

INTEGRITY IN
EVERYTHING
WE DO



CORPORATE PROFILE

Shawcor Ltd is a global energy services company specializing in technology based products and services for the pipeline and pipe services and the petrochemical and industrial markets. The Company operates eight divisions, with fixed and mobile manufacturing and services facilities located around the world employing over 6,000 people.

TABLE OF CONTENTS

1	Financial and Operating Highlights
2	Message to Shareholders
5	Financial Review
6	Management's Discussion and Analysis
32	Management's Responsibility for Financial Statements
33	Independent Auditor's Report
34	Consolidated Financial Statements
39	Notes to the Consolidated Financial Statements
77	Six-year Review and Quarterly Information
78	Shawcor Directors
79	Primary Operating Locations
80	Corporate Information

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.

2016 HIGHLIGHTS**Financial Summary**

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

	2016	2015
Operating Results		
Revenue	\$ 1,209,259	\$ 1,810,648
Adjusted EBITDA (Note 1)	56,452	228,478
(Loss) Income from Operations	(171,120)	149,429
Net (Loss) Income (Note 2)	\$ (180,960)	\$ 98,244
(Loss) Earnings per share – basic	\$ (2.80)	\$ 1.52
(Loss) Earnings per share – diluted	\$ (2.80)	\$ 1.52
Cash Flow		
Cash provided by operating activities	\$ 131,893	\$ 281,041
Financial Position		
Working capital	\$ 279,986	\$ 446,405
Total assets	\$ 1,777,791	\$ 2,145,705
Equity per share	\$ 14.92	\$ 17.44

Note 1: Adjusted EBITDA is a non-GAAP measure calculated by adding back to Net (Loss) Income the sum of net finance costs, income taxes, amortization of property, plant, equipment and intangible assets, gains from sale of land, arbitration awards outside of the normal course of business and impairment of assets. Adjusted EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools.

Note 2: Attributable to shareholders' of the Company.

TRANSITIONING TO GROWTH

SHAWCOR POSTED WEAKER FINANCIAL RESULTS IN 2016 AS WE CONTINUED TO WEATHER A PERSISTENT DOWNTURN IN THE ENERGY SERVICES INDUSTRY. REVENUE DECLINED BY 33 PERCENT IN 2016 TO \$1.21 BILLION, THE RESULT OF LOWER CAPITAL SPENDING ON GLOBAL PIPELINE INFRASTRUCTURE PROJECTS AND REDUCED DEMAND FOR OILFIELD SERVICES IN NORTH AMERICA. THIS LOWER ACTIVITY IN OUR PIPELINE AND PIPELINE SERVICES BUSINESSES WAS OFFSET SOMEWHAT, HOWEVER, BY STRONG GROWTH IN OUR PETROCHEMICAL AND INDUSTRIAL SEGMENT, WHICH WAS CHALLENGED TO KEEP PACE WITH CUSTOMER DEMAND. ADJUSTED EBITDA FELL 75 PERCENT TO \$56 MILLION, REFLECTING LOWER REVENUE AND LOWER AVERAGE MARGINS COMPARED TO THE PREVIOUS YEAR, AND NET EARNINGS PER SHARE DECLINED FROM \$1.52 (DILUTED) IN 2015 TO A LOSS PER SHARE OF (\$2.80) IN 2016.

While these results were disappointing, we are encouraged that our performance improved significantly during the year, with adjusted EBITDA rising from a low of (\$20.3) million in Q2 to \$33 million in the fourth quarter. Furthermore, we expect to generate significantly higher revenue and earnings in 2017 on the strength of growth in our booked order backlog, which increased from \$452 million at December 31, 2015 to \$650 million by the end of 2016, and continued recovery of North American oil and gas drilling and well completions.

After 24 months of declining investment and activity, industry fundamentals began to show signs of a turnaround in 2016. Oil prices started to climb early in the year, with the WTI spot price more than doubling from US\$26.19 on February 11 to US\$53.75 by year-end.⁽¹⁾ Drilling activity as measured by U.S. rig counts followed suit, increasing by about 75 percent during the second half of the year.⁽²⁾ While oil prices are still well below 2014 levels and not yet predictable enough to spur major greenfield oil development capital investments, Shawcor is poised to transition to growth as the industry recovers.

During the past two years, we have adjusted quickly to changing circumstances, reducing our workforce by 38 percent and lowering our cost structure through the implementation of a shared services platform, the standardization of business practices and processes, and the co-location of our businesses in several geographies. Yet we have been careful to preserve the core strengths that have made Shawcor a recognized industry leader. The protection of the core strengths of Integrity, Execution and Technology will be critical as we transition to growth. Equally important, we have continued to advance a long-term strategy that is aimed at better aligning our businesses around shared opportunities, and shifting our thinking beyond the sale of discrete products and services to the creation of integrated, value-added solutions for customers in the five growth platforms of our business.

In our Pipeline Performance platform, major energy infrastructure projects planned before the downturn are not likely to proceed until oil prices rise to a higher and more sustainable level. Until then, we will continue to concentrate our efforts on projects most likely to proceed, such as natural gas infrastructure, which is supported by strong economics and supportive political mandates to reduce hydrocarbon emissions in electricity generation. One such example is the US\$2.1 billion Sur de Texas – Tuxpan undersea natural gas pipeline in Mexico, which is expected to generate approximately \$350 million in pipe coating revenue for Shawcor during 2017. We are presently engaged with customers on other major projects representing a potential value of more than \$2.4 billion. As the industry's largest, most experienced, and most technologically advanced competitor, we expect to win a large share of these projects as they proceed. Our ability to execute them has been further enhanced by moves to strengthen the balance sheet during the year. These included the repurchase of over US\$150 million in senior note debt and an equity issue that raised \$173 million to support working capital and other growth investments.

In our second growth platform – Composite Production Systems – we continued to see the adoption of advanced polymer-based pipe, fittings, and associated components in the production of oil and gas reservoirs. Due to their compelling cost and durability advantages over bare and coated steel pipe, Flexpipe's spoolable and stick products are a logical choice for gathering line and produced water transportation applications. In 2017 we will launch commercial production of the Flexflow large diameter stick platform starting with 6- and 8-inch products. Additionally, we will continue to advance the Flexpipe spoolable product line with the development of higher temperature and pressure capabilities.

(1) Source: eia.gov

(2) Source: www.wtrg.com/rotaryrigs.html



Steve Orr
Chief Executive Officer

“The protection of the core strengths of Integrity, Execution and Technology will be critical as we transition to growth.

We also continued to invest in the development of our Integrity Management businesses whose shared goal is to fundamentally alter how pipelines are designed, constructed, operated and maintained, with the application of innovative measurement and data technologies. Our customers are looking for ways to mitigate the risk of infrastructure failure, improve construction quality, reduce costs and provide complete life cycle traceability. In 2017, we will continue to integrate Lake Superior Consulting's pipeline engineering and integrity management expertise with our advanced non-destructive testing technologies, while transitioning Shawcor Inspection Services (formerly Desert NDT) into the midstream and oilfield infrastructure integrity spaces. Other priorities include the expansion of data enabled services based on the Readdi™ remote data monitoring technology, leveraging gained domain knowledge from the addition of Lake Superior Consulting, and ensuring a strong focus on winning multiple offshore weld inspection projects that will be tendered during the year.

Our Oilfield Asset Management businesses provide asset tracking, inspection and repair in one seamless solution to help customers improve asset utilization and return on capital. In 2017, our priority will be to scale the business to capture the expected strengthening in drilling activity and to generate more revenue from assets employed in ongoing production as customers concentrate on maximizing well production.

Our Connections Systems businesses, which provide electrical connection, insulation and sealing solutions as well as control and instrumentation cables for customers in a wide range of industries, posted a record performance again in 2016. Over the next year, we will be building new capacity to better serve existing markets, while engineering new technological solutions for extreme and challenging applications.

In total, these growth platforms are focused on markets and potential markets that represent more than \$20 billion in total annual expenditures. The opportunity to take advantage of them will depend on the long-term fundamentals of our industry, which continue to bode well for Shawcor.

In spite of today's imbalance between supply and demand, the natural depletion of currently producing reservoirs will soon create the need for new sources of hydrocarbons. Historically, depletion rates have averaged 7 percent a year, but with severe reductions in capital spending over the past two years and increasing contribution from shale production, this rate is expected to increase. New oil and gas production will require new pipeline infrastructure to bridge a growing deficit.

There is also a growing distance between the places where energy demand is increasing, primarily in emerging markets and Asia, and the location of new reserves required to fill that demand. This will continue to spur new investment, particularly in natural gas pipelines and LNG.

Our Pipeline and Pipeline Services businesses also stand to benefit from the increasing age of the world's existing pipeline infrastructure. More than 60 percent of North American pipelines in service today, and over 45 percent globally, are older than 20 years and thus beyond their original design life. Given increased public awareness and government scrutiny, we believe that the products and services we provide to enhance pipeline integrity will find an increasingly receptive market.

“We do expect higher capital spending and improved oilfield activity in North America. Our businesses are well leveraged to benefit from such developments.

Although we cannot be certain of the timing or pace of the energy industry's recovery, we do expect higher capital spending and improved oilfield activity in North America. Our businesses are well leveraged to benefit from such developments. Since 2014, our businesses exposed to North American well drilling and completion have declined by \$300 million in revenue on an annualized basis and we expect to recoup this lost revenue as activity improves and new product and service introductions gain market share.

It may take some time for energy majors and national oil companies to find the confidence to proceed with major greenfield infrastructure investments. Indeed, we expect that global expenditures on new oil and gas infrastructure will be lower in 2017 as producers focus on short-cycle, immediate return investments. If so, this would be the first three-year period of declining industry capex in history, setting the stage for a rebound in 2018 and beyond.

In closing, I would like to thank our Board of Directors for their ongoing guidance and support of our strategy over the past year. I also wish to thank our employees for the extra effort they have shown amid challenging circumstances, and looking ahead, for the increasingly vital roles they will play as we transition to growth. Thanks to their dedication, and with the continuing support of our business partners, customers, communities and investors, I look forward to reporting on our progress in the year ahead.



Steve Orr
Chief Executive Officer

FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS	6	7.0 DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING	21
1.0 EXECUTIVE OVERVIEW	6	8.0 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS	21
1.1 Core Businesses	6	8.1 Critical Judgments	21
1.2 Vision and Objectives	7	8.2 Critical Accounting Estimates	22
1.3 Key Performance Drivers	7	8.3 Accounting Standards Issued but Not Yet Applied	23
1.4 Key Performance Indicators	7	8.4 New Accounting Standards Adopted	23
1.5 Capability to Deliver Results	8	9.0 OUTLOOK	24
2.0 FINANCIAL HIGHLIGHTS	9	10.0 RISKS AND UNCERTAINTIES	25
2.1 Selected Financial Information	9	10.1 Economic Risks	25
2.2 Foreign Exchange Impact	10	10.2 Litigation and Legal Risks	26
3.0 BUSINESS DEVELOPMENTS	10	10.3 HSE Risks	27
4.0 RESULTS FROM OPERATIONS	11	10.4 Political and Regulatory Risks	27
4.1 Consolidated Information	11	11.0 ENVIRONMENTAL MATTERS	28
4.2 Segment Information	12	12.0 RECONCILIATION OF NON-GAAP MEASURES	28
5.0 LIQUIDITY AND CAPITALIZATION	13	13.0 FORWARD-LOOKING INFORMATION	30
5.1 Cash Provided by Operating Activities	14	14.0 ADDITIONAL INFORMATION	31
5.2 Cash Used in Investing Activities	14	MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS	32
5.3 Cash Used in Financing Activities	14	INDEPENDENT AUDITORS' REPORT	33
5.4 Liquidity and Capital Resource Measures	14	CONSOLIDATED STATEMENTS OF INCOME (LOSS)	34
5.5 Credit Facilities	15	CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)	35
5.6 Long-Term Debt	15	CONSOLIDATED BALANCE SHEETS	36
5.7 Commitments, Leases, Contingencies and Off Balance Sheet Arrangements	16	CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	37
5.8 Financial Instruments and Other Instruments	17	CONSOLIDATED STATEMENTS OF CASH FLOWS	38
5.9 Outstanding Share Capital	19	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	39
5.10 Transactions with Related Parties	19	SIX-YEAR REVIEW AND QUARTERLY INFORMATION	77
6.0 QUARTERLY SELECTED FINANCIAL INFORMATION	19	SHAWCOR DIRECTORS	78
6.1 Fourth Quarter Highlights	20	PRIMARY OPERATING LOCATIONS	79
		CORPORATE INFORMATION	80

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, 2016 AND 2015 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, 2016, the Company operated its eight divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 85% of consolidated revenue for the year ended December 31, 2016. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Guardian, 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. During 2015, the Socotherm division was integrated with the Bredero Shaw division.
- Canusa-CPS manufactures heat-shrinkable sleeves, adhesives, sealants and liquid coatings for corrosion protection on onshore and offshore pipelines.
- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.
- Flexpipe Systems manufactures spoolable composite pipe systems used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities.

- Guardian provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.
- 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 15% of consolidated revenue for the year ended December 31, 2016. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets. The Connection Systems division was formed from the 2015 integration of the DSG-Canusa and Shawflex divisions.

- Connection Systems is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.
- Connection Systems also 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) decreased by \$279.2 million from \$98.2 million for the year ended December 31, 2015 to a net loss of \$181.0 million for the year ended December 31, 2016. This was mainly due to the \$320.5 million decrease in Operating Income, a \$3.4 million higher loss from investments in associates and a \$3.0 million higher cost associated with repayment and modification of long term debt. This was partially offset by a \$19.2 million arbitration award, lower finance costs of \$2.3 million and a \$25.3 million decrease 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. 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, 2016 and 2015 was (11.8%) and 7.5%, respectively. This decrease was primarily due to a decrease of \$277.2 million in net income for the year, adjusted for after-tax interest expense, offset by a decrease in average invested capital of \$104.9 million.

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, 2016 and December 31, 2015, the Company had recordable injuries per million person hours worked of 4.5 and 6.7, respectively. During 2016, the Company completed 15 HSE audits at manufacturing and service locations across all eight divisions and developed action plans to correct any deficiencies identified in the audits.

1.5 Capability to Deliver Results

Capital Resources

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

Capital expenditures increased by \$26.3 million from \$61.2 million for the year ended December 31, 2015 to \$87.5 million for the year ended December 31, 2016. 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 that as a result of growth in revenue, it will increase its investment in net working capital during 2017. This expected increase in requirements will be financed from the Company's cash balances and available committed credit facilities. In order to improve the Company's capital resources and fund working capital and growth investment requirements, the Company completed an equity issue in December 2016 for net proceeds of \$165.3 million. The Company had cash and cash equivalents and short term investments of \$196.7 million and \$263.6 million as at December 31, 2016 and 2015, respectively, and had unutilized lines of credit available of \$399.2 million and \$491.9 million, as at December 31, 2016 and 2015, respectively.

As described in *Section 5.5 – Credit Facilities*, the Company renegotiated the terms of its debt covenants with respect to its Credit Facility and Senior Notes to improve its flexibility and ability to handle the risks and opportunities posed by the current market environment and to ensure that it remains in compliance with the terms of these agreements. The term of its Credit Facility was extended to December 6, 2019.

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

Non-Capital Resources

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

On an ongoing basis, the Company monitors its succession planning program in order to mitigate the impact of planned or unplanned departures of key personnel. As at December 31, 2016, 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, 2016 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, 2016, 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)	Year Ended December 31,		
	2016	2015	2014
Revenue	\$ 1,209,259	\$ 1,810,648	\$ 1,890,029
Cost of Goods Sold and Services Rendered	816,775	1,204,306	1,166,319
Gross Profit	392,484	606,342	723,710
Selling, general and administrative expenses	320,643	371,954	375,153
Research and development expenses	13,239	13,664	13,053
Foreign exchange gains	(1,386)	(7,868)	(3,747)
Amortization of property, plant and equipment	57,255	58,019	55,219
Amortization of intangible assets	23,035	21,368	15,587
Gains on sale of land	(6,493)	(814)	(609)
Impairment	157,311	590	120,378
(Loss) Income from Operations	(171,120)	149,429	148,676
Gain on assets held for sale	-	-	6,427
(Loss) income from investments in associates	(3,536)	(114)	877
Loss on investments in joint ventures	-	-	(22,375)
Finance costs, net	(15,915)	(18,244)	(18,401)
Costs associated with repayment and modification of long-term debt	(3,009)	-	-
Gain from arbitration award	19,221	-	-
(Loss) Income before Income Taxes	(174,359)	131,071	115,204
Income taxes	6,207	31,551	21,010
Net (Loss) Income	\$ (180,566)	\$ 99,520	\$ 94,194
Net (Loss) Income Attributable to:			
Shareholders of the Company	(180,960)	98,244	94,861
Non-controlling interests	394	1,276	(667)
Net (Loss) Income^(a)	(180,566)	99,520	94,194
Per Share Information:			
Earnings (Loss) per Share			
Basic	\$ (2.80)	\$ 1.52	\$ 1.55
Diluted	\$ (2.80)	\$ 1.52	\$ 1.53
Cash Dividend per Share:			
Common Shares	\$ 0.600	\$ 0.600	\$ 0.575

(a) Please refer to Section 4.1 – Consolidated Information for further details on the variance to net income for 2016 compared to 2015. Please refer to the company's 2015 MD&A for further details on the variance in net income for 2015 compared to 2014.

(in thousands of Canadian dollars)	December 31,		
	2016	2015	2014
Total Assets	\$ 1,777,791	\$ 2,145,705	\$ 1,939,970
Total Non-current Liabilities	\$ 339,298	\$ 579,839	\$ 524,462

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	
	2016	2015
US Dollar	1.3284	1.2794
Euro	1.4633	1.4231
British Pound	1.7991	1.9544

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

(in thousands of Canadian dollars)	Year Ended December 31, 2016	
Revenue	\$	(490)
Income from operations		(4,945)
Net income (attributable to shareholders of the Company)		(6,863)

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of \$1.4 million in 2016, compared to a foreign exchange gain of \$7.9 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

Acquisition of Lake Superior Consulting

On January 5, 2016, the Company acquired the units of Lake Superior Consulting, LLC ("Lake Superior") for approximately \$37.3 million (US\$26.9 million) inclusive of a \$7.2 million (US\$5.2 million) earn out paid in 2016. Lake Superior is a Duluth, Minnesota based professional services firm, specializing in pipeline engineering and integrity management services to major pipeline operators. The business operates from facilities in Minnesota, Texas, Nebraska, Kansas and North Dakota, provides pipeline design, engineering, inspection and commissioning as well as integrity management services.

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

Repurchase of US\$78 Million of Senior Notes

In April 2016, the Company utilized a portion of its existing cash balances to repurchase approximately US\$78 million of its long-term debt ("Senior Notes") at a purchase price of approximately US\$79 million plus accrued interest.

Sur de Texas – Tuxpan Contract Award

On July 8, 2016, the Company was awarded a conditional contract with a value in excess of \$300 million from Infraestructura Marina del Golfo (IMG), a Mexican company majority-owned by TransCanada Corporation and partially owned by IEnova, for pipeline coating for the CFE Sur de Texas – Tuxpan gas pipeline project, a 690 km offshore pipeline that will run from the USA/Mexico international border near Brownsville, Texas to a location near Tuxpan, Mexico. The contract has since been finalized and is scheduled to be executed from two coating plants in Altamira, Mexico and involves the application of concrete weight coating. Coating has commenced with completion expected in early 2018.

The Company has also received a contract for anti-corrosion coating of pipe that will be coated at the Company's facilities in Asia Pacific and then transported to Mexico for concrete coating and delivery to the client for the Sur de Texas – Tuxpan pipeline. Including the anti-corrosion coating, the Sur de Texas – Tuxpan project has an estimated revenue value to Shawcor in excess of \$350 million.

Further Amendments to Senior Notes Agreement and Credit Facility and Repurchase of US\$75 million of Senior Notes

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:

- 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;
- 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");
- the creation of a minimum EBITDA covenant of Cdn\$15 million in respect of Q4 2016;
- 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;
- 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;
- 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
- 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.

The Company incurred fees and expenses of \$2.1 million and \$0.9 million to implement these amendments in the second and fourth quarter of 2016, respectively.

The Company also utilized a portion of its available Credit Facility to repurchase US\$75 million of its Senior Notes on December 12, 2016 at a price of US\$75 million.

Equity Issuance

On December 7, 2016, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters") led by TD Securities Inc. pursuant to which the Underwriters agreed to purchase from Shawcor on a bought deal basis and sell to the public 4,575,000 common shares of Shawcor at a price of \$32.80 per common share for gross proceeds of \$150 million (the "Offering"). In addition, Shawcor granted

the Underwriters an option to purchase up to an additional 686,250 common shares at a price of \$32.80 per common share to cover over-allotments, if any, and for market stabilization purposes, during the 30 days following the closing of the Offering (the "Over-Allotment Option").

On December 23, 2016, the Company closed the Offering and the full Over Allotment Option and issued 5,261,250 common shares for aggregate gross proceeds of approximately \$173 million.

Shawcor used a portion of the net proceeds of the Offering to repay US\$75 million (Cdn\$101 million) of the Credit Facility debt and anticipates using the remainder to facilitate investments in working capital related to booked and future potential orders for large pipe coating projects, to fund future corporate investments, which may potentially include future acquisitions, and for general corporate purposes.

4.0 RESULTS FROM OPERATIONS

4.1 Consolidated Information

Revenue

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

(in thousands of Canadian dollars)	2016	2015	Change
Pipeline and Pipe Services	\$ 1,023,312	\$ 1,631,147	\$ (607,835)
Petrochemical and Industrial	187,418	181,867	5,551
Elimination	(1,471)	(2,366)	895
Consolidated	1,209,259	1,810,648	(601,389)

Consolidated revenue decreased by \$601.4 million, or 33%, from \$1,810.6 million for the year ended December 31, 2015 to \$1,209.3 million for the year ended December 31, 2016, due to a decrease of \$607.8 million, or 37%, in the Pipeline and Pipe Services segment, partially offset by an increase of \$5.6 million, or 3%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during 2016 was \$1,023.3 million, or \$607.8 million lower than in 2015, due to lower activity levels in all regions. Please refer to *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 \$5.6 million during 2016 compared to 2015, due to higher activity levels in the North America and Asia Pacific regions, partially offset by lower revenue in Europe, Middle East, Africa and Russia ("EMAR"). Please refer to *Section 4.2.2 – Petrochemical and Industrial* Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

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

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

(in thousands of Canadian dollars)	2016	2015	Change
(Loss) Income from Operations	\$ (171,120)	\$ 149,429	\$ (320,549)
Operating Margin ^(a)	(14.2%)	8.3%	(22.5%)

(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.

Operating Income decreased by \$320.5 million from the year ended December 31, 2015, to an Operating Loss of \$171.1 million in 2016. Operating Income was impacted by a year over year decrease in gross profit of \$213.9 million, an increase in impairment charges of \$156.7 million, a \$0.9 million increase in amortization of property, plant, equipment and intangible assets and a reduction in net foreign exchange gain of \$6.5 million. This was partially offset by a decrease in selling, general and administration ("SG&A") expenses of \$51.3 million, an increase in gain on sale of land of \$5.7 million and a decrease in research and development expenses of \$0.4 million.

The decrease in gross profit resulted from the lower revenue, as explained above, and a 1.0 percentage point decrease in gross margin.

The decrease in the gross margin was attributable to changes in product and project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption compared to the prior year, particularly in the Pipeline and Pipe Services segment.

SG&A expenses decreased by \$51.3 million in the year ended December 31, 2016 compared to 2015, primarily due to a decrease in personnel related expenses of \$28.1 million, a decrease in rental and building costs of \$7.1 million, a \$4.7 million reduction in a provision for import duties, a reduction in bank charges for performance guarantees and other fees of \$4.3 million, a \$3.4 million decrease in legal provisions and professional fees and a reduction in other costs of \$2.9 million.

Finance Costs, Net

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

(in thousands of Canadian dollars)	2016	2015	Change
Interest income on short-term deposits	\$ (3,108)	\$ (1,009)	\$ (2,099)
Interest expense, other	4,739	3,359	1,380
Interest expense on long-term debt	14,284	15,894	(1,610)
Finance costs – net	\$ 15,915	\$ 18,244	\$ (2,329)

For the year ended December 31, 2016, net finance cost was \$15.9 million, compared to a net finance cost of \$18.2 million for 2015. The decrease in net finance costs was primarily a result of lower interest expense on long-term debt as a result of the repayment of Senior Notes and higher interest income on short term deposits. This was partially offset by higher interest on borrowings during the year.

Income Taxes

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

(in thousands of Canadian dollars)	2016	2015	Change
Income tax expense	\$ 6,207	\$ 31,551	\$ (25,344)

The Company recorded an income tax expense of \$6.2 million during the year ended December 31, 2016, compared to an income tax expense of \$31.6 million (24% of income before income taxes) during the year ended December 31, 2015. The recording of an income tax expense in 2016, rather than an expected tax recovery, was due to the fact that a tax expense was incurred in jurisdictions where the Company was profitable, while some of the losses in the year were generated in jurisdictions where the Company was unable to record a tax benefit.

Net Income (attributable to shareholders of the Company)

Net income decreased by \$279.2 million, from a Net Income of \$98.2 million during the twelve month period ended December 31, 2015 to a Net Loss of \$181.0 million during the twelve month period ended December 31, 2016. This was mainly due to the \$320.5 million decrease in Operating Income, as explained above, a \$3.4 million higher loss from investments in associates and a \$3.0 million higher cost associated with repayment and modification of long term debt. This was partially offset by a \$19.2 million arbitration award against Wasco Energy, lower finance costs of \$2.3 million and a \$25.3 million decrease in income tax expense.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

(in thousands of Canadian dollars, except Operating Margin)	2016	2015	Change
North America	\$ 491,567	\$ 730,316	\$ (238,749)
Latin America	56,149	150,783	(94,634)
EMAR	365,291	579,640	(214,349)
Asia Pacific	110,305	170,408	(60,103)
Total Revenue	\$ 1,023,312	\$ 1,631,147	\$ (607,835)
Operating (Loss) Income	\$ (186,163)	\$ 148,853	\$ (335,016)
Operating Margin^{a)}	(18.2%)	9.1%	(27.3%)

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.

Revenue in the Pipeline and Pipe Services segment for the year ended December 31, 2016 was \$1,023.3 million, a decrease of \$607.8 million from \$1,631.1 million in the prior year. Segment revenue was impacted by lower activity levels in all regions:

- Revenue in North America decreased by \$238.7 million, or 33%, primarily due to a decrease in tubular management services in Canada, lower pipe weld inspection services revenue in the USA and lower activity levels for small and large diameter pipe coatings in Canada and the USA. This was partially offset by the impact of the Lake Superior Consulting acquisition completed in the first quarter of 2016 and an increase in volumes of flexible composite pipe.
- In Latin America, revenue was lower by \$94.6 million, or 63%, mainly due to lower activity levels in Brazil and Argentina, combined with lower volumes at the Veracruz and Monterrey, Mexico facilities.
- Revenue in EMAR decreased by \$214.3 million, or 37%, primarily due to decreased pipe coating activity levels for the Shah Deniz project in the Caspian, lower activity levels at the RAK, Orkanger, Norway and Italian facilities and other field joint projects in the region. This was partially offset by higher activity levels at the Leith, Scotland facility.
- In Asia Pacific, revenue decreased by \$60.1 million, or 35%, due to lower project volumes at the Kuantan, Malaysia and Kabil, Indonesia facilities.

Operating Loss for the year ended December 31, 2016 was \$186.2 million compared to Operating Income of \$148.9 million for the prior year, a decrease of \$335.0 million. The decrease in Operating Income is primarily due to the \$157.3 million in impairment charges recorded in 2016, a decline in gross profit of \$214.4 million, driven by a decrease in revenue of \$607.8 million, as explained above and

a 0.8 percentage point decrease in gross margin. The decrease in gross margin was due to unfavourable project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption. Partially offsetting these negative factors was a reduction in SG&A expenses, as explained above, and a \$5.7 million increase in gains on sale of land.

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)	2016	2015	Change
North America	\$ 114,512	\$ 106,984	\$ 7,528
EMAR	61,263	64,189	(2,926)
Asia Pacific	11,643	10,694	949
Total Revenue	\$ 187,418	\$ 181,867	\$ 5,551
Operating Income	\$ 29,987	\$ 28,686	\$ 1,301
Operating Margin^(a)	16.0%	15.8%	23.4%

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.

Revenue increased in the year ended December 31, 2016 by \$5.6 million, or 3%, to \$187.4 million, compared to 2015, primarily due to increased heat shrinkable product shipments in North America and Asia Pacific.

Operating Income for the year ended December 31, 2016 was \$30.0 million compared to \$28.7 million in 2015, an increase of \$1.3 million, or 5%. The increase was primarily due to an increase in gross profit of \$0.5 million as a result of an increase in revenue of \$5.6 million, as explained above, and lower research and development expenses.

4.2.3 Financial and Corporate

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

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

(in thousands of Canadian dollars)	2016	2015	Change
Financial and corporate expenses	\$ (22,823)	\$ (36,792)	\$ 13,969

Financial and corporate costs decreased by \$14.0 million from the year ended December 31, 2015 to \$22.8 million in 2016. The decrease was primarily due to reductions in personnel related expenses of \$8.3 million and in professional consulting and legal fees of \$1.8 million, a \$8.5 million decrease as a result of higher allocations to the operating segments for

information systems expenses and a reduction of \$2.9 million in bank and other costs. This was partially offset by an increase in stock based and long term management incentive expenses of \$6.0 million and a \$1.5 million increase in equipment and product development costs.

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)	2016	2015
Net (Loss) Income	\$ (180,566)	\$ 99,520
Non-cash items	234,048	116,788
Settlement of decommissioning obligations	(292)	(2,658)
Settlement of other provisions	(16,288)	(24,143)
Net change in employee future benefits	56	63
Net change in non-cash working capital and foreign exchange	94,935	91,471
Cash provided by operating activities	131,893	281,041
Cash used in investing activities	(111,360)	(120,900)
Cash used in financing activities	(72,556)	(46,402)
Foreign exchange impact on cash and cash equivalents	(13,798)	30,350
Net Change in Cash and Cash Equivalents	(65,821)	144,089
Cash and cash equivalents at beginning of Year	260,645	116,556
Cash and Cash Equivalents at End of Year	\$ 194,824	\$ 260,645

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 \$131.9 million in 2016, a decrease of \$149.1 million or 53.1% compared to the prior year. This was due to a decrease in net income of \$280.1 million, partially offset by an increase in non-cash items of \$117.3 million and lower settlements of decommissioning liabilities and other provisions of \$10.2 million and higher cash provided by non-cash working capital and foreign exchange of \$3.5 million. Net income decreased due to the reasons discussed in *Section 4.1* while the increase in non-cash items primarily reflected the impairment charges reported in 2016.

The increase in cash provided by non-cash working capital and foreign exchange was due to net reductions in accounts receivable, income taxes receivable and inventories of \$71.1 million and an increase in deferred revenue of \$89.3 million, partially offset by a net decrease in accounts payable and accrued liabilities of \$153.4 million.

5.4 Liquidity and Capital Resource Measures

Accounts Receivables

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

(in thousands of Canadian dollars, except DSO)	2016	2015	Change
Average trade accounts receivable	\$ 182,331	\$ 301,966	\$ (119,635)
DSO ^(a)	50	60	(10)

(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 decreased by \$119.6 million or 40% as at December 31, 2016 compared to December 31, 2015, due to a decrease in revenue in the fourth quarter of 2016 compared with a year ago. DSO decreased by 10 days from 60 days during 2015 to 50 days during 2016, primarily due to the timing of sales and collection of receivables in 2016 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)	2016	2015	Change
Inventory	\$ 113,485	\$ 167,557	\$ (54,072)

Inventories decreased by \$54.1 million or 32% as at December 31, 2016 compared to December 31, 2015, due to reductions in raw materials and finished goods of \$21.3 million and \$28.0 million, respectively, and an increase in the inventory obsolescence provisions of \$3.2 million. This was partially offset by an increase in work in progress inventory of \$1.6 million.

Accounts Payable

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

(in thousands of Canadian dollars, except DPO)	2016	2015	Change
Average accounts payable and accrued liabilities	\$ 205,602	\$ 288,383	\$ (82,781)
DPO ^(a)	84	86	(2)

(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*.

5.2 Cash Used in Investing Activities

Cash used in investing activities was \$111.4 million, a decrease of \$9.5 million or 7.9% compared to the prior year. The decrease was primarily due to a decrease in business acquisition costs of \$19.2 million (cash costs net of cash acquired), decreases in investments in associates by \$10.5 million, and in short term investment of \$3.5 million. Further, there were increases in proceeds from the sale of assets of \$8.4 million, and in deferred purchase of consideration of \$1.3 million, contributing to the overall decrease. This was partially offset by the Company's increased spending on the purchase of property, plant and equipment by \$28.1 million, increases in other assets of \$4.5 million and in loan receivable of \$1.1 million.

5.3 Cash Used in Financing Activities

Cash used in financing activities during 2016 was \$72.6 million, an increase of \$26.2 million or 56.4% compared to the prior year. The change was primarily due to the repayments of long-term debt of \$202.6 million. This was partially offset by the increases arising from the issuance of common shares for net proceeds of \$167.1 million in 2016, higher bank indebtedness of \$7.1 million and a reduction in the repayment of loans payable of \$2.0 million.

Average accounts payable and accrued liabilities decreased by \$82.8 million or 29% as at December 31, 2016 compared to December 31, 2015. DPO decreased by 2 days from 2015 levels, due to changes in the timing of purchases in 2016 compared with the prior year.

5.5 Credit Facilities

(in thousands of Canadian dollars)

	2016	2015
Bank indebtedness	\$ 2,463	\$ -
Standard letters of credit for performance, bid and surety bonds	90,898	132,052
Total utilized credit facilities	93,361	132,052
Total available credit facilities ^(a)	492,610	623,970
Unutilized credit facilities	\$ 399,249	\$ 491,918

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.

The Company incurred fees and expenses of \$2.1 million and \$0.9 million to implement these amendments in the second and fourth quarters of 2016, respectively.

The Company was in compliance with these covenants as at December 31, 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 2016 (US\$)	December 31 2015 (US\$)	December 31 2016 (Cdn\$)	December 31 2015 (Cdn\$)
Senior Notes, Series A	March 31, 2020	2.98%	62	100	83	139
Senior Notes, Series B	March 31, 2023	3.67%	57	100	76	139
Senior Notes, Series C	March 31, 2025	3.82%	52	100	70	139
Senior Notes, Series D	March 31, 2028	4.07%	26	50	35	68
			197	350	264	485

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, 2016 is \$263.5 million (US\$196.8 million) (2015 – \$485.1 million (US\$350.0 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in *Section 5.8* below.

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 – Credit Facilities*. The Company was in compliance with these covenants as at December 31, 2016 and December 31, 2015.

5.7 Commitments, Leases, Contingencies and Off Balance Sheet Arrangements

(in thousands of Canadian dollars)	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$	Thereafter \$	Total \$
Purchase commitments	46,432	2,105	1,088	–	–	–	49,625
Accounts payable	88,980	–	–	–	–	–	88,980
Deferred purchase consideration	3,684	–	–	–	–	–	3,684
Bank indebtedness	2,463	–	–	–	–	–	2,463
Long-term debt	–	–	–	82,513	–	181,015	263,528
Finance costs on long-term debt	9,376	9,376	9,376	7,529	6,917	21,178	63,752
Obligations under finance lease	1,461	1,397	1,341	1,338	1,335	9,248	16,120
Operating lease commitments	24,709	18,264	16,851	9,391	9,325	9,638	88,178
	177,105	31,142	28,656	100,771	17,577	221,079	576,330

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)	2016
Total future minimum lease payments	\$ 16,120
Less: imputed interest	(4,151)
Balance of obligations under finance leases	11,969
Less: current portion	950
Non – current obligations under finance leases	\$ 11,019

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 against Wasco Energy.

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's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of \$90.9 million as at December 31, 2016 (December 31, 2015 – \$132.1 million) for support of its bonds. In addition, as at December 31, 2016, the Company had \$107.2 million of outstanding surety bonds through insurance companies (December 31, 2015 – \$130.8 million).

In May 2016, the Company entered into agreements to, among other things, reduce the size of its Credit Facility and amend certain covenants under the Credit Facility and its Senior Notes agreements and in December 2016, the Company made further amendments to its covenants under the Credit Facility and the Senior Notes agreements. Please refer to *Section 5.5* for a description of the amendments to the Credit Facility and the amended covenants applicable to the Credit Facility and Senior Notes.

5.8 Financial Instruments and Other Instruments

Fair Value

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

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

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

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at December 31, 2016:

(in thousands of Canadian dollars)

	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 194,824	\$ 194,824	\$ –	\$ –
Short-term investments	1,890	1,890	–	–
Loans receivable	8,890	–	8,890	–
Derivative financial instruments	9,393	–	9,393	–
Convertible preferred shares	10,000	–	–	10,000
Deposit guarantee	112	–	112	–
	\$ 225,109	\$ 196,714	\$ 18,395	\$ 10,000
Liabilities				
Bank indebtedness	\$ 2,463	\$ –	\$ 2,463	\$ –
Deferred purchase consideration	3,684	–	3,684	–
Long-term debt	236,734	–	236,734	–
Derivative financial instruments	3,759	–	3,759	–
	\$ 246,640	\$ –	\$ 246,640	\$ –

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

Financial Risk Management

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

Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are 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, 2016, fluctuations of +/- 5% in the Canadian dollar,

relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the year then ended by approximately \$49.9 million, \$5.4 million and \$6.1 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$61.2 million, \$18.0 million and \$43.2 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 contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2016:

(in thousands, except weighted average rate amounts)

Canadian Dollars Sold for US Dollars	
Less than one year	Cdn\$ 6,445
Weighted average rate	0.76
US Dollars Sold for Canadian Dollars	
Less than one year	US\$ 12,000
Weighted average rate	1.32
US Dollars Sold for Malaysian Ringgits	
Less than one year	US\$ 6,500
Weighted average rate	4.27
US Dollars Sold for Euros	
Less than one year	US\$ 22,111
Weighted average rate	0.94
US Dollars Sold for British Pounds	
Less than one year	US\$ 1,225
Weighted average rate	0.82
British Pounds Sold for US Dollars	
Less than one year	£ 45
Weighted average rate	1.44
Norwegian Kroner Sold for US Dollars	
Less than one year	NOK 103,181
Weighted average rate	0.12
Euros Sold for US Dollars	
Less than one year	€ 24,656
Weighted average rate	1.12

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

As at December 31, 2016, the Company had notional amounts of \$113.7 million of foreign exchange forward contracts outstanding (2015 – \$145.7 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totaling \$1.1 million (2015 – \$1.0 million net benefit).

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, 2016, a gain of \$18.5 million (2015 – loss of \$78.3 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 investments in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2016.

Interest Rate Risk

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

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial Assets				
Cash equivalents	\$ –	\$ –	\$ 95,913	\$ 95,913
Short-term investments	–	–	1,890	1,890
Loans receivable	3,887	5,003	–	8,890
Convertible preferred shares	10,000	–	–	10,000
	\$ 13,887	\$ 5,003	\$ 97,803	\$ 116,693
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	\$ 90,898	\$ –	\$ –	\$ 90,898
Bank indebtedness	–	2,463	–	2,463
Long-term debt ^(a)	–	–	263,528	263,528
	\$ 90,898	\$ 2,463	\$ 263,528	\$ 356,889

(a) As per the amendments to the Senior Notes Agreement and Credit Facility in May 2016 and December 2016, during any period when the Company is permitted an increased Leverage Ratio, increased interest rates and standby and other fees are payable to the Senior Notes holders and under the Credit Facility.

The Company's interest rate risk arises primarily from its floating rate Credit Facility and the Senior Notes 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, 2016, there was one customer who generated approximately 13% of total consolidated revenue (2015 – one customer generated approximately 18% of total consolidated revenue). As at December 31, 2016, this customer accounted for \$10 million, or approximately 6%, 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, 2016, \$11.6 million, or 7%, of trade accounts receivable was more than 90 days overdue, compared to \$36.5 million or 13%, as at December 31, 2015. 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)	2016	2015
Balance – Beginning of Year	\$ (5,004)	\$ (12,516)
Bad debt expense	(1,317)	(3,512)
Recovery of amounts previously provided for	265	731
Write-off of bad debts	1,014	9,575
Impact of change in foreign exchange rates	177	718
Balance – End of Year	\$ (4,865)	\$ (5,004)

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, 2016, the Company had cash and cash equivalents totalling \$194.8 million (2015 – \$260.6 million) and had unutilized lines of credit available to use of \$399.2 million (2015 – \$491.9 million).

5.9 Outstanding Share Capital

As at February 28, 2017, the Company had 69,897,986 common shares outstanding. In addition, as at February 28, 2017, the Company had stock options and share units outstanding to purchase up to 2,076,379 common shares.

5.10 Transactions with Related Parties

The Company had no material transactions with related parties in the year ended December 31, 2016. 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 2016 and 2015:

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

(in thousands of Canadian dollars except per share amounts)

	Q1-2015	Q2-2015	Q3-2015	Q4-2015
Operating Results				
Revenue	\$ 471,940	\$ 398,020	\$ 485,428	\$ 455,260
Income (loss) from operations	55,616	(7,078)	55,195	45,696
Net income (loss) ^(a)	37,774	(8,538)	38,107	30,901
Earnings (Loss) per share				
Basic	\$ 0.59	\$ (0.13)	\$ 0.59	\$ 0.48
Diluted	0.58	(0.13)	0.59	0.48

(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 85% of the Company's consolidated revenue in 2016, 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 2016 was transacted in currencies other than Canadian dollars, with a majority transacted in US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars. 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 2016 fourth quarter include:

Fourth Quarter 2016 versus Third Quarter 2016

- **Revenue:** Consolidated revenue increased 27%, or \$70.0 million, from \$259.1 million during the third quarter of 2016 to \$329.2 million during the fourth quarter of 2016, due to an increase of \$73.1 million in the Pipeline and Pipe Services segment, partially offset by a decrease of \$3.1 million in the Petrochemical and Industrial segment.

Revenue increased by 34% in the Pipeline and Pipe Services segment, or \$73.1 million, from \$213.1 million in the third quarter of 2016 to \$286.2 million in the fourth quarter of 2016, due to higher activity levels in all regions. Please refer to *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue was lower by \$3.1 million, or 7%, in the fourth quarter of 2016, compared to the third quarter of 2016 due to lower activity levels in EMAR and North American regions. Please refer to *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

- **Operating Income:** Operating Income increased by \$189.7 million, from an operating loss of \$168.0 million during the third quarter of 2016 to Operating Income of \$217 million in the fourth quarter of 2016. Operating Income was positively impacted by increases in gross profit of \$20.7 million, an increase in gains from sale of land of \$5.1 million, a decrease in SG&A expenses of \$7.3 million and the absence of \$155.9 million in impairment charges recorded in the third quarter of 2016. This was partially offset by a \$0.4 million increase in research and development expenses.

The increase in gross profit resulted from the higher revenue, as explained above, partially offset by a 0.8 percentage point decrease in the gross margin from the third quarter of 2016. The decrease in the gross margin percentage was primarily due to product and project mix and a \$4.8 million reduction in the carrying value of inventory, partially offset by labour cost efficiencies due to higher facility utilization and increased absorption of manufacturing overheads.

SG&A expenses decreased by \$7.3 million, from \$79.0 million in the third quarter of 2016 to \$71.8 million in the fourth quarter of 2016, primarily due to a \$6.8 million reduction in provisions for import duties and decommissioning liabilities and a \$1.1 million decrease in personnel related expenses.

- **Finance costs:** In the fourth quarter of 2016, net finance costs were \$2.9 million, compared to a net finance cost of \$4.3 million during the third quarter of 2016. The decrease in net finance costs was primarily a result of higher interest income on short term deposits.
- **Income taxes:** The Company recorded an income tax expense of \$7.0 million (20% of income before income taxes) in the fourth quarter of 2016, compared to an income tax expense of \$2.5 million in the third quarter of 2016. The effective tax rate in the fourth quarter of 2016 was lower than the expected income tax rate of 27% primarily due to a portion of the Company's taxable income being earned in jurisdictions where the tax rate is 25% or less.
- **Net Income:** Net income increased by \$201.3 million, from a net loss of \$174.0 million during the third quarter of 2016 to a net income of \$27.3 million during the fourth quarter of 2016. This was mainly due to the \$189.7 million increase in Operating Income, as explained above, a \$19.2 million arbitration award against Wasco Energy and a \$1.5 million decrease in finance costs. This was partially offset by a \$1.3 million higher loss from investments in associates and a \$4.5 million increase in income tax expense.

Fourth Quarter 2016 versus Fourth Quarter 2015

- **Revenue:** Consolidated revenue decreased by \$126.1 million, or 28%, from \$455.3 million during the fourth quarter of 2015, to \$329.2 million during the fourth quarter of 2016, due to decreases of \$124.6 million in the Pipeline and Pipe Services segment and \$2.3 million in the Petrochemical and Industrial segments.

In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2016 was \$286.2 million, or 30% lower than in the fourth quarter of 2015, due to decreased activity levels in EMAR, North America and Latin America, partially offset by higher activity levels in Asia Pacific. Please refer to *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue decreased by \$2.3 million, or 5%, during the fourth quarter of 2016, compared to the fourth quarter of 2015, due to lower activity levels in North America and EMAR. Please refer to *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

- **Operating Income:** Operating Income decreased by \$24.0 million, from an Operating Income of \$45.7 million in the fourth quarter of 2015 to an Operating Income of \$21.7 million during the fourth quarter of 2016. Operating Income was impacted by a decrease in gross profit of \$44.0 million and a \$4.9 million decrease in net foreign exchange gains. This was partially offset by decreases in SG&A expenses of \$17.3 million, in research and development expenses of \$0.3 million, in amortization of property, plant, equipment and intangible assets of \$1.1 million and an increase in gains from sale of land of \$5.6 million.

The decrease in gross profit resulted from the lower revenue, as explained above, and a 0.6 percentage point decrease in gross margin. The decrease in the gross margin percentage was primarily attributable to product and project mix, a \$4.8 million reduction in the carrying value of inventory, labour inefficiencies due to lower facility utilization and decreased absorption of manufacturing overheads.

SG&A expenses in the fourth quarter of 2016 decreased by \$17.3 million, primarily due to a \$6.9 million reduction in provisions for import duties and decommissioning liabilities, a \$7.2 million reduction in personnel related expenses, a \$6.3 million decrease in legal provisions and professional fees, a decrease in restructuring costs relating to the closure of facilities of \$3.5 million and a net reduction in other costs of \$4.2 million. Partially offsetting these expense reductions was an increase in management incentive compensation expenses of \$10.8 million as a result of provision reversals in the fourth quarter of 2015 and Shawcor share price appreciation in 2016 versus a decline in 2015.

- **Finance costs:** In the fourth quarter of 2016, net finance costs were \$2.9 million, compared to a net finance cost of \$4.7 million during the fourth quarter of 2015. The decrease in net finance costs was primarily a result of higher interest income on short term deposits.
- **Income taxes:** The Company recorded an income tax expense of \$7.0 million (20% of income before income taxes) in the fourth quarter of 2016, compared to an income tax expense of \$9.7 million (23% of income before income taxes) in the fourth quarter of 2015. The effective tax rate in the fourth quarter of 2016 was lower than the expected income tax rate of 27% primarily due to a portion of the Company's taxable income being earned in jurisdictions where the tax rate is 25% or less.
- **Net Income:** Net income decreased by \$3.6 million, from \$30.9 million during the fourth quarter of 2015 to \$27.3 million during the fourth quarter of 2016. This was mainly due to the \$24.0 million decrease in Operating Income, as explained above, and a \$2.0 million higher loss from investments in associates. This was partially offset by a \$19.2 million arbitration award against Wasco Energy, lower finance costs of \$1.9 million and a \$2.7 million decrease in income tax expense.

7.0 DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company's Disclosure Controls and Procedures ("DC&Ps") (as defined in the rules of the Canadian Securities Administrators) and the effectiveness of Internal Controls over Financial Reporting ("ICFRs"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as at December 31, 2016. Furthermore, they have concluded that the Company's ICFRs were effective as at December 31, 2016. There were no material changes in either the Company's DC&Ps or its ICFRs during 2016.

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 are made 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, 2016, the Company had \$56.4 million of provisions; of this amount \$21.1 million was included in current liabilities and \$35.3 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

Decommissioning Liabilities

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

Income Taxes

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

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

8.2 Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, 2016, the Company had \$1,015.2 million of long-lived assets and goodwill. The Company evaluates the carrying values of its CGUs' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions and estimates.

Employee Future Benefit Obligations

As at December 31, 2016, the Company had \$20.7 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, 2016, the Company had decommissioning liabilities in the amount of \$29.7 million; of this amount \$5.9 million was included in the current provisions account and \$23.8 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk free rate.

Financial Instruments

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

Income Taxes

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

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

8.3 Accounting Standards Issued but Not Yet Applied

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 are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect a material impact on the consolidated financial statements from the adoption of these amendments.

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. Early application is permitted. The Company has not yet determined the impact of 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 not yet determined the impact of this standard on the consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2015, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of initiating data collection and will provide incremental disclosure leading up to its adoption of this standard in its interim and annual consolidated financial statements.

IFRS 16, Leases

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

8.4 New Accounting Standards Adopted

Amendments to IAS 1, Disclosure Initiative

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

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

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

IFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests

The amendments to IFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3, *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company's adoption of these amendments did not have a material impact on the consolidated financial statements.

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

In May 2015, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets* prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company's adoption of these amendments did not have an impact on the consolidated financial statements.

9.0 OUTLOOK

Since global oil and gas prices first declined in the second half of 2014, the Company has experienced weak market conditions that have impacted demand for the Company's products and services. Lower expenditures by customers on the drilling and completion of wells has affected the Pipeline and Pipe Services Segment – North America region and the curtailment in capital spending on new oil and gas development projects has impacted the international regions of the Pipeline and Pipe Services Segment. These trends were evident in the Company's financial performance particularly in the second and third quarters of this year.

However, commencing in the fourth quarter of 2016, the Company's financial performance evidenced improving market demand which, combined with the growth in the Company's order backlog, offers the potential that Shawcor will now sustain a trend of improving results. Critical to this outlook are two factors. The first is the level of North American upstream activity, and specifically the number of new oil and gas wells drilled and completed. Since reaching a low level of less than 500 active drilling rigs in the second quarter of 2016, North American rig counts have more than doubled to over 1,000 rigs in early February 2017. As rig counts improve, the demand for the Company's gathering line pipeline products and services grows.

A second factor driving Shawcor's outlook is the level of capital spending on pipeline infrastructure projects by the Company's customers. Since late 2014, the decline in oil and gas prices has resulted in the delay or curtailment of large oil and gas greenfield development projects. This impact has been most evident for Shawcor in our international regions. In 2016, capital spending reductions also translated into substantially lower levels of small project activity both in North America and internationally. In the case of both large greenfield developments and smaller production sustaining capital projects, customers continue to limit commitments for new projects to ensure that capital spending is in line with reduced operating cash flow. Where the Company is seeing evidence of projects proceeding is in natural gas infrastructure, which is supported by strong economics and supportive political mandates to reduce hydrocarbon emissions in electricity generation. One such example is the US\$2.1 billion Sur de Texas – Tuxpan undersea natural gas pipeline in Mexico, which is expected to generate approximately \$350 million in pipe coating revenue for Shawcor during 2017. This project, combined with a modest but steady improvement in North American well completion activity, is expected to enable the Company to deliver strong growth in financial performance in 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. Demand for these products and services is expected to fluctuate with changes in global oil and gas prices and the resulting volume of wells drilled and completed. As noted above, drilling rig counts in North America bottomed in the second quarter of 2016 and have improved through early 2017. This should enable some modest improvement in revenue for these businesses in 2017. To gain the opportunity associated with increased well completions, the Company will need to be successful in scaling operations to meet activity as well as managing significant potential volatility.

In addition to changes in market demand, the Company's North American Pipeline segment businesses expect to generate increased revenue in 2017 from new growth initiatives. Areas of focus include increased shipments of composite pipe to international markets, the expansion of the composite pipe product line to include the new six inch and eight inch FlexFlow composite pipe product, and the continued expansion of new non-destructive testing services to midstream and oilfield infrastructure integrity applications.

The final driver of revenue in the Company's North American Pipeline segment relates to the build of new pipeline infrastructure. Offshore projects in the Gulf of Mexico are likely to be limited to smaller projects that provide tie-back infrastructure until such time as a sustained improvement in oil prices supports new greenfield developments. For large diameter onshore transmission lines, the Company is actively engaged with customers on upfront engineering and bidding for a number of large pipe coating projects. However, these projects must overcome a number of regulatory and possible legal challenges before they can proceed and thus are likely to benefit 2018 at the earliest.

Pipeline and Pipe Services Segment – Latin America

Of the Company's geographic regions, the Latin America Pipeline segment region will provide the most certainty for financial performance improvement in 2017. The Company has now commenced concrete weight coating operations in Altamira, Mexico on the \$350 million Sur de Texas – Tuxpan project. Pipe deliveries to the site are proceeding on schedule and the first of two mobile plants is now operational. The second plant will enter production in May and full production of the project should be achieved by the end of the second quarter. With the vast majority of the project revenue expected to be realized in 2017, the Sur de Texas – Tuxpan project should provide a strong source for improved Shawcor financial performance in 2017.

Pipeline and Pipe Services Segment – EMAR

Revenue in the EMAR Pipeline segment region is expected to move significantly lower in 2017 as a result of the completion of pipe coating for the Shah Deniz project and the two South Stream projects in 2016 and the fact that pipeline operators continue to defer capital spending projects, both large greenfield offshore oil developments and smaller production sustaining projects. However, with the South Stream pipelines now proceeding based on a revised route to Turkey, and the Nord Stream 2 pipelines scheduled for construction, the Company is pursuing significant revenue opportunities for girth weld inspection, pipeline joint protection and pipe end preservation on these pipelines which would support growth in revenue in 2018. Also potentially impacting 2018 are a number of projects in the region that the Company is either bidding or on which it has provided budgetary estimates.

Pipeline and Pipe Services Segment – Asia Pacific

Following a steep decline in revenue in 2016, the Company is now expecting revenue to recover in the Asia Pacific region based on continued production in the first quarter of 2017 of 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. In the second quarter and continuing throughout 2017, healthy growth over 2016 levels is expected to continue based on booked projects included in the order backlog and bidding opportunities that are approaching award.

Petrochemical and Industrial Segment

Shawcor's Petrochemical and Industrial segment businesses continue to deliver steady growth in revenue and earnings based on consistent demand growth in the North American and European automotive, industrial and nuclear refurbishment markets served by the segment. This trend is expected to continue in 2017 as new capacity for control cable and sealing and insulation products enters production and relieves capacity constraints that are currently limiting revenue growth.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog at December 31, 2016 of \$650 million improved by 7% from \$606 million at September 30, 2016 and was over 44% improved from the backlog at the start of the year. The increase in the backlog is due primarily to the

inclusion of the booked order for the Sur de Texas – Tuxpan project in Mexico. This project has an estimated value in excess of \$350 million of which over 90% is now included in the backlog at December 30, 2016, with the remainder scheduled for production in early 2018.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids is currently in excess of \$700 million. In addition, the Company has provided budgetary estimates and is currently working with customers on projects with aggregate values of in excess of \$1.7 billion. These projects provide a solid basis for potential backlog growth in 2017 and beyond.

10.0 RISKS AND UNCERTAINTIES

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

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

10.1 Economic Risks

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 20% of 2016 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 85% of consolidated sales in 2016. With this proportion expected to continue, the Company's revenue is materially dependent on the global Pipeline and Pipe Services industry. Any further significant declines in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

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

Economic Risk Mitigation

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

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

10.2 Litigation and Legal Risks

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

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

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

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

Litigation and Legal Risk Mitigation

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

10.3 HSE Risks

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

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

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

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

HSE Risk Mitigation

To minimize risks associated with HSE matters, the Company has implemented a comprehensive audit program and has completed detailed environmental audits at manufacturing and service locations across all 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 2016, the Company derived over 19% of its total revenue from its facilities outside Canada, the US and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

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

In addition, the Company is specifically exposed to risks relating to economic or political developments in Argentina, Azerbaijan, 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 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, 2016, the provisions on the annual consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$29.7 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 \$42.4 million as at December 31, 2016. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.15% and 7.59%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

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

(in thousands of Canadian dollars)		December 31, 2016
2017	\$	6,388
2018		2,091
2019		3,015
2020		3,750
2021		4,507
More than five years		22,618
	\$	42,369

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. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business.

(in thousands of Canadian dollars)

Three Months Ended December 31,

Year Ended December 31,

	2016	2015	2016	2015
Net (Loss) Income	\$ 28,339	\$ 31,467	\$ (180,566)	\$ 99,520
Add:				
Income taxes	6,954	9,653	6,207	31,551
Finance costs, net	2,868	4,728	15,915	18,244
Amortization of property, plant, equipment and intangible assets	18,927	20,061	80,290	79,387
EBITDA	\$ 57,088	\$ 65,909	\$ (78,154)	\$ 228,702
Cost associated with repayment and modification of long-term debt	948	–	3,009	–
Gain from arbitration award	(19,221)	–	(19,221)	–
Impairment	–	590	157,311	590
Gains on sale of land	(5,562)	–	(6,493)	(814)
ADJUSTED EBITDA	\$ 33,253	\$ 66,499	\$ 56,452	\$ 228,478

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 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.

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

(in thousands of Canadian dollars)

	2016	2015
Net (loss) income	\$ (180,960)	\$ 99,520
Add: After-tax interest expense	15,973	12,682
Net income adjusted for after-tax interest expense	\$ (164,987)	\$ 112,202
Average invested capital	\$ 1,397,722	\$ 1,502,588
ROIC	(11.8%)	7.5%

Days Sales Outstanding ("DSO")

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

(in thousands of Canadian dollars, except DSO)

	2016	2015
Revenue for the fourth quarter	\$ 329,182	\$ 455,260
Average trade accounts receivable	\$ 182,331	\$ 301,966
DSO	50	60

Days Payables Outstanding ("DPO")

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

(in thousands of Canadian dollars, except DPO)

	2016	2015
Cost of goods sold for the fourth quarter	\$ 221,480	\$ 303,510
Average accounts payable and accrued liabilities	\$ 205,602	\$ 288,383
DPO	84	86

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)	2016	2015
Current assets	\$ 675,439	\$ 887,070
Current liabilities	\$ 395,453	\$ 440,665
Working capital ratio	1.71	2.01

13.0 FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward looking information" and "forward looking statements" (collectively "forward looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook section and elsewhere in respect of, among other things, the achievement of key performance objectives, the incurrence of additional capital expenditures as necessary to respond to market demand growth and to facilitate growth in new markets, the increase in investment in net working capital, the timing of major project activity, the expected improvement in consolidated revenues and earnings in 2017 from 2016, the growth in revenue and earnings in the Pipeline and Pipe Services segment and in the Petrochemical and Industrial segment of the Company's business, the sufficiency of resources, capacity and capital to meet market demand, to meet contractual obligations and to execute the Company's development and growth strategy, the sufficiency of the Company's human resources, systems and processes to operate its business and execute its strategic plan, the impact of the existing order backlog and other factors on the Company's revenue and Operating Income, the impact of any potential cancellation of contracts included in the order backlog, and in the longer term, the impact of global economic activity on the demand for the Company's products, the impact of the decline in global oil and gas commodity prices on the level of industry investment in oil and gas infrastructure, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the adequacy of the Company's existing accruals in respect of environmental compliance and in respect of litigation matters and other claims generally, the level of payments under the Company's performance bonds and the expected development in the Company's order backlog.

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

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

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

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

14.0 ADDITIONAL INFORMATION

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

March 3rd, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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



Stephen M. Orr
President and Chief Executive Officer



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

March 2, 2017

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SHAWCOR LTD.

We have audited the accompanying consolidated financial statements of Shawcor Ltd., which comprise the consolidated balance sheets as at December 31, 2016 and 2015, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shawcor Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

Licensed Public Accountants

Toronto, Canada

March 2, 2017

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended December 31:

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

	2016	2015
Revenue		
Sale of products	\$ 373,128	\$ 460,690
Rendering of services	836,131	1,349,958
	1,209,259	1,810,648
Cost of Goods Sold and Services Rendered	816,775	1,204,306
Gross Profit	392,484	606,342
Selling, general and administrative expenses	320,643	371,954
Research and development expenses	13,239	13,664
Foreign exchange gains	(1,386)	(7,868)
Amortization of property, plant and equipment (note 20)	57,255	58,019
Amortization of intangible assets (note 21)	23,035	21,368
Gains on sale of land	(6,493)	(814)
Impairment (note 25)	157,311	590
(Loss) Income from Operations	(171,120)	149,429
Loss from investments in associates	(3,536)	(114)
Finance costs, net (note 10)	(15,915)	(18,244)
Cost associated with repayment and modification of long-term debt (note 29)	(3,009)	-
Gain from arbitration award (note 31)	19,221	-
(Loss) Income before Income Taxes	(174,359)	131,071
Income taxes (note 11)	6,207	31,551
Net (Loss) Income	\$ (180,566)	\$ 99,520
Net (Loss) Income Attributable to:		
Shareholders of the Company	\$ (180,960)	\$ 98,244
Non-controlling interests	394	1,276
Net (Loss) Income	\$ (180,566)	\$ 99,520
Earnings (Loss) per Share (note 12)		
Basic	\$ (2.80)	\$ 1.52
Diluted	\$ (2.80)	\$ 1.52
Weighted Average Number of Shares Outstanding (000s) (note 12)		
Basic	64,719	64,512
Diluted	64,719	64,762

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)

	2016	2015
Net (Loss) Income for the Year	\$ (180,566)	\$ 99,520
Other Comprehensive (Loss) Income		
Other Comprehensive (Loss) Income to be Reclassified to Net (Loss) Income in Subsequent Periods		
Exchange differences on translation of foreign operations	(40,970)	74,137
Other comprehensive (loss) income attributable to investments in associates	(593)	1,501
Cash flow hedge gains	3,011	–
Net Other Comprehensive (Loss) Income to be Reclassified to Net (Loss) Income in Subsequent Periods	(38,552)	75,638
Other Comprehensive Income not to be Reclassified to Net (Loss) Income in Subsequent Periods		
Actuarial gains on defined benefit plans (note 15)	2,844	4,924
Income tax expense (note 11)	(752)	(1,415)
Net Other Comprehensive Income not to be Reclassified to Net (Loss) Income in Subsequent Periods	2,092	3,509
Other Comprehensive (Loss) Income, Net of Income Taxes	(36,460)	79,147
Total Comprehensive (Loss) Income	\$ (217,026)	\$ 178,667
Comprehensive (Loss) Income Attributable to:		
Shareholders of the Company	\$ (215,463)	\$ 178,258
Non-controlling interests	(1,563)	409
Total Comprehensive (Loss) Income	\$ (217,026)	\$ 178,667

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

CONSOLIDATED BALANCE SHEETS

As at December 31:

(in thousands of Canadian dollars)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (note 16)	\$ 194,824	\$ 260,645
Short-term investments	1,890	2,954
Loans receivable (note 17)	3,832	–
Accounts receivable (note 18)	294,397	396,974
Income taxes receivable	35,141	35,804
Inventory (note 19)	113,485	167,557
Prepaid expenses	22,477	20,112
Derivative financial instruments (note 7)	9,393	3,024
	675,439	887,070
Non-current Assets		
Loans receivable (note 17)	5,058	7,908
Property, plant and equipment (notes 20 and 25)	471,468	485,555
Intangible assets (notes 21 and 25)	192,907	223,298
Investments in associates (note 23)	26,739	30,868
Deferred income tax assets (note 11)	28,955	27,668
Other assets (note 24)	26,407	26,268
Goodwill (notes 22 and 25)	350,818	457,070
	1,102,352	1,258,635
	\$ 1,777,791	\$ 2,145,705
LIABILITIES AND EQUITY		
Current Liabilities		
Bank indebtedness (note 29)	\$ 2,463	\$ –
Accounts payable and accrued liabilities (note 26)	212,539	295,911
Provisions (note 27)	21,104	25,562
Income taxes payable	39,011	34,624
Derivative financial instruments (note 7)	3,759	1,984
Deferred revenue	103,584	58,129
Obligations under finance lease (note 31)	950	1,176
Other liabilities (note 28)	12,043	23,279
	395,453	440,665
Non-current Liabilities		
Long-term debt (note 30)	263,528	485,147
Obligations under finance lease (note 31)	11,019	12,600
Provisions (note 27)	35,304	44,075
Employee future benefits (note 15)	20,727	21,942
Deferred income tax liabilities (note 11)	7,484	14,898
Other liabilities (note 28)	1,236	1,177
	339,298	579,839
	734,751	1,020,504
Equity		
Share capital (note 32)	703,316	534,484
Contributed surplus	23,379	18,638
Retained earnings	273,045	492,713
Non-controlling interests	5,892	7,455
Accumulated other comprehensive income	37,408	71,911
	1,043,040	1,125,201
	\$ 1,777,791	\$ 2,145,705

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

CONSOLIDATED STATEMENT 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 (Loss)	Total Equity
Balance – December 31, 2014	\$ 533,660	\$ 14,625	\$ 433,177	\$ 7,254	\$ (8,103)	\$ 980,613
Net income	–	–	98,244	1,276	–	99,520
Other comprehensive (loss) income	–	–	–	(867)	80,014	79,147
Comprehensive income	–	–	98,244	409	80,014	178,667
Issued on exercise of stock options	508	–	–	–	–	508
Compensation cost on exercised options	197	(197)	–	–	–	–
Compensation cost on exercised RSUs	119	(119)	–	–	–	–
Stock-based compensation expense	–	4,329	–	–	–	4,329
Dividends declared and paid to shareholders (note 32)	–	–	(38,708)	–	–	(38,708)
Purchase of non-controlling interests	–	–	–	(208)	–	(208)
Balance – December 31, 2015	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 options	764	(764)	–	–	–	–
Compensation cost on exercised RSUs	462	(462)	–	–	–	–
Stock-based compensation expense	–	5,967	–	–	–	5,967
Dividends declared and paid to shareholders (note 32)	–	–	(38,708)	–	–	(38,708)
Balance – December 31, 2016	\$ 703,316	\$ 23,379	\$ 273,045	\$ 5,892	\$ 37,408	\$ 1,043,040

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)

	2016	2015
Operating Activities		
Net (loss) income for the year	\$ (180,566)	\$ 99,520
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment (note 20)	57,255	58,019
Amortization of intangible assets (note 21)	23,035	21,368
Amortization of long-term prepaid expenses	467	1,363
Impairment (note 25)	157,311	590
Decommissioning obligations expense (note 27)	(2,875)	1,588
Other provisions expense (note 27)	9,711	29,294
Share-based and other incentive-based compensation (note 14)	8,548	2,126
Deferred income taxes (note 11)	(16,396)	(2,195)
Loss on disposal of property, plant and equipment	719	1,591
Gains on sale of land	(6,493)	(814)
Unrealized (income) loss on derivative financial instruments	(81)	3,744
Loss from investments in associates (note 23)	3,536	114
Other	(689)	–
Settlement of decommissioning liabilities (note 27)	(292)	(2,658)
Settlement of other provisions (note 27)	(16,288)	(24,143)
Net change in employee future benefits (note 15)	56	63
Change in non-cash working capital and foreign exchange	94,935	91,471
Cash Provided by Operating Activities	131,893	281,041
Investing Activities		
Increase in loans receivable	(1,205)	(146)
Decrease (Increase) in short-term investments	1,064	(2,404)
Purchases of property, plant and equipment	(89,252)	(61,153)
Proceeds on disposal of property, plant and equipment	14,784	6,338
Purchases of intangible assets	–	(109)
Payment of deferred purchase consideration	–	(1,305)
Investments in associates	–	(10,477)
(Increase) Decrease in other assets	(4,420)	77
Purchase of non-controlling interests	–	(208)
Business acquisitions (note 5)	(32,331)	(51,513)
Cash Used in Investing Activities	(111,360)	(120,900)
Financing Activities		
Increase (decrease) in bank indebtedness (note 29)	2,463	(4,685)
Decrease in loans payable (note 30)	(520)	(2,502)
Repayment of long-term debt	(202,568)	–
Payment of obligations under finance lease (note 31)	(829)	(1,015)
Issuance of shares (net of commissions and share issuance costs) (note 32)	167,606	508
Dividends paid to shareholders (note 32)	(38,708)	(38,708)
Cash Used in Financing Activities	(72,556)	(46,402)
Effect of Foreign Exchange on Cash and Cash Equivalents	(13,798)	30,350
Net (Decrease) Increase in Cash and Cash Equivalents for the Year	(65,821)	144,089
Cash and Cash Equivalents – Beginning of Year	260,645	116,556
Cash and Cash Equivalents – End of Year	\$ 194,824	\$ 260,645
Supplemental Cash Flow Information		
Interest paid	\$ 17,688	\$ 18,706
Interest received	\$ 780	\$ 1,023
Income taxes paid	\$ 26,112	\$ 52,129

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, Canada, M9W 1M7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	PAGE	DESCRIPTION
General Application		
1. Basis of Financial Statement Preparation	40	Summary of financial statement preparation
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	49	Summary of recently adopted generally accepted accounting principles
5. Acquisitions	49	Summary of business acquisitions
6. Capital Management	50	Summary of objectives, policies and processes for managing the capital structure
7. Financial Instruments	50	Summary of financial instruments, including fair values and the management of associated risks
Consolidated Results of Operations Focused		
8. Segment Information	53	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
11. Income Taxes	57	Summary of income tax expense, reconciliations of statutory rate income tax expense to income tax expense and analyses of deferred income tax liability
12. Earnings (Loss) Per Share	58	Summary of numerators and denominators used in calculating per share amounts
13. Key Management Compensation	58	Summary of key management compensation
14. Share-based and Other Incentive-based Compensation	59	Summary of compensation arising from share option awards, restricted stock units (RSUs), deferred stock units (DSUs) and employee share purchase plan
15. Employee Future Benefits	62	Summary of employee future benefits and related disclosures
Consolidated Financial Position Focused		
16. Cash and Cash Equivalents	65	Summary of cash and cash equivalents
17. Loans Receivable	65	Summary of items comprising loans receivable
18. Accounts Receivable	65	Summary of items comprising accounts receivable
19. Inventory	66	Summary of items comprising inventory
20. Property, Plant and Equipment	66	Summary of items comprising property, plant and equipment
21. Intangible Assets	68	Summary of items comprising intangible assets
22. Goodwill	68	Summary of items comprising goodwill
23. Investments in Associates	70	Summary of associates and related disclosures
24. Other Assets	70	Summary of items comprising other assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	PAGE	DESCRIPTION
25. Impairment	71	Summary of impairment charges
26. Accounts Payable and Accrued Liabilities	72	Summary of items comprising accounts payable and accrued liabilities
27. Provisions	72	Summary of items comprising provisions
28. Other Liabilities	73	Summary of items comprising other liabilities
29. Credit Facilities	73	Summary of borrowings and credit facilities
30. Long-term Debt	74	Summary of long-term debt and related disclosures
31. Leases, Commitments and Contingencies	75	Summary of lease obligations, contingent liabilities, claims and lawsuits
32. Share Capital	76	Summary of authorized share capital
Other		
33. Consolidated Financial Statements	76	A note on comparative figures in the consolidated financial statements

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, 2016.

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, 2016 were authorized for issue by the Company's Board of Directors (the "Board") on March 2, 2017.

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. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs 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 long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and tax expense already recorded. The Company establishes liabilities, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such liabilities is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of the respective entity.

c) Business Combinations

Business combinations are accounted for using the acquisition 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
Loans Payable	Loans and borrowings
Accounts Payable	Loans and borrowings
Deferred Purchase Consideration	Fair value through profit or loss
Long-term Debt	Loans and borrowings

Derivative Financial Instruments

The Company's policy is to document its risk management objectives and strategy for undertaking various derivative financial instrument transactions. Derivative financial instruments designated as effective net investment hedges are reflected in the consolidated balance sheets at fair value, with any gains or losses resulting from fair value changes included in 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 charged or credited to net income (loss) 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.

Sale of Goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of Services

Revenue from pipe coating, inspection, repair and other services provided in respect of customer-owned property is recognized as services are performed under specific contracts. Revenue on these contracts is recognized using the Percentage of Completion Method with completion determined on a Units of Production basis. Losses, if any, on these contracts are provided for in full at the time such losses are identified.

Services performed in advance of billings are recorded as unbilled revenue pursuant to the contractual terms. In general, amounts become billable upon the achievement of certain milestones or in accordance with predetermined payment schedules. Changes in the scope of work are not included in net revenue unless the changes are probable and can be reliably measured.

The Company records payments received 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 market and non-market based performance conditions. During the vesting period, a liability is recognized representing the portion of the vesting period that has expired at the consolidated balance sheet date multiplied by the fair value of the awards at that date. After vesting, the full fair value of the unsettled awards at each consolidated balance sheet date is recognized as a liability. Movements in the liability are recognized in the consolidated statements of income (loss). The fair value is recalculated using an option pricing model.

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.

The Company had the following investments in joint ventures:

	Country of Incorporation	Activity	December 31 2016 Ownership Interest %	December 31 2015 Ownership Interest %
Hal Shaw Inc.	USA	Pipe coating	50	50
Shaw & Shaw Ltd.	Canada	Pipe coating	83	83

As of December 31, 2016, 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 at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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**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 are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect a material impact on the consolidated financial statements from the adoption of these amendments.

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. Early application is permitted. The Company has not yet determined the impact of 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 not yet determined the impact of this standard on the consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2015, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of initiating data collection and will provide incremental disclosure leading up to its adoption of this standard in its interim and annual consolidated financial statements.

IFRS 16, Leases

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

NOTE 4. NEW ACCOUNTING STANDARDS ADOPTED

Amendments to IAS 1, *Disclosure Initiative*

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

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

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

IFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests*

The amendments to IFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3, *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company's adoption of these amendments did not have a material impact on the consolidated financial statements.

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

In May 2015, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets* prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company's adoption of these amendments did not have an impact on the consolidated financial statements.

NOTE 5. ACQUISITIONS

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 is 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.

Flint Field Services Ltd.'s Tubular Inspection and Management, and Global Poly Businesses

On November 26, 2015, the Company completed the acquisition of the assets of the Tubular Inspection and Management ("TIM"), and Global Poly businesses operated by Flint Field Services Ltd. for \$34.5 million, including adjustments for changes in working capital. At the time of acquisition, the TIM and Global Poly businesses operated from five owned and five leased facilities in Alberta, British Columbia and Saskatchewan, and the TIM business is very similar to the tubular inspection and management business operated by Shawcor's Guardian division. The Global Poly business has been integrated into the Flexpipe division of the Company.

In the final purchase price equation of the Flint acquisition, the approximate value of the tangible assets acquired and liabilities assumed was \$44.0 million and \$9.5 million, respectively.

Dhatec B.V.

On January 5, 2015, the Company completed the acquisition of Dhatec B.V. ("Dhatec") for approximately \$17.3 million (€12.2 million). Dhatec is a Netherlands-based company which designs, assembles and markets engineered pipe logistics products and services which mitigate damage and enhance safety and efficiency in the manufacturing, coating, handling, transportation, preservation and storage of pipe. Dhatec has been integrated into the Pipeline and Pipe Services operating segment of the Company and is part of the Bredero Shaw division.

In the final purchase price equation of the Dhatec acquisition, the approximate value of the tangible assets acquired and liabilities assumed was \$6.4 million and \$5.9 million, respectively; the approximate value of the intangible assets acquired and deferred income tax liabilities assumed was \$19.8 million and \$3.0 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 2016	December 31 2015
Bank indebtedness	\$ 2,463	\$ -
Long-term debt	263,528	485,147
Obligations under finance lease	11,969	13,776
Equity	1,043,040	1,125,201
	\$ 1,321,000	\$ 1,624,124

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, 2016. 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 2016	December 31 2015
Loans and Receivables, Measured at Amortized Cost		
Loans receivable (note 17)	\$ 8,890	\$ 7,908
Trade accounts receivable, net (note 18)	169,116	284,538
Held-to-maturity		
Short-term investments	1,890	2,954
Deposit guarantee	112	960
Fair Value Through Profit or Loss		
Cash and cash equivalents	194,824	260,645
Derivative financial instruments – assets	9,393	3,024
Derivative financial instruments – liabilities	3,759	1,984
Available-for-sale		
Convertible preferred shares	10,000	10,000
Other Financial Liabilities, Measured at Amortized Cost		
Bank indebtedness	2,463	-
Accounts payable (note 26)	88,980	110,648
Deferred purchase consideration	3,684	3,939
Long-term debt (note 30)	263,528	485,147

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.

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at December 31, 2016:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 194,824	\$ 194,824	\$ –	\$ –
Short-term investments	1,890	1,890	–	–
Loans receivable	8,890	–	8,890	–
Derivative financial instruments	9,393	–	9,393	–
Convertible preferred shares	10,000	–	–	10,000
Deposit guarantee	112	–	112	–
	\$ 225,109	\$ 196,714	\$ 18,395	\$ 10,000
Liabilities				
Bank indebtedness	\$ 2,463	\$ –	\$ 2,463	\$ –
Deferred purchase consideration	3,684	–	3,684	–
Long-term debt	236,734	–	236,734	–
Derivative financial instruments	3,759	–	3,759	–
	\$ 246,640	\$ –	\$ 246,640	\$ –

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

Financial Risk Management

The Company's operations expose it to a variety of financial risks including market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance. Risk management is the responsibility of the Company's management. Material risks are monitored and are regularly reported to the Board 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, 2016, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the year then ended by approximately \$49.9 million, \$5.4 million and \$6.1 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$61.2 million, \$18.0 million and \$43.2 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, 2016:

(in thousands, except weighted average rate amounts)

Canadian Dollars Sold for US Dollars	
Less than one year	Cdn\$ 6,445
Weighted average rate	0.76
US Dollars Sold for Canadian Dollars	
Less than one year	US\$ 12,000
Weighted average rate	1.32
US Dollars Sold for Malaysian Ringgits	
Less than one year	US\$ 6,500
Weighted average rate	4.27
US Dollars Sold for Euros	
Less than one year	US\$ 22,111
Weighted average rate	0.94
US Dollars Sold for British Pounds	
Less than one year	US\$ 1,225
Weighted average rate	0.82
British Pounds Sold for US Dollars	
Less than one year	£ 45
Weighted average rate	1.44
Norwegian Kroner Sold for US Dollars	
Less than one year	NOK 103,181
Weighted average rate	0.12
Euros Sold for US Dollars	
Less than one year	€ 24,656
Weighted average rate	1.12

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

As at December 31, 2016, the Company had notional amounts of \$113.7 million of foreign exchange forward contracts outstanding (2015 – \$145.7 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling \$1.1 million (2015 – \$1.0 million net benefit).

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, 2016, a gain of \$18.5 million (2015 – loss of \$78.3 million) on the translation of the long-term debt was transferred to OCI to offset the loss on translation of the net investments in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2016.

Interest Rate Risk

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

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Fixed Rate	Total
Financial Assets				
Cash equivalents	\$ –	\$ –	\$ 95,913	\$ 95,913
Short-term investments	–	–	1,890	1,890
Loans receivable	3,887	5,003	–	8,890
Convertible preferred shares	10,000	–	–	10,000
	\$ 13,887	\$ 5,003	\$ 97,803	\$ 116,693
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	\$ 90,898	\$ –	\$ –	\$ 90,898
Bank indebtedness	–	2,463	–	2,463
Long-term debt ^(a)	–	–	263,528	263,528
	\$ 90,898	\$ 2,463	\$ 263,528	\$ 356,889

(a) As per the amendments to the Senior Notes Agreement and Credit Facility in May 2016 and December 2016, during any period when the Company is permitted an increased Leverage Ratio, increased interest rates and standby and other fees are payable to the Senior Notes holders and under the Credit Facility.

The Company's interest rate risk arises primarily from its floating rate Credit Facility and the Senior Notes 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, 2016, there was one customer who generated approximately 13% of total consolidated revenue (2015 – one customer generated approximately 18% of total consolidated revenue). As at December 31, 2016, this customer accounted for \$10 million or approximately 6%, 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, 2016, \$11.6 million, or 7%, of trade accounts receivable was more than 90 days overdue, compared to \$36.5 million or 13%, as at December 31, 2015. 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)	2016	2015
Balance – Beginning of Year	\$ (5,004)	\$ (12,516)
Bad debts expense	(1,317)	(3,512)
Recovery of amounts previously provided for	265	731
Write off of bad debts	1,014	9,575
Impact of change in foreign exchange rates	177	718
Balance – End of Year	\$ (4,865)	\$ (5,004)

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, 2016, the Company had cash and cash equivalents totalling \$194.8 million (2015 – \$260.6 million) and had unutilized lines of credit available to use of \$399.2 million (2015 – \$491.9 million).

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2016:

(in thousands of Canadian dollars)	2017	2018	2019	2020	2021	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Purchase commitments	46,432	2,105	1,088	–	–	–	49,625
Accounts payable	88,980	–	–	–	–	–	88,980
Deferred purchase consideration	3,684	–	–	–	–	–	3,684
Bank indebtedness	2,463	–	–	–	–	–	2,463
Long-term debt	–	–	–	82,513	–	181,015	263,528
Finance costs on long-term debt	9,376	9,376	9,376	7,529	6,917	21,178	63,752
Obligations under finance lease	1,461	1,397	1,341	1,338	1,335	9,248	16,120
Operating lease commitments	24,709	18,264	16,851	9,391	9,325	9,638	88,178
	177,105	31,142	28,656	100,771	17,577	221,079	576,330

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, 2016, 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 provides pipe coating, lining and insulation products. During 2015, the Socotherm division was integrated with the Bredero Shaw division;
- Canusa – CPS, which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications;
- Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction;
- Flexpipe Systems, which provides spoolable composite pipe systems;
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular products;
- Shawcor Inspection Services (formerly, "Desert NDT"), which provides non-destructive testing services for new oil and gas gathering pipelines and 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	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue											
External		1,022,845	1,629,116	186,414	181,532	-	-	-	-	1,209,259	1,810,648
Inter-segment		467	2,031	1,004	335	-	-	(1,471)	(2,366)	-	-
Total Revenue		1,023,312	1,631,147	187,418	181,867	-	-	(1,471)	(2,366)	1,209,259	1,810,648
Operating expense		971,721	1,396,213	153,479	148,500	12,303	26,045	(1,471)	(2,366)	1,136,032	1,568,392
Research and development expenses		11,593	11,430	674	1,428	972	806	-	-	13,239	13,664
Amortization of property, plant and equipment		51,910	52,693	3,278	3,253	2,067	2,073	-	-	57,255	58,019
Amortization of intangible assets		23,035	21,368	-	-	-	-	-	-	23,035	21,368
Gains on sale of land		(6,095)	-	-	-	(398)	(814)	-	-	(6,493)	(814)
(Loss) Income from Operations for CODM		(28,852)	149,443	29,987	28,686	(14,944)	(28,110)	-	-	(13,809)	150,019
Impairment		157,311	590	-	-	-	-	-	-	157,311	590
(Loss) Income from Operations		(186,163)	148,853	29,987	28,686	(14,944)	(28,110)	-	-	(171,120)	149,429
Loss from investments in associates		-	-	-	-	(3,536)	(114)	-	-	(3,536)	(114)
Internal interest (expense) income		(21,080)	(2,653)	(1,176)	(1,659)	22,171	4,312	85	-	-	-
Interest income		3,009	874	5	12	94	123	-	-	3,108	1,009
Interest expense and other finance costs		(1,550)	(2,092)	(7)	(68)	(17,439)	(17,093)	(27)	-	(19,023)	(19,253)
Cost associated with repayment and modification of long-term debt		-	-	-	-	(3,009)	-	-	-	(3,009)	-
Gain on arbitration award		19,221	-	-	-	-	-	-	-	19,221	-
(Loss) Income Before Income Taxes		(186,563)	144,982	28,809	26,971	(16,663)	(40,882)	58	-	(174,359)	131,071
Income Taxes		-	-	-	-	6,207	31,551	-	-	6,207	31,551
Additions to property, plant and equipment, net of disposals		72,706	47,751	6,394	1,642	143	1,319	-	-	79,243	50,712
Goodwill		334,088	439,181	16,730	17,889	-	-	-	-	350,818	457,070
Total assets		1,682,578	2,373,313	113,329	118,464	1,431,746	1,048,489	(1,449,862)	(1,394,561)	1,777,791	2,145,705
Total liabilities		1,053,464	981,499	(57,302)	27,361	67,786	441,027	(329,197)	(429,383)	734,751	1,020,504

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)

2016

	Canada	USA	Latin America	EMAR ^(a)	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 ^(b)	\$ 273,684	\$ 534,766	\$ 48,282	\$ 113,389	\$ 52,325	\$ –	\$ 1,022,446

(in thousands of Canadian dollars)

2015

	Canada	USA	Latin America	EMAR ^(a)	Asia Pacific	Eliminations	Total
Revenue							
External	\$ 491,276	\$ 343,845	\$ 150,597	\$ 643,828	\$ 181,102	\$ –	\$ 1,810,648
Inter-segment	2,109	70	186	1	–	(2,366)	–
Total revenue	\$ 493,385	\$ 343,915	\$ 150,783	\$ 643,829	\$ 181,102	\$ (2,366)	\$ 1,810,648
Non-current assets ^(b)	\$ 283,426	\$ 622,132	\$ 34,154	\$ 174,730	\$ 59,179	\$ –	\$ 1,173,621

(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)

	2016	2015
Salaries, wages and employee benefits	\$ 447,477	\$ 577,379
Pension (note 15)	13,843	15,427
Share-based and other incentive-based compensation (note 14)	6,333	2,166
Total	\$ 467,653	\$ 594,972

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)

	2016	2015
Interest income on short-term deposits	\$ (3,108)	\$ (1,009)
Interest expense, other	4,739	3,359
Interest expense on long-term debt	14,284	15,894
Finance Costs – Net	\$ 15,915	\$ 18,244

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)	2016	2015
Current Income Taxes		
Based on taxable income of current year	\$ 19,569	\$ 31,968
Adjustment to prior year provision	3,034	1,778
	22,603	33,746
Deferred Income Taxes		
Reversal of temporary differences	(16,396)	(2,195)
	(16,396)	(2,195)
Total Income Tax Expense	\$ 6,207	\$ 31,551

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)	2016	2015
Income tax expense on actuarial gains and losses on defined benefit plans	\$ 752	\$ 1,415
Income Tax Expense Charged to OCI	\$ 752	\$ 1,415

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

	2016	2015
	%	%
Expected income tax expense based on statutory rate	26.8	26.5
Tax rate differential on earnings of foreign subsidiaries	11.2	(6.3)
Benefit of previously unrecognized tax losses	1.6	(4.6)
Deferred tax not recognized	(50.1)	7.3
Adjustment to prior year provision	(1.5)	1.4
Non-deductible amounts	12.7	0.5
Other	(4.3)	(0.6)
Effective Income Tax Rate	(3.6)	24.2

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

Recognized Deferred Income Tax Assets and Liabilities

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

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Deferred Income Tax Assets		
Property, plant and equipment	\$ 3,353	\$ 4,413
Provisions and future expenditures	25,250	36,688
Non-capital losses	23,323	17,315
	51,926	58,416
Deferred Income Tax Liabilities		
Property, plant and equipment	(20,167)	(32,260)
Provisions and future expenditures	(10,288)	(13,386)
	(30,455)	(45,646)
Net Deferred Income Tax Asset	\$ 21,471	\$ 12,770

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 2016	December 31 2015
Deferred income tax assets	\$ 28,955	\$ 27,668
Deferred income tax liabilities	(7,484)	(14,898)
	\$ 21,471	\$ 12,770

The Company has recorded deferred income tax assets of \$23.3 million as at December 31, 2016 (2015 – \$17.3 million), pertaining to loss carryforwards based on management's financial projections and the relevant income tax legislation in each jurisdiction.

	Consolidated Statements of Income (Loss)	
(in thousands of Canadian dollars)	2016	2015
Deferred Income Tax Assets		
Property, plant and equipment	\$ 1,060	\$ 6,077
Provisions and future expenditures	11,438	3,466
Net operating losses	(6,008)	(5,807)
Change in deferred income tax assets	6,490	3,736
Deferred Income Tax Liabilities		
Property, plant and equipment	(12,093)	(7,666)
Provisions and future expenditures	(3,097)	6,172
Change in deferred income tax liabilities	(15,190)	(1,494)
Change in Deferred Income Taxes	(8,700)	2,242
Deferred income taxes in OCI	(752)	(1,415)
Deferred income taxes acquired through acquisitions	(6,944)	(3,022)
Deferred Income Tax Recovery in Net (Loss) Income	\$ (16,396)	\$ (2,195)

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, 2016 and 2015, 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 \$86.3 million and \$82.3 million for the years ended December 31, 2016 and 2015, respectively.

The Company has net operating losses of \$296.0 million for the year ended December 31, 2016 (2015 – \$120.9 million) in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to the 2018 fiscal year. The Company has capital losses of \$52.1 million and \$18.0 million for the years ended December 31, 2016 and 2015, 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 earnings per share ("EPS") for the years ended December 31:

(in thousands of Canadian dollars, except share and per share amounts)	2016	2015
Net (loss) income used to calculate EPS		
Net (loss) income (attributable to the shareholders of the Company)	\$ (180,960)	\$ 98,244
Weighted average number of shares outstanding – basic (000s)	64,719	64,512
Dilutive effect of stock options	–	250
Weighted average number of shares outstanding – diluted (000s)	64,719	64,762
Basic EPS	\$ (2.80)	\$ 1.52
Diluted EPS	\$ (2.80)	\$ 1.52

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)	2016	2015
Salaries and other short-term incentive compensation and employee benefits	\$ 1,806	\$ 2,065
Post-employment benefits – defined benefit plans	256	370
Share-based and other long-term incentive payments	1,823	3,448
Directors' fees and other compensation	2,747	938
Total	\$ 6,632	\$ 6,821

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

As at December 31, 2016, 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

	2016		2015	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance Outstanding – Beginning of Year	1,043,440	\$ 32.27	989,870	\$ 31.71
Granted	223,600	27.72	77,700	35.79
Exercised	(93,960)	24.58	(24,130)	21.05
Balance Outstanding – End of Year	1,173,080	\$ 32.02	1,043,440	\$ 32.27
Options Exercisable	724,360	\$ 31.14	686,508	\$ 28.90

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

December 31, 2015

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding as at December 31, 2015	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2015	Weighted Average Exercise Price
\$15.01 to \$20.00	169,520	2.98	\$ 15.51	169,520	\$ 15.51
\$25.01 to \$30.00	219,160	1.54	27.73	219,160	27.73
\$30.01 to \$35.00	182,100	5.98	32.81	108,220	32.81
\$35.01 to \$40.00	179,960	6.71	36.66	81,808	37.32
\$40.01 to \$45.00	246,300	6.98	41.69	98,520	41.69
\$45.01 to \$50.00	46,400	7.98	45.73	9,280	45.73
	1,043,440	5.01	\$ 32.27	686,508	\$ 28.90

The Board approved the granting of 223,600 stock options (2015 – 77,700) during the year ended December 31, 2016 under the Amended 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2016 was \$1.44 million (2015 – \$0.6 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

	2016	2015
Weighted average share price	\$ 27.72	\$ 35.79
Exercise price	\$ 27.72	\$ 35.79
Expected life of options	6.25	6.25
Expected stock price volatility	29.7%	29.0%
Expected dividend yield	1.88%	1.63%
Risk-free interest rate	1.24%	1.34%

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, 2016, included in selling, general and administrative expenses, was \$1.7 million (2015 – \$1.2 million).

Stock Options with Tandem Share Appreciation Rights

	2016		2015	
	Total Shares	Weighted Average Fair Value ^(a)	Total Shares	Weighted Average Fair Value
Balance Outstanding – Beginning of Year	277,300	\$ 11.69	182,100	\$ 13.29
Granted	110,800	6.77	94,800	8.62
Expired	(20,800)	11.30	400	12.94
Balance Outstanding – End of Year	367,300	\$ 10.23	277,300	\$ 11.69
Options Exercisable	144,000	\$ 10.98	113,760	\$ 13.07

(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, 2016 is \$2.0 million (2015 – \$0.8 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

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

LTIP

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

VGP

The VGP is a cash-based awards plan, which rewards executives and key employees for improving operating income and revenue over a three-year performance period. Units granted to participants vest at the end of the third year of the performance period for which they were granted. The value of units is determined based on the growth rate in operating revenue and income on a cumulative basis for the three consecutive years that comprise the performance period and is measured against the prior three-year baseline period. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The VGP liability as at December 31, 2016 is \$1.7 million (2015 – \$16.6 million).

ESUP

The ESUP authorizes the Board to grant awards of RSUs and performance share units (“PSUs”) to employees of the Company as a form of incentive compensation. All RSUs and PSUs are to be settled with common shares and are valued on the basis of the underlying weighted average trading price of the common shares over the five trading days preceding the grant date. The valuation is not subsequently adjusted for changes in the market price of the common shares prior to the settlement of the award. Each RSU and PSU granted under the ESUP represents one common share. The ESUP provides that the maximum number of common shares that are reserved for issuance from time to time shall be fixed at 1,000,000 common shares. The RSUs vest in two tranches over a period of one to five years and four to seven years, respectively and become 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:

	2016		2015	
	Total Shares	Weighted Average Grant Date Fair Value ^{(a)(b)}	Total Shares	Weighted Average Grant Date Fair Value ^(a)
Balance Outstanding – Beginning of Year	472,849	\$ 32.84	261,708	\$ 36.69
Granted	116,333	26.54	231,979	28.77
Exercised	(16,033)	28.87	(3,322)	34.21
Cancelled	(31,708)	29.61	(17,516)	36.27
Balance Outstanding – End of Year	541,441	\$ 31.79	472,849	\$ 32.84
RSUs/PSUs Exercisable	159,264	\$ 33.77	95,838	\$ 33.63

(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.

DSUs

Under the Company's DSU plan, all directors (other than the President and Chief Executive Officer) of the Company can elect to receive all or a portion of their compensation for services rendered as a director of the Company in share units or a combination of share units and cash. The number of DSUs received is equal to the dollar amount to be paid in DSUs divided by the weighted average trading price of the common shares over the five days immediately preceding the date of the grant. DSUs are to be settled at the time that the director ceases to be a member of the Board and each DSU entitles the holder to receive one common share or the cash equivalent. DSUs vest immediately on the date of the grant. The value of a DSU and the related compensation expense is determined and recorded based on the current market price of the underlying common shares on the date of the grant. Common shares are purchased on the open market to settle outstanding share units.

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

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

	2016		2015	
	Total Shares	Weighted Average Grant Date Fair Value ^(a)	Total Shares	Weighted Average Grant Date Fair Value ^(a)
Balance Outstanding – Beginning of Year	110,597	\$ 36.37	99,675	\$ 38.04
Granted	37,830	31.58	41,032	31.98
Exercised ^(b)	–	–	(30,110)	35.92
Balance Outstanding – End of Year	148,427	\$ 35.15	110,597	\$ 36.37

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

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

The mark-to-market liability for the DSUs as at December 31, 2016 is \$5.3 million (2015 – \$3.1 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)

	2016	2015
Stock option expense	\$ 1,659	\$ 1,174
VGP recovery	(815)	(1,516)
DSU expense (recovery)	2,215	(40)
RSU expense	4,308	3,155
SAR expense (recovery)	1,181	(647)
Total Share-based and Other Incentive-based Compensation Expense	\$ 8,548	\$ 2,126

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 2016 were \$2.6 million (2015 – \$4.4 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2016 were \$9.3 million (2015 – \$10.9 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, 2016 (one plan), December 31, 2015 (one plan), January 1, 2014 (two plans), December 31, 2013 (three plans) and August 1, 2013 (one plan).

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

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Accrued Employee Future Benefit Asset		
Pension plans (note 24)	\$ 9,154	\$ 8,489
	9,154	8,489
Accrued Employee Future Benefit Liability		
Pension plans	(17,471)	(19,277)
Post-employment benefits	(3,146)	(2,553)
Post-retirement life insurance	(110)	(112)
	(20,727)	(21,942)
Net Accrued Employee Future Benefit Liability	\$ (11,573)	\$ (13,453)

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

	December 31 2016	December 31 2015
Investments Quoted in Active Markets:		
Cash and cash equivalents	6%	4%
Equity instruments	63%	65%
Debt instruments	31%	31%
	100%	100%

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

	December 31 2016	December 31 2015
Investments Quoted in Active Markets:		
Equity instruments ^(a)	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, 2016 and 2015 amounted to \$8.1 million and \$8.2 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 2016	December 31 2015
Current service costs	\$ 3,050	\$ 3,619
Past service costs and impact of settlements, curtailments and termination benefits	(198)	186
Interest cost on defined benefit obligation	4,413	5,068
Interest income on plan assets	(4,028)	(4,473)
	3,237	4,400
Impact of asset ceiling/minimum funding requirement	121	103
Defined benefit cost recognized	3,358	4,503
Defined contribution cost recognized	10,485	10,924
Employee Future Benefit Cost Recognized^(a)	\$ 13,843	\$ 15,427

(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 2016	December 31 2015
Valuation effect	\$ 156	\$ 707
Return on plan assets (excluding amounts included in interest income)	(4,096)	(3,773)
Net actuarial losses (gains) recognized in the year	4,139	(2,499)
Other changes in asset ceiling/minimum funding requirement not included in net interest cost	(2,760)	395
Foreign currency exchange rate changes	(283)	246
Employee Future Benefit Income Recognized in OCI	\$ (2,844)	\$ (4,924)

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Balance – Beginning of Year	\$ 135,052	\$ 133,195
Valuation effect	(102)	–
Employer current service cost	3,050	3,619
Net interest cost	4,413	5,068
Past service costs and impact of settlements, curtailments and termination benefits	(505)	186
Benefit payments	(7,008)	(6,165)
Actuarial losses (gains) due to changes in economic assumptions	5,625	(1,775)
Experience gains	(1,486)	(724)
Foreign exchange differences	(2,478)	1,648
Balance – End of Year	\$ 136,561	\$ 135,052

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

(in thousands of Canadian dollars)	2016	2015
Balance – Beginning of Year	\$ 125,048	\$ 117,452
Valuation effect	(258)	(707)
Employer contributions	2,607	4,440
Settlement	(307)	–
Benefit payments	(7,008)	(6,165)
Interest income on plan assets	4,028	4,473
Return on plan assets (excluding amounts included in interest income)	4,096	3,773
Foreign exchange differences	(2,875)	1,782
Balance – End of Year	\$ 125,331	\$ 125,048

The net employee future benefit liability as at the end of the year is calculated as follows:

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Defined benefit obligation	\$ 136,561	\$ 135,052
Fair value of plan assets	125,331	125,048
Net liability before impact of asset ceiling/minimum funding requirement	11,230	10,004
Impact of asset ceiling/minimum funding requirement	349	3,449
Net Employee Future Benefit Liability	\$ 11,579	\$ 13,453

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

	2016	2015
Canada		
Defined benefit obligation		
Discount rate	3.78%	3.90%
Future salary increase	3.50%	3.50%
Future pension increase	n/a	n/a
Mortality	CPM 2014	CPM 2014
	Private with scale CPM-B	Private with scale CPM-B
Benefit cost for the year ended December 31		
Discount rate	3.90%	3.90%
Future salary increase	3.50%	3.50%
Norway		
Defined benefit obligation		
Discount rate	2.60%	2.70%
Future salary increase	2.50%	2.50%
Future pension increase	0.00%	0.00%
Mortality	K2013	K2013
Benefit cost for the year ended December 31		
Discount rate	2.70%	2.30%
Future salary increase	2.50%	2.75%
United Kingdom		
Defined benefit obligation		
Discount rate	2.60%	4.00%
Future salary increase	n/a	n/a
Future pension increase	2.70%	2.50%
Mortality	S1PA (projected)	S1PA (projected)
Benefit cost for the year ended December 31		
Discount rate	4.00%	3.70%
Future salary increase	n/a	n/a
Indonesia		
Defined benefit obligation		
Discount rate	8.50%	9.00%
Future salary increase	10.00% (local), 6.00% (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	9.00%	8.40%
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, 2016 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	9,900	7.2%
Increase of 50% basis points	(8,912)	(6.5%)
Future salary increase		
Decrease of 50% basis points	(2,427)	(1.8%)
Increase of 50% basis points	2,696	2.0%
Mortality Assumption – Impact of Life Expectancy being one year longer	3,754	2.7%

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, 2016.

Other Information

The Company expects to contribute \$3.7 million to its defined benefit plans for the year ending December 31, 2017.

The average duration of the defined benefit plans as at December 31, 2016 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 2016	December 31 2015
Cash	\$ 98,911	\$ 250,030
Cash equivalents	95,913	10,615
Total	\$ 194,824	\$ 260,645

NOTE 17. LOANS RECEIVABLE

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

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Current		
Notes receivable	\$ 82	\$ –
Loan receivable	3,750	–
	3,832	–
Non-current		
Notes receivable ^(a)	\$ 5,003	\$ 5,166
Loan receivable	55	2,742
	5,058	7,908
Total	\$ 8,890	\$ 7,908

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual instalments beginning no later than March 31, 2018, as set out in the loan agreement terms. As at December 31, 2016, the amount of the notes receivable was US\$3,726 (December 31, 2015 – US\$3,726).

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 2016	December 31 2015
Trade accounts receivable	\$ 173,981	\$ 289,542
Allowance for doubtful accounts (note 7)	(4,865)	(5,004)
Unbilled revenue and other receivables	125,281	112,436
	\$ 294,397	\$ 396,974

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

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Current	\$ 102,978	\$ 171,066
Past due 1 to 30 days	40,367	52,816
Past due 31 to 60 days	12,114	22,489
Past due 61 to 90 days	6,960	6,705
Past due for more than 90 days	11,562	36,466
Total trade accounts receivable	173,981	289,542
Less: allowance for doubtful accounts	(4,865)	(5,004)
Trade Accounts Receivable – Net	\$ 169,116	\$ 284,538

NOTE 19. INVENTORY

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

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Raw materials and supplies	\$ 84,238	\$ 105,501
Work-in-progress	12,906	14,481
Finished goods	42,313	70,356
Inventory obsolescence	(25,972)	(22,781)
	\$ 113,485	\$ 167,557

During 2016, the Company recorded an increase of \$3.2 million (2015 – \$2.8 million) in the provision for inventory obsolescence, due to the build-up of certain excess raw materials.

NOTE 20. PROPERTY, PLANT AND EQUIPMENT

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

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
Cost					
Balance – December 31, 2014	\$ 63,822	\$ 213,633	\$ 742,979	\$ 37,794	\$ 1,058,228
Exchange differences	1,366	(6,965)	65,026	(256)	59,171
Additions	4,165	5,890	52,772	(1,674)	61,153
Acquisitions	15,238	2,958	9,585	–	27,781
Decommissioning liabilities and other	734	367	2,269	–	3,370
Disposals	–	(2,981)	(35,737)	–	(38,718)
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

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
Accumulated Amortization					
Balance – December 31, 2014	\$ (18,523)	\$ (93,811)	\$ (463,123)	\$ –	\$ (575,457)
Exchange differences	197	523	(32,698)	–	(31,978)
Amortization	(636)	(5,116)	(52,267)	–	(58,019)
Decommissioning liabilities and other	(1,806)	(314)	(1,491)	–	(3,611)
Eliminated on disposal	–	1,840	27,104	–	28,944
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)

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in- Progress	Total
Accumulated Impairment					
Balance – December 31, 2014	\$ (2,495)	\$ (9,053)	\$ (35,912)	\$ –	\$ (47,460)
Exchange differences	–	525	(3,253)	–	(2,728)
Impairment (note 25)	–	–	(590)	–	(590)
Eliminated on disposal	–	1,961	3,508	–	5,469
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)
Disposal	–	–	998	–	998
Balance – December 31, 2016	\$ (2,495)	\$ (19,959)	\$ (47,033)	\$ –	\$ (69,487)
Net book value					
As at December 31, 2015	\$ 62,062	\$ 109,457	\$ 278,172	\$ 35,864	\$ 485,555
As at December 31, 2016	\$ 58,498	\$ 93,275	\$ 250,161	\$ 69,534	\$ 471,468

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 ^(a)	Intangible Assets, with Limited Life ^(b)	Intangible Assets, with Indefinite Life ^(c)	Total
Cost				
Balance – December 31, 2014	\$ 80,932	\$ 222,324	\$ 6,229	\$ 309,485
Exchange differences	2,524	33,432	761	36,717
Additions	110	–	–	110
Acquisition of a subsidiary	2,413	9,676	–	12,089
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
Accumulated Amortization				
Balance – December 31, 2014	\$ (28,508)	\$ (23,265)	\$ –	\$ (51,773)
Exchange differences	(322)	(2,571)	–	(2,893)
Amortization	(5,568)	(15,800)	–	(21,368)
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)
Accumulated Impairment				
Balance – December 31, 2014	\$ (3,756)	\$ (51,220)	\$ –	\$ (54,976)
Exchange differences	667	(4,760)	–	(4,093)
Balance – December 31, 2015	(3,089)	(55,980)	–	(59,069)
Impairment (note 25)	(7,546)	(9,395)	(675)	(17,616)
Exchange differences	(686)	(526)	–	(1,212)
Balance – December 31, 2016	\$ (11,321)	\$ (65,901)	\$ (675)	\$ (77,897)
Net book value				
As at December 31, 2015	\$ 48,492	\$ 167,816	\$ 6,990	\$ 223,298
As at December 31, 2016	\$ 34,538	\$ 156,769	\$ 1,600	\$ 192,907

(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 a past business combination. The Company amortizes the cost of intangible assets with limited life over their estimated useful lives, which ranges from 2 years to 15 years. The net book value of customer relationships as at December 31, 2016 is \$154.6 million (2015 – \$163.1 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 2016	December 31 2015
Gross amount of goodwill	\$ 508,312	\$ 442,847
Accumulated impairment of goodwill	(51,242)	(46,646)
Net Balance – Beginning of Year	457,070	396,201
Acquisition (note 5)	14,458	7,756
Impairment (note 25)	(110,822)	–
Foreign exchange	(9,888)	53,113
Net Balance – End of Year	\$ 350,818	\$ 457,070

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

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Bredero Shaw	\$ 206,563	\$ 206,042
Shawcor Inspection Services (formerly, "Desert NDT")	50,140	167,144
Flexpipe Systems	49,730	49,730
Socotherm Americas (Argentina)	5,881	6,073
Dhatec	7,774	8,312
Shawcor CSI	–	1,880
DSG-Canusa GmbH	16,730	17,889
Lake Superior	14,000	–
	\$ 350,818	\$ 457,070

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, 2016, 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"). For the goodwill impairment tests, the FVLCD of each of the GCGUs was higher than its carrying amount, except for the DCGU and CSICGU 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 is derived from the most recently completed three-year Business Plan, which is projected out for a future time period of two years based on management's best estimates. Projected Cash Flow is estimated by adjusting forecasted annual net income (for the forecast period) for non-cash items (such as amortization, accretion, and foreign exchange), investments in working capital and investments in property, plant and equipment. Estimating future income requires judgment, consideration of past and actual performance, as well as expected developments in the GCGU's respective markets and in the overall macroeconomic environment.

Market Assumptions

The forecasted revenue for a GCGU in the Business Plan is based on that GCGU securing an estimated number of projects 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 2016	October 31 2015
Bredero Shaw	11%	10%
Shawcor Inspection Services (formerly, "Desert NDT")	12%	11%
Flexpipe Systems	12%	11%
Socotherm Americas (Argentina)	18%	18%
Shawcor CSI	14%	14%
DSG-Canusa GmbH	12%	12%
Dhatec	14%	n/a
Lake Superior	12%	n/a

Terminal Value Growth Rate

The Terminal Value Growth Rate is used to calculate the Terminal Value of the GCGUs at the end of the Projected Free Cash Flow period of five years. A Terminal Value Growth Rate of 3% 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 totalling \$20.8 million, which is being accounted for using equity accounting, and an investment of \$10.0 million in convertible preferred shares, which is accounted for as an available-for-sale investment and classified in other assets on the Company's consolidated balance sheets.

On August 29, 2014, the Company completed an equity investment in Power Feed-Thru Systems and Connectors, LLC ("PFT"), a Houston, Texas, US-based company engaged in designing and assembling of electric feed-thru connector systems specifically for artificial lift installations in the global oil and gas market. Its products are used in oil wells equipped with Electric Submersible Pumps to connect the down-hole oil pump with a surface power supply. Shawcor's equity investment in PFT consists of an approximate 30% common share interest totalling \$5.9 million, 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 2016	December 31 2015
Long-term prepaid expenses	\$ 7,141	\$ 6,819
Deposit guarantee	112	960
Convertible preferred shares (note 23)	10,000	10,000
Accrued employee future benefit asset (note 15)	9,154	8,489
	\$ 26,407	\$ 26,268

NOTE 25. IMPAIRMENT

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 ^(a)	Other ^(b)	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) Formerly known as "Desert NDT".

(b) 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.

The following table sets forth the Company's impairment charges for the year ended December 31, 2015:

(in thousands of Canadian dollars)	Shawcor UK ^(a)	Total
Impairment of property, plant and equipment	\$ 590	\$ 590

(a) The impairment related to the Leith plant of Bredero Shaw in the UK.

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 value-in-use (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 Shawcor 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.

Impairment of Bredero Shaw Leith Plant in EMAR region as at October 31, 2015

The Company performed an impairment test for its Bredero Shaw Leith Plant as of October 31, 2015. Bredero Shaw's facility located in Leith, Scotland is a full service, high capacity coating facility. Due to the likelihood of project delays and lower activity levels as a result of the recent global decline in oil prices, the carrying amount of the property, plant and equipment was deemed to be partially impaired.

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 2016	December 31 2015
Accounts payable	\$ 88,980	\$ 110,648
Accrued liabilities	123,559	185,263
	\$ 212,539	\$ 295,911

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
Balance – December 31, 2014	\$ 24,138	\$ 4,455	\$ 23,731	\$ 52,324
Provision adjustments	2,832	5,203	23,998	32,033
Acquisition	8,290	–	–	8,290
Settlement of liabilities	(2,658)	(5,977)	(18,166)	(26,801)
Accretion expense	516	–	–	516
Foreign exchange differences	1,323	651	1,381	3,355
Gain on settlement	(80)	–	–	(80)
Balance – December 31, 2015	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)
Balance – December 31, 2016	\$ 29,706	\$ 6,768	\$ 19,934	\$ 56,408

Net book value**December 31, 2015**

Current	\$ 8,428	\$ 4,332	\$ 12,802	\$ 25,562
Non-current	25,933	–	18,142	44,075
	\$ 34,361	\$ 4,332	\$ 30,944	\$ 69,637

December 31, 2016

Current	\$ 5,904	\$ 6,768	\$ 8,432	\$ 21,104
Non-current	23,802	–	11,502	35,304
	\$ 29,706	\$ 6,768	\$ 19,934	\$ 56,408

Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$42 million as at December 31, 2016. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.15% and 7.59%. 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)

2017	6,388
2018	2,091
2019	3,015
2020	3,750
2021	4,507
Thereafter	22,618
	\$ 42,369

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 Compensation	Incentive based Consideration (note 14)	Loans Payable	Other Liabilities	Total
Balance – December 31, 2014	\$ 4,873	\$ 37,732	\$ 121	\$ –	\$ 42,726
Adjustments	–	(2,204)	–	–	(2,204)
Settlement of liabilities	(1,305)	(16,371)	(91)	–	(17,767)
Foreign exchange differences	371	1,360	(30)	–	1,701
Balance – December 31, 2015	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)
Balance – December 31, 2016	\$ 3,684	\$ 9,006	\$ –	\$ 589	\$ 13,279
December 31, 2015					
Current	\$ 3,939	\$ 19,340	\$ –	\$ –	\$ 23,279
Non-current	–	1,177	–	–	1,177
	\$ 3,939	\$ 20,517	\$ –	\$ –	\$ 24,456
December 31, 2016					
Current	\$ 3,684	\$ 8,359	\$ –	\$ –	\$ 12,043
Non-current	–	647	–	589	1,236
	\$ 3,684	\$ 9,006	\$ –	\$ 589	\$ 13,279

NOTE 29. CREDIT FACILITIES

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

(in thousands of Canadian dollars)	December 31 2016	December 31 2015
Bank indebtedness	\$ 2,463	\$ –
Standard letters of credit for performance, bid and surety bonds (note 31)	90,898	132,052
Total utilized credit facilities	93,361	132,052
Total available credit facilities ^(a)	492,610	623,970
Unutilized Credit Facilities	\$ 399,249	\$ 491,918

(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:

- 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;
- 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");
- the creation of a minimum EBITDA covenant of Cdn\$15 million in respect of Q4 2016;
- 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;
- 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;
- 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
- 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.

The Company incurred fees and expenses of \$2.1 million and \$0.9 million to implement these amendments in the second and fourth quarters of 2016, respectively.

The Company was in compliance with these covenants as at December 31, 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 as follows:

(in millions of Canadian dollars)	Due Date	Interest Rate	December 31 2016	December 31 2015	December 31 2016	December 31 2015
			(US\$)	(US\$)	(Cdn\$)	(Cdn\$)
Senior Notes, Series A	March 31, 2020	2.98%	62	100	83	139
Senior Notes, Series B	March 31, 2023	3.67%	57	100	76	139
Senior Notes, Series C	March 31, 2025	3.82%	52	100	70	139
Senior Notes, Series D	March 31, 2028	4.07%	26	50	35	68
			197	350	264	485

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, 2016 is \$263.5 million (US\$196.8 million) (2015 – \$485.1 million (US\$350.0 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 7.

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, 2016 and December 31, 2015.

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 with no renewal options.

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

(in thousands of Canadian dollars)		December 31 2016
Within one year	\$	24,709
After one year but not more than five years		53,831
More than five years		9,638
	\$	88,178

The lease expenditure charged to the consolidated statements of income (loss) during the year was \$39.2 million (2015 – \$35.3 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, 2016	
	Minimum Payments		Present Value of Payments
Within one year	\$ 1,461	\$	950
After one year but not more than five years	5,411		3,370
After more than five years	9,248		7,649
Total minimum lease payments	16,120		11,969
Less: Amounts representing interest charges	\$ (4,151)	\$	–
Present Value of Minimum Lease Payments	\$ 11,969	\$	11,969

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 against Wasco Energy.

A statement of claim was filed against a group of three companies, which included Shawcor, in January 2010 and later amended in April 2015, by Canadian Natural Resources Ltd. ("CNRL") for \$68 million in damages in relation to the failure of a high temperature pipeline that was part of the expansion of CNRL's Primrose/Wolf Lake Heavy Oil Project in northeast Alberta.

The multi-party mediation for the case concluded in early February 2015, following which the Company settled all claims with CNRL.

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 \$90.9 million as at December 31, 2016 (2015 – \$132.1 million). In addition, as at December 31, 2016, the Company had \$107.2 million of outstanding surety bonds through insurance companies (2015 – \$130.8 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)		2016
Number of shares		
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
Balance – December 31, 2016		69,892,544
Stated value		
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
Balance – December 31, 2016	\$	703,316

(all dollar amounts in thousands of Canadian dollars)		2015
Number of shares		
Balance, December 31, 2014		64,493,849
Issued on exercise of stock options		24,130
Issued on exercise of RSUs		3,322
Balance – December 31, 2015		64,521,301
Stated value		
Balance, December 31, 2014	\$	533,660
Issued on exercise of stock options		508
Compensation cost on exercised options		197
Compensation cost on exercised RSUs		119
Balance – December 31, 2015	\$	534,484

Dividends declared and paid were as follows:

(in thousands of Canadian dollars, except per share amounts)		2016	2015
Dividends declared and paid to shareholders	\$	38,708	\$ 38,708
Dividends declared and paid per share	\$	0.600	\$ 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 2016 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)	2016 IFRS	2015 IFRS	2014 IFRS	2013 IFRS	2012 IFRS	2011 IFRS
					(Note 5)	
Operating Results						
Revenue	1,209,259	1,810,648	1,890,029	1,847,549	1,469,187	1,157,265
Adjusted EBITDA (Note 1)	56,452	228,478	336,701	391,223	265,254	128,168
Net (Loss) Income (Note 2)	(180,960)	98,244	94,861	219,862	178,310	56,280
Cash Flow						
Cash from operating activities	131,893	281,041	187,985	32,264	530,512	45,325
Purchase of property, plant, and equipment	89,252	61,153	77,645	76,729	73,505	55,982
Financial Position						
Working capital (Note 3)	279,986	446,405	378,733	267,489	325,412	287,142
Long-term debt	263,528	485,147	406,926	374,381	–	–
Equity	1,043,040	1,125,201	980,613	658,581	988,667	867,411
Total assets	1,777,791	2,145,705	1,939,970	1,651,928	1,888,873	1,226,749
Per Share Information (Common, Class A & Class B)						
Net (Loss) Income						
Basic	(2.80)	1.52	1.55	3.55	2.53	0.79
Diluted	(2.80)	1.52	1.53	3.51	2.50	0.78
Dividends						
Common share	0.600	0.600	0.575	1.375	N/A	N/A
Class A	–	–	–	0.100	0.380	0.315
Class B	–	–	–	0.091	0.345	0.286
Equity per share (Note 4)	14.92	17.44	15.20	10.98	14.08	12.28

QUARTERLY INFORMATION (UNAUDITED)

(in thousands of Canadian dollars, except per share information)		First	Second	Third	Fourth	Total
Revenue	2016	365,579	255,359	259,139	329,182	1,209,259
	2015	471,940	398,020	485,428	455,260	1,810,648
Net Income (Loss) (Note 2)	2016	7,461	(41,678)	(174,019)	27,276	(180,960)
	2015	37,774	(8,538)	38,107	30,901	98,244
Earnings (Loss) per share (Diluted)	2016	0.12	(0.65)	(2.69)	0.42	(2.80)
	2015	0.58	(0.13)	0.59	0.48	1.52

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

Note 2: Attributable to shareholders of the Company, 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 January 2014, and has been a Director of Shawcor since March 2010.



D.S. Blackwood

Houston, Texas

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



J.W. Derrick

Buffalo, New York

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



K.J. Forbes

West Sussex, England

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



M.S. Hanley

Mount-Royal, Quebec

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



S.M. Orr

Toronto, Ontario

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



P.S. Pierce

Houston, Texas

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



P.G. Robinson

Toronto, Ontario

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



E.C. Valiquette

Pembroke, Ontario

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



D.M. Wishart

Calgary, Alberta

Mr. Wishart is Chairman of the Board of Bruce Power Ltd. He 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

PIPELINE AND PIPE SERVICES

Bredero Shaw

5875 N. Sam Houston Pkwy. W.
Suite 200
Houston, Texas 77086

T: 281 886 2350

F: 281 886 2351

Dellaertweg 9-E, Gebouw
"Le Carrefour"
2316 WZ Leiden
The Netherlands

T: +31 71 80 802 70

F: +31 71 80 802 71

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

T: 65 6732 2355

F: 65 6732 9073

Viale Risorgimento 62

45011 Adria (RO) Italy

T: 39 0426 941000

F: 39 0426 901055

Canusa-CPS

25 Bethridge Road
Toronto, Ontario M9W 1M7

T: 416 743 7111

F: 416 743 5927

Flexpipe Systems

333 - 7 Avenue S.W.

Suite 2200

Calgary, Alberta T2P 2Z1

T: 403 503 0548

F: 403 503 0547

Shaw Pipeline Services

5875 N. Sam Houston Pkwy. W.
Suite 200
Houston, Texas 77086

T: 281 886 2350

F: 281 886 2351

Guardian

950 - 78th Avenue
Edmonton, Alberta T6P 1L7

T: 780 440 1444

F: 780 440 4261

Shawcor Inspection Services

5875 N. Sam Houston Pkwy. W.
Suite 200
Houston, Texas 77086

T: 281 886 2350

F: 281 886 2351

Dhatec

Elskensakker 8
5571 SK Bergeijk
The Netherlands (NL)

T: +31 497 542 527

E-Mail: info@dhatec.nl

Lake Superior Consulting, LLC

130 West Superior Street,
Suite 500
Duluth, Minnesota 55802

T: 218 727 3141

PETROCHEMICAL AND INDUSTRIAL

DSG-Canusa

25 Bethridge Road
Toronto, Ontario M9W 1M7

T: 416 743 7111

F: 416 743 7752

ShawFlex

25 Bethridge Road
Toronto, Ontario M9W 1M7

T: 416 743 7111

F: 416 743 2565

CORPORATE INFORMATION

CORPORATE OFFICERS

P.G. Robinson

Chair of the Board

S.M. Orr

President and
Chief Executive Officer

G.S. Love

Senior Vice President, Finance
and Chief Financial Officer

D.R. Ewert

Senior Vice President,
Legal & Secretary

OPERATIONS MANAGEMENT

M.J. Simmons

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

M. Skrbich

Vice President and
General Manager
Shawcor Inspection Services

P. Powers

President and Managing Director
Lake Superior Consulting

CORPORATE ADDRESS, STOCK INFORMATION AND ANNUAL MEETING

Head Office

25 Bethridge Road
Toronto, Ontario
Canada M9W 1M7

T: 416 743 7111
F: 416 743 7199

**Transfer Agent
and Registrar**

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

T: 800 387 0825
416 682 3860
F: 800 249 6189
E-mail: inquiries@canstockta.com

Auditors

Ernst & Young LLP

Stock Listing

The Toronto Stock Exchange
Common Shares
Trading Symbol: SCL

Annual Meeting

Tuesday, May 9, 2017
4:00 p.m.

The Design Exchange
234 Bay Street
Toronto, Ontario
M5K 1B2

www.shawcor.com



Head Office

25 Bethridge Road
Toronto, Ontario
Canada M9W 1M7

T: 416 743 7111
F: 416 743 7199