finance costs on long-term debt	13,089	13,089	13,089	13,089	13,089	68,232	133,677
<b>Total contractual obligations</b>	<b>\$ 196,921</b>	<b>\$ 29,792</b>	<b>\$ 27,313</b>	<b>\$ 21,131</b>	<b>\$ 19,166</b>	<b>\$ 487,748</b>	<b>\$ 782,071</b>

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

(in thousands of Canadian dollars)	2013
Total future minimum lease payments	\$ 20,774
Less: imputed interest	(6,460)
Balance of obligations under finance leases	14,314
Less: current portion	(487)
Non-current obligations under finance leases	\$ 13,827

As at December 31, 2013, the Company has not entered into any material commitments for capital expenditures.

### *Legal Claims*

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers, 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 utilizes its credit facilities to support the Company's Bonds. The Company had utilized credit facilities of \$111.5 million as at December 31, 2013 (December 31, 2012 – \$86.9 million).

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

(in thousands of Canadian dollars)	2013	2012
Total available credit facilities	\$ 320,910	\$ 251,688
Bank Indebtedness, Standby letters of credit for performance, bid and surety bonds	111,496	86,929
<b>Unutilized credit facilities</b>	<b>\$ 209,414</b>	<b>\$ 164,759</b>

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

Allowable credit utilization outside of this facility has been reduced from US\$100 million to US\$50 million.

### Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.5 to 1 and a debt to total EBITDA ratio of less than 3.00 to 1.

The Company was in compliance with the debt covenants detailed above as at December 31, 2013. 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 Long-Term Debt

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

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

The total long-term debt balance as at December 31, 2013 is \$374.4 million (US\$350.0 million). The long-term debt has been designated as a hedge of the Company's net investment in a U.S. dollar functional currency subsidiary as described in Note 25 of the consolidated financial statements for the year ended December 31, 2013.

### Financial Ratios

The Company has undertaken to maintain certain covenants in respect of the Long-Term Debt. These are similar to the debt covenants described in *Section 5.5* above for the Company's Unsecured Committed Bank Credit Facility.

The Company was in compliance with all of the financial covenants for the long-term debt as at December 31, 2013.

## 5.7 Financial Instruments and Other Instruments

### 5.7.1 Fair Value

*IFRS 13, Fair Value Measurement*, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs, 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 the fair value hierarchy levels for the financial assets and liabilities as at December 31, 2013:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 79,395	\$ 79,395	\$ -	\$ -
Short-term investments	6,618	6,618	-	-
Loans receivable	9,242	-	9,242	-
Trade accounts receivable	237,880	-	237,880	-
Other receivables	126,104	-	126,104	-
Derivative financial instruments	624	-	624	-
	\$ 459,863	\$ 86,013	\$ 373,850	\$ -
<b>Liabilities</b>				
Bank indebtedness	\$ 5,290	\$ 5,290	\$ -	\$ -
Loans payable	126	-	126	-
Accounts payable	91,215	-	91,215	-
Deferred purchase consideration	21,618	-	21,618	-
Long-term debt	374,381	-	374,381	-
Derivative financial instruments	1,632	-	1,632	-
	\$ 494,262	\$ 5,290	\$ 488,972	\$ -

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.

#### 5.7.2 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, 2013, 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 \$75.0 million, \$18.0 million and \$15.1 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$57.1 million, \$38.8 million and \$18.3 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.

##### Net Investment Hedge

The Senior Notes have been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the U.S. dollar as its functional currency. During the year ended December 31, 2013, a loss of \$16.1 million on the translation of the Notes was transferred to other comprehensive income to offset the losses on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2013.



### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2013:

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial assets</b>				
Cash equivalents	\$ –	\$ –	\$ 552	\$ 552
Loans receivable	1,075	4,014	4,153	9,242
	\$ 1,075	\$ 4,014	\$ 4,705	\$ 9,794
<b>Financial liabilities</b>				
Bank indebtedness	\$ –	\$ 5,290	\$ –	\$ 5,290
Loans payable	126	–	374,381	374,507
	\$ 126	\$ 5,290	\$ 374,381	\$ 379,797

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.

For the year ended December 31, 2013, there was one customer who generated approximately 22% of total consolidated revenue (December 31, 2012 no customers who generated revenue greater than 10% of total consolidated revenue). This revenue resulted primarily from a single contract for which a substantial upfront payment was received in 2012 and which was recorded as deferred revenue at that time.

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, 2013, \$25.2 million, or 10.3%, 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 receivables that are neither past due nor impaired.

The following is an analysis of the change in the allowance for doubtful accounts for the years ended December 31, 2013 and 2012:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Balance – Beginning of year	\$ 9,409	\$ 13,967
Bad debt expense	3,016	7,997
Recovery of previously written-off bad debts	(7)	(333)
Write-offs of bad debts	(5,031)	(11,000)
Impact of change in foreign exchange rates	(667)	(1,222)
Balance – End of year	\$ 6,720	\$ 9,409

### 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, 2013, the Company had cash and cash equivalents totalling \$79.4 million (2012 – \$285.0 million) and had unutilized lines of credit available to use of \$209.4 million (2012 – \$164.8 million).

### 5.8 Outstanding Share Capital

As at February 21, 2014, the Company had 60,003,882 common shares outstanding. In addition, as at February 21, 2014, the Company had stock options and share units outstanding to purchase up to 1,574,607 new common 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 2013 and 2012:

(in thousands of Canadian dollars except per share amounts)	Q1-2013	Q2-2013	Q3-2013	Q4-2013
<b>Operating Results</b>				
Revenue	\$ 454,681	\$ 457,261	\$ 525,848	\$ 409,759
Income from operations	89,125	78,536	104,877	47,236
Net income (attributable to shareholders of the Company)	70,595	53,914	72,956	22,397
<b>Net income per share</b>				
Basic	\$ 1.02	\$ 0.91	\$ 1.22	\$ 0.37
Diluted	\$ 1.01	\$ 0.90	\$ 1.21	\$ 0.37

(in thousands of Canadian dollars except per share amounts)	Q1-2012	Q2-2012	Q3-2012	Q4-2012
<b>Operating Results</b>				
Revenue	\$ 312,268	\$ 326,923	\$ 390,497	\$ 439,499
Income from operations	30,554	23,232	64,305	92,962
Net income (attributable to shareholders of the Company)	23,247	21,377	53,411	80,275
<b>Net income per share</b>				
Basic	\$ 0.34	\$ 0.30	\$ 0.76	\$ 1.14
Diluted	\$ 0.33	\$ 0.30	\$ 0.75	\$ 1.13

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 91% of the Company's consolidated revenue in 2013, 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 79% of the Company's revenue in 2013 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 revenues increased by 33% over the first half of 2012, primarily due to large projects commencing in the Asia Pacific region. These large projects in the Asia Pacific region were also the main drivers of higher revenue in 2013.

### 6.1 Fourth Quarter Highlights

Highlights of the Company's 2013 fourth quarter include:

#### *Fourth Quarter 2013 Versus Fourth Quarter 2012*

- **Revenue:** Consolidated revenue decreased by \$29.7 million, or 7%, from \$439.5 million during the fourth quarter of 2012, to \$409.8 million during fourth quarter of 2013, due to a decrease of \$36.1 million in the Pipeline and Pipe Services segment, partially offset by an increase of \$7.0 million in the Petrochemical and Industrial segment. In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2013 was \$36.1 million, or 9%, lower than in the

fourth quarter of 2012, due to decreased activity in Latin America, North America and Asia Pacific, partially offset by higher revenue in EMAR. See *Section 4.2.1 – Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment. In the Petrochemical and Industrial segment, revenue increased by \$7.0 million, or 21%, during the fourth quarter of 2013 compared to the fourth quarter of 2012, due to higher activity levels in all three regions. See *Section 4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

- **Operating Income:** Operating Income decreased by \$45.7 million, from \$93.0 million in the fourth quarter of 2012 to \$47.2 million during the fourth quarter of 2013. Operating Income was impacted by a decrease in gross profit of \$18.8 million, increases in SG&A expenses of \$20.0 million, research and development expenses of \$1.3 million, amortization of property, plant, equipment and intangible assets of \$3.9 million, loss on assets held for sale of \$1.1 million and a lower gain on sale of land of \$6.9 million. This was partially offset by an increase in net foreign exchange gain of \$5.5 million and a charge for impairment of property, plant and equipment of \$0.8 million recorded in the fourth quarter of 2012. The decrease in gross profit resulted from lower revenue of \$29.7 million and a 1.6 percentage point decrease in gross margin attributable to unfavourable product and project mix and lower facility utilization and absorption of overheads, particularly in the Pipeline and Pipe Services segment's Asia Pacific and Latin America regions. SG&A expenses increased by \$20.0 million compared with the fourth quarter of 2012, primarily as a result of higher SG&A costs of \$5.8 million following the acquisition and full consolidation of Socotherm and one-time restructuring costs and amended executive retirement arrangements of \$10.7 million, as explained above. In addition, building rental and equipment costs

increased by \$2.7 million, legal and professional consulting fees were higher by \$3.2 million and transportation related expenses increased \$1.2 million, partially offset by one-time strategic review expenses of \$4.0 million incurred in the fourth quarter of 2012.

- **Finance Costs:** In the fourth quarter of 2013, net finance cost was \$5.4 million, compared to a net finance income of \$0.6 million during the fourth quarter of 2012. The increase in net finance costs was a result of interest on the Senior Notes issued on March 20, 2013, higher other interest expenses on bank loans and overdrafts and lower interest income on short-term deposits.
- **Income Taxes:** The Company recorded an income tax expense of \$10.3 million (28% of income before income taxes) in the fourth quarter of 2013, compared to an income tax expense of \$18.4 million (19% of income before income taxes) in the fourth quarter of 2012. The effective tax rate in the fourth quarter of 2013 was higher than the Company's expected effective income tax rate of 27%, primarily due to higher losses on investment in joint ventures, which reduced income before income taxes. The Company's tax rate in the fourth quarter of 2012 was lower than the expected rate of 27% primarily due to the fact that a significant portion of the Company's income was earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the expected tax rate was 25% or less.
- **Net Income:** Net income decreased by \$57.9 million, from \$80.3 million during the fourth quarter of 2012 to \$22.4 million during the fourth quarter of 2013, mainly due to lower Operating Income in the fourth quarter of 2013, as explained in *Section 2.2* above, income from investment in associate recorded in the fourth quarter of 2012 of \$6.0 million, a higher net loss on investment in joint ventures of \$4.2 million and higher net finance costs of \$6.0 million. This was partially offset by a decrease in income tax expenses of \$8.1 million.

#### *Fourth Quarter 2013 Versus Third Quarter 2013*

- **Revenue:** Consolidated revenue decreased 22%, or \$116.1 million, from \$525.8 million during the third quarter of 2013 to \$409.8 million during the fourth quarter of 2013, due to a decrease of \$112.7 million in the Pipeline and Pipe Services segment and a decrease of \$2.7 million in the Petrochemical and Industrial segment. In the Pipeline and Pipe Services segment, revenue decreased 23%, or \$112.7 million, from \$483.2 million in the third quarter of 2013 to \$370.4 million in the fourth quarter of 2013, due to a decrease of 44%, or \$91.0 million, in Asia Pacific and a decrease of 47%, or \$20.0 million, in Latin America. See *Section 4.2.1 – Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment. In the Petrochemical and Industrial segment, revenue was lower by \$2.7 million, or 6%, in the fourth quarter of 2013, compared to the third quarter of 2013, mainly due to a decrease in revenue of \$2.7 million, or 10%, in the North America region. See *Section 4.2.2 – Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.
- **Operating Income:** Operating Income decreased by \$57.6 million, from \$104.9 million during the third quarter of 2013 to \$47.2 million during the fourth quarter of 2013. Operating Income was impacted by a decrease in gross profit of \$66.4 million and an increase in SG&A

expenses of \$6.8 million. This was partially offset by decreases in research and development expenses of \$0.9 million, amortization of property, plant, equipment and intangible assets of \$1.4 million, an increase in net foreign exchange gain of \$8.0 million and a gain on sale of land of \$5.2 million. The decrease in gross profit resulted from a 3.9 percentage point decrease in the gross margin from the third quarter of 2013 and the lower revenue, as explained above. The decrease in the gross margin percentage was primarily due to unfavourable product and project mix and lower facility utilization and absorption of overheads, as a result of reduction in revenue in the Pipeline and Pipe Services segment's Asia Pacific region. SG&A expenses increased by \$6.8 million, from \$96.3 million in the third quarter of 2013 to \$103.0 million in the fourth quarter of 2013, primarily due to one-time restructuring costs and amended executive retirement arrangements of \$10.7 million, partially offset by lower management incentive compensation expenses of \$3.6 million. The one-time restructuring costs and amended executive retirement arrangements were primarily related to reorganizing the organizational structure to more effectively run the business and were comprised of charges of \$2.0 million for the Pipeline and Pipe Services segment, \$3.2 million for the Petrochemical and Industrial segment and \$5.5 million for Finance and Corporate.

- **Finance Costs:** In the fourth quarter of 2013, net finance cost was \$5.4 million, compared to a net finance cost of \$4.5 million during the third quarter of 2013, as a result of higher other interest expenses on bank loans and overdrafts, partially offset by higher interest income on short-term deposits.
- **Income Taxes:** The Company recorded an income tax expense of \$10.3 million (28% of income before income taxes) in the fourth quarter of 2013, compared to an income tax expense of \$29.4 million (29% of income before income taxes) in the third quarter of 2013. The effective tax rate in the fourth quarter of 2013 was higher than the Company's expected effective income tax rate of 27%, primarily due to higher losses on investment in joint ventures, which reduced income before income taxes. The Company's tax rate in the third quarter of 2013 was slightly higher than expectations primarily due to the incurrence of tax losses in jurisdictions where the Company was unable to record a tax benefit in the quarter.
- **Net Income:** Net income decreased by \$50.6 million, from \$73.0 million during the third quarter of 2013 to \$22.4 million during the fourth quarter of 2013, mainly due to the lower Operating Income in the fourth quarter of 2013, as explained in *Section 2.2* above and a higher loss on investment in joint ventures of \$6.8 million. This was partially offset by lower income tax expense of \$19.1 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, 2013 and 2012. Furthermore, they have concluded that the Company's ICFRs were effective as at December 31, 2013. There were no material changes in either the Company's DC&Ps or its ICFRs during 2013 or 2012.

### 7.1 Transactions with Related Parties

During the year, 11,716,235 Class B multiple voting shares of the Company's controlling shareholder were acquired by the Company for cash and shares pursuant to the Arrangement which became effective on March 20, 2013. Refer to *Section 3.1 – Business Developments for the Period* and Note 29 of the audited financial statements for the year ended December 31, 2013, for additional information regarding this transaction. In connection with the closing of the Arrangement, the employment terms of the Company's Chair of the Board of Directors and indirect controlling shareholder, and of the Company's Vice Chair of the Board of Directors, were amended to provide that their employment with a Company's subsidiary would terminate and they would receive severance and other benefits of approximately \$3.4 million and \$3.7 million, respectively. For additional information regarding these transactions, refer to the section entitled *Termination & Change of Control Benefits* in the Company's Management Proxy Circular dated March 25, 2013, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com)

The Company had no other material transactions with related parties during the year 2013 and all related party transactions were in the normal course of business.

## 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*

As at December 31, 2013 the Company had \$842.3 million of 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, 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.

#### *Employee Future Benefit Obligations*

As at December 31, 2013, the Company had \$25.7 million of employee future benefit obligations included in non-current liabilities. 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*

As at December 31, 2013, the Company had \$109.2 million of provisions; of this amount \$49.8 million was included in current liabilities and \$59.4 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take 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*

As at December 31, 2013, the Company had decommissioning liabilities in the amount of \$20.7 million; of this amount \$3.4 million was included in the current provisions account and \$17.2 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk free rate. 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.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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

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

### *IFRS 9, Financial Instruments*

*IFRS 9*, as issued, reflects the first phase of the IASB's work on the replacement of *IAS 39* and applies to classification and measurement of financial assets and financial liabilities as defined in *IAS 39*. The standard was initially effective for annual periods beginning on or after January 1, 2015; however, as a result of further amendments to *IFRS 9* there is no longer a mandatory effective date for this standard. In subsequent phases, the IASB amended *IFRS 9* to address hedge accounting, and further amendments for impairment of financial assets are pending. The Company will quantify the effect of adopting *IFRS 9*, when the final standard including all phases is issued.

### *IFRIC Interpretation 21 Levies (IFRIC 21)*

*IFRIC 21* clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. *IFRIC 21* is effective for annual periods beginning on or after 1 January 2014. The Company is still evaluating the impact of *IFRIC 21* on its financial statements.

## **8.3 New Accounting Standards Adopted**

### *IAS 1, Presentation of Financial Statements*

#### *Presentation of Items of Other Comprehensive Income*

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 and loss at a future point in time now have to be presented separately from items that will never be reclassified. The Company adopted this standard effective January 1, 2013. The Company has modified its Statement of Comprehensive Income to become compliant with the amendments made to *IAS 1*. The amendment affected presentation only and had no impact on the Company's financial position or results of operations.

#### *Clarification of the Requirement for Comparative Information*

The amendment to *IAS 1* clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the "Opening Balance Sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The Company has disclosed the Opening Balance Sheet as part of the IFRS transitional note in *Section 8.4*.

### *IFRS 10, Consolidated Financial Statements*

For annual periods beginning on January 1, 2013, *IFRS 10, Consolidated Financial Statements*, which replaced 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. *IFRS 10* changes the definition of control such that an investor is 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. To meet the definition of control in *IFRS 10*, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to

use its power over the investee to affect the amount of the investor's returns. 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's adoption of *IFRS 10* effective January 1, 2013 had no material impact on the consolidation of investments by the Company.

#### *IFRS 11, Joint Arrangements*

On January 1, 2013, ShawCor adopted *IFRS 11, Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. *IFRS 11* replaces *IAS 31, Interests in Joint Ventures* and *SIC-13, Jointly-controlled Entities – Non-monetary Contributions by Venturers*. *IFRS 11* requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement ("joint venture") or to its share of the assets and liabilities of the joint arrangement ("a joint operation"). A joint venture is accounted for using the equity method and a joint operation is accounted for by including the joint venture partner's share of the assets, liabilities, revenue and expenses in the consolidated financial statements of the joint venture partner.

The application of *IFRS 11* resulted in the Company replacing the proportionate consolidation method of accounting for joint ventures with the equity method of accounting for joint ventures. The effect of *IFRS 11* is described in *Section 8.4*, which includes quantification of the effect on the Company's consolidated financial statements.

#### *IFRS 12, Disclosure of Interests in Other Entities*

On January 1, 2013, the Company adopted *IFRS 12, Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint arrangements and associates, as well as unconsolidated structured entities and replaced existing disclosure requirements. Due to this new standard, the Company is now required to disclose in its annual consolidated financial statements 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 the nature of the risks associated with interests in other entities. These consolidated financial statements include those disclosures stipulated by *IFRS 12*.

#### *IFRS 13, Fair Value Measurement*

Effective January 1, 2013, the Company has adopted *IFRS 13, Fair Value Measurement*. *IFRS 13* establishes a single source of guidance for all fair value measurements, when fair value is required or permitted by IFRS. *IFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. In addition, fair value will now be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets and liabilities. Upon adoption, the Company has started to use a single framework for measuring fair value and will provide additional disclosures as prescribed by IFRS. The application of *IFRS 13* has not materially impacted the fair value measurements carried out by the Company.

*IFRS 13* also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including *IFRS 7, Financial Instruments: Disclosures*. The Company has provided these prescribed financial statement disclosures in Note 25 of the Company's audited financial statements for the year ended December 31, 2013.

#### *IAS 19R, Employee Benefits*

Effective January 1, 2013, ShawCor adopted *IAS 19, Employee Benefits*. *IAS 19R* includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit or loss; expected returns on plan assets are no longer recognized in profit or loss; interest on the net defined benefit liability (asset) is recognized in profit or loss, and is calculated using the discount rate used to measure the defined benefit obligation; and unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. The amended standard impacts the net benefit expense as the expected return on plan assets is calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The transition to *IAS 19R* has had a material impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets and unvested past service costs. The effect of *IAS 19R* is described in *Section 8.4*, which includes quantification of the effect on the Company's consolidated financial statements.

#### *IAS 27, Separate Financial Statements*

ShawCor adopted *IAS 27, Separate Financial Statements* effective January 1, 2013. 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. There was no impact from the adoption of this new standard to the Company's consolidated financial statements.

### *IAS 28, Investments in Associates and Joint Ventures*

ShawCor adopted *IAS 28, Investments in Associates and Joint Ventures* effective January 1, 2013. As a consequence of the issue of *IFRS 10, IFRS 11* and *IFRS 12*, *IAS 28* has been amended and now provides further accounting guidance for investments in associates and sets 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 or has significant influence over an investee, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28*.

The adoption of *IAS 28* by the Company changed the method of accounting for its joint ventures from the proportionate consolidation method to the equity method. The effect of *IAS 28* is described in Note 5, which includes quantification of the effect on the Company's consolidated financial statements.

### *IAS 36, Impairment of Assets*

In May 2013, the IASB released an amendment to this standard that requires entities to disclose the recoverable amount of an asset or cash generating unit when an impairment loss has been recognized or reversed and certain other information when an impairment loss or reversal is based on fair value less costs to sell. This amendment is required to be applied for accounting periods beginning on or after January 1, 2014. The Company has early adopted this standard. The adoption of this amendment affected disclosure only and has no impact on the consolidated financial statements of the Company.

## **8.4 Impact of Adopting New Accounting Standards**

### *a) IFRS 11, Joint Ventures*

The Company had the following interests in joint ventures as at January 1, 2013.

	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.	Argentina	Pipe coating	50
Socotherm Gulf of Mexico, LLC	U.S.A.	Pipe coating	51

Under *IAS 31 Investment in Joint Ventures* (prior to the transition to *IFRS 11*), the Company's interests in all of its joint ventures were classified as jointly controlled entities and the Company's share of the assets, liabilities, revenue, income and expenses was proportionately consolidated in the consolidated financial statements. Upon adoption of *IFRS 11*, the Company has determined all of its interests in joint arrangements are joint ventures, which are now accounted for using the equity method. The Company has applied *IFRS 11* retrospectively to January 1, 2012 with the resulting effect shown in the IFRS transition bridges on the following page.

### *b) IAS 19R, Employee 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.

*IAS 19R* has been applied retrospectively from January 1, 2012.

As a result, the corridor method is no longer applicable and instead the full funded status of the plan is recognized on the balance sheet with actuarial gains and losses recognized in OCI without subsequent reversal. In addition, expected returns on plan assets of defined benefit plans are not recognized in profit or loss. Instead, interest on the net defined benefit obligation is recognized in profit or loss, calculated using the discount rate used to measure the net pension obligation or asset. Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Company recognizes related restructuring or termination costs. Until 2012, the Company's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to *IAS 19R*, past service costs are recognized immediately in profit or loss, if the benefits have vested immediately following the introduction of, or changes to, a pension plan. The effect of applying *IAS 19R* is shown in the IFRS transition bridges as follows:

## IFRS Reconciliation of the Balance Sheet at January 1, 2012

	December 31, 2011	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	Restated Under IFRS Changes January 1, 2012
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 56,731	\$ (194)	\$ -	\$ 56,537
Short-term investments	10,545	-	-	10,545
Loan receivable	2,047	-	-	2,047
Accounts receivable	279,324	(190)	-	279,134
Income taxes receivable	15,981	-	-	15,981
Inventories	146,786	(370)	-	146,416
Prepaid expenses	24,454	(1)	-	24,453
Derivative financial instruments	270	-	-	270
	536,138	(755)	-	535,383
<b>Non-current assets</b>				
Loans receivable	12,622	-	-	12,622
Property, plant and equipment	299,118	(397)	-	298,721
Intangible assets	86,362	-	-	86,362
Investments in associate	30,095	-	-	30,095
Investments in Joint ventures	-	30	-	30
Deferred income taxes	30,058	-	4,689	34,747
Other assets	12,022	-	(1,907)	10,115
Goodwill	220,334	-	-	220,334
	690,611	(367)	2,782	693,026
	\$ 1,226,749	\$ (1,122)	\$ 2,782	\$ 1,228,409
<b>Liabilities and Equity</b>				
<b>Current liabilities</b>				
Bank indebtedness	\$ 12,281	\$ -	\$ -	\$ 12,281
Loans payable	5,001	(5,001)	-	-
Accounts payable and accrued liabilities	156,064	(1,132)	-	154,932
Provisions	12,317	4,018	-	16,335
Income taxes payable	35,200	993	-	36,193
Derivative financial instruments	419	-	-	419
Deferred revenue	27,446	-	-	27,446
Obligations under finance lease	268	-	-	268
	248,996	(1,122)	-	247,874
<b>Non-current liabilities</b>				
Provisions	40,523	-	-	40,523
Derivative financial instruments	2,499	-	-	2,499
Employee future benefits	10,336	-	15,979	26,315
Deferred income taxes	56,984	-	-	56,984
	110,342	-	15,979	126,321
	359,338	(1,122)	15,979	374,195
<b>Equity</b>				
Capital Stock	218,381	-	-	218,381
Contributed surplus	16,391	-	-	16,391
Retained earnings	664,475	-	-	664,475
Accumulated other comprehensive loss	(31,836)	-	(13,197)	(45,033)
	867,411	-	(13,197)	854,214
	\$ 1,226,749	\$ (1,122)	\$ 2,782	\$ 1,228,409



IFRS Reconciliation of the Balance Sheet at December 31, 2012

	December 31, 2012	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	Restated Under IFRS Changes December 31, 2012
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 293,266	\$ (8,285)	\$ -	\$ 284,981
Short-term investments	78,747	(797)	-	77,950
Loan receivable	604	961	-	1,565
Accounts receivable	389,929	(13,141)	-	376,788
Income taxes receivable	13,675	(1,838)	-	11,837
Inventories	202,887	(14,540)	-	188,347
Prepaid expenses	41,370	-	-	41,370
Derivative financial instruments	3,988	-	-	3,988
	1,024,466	(37,640)	-	986,826
Assets held for sale	27,141	-	-	27,141
	1,051,607	(37,640)	-	1,013,967
<b>Non-current assets</b>				
Loans receivable	6,527	14,376	-	20,903
Property, plant and equipment	392,592	(21,008)	-	371,584
Intangible assets	144,694	(43,239)	-	101,455
Investment Joint venture	-	77,342	-	77,342
Deferred income taxes	32,453	(2,385)	6,079	36,147
Other assets	13,986	-	(2,807)	11,179
Goodwill	285,710	(29,414)	-	256,296
	875,962	(4,328)	3,272	874,906
	\$ 1,927,569	\$ (41,968)	\$ 3,272	\$ 1,888,873
<b>Liabilities and Equity</b>				
<b>Current liabilities</b>				
Bank indebtedness	\$ 3,868	\$ 1,883	\$ -	\$ 5,751
Loans payable	8,328	(8,328)	-	-
Accounts payable and accrued liabilities	224,497	(18,446)	-	206,051
Provisions	43,193	5,614	-	48,807
Income taxes payable	37,991	(2,255)	-	35,736
Derivative financial instruments	1,275	-	-	1,275
Deferred revenue	377,091	-	-	377,091
Obligations under finance lease	1,927	-	-	1,927
	698,170	(21,532)	-	676,638
Liabilities directly associated with the assets classified as held for sale	11,917	-	-	11,917
	710,087	(21,532)	-	688,555
<b>Non-current liabilities</b>				
Loans payable	8,682	(6,018)	-	2,664
Obligations under finance lease	12,728	-	-	12,728
Provisions	44,814	(4,233)	-	40,581
Deferred revenue	64,392	-	-	64,392
Employee future benefits	9,337	-	20,470	29,807
Deferred income taxes	71,664	(10,185)	-	61,479
	211,617	(20,436)	20,470	211,651
	921,704	(41,968)	20,470	900,206
<b>Equity</b>				
Share capital	221,687	-	-	221,687
Contributed surplus	17,525	-	-	17,525
Retained earnings	799,849	-	(108)	799,741
Non-controlling interest	(331)	-	-	(331)
Accumulated other comprehensive loss	(32,865)	-	(17,090)	(49,955)
	1,005,865	-	(17,198)	988,667
	\$ 1,927,569	\$ (41,968)	\$ 3,272	\$ 1,888,873

## IFRS Reconciliation of the Statement of Income and Comprehensive Income for the Year Ended December 31, 2012

	December 31, 2012	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	Restated Under IFRS Changes December 31, 2012
<b>Consolidated Statement of Income</b>				
Revenue	\$ 1,482,849	\$ (13,662)	\$ –	\$ 1,469,187
Cost of goods sold and services rendered	904,362	(9,358)	–	895,004
<b>Gross profit</b>	<b>578,487</b>	<b>(4,304)</b>	<b>–</b>	<b>574,183</b>
Selling, general and administrative expenses	308,172	(2,209)	145	306,108
Research and development expenses	12,242	–	–	12,242
Foreign exchange (gains) losses	(119)	10	–	(109)
Amortization of property, plant and equipment	45,133	(148)	–	44,985
Amortization of intangible assets	8,248	(929)	–	7,319
Gain on sale of land	(12,101)	–	–	(12,101)
Impairment of property, plant and equipment	4,686	–	–	4,686
<b>Income from operations</b>	<b>212,226</b>	<b>(1,028)</b>	<b>(145)</b>	<b>211,053</b>
Income on investments in joint ventures	–	618	–	618
Finance income, net	1,318	42	–	1,360
Income on investments in associate	8,694	–	–	8,694
Accounting gain on acquisition	413	–	–	413
<b>Income before income taxes</b>	<b>222,651</b>	<b>(368)</b>	<b>(145)</b>	<b>222,138</b>
Income taxes	44,188	(368)	(37)	43,783
<b>Net Income</b>	<b>\$ 178,463</b>	<b>\$ –</b>	<b>\$ (108)</b>	<b>\$ 178,355</b>
<b>Net Income attributable to:</b>				
Shareholders of the Company	178,418	–	(108)	178,310
Non-controlling interests	45	–	–	45
	\$ 178,463	\$ –	\$ (108)	\$ 178,355
<b>Earnings per share</b>				
Basic	\$ 2.53	\$ –	\$ –	\$ 2.53
Diluted	\$ 2.50	\$ –	\$ –	\$ 2.50
<b>Consolidated Statement of Comprehensive Income</b>				
Net income	\$ 178,463	\$ –	\$ (108)	\$ 178,355
Exchange differences on translation of foreign operations	(826)	469	–	(357)
Other comprehensive loss attributable to investments in associates	–	(469)	–	(469)
Actuarial loss on defined employee future benefit plans	–	–	(5,246)	(5,246)
Income tax expense on defined employee future benefit plans	–	–	1,353	1,353
Other comprehensive loss for the period	(826)	–	(3,893)	(4,719)
<b>Comprehensive income</b>	<b>\$ 177,637</b>	<b>\$ –</b>	<b>\$ (4,001)</b>	<b>\$ 173,636</b>
<b>Comprehensive income attributable to:</b>				
Shareholders of the company	\$ 177,389	\$ –	\$ (4,001)	\$ 173,388
Non-controlling interests	248	–	–	248
<b>Comprehensive income</b>	<b>\$ 177,637</b>	<b>\$ –</b>	<b>\$ (4,001)</b>	<b>\$ 173,636</b>

IFRS Reconciliation of the Statement of Income and Comprehensive Income for the Quarter Ended December 31, 2012

	IFRS December 31, 2012	IFRS 11 Joint Arrangements	IAS 19 Employee Future Benefits	Restated Under IFRS Changes December 31, 2012
<b>Consolidated Statement of Income</b>				
Revenue	\$ 448,384	\$ (8,885)	\$ –	\$ 439,499
Cost of goods sold and services rendered	266,043	(8,027)	–	258,016
<b>Gross profit</b>	<b>182,341</b>	<b>(858)</b>	<b>–</b>	<b>181,483</b>
Selling, general and administrative expenses	84,569	(1,597)	36	83,008
Research and development expenses	2,127	–	–	2,127
Foreign exchange (gains) losses	(835)	9	–	(826)
Amortization of property, plant and equipment	13,554	(40)	–	13,514
Amortization of intangible assets	2,896	(929)	–	1,967
Gain on land and other items	(12,101)	–	–	(12,101)
Impairment of property, plant and equipment	832	–	–	832
<b>Income from operations</b>	<b>91,299</b>	<b>1,699</b>	<b>(36)</b>	<b>92,962</b>
Loss on investments in joint ventures	–	(1,251)	–	(1,251)
Finance income (costs), net	968	(348)	–	620
Income on investment in associate	5,968	–	–	5,968
Accounting gain on acquisition	413	–	–	413
<b>Income before income taxes</b>	<b>98,648</b>	<b>100</b>	<b>(36)</b>	<b>98,712</b>
Income taxes	18,301	100	(9)	18,392
<b>Net income</b>	<b>\$ 80,347</b>	<b>\$ –</b>	<b>\$ (27)</b>	<b>\$ 80,320</b>
<b>Net income attributable to:</b>				
Shareholders of the Company	\$ 80,302	\$ –	\$ (27)	\$ 80,275
Non-controlling interest	45	–	–	45
	\$ 80,347	\$ –	\$ (27)	\$ 80,320
<b>Earnings per share</b>				
Basic	\$ 1.14	\$ –	\$ –	\$ 1.14
Diluted	\$ 1.13	\$ –	\$ –	\$ 1.13
<b>Consolidated Statement of Comprehensive Income</b>				
<b>Net income</b>	<b>\$ 80,347</b>	<b>\$ –</b>	<b>\$ (27)</b>	<b>\$ 80,320</b>
Exchange differences on translation of foreign operations	17,467	403	–	17,870
Other comprehensive income attributable to investment in associate	605	(469)	–	136
Actuarial loss on defined benefit plans	–	–	(1,311)	(1,311)
Income tax effect of actuarial loss on defined benefit plans	–	–	339	339
Other comprehensive (loss) income for the period	18,072	(66)	(972)	17,034
<b>Comprehensive income</b>	<b>\$ 98,419</b>	<b>\$ (66)</b>	<b>\$ (999)</b>	<b>\$ 97,354</b>
<b>Comprehensive income attributable to:</b>				
Shareholders of the Company	\$ 98,171	\$ (66)	\$ (999)	\$ 97,106
Non-controlling interest	248	–	–	248
<b>Comprehensive income</b>	<b>\$ 98,419</b>	<b>\$ (66)</b>	<b>\$ (999)</b>	<b>\$ 97,354</b>

*IFRS Reconciliation of Equity*

	December 31, 2012	January 1, 2012
Equity as previously reported	\$ 1,005,865	\$ 867,411
Impact of adopting IAS 19, Employee Benefit	(17,198)	(13,197)
Equity in accordance with IFRS changes	\$ 988,667	\$ 854,214

**9.0 OUTLOOK**

Following the record results produced by ShawCor during the full year 2013, the Company expects revenue and earnings to decrease in 2014 in comparison with the full year of 2013. This expected reduction in activity is the result of the fact that in 2013, revenue from the Company's Asia Pacific region has been enhanced by the execution of the \$400 million Inpex Ichthys gas export pipeline project, the largest single project in the Company's history and a project size that will not be replicated in 2014. Further detail on the outlook for the Pipeline and Pipe Services segment by region and the Petrochemical and Industrial segment is set out below:

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

In 2014, ShawCor's North American Pipeline segment businesses are expected to generate solid revenue growth over 2013 levels. Pipe coating volumes will benefit from a full year of production at the Socotherm Gulf of Mexico plant where the order backlog for deepwater insulation coating projects exceeds \$60 million. North American land pipe coating activity is expected to continue at strong levels, consistent with the levels produced in 2013. In other pipeline segment businesses in North America, the prospects for growth in 2014 are quite compelling. Continued shale oil and gas developments are creating growing market demands for the Flexpipe composite pipe and Guardian OCTG pipe inspection and refurbishment businesses while the Company's introduction of new real-time radiography technology to the USA land pipeline market is enabling market share gains in pipeline girth weld inspection.

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

The Company believes that revenue from Latin America pipe coating operations has the potential for modest growth in 2014 as a result of increased offshore and large diameter gas transmission pipeline opportunities in Mexico, the launch of insulation coating production at the Socotherm Argentina operation, and an expected increase in revenue in Brazil, where production will commence in the first quarter 2014 for the deepwater insulation coating for flowlines and risers for Petrobras' Sapinhoa field in the Santos basin. These sources of revenue growth will be partially offset by the fact that 2013 Latin America revenue had included approximately \$55 million from the Technip project that was executed through the deployment of two portable concrete weight coating plants in Trinidad.

**Pipeline and Pipe Services Segment – EMAR**

The Company's Europe, Middle East, Africa, Russia ("EMAR") region expects to begin to generate significant revenue growth in 2014. In addition to a continuation of strong project revenues from the pipe coating facilities in Orkanger, Norway and Ras Al Khaimah, UAE, revenue gains are expected in 2014 as the Leith, Scotland facility executes the

\$30 million Edvard Grieg project and Socotherm ramps up production at the Pozzallo, Sicily pipe coating facility to execute a large deepwater insulation project for a new West African oil field development. The Company is also currently bidding on several very large projects in the EMAR region that could produce revenues in excess of \$300 million that could potentially start production by the fourth quarter of 2014 and thus contribute to revenue growth in the 2015 to 2016 period.

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

In 2013, the Company generated record revenues in the Asia Pacific region as a result of the execution of the Inpex Ichthys gas export pipeline, Chevron Wheatstone export pipeline and flowlines, and Apache Julimar flowlines projects. These projects produced over \$510 million in revenue in 2013 and contributed to a level of activity that will decline by at least 50% in 2014. Beyond 2014, the Company remains confident that the Asia Pacific region will continue to provide compelling opportunities, particularly with the emergence of deepwater oil and gas developments that will require the Company's operational capability and unique product technologies.

**Petrochemical and Industrial Segment**

ShawCor's Petrochemical and Industrial segment businesses are significantly exposed to demand in the North American and European automotive, industrial and nuclear refurbishment markets. During 2013, demand in the global industrial markets served by the Petrochemical and Industrial segment businesses has been stable but the Company has achieved gains in market share with the result that revenue increased by approximately 10% year over year. Similar revenue growth in 2014 should be possible provided market conditions remain healthy. Operating income growth should exceed revenue growth due to the one-time charges of \$3.2 million incurred in 2013 for staff reductions and other costs related to the completion of the new facility in Germany for the segment's heat shrink tubular business. This new facility should also contribute to the segment's earnings growth potential as a result of the improved operational efficiencies associated with the consolidation of production activities in one facility and the expected improvements in production throughput.

**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, 2013 decreased to \$617 million from \$646 million at September 30, 2013 and versus \$850 million at the end of 2012. The decline in backlog from the start of 2013 has resulted primarily from the execution during the year of the \$400 million Inpex Ichthys gas export pipeline project. Although the order backlog may continue to decline over the next few quarters, the Company's bidding activity remains very high with outstanding bids currently exceeding \$900 million dollars. The bidding activity is also very well diversified across all of the Company's regions. If a significant portion of these bids are translated into production orders during 2014, the backlog will increase over the course of the year, which would provide a strong indication for growth in revenue and earnings in 2015 and beyond.

## 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 91% of consolidated sales in 2013. 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.

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

The Company is party to a number of financing agreements which contain financial or other covenants. If the Company was to breach the financial or other covenants contained in its financing agreements, the Company may be required to redeem, repay, repurchase or refinance its existing debt obligations prior to their scheduled maturity and the Company's ability to do so may be restricted or limited by the prevailing conditions in the capital markets, available liquidity and other factors. If the Company is unable to refinance any of the Company's debt obligations in such circumstances, its ability to make capital expenditures and its financial condition and cash flows could be adversely impacted. If future debt financing is not available to the Company when required or is not available on acceptable terms, the Company may be unable to grow its business, take advantage of business opportunities, respond to competitive pressure or refinance maturing debt, any of which could have a material adverse effect on the Company's operating results and financial condition.

#### *Economic Risk Mitigation*

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

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

## 10.2 Litigation and Legal Risks

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

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

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

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

### *Litigation and Legal Risk Mitigation*

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

## 10.3 HSE Risks

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

The Company's operations are regulated under a number of federal, provincial, state, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of

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

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

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

### *HSE Risk Mitigation*

To minimize risks associated with HSE matters, the Company has implemented a comprehensive audit program 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 2013, the Company derived over 45% 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 government, regulators and other parties to resolve issues, if any. In addition, the Company ensures that it is compliant with the laws and regulations within the jurisdictions where it operates.

**11.0 ENVIRONMENTAL MATTERS**

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, 2013, the accruals on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$20.7 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 Invested Capital ("ROIC")*

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

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

(in thousands of Canadian dollars)	2013	2012
Net income for the year adjusted for after-tax interest expense	\$ 231,752	\$ 179,756
Average invested capital	\$ 987,819	\$ 922,005
<b>ROIC</b>	<b>23.5%</b>	19.5%

*Days Sales Outstanding ("DSO")*

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

(in thousands of Canadian dollars)	2013	2012
Revenue for the fourth quarter	\$ 409,759	\$ 439,499
Average trade accounts receivable	\$ 248,944	\$ 272,218
<b>DSO</b>	<b>55</b>	56

*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:

(in thousands of Canadian dollars)	2013	2012
Cost of goods sold for the Fourth quarter	\$ 247,114	\$ 258,016
Average accounts payable and accrued liabilities	\$ 240,639	\$ 196,293
<b>DPO</b>	<b>88</b>	68

*Working Capital Ratio*

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

(in thousands of Canadian dollars)	2013	2012
Current assets	\$ 718,558	\$ 1,013,967
Current liabilities	\$ 451,069	\$ 688,555
<b>Working capital ratio</b>	<b>1.59</b>	1.47

*Debt Covenants*

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") plus rental payments divided by interest expense plus rental payments) of more than 2.5 to 1 and a debt to EBITDA ratio of less than 3.00 to 1. The Company is in compliance with these covenants as at December 31, 2013 and 2012.

**13.0 FORWARD-LOOKING INFORMATION**

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward-looking information" and "forward-looking statements" (collectively "forward-looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward-looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward-looking information in the Outlook section and elsewhere in respect of, among other things, the completion of the sale of the Company's joint venture interest in Socotherm Brasil and the proceeds therefrom, the timing of major project activity, the sufficiency of resources, capacity and

capital to meet market demand, to meet contractual obligations and to execute the Company's development and growth strategy, the impact of the existing order backlog and other factors on the Company's revenue and Operating Income in 2014 and in the longer term, 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 and other claims 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, the maintenance of operations in major oil and gas producing regions and the ability of the Company to satisfy all covenants under its credit facilities and the senior notes. The Company believes that the expectations reflected in the forward-looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward-looking information included in this document and the Company can give no assurance that such expectations will be achieved.

When considering the forward-looking information in making decisions with respect to the Company, readers should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not assume the obligation to revise or update forward-



looking information after the date of this document or to revise it to reflect the occurrence of future unanticipated events, except as may be required under applicable securities laws.

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

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

February 27, 2014

# 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 Statements, 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 27, 2014



**WILLIAM P. BUCKLEY**  
Chief Executive Officer



**GARY S. LOVE**  
Vice-President, Finance and Chief Financial Officer

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF SHAWCOR LTD.

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We have audited the accompanying consolidated financial statements of ShawCor Ltd., which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and January 1, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ShawCor Ltd. as at December 31, 2013 and 2012, and January 1, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

**CHARTERED ACCOUNTANTS**  
Licensed Public Accountants

Toronto, Canada  
February 27, 2014

# CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

December 31, 2013 December 31, 2012 January 1, 2012  
Restated (Note 5) Restated (Note 5)

## Assets

### Current Assets

Cash and cash equivalents (Note 9)	\$ 79,395	\$ 284,981	\$ 56,537
Short-term investments	6,618	77,950	10,545
Loan receivable (Note 10)	1,780	1,565	2,047
Accounts receivable (Note 11)	363,984	376,788	279,134
Income taxes receivable	9,919	11,837	15,981
Inventories (Note 12)	180,876	188,347	146,416
Prepaid expenses	19,176	41,370	24,453
Derivative financial instruments (Note 25)	624	3,988	270
	<b>662,372</b>	<b>986,826</b>	<b>535,383</b>
Assets held for sale (Note 18)	56,186	27,141	-
	<b>718,558</b>	<b>1,013,967</b>	<b>535,383</b>

### Non-current Assets

Loans receivable (Note 10)	7,462	20,903	12,622
Property, plant and equipment (Note 13)	413,287	371,584	298,721
Intangible assets (Note 14)	130,216	101,455	86,362
Investments in joint ventures (Note 31)	17,276	77,342	30
Investments in associate (Note 7)	-	-	30,095
Deferred income taxes (Note 33)	48,480	36,147	34,747
Other assets (Note 16)	17,830	11,179	10,115
Goodwill (Note 17)	298,819	256,296	220,334
	<b>933,370</b>	<b>874,906</b>	<b>693,026</b>
	<b>\$ 1,651,928</b>	<b>\$ 1,888,873</b>	<b>\$ 1,228,409</b>

## Liabilities and Equity

### Current Liabilities

Bank indebtedness (Note 21)	\$ 5,290	\$ 5,751	\$ 12,281
Accounts payable and accrued liabilities (Note 19)	230,974	206,051	154,932
Provisions (Note 20)	49,762	48,807	16,335
Income taxes payable	61,911	35,736	36,193
Derivative financial instruments (Note 25)	1,632	1,275	419
Deferred revenue (Note 23)	84,396	377,091	27,446
Obligations under finance lease (Note 27)	487	1,927	268
	<b>434,452</b>	<b>676,638</b>	<b>247,874</b>
Liabilities directly associated with the assets classified as held for sale (Note 18)	16,617	11,917	-
	<b>451,069</b>	<b>688,555</b>	<b>247,874</b>

### Non-current Liabilities

Loans payable	126	2,664	-
Long-term debt (Note 22)	374,381	-	-
Obligations under finance lease (Note 27)	13,827	12,728	-
Provisions (Note 20)	59,409	40,581	40,523
Derivative financial instruments (Note 25)	-	-	2,499
Deferred revenue (Note 23)	-	64,392	-
Employee future benefits (Note 24)	25,678	29,807	26,315
Deferred income taxes (Note 33)	68,857	61,479	56,984
	<b>542,278</b>	<b>211,651</b>	<b>126,321</b>
	<b>993,347</b>	<b>900,206</b>	<b>374,195</b>

## Equity

Share capital (Note 28)	303,327	221,687	218,381
Contributed surplus	13,093	17,525	16,391
Retained earnings	373,574	799,741	664,475
Non-controlling interests	2,419	(331)	-
Accumulated other comprehensive loss	(33,832)	(49,955)	(45,033)
	<b>658,581</b>	<b>988,667</b>	<b>854,214</b>
	<b>\$ 1,651,928</b>	<b>\$ 1,888,873</b>	<b>\$ 1,228,409</b>

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

# CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 (in thousands of Canadian dollars, except per share amounts)

	2013	2012
		Restated (Note 5)
<b>Revenue</b>		
Sale of products	\$ 451,833	\$ 377,192
Rendering of services	1,395,716	1,091,995
	<b>1,847,549</b>	1,469,187
<b>Cost of Goods Sold and Services Rendered</b>	<b>1,058,946</b>	895,004
<b>Gross Profit</b>	<b>788,603</b>	574,183
Selling, general and administrative expenses	382,755	306,108
Research and development expenses	15,687	12,242
Foreign exchange gains	(4,936)	(109)
Amortization of property, plant and equipment (Note 13)	66,484	44,985
Amortization of intangible assets (Note 14)	10,312	7,319
Loss on assets held for sale (Note 18)	3,683	-
Gain on sale of land and other items (Note 15)	(5,156)	(12,101)
Impairment of property, plant and equipment (Note 15)	-	4,686
<b>Income from Operations</b>	<b>319,774</b>	211,053
(Loss) income on investments in joint ventures (Note 31)	(3,874)	618
Finance (costs) income, net	(14,912)	1,360
Income on investments in associate	-	8,694
Accounting gain on acquisition – net (Note 7)	-	413
<b>Income Before Income Taxes</b>	<b>300,988</b>	222,138
Income taxes (Note 33)	78,402	43,783
<b>Net Income</b>	<b>\$ 222,586</b>	\$ 178,355
<b>Net Income Attributable to:</b>		
Shareholders of the Company	\$ 219,862	\$ 178,310
Non-controlling interests	2,724	45
<b>Net Income</b>	<b>\$ 222,586</b>	\$ 178,355
<b>Earnings per Share</b>		
Basic (Note 32)	\$ 3.55	\$ 2.53
Diluted (Note 32)	\$ 3.51	\$ 2.50
<b>Weighted Average Number of Shares Outstanding (000s)</b>		
Basic (Note 32)	61,972	70,413
Diluted (Note 32)	62,646	71,278

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 (in thousands of Canadian dollars)

	2013	2012
		Restated (Note 5)
<b>Net Income</b>	<b>\$ 222,586</b>	<b>\$ 178,355</b>
<b>Other Comprehensive Income (Loss)</b>		
<b>Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods</b>		
Exchange differences on translation of foreign operations	10,821	(357)
Loss on cash flow hedge	(6,880)	-
Other comprehensive loss attributable to investments in associates	-	(469)
<b>Net Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods</b>	<b>3,941</b>	<b>(826)</b>
<b>Other Comprehensive Income (Loss) not to be Reclassified to Net Income in Subsequent Periods:</b>		
Actuarial gain (loss) on defined employee future benefit plans (Note 24)	16,311	(5,246)
Income tax (expense) recovery	(4,103)	1,353
<b>Net Other Comprehensive Income (Loss) not to be Classified to Net Income in Subsequent Periods</b>	<b>12,208</b>	<b>(3,893)</b>
<b>Other Comprehensive Income (Loss), Net of Income Tax</b>	<b>16,149</b>	<b>(4,719)</b>
<b>Total Comprehensive Income</b>	<b>\$ 238,735</b>	<b>\$ 173,636</b>
<b>Comprehensive Income Attributable to:</b>		
Shareholders of the Company	\$ 235,985	\$ 173,388
Non-controlling interests	2,750	248
<b>Total Comprehensive Income</b>	<b>\$ 238,735</b>	<b>\$ 173,636</b>

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2013 and 2012 (in thousands of Canadian dollars) (Restated – see Note 5)	Share Capital	Contributed Surplus	Retained Earnings	Non- controlling Interests	Accumulated Other Comprehensive Loss	Total Equity
<b>Balance – December 31, 2011</b>	\$ 218,381	\$ 16,391	\$ 664,475	\$ –	\$ (45,033)	\$ 854,214
Net income	–	–	178,310	45	–	178,355
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)
Acquisition of non-controlling interests	–	–	–	(579)	–	(579)
Other comprehensive income (loss)	–	–	–	203	(4,922)	(4,719)
Dividends paid to shareholders (Note 28)	–	–	(26,332)	–	–	(26,332)
<b>Balance – December 31, 2012</b>	\$ 221,687	\$ 17,525	\$ 799,741	\$ (331)	\$ (49,955)	\$ 988,667
Net income	–	–	219,862	2,724	–	222,586
Issued on exercise of stock options	19,599	–	–	–	–	19,599
Compensation cost on exercised options	7,579	(7,579)	–	–	–	–
Compensation cost on exercised RSUs	24	(24)	–	–	–	–
Stock-based compensation expense	–	3,171	–	–	–	3,171
Cancellation of Class B shares	54,438	–	(553,215)	–	–	(498,777)
Shares cancellation costs (net of income tax benefit of \$1.5 million) (Note 28)	–	–	(4,312)	–	–	(4,312)
Other comprehensive income	–	–	–	26	16,123	16,149
Dividends paid to shareholders (Note 28)	–	–	(88,502)	–	–	(88,502)
<b>Balance – December 31, 2013</b>	\$ 303,327	\$ 13,093	\$ 373,574	\$ 2,419	\$ (33,832)	\$ 658,581

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in thousands of Canadian dollars)	2013	2012
		Restated (Note 5)
<b>Operating Activities</b>		
Net income for the year	\$ 222,586	\$ 178,355
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment (Note 13)	66,484	44,985
Amortization of intangible assets (Note 14)	10,312	7,319
Amortization of long-term prepaid expenses	807	900
Decommissioning obligations expense (recovery) (Note 20)	395	(472)
Other provision expenses (Note 20)	22,136	2,227
Stock-based compensation and incentive-based compensation (Note 29)	23,594	15,297
Deferred income taxes (Note 33)	(14,959)	(414)
Loss (gain) on disposal of property, plant and equipment	538	(416)
Gain on sale of land and other items (Note 15)	(5,156)	(12,101)
Unrealized loss on derivative financial instruments	3,070	651
Income on investments in associate	-	(8,694)
Loss (income) on investments in joint ventures (Note 31)	3,874	(618)
Loss on assets held for sale (Note 18)	3,683	-
Accounting gain on acquisition (Note 7)	-	(9,445)
Impairment of property, plant and equipment (Note 15)	-	4,686
Other	825	(3,351)
Settlement of decommissioning liabilities (Note 20)	(817)	(1,580)
Settlement of other provisions (Note 20)	(19,449)	(7,292)
(Decrease) increase in non-current deferred revenue	(64,392)	64,392
Net change in employee future benefits (Note 24)	(20,994)	1,168
Change in non-cash working capital and foreign exchange	(200,273)	254,915
<b>Cash Provided by Operating Activities</b>	<b>\$ 32,264</b>	<b>\$ 530,512</b>
<b>Investing Activities</b>		
Increase in loan receivable (Note 10)	(2,630)	(62,085)
Decrease (increase) in short-term investments	71,332	(67,405)
Purchases of property, plant and equipment (Note 13)	(76,729)	(73,505)
Proceeds on disposal of property, plant and equipment	8,539	14,187
Purchases of intangible assets (Note 14)	(522)	(62)
Investments in joint ventures (Note 31)	(7,398)	-
Investments in associate	-	(2,824)
Business acquisition (Note 7)	(30,163)	(57,091)
Increase in other assets (Note 16)	(495)	(956)
<b>Cash Used in Investing Activities</b>	<b>\$ (38,066)</b>	<b>\$ (249,741)</b>
<b>Financing Activities</b>		
Decrease in bank indebtedness (Note 21)	(461)	(6,597)
Decrease in loans payable	(772)	(4,581)
Payment of obligations under finance lease (Note 27)	(900)	(465)
Proceeds from long-term debt (Note 22)	356,280	-
Proceeds from interest rate swap	2,111	-
Issuance of shares (Note 28)	19,599	3,988
Repurchase of shares (Note 28)	(503,089)	(18,888)
Dividend paid to shareholders (Note 28)	(88,502)	(26,332)
<b>Cash Used in Financing Activities</b>	<b>\$ (215,734)</b>	<b>\$ (52,875)</b>
<b>Effect of Foreign Exchange on Cash and Cash Equivalents</b>	<b>15,950</b>	<b>548</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents for the Year</b>	<b>(205,586)</b>	<b>228,444</b>
<b>Cash and Cash Equivalents – Beginning of Year</b>	<b>284,981</b>	<b>56,537</b>
<b>Cash and Cash Equivalents – End of Year</b>	<b>\$ 79,395</b>	<b>\$ 284,981</b>
<b>Supplemental Information</b>		
Cash interest paid	\$ 10,241	\$ 765
Cash interest received	\$ 1,180	\$ 1,959
Cash income taxes paid	\$ 59,845	\$ 44,047

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. CORPORATE INFORMATION

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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 6.

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

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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, 2013.

### Basis of Presentation and Consolidation

The consolidated financial statements have been prepared on the historical cost basis, except for certain current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 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 equity accounted interests in joint ventures and associates.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 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 arrangements and associates to ensure consistency with those policies adopted by the Company. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2013 were authorized for issue by the Company's Board of Directors on February 27, 2014.

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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. Acquisition transaction costs and any restructuring costs are charged to the consolidated statements of income in the period in which they are incurred.

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

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

#### **b) Interest in Joint Ventures**

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

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

The aggregate of the Company's share of profit or loss of a joint venture is shown on the face of the consolidated statement of income outside of income from operations and represents profit or loss after tax and non-controlling interests in the joint venture. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

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

A listing of all jointly controlled entities is presented in Note 31.

#### **c) Foreign Currency Translation**

##### *Functional and Presentation Currency*

Items included in the financial statements of each of the Company's subsidiaries, joint arrangements and associates are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements of the Company are presented in Canadian dollars, which is the parent company's 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 statements 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 Company's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- income and expenses for each consolidated statement of income are translated at the average exchange rates prevailing 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 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) Short-term Investments**

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

### **g) 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.

### **h) 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, 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 statements of income during the financial period in which they are incurred. The expected cost for the decommissioning and remediation of an asset is included in the cost of the respective asset if the recognition criteria are met.

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

- 100% for land improvements;
- 3% to 10% on buildings;
- 5% to 50% on machinery and equipment; and
- Project related facilities are amortized over the estimated project life.

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

### **i) 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.

### **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 statements of income during the period in which they are incurred.

*Intellectual Property and Intangible Assets with Limited Lives*

Intellectual property and intangible assets with limited lives are amortized over their useful 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 are 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 statements 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 into CGUs at the lowest levels for which there are separately identifiable independent cash flows. Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment whenever reversal 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, but are not allocated above the operating segment level at which management monitors the recovery of goodwill.

Gains and losses on the disposal of a CGU or component of a CGU 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 employee future benefits liability recognized on the consolidated balance sheets, in respect of the defined benefit pension plans, represents the deficit position for those defined benefit plans, whose defined benefit obligation exceeds that pension plan's assets. The Company has included in other assets the net surplus position of those defined benefit plans whose pension plan assets exceed the defined benefit obligation.

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

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

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

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

#### 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 not transferred by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of income on a straight-line basis over the 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 statements of income.

#### r) Financial Instruments

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

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

Financial assets are recognized initially at fair value. 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 sheets 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 loans and borrowings. Financial liabilities classified as fair value through profit or loss include derivative financial instruments. Any changes in fair value are recognized through the consolidated statements of income.

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

Balance Sheet Item	Designation
Cash and cash equivalents	Loans and receivables
Short-term investments	Loans and receivables
Accounts receivable	Loans and receivables
Loans receivable	Loans and receivables
Long-term loan to associate	Loans and receivables
Derivative financial instruments	Fair value through profit and loss
Bank indebtedness	Loans and borrowings
Loans payable	Loans and borrowings
Accounts payable	Loans and borrowings
Deferred purchase consideration	Loans and borrowings
Long-term debt	Loans and borrowings

#### *Derivative Financial Instruments*

The Company's policy is to document its risk management objectives and strategy for undertaking various derivative financial instrument transactions. Derivative financial instruments designated as effective net investment hedges are reflected in the consolidated balance sheets at fair value, with any gains or losses resulting from fair value changes included in other comprehensive income (loss) to the extent of hedge effectiveness. Derivative financial instruments not designated as part of a formal hedging relationship are carried at fair value in the consolidated balance sheets, with gains or losses resulting from changes in fair value in a period charged or credited to foreign exchange gains and losses on the consolidated statements of income.

*Fair Value*

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 statements of income.

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

*Transaction Costs*

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

**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 for equity settled awards is equal to the estimated fair value, based on an appropriate pricing model, of the incentive options, rights or units granted at the grant date, and is amortized over the vesting period of the incentive options, rights or units.

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

For options, units or rights that are settled with equity, an amount equal to compensation expense is initially credited to contributed surplus and transferred to share capital if and when the option, unit or right is exercised. Consideration received on the exercise of a stock option, right or unit is credited to share capital, when additional equity instruments are issued.

Options, units or rights that are settled with cash are classified as liability instruments in accordance with IFRS, 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 statements of income.

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

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

#### t) Research and Development Costs

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

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

The intangible assets are carried at cost less any accumulated amortization and 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 statements of income.

#### u) Income Taxes

Income tax expense comprises current and deferred income taxes. Income tax is recognized in the consolidated statements 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 dates in the countries where the Company and its subsidiaries operate and generate taxable income.

The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income 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) 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.

#### w) 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.

#### x) 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 assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical estimates used in preparing the consolidated financial statements include:

#### *Long-lived Assets and Goodwill*

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

#### *Future Benefit Obligations*

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

#### *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 statements of income. The Company must continually monitor known and potential contingent matters and make appropriate provisions by charges to income when warranted by circumstances.

#### *Decommissioning Liabilities*

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 statements 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.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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



## NOTE 4. NEW ACCOUNTING STANDARDS ADOPTED

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### IAS 1, Presentation of Financial Statements

#### *Presentation of Items of Other Comprehensive Income*

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 and loss at a future point in time now have to be presented separately from items that will never be reclassified. The Company adopted this standard effective January 1, 2013. The Company has modified its statements of comprehensive income to become compliant with the amendments made to *IAS 1*. The amendment affected presentation only and had no impact on the Company’s financial position or results of operations.

#### *Clarification of the Requirement for Comparative Information*

The amendment to *IAS 1* effective January 1, 2013 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative information. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the “Opening Balance Sheet”) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The Company has disclosed the Opening Balance Sheet in Note 5. The amendment to *IAS 1* clarifies related notes are not required for the Opening Balance Sheet.

### IFRS 10, Consolidated Financial Statements

On January 1, 2013, ShawCor adopted *IFRS 10, Consolidated Financial Statements*, which replaced portions of *IAS 27, Consolidated and Separate Financial Statements* and interpretation *SIC-12 Consolidation – Special Purpose Entities*. *IFRS 10* changes the definition of control such that an investor is 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. To meet the definition of control in *IFRS 10*, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor’s returns. 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’s adoption of *IFRS 10* effective January 1, 2013 had no material impact on the consolidation of investments by the Company.

### IFRS 11, Joint Arrangements

On January 1, 2013, ShawCor adopted *IFRS 11, Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. *IFRS 11* replaces *IAS 31, Interests in Joint Ventures* and *SIC-13, Jointly-controlled Entities – Non-monetary Contributions by Venturers*. *IFRS 11* requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement (“joint venture”) or to its share of the assets and liabilities of the joint arrangement (“a joint operation”). A joint venture is accounted for using the equity method and a joint operation is accounted for by including the joint venture partner’s share of the assets, liabilities, revenue and expenses in the consolidated financial statements of the joint venture partner.

The application of *IFRS 11* resulted in the Company replacing the proportionate consolidation method of accounting for joint ventures with the equity method of accounting for joint ventures. The effect of *IFRS 11* is described in Note 5, which includes quantification of the effect on the Company’s consolidated financial statements.

### IFRS 12, Disclosure of Interests in Other Entities

On January 1, 2013, the Company adopted *IFRS 12, Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint arrangements and associates, as well as unconsolidated structured entities and replaced existing disclosure requirements. Due to this new standard, the Company is now required to disclose in its annual consolidated financial statements 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 the nature of the risks associated with interests in other entities. These consolidated financial statements include those disclosures stipulated by *IFRS 12*.

**IFRS 13, Fair Value Measurement**

Effective January 1, 2013, the Company has adopted *IFRS 13, Fair Value Measurement*. *IFRS 13* establishes a single source of guidance for all fair value measurements, when fair value is required or permitted by IFRS. *IFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. In addition, fair value will now be defined as the "exit price" and concepts of "highest and best use" and "valuation premise" are relevant only for non-financial assets and liabilities. Upon adoption, the Company has started to use a single framework for measuring fair value and will provide additional disclosures as prescribed by IFRS. The application of *IFRS 13* has not materially impacted the fair value measurements carried out by the Company.

*IFRS 13* also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including *IFRS 7, Financial Instruments: Disclosures*. The Company has provided these prescribed financial statement disclosures in note 25.

**IAS 19R, Employee Benefits**

Effective January 1, 2013, ShawCor adopted revised *IAS 19, Employee Benefits*. *IAS 19R* includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit or loss; expected returns on plan assets are no longer recognized in profit or loss; interest on the net defined benefit liability (asset) is recognized in profit or loss, and is calculated using the discount rate used to measure the defined benefit obligation; and unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. The amended standard impacts the net benefit expense as the expected return on plan assets is calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The transition to *IAS 19R* has had a material impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets and unvested past service costs. The effect of *IAS 19R* is described in note 5, which includes quantification of the effect on the Company's consolidated financial statements.

**IAS 27, Separate Financial Statements**

ShawCor adopted *IAS 27, Separate Financial Statements* effective January 1, 2013. 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. There was no impact from the adoption of this new standard to the Company's consolidated financial statements.

**IAS 28, Investments in Associates and Joint Ventures**

ShawCor adopted *IAS 28, Investments in Associates and Joint Ventures*, effective January 1, 2013. As a consequence of the issue of *IFRS 10, IFRS 11* and *IFRS 12*, *IAS 28* has been amended and now provides further accounting guidance for investments in associates and sets 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 or has significant influence over an investee, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28*.

The adoption of *IAS 28* by the Company changed the method of accounting for its joint ventures from the proportionate consolidation method to the equity method. The effect of *IAS 28* is described in note 5, which includes quantification of the effect on the Company's consolidated financial statements.

**IAS 36, Impairment of Assets**

In May 2013, the IASB released an amendment to this standard that requires entities to disclose the recoverable amount of an asset or cash generating unit when an impairment loss has been recognized or reversed and certain other information when an impairment loss or reversal is based on fair value less costs to sell. This amendment is required to be applied for accounting periods beginning on or after January 1, 2014. The Company has early adopted this standard. The adoption of this amendment affected disclosure only and has no impact on the consolidated financial statements of the Company.

## Accounting Standards Issued but Not Yet Applied

### *IFRS 9, Financial Instruments*

*IFRS 9*, as issued, reflects the first phase of the IASB's work on the replacement of *IAS 39* and applies to classification and measurement of financial assets and financial liabilities as defined in *IAS 39*. The standard was initially effective for annual periods beginning on or after January 1, 2015; however, as a result of further amendments to *IFRS 9* there is no longer a mandatory effective date for this standard. In subsequent phases, the IASB amended *IFRS 9* to address hedge accounting, and further amendments for impairment of financial assets are pending. The Company will quantify the effect of adopting *IFRS 9*, when the final standard including all phases is issued.

### *IFRIC Interpretation 21 Levies (IFRIC 21)*

*IFRIC 21* clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. *IFRIC 21* is effective for annual periods beginning on or after January 1, 2014. The Company is still evaluating the impact of *IFRIC 21* on its financial statements.

## NOTE 5. IMPACT OF ADOPTING NEW ACCOUNTING STANDARDS

### a) IFRS 11, Joint Ventures

The Company had the following interests in joint ventures as at January 1, 2012 and December 31, 2012:

	Country of Incorporation	Activity	Proportion of Interest Held Dec 31, 2012	Jan 1, 2012
Hal Shaw Inc.	U.S.A.	Pipe coating	50%	50%
Shaw & Shaw Ltd.	Canada	Pipe coating	83%	83%
Helicone Holdings Limited	Russia	Pipe coating	25%	25%
Socotherm Brasil S.A.	Brazil	Pipe coating	50%	–
Atlantida Socotherm S.A.	Argentina	Pipe coating	50%	–
Socotherm Gulf of Mexico, LLC	U.S.A.	Pipe coating	51%	–

Under *IAS 31, Investment in Joint Ventures* (prior to the transition to *IFRS 11*), the Company's interests in all of its joint ventures were classified as jointly controlled entities and the Company's share of the assets, liabilities, revenue, income and expenses was proportionately consolidated in the consolidated financial statements. Upon adoption of *IFRS 11*, the Company has determined all of its interests in joint arrangements are joint ventures, which are now accounted for using the equity method. The Company has applied *IFRS 11* retrospectively to January 1, 2012 with the resulting effect shown in the IFRS transition bridges below.

### b) IAS 19R, Employee 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.

*IAS 19R* has been applied retrospectively from January 1, 2012. As a result, the corridor method is no longer applicable and instead the full funded status of the plan is recognized on the balance sheet with actuarial gains and losses recognized in OCI without subsequent reversal. In addition, expected returns on plan assets of defined benefit plans are not recognized in profit or loss. Instead, interest on the net defined benefit obligation is recognized in profit or loss, calculated using the discount rate used to measure the net pension obligation or asset. Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Company recognizes related restructuring or termination costs. Until 2012, the Company's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to *IAS 19R*, past service costs are recognized immediately in profit or loss, if the benefits have vested immediately following the introduction of, or changes to, a pension plan. The effect of applying *IAS 19R* is shown in the IFRS transition bridges as follows:

## IFRS Reconciliation of the Balance Sheet as at January 1, 2012

	December 31, 2011	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	Restated under IFRS Changes January 1, 2012
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 56,731	\$ (194)	\$ –	\$ 56,537
Short-term investments	10,545	–	–	10,545
Loan receivable	2,047	–	–	2,047
Accounts receivable	279,324	(190)	–	279,134
Income taxes receivable	15,981	–	–	15,981
Inventories	146,786	(370)	–	146,416
Prepaid expenses	24,454	(1)	–	24,453
Derivative financial instruments	270	–	–	270
	536,138	(755)	–	535,383
<b>Non-current Assets</b>				
Loans receivable	12,622	–	–	12,622
Property, plant and equipment	299,118	(397)	–	298,721
Intangible assets	86,362	–	–	86,362
Investments in associate	30,095	–	–	30,095
Investments in joint ventures	–	30	–	30
Deferred income taxes	30,058	–	4,689	34,747
Other assets	12,022	–	(1,907)	10,115
Goodwill	220,334	–	–	220,334
	690,611	(367)	2,782	693,026
	\$ 1,226,749	\$ (1,122)	\$ 2,782	\$ 1,228,409
<b>Liabilities and Equity</b>				
<b>Current Liabilities</b>				
Bank indebtedness	\$ 12,281	\$ –	\$ –	\$ 12,281
Loans payable	5,001	(5,001)	–	–
Accounts payable and accrued liabilities	156,064	(1,132)	–	154,932
Provisions	12,317	4,018	–	16,335
Income taxes payable	35,200	993	–	36,193
Derivative financial instruments	419	–	–	419
Deferred revenue	27,446	–	–	27,446
Obligations under finance lease	268	–	–	268
	248,996	(1,122)	–	247,874
<b>Non-current Liabilities</b>				
Provisions	40,523	–	–	40,523
Derivative financial instruments	2,499	–	–	2,499
Employee future benefits	10,336	–	15,979	26,315
Deferred income taxes	56,984	–	–	56,984
	110,342	–	15,979	126,321
	359,338	(1,122)	15,979	374,195
<b>Equity</b>				
Share capital	218,381	–	–	218,381
Contributed surplus	16,391	–	–	16,391
Retained earnings	664,475	–	–	664,475
Accumulated other comprehensive loss	(31,836)	–	(13,197)	(45,033)
	867,411	–	(13,197)	854,214
	\$ 1,226,749	\$ (1,122)	\$ 2,782	\$ 1,228,409

IFRS Reconciliation of the Balance Sheet as at December 31, 2012

	December 31, 2012	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	Restated under IFRS Changes December 31, 2012
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 293,266	\$ (8,285)	\$ –	\$ 284,981
Short-term investments	78,747	(797)	–	77,950
Loan receivable	604	961	–	1,565
Accounts receivable	389,929	(13,141)	–	376,788
Income taxes receivable	13,675	(1,838)	–	11,837
Inventories	202,887	(14,540)	–	188,347
Prepaid expenses	41,370	–	–	41,370
Derivative financial instruments	3,988	–	–	3,988
	1,024,466	(37,640)	–	986,826
Assets held for sale	27,141	–	–	27,141
	1,051,607	(37,640)	–	1,013,967
<b>Non-current Assets</b>				
Loans receivable	6,527	14,376	–	20,903
Property, plant and equipment	392,592	(21,008)	–	371,584
Intangible assets	144,694	(43,239)	–	101,455
Investments in joint ventures	–	77,342	–	77,342
Deferred income taxes	32,453	(2,385)	6,079	36,147
Other assets	13,986	–	(2,807)	11,179
Goodwill	285,710	(29,414)	–	256,296
	875,962	(4,328)	3,272	874,906
	\$ 1,927,569	\$ (41,968)	\$ 3,272	\$ 1,888,873
<b>Liabilities and Equity</b>				
<b>Current Liabilities</b>				
Bank indebtedness	\$ 3,868	\$ 1,883	\$ –	\$ 5,751
Loans payable	8,328	(8,328)	–	–
Accounts payable and accrued liabilities	224,497	(18,446)	–	206,051
Provisions	43,193	5,614	–	48,807
Income taxes payable	37,991	(2,255)	–	35,736
Derivative financial instruments	1,275	–	–	1,275
Deferred revenue	377,091	–	–	377,091
Obligations under finance lease	1,927	–	–	1,927
	698,170	(21,532)	–	676,638
Liabilities directly associated with the assets classified as held for sale	11,917	–	–	11,917
	710,087	(21,532)	–	688,555
<b>Non-current Liabilities</b>				
Loans payable	8,682	(6,018)	–	2,664
Obligations under finance lease	12,728	–	–	12,728
Provisions	44,814	(4,233)	–	40,581
Deferred revenue	64,392	–	–	64,392
Employee future benefits	9,337	–	20,470	29,807
Deferred income taxes	71,664	(10,185)	–	61,479
	211,617	(20,436)	20,470	211,651
	921,704	(41,968)	20,470	900,206
<b>Equity</b>				
Share capital	221,687	–	–	221,687
Contributed surplus	17,525	–	–	17,525
Retained earnings	799,849	–	(108)	799,741
Non-controlling interest	(331)	–	–	(331)
Accumulated other comprehensive loss	(32,865)	–	(17,090)	(49,955)
	1,005,865	–	(17,198)	988,667
	\$ 1,927,569	\$ (41,968)	\$ 3,272	\$ 1,888,873

## IFRS Reconciliation of the Statement of Income and Comprehensive Income for the Year Ended December 31, 2012

	December 31, 2012	IFRS 11 Joint Arrangements (Note 5a)	IAS 19 Employee Future Benefits (Note 5b)	Restated under IFRS Changes December 31, 2012
<b>Consolidated Statement of Income</b>				
Revenue	\$ 1,482,849	\$ (13,662)	\$ –	\$ 1,469,187
Cost of Goods Sold and Services Rendered	904,362	(9,358)	–	895,004
<b>Gross Profit</b>	<b>578,487</b>	<b>(4,304)</b>	<b>–</b>	<b>574,183</b>
Selling, general and administrative expenses	308,172	(2,209)	145	306,108
Research and development expenses	12,242	–	–	12,242
Foreign exchange (gains) losses	(119)	10	–	(109)
Amortization of property, plant and equipment	45,133	(148)	–	44,985
Amortization of intangible assets	8,248	(929)	–	7,319
Gain on sale of land	(12,101)	–	–	(12,101)
Impairment of property, plant and equipment	4,686	–	–	4,686
<b>Income from Operations</b>	<b>212,226</b>	<b>(1,028)</b>	<b>(145)</b>	<b>211,053</b>
Income on investments in joint ventures	–	618	–	618
Finance income, net	1,318	42	–	1,360
Income on investments in associate	8,694	–	–	8,694
Accounting gain on acquisition	413	–	–	413
<b>Income before Income Taxes</b>	<b>222,651</b>	<b>(368)</b>	<b>(145)</b>	<b>222,138</b>
Income Taxes	44,188	(368)	(37)	43,783
<b>Net Income</b>	<b>\$ 178,463</b>	<b>\$ –</b>	<b>\$ (108)</b>	<b>\$ 178,355</b>
<b>Net Income Attributable to:</b>				
Shareholders of the Company	\$ 178,418	\$ –	\$ (108)	\$ 178,310
Non-controlling interests	45	–	–	45
	\$ 178,463	\$ –	\$ (108)	\$ 178,355
<b>Earnings per Share</b>				
Basic	\$ 2.53	\$ –	\$ –	\$ 2.53
Diluted	\$ 2.50	\$ –	\$ –	\$ 2.50
<b>Consolidated Statement of Comprehensive Income</b>				
<b>Net Income</b>	\$ 178,463	\$ –	\$ (108)	\$ 178,355
Exchange differences on translation of foreign operations	(826)	469	–	(357)
Other comprehensive loss attributable to investments in associates	–	(469)	–	(469)
Actuarial loss on defined employee future benefit plans	–	–	(5,246)	(5,246)
Income tax expense on defined employee future benefit plans	–	–	1,353	1,353
Other comprehensive loss for the period	(826)	–	(3,893)	(4,719)
<b>Comprehensive Income</b>	<b>\$ 177,637</b>	<b>\$ –</b>	<b>\$ (4,001)</b>	<b>\$ 173,636</b>
Comprehensive income attributable to:				
Shareholders of the Company	\$ 177,389	\$ –	\$ (4,001)	\$ 173,388
Non-controlling interests	248	–	–	248
<b>Comprehensive Income</b>	<b>\$ 177,637</b>	<b>\$ –</b>	<b>\$ (4,001)</b>	<b>\$ 173,636</b>

## IFRS Reconciliation of Equity

	December 31, 2012	January 1, 2012
Equity as previously reported	\$ 1,005,865	\$ 867,411
Impact of adopting IAS 19R, Employee Benefit (Note 5b)	(17,198)	(13,197)
Equity in accordance with IFRS changes	<b>\$ 988,667</b>	<b>\$ 854,214</b>

## **NOTE 6. SEGMENT INFORMATION**

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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 income from operations 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, 2013, 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

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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue										
External	\$1,686,381	\$ 1,323,574	\$ 161,168	\$ 145,613	\$ -	\$ -	\$ -	\$ -	\$1,847,549	\$ 1,469,187
Inter-segment	1,387	641	1,281	1,455	-	-	(2,668)	(2,096)	-	-
	\$1,687,768	\$ 1,324,215	\$ 162,449	\$ 147,068	\$ -	\$ -	\$ (2,668)	\$ (2,096)	\$1,847,549	\$ 1,469,187
Operating expenses	\$1,238,862	\$ 1,037,460	\$ 138,085	\$ 123,859	\$ 62,486	\$ 41,780	\$ (2,668)	\$ (2,096)	\$1,436,765	\$ 1,201,003
Research and development	12,446	9,084	1,452	1,143	1,789	2,015	-	-	15,687	12,242
Amortization of property, plant and equipment	62,499	41,078	2,336	2,180	1,649	1,727	-	-	66,484	44,985
Amortization of intangible assets	10,312	7,319	-	-	-	-	-	-	10,312	7,319
Impairment of property, plant & equipment	-	4,686	-	-	-	-	-	-	-	4,686
Gain on sale of land and other items	(5,156)	(12,101)	-	-	-	-	-	-	(5,156)	(12,101)
Loss on assets held for sale	3,683	-	-	-	-	-	-	-	3,683	-
Income (loss) from operations	\$ 365,122	\$ 236,689	\$ 20,576	\$ 19,886	\$ (65,924)	\$ (45,522)	\$ -	\$ -	\$ 319,774	\$ 211,053
Accounting gain on acquisition	-	413	-	-	-	-	-	-	-	413
Income on investments in associate	-	-	-	-	-	8,694	-	-	-	8,694
Income on investments in joint ventures	(3,874)	618	-	-	-	-	-	-	(3,874)	618
Interest income	727	706	2	2	427	2,059	-	-	1,156	2,767
Interest expense	(5,355)	(3,782)	(86)	(4)	(10,627)	2,379	-	-	(16,068)	(1,407)
Income tax expense	-	-	-	-	(78,402)	(43,783)	-	-	(78,402)	(43,783)
Goodwill	281,431	240,738	17,388	15,558	-	-	-	-	298,819	256,296
Total assets	1,975,028	1,695,155	180,055	124,324	796,816	933,985	(1,299,971)	(864,591)	1,651,928	1,888,873
Total liabilities	960,223	1,019,588	60,299	17,877	425,193	42,447	(452,368)	(179,706)	993,347	900,206
Additions to property, plant and equipment net of disposals	\$ 59,688	\$ 58,781	\$ 14,422	\$ 16,374	\$ 2,081	\$ 1,695	\$ -	\$ -	\$ 76,191	\$ 76,850



## 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.

							2013
(in thousands of Canadian dollars)	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 520,920	\$ 248,846	\$ 161,627	\$ 247,271	\$ 668,885	\$ –	\$ 1,847,549
Inter-segment	2,604	64	–	–	–	(2,668)	–
	\$ 523,524	\$ 248,910	\$ 161,627	\$ 247,271	\$ 668,885	\$ (2,668)	\$ 1,847,549
Non-current assets <sup>(a)</sup>	\$ 939,673	\$ 480,676	\$ 77,129	\$ 342,024	\$ 87,752	\$ (1,050,393)	\$ 876,861

							2012
(in thousands of Canadian dollars)	Canada	USA	Latin America	EMAR	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 481,408	\$ 213,170	\$ 164,633	\$ 271,966	\$ 338,010	\$ –	\$ 1,469,187
Inter-segment	2,079	–	16	1	–	(2,096)	–
Total Revenue	\$ 483,487	\$ 213,170	\$ 164,649	\$ 271,967	\$ 338,010	\$ (2,096)	\$ 1,469,187
Non-current assets <sup>(a)</sup>	\$ 499,665	\$ 412,185	\$ 75,627	\$ 170,811	\$ 99,718	\$ (405,478)	\$ 852,528

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

## NOTE 7. 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 (January 1, 2012 – \$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, which was 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 final 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 assets 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 elected to measure the non-controlling interest in Socotherm S.p.A. at the proportionate share of the value of net identifiable assets acquired.

As at December 31, 2012, the purchase price allocation was preliminary, subject to the finalization of the allocation of goodwill and intangible assets to the respective operations of Fineglade. The finalization after allocation of these amounts did not have a significant impact on the December 31, 2012 financial statements.

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

(in thousands of Canadian dollars)

<b>Consideration (including fair value of existing 40% of Fineglade):</b>	
Cash (net of cash acquired of \$21,168)	\$ 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
	<b>\$ 177,733</b>
<b>Assets acquired at fair value:</b>	
Current assets (excluding cash acquired of \$21,168)	\$ 56,603
Property, plant and equipment	81,425
Intangible assets	68,627
Deferred income tax assets	6,394
Other non-current assets	19,369
Assets held for sale (net)	6,430
Current liabilities assumed	(69,135)
Deferred income tax liabilities	(20,957)
Other non-current liabilities assumed	(41,016)
<b>Total identifiable net assets at fair value</b>	<b>\$ 107,740</b>
Non-controlling interest	579
Goodwill	69,414
	<b>\$ 177,733</b>

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)
<b>Accounting gain on acquisition – net</b>	<b>\$ 413</b>

### Socotherm Gulf of Mexico

On April 15, 2013, the Company completed the acquisition of the remaining 49% of Socotherm S.p.A.'s joint venture in the U.S.A. for total consideration of approximately \$23 million, excluding the forgiveness of inter-company debt. The joint venture has a strategically located facility in Channelview, Texas, which provides anticorrosion and advanced insulation coatings for global offshore applications, including in the Gulf of Mexico and West African markets.

The carrying value of the Company's investment immediately prior to the acquisition of the remaining 49% approximated its fair value.

On acquisition of the remaining 49% of Socotherm's S.p.A.'s joint venture in the U.S.A., on a 100% level, the approximate value of the tangible assets acquired and tangible liabilities assumed was \$34.8 million and \$9.1 million, respectively. The approximate value of the intangible assets acquired and intangible liabilities assumed was \$68.3 million and \$13.2 million, respectively.

### NOTE 8. EMPLOYEE BENEFITS EXPENSE

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

(in thousands of Canadian dollars)	2013	2012
Salaries, wages and employee benefits	\$ 475,595	\$ 392,792
Pension	17,082	10,842
Share-based and other incentive-based compensation (Note 29)	23,594	15,297
<b>Total</b>	<b>\$ 516,271</b>	<b>\$ 418,931</b>

## NOTE 9. CASH AND CASH EQUIVALENTS

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Cash	\$ 78,843	\$ 252,181
Cash equivalents	552	32,800
Total	\$ 79,395	\$ 284,981

## NOTE 10. LOANS RECEIVABLES

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

(in thousands of Canadian dollars)	December 31 2013	December 31, 2012
<b>Current</b>		
Loan receivable	\$ 1,780	\$ 1,565
	\$ 1,780	\$ 1,565
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	\$ 4,014	\$ 3,745
Loan receivable	3,448	17,158
	\$ 7,462	\$ 20,903
Total	\$ 9,242	\$ 22,468

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual instalments beginning no later than March 31, 2018, as set out in the loan agreement terms. As at December 31, 2013, the amount of the note receivable was U.S.\$3,752 (December 31, 2012 – U.S.\$3,752).

## NOTE 11. ACCOUNTS RECEIVABLE

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Trade accounts receivables	\$ 244,600	\$ 272,864
Allowance for doubtful accounts (Note 25)	(6,720)	(9,409)
Unbilled revenue and other receivables	126,104	113,333
	\$ 363,984	\$ 376,788

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Current	\$ 122,445	\$ 111,715
Past due 1 to 30 days	54,456	86,337
Past due 31 to 60 days	25,952	37,004
Past due 61 to 90 days	16,518	14,604
Past due for more than 90 days	25,229	23,204
Total trade accounts receivable	244,600	272,864
Less: allowance for doubtful accounts	(6,720)	(9,409)
Trade accounts receivable – net	\$ 237,880	\$ 263,455

**NOTE 12. INVENTORIES**

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Raw materials and supplies	\$ 134,216	\$ 132,225
Work-in-progress	13,019	17,119
Finished goods	51,498	51,064
Inventory obsolescence	(17,857)	(12,061)
	<b>\$ 180,876</b>	<b>\$ 188,347</b>

During 2013, the Company recorded an increase of \$5.8 million (December 31, 2012 – \$5.7 million) in the provision for inventory obsolescence, due to the build-up of certain excess raw materials.

**NOTE 13. PROPERTY, PLANT AND EQUIPMENT**

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

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
<b>Cost</b>					
Balance – January 1, 2012	\$ 39,710	\$ 136,067	\$ 570,861	\$ 19,336	\$ 765,974
Exchange differences	(3,495)	(985)	(3,448)	(2,486)	(10,414)
Additions	4,959	3,015	50,715	15,739	74,428
Acquisitions	7,441	29,462	22,507	3,419	62,829
Assets held for sale	(73)	(976)	(23,063)	–	(24,112)
Decommissioning liabilities and others	11,767	1,868	(10,336)	–	3,299
Disposals	(131)	(4,071)	(25,434)	(1,027)	(30,663)
Balance – December 31, 2012	\$ 60,178	\$ 164,380	\$ 581,802	\$ 34,981	\$ 841,341
Exchange differences	991	15,286	21,637	665	38,579
Additions	2,055	28,069	57,876	(11,271)	76,729
Acquisitions	1,325	7,316	16,238	63	24,942
Assets held for sale	–	96	–	–	96
Decommissioning liabilities and others	(1,344)	(18)	(21)	–	(1,383)
Disposals	(338)	(2,286)	(16,281)	(447)	(19,352)
<b>Balance – December 31, 2013</b>	<b>\$ 62,867</b>	<b>\$ 212,843</b>	<b>\$ 661,251</b>	<b>\$ 23,991</b>	<b>\$ 960,952</b>

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
<b>Accumulated Amortization</b>					
Balance – January 1, 2012	\$ (12,569)	\$ (76,690)	\$ (345,239)	\$ –	\$ (434,498)
Exchange differences	(924)	(2,787)	4,635	–	924
Amortization expense	(2,655)	(3,036)	(38,115)	–	(43,806)
Assets held for sale	17	976	18,616	–	19,609
Decommissioning liabilities and others	(797)	(38)	(344)	–	(1,179)
Eliminated on disposal	–	1,658	18,991	–	20,649
Balance – December 31, 2012	\$ (16,928)	\$ (79,917)	\$ (341,456)	\$ –	\$ (438,301)
Exchange differences	(243)	(6,024)	(19,625)	–	(25,892)
Amortization expense	(364)	(6,286)	(58,664)	–	(65,314)
Decommissioning liabilities and others	150	(110)	(296)	–	(256)
Eliminated on disposal	71	1,597	11,223	–	12,891
<b>Balance – December 31, 2013</b>	<b>\$ (17,314)</b>	<b>\$ (90,740)</b>	<b>\$ (408,818)</b>	<b>\$ –</b>	<b>\$ (516,872)</b>

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
<b>Accumulated Impairment</b>					
Balance – January 1, 2012	\$ (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)
Exchange differences	1	44	(347)	–	(302)
Eliminated on disposal	–	638	327	–	965
<b>Balance – December 31, 2013</b>	<b>\$ (2,495)</b>	<b>\$ (6,514)</b>	<b>\$ (21,784)</b>	<b>\$ –</b>	<b>\$ (30,793)</b>
Net book value					
As at December 31, 2012	\$ 40,754	\$ 77,267	\$ 218,582	\$ 34,981	\$ 371,584
<b>As at December 31, 2013</b>	<b>\$ 43,058</b>	<b>\$ 115,589</b>	<b>\$ 230,649</b>	<b>\$ 23,991</b>	<b>\$ 413,287</b>

**NOTE 14. INTANGIBLE ASSETS**

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

(in thousands of Canadian dollars)	Intellectual Property, with Limited Life <sup>(a)</sup>	Intangible Assets, with Limited Life <sup>(b)</sup>	Intangible Assets, with Indefinite Life <sup>(c)</sup>	Total
<b>Cost</b>				
Balance – January 1, 2012	\$ 64,463	\$ 37,942	\$ 2,275	\$ 104,680
Exchange differences	(441)	(2,948)	7	(3,382)
Additions	62	–	–	62
Acquisition of a subsidiary	14,621	7,277	3,382	25,280
Balance – December 31, 2012	\$ 78,705	\$ 42,271	\$ 5,664	\$ 126,640
Exchange differences	680	1,099	248	2,027
Additions	96	616	–	712
Acquisition of a subsidiary	–	36,608	–	36,608
<b>Balance – December 31, 2013</b>	<b>\$ 79,481</b>	<b>\$ 80,594</b>	<b>\$ 5,912</b>	<b>\$ 165,987</b>
<b>Accumulated Amortization</b>				
Balance – January 1, 2012	\$ (13,828)	\$ (4,490)	\$ –	\$ (18,318)
Foreign exchange	124	326	–	450
Amortization	(4,565)	(2,752)	–	(7,317)
Balance – December 31, 2012	\$ (18,269)	\$ (6,916)	\$ –	\$ (25,185)
Exchange differences	62	(336)	–	(274)
Amortization	(5,325)	(4,987)	–	(10,312)
<b>Balance – December 31, 2013</b>	<b>\$ (23,532)</b>	<b>\$ (12,239)</b>	<b>\$ –</b>	<b>\$ (35,771)</b>
<b>Net Book Value</b>				
As at January 1, 2012	\$ 50,635	\$ 33,452	\$ 2,275	\$ 86,362
As at December 31, 2012	\$ 60,436	\$ 35,355	\$ 5,664	\$ 101,455
<b>As at December 31, 2013</b>	<b>\$ 55,949</b>	<b>\$ 68,355</b>	<b>\$ 5,912</b>	<b>\$ 130,216</b>

(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 up to 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 respective estimated useful lives of up to 15 years. The net book value of customer relationships as at December 31, 2013 is \$67.6 million (December 31, 2012 – \$34.4 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 15. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

The Company operates several project specific plants in the Pipeline and Pipe Services segment, whose continuing operation is dependent on the expected project backlog. 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. As a result, the Company assessed the carrying amount of property, plant and equipment for recoverability at four of its CGUs in the Bredero Shaw division in 2013. These four CGUs were in Portland, U.S.A.; Camrose, Canada; Leith, U.K.; and Ras Al-Khaimah, U.A.E. The recoverable amount for each of these four CGUs was found to be higher than the carrying amount.

The project outlook for the Kembla Grange, Australia plant for 2012 and beyond was not encouraging and the Company had decided to close the facility by the third quarter of 2012. During 2012, the closure of the Kembla Grange, Australia facility resulted in an impairment loss of \$4.7 million to dismantle, sell and scrap equipment and buildings in order to make the land ready for sale. During 2013, the Company recorded a gain on the sale of land in Kembla Grange in the amount of \$5.2 million and there were no additional impairment charges.

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

(in thousands of Canadian dollars)	2013	2012
Buildings	\$ –	\$ 234
Plant, machinery and equipment	–	4,452
Impairment charge	\$ –	\$ 4,686

## NOTE 16. OTHER ASSETS

The following table details the other assets as at:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Long-term prepaid expenses	\$ 8,615	\$ 9,089
Deposit guarantee	81	212
Long-term investment	1,104	1,348
Defined Pension Plans employee future benefit asset (Note 24)	8,030	530
	\$ 17,830	\$ 11,179

## NOTE 17. GOODWILL

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
<b>Balance – Beginning of year</b>	\$ 256,296	\$ 220,334
Acquisition	31,267	39,531
Foreign exchange	11,256	(3,569)
<b>Balance – End of year</b>	\$ 298,819	\$ 256,296

In 2013, goodwill acquired during the year was a result of the acquisition of the 49% of Socotherm Gulf of Mexico that was not already owned by a subsidiary of the Company. 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.

The following table summarizes the significant carrying amounts of goodwill:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Bredero Shaw (excluding BSRTL as defined below)	\$ 174,286	\$ 164,281
Thermotite Brasil Ltda & BS Servicios de Injecao (collectively, "BSRTL")	12,331	13,184
Flexpipe Systems	49,730	49,730
DSG-Canusa GmbH	17,388	15,558
Guardian	305	1,011
Socotherm S.p.A. (Italy)	8,762	8,166
Socotherm Americas (Argentina)	4,685	4,366
Socotherm Gulf of Mexico, LLC	31,332	–
	\$ 298,819	\$ 256,296

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

The Company performs a goodwill impairment test for each specified group of CGUs ("GCGU") that contains goodwill at the Company's annual goodwill impairment testing date of October 31 ("Annual Goodwill Valuation Date"). At the Annual Goodwill Valuation Dates of October 31, 2013 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 amounts.

## b) Recoverable Amount

The Company determines the recoverable amount for its GCGUs as the higher of Value in Use (“VIU”) and the Fair Value Less Cost to Sell (“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 FVLCS is calculated net of selling costs that are estimated at 2%.

The FVLCS is determined by discounting the future free cash flows generated from the Company’s continuing use of the respective GCGUs. The discount rates used are post-tax and reflect specific risks relating to the GCGUs. The discounted cash flow model employed by the Company reflects the specific risks of each GCGU and their business environment. The model calculates the FVLCS as the present value of the projected free cash flows and the Terminal Value of each GCGU.

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

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

### Projected Cash Flows

The Projected Cash 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 flows 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:

	October 31 2013	October 31 2012
Bredero Shaw (excluding BSRTL)	<b>10%</b>	11%
BSRTL	<b>14%</b>	14%
Flexpipe Systems	<b>11%</b>	12%
DSG-Canusa GmbH	<b>12%</b>	12%
Socotherm S.p.A. (Italy)	<b>14%</b>	n/a
Socotherm Americas (Argentina)	<b>18%</b>	n/a
Socotherm Gulf of Mexico, LLC	<b>12%</b>	n/a

### 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 all of the Company's GCGUs, except for Socotherm Gulf of Mexico, 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. A two percent increase in the discount rate would cause the carrying value of the Socotherm Gulf of Mexico GCGU to materially exceed its recoverable amount, as estimated by that 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. As at December 31, 2013, the Company's investment in the joint venture has been classified as assets held for sale and liabilities held for sale, respectively.

In the fourth quarter of 2013, the Company entered into an agreement to sell its interest in Socotherm Brasil to its joint venture partner. As a result, its investment in joint venture has been classified as held for sale as at December 31, 2013.

The following table shows the major classes of assets and liabilities classified as held for sale as at December 31, 2013:

(in thousands of Canadian dollars)	2013	2012
<b>Assets</b>		
Cash	\$ 8,036	\$ 5,984
Accounts receivables	9,031	10,747
Prepays	1,040	976
Inventory	3,177	3,161
Income taxes receivable	40	31
Property, plant and equipment (net of accumulated amortization)	1,968	6,202
Intangible assets	16,530	-
Investments in joint ventures	9,428	-
Deferred income tax assets	12	40
Goodwill	6,924	-
Assets classified as held for sale	\$ 56,186	\$ 27,141
<b>Liabilities</b>		
Accounts payable	(5,061)	(5,694)
Accrued liabilities	-	(3,430)
Income tax payable	(5,712)	(2,793)
Provisions – Non-current	(1,129)	-
Deferred income tax liabilities	(4,715)	-
Liabilities directly associated with assets classified as held for sale	\$ (16,617)	\$ (11,917)
<b>Net assets directly associated with disposal groups</b>	<b>\$ 39,569</b>	<b>\$ 15,224</b>

## NOTE 19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Trade payables	\$ 91,215	\$ 82,580
Accrued liabilities	139,759	123,471
	<b>\$ 230,974</b>	<b>\$ 206,051</b>

**NOTE 20. PROVISIONS**

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

(in thousands of Canadian dollars)	Decommissioning Liabilities	Deferred Purchase Consideration	Incentive -based Compensation (Note 29)	Other Provisions	Total
<b>Balance – January 1, 2012</b>	\$ 23,381	\$ 15,527	\$ 5,568	\$ 12,382	\$ 56,858
Provision adjustments	2,861	–	12,170	(1,694)	13,337
Acquisition	–	3,426	–	21,468	24,894
Settlement of liabilities	(1,580)	–	(10)	(1,168)	(2,758)
Accretion expense	256	867	–	–	1,123
Foreign exchange differences	(52)	(446)	(23)	266	(255)
Gain on settlement	(3,246)	–	–	–	(3,246)
Other	(206)	–	–	(359)	(565)
<b>Balance – December 31, 2012</b>	\$ 21,414	\$ 19,374	\$ 17,705	\$ 30,895	\$ 89,388
Provision adjustments	(1,401)	–	17,789	11,913	28,301
Acquisition	245	–	–	–	245
Settlement of liabilities	(817)	–	(2,189)	(11,607)	(14,613)
Accretion expense	357	697	–	–	1,054
Foreign exchange differences	787	1,547	631	1,765	4,730
Loss on settlement	66	–	–	–	66
<b>Balance – December 31, 2013</b>	<b>\$ 20,651</b>	<b>\$ 21,618</b>	<b>\$ 33,936</b>	<b>\$ 32,966</b>	<b>\$ 109,171</b>
<b>January 1, 2012</b>					
Current	\$ 6,001	\$ –	\$ 3,763	\$ 6,571	\$ 16,335
Non-current	17,380	15,527	1,805	5,811	40,523
	\$ 23,381	\$ 15,527	\$ 5,568	\$ 12,382	\$ 56,858
<b>December 31, 2012</b>					
Current	\$ 3,155	\$ 19,374	\$ 12,605	\$ 13,673	\$ 48,807
Non-current	18,259	–	5,100	17,222	40,581
	\$ 21,414	\$ 19,374	\$ 17,705	\$ 30,895	\$ 89,388
<b>December 31, 2013</b>					
Current	\$ 3,412	\$ 21,618	\$ 12,173	\$ 12,559	\$ 49,762
Non-current	17,239	–	21,763	20,407	59,409
	\$ 20,651	\$ 21,618	\$ 33,936	\$ 32,966	\$ 109,171

**Decommissioning Liabilities**

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$31.8 million as at December 31, 2013; the current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.13% 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

### Credit Facilities

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Bank indebtedness	\$ 5,290	\$ 5,751
Standard letters of credit for performance, bid and surety bonds (Note 27)	106,206	81,178
Total utilized credit facilities	111,496	86,929
Total available credit facilities <sup>(a)</sup>	320,910	251,688
<b>Unutilized credit facilities</b>	<b>\$ 209,414</b>	<b>\$ 164,759</b>

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

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

Allowable credit utilization outside of this facility has been reduced from US\$100 million to US\$50 million.

### 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 an Interest Coverage Ratio (EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.5 to 1 and a debt to total EBITDA ratio of less than 3.00 to 1. The Company is in compliance with these covenants as at December 31, 2013 and 2012.

## NOTE 22. LONG-TERM DEBT

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

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

The total long-term debt balance as at December 31, 2013 is \$374.4 million (US\$350.0 million). The long-term debt has been designated as a hedge of the Company's net investment in a U.S. dollar functional currency subsidiary as described in Note 25.

The Company has undertaken to maintain certain covenants in respect of the long-term debt that are consistent with the debt covenants described in Note 21 for the Company's Unsecured Committed Bank Credit Facility.

## NOTE 23. 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. During 2013, the amount of deferred revenue was drawn down to \$84.4 million, all of which was included in current liabilities.

**NOTE 24. EMPLOYEE FUTURE BENEFITS**

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

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

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

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

The total cash payments made by the Company to fund the defined benefit pension plans, the post-retirement insurance plans and the post-employment benefit plan during 2013 were \$5.7 million (2012 – \$6.1 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2013 were \$6.7 million (2012 – \$6 million).

The Company measures the fair value of assets and the defined benefit obligation as at December 31. Actuarial valuations for the Company's 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 August 1, 2010 (one plan), December 31, 2012 (four plans), January 1, 2013 (two plans) and August 2, 2013 (one plan).

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
<b>Accrued employee future benefit asset</b>		
Pension plans (Note 16)	\$ 8,030	\$ 530
	<b>8,030</b>	530
<b>Accrued employee future benefit liability</b>		
Pension plans	(23,648)	(26,844)
Post-employment benefits	(1,930)	(2,614)
Post-retirement life insurance	(100)	(349)
	<b>(25,678)</b>	(29,807)
<b>Net accrued employee future benefit liability</b>	<b>\$ (17,648)</b>	\$ (29,277)

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

	December 31 2013	December 31 2012
<b>Investments quoted in active markets:</b>		
Cash and cash equivalents	4%	5%
Equity instruments	66%	62%
Debt instruments	30%	33%
	<b>100%</b>	100%

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

	December 31 2013	December 31 2012
<b>Investments quoted in active markets:</b>		
Cash and cash equivalents	–	1%
Equity instruments	<b>100%</b>	99%
	<b>100%</b>	100%

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

### Actual Return on Plan Assets

The actual return on plan assets for the years ended December 31, 2013 and 2012 amounted to \$15.1 million and \$7.7 million, respectively.

### Employee Future Benefit Cost

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Current service costs	\$ 4,274	\$ 3,723
Past service costs and impact of settlements, curtailments and termination benefits	4,833	23
Interest cost on defined benefit obligation	4,755	4,515
Interest income on plan assets	(3,630)	(3,615)
	<b>10,232</b>	4,646
Impact of asset ceiling/minimum funding requirement	104	153
Defined benefit cost recognized	<b>10,336</b>	4,799
Defined contribution cost recognized	<b>6,746</b>	6,043
Employee future benefit cost recognized <sup>(a)</sup>	\$ <b>17,082</b>	\$ 10,842

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

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Valuation effect	\$ (202)	\$ 525
Return on plan assets (excluding amounts included in interest income)	(11,443)	(4,131)
Net actuarial losses (gains) recognized in the year	(9,311)	9,799
Other changes in asset ceiling/minimum funding requirement not included in net interest	4,938	(877)
Foreign currency exchange rate changes	(293)	(70)
Employee future benefit cost (income) recognized in OCI	\$ (16,311)	\$ 5,246

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
<b>Balance – Beginning of year</b>	<b>\$ 116,178</b>	\$ 100,591
Valuation effect	–	154
Employer current service cost	4,274	3,723
Net interest cost	4,755	4,515
Past service costs and impact of settlements, curtailments and termination benefits	4,833	23
Benefit payments	(4,392)	(2,836)
Actuarial losses due to changes in demographic assumptions	3,950	1,610
Actuarial (gains) losses due to changes in economic assumptions	(11,436)	7,963
Experience (gains) losses	(1,825)	226
Foreign exchange differences	232	209
<b>Balance – End of year</b>	<b>\$ 116,569</b>	\$ 116,178

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
<b>Balance – Beginning of year</b>	<b>\$ 89,262</b>	\$ 78,277
Valuation effect	202	(371)
Employer contributions	5,654	6,114
Employee contributions	–	–
Settlements	–	–
Benefits payments	(4,392)	(2,836)
Interest income on plan assets	3,630	3,615
Return on plan assets (excluding amounts included in interest income)	11,443	4,131
Foreign exchange differences	845	332
<b>Balance – End of year</b>	<b>\$ 106,644</b>	\$ 89,262

Amounts for the current and previous period are as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Defined benefit obligation	<b>\$ 116,569</b>	\$ 116,178
Fair value of plan assets	<b>106,644</b>	89,262
Net liability before impact of asset ceiling/minimum funding requirement	<b>9,925</b>	26,916
Impact of asset ceiling/minimum funding requirement	<b>7,723</b>	2,361
<b>Net Employee Future Benefit Liability</b>	<b>\$ 17,648</b>	\$ 29,277

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

	2013	2012
<b>Canada</b>		
Defined benefit obligation		
Discount rate	4.70%	4.00%
Future salary increase	4.00%	4.00%
Future pension increase	n/a	n/a
Mortality <sup>(a)</sup>	UP94 Generational	UP94 Generational
Benefit cost for year ended December 31		
Discount rate	4.00%	4.60%
Future salary increase	4.00%	4.00%
<b>Norway</b>		
Defined benefit obligation		
Discount rate	4.10%	3.90%
Future salary increase	3.75%	3.50%
Future pension increase	0.90%	0.50%
Mortality	K2013	K2005
Benefit cost for year ended December 31		
Discount rate	3.90%	2.60%
Future salary increase	3.50%	3.50%
<b>United Kingdom</b>		
Defined benefit obligation		
Discount rate	4.70%	4.40%
Future salary increase	n/a	n/a
Future pension increase	2.70%	2.60%
Mortality	S1PA (projected)	S1PA (projected)
Benefit cost for year ended December 31		
Discount rate	4.40%	5.00%
Future salary increase	n/a	n/a
<b>Indonesia</b>		
Defined benefit obligation		
Discount rate	8.80%	6.00%
Future salary increase	10.00% (local), 6.00% (expat)	10.00% (local), 6.00% (expat)
Future pension increase	n/a	n/a
Mortality	CSO80	CSO80
Benefit cost for year ended December 31		
Discount rate	6.00%	6.70%
Future salary increase	10.00% (local), 6.00% (expat)	10.00% (local), 10.00% (expat)

(a) In light of preliminary results of a Canadian pension mortality experience study conducted by the Canadian Institute of Actuaries in 2013 indicating improved pensioner mortality not reflected in the above table, the defined benefit obligation as at December 31, 2013 for the Canadian pension plans has been increased by 3.5%.

### Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at December 31, 2013 is as shown below:

Significant Assumptions (in thousands of Canadian dollars)	Impact of Sensitivity Analysis on Defined Benefit Obligation	
	Change	% Change
Discount rate		
Decrease of 50bp	\$ 9,070	7.8%
Increase of 50bp	\$ (8,066)	(6.9%)
Future salary increase		
Decrease of 50bp	\$ (2,485)	(2.1%)
Increase of 50bp	\$ 2,751	2.4%
Mortality assumption – Impact of life expectancy being 1 year longer	\$ 2,158	1.9%

The sensitivity analysis noted above has been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring as at December 31, 2013.

### Other Information

The Company expects to contribute \$6.5 million to its defined benefit plans for the year ended December 31, 2014.

The average duration of the defined benefit obligation plans as at December 31, 2013 is 15 years.

## NOTE 25. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
<b>Loans and receivables, measured at amortized cost</b>		
Cash and cash equivalents	\$ 79,395	\$ 284,981
Short-term investments	6,618	77,950
Loans receivable	9,242	22,468
Accounts receivable	363,984	376,788
<b>Fair value through profit or loss, measured at fair value</b>		
Derivative financial instruments – asset	624	3,988
Derivative financial instruments – liability	1,632	1,275
<b>Other financial liabilities, measured at amortized cost</b>		
Bank indebtedness	5,290	5,751
Loans payable	126	2,664
Accounts payable	91,215	82,580
Deferred purchase consideration	21,618	19,374
Long-term debt	\$ 374,381	\$ –

### Fair Value

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

- Level 1** Quoted prices in active markets for identical instruments that are observable.
- Level 2** Quoted prices in active markets for similar instruments; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.
- Level 3** Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

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



The following table presents the fair value hierarchy levels for the financial assets and liabilities as at December 31, 2013:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 79,395	\$ 79,395	\$ -	\$ -
Short-term investments	6,618	6,618	-	-
Loans receivable	9,242	-	9,242	-
Trade accounts receivable	237,880	-	237,880	-
Other receivables	126,104	-	126,104	-
Derivative financial instruments	624	-	624	-
	\$ 459,863	\$ 86,013	\$ 373,850	\$ -
<b>Liabilities</b>				
Bank indebtedness	\$ 5,290	\$ 5,290	\$ -	\$ -
Loans payable	126	-	126	-
Accounts payable	91,215	-	91,215	-
Deferred purchase consideration	21,618	-	21,618	-
Long-term debt	374,381	-	374,381	-
Derivative financial instruments	1,632	-	1,632	-
	\$ 494,262	\$ 5,290	\$ 488,972	\$ -

The derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market. The fair values of the Company's remaining financial instruments are not materially different from their carrying values.

#### 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, 2013:

(in thousands, except weighted average rate amounts)

Canadian dollars sold for U.S. dollars				
Less than one year				CAD\$12,953
Weighted average rate				1.03
U.S. dollars sold for Canadian dollars				
Less than one year				US\$12,000
Weighted average rate				1.04
U.S. dollars sold for Malaysian Ringgits				
Less than one year				US\$25,200
Weighted average rate				3.23
Euros sold for U.S. dollars				
Less than one year				€30,589
Weighted average rate				1.35
Norwegian Kroner sold for U.S. dollars				
Less than one year				NOK 98,235
Weighted average rate				0.16

As at December 31, 2013, the Company had notional amounts of \$115.2 million of forward contracts outstanding (2012 – \$247.7 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling \$1.0 million (2012 – \$2.0 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, 2013, 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 \$75.0 million, \$18.0 million and \$15.1 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$57.1 million, \$38.8 million and \$18.3 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 U.S. dollar-based operations, the Company does not hedge translation exposures.

### Net Investment Hedge

The Senior Notes have been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the U.S. dollar as its functional currency. During the year ended December 31, 2013, a loss of \$16.1 million on the translation of the Notes was transferred to other comprehensive income to offset the losses on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2013.

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2013:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial assets</b>				
Cash equivalents	\$ -	\$ -	\$ 552	\$ 552
Loans receivable	1,075	4,014	4,153	9,242
	\$ 1,075	\$ 4,014	\$ 4,705	\$ 9,794
<b>Financial liabilities</b>				
Bank indebtedness	\$ -	\$ 5,290	\$ -	\$ 5,290
Loans payable	126	-	374,381	374,507
	\$ 126	\$ 5,290	\$ 374,381	\$ 379,797

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 counterparties and monitors utilization of those credit limits on an ongoing basis.

For the year ended December 31, 2013, there was one customer who generated approximately 22% of total consolidated revenue (December 31, 2012, no customer generated revenue greater than 10% of total consolidated revenue). This revenue resulted primarily from a single contract for which a substantial upfront payment was received in 2012 and which was recorded as deferred revenue at that time.

The carrying value of accounts receivable are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statements of income with a charge to selling, general and administrative expenses. When a receivable balance is considered to be uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses. As at December 31, 2013, \$25.2 million, or 10.3% 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 receivables 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:

(in thousands of Canadian dollars)	2013	2012
<b>Balance – Beginning of year</b>	\$ 9,409	\$ 13,967
Bad debt expense	3,016	7,997
Recovery of previously written-off bad debts	(7)	(333)
Write-offs of bad debts	(5,031)	(11,000)
Impact of change in foreign exchange rates	(667)	(1,222)
<b>Balance – End of year</b>	\$ 6,720	\$ 9,409

### 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, 2013, the Company had cash and cash equivalents totalling \$79.4 million (2012 – \$285.0 million) and had unutilized lines of credit available to use of \$209.4 million (2012 – \$164.8 million).

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2013:

(in thousands of Canadian dollars)	Less than 1 year	1-3 years	3-5 years	Thereafter	Total
Purchase commitments	\$ 43,614	\$ –	\$ –	\$ –	\$ 43,614
Operating leases	17,619	21,650	10,180	10,176	59,625
Bank indebtedness	5,290	–	–	–	5,290
Accounts payable	91,215	–	–	–	91,215
Decommissioning liabilities	3,412	6,305	967	21,067	31,751
Deferred purchase consideration	21,618	–	–	–	21,618
Obligations under finance lease	938	2,972	2,972	13,892	20,774
Loans payable	126	–	–	–	126
Long-term debt	–	–	–	374,381	374,381
Finance costs on long-term debt	13,089	26,178	26,178	68,232	133,677
	\$ 196,921	\$ 57,105	\$ 40,297	\$ 487,748	\$ 782,071

## NOTE 26. CAPITAL MANAGEMENT

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

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

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Bank indebtedness	\$ 5,290	\$ 5,751
Loans payable	126	2,664
Long-term debt	374,381	–
Obligations under finance lease	14,314	14,655
Equity	658,581	988,667
	\$ 1,052,692	\$ 1,011,737

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 and Senior Notes. The Company is in compliance with these covenants as at December 31, 2013.

**NOTE 27. LEASES, 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, 2013:

(in thousands of Canadian dollars)	December 31 2013
Within one year	\$ 17,619
After one year but not more than five years	31,830
More than five years	10,176
	<b>\$ 59,625</b>

The lease expenditure charged to the consolidated statements of income during the year is \$25 million (December 31, 2012 – \$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:

(in thousands of Canadian dollars)	December 31, 2013	
	Minimum Payments	Present Value of Payments
Within one year	\$ 938	\$ 487
After one year but not more than five years	5,944	3,175
After more than five years	13,892	10,652
Total minimum lease payments	20,774	14,314
Less: Amounts representing interest charges	(6,460)	–
<b>Present value of minimum lease payments</b>	<b>\$ 14,314</b>	<b>\$ 14,314</b>

**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 that these performance bonds support generally have a term of one to three years, but could extend up to four years. Bid bonds typically have a term of less than one year and are renewed, if required, over the term of the applicable contract. Historically, the Company has not made and does not anticipate that it will be required to make material payments under these types of bonds.

The Company utilizes its credit facilities to support the Company's bonds. The Company has utilized credit facilities of \$111.5 million as at December 31, 2013 (December 31, 2012 – \$86.9 million).

## NOTE 28. SHARE CAPITAL

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On March 20, 2013, the Company eliminated its dual class share structure pursuant to a shareholder and court approved Plan of Arrangement (the "Arrangement") through the purchase of all of the Class A and Class B shares of the Company by a newly formed Canadian corporation. The Arrangement, a transaction with a related party, eliminated the Company's dual-class share structure through:

- The purchase of all of the issued and outstanding Class A shares in exchange for new common shares ("common shares") on a 1:1 basis; and
- The purchase of all of the issued and outstanding Class B shares in exchange for consideration of \$43.43 in cash or 1.1 common shares per Class B share, such that 90% of the total consideration for the Class B Shares was paid in cash and 10% was paid in common shares. All Class A and B shares were removed from the authorized capital of the Company.

Upon closing, the new corporation and the Company amalgamated, under the name ShawCor Ltd., with the common shares as its only class of share capital. Upon closing, a special dividend of \$1.00 per share was declared on all outstanding common shares which was paid on April 19, 2013.

The Company recognized transaction costs charged directly to retained earnings of \$553.2 million, which was comprised of the \$498.8 million cash payment to the Class B shareholders and the issuance of 1,403,684 common shares to the Class B shareholders with a fair value of \$55.4 million, partially offset by the book value of the Class B shares of \$1.0 million.

In connection with the closing of the Arrangement, the employment terms of the Company's Chair of the Board and indirect controlling shareholder, and of the Company's Vice Chair of the Board, were amended to provide that their employment with the Company's subsidiary would terminate and they would receive severance and other benefits of approximately \$3.4 million and \$3.7 million, respectively.

Under the Arrangement, any stock option outstanding as of March 20, 2013, that had not been duly exercised prior to that date, whether vested or unvested, represents an option (a "New ShawCor Option") to purchase the same number of common shares at the same exercise price. The exercise price, term to expiry, conditions to and manner of exercising, vesting schedule and all other terms and conditions of such New ShawCor Option remain unchanged from the previously issued options with respect to the Class A shares, and any document or agreement previously evidencing the original such options is deemed to evidence such New ShawCor Options.

Any award granted under the employee share unit plan ("Company ESUP Award") that had not been settled prior to March 20, 2013, whether vested or unvested, represents a grant (a "New ShawCor ESUP Award") in respect of the same number of common shares as applied to the acquisition of Class A shares pursuant to the Company ESUP Award. All other terms and conditions of such New ShawCor ESUP Award remain unchanged from the previously issued Company ESUP Awards with respect to the Class A shares, and any document or agreement previously evidencing a Company ESUP Award is deemed to evidence such New ShawCor ESUP Award.

Any grant of deferred share units issued pursuant to the deferred share unit plan ("Company DSU Grant") that had not been settled prior to March 20, 2013, represents a unit (a "New ShawCor DSU Grant") in respect of the same number of common shares as applied to the acquisition of Class A shares pursuant to the Company DSU Grant. All other terms and conditions of such New ShawCor DSU Grant remain unchanged from the previously issued Company DSU Grants with respect to the Class A shares, and any document or agreement previously evidencing a Company DSU Grant is deemed to evidence such New ShawCor DSU Grant.

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

(all dollar amounts in thousands of Canadian dollars)

	2013			
Number of shares	Class A	Class B	New Common	Total
Balance, January 1, 2013	57,491,070	12,760,635	–	70,251,705
Issued on exercise of stock options	72,440	–	1,023,220	1,095,660
Issued on exercise of RSUs	200	–	588	788
Purchase and cancellation of Class A shares	(57,563,710)	–	57,563,710	–
Purchase and cancellation of Class B shares	–	(12,760,635)	1,403,684	(11,356,951)
<b>Balance, December 31, 2013</b>	<b>–</b>	<b>–</b>	<b>59,991,202</b>	<b>59,991,202</b>
<b>Stated value:</b>				
Balance, January 1, 2013	\$ 220,706	\$ 981	\$ –	\$ 221,687
Issued on exercise of stock options	1,372	–	18,227	19,599
Compensation cost on exercised options	531	–	7,048	7,579
Compensation cost on exercised RSUs	5	–	19	24
Purchase and cancellation of Class A shares	(222,614)	–	222,614	–
Purchase and cancellation of Class B shares	–	(981)	55,419	54,438
<b>Balance, December 31, 2013</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 303,327</b>	<b>\$ 303,327</b>

(all dollar amounts in thousands of Canadian dollars)

	2012			
Number of Shares	Class A	Class B	Total	
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 shares into Class A shares	23,700	(23,700)	–	
Purchase – normal course issuer bid	(572,000)	–	(572,000)	
<b>Balance, December 31, 2012</b>	<b>57,491,070</b>	<b>12,760,635</b>	<b>70,251,705</b>	
<b>Stated Value:</b>				
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 shares into Class A shares	2	(2)	–	
Purchase – normal course issuer bid	(2,176)	–	(2,176)	
<b>Balance, December 31, 2012</b>	<b>\$ 220,706</b>	<b>\$ 981</b>	<b>\$ 221,687</b>	

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

In 2013, dividends declared and paid during the year were \$1.375 per New Common share, \$0.100 per Class A share and \$0.091 per Class B share (2012 – \$0.380 per Class A share and \$0.345 per Class B share). The dividends paid on the Class A and Class B shares were before the elimination of the dual class share structure under the Arrangement.

## NOTE 29. SHARE-BASED AND OTHER INCENTIVE-BASED COMPENSATION

As at December 31, 2013, the Company had the following stock option plan, which was 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 of stock options are permitted on the basis of 20% of the optioned shares per year over five years, on a cumulative basis, commencing one year following the date of the grant. The grant price equals the closing sale price of the common shares on the day prior to the grant.

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

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

### Stock Options without Tandem Share Appreciation Rights

	2013		2012	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding – Beginning of year	2,106,140	\$ 21.83	2,164,600	\$ 20.67
Granted	251,900	41.68	187,000	32.81
Exercised	(1,095,660)	17.89	(204,060)	19.55
Forfeited	(6,000)	30.97	(41,400)	22.36
Expired	(480)	15.94	–	–
Balance outstanding – End of year	1,255,900	\$ 29.20	2,106,140	\$ 21.83
Options exercisable	716,244	\$ 24.95	1,585,292	\$ 20.03

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Outstanding as at December 31 2013	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31 2013	Weighted Average Exercise Price
\$15.01 to \$20.00	302,020	4.58	\$ 15.70	223,620	\$ 15.77
\$20.01 to \$25.00	5,400	3.10	21.22	3,400	20.79
\$25.01 to \$30.00	400,920	3.58	27.94	400,920	27.94
\$30.01 to \$35.00	197,000	7.78	32.76	47,400	32.59
\$35.01 to \$40.00	102,260	6.99	37.32	40,904	37.32
\$40.01 to \$45.00	248,300	8.99	41.68	–	–
	1,255,900	5.83	\$ 29.20	716,244	\$ 24.95

Range of Exercise Price	Options Outstanding				Options Exercisable	
	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	
	\$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	

The Board of Directors approved the granting of 251,900 stock options (2012 – 187,000) during the year ended December 31, 2013 under the 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2013 was \$3.3 million (2012 – \$2.1 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	2013	2012
Weighted average share price	<b>\$41.68</b>	\$32.81
Exercise price	<b>\$41.68</b>	\$32.81
Expected life of options	<b>6.25</b>	7.25
Expected stock price volatility	<b>34%</b>	35%
Expected dividend yield	<b>0.9%</b>	0.9%
Risk-free interest rate	<b>1.89%</b>	1.7%

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 Amended 2001 Employee 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, 2013, included in selling, general and administrative expenses, was \$1.9 million (2012 – \$1.7 million).

#### Stock Options with Tandem Share Appreciation Rights

	December 31, 2013		December 31, 2012	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value
Balance outstanding – Beginning of period	223,200	\$ 12.56	154,300	\$ 12.93
Granted	32,300	13.35	68,900	11.74
Exercised in cash	(134,700)	14.01	–	–
Balance outstanding – End of period	120,800	\$ 11.16	223,200	\$ 12.56
Options exercisable	53,100	\$ 15.09	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, 2013, is \$1.3 million (2012 – \$1.6 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 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, 2013 is \$27.2 million (2012 – \$12.3 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 common shares and are valued on the basis of the underlying weighted average trading price of the common shares over the five trading days preceding the grant date. The valuation is not subsequently adjusted for changes in the market price of the common shares prior to the settlement of the award. Each RSU and PSU granted under the ESUP represents one common share. The ESUP provides that the maximum number of common shares that are reserved for issuance from time to time shall be fixed at 1,000,000 common shares. The RSUs vest in two tranches over a period of one to five years and four to seven years, respectively, and become payable once vesting is completed. Compensation cost is recognized over the vesting period in accordance with IFRS. All RSUs and PSUs granted are classified as equity instruments in accordance with IFRS as their terms require that they be settled in shares.

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

	2013		2012	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)(b)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
<b>Balance outstanding – Beginning of year</b>	<b>134,987</b>	<b>\$ 30.79</b>	93,289	\$ 30.34
Granted	<b>80,998</b>	<b>39.10</b>	306,695	32.85
Exercised	<b>(788)</b>	<b>30.90</b>	(2,738)	28.97
Forfeited	–	–	(10,975)	31.96
Cancelled	<b>(5,890)</b>	<b>34.06</b>	(251,284)	33.11
<b>Balance outstanding – End of year</b>	<b>209,307</b>	<b>\$ 33.91</b>	134,987	\$ 30.79
RSUs/PSUs exercisable	<b>29,594</b>	<b>\$ 29.38</b>	14,984	\$ 29.98

(a) RSU awards do not have an exercise price; their weighted average grant date fair value is the closing stock price on the reporting date.

(b) PSU awards do not have an exercise price; their weighted average grant date 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 dollar amount to be paid in DSUs divided by the weighted average trading price of the common shares over the five days immediately preceding the date of the grant. DSUs are to be settled at the time that the director ceases to be a member of the Board and each DSU entitles the holder to receive one common share or the cash equivalent. DSUs vest immediately on the date of the grant. The value of a DSU and the related compensation expense is determined and recorded based on the current market price of the underlying common shares on the date of the grant. Common shares are purchased on the open market to settle outstanding share units.

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

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

	2013		2012	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
Balance outstanding – Beginning of year	97,421	\$ 31.61	60,924	\$ 28.45
Granted	38,299	41.60	36,497	36.87
Exercised <sup>(b)</sup>	(10,740)	32.40	–	–
<b>Balance outstanding – End of year</b>	<b>124,980</b>	<b>\$ 34.60</b>	<b>97,421</b>	<b>\$ 31.61</b>

(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, 2013 is \$5.3 million (2012 – \$3.8 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)	2013	2012
Stock option expense	\$ 1,885	\$ 1,650
VGP expense	17,469	9,663
DSU expense	1,899	2,039
RSU expense	1,286	978
SAR expense	1,055	967
<b>Total share-based and other incentive-based compensation expense</b>	<b>\$ 23,594</b>	<b>\$ 15,297</b>

### NOTE 30. KEY MANAGEMENT COMPENSATION

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

(in thousands of Canadian dollars)	2013	2012
Salaries and other short-term incentive compensation and employee benefits	\$ 9,050	\$ 8,508
Post-employment benefits – Defined Benefit Plans	6,394	542
Share-based and other long-term incentive payments	5,874	2,069
Director fees and other compensation	6,591	2,039
	<b>\$ 27,909</b>	<b>\$ 13,158</b>

## NOTE 31. INTEREST IN JOINT VENTURES

The Company uses the equity method to account for the following joint venture interests of the Company as at December 31:

	Country of Incorporation	Activity	2013 Proportion of Interest Held %	2012 Proportion of Interest Held %
Hal Shaw Inc.	U.S.A.	Pipe coating	50	50
Shaw & Shaw Ltd.	Canada	Pipe coating	83	83
Helicone Holdings Limited	Russia	Pipe coating	25	25
Atlantida Socotherm S.A.	Argentina	Pipe coating	50	50
Socotherm Gulf of Mexico, LLC <sup>(a)</sup>	U.S.A.	Pipe coating	(a)	51
Socotherm Brasil S.A. <sup>(b)</sup>	Brazil	Pipe coating	50	50

(a) On April 15, 2013, the Company acquired the remaining 49% interest in Socotherm Gulf of Mexico that it did not own as at December 31, 2012. The accounts of SGOM were fully consolidated as at December 31, 2013 (Note 7).

(b) As of December 4, 2013, Socotherm Brasil S.A. has been accounted for as a held-for-sale investment and as a result, the investments in joint ventures account on the Company's consolidated balance sheet as at December 31, 2013 no longer reflects the Company's investment in this entity (Note 18). However, the revenue and expenses disclosed in the table below include the Company's share of this interest, up to the date of reclassification to held-for-sale.

The following table presents the Company's share of the assets, liabilities, income and expenses of the joint ventures described above for the years ended and as at December 31, excluding those joint ventures classified as held for sale.

(in thousands of Canadian dollars)

	2013	2012
Current assets	\$ 13,625	\$ 37,640
Non-current assets	10,937	81,670
Total assets	24,562	119,310
Current liabilities	(5,895)	(21,532)
Non-current liabilities	(1,391)	(20,436)
Total Liabilities	(7,286)	(41,968)
Carrying amount of the investments in joint ventures	\$ 17,276	\$ 77,342

(in thousands of Canadian dollars)

	2013	2012
Revenue	\$ 53,553	\$ 13,662
Cost of goods sold and services rendered	40,884	9,358
Administrative expenses	10,204	2,209
Foreign exchange losses (gains)	47	(10)
Amortization expenses	6,357	1,077
Finance costs	1,083	42
Net (loss) income before taxes	(5,022)	986
Income taxes (recovery) expenses	(1,148)	368
Net (loss) income	\$ (3,874)	\$ 618

**NOTE 32. 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 years ended December 31:

(in thousands of Canadian dollars except share and per share amounts)	2013	2012
Net income used to calculate EPS		
Net income (attributable to the shareholders of the Company)	\$ 219,862	\$ 178,310
Weighted average number of shares outstanding – basic (000s)	61,972	70,413
Dilutive effect of stock options	674	865
Weighted average number of shares outstanding – diluted (000s)	\$ 62,646	\$ 71,278
Basic EPS	\$ 3.55	\$ 2.53
Diluted EPS	\$ 3.51	\$ 2.50

**NOTE 33. INCOME TAXES**

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

(in thousands of Canadian dollars)	2013	2012
<b>Current Income Tax</b>		
Based on taxable income of current year	\$ 93,620	\$ 51,113
Adjustment to prior year provision	(259)	(6,916)
	93,361	44,197
<b>Deferred Income Tax</b>		
Reversal of temporary differences	(14,959)	(414)
	(14,959)	(414)
<b>Total Income Tax Expense</b>	\$ 78,402	\$ 43,783

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

(in thousands of Canadian dollars)	2013	2012
Income tax on actuarial gains and losses on defined employee future benefit plans	\$ 4,103	\$ (1,353)
<b>Income Tax Expense (recovery) charged to other comprehensive income</b>	\$ 4,103	\$ (1,353)

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

	2013	2012
Expected income tax expense based on statutory rate	27.0%	27.0%
Tax rate differential on earnings of foreign subsidiaries	(8.2%)	(8.6%)
Benefit of previously unrecognized tax losses	(0.6%)	(0.3%)
Unrecognized tax losses of foreign subsidiaries	4.5%	3.1%
Adjustment to prior year provision	(0.1%)	(3.1%)
Other	3.4%	1.6%
<b>Effective Income Tax Rate</b>	<b>26.0%</b>	<b>19.7%</b>

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

### Recognized Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and they relate to the same income tax authority on the same taxable entity. The following table sets forth the Company's deferred income tax assets and liabilities as at:

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
<b>Deferred Income Tax Assets</b>		
Amortizable property, plant and equipment	\$ 17,953	\$ 11,952
Provisions and future expenditures	18,984	14,649
Non-capital losses	11,543	9,546
	<b>48,480</b>	36,147
<b>Deferred Income Tax Liabilities</b>		
Amortizable property, plant and equipment	(18,972)	(14,604)
Provisions and future expenditures	(49,885)	(46,875)
	<b>(68,857)</b>	(61,479)
<b>Net Deferred Income Tax Liability</b>	<b>\$ (20,377)</b>	<b>\$ (25,332)</b>

The Company has recorded deferred income tax assets of \$11.5 million and \$9.5 million as at December 31, 2013 and 2012, respectively, pertaining to loss carryforwards based on management's financial projections and the relevant income tax legislation in each jurisdiction.

The following table sets forth the changes in the Company's deferred income tax assets and liabilities for the years ended December 31:

(in thousands of Canadian dollars)	2013	2012
<b>Deferred Income Tax Assets</b>		
Amortizable property, plant and equipment	\$ (6,001)	\$ (9,482)
Provisions and future expenditures	(4,335)	14,048
Net operating losses	(1,997)	(5,966)
Deferred income tax assets	<b>(12,333)</b>	(1,400)
<b>Deferred Income Tax Liabilities</b>		
Amortizable property, plant and equipment	4,368	(22,269)
Provisions and future expenditures	3,010	26,764
Deferred income tax liability	<b>7,378</b>	4,495
<b>Change in Deferred Income Tax</b>	<b>(4,955)</b>	3,095
Deferred income tax on OCI	(4,103)	1,353
Deferred income tax acquired through acquisitions	(10,644)	(4,822)
Deferred income tax moved to assets held for sale	4,743	(40)
<b>Deferred Income Tax Recovery in Net Income</b>	<b>\$ (14,959)</b>	<b>\$ (414)</b>

The Company has recognized a deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, associates and joint ventures of nil for the years ended December 31, 2013 and 2012, as the Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary difference associated with investments in subsidiaries, associates and joint ventures, for which a deferred income tax liability has not been recognized aggregates to \$189.9 million and \$146.2 million for the years ended December 31, 2013 and 2012, respectively.

The Company has net operating losses of \$123.0 million and \$73.9 million for the years ended December 31, 2013 and 2012, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to the 2017 fiscal year. The Company has capital losses of \$6.9 million and \$8.0 million for the years ended December 31, 2013 and 2012, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These capital losses are carried forward indefinitely.

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**NOTE 34. SUBSEQUENT EVENT**

On February 20, 2014, ShawCor completed an equity investment in Zedi Inc. ("Zedi"), a Calgary, Alberta, based company engaged in end-to-end solutions for production operations management in the oil and gas industry. Zedi has successfully developed and deployed remote field monitoring and related data management solutions for the optimization of oil and gas well production and has recently completed a management buyout through an Alberta court and shareholder approved plan of arrangement. ShawCor's equity investment in Zedi will consist of a 25% common share interest plus convertible preferred shares for a total investment of approximately \$24 million, which will be accounted for using equity accounting. ShawCor and Zedi have also entered into a joint development agreement to work together to develop monitoring and connectivity solutions for pipeline and OCTG applications.

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**NOTE 35. COMPARATIVE FIGURES**

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

# SIX-YEAR REVIEW AND QUARTERLY INFORMATION

## SIX-YEAR REVIEW (UNAUDITED)

For the year ended December 31  
(in thousands of Canadian dollars  
except per share information)

	2013 IFRS	2012 IFRS <sup>(e)</sup>	2011 IFRS	2010 IFRS	2009 CGAAP <sup>(f)</sup>	2008 CGAAP
<b>Operating Results</b>						
Revenue	\$ 1,847,549	\$ 1,469,187	\$ 1,157,265	\$ 1,034,163	\$ 1,183,978	\$ 1,379,577
EBITDA <sup>(a)</sup>	391,223	265,254	128,168	186,035	254,143	262,158
Net income <sup>(b)</sup>	219,862	178,310	56,280	95,072	131,450	145,733
<b>Cash Flow</b>						
Cash from operating activities	32,264	530,512	45,325	53,244	299,333	154,361
Purchase of property, plant, and equipment	76,729	73,505	55,982	48,723	34,358	89,799
<b>Financial Position</b>						
Working capital <sup>(c)</sup>	267,489	325,412	287,142	283,852	312,966	229,169
Long-term debt	374,381	–	–	25,005	52,287	91,226
Equity	658,581	988,667	867,411	832,243	790,422	732,452
Total assets	\$ 1,651,928	\$ 1,888,873	\$ 1,226,749	\$ 1,224,936	\$ 1,185,977	\$ 1,227,289
<b>Per Share Information</b> (Common, Class A & Class B)						
Net income						
Basic	\$ 3.55	\$ 2.53	\$ 0.79	\$ 1.35	\$ 1.86	\$ 2.06
Diluted	\$ 3.51	\$ 2.50	\$ 0.78	\$ 1.33	\$ 1.85	\$ 2.03
Dividends						
Common share	\$ 1.375	n/a	n/a	n/a	n/a	n/a
Class A	\$ 0.100	\$ 0.380	\$ 0.315	\$ 0.295	\$ 0.535	\$ 0.253
Class B	\$ 0.091	\$ 0.345	\$ 0.286	\$ 0.268	\$ 0.486	\$ 0.229
Equity per share <sup>(d)</sup>	\$ 10.98	\$ 14.08	\$ 12.28	\$ 11.79	\$ 11.21	\$ 10.40

## QUARTERLY INFORMATION (UNAUDITED)

(in thousands of Canadian dollars  
except per share information)

		First	Second	Third	Fourth	Total
Revenue	2013	\$ 454,681	\$ 457,261	\$ 525,848	\$ 409,759	\$ 1,847,549
	2012	312,268	326,923	390,497	439,499	1,469,187
Net income <sup>(b)</sup>	2013	70,595	53,914	72,956	22,397	219,862
	2012	\$ 23,247	\$ 21,377	\$ 53,411	\$ 80,275	\$ 178,310
Net income per share (Common, Class A and Class B)						
Diluted	2013	\$ 1.01	\$ 0.90	\$ 1.21	\$ 0.37	\$ 3.51
	2012	\$ 0.33	\$ 0.30	\$ 0.75	\$ 1.13	\$ 2.50

(a) EBITDA is a non-GAAP measure calculated by adding back to net income the sum of net finance costs, income taxes, depreciation/amortization of property, plant and equipment and intangible assets, gains/losses from assets sold or held for sale, impairment of assets, and other one-time items. 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.

(b) Attributable to shareholders of the Company, excluding non-controlling interests.

(c) Working capital has been calculated as current assets minus current liabilities.

(d) Equity per share is Non-GAAP measure calculated by dividing equity by the number of Common, Class A & Class B shares outstanding at the date of the balance sheet.

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

(f) Restated due to adoption of CICA Handbook section 3064.

# SHAWCOR DIRECTORS



**J.T. BALDWIN**

*London, England*

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



**D.S. BLACKWOOD**

*Houston, Texas*

Mr. Blackwood recently retired as President (Americas), Wood Group PSN, a position he held since April 2011, and has been a Director of ShawCor Ltd. since May 2011.



**W.P. BUCKLEY**

*Toronto, Ontario*

Mr. Buckley is 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 Professional Accountant and from 1983 to 2011 was a partner at KPMG LLP. He has been a Director of ShawCor Ltd. since October 2011.



**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 1995 to 2006, and has been a Director of ShawCor Ltd. since April 1994.



**P.G. ROBINSON**

*Toronto, Ontario*

Mr. Robinson is a Chartered Professional Accountant and President and Chief Executive Officer 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.



**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 Professional 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 Board also receives reviews and discusses a quarterly risk management report from management which identifies the key risks facing the Company, their potential impact on operating income and mitigation actions which are being taken. In addition, the Audit Committee of the Board regularly reviews financial risk issues and the Compensation Committee of the Board reviews compensation related risk issues on an annual basis.

The Audit, Compensation and Nominating and Governance Committees of the Board are each comprised of independent directors. The Executive Committee is comprised of the Chair, the Vice Chair, the Chief Executive Officer and three independent directors. Ten of eleven 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 Nominating and 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 Nominating and 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 Nominating and 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 and developed a new Board/Committee/Director performance assessment process and form;
- 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](http://www.sedar.com));
- instituted a whistleblower hotline to assist employees in reporting suspected violations of the Code of Conduct;
- instituted a majority voting policy for directors;
- instituted a DSU plan for directors and terminated the directors’ stock option plan;
- 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; and
- developed a new director retirement policy.

# PRIMARY OPERATING LOCATIONS

## PIPELINE AND PIPE SERVICES

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### BREDERO SHAW

#### *ShawCor Pipe Protection*

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

T: 281 886 2350

F: 281 886 2351

#### *Bredero Shaw Lakeside House*

1 Furzeground Way  
Stockley Park  
Uxbridge, Middlesex  
England UB11 1BD

T: 44 208 622 3071

F: 44 208 622 3169

#### *Shaw Pipe Protection*

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

T: 403 263 2255

F: 403 264 3649

#### *Bredero Shaw*

#17-01/02 United Square  
101 Thomson Road  
Singapore 307591

T: 65 6732 2355

F: 65 6732 9073

### FLEXPIPE SYSTEMS

3501 54th Avenue S.E.  
Calgary, Alberta T2C 0A9

T: 403 503 0548

F: 403 503 0547

### SOCOTHERM

Viale Risorgimento 62  
45011 Adria (RO) Italy

T: 39 0426 941000

F: 39 0426 901055

### CANUSA-CPS

25 Bethridge Road  
Toronto, Ontario M9W 1M7

T: 416 743 7111

F: 416 743 5927

### SHAW PIPELINE SERVICES

4250 N. Sam Houston Pkwy. E.  
Suite 180  
Houston, Texas 77032

T: 832 601 0850

F: 281 442 1593

### GUARDIAN

950 – 78th Avenue  
Edmonton, Alberta T6P 1L7

T: 780 440 1444

F: 780 440 4261

## PETROCHEMICAL AND INDUSTRIAL

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### DSG-CANUSA

25 Bethridge Road  
Toronto, Ontario M9W 1M7

T: 416 743 7111

F: 416 743 7752

### SHAWFLEX

25 Bethridge Road  
Toronto, Ontario M9W 1M7

T: 416 743 7111

F: 416 743 2565

# CORPORATE INFORMATION

## CORPORATE OFFICERS

### J.F. PETCH

Chair of the Board

### R.J. RITCHIE

Vice Chair of the Board

### W.P. BUCKLEY

Chief Executive Officer

### S.M. ORR

President

### G.S. LOVE

Vice President, Finance and  
Chief Financial Officer

### D.R. EWERT

Vice President, Corporate Affairs  
and Secretary

## OPERATIONS MANAGEMENT

### M.J. SIMMONS

Group President  
ShawCor Ltd.

### D.L. BROUSSARD

President  
Flexipe Systems

### J.D. TIKKANEN

Executive Vice President  
Strategic Planning  
ShawCor Ltd.

### J.D.B. GIBSON

Chief Executive Officer  
Socotherm

### J.L. BARKHOUSE

President  
Bredero Shaw

### T. ANDERSON

Senior Vice President, Americas  
Bredero Shaw

### K.D. REIZER

Senior Vice President  
Asia Pacific  
Bredero Shaw

### F. CISTRONE

Vice President and  
General Manager,  
Corporate HSE and Operations  
ShawCor Ltd.

### J.R. BRONSON

Vice President and  
General Manager  
Canusa-CPS

### R.J. DUNN

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.

### 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

### HEAD OFFICE

25 Bethridge Road  
Toronto, Ontario  
Canada M9W 1M7  
T: 416 743 7111  
F: 416 743 7199

### TRANSFER AGENT AND REGISTRAR

CST Trust Company  
P.O. Box 700, Station B  
Montreal, Quebec  
Canada H3B 3K3  
T: 800 387 0825  
416 682 3860  
F: 800 249 6189  
E-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

### AUDITORS

Ernst & Young LLP

### STOCK LISTING

The Toronto Stock Exchange  
Common Shares  
Trading Symbol: SCL

### ANNUAL MEETING

Thursday, May 1, 2014  
4:00 p.m.  
Glenn Gould Studio  
Toronto, Ontario  
Canada

[www.shawcor.com](http://www.shawcor.com)

# WHY SHAWCOR?

## STRONG INDUSTRY FUNDAMENTALS

Rising energy demand and depletion of existing reserves is driving unprecedented investment in new energy infrastructure.

## UNRIVALLED GLOBAL NETWORK

More than 75 manufacturing and service facilities in 18 countries give ShawCor unrivalled proximity to every major energy-producing region.

## TECHNOLOGICAL LEADERSHIP

Industry-leading research and product development capabilities are helping global clients overcome the technological barriers on new energy frontiers.

## SUPERIOR EXECUTION

The industry's most advanced management system helps us execute the most complex and demanding projects safely, on time and on budget.

## BROAD PRODUCT OFFERING

We provide a growing range of end-to-end product and service solutions in all major energy segments including deepwater, shale plays, LNG and pipeline rehabilitation.

## STRONG FOUNDATIONS

ShawCor's scale and financial strength give it unequalled capability to ensure supply for the world's largest energy infrastructure projects.

## PROVEN PERFORMANCE

In the past 20 years, ShawCor's common shares have delivered a total return to shareholders of 785 percent, equivalent to a compound annual return of 11.5 percent.