

# EVERYTHING'S ON THE LINE





## **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 divisions, with fixed and mobile manufacturing and services facilities located around the world employing over 6,000 people.

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On the cover: FlexFlow™, our new large diameter composite line pipe platform coming off the production line. Manufactured in our state-of-the-art facility in Calgary, Canada, FlexFlow line pipe is an expansion of our portfolio.

**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.

**2017 HIGHLIGHTS****Financial Summary**

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

	2017	2016
<b>Operating Results</b>		
Revenue	\$ 1,566,652	\$ 1,209,259
Adjusted EBITDA (Note 1)	226,184	56,452
Income (Loss) from Operations	128,256	(171,120)
Net Income (Loss) (Note 2)	\$ 71,307	\$ (180,960)
Earnings (Loss) per share – basic	\$ 1.02	\$ (2.80)
Earnings (Loss) per share – diluted	\$ 1.02	\$ (2.80)
<b>Cash Flow</b>		
Cash provided by operating activities	\$ 178,446	\$ 131,893
<b>Financial Position</b>		
Working capital	\$ 378,222	\$ 279,986
Total assets	\$ 1,698,201	\$ 1,777,791
Equity per share	\$ 14.94	\$ 14.92

Note 1: Adjusted EBITDA is a non-GAAP measure defined as EBITDA adjusted for non-operational items or items which do not impact day to day operations. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions and for comparing its operating performance with the performance of other companies that have different financing, capital or tax structures. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business or day-to-day operations. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools to evaluate financial performance and is a key metric in business valuations. It is also considered important by lenders to the Company and is included in the financial covenants of the Company's debt agreements.

Note 2: Attributable to shareholders' of the Company.

# EVERYTHING'S ON THE LINE

**SHAWCOR POSTED IMPROVED FINANCIAL RESULTS IN 2017, BUOYED BY THE EXECUTION OF A MAJOR PIPE COATING PROJECT, INCREASED DEMAND FOR THE EXPANDING PRODUCT AND SERVICE OFFERINGS OF OUR NORTH AMERICAN OILFIELD BUSINESSES, AND CONTINUED GROWTH IN OUR PETROCHEMICAL AND INDUSTRIAL SEGMENT.**

## FINANCIAL RESULTS

Revenue for the year reached \$1.57 billion, an increase of 30%, primarily the result of increased demand for our expanded portfolio in North America, the execution of the Sur de Texas – Tuxpan project, and continued strength in our Petrochemical and Industrial Segment. Adjusted EBITDA<sup>1</sup> increased sequentially in each quarter of 2017 to reach \$226 million for the year, compared to \$56 million in 2016, reflecting higher revenue and higher margins. Net earnings rebounded from a loss of (\$2.80) per share in 2016 to \$1.02 per share in 2017. We also continued to strengthen the balance sheet with cash and short-term investments increasing by 46% to \$289 million and total debt declining by 7% to \$258 million at year-end.

## RECENT DEVELOPMENTS

While these results are encouraging, we recognize that the global energy industry has yet to fully recover from a down-cycle that has been more severe and longer in duration than expected or forecasted. Fundamentals have shown improvement in 2017, but the performance of Shawcor's Pipeline and Pipe service businesses has and will continue to depend on three external growth drivers: North American drilling and completion activity, overall industry capital spending, and the securing and execution of large pipeline coating projects of more than \$100 million.

North American drilling and completion activity has strengthened from a low point in the second quarter of 2016, when just 457 rigs were operating in the United States and Canada. At the end of 2017, that figure had increased by more than 140% to 1,100 rigs and U.S. daily oil production rose above 10 million barrels in November 2017, returning to a level not seen since 1970<sup>2</sup>.

Today, there is a relative balance between commodity prices, hedging programs and access to capital as producers continue to reduce operating expenses and optimize output through the application of new technology. While the level of activity in the global energy industry

is subject to geopolitical considerations and the sanctioning of major capital investments, North America's unconventional operators benefit from reduced risk and shorter payback cycles. At the same time, the gap between WTI and Brent pricing has continued to close, reflecting the continuing growth of oil and gas exports from the U.S. to the rest of the world. This change has been driven not just by supply and demand dynamics but also by environmental and energy security considerations. In July 2017, for instance, Poland received its first shipment of LNG from American producers. These factors give us confidence that North American spending will continue to increase and that Shawcor will see growing demand for its products and services as wells are drilled and completed, and production is brought on line.

The overall level of industry capital spending on energy infrastructure is also vitally important to Shawcor as it directly affects the capacity utilization of our facilities and field assets. There has been a pronounced absence of greenfield projects being sanctioned since 2015 and this began to adversely affect Shawcor – a late cycle participant – beginning in 2016. What's more, overall capital expenditures worldwide have declined each year since 2014, although this trend will likely prove to have ended in 2017. Shawcor has been able to win its share of contracts over the past year in an improving energy price environment, but these have reflected the industry's recent focus on short-cycle returns and lower-risk capital investments such as tie-ins, brownfields and step-outs. Since the low point of Q2 2016, Shawcor has seen improvements in asset utilization as a direct result of increased overall industry capital spending and our success in winning work. These trends are expected to continue.

Shawcor has gained increasing visibility on projects that are not directly linked to oil and commodity prices – such as those driven by energy security, environmental considerations and regional independence. A resumption in the sanctioning of new greenfield projects by the major energy producers, however, depends not just on supportive energy prices, but the conviction that they are also sustainable. We have reason to believe this sea change is now slowly occurring, supported

1. Adjusted EBITDA is a non-GAAP measure and does not have standardized meanings under GAAP and is not necessarily comparable to similar measures provided by other companies. See Management's Discussion and Analysis Section 12.0 – Reconciliation of Non-GAAP Measures for further details and reconciliation of Adjusted EBITDA.  
2. EIA as reported by Bloomberg January 31, 2018.



“Throughout the energy industry’s down-cycle, Shawcor has continued to execute a strategy that leverages five growth platforms: Pipeline Performance, Integrity Management, Composite Production Systems, Oilfield Asset Management and Connection Systems.

**Steve Orr**  
Chief Executive Officer

by the need to address an historically unprecedented deficit in reserve replacement over the past few years and the apparent growth of the world’s economies. The industry’s leading exploration and drilling services companies also began to report a marked increase of activity in the second half of 2017. This development is a traditional bellwether for midstream infrastructure investment and a leading indicator of heightened activity for Shawcor. It also reinforces our belief that the projects we are tracking will move ahead.

### **FIVE STRONG PLATFORMS FOR GROWTH**

Throughout the energy industry’s down-cycle, Shawcor has continued to execute a strategy that leverages five growth platforms: Pipeline Performance, Integrity Management, Composite Production Systems, Oilfield Asset Management and Connection Systems. In each of these platforms, we have focused on strengthening and diversifying our product and service offering, creating complete value-added solutions for customers, maintaining brand awareness, growing market share, and leveraging our scale and global footprint.

In Pipeline Performance, our proprietary Thermotite® ULTRA™ flow-assurance system with deep water depth has now gained acceptance by customers beyond the Norwegian North Sea market. In 2017, we delivered ULTRA for a customer in offshore Australia from our facility in Malaysia and will be delivering ULTRA to a customer in Brazil from a newly commissioned facility in that country later this year. Shawcor’s commitment to leadership in this business could also be seen in the introduction of a proprietary internal flow-assurance coating system for offshore applications. These products exemplify Shawcor’s ongoing commitment to leadership in the development of advanced coating technologies as well as our ability to rapidly expand their application with customers around the world.

Consistent with our strategy of providing total value-added solutions to our customers, we have recently integrated Dhatec, a leader in pipe storage, preservation and transport, with Canusa-CPS, a leader in field joint protection, to create a best-in-class products business. We have

been careful to maintain the strength of both brands, while gaining efficiencies through the integration of back office support structure and distribution networks. At the same time, we are leveraging our well-established market channels to supply a broader product and service offering to our customers. Dhatec’s vital line pipe management solutions, for example, are now sold to customers on every continent.

We also continue to forge selective partnerships with other industry leaders to strengthen our product offering. In 2017, Canusa-CPS struck an exclusive distribution agreement with NRI, whose advanced Scar-Guard® and Sea-Guard® XL products fit perfectly within our line of field-applied pipeline coating solutions.

In Composite Production Systems, the acceptance and adoption of composite pipe over steel pipe for gathering lines continues. FlexFlow, our proprietary large diameter pipe platform, brings all the benefits of 100% metallic-free systems in an easy to handle discrete length or stick configuration. Driven by increasing produced water volumes, harsh corrosive environments and the high cost of trucking, our FlexFlow plant ramp up is under way with full confidence in the demand for these products. Our core offering of 2-inch, 3-inch and 4-inch spoolable composite products continues to gain traction outside of North America, with recent orders from customers in several Middle East countries following years of work to meet qualifications. As a result, we expect a rapid move to composites from steel in this market.

Our Integrity Management business is transforming daily as we build upon our core pipeline inspection business with complementary technology, expanding field services and enhanced data and domain capabilities. In 2018, we will bring to the market Real Time Radiography, large-diameter double-wall capabilities. This technology has already been contracted to a customer building a transmission pipeline in West Virginia and we expect it will prove to be an important differentiator for Shawcor in the growing transmission market. Shawcor Inspection Services (formally Desert NDT) now regularly deploys crawlers and advanced services such as corrosion mapping on pipeline integrity digs in addition to their core offering of conventional non-destructive testing (NDT).

“2018 promises to be a pivotal year for Shawcor as we set out to deliver profitability without a large pipe-coating project under contract. This is a testament to the growing diversity of Shawcor’s product and service portfolio and the strength of our brand.

Shawcor has also begun to benefit from a combination of domain knowledge and data capabilities that is helping to build recurring revenue streams. We recently reached a multi-year agreement to provide cathodic protection services for a large transmission operator in the Great Lakes region. Expected to generate in excess of \$6 million per year, the agreement involves yearly surveys to determine protection effectiveness and recommended remediation and repairs. The key to being selected for this work was Lake Superior Consulting’s domain knowledge expertise and a proven ability to accurately collect, host and serve data in Geographic Information System (GIS) format. We are now preparing to commercialize similar workflows for hydrostatic testing and wellhead integrity and expect that Shawcor’s integrity management offering will continue to gain traction in 2018.

Shawcor’s Oilfield Asset Management business, which provides inspection, repair and management of OCTG tubulars, has lagged the recovery of drilling operations in North America due to a heavy weighting in the relatively subdued Canadian market. During the past year, we continued to increase revenue derived from producers’ recurring operations with the introduction of sucker rods and lined tubing solutions that offer improved corrosion resistance and longer product life.

Shawcor’s Connection Systems growth platform is comprised of DSG Canusa and ShawFlex, whose products provide reliable power, control and instrumentation connectivity for automotive, transportation, utilities and oilfield applications. Growth trends in all of these sectors bode well for Shawcor, including the development and adoption of electric vehicles. We have created additional capacity at our facilities in Toronto, China and Germany over the past two years and plan to invest additional capital in 2018 to keep pace with strong and growing demand in this business.

## OUTLOOK

2018 promises to be a pivotal year for Shawcor as we set out to deliver profitability without a large pipe-coating project under contract. This is a testament to the growing diversity of Shawcor’s product and service portfolio and the strength of our brand. We expect to keep growing our businesses geographically. Meanwhile, we are well positioned to benefit from the pipe coating projects we are currently pursuing, with firm bid and budgetary figures remaining strong at more than \$800 million and \$1.6 billion, respectively. We continue to gain visibility on the progress of large projects and we expect to secure our share that will enable Shawcor to deliver superior results in 2019 and beyond.

Shawcor possesses a brand that is widely recognized for **Integrity**, as demonstrated by our quest for an injury-free workplace, outstanding product and service quality, and business ethics that are above reproach. It also stands for industry-leading **Technology** that addresses the most important challenges of our customers and for flawless **Execution** on behalf of the energy industry’s largest customers from more than 80 facilities around the world. We are proud to refer to these qualities as **The Shawcor Difference** and believe they will continue to set us apart in every economic environment.

In closing, I would like to extend my appreciation to all of our valued employees, customers, investors and other business partners for their support throughout the cycle, and for their continuing contributions to Shawcor’s future success. I would also like to thank the Shawcor Board of Directors, and in particular Paul Robinson, who retires as Chair on May 8, 2018, for their advice and guidance during what has been another successful year. With your continued support, I look forward to reporting on our progress in the year ahead.



**Steve Orr**  
Chief Executive Officer

# FINANCIAL REVIEW

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A"), IS A DISCUSSION OF THE CONSOLIDATED FINANCIAL POSITION AND RESULTS OF OPERATIONS OF SHAWCOR LTD. ("SHAWCOR" OR "THE COMPANY") FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 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 ("IASB"), WHICH ARE ALSO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FOR PUBLICLY ACCOUNTABLE ENTERPRISES IN CANADA. THIS MD&A CONTAINS FORWARD-LOOKING INFORMATION AND REFERENCE SHOULD BE MADE TO SECTION 13 HEREOF.

## 1.0 EXECUTIVE OVERVIEW

Shawcor is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates eight divisions with over eighty manufacturing 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, 2017, 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 88% of consolidated revenue for the year ended December 31, 2017. This segment includes the Bredero Shaw, Pipeline and Pipe Services Products, Flexpipe Systems, Guardian, Shaw Pipeline Services, Shawcor Inspection Services (formerly "Desert NDT") and Lake Superior Consulting divisions.

- Bredero Shaw's product offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.
- Pipeline and Pipe Services Products, which includes Canusa-CPS that manufactures heat shrinkable sleeves, adhesives, liquid coatings for pipeline joint protection applications; and Dhatec that designs and assembles engineered pipe logistics products and services.
- Flexpipe Systems manufactures spoolable and stick composite pipe systems and high density polyethylene ("HDPE") pipe 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.
- 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.
- Shawcor Inspection Services (formerly "Desert NDT") provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

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

The Petrochemical and Industrial segment, which consists of the Connection Systems division, accounted for 12% of consolidated revenue for the year ended December 31, 2017. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets. The Connection Systems division was formed from the 2015 integration of the DSG-Canusa and Shawflex divisions.

- Connection Systems is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.
- Connection Systems also manufactures 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 a market leader and technology innovator with a primary focus on the global pipeline industry and to use this base as a platform to build a global integrated energy services company while achieving the following key performance objectives:

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

### **1.3 Key Performance Drivers**

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

- demand for the Company's products and services that is primarily determined by investment in new energy infrastructure necessary to supply global energy needs;
- current and forecasted oil and gas commodity prices and availability of capital to enable customers to finance energy infrastructure investment;
- the Company's competitive position globally and its ability to maintain operations in each of the major oil and gas producing regions;

- the Company's technology and its ability to research and commercialize innovative products that provide added value to customers and provide competitive differentiation;
- the Company's operational effectiveness and its ability to maintain efficient utilization of productive capacity at each geographic location;
- access to capital and maintenance of sufficient available liquidity to support continuing operations and finance growth activities;
- the ability to identify and execute successful business acquisitions that result in strategic global growth; and
- the ability to attract and retain key personnel.

### **1.4 Key Performance Indicators**

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

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

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

As part of its performance objectives, the Company has set a goal for average annual net income growth of 15% over the full business cycle, as described in *Section 1.2 – Vision and Objectives*. Net income (attributable to shareholders of the Company) increased by \$252.3 million from a net loss of \$181.0 million for the year ended December 31, 2016 to a net income of \$71.3 million for the year ended December 31, 2017. This was mainly due to the \$299.4 million increase in operating income, partially offset by a \$19.2 million arbitration award recorded in 2016 and a \$2.8 million increase in income tax expense.

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

Return on Invested Capital ("ROIC"), a non-GAAP measure, is defined as net income for the year adjusted for after-tax interest expense divided by average invested capital for the most recently completed year. ROIC does not have a standardized meaning under GAAP and may not necessarily be comparable to similar titled measures used by other entities. ROIC is used by the Company to assess the efficiency of generating profits from each unit of invested capital. See *Section 12.0 – Reconciliation of Non-GAAP Measures*. 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, 2017 and 2016 was 6.5% and (11.8%), respectively. This increase was primarily due to an increase of \$249.6 million in net income for the most recent year, adjusted for after-tax interest expense.

#### ***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, 2017 and December 31, 2016, the Company had recordable injuries per million person hours worked of 4.5 and 4.5, respectively. During 2017, the Company completed 13 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 decreased by \$48.2 million from \$89.3 million for the year ended December 31, 2016 to \$41.1 million for the year ended December 31, 2017. 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 respond to market demand growth and to facilitate growth in new markets.

The Company expects the current level of net working capital will be sufficient to support the level of business activity projected in 2018; however, unexpected increases in business activity or specific project requirements may result in higher investment in working capital. 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 \$289.1 million and \$196.7 million as at December 31, 2017 and 2016, respectively, and had unutilized lines of credit available of \$389.1 million and \$399.2 million, as at December 31, 2017 and 2016, respectively.

As described in *Section 5.5 – Credit Facilities*, the Company negotiated amendments to the terms of its debt covenants with respect to its Credit Facility and Senior Notes in 2016, to ensure that it remained in compliance with the terms of these agreements in 2016 and for the first half of 2017. The term of its Credit Facility was extended to December 6, 2019.

Please refer to *Section 5.0 – 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, 2017, the Company believes it has sufficient human resources to continue to operate its businesses 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, 2017 included systems and controls over project bidding, capital expenditures, internal controls over financial reporting, product development, HSE management and human resource development. In addition, the Shawcor Management System 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, 2017, the Company believes it has sufficient systems and processes in place to continue to operate its businesses and execute its strategic plan.

## 2.0 FINANCIAL HIGHLIGHTS

### 2.1 Selected Financial Information

(in thousands of Canadian dollars, except per share amounts)	Year Ended December 31,		
	2017	2016	2015
<b>Revenue</b>	<b>\$ 1,566,652</b>	\$ 1,209,259	\$ 1,810,648
<b>Cost of Goods Sold and Services Rendered</b>	<b>980,919</b>	816,775	1,204,306
<b>Gross Profit</b>	<b>585,733</b>	392,484	606,342
Selling, general and administrative expenses	342,991	320,643	371,954
Research and development expenses	10,536	13,239	13,664
Foreign exchange gains	(249)	(1,386)	(7,868)
Amortization of property, plant and equipment	77,267	57,255	58,019
Amortization of intangible assets	19,170	23,035	21,368
Gain on sale of land	(311)	(6,493)	(814)
Impairment	8,073	157,311	590
<b>Income (Loss) from Operations</b>	<b>128,256</b>	(171,120)	149,429
Loss from investments in associates	(6,271)	(3,536)	(114)
Finance costs, net	(16,817)	(15,915)	(18,244)
Costs associated with repayment and modification of long-term debt	-	(3,009)	-
Gain from arbitration award	-	19,221	-
<b>Income (Loss) before Income Taxes</b>	<b>105,168</b>	(174,359)	131,071
Income taxes	33,988	6,207	31,551
<b>Net Income (Loss)</b>	<b>\$ 71,180</b>	\$ (180,566)	\$ 99,520
<b>Net Income (Loss) Attributable to:</b>			
Shareholders of the Company	71,307	(180,960)	98,244
Non-controlling interests	(127)	394	1,276
<b>Net Income (Loss)<sup>(a)</sup></b>	<b>71,180</b>	<b>(180,566)</b>	<b>99,520</b>
<b>Per Share Information:</b>			
<b>Earnings (Loss) per Share</b>			
Basic	\$ 1.02	\$ (2.80)	\$ 1.52
Diluted	\$ 1.02	\$ (2.80)	\$ 1.52
<b>Cash Dividend per Share:</b>			
Common Shares	\$ 0.600	\$ 0.600	\$ 0.600

(a) Please refer to Section 4.1 – Consolidated Information for further details on the variance to net income for 2017 compared to 2016. Please refer to the Company's 2016 MD&A for further details on the variance in net income for 2016 compared to 2015.

(in thousands of Canadian dollars)	December 31 2017	December 31 2016	December 31 2015
<b>Total Assets</b>	<b>\$ 1,698,201</b>	\$ 1,777,791	\$ 2,145,705
<b>Total Non-Current Liabilities</b>	<b>\$ 322,235</b>	\$ 339,298	\$ 579,839

## 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 the Canadian dollar, for the following periods:

	Year Ended December 31	
	2017	2016
US Dollar	1.2999	1.3284
Euro	1.4700	1.4633
British Pound	1.6829	1.7991

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

	Year Ended December 31, 2017	
(in thousands of Canadian dollars)		
Revenue	\$	(31,464)
Income from operations		(2,955)
Net income (attributable to shareholders of the Company)		(2,298)

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of \$0.2 million in 2017, compared to a foreign exchange gain of \$1.4 million 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

### Contract to Provide Pipe Coating Services for Thailand's Fifth Transmission Pipeline Project

On April 7, 2017, the Company announced that its pipe coating division had received a contract in excess of \$40 million from Marubeni-Itochu Tubulars Asia Pte Ltd, a 100% subsidiary of Marubeni-Itochu Steel Inc., to provide internal lining and three layer polyethylene anti-corrosion pipeline coatings for Thailand's Fifth Transmission Pipeline project.

This project is owned by PTT Public Company Limited, a Thai state enterprise company. The pipeline will run through 8 provinces in Thailand and is aimed at reducing risks to electrical power security and easing the delivery of gas from the LNG Terminal in Rayong, Thailand to the Western region.

This contract will be executed in Shawcor's coating facilities in Malaysia, commenced in the fourth quarter of 2017 and is expected to be completed by the fourth quarter of 2018.

### Contract to Provide Pipe Coating Services for an Offshore Qatar Pipeline Project

On February 22, 2018, the Company announced that its pipe coating division has received a conditional contract with a value in excess of C\$50 million from the EEW Group to provide anti-corrosion and concrete weight coatings in connection with the replacement and upgrading of an offshore pipeline located in Qatar.

The contract is expected to be finalized shortly, will be executed in Shawcor's coating facilities in Italy, and is expected to commence in Q3 2018 and to be completed by Q1 2020.

## 4.0 RESULTS FROM OPERATIONS

### 4.1 Consolidated Information

#### Revenue

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

	Year Ended December 31		
	2017	2016	Change
(in thousands of Canadian dollars)			
Pipeline and Pipe Services	\$ 1,373,709	\$ 1,023,312	\$ 350,397
Petrochemical and Industrial	194,207	187,418	6,789
Elimination	(1,264)	(1,471)	207
Consolidated	1,566,652	1,209,259	357,393

Consolidated revenue increased by \$357.4 million, or 30%, from \$1,209.3 million for the year ended December 31, 2016 to \$1,566.7 million for the year ended December 31, 2017, due to increases of \$350.4 million, or 34%, in the Pipeline and Pipe Services segment and \$6.8 million, or 4%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during 2017 was \$1,373.7 million, or \$350.4 million higher than in 2016, due to higher activity levels in Latin America, North America and Asia Pacific, partially offset by lower revenue in Europe, Middle East, Africa and Russia

("EMAR"). See Section 4.2.1 – Pipeline and Pipe Services Segment for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by \$6.8 million during 2017 compared to 2016, due to higher activity levels in EMAR and Asia Pacific regions, partially offset by lower revenue in North America. See Section 4.2.2 – Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

### **Income (Loss) from Operations ("Operating Income" or "Operating Loss")**

The following table sets forth operating income (loss) and operating margin for the following periods:

(in thousands of Canadian dollars)	2017	2016	Change
Operating income (loss)	\$ 128,256	\$ (171,120)	\$ 299,376
Operating margin <sup>(a)</sup>	8.2%	(14.2%)	22.4%

(a) Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 12.0 – Reconciliation of Non-GAAP Measures.

Operating income increased by \$299.4 million from the year ended December 31, 2016, to an operating income of \$128.3 million in 2017. Operating income was impacted by a year over year increase in gross profit of \$193.2 million, a decrease in research and development expenses of \$2.7 million and a reduction in impairment charges of \$149.2 million. This was partially offset by increases of \$22.3 million in selling, general and administrative ("SG&A") expenses and \$16.1 million in amortization of property, plant, equipment and intangible assets, a reduction in net foreign exchange gain of \$1.1 million and a \$6.2 million decrease in gain on sale of land.

The increase in gross profit resulted from the higher revenue, as explained above, and a 4.9 percentage point increase in gross margin. The increase in the gross margin was attributable to changes in product and project mix, labour efficiencies due to higher facility utilization and increased manufacturing overhead absorption compared to the prior year, particularly in the Pipeline and Pipe Services segment.

SG&A expenses increased by \$22.3 million in the year ended December 31, 2017 compared to 2016, primarily due to an increase of \$26.5 million in compensation expenses and other related personnel costs, including an increase in government mandated employee profit sharing on large project activity in Latin America, and a \$4.7 million reduction in provision for import duties recorded in the fourth quarter of 2016. This was partially offset by a \$5.5 million decrease in rental and building costs and a \$2.5 million reduction in legal provisions and professional fees.

### **Finance Costs, Net**

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

(in thousands of Canadian dollars)	2017	2016	Change
Interest income on short-term deposits	\$ (1,556)	\$ (3,108)	\$ 1,552
Interest expense, other	5,539	4,739	800
Interest expense on long-term debt	12,834	14,284	(1,450)
Finance costs, net	\$ 16,817	\$ 15,915	\$ 902

For the year ended December 31, 2017, net finance costs were \$16.8 million, compared to net finance costs of \$15.9 million for 2016. The increase in net finance costs was primarily a result of lower interest income on short-term deposits and higher interest expense on other

borrowings and accretion costs on decommissioning obligation. This was partially offset by lower interest expense on long-term debt due to lower debt balances as a result of the repayment of Senior Notes (see Section 5.6 – Long-Term Debt) in the prior year.

### **Income Taxes**

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

(in thousands of Canadian dollars)	2017	2016	Change
Income tax expense	\$ 33,988	\$ 6,207	\$ 27,781

The Company recorded an income tax expense of \$34.0 million (32% of income before income taxes) during the year ended December 31, 2017, compared to an income tax expense of \$6.2 million during the year ended December 31, 2016. The effective tax rate in 2017 was higher than the expected income tax rate of 27% primarily due to a large portion of the Company's taxable income being earned in higher tax jurisdictions and some losses in the quarter being generated in jurisdictions where the Company was unable to record a tax benefit.

On December 22, 2017, the United States (US) enacted the Tax Cuts and Jobs Act. While the changes are broad and complex, the most significant change to the Company is the reduction in the US corporate federal income tax rate from 35% to 21% for its US subsidiaries. The Company has recorded a net impact of \$0.8 million expense in its 2017 income tax provision related to the reduction in the US federal income tax rate. The impact reflects a \$25.7 million decrease to its US deferred tax assets, partially offset by a \$24.9 million decrease to its valuation allowance for certain US deferred tax assets existing at December 31, 2017. The Company has recognized these tax impacts and included these amounts in its consolidated financial statements for the year ended December 31, 2017.

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

Net income increased by \$252.3 million, from a net loss of \$181.0 million during the year ended December 31, 2016 to net income of \$71.3 million during the year ended December 31, 2017. This was mainly due to the \$299.4 million increase in operating income, as explained above, and a \$3.0 million cost associated with the repayment and modification

of long-term debt recorded in 2016. This was partially offset by a \$2.7 million higher loss from investments in associates, a \$0.9 million increase in finance costs, a \$27.8 million increase in income tax expenses and \$19.2 million arbitration award in favour of the Company recorded in the fourth quarter of 2016.

**4.2 Segment Information****4.2.1 Pipeline and Pipe Services Segment**

The following table sets forth the revenue by geographic location, operating income (loss) and operating margin for the Pipeline and Pipe Services segment for the year:

(in thousands of Canadian dollars, except operating margin)	2017	2016	Change
North America	\$ 621,646	\$ 491,567	\$ 130,079
Latin America	383,538	56,149	327,389
EMAR	203,465	365,291	(161,826)
Asia Pacific	165,060	110,305	54,755
<b>Total Revenue</b>	<b>\$ 1,373,709</b>	<b>\$ 1,023,312</b>	<b>\$ 350,397</b>
<b>Operating income (loss)</b>	<b>\$ 125,701</b>	<b>\$ (186,163)</b>	<b>\$ 311,864</b>
<b>Operating margin<sup>(a)</sup></b>	<b>9.2%</b>	<b>(18.2%)</b>	<b>27.4%</b>

(a) Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 12.0 – Reconciliation of Non-GAAP Measures.

Revenue in the Pipeline and Pipe Services segment for the year ended December 31, 2017 was \$1,373.7 million, an increase of \$350.4 million from \$1,023.3 million in the prior year. Segment revenue was impacted by higher activity levels in Latin America, North America and Asia Pacific, partially offset by lower volumes in EMAR and the impact on translation of foreign operations, as noted in Section 2.2 above:

- North America revenue increased by \$130.1 million, or 26%, primarily due to increases in volumes of flexible composite pipe, tubular management services in Canada, pipe weld inspection services revenue in the USA and higher activity levels for small pipe coatings in Canada and the USA. This was partially offset by lower activity levels in large diameter pipe coating in the USA and Canada.
- Revenue in Latin America was higher by \$327.4 million, or 583%, primarily as a result of higher activity levels in Altimira, Mexico for the Sur de Texas – Tuxpan project.
- In EMAR, revenue decreased by \$161.8 million, or 44%, primarily due to decreased pipe coating activity levels for the Shah Deniz project in the Caspian, lower activity levels at the Leith, Scotland, Ras Al

Khaimah, UAE ("RAK"), Orkanger, Norway and Italian facilities of the Company. This was partially offset by higher activity levels for field joint projects in the region.

- Revenue in Asia Pacific increased by \$54.8 million, or 50%, due to higher volumes from the Sur de Texas – Tuxpan, Woodside Greater Enfield and other projects at the Kuantan, Malaysia and Kabil, Indonesia facilities of the Company.

Operating income for the year ended December 31, 2017 was \$125.7 million compared to an operating loss of \$186.2 million for the prior year, an increase of \$311.9 million. The increase in operating income is primarily due to an increase in gross profit of \$189.1 million, driven by an increase in revenue of \$350.4 million, as explained above, and a 5.3 percentage point increase in gross margin. The increase in gross margin was due to favourable project mix, labour efficiencies due to higher facility utilization and increased manufacturing overhead absorption. In addition, \$149.2 million in higher impairment charges were recorded in 2016. This was partially offset by increases in SG&A expenses and amortization of property, plant and equipment, and lower gain on sale of land, as explained in Section 4.1 above.

**4.2.2 Petrochemical and Industrial Segment**

The following table sets forth the revenue by geographic location, operating income and operating margin for the Petrochemical and Industrial segment for the year:

(in thousands of Canadian dollars, except operating margin)	2017	2016	Change
North America	\$ 113,973	\$ 114,512	\$ (539)
EMAR	67,857	61,263	6,594
Asia Pacific	12,377	11,643	734
<b>Total Revenue</b>	<b>\$ 194,207</b>	<b>\$ 187,418</b>	<b>\$ 6,789</b>
<b>Operating income</b>	<b>\$ 31,825</b>	<b>\$ 29,987</b>	<b>\$ 1,838</b>
<b>Operating margin<sup>(a)</sup></b>	<b>16.4%</b>	<b>16.0%</b>	<b>0.4%</b>

(a) Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 12.0 – Reconciliation of Non-GAAP Measures.

Revenue increased in the year ended December 31, 2017 by \$6.8 million, or 4%, to \$194.2 million, compared to 2016, primarily due to increased heat shrink tubing product sales, particularly in the automotive sector in the EMAR region, partially offset by lower activity levels for wire and cable products in North America.

Operating income for the year ended December 31, 2017 was \$31.8 million compared to \$30.0 million in 2016, an increase of \$1.8 million, or 6%. The increase was primarily due to an increase in gross profit of \$4.2 million as a result of the increase in revenue, as explained above and 1.1 percentage point gain in gross margin. The increase in gross margin was primarily

due to product mix. This was partially offset by an increase in SG&A expenses, as explained in *Section 4.1* above.

#### 4.2.3 Financial and Corporate

Financial and corporate costs include corporate expenses not allocated to the operating segments and other non-operating items, including foreign exchange gains and losses on foreign currency denominated cash and working capital balances. The corporate division of the Company only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined under IFRS.

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

(in thousands of Canadian dollars)	2017	2016	Change
<b>Financial and corporate expenses</b>	<b>\$ (29,830)</b>	<b>\$ (22,823)</b>	<b>\$ (7,007)</b>

Financial and corporate costs increased by \$7.0 million from the year ended December 31, 2016 to \$29.8 million in 2017. The increase was primarily due to increases of \$8.0 million in compensation expenses

and other related personnel costs and \$1.9 million in restructuring costs. This was partially offset by a reduction in stock-based and long-term management incentive expenses of \$3.1 million.

## 5.0 LIQUIDITY AND CAPITALIZATION

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

(in thousands of Canadian dollars)	2017	2016
<b>Net Income (Loss)</b>	<b>\$ 71,180</b>	<b>\$ (180,566)</b>
Non-cash items	132,549	234,048
Settlement of decommissioning obligations	(765)	(292)
Settlement of other provisions	(3,791)	(16,288)
Net change in employee future benefits	3,152	56
Net change in non-cash working capital and foreign exchange	(23,879)	94,935
<b>Cash provided by operating activities</b>	<b>178,446</b>	<b>131,893</b>
<b>Cash used in investing activities</b>	<b>(31,958)</b>	<b>(111,360)</b>
<b>Cash used in financing activities</b>	<b>(44,960)</b>	<b>(72,556)</b>
<b>Foreign exchange impact on cash and cash equivalents</b>	<b>(7,287)</b>	<b>(13,798)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>94,241</b>	<b>(65,821)</b>
Cash and cash equivalents at beginning of Year	194,824	260,645
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 289,065</b>	<b>\$ 194,824</b>

The Company expects to generate sufficient cash flows and have continued access to its credit facilities to meet contractual obligations and planned development and growth initiatives as and when they are required. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in *Section 5.5*. The Company expects that working capital investment will be required to support revenue growth consistent with historical working capital measures as noted in *Section 5.4*. The Company typically utilizes its available cash balances and its committed credit facilities to fund working capital requirements.

### 5.1 Cash Provided by Operating Activities

Cash provided by operating activities was \$178.4 million in 2017, an increase of \$46.6 million compared to the prior year. The increase in cash provided by operating activities was primarily due to an increase in net income of \$251.7 million and lower settlements of other provisions of \$15.1 million, a decrease in cash provided by non-cash items of \$101.5 million and lower cash provided by non-cash working capital and foreign exchange of \$118.8 million. Net income increased due to

the reasons discussed in *Section 4.1* while the change in non-cash items was primarily driven by the higher impairment charges recorded in 2016.

The decrease in cash provided by non-cash working capital and foreign exchange reflected decreases of \$104.2 million in deferred revenue, \$73.9 million in accounts receivable and \$50.0 million in inventory. This was partially offset by increases of \$75.4 million in accounts payable and accrued liabilities, \$14.2 million in taxes receivable, \$13.8 million in other current liabilities, \$2.7 million in prepaid expenses and a change in the movement of foreign currency items of \$3.8 million.

### 5.2 Cash Used in Investing Activities

Cash used in investing activities was \$32.0 million, a decrease of \$79.4 million compared to the prior year. The decrease was primarily due to no business acquisition investments in 2017 compared to \$32.3 million in the prior year, a \$48.2 million decrease in the purchase of property, plant and equipment, a \$5.0 million decrease in loan receivable and a \$3.6 million decrease in other assets. This was partially offset by a decrease of \$10.4 million in proceeds on disposal of property, plant and equipment.

### 5.3 Cash Used in Financing Activities

Cash used in financing activities during 2017 was \$45.0 million, a decrease of \$27.6 million compared to the prior year. The change was primarily driven by the 2016 repayments of long-term debt of \$202.6 million, partially offset by lower net proceeds of \$166.8 million

from the issuance of common shares compared to 2016. In addition, there was a decrease of \$4.9 million in bank indebtedness and \$3.2 million increase in dividend payment in 2017 resulting from the increase from 2016 in the number of shares of the Company outstanding in 2017.

### 5.4 Liquidity and Capital Resource Measures

#### Accounts Receivables

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

(in thousands of Canadian dollars, except DSO)	2017	2016	Change
Average trade accounts receivable	\$ 208,104	\$ 182,331	\$ 25,773
DSO <sup>(a)</sup>	44	50	(6)

(a) The Company calculates DSO as the average number of days that trade accounts receivables-net (which excludes unbilled and other receivables) are outstanding based on a 90-day cycle. DSO is a non-GAAP measure and does not have a standardized meaning and the Company's method of calculating may differ from that used by other entities, and as a result may not necessarily be comparable to measures used by others. See Section 12.0 – Reconciliation of Non-GAAP Measures.

Average trade accounts receivables increased by \$25.8 million or 14% as at December 31, 2017 compared to December 31, 2016, due to an increase in revenue in the fourth quarter of 2017 compared with a year ago. DSO decreased by 6 days from 50 days during 2016 to 44 days during 2017, primarily due to the timing of sales and collection of receivables in 2017 compared to the prior year.

#### Inventory

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

(in thousands of Canadian dollars)	2017	2016	Change
Inventory	\$ 115,479	\$ 113,485	\$ 1,994

Inventories increased by \$2.0 million or 2% as at December 31, 2017 compared to December 31, 2016, due to a \$7.0 million increase in finished goods and a \$3.9 million reduction in inventory obsolescence provision. This was partially offset by a decrease of \$4.7 million in raw materials and supplies and a \$4.2 million decrease in work in progress inventory.

#### 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 December 31:

(in thousands of Canadian dollars, except DPO)	2017	2016	Change
Average accounts payable and accrued liabilities	\$ 203,497	\$ 205,602	\$ (2,105)
DPO <sup>(a)</sup>	69	84	(15)

(a) The Company calculates DPO as 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. DPO is a non-GAAP measure, and does not have a standardized meaning and the Company's method of calculating may differ from that used by other entities, and as a result may not necessarily be comparable to measures used by others. See Section 12.0 – Reconciliation of Non-GAAP Measures.

Average accounts payable and accrued liabilities decreased by \$2.1 million or 1% as at December 31, 2017 compared to December 31, 2016. DPO decreased by 15 days from 2016 levels, due to an increase in the cost of goods sold and changes in the timing of purchases in the fourth quarter of 2017 compared with the prior year.

### 5.5 Credit Facilities

(in thousands of Canadian dollars)	2017	2016
Bank indebtedness	\$ –	\$ 2,463
Standard letters of credit for performance, bid and surety bonds	71,175	90,898
Total utilized credit facilities	71,175	93,361
Total available credit facilities <sup>(a)</sup>	460,251	492,610
<b>Unutilized credit facilities</b>	<b>\$ 389,076</b>	<b>\$ 399,249</b>

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



On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility ("Credit Facility") for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by US\$100 million from US\$150 million to US\$250 million, with an option to increase the credit limit to US\$400 million with the consent of the lenders. On June 16, 2014, the option to increase the credit limit to US\$400 million was exercised with the consent of the lenders and a new option to increase the credit limit to US\$550 million with the consent of the lenders was added. The Company pays a floating interest rate on this Credit Facility that is a function of the Company's Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Allowable credit utilization outside of this facility is US\$50 million. During 2016, the Company and the lenders agreed to certain amendments to the Credit Facility. These amendments are described below in the section captioned "Amendments to Senior Notes Agreement and Credit Facility".

### Amendments to Senior Notes Agreement and Credit Facility

On May 10, 2016, the Company entered into amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Credit Facility. Subsequently, on December 6, 2016, the Company entered into further amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Credit Facility, with the latest principal amendments as follows:

- a) an extension of the term of the Credit Facility from March 20, 2018 to December 6, 2019 and a reduction in the size of the Credit Facility from US\$325 million to US\$317 million;
- b) the elimination of the requirement for the Company to meet a Total Debt to EBITDA covenant (the "Leverage Ratio") for the quarter ending December 31, 2016 ("Q4 2016");

- c) the creation of a minimum EBITDA covenant of Cdn\$15 million in respect of Q4 2016;
- d) an increase in the maximum Leverage Ratio to 3.50 to 1.00 and 3.25 to 1.00 for the quarters ending March 31, 2017 ("Q1 2017") and June 30, 2017 ("Q2 2017"), respectively; with EBITDA for Q1 2017 to be calculated by multiplying the EBITDA for such quarter by 4 and with EBITDA for Q2 2017 to be calculated by adding the EBITDA for Q1 2017 and the EBITDA for Q2 2017 and then multiplying such sum by 2;
- e) a decrease in the minimum Interest Coverage Ratio/Fixed Charge Ratio (currently 2.5 to 1.0) to 1.5 to 1.0 for Q4 2016;
- f) an amendment to the method of calculation of the Interest Coverage Ratio/Fixed Charge Ratio for Q1 2017 and Q2 2017 such that each of the components of such ratio (EBITDA, interest expense and rental payments) is calculated on a basis similar to the calculation of the Leverage Ratio for such quarters; and
- g) increased interest rates and standby and other fees payable to Senior Note holders and under the Credit Facility during Q4 2016 and in any period when the Company is permitted an increased Leverage Ratio.

Throughout 2017, the Company was in compliance with the requirements of the amended Senior Notes Agreement and Credit Facility, and beginning with the third quarter of 2017 returned to a Leverage Ratio that was in compliance with non-amended covenants.

For the fourth quarter of 2017, the Company was required to maintain an Interest Coverage Ratio of more than 2.50 to 1.00 and a Leverage Ratio of less than 3.00 to 1.00.

The Company was in compliance with the covenants as at December 31, 2017 and 2016.

## 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:

(in millions of Canadian dollars)	Due Date	Interest Rate	December 31 2017 (US\$)	December 31 2016 (US\$)	December 31 2017 (Cdn\$)	December 31 2016 (Cdn\$)
Senior Notes, Series A	March 31, 2020	2.98%	62	62	77	83
Senior Notes, Series B	March 31, 2023	3.67%	57	57	71	76
Senior Notes, Series C	March 31, 2025	3.82%	52	52	66	70
Senior Notes, Series D	March 31, 2028	4.07%	26	26	33	35
			197	197	247	264

### Repurchase of Senior Notes

In the second quarter of 2016, the Company utilized a portion of its existing cash balances to repurchase approximately US\$78 million of its Senior Notes at a purchase price of approximately US\$79 million (\$101.8 million at the then current exchange rate) plus accrued interest.

In the fourth quarter of 2016, the Company utilized a portion of its \$172.6 million public offering proceeds to repurchase US\$75 million of its Senior Notes at a purchase price of US\$75 million (\$100.7 million at the then current exchange rate) plus accrued interest.

The total long-term debt balance as at December 31, 2017 is \$246.2 million (US\$196.8 million) (2016 – \$263.5 million (US\$196.8 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 7 of the Consolidated Financial Statements.

In respect of the long-term debt, the Company is required to maintain certain covenants that are consistent with the debt covenants described in Section 5.5 above for the Credit Facility. The Company was in compliance with these covenants as at December 31, 2017 and December 31, 2016.

## 5.7 Use of Net Proceeds from Share Issuance in 2016

In December 2016, the Company completed a bought public offering of common shares. The following table highlights the use of the net proceeds from the share offering:

(in millions of Canadian dollars)	Planned	Actual
<b>Proceeds From Share Issuance</b>		
Gross Proceeds from issuance of 4,575,000 common shares	150.1	150.1
Gross Proceeds from issuance of over-allotment of 686,250 common shares	22.5	22.5
Commissions and share issuance costs	(7.3)	(7.3)
Net proceeds from December 2016 share issuance	165.3	165.3
<b>Use of Net Proceeds From Share Issuance</b>		
Repay outstanding revolving debt	100.7	100.7
Investments in working capital and general corporate purposes	64.6	64.6
	165.3	165.3

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

(in thousands of Canadian dollars)	2018 \$	2019 \$	2020 \$	2021 \$	2022 \$	Thereafter \$	Total \$
Purchase commitments	61,084	-	-	-	-	-	61,084
Accounts payable	72,466	-	-	-	-	-	72,466
Deferred purchase consideration	3,914	-	-	-	-	-	3,914
Long-term debt	-	-	77,093	-	-	169,822	246,915
Finance costs on long-term debt	8,760	8,760	7,034	6,463	6,463	13,324	50,804
Obligations under finance lease	1,729	1,420	1,397	1,375	1,375	8,367	15,663
Operating lease commitments	23,877	15,118	12,680	8,893	7,357	10,351	78,276
	<b>171,830</b>	<b>25,298</b>	<b>98,204</b>	<b>16,731</b>	<b>15,195</b>	<b>201,864</b>	<b>529,122</b>

### Commitments and Contingencies

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

The following table sets forth the Company's future minimum finance lease payments as at December 31:

(in thousands of Canadian dollars)	2017
Total future minimum lease payments	\$ 15,663
Less: imputed interest	(3,712)
Balance of obligations under finance leases	11,951
Less: current portion	1,111
Non – current obligations under finance leases	\$ 10,840

### 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.

In the fourth quarter of 2016, the Company recorded a gain of \$19.2 million resulting from an arbitration award in favour of the Company.

### Performance, Bid and Surety Bonds

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

The Company utilizes its credit facilities to support its bonds. The Company has utilized total credit facilities of \$71.2 million as at December 31, 2017 (2016 – \$90.9 million for support of its bonds). In addition, as at December 31, 2017, the Company had \$48.4 million of outstanding surety bonds through insurance companies (2016 – \$107.2 million).

## 5.9 Financial Instruments and Other Instruments

### Fair Value

IFRS 13, *Fair Value Measurement* provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those that reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the 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 of financial assets and liabilities in the fair value hierarchy as at December 31, 2017:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 289,065	\$ 289,065	\$ -	\$ -
Loans receivable	4,731	-	4,731	-
Derivative financial instruments	382	-	382	-
Convertible preferred shares	10,000	-	-	10,000
Deposit guarantee	109	-	109	-
	\$ 304,287	\$ 289,065	\$ 5,222	\$ 10,000
<b>Liabilities</b>				
Deferred purchase consideration	\$ 3,914	\$ -	\$ 3,914	\$ -
Long-term debt	232,389	-	232,389	-
Derivative financial instruments	1,915	-	1,915	-
	\$ 238,218	\$ -	\$ 238,218	\$ -

The derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates of the underlying contract (contracted rate for a forward contract or an exercise price for an option) to the year-end rates quoted in the market.

### Financial Risk Management

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

### Market Risk

#### Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are denominated 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 amounts are translated into Canadian dollars.

As at December 31, 2017, 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 \$57.1 million, \$6.6 million and \$3.8 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$65.8 million, \$14.3 million and \$51.5 million, respectively.

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

#### Foreign Exchange Forward Contracts

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

The following table sets out the notional amounts outstanding under foreign exchange forward contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2017:

(in thousands, except weighted average rate amounts)

Canadian Dollars Sold for US Dollars		
Less than one year		Cdn\$ 4,483
Weighted average rate		0.78
US Dollars Sold for Euros		
Less than one year		US\$ 34,656
Weighted average rate		0.83
Australian Dollars Sold for US Dollars		
Less than one year		AUD 1,627
Weighted average rate		0.80
Norwegian Kroner Sold for US Dollars		
Less than one year		NOK 35,336
Weighted average rate		0.11
Euros Sold for US Dollars		
Less than one year		€ 19,141
Weighted average rate		1.15

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

As at December 31, 2017, the Company had notional amounts of \$83.8 million of foreign exchange forward contracts outstanding (2016 – \$113.7 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling \$1.5 million (2016 – \$1.1 million net gain).

#### Net Investment Hedge

The US dollar denominated long-term debt has been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the US dollar as its functional currency. During the year ended December 31, 2017, a gain of \$17.4 million (2016 – gain of \$18.5 million) on the translation of the long-term debt was transferred to other comprehensive (loss) income to offset the loss on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2017.

#### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2017:

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial Assets</b>				
Cash equivalents	\$ –	\$ –	\$ 41,929	\$ 41,929
Loans receivable	56	4,675	–	4,731
Convertible preferred shares	10,000	–	–	10,000
	\$ 10,056	\$ 4,675	\$ 41,929	\$ 56,660
<b>Financial Liabilities</b>				
Standard letters of credit for performance, bid and surety bonds	\$ 71,175	\$ –	\$ –	\$ 71,175
Long-term debt	–	–	246,175	246,175
	\$ 71,175	\$ –	\$ 246,175	\$ 317,350

The Company's interest rate risk arises primarily from its floating rate credit facility and the long-term debt and is not currently considered to be material.

#### Credit Risk

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

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company is subject to considerable concentration of credit risk since the majority of its customers operate within the global energy industry and are therefore affected to a large extent by

the same macroeconomic conditions and risks. The Company manages this credit risk by assessing the creditworthiness of all counterparties, taking into account their financial position, past experience and other factors. Management also establishes and regularly reviews credit limits of counterparties and monitors utilization of those credit limits on an ongoing basis.

For the year ended December 31, 2017, there was one customer in the Pipeline and Pipe Services Segment who generated approximately 22% of total consolidated revenue (2016 – one customer generated approximately 13% of total consolidated revenue). As at December 31, 2017, no customer accounted for more than 10% of the Company's total trade accounts receivable.

The carrying value of accounts receivable is reduced through the use of an allowance for doubtful accounts, and the amount of the loss is recognized in the consolidated statements of income (loss) 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, 2017, \$8.1 million, or 5%, of trade accounts receivable was more than 90 days overdue, compared to \$11.6 million, or 7%, as at December 31, 2016. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired.

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

(in thousands of Canadian dollars)	2017	2016
<b>Balance – Beginning of Year</b>	\$ (4,865)	\$ (5,004)
Bad debt expense	(910)	(1,317)
Recovery of amounts previously provided for	2,015	265
Bad debts written off	519	1,014
Impact of change in foreign exchange rates	432	177
<b>Balance – End of Year</b>	\$ (2,809)	\$ (4,865)

### 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, 2017, the Company had cash and cash equivalents totalling \$289.1 million (2016 – \$194.8 million) and had unutilized lines of credit available to use of \$389.1 million (2016 – \$399.2 million).

### 5.10 Outstanding Share Capital

As at February 27, 2018, the Company had 70,043,628 common shares outstanding. In addition, as at February 27, 2018, the Company had stock options and share units outstanding to purchase up to 2,091,685 common shares.

### 5.11 Transactions with Related Parties

The Company had no material transactions with related parties in the year ended December 31, 2017. All related party transactions were in the normal course of business.

## 6.0 QUARTERLY SELECTED FINANCIAL INFORMATION

The following tables set forth the Company's summary of selected financial information for the four quarters of 2017 and 2016:

(in thousands of Canadian dollars, except per share amounts)	Q1-2017	Q2-2017	Q3-2017	Q4-2017
<b>Operating Results</b>				
Revenue	\$ 359,732	\$ 383,782	\$ 397,078	\$ 426,060
Income from operations	25,810	28,234	40,311	33,901
Net income <sup>(a)</sup>	15,132	16,064	20,462	19,649
<b>Earnings per share</b>				
Basic	\$ 0.22	\$ 0.23	\$ 0.29	\$ 0.28
Diluted	0.22	0.23	0.29	0.28

(a) Attributable to shareholders of the Company.

(in thousands of Canadian dollars, except per share amounts)	Q1-2016	Q2-2016	Q3-2016	Q4-2016
<b>Operating Results</b>				
Revenue	\$ 365,579	\$ 255,359	\$ 259,139	\$ 329,182
Income (loss) from operations	15,950	(40,792)	(167,975)	21,697
Net income (loss) <sup>(a)</sup>	7,461	(41,678)	(174,019)	27,276
<b>Earnings (Loss) per share</b>				
Basic	\$ 0.12	\$ (0.65)	\$ (2.69)	\$ 0.42
Diluted	0.12	(0.65)	(2.69)	0.42

(a) Attributable to shareholders of the Company.

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 88% of the Company's consolidated revenue in 2017, 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 80% of the Company's revenue in 2017 was transacted in currencies other than Canadian dollars, with a majority transacted in US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of revenue when it is translated into Canadian dollars. Please refer to *Section 2.2 – Foreign Exchange Impact*, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.

## 6.1 Fourth Quarter Highlights

Highlights of the Company's 2017 fourth quarter include:

### Fourth Quarter 2017 versus Third Quarter 2017

- **Revenue:** Consolidated revenue increased 7%, or \$29.0 million, from \$397.1 million during the third quarter of 2017 to \$426.1 million during the fourth quarter of 2017, due to an increase of \$33.8 million in the Pipeline and Pipe Services segment, partially offset by a decrease of \$5.0 million in the Petrochemical and Industrial segment.

Revenue increased by 10% in the Pipeline and Pipe Services segment, or \$33.8 million, from \$348.0 million in the third quarter of 2017 to \$381.8 million in the fourth quarter of 2017, due to higher activity levels in all regions and:

- North America revenue increased by \$4.1 million, or 3%, as a result of higher activity levels for flexible composite pipe and small diameter pipe coatings in the USA and Canada, partially offset by lower revenue for large diameter pipe coatings.
- In Latin America, revenue increased by \$6.0 million, or 5%, primarily as a result of higher activity levels in Altamira, Mexico for the Sur de Texas – Tuxpan project and higher revenue at the Company's Argentina facilities.
- EMAR revenue was higher by \$16.0 million, or 42%, primarily due to higher activity levels from the Orkanger, Norway and Italian facilities of the Company and pipe weld inspection services in the region. This was partially offset by lower activity levels at the Leith, Scotland facility and in field joint projects in the region.
- Asia Pacific revenue increased by \$7.7 million, or 28%, mainly due to higher pipe coating project volumes at the Kabil, Indonesia and Kuantan, Malaysia facilities of the Company.

In the Petrochemical and Industrial segment, revenue was lower by \$5.0 million, or 10%, in the fourth quarter of 2017, compared to the third quarter of 2017, primarily due to lower shipments of wire and cable products in North America and slightly lower shipments of heat shrink tubing product, particularly in the automotive sector in North America.

- **Operating Income:** Operating income decreased by \$6.4 million, from \$40.3 million in the third quarter of 2017 to \$33.9 million during the fourth quarter of 2017. Operating income was impacted by an increase of \$8.4 million in SG&A expenses, an \$8.1 million impairment charge recorded in the fourth quarter of 2017 and a \$2.1 million decrease in net foreign exchange gains. This was partially offset by an increase in gross profit of \$10.5 million, a \$0.7 million decrease in research and development expenses and a \$0.9 million reduction in amortization of property, plant, equipment and intangible assets.

The increase in gross profit resulted from the higher revenue, as explained above, partially offset by a 0.1 percentage point decrease in the gross margin from the third quarter of 2017. The decrease in the gross margin percentage was primarily due to product and project mix, partially offset by labour cost efficiencies due to higher facility utilization and increased absorption of manufacturing overheads.

SG&A expenses in the fourth quarter of 2017 increased by \$8.4 million, primarily due to increases of \$2.2 million in compensation expenses and other related personnel costs, \$5.5 million in restructuring costs, \$1.1 million in legal provisions and professional fees and \$1.9 million in losses from disposal of fixed assets. This was partially offset by a \$2.2 million decrease in decommissioning obligation expenses and other costs.

- **Finance costs:** In the fourth quarter of 2017, net finance costs were \$3.6 million, compared to net finance costs of \$2.8 million during the third quarter of 2017. The increase in net finance costs was primarily a result of higher interest expense on other borrowings and accretion costs on decommissioning obligations.
- **Income taxes:** The Company recorded an income tax expense of \$10.1 million (34% of income before income taxes) in the fourth quarter of 2017, compared to an income tax expense of \$14.5 million (42% of income before income taxes) in the third quarter of 2017. The effective tax rate in the fourth quarter of 2017 was higher than the expected income tax rate of 27% primarily due to a large portion of the Company's taxable income being earned in higher tax jurisdictions and some losses in the quarter being generated in jurisdictions where the Company was unable to record a tax benefit. In addition, the US Tax Cuts and Jobs Act resulted in additional tax expense of \$0.8 million in the fourth quarter of 2017. Refer to *Section 4.0* for further details.
- **Net Income:** Net income decreased by \$0.8 million, from \$20.5 million during the third quarter of 2017 to \$19.6 million during the fourth quarter of 2017. This was mainly due to the \$6.4 million decrease in operating income, as explained above, and higher net finance costs of \$0.7 million, partially offset by a \$2.2 million lower loss from investments in associates and a \$4.4 million decrease in income tax expense.

### Fourth Quarter 2017 versus Fourth Quarter 2016

- **Revenue:** Consolidated revenue increased by \$96.9 million, or 29%, from \$329.2 million during the fourth quarter of 2016, to \$426.1 million during the fourth quarter of 2017, due to increases of \$95.6 million in the Pipeline and Pipe Services segment and \$1.0 million in the Petrochemical and Industrial segments.

In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2017 was \$381.8 million, or 33% higher than in the fourth quarter of 2016, due to increased activity levels in North America and Latin America, partially offset by lower activity levels in EMAR and Asia Pacific:

- North America revenue increased by \$16.4 million, or 11%, primarily due to higher flexible composite pipe sales, an increase in tubular management services and higher activity levels in small diameter pipe coating in the USA and Canada. This was partially offset by decreased activity levels in pipe weld inspection services and large diameter pipe coatings in the USA.
- In Latin America, revenue increased by \$119.2 million, primarily as a result of higher activity levels in Altamira, Mexico for the Sur de Texas – Tuxpan project and also positively impacted by higher revenue at the Company's Argentina facilities.
- Revenue in EMAR decreased by \$27.5 million, or 34%, primarily due to lower activity levels on the Shah Deniz project in the Caspian and at the Leith, Scotland, RAK and Orkanger, Norway facilities of the Company.
- Asia Pacific revenue decreased by \$12.5 million, or 26%, mainly due to lower pipe coating project volumes from the Sur de Texas – Tuxpan and Shah Deniz projects at the Kabil, Indonesia facility. This was partially offset by increased volumes at the Kuantan, Malaysia facility.

In the Petrochemical and Industrial segment, revenue increased by \$1.0 million, or 2%, during the fourth quarter of 2017, compared to the fourth quarter of 2016. Revenue was impacted by higher shipments of heat shrink tubing product, particularly in the automotive sector, partially offset by lower activity levels for wire and cable products in North America.

- **Operating Income:** Operating income increased by \$12.2 million, from \$21.7 million during the fourth quarter of 2016 to \$33.9 million in the fourth quarter of 2017. Operating income was positively impacted by an increase in gross profit of \$53.6 million and a \$0.3 million decrease in research and development expenses. This was partially offset by increases of \$21.6 million in SG&A expenses, \$5.9 million in amortization of property, plant, equipment and intangible assets and an \$8.1 million impairment charge recorded in the fourth quarter of 2017. Foreign exchange gains were lower by \$0.5 million and a \$5.6 million gain on sale of land was recorded in the fourth quarter of 2016.

The increase in gross profit resulted from the higher revenue, as explained above, and a 5.1 percentage point increase in gross margin. The increase in the gross margin percentage was primarily attributable to a \$4.8 million reduction in the carrying value of inventory recorded in the fourth quarter of 2016, product and project mix, labour efficiencies due to higher facility utilization and increased absorption of manufacturing overheads.

SG&A expenses increased by \$21.6 million, from \$71.8 million in the fourth quarter of 2016 to \$93.4 million in the fourth quarter of 2017, primarily due to increases of \$7.6 million in compensation expenses and other related personnel costs, including an increase in government mandated employee profit sharing on large project activity in Latin America, \$7.1 million in restructuring costs and \$2.5 million in losses from disposal of fixed assets and a \$4.7 million reduction in provision for import duties recorded in the fourth quarter of 2016.

- **Finance costs:** In the fourth quarter of 2017, net finance costs were \$3.6 million, compared to net finance costs of \$2.9 million during the fourth quarter of 2016. The increase in net finance costs was primarily a result of lower interest income on short-term deposits. This was partially offset by lower interest costs on long-term debt due to lower debt balances and interest rates.
- **Income taxes:** The Company recorded an income tax expense of \$10.1 million (34% of income before income taxes) in the fourth quarter of 2017, compared to an income tax expense of \$7.0 million (20% of income before income taxes) in the fourth quarter of 2016. The effective tax rate in the fourth quarter of 2017 was higher than the expected income tax rate of 27% primarily due to a large portion of the Company's taxable income being earned in higher tax jurisdictions and some losses in the quarter being generated in jurisdictions where the Company was unable to record a tax benefit. In addition, the US Tax Cuts and Jobs Act resulted in additional tax expense of \$0.8 million in the fourth quarter of 2017. Refer to *Section 4.0* for further details.
- **Net Income:** Net income decreased by \$7.6 million, from \$27.3 million during the fourth quarter of 2016 to \$19.6 million during the fourth quarter of 2017. This was mainly due to the \$19.2 million arbitration award in favour of the Company recorded in the fourth quarter of 2016 and higher finance costs in the fourth quarter of 2017 of \$0.7 million. This was partially offset by the \$12.2 million increase in operating income, as explained above, a \$1.4 million lower loss from investments in associates and a \$0.9 million cost associated with the repayment and modification of long-term debt recorded in the fourth quarter of 2016.

## 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 ("ICFR"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as at December 31, 2017. Furthermore, they have concluded that the Company's ICFR was effective as at December 31, 2017. There were no changes in the Company's ICFR during 2017 that had or are reasonably likely to have a material impact on the Company's ICFR.

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

### 8.1 Critical Judgments

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

#### *Materiality*

Assessments about whether line items are sufficiently material to warrant separate presentation in the primary financial statements or in the financial statement notes.

#### *Determination of Reportable Operating Segments*

Management has exercised judgment in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Management has also exercised professional judgment in determining that the Company's Chief Executive Officer ("CEO") is the Company's Chief Operating Decision Maker ("CODM"). Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM is responsible for allocating resources and assessing the performance of the operating segments.

#### *Determination of Cash-generating Units ("CGUs")*

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

#### *Business Acquisitions*

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

**Provisions and Contingent Liabilities**

As at December 31, 2017, the Company had \$63.9 million of provisions; of this amount \$27.4 million was included in current liabilities and \$36.6 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

**Decommissioning Liabilities**

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

**Income Taxes**

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

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

**8.2 Critical Accounting Estimates**

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

Critical estimates used in preparing the consolidated financial statements include:

**Long-lived Assets and Goodwill**

As at December 31, 2017, the Company had \$912.0 million of long-lived assets and goodwill. The Company evaluates the recoverable amounts of its CGUs with 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 recoverable amounts of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, at each reporting date. Further, at each reporting date, the Company evaluates whether there are indicators of impairment or reversal of impairment for long-lived assets or groups of long-lived assets. If indicators are noted, the Company evaluates the recoverable amount of the asset or CGU to which the asset belongs, to determine if an impairment charge or reversal of impairment is warranted. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use or fair value less costs of disposal calculations. Actual results could differ from these assumptions and estimates.

**Employee Future Benefit Obligations**

As at December 31, 2017, the Company had \$18.6 million of employee future benefit obligations. The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the defined benefit obligation recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, rates of employee compensation increases, rates of inflation, and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

**Decommissioning Liabilities**

As at December 31, 2017, the Company had decommissioning liabilities in the amount of \$29.2 million; of this amount \$5.3 million was included in the current provisions account and \$23.9 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

**Financial Instruments**

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



### **Income Taxes**

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

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

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

### **IFRS 2, Share-based Payment**

In June 2016, the IASB issued amendments to IFRS 2, Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company has adopted the new standard effective January 1, 2018. During 2017, the Company performed an impact assessment on the classification and measurement of the amendments and determined that there is no material impact of adopting this standard on the consolidated financial statements.

### **IFRS 9, Financial Instruments**

In July 2015, the IASB issued the final version of IFRS 9, *Financial Instruments*, which replaces all phases of the financial instruments project, IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has adopted the new standard effective January 1, 2018. During 2017, the Company performed an impact assessment of all aspects of IFRS 9 and determined that there is no material impact on its consolidated financial statements on adoption of this standard.

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

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more prescriptive approach to measuring and recognizing revenue. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has adopted the standard using the full retrospective method, effective January 1, 2018.

The Company has performed contract reviews in all divisions to identify the impact of the new standard and concluded that the sale of products will continue to be recognized at a point in time and rendering of services will be recognized over time. The Company has identified minor changes in how revenue is allocated to performance obligations and the resulting timing of revenue recognition from some contracts originating in the Pipeline and Pipe Services segment, primarily related to field joint contracts. Previously, tasks associated with customer contract requirements were recognized into revenue based on task completion outlined in contracts. Under the new standard, some of these tasks are not defined as distinct performance obligations but rather are recognized as part of the primary performance obligation. The Company also concluded that some costs incurred in those contracts meet the definition of costs to fulfill.

We have quantified the impact of the changes described above and the adoption of the standard is not expected to have a material impact on the Company's 2016 and 2017 net revenue or net income.

The adoption of the standard is not expected to have a material impact on the Company's consolidated balance sheets. The impact primarily relates to reclassifications among financial statement accounts to align with the new standard. Most notably, contracts in process for which the Company has rendered service in advance of billing will be presented as contract assets as opposed to unbilled revenue asset within accounts receivable, based on amounts unbilled. Additionally, capitalized costs to fulfill contracts will be included within contract assets. Advance payments and deferred revenue will be combined and presented as contract liabilities.

### **IFRIC 22, Foreign Currency Transactions and Advance Consideration**

IFRIC 22, *Foreign Currency Transactions and Advance Consideration* clarifies that the date of foreign currency transactions for purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for periods beginning on or after January 1, 2018 and may be applied either retrospectively or prospectively. The Company adopted this standard on January 1, 2018 and has determined that there is no material impact of adopting this standard on the consolidated financial statements.

**IFRS 16, Leases**

IFRS 16, issued by the IASB in January 2016, supersedes IAS 17, *Leases* (and related interpretations). The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that have also adopted IFRS 15, *Revenue from Contracts with Customers*. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant effect of the new requirements will be an increase in leased assets and financial liabilities. The Company is in the process of initiating data collection and will provide incremental disclosure leading up to its adoption of this standard in its interim and annual consolidated financial statements.

**Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**

In October 2017, the IASB issued Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). The amendments clarify that a company applies IFRS 9, *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are effective from January 1, 2019, with early application permitted. The Company has not yet determined the impact of this standard on the consolidated financial statements.

**IFRIC 23, Uncertainty over Income Tax Treatments**

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*, effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The Company has not yet determined the impact of adopting this standard on the consolidated financial statements.

**8.4 New Accounting Standards Adopted****IAS 12, Income Taxes**

On January 19, 2016, the IASB issued amendments to IAS 12, *Income Taxes*, relating to the recognition of deferred income tax assets for unrealized losses. The amendments were effective for annual periods beginning on or after January 1, 2017. The Company's adoption of these amendments did not have a material impact on the consolidated financial statements.

**9.0 OUTLOOK**

The Company believes that the decline in global oil and gas activity that followed the decrease in oil and gas prices in the second half of 2014 is past the low point and that the recovery in the market will continue through 2018. Shawcor's financial performance is closely correlated with oil and gas infrastructure spending and the resultant demand for the Company's products and services. The continued increase in market demand has enabled the Company to deliver quarter on quarter gains in both revenue and Adjusted EBITDA<sup>1</sup> throughout 2017. However, as no large project win was announced in the fourth quarter, it is likely that the Company will experience a significant decline in financial results in 2018 compared to 2017. Assuming there is no major pull back in current activity levels and commodity prices, the Company expects to deliver positive Adjusted EBITDA<sup>1</sup> results in the first quarter of 2018 similar to the level achieved in the fourth quarter of 2016 and to continue at that approximate rate for the remainder of 2018. The Company expects to deliver these solid results from steady activity in North America, continued improvements in asset utilization and the strength and diversification of the Company's projects and service offering, while at the same time rebuilding its backlog by securing work that it is currently pursuing.

The Company's performance continues to be primarily affected by three elements: North American land drilling and completion activity, overall industry capital spending and large projects.

Rig counts and associated completion activity in North American land have shown signs of stability in the current oil and gas price environment. In 2017, operators in North America continued to switch their focus away from solely production growth to a more balanced objective that considers financial returns and cash flow. This trend is expected to positively impact demand for the Company's products and services related to gathering line pipe systems and OCTG inspection and repair services. Additionally, with expected future increases in production fluid volumes, including water, investments will be required in new pipeline capacity and rehabilitation of aging infrastructure, which in turn will support increased demand for the Company's pipeline products and services.

As the global oil market continues to show signs of balance, there is increasing need to resume investments, both internationally and offshore, aimed at addressing reservoir depletion to meet the expected future global supply challenge. The Company is seeing further evidence of the increase in capital spending activity which is manifested in the number of projects being sanctioned and projects moving from budgetary estimates to firm bids. The number of Final Investment Decisions (FIDs) has also increased throughout 2017, particularly for projects with shorter investment return profiles that involve 'tie ins' to existing infrastructure. The Company's pipeline and products businesses are well positioned to capitalize on this trend through their global footprint, technology portfolio and execution history.

1. Adjusted EBITDA is a non-GAAP measure and does not have standardized meanings under GAAP and is not necessarily comparable to similar measures provided by other companies. See Section 12.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of Adjusted EBITDA.

The Company is gaining greater visibility on large projects (characterized as greater than \$100 million in revenue for the Company) with increasing likelihood that several will be sanctioned in 2018 for commencement beyond 2018. In many cases, these projects are not directly linked to oil and gas commodity prices as they also involve energy security or reservoir access considerations. These projects involve a high degree of execution risk driven by more complex scopes. As such, the Company expects to capture its share of these projects due to its global footprint, technological expertise, execution track record and strong balance sheet which together represent a compelling competitive advantage. At the close of the fourth quarter, the Company had several project bids outstanding that have revenue potential greater than \$100 million each. The tracking of such projects is captured in the Company's firm bids and budgetary estimates of approximately \$2.4 billion at December 31, 2017. Further detail on the outlook for the Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is set out below.

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

Market demand in Shawcor's North American Pipeline segment businesses is closely tied to well completion activity in North America which drives the demand for small diameter pipe coating and joint protection, composite pipe for gathering line applications, OCTG pipe inspection and refurbishment and gathering line girth weld inspection. In the North American Pipeline segment businesses, revenue levels were significantly higher than in 2016 and have shown sequential growth across all four quarters in 2017. With a stable rig count in both Canada and the US supported by the current oil and gas price environment, the Company expects demand levels to continue to increase throughout 2018. The Company's products and services are well positioned to support our customers in their return on investment and cash flow objectives.

The Company continues to have visibility on future projects related to the build out of existing infrastructure in offshore for infield pipelines and new infrastructure for both gathering and transmission lines for the onshore to support increasing production of shale oil and gas. The Company continues to be actively engaged in several large diameter onshore transmission line projects that have and are expected to see continued delays as a result of regulatory and legal challenges.

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

As expected, the Latin American Pipeline segment benefited from the solid execution of the concrete weight coating work in Altamira, Mexico related to the Sur de Texas – Tuxpan project. The project was substantially completed ahead of schedule and demonstrated the Company's execution strength. There is a small portion of load out work to be completed in 2018. Revenue for the Latin America segment is expected to move significantly lower in 2018 as a result of the completion of the Sur de Texas – Tuxpan project. However, the Company is pursuing some smaller projects in the region that may commence in the second half of 2018 if they are sanctioned and won.

#### ***Pipeline and Pipe Services Segment – Europe, Middle East, Africa and Russia ("EMAR")***

Shawcor's EMAR Pipeline segment region remains the region most negatively impacted by the continued deferral of capital spending on new pipeline infrastructure by national and international oil companies. However, the bid and budgetary activity continues to be very strong in this region with several smaller projects likely to be executed in 2018 related to girth weld inspection, pipeline joint protection and pipe end preservation on both the Turk Stream and Nord Stream 2 pipelines, and several other projects that may be awarded in 2018 and beyond.

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

The activity of the Company's Asia Pacific region in the quarter continued to be low as the flow assurance work for the Shah Deniz project and the anti-corrosion coating for pipe destined for Mexico for the Sur de Texas – Tuxpan project has been completed. The region's project activity over the near term will be limited largely to the PTT 5th Transmission pipeline project which commenced in the fourth quarter of 2017.

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

Shawcor's Petrochemical and Industrial segment businesses continue to deliver solid revenue and earnings based on stable demand in the global automotive market and European and North American industrial markets. These markets follow general GDP activity. Wire and cable shipments in the fourth quarter were buoyed by demand for highly engineered Nuclear EQ cable for use in nuclear refurbishment programs in Canada, along with several Light Rail Transit (LRT) projects which continue to increase in size and scope. The growth trend is expected to continue in 2018 with increased infrastructure spending and as new capacity for sealing and insulation products enters production and relieves capacity constraints.

#### ***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 of \$385 million at December 31, 2017 was lower than the \$482 million order backlog at September 30, 2017. The decrease reflects revenue generated in the quarter from backlog orders, including the accelerated execution of the Sur de Texas – Tuxpan project, partially offset by new orders and other project wins moving from bid into backlog.

In addition to the backlog, the bid and budgetary activity remain at healthy levels and represents a diverse portfolio of opportunities to sustain and build the backlog in 2018 and beyond. The Company closely monitors its bidding activity and the value of outstanding firm bids is currently in excess of \$800 million, an increase over the \$600 million reported in the third quarter of 2017. This increase was expected as a large project, in excess of \$100 million, moved from budgetary to firm bid during the fourth quarter. In addition, the Company is working with customers on a number of projects and has provided budgetary estimates in aggregate values of approximately \$1.6 billion. There are several large projects, over \$100 million, in both the bid and budgetary figures, where the award decisions are anticipated in the second half of 2018. Although the timing of these projects is uncertain, the Company expects to win its share of these awards based on its proven capabilities and geographic footprint to win and execute these types of projects and deliver superior results in 2019 and 2020, higher than 2017 levels.

## **10.0 RISKS AND UNCERTAINTIES**

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

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

### 10.1 Economic Risks

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

The Company's business is materially dependent on the level of global drilling activity, which, in turn depends on global oil and gas demand, prices and production depletion rates. Lower drilling activity decreases demand for the Company's products and services, including small diameter pipe coating, composite pipe, gathering line weld inspection and tubular inspection and inventory management services. These business activities represented approximately 24% of 2017 revenues.

**An economic downturn or a continued global decline in energy prices could materially 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 to an extent or for a duration which is unexpected, the Company's projections, business, results of operations and financial condition could be materially adversely affected. In addition, if actions by OPEC and other oil producers to increase production of oil adversely affect world oil prices or result in the maintenance of existing prices, additional declines in rig counts could result, and the Company's projections, business, results of operations and financial condition could be materially adversely affected. Similarly, demand for the products of the Petrochemical and Industrial segment's businesses is largely dependent on the level of general economic activity in North America and Europe. Decreases in economic activity in these regions could result in significant decreases in activity levels in these businesses.

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

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

Revenue generated by the Company's Pipeline and Pipe Services segment accounted for 88% of consolidated sales in 2017. With this proportion expected to continue, the Company's revenue is materially dependent on the global Pipeline and Pipe Services industry. Any significant declines in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

The Company purchases a broad range of materials and components throughout the world in connection with its manufacturing activities.

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

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

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

#### **Economic Risk Mitigation**

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

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

### 10.2 Litigation and Legal Risks

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

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

products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

***Litigation and Legal Risk Mitigation***

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

**10.3 HSE Risks**

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

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

of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

***HSE Risk Mitigation***

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

**10.4 Political and Regulatory Risks**

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

During 2017, the Company derived over 36% of its total revenue from its facilities outside Canada, the US and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

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

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

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

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

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

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

The Company is a Canadian-based company with significant operations in the United States. The Company also owns and operates international manufacturing operations that support its Canadian, US and European operations. If actions under Canadian, US, European or other trade or tax 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.

The Company has various facilities that export products to the United States and other countries. Any changes to trade or tax laws, including amendments to or the cancellation of the North American Free Trade Agreement, that negatively impact the competitiveness of the Company's exports or products could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**Political and Regulatory Risk Mitigation**

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

**11.0 ENVIRONMENTAL MATTERS**

As at December 31, 2017, the provisions on the annual consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$29.2 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$42 million as at December 31, 2017. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 18%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

The Company expects the following cash outflows over the next five years and thereafter for decommissioning liabilities:

	December 31, 2017
(in thousands of Canadian dollars)	
2018	\$ 5,302
2019	3,198
2020	5,433
2021	4,777
2022	489
More than five years	22,831
	<b>\$ 42,030</b>

**12.0 RECONCILIATION OF NON-GAAP MEASURES**

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

**EBITDA and Adjusted EBITDA**

EBITDA is a non-GAAP measure defined as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA is also a non-GAAP measure defined as EBITDA adjusted for non-operational items or items which do not impact day-to-day operations. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions and for comparing its operating performance with the performance of other companies that have different financing, capital or tax structures. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business or day to day operations. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools to evaluate financial performance and is a key metric in business valuations. It is also considered important by lenders to the Company and is included in the financial covenants of the Company's debt agreements.

(in thousands of Canadian dollars)	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
<b>Net Income (Loss)</b>	\$ 19,817	\$ 28,339	\$ 71,180	\$ (180,566)
<b>Add:</b>				
Income taxes	10,123	6,954	33,988	6,207
Finance costs, net	3,562	2,868	16,817	15,915
Amortization of property, plant, equipment and intangible assets	24,869	18,927	96,437	80,290
<b>EBITDA</b>	\$ 58,371	\$ 57,088	\$ 218,422	\$ (78,154)
Cost associated with repayment and modification of long-term debt	-	948	-	3,009
Gain from arbitration award	-	(19,221)	-	(19,221)
Impairment	8,073	-	8,073	157,311
Gain on sale of land	-	(5,562)	(311)	(6,493)
<b>ADJUSTED EBITDA</b>	\$ 66,444	\$ 33,253	\$ 226,184	\$ 56,452

### Operating Margin

Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. The Company believes that operating margin is a useful supplemental measure that provides meaningful assessment of the business performance of the Company and its Operating Segments. The Company uses this measure as a key indicator of financial performance, operating efficiency and cost control based on volume of business generated.

### Return on Invested Capital

ROIC, a non-GAAP measure, is defined as net income adjusted for after tax interest expense divided by average invested capital over the year. Average invested capital is calculated as the average over the year of bank indebtedness, long-term debt and equity and is used by the Company to assess the efficiency of generating profits from each unit of invested capital, independent of the Company's financing choice. Investors use this measure to evaluate how well the Company is using its invested capital to generate returns and for comparing its long-term return performance to the performance of other companies.

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

(in thousands of Canadian dollars, except percentages)	2017	2016
Net income (loss)	\$ 71,307	\$ (180,960)
Add: After-tax interest expense	13,321	15,973
Net income (loss) adjusted for after-tax interest expense	\$ 84,628	\$ (164,987)
Average invested capital	\$ 1,301,563	\$ 1,397,722
<b>ROIC</b>	<b>6.5%</b>	<b>(11.8%)</b>

### Days Sales Outstanding ("DSO")

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

the Company recognizes revenue until the cash is collected from the customer. This measure is important in assessing the Company's ability to generate cash from its outstanding trade accounts receivable. The Company monitors this measure to manage cash flow from its operations. The following table sets forth the calculation for the Company's DSO as at:

(in thousands of Canadian dollars, except DSO)	2017	2016
Revenue for the fourth quarter	\$ 426,060	\$ 329,182
Average trade accounts receivable	\$ 208,104	\$ 182,331
<b>DSO</b>	<b>44</b>	<b>50</b>

### Days Payables Outstanding ("DPO")

DPO is defined as the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle and is calculated by dividing the average accounts payable and accrued liabilities for the quarter by the cost of goods sold for that same quarter, and multiplying by 90 days. DPO approximates average payment terms granted by the

Company's suppliers, and an increase in DPO is generally considered an improvement in the management of accounts payable and accrued liabilities. This measure is important in assessing the Company's ability to ensure optimal cash flow management while meeting its financial obligations in a timely manner. The Company monitors this measure to manage cash flows from its operations. The following table sets forth the calculation for the Company's DPO as at:

(in thousands of Canadian dollars, except DPO)	2017	2016
Cost of goods sold for the fourth quarter	\$ 264,774	\$ 221,480
Average accounts payable and accrued liabilities	\$ 203,497	\$ 205,602
<b>DPO</b>	<b>69</b>	<b>84</b>

**Working Capital Ratio**

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

(in thousands of Canadian dollars, except ratios)	2017	2016
Current assets	\$ 709,204	\$ 675,439
Current liabilities	\$ 330,982	\$ 395,453
<b>Working capital ratio</b>	<b>2.14</b>	<b>1.71</b>

**13.0 FORWARD-LOOKING INFORMATION**

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward-looking information" and "forward-looking statements" (collectively "forward-looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward-looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward-looking information in the Outlook section and elsewhere in respect of, among other things, the achievement of key performance objectives, the timing of major project activity, the expected decline in consolidated revenues and earnings in 2018 from 2017 and the expected improvement in financial results in 2019 and 2020, the growth in revenue and earnings in the Petrochemical and Industrial segment of the Company's business, the increase in demand in the North American Pipeline and Pipe Services segment of the Company's business, the decline in revenues in the Latin American Pipeline and Pipe Services segment of the Company's business, the impact of the existing order backlog and other factors on the Company's revenue and operating income, including the award of contracts on outstanding bids, and in the longer term, the impact of global economic activity on the demand for the Company's products, the impact of the recovery in global oil and gas commodity prices on the level of industry investment in oil and gas infrastructure, the impact of changing energy demand, supply and prices and the impact of investments in pipeline capacity and infrastructure rehabilitation on the Company's business.

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

economic activity and changes in energy supply and demand, which with other factors, impact on the level of global pipeline infrastructure construction; exposure to product and other liability claims; shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; fluctuations in foreign exchange rates, as well as other risks and uncertainties, as more fully described under the heading "Risks and Uncertainties" and in the Company's Annual Information Form under the heading "Risk Factors."

These statements of forward-looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of global oil and gas prices, increases in expenditures on natural gas infrastructures, modest global economic growth, increased investment in new pipeline capacity and in the rehabilitation of aging infrastructure, increase in capital expenditures in the oil and gas industry, stable demand in the global automotive market and in the European and North American industrial markets as such apply to the Company's Petrochemical and Industrial business segment, the Company's ability to execute projects under contract and to secure significant additional contracts and the impact thereof in 2018 and subsequent years, the continued supply of and stable pricing for commodities used by the Company, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions and the ability of the Company to satisfy all covenants under its Credit Facilities and the Senior Notes. The Company believes that the expectations reflected in the forward-looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward-looking information included in this document and the Company can give no assurance that such expectations will be achieved.

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



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

#### **14.0 ADDITIONAL INFORMATION**

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

March 1, 2018

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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



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



**Gaston A. Tano**  
Senior Vice-President, Finance and Chief Financial Officer

March 1, 2018

# INDEPENDENT AUDITORS' REPORT

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## TO THE SHAREHOLDERS OF SHAWCOR LTD.

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We have audited the accompanying consolidated financial statements of Shawcor Ltd., which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

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

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

### Auditors' responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shawcor Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Ernst + Young LLP*

Chartered Professional Accountants

Licensed Public Accountants

Toronto, Canada

March 1, 2018

**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

For the years ended December 31:

(in thousands of Canadian dollars, except per share amounts)

	2017	2016
<b>Revenue</b>		
Sale of products	\$ 509,491	\$ 373,128
Rendering of services	1,057,161	836,131
	<b>1,566,652</b>	<b>1,209,259</b>
<b>Cost of Goods Sold and Services Rendered</b>	<b>980,919</b>	<b>816,775</b>
<b>Gross Profit</b>	<b>585,733</b>	<b>392,484</b>
Selling, general and administrative expenses	342,991	320,643
Research and development expenses	10,536	13,239
Foreign exchange gains	(249)	(1,386)
Amortization of property, plant and equipment (note 20)	77,267	57,255
Amortization of intangible assets (note 21)	19,170	23,035
Gain on sale of land	(311)	(6,493)
Impairment (note 25)	8,073	157,311
<b>Income (Loss) from Operations</b>	<b>128,256</b>	<b>(171,120)</b>
Loss from investments in associates	(6,271)	(3,536)
Finance costs, net (note 10)	(16,817)	(15,915)
Cost associated with repayment and modification of long-term debt (note 29)	-	(3,009)
Gain from arbitration award (note 31)	-	19,221
<b>Income (Loss) before Income Taxes</b>	<b>105,168</b>	<b>(174,359)</b>
Income taxes (note 11)	33,988	6,207
<b>Net Income (Loss)</b>	<b>\$ 71,180</b>	<b>\$ (180,566)</b>
<b>Net Income (Loss) Attributable to:</b>		
Shareholders of the Company	\$ 71,307	\$ (180,960)
Non-controlling interests	(127)	394
<b>Net Income (Loss)</b>	<b>\$ 71,180</b>	<b>\$ (180,566)</b>
<b>Earnings (Loss) per Share</b> (note 12)		
Basic	\$ 1.02	\$ (2.80)
Diluted	\$ 1.02	\$ (2.80)
<b>Weighted Average Number of Shares Outstanding (000s)</b> (note 12)		
Basic	69,926	64,719
Diluted	70,102	64,719

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	2017	2016
<b>Net Income (Loss)</b>	<b>\$ 71,180</b>	<b>\$ (180,566)</b>
<b>Other Comprehensive Loss</b>		
<b>Other Comprehensive Loss to be Reclassified to Net Income (Loss) in Subsequent Periods</b>		
Exchange differences on translation of foreign operations	(33,446)	(40,970)
Other comprehensive loss attributable to investments in associates	(280)	(593)
Cash flow hedge gains	-	3,011
<b>Net Other Comprehensive Loss to be Reclassified to Net Income (Loss) in Subsequent Periods</b>	<b>(33,726)</b>	<b>(38,552)</b>
<b>Other Comprehensive Income not to be Reclassified to Net Income (Loss) in Subsequent Periods</b>		
Actuarial gains on defined benefit plans (note 15)	692	2,844
Income tax expense (note 11)	(168)	(752)
<b>Net Other Comprehensive Income not to be Reclassified to Net Income (Loss) in Subsequent Periods</b>	<b>524</b>	<b>2,092</b>
<b>Other Comprehensive Loss, Net of Income Taxes</b>	<b>(33,202)</b>	<b>(36,460)</b>
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 37,978</b>	<b>\$ (217,026)</b>
<b>Comprehensive Income (Loss) Attributable to:</b>		
Shareholders of the Company	\$ 38,022	\$ (215,463)
Non-controlling interests	(44)	(1,563)
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 37,978</b>	<b>\$ (217,026)</b>

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

## CONSOLIDATED BALANCE SHEETS

As at December 31:

(in thousands of Canadian dollars)

	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 16)	\$ 289,065	\$ 194,824
Short-term investments	–	1,890
Loans receivable (note 17)	2,448	3,832
Accounts receivable (note 18)	259,694	294,397
Income taxes receivable	20,205	35,141
Inventory (note 19)	115,479	113,485
Prepaid expenses	21,931	22,477
Derivative financial instruments (note 7)	382	9,393
	<b>709,204</b>	<b>675,439</b>
<b>Non-current Assets</b>		
Loans receivable (note 17)	2,283	5,058
Property, plant and equipment (notes 20 and 25)	417,781	471,468
Intangible assets (notes 21 and 25)	164,872	192,907
Investments in associates (note 23)	20,188	26,739
Deferred income tax assets (note 11)	33,876	28,955
Other assets (note 24)	20,606	26,407
Goodwill (notes 22 and 25)	329,391	350,818
	<b>988,997</b>	<b>1,102,352</b>
<b>Total Assets</b>	<b>\$ 1,698,201</b>	<b>\$ 1,777,791</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 29)	\$ –	\$ 2,463
Accounts payable and accrued liabilities (note 26)	201,017	212,539
Provisions (note 27)	27,361	21,104
Income taxes payable	42,904	39,011
Derivative financial instruments (note 7)	1,915	3,759
Deferred revenue	44,826	103,584
Obligations under finance lease (note 31)	1,111	950
Other liabilities (note 28)	11,848	12,043
	<b>330,982</b>	<b>395,453</b>
<b>Non-current Liabilities</b>		
Long-term debt (note 30)	246,175	263,528
Obligations under finance lease (note 31)	10,840	11,019
Provisions (note 27)	36,555	35,304
Employee future benefits (note 15)	18,552	20,727
Deferred income tax liabilities (note 11)	6,448	7,484
Other liabilities (note 28)	3,665	1,236
	<b>322,235</b>	<b>339,298</b>
<b>Total Liabilities</b>	<b>653,217</b>	<b>734,751</b>
<b>Equity</b>		
Share capital (note 32)	704,956	703,316
Contributed surplus	27,651	23,379
Retained earnings	302,406	273,045
Non-controlling interests	5,848	5,892
Accumulated other comprehensive income	4,123	37,408
<b>Total Equity</b>	<b>1,044,984</b>	<b>1,043,040</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,698,201</b>	<b>\$ 1,777,791</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: (in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Non-controlling Interests	Accumulated Other Comprehensive Income	Total Equity
<b>Balance – December 31, 2015</b>	534,484	18,638	492,713	7,455	71,911	1,125,201
Net (loss) income	-	-	(180,960)	394	-	(180,566)
Other comprehensive loss	-	-	-	(1,957)	(34,503)	(36,460)
Comprehensive loss	-	-	(180,960)	(1,563)	(34,503)	(217,026)
Issued through public offering (net of commissions and share issuance costs of \$7.3 million) (note 32)	165,295	-	-	-	-	165,295
Issued on exercise of stock options	2,311	-	-	-	-	2,311
Compensation cost on exercised stock options	764	(764)	-	-	-	-
Compensation cost on exercised restricted share units	462	(462)	-	-	-	-
Stock-based compensation expense	-	5,967	-	-	-	5,967
Dividends declared and paid to shareholders (note 32)	-	-	(38,708)	-	-	(38,708)
<b>Balance – December 31, 2016</b>	\$ 703,316	\$ 23,379	\$ 273,045	\$ 5,892	\$ 37,408	\$ 1,043,040
Net income (loss)	-	-	71,307	(127)	-	71,180
Other comprehensive income (loss)	-	-	-	83	(33,285)	(33,202)
Comprehensive income (loss)	-	-	71,307	(44)	(33,285)	37,978
Issued on exercise of stock options	761	-	-	-	-	761
Compensation cost on exercised stock options	278	(278)	-	-	-	-
Compensation cost on exercised restricted share units	601	(601)	-	-	-	-
Stock-based compensation expense	-	5,151	-	-	-	5,151
Dividends declared and paid to shareholders (note 32)	-	-	(41,946)	-	-	(41,946)
<b>Balance – December 31, 2017</b>	\$ 704,956	\$ 27,651	\$ 302,406	\$ 5,848	\$ 4,123	\$ 1,044,984

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)

	2017	2016
<b>Operating Activities</b>		
Net income (loss) for the year	\$ 71,180	\$ (180,566)
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment (note 20)	77,267	57,255
Amortization of intangible assets (note 21)	19,170	23,035
Amortization of long-term prepaid expenses	1,179	467
Impairment (note 25)	8,073	157,311
Decommissioning liabilities expense (note 27)	(746)	(2,875)
Other provisions expense (note 27)	12,644	9,711
Share-based and other incentive-based compensation (note 14)	7,969	8,548
Deferred income taxes (note 11)	(6,107)	(16,396)
(Gain) loss on disposal of property, plant and equipment	(27)	719
Gain on sale of land	(311)	(6,493)
Unrealized loss (income) on derivative financial instruments	7,167	(81)
Loss from investments in associates (note 23)	6,271	3,536
Other	-	(689)
Settlement of decommissioning liabilities (note 27)	(765)	(292)
Settlement of other provisions (note 27)	(3,791)	(16,288)
Net change in employee future benefits (note 15)	3,152	56
Change in non-cash working capital and foreign exchange	(23,879)	94,935
<b>Cash Provided by Operating Activities</b>	<b>178,446</b>	<b>131,893</b>
<b>Investing Activities</b>		
Decrease (increase) in loans receivable	3,766	(1,205)
Decrease in short-term investments (net)	1,890	1,064
Purchases of property, plant and equipment	(41,068)	(89,252)
Proceeds on disposal of property, plant and equipment	4,361	14,784
Purchase of intangible assets	(71)	-
Increase in other assets	(836)	(4,420)
Business acquisitions, net of cash acquired (note 5)	-	(32,331)
<b>Cash Used in Investing Activities</b>	<b>(31,958)</b>	<b>(111,360)</b>
<b>Financing Activities</b>		
(Decrease) increase in bank indebtedness (note 29)	(2,463)	2,463
Decrease in loans payable (note 30)	-	(520)
Repayment of long-term debt	-	(202,568)
Payment of obligations under finance lease (note 31)	(1,090)	(829)
Other liabilities – non-current	(222)	-
Issuance of shares (net of commissions and share issuance costs) (note 32)	761	167,606
Dividends paid to shareholders (note 32)	(41,946)	(38,708)
<b>Cash Used in Financing Activities</b>	<b>(44,960)</b>	<b>(72,556)</b>
<b>Effect of Foreign Exchange on Cash and Cash Equivalents</b>	<b>(7,287)</b>	<b>(13,798)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents for the Year</b>	<b>94,241</b>	<b>(65,821)</b>
<b>Cash and Cash Equivalents – Beginning of Year</b>	<b>194,824</b>	<b>260,645</b>
<b>Cash and Cash Equivalents – End of Year</b>	<b>\$ 289,065</b>	<b>\$ 194,824</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 15,826	\$ 17,688
Interest received	\$ 1,326	\$ 780
Income taxes paid	\$ 39,072	\$ 26,112

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	PAGE	DESCRIPTION
<b>General Application</b>		
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2. Summary of Significant Accounting Policies	40	Summary of accounting policies and principles and the methods used in their application
3. Accounting Standards Issued but Not Yet Applied	48	Summary of developments in generally accepted accounting principles that will or may affect the Company
4. New Accounting Standards Adopted	50	Summary of recently adopted generally accepted accounting principles
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7. Financial Instruments	51	Summary of financial instruments, including fair values and the management of associated risks
<b>Consolidated Results of Operations Focused</b>		
8. Segment Information	54	Summary disclosure of segmented information regularly reported to the chief operating decision maker
9. Employee Benefits Expense	56	Summary of employee benefits expense
10. Finance Costs	56	Summary of items comprising finance costs
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	PAGE	DESCRIPTION
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## NOTE 1. BASIS OF FINANCIAL STATEMENT PREPARATION

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

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at December 31, 2017.

### Basis of Presentation and Consolidation

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

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

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

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

The results of the subsidiaries acquired during the year are included in the consolidated financial statements from the date of the acquisition. Adjustments are made, where necessary, to the financial statements of the subsidiaries and joint arrangements and associates to ensure consistency with those policies adopted by the Company. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2017 were authorized for issue by the Company's Board of Directors (the "Board") on March 1, 2018.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Critical Judgments in Applying Accounting Policies

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

#### Materiality

Assessments about whether line items are sufficiently material to warrant separate presentation in the primary financial statements or in the financial statement notes.

### ***Determination of Reportable Operating Segments***

Management has exercised judgment in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Management has also exercised professional judgment in determining that the Company's Chief Executive Officer ("CEO") is the Company's Chief Operating Decision Maker ("CODM"). Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM is responsible for allocating resources and assessing the performance of the operating segments.

### ***Determination of Cash-generating Units ("CGUs")***

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

### ***Business Acquisitions***

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

### ***Provisions and Contingent Liabilities***

Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

### ***Decommissioning Liabilities***

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

### ***Income Taxes***

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

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

## **b) Use of Estimates**

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

Critical estimates used in preparing the consolidated financial statements include:

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

The Company evaluates the recoverable amounts of its CGUs with 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 recoverable amounts of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, at each reporting date. Further, at each reporting date, the Company evaluates whether there are indicators of impairment or reversal of impairment for long-lived assets or groups of long-lived assets. If indicators are noted, the Company evaluates the recoverable amount of the asset or CGU to which the asset belongs, to determine if an impairment charge or reversal of impairment is warranted. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use or fair value less costs of disposal calculations. Actual results could differ from these assumptions and estimates.

**Employee Future Benefit Obligations**

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

**Decommissioning Liabilities**

Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

**Financial Instruments**

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

**Income Taxes**

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

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

**c) Business Combinations**

Business combinations are accounted for using the acquisition method of accounting. 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 (loss) in the period in which they are incurred.

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

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

**d) Foreign Currency Translation****Functional and Presentation Currency**

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

**Foreign Currency Transactions**

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

**Translation of Foreign Operations**

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

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

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

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

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

## **e) Financial Instruments**

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

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

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

Financial assets are recognized initially at fair value.

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

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

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

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

Balance Sheet Item	Designation
Cash and Cash equivalents	Fair value through profit or loss
Short-term investments	Held-to-maturity
Accounts receivable	Loans and receivables
Loans receivable	Loans and receivables
Convertible preferred shares	Available-for-sale
Derivative financial instruments	Fair value through profit or loss
Bank indebtedness	Loans and borrowings
Accounts payable	Loans and borrowings
Deferred purchase consideration	Fair value through profit or loss
Long-term debt	Loans and borrowings

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

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

### ***Fair Value***

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

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

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

### ***Derecognition***

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

#### **Impairment**

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

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 (loss).

#### **Transaction Costs**

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

#### **f) Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and net of taxes or duty. The Company has concluded that it is the principal in its revenue arrangements since it is the primary obligor, has pricing latitude and is exposed to inventory and credit risks.

#### **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. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

#### **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 and is recognized by reference to the stage of completion. Stage of completion is determined based on surveys of work performed as measured by units of production (for example: meters of pipe coated or hours of inspection or repair services provided) to date multiplied by contractually agreed upon rates.

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 contract milestones (such as the commencement of coating) or in accordance with predetermined payment schedules. Changes in the scope of work are not included in net revenue unless the changes are probable and can be reliably measured.

The Company records payments received in advance of revenue recognition from customers as deferred revenue, which are then recognized as revenue as products are delivered and as services are performed.

#### **g) 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.

#### **h) 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 project unit credit 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 OCI 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 (loss) as those services are provided.

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

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

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

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

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

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

For cash-settled awards, the fair value of the liability is recalculated at each consolidated balance sheet date until the awards are settled based on the estimated number of awards that are expected to vest, adjusting for 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 (loss). The fair value is recalculated using an option pricing model or other appropriate valuation technique.

### **j) Research and Development Costs**

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

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

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

### **k) Investments in Joint Ventures**

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

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

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

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

The Company had the following investments in joint ventures:

	Country of Incorporation	Activity	December 31 2017 Ownership Interest %	December 31 2016 Ownership Interest %
Hal Shaw Inc.	USA	Pipe coating	50	50
Shaw & Shaw Ltd.	Canada	Pipe coating	83	83

As of December 31, 2017, both joint ventures are inactive and do not generate income or expense.

**l) Investments in Associates**

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

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

A listing of all associates is presented in note 23.

**m) Income Taxes**

Income tax expense comprises current and deferred income taxes. Income taxes are recognized in the consolidated statements of income (loss), except to the extent that they relate to items recognized in OCI.

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 income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

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

**n) Earnings (Loss) Per Share (“EPS”)**

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

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

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

**o) Cash and Cash Equivalents**

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



## **p) Short-term Investments**

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

## **q) Trade and Other Receivables**

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

## **r) Inventory**

Inventory is measured at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis, except in certain project-based pipe coating businesses where the average cost basis is employed, and includes direct materials, direct labour and variable and fixed manufacturing overheads. Net realizable value for finished goods, work-in-process and raw materials inventory required for production is the estimated amount that would be realized on eventual sale of completed products, less the estimated costs necessary to complete the sale, while for excess raw materials it is the current market price. Ownership of inbound inventory is recognized at the time title passes to the Company.

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

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

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

Property, plant and equipment, other than land and project-related facilities and equipment, are amortized over their estimated useful lives commencing when the asset is available for use as follows:

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

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

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

## **t) Intangible Assets**

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

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

Intellectual property and intangible assets with limited lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is recorded on a straight-line basis over their estimated useful lives, which range from 2 years to 15 years. The amortization period and the amortization method are reviewed at least on an annual basis and adjusted prospectively if appropriate.

### ***Intangible Assets with Indefinite Lives***

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

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

**u) Impairment of Non-financial Assets**

Assets that have indefinite lives are not subject to amortization and are tested annually for impairment or when there is an indication that the asset may be impaired.

Assets that are subject to amortization are reviewed for impairment at the end of each reporting period or 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 of disposal and its value-in-use. For the purposes of assessing impairment, assets are grouped into CGUs at the lowest level for which there are separately identifiable independent cash inflows. Non-financial assets, other than goodwill, that experienced an impairment are reviewed for possible reversal of the impairment whenever reversal indicators exist.

**v) Goodwill**

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

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

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

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

**w) 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 (loss).

**x) 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 (loss) on a straight-line basis over the term of the lease.

**NOTE 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED****IFRS 2, Share-based Payment**

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company has adopted the new standard effective January 1, 2018. During 2017, the Company performed an impact assessment on the classification and measurement of the amendments and determined that there is no material impact of adopting this standard on the consolidated financial statements.

### **IFRS 9, *Financial Instruments***

In July 2015, the IASB issued the final version of IFRS 9, *Financial Instruments*, which replaces all phases of the financial instruments project, IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has adopted the new standard effective January 1, 2018. During 2017, the Company performed an impact assessment of all aspects of IFRS 9 and determined that there is no material impact on its consolidated financial statements on adoption of this standard.

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

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more prescriptive approach to measuring and recognizing revenue. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has adopted the standard using the full retrospective method, effective January 1, 2018.

The Company has performed contract reviews in all divisions to identify the impact of the new standard and concluded that the sale of products will continue to be recognized at a point in time and rendering of services will be recognized over time. The Company has identified minor changes in how revenue is allocated to performance obligations and the resulting timing of revenue recognition from some contracts originating in the Pipeline and Pipe Services segment, primarily related to field joint contracts. Previously, tasks associated with customer contract requirements were recognized into revenue based on task completion outlined in contracts. Under the new standard, some of these tasks are not defined as distinct performance obligations but rather are recognized as part of the primary performance obligation. The Company also concluded that some costs incurred in those contracts meet the definition of costs to fulfill.

We have quantified the impact of the changes described above and the adoption of the standard is not expected to have a material impact on the Company's 2016 and 2017 net revenue or net income.

The adoption of the standard is not expected to have a material impact on the Company's consolidated balance sheets. The impact primarily relates to reclassifications among financial statement accounts to align with the new standard. Most notably, contracts in process for which the Company has rendered service in advance of billing will be presented as contract assets as opposed to unbilled revenue asset within accounts receivable, based on amounts unbilled. Additionally, capitalized costs to fulfill contracts will be included within contract assets. Advance payments and deferred revenue will be combined and presented as contract liabilities.

### **IFRIC 22, *Foreign Currency Transactions and Advance Consideration***

IFRIC 22, *Foreign Currency Transactions and Advance Consideration* clarifies that the date of foreign currency transactions for purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for periods beginning on or after January 1, 2018 and may be applied either retrospectively or prospectively. The Company adopted this standard on January 1, 2018 and has determined that there is no material impact of adopting this standard on the consolidated financial statements.

### **IFRS 16, *Leases***

IFRS 16, issued by the IASB in January 2016, supersedes IAS 17, *Leases* (and related interpretations). The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that have also adopted IFRS 15, *Revenue from Contracts with Customers*. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant effect of the new requirements will be an increase in leased assets and financial liabilities. The Company is in the process of initiating data collection and will provide incremental disclosure leading up to its adoption of this standard in its interim and annual consolidated financial statements.

### **Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**

In October 2017, the IASB issued Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). The amendments clarify that a company applies IFRS 9, *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are effective from January 1, 2019, with early application permitted. The Company has not yet determined the impact of this standard on the consolidated financial statements.

**IFRIC 23, Uncertainty over Income Tax Treatments**

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*, effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The Company has not yet determined the impact of adopting this standard on the consolidated financial statements.

**NOTE 4. NEW ACCOUNTING STANDARDS ADOPTED****IAS 12, Income Taxes**

On January 19, 2016, the IASB issued amendments to IAS 12, *Income Taxes*, relating to the recognition of deferred income tax assets for unrealized losses. The amendments were effective for annual periods beginning on or after January 1, 2017. The Company's adoption of these amendments did not have a material impact on the consolidated financial statements.

**NOTE 5. ACQUISITION****Acquisition of Lake Superior Consulting, LLC**

On January 5, 2016, the Company completed the acquisition of Lake Superior Consulting, LLC ("Lake Superior") for approximately \$37.3 million (US\$26.9 million), excluding cash acquired of \$5.2 million (US\$3.7 million), and inclusive of an earn-out payment of \$7.2 million (US\$5.2 million) that was paid in the second quarter of 2016. Lake Superior is a Duluth, Minnesota based professional services firm, specializing in pipeline engineering and integrity management services to major pipeline operators. The business operates from facilities in Minnesota, Texas, Nebraska, Kansas and North Dakota, provides pipeline design, engineering, inspection and commissioning as well as integrity management services, and had 2015 revenue of approximately US\$45 million.

In the final purchase price equation, the approximate value of tangible assets acquired and liabilities assumed was \$16.9 million and \$5.0 million, respectively, and the approximate value of intangible assets acquired and related deferred income tax liabilities assumed was \$32.0 million and \$6.6 million, respectively.

**NOTE 6. CAPITAL MANAGEMENT**

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

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Bank indebtedness	\$ -	\$ 2,463
Long-term debt	246,175	263,528
Obligations under finance lease	11,951	11,969
Equity	1,044,984	1,043,040
	<b>\$ 1,303,110</b>	<b>\$ 1,321,000</b>

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may issue or re-acquire shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its credit facility and long-term debt agreements. Specifically, the Company has undertaken to maintain certain covenants in respect of its unsecured committed bank credit facility and its long-term debt. The Company is in compliance with these covenants as at December 31, 2017. Please refer to note 29 for further information pertaining to the Company's debt covenant requirements.

## NOTE 7. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
<b>Loans and Receivables, Measured at Amortized Cost</b>		
Loans receivable (note 17)	\$ 4,731	\$ 8,890
Trade accounts receivable, net (note 18)	179,105	169,116
<b>Held-to-maturity</b>		
Short-term investments	–	1,890
Deposit guarantee	109	112
<b>Fair Value Through Profit or Loss</b>		
Cash and cash equivalents	289,065	194,824
Derivative financial instruments – assets	382	9,393
Derivative financial instruments – liabilities	1,915	3,759
<b>Available-for-sale</b>		
Convertible preferred shares	10,000	10,000
<b>Other Financial Liabilities, Measured at Amortized Cost</b>		
Bank indebtedness	–	2,463
Accounts payable (note 26)	72,466	88,980
Deferred purchase consideration	3,914	3,684
Long-term debt (note 30)	246,175	263,528

### 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 that reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the 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 of financial assets and liabilities in the fair value hierarchy as at December 31, 2017:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 289,065	\$ 289,065	\$ –	\$ –
Loans receivable	4,731	–	4,731	–
Derivative financial instruments	382	–	382	–
Convertible preferred shares	10,000	–	–	10,000
Deposit guarantee	109	–	109	–
	\$ 304,287	\$ 289,065	\$ 5,222	\$ 10,000
<b>Liabilities</b>				
Deferred purchase consideration	\$ 3,914	\$ –	\$ 3,914	\$ –
Long-term debt	232,389	–	232,389	–
Derivative financial instruments	1,915	–	1,915	–
	\$ 238,218	\$ –	\$ 238,218	\$ –

The derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates of the underlying contract (contracted rate for a forward contract or an exercise price for an option) to the year-end rates quoted in the market.

### Financial Risk Management

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

**Market Risk***Foreign Exchange Risk*

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are denominated 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 amounts are translated into Canadian dollars. As at December 31, 2017, 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 \$57.1 million, \$6.6 million and \$3.8 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$65.8 million, \$14.3 million and \$51.5 million, respectively.

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

*Foreign Exchange Forward Contracts*

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

The following table sets out the notional amounts outstanding under foreign exchange forward contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2017:

(in thousands, except weighted average rate amounts)

Canadian Dollars Sold for US Dollars		
Less than one year		Cdn\$ 4,483
Weighted average rate		0.78
US Dollars Sold for Euros		
Less than one year		US\$ 34,656
Weighted average rate		0.83
Australian Dollars Sold for US Dollars		
Less than one year		AUD 1,627
Weighted average rate		0.80
Norwegian Kroner Sold for US Dollars		
Less than one year		NOK 35,336
Weighted average rate		0.11
Euros Sold for US Dollars		
Less than one year		€ 19,141
Weighted average rate		1.15

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

As at December 31, 2017, the Company had notional amounts of \$83.8 million of foreign exchange forward contracts outstanding (2016 – \$113.7 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling \$1.5 million (2016 – \$1.1 million net gain).

*Net Investment Hedge*

The US dollar denominated long-term debt has been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the US dollar as its functional currency. During the year ended December 31, 2017, a gain of \$17.4 million (2016 – gain of \$18.5 million) on the translation of the long-term debt was transferred to OCI to offset the loss on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2017.

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2017:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial Assets</b>				
Cash equivalents	\$ –	\$ –	\$ 41,929	\$ 41,929
Loans receivable	56	4,675	–	4,731
Convertible preferred shares	10,000	–	–	10,000
	\$ 10,056	\$ 4,675	\$ 41,929	\$ 56,660
<b>Financial Liabilities</b>				
Standard letters of credit for performance, bid and surety bonds	\$ 71,175	\$ –	\$ –	\$ 71,175
Long-term debt	–	–	246,175	246,175
	\$ 71,175	\$ –	\$ 246,175	\$ 317,350

The Company's interest rate risk arises primarily from its floating rate credit facility and the long-term debt and is not currently considered to be material.

### Credit Risk

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

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

For the year ended December 31, 2017, there was one customer in the Pipeline and Pipe Services Segment who generated approximately 22% of total consolidated revenue (2016 – one customer generated approximately 13% of total consolidated revenue). As at December 31, 2017, no customer accounted for more than 10% of the Company's total trade accounts receivable.

The carrying value of accounts receivable is reduced through the use of an allowance for doubtful accounts, and the amount of the loss is recognized in the consolidated statements of income (loss) 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, 2017, \$8.1 million, or 5%, of trade accounts receivable was more than 90 days overdue, compared to \$11.6 million, or 7%, as at December 31, 2016. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired.

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

(in thousands of Canadian dollars)	2017	2016
<b>Balance – Beginning of Year</b>	\$ (4,865)	\$ (5,004)
Bad debts expense	(910)	(1,317)
Recovery of amounts previously provided for	2,015	265
Bad debts written off	519	1,014
Impact of change in foreign exchange rates	432	177
<b>Balance – End of Year</b>	\$ (2,809)	\$ (4,865)

### 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, 2017, the Company had cash and cash equivalents totalling \$289.1 million (2016 – \$194.8 million) and had unutilized lines of credit available to use of \$389.1 million (2016 – \$399.2 million).

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2017:

(in thousands of Canadian dollars)	2018 \$	2019 \$	2020 \$	2021 \$	2022 \$	Thereafter \$	Total \$
Purchase commitments	61,084	–	–	–	–	–	61,084
Accounts payable	72,466	–	–	–	–	–	72,466
Deferred purchase consideration	3,914	–	–	–	–	–	3,914
Long-term debt	–	–	77,093	–	–	169,822	246,915
Finance costs on long-term debt	8,760	8,760	7,034	6,463	6,463	13,324	50,804
Obligations under finance lease	1,729	1,420	1,397	1,375	1,375	8,367	15,663
Operating lease commitments	23,877	15,118	12,680	8,893	7,357	10,351	78,276
	171,830	25,298	98,204	16,731	15,195	201,864	529,122

## NOTE 8. SEGMENT INFORMATION

The CODM assesses segment performance based on segment operating income or loss, which is measured differently than income from operations in the consolidated financial statements. Income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at December 31, 2017, the Company had two reportable operating segments: Pipeline and Pipe Services and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices. The aggregation of the reportable segments is based on the customers and markets that the Company services.

### Pipeline and Pipe Services

The Pipeline and Pipe Services segment comprises the following divisions:

- Bredero Shaw, which offers specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines;
- Pipeline and Pipe Services Products, which includes Canusa-CPS that manufactures heat shrinkable sleeves, adhesives, liquid coatings for pipeline joint protection applications; and Dhatec that designs and assembles engineered pipe logistics products and services;
- Shaw Pipeline Services, which provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines;
- Flexpipe Systems, which manufactures spoolable and stick composite pipe systems and high density polyethylene ("HDPE") pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities;
- Guardian, which 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;
- Shawcor Inspection Services, which provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services; and
- Lake Superior Consulting, which provides pipeline engineering and integrity management services to major North American pipeline operators.

### Petrochemical and Industrial

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

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

### Financial and Corporate

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



## Segment

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

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$
Revenue										
External	1,373,416	1,022,845	193,236	186,414	-	-	-	-	1,566,652	1,209,259
Inter-segment	293	467	971	1,004	-	-	(1,264)	(1,471)	-	-
<b>Total Revenue</b>	<b>1,373,709</b>	<b>1,023,312</b>	<b>194,207</b>	<b>187,418</b>	<b>-</b>	<b>-</b>	<b>(1,264)</b>	<b>(1,471)</b>	<b>1,566,652</b>	<b>1,209,259</b>
Operating expense	1,140,123	971,721	158,211	153,479	26,591	12,303	(1,264)	(1,471)	1,323,661	1,136,032
Research and development expenses	8,464	11,593	993	674	1,079	972	-	-	10,536	13,239
Amortization of property, plant and equipment	72,178	51,910	3,178	3,278	1,911	2,067	-	-	77,267	57,255
Amortization of intangible assets	19,170	23,035	-	-	-	-	-	-	19,170	23,035
Gain on sale of land	-	(6,095)	-	-	(311)	(398)	-	-	(311)	(6,493)
<b>Income (Loss) from Operations for CODM</b>	<b>133,774</b>	<b>(28,852)</b>	<b>31,825</b>	<b>29,987</b>	<b>(29,270)</b>	<b>(14,944)</b>	<b>-</b>	<b>-</b>	<b>136,329</b>	<b>(13,809)</b>
Impairment	8,073	157,311	-	-	-	-	-	-	8,073	157,311
<b>Income (Loss) from Operations</b>	<b>125,701</b>	<b>(186,163)</b>	<b>31,825</b>	<b>29,987</b>	<b>(29,270)</b>	<b>(14,944)</b>	<b>-</b>	<b>-</b>	<b>128,256</b>	<b>(171,120)</b>
Income (loss) from investments in associates	64	-	-	-	(6,335)	(3,536)	-	-	(6,271)	(3,536)
Internal interest (expense) income	(20,020)	(21,080)	(905)	(1,176)	21,197	22,171	(272)	85	-	-
Interest income	649	3,009	29	5	879	94	-	-	1,557	3,108
Interest expense and other finance costs	(1,725)	(1,550)	(28)	(7)	(16,893)	(17,439)	272	(27)	(18,374)	(19,023)
Cost associated with repayment and modification of long-term debt	-	-	-	-	-	(3,009)	-	-	-	(3,009)
Gain on arbitration award	-	19,221	-	-	-	-	-	-	-	19,221
<b>Income (Loss) Before Income Taxes</b>	<b>104,669</b>	<b>(186,563)</b>	<b>30,921</b>	<b>28,809</b>	<b>(30,422)</b>	<b>(16,663)</b>	<b>-</b>	<b>58</b>	<b>105,168</b>	<b>(174,359)</b>
Income Taxes	-	-	-	-	33,988	6,207	-	-	33,988	6,207
Additions to property, plant and equipment, net of disposals	31,272	72,706	4,016	6,394	557	143	-	-	35,845	79,243
Goodwill	311,619	334,088	17,772	16,730	-	-	-	-	329,391	350,818
Total assets	1,826,011	1,682,578	120,933	113,329	1,272,387	1,431,746	(1,521,130)	(1,449,862)	1,698,201	1,777,791
Total liabilities	886,915	1,053,464	(71,292)	(57,302)	144,786	67,786	(307,192)	(329,197)	653,217	734,751

## Geographical Information

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

(in thousands of Canadian dollars)		2017					
	Canada	USA	Latin America	EMAR <sup>(a)</sup>	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 336,891	\$ 397,464	\$ 383,538	\$ 271,322	\$ 177,437	\$ -	\$ 1,566,652
Inter-segment	1,264	-	-	-	-	(1,264)	-
Total revenue	\$ 338,155	\$ 397,464	\$ 383,538	\$ 271,322	\$ 177,437	\$ (1,264)	\$ 1,566,652
Non-current assets <sup>(b)</sup>	\$ 252,995	\$ 469,427	\$ 35,123	\$ 114,063	\$ 47,215	\$ -	\$ 918,823

(in thousands of Canadian dollars)		2016					
	Canada	USA	Latin America	EMAR <sup>(a)</sup>	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 287,992	\$ 316,616	\$ 56,149	\$ 426,554	\$ 121,948	\$ -	\$ 1,209,259
Inter-segment	1,471	-	-	-	-	(1,471)	-
Total revenue	\$ 289,463	\$ 316,616	\$ 56,149	\$ 426,554	\$ 121,948	\$ (1,471)	\$ 1,209,259
Non-current assets <sup>(b)</sup>	\$ 273,684	\$ 534,766	\$ 48,282	\$ 113,389	\$ 52,325	\$ -	\$ 1,022,446

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

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

## NOTE 9. EMPLOYEE BENEFITS EXPENSE

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

(in thousands of Canadian dollars)	2017	2016
Salaries, wages and employee benefits	\$ 504,772	\$ 447,477
Pension (note 15)	13,776	13,843
Share-based and other incentive-based compensation (note 14)	8,050	6,333
<b>Total</b>	<b>\$ 526,598</b>	<b>\$ 467,653</b>

## NOTE 10. FINANCE COSTS

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

(in thousands of Canadian dollars)	2017	2016
Interest income on short-term deposits	\$ (1,556)	\$ (3,108)
Interest expense, other	5,539	4,739
Interest expense on long-term debt	12,834	14,284
<b>Finance Costs, Net</b>	<b>\$ 16,817</b>	<b>\$ 15,915</b>

## NOTE 11. INCOME TAXES

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

(in thousands of Canadian dollars)	2017	2016
<b>Current Income Taxes</b>		
Based on taxable income of current year	\$ 44,158	\$ 19,569
Adjustment to prior year provision	(4,063)	3,034
	40,095	22,603
<b>Deferred Income Taxes</b>		
Reversal of temporary differences	(6,107)	(16,396)
	(6,107)	(16,396)
<b>Total Income Tax Expense</b>	<b>\$ 33,988</b>	<b>\$ 6,207</b>

The following table sets forth the Company's income taxes on items recognized in OCI for the years ended December 31:

(in thousands of Canadian dollars)	2017	2016
Income tax expense on actuarial gains and losses on defined benefit plans	\$ 168	\$ 752
<b>Income Tax Expense Charged to OCI</b>	<b>\$ 168</b>	<b>\$ 752</b>

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

	2017 %	2016 %
Expected income tax expense based on statutory rate	26.8	26.8
Tax rate differential on earnings of foreign subsidiaries	(1.6)	11.2
Benefit of previously unrecognized tax losses	(10.8)	1.6
Deferred tax not recognized	7.2	(50.1)
Impact of US tax reform	0.8	-
Adjustment to prior year provision	(0.1)	(1.5)
Non-deductible amounts	(0.3)	12.7
Withholding taxes	6.4	(3.0)
State tax and other	3.9	(1.3)
<b>Effective Income Tax Rate</b>	<b>32.3</b>	<b>(3.6)</b>

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

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act. While the changes are broad and complex, the most significant change to the Company is the reduction in the corporate federal income tax rate from 35% to 21% for its US subsidiaries. The Company has recorded a net impact of \$0.8 million expense in its 2017 income tax provision related to the reduction in the US federal income tax rate. The impact reflects a \$25.7 million decrease to its US deferred tax assets, partially offset by a \$24.9 million decrease to its valuation allowance for certain US deferred tax assets existing at December 31, 2017. The Company has recognized these tax impacts and included these amounts in its consolidated financial statements for the year ended December 31, 2017.

### Recognized Deferred Income Tax Assets and Liabilities

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
<b>Deferred Income Tax Assets</b>		
Property, plant and equipment	\$ 4,328	\$ 3,353
Provisions and future expenditures	25,263	25,250
Non-capital losses	28,290	23,323
	<b>57,881</b>	<b>51,926</b>
<b>Deferred Income Tax Liabilities</b>		
Property, plant and equipment	(20,010)	(20,167)
Provisions and future expenditures	(10,443)	(10,288)
	<b>(30,453)</b>	<b>(30,455)</b>
<b>Net Deferred Income Tax Asset</b>	<b>\$ 27,428</b>	<b>\$ 21,471</b>

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Deferred income tax assets	\$ 33,876	\$ 28,955
Deferred income tax liabilities	(6,448)	(7,484)
	<b>\$ 27,428</b>	<b>\$ 21,471</b>

The Company has recorded deferred income tax assets of \$28.3 million as at December 31, 2017 (2016 – \$23.3 million), pertaining to loss carryforwards based on management's financial projections and the relevant income tax legislation in each jurisdiction.

(in thousands of Canadian dollars)	Consolidated Statements of Income (Loss)	
	2017	2016
<b>Deferred Income Tax Assets</b>		
Property, plant and equipment	\$ (975)	\$ 1,060
Provisions and future expenditures	(13)	11,438
Net operating losses	(4,967)	(6,008)
Change in deferred income tax assets	(5,955)	6,490
<b>Deferred Income Tax Liabilities</b>		
Property, plant and equipment	(157)	(12,093)
Provisions and future expenditures	155	(3,097)
Change in deferred income tax liabilities	(2)	(15,190)
<b>Change in Deferred Income Taxes</b>	<b>(5,957)</b>	<b>(8,700)</b>
Deferred income taxes in OCI	(168)	(752)
Deferred income taxes acquired through acquisitions	-	(6,944)
Other	18	-
<b>Deferred Income Tax Recovery in Net Income (Loss)</b>	<b>\$ (6,107)</b>	<b>\$ (16,396)</b>

The Company has not recognized a deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, associates and joint ventures for the years ended December 31, 2017 and 2016, as the Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary difference associated with investments in subsidiaries, associates and joint ventures, for which a deferred income tax liability has not been recognized, aggregated to \$95.5 million and \$86.3 million for the years ended December 31, 2017 and 2016, respectively.

The Company has net operating losses of \$292.9 million for the year ended December 31, 2017 (2016 – losses of \$296.0 million) in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to the 2019 fiscal year. The Company has capital losses of \$48.9 million and \$52.1 million for the years ended December 31, 2017 and 2016, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These capital losses can be carried forward indefinitely.

## NOTE 12. EARNINGS (LOSS) PER SHARE

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)	2017	2016
Net income (loss) used to calculate EPS		
Net income (loss) (attributable to the shareholders of the Company)	\$ 71,307	\$ (180,960)
Weighted average number of shares outstanding – basic (000s)	69,926	64,719
Dilutive effect of stock options	176	-
Weighted average number of shares outstanding – diluted (000s)	70,102	64,719
Basic EPS	\$ 1.02	\$ (2.80)
Diluted EPS	\$ 1.02	\$ (2.80)

## NOTE 13. KEY MANAGEMENT COMPENSATION

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

(in thousands of Canadian dollars)	2017	2016
Salaries and other short-term incentive compensation and employee benefits	\$ 3,147	\$ 1,806
Post-employment benefits – defined benefit plans	484	256
Share-based and other long-term incentive payments	3,141	1,823
Directors' fees and other compensation	447	2,747
<b>Total</b>	<b>\$ 7,219</b>	<b>\$ 6,632</b>

## NOTE 14. SHARE-BASED AND OTHER INCENTIVE-BASED COMPENSATION

As at December 31, 2017, the Company had the following stock option plan, which was initiated in 2001:

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

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

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

### Stock Options without Tandem Share Appreciation Rights

	2017		2016	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance Outstanding – Beginning of Year	1,173,080	\$ 32.02	1,043,440	\$ 32.27
Granted	163,400	37.40	223,600	27.72
Exercised	(23,095)	26.90	(93,960)	24.58
Expired	(118,000)	29.83	–	–
Balance Outstanding – End of Year	1,195,385	\$ 33.06	1,173,080	\$ 32.02
Options Exercisable	739,005	\$ 32.34	724,360	\$ 31.14

December 31, 2017

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding as at December 31, 2017	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2017	Weighted Average Exercise Price
\$15.01 to \$20.00	161,320	1.00	\$ 15.51	161,320	\$ 15.51
\$25.01 to \$30.00	174,600	8.00	26.51	33,080	26.51
\$30.01 to \$35.00	224,000	4.80	32.69	188,000	32.78
\$35.01 to \$40.00	342,765	6.79	37.00	131,725	36.95
\$40.01 to \$45.00	246,300	5.00	41.69	197,040	41.69
\$45.01 to \$50.00	46,400	6.00	45.73	27,840	45.73
	1,195,385	5.41	\$ 33.06	739,005	\$ 32.34

December 31, 2016

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding as at December 31, 2016	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2016	Weighted Average Exercise Price
\$15.01 to \$20.00	163,720	2.01	\$ 15.51	163,720	\$ 15.51
\$25.01 to \$30.00	307,900	5.57	27.76	131,000	29.45
\$30.01 to \$35.00	227,100	5.80	32.69	145,160	32.81
\$35.01 to \$40.00	181,660	5.76	36.65	118,140	37.11
\$40.01 to \$45.00	246,300	6.01	41.69	147,780	41.69
\$45.01 to \$50.00	46,400	7.01	45.73	18,560	45.73
	1,173,080	5.30	\$ 32.02	724,360	\$ 31.14

The Board approved the granting of 163,400 stock options (2016 – 223,600) during the year ended December 31, 2017 under the Amended 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2017 was \$1.3 million (2016 – \$1.4 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

	2017	2016
Weighted average share price	\$ 37.40	\$ 27.72
Exercise price	\$ 37.40	\$ 27.72
Expected life of options	6.25	6.25
Expected stock price volatility	28.46%	29.70%
Expected dividend yield	1.60%	1.88%
Risk-free interest rate	1.45%	1.24%

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

The fair value of options granted under the Amended 2001 Employee Plan will be amortized to compensation expense over the five-year vesting period of the options. The compensation cost from the amortization of granted stock options for the year ended December 31, 2017, included in selling, general and administrative expenses, was \$1.3 million (2016 – \$1.7 million).

### Stock Options with Tandem Share Appreciation Rights

	2017		2016	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value
<b>Balance Outstanding – Beginning of Year</b>	367,300	\$ 10.23	277,300	\$ 11.69
Granted	44,800	8.61	110,800	6.77
Exercised	(5,000)	10.30	–	–
Expired	–	–	(20,800)	11.30
<b>Balance Outstanding – End of Year</b>	407,100	\$ 10.05	367,300	\$ 10.23
<b>Options Exercisable</b>	194,760	\$ 10.53	144,000	\$ 10.98

(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, 2017 is \$1.5 million (2016 – \$2.0 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

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

#### LTIP

The LTIP includes the existing stock option plan discussed above, the Value Growth Plan (“VGP”), the Employee Share Unit Plan (“ESUP”), and the Performance Incentive Plan (“PIP”).

#### VGP

The VGP is a cash-based awards plan, which rewards executives and key employees for improving operating income and revenue over a three-year performance period. Units granted to participants vest at the end of the third year of the performance period for which they were granted. The value of units is determined based on the growth rate in operating revenue and income on a cumulative basis for the three consecutive years that comprise the performance period and is measured against the prior three-year baseline period. In 2017, management amended the VGP to include a Total Shareholder Return (TSR factor), which modifies the unit value based on Shawcor’s share performance compared to its peer group over a three-year period. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The VGP liability as at December 31, 2017 is \$4.3 million (2016 – \$1.7 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 exercisable once vesting is completed. Compensation cost is recognized over the vesting period in accordance with IFRS. All RSUs and PSUs granted are classified as equity instruments in accordance with IFRS as their terms require that they be settled in shares.

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

	2017		2016	
	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>	541,441	\$ 31.79	472,849	\$ 32.84
Granted	91,364	32.04	116,333	26.54
Exercised	(19,951)	28.32	(16,033)	28.87
Cancelled	(14,817)	28.73	(31,708)	29.61
<b>Balance Outstanding – End of Year</b>	<b>598,037</b>	<b>\$ 32.02</b>	<b>541,441</b>	<b>\$ 31.79</b>
<b>RSUs/PSUs Exercisable</b>	<b>237,895</b>	<b>\$ 33.32</b>	<b>159,264</b>	<b>\$ 33.77</b>

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

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

### PIP

On March 2, 2017, the Board approved the PIP under the Company's LTIP. The PIP is a cash-based awards plan, which rewards designated employees over a three-year performance period. Each unit granted to participants notionally represents one common share, and such units vest at the end of the third year from the date they were granted. The value of units at the vesting date is based on the weighted average trading price of the Company's common shares over the five trading days preceding the vesting date. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the PIP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The PIP liability as at December 31, 2017 is \$0.1 million (December 31, 2016 – nil).

### DSUs

Under the Company's DSU plan, all directors (other than the President and CEO) 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:

	2017		2016	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
<b>Balance Outstanding – Beginning of Year</b>	148,427	\$ 35.15	110,597	\$ 36.37
Granted	42,619	29.36	37,830	31.58
<b>Balance Outstanding – End of Year</b>	<b>191,046</b>	<b>\$ 33.86</b>	<b>148,427</b>	<b>\$ 35.15</b>

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

The mark-to-market liability for the DSUs as at December 31, 2017 is \$5.2 million (2016 – \$5.3 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

### Incentive-based Compensation

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

(in thousands of Canadian dollars)

	2017	2016
Stock option expense	\$ 1,334	\$ 1,659
VGP expense (recovery)	3,278	(815)
DSU (recovery) expense	(81)	2,215
RSU expense	3,817	4,308
SAR (recovery) expense	(486)	1,181
PIP expense	107	–
<b>Total Share-based and Other Incentive-based Compensation Expense</b>	<b>\$ 7,969</b>	<b>\$ 8,548</b>

**NOTE 15. EMPLOYEE FUTURE BENEFITS**

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

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

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

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

The total cash payments made by the Company to fund the defined benefit pension plans, the post-retirement insurance plans and the post-employment benefit plan during 2017 were \$0.1 million (2016 – \$2.6 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2017 were \$9.2 million (2016 – \$9.3 million).

The Company measures the fair value of plan assets and the defined benefit obligation as at December 31 of each year. Actuarial valuations for the Company's registered defined benefit pension plans and the Supplementary Executive Retirement Plan ("SERP") for Executives of Shawcor Ltd. are generally required at least every three years. The most recent actuarial valuations of the plans were conducted as of August 1, 2017 (one plan), January 1, 2017 (two plans), December 31, 2016 (four plans) and August 1, 2016 (one plan).

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
<b>Accrued Employee Future Benefit Asset</b>		
Pension plans (note 24)	\$ 3,827	\$ 9,154
	<b>3,827</b>	<b>9,154</b>
<b>Accrued Employee Future Benefit Liability</b>		
Pension plans	(15,437)	(17,471)
Post-employment benefits	(2,997)	(3,146)
Post-retirement life insurance	(118)	(110)
	<b>(18,552)</b>	<b>(20,727)</b>

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

	December 31 2017	December 31 2016
<b>Investments Quoted in Active Markets:</b>		
Cash and cash equivalents	7%	6%
Equity instruments	61%	63%
Debt instruments	32%	31%
	<b>100%</b>	<b>100%</b>

The following was the composition of invested plan assets at the consolidated balance sheet dates for the SERP:

	December 31 2017	December 31 2016
<b>Investments Quoted in Active Markets:</b>		
Equity instruments <sup>(a)</sup>	100%	100%

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



## Actual Return on Plan Assets

The actual return on plan assets for the years ended December 31, 2017 and 2016 amounted to \$7.7 million and \$8.1 million, respectively.

## Employee Future Benefit Cost

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Current service costs	\$ 3,204	\$ 3,050
Past service costs and impact of settlements, curtailments and termination benefits	281	(198)
Interest cost on defined benefit obligation	4,388	4,413
Interest income on plan assets	(3,942)	(4,028)
	<b>3,931</b>	3,237
Impact of asset ceiling/minimum funding requirement	9	121
Defined benefit cost recognized	<b>3,940</b>	3,358
Defined contribution cost recognized	<b>9,836</b>	10,485
<b>Employee Future Benefit Cost Recognized<sup>(a)</sup></b>	<b>\$ 13,776</b>	<b>\$ 13,843</b>

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

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Valuation effect	\$ 51	\$ 156
Return on plan assets (excluding amounts included in interest income)	(3,759)	(4,096)
Net actuarial losses recognized in the year	1,435	4,139
Other changes in asset ceiling/minimum funding requirement not included in net interest cost	1,744	(2,760)
Foreign currency exchange rate changes	(163)	(283)
<b>Employee Future Benefit Income Recognized in OCI</b>	<b>\$ (692)</b>	<b>\$ (2,844)</b>

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
<b>Balance – Beginning of Year</b>	<b>\$ 136,561</b>	<b>\$ 135,052</b>
Valuation effect	–	(102)
Employer current service cost	3,204	3,050
Net interest cost	4,388	4,413
Past service costs and impact of settlements, curtailments and termination benefits	281	(505)
Benefit payments	(6,465)	(7,008)
Actuarial gains due to changes in demographic assumptions	(1,094)	–
Actuarial losses due to changes in economic assumptions	5,960	5,625
Experience gains	(3,431)	(1,486)
Foreign exchange differences	(70)	(2,478)
<b>Balance – End of Year</b>	<b>\$ 139,334</b>	<b>\$ 136,561</b>

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

(in thousands of Canadian dollars)	2017	2016
<b>Balance – Beginning of Year</b>	<b>\$ 125,331</b>	<b>\$ 125,048</b>
Valuation effect	(51)	(258)
Employer contributions	102	2,607
Settlement	–	(307)
Benefit payments	(6,465)	(7,008)
Interest income on plan assets	3,942	4,028
Return on plan assets (excluding amounts included in interest income)	3,759	4,096
Foreign exchange differences	186	(2,875)
<b>Balance – End of Year</b>	<b>\$ 126,804</b>	<b>\$ 125,331</b>

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

	2017	2016
<b>Canada</b>		
Defined benefit obligation		
Discount rate	3.38%	3.78%
Future salary increase	3.00%	3.50%
Future pension increase	n/a	n/a
Mortality	CPM 2014 Private with scale CPM-B	CPM 2014 Private with scale CPM-B
Benefit cost for the year ended December 31		
Discount rate	3.78%	3.90%
Future salary increase	3.50%	3.50%
<b>Norway</b>		
Defined benefit obligation		
Discount rate	2.40%	2.60%
Future salary increase	2.50%	2.50%
Future pension increase	0.50%	0.00%
Mortality	K2013	K2013
Benefit cost for the year ended December 31		
Discount rate	2.60%	2.70%
Future salary increase	2.50%	2.50%
<b>United Kingdom</b>		
Defined benefit obligation		
Discount rate	2.40%	2.60%
Future salary increase	n/a	n/a
Future pension increase	2.60%	2.70%
Mortality	S2PA (projected)	S1PA (projected)
Benefit cost for the year ended December 31		
Discount rate	2.60%	4.00%
Future salary increase	n/a	n/a
<b>Indonesia</b>		
Defined benefit obligation		
Discount rate	7.20%	8.50%
Future salary increase	7% (local), 4.5% (expat)	10.00% (local), 6.00% (expat)
Future pension increase	n/a	n/a
Mortality	Indonesia's Table 2011	Indonesia's Table 2011
Benefit cost for the year ended December 31		
Discount rate	8.50%	9.00%
Future salary increase	10.00% (local), 6.00% (expat)	10.00% (local), 6.00% (expat)

### Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at December 31, 2017 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 50 basis points	10,088	7.2%
Increase of 50 basis points	(9,043)	(6.5%)
Future salary increase		
Decrease of 50 basis points	(2,130)	(1.5%)
Increase of 50 basis points	2,351	1.7%
Mortality Assumption – Impact of Life Expectancy being one year longer	3,994	2.9%

The sensitivity analysis noted above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring during the year ended December 31, 2017.

## Other Information

The Company expects to contribute \$3.7 million to its defined benefit plans for the year ending December 31, 2018.

The average duration of the defined benefit plans as at December 31, 2017 is 15 years.

## NOTE 16. CASH AND CASH EQUIVALENTS

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Cash	\$ 247,136	\$ 98,911
Cash equivalents	41,929	95,913
<b>Total</b>	<b>\$ 289,065</b>	<b>\$ 194,824</b>

## NOTE 17. LOANS RECEIVABLE

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
<b>Current</b>		
Notes receivable	\$ 2,448	\$ 82
Loan receivable	-	3,750
	<b>2,448</b>	<b>3,832</b>
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	\$ 2,283	\$ 5,003
Loan receivable	-	55
	<b>2,283</b>	<b>5,058</b>
<b>Total</b>	<b>\$ 4,731</b>	<b>\$ 8,890</b>

(a) Non-current notes receivable relate to a portion of 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. A portion of this amount has been classified as current as semi-annual instalments become due during 2018. As at December 31, 2017, the total amount of the notes receivable was US\$3,726 million (December 31, 2016 - US\$3,726 million).

## NOTE 18. ACCOUNTS RECEIVABLE

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Trade accounts receivable	\$ 181,914	\$ 173,981
Allowance for doubtful accounts (note 7)	(2,809)	(4,865)
Unbilled revenue and other receivables	80,589	125,281
	<b>\$ 259,694</b>	<b>\$ 294,397</b>

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Current	\$ 111,613	\$ 102,978
Past due 1 to 30 days	48,754	40,367
Past due 31 to 60 days	9,070	12,114
Past due 61 to 90 days	4,422	6,960
Past due for more than 90 days	8,055	11,562
Total trade accounts receivable	<b>181,914</b>	<b>173,981</b>
Less: allowance for doubtful accounts	<b>(2,809)</b>	<b>(4,865)</b>
<b>Trade Accounts Receivable, Net</b>	<b>\$ 179,105</b>	<b>\$ 169,116</b>

**NOTE 19. INVENTORY**

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Raw materials and supplies	\$ 79,495	\$ 84,238
Work-in-progress	8,742	12,906
Finished goods	49,278	42,313
Inventory obsolescence	(22,036)	(25,972)
	<b>\$ 115,479</b>	<b>\$ 113,485</b>

During 2017, the Company recorded a decrease of \$3.9 million (2016 – increase of \$3.2 million) in the provision for inventory obsolescence, due to a reduction of certain excess raw materials.

**NOTE 20. PROPERTY, PLANT AND EQUIPMENT**

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

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- progress	Total
<b>Cost</b>					
Balance – December 31, 2015	\$ 85,325	\$ 212,902	\$ 836,894	\$ 35,864	\$ 1,170,985
Exchange differences	(1,070)	(6,343)	(28,745)	(1,346)	(37,504)
Additions	(1,136)	12,447	41,135	35,019	87,465
Acquisitions	3,584	2,233	4,670	–	10,487
Disposals	(3,606)	(9,797)	(32,026)	(3)	(45,432)
Balance – December 31, 2016	83,097	211,442	821,928	69,534	1,186,001
Exchange differences	(23)	(584)	(23,514)	(764)	(24,885)
Additions (Transfers)	967	25,492	58,617	(42,782)	42,294
Disposals	(769)	(731)	(30,214)	(1,225)	(32,939)
<b>Balance – December 31, 2017</b>	<b>\$ 83,272</b>	<b>\$ 235,619</b>	<b>\$ 826,817</b>	<b>\$ 24,763</b>	<b>\$ 1,170,471</b>

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- progress	Total
<b>Accumulated Amortization</b>					
Balance – December 31, 2015	\$ (20,768)	\$ (96,878)	\$ (522,475)	\$ –	\$ (640,121)
Exchange differences	358	(2,065)	21,397	–	19,690
Amortization	(1,702)	(5,380)	(50,173)	–	(57,255)
Disposals	8	6,115	26,517	–	32,640
Balance – December 31, 2016	(22,104)	(98,208)	(524,734)	–	(645,046)
Exchange differences	643	1,851	17,040	–	19,534
Amortization	(1,469)	(22,216)	(53,582)	–	(77,267)
Disposals	632	967	26,117	–	27,716
<b>Balance – December 31, 2017</b>	<b>\$ (22,298)</b>	<b>\$ (117,606)</b>	<b>\$ (535,159)</b>	<b>\$ –</b>	<b>\$ (675,063)</b>

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in-progress	Total
<b>Accumulated Impairment</b>					
Balance – December 31, 2015	\$ (2,495)	\$ (6,567)	\$ (36,247)	\$ –	\$ (45,309)
Exchange differences	–	(3,130)	6,827	–	3,697
Impairment (note 25)	–	(10,262)	(18,611)	–	(28,873)
Eliminated on disposal	–	–	998	–	998
Balance – December 31, 2016	(2,495)	(19,959)	(47,033)	–	(69,487)
Exchange differences	20	(804)	(483)	–	(1,267)
Impairment (note 25)	(309)	–	(7,764)	–	(8,073)
Eliminated on disposal	–	–	1,200	–	1,200
<b>Balance – December 31, 2017</b>	<b>\$ (2,784)</b>	<b>\$ (20,763)</b>	<b>\$ (54,080)</b>	<b>\$ –</b>	<b>\$ (77,627)</b>
<b>Net book value</b>					
As at December 31, 2016	\$ 58,498	\$ 93,275	\$ 250,161	\$ 69,534	\$ 471,468
<b>As at December 31, 2017</b>	<b>\$ 58,190</b>	<b>\$ 97,250</b>	<b>\$ 237,578</b>	<b>\$ 24,763</b>	<b>\$ 417,781</b>

## NOTE 21. INTANGIBLE ASSETS

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

(in thousands of Canadian dollars)	Intellectual Property, with Limited Life <sup>(a)</sup>	Intangible Assets, with Limited Life <sup>(b)</sup>	Intangible Assets, with Indefinite Life <sup>(c)</sup>	Total
<b>Cost</b>				
Balance – December 31, 2015	\$ 85,979	\$ 265,432	\$ 6,990	\$ 358,401
Exchange differences	(171)	(4,058)	(149)	(4,378)
Transfers	–	4,566	(4,566)	–
Acquisition of a subsidiary	–	17,510	–	17,510
Balance – December 31, 2016	85,808	283,450	2,275	371,533
Exchange differences	(1,561)	(15,143)	–	(16,704)
Additions	71	–	–	71
<b>Balance – December 31, 2017</b>	<b>\$ 84,318</b>	<b>\$ 268,307</b>	<b>\$ 2,275</b>	<b>\$ 354,900</b>
<b>Accumulated Amortization</b>				
Balance – December 31, 2015	\$ (34,398)	\$ (41,636)	\$ –	\$ (76,034)
Exchange differences	(30)	(1,630)	–	(1,660)
Amortization	(5,521)	(17,514)	–	(23,035)
Balance – December 31, 2016	(39,949)	(60,780)	–	(100,729)
Exchange differences	421	2,185	–	2,606
Amortization	(4,994)	(14,176)	–	(19,170)
<b>Balance – December 31, 2017</b>	<b>\$ (44,522)</b>	<b>\$ (72,771)</b>	<b>\$ –</b>	<b>\$ (117,293)</b>
<b>Accumulated Impairment</b>				
Balance – December 31, 2015	\$ (3,089)	\$ (55,980)	\$ –	\$ (59,069)
Impairment	(7,546)	(9,395)	(675)	(17,616)
Exchange differences	(686)	(526)	–	(1,212)
Balance – December 31, 2016	(11,321)	(65,901)	(675)	(77,897)
Exchange differences	801	4,361	–	5,162
<b>Balance – December 31, 2017</b>	<b>\$ (10,520)</b>	<b>\$ (61,540)</b>	<b>\$ (675)</b>	<b>\$ (72,735)</b>
<b>Net book value</b>				
As at December 31, 2016	\$ 34,538	\$ 156,769	\$ 1,600	\$ 192,907
<b>As at December 31, 2017</b>	<b>\$ 29,276</b>	<b>\$ 133,996</b>	<b>\$ 1,600</b>	<b>\$ 164,872</b>

(a) Intellectual property, with limited life, represents the cost of certain technology, know-how and patents obtained mainly through acquisitions. The Company amortizes the cost of intellectual property over its estimated useful life, which ranges from 10 years to 15 years.

(b) Intangible assets, with limited life, represent customer relationships, trademarks and non-compete agreements acquired directly or in conjunction with past business combinations. The Company amortizes the cost of intangible assets with limited life over their estimated useful lives, which ranges from 2 to 5 years for trademarks and non-compete agreements, and 10 years to 15 years for customer relationships. This estimate is based on expected customer attrition rates and considers the cyclical nature of the global energy market (or the oil & gas market). The net book value of customer relationships as at December 31, 2017 is \$131.7 million (2016 – \$154.6 million), and is included in intangible assets, with limited life, in the table above.

(c) Intangible assets, with indefinite life, represent the value of brands obtained in previous acquisitions. As the Company has the exclusive right to use and benefit from the brands of the acquired companies for an undefined period, certain acquired brands have been classified as intangible assets with indefinite life. As the cost of intangible assets, with indefinite life, is not amortized, the Company assesses these intangible assets for impairment on an annual basis or when there is an indicator of impairment (please refer to note 25).

**NOTE 22. GOODWILL**

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Gross amount of goodwill	\$ 515,872	\$ 508,312
Accumulated impairment of goodwill	(165,054)	(51,242)
<b>Net Balance – Beginning of Year</b>	<b>350,818</b>	457,070
Acquisition (note 5)	–	14,458
Impairment (note 25)	–	(110,822)
Foreign exchange	(21,427)	(9,888)
<b>Net Balance – End of Year</b>	<b>\$ 329,391</b>	\$ 350,818

The following table summarizes the significant carrying amounts of goodwill by CGU:

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Bredero Shaw	\$ 188,209	\$ 206,563
Shawcor Inspection Services	46,846	50,140
Flexpipe Systems	49,730	49,730
Socotherm Americas (Argentina)	5,495	5,881
Pipeline and Pipe Services Products	8,258	7,774
DSG-Canusa GmbH	17,772	16,730
Lake Superior	13,081	14,000
	<b>\$ 329,391</b>	\$ 350,818

**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”), or when indicators of impairment exist at its GCGUs. At the Annual Goodwill Valuation Date of October 31, 2017, the Company concluded there was no impairment of goodwill in any of its GCGUs, as the recoverable amount for these GCGUs was higher than their respective carrying amounts.

On September 30, 2016, the Company performed impairment tests for its Shawcor Inspection Services Cash-generating Unit (“DCGU”) and Shawcor CSI Cash-generating Unit (“CSICGU”) and concluded that goodwill was partially impaired for the DCGU and fully impaired for the CSICGU. The impairment of the DCGU goodwill is further discussed in note 25.

**Recoverable Amount**

The Company determines the recoverable amount for its GCGUs as the higher of Value in Use and the Fair Value Less Cost to Dispose (“FVLCD”). In respect of the goodwill impairment tests in 2017, the FVLCD of each of the GCGUs was higher than the respective carrying amount and as such no goodwill impairments have been recorded in 2017. In respect of the 2016 goodwill impairment tests, the FVLCD of each of the GCGUs was higher than its respective carrying amounts, except for the DCGU and CSICGU in 2016 as outlined in note 25. The FVLCD measurement was categorized as a Level 3 fair value based on the inputs in the valuation method used.

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

The FVLCD 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 FVLCD as the present value of the projected free cash flows and the Terminal Value of each GCGU.

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

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

## Projected Cash Flows

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

## Market Assumptions

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

## Discount Rate

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

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

(in thousands of Canadian dollars)	October 31 2017	October 31 2016
Bredero Shaw	11%	11%
Shawcor Inspection Services	12%	12%
Flexpipe Systems	12%	12%
Socotherm Americas (Argentina)	18%	18%
DSG-Canusa GmbH	12%	12%
Pipeline and Pipe Services Products	14%	14%
Lake Superior	12%	12%

## Terminal Value Growth Rate

The Terminal Value Growth Rate is used to calculate the Terminal Value of the GCGUs at the end of the Projected Free Cash Flow period of five years. A Terminal Value Growth Rate of 3% was used (for all goodwill impairment tests) reflecting terminal growth rate expectation of long-term growth in energy infrastructure investment; this figure also reflects the Company's best estimate of the economic conditions that are expected to exist over the forecast period.

## Sensitivity to Changes in Assumptions

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

## NOTE 23. INVESTMENTS IN ASSOCIATES

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

On August 29, 2014, the Company completed an equity investment in Power Feed-Thru Systems and Connectors, LLC ("PFT"), a Houston, Texas, US-based company engaged in designing and assembling of electric feed-thru connector systems specifically for artificial lift installations in the global oil and gas market. Its products are used in oil wells equipped with Electric Submersible Pumps to connect the down-hole oil pump with a surface power supply. Shawcor's equity investment in PFT consists of an approximate 30% common share interest, which is being accounted for using equity accounting.

**NOTE 24. OTHER ASSETS**

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Long-term prepaid expenses	\$ 6,779	\$ 7,253
Convertible preferred shares (note 23)	10,000	10,000
Accrued employee future benefit asset (note 15)	3,827	9,154
	<b>\$ 20,606</b>	<b>\$ 26,407</b>

**NOTE 25. IMPAIRMENT****2017*****Impairment Testing for Bredero Shaw Regina Plants***

The Company recorded an \$8.1 million impairment charge on building, machinery and equipment at the Regina plant for the year ended December 31, 2017. The Company performed an asset impairment test for its Regina plant as at December 31, 2017. This impairment test was determined to be necessary as a result of two factors: i) uncertainties in securing future pipe coating project work to sustain operations at current levels as a result of delays in projects being sanctioned and awarded in Western Canada; ii) the competition from additional pipe coaters in the region. The Company adjusted its forecast to reflect these uncertainties, thereby impacting the estimate of future cash flows for the plant.

Due to the value-in-use ("VIU") being lower than the carrying amount of the Regina plant, management assessed the method of allocating the impairment charge to the individual assets. Individual assets were analyzed to ensure that the allocation of the impairment charge to each asset did not reduce its carrying value below the greater of its FVLCD and VIU. The property, plant and equipment assets impaired were written down to their FVLCD. The FVLCD of the building, machinery and equipment was based on management's internal specialist assessments of secondary market. The fair value measurements are categorized as Level 3 fair value based on the inputs in the valuation method used.

**2016**

The following table sets forth the Company's impairment charges for the year ended December 31, 2016:

(in thousands of Canadian dollars)	Socotherm	Shawcor Inspection Services	Other <sup>(a)</sup>	Total
Impairment of property, plant and equipment	\$ 26,103	\$ -	\$ 2,770	\$ 28,873
Impairment of intangible assets	15,220	-	2,396	17,616
Impairment of goodwill	-	108,942	1,880	110,822
Total Impairment	\$ 41,323	\$ 108,942	\$ 7,046	\$ 157,311
Deferred income tax related to above	(2,985)	-	-	(2,985)
Net Impairment	\$ 38,338	\$ 108,942	\$ 7,046	\$ 154,326

(a) These amounts include impairment charges of \$1.4 million pertaining to the machinery and equipment of a Bredero Shaw business unit and other impairment charges for Shawcor CSI totalling \$5.6 million, both of which are in the Pipeline and Pipe Services segment.

***Impairment Testing for the Socotherm S.p.A. Italian Plants***

The Company performed an asset impairment test for its Socotherm S.p.A Italian plants as at September 30, 2016. This impairment test was done for the plants at the Socotherm S.p.A group level, and includes the carrying value of the related intangible assets, as the cash flows from the plants are not largely independent. This impairment test was determined to be necessary as a result of uncertainties in securing future pipe coating project work to sustain operations at current levels as a result of reductions in oil and gas infrastructure spending by international oil companies and in-country pipe mills. The Company adjusted its forecast to reflect these uncertainties, thereby impacting the estimate of future cash flows for the plants.

Due to the VIU being lower than the carrying amount of the Socotherm S.p.A. Italian plants, management assessed the method of allocating the impairment charge to the individual assets. Individual assets were analyzed to ensure that the allocation of the impairment charge to each asset did not reduce its carrying value below the greater of its FVLCD and VIU. The property, plant and equipment assets impaired were written down to their FVLCD. The FVLCD of land and buildings were based on market assessment appraisals provided by an independent valuator. The FVLCD of machinery and equipment was based on management's internal specialist assessments of secondary market. The fair value measurements are categorized as Level 3 fair value based on the inputs in the valuation method used. The allocation of impairment to intangible assets ultimately resulted in the value of these assets being written down to nil.



### Impairment Testing for the Showcor Inspection Services Cash-Generating Unit

The Company's policies regarding calculation of the recoverable amount for its GCGUs is described in note 22, as part of the discussion pertaining to impairment testing for goodwill.

The Company performed an impairment test for its DCGU as at September 30, 2016. This impairment was assessed due to the decline in the rig count in the US and uncertainties regarding future oil and gas well drilling and the associated demand for non-destructive testing of new oil and gas gathering line pipelines. The Company has adjusted its forecast to reflect reduced activity levels, thereby impacting the future cash flows for its DCGU.

For the DCGU impairment test, the FVLCD was higher than its VIU. The carrying value of the DCGU goodwill was \$157.8 million. As a result of the assessed impairment, the carrying value of goodwill was reduced to \$48.9 million as at September 30, 2016. A discount rate of 12% had been applied to the DCGU impairment test as at September 30, 2016, along with a terminal value growth rate of 2.5%, reflecting a conservative expectation of long-term growth in energy infrastructure investment.

A one percent increase in the discount rate would have caused the fair value of the DCGU to decrease by \$16.5 million. A one percent decrease in the terminal value growth rate would have decreased the fair value of the DCGU by \$4.7 million.

### NOTE 26. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Accounts payable	\$ 72,466	\$ 88,980
Accrued liabilities	128,551	123,559
	<b>\$ 201,017</b>	<b>\$ 212,539</b>

### NOTE 27. PROVISIONS

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

(in thousands of Canadian dollars)	Decommissioning Liabilities	Warranties	Other Provisions	Total
<b>Balance – December 31, 2015</b>	\$ 34,361	\$ 4,332	\$ 30,944	\$ 69,637
Provision adjustments	179	6,024	3,694	9,897
Acquisition adjustment	(1,612)	–	–	(1,612)
Settlement of liabilities	(291)	(3,406)	(12,882)	(16,579)
Accretion expense	452	–	(7)	445
Foreign exchange differences	(1,824)	(182)	(1,815)	(3,821)
Gain on settlement	(1,559)	–	–	(1,559)
<b>Balance – December 31, 2016</b>	29,706	6,768	19,934	56,408
Provision adjustments	104	(521)	12,903	12,486
Settlement of liabilities	(765)	(175)	(3,616)	(4,556)
Accretion expense	465	–	263	728
Foreign exchange differences	(517)	(98)	(728)	(1,343)
Loss on settlement	193	–	–	193
<b>Balance – December 31, 2017</b>	<b>\$ 29,186</b>	<b>\$ 5,974</b>	<b>\$ 28,756</b>	<b>\$ 63,916</b>
<b>December 31, 2016</b>				
Current	\$ 5,904	\$ 6,768	\$ 8,432	\$ 21,104
Non-current	23,802	–	11,502	35,304
	<b>\$ 29,706</b>	<b>\$ 6,768</b>	<b>\$ 19,934</b>	<b>\$ 56,408</b>
<b>December 31, 2017</b>				
Current	<b>\$ 5,302</b>	<b>\$ 5,974</b>	<b>\$ 16,085</b>	<b>\$ 27,361</b>
Non-current	<b>23,884</b>	<b>–</b>	<b>12,671</b>	<b>36,555</b>
	<b>\$ 29,186</b>	<b>\$ 5,974</b>	<b>\$ 28,756</b>	<b>\$ 63,916</b>

### Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$42 million as at December 31, 2017. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 18%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

The Company expects the following cash outflows over the next five years and thereafter for remediating its decommissioning liability obligations.

(in thousands of Canadian dollars)

2018	5,302
2019	3,198
2020	5,433
2021	4,777
2022	489
Thereafter	22,831
	<b>\$ 42,030</b>

### Warranties

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

### Other Provisions

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

## NOTE 28. OTHER LIABILITIES

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

(in thousands of Canadian dollars)	Deferred Purchase Consideration	Incentive based Compensation (note 14)	Other Liabilities	Total
<b>Balance – December 31, 2015</b>	\$ 3,939	\$ 20,517	\$ –	\$ 24,456
Adjustments	–	2,593	689	3,282
Business acquisition	7,210	–	–	7,210
Settlement of liabilities	(7,210)	(14,120)	(107)	(21,437)
Foreign exchange differences	(255)	16	7	(232)
<b>Balance – December 31, 2016</b>	3,684	9,006	589	13,279
Adjustments	–	2,979	(62)	2,917
Settlement of liabilities	–	(808)	(27)	(835)
Foreign exchange differences	230	(19)	(59)	152
<b>Balance – December 31, 2017</b>	<b>\$ 3,914</b>	<b>\$ 11,158</b>	<b>\$ 441</b>	<b>\$ 15,513</b>
<b>December 31, 2016</b>				
Current	\$ 3,684	\$ 8,359	\$ –	\$ 12,043
Non-current	–	647	589	1,236
	\$ 3,684	\$ 9,006	\$ 589	\$ 13,279
<b>December 31, 2017</b>				
Current	\$ 3,914	\$ 7,934	\$ –	\$ 11,848
Non-current	–	3,224	441	3,665
	<b>\$ 3,914</b>	<b>\$ 11,158</b>	<b>\$ 441</b>	<b>\$ 15,513</b>

## NOTE 29. CREDIT FACILITIES

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

(in thousands of Canadian dollars)	December 31 2017	December 31 2016
Bank indebtedness	\$ –	\$ 2,463
Standard letters of credit for performance, bid and surety bonds (note 31)	71,175	90,898
Total utilized credit facilities	71,175	93,361
Total available credit facilities <sup>(a)</sup>	460,251	492,610
<b>Unutilized Credit Facilities</b>	<b>\$ 389,076</b>	<b>\$ 399,249</b>

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

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility ("Credit Facility") for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by US\$100 million from US\$150 million to US\$250 million, with an option to increase the credit limit to US\$400 million with the consent of the lenders. On June 16, 2014, the option to increase the credit limit to US\$400 million was exercised with the consent of the lenders and a new option to increase the credit limit to US\$550 million with the consent of the lenders was added. The Company pays a floating interest rate on this Credit Facility that is a function of the Company's Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Allowable credit utilization outside of this facility is US\$50 million. During 2016, the Company and the lenders agreed to certain amendments to the Credit Facility. These amendments are described below in the section captioned "Amendments to Senior Notes Agreement and Credit Facility".

### Amendments to Senior Notes Agreement and Credit Facility

On May 10, 2016, the Company entered into amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Credit Facility. Subsequently, on December 6, 2016, the Company entered into further amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Credit Facility, with the latest principal amendments as follows:

- a) an extension of the term of the Credit Facility from March 20, 2018 to December 6, 2019 and a reduction in the size of the Credit Facility from US\$325 million to US\$317 million;
- b) the elimination of the requirement for the Company to meet a Total Debt to EBITDA covenant (the "Leverage Ratio") for the quarter ending December 31, 2016 ("Q4 2016");
- c) the creation of a minimum EBITDA covenant of Cdn\$15 million in respect of Q4 2016;
- d) an increase in the maximum Leverage Ratio to 3.50 to 1.00 and 3.25 to 1.00 for the quarters ending March 31, 2017 ("Q1 2017") and June 30, 2017 ("Q2 2017"), respectively; with EBITDA for Q1 2017 to be calculated by multiplying the EBITDA for such quarter by 4 and with EBITDA for Q2 2017 to be calculated by adding the EBITDA for Q1 2017 and the EBITDA for Q2 2017 and then multiplying such sum by 2;
- e) a decrease in the minimum Interest Coverage Ratio/Fixed Charge Ratio (currently 2.5 to 1.0) to 1.5 to 1.0 for Q4 2016;
- f) an amendment to the method of calculation of the Interest Coverage Ratio/Fixed Charge Ratio for Q1 2017 and Q2 2017 such that each of the components of such ratio (EBITDA, interest expense and rental payments) is calculated on a basis similar to the calculation of the Leverage Ratio for such quarters; and
- g) increased interest rates and standby and other fees payable to Senior Note holders and under the Credit Facility during Q4 2016 and in any period when the Company is permitted an increased Leverage Ratio.

For the fourth quarter of 2017, the Company was required to maintain an Interest Coverage Ratio of more than 2.50 to 1.00 and a Leverage Ratio of less than 3.00 to 1.00.

The Company was in compliance with the covenants as at December 31, 2017 and 2016.

## NOTE 30. 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. The principal balances outstanding at December 31, 2017 and 2016 are as follows:

(in millions of Canadian dollars)	Due Date	Interest Rate	December 31 2017 (US\$)	December 31 2016 (US\$)	December 31 2017 (Cdn\$)	December 31 2016 (Cdn\$)
Senior Notes, Series A	March 31, 2020	2.98%	62	62	77	83
Senior Notes, Series B	March 31, 2023	3.67%	57	57	71	76
Senior Notes, Series C	March 31, 2025	3.82%	52	52	66	70
Senior Notes, Series D	March 31, 2028	4.07%	26	26	33	35
			<b>197</b>	<b>197</b>	<b>247</b>	<b>264</b>

### Repurchase of Senior Notes

In the second quarter of 2016, the Company utilized a portion of its existing cash balances to repurchase approximately US\$78 million of its Senior Notes at a purchase price of approximately US\$79 million (\$101.8 million at the then current exchange rate) plus accrued interest.

In the fourth quarter of 2016, the Company utilized a portion of its \$172.6 million public offering proceeds to repurchase US\$75 million of its Senior Notes at a purchase price of US\$75 million (\$100.7 million at the then current exchange rate) plus accrued interest.

The total long-term debt balance as at December 31, 2017 is \$246.2 million (US\$196.8 million) (2016 – \$263.5 million (US\$196.8 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 7.

In respect of the long-term debt, the Company is required to maintain certain covenants that are consistent with the debt covenants described in note 29 for the Credit Facility. The Company was in compliance with these covenants as at December 31, 2017 and December 31, 2016.

## NOTE 31. LEASES, COMMITMENTS AND CONTINGENCIES

### a) Operating Leases

The Company has entered into various commercial leases for motor vehicles, machinery, equipment, and manufacturing sites. These leases have a life of one to sixteen years.

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

(in thousands of Canadian dollars)	December 31 2017
Within one year	\$ 23,877
After one year but not more than five years	44,048
More than five years	10,351
	\$ 78,276

The lease expenditure charged to the consolidated statements of income (loss) during the year was \$34.1 million (2016 – \$39.2 million).

### b) Finance Leases

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

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

(in thousands of Canadian dollars)	December 31, 2017	
	Minimum Payments	Present Value of Payments
Within one year	\$ 1,729	\$ 1,111
After one year but not more than five years	5,567	3,726
After more than five years	8,367	7,114
Total minimum lease payments	15,663	11,951
Less: Amounts representing interest charges	\$ (3,712)	\$ -
<b>Present Value of Minimum Lease Payments</b>	<b>\$ 11,951</b>	<b>\$ 11,951</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.

In the fourth quarter of 2016, the Company recorded a gain of \$19.2 million resulting from an arbitration award in favour 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 the Credit Facility to support its bonds. The Company has utilized total credit facilities of \$71.2 million as at December 31, 2017 (2016 – \$90.9 million for support of its bonds). In addition, as at December 31, 2017, the Company had \$48.4 million of outstanding surety bonds through insurance companies (2016 – \$107.2 million).

## NOTE 32. SHARE CAPITAL

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

On December 23, 2016, the Company issued 5,261,250 common shares, including 686,250 common shares pursuant to the full exercise of the over-allotment option, at a price of \$32.80 per common share for aggregate gross proceeds of \$172.6 million (net proceeds of \$165.3 million, net of share issuance costs of \$7.3 million).

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

(all dollar amounts in thousands of Canadian dollars)		2017
<b>Number of shares</b>		
Balance, December 31, 2016		69,892,544
Issued on exercise of stock options		28,095
Issued on exercise of RSUs		19,951
<b>Balance – December 31, 2017</b>		<b>69,940,590</b>
<b>Stated value</b>		
Balance, December 31, 2016	\$	703,316
Issued on exercise of stock options		761
Compensation cost on exercised options		278
Compensation cost on exercised RSUs		601
<b>Balance – December 31, 2017</b>	<b>\$</b>	<b>704,956</b>

(all dollar amounts in thousands of Canadian dollars)		2016
<b>Number of shares</b>		
Balance, December 31, 2015		64,521,301
Issued through public offering		5,261,250
Issued on exercise of stock options		93,960
Issued on exercise of RSUs		16,033
<b>Balance – December 31, 2016</b>		<b>69,892,544</b>
<b>Stated value</b>		
Balance, December 31, 2015	\$	534,484
Issued through public offering (net of commissions and share issuance costs of \$7.3 million)		165,295
Issued on exercise of stock options		2,311
Compensation cost on exercised options		764
Compensation cost on exercised RSUs		462
<b>Balance – December 31, 2016</b>	<b>\$</b>	<b>703,316</b>

Dividends declared and paid were as follows:

(in thousands of Canadian dollars, except per share amounts)		2017	2016
Dividends declared and paid to shareholders	\$	<b>41,946</b>	\$ 38,708
Dividends declared and paid per share	\$	<b>0.600</b>	\$ 0.600

## NOTE 33. CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from consolidated financial statements previously presented to conform to the presentation of the 2017 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)	2017 IFRS	2016 IFRS	2015 IFRS	2014 IFRS	2013 IFRS	2012 IFRS
					(NOTE 5)	
<b>OPERATING RESULTS</b>						
Revenue	1,566,652	1,209,259	1,810,648	1,890,029	1,847,549	1,469,187
Adjusted EBITDA (NOTE 1)	226,184	56,452	228,478	336,701	391,223	265,254
Net Income (Loss) (NOTE 2)	71,307	(180,960)	98,244	94,861	219,862	178,310
<b>CASH FLOW</b>						
Cash from operating activities	178,446	131,893	281,041	187,985	32,264	530,512
Purchase of property, plant, and equipment	(41,068)	89,252	61,153	77,645	76,729	73,505
<b>FINANCIAL POSITION</b>						
Working capital (NOTE 3)	378,222	279,986	446,405	378,733	267,489	325,412
Long-term debt	246,175	263,528	485,147	406,926	374,381	-
Equity	1,044,984	1,043,040	1,125,201	980,613	658,581	988,667
Total assets	1,698,201	1,777,791	2,145,705	1,939,970	1,651,928	1,888,873
<b>PER SHARE INFORMATION</b>						
(Common, Class A & Class B)						
Net income						
Basic	1.02	(2.80)	1.52	1.55	3.55	2.53
Diluted	1.02	(2.80)	1.52	1.53	3.51	2.50
Dividends						
Common share	0.600	0.600	0.600	0.575	1.375	N/A
Class A	-	-	-	-	0.100	0.380
Class B	-	-	-	-	0.091	0.345
Equity per share (NOTE 4)	14.94	14.92	17.44	15.20	10.98	14.08

## QUARTERLY INFORMATION (UNAUDITED)

(in thousands of Canadian dollars except per share information)		First	Second	Third	Fourth	Total
Revenue	2017	359,732	383,782	397,078	426,060	1,566,652
	2016	365,579	255,359	259,139	329,182	1,209,259
Net Income (Loss) (NOTE 2)	2017	15,132	16,064	20,462	19,649	71,307
	2016	7,461	(41,678)	(174,019)	27,276	(180,960)
Earnings (Loss) per share (Diluted)	2017	0.22	0.23	0.29	0.28	1.02
	2016	0.12	(0.65)	(2.69)	0.42	(2.80)

NOTE 1: Adjusted EBITDA is a non-GAAP measure defined as EBITDA adjusted for non-operational items or items which do not impact day-to-day operations. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions and for comparing its operating performance with the performance of other companies that have different financing, capital or tax structures. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business or day-to-day operations. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools to evaluate financial performance and is a key metric in business valuations. It is also considered important by lenders to the Company and is included in the financial covenants of the Company's debt agreements.

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

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

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

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

# SHAWCOR DIRECTORS



**J.T. Baldwin**

*London, England*

Mr. Baldwin retired as the Vice President Communications & External Affairs for the Southern Corridor for BP, a position he held since July 2012, and has been a Director of Shawcor since March 2010.



**D.S. Blackwood**

*Houston, Texas*

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



**J.W. Derrick**

*Buffalo, New York*

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



**K.J. Forbes**

*West Sussex, England*

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



**M.S. Hanley**

*Mount-Royal, Quebec*

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



**S.M. Orr**

*Toronto, Ontario*

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



**P.S. Pierce**

*Houston, Texas*

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



**P.G. Robinson**

*Toronto, Ontario*

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



**E.C. Valiquette**

*Pembroke, Ontario*

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



**D.M. Wishart**

*Calgary, Alberta*

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

# PRIMARY OPERATING LOCATIONS

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## PIPELINE AND PIPE SERVICES

---

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### Flexpipe Systems

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### Shaw Pipeline Services

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### Lake Superior Consulting, LLC

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---

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# CORPORATE INFORMATION

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## CORPORATE OFFICERS

**P.G. Robinson**

Chair of the Board

**S.M. Orr**

President and  
Chief Executive Officer

**G.A. Tano**

Senior Vice President, Finance  
and Chief Financial Officer

**D.R. Ewert**

Senior Vice President,  
Legal & Secretary

## OPERATIONS MANAGEMENT

**C.V. Havern**

Group President,  
Integrity Management

**J.A. Tabak**

Group President, Composite  
Production Systems

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

Group President,  
Pipeline Performance

**J.R. Bronson**

Group President,  
Oilfield Asset Management

**F. Cistrone**

Group President,  
Connection Systems

**R.J. Dunn**

Senior Vice President,  
Research and Development  
(R&D) and Operations  
Shawcor

**P.A. Pierroz**

Senior Vice President,  
Business Services  
and Human Resources  
Shawcor

**T. Anderson**

Senior Vice President,  
Western Hemisphere  
Pipeline Performance

**K.D. Reizer**

Senior Vice President,  
Eastern Hemisphere  
Pipeline Performance

**C. Oudinot**

Vice President  
Pipeline Performance Products

**B. McDonald**

Vice President and  
General Manager  
Shaw Pipeline Services

**J.W. Johnson**

Vice President and  
General Manager  
Shawcor Inspection Services

**P. Powers**

President and Managing Director  
Lake Superior Consulting

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**Auditors**

Ernst & Young LLP

**Stock Listing**

The Toronto Stock Exchange  
Common Shares  
Trading Symbol: SCL

**Annual Meeting**

Tuesday, May 8, 2018  
4:00 p.m.

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