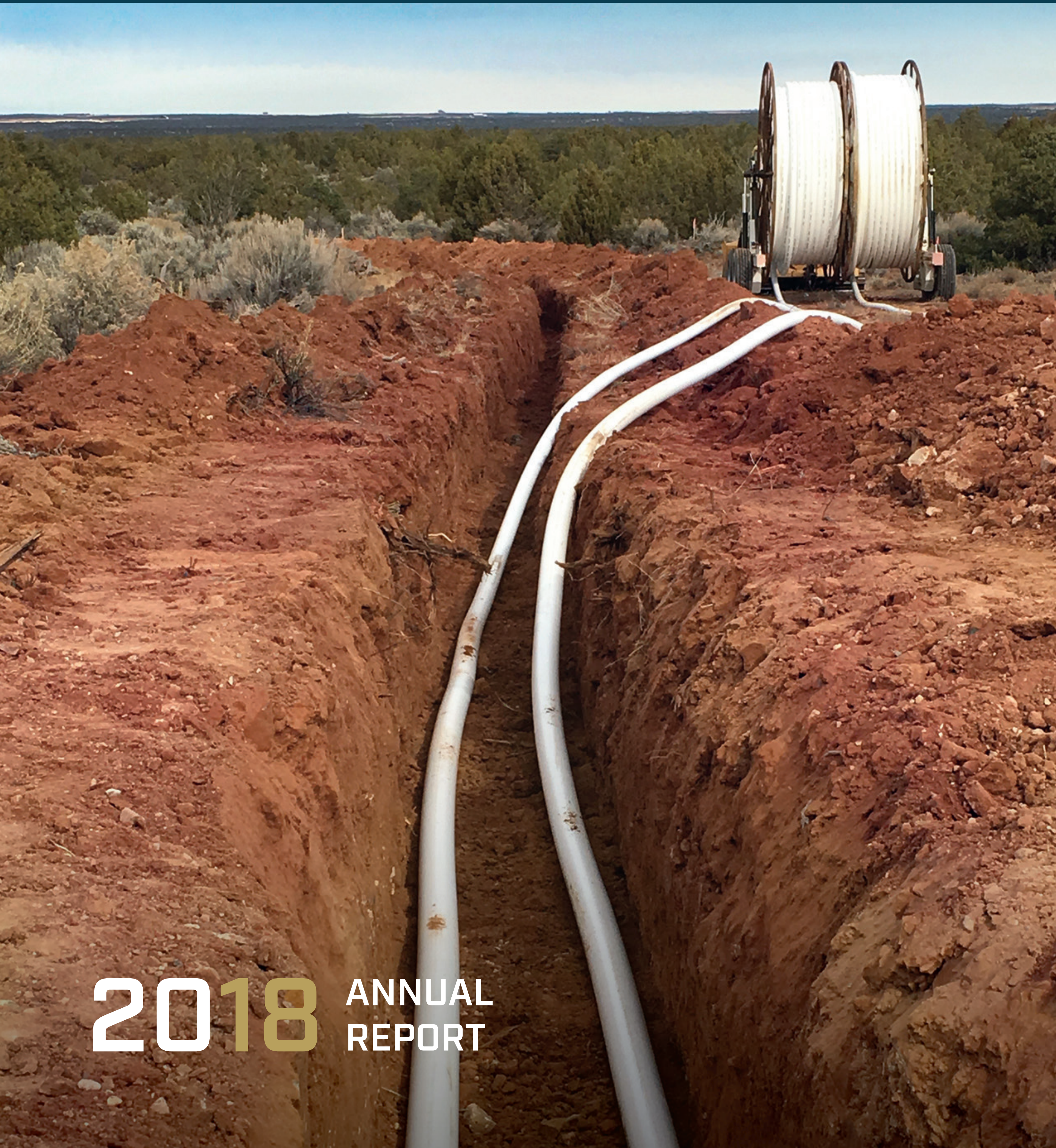
SHAWCOR



2018 ANNUAL REPORT

SHAWCOR

CORPORATE PROFILE

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

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On the cover: FlexPipe, our 3" spoolable composite pipe being installed in southwest Colorado. FlexPipe is a quick and cost-effective transport solution for a produced water application with a major US oil and gas company. FlexPipe spoolable pipe is a non-corrosive product providing installation and operating benefits to customers worldwide.

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.

2018 HIGHLIGHTS

Financial Summary

Year ended December 31 (in thousands of Canadian dollars, except per share amounts)		**2018[b]**		2017[a]
Operating Result				
Revenue	**$**	**1,408,872**	$	1,565,499
Adjusted EBITDA (note 1)		**134,870**		225,929
Income from Operations		**50,613**		128,001
Net Income (note 2)	**$**	**25,876**	$	71,155
Earnings per share – basic	**$**	**0.37**	$	1.02
Earnings per share – diluted	**$**	**0.37**	$	1.02
Cash Flow				
Cash provided by operating activities	**$**	**30,545**	$	178,446
Financial Position				
Working capital	**$**	**393,148**	$	377,919
Total assets	**$**	**1,702,125**	$	1,698,001
Equity per share	**$**	**15.26**	$	14.94

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

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

(a) Restated due to the adoption of IFRS 15, *Revenue from Contracts with Customers* that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018.

INTEGRITY, TECHNOLOGY AND EXECUTION

SHAWCOR ACHIEVED A SOLID LEVEL OF PROFITABILITY IN 2018, WITHOUT THE CONTRIBUTION OF A LARGE PIPE COATING PROJECT. THIS RESULT IS A TESTAMENT TO THE SUCCESS OF A STRATEGY TO EXPAND THE PORTFOLIO OF PRODUCTS AND SERVICES WE OFFER OUR CUSTOMERS AND ENSURE THE LONG-TERM SUCCESS OF THE COMPANY. WITH A DEMONSTRATED BASE BUSINESS AND PIPE COATING DEMAND THAT IS POISED TO STRENGTHEN, THE COMPANY IS WELL POSITIONED FOR STRONGER RESULTS.

FINANCIAL RESULTS

Revenue for the year reached $1.41 billion, a 10 percent decrease from 2017, reflecting the absence of work on a large (+$100 million) pipe coating project for the first time in the Company's recent history. Despite the persistence of a global downturn in capital spending on subsea energy infrastructure projects (and thus on pipe coating systems), we benefited from strong revenue performance in the balance of our Pipeline and Pipeline Services businesses in the United States, and slow but steady growth in the Petrochemical and Industrial segment. Adjusted EBITDA[1] decreased to $134.9 million in 2018, compared to $225.9 million in the previous year, reflecting lower revenues and margins as a result of depressed pipe coating activity, and net earnings were $0.37 per share compared to $1.02 in 2017.

While we are not satisfied with these results, we believe they demonstrate our progress in building a well-diversified energy service business that can generate sustainable returns even during a year in which our core pipe coating business did not contribute to profitability. In fact, the cost of maintaining the readiness of idle facilities and the pursuit of pipe coating awards represented approximately $15 million per quarter of additional cost. We are confident this is a worthwhile investment given the increasing visibility of pipe coating work to be contracted in 2019 and into 2020, as represented in the growing scale of our backlog and bid and budgeted work.

THE YEAR IN REVIEW

After more than four years into the current downturn, the industry is yet to have certainty of a full recovery. After rising throughout most of the year, volatility in the price of oil since then reminds us of how quickly the industry can swing in the face of economic and political uncertainty.

In 2018, activity in the U.S. unconventional energy basins continued to gain traction as producers swung back into production in response to rising commodity prices. Amid this environment, higher well completion and midstream activity benefited sales in our composite pipe, integrity management, and gathering line pipe coating businesses. It was a different story in Western Canada where an acute deficit in pipeline takeaway capacity caused a record discount to WTI for Canadian producers, and a resultant low level of activity across all our businesses.

The year also marked the low point in the slow recovery of investment in subsea energy infrastructure that directly influences our pipe coating activity. In October, Shawcor announced the conditional award of a contract to provide thermal insulation and anti-corrosion coating services for the Liza phase 2 deepwater development project located off the coast of Guyana. In conjunction with work on the Liza phase 1 project, which commenced earlier in the year at our Channelview, Texas and Veracruz, Mexico facilities, the larger Liza phase 2 contract brought the total value of work on the project to $110 million. This was the first major contract for Shawcor associated with a greenfield oil development in several years.

There are several reasons why the world's major energy producers are beginning to return to international and offshore developments. These include growing cash balances, reserve replacement requirements and improved production terms with host countries. However, one factor that appears to be new this time is an unprecedented effort to reduce development costs through standardization, early engagement and ownership of larger scopes of work that are conditionally awarded subject to the project moving forward. This has resulted in several changes. First, suppliers such as Shawcor are being engaged much earlier in the field development process. Second is the rapid filtering of prospective suppliers and the requirement to sign non-disclosure agreements that govern project discussions. Third is the introduction of awarded scopes of work that are conditional on the prospective development's final investment decision (FID). For Shawcor, these changes are translating into earlier engagements and closer relationships with producers and engineering, procurement and construction companies (EPCs).

1. See Section 12.0 – *Reconciliation of Non-GAAP Measures* in the Company's 2018 Management's Discussion and Analysis for a reconciliation of EBITDA and Adjusted EBITDA.

> “While we are not satisfied with these results, we believe they demonstrate our progress in building a well-diversified energy service business that can generate sustainable returns even during a year in which our core pipe coating business did not contribute to profitability.

Steve Orr
Chief Executive Officer

Liza phase 2 followed this new process. Early last year we were given an exclusive opportunity to directly discuss work requirements under an NDA. An agreement was reached – without tender – that provided the assurance we needed to commit required resources to the project. With all parties working together, earlier and on larger and more clearly defined scopes of work that considered the many interfaces of such a complex project, and drawing from the experience of Liza phase 1, Exxon was able to successfully reduce execution risk and gain cost certainty.

Internationally, several markets have remained resilient and have had stable activity throughout the cycle. This was particularly true for the Middle East producing region. However, this region like many is also experiencing change in the way products and services are sourced and procured. In the near future, unless a supplier is local and can demonstrate commitment to invest regionally through local content, they will not be able to economically participate in the Middle Eastern market. This is one of the reasons – in addition to having achieved necessary qualifications and having built a proven installed base in the region – that Shawcor moved to construct a composite pipe manufacturing facility in the Middle East. We expect this facility to be completed late this year.

Our Petrochemical and Industrial businesses continued to benefit during the year from stable vehicle production, but more importantly a continuing increase in electrical content per vehicle. A 25% increase in heat shrink capacity added over the last three years allowed us to capture our share of a growing market and offset the lack of Wire and Cable demand in the historically strong oilfield infrastructure market in Western Canada.

IMPROVING VISIBILITY

We know from experience that our pipe coating business is heavily dependent on the late cycle capital spending of Exploration and Production operators. Large commitments require confidence and confidence requires time to gauge the future with reasonable certainty. While the recovery of spending on major energy infrastructure projects has taken longer than we had expected, we have gained increasing confidence over the past year that there will be an increase in the number of projects sanctioned as we move forward.

In 2018 it became apparent there were three areas in which the increased sanctioning of projects would benefit our pipe coating businesses. The first is related to takeaway constraints in North America and investments needed for large diameter transmission lines. This issue is being addressed today in the Permian but in time will also have to be addressed in Western Canada. The second area is offshore. Driven by the factors I have already mentioned, projects for the offshore will likely continue to be sanctioned with attendant demand for our high-value coating solutions. Pipe coating is an activity that historically follows development drilling by 12-18 months and the projects we are tracking suggest this timeframe will continue to be valid. The third area, and the one in which we have the greatest confidence that investments will be made, is in infrastructure required to service Liquefied Natural Gas (LNG). Gas reservoirs require investment to address declining production; demand has also increased, adding urgency to the development of new reserves. The net impact is a forecasted gap between supply and demand as early as 2021. The growth of the LNG market will require new gas sources, particularly offshore where massive reserves have been proven, and Shawcor is well positioned to benefit from this development given our global footprint and leadership in high value pipe coating solutions.

Developments in each of these areas have given us increasing confidence and have started to be reflected in our backlog, which reached $459 million at the end of 2018. Project activity remains very strong with over $1 billion in firm bids and almost $1.9 billion in budgeted projects as the year drew to a close. We expect Shawcor will be successful in capturing a significant portion of these projects as they advance toward final investment decision.

THE SHAWCOR DIFFERENCE

While it is not possible to predict the commencement of major infrastructure projects with certainty, we are confident that Shawcor

"Led by growing demand for new LNG infrastructure and the return of major exploration and production companies to subsea development, Shawcor is looking forward with increasing visibility to more than $2.9 billion in opportunities worldwide.

will continue to convert a large share of the opportunities that come our way into awarded contracts. Our track record of success has and will continue to be based on the strong brand we have built after many years in the business. The Shawcor Difference stands for: Integrity, which stresses workplace safety, an Injury and Incident Free culture, and the highest standards of quality and business ethics; Technology, which is based on industry-leading material science that draws on deep partnerships with researchers and customers and has resulted in the 179 patents, 140 patents pending and 86 proprietary formulations to date; and a hard-earned reputation for Execution, which has come from working with major producers and EPCs in every region of the world from an unrivalled global network of manufacturing and service facilities.

OUTLOOK

Over the year ahead, we expect to benefit from continued strength in the U.S. market, which continues to experience high levels of drilling and completion activity and the build-out of pipeline infrastructure to support increasing production from unconventional energy basins. Such production is supported by a steady domestic market as well as growing export demand for both U.S. oil and gas. This environment should prove conducive for Shawcor's broad product and service offering in Pipeline Performance, Composite Production Systems and Integrity Management. Activity in our Canadian operations is expected to remain relatively subdued, despite growing rail capacity, until lingering pipeline issues are resolved.

We expect that our Connection Systems businesses – which provide reliable power, control and instrumentation connectivity for the automotive, utility and transportation industries – will continue to benefit from steady demand driven by the growing adoption of electrical vehicles and the expansion and upgrading of public transit systems worldwide.

While this diversified base of businesses is designed to help Shawcor generate sustainable profitability throughout the major investment cycles of the global energy industry, we also stand to benefit from improving global prospects for our core pipe coating systems business. Led by growing demand for new LNG infrastructure and the return of major exploration and production companies to subsea development, Shawcor is looking forward with increasing visibility to more than $2.9 billion in opportunities worldwide.

In summary, we expect that our base business will remain supportive and that the pipe coating activity we currently have under contract or for which we currently have line of sight, will enable our pipe coating business to make a positive contribution to the financial performance of the Company in 2019. Equally important, we expect the backlog to strengthen during the year and support improved results as we move into 2020.

ZCL COMPOSITES ACQUISITION

Subsequent to year-end, on January 20, 2019, we announced the proposed $308 million acquisition of ZCL Composites Inc., North America's largest manufacturer and supplier of environmentally friendly fiberglass reinforced plastic underground storage tanks. The proposed transaction, which is expected to close in the second quarter of this year, reflects our strategy of acquiring businesses that complement our current operations, broaden our product and service portfolio for new and existing customers, and leverage Shawcor's industry-leading position in material science.

A WORD OF APPRECIATION

In closing, I would like to extend my thanks and appreciation to all of Shawcor's valued employees, business partners and investors. With your support, we have delivered another profitable year and successfully advanced our strategies, while better positioning Shawcor to take advantage of growing opportunity in the year ahead. I look forward to reporting on our progress.

Steve Orr
Chief Executive Officer

FINANCIAL REVIEW

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, 2018 AND 2017 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 14 HEREOF.

1.0 EXECUTIVE OVERVIEW

Shawcor is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates eight divisions with over 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 one of 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, 2018, 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 86% of consolidated revenue for the year ended December 31, 2018. This segment includes the Bredero Shaw, Pipeline and Pipe Services Products, Flexpipe Systems, Guardian, Shaw Pipeline Services, Shawcor Inspection Services (formerly "Desert NDT") and Lake Superior Consulting divisions.

- Bredero Shaw's product offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.
- Pipeline and Pipe Services Products includes Canusa-CPS, that manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Dhatec, that designs and assembles engineered pipe logistics products and services.
- Flexpipe Systems manufactures spoolable and stick composite pipe systems and high density polyethylene pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities.

- Guardian provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.
- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.
- Shawcor Inspection Services (formerly "Desert NDT") provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

Petrochemical and Industrial

The Petrochemical and Industrial segment, which consists of the Connection Systems division, accounted for 14% of consolidated revenue for the year ended December 31, 2018. 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 $45.3 million from a net income of $71.2 million for the year ended December 31, 2017 to a net income of $25.9 million for the year ended December 31, 2018. This was mainly due to the $77.4 million decrease in operating income and a $4.8 million net monetary loss in Argentina. This was partially offset by a $26.1 million decrease in income tax expense, a $6.6 million decrease in loss from investment in associates and a $4.7 million decrease in finance cost.

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 similarly titled measures used by other entities. ROIC is used by the Company to assess the efficiency of generating profits from each unit of invested capital. See *Section 12.0 – Reconciliation of Non-GAAP Measures*. As part of its performance objectives, the Company has set an ROIC target of 15%, as described in *Section 1.2 – Vision and Objectives.* The Company's ROIC for the years ended December 31, 2018 and 2017 was 2.8% and 6.5%, respectively. This decrease was primarily due to a decrease of $47.7 million in net income for the most recent year, adjusted for after-tax interest expense.

Safety and Environmental Stewardship

The Company maintains a comprehensive HSE management system in place within each of its eight operating divisions and is committed to be an IIF workplace with no damage to the environment. For the years ended December 31, 2018 and December 31, 2017, the Company had recordable injuries per million person hours worked of 6.2 and 4.5, respectively. During 2018, the Company completed 11 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 $35.1 million from $41.1 million for the year ended December 31, 2017 to $76.2 million for the year ended December 31, 2018, mainly due to an increase in growth capital spend in the Company's pipe coating, composite products and integrity inspection field services businesses, The Company believes it has sufficient available resources and capacity to meet the market demand for its products and services in the markets where the Company operates. The Company may, however, incur new capital expenditures to respond to market demand growth and to facilitate growth in new markets.

The Company expects the current level of net working capital will be sufficient to support the level of business activity projected in 2019; however, unexpected increases in business activity or specific project requirements may result in higher investment in working capital. Any such increase in requirements will be financed from the Company's cash balances and available committed credit facilities. The Company had cash and cash equivalents and short term investments of $219.3 million and $289.1 million as at December 31, 2018 and 2017, respectively, and had unutilized lines of credit available of $456.6 million and $389.1 million, as at December 31, 2018 and 2017, respectively.

Please refer to *Section 5.0 – Liquidity and Capitalization*, for additional information with respect to the Company's liquidity and financial position.

Non-Capital Resources

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

On an ongoing basis, the Company monitors its succession planning program in order to mitigate the impact of planned or unplanned departures of key personnel. As at December 31, 2018, 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, 2018 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, 2018, 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, 2018[b]	2017[a]	2016
Revenue	**$ 1,408,872**	$ 1,565,499	$ 1,209,259
Cost of Goods Sold and Services Rendered	**974,795**	980,021	816,775
Gross Profit	**434,077**	585,478	392,484
Selling, general and administrative expenses	**300,294**	342,991	320,643
Research and development expenses	**11,876**	10,536	13,239
Foreign exchange gains	**(11,929)**	(249)	(1,386)
Amortization of property, plant and equipment	**64,789**	77,267	57,255
Amortization of intangible assets	**18,434**	19,170	23,035
Gain on sale of land	**–**	(311)	(6,493)
Impairment	**–**	8,073	157,311
Income (Loss) from Operations	**50,613**	128,001	(171,120)
Income (loss) from investments in associates	**282**	(6,271)	(3,536)
Finance costs, net	**(12,092)**	(16,817)	(15,915)
Costs associated with repayment and modification of long-term debt	**–**	–	(3,009)
Gain from arbitration award	**–**	–	19,221
Net monetary loss	**(4,796)**	–	–
Income (Loss) before Income Taxes	**34,007**	104,913	(174,359)
Income taxes	**7,828**	33,885	6,207
Net Income (Loss)	**$ 26,179**	$ 71,028	$ (180,566)
Net Income (Loss) Attributable to:			
Shareholders of the Company	**$ 25,876**	$ 71,155	$ (180,960)
Non-controlling interests	**303**	(127)	394
Net Income (Loss)	**$ 26,179**	$ 71,028	$ (180,566)
Per Share Information:			
Earnings (Loss) per Share			
Basic	**$ 0.37**	$ 1.02	$ (2.80)
Diluted	**$ 0.37**	$ 1.02	$ (2.80)
Cash Dividend per Share:			
Common Shares	**$ 0.600**	$ 0.600	$ 0.600

(in thousands of Canadian dollars)	**December 31, 2018[b]**	December 31, 2017[a]	December 31, 2016
Total Assets	**$ 1,702,125**	$ 1,698,001	$ 1,777,791
Total Non-Current Liabilities	**$ 343,229**	$ 322,235	$ 339,298

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 – New Accounting Standards Adopted* for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 – Financial Reporting in Hyperinflationary Economies*.

2.2 Foreign Exchange Impact

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

	Year Ended December 31	
	2018	2017
US Dollar	**1.2958**	1.2999
Euro	**1.5290**	1.4700
British Pound	**1.7273**	1.6829

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

(in thousands of Canadian dollars)	**Year Ended December 31, 2018**
Revenue	**$ (20,577)**
Income from operations	**(7,091)**
Net income (attributable to shareholders of the Company)	**(2,651)**

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $11.9 million in 2018, compared to a foreign exchange gain of $0.2 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, primarily in Latin America.

3.0 BUSINESS DEVELOPMENTS

Shawcor to acquire ZCL Composites

On January 20, 2019, the Company announced that it had entered into an arrangement agreement ("Arrangement") to acquire all of the shares of ZCL Composites Inc. ("ZCL") for $10.00 per share in cash and by way of a statutory plan of arrangement. The price per share implies an aggregate fully diluted equity value for ZCL of approximately $308 million. ZCL is North America's largest manufacturer and supplier of environmentally friendly fiberglass reinforced plastic underground storage tanks. ZCL has two plants in Canada, four in the US and one in The Netherlands serving the Fuel, Water & Wastewater and Oil & Gas markets. The arrangement will be considered by ZCL shareholders on March 26, 2019 and requires the approval of 66 2/3rd % of the votes cast at the meeting. Subject to receipt of shareholder and court approval, closing of the transaction is expected in early April 2019.

Shawcor has entered into a commitment letter with the Toronto-Dominion Bank and National Bank of Canada as co-lead arrangers providing a US$500 million, four-year senior unsecured revolving credit facility (the "Credit Facility"). The Credit Facility will be used to fund the Arrangement and replace Shawcor's existing senior credit facility. Shawcor anticipates that a portion of the Credit Facility will be syndicated to other banks or financial institutions. It is anticipated that the Credit Facility will be entered into prior to the end of the first quarter of 2019.

On January 30, 2019, the Company gave notice to the Senior Note holders that it will repay on March 7, 2019 the entire principal amount outstanding with accrued interest, approximately US$199.8 million, and a make whole amount estimated at approximately US$5.2 million.

Offshore Guyana Deepwater Projects

On October 4, 2018, the Company announced that its pipe coating division had been assigned work from Saipem valued at approximately C$110 million to provide thermal insulation and anticorrosion coating services for the Liza I and II deepwater development projects located offshore Guyana.

Coating work under the Liza I project commenced in March 2018 at Shawcor's Channelview, Texas facility and additional work will be completed at Shawcor's Veracruz, Mexico facility. Work on Liza I is expected to be completed during the first quarter of 2019. Coating work under the larger Liza II project, which is conditional on a Final Investment Decision, or "FID", by the pipeline operator, is expected to be executed at the Veracruz and Channelview facilities.

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)	**2018[c]**	2017[b]	Change
Pipeline and Pipe Services	**$ 1,208,247**	$ 1,372,556	$ (164,309)
Petrochemical and Industrial	**202,254**	194,207	8,047
Elimination[a]	**(1,629)**	(1,264)	(365)
Consolidated	**$ 1,408,872**	$ 1,565,499	$ (156,627)

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

(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

Consolidated revenue decreased by $156.6 million, or 10%, from $1,565.5 million for the year ended December 31, 2017 to $1,408.9 million for the year ended December 31, 2018, reflecting a decrease of $164.3 million, or 12%, in the Pipeline and Pipe Services segment, partially offset by a $8.1 million, or 4%, increase in revenue in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during the year ended December 31, 2018 was $1,208.3 million, or $164.3 million lower than in the comparable period in 2017, primarily due to lower large project activity in Latin America and decreased activity levels in Asia Pacific and Europe, Middle East, Africa and Russia ("EMAR"), partially offset by higher revenue in the North American region. In addition, revenue was negatively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0*. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by $8.1 million in the year ended December 31, 2018 compared to the same period in 2017, due to higher activity levels in EMAR and North America, partially offset by lower revenue in Asia Pacific. See *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Income from Operations ("Operating Income")

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

(in thousands of Canadian dollars)		**2018[c]**		2017[b]		Change
Operating income	**$**	**50,613**	$	128,001	$	(77,388)
Operating margin[a]		**3.6%**		8.2%		(4.6%)

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

(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies.*

Operating income decreased by $77.4 million, from $128.0 million in the year ended December 31, 2017, to $50.6 million in the year ended December 31, 2018. Operating income was negatively impacted by a year-over-year decrease in gross profit of $151.4 million and a $1.3 million increase in research and development expenses. This was partially offset by decreases of $42.7 million in selling, general and administrative ("SG&A") expenses and $13.2 million in amortization of property, plant, equipment and intangible assets, a $11.7 million increase in net foreign exchange gains and a $8.1 million impairment charge recorded in the fourth quarter of 2017. In addition, operating income was negatively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0*.

The decrease in gross profit resulted from the lower revenue, as explained above, and a 6.6 percentage point decrease in the gross margin from the prior year. The decrease in the gross margin percentage was primarily due to lower large project activity in Latin America and lower utilization in EMAR and Asia Pacific facilities and the related impact on the absorption of manufacturing overheads.

SG&A expenses decreased by $42.7 million in the year ended December 31, 2018 compared to the comparable period in 2017, primarily due to a $36.6 million decrease in compensation and other personnel related costs, where the prior year period included an increase in government mandated employee profit sharing on large project activity in Latin America, a $2.2 million decrease in professional consulting and legal fees and a $3.9 million decrease in insurance, management information systems, product development and other costs.

Finance Costs, Net

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

(in thousands of Canadian dollars)		**2018[a]**		2017		Change
Interest income on short-term deposits	**$**	**(2,990)**	$	(1,556)	$	(1,434)
Interest expense, other		**5,986**		5,539		447
Interest expense on long-term debt		**9,096**		12,834		(3,738)
Finance costs, net	**$**	**12,092**	$	16,817	$	(4,725)

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

For the year ended December 31, 2018, net finance costs were $12.1 million, compared to $16.8 million in the prior year. The decrease in net finance costs was primarily a result of $3.7 million in lower interest expense on long term debt due to lower interest rates and $1.4 million in higher interest income on short term deposits. This was partially offset by a $0.5 million increase in other financing expenses.

Income Taxes

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

(in thousands of Canadian dollars)	**2018[b]**	2017[a]	Change
Income tax expense	**$ 7,828**	$ 33,885	$ (26,057)

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

The Company recorded an income tax expense of $7.8 million (23% of income before income taxes) during the year ended December 31, 2018, compared to an income tax expense of $33.9 million (32% of income before income taxes) during the year ended December 31, 2017. The effective tax rate for the year ended December 31, 2018 was lower than the Company's statutory income tax rate of 27%, primarily due to the mix of jurisdictions where the income was earned and the impact of improved results in jurisdictions where the Company is benefiting from previously unrecognized deferred tax assets.

Net Income (attributable to shareholders of the Company)

Net income decreased by $45.3 million, from $71.2 million during the year ended December 31, 2017 to $25.9 million during the year ended December 31, 2018, mainly due to the $77.4 million decrease in operating income, as explained above, and a $4.8 million increase in net monetary loss from hyperinflationary accounting. This was partially offset by a $26.1 million decrease in income tax expense, a $6.6 million increase in net gain from investments in associates and a $4.7 million decrease in finance costs.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

(in thousands of Canadian dollars, except operating margin)	**2018[c]**	2017[b]	Change
North America	**$ 822,465**	$ 621,825	$ 200,640
Latin America	**118,102**	383,538	(265,436)
EMAR	**181,240**	203,437	(22,197)
Asia Pacific	**86,440**	163,756	(77,316)
Total Revenue	**$ 1,208,247**	$ 1,372,556	$ (164,309)
Operating income	**$ 29,129**	$ 125,446	$ (96,317)
Operating margin[a]	**2.4%**	9.1%	(6.7%)

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

(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 – New Accounting Standards Adopted* for further details.

(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 – Financial Reporting in Hyperinflationary Economies*.

Revenue in the Pipeline and Pipe Services segment for the year ended December 31, 2018 was $1,208.3 million, a decrease of $164.3 million, from $1,372.6 million in the prior year. Segment revenue was adversely affected by the impact on translation of foreign operations, as noted in *Section 2.2* above, and by lower activity levels in Latin America, EMAR and Asia Pacific, partially offset by higher revenue in North America:

- In North America revenue increased by $200.6 million, or 32%, primarily due to increased revenue from flexible composite pipe sales, pipe weld inspection services, large diameter pipe coating in Canada, small diameter pipe coating in the USA and engineering services. This was partially offset by lower activity levels in large diameter pipe coating in the USA and small diameter pipe coating in Canada.
- Latin America revenue was lower by $265.4 million, or 69%, mainly due to lower large project activity related to Sur de Texas-Tuxpan project, partially offset by higher volumes at the Company's Argentina and Brazilian facilities.
- Revenue in EMAR decreased by $22.2 million, or 11%, primarily due to decreased pipe coating activity levels in the Orkanger, Norway and Leith, Scotland facilities, and the absence of the Shah Deniz project work in the Caspian. This was partially offset by higher volumes at the Ras Al Khaimah UAE ("RAK") and the Italian facilities and increased revenue in pipe weld inspection services.
- Asia Pacific revenue decreased by $77.3 million, or 47%, mainly due to lower pipe coating project activity at the Kabil, Indonesia and Kuantan, Malaysia facilities.

Operating income for the year ended December 31, 2018 was $29.1 million compared to $125.5 million for the year ended December 31, 2017, a decrease of $96.3 million. The decrease in operating income is primarily due to the $151.6 million decrease in gross profit as a result of the decrease in revenue, as explained above, and a 7.3 percentage point decrease in gross margin. The decrease in gross margin percentage was primarily due to lower large project activity in Latin America, lower utilization in EMAR and Asia Pacific facilities and the related impact on the absorption of manufacturing overheads. This was partially offset by decreases in amortization of property, plant and equipment and SG&A expenses, as explained in *Section 4.1* above, and the $8.1 million impairment charge recorded in the fourth quarter of 2017.

4.2.2 *Petrochemical and Industrial Segment*

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

(in thousands of Canadian dollars, except operating margin)		2018		2017		Change
North America	$	**115,069**	$	113,973	$	1,096
EMAR		**76,070**		67,857		8,213
Asia Pacific		**11,115**		12,377		(1,262)
Total Revenue	$	**202,254**	$	194,207	$	8,047
Operating income	$	**32,658**	$	31,825	$	833
Operating margin[(a)]		**16.1%**		16.4%		(0.3%)

(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. See *Section 12.0 — Reconciliation of Non-GAAP Measures*.

Revenue increased in the year ended December 31, 2018 by $8.1 million, or 4%, to $202.3 million compared to the comparable period in 2017, due to increased shipments of heat shrink products in EMAR and North America, partially offset by lower activity levels for wire and cable products in North America.

Operating income increased $0.8 million for the year ended December 31, 2018 to $32.7 million compared to the year ended December 31, 2017. The increase in operating income was primarily due to an increase in gross profit of $0.2 million and a decrease in SG&A expenses, as explained above. Gross profit was higher as a result of the increase in revenue, as explained above, partially offset by a 1.1 percentage point decrease in gross margin. The decrease in gross margin was mainly due to unfavourable product mix.

4.2.3 *Financial and Corporate*

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

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

(in thousands of Canadian dollars)		2018		2017		Change
Financial and corporate expenses	$	**(23,103)**	$	(29,830)	$	6,727

Financial and corporate costs decreased by $6.7 million from the year ended December 31, 2017 to $23.1 million for the year ended December 31, 2018. The decrease was primarily due to a $6.1 million decrease in compensation and other related personnel costs and a decrease of $1.3 million in professional consulting and legal fees, partially offset by an increase of $0.6 million in building and management information system 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)		2018[(b)]		2017[(a)]
Net Income	$	**26,179**	$	71,028
Non-cash items		**91,571**		132,446
Settlement of decommissioning liabilities		**(435)**		(765)
Settlement of other provisions		**(10,478)**		(3,791)
Net change in employee future benefits		**(183)**		3,152
Net change in non-cash working capital and foreign exchange		**(76,109)**		(23,624)
Cash provided by operating activities		**30,545**		178,446
Cash used in investing activities		**(73,331)**		(31,958)
Cash used in financing activities		**(41,012)**		(44,960)
Foreign exchange impact on cash and cash equivalents and net monetary loss		**11,997**		(7,287)
Net Change in Cash and Cash Equivalents		**(71,801)**		94,241
Cash and cash equivalents at beginning of Year		**289,065**		194,824
Cash and Cash Equivalents at End of Year	$	**217,264**	$	289,065

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

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 $30.5 million in 2018, a reduction of $147.9 million compared to the prior year. The change in cash provided by operating activities was primarily due to decreases of $44.8 million in net income, $52.5 million in net change in non-cash working capital and foreign exchange and $40.9 million in non-cash items, a $6.7 million increase in settlements of other provisions and a $3.3 million net change in employee future benefits.

5.2 Cash Used in Investing Activities

Cash used in investing activities was $73.3 million, an increase of $41.4 million compared to the prior year. This was primarily due to increases of $35.1 million in the purchase of property, plant and equipment, mainly due to an increase in growth capital spend in the Company's pipe coating, composite products and integrity inspection field services businesses, $3.9 million in short term investment, $2.8 million in other assets and $2.3 million in loan receivable. This was partially offset by an increase of $2.8 million in proceeds on disposal of property, plant and equipment.

5.3 Cash Used in Financing Activities

Cash used in financing activities during 2018 was $41.0 million, a decrease of $3.9 million compared to the prior year. The change was primarily due to a $2.5 million bank indebtedness payment made in the first quarter of 2017 and a $1.1 million increase in the value of shares issued related to executive compensation in 2018.

5.4 Liquidity and Capital Resource Measures

Accounts Receivables

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

(in thousands of Canadian dollars, except DSO)	**2018**	2017	Change
Average trade accounts receivable – net	**$ 221,911**	$ 208,104	$ 13,807
DSO[(a)]	**56**	44	12

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

Average trade accounts receivables increased by $13.8 million or 6.6% as at December 31, 2018 compared to December 31, 2017, primarily as a result of the timing of billing and collections related to large project activity in the fourth quarter of 2017. DSO increased by 12 days due to the decrease in revenue in the fourth quarter of 2018 compared to the same period in the prior year, as explained in *Section 6.1 – Fourth Quarter Highlights*, and the increase in the average trade accounts receivables as explained above.

Inventory

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

(in thousands of Canadian dollars)	**2018**	2017[(a)]	Change
Inventory	**$ 136,997**	$ 115,018	$ 21,979

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

Inventories increased by $22.0 million or 19% as at December 31, 2018 compared to December 31, 2017, due to increases of $12.0 million in finished goods, $8.5 million in raw materials and supplies and $1.8 million in work in process, reflecting higher activity levels.

Accounts Payable

The following table sets forth the Company's average accounts payable balance and days of purchases outstanding in accounts payable and accrued liabilities ("DPO") as at December 31:

(in thousands of Canadian dollars, except DPO)	**2018**	2017	Change
Average accounts payable and accrued liabilities	**$ 197,695**	$ 203,497	$ (5,802)
DPO[(a)]	**70**	69	1

(a) The Company calculates DPO as the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle. DPO is a non-GAAP measure and does not have a standardized meaning and the Company's method of calculating may differ from that used by other entities, and as a result may not necessarily be comparable to measures used by others. See *Section 12.0 – Reconciliation of Non-GAAP Measures*.

Average accounts payable and accrued liabilities decreased by $5.8 million or 3% as at December 31, 2018 compared to December 31, 2017. DPO increased by 1 day from 2017 levels, due to the timing of purchases and payments in the fourth quarter of 2018 compared with the fourth quarter of 2017.

5.5 Credit Facilities

(in thousands of Canadian dollars)	2018	2017
Standard letters of credit for performance, bid and surety bonds	$ 43,879	$ 71,175
Total utilized credit facilities	43,879	71,175
Total available credit facilities[(a)]	500,498	460,251
Unutilized credit facilities	**$ 456,619**	$ 389,076

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

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility ("Existing 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 Existing Facility that is a function of the Company's Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. On December 6, 2016, the Company entered into amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Existing Facility, the results of which amendments included an extension of the term of the Existing Facility from March 20, 2018 to December 6, 2019 and a reduction in the size of the Existing Facility from US$325 million to US$317 million.

The Company is required to maintain an Interest Coverage Ratio of more than 2.50 to 1.00 and a Leverage Ratio of less than 3.00 to 1.00.

The Company was in compliance with the covenants under the Existing Facility as at December 31, 2018 and December 31, 2017.

The Credit Facility will replace the Existing Facility and is expected to be completed in the first quarter of 2019. The financial covenants under the Credit Facility are more favourable to the Company than those under the Existing Facility.

5.6 Long-Term Debt

On March 20, 2013, the Company issued Senior Notes for total gross proceeds of US$350 million (CAD$358.3 million at the March 20, 2013 foreign exchange rate) to institutional investors. The principal balances outstanding at December 31, 2018 and 2017 are as follows:

(in millions of Canadian dollars)	Due Date	Interest Rate	December 31, 2018 (US$)	December 31, 2017 (US$)	December 31, 2018 (CAD$)	December 31, 2017 (CAD$)
Senior Notes, Series A	March 31, 2020	2.98%	62	62	84	77
Senior Notes, Series B	March 31, 2023	3.67%	57	57	78	71
Senior Notes, Series C	March 31, 2025	3.82%	52	52	71	66
Senior Notes, Series D	March 31, 2028	4.07%	26	26	36	33
			197	197	269	247

The total long-term debt balance as at December 31, 2018 is $267.8 million (US$196.8 million) (2017 – $246.2 million (US$196.8 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 7 of the Consolidated Financial Statements.

In respect of the long-term debt, the Company is required to maintain certain covenants that are consistent with the debt covenants described in *Section 5.5* above for the Credit Facility. The Company was in compliance with these covenants as at December 31, 2018 and December 31, 2017.

On January 30, 2019, the Company gave notice to the Senior Note holders that it will repay on March 7, 2019 the entire principal amount outstanding with accrued interest, approximately US$199.8 million, and a make whole amount estimated at approximately US$5.2 million.

5.7 Commitments, Leases, Contingencies and Off Balance Sheet Arrangements

(in thousands of Canadian dollars)	2019 $	2020 $	2021 $	2022 $	2023 $	Thereafter $	Total $
Purchase commitments	96,914	83	14	14	28	–	97,053
Accounts payable	95,794	–	–	–	–	–	95,794
Long-term debt	–	83,835	–	–	77,551	107,121	268,507
Finance costs on long-term debt	9,526	7,649	7,027	7,027	4,884	9,605	45,718
Obligations under finance lease	1,696	1,460	1,446	1,439	1,439	7,271	14,751
Operating leases	21,953	14,210	11,164	8,969	6,196	11,957	74,449
Other obligations	1,875	1,763	1,517	1,294	944	4,118	11,511
Total	**227,758**	**109,000**	**21,168**	**18,743**	**91,042**	**140,072**	**607,783**

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, 2018:

(in thousands of Canadian dollars)		2018
Total future minimum lease payments	$	14,751
Less: imputed interest		(3,208)
Balance of obligations under finance leases		11,543
Less: current portion		1,155
Non-current obligations under finance leases	$	10,388

Legal Claims

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

Performance, Bid and Surety Bonds

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

The Company utilizes the Existing Facility to support its bonds. The Company has utilized total credit facilities of $43.9 million as at December 31, 2018 (December 31, 2017 – $71.2 million) for support of its bonds. In addition, as at December 31, 2018, the Company had $66.3 million of outstanding surety bonds through insurance companies (December 31, 2017 – $48.4 million).

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 reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs which are 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, 2018:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 217,264	$ 217,264	$ –	$ –
Short-term investments	2,046	2,046	–	–
Loans receivable	3,037	–	3,037	–
Derivative financial instruments	1,102	–	1,102	–
Deposit guarantee	261	–	261	–
	$ 223,710	$ 219,310	$ 4,400	$ –
Liabilities				
Long-term debt	243,327	–	243,327	–
Derivative financial instruments	226	–	226	–
	$ 243,553	$ –	$ 243,553	$ –

The derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the 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 based in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2018, 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 ended December 31, 2018 by approximately $46.6 million, $1.0 million and $0.7 million, respectively, prior to foreign exchange forward contract activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by approximately $56.2 million, $11.2 million and $45.0 million, respectively, as at December 31, 2018. Please also refer to *Section 13.0 – Financial Reporting in Hyperinflationary Economies*, for the impact of adopting IAS 29 for Argentina.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures associated with the Company's foreign currency denominated cash streams and the resulting variability of the Company's earnings. The Company utilizes foreign exchange forward contracts to manage this foreign exchange risk. The Company does not enter into foreign exchange 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 hedged 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, 2018:

(in thousands, except weighted average rate amounts)	
US dollars sold for Euros	
Less than one year	US$ 13,500
Weighted average rate	0.87
Euros sold for US dollars	
Less than one year	€ 18,013
Weighted average rate	1.19
Norwegian Kroners sold for US dollars	
Less than one year	NOK 87,184
Weighted average rate	0.11

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

As at December 31, 2018, the Company had notional amounts of $60.3 million of foreign exchange forward contracts outstanding (December 31, 2017 — $83.8 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling $0.9 million (December 31, 2017 — $1.5 million net loss).

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, 2018, a loss of $21.6 million (2017 – gain of $17.4 million) on the translation of the long-term debt was transferred to other comprehensive income to offset the loss on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2018.

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2018

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial Assets				
Cash equivalents	$ –	$ –	$ 47,560	$ 47,560
Loans receivable	36	3,001	–	3,037
	$ 36	$ 3,001	$ 47,560	$ 50,597
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	$ 43,879	$ –	$ –	$ 43,879
Long-term debt	–	–	267,781	267,781
	$ 43,879	$ –	$ 267,781	$ 311,660

The Company's interest rate risk arises primarily from the floating rate on its Existing Facility 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.

For the year ended December 31, 2018, there was no customer who generated more than 10% of total consolidated revenue (2017 – one customer generated approximately 22% of total consolidated revenue). As at December 31, 2018, no customer accounted for more than 10% of the Company's total trade accounts receivable (2017 – no customer accounted for more than 10% of the Company's total trade accounts receivable).

The carrying value of accounts receivable is reduced through the use of an allowance for doubtful accounts, and the amount of the loss is recognized in the consolidated statements of income 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, 2018, $13.3 million, or 6%, of trade accounts receivable was more than 90 days overdue, compared to $8.1 million, or 5%, as at December 31, 2017. 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)	2018	2017
Balance – Beginning of Year	$ (2,809)	$ (4,865)
Bad debt expense	(2,402)	(910)
Recovery of amounts previously provided for	401	2,015
Bad debts written off	178	519
Impact of change in foreign exchange rates	(139)	432
Balance – End of Year	$ (4,771)	$ (2,809)

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. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in *Section 5.5 – Credit Facilities*. As at December 31, 2018, the Company had cash and cash equivalents totalling $217.3 million (December 31, 2017 – $289.1 million) and had unutilized lines of credit available to use of $456.6 million (December 31, 2017 – $389.1 million).

5.9 Outstanding Share Capital

As at March 4, 2019, the Company had 70,127,386 common shares outstanding and stock options and share units outstanding to purchase up to 2,276,128 common shares.

5.10 Transactions with Related Parties

The Company had no material transactions with related parties in the year ended December 31, 2018. 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 2018 and 2017:

(in thousands of Canadian dollars, except per share amounts)	Q1-2018[c]	Q2-2018[c]	Q3-2018[d]	**Q4-2018[d]**
Operating Results				
Revenue	$ 350,767	$ 353,368	$ 350,589	**$ 354,148**
Income from operations	10,765	13,465	17,057	**9,326**
Net income[a]	3,829	7,308	10,373	**4,366**
Earnings per share				
Basic	$ 0.05	$ 0.10	$ 0.15	**$ 0.06**
Diluted	0.05	0.10	0.15	**0.06**

(in thousands of Canadian dollars, except per share amounts)	Q1-2017[b]	Q2-2017[b]	Q3-2017[b]	Q4-2017[b]
Operating Results				
Revenue	$ 360,060	$ 383,571	$ 395,052	$ 426,816
Income from operations	26,138	28,023	39,368	34,472
Net income[a]	15,393	15,877	19,540	20,345
Earnings per share				
Basic	$ 0.22	$ 0.23	$ 0.28	$ 0.29
Diluted	0.22	0.23	0.28	0.29

(a) Attributable to shareholders of the Company.

(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(c) Restated due to the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina effective July 1, 2018 but implemented retrospectively to January 1, 2018. See *Section 13.0 – Financial Reporting in Hyperinflation Economies*.

(d) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina effective July 1, 2018 but implemented retrospectively to January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 86% of the Company's consolidated revenue in 2018, 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 75% of the Company's revenue in 2018 was transacted in currencies other than Canadian dollars, with a majority transacted in US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of revenue when it is translated into Canadian dollars. Please refer to *Section 2.2 — Foreign Exchange Impact*, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.

6.1 Fourth Quarter Highlights

Highlights of the Company's 2018 fourth quarter include:

Fourth Quarter 2018 versus Third Quarter 2018

- **Revenue:** Consolidated revenue increased $3.6 million, from $350.6 million during the third quarter of 2018 to $354.2 million during the fourth quarter of 2018, due to a $4.8 million increase in the Pipeline and Pipe Services segment, partially offset by a $1.4 million decrease in the Petrochemical and Industrial segment.

  Revenue increased by 2% in the Pipeline and Pipe Services segment, or $4.8 million, from $302.0 million in the third quarter of 2018 to $306.9 million in the fourth quarter of 2018. The increase is primarily due to the positive impact from the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0* and higher activity levels in Latin America. This is partially offset by lower volumes in North America and EMAR regions. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

  In the Petrochemical and Industrial segment, revenue was lower by $1.4 million, or 3%, in the fourth quarter of 2018, compared to the third quarter of 2018, primarily due to lower activity levels in the EMAR region. See *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.
- **Operating Income:** Operating income decreased by $7.7 million, from $17.1 million in the third quarter of 2018 to $9.3 million in the fourth quarter of 2018. Operating income was negatively impacted by a decrease of $3.7 million in gross profit, a $3.7 million increase in selling, general and administrative ("SG&A") expenses and a $2.6 million increase in amortization of property, plant, equipment and intangible assets, partially offset by a $2.2 million increase in net foreign exchange gains. In addition, operating income was positively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0*.

  The decrease in gross profit resulted from a 1.3 percentage point decrease in the gross margin from the third quarter of 2018, partially offset by the increase in revenue, as explained above. The decrease in the gross margin percentage was primarily due to product and project mix and lower utilization in EMAR and Asia facilities and the related impact on the absorption of manufacturing overheads.

SG&A expenses increased by $3.7 million, from $68.6 million in the third quarter of 2018 to $72.3 million in the fourth quarter of 2018, primarily due to increases of $0.3 million in compensation and other personnel related costs, $2.9 million in advertisement, equipment costs and professional consulting and legal fees and $0.5 million in insurance and other costs.

- **Finance costs:** In the fourth quarter of 2018, net finance costs were $3.6 million, compared to net finance costs of $2.9 million during the third quarter of 2018. The increase in net finance costs was primarily due to a $0.7 million increase in other financing expenses.
- **Income taxes:** The Company recorded an income tax recovery of $1.4 million (54% of income before income taxes) in the fourth quarter of 2018, compared to an income tax expense of $3.2 million (23% of income before income taxes) in the third quarter of 2018. The effective tax rate in the fourth quarter of 2018 was lower than the Company's statutory income tax rate of 27% primarily due to the mix of jurisdictions where the income is earned and improved results in jurisdictions where the Company is benefiting from previously unrecognized deferred tax assets.
- **Net Income:** Net income decreased by $6.0 million, from $10.4 million during the third quarter of 2018 to $4.4 million during the fourth quarter of 2018. This was mainly due to the $7.7 million decrease in operating income, as explained above and increases of $1.9 million in net monetary loss from hyperinflationary accounting, $0.8 million in net finance costs and $0.8 million in loss from investment in associates. This was partially offset by a $4.7 million decrease in income tax expense.

Fourth Quarter 2018 versus Fourth Quarter 2017

- **Revenue:** Consolidated revenue decreased by $72.7 million, or 17%, from $426.8 million during the fourth quarter of 2017, to $354.2 million during the fourth quarter of 2018, reflecting a $75.7 million revenue decrease in the Pipeline and Pipe Services segment, partially offset by a $3.3 million revenue increase in the Petrochemical and Industrial segment.

  In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2018 was $306.9 million, or 20% lower than in the fourth quarter of 2017, primarily due to lower large project activity in Latin America and decreased activity levels in Asia Pacific and EMAR, partially offset by higher revenue levels in North America. In addition, this was partially offset by a positive impact on the quarter by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as discussed in *Section 13.0.* See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

  In the Petrochemical and Industrial segment, revenue was $3.3 million higher during the fourth quarter of 2018, compared to $44.4 million in the fourth quarter of 2017, primarily due to increased activity levels in the North America and EMAR regions. See *Section 4.2.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.
- **Operating Income:** Operating income decreased by $25.2 million, from $34.5 million in the fourth quarter of 2017 to $9.3 million during the fourth quarter of 2018. Operating income was negatively impacted by a $62.1 million decrease in gross profit. This was partially offset by a decrease of $21.0 million in SG&A expenses, a $3.5 million increase in net foreign exchange gains, a $8.1 million impairment charge recorded in the fourth quarter of 2017 and a $5.1 million decrease in amortization of property, plant, equipment, and intangible assets primarily related to the substantial completion of the Sur de Texas – Tuxpan project demobilization. In addition, operating income was positively impacted by the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies for* Argentina as discussed in *Section 13.0*.

  The decrease in gross profit resulted from the lower revenue, as explained above, and a 9.7 percentage point decrease in the gross margin from the fourth quarter of 2017. The decrease in the gross margin percentage was primarily due to lower large project activity in Latin America, lower utilization in EMAR and Asia Pacific facilities and the related impact on the absorption of manufacturing overheads.

  SG&A expenses in the fourth quarter of 2018 decreased by $21.0 million compared to the fourth quarter of 2017, primarily due to a $16.3 million decrease in compensation and other personnel related costs, where the prior year period included an increase in government mandated employee profit sharing on large project activity in Latin America, and decreases of $0.8 million in professional consulting and legal fees and $3.9 million in insurance, management information systems, product development and other costs.
- **Finance costs:** In the fourth quarter of 2018, net finance costs were $3.6 million, in line with the finance costs in the fourth quarter of 2017. In the fourth quarter of 2018, interest income on short term deposits increased by $0.4 million, partially offset by a $0.3 million increase in other financing expenses compared to the fourth quarter of 2017.
- **Income taxes:** The Company recorded an income tax recovery of $1.4 million (54% of income before income taxes) in the fourth quarter of 2018, compared to an income tax expense of $10.0 million (33% of income before income taxes) in the fourth quarter of 2017. The effective tax rate in the fourth quarter of 2018 was lower than the Company's statutory income tax rate of 27% primarily due to the mix of jurisdictions where the income is earned and improved results in jurisdictions where the Company is benefiting from previously unrecognized deferred tax assets.
- **Net Income:** Net income decreased by $16.0 million, from $20.3 million during the fourth quarter of 2017 to $4.4 million during the fourth quarter of 2018. This was mainly due to the $25.2 million decrease in operating income, as explained above, and a $2.7 million increase in net monetary loss from hyperinflationary accounting. This was partially offset by a decrease of $11.4 million 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 ("ICFR"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as at December 31, 2018. Furthermore, they have concluded that the Company's ICFR was effective as at December 31, 2018. There were no changes in the Company's ICFR during 2018 that had or are reasonably likely to have a material impact on the Company's ICFR.

8.0 CRITICAL ACCOUNTING JUDGEMENTS, 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

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

Determination of Reportable Operating Segments

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

Determination of Cash Generating Unit ("CGU")

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

Business Acquisitions

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

Provisions and Contingent Liabilities

As at December 31, 2018, the Company had $58.9 million of provisions; of this amount $23.9 million was included in current liabilities and $35.0 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

Decommissioning Liabilities

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

Income Taxes

The calculation of income taxes requires judgement in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The tax filings also are subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. Management believes that it has sufficient amounts accrued for outstanding tax matters based on information that 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 judgement is used to determine the amounts of deferred tax assets and liabilities to be recognized, based upon the likely timing and the level of future taxable profit together with future tax planning strategies. In particular, judgement is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

8.2 Critical Accounting Estimates

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

Critical estimates used in preparing the consolidated financial statements include:

Long-lived Assets and Goodwill

As at December 31, 2018, the Company had $948.8 million of long-lived assets and goodwill. The Company evaluates the carrying values of the CGUs' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether 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, 2018, the Company had $15.2 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, 2018, the Company had decommissioning liabilities in the amount of $30.7 million; of this amount $6.2 million was included in the current provisions account and $24.5 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

Financial Instruments

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

Income Taxes

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

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

8.3 Accounting Standards Issued but Not Yet Applied

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. This standard eliminates the classification of leases as either operating or finance lease for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as lease assets. The Company will elect to use the exemptions in the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The service component of a lease agreement should be separated from the value of the asset and is not reported on the consolidated balance sheet; however, there is a practical expedient to combine lease and non-lease components. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities will not include variable lease payments other than those that depend on an index or rate. The most significant effect of the new requirements will be the recognition of the right-of-use ("ROU") leased assets and their corresponding lease obligations on the consolidated balance sheet.

The Company has completed its implementation plan and process for reviewing its lease contracts. A software subscription system has been obtained, to assist the Company in compiling the lease information and calculating the related accounting impacts to comply with the requirements of the standard and manage its lease arrangements. On initial adoption, the Company plans to apply the standard using the modified retrospective approach, which does not require a restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings as at January 1, 2019.

The adoption of IFRS 16 will result in the recognition of operating leases mainly related to real estate and land. As a result, the Company expects to account for ROU assets of approximately $55 – $65 million, lease liabilities of approximately $55 – $65 million and a reduction of shareholders' equity of approximately $2 – $3 million.

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

In October 2017, the IASB issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28). The amendments clarify that a company applies IFRS 9, *Financial Instruments*, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are effective from January 1, 2019, with early application permitted. The Company performed an impact assessment of the amendment to IAS 28 and determined that there will be no material impact on its consolidated financial statements on adoption of this standard.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*, effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgement in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The Company performed an impact assessment of all aspects of IFRIC 23 and determined that there will be no material impact on its consolidated financial statements on adoption of this standard.

8.4 New Accounting Standards Adopted

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 were effective for annual periods beginning on or after January 1, 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company adopted the new standard effective January 1, 2018. The Company performed an impact assessment on the classification and measurement of the amendments and determined that there was no material impact of adopting this standard on its 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 was effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company adopted the new standard effective January 1, 2018. The Company performed an impact assessment of all aspects of IFRS 9 and determined that there was no material impact on its consolidated financial statements on adoption of this standard. The Company elected to designate an investment in equity instruments as Fair Value through Other Comprehensive Income ("FVOCI").

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

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

IFRS 15, *Revenue from Contracts with Customers*

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

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

To enhance clarity, comparability and utility of financial information post-implementation of the standard, the Company applied the standard retrospectively subject to permitted and elected practical expedients including:

i. No restatement for contracts that began and ended within the same annual reporting period.
ii. No restatement for contracts that were completed or modified prior to January 1, 2017.
iii. No disclosure of the aggregate transaction prices allocated to the remaining unfulfilled or partially unfulfilled performance obligations for periods ended prior to January 1, 2018.

For the purposes of applying the new standard on an ongoing basis, the Company will be using the practical expedient to not disclose the transaction prices allocated to the remaining unfulfilled, or partially unfulfilled performance obligations from contracts originally expected to have a duration of one year or less.

The impact of the adoption of the standard on the Company's consolidated balance sheets primarily relates to reclassifications among financial statement accounts to align with the new standard. Most notably, contracts in process for which the Company has rendered service in advance of billing are presented as contract assets as opposed to unbilled revenue assets within accounts receivable. Additionally, capitalized costs to fulfill contracts are included within contract assets. Advance payments and deferred revenue are combined and presented as contract liabilities.

The impact of adopting the standard on the year ended December 31, 2017 for revenue, cost of goods sold, net loss and basic and diluted EPS was as follows:

(in thousands of Canadian dollars, except per share amounts)	Year Ended December 31, 2017
Revenue	$ (1,153)
Cost of Goods Sold and Services Rendered	(898)
Loss before Income Taxes	(255)
Income Taxes	103)
Net Loss	(152)
Basic Earnings per Share	0.00
Diluted Earnings per Share	0.00

The cumulative impact to retained earnings as at January 1, 2017 was a reduction of $0.05 million.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and net of taxes or duty.

The Company has concluded that it is the principal in its revenue arrangements since it is the primary obligor, has pricing latitude and is exposed to inventory and credit risks. Revenue is recognized when or as control of a good or service is transferred to a customer as satisfaction of a performance obligation. The majority of the Company's revenue is from short-term contracts associated with the sale of goods or the rendering of services from pipe coating, inspection, repair and other services provided in respect of customer-owned property.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in IFRS 15. A contract's price is allocated to distinct performance obligations on a standalone selling price basis. The majority of the Company's contracts have a single performance obligation as the promise to transfer the goods or services is not separately identifiable from other promises in the contracts and, therefore, are not distinct. For contracts with multiple performance obligations, the allocation of the transaction price is done using management's best estimate of the standalone selling price of distinct goods or services in the contract using a cost plus gross margin approach within typical and reasonable variance ranges for similar contracts.

Sale of Goods

Revenue from the sale of goods is recognized when the control of the goods has passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue for the sale of goods is recognized at a point in time, upon transfer of control of the goods based upon the specified delivery terms.

Rendering of Services

Revenue from pipe coating, inspection, repair and other services provided in respect of customer-owned property is recognized as services are performed under specific contracts and recognized by reference to the stage of completion. Stage of completion is determined based on surveys of work performed as measured by units of production to date multiplied by contractually agreed-upon rates. Revenue from the rendering of services is usually recognized as the performance obligations are satisfied over time as the work progresses. Substantially all of the revenue from the rendering of services is recognized over time. Revenue recognized over time is done using both input and output measures, depending upon the service being provided. For input measures, the cost incurred to date relative to the total estimated project costs at completion is used to measure progress. For output measures, the units of pipe coating or hours of service completed are used to measure progress.

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

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

Contract Assets – Contract assets include unbilled amounts typically resulting from sales under contracts when an input or output method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Amounts may not exceed their net realizable value. Additionally, capitalized costs to fulfill contracts are included within contract assets. Contract assets are generally classified as current.

Contract Liabilities – Contract liabilities consist of advance payments and billings in excess of revenue recognized. Contract assets and liabilities are reported on a net position on a contract by contract basis at the end of each reporting period. Advance payments and deferred revenue are combined and presented as contract liabilities under current liabilities. Contract liabilities as at December 31, 2018 were $23.6 million (December 31, 2017 – Deferred revenue of $44.8 million), of which $70.0 million was deducted and recognized as revenue during the year ended December 31, 2018, and $48.8 million was added during the year ended December 31, 2018.

Impacts of application of IFRS 15, *Revenue from Contracts with Customers*

a) IFRS 15, *Revenue from Contracts with Customers*, impacted the fiscal 2017 comparative amounts reported in the Company's fiscal 2018 consolidated statement of income as follows:

(in thousands of Canadian dollars)	Year Ended December 31, 2017	IFRS 15 — Revenue Effects	**Restated Year Ended December 31, 2017**
Revenue			
Sale of products	$ 509,491	$ –	**$ 509,491**
Rendering of services	1,057,161	(1,153)	**1,056,008**
	1,566,652	(1,153)	**1,565,499**
Cost of Goods Sold and Services Rendered	980,919	(898)	**980,021**
Gross Profit	585,733	(255)	**585,478**
Selling, general and administrative expenses	342,991	–	**342,991**
Research and development expenses	10,536	–	**10,536**
Foreign exchange gains	(249)	–	**(249)**
Amortization of property, plant and equipment	77,267	–	**77,267**
Amortization of intangible assets	19,170	–	**19,170**
Gain on sale of land	(311)	–	**(311)**
Impairment	8,073	–	**8,073**
Income from Operations	128,256	(255)	**128,001**
Loss from investment in associates	(6,271)	–	**(6,271)**
Finance costs, net	(16,817)	–	**(16,817)**
Income before Income Taxes	105,168	(255)	**104,913**
Income taxes	33,988	(103)	**33,885**
Net Income	71,180	(152)	**71,028**
Net Income (Loss) Attributable to:			
Shareholders of the company	71,307	(152)	**71,155**
Non-controlling interests	(127)	–	**(127)**
Net Income	71,180	(152)	**71,028**
Earnings per Share			
Basic	1.02	–	**1.02**
Diluted	1.02	–	**1.02**
Weighted Average Number of Shares Outstanding (000s)			
Basic	69,926		**69,926**
Diluted	70,102		**70,102**

b) IFRS 15, *Revenue from Contracts with Customers*, affected the fiscal 2017 comparative amounts reported in the Company's fiscal 2018 consolidated balance sheet as follows:

(in thousands of Canadian dollars)	December 31, 2017	IFRS 15 – Effects	**December 31, 2017 Restated 2017**	Excluding Effects of IFRS 15	IFRS 15 – Effects	Pro Forma
	December 31, 2017			January 1, 2017		
ASSETS						
Current assets						
Cash and cash equivalents	$ 289,065	$ –	**$ 289,065**	$ 194,824	$ –	$ 194,824
Short-term investments	–	–	**–**	1,890	–	1,890
Loans receivable	2,448	–	**2,448**	3,832	–	3,832
Accounts receivable	259,694	(65,255)	**194,439**	294,397	(84,233)	210,164
Contract assets	–	65,413	**65,413**	–	84,161	84,161
Income taxes receivable	20,205	–	**20,205**	35,141	–	35,141
Inventories	115,479	(461)	**115,018**	113,485	–	113,485
Prepaid expenses	21,931	–	**21,931**	22,477	–	22,477
Derivative financial instruments	382	–	**382**	9,393	–	9,393
Total current assets	709,204	(303)	**708,901**	675,439	(72)	675,367
Non-current assets						
Loans Receivable	2,283	–	**2,283**	5,058	–	5,058
Property, plant and equipment	417,781	–	**417,781**	471,468	–	471,468
Intangible assets	164,872	–	**164,872**	192,907	–	192,907
Investments in associates	20,188	–	**20,188**	26,739	–	26,739
Deferred income tax assets	33,876	103	**33,979**	28,955	24	28,979
Other assets	20,606	–	**20,606**	26,407	–	26,407
Goodwill	329,391	–	**329,391**	350,818	–	350,818
Total non-current assets	988,997	103	**989,100**	1,102,352	24	1,102,376
TOTAL ASSETS	$ 1,698,201	$ (200)	**$ 1,698,001**	$ 1,777,791	$ (48)	$ 1,777,743
LIABILITIES AND EQUITY						
Current liabilities						
Bank indebtedness	$ –	$ –	**$ –**	$ 2,463	$ –	$ 2,463
Accounts payable and accrued liabilities	201,017	–	**201,017**	212,539	–	212,539
Provisions	27,361	–	**27,361**	21,104	–	21,104
Income taxes payable	42,904	–	**42,904**	39,011	–	39,011
Derivative financial instruments	1,915	–	**1,915**	3,759	–	3,759
Contract liabilities	44,826	–	**44,826**	103,584	–	103,584
Obligations under finance lease	1,111	–	**1,111**	950	–	950
Other liabilities	11,848	–	**11,848**	12,043	–	12,043
Total current liabilities	330,982	–	**330,982**	395,453	–	395,453
Non-current liabilities						
Long-term debt	246,175	–	**246,175**	263,528	–	263,528
Obligations under finance lease	10,840	–	**10,840**	11,019	–	11,019
Provisions	36,555	–	**36,555**	35,304	–	35,304
Employee future benefits	18,552	–	**18,552**	20,727	–	20,727
Deferred income tax liabilities	6,448	–	**6,448**	7,484	–	7,484
Other liabilities	3,665	–	**3,665**	1,236	–	1,236
Total non-current liabilities	322,235	–	**322,235**	339,298	–	339,298
Total liabilities	653,217	–	**653,217**	734,751	–	734,751
Equity						
Share capital	704,956	–	**704,956**	703,316	–	703,316
Contributed surplus	27,651	–	**27,651**	23,379	–	23,379
Retained earnings	302,406	(200)	**302,206**	273,045	(48)	272,997
Non-controlling interests	5,848	–	**5,848**	5,892	–	5,892
Accumulated other comprehensive income	4,123	–	**4,123**	37,408	–	37,408
Total equity	1,044,984	(200)	**1,044,784**	1,043,040	(48)	1,042,992
TOTAL LIABILITIES AND EQUITY	$ 1,698,201	$ (200)	**$ 1,698,001**	$ 1,777,791	$ (48)	$ 1,777,743

9.0 Outlook

Shawcor's financial performance is correlated with oil and gas infrastructure spending and the resultant demand for the Company's products and services. Adjusted EBITDA[1] for the fourth quarter of 2018 was in line with expectations and reflected typical seasonal slowdowns in several of the Company's businesses along with the ongoing investments in the pipe coating business for idle assets and project pursuit costs in preparation for the expected increase in activity in the second half of 2019 and beyond. The fourth quarter saw continued momentum in North American demand for Shawcor's products and services, specifically in composite pipe technologies, pipe coating products and integrity management field services. Full year 2018 results were slightly better than the expectations the Company communicated a year ago, based on the annualized Adjusted EBITDA[1] run rate of the fourth quarter of 2016.

2018 was a pivotal year as it demonstrated that the Company can deliver profitable results on its diversified base business despite having no contribution from the core pipe coating business or a large pipe coating project. The Company expects that its operating results in the first half of 2019 will be negatively impacted by the continued lower pipe coating activity, higher costs for idle assets and large project pursuits and a very soft winter drilling and completion season in Western Canada. The Company expects revenues to sequentially improve throughout 2019, particularly in the second half of the year, and to deliver improved annual operating results over 2018. This expectation reflects stable demand throughout the year for the base business, particularly in North America, and increased activity in pipe coating in the second half of the year from international and offshore projects.

The Company believes that 2018 represented the bottom of the offshore global oil & gas capex cycle and that this market is poised for consistent growth over the next several years. The likelihood of large projects being sanctioned to replace production in the near to medium term is strengthening, driven by several years of absent investment or short cycle investment prioritization in the industry now coming to an end as key reservoirs are no longer able to sustain peak production levels, the increase in high decline rate shale production and geopolitical challenges which are affecting several important producing regions. Additionally, the increased demand for greener technology will be supportive of investments in gas, specifically LNG. The Company continues to see demand growth in North America land markets and an increased level of activity in the international and offshore markets, as evidenced in its current bids outstanding. The Company remains well positioned to capitalize on this continuing positive trend in project activity through its global footprint, technology portfolio and execution history.

The Company continued its strategic efforts to position itself as the partner of choice in the pursuit of several large projects, which are characterized as greater than $100 million in revenue. In the fourth quarter of 2018, the Liza I & II awards, representing approximately $110 million of work related to deep water development projects located offshore Guyana, provided further evidence that the low point in the offshore pipe coating cycle has been reached. Liza I and II is a multi-phase project, and characteristic of the type of project planning that the Company is seeing with greater frequency. In an effort to reduce large project costs, operators are engaging large global Engineering-Procurement-Contracting (EPC) companies, who are utilizing standardized engineering approaches and selecting preferred suppliers to participate in the planning process significantly earlier than in the past. This new contracting approach gives Shawcor greater visibility and awareness on future possible project wins. Recently, this same process was followed in an as yet unsanctioned offshore Australia project where a conditional, non-binding letter of award was signed between the selected EPC company and Shawcor for a scope of work that is estimated at over $100 million in revenue for 2020.

Although the exact timing of when large projects are sanctioned is difficult to predict, the Company believes that there is still a strong likelihood that some of these projects will be sanctioned in 2019 and beyond because they are not directly linked to oil and gas commodity prices as they involve energy security or reservoir access considerations. Based on this, the Company believes that its diversified base business and expected higher pipe coating activity in 2019 will deliver improved operating results, particularly in the second half of the year. However, the Company has confidence to deliver stronger results in 2020 from the expected build in backlog in 2019.

As confidence has increased that the investment in international projects will be sanctioned with a positive impact on the offshore pipe coating business, Shawcor continued its growth strategy of diversifying the base business through organic and inorganic initiatives. Investments in expanding the composite product offering (both in operating envelope and geographic reach), deployment of next generation inspection technology and capacity expansion in the automotive heat shrink market have been made. In addition, the Company announced that it had entered into an arrangement agreement to acquire all of the shares of ZCL Composites Inc., North America's largest manufacturer and supplier of environmentally friendly fiberglass reinforced plastic underground storage tanks. This inorganic investment is supported by long-term fundamental drivers similar to those which support Shawcor, such as aging infrastructure, and it leverages Shawcor's material science expertise in advanced composite materials to provide customers with superior systems for both their conveyance and storage needs. It further demonstrates Shawcor's commitment to diversifying its portfolio and increasing its base business to provide a foundation for long-term technology developments and profitable base business growth.

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 completions and the build out of new and the repair/replacement of old transmission pipeline infrastructure. These activities drive 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. It is expected that demand in North American land activity will continue in line with rig counts and wells completed, particularly in the United States; however, the rate of growth will slow down in the first half of 2019 due to the lack of take-away capacity in the Permian basin and early indications that suggest a soft winter season in Western Canada, and resume in the second half of 2019 as take-away capacity in the Permian is addressed through several transmission pipeline projects currently underway. The increased breadth of

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

the Company's portfolio, as well as the continued adoption rate of Shawcor's composite pipe systems technology over traditional steel products, is helping to absorb these slight headwinds. In addition, the Company continues to experience strong demand for its pipe coating capabilities from increased activity in the Gulf of Mexico and larger diameter onshore transmission line projects, which is improving the utilization of our U.S. based coating facilities.

Pipeline and Pipe Services Segment — Latin America

The Company continues to expect increased activity in the recently reactivated facilities in Mexico and Brazil related to the continued activity in the Gulf of Mexico and smaller offshore Brazilian projects. This is supported by the Liza II project that is now under contract, which is expected to be executed in the Company's Veracruz facility and contribute positive results in the second half of 2019.

Pipeline and Pipe Services Segment – EMAR

Shawcor's EMAR Pipeline region continues to be negatively impacted by reduced capital spending by national and international energy companies. The Company will continue executing work on the awarded contract to provide anti-corrosion and concrete weight coatings related to an offshore Qatar pipeline. The Company continues to pursue several large projects in the region that, if won, could provide significant work beyond 2019.

Pipeline and Pipe Services Segment — Asia Pacific

The region's project activity will continue to be depressed due to the lack of offshore project investments. The Company is actively pursuing several large projects that are related to the development of gas reservoirs that could be awarded in 2019. In addition, composite products have recommenced their penetration in the Australian onshore market and are gaining traction in several other countries in the region as composites gain further acceptance.

Petrochemical and Industrial Segment

Shawcor's Petrochemical and Industrial segment businesses continue to deliver solid revenue and operating income based on stable demand in the global automotive market and European and North American industrial markets. These markets generally follow GDP activity; however, the Segment is well positioned to capture the growing trend of electrification on automobiles with specified sealing, water blocking and insulating systems along with customized application equipment for Tier I assembly customers. Demand for wire and cable products continues to be strong and supply chain constraints for drawn wire from copper rods have eased from the third quarter of 2018.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog of $459 million as at December 31, 2018 was above the $395 million order backlog as at September 30, 2018, reflecting the inclusion of the Liza II project and other awards moving from bid to backlog.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids is over $1.0 billion, up $160 million from last quarter due to increasing bidding activity for pipe coating in the offshore and international markets. Included in the firm bid is an as yet unsanctioned offshore Australia project where a conditional, non-binding letter of award was signed between the selected EPC company and Shawcor for a scope of work that is estimated at over $100 million in revenue for 2020. The Company is also working with customers on a number of other projects and the budgetary estimates at the end of the fourth quarter were almost $1.9 billion. Although the timing of these projects remains uncertain, the Company's bid and budgetary figures represent a diverse portfolio of opportunities to sustain and build the backlog through 2019 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 35% of 2018 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 86% of consolidated sales in 2018. With this proportion expected to continue, the Company's revenue is materially dependent on the global Pipeline and Pipe Services industry. Any significant declines in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

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

Economic Risk Mitigation

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

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

10.2 Litigation and Legal Risks

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

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

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

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

Litigation and Legal Risk Mitigation

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

10.3 HSE Risks

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

The Company's operations are regulated under a number of federal, provincial, state, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the ground, 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 be 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 2018, the Company derived over 18% of its total revenue from its facilities outside Canada, the US and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

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

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

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

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

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

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

The Company is a Canadian-based company with significant operations in the United States. The Company also owns and operates international manufacturing operations that support its Canadian, US and European operations. If actions under Canadian, US, European or other trade or tax laws were instituted that limited the Company's access to the materials or products necessary for such manufacturing operations, the Company's ability to meet its customers' specifications and delivery requirements would be reduced. Any such reduction in the Company's ability to meet its customers' specifications and delivery requirements could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

Political and Regulatory Risk Mitigation

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

11.0 ENVIRONMENTAL MATTERS

As at December 31, 2018, the provisions on the annual consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $30.7 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 were $40 million as at December 31, 2018.

The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 20%. 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, 2018
2019	$	**6,202**
2020		**7,224**
2021		**4,605**
2022		**518**
2023		**1,381**
More than five years		**20,526**
	$	**40,456**

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

	Three Months Ended December 31,				Year Ended December 31,			
(in thousands of Canadian dollars)		**2018**		2017[b]		**2018[c]**		2017[b]
Net Income	**$**	**4,096**	$	20,513	**$**	**26,179**	$	71,028
Add:								
Income taxes		**(1,434)**		9,998		**7,828**		33,885
Finance costs, net		**3,596**		3,562		**12,092**		16,817
Amortization of property, plant, equipment and intangible assets		**19,806**		24,869		**83,223**		96,437
EBITDA[a]	**$**	**26,064**	$	58,942	**$**	**129,322**	$	218,167
Impairment		**–**		8,073		**–**		8,073
Gain on sale of land		**–**		–		**–**		(311)
Hyperinflation adjustment for Argentina[c]		**(1,841)**		–		**5,548**		–
ADJUSTED EBITDA[a]	**$**	**24,223**	$	67,015	**$**	**134,870**	$	225,929

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

(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

Operating Margin

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

Return on Invested Capital

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

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

(in thousands of Canadian dollars, except percentage)	**2018[c]**	2017[b]
Net income[a]	**$ 25,876**	$ 71,155
Add: After-tax interest expense	**10,934**	13,321
Net income adjusted for after-tax interest expense	**$ 36,810**	$ 84,476
Average invested capital	**$ 1,305,660**	$ 1,301,380
ROIC	**2.8%**	6.5%

(a) Attributable to shareholders of the Company.

(b) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

Days Sales Outstanding ("DSO")

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

(in thousands of Canadian dollars, except DSO)	**2018[b]**	2017[a]
Revenue for the fourth quarter	**$ 354,148**	$ 426,816
Average trade accounts receivable	**$ 221,911**	$ 208,104
DSO	**56**	44

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

Days Payables Outstanding ("DPO")

DPO is defined as the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle and is calculated by dividing the average accounts payable and accrued liabilities for the quarter by the cost of goods sold for that same quarter and multiplying by 90 days. DPO approximates average payment terms granted by the Company's suppliers, and an increase in DPO is generally considered an improvement in the management of accounts payable and accrued liabilities. This measure is important in assessing the Company's ability to ensure optimal cash flow management while meeting its financial obligations in a timely manner. The Company monitors this measure to manage cash flows from its operations. The following table sets forth the calculation for the Company's DPO as at:

(in thousands of Canadian dollars, except DPO)	**2018[b]**	2017[a]
Cost of goods sold for the fourth quarter	**$ 254,360**	$ 264,959
Average accounts payable and accrued liabilities	**$ 197,695**	$ 203,497
DPO	**70**	69

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies for* Argentina as at January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies.*

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)	**2018[b]**	2017[a]
Current assets	**$ 682,394**	$ 708,901
Current liabilities	**$ 289,246**	$ 330,982
Working capital ratio	**2.36**	2.14

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018 but was implemented retrospectively to January 1, 2017. See *Section 8.4 — New Accounting Standards Adopted* for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018. See *Section 13.0 — Financial Reporting in Hyperinflationary Economies*.

13.0 Financial Reporting in Hyperinflationary Economies

In July 2018, the Argentine three-year cumulative rate of inflation for consumer prices and wholesale prices reached a level in excess of 100%. As a result, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*, Argentina was considered a hyperinflationary economy, effective January 1, 2018. Accordingly, the presentation of IFRS financial statements includes adjustments and reclassifications for the changes in the general purchasing power of the Argentine peso.

On the application of IAS 29, the Company used the conversion coefficient derived from the consumer price index ("CPI") in the Greater Buenos Aires area published by the National Statistics and Census Institution in Argentina. The CPIs for the current and the prior year and the corresponding conversion coefficient since the year when the Argentine subsidiary was acquired were as follows:

Year	Index	Conversion coefficient	CAD/ARS exchange rate
2012	117.67	6.0105	0.211471
2017	483.30	1.4634	0.067396
2018 — March	514.58	1.3744	0.063925
2018 — June	562.37	1.2576	0.045528
2018 — September	616.55	1.1471	0.031353
2018 — December	707.26	1.0000	0.036229

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at December 31, 2018. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at December 31, 2018) are restated by applying the index at the end of the reporting period. The effect of inflation on the Argentine subsidiary's net monetary position is included in the consolidated statements of income as a net monetary loss.

The application of IAS 29 results in the adjustment for the loss of purchasing power of the Argentine peso recorded in the consolidated statements of income. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, which results in a loss on the net monetary position. This loss/gain is derived as the difference resulting from the restatement of non-monetary assets, liabilities and equity.

As per IAS 21, *The Effects of Changes in Foreign Exchange Rates,* all amounts (i.e. assets, liabilities, equity, revenue and expenses) are translated at the closing foreign exchange rate at the date of the most recent consolidated balance sheet, except that comparative amounts are not adjusted for subsequent changes in the price level or subsequent changes in exchange rates. Similarly, in the period during which the functional currency of a foreign subsidiary becomes hyperinflationary and applies IAS 29 for the first time, the parent's consolidated financial statements for the comparative period are not restated for the effects of hyperinflation.

The opening equity adjustment of $4.3 million relates to the hyperinflation adjustments for non-monetary assets, liabilities and equity items in the consolidated balance sheet as at January 1, 2018. This is as a result of an increase to total assets of $4.8 million, and an increase to total liabilities of $0.5 million.

The impact of IAS 29 for selected items on our consolidated statements of income for the year was as follows:

	Three months ended			Year ended	
(in thousands of Canadian dollars, except per share amounts)	March 31, 2018	June 30, 2018	September 30, 2018	**December 31, 2018**	**December 31, 2018**
Revenue	$ 248	$ (4,519)	$ (7,053)	**$ 8,645**	**$ (2,679)**
Gross profit (loss)	66	(1,164)	(2,102)	**2,820**	**(380)**
Foreign exchange (gain) loss	(20)	1,206	2,772	**(3,237)**	**721**
(Loss) Income from operations	(672)	(2,217)	(3,670)	**2,498**	**(4,061)**
Net monetary loss	(475)	(748)	(852)	**(2,721)**	**(4,796)**
Loss before income taxes	(1,147)	(2,966)	(4,514)	**(227)**	**(8,854)**
Income tax expense (recovery)	234	(360)	(1,151)	**1,062**	**(215)**
Net Loss	(1,381)	(2,606)	(3,363)	**(1,289)**	**(8,639)**
Earnings per Share					
Basic	(0.02)	(0.04)	(0.05)	**(0.02)**	**(0.12)**
Diluted	(0.02)	(0.04)	(0.05)	**(0.02)**	**(0.12)**

14.0 FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward looking information" and "forward looking statements" (collectively "forward looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook Section and elsewhere in respect of, among other things, the establishment of a manufacturing facility in the Middle East by the Flexpipe Systems division, the level of investment therein, its impact on production capacity and the timing thereof, the achievement of key performance objectives, the completion of the acquisition by the Company of ZCL and the timing thereof, the entering into of the new Credit Facility and the terms and timing thereof, the voluntary repayment of the Senior Notes and the timing thereof, the timing to complete the Liza I project, the timing of Final Investment Decisions on Liza II and additional large projects, the sanctioning of large projects in 2019 and the impact thereof on the Company's business, the level of financial performance in the first quarter of 2019 and throughout the balance of 2019, the effect of the Company's diversified portfolio of products on revenue and operating income, growth in revenue and operating income in the Petrochemical and Industrial segment of the Company's business, the demand for the Company's products in the North American Pipeline and Pipe Services segment and 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 processes and systems to operate its business and execute its strategic plan, the expected development of the Company's order backlog and the impact thereof on the Company's revenue and operating income, including the award of contracts on outstanding bids, the impact of global economic activity on the demand for the Company's products, the impact of continuing demand for oil and gas and prior years' absence of investments in larger projects on the level of industry investment in oil and gas infrastructure, the impact of global oil and gas commodity prices, 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 and tax matters and other claims generally, and the level of payments under the Company's performance bonds.

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

These statements of forward looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of global oil and gas prices, including , increases in expenditures on natural gas infrastructures, modest global economic growth, stable demand in the global automotive market and in the European and North American industrial markets as such apply to the Company's Petrochemical and Industrial segment, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, increases in rail and transportation costs, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions, the successful completion of the acquisition of ZCL, the repayment of the Senior Notes, the entering into of the Credit Facility on the anticipated terms, and the ability of the Company to satisfy all covenants under the Credit Facility. 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.

15.0 ADDITIONAL INFORMATION

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

March 6, 2019

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

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

March 6, 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SHAWCOR LTD.

Opinion

We have audited the consolidated financial statements of Shawcor Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Don Linsdell.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 6, 2019

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31: (in thousands of Canadian dollars, except per share amounts)	2018[b]	2017[a]
Revenue		
Sale of products	$ 616,332	$ 509,491
Rendering of services	792,540	1,056,008
	1,408,872	1,565,499
Cost of Goods Sold and Services Rendered	974,795	980,021
Gross Profit	434,077	585,478
Selling, general and administrative expenses	300,294	342,991
Research and development expenses	11,876	10,536
Foreign exchange gains	(11,929)	(249)
Amortization of property, plant and equipment (note 20)	64,789	77,267
Amortization of intangible assets (note 21)	18,434	19,170
Gain on sale of land	–	(311)
Impairment (note 25)	–	8,073
Income from Operations	50,613	128,001
Income (loss) from investments in associates	282	(6,271)
Finance costs, net (note 10)	(12,092)	(16,817)
Net monetary loss (note 5)	(4,796)	–
Income before Income Taxes	34,007	104,913
Income taxes (note 11)	7,828	33,885
Net Income	$ 26,179	$ 71,028
Net Income (Loss) Attributable to:		
Shareholders of the Company	$ 25,876	$ 71,155
Non-controlling interests	303	(127)
Net Income	$ 26,179	$ 71,028
Earnings per Share (note 12)		
Basic	$ 0.37	$ 1.02
Diluted	$ 0.37	$ 1.02
Weighted Average Number of Shares Outstanding (000s) (note 12)		
Basic	70,061	69,926
Diluted	70,264	70,102

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31: (in thousands of Canadian dollars)	2018[b]	2017[a]
Net Income	**$ 26,179**	$ 71,028
Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods		
Exchange differences on translation of foreign operations	**28,953**	(33,446)
Other comprehensive loss attributable to investments in associates	**(251)**	(280)
Net Other Comprehensive Income (Loss) to be Reclassified to Net Income in Subsequent Periods	**28,702**	(33,726)
Other Comprehensive Income (Loss) not to be Reclassified to Net Income in Subsequent Periods		
Actuarial gains on defined benefit plans (note 15)	**1,762**	692
Income tax expense (note 11)	**(475)**	(168)
Net Other Comprehensive Income not to be Reclassified to Net Income in Subsequent Periods	**1,287**	524
Other Comprehensive Income (Loss), Net of Income Taxes	**29,989**	(33,202)
Total Comprehensive Income	**$ 56,168**	$ 37,826
Comprehensive Income (Loss) Attributable to:		
Shareholders of the Company	**$ 56,229**	$ 37,870
Non-controlling interests	**(61)**	(44)
Total Comprehensive Income	**$ 56,168**	$ 37,826

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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

CONSOLIDATED BALANCE SHEETS

As at December 31: (in thousands of Canadian dollars)	**2018**[b]	2017[a]
ASSETS		
Current Assets		
Cash and cash equivalents (note 16)	**$ 217,264**	$ 289,065
Short-term investments	**2,046**	–
Loans receivable (note 17)	**2,492**	2,448
Accounts receivable (note 18)	**241,497**	194,439
Contract assets	**31,404**	65,413
Income taxes receivable	**27,476**	20,205
Inventories (note 19)	**136,997**	115,018
Prepaid expenses	**22,116**	21,931
Derivative financial instruments (note 7)	**1,102**	382
Total current assets	**682,394**	708,901
Non-current Assets		
Loans receivable (note 17)	**545**	2,283
Property, plant and equipment (notes 20 and 25)	**442,941**	417,781
Intangible assets (notes 21 and 25)	**155,454**	164,872
Investments in associates (note 23)	**30,219**	20,188
Deferred income tax assets (note 11)	**31,290**	33,979
Other assets (note 24)	**8,880**	20,606
Goodwill (notes 22 and 25)	**350,402**	329,391
Total non-current assets	**1,019,731**	989,100
TOTAL ASSETS	**$ 1,702,125**	$ 1,698,001
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 26)	**$ 206,860**	$ 201,017
Provisions (note 27)	**23,924**	27,361
Income taxes payable	**26,139**	42,904
Derivative financial instruments (note 7)	**226**	1,915
Contract liabilities	**23,603**	44,826
Obligations under finance lease (note 31)	**1,155**	1,111
Other liabilities (note 28)	**7,339**	11,848
Total current liabilities	**289,246**	330,982
Non-current Liabilities		
Long-term debt (note 30)	**267,781**	246,175
Obligations under finance lease (note 31)	**10,388**	10,840
Provisions (note 27)	**34,979**	36,555
Employee future benefits (note 15)	**15,190**	18,552
Deferred income tax liabilities (note 11)	**4,632**	6,448
Other liabilities (note 28)	**10,259**	3,665
Total non-current liabilities	**343,229**	322,235
Total liabilities	**632,475**	653,217
Equity		
Share capital (note 32)	**708,833**	704,956
Contributed surplus	**30,187**	27,651
Retained earnings	**271,429**	302,206
Non-controlling interests	**5,418**	5,848
Accumulated other comprehensive income	**53,783**	4,123
Total equity	**1,069,650**	1,044,784
TOTAL LIABILITIES AND EQUITY	**$ 1,702,125**	$ 1,698,001

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31: (in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings[(a)(b)]	Non-controlling Interests[(b)]	Accumulated Other Comprehensive Income[(b)]	Total Equity[(a)(b)]
Balance – January 1, 2017	$ 703,316	$ 23,379	$ 272,997	$ 5,892	$ 37,408	$ 1,042,992
Net income (loss)[(a)]	–	–	71,155	(127)	–	71,028
Other comprehensive income (loss)	–	–	–	83	(33,285)	(33,202)
Comprehensive income (loss)	–	–	71,155	(44)	(33,285)	37,826
Issued on exercise of stock options	761	–	–	–	–	761
Compensation cost on exercised stock options	278	(278)	–	–	–	–
Compensation cost on exercised restricted share units	601	(601)	–	–	–	–
Stock-based compensation expense	–	5,151	–	–	–	5,151
Dividends declared and paid to shareholders (note 32)	–	–	(41,946)	–	–	(41,946)
Balance – December 31, 2017	$ 704,956	$ 27,651	$ 302,206	$ 5,848	$ 4,123	$ 1,044,784
Hyperinflation adjustments for Argentina[(b)] (note 5)	–	–	(14,624)	(369)	19,307	4,314
Adjusted Balance – January 1, 2018	704,956	27,651	287,582	5,479	23,430	1,049,098
Net income	–	–	25,876	303	–	26,179
Other comprehensive (loss) income	–	–	–	(364)	30,353	29,989
Comprehensive income (loss)	–	–	25,876	(61)	30,353	56,168
Issued on exercise of stock options	1,897	–	–	–	–	1,897
Compensation cost on exercised stock options	735	(735)	–	–	–	–
Compensation cost on exercised restricted share units	1,245	(1,245)	–	–	–	–
Stock-based compensation expense	–	4,516	–	–	–	4,516
Dividends declared and paid to shareholders (note 32)	–	–	(42,029)	–	–	(42,029)
Balance – December 31, 2018	**$ 708,833**	**$ 30,187**	**$ 271,429**	**$ 5,418**	**$ 53,783**	**$ 1,069,650**

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.
(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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)	2018[b]	2017[a]
Operating Activities		
Net income for the year	**$ 26,179**	$ 71,028
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment (note 20)	**64,789**	77,267
Amortization of intangible assets (note 21)	**18,434**	19,170
Amortization of long-term prepaid expenses	**521**	1,179
Impairment (note 25)	**–**	8,073
Decommissioning liabilities expense (recovery) (note 27)	**235**	(746)
Other provision expenses (note 27)	**3,635**	12,644
Share-based and other incentive-based compensation (note 14)	**8,926**	7,969
Loss (gain) on disposal of property, plant and equipment	**260**	(27)
Gain on sale of land	**–**	(311)
Unrealized (income) loss on derivative financial instruments	**(2,409)**	7,167
(Income) loss from investments in associates (note 23)	**(282)**	6,271
Deferred income taxes (note 11)	**1,574**	(6,210)
Other	**(4,112)**	–
Settlement of decommissioning liabilities (note 27)	**(435)**	(765)
Settlement of other provisions (note 27)	**(10,478)**	(3,791)
Net change in employee future benefits (note 15)	**(183)**	3,152
Change in non-cash working capital and foreign exchange	**(76,109)**	(23,624)
Cash Provided by Operating Activities	**30,545**	178,446
Investing Activities		
Decrease in loans receivable	**1,420**	3,766
(Increase) decrease in short-term investments	**(2,046)**	1,890
Purchases of property, plant and equipment	**(76,201)**	(41,068)
Purchase of intangible assets	**–**	(71)
Proceeds on disposal of property, plant and equipment	**7,113**	4,361
Increase in other assets	**(3,617)**	(836)
Cash Used in Investing Activities	**(73,331)**	(31,958)
Financing Activities		
Decrease in bank indebtedness (note 29)	**–**	(2,463)
Payment of obligations under finance lease (note 31)	**(880)**	(1,090)
Other liabilities – non-current	**–**	(222)
Issuance of shares (note 32)	**1,897**	761
Dividends paid to shareholders (note 32)	**(42,029)**	(41,946)
Cash Used in Financing Activities	**(41,012)**	(44,960)
Effect of Foreign Exchange on Cash and Cash Equivalents and Net Monetary Loss	**11,997**	(7,287)
Net (Decrease) Increase in Cash and Cash Equivalents for the Year	**(71,801)**	94,241
Cash and Cash Equivalents – Beginning of Year	**289,065**	194,824
Cash and Cash Equivalents – End of Year	**$ 217,264**	$ 289,065
Supplemental Cash Flow Information		
Interest paid	**$ 10,506**	$ 15,826
Interest received	**$ 2,029**	$ 1,326
Income taxes paid	**$ 29,817**	$ 39,072

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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 subsidiaries (collectively referred to as the “Company” or “Shawcor”), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates eight divisions with over 80 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 8.

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

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, 2018.

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 judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement 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, expenses and profits are eliminated upon consolidation.

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2018 were authorized for issue by the Company’s Board of Directors (the “Board”) on March 6, 2019.

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 Judgements in Applying Accounting Policies

The following are the critical judgements 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 judgement in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Management has also exercised professional judgement in determining that the Company’s Chief Executive Officer (“CEO”) is the Company’s Chief Operating Decision Maker (“CODM”). 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 judgement in identifying the CGUs of the Company. In performing impairment assessments of long-lived assets, assets that cannot be assessed individually are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determination of CGUs is also required for impairment testing of goodwill.

Business Acquisitions

Significant judgements and assumptions are made in determining the purchase price allocation for acquired companies. Management has exercised professional judgement in determining the total consideration paid in an acquisition, including any contingent consideration, and in determining the assets and liabilities that should be part of the purchase price accounting. Management has also exercised judgement in identifying intangible assets and in choosing the appropriate valuation models and techniques to determine their fair values. Management has also exercised professional judgement in characterizing the composition of any residual goodwill 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 judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

Decommissioning Liabilities

Management is required to apply judgement in determining whether any legal or constructive 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 judgement in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The tax filings also are subject to audits, the outcome of which could change the amount of current and deferred 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 judgement 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, judgement 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 with long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, at each reporting date. Further, at each reporting date, the Company evaluates whether there are indicators of impairment or reversal of impairment for long-lived assets or groups of long-lived assets. If indicators are noted, the Company evaluates the recoverable amount of the asset or CGU to which the asset belongs, to determine if an impairment charge or reversal of impairment is warranted. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use or fair value less costs of disposal calculations. Actual results could differ from these assumptions and estimates.

Employee Future Benefit Obligations

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

Decommissioning Liabilities

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

Financial Instruments

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

Income Taxes

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

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

c) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Acquisition transaction costs and any restructuring costs are charged to the consolidated statements of income 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, except when deferred in other comprehensive income ("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 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 sold, exchange differences that were recorded in accumulated other comprehensive income are recognized in the consolidated statements of income as part of the gain or loss on sale.

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

e) Financial Instruments

Financial assets are recognized initially at fair value. On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

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

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

Loans and borrowings are initially recorded at fair value less any directly attributable transaction costs. After initial recognition, 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	Fair value through profit or loss
Accounts receivable	Measured at amortized cost
Contract assets	Measured at amortized cost
Loans receivable	Measured at amortized cost
Derivative financial instruments	Fair value through profit or loss
Accounts payable	Measured at amortized cost
Long-term debt	Measured at amortized cost

Derivative Financial Instruments

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

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 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. The Company uses the "expected credit loss" model for calculating impairment and recognizes expected credit losses as a loss allowance for assets measured at amortized cost. 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.

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

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

f) Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and net of taxes or duty.

The Company has concluded that it is the principal in its revenue arrangements since it is the primary obligor, has pricing latitude and is exposed to inventory and credit risks. Revenue is recognized when or as control of a good or service is transferred to a customer as satisfaction of a performance obligation. The majority of the Company's revenue is from short- term contracts associated with the sale of goods or the rendering of services from pipe coating, inspection, repair and other services provided in respect of customer-owned property.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in IFRS 15. A contract's price is allocated to distinct performance obligations on a standalone selling price basis. The majority of the Company's contracts have a single performance obligation as the promise to transfer the goods or services is not separately identifiable from other promises in the contracts and, therefore, are not distinct. For contracts with multiple performance obligations, the allocation of the transaction price is done using management's best estimate of the standalone selling price of distinct goods or services in the contract using a cost plus gross margin approach within typical and reasonable variance ranges for similar contracts.

Sale of Goods
Revenue from the sale of goods is recognized when the control of the goods has passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue for the sale of goods is recognized at a point in time, upon transfer of control of the goods based upon the specified delivery terms.

Rendering of Services
Revenue from pipe coating, inspection, repair and other services provided in respect of customer-owned property is recognized as services are performed under specific contracts and recognized by reference to the stage of completion. Stage of completion is determined based on surveys of work performed as measured by units of production to date multiplied by contractually agreed-upon rates. Revenue from the rendering of services is usually recognized as the performance obligations are satisfied over time as the work progresses. Substantially all of the revenue from the rendering of services is recognized over time. Revenue recognized over time is done using both input and output measures, depending upon the service being provided. For input measures, the cost incurred to date relative to the total estimated project costs at completion is used to measure progress. For output measures, the units of pipe coating or hours of service completed are used to measure progress.

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

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

Contract Assets – Contract assets include unbilled amounts typically resulting from sales under contracts when an input or output method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Amounts may not exceed their net realizable value. Additionally, capitalized costs to fulfill contracts are included within contract assets. Contract assets are generally classified as current.

Contract Liabilities – Contract liabilities consist of advance payments and billings in excess of revenue recognized. Contract assets and liabilities are reported on a net position on a contract by contract basis at the end of each reporting period. Advance payments and deferred revenue are combined and presented as contract liabilities under current liabilities.

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 projected 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 as those services are provided.

i) Share-based and Other Incentive-based Compensation

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

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

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

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

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

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

j) Research and Development Costs

In accordance with IAS 38, *Intangible Assets*, research and development costs are charged to the consolidated statements of income, 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.

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 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, 2018 Ownership Interest %**	December 31, 2017 Ownership Interest %
Hal Shaw Inc.	USA	Pipe coating	**50**	50
Shaw & Shaw Ltd.	Canada	Pipe coating	**83**	83

As of December 31, 2018, 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.

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, 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 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. The Company uses the “expected credit loss” model for calculating impairment and recognizes expected credit losses. The model is 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 losses. 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 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 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 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 when the asset is derecognized.

u) Impairment of Non-financial Assets

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

Assets that are subject to amortization are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use. For the purposes of assessing impairment, assets are grouped into CGUs at the lowest level for which there are separately identifiable independent cash inflows. Non-financial assets, other than goodwill, that experienced an impairment are reviewed for possible reversal of the impairment whenever reversal indicators exist.

v) Goodwill

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

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

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

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

w) Provisions

A provision is an accrued liability, legal or constructive, resulting from a past event with a high degree of uncertainty with respect to either the timing or amount. Provisions must be probable and should be measurable to be recognized, and are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance costs in the consolidated statements of income.

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 on a straight-line basis over the term of the lease.

NOTE 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

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. This standard eliminates the classification of leases as either operating or finance lease for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as lease assets. The Company will elect to use the exemptions in the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The service component of a lease agreement should be separated from the value of the asset and is not reported on the consolidated balance sheet; however, there is a practical expedient to combine lease and non-lease components. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities will not include variable lease payments other than those that depend on an index or rate. The most significant effect of the new requirements will be the recognition of the right-of-use ("ROU") leased assets and their corresponding lease obligations on the consolidated balance sheet.

The Company has completed its implementation plan and process for reviewing its lease contracts. A software subscription system has been obtained, to assist the Company in compiling the lease information and calculating the related accounting impacts to comply with the requirements of the standard and manage its lease arrangements. On initial adoption, the Company plans to apply the standard using the modified retrospective approach, which does not require a restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings as at January 1, 2019.

The adoption of IFRS 16 will result in the recognition of operating leases mainly related to real estate and land. As a result, the Company expects to account for ROU assets of approximately $55 – $65 million, lease liabilities of approximately $55 – $65 million and a reduction of shareholders' equity of approximately $2 – $3 million.

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

In October 2017, the IASB issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28). The amendments clarify that a company applies IFRS 9, *Financial Instruments*, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are effective from January 1, 2019, with early application permitted. The Company performed an impact assessment of the amendment to IAS 28 and determined that there will be no material impact on its consolidated financial statements on adoption of this standard.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*, effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgement in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The Company performed an impact assessment of all aspects of IFRIC 23 and determined that there will be no material impact on its consolidated financial statements on adoption of this standard.

NOTE 4. NEW ACCOUNTING STANDARDS ADOPTED

IFRS 2, *Share-based Payment*

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

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

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

IFRS 9, *Financial Instruments*

In July 2015, the IASB issued the final version of IFRS 9, *Financial Instruments*, which replaces all phases of the financial instruments project, IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has adopted the new standard effective January 1, 2018. The Company performed an impact assessment of all aspects of IFRS 9 and determined that there is no material impact on its consolidated financial statements on adoption of this standard. The Company elected to designate an investment in equity instruments as Fair Value through Other Comprehensive Income ("FVOCI").

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

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

IFRS 15, *Revenue from Contracts with Customers*

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

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

To enhance clarity, comparability and utility of financial information post-implementation of the standard, the Company applied the standard retrospectively subject to permitted and elected practical expedients including:

i. No restatement for contracts that began and ended within the same annual reporting period.
ii. No restatement for contracts that were completed or modified prior to January 1, 2017.
iii. No disclosure of the aggregate transaction prices allocated to the remaining unfulfilled or partially unfulfilled performance obligations for periods ended prior to January 1, 2018.

For the purposes of applying the new standard on an ongoing basis, the Company will be using the practical expedient to not disclose the transaction prices allocated to the remaining unfulfilled, or partially unfulfilled performance obligations from contracts originally expected to have a duration of one year or less.

The impact of the adoption of the standard on the Company's consolidated balance sheets primarily relates to reclassifications among financial statement accounts to align with the new standard. Most notably, contracts in process for which the Company has rendered service in advance of billing are presented as contract assets as opposed to unbilled revenue assets within accounts receivable. Additionally, capitalized costs to fulfill contracts are included within contract assets. Advance payments and deferred revenue are combined and presented as contract liabilities.

The impact of adopting the standard on the year ended December 31, 2017 for revenue, cost of goods sold, net loss and basic and diluted EPS was as follows:

(in thousands of Canadian dollars, except per share amounts)	Year Ended December 31, 2017
Revenue	$ (1,153)
Cost of Goods Sold and Services Rendered	(898)
Loss before Income Taxes	(255)
Income Taxes	(103)
Net Loss	(152)
Basic Earnings per Share	0.00
Diluted Earnings per Share	$ 0.00

The cumulative impact to retained earnings as at January 1, 2017 was a reduction of $0.05 million.

Contract liabilities as at December 31, 2018 were $23.6 million (December 31, 2017 – Deferred revenue of $44.8 million), of which $70.0 million was deducted and recognized as revenue during the year ended December 31, 2018, and $48.8 million was added during the year ended December 31, 2018.

Geographical Segment Revenue Information

The table below sets forth, by geographical region, revenue for the year ended December 31 for the Pipeline and Pipe Services segment:

	Year Ended December 31	
(in thousands of Canadian dollars)	**2018[b]**	2017[a]
North America	**$ 822,465**	$ 621,825
Latin America	**118,102**	383,538
EMAR[c]	**181,240**	203,437
Asia Pacific	**86,440**	163,756
Total revenue	**$ 1,208,247**	$ 1,372,556

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.
(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.
(c) Refers to the Europe, Middle East, Africa and Russia geographic region.

The table below sets forth, by geographical region, revenue for the year ended December 31 for the Petrochemical and Industrial segment:

	Year Ended December 31	
(in thousands of Canadian dollars)	**2018**	2017
North America	**$ 115,069**	$ 113,973
EMAR	**76,070**	67,857
Asia Pacific	**11,115**	12,377
Total revenue	**$ 202,254**	$ 194,207

Impacts of application of IFRS 15, *Revenue from Contracts with Customers*

a) IFRS 15, *Revenue from Contracts with Customers*, impacted the fiscal 2017 comparative amounts reported in the Company's fiscal 2018 consolidated statement of income as follows:

(in thousands of Canadian dollars, except per share amounts)	**Year Ended December 31, 2017**	**IFRS 15 – Revenue Effects**	**Restated Year Ended December 31, 2017**
Revenue			
Sale of products	$ 509,491	$ –	**$ 509,491**
Rendering of services	1,057,161	(1,153)	**1,056,008**
	1,566,652	(1,153)	**1,565,499**
Cost of Goods Sold and Services Rendered	980,919	(898)	**980,021**
Gross Profit	585,733	(255)	**585,478**
Selling, general and administrative expenses	342,991	–	**342,991**
Research and development expenses	10,536	–	**10,536**
Foreign exchange gains	(249)	–	**(249)**
Amortization of property, plant and equipment	77,267	–	**77,267**
Amortization of intangible assets	19,170	–	**19,170**
Gain on sale of land	(311)	–	**(311)**
Impairment	8,073	–	**8,073**
Income from Operations	128,256	(255)	**128,001**
Loss from investment in associates	(6,271)	–	**(6,271)**
Finance costs, net	(16,817)	–	**(16,817)**
Income before Income Taxes	105,168	(255)	**104,913**
Income taxes	33,988	(103)	**33,885**
Net Income	71,180	(152)	**71,028**
Net Income (Loss) Attributable to:			
Shareholders of the Company	71,307	(152)	**71,155**
Non-controlling interests	(127)	–	**(127)**
Net Income	$ 71,180	$ (152)	**$ 71,028**
Earnings per Share			
Basic	1.02	–	**1.02**
Diluted	1.02	–	**1.02**
Weighted Average Number of Shares Outstanding (000s)			
Basic	$ 69,926		**$ 69,926**
Diluted	$ 70,102		**$ 70,102**

b) IFRS 15, *Revenue from Contracts with Customers*, affected the fiscal 2017 comparative amounts reported in the Company's fiscal 2018 consolidated balance sheet as follows:

	December 31, 2017			January 1, 2017		
(in thousands of Canadian dollars)	December 31, 2017	IFRS 15 – Effects	**December 31, 2017 Restated 2017**	Excluding Effects of IFRS 15	IFRS 15 – Effects	Pro Forma
ASSETS						
Current assets						
Cash and cash equivalents	$ 289,065	$ –	**$ 289,065**	$ 194,824	$ –	$ 194,824
Short-term investments	–	–	**–**	1,890	–	1,890
Loans receivable	2,448	–	**2,448**	3,832	–	3,832
Accounts receivable	259,694	(65,255)	**194,439**	294,397	(84,233)	210,164
Contract assets	–	65,413	**65,413**	–	84,161	84,161
Income taxes receivable	20,205	–	**20,205**	35,141	–	35,141
Inventories	115,479	(461)	**115,018**	113,485	–	113,485
Prepaid expenses	21,931	–	**21,931**	22,477	–	22,477
Derivative financial instruments	382	–	**382**	9,393	–	9,393
Total current assets	709,204	(303)	**708,901**	675,439	(72)	675,367
Non-current assets						
Loans receivable	2,283	–	**2,283**	5,058	–	5,058
Property, plant and equipment	417,781	–	**417,781**	471,468	–	471,468
Intangible assets	164,872	–	**164,872**	192,907	–	192,907
Investments in associates	20,188	–	**20,188**	26,739	–	26,739
Deferred income tax assets	33,876	103	**33,979**	28,955	24	28,979
Other assets	20,606	–	**20,606**	26,407	–	26,407
Goodwill	329,391	–	**329,391**	350,818	–	350,818
Total non-current assets	988,997	103	**989,100**	1,102,352	24	1,102,376
TOTAL ASSETS	$ 1,698,201	$ (200)	**$ 1,698,001**	$ 1,777,791	$ (48)	$ 1,777,743
LIABILITIES AND EQUITY						
Current liabilities						
Bank indebtedness	$ –	$ –	**$ –**	$ 2,463	$ –	$ 2,463
Accounts payable and accrued liabilities	201,017	–	**201,017**	212,539	–	212,539
Provisions	27,361	–	**27,361**	21,104	–	21,104
Income taxes payable	42,904	–	**42,904**	39,011	–	39,011
Derivative financial instruments	1,915	–	**1,915**	3,759	–	3,759
Contract liabilities	44,826	–	**44,826**	103,584	–	103,584
Obligations under finance lease	1,111	–	**1,111**	950	–	950
Other liabilities	11,848	–	**11,848**	12,043	–	12,043
Total current liabilities	330,982	–	**330,982**	395,453	–	395,453
Non-current liabilities						
Long-term debt	246,175	–	**246,175**	263,528	–	263,528
Obligations under finance lease	10,840	–	**10,840**	11,019	–	11,019
Provisions	36,555	–	**36,555**	35,304	–	35,304
Employee future benefits	18,552	–	**18,552**	20,727	–	20,727
Deferred income tax liabilities	6,448	–	**6,448**	7,484	–	7,484
Other liabilities	3,665	–	**3,665**	1,236	–	1,236
Total non-current liabilities	322,235	–	**322,235**	339,298	–	339,298
Total liabilities	653,217	–	**653,217**	734,751	–	734,751
Equity						
Share capital	704,956	–	**704,956**	703,316	–	703,316
Contributed surplus	27,651	–	**27,651**	23,379	–	23,379
Retained earnings	302,406	(200)	**302,206**	273,045	(48)	272,997
Non-controlling interests	5,848	–	**5,848**	5,892	–	5,892
Accumulated other comprehensive income	4,123	–	**4,123**	37,408	–	37,408
Total equity	1,044,984	(200)	**1,044,784**	1,043,040	(48)	1,042,992
TOTAL LIABILITIES AND EQUITY	$ 1,698,201	$ (200)	**$ 1,698,001**	$ 1,777,791	$ (48)	$ 1,777,743

NOTE 5. FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

In July 2018, the Argentine three-year cumulative rate of inflation for consumer prices and wholesale prices reached a level in excess of 100%. As a result, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*, Argentina was considered a hyperinflationary economy, effective January 1, 2018. Accordingly, the presentation of IFRS financial statements includes adjustments and reclassifications for the changes in the general purchasing power of the Argentine peso.

On the application of IAS 29, the Company used the conversion coefficient derived from the consumer price index ("CPI") in the Greater Buenos Aires area published by the National Statistics and Census Institution in Argentina. The CPIs for the current and prior year and the corresponding conversion coefficient since the year when the Argentine subsidiary was acquired were as follows:

Year	Index	Conversion coefficient	CAD/ARS exchange rate
2012	117.67	6.0105	0.211471
2017	483.30	1.4634	0.067396
2018 – March	514.58	1.3744	0.063925
2018 – June	562.37	1.2576	0.045528
2018 – September	616.55	1.1471	0.031353
2018 – December	707.26	1.0000	0.036229

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at December 31, 2018. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at December 31, 2018) are restated by applying the index at the end of the reporting period. The effect of inflation on the Argentine subsidiary's net monetary position is included in the consolidated statements of income as a net monetary loss.

The application of IAS 29 results in the adjustment for the loss of purchasing power of the Argentine peso recorded in the consolidated statements of income. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, which results in a loss on the net monetary position. This loss/gain is derived as the difference resulting from the restatement of non-monetary assets, liabilities and equity.

As per IAS 21, *The Effects of Changes in Foreign Exchange Rates*, all amounts (i.e. assets, liabilities, equity, revenue and expenses) are translated at the closing foreign exchange rate at the date of the most recent consolidated balance sheet, except that comparative amounts are not adjusted for subsequent changes in the price level or subsequent changes in exchange rates. Similarly, in the period during which the functional currency of a foreign subsidiary becomes hyperinflationary and applies IAS 29 for the first time, the parent's consolidated financial statements for the comparative period are not restated for the effects of hyperinflation.

The opening equity adjustment of $4.3 million relates to the hyperinflation adjustments for non-monetary assets, liabilities and equity items in the consolidated balance sheet as at January 1, 2018. This is as a result of an increase to total assets of $4.8 million and an increase to total liabilities of $0.5 million.

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, 2018**	December 31, 2017
Long-term debt	**$ 267,781**	$ 246,175
Obligations under finance lease	**11,543**	11,951
Equity	**1,069,650**	1,044,784
	$ 1,348,974	$ 1,302,910

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, 2018. 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, 2018	December 31, 2017
Loans and Receivables, Measured at Amortized Cost		
Loans receivable (note 17)	**$ 3,037**	$ 4,731
Trade accounts receivable, net (note 18)	**210,009**	179,105
Deposit guarantee	**261**	109
Fair Value through Profit or Loss		
Cash and cash equivalents (note 16)	**217,264**	289,065
Short-term investments	**2,046**	–
Derivative financial instruments – assets	**1,102**	382
Derivative financial instruments – liabilities	**226**	1,915
Fair Value through Other Comprehensive Income		
Convertible preferred shares	**–**	10,000
Other Financial Liabilities, Measured at Amortized Cost		
Accounts payable (note 26)	**95,794**	72,466
Deferred purchase consideration	**–**	3,914
Long-term debt (note 30)	**267,781**	246,175

Fair Value

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

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

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

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at December 31, 2018:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	**$ 217,264**	**$ 217,264**	**$ –**	**$ –**
Short-term investments	**2,046**	**2,046**	**–**	**–**
Loans receivable	**3,037**	**–**	**3,037**	**–**
Derivative financial instruments	**1,102**	**–**	**1,102**	**–**
Deposit guarantee	**261**	**–**	**261**	**–**
	$ 223,710	**$ 219,310**	**$ 4,400**	**$ –**
Liabilities				
Long-term debt	**243,327**	**–**	**243,327**	**–**
Derivative financial instruments	**226**	**–**	**226**	**–**
	$ 243,553	**$ –**	**$ 243,553**	**$ –**

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

Financial Risk Management

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

Market Risk

Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are denominated in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency amounts are translated into Canadian dollars. As at December 31, 2018, 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 $46.6 million, $1.0 million and $0.7 million, respectively, prior to foreign exchange forward contract activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by $56.2 million, $11.2 million and $45.0 million, respectively, as at December 31, 2018.

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 hedged 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, 2018:

(in thousands, except weighted average rate amounts)	
US Dollars Sold for Euros	
Less than one year	US$ 13,500
Weighted average rate	0.87
Norwegian Kroner Sold for US Dollars	
Less than one year	NOK 87,184
Weighted average rate	0.11
Euros Sold for US Dollars	
Less than one year	€ 18,013
Weighted average rate	1.19

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

As at December 31, 2018, the Company had notional amounts of $60.3 million of foreign exchange forward contracts outstanding (2017 – $83.8 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling $0.9 million (2017 – $1.5 million net loss).

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, 2018, a loss of $21.6 million (2017 – gain of $17.4 million) on the translation of the long-term debt was transferred to OCI to offset the loss on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the year ended December 31, 2018.

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2018:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial Assets				
Cash equivalents	$ –	$ –	$ 47,560	$ 47,560
Loans receivable	36	3,001	–	3,037
	$ 36	$ 3,001	$ 47,560	$ 50,597
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	$ 43,879	$ –	$ –	$ 43,879
Long-term debt	–	–	267,781	267,781
	$ 43,879	$ –	$ 267,781	$ 311,660

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

Credit Risk

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

For the year ended December 31, 2018, there was no customer who generated more than 10% of total consolidated revenue (2017 – one customer generated approximately 22% of total consolidated revenue). As at December 31, 2018, no customer accounted for more than 10% of the Company's total trade accounts receivable (2017 – no customer accounted for more than 10% of the Company's total trade accounts receivable).

The carrying value of accounts receivable is reduced through the use of an allowance for doubtful accounts, and the amount of the loss is recognized in the consolidated statements of income 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, 2018, $13.3 million, or 6%, of trade accounts receivable was more than 90 days overdue, compared to $8.1 million, or 5%, as at December 31, 2017. 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)		**2018**		2017
Balance – Beginning of Year	**$**	**(2,809)**	$	(4,865)
Bad debts expense		**(2,402)**		(910)
Recovery of amounts previously provided for		**401**		2,015
Bad debts written off		**178**		519
Impact of change in foreign exchange rates		**(139)**		432
Balance – End of Year	**$**	**(4,771)**	$	(2,809)

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, 2018, the Company had cash and cash equivalents totalling $217.3 million (2017 – $289.1 million) and had unutilized lines of credit available to use of $456.6 million (2017 – $389.1 million).

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2018:

(in thousands of Canadian dollars)	2019 $	2020 $	2021 $	2022 $	2023 $	Thereafter $	Total $
Purchase commitments	96,914	83	14	14	28	–	97,053
Accounts payable	95,794	–	–	–	–	–	95,794
Long-term debt	–	83,835	–	–	77,551	107,121	268,507
Finance costs on long-term debt	9,526	7,649	7,027	7,027	4,884	9,605	45,718
Obligations under finance leases	1,696	1,460	1,446	1,439	1,439	7,271	14,751
Operating leases	21,953	14,210	11,164	8,969	6,196	11,957	74,449
Other obligations	1,875	1,763	1,517	1,294	944	4,118	11,511
Total	**227,758**	**109,000**	**21,168**	**18,743**	**91,042**	**140,072**	**607,783**

NOTE 8. SEGMENT INFORMATION

Shawcor's operating segments are being reported based on the financial information provided to the CEO, who has been identified as the CODM in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on segment operating income or loss, which is measured differently than income from operations in the consolidated financial statements. Income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at December 31, 2018, the Company had two reportable operating segments: Pipeline and Pipe Services and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices. The aggregation of the reportable segments is based on the customers and markets that the Company services.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment comprises the following divisions:

- Bredero Shaw, which offers specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines;
- Pipeline and Pipe Services Products includes Canusa-CPS, that manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Dhatec, that designs and assembles engineered pipe logistics products and services;
- Shaw Pipeline Services, which provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines;

- Flexpipe Systems, which manufactures spoolable and stick composite pipe systems and high density polyethylene pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities;
- Guardian, which provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing;
- Shawcor Inspection Services, which provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services; and
- Lake Superior Consulting, which provides pipeline engineering and integrity management services to major North American pipeline operators.

Petrochemical and Industrial

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

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

Financial and Corporate

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

Segment

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

(in thousands of Canadian dollars)	**Pipeline and Pipe Services**		**Petrochemical and Industrial**		**Financial and Corporate**		**Eliminations and Adjustments**		**Total**	
	2018[b] **$**	2017[a] $	**2018** **$**	2017 $	**2018** **$**	2017 $	**2018** **$**	2017 $	**2018[b]** **$**	2017[a] $
Revenue										
External	**1,207,815**	1,372,263	**201,057**	193,236	**–**	–	**–**	–	**1,408,872**	1,565,499
Inter-segment	**432**	293	**1,197**	971	**–**	–	**(1,629)**	(1,264)	**–**	–
Total Revenue	**1,208,247**	1,372,556	**202,254**	194,207	**–**	–	**(1,629)**	(1,264)	**1,408,872**	1,565,499
Operating expense	**1,091,693**	1,139,225	**164,677**	158,211	**8,419**	26,591	**(1,629)**	(1,264)	**1,263,160**	1,322,763
Research and development expenses	**9,712**	8,464	**1,255**	993	**909**	1,079	**–**	–	**11,876**	10,536
Amortization of property, plant and equipment	**59,279**	72,178	**3,664**	3,178	**1,846**	1,911	**–**	–	**64,789**	77,267
Amortization of intangible assets	**18,434**	19,170	**–**	–	**–**	–	**–**	–	**18,434**	19,170
Gain on sale of land	**–**	–	**–**	–	**–**	(311)	**–**	–	**–**	(311)
Income (Loss) from Operations for CODM	**29,129**	133,519	**32,658**	31,825	**(11,174)**	(29,270)	**–**	–	**50,613**	136,074
Impairment	**–**	8,073	**–**	–	**–**	–	**–**	–	**–**	8,073
Income (Loss) from Operations	**29,129**	125,446	**32,658**	31,825	**(11,174)**	(29,270)	**–**	–	**50,613**	128,001
Income Before Income Taxes	**1,468**	104,414	**31,999**	30,921	**540**	(30,422)	**–**	–	**34,007**	104,913
Income Taxes	**–**	–	**–**	–	**7,828**	33,885	**–**	–	**7,828**	33,885
Additions to property, plant and equipment, net of disposals	**61,053**	31,272	**6,177**	4,016	**1,598**	557	**–**	–	**68,828**	35,845
Goodwill	**331,967**	311,619	**18,435**	17,772	**–**	–	**–**	–	**350,402**	329,391
Total assets[a]	**1,757,832**	1,825,811	**140,866**	120,933	**1,319,235**	1,272,387	**(1,515,808)**	(1,521,130)	**1,702,125**	1,698,001
Total liabilities	**809,338**	886,915	**(78,708)**	(71,292)	**232,256**	144,786	**(330,411)**	(307,192)	**632,475**	653,217

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. Please see Note 4 for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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)	2018[d]						
	Canada	**USA**	**Latin America[d]**	**EMAR[a]**	**Asia Pacific**	**Eliminations**	**Total**
Revenue							
External	**$ 405,398**	**$ 530,507**	**$ 118,102**	**$ 257,310**	**$ 97,555**	**$ –**	**$ 1,408,872**
Inter-segment	**1,629**	**–**	**–**	**–**	**–**	**(1,629)**	**–**
Total revenue	**$ 407,027**	**$ 530,507**	**$ 118,102**	**$ 257,310**	**$ 97,555**	**$ (1,629)**	**$ 1,408,872**
Non-current assets[b]	**$ 251,103**	**$ 500,234**	**$ 35,305**	**$ 119,891**	**$ 48,346**	**$ –**	**$ 954,879**

(in thousands of Canadian dollars)	2017[c]						
	Canada	USA	Latin America	EMAR[a]	Asia Pacific	Eliminations	Total
Revenue							
External	$ 336,891	$ 397,643	$ 383,538	$ 271,294	$ 176,133	$ –	$ 1,565,499
Inter-segment	1,264	–	–	–	–	(1,264)	–
Total revenue	$ 338,155	$ 397,643	$ 383,538	$ 271,294	$ 176,133	$ (1,264)	$ 1,565,499
Non-current assets[b]	$ 252,995	$ 469,427	$ 35,123	$ 114,063	$ 47,215	$ –	$ 918,823

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

(b) Excluding loans receivable, investment in associates, deferred income tax assets and accrued employee future benefit asset.

(c) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

(d) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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)	**2018**	2017
Salaries, wages and employee benefits	**$ 522,017**	$ 504,772
Pension (note 15)	**15,330**	13,776
Share-based and other incentive-based compensation (note 14)	**9,751**	8,050
Total	**$ 547,098**	$ 526,598

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)	**2018[a]**	2017
Interest income on short-term deposits	**$ (2,990)**	$ (1,556)
Interest expense, other	**5,986**	5,539
Interest expense on long-term debt	**9,096**	12,834
Finance Costs, Net	**$ 12,092**	$ 16,817

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina effective as of January 1, 2018. See Note 5 for further details.

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)	**2018[b]**	2017[a]
Current Income Taxes		
Based on taxable income of current year	**$ 7,522**	$ 44,158
Adjustment to prior year provision	**(1,268)**	(4,063)
	6,254	40,095
Deferred Income Taxes		
Reversal of temporary differences	**1,574**	(6,210)
	1,574	(6,210)
Total Income Tax Expense	**$ 7,828**	$ 33,885

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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)		2018		2017
Income tax expense on actuarial gains and losses on defined benefit plans	$	475	$	168
Income Tax Expense Charged to OCI	$	475	$	168

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

	2018 %	2017[(a)] %
Expected income tax expense based on statutory rate	26.9	26.8
Tax rate differential on earnings of foreign subsidiaries	0.9	(1.6)
Benefit of previously unrecognized tax losses	(33.3)	(10.8)
Deferred tax not recognized	33.1	7.2
Impact of US tax reform	—	0.8
Adjustment to prior year provision	(4.0)	(0.1)
Non-deductible amounts	8.1	(0.3)
Withholding taxes	4.9	6.4
Argentina hyperinflation adjustment	6.8	—
Movement in uncertain tax positions	(24.6)	1.8
State tax and other	4.2	2.1
Effective Income Tax Rate	23.0	32.3

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

The expected income tax rate is computed using the average Canadian federal and provincial income tax rates based on an estimated allocation of 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, 2018		December 31, 2017[(a)]
Deferred Income Tax Assets				
Property, plant and equipment	$	606	$	4,328
Provisions and future expenditures		19,145		25,263
Non-capital losses		28,568		27,496
Capital losses		976		897
		49,295		57,984
Deferred Income Tax Liabilities				
Property, plant and equipment		(15,362)		(20,010)
Provisions and future expenditures		(7,275)		(10,443)
		(22,637)		(30,453)
Net Deferred Income Tax Asset	$	26,658	$	27,531

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

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, 2018		December 31, 2017[(a)]
Deferred income tax assets	$	31,290	$	33,979
Deferred income tax liabilities		(4,632)		(6,448)
	$	26,658	$	27,531

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

The Company has recorded deferred income tax assets of $28.6 million as at December 31, 2018 (2017 – $27.5 million), pertaining to loss carry forwards 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)	**2018**	2017
Deferred Income Tax Assets		
Property, plant and equipment	**$ 3,722**	$ (975)
Provisions and future expenditures	**6,118**	(13)
Net operating losses	**(1,073)**	(4,967)
Capital losses	**(79)**	–
Change in deferred income tax assets	**8,688**	(5,955)
Deferred Income Tax Liabilities		
Property, plant and equipment	**(4,648)**	(157)
Provisions and future expenditures	**(3,168)**	155
Change in deferred income tax liabilities	**(7,816)**	(2)
Change in Deferred Income Taxes	**872**	(5,957)
Deferred income taxes in OCI	**(475)**	(168)
Foreign exchange and other	**1,177**	(85)
Deferred Income Tax Expense (Recovery) in Net Income	**$ 1,574**	$ (6,210)

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, 2018 and 2017, 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 $105.6 million and $95.5 million for the years ended December 31, 2018 and 2017, respectively.

The Company has net operating losses of $326.7 million for the year ended December 31, 2018 (2017 – losses of $292.9 million) in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to the 2034 fiscal year. The Company has capital losses of $52.4 million and $48.9 million for the years ended December 31, 2018 and 2017, 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 PER SHARE

The following table details the weighted average number of shares outstanding for the purposes of calculating basic and diluted EPS for the years ended December 31:

(in thousands of Canadian dollars, except share and per share amounts)	**2018[(b)]**	2017[(a)]
Net income used to calculate EPS		
Net income (attributable to the shareholders of the Company)	**$ 25,876**	$ 71,155
Weighted average number of shares outstanding – basic (000s)	**70,061**	69,926
Dilutive effect of stock options	**203**	176
Weighted average number of shares outstanding – diluted (000s)	**70,264**	70,102
Basic EPS	**$ 0.37**	$ 1.02
Diluted EPS	**$ 0.37**	$ 1.02

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 5 for further details.

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)	**2018**	2017
Salaries and other short-term incentive compensation and employee benefits	**$ 1,867**	$ 3,147
Post-employment benefits – defined benefit plans	**455**	484
Share-based and other long-term incentive payments	**4,958**	3,141
Directors' fees and other compensation	**(329)**	447
Total	**$ 6,951**	$ 7,219

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

As at December 31, 2018, 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 market 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

	2018		2017	
	Total Shares	**Weighted Average Exercise Price**	Total Shares	Weighted Average Exercise Price
Balance Outstanding – Beginning of Year	**1,195,385**	**$ 33.06**	1,173,080	$ 32.02
Granted	**248,900**	**25.22**	163,400	37.40
Exercised	**(122,280)**	**15.51**	(23,095)	26.90
Expired	**(57,620)**	**25.17**	(118,000)	29.83
Balance Outstanding – End of Year	**1,264,385**	**$ 33.58**	1,195,385	$ 33.06
Options Exercisable	**752,245**	**$ 36.22**	739,005	$ 32.34

December 31, 2018

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Outstanding as at December 31, 2018**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**	**Exercisable as at December 31, 2018**	**Weighted Average Exercise Price**
$15.01 to $20.00	**23,080**	**0.20**	**$ 15.51**	**23,080**	**$ 15.51**
$25.01 to $30.00	**392,460**	**7.51**	**25.69**	**68,460**	**26.51**
$30.01 to $35.00	**224,000**	**3.49**	**32.69**	**197,000**	**32.75**
$35.01 to $40.00	**332,145**	**5.09**	**37.04**	**180,285**	**36.93**
$40.01 to $45.00	**246,300**	**3.58**	**41.69**	**246,300**	**41.69**
$45.01 to $50.00	**46,400**	**1.56**	**45.73**	**37,120**	**45.73**
	1,264,385	**5.04**	**$ 33.58**	**752,245**	**$ 36.22**

December 31, 2017

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

The Board approved the granting of 248,900 stock options (2017 – 163,400) during the year ended December 31, 2018 under the Amended 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2018 was $1.3 million (2017 – $1.3 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

	2018	2017
Weighted average share price	**$ 25.22**	$ 37.40
Exercise price	**$ 25.22**	$ 37.40
Weighted average expected life of options	**6.25**	6.25
Weighted average expected stock price volatility	**27.0%**	28.46%
Weighted average expected dividend yield	**2.41%**	1.60%
Weighted average risk-free interest rate	**2.04%**	1.45%

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, 2018, included in selling, general and administrative expenses, was $1.2 million (2017 – $1.3 million).

Stock Options with Tandem Share Appreciation Rights

	2018		2017	
	Total Shares	**Weighted Average Fair Value[a]**	Total Shares	Weighted Average Fair Value
Balance Outstanding – Beginning of Year	**407,100**	**$ 10.05**	367,300	$ 10.23
Granted	**127,800**	**4.68**	44,800	8.61
Exercised	**–**	**–**	(5,000)	10.30
Cancelled/forfeited	**(108,900)**	**8.67**	–	–
Balance Outstanding – End of Year	**426,000**	**$ 8.79**	407,100	$ 10.05
Options Exercisable	**210,380**	**$ 10.42**	194,760	$ 10.53

(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, 2018 is $0.1 million (2017 – $1.5 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

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

LTIP

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

VGP

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

The VGP liability as at December 31, 2018 is $10.3 million (2017 – $4.3 million).

ESUP

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

	2018			2017		
	Total Shares		Weighted Average Grant Date Fair Value[(a)(b)]	Total Shares		Weighted Average Grant Date Fair Value[(a)]
Balance Outstanding – Beginning of Year	**598,037**	**$**	**32.02**	541,441	$	31.79
Granted	**71,247**		**22.52**	91,364		32.04
Exercised	**(38,419)**		**30.90**	(19,951)		28.32
Forfeited /cancelled	**(19,025)**		**30.95**	(14,817)		28.73
Balance Outstanding – End of Year	**611,840**	**$**	**31.02**	598,037	$	32.02
RSUs/PSUs Exercisable	**308,170**	**$**	**33.21**	237,895	$	33.32

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

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

PIP

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

The PIP liability as at December 31, 2018 is $0.6 million (December 31, 2017 – $0.1 million).

DSUs

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

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

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

	2018			2017		
	Total Shares		Weighted Average Grant Date Fair Value[(a)]	Total Shares		Weighted Average Grant Date Fair Value[(a)]
Balance Outstanding – Beginning of Year	**191,046**	**$**	**33.86**	148,427	$	35.15
Granted	**58,928**		**21.90**	42,619		29.36
Exercised	**(31,476)**		**25.11**	–		–
Balance Outstanding – End of Year	**218,498**	**$**	**31.89**	191,046	$	33.86

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

The mark-to-market liability for the DSUs as at December 31, 2018 is $3.6 million (2017 – $5.2 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)	2018	2017
Stock option expense	$ 1,212	$ 1,334
VGP expense	6,431	3,278
DSU (recovery)	(826)	(81)
RSU expense	3,304	3,817
SAR (recovery)	(1,388)	(486)
PIP expense	193	107
Total Share-based and Other Incentive-based Compensation Expense	**$ 8,926**	$ 7,969

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 2018 were $4.8 million (2017 – $0.1 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2018 were $10.4 million (2017 – $9.2 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, 2018 (one plan), December 31, 2017 (two plans), January 1, 2017 (two plans), December 31, 2016 (two plans) and August 1, 2016 (one plan).

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

(in thousands of Canadian dollars)	December 31, 2018	December 31, 2017
Accrued Employee Future Benefit Asset		
Pension plans (note 24)	$ 2,798	$ 3,827
	$ 2,798	$ 3,827
Accrued Employee Future Benefit Liability		
Pension plans	$ (12,598)	$ (15,437)
Post-employment benefits	(2,474)	(2,997)
Post-retirement life insurance	(118)	(118)
	$ (15,190)	$ (18,552)

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

	December 31, 2018	December 31, 2017
Investments Quoted in Active Markets:		
Cash and cash equivalents	**5%**	7%
Equity instruments	**61%**	61%
Debt instruments	**34%**	32%
	100%	100%

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

	December 31, 2018	December 31, 2017
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, 2018 and 2017 amounted to ($2.1) million and $7.7 million, respectively.

Employee Future Benefit Cost

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

(in thousands of Canadian dollars)	**December 31, 2018**	December 31, 2017
Current service costs	**$ 2,692**	$ 3,204
Past service costs and impact of settlements, curtailments and termination benefits	**1,128**	281
Interest cost on defined benefit obligation	**4,206**	4,388
Interest income on plan assets	**(3,816)**	(3,942)
	4,210	3,931
Impact of asset ceiling/minimum funding requirement	**56**	9
Defined benefit cost recognized	**4,266**	3,940
Defined contribution cost recognized	**11,064**	9,836
Employee Future Benefit Cost Recognized[(a)]	**$ 15,330**	$ 13,776

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

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

(in thousands of Canadian dollars)	**December 31, 2018**	December 31, 2017
Valuation effect	**$ 447**	$ 51
Return on plan assets (excluding amounts included in interest income)	**5,902**	(3,759)
Net actuarial (gains) losses recognized in the year	**(8,082)**	1,435
Other changes in asset ceiling/minimum funding requirement not included in net interest cost	**(66)**	1,744
Foreign exchange differences	**37**	(163)
Employee Future Benefit Income Recognized in OCI	**$ (1,762)**	$ (692)

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	**December 31, 2018**	December 31, 2017
Balance – Beginning of Year	**$ 139,334**	$ 136,561
Employer current service cost	**2,692**	3,204
Net interest cost	**4,206**	4,388
Past service costs and impact of settlements, curtailments and termination benefits	**1,128**	281
Benefit payments	**(8,259)**	(6,465)
Actuarial gains due to changes in demographic assumptions	**(184)**	(1,094)
Actuarial (gains) losses due to changes in economic assumptions	**(7,297)**	5,960
Experience gains	**(601)**	(3,431)
Foreign exchange differences	**489**	(70)
Balance – End of Year	**$ 131,508**	$ 139,334

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

(in thousands of Canadian dollars)	2018	2017
Balance – Beginning of Year	**$ 126,804**	$ 125,331
Valuation effect	**(447)**	(51)
Employer contributions	**4,831**	102
Benefit payments	**(8,259)**	(6,465)
Interest income on plan assets	**3,816**	3,942
Return on plan assets (excluding amounts included in interest income)	**(5,902)**	3,759
Foreign exchange differences	**423**	186
Balance – End of Year	**$ 121,266**	$ 126,804

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

	2018	2017
Canada		
Defined benefit obligation		
Discount rate	**3.85%**	3.38%
Future salary increase	**3.00%**	3.00%
Future pension increase	**n/a**	n/a
Mortality	**CPM 2014 Private with scale CPM-B**	CPM 2014 Private with scale CPM-B
Benefit cost for the year ended December 31		
Discount rate	**3.38%**	3.78%
Future salary increase	**3.00%**	3.50%
Norway		
Defined benefit obligation		
Discount rate	**2.60%**	2.40%
Future salary increase	**2.75%**	2.50%
Future pension increase	**0.80%**	0.50%
Mortality	**K2013**	K2013
Benefit cost for the year ended December 31		
Discount rate	**2.40%**	2.60%
Future salary increase	**2.50%**	2.50%
United Kingdom		
Defined benefit obligation		
Discount rate	**2.80%**	2.40%
Future salary increase	**n/a**	n/a
Future pension increase	**2.50%**	2.60%
Mortality	**S2PA (projected)**	S2PA (projected)
Benefit cost for the year ended December 31		
Discount rate	**2.40%**	2.60%
Future salary increase	**n/a**	n/a
Indonesia		
Defined benefit obligation		
Discount rate	**8.20%**	7.20%
Future salary increase	**8.1% (local), 5.5% (expat)**	7% (local), 4.5% (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	**7.20%**	8.50%
Future salary increase	**7.00% (local), 4.50% (expat)**	10.00% (local), 6.00% (expat)

Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at December 31, 2018 is as shown below:

Significant Assumptions	**Impact of Sensitivity Analysis on Defined Benefit Obligation**	
(in thousands of Canadian dollars)	**Change**	**% Change**
Discount rate		
Decrease of 50 basis points	**8,918**	**6.8%**
Increase of 50 basis points	**(8,038)**	**(6.1%)**
Future salary increase		
Decrease of 50 basis points	**(1,779)**	**(1.4%)**
Increase of 50 basis points	**1,880**	**1.4%**
Mortality Assumption – Impact of Life Expectancy being one year longer	**3,737**	**2.8%**

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, 2018.

Other Information

The Company expects to contribute $3.3 million to its defined benefit plans for the year ending December 31, 2019.

The average duration of the defined benefit plans as at December 31, 2018 is 14 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, 2018**	December 31, 2017
Cash	**$ 169,704**	$ 247,136
Cash equivalents	**47,560**	41,929
Total	**$ 217,264**	$ 289,065

NOTE 17. LOANS RECEIVABLE

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

(in thousands of Canadian dollars)	**December 31, 2018**	December 31, 2017
Current		
Notes receivable	**$ 2,492**	$ 2,448
Non-current		
Notes receivable[(a)]	**$ 545**	$ 2,283
Total	**$ 3,037**	$ 4,731

(a) Non-current notes receivable relate to a portion of an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual installments beginning on March 31, 2018, as set out in the loan agreement terms. A portion of this amount has been classified as current as semi-annual installments are due during 2019. As at December 31, 2018, the total amount of the notes receivable was US$2,200 million (December 31, 2017 – US$3,726 million).

NOTE 18. ACCOUNTS RECEIVABLE

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

(in thousands of Canadian dollars)		**December 31, 2018**		December 31, 2017(a)
Trade accounts receivable	**$**	**214,780**	$	181,914
Allowance for doubtful accounts (note 7)		**(4,771)**		(2,809)
Other receivables		**31,488**		15,334
	$	**241,497**	$	194,439

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

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

(in thousands of Canadian dollars)		**December 31, 2018**		December 31, 2017
Current	**$**	**124,661**	$	111,613
Past due 1 to 30 days		**57,614**		48,754
Past due 31 to 60 days		**15,187**		9,070
Past due 61 to 90 days		**4,008**		4,422
Past due for more than 90 days		**13,310**		8,055
Total trade accounts receivable		**214,780**		181,914
Less: allowance for doubtful accounts		**(4,771)**		(2,809)
Trade Accounts Receivable, Net	**$**	**210,009**	$	179,105

NOTE 19. INVENTORY

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

(in thousands of Canadian dollars)		**December 31, 2018**		December 31, 2017(a)
Raw materials and supplies	**$**	**87,987**	$	79,495
Work-in-progress		**10,039**		8,281
Finished goods		**61,312**		49,278
Inventory obsolescence		**(22,341)**		(22,036)
	$	**136,997**	$	115,018

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 4 for further details.

During 2018, the Company recorded an increase of $0.3 million (2017 – decrease of $3.9 million) in the provision for inventory obsolescence, due to an increase of overall inventory level.

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, 2016	$ 83,097	$ 211,442	$ 821,928	$ 69,534	$ 1,186,001
Exchange differences	(23)	(584)	(23,514)	(764)	(24,885)
Additions (transfers)	967	25,492	58,617	(42,782)	42,294
Disposals	(769)	(731)	(30,214)	(1,225)	(32,939)
Balance – December 31, 2017	83,272	235,619	826,817	24,763	1,170,471
Exchange differences	2,264	3,571	35,233	1,969	43,037
Additions	473	1,686	53,281	21,932	77,372
Disposals	(2,259)	(30,480)	(30,696)	(71)	(63,506)
Argentina hyperinflation adjustment[(a)]	22	2,794	7,056	–	9,872
Balance – December 31, 2018	**$ 83,772**	**$ 213,190**	**$ 891,691**	**$ 48,593**	**$ 1,237,246**

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in progress	Total
Accumulated Amortization					
Balance – December 31, 2016	$ (22,104)	$ (98,208)	$ (524,734)	$ –	$ (645,046)
Exchange differences	643	1,851	17,040	–	19,534
Amortization	(1,469)	(22,216)	(53,582)	–	(77,267)
Disposals	632	967	26,117	–	27,716
Balance – December 31, 2017	(22,298)	(117,606)	(535,159)	–	(675,063)
Exchange differences	(722)	(474)	(27,825)	–	(29,021)
Amortization	(2,193)	(13,253)	(49,343)	–	(64,789)
Disposals	2,259	30,019	23,855	–	56,133
Argentina hyperinflation adjustment[(a)]	(2)	(966)	(1,421)	–	(2,389)
Balance – December 31, 2018	**$ (22,956)**	**$ (102,280)**	**$ (589,893)**	**$ –**	**$ (715,129)**

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in progress	Total
Accumulated Impairment					
Balance – December 31, 2016	$ (2,495)	$ (19,959)	$ (47,033)	$ –	$ (69,487)
Exchange differences	20	(804)	(483)	–	(1,267)
Impairment (note 25)	(309)	(2,967)	(4,797)	–	(8,073)
Eliminated on disposal	–	–	1,200	–	1,200
Balance – December 31, 2017	(2,784)	(23,730)	(51,113)	$ –	(77,627)
Exchange differences	21	(570)	(1,000)	–	(1,549)
Balance – December 31, 2018	**$ (2,763)**	**$ (24,300)**	**$ (52,113)**	**$ –**	**$ (79,176)**
Net book value					
As at December 31, 2017	$ 58,190	$ 94,283	$ 240,545	$ 24,763	$ 417,781
As at December 31, 2018	**$ 58,053**	**$ 86,610**	**$ 249,685**	**$ 48,593**	**$ 442,941**

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies for Argentina* as of January 1, 2018. See Note 5 for further details.

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, 2016	$ 85,808	$ 283,450	$ 2,275	$ 371,533
Exchange differences	(1,561)	(15,143)	–	(16,704)
Additions	71	–	–	71
Balance – December 31, 2017	84,318	268,307	2,275	354,900
Exchange differences	(6,763)	11,852	–	5,089
Argentina hyperinflation adjustment[(d)]	5,939	2,668	–	8,607
Balance – December 31, 2018	**$ 83,494**	**$ 282,827**	**$ 2,275**	**$ 368,596**
Accumulated Amortization				
Balance – December 31, 2016	$ (39,949)	$ (60,780)	$ –	$ (100,729)
Exchange differences	421	2,185	–	2,606
Amortization	(4,994)	(14,176)	–	(19,170)
Balance – December 31, 2017	(44,522)	(72,771)	–	(117,293)
Exchange differences	2,765	(394)	–	2,371
Amortization	(5,058)	(13,376)	–	(18,434)
Argentina hyperinflation adjustment[(d)]	(2,703)	(641)	–	(3,344)
Balance – December 31, 2018	**$ (49,518)**	**$ (87,182)**	**$ –**	**$ (136,700)**
Accumulated Impairment				
Balance – December 31, 2016	$ (11,321)	$ (65,901)	$ (675)	$ (77,897)
Exchange differences	801	4,361	–	5,162
Balance – December 31, 2017	(10,520)	(61,540)	(675)	(72,735)
Exchange differences	38	(3,745)	–	(3,707)
Balance – December 31, 2018	**$ (10,482)**	**$ (65,285)**	**$ (675)**	**$ (76,442)**
Net book value				
As at December 31, 2017	$ 29,276	$ 133,996	$ 1,600	$ 164,872
As at December 31, 2018	**$ 23,494**	**$ 130,360**	**$ 1,600**	**$ 155,454**

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

(b) Intangible assets, with limited life, represent customer relationships, trademarks and non-compete agreements acquired directly or in conjunction with past business combinations. The Company amortizes the cost of intangible assets with limited life over their estimated useful lives, which ranges from 2 to 5 years for trademarks and non-compete agreements, and 10 years to 15 years for customer relationships. This estimate is based on expected customer attrition rates and considers the cyclicality of the global energy market (or the oil & gas market). The net book value of customer relationships as at December 31, 2018 is $128.8 million (2017 – $131.7 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).

(d) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies for* Argentina as of January 1, 2018. See Note 5 for further details.

NOTE 22. GOODWILL

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

(in thousands of Canadian dollars)	December 31, 2018	December 31, 2017
Gross amount of goodwill	$ 483,548	$ 515,872
Accumulated impairment of goodwill	(154,157)	(165,054)
Net Balance – Beginning of Year	329,391	350,818
Foreign exchange	17,241	(21,427)
Argentina hyperinflation adjustment[(a)]	3,770	–
Net Balance – End of Year	$ 350,402	$ 329,391

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

(in thousands of Canadian dollars)	December 31, 2018	December 31, 2017
Bredero Shaw	$ 203,981	$ 188,209
Shawcor Inspection Services	50,943	46,846
Flexpipe Systems	49,730	49,730
Socotherm Americas (Argentina)	4,522	5,495
Pipeline and Pipe Services Products	8,566	8,258
DSG-Canusa GmbH	18,435	17,772
Lake Superior	14,225	13,081
	$ 350,402	$ 329,391

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina effective as of January 1, 2018. See Note 5 for further details.

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, 2018, 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.

Recoverable Amount

The Company determines the recoverable amount for its GCGUs as the higher of Value in Use and the Fair Value Less Cost to Dispose ("FVLCD"). In respect of the goodwill impairment tests in 2018, the FVLCD of each of the GCGUs was higher than the respective carrying amount and as such no goodwill impairments have been recorded in 2018. The FVLCD measurement was categorized as a Level 3 fair value based on the inputs in the valuation method used.

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

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

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

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

Projected Cash Flows

The Projected Cash Flows for each GCGU are derived from the most recently completed three-year Business Plan, which is projected out for a further 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 judgement, 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 GCGUs:

(in thousands of Canadian dollars)	**October 31, 2018**	October 31, 2017
Bredero Shaw	**11%**	11%
Shawcor Inspection Services	**12%**	12%
Flexpipe Systems	**12%**	12%
Socotherm Americas (Argentina)	**18%**	18%
DSG-Canusa GmbH	**12%**	12%
Pipeline and Pipe Services Products	**14%**	14%
Lake Superior	**12%**	12%

Terminal Value Growth Rate

The Terminal Value Growth Rate is used to calculate the Terminal Value of the GCGUs at the end of the Projected Free Cash Flow. A Terminal Value Growth Rate of 2%–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 47% common share interest as at December 31, 2018 (2017– 38%), which is being accounted for using equity accounting. On March 26, 2018, the Company exercised its right to convert the preferred shares held in Zedi Inc. to 11.2 million common shares with a fair value of $10 million, which are also being accounted for using equity accounting.

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

NOTE 24. OTHER ASSETS

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

(in thousands of Canadian dollars)	**December 31, 2018**	December 31, 2017
Long-term prepaid expenses	**$ 6,082**	$ 6,779
Convertible preferred shares (note 23)	**–**	10,000
Accrued employee future benefit asset (note 15)	**2,798**	3,827
	$ 8,880	$ 20,606

NOTE 25. IMPAIRMENT

2018

The Company did not record any impairment charges for the year ended December 31, 2018.

2017

Impairment Testing for Bredero Shaw Regina Plants

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

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

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, 2018**	December 31, 2017
Accounts payable	**$ 95,794**	$ 72,466
Accrued liabilities	**111,066**	128,551
	$ 206,860	$ 201,017

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, 2016	$ 29,706	$ 6,768	$ 19,934	$ 56,408
Provision adjustments	104	(521)	12,903	12,486
Settlement of liabilities	(765)	(175)	(3,616)	(4,556)
Accretion expense	465	–	263	728
Foreign exchange differences	(517)	(98)	(728)	(1,343)
Loss on settlement	193	–	–	193
Balance – December 31, 2017	29,186	5,974	28,756	63,916
Provision adjustments	867	3,217	416	4,500
Settlement of liabilities	(435)	(1,851)	(8,627)	(10,913)
Accretion expense	538	–	–	538
Foreign exchange differences	587	53	222	862
Balance – December 31, 2018	**$ 30,743**	**$ 7,393**	**$ 20,767**	**$ 58,903**
December 31, 2017				
Current	$ 5,302	$ 5,974	$ 16,085	$ 27,361
Non-current	23,884	–	12,671	36,555
	$ 29,186	$ 5,974	$ 28,756	$ 63,916
December 31, 2018				
Current	**$ 6,189**	**$ 7,393**	**$ 10,342**	**$ 23,924**
Non-current	**24,554**	**–**	**10,425**	**34,979**
	$ 30,743	**$ 7,393**	**$ 20,767**	**$ 58,903**

Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities is $40 million as at December 31, 2018. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 20%. 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)	
2019	**$ 6,202**
2020	**7,224**
2021	**4,605**
2022	**518**
2023	**1,381**
Thereafter	**20,526**
	$ 40,456

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)	Incentive-based Compensation (note 14)	Other Liabilities	Total
Balance – December 31, 2016	$ 9,006	$ 4,273	$ 13,279
Adjustments	2,979	(62)	2,917
Settlement of liabilities	(808)	(27)	(835)
Foreign exchange differences	(19)	171	152
Balance – December 31, 2017	11,158	4,355	15,513
Adjustments	4,517	(1,584)	2,933
Settlement of liabilities	(1,309)	–	(1,309)
Foreign exchange differences	205	256	461
Balance – December 31, 2018	**$ 14,571**	**$ 3,027**	**$ 17,598**
December 31, 2017			
Current	$ 7,934	$ 3,914	$ 11,848
Non-current	3,224	441	3,665
	$ 11,158	$ 4,355	$ 15,513
December 31, 2018			
Current	**$ 5,128**	**$ 2,211**	**$ 7,339**
Non-current	**9,443**	**816**	**10,259**
	$ 14,571	**$ 3,027**	**$ 17,598**

NOTE 29. CREDIT FACILITIES

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

(in thousands of Canadian dollars)	**December 31, 2018**	December 31, 2017
Standard letters of credit for performance, bid and surety bonds (note 31)	**$ 43,879**	$ 71,175
Total utilized credit facilities	**43,879**	71,175
Total available credit facilities[(a)]	**500,498**	460,251
Unutilized Credit Facilities	**$ 456,619**	$ 389,076

(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. On December 6, 2016, the Company entered into amending agreements with the holders of its Senior Notes and the syndicate of lenders under the Credit Facility, the results of which amendments included 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 Company is required to maintain an Interest Coverage Ratio of more than 2.50 to 1.00 and a Leverage Ratio of less than 3.00 to 1.00.

The Company was in compliance with the covenants as at December 31, 2018 and December 31, 2017.

NOTE 30. LONG-TERM DEBT

On March 20, 2013, the Company issued Senior Notes for total gross proceeds of US$350 million (CAD$358.3 million at the March 20, 2013 foreign exchange rate) to institutional investors. The principal balances outstanding at December 31, 2018 and 2017 are as follows:

(in millions of Canadian dollars)	Due Date	Interest Rate	**December 31, 2018 (US$)**	December 31, 2017 (US$)	**December 31, 2018 (CAD$)**	December 31, 2017 (CAD$)
Senior Notes, Series A	March 31, 2020	2.98%	**62**	62	**84**	77
Senior Notes, Series B	March 31, 2023	3.67%	**57**	57	**78**	71
Senior Notes, Series C	March 31, 2025	3.82%	**52**	52	**71**	66
Senior Notes, Series D	March 31, 2028	4.07%	**26**	26	**36**	33
			197	197	**269**	247

The total long-term debt balance as at December 31, 2018 is $267.8 million (US$196.8 million) (2017 – $246.2 million (US$196.8 million)). The long-term debt has been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 7.

In respect of the long-term debt, the Company is required to maintain certain covenants that are consistent with the debt covenants described in note 29 for the Credit Facility. The Company was in compliance with these covenants as at December 31, 2018 and December 31, 2017.

NOTE 31. LEASES, COMMITMENTS AND CONTINGENCIES

a) Operating Leases

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

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

(in thousands of Canadian dollars)	**December 31, 2018**
Within one year	**$ 21,953**
After one year but not more than five years	**40,539**
More than five years	**11,957**
	$ 74,449

The lease expenditure charged to the consolidated statements of income during the year was $37.9 million (2017 – $34.1 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, 2018**	
	Minimum Payments	**Present Value of Payments**
Within one year	**$ 1,696**	**$ 1,155**
After one year but not more than five years	**5,784**	**4,074**
After more than five years	**7,271**	**6,314**
Total minimum lease payments	**14,751**	**11,543**
Less: Amounts representing interest charges	**$ (3,208)**	**$ –**
Present Value of Minimum Lease Payments	**$ 11,543**	**$ 11,543**

c) Legal Claims

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

d) Performance, Bid and Surety Bonds

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

The Company utilizes the Credit Facility to support its bonds. The Company has utilized total credit facilities of $43.9 million as at December 31, 2018 (2017 – $71.2 million for support of its bonds). In addition, as at December 31, 2018, the Company had $66.3 million of outstanding surety bonds through insurance companies (2017 – $48.4 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.

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)	**2018**
Number of shares	
Balance – December 31, 2017	69,940,590
Issued on exercise of stock options	122,280
Issued on exercise of RSUs	38,419
Balance – December 31, 2018	**70,101,289**
Stated value	
Balance – December 31, 2017	$ 704,956
Issued on exercise of stock options	1,897
Compensation cost on exercised options	735
Compensation cost on exercised RSUs	1,245
Balance – December 31, 2018	**$ 708,833**

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

Dividends declared and paid were as follows:

(in thousands of Canadian dollars, except per share amounts)	**2018**	2017
Dividends declared and paid to shareholders	**$ 42,029**	$ 41,946
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 2018 consolidated financial statements in accordance with IFRS.

NOTE 34. SUBSEQUENT EVENT

On January 20, 2019, the Company announced that it had entered into an arrangement agreement to acquire all of the shares of ZCL Composites Inc. ("ZCL") for $10.00 per share in cash and by way of a statutory plan of arrangement. The price per share implies an aggregate fully diluted equity value for ZCL of approximately $308 million. ZCL is North America's largest manufacturer and supplier of environmentally friendly fiberglass reinforced plastic underground storage tanks. ZCL has two plants in Canada, four in the US and one in The Netherlands serving the Fuel, Water & Wastewater and Oil & Gas markets. The arrangement will be considered by ZCL shareholders on March 26, 2019 and requires the approval of 66 2/3rd % of the votes cast at the meeting. Subject to receipt of shareholder and court approval, closing of the transaction is expected in early April 2019.

Shawcor has entered into a commitment letter with the Toronto-Dominion Bank and National Bank of Canada as co-lead arrangers providing a US$500 million, four-year senior unsecured revolving credit facility (the "Credit Facility"). The Credit Facility will be used to fund the Arrangement and replace Shawcor's existing senior credit facility. Shawcor anticipates that a portion of the Credit Facility will be syndicated to other banks or financial institutions. It is anticipated that the Credit Facility will be entered into prior to the end of the first quarter of 2019.

On January 30, 2019, the Company gave notice to the Senior Note holders that it will repay on March 7, 2019 the entire principal amount outstanding with accrued interest, approximately US$199.8 million, and a make whole amount estimated at approximately US$5.2 million.

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)	2018	2017	2016	2015	2014	2013
	(NOTE 6)	(NOTE 5)				
OPERATING RESULTS						
Revenue	**1,408,872**	1,565,499	1,209,259	1,810,648	1,890,029	1,847,549
Adjusted EBITDA (NOTE 1)	**134,870**	225,929	56,452	228,478	336,701	391,223
Net Income (Loss) (NOTE 2)	**25,876**	71,155	(180,960)	98,244	94,861	219,862
CASH FLOW						
Cash from operating activities	**30,545**	178,446	131,893	281,041	187,985	32,264
Purchase of property, plant, and equipment	**76,201**	41,068	89,252	61,153	77,645	76,729
FINANCIAL POSITION						
Working capital (NOTE 3)	**393,148**	377,919	279,986	446,405	378,733	267,489
Long-term debt	**267,781**	246,175	263,528	485,147	406,926	374,381
Equity	**1,069,650**	1,044,784	1,043,040	1,125,201	980,613	658,581
Total assets	**1,702,125**	1,698,001	1,777,791	2,145,705	1,939,970	1,651,928
PER SHARE INFORMATION						
(Common, Class A & Class B)						
Net income						
Basic	**0.37**	1.02	(2.80)	1.52	1.55	3.55
Diluted	**0.37**	1.02	(2.80)	1.52	1.53	3.51
Dividends						
Common share	**0.600**	0.600	0.600	0.600	0.575	1.375
Class A	**–**	–	–	–	–	0.100
Class B	**–**	–	–	–	–	0.091
Equity per share (NOTE 4)	**15.26**	14.94	14.92	17.44	15.20	10.98

QUARTERLY INFORMATION (UNAUDITED)

(in thousands of Canadian dollars except per share information)			First	Second	Third	Fourth	Total
Revenue	(NOTE 6)	**2018**	**350,767**	**353,368**	**350,589**	**354,148**	**1,408,872**
	(NOTE 5)	2017	360,060	383,571	395,052	426,816	1,565,499
Net Income	(NOTE 2) (NOTE 6)	**2018**	**3,829**	**7,308**	**10,373**	**4,366**	**25,876**
	(NOTE 5)	2017	15,393	15,877	19,540	20,345	71,155
Earnings per share (Diluted)	(NOTE 6)	**2018**	**0.05**	**0.10**	**0.15**	**0.06**	**0.37**
	(NOTE 5)	2017	0.22	0.23	0.28	0.29	1.02

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

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

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

NOTE 4: Equity per share is Non-GAAP measure calculated by dividing equity by the number of Common shares outstanding at the date of the balance sheet.

NOTE 5: Restated due to the adoption of IFRS 15, *Revenue from Contracts with Customers* that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017.

NOTE 6: Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as at January 1, 2018.

SHAWCOR DIRECTORS

J.T. Baldwin

London, England

Mr. Baldwin retired in July 2014 as the Vice President Communications & External Affairs for the Southern Corridor for BP, a position he held since July 2012, and has been a Director of Shawcor since March 2010.

D.S. Blackwood

Houston, Texas

Mr. Blackwood retired in June 2018 as Chief Executive Officer of Vepica Group, and has been a Director of Shawcor since May 2011.

J.W. Derrick

Buffalo, New York

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

K.J. Forbes

West Sussex, England

Mr. Forbes was a partner at Epi-V LLP from 2009 to 2017, 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.

R. Mionis

Scottsdale, Arizona

Mr. Mionis is the Chief Executive Officer of Celestica Inc., a position he has held since 2015, and has been a Director of Shawcor since December 2018.

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.

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

PRIMARY OPERATING LOCATIONS

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CORPORATE INFORMATION

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D.M. Wishart
Chair of the Board

S.M. Orr
President and
Chief Executive Officer

G.A. Tano
Senior Vice President, Finance
and Chief Financial Officer

D.R. Ewert
Corporate Secretary

OPERATIONS MANAGEMENT

C.V. Havern
Group President,
Integrity Management

J.A. Tabak
Group President, Composite
Production Systems

K.D. Reizer
Group President,
Pipeline Performance

H.A.A.M. Tausch
Senior Vice President,
Corporate Development
and Solutions

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

S. Dewey
Senior Vice President,
Eastern Hemisphere
Pipeline Performance

C. Oudinot
Vice President,
Pipeline Performance Products

B. McDonald
Vice President and
General Manager
Shaw Pipeline Services

J.W. Johnson
Vice President and
General Manager
Shawcor Inspection Services

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Common Shares
Trading Symbol: SCL

Annual Meeting
Tuesday, May 14, 2019
4:00 p.m.
Intercontinental Toronto
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