



February 27th, 2020

**SHAWCOR LTD.
(TSX: SCL)**

PRESS RELEASE

SHAWCOR LTD. ANNOUNCES FOURTH QUARTER 2019 RESULTS

- Fourth quarter 2019 revenue was \$334 million, 6% lower than the \$354 million reported in the fourth quarter of 2018.
- Adjusted EBITDA¹ in the fourth quarter of 2019 was \$30 million, 22% higher than the \$24 million reported in the fourth quarter of 2018.
- Net loss² in the fourth quarter of 2019 was \$81.8 million (or loss per share of \$1.17 diluted) compared with a net income of \$4.4 million (or \$0.06 earnings per share diluted) in the fourth quarter of 2018. Excluding the impact of impairment charges, gains on the sale of land and investment in associate, the costs related to the acquisition of ZCL Composites Inc. (“ZCL”) and the adjustment for Argentina hyperinflationary accounting, adjusted net loss¹ in the fourth quarter of 2019 was \$4.0 million (or adjusted loss per share¹ of \$0.06) compared with adjusted net income¹ of \$5.7 million (or \$0.08 adjusted earnings per share¹) in the fourth quarter of 2018.
- The Company’s order backlog was \$513 million at December 31, 2019, slightly higher compared to the backlog of \$509 million at September 30, 2019.
- The Board of Directors today declared a quarterly dividend of \$0.15 per common share, payable on March 31, 2020, to shareholders of record at the close of business on March 16, 2020.

Mr. Steve Orr, Chief Executive Officer of Shawcor Ltd. remarked “Fourth quarter revenues and margins were softer than expected primarily due to lower than anticipated demand for products and services in the North America land market and the impact of a quality event in our pipe coating operations. Although the revenues and margins were lower than expected, the Company’s backlog continued its strength from the previous quarter and the Company’s Adjusted EBITDA¹ was as expected due to the solid results delivered by the Automotive and Industrial and Composite Systems segments.”

Mr. Orr added “Shawcor’s newly amended segment reporting provides increased granularity into the diversity of our portfolio that has been built to deliver sustainable results while maintaining the ability to participate in our customer’s large capital projects. Based on this new segment reporting, it should be clear that a step-up in the Company’s financial performance is expected as our pipe coating business benefits from increased spending in offshore and international markets. With orders already under contract combined with those that are expected to be booked in the upcoming quarters, there is increased confidence that 2020 will be an inflection point for the Company”

¹ EBITDA, Adjusted EBITDA, adjusted net income or loss and adjusted earnings or loss per share 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 6.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of these Non-GAAP measures.

² Net Loss attributable to shareholders of the Company.



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Selected Financial Highlights

	Three Months Ended				Year Ended			
	December 31,				December 31,			
(in thousands of Canadian dollars, except per share amounts and percentages)								
	2019		2018		2019		2018	
	\$	%	\$	%	\$	%	\$	%
Revenue	334,107		354,148		1,489,489		1,408,872	
Gross profit	96,797	29.0%	99,788	28.2%	427,039	28.7%	434,077	30.8%
(Loss) Income from Operations	(100,538)	(30.1%)	9,326	2.6%	(46,411)	(3.1%)	50,613	3.6%
Net (Loss) Income for the period^(a)	(81,783)		4,366		(33,293)		25,876	
(Loss) Earnings per share:								
Basic	(1.17)		0.06		(0.47)		0.37	
Diluted	(1.17)		0.06		(0.47)		0.37	
Adjusted EBITDA^(b)	29,547	8.8%	24,223	6.8%	136,401	9.2%	134,870	9.6%
Adjusted Operating Income^(c)	2,645	0.8%	6,828	1.9%	38,464	2.6%	54,674	3.9%
Adjusted Net (Loss) Income^(d)	(4,207)		5,385		25,091		34,818	
Adjusted Net (Loss) Income Attributable to Shareholders	(3,967)		5,655		25,093		34,515	
Adjusted EPS^(d)								
Basic	(0.06)		0.08		0.36		0.49	
Diluted	(0.06)		0.08		0.36		0.49	

(a) Attributable to shareholders of the Company.

(b) Adjusted EBITDA is a non-GAAP measure calculated by adding back to net (loss) income the sum of net finance costs, income taxes, amortization of property, plant, equipment, intangible and right-of-use ("ROU") assets, impairment, cost associated with repayment of long-term debt and credit facilities, gain from sale of land, gain on redemption of investment in associate, ZCL acquisition costs and other related items and hyperinflationary adjustments. Adjusted EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 6.0 – Reconciliation of Non GAAP Measures*.

(c) Adjusted Operating Income is a non-GAAP measure calculated by adding back to operating income the sum of gain from sale of land, ZCL acquisition costs and other related items, impairment and hyperinflationary adjustments. Adjusted Operating Income does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 6.0 – Reconciliation of Non GAAP Measures*.

(d) Adjusted Net Income/Loss is a non-GAAP measure defined as net income or loss before acquisition-related and integration items, including transaction costs and financing fees; cost reduction and integration related initiatives such as separation benefits, retention payments, other exit costs, impact of inventory revaluation adjustment and certain costs associated with integrating an acquired company's operations; gains or losses from early termination of debt and hedging activities; gains and losses on the disposal of land; gain on sale or redemption of investment in associate; asset impairment charges; hyperinflation adjustment for Argentina and the tax effect of the pre-tax adjustments above at applicable tax rates and certain other tax items. We define Adjusted EPS as Adjusted Net (Loss) Income attributable to shareholders divided by the weighted average number of shares and the weighted average number of diluted shares.

1.0 KEY DEVELOPMENTS

Letter of Intent to provide Pipe Coating Services for the Payara Project

On November 14, 2019, the Company announced that its pipe coating division had entered into a detailed letter of intent with Saipem for the proposed Payara development project located in the Stabroek block offshore Guyana. The coating value of this phase is estimated to be similar to the individual phases of the Liza development that have already been awarded. As previously announced the combined coating value of Liza phase 1 and phase 2 was approximated at \$110 million. Subject to government approvals, project sanctioning by the operator and execution of the definitive contract, Shawcor will provide thermal insulation and anticorrosion coating services from its Veracruz, Mexico facility.

Letter of Intent to provide Pipe Coating Services for the Baltic Pipe Project

On January 21, 2020, the Company announced that its pipe coating division had entered into a detailed letter of intent with Europipe valued at approximately \$67 million to provide concrete weight coating services for the Baltic Pipe project, which will transport Norwegian gas to Poland. The contract is expected to be executed from Shawcor's Leith, Scotland facility commencing in the second quarter of 2020 and continuing to the second quarter of 2021.

Contracts Awards for the Sangomar and Baltic Pipe Projects

On February 24, 2020, the Company announced that its pipe coating division had entered into a contract with Subsea 7 to provide thermal insulation coating services for the Woodside Sangomar Offshore Project in Senegal. The value of the award is in the range of CAD\$30-\$50 million. The work is scheduled to be executed from Shawcor's Orkanger, Norway facility commencing in the first quarter of 2021 and completing in the second quarter of 2021. Further to its announcement in January of a letter of intent for the Baltic Pipe Project, Shawcor announced that it had entered into the definitive contract for such project.

Amendments to the Credit Facility

On February 27, 2020, the Company entered into an amending agreement with its existing syndicate of lenders under the Credit Facility. The principal amendment to the Credit Facility was an increase in the Company's permitted Net Debt to Adjusted EBITDA covenant (the "Net Leverage Ratio") (currently a maximum of 3.50x) to 4.25x for the twelve months trailing ending March 31, 2020 and June 30, 2020, and 4.00x for the twelve months trailing ending September 30, 2020. The Company will incur fees and expenses to implement these amendments of approximately \$1 million in the first quarter of 2020.

New Segment Reporting

During the fourth quarter, the Company amended its segment reporting to provide greater granularity in the performance of its diversified portfolio. The new segments are as follows:

- Pipeline and Pipe Services
 - Pipeline Performance Group (formerly "Bredero Shaw"), small and large diameter pipe coating services;
 - Pipeline Performance Products (formerly "Pipeline and Pipe Services Products"), includes Canusa-CPS and Dhatec products;
 - Shaw Pipeline Services, onshore and offshore girth weld inspection services;
 - Shawcor Inspection Services, onshore girth weld inspection and other integrity management services; and
 - Lake Superior Consulting, pipeline engineering and integrity management services.

- Composite Systems
 - Composite Production Systems (formerly “Flexpipe Systems”), spoolable and stick composite pipe systems and high-density polyethylene (“HDPE”) pipe and fiberglass reinforced plastic underground storage tanks; and
 - Oilfield Asset Management (formerly “Guardian”), tubular management services and lined tubing products.
- Automotive and Industrial (formerly “Petrochemical and Industrial”)
 - Connection Systems, including DSG-Canusa, heat shrinkable tubing products, and ShawFlex, wire and cable products.

1.1 FOURTH QUARTER HIGHLIGHTS AND OUTLOOK

Despite several challenges in the fourth quarter of 2019 that negatively impacted revenues, Adjusted EBITDA¹ for the quarter was in line with expectations. These results reflect lower demand for products and services related to North America drilling and completions due to the annual seasonal slowdown and year-end budget exhaustion. The results were also negatively impacted by a quality issue on an offshore product at our Channelview facility which resulted in rework costs of \$7.3 million and the delay of other revenue from the disruption of the event. The Company has successfully identified the root cause of the issue and is completing the rework. The event has been fully addressed to the satisfaction of the customer and mitigation action has been taken to prevent future events. On the positive side, demand was solid in the quarter for our retail fuel composite tanks and wire and cable products.

The Pipeline and Pipe services segment revenues were negatively impacted in the current quarter primarily due to lower demand for the Company’s products and services in the US land market. The US land operators continued focus on capital discipline and delays in land transmission line projects has resulted in a decline for the Company’s small diameter pipe coating services and call-out and project related girth weld inspection services. North American pipe coating activity was also impacted by the quality issue at our Channelview facility. In addition, lower pipe coating activity was experienced in the Latin America and Asia Pacific regions, partially offset by higher activity in the EMAR region.

The Composite Systems segment experienced lower revenues in the current quarter for composite pipe products and tubular management services due to the lower demand in the US land market and the continued weakness in Western Canada, although demand for its composite tank products for the retail fuel and water markets remains solid. The integration of the acquired ZCL Composites business continued as planned during the quarter and the Company has achieved 95% of the \$8 million annualized run-rate cost synergies targeted by the end of the first quarter 2020. Synergies have been realized through the integration of functional experience within the Composites Systems segment, leveraging back-office services and realizing operating and procurement efficiencies. While still in the early stages, the Company continues to make progress on expanding the addressable market for composite tanks by the improvement of distribution channels, linking discrete components into combined systems of composite pipe and tank, development of an integration approach to grow the water market and leveraging the Company’s global footprint to extend the reach of tank technology.

The Automotive and Industrial segment performed as expected with the annual seasonal slowdown which impacted demand for its heat shrink tubing products, particularly in automotive, and continued solid demand for its wire and cable products in North America.

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 6.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of EBITDA and Adjusted EBITDA.

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 \$513 million as at December 31, 2019, was slightly higher than the \$509 million as at September 30, 2019. This increase is primarily due to pipe coating project wins moving from bid to backlog offset by revenue generated in the quarter from backlog orders. The current backlog does not include secured orders to be executed beyond twelve months, which is also in-line with the prior quarter due to the recent announcements of project awards.

In addition to the backlog, the Company closely monitors its bidding activity, which represents bids provided to customers with firm pricing and terms and conditions against a defined scope. The value of outstanding firm bids is over \$1.0 billion as at December 31, 2019, in-line with the \$1.0 billion as at September 30, 2019. Included in the firm bid, but not in the backlog, are unsanctioned conditional awards between Engineering-Procurement-Construction ("EPC") companies and Shawcor for a scope of work that is estimated at over \$240 million in revenue beyond 2019, a similar level as reported in the previous quarter. The Company is also working with customers on several other projects where budgetary estimates are provided at an earlier stage than bids to assist the customers in preparing their feasibility studies or to consider different potential execution options on projects. The budgetary estimates at the end of the fourth quarter were \$1.7 billion, in-line with the previous quarter. Although the timing of these projects is uncertain, the Company's bid and budgetary figures represent a diverse portfolio of opportunities to sustain and build the backlog in 2020 and beyond.

OUTLOOK

The primary driver of demand for the Company's products and services is the level of industry activity and investment in energy and infrastructure for resource development, storage and transportation around the globe. This investment in infrastructure is driven by economic activity to engineer, replace, maintain and rehabilitate infrastructure that is at or beyond its useful design life, replace production due to reservoir depletion, requirements for advanced technologies and non-corrosive materials, the need to address geopolitical challenges which are affecting several important producing regions and increased global demand for gas and greener alternatives, specifically LNG development.

The Company continues to expect annual operating results for 2020 will be higher than 2019 results, reflecting a return in stable demand for our products and services in the North America upstream and midstream markets, higher pipe coating activity from orders secured to date and expected success in winning new awards in the coming quarters and solid demand for our non-commodity based businesses of retail fuel composite tanks and automotive and industrial products. The Company expects the improvement to be staggered over the year with the second half of the year expected to deliver the majority of the growth. Due to continued softness experienced in US land at the start of 2020, the delay of revenue related to the quality issue at our Channelview facility and the cost of preparing for contracted work, the Company expects results in the first quarter of 2020 could be significantly lower than in the fourth quarter of 2019. The Company believes its diversified portfolio of products and services should mitigate some of these headwinds and continues to have confidence that it will secure additional project awards in the coming months to grow backlog for the second half of 2020 and into 2021.

Pipeline and Pipe Services Segment

The demand for the Pipeline and Pipe Services segment is heavily tied to the spending programs of exploration and production operators in North America and international and offshore markets. In the U.S. land market, demand for our small diameter coating and girth weld inspection services is expected to remain volatile in 2020 as operators continue to focus on capital discipline and due to regulatory delays on US transmission line projects. In Western Canada, the Company continues to expect demand will be limited due to lack of off-take capacity and new pipeline infrastructure projects.

The Company continues to see positive signs that the international and offshore markets are poised for growth. Based on the continued level of current bids outstanding and the success the Company has experienced in securing work with EPC companies conditional on Final-Investment-Decision ("FID"), the Company believes that there is a strong likelihood of projects being sanctioned in the near term that, together with already booked work, will allow the delivery of stronger results in the second half of 2020 and into 2021. In the near term, project activity in the first quarter of 2020 is ramping up at our Channelview (Texas), Indonesia and Norway facilities and preparations have begun to restart our facilities in Scotland, UAE and Brazil for the execution of booked orders in the second quarter.

The Company remains confident that decisions made to maintain pipe coating capabilities and its strategic efforts to position itself as the partner of choice with EPC's in the pursuit of several projects were prudent and will deliver stronger results in 2020 and beyond. Although the exact timing of when 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 the near term and it is well positioned to win additional work which will enable the pipe coating business to deliver positive annual results in 2020.

Composite Systems Segment

Market demand for composite pipe products in North America is closely tied to well completions, while demand for OCTG pipe inspection and refurbishment services is more aligned with drilling activity in Western Canada. Similar to the Pipeline and Pipe Services segment, the oil and gas related businesses of the Composite Systems segment are expected to experience continued volatility in US land and limited growth in Western Canada. The Company believes its efforts to expand the composite spoolable portfolio into larger diameters and into international markets will mitigate some of this short-term volatility in US land.

The demand for composite tank products is delinked from the dynamics of the oil and gas markets and is expected to remain solid throughout 2020. Retail fuel market demand for underground storage tanks will remain strong in 2020, supported by North America commercial and convenience store construction and will experience the normal seasonal profile of lower revenues in the first quarter. The Company continues to focus on expanding its addressable market in the water storage/treatment tanks and early signs are encouraging in this area.

Automotive and Industrial Segment

The Automotive and Industrial segment businesses continue to deliver stable revenue and operating income supported by the stable European and North American industrial markets and despite some softening of automotive markets. These markets generally follow GDP activity; however, the segment continues to be well positioned to capture the growing trend of electronic content in automobiles with specified sealing, insulating and customized application equipment systems for Tier 1 assembly customers and the expected increased spending on nuclear facility refurbishment.

The Company expects demand drivers for automotive and industrial related products to be solid for the full year 2020, however some short-term volatility is expected due to the impact of the coronavirus in the first quarter. Results are expected to be driven by growth in global automotive market share, demand for integrated systems and increases in electronic content and electric vehicle adoption.

2.0 CONSOLIDATED INFORMATION AND RESULTS FROM OPERATIONS

2.1 Revenue

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

	Three Months Ended		Year Ended	
	December 31, 2019	December 31, 2018 ^(b)	December 31, 2019	December 31, 2018 ^(b)
(in thousands of Canadian dollars)				
Pipeline and Pipe Services	\$ 188,342	\$ 217,781	\$ 863,848	\$ 861,289
Composite Systems	\$ 98,620	\$ 89,304	\$ 417,329	\$ 347,758
Automotive and Industrial	\$ 48,193	\$ 47,625	\$ 211,103	\$ 202,254
Elimination ^(a)	\$ (1,048)	\$ (562)	\$ (2,791)	\$ (2,429)
Consolidated revenue	\$ 334,107	\$ 354,148	\$ 1,489,489	\$ 1,408,872

(a) Represents the elimination of the inter-segment sales between the Pipeline and Pipe Services segment, the Composite Systems segment and the Automotive and Industrial segment.

(b) Restated to conform with current period presentation.

Fourth Quarter 2019 versus Fourth Quarter 2018

Consolidated revenue decreased by \$20.0 million, or 6%, from \$354.2 million during the fourth quarter of 2018, to \$334.1 million during the fourth quarter of 2019, reflecting a \$29.4 million revenue decrease in the Pipeline and Pipe Services segment, partially offset by increases of \$9.3 million in the Composite Systems segment and \$0.6 million in the Automotive and Industrial segment.

In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2019 was \$188.3 million, or 14% lower than in the fourth quarter of 2018, primarily due to lower revenues in North America, Latin America and Asia Pacific, partially offset by higher revenue levels in EMAR. See *Section 3.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Composite Systems segment, revenue was \$9.3 million higher during the fourth quarter of 2019, compared to \$89.3 million in the fourth quarter of 2018, due to increased activity levels in North America due to the ZCL acquisition, Asia Pacific and EMAR, partially offset by lower revenue in Latin America. See *Section 3.2 – Composite Systems Segment* for additional disclosure with respect to the change in revenue in the Composite Systems segment.

In the Automotive and Industrial segment, revenue was \$0.6 million higher during the fourth quarter of 2019, compared to \$47.6 million in the fourth quarter of 2018, due to increased activity levels in North America, partially offset by lower revenue in EMAR. See *Section 3.3 – Automotive and Industrial Segment* for additional disclosure with respect to the change in revenue in the Automotive and Industrial segment.

Year ended December 31, 2019 versus Year ended December 31, 2018

Consolidated revenue increased by \$80.6 million, or 6%, from \$1,408.9 million for the twelve month period ended December 31, 2018 to \$1,489.5 million for the twelve month period ended December 31, 2019, reflecting increases of \$2.6 million in the Pipeline and Pipe Services segment, \$69.6 million, or 20%, in the Composite Systems segment and \$8.9 million, or 4%, in the Automotive and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during the twelve month period ended December 31, 2019 was \$863.9 million, or \$2.6 million higher than in the comparable period in 2018, due to higher revenues in North America and EMAR, partially offset by lower revenue in Asia Pacific. See *Section 3.1 – 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 Composite Systems segment increased by \$69.6 million during the twelve month period ended December 31, 2019, compared to the same period in 2018, due to higher activity levels in all regions, primarily due to the acquisition of the ZCL business in the second quarter of 2019. See *Section 3.2 – Composite Systems Segment* for additional disclosure with respect to the change in revenue in the Composite Systems segment.

Revenue for the Automotive and Industrial segment increased by \$8.9 million during the twelve month period ended December 31, 2019, compared to the same period in 2018, due to higher activity levels in North America, partially offset by lower revenue in Asia Pacific and EMAR. See *Section 3.3 – Automotive and Industrial Segment* for additional disclosure with respect to the change in revenue in the Automotive and Industrial segment.

2.2 Income/Loss from Operations ("Operating Income/ Loss")

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

(in thousands of Canadian dollars, except percentages)	Three Months Ended		Year Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Operating (loss)/income	\$ (100,538)	\$ 9,326	\$ (46,411)	\$ 50,613
Operating margin ^(a)	(30.1%)	2.6%	(3.1%)	3.6%
Adjusted Operating Income ^(b)	\$ 2,645	\$ 6,828	\$ 38,464	\$ 54,674
Adjusted Operating Margin ^(a)	0.8%	1.9%	2.6%	3.9%

(a) Operating Margin/ Adjusted Operating Margin are defined as Operating (Loss) Income/ Adjusted Operating Income divided by revenue and are non-GAAP measures. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 6.0 – Reconciliation of Non-GAAP Measures*.

(b) Adjusted Operating Income is a non-GAAP measure calculated by adding back to Operating Income the sum of gain from sale of land, ZCL acquisition costs and other related items, impairment and hyperinflationary adjustments. Adjusted Operating Income does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 6.0 – Reconciliation of Non GAAP Measures*.

The Company completed a review of its footprint in Western Canada during the year. As a result of this review, the Company sold three facilities in Edmonton for proceeds of \$47.6 million and recorded a gain of \$39.3 million in 2019. These funds will allow the Company to relocate and consolidate its capabilities in a more efficient facility on other owned properties in Western Canada.

Operating Income in the last nine months of 2019 includes the addition of the ZCL business, which had a net positive impact on the 2019 annual results reflecting the higher Operating Income from ZCL's composite tank business, partially offset by expenses recorded for additional depreciation and amortization and inventory fair market value adjustment resulting from the accounting of the acquisition, and other non-recurring integration and acquisition related costs.

The Company adopted IFRS 16 in the first quarter of 2019. This new accounting standard requires the Company to recognize a lease right-of-use ("ROU") asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract. Under the previous standard, IAS 17 *Leases*, costs relating to operating leases were recognized on a straight-line basis as a selling, general and administrative ("SG&A") expense. Under IFRS 16, the Company records an amortization expense as amortization of ROU assets and records an interest expense relating to the lease liability. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected. The amounts recorded for the three months and twelve months ended December 31, 2019 were amortization of \$6.1 million and \$19.5 million, respectively, and interest of \$1.2 million and \$3.6 million, respectively.

As a result of the Company's annual impairment testing on property, plant and equipment, intangible assets and goodwill, impairment charges of \$104.1 million were recorded in the fourth quarter of 2019. The impairment charges included \$90.9 million on intangible assets and goodwill for Shawcor Inspection Services and \$13.2

million on assets at two pipe coating facilities, Pearland, Texas and Kuantan, Malaysia, due to the current market conditions for these assets and the Company's assessment of the related future demand and market recovery.

Operating Income in the fourth quarter of 2019 was also negatively impacted by a quality issue on an offshore product at our Channelview facility which resulted in rework costs of \$7.3 million and the delay of other revenue from the disruption of the event. The Company has identified the root cause of the issue and is completing the rework to the satisfaction of the customer.

Fourth Quarter 2019 versus Fourth Quarter 2018

Operating Income in the fourth quarter of 2019 was an Operating Loss of \$100.5 million, a significant decrease compared to the \$9.3 million Operating Income in the fourth quarter of 2018. Operating Loss in the current quarter includes the negative impact of the \$104.1 million impairment charges and the \$7.3 million of rework costs related to the quality issue at our Channelview facility. The decline also reflects a \$3.0 million decrease in gross profit, increases of \$2.1 million in amortization of intangible assets primarily related to the acquisition of ZCL, \$6.1 million in amortization of ROU assets, and a \$3.2 million decrease in net foreign exchange gains. This was partially offset by a decrease of \$6.1 million in SG&A expenses and a \$1.4 million increase in gain on sale of land in the current quarter.

The \$3.0 million decrease in gross profit resulted from the \$20.0 million decrease in revenue, as explained above, partially offset by a 0.8 percentage point increase in the gross margin from the fourth quarter of 2018. The increase in the gross margin percentage was primarily due to product and project mix and the impact of the ZCL acquisition.

SG&A expenses decreased by \$6.1 million compared to the fourth quarter of 2018, primarily due to decreases of \$10.5 million in incentive-based compensation, and \$4.5 million due to the implementation of IFRS 16, as lease costs are now reported as amortization of ROU assets and interest on ROU assets, and higher professional fees. This was partially offset by the warranty costs of \$7.3 million for the quality issue, ongoing SG&A expenses for the acquired ZCL business and higher insurance and other costs.

On an adjusted basis, Adjusted Operating Income was \$2.7 million in the fourth quarter of 2019 compared to \$6.8 million in the fourth quarter of 2018. See *Section 6.0 Reconciliation of Non-GAAP measures* for additional disclosures regarding Adjusted Operating Income.

Year ended December 31, 2019 versus Year ended December 31, 2018

Operating Income was an Operating Loss of \$46.4 million in the twelve month period ended December 31, 2019, a significant decrease compared to the \$50.6 million Operating Income in the twelve month period ended December 31, 2018. Operating Loss in the current year includes the negative impact of the \$104.1 million impairment charges and the \$7.3 million of rework costs related to the quality issue at our Channelview facility. The decline also reflects a \$7.0 million decrease in gross profit, increases of \$7.7 million in amortization of intangible assets primarily related to the acquisition of ZCL, and \$19.5 million in amortization of ROU assets, and a \$7.4 million decrease in net foreign exchange gains. This was partially offset by a \$39.3 million gain on the sale of land from the consolidation of the Company's footprint in Western Canada and a \$9.6 million decrease in amortization of property, plant and equipment. The above figures include the net positive impact of the acquisition of the ZCL business.

The \$7.0 million decrease in gross profit resulted from a 2.1 percentage point decrease in the gross margin from the prior year, partially offset by the higher revenue, as explained above. The decrease in the gross margin percentage was primarily due to lower large project activity in Latin America compared to a year ago, lower utilization in our Asia Pacific facilities and the related impact on the absorption of manufacturing overheads, and the negative impact of an inventory revaluation adjustment related to the acquisition of ZCL, partially offset by higher activity in EMAR facilities.

SG&A expenses in the twelve month period ended December 31, 2019 were slightly below the comparable period in 2018. The decrease was primarily due to a \$15.5 million decrease due to the implementation of IFRS 16, as lease costs are now reported as amortization of ROU assets and interest on ROU assets, a \$10.7 million decrease in incentive-based compensation and a \$6.5 million decrease in equipment costs. This was almost entirely offset by increases of \$9.5 million in one-time costs related to the acquisition of ZCL, \$7.3 million in warranty costs related to the quality issue, \$4.0 million in insurance costs, ongoing SG&A expenses for the acquired ZCL business and other costs.

On an adjusted basis, Adjusted Operating Income was \$38.5 million in the twelve month period ended December 31, 2019 compared to \$54.7 million in the twelve month period ended December 31, 2018. See *Section 6.0 Reconciliation of Non-GAAP measures* for additional disclosures regarding Adjusted Operating Income.

3.0 SEGMENT INFORMATION

3.1 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 percentages)	Three Months Ended		Year Ended	
	December 31, 2019	December 31, 2018 ^(b)	December 31, 2019	December 31, 2018 ^(b)
North America	\$ 103,318	\$ 132,450	\$ 487,817	\$ 480,637
Latin America	27,750	33,066	113,350	113,553
EMAR	49,591	39,720	232,847	181,240
Asia Pacific	7,683	12,545	29,834	85,859
Total revenue	\$ 188,342	\$ 217,781	\$ 863,848	\$ 861,289
Operating Loss	\$ (129,273)	\$ (14,932)	\$ (119,736)	\$ (28,121)
Operating margin^(a)	(68.6%)	(6.9%)	(13.9%)	(3.3%)
Adjusted Operating Loss^(c)	\$ (24,543)	\$ (14,228)	\$ (45,219)	\$ (24,817)
Adjusted Operating Margin^(a)	(13.0%)	(6.5%)	(5.2%)	(2.9%)

(a) Operating Margin and Adjusted Operating Margin are defined as Operating Loss/Adjusted Operating Loss divided by revenue and are non-GAAP measures. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 6.0 - Reconciliation of Non-GAAP Measures*.

(b) Restated to conform with current period presentation.

(c) Adjusted Operating Loss is a non-GAAP measure calculated by adding back to Operating Loss the sum of gain from sale of land, impairment and hyperinflationary adjustments. Adjusted Operating Loss does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 6.0 - Reconciliation of Non GAAP Measures*.

Fourth Quarter 2019 versus Fourth Quarter 2018

Revenue in the fourth quarter of 2019 was \$188.3 million, a decrease of \$29.4 million, or 14%, from \$217.8 million in the comparable period of 2018. This was primarily due to lower revenues in North America, Latin America and Asia Pacific, partially offset by higher revenue in EMAR.

- North America revenue decreased by \$29.1 million, or 22%, primarily as a result of lower activity levels for small and large diameter pipe coating and girth weld inspection services in the region, partially offset by higher revenue from engineering services. The current quarter was also negatively impacted by the delay of revenue caused by the quality issue at our Channelview facility.
- Revenue in Latin America decreased by \$5.3 million, or 16%, primarily due to the accounting for IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina – refer to *Section 7.0 - Financial Reporting in Hyperinflationary Economies*, partially offset by the continued execution of the Liza II project in the Veracruz, Mexico facility in the current quarter.

- In EMAR, revenue increased by \$9.9 million, or 25%, primarily due to higher activity levels at the Orkanger, Norway and Ras Al Khaimah, UAE (“RAK”) facilities and higher revenue from field joint coating projects in the region, partially offset by lower revenue levels for offshore girth weld inspection activity.
- Revenue in Asia Pacific decreased by \$4.9 million, or 39%, mainly due to lower pipe coating project activity at the Kuantan, Malaysia facility, partially offset by higher revenue from the Kabil, Indonesia facility.

In the fourth quarter of 2019, Operating Loss was \$129.3 million compared to \$14.9 million in the fourth quarter of 2018, an increase of \$114.3 million. Operating Loss in the current quarter includes the negative impact of the \$104.1 million impairment charges and the \$7.3 million of rework costs related to the quality issue at our Channelview facility. The decline also reflects a \$6.5 million decrease in gross profit and an increase of \$4.0 million in amortization of ROU assets, partially offset by a decrease of \$1.4 million in amortization of property, plant and equipment, as explained in *Section 2.2* above. The decrease in the gross profit was primarily due to the lower revenue, as explained above, partially offset by a 0.6 percentage point increase in gross margin. The increase in the gross margin percentage was primarily due to product and project mix, partially offset by lower utilization in North America and Asia Pacific facilities and the related impact on the absorption of manufacturing overheads.

On an adjusted basis, Adjusted Operating Loss in the fourth quarter was \$24.5 million compared to \$14.2 million in the fourth quarter of 2018. See *Section 6.0 Reconciliation of Non-GAAP measures* for additional disclosures regarding Adjusted Operating Income/Loss.

Year Ended December 31, 2019 versus Year Ended December 31, 2018

Revenue in the Pipeline and Pipe Services segment for the twelve month period ended December 31, 2019 was \$863.9 million, an increase of \$2.6 million, from \$861.3 million in the prior year. Segment revenue increased due to higher revenue in North America and EMAR, partially offset by lower revenue in Asia Pacific:

- In North America, revenue increased by \$7.2 million, or 1%, primarily as a result of improved large diameter pipe coating revenue. This was partially offset by lower activity levels for small diameter pipe coating, pipe weld inspection and engineering services. The current year was also negatively impacted by the delay of revenue caused by the quality issue at our Channelview facility.
- Latin America revenue was lower by \$0.2 million, mainly due to lower activity levels in Argentina and the accounting for IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina – refer to *Section 7.0 - Financial Reporting in Hyperinflationary Economies*. This was almost entirely offset by the execution of the Liza II project in the Veracruz, Mexico facility and higher activity in Brazil.
- Revenue in EMAR increased by \$51.6 million, or 28%, primarily due to higher activity levels at the Orkanger, Norway, RAK, Leith, Scotland and the Company’s Italian facilities, higher revenue from field joint coating projects and increased pipe weld service activity in the region.
- In Asia Pacific, revenue decreased by \$56.0 million, or 65%, mainly due to lower pipe coating project activity at the Kabil, Indonesia and Kuantan, Malaysia facilities.

Operating Loss for the twelve month period December 31, 2019 was \$119.7 million compared to \$28.1 million for the twelve month period ended December 31, 2018, an increase of \$91.6 million. Operating Loss in the current year includes the negative impact of the \$104.1 million impairment charges and the \$7.3 million of rework costs related to the quality issue at our Channelview facility. The decline also reflects a \$30.1 million decrease in gross profit and an increase of \$12.3 million in amortization of ROU assets, partially offset by a decrease of \$10.5 million in amortization of property, plant and equipment, a \$32.6 million gain on sale of land and a reduction in SG&A expenses, as explained in *Section 2.2* above. The decrease in the gross margin percentage was primarily

due to a 3.6 percentage point decrease in gross margin, partially offset by the higher revenue, as explained above. The decrease in the gross margin percentage was primarily due to lower large project activity in Latin America compared to a year ago, unfavourable product mix in North America, lower utilization in Asia Pacific facilities and the related impact on the absorption of manufacturing overheads, partially offset by higher utilization in EMAR.

On an adjusted basis, Adjusted Operating Loss for the twelve month period ended December 31, 2019 was \$45.2 million compared to \$24.8 million for the twelve month period ended December 31, 2018. See *Section 6.0 Reconciliation of Non-GAAP measures* for additional disclosures regarding Adjusted Operating Income/Loss.

3.2 Composite Systems Segment

The following table sets forth, by geographic location, the revenue, Operating Income and operating margin for the Composite Systems segment for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended		Year Ended	
	December 31, 2019	December 31, 2018 ^(b)	December 31, 2019	December 31, 2018 ^(b)
North America	\$ 95,651	\$ 87,485	\$ 405,192	\$ 342,628
Latin America	1,191	1,684	5,869	4,549
EMAR	479	—	3,418	—
Asia Pacific	1,299	135	2,850	581
Total revenue	\$ 98,620	\$ 89,304	\$ 417,329	\$ 347,758
Operating Income	\$ 15,249	\$ 15,141	\$ 55,608	\$ 57,250
Operating margin^(a)	15.5%	17.0%	13.3%	16.5%
Adjusted Operating Income^(c)	\$ 13,899	\$ 15,141	\$ 59,637	\$ 57,250
Adjusted Operating Margin^(a)	14.1%	17.0%	14.3%	16.5%

(a) Operating Margin and Adjusted Operating Margin are defined as Operating Income/Adjusted Operating Income divided by revenue and are non-GAAP measures. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 6.0 - Reconciliation of Non-GAAP Measures*.

(b) Restated to conform with current period presentation.

(c) Adjusted Operating Income is a non-GAAP measure calculated by adding back to Operating Income the sum of gain from sale of land, ZCL acquisition costs and other related items. Adjusted Operating Income does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 6.0 – Reconciliation of Non GAAP Measures*.

Fourth Quarter 2019 versus Fourth Quarter 2018

Revenue in the fourth quarter of 2019 increased by \$9.3 million, or 10%, compared to the fourth quarter of 2018, primarily due to the ZCL acquisition in the second quarter of 2019. This was partially offset by decreased activity levels in North America for composite pipe, primarily due the capital discipline focus of exploration and production operators and market softness in Western Canada. In addition, tubular management service activity was lower in Canada.

Operating Income in the fourth quarter of 2019 was \$15.3 million compared to \$15.1 million in the fourth quarter of 2018. The increase in Operating Income was primarily due to a \$3.7 million increase in gross profit resulting from the increase in revenue, as explained above, and a 0.5 percentage point increase in gross margin and a \$1.4 million gain on sale of land recorded in the fourth quarter of 2019. This was partially offset by an increase of \$2.2 million in amortization of intangible assets primarily related to the acquisition of ZCL and \$1.7 million in amortization of ROU assets, as explained in *Section 2.2* above, and ongoing SG&A expenses related to the ZCL acquisition.

On an adjusted basis, Adjusted Operating Income in the fourth quarter of 2019 was \$13.9 million compared to \$15.1 million in the fourth quarter of 2018. See *Section 6.0 Reconciliation of Non-GAAP measures* for additional disclosures regarding Adjusted Operating Income.

Year Ended December 31, 2019 versus Year Ended December 31, 2018

Revenue increased by \$69.6 million in the twelve month period ending December 31, 2019, compared to the prior year, primarily due to the ZCL acquisition in the second quarter of 2019 and higher volumes for tubular management services in Latin America. This was partially offset by decreased activity levels in North America for composite pipe, primarily due the capital discipline focus of exploration and production operators and market softness in Western Canada. In addition, tubular management service volume was lower in Canada due to a soft market.

Operating Income in the twelve month period ended December 31, 2019 was \$55.6 million compared to \$57.3 million in the prior year, a decrease of \$1.6 million, or 3%. The decrease in Operating Income was primarily due to increases of \$7.7 million in amortization of intangible assets primarily related to the acquisition of ZCL and \$6.1 million in amortization of ROU assets, as explained in *Section 2.2* above, one-time costs of \$3.8 million and ongoing SG&A expenses related to the ZCL acquisition. This was partially offset by a \$22.7 million increase in gross profit, driven primarily by the increase in revenue, as explained above.

On an adjusted basis, Adjusted Operating Income in the twelve month period ended December 31, 2019 was \$59.6 million compared to \$57.3 million in the prior year. See *Section 6.0 Reconciliation of Non-GAAP measures* for additional disclosures regarding Adjusted Operating Income.

3.3 Automotive and Industrial Segment

The following table sets forth, by geographic location, the revenue, Operating Income and operating margin for the Automotive and Industrial segment for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended		Year Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
North America	\$ 29,311	\$ 27,352	\$ 126,164	\$ 115,069
EMAR	16,178	17,635	74,585	76,070
Asia Pacific	2,704	2,638	10,354	11,115
Total revenue	\$ 48,193	\$ 47,625	\$ 211,103	\$ 202,254
Operating Income	\$ 6,801	\$ 7,166	\$ 33,215	\$ 32,658
Operating margin^(a)	14.1%	15.0%	15.7%	16.1%

(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 6.0 - Reconciliation of Non-GAAP Measures*.

Fourth Quarter 2019 versus Fourth Quarter 2018

Revenue in the fourth quarter of 2019 increased by \$0.6 million, or 1%, compared to the fourth quarter of 2018, primarily due to increased shipments for wire and cable products in North America, partially offset by lower revenue for heat shrink tubing products, particularly in the automotive sector.

Operating Income in the fourth quarter of 2019 was \$6.8 million compared to \$7.2 million in the fourth quarter of 2018, a decrease of \$0.4 million, or 5%. The decrease in operating income was primarily due to a decrease in gross profit of \$0.1 million resulting from a 0.6 percentage point decrease in gross margin, partially offset by the increase in revenue, as explained above. The decrease in gross margin was primarily due to unfavourable product mix.

Year Ended December 31, 2019 versus Year Ended December 31, 2018

Revenue increased in the twelve months ended December 31, 2019 by \$8.8 million, or 4%, to \$211.1 million compared to the prior year, primarily due to increased shipments of wire and cable products in North America,

partially offset by lower revenue in the heat shrink tubing products, particularly in the automotive sector.

Operating Income for the twelve months ended December 31, 2019 was \$33.2 million, compared to \$32.7 million for the comparable period in the prior year. The increase in Operating Income of \$0.6 million was primarily due to a \$0.4 million higher gross profit and lower SG&A expenses, as explained in *Section 2.2* above. The increase in gross profit was driven by the increase in revenue, as explained above, partially offset by a 1.0 percentage point decrease in gross margin. The decrease in gross margin was primarily due to an unfavourable product mix. In addition, Operating Income was impacted by an increase of \$0.9 million in amortization of ROU assets, as explained in *Section 2.2* above.

3.4 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 for the following periods:

	Three Months Ended		Year Ended	
	December 31, 2019	December 31, 2018	December 31, 2019 ^(a)	December 31, 2018
(in thousands of Canadian dollars)				
Financial and corporate expenses	\$ 6,685	\$ 1,951	\$ (15,498)	\$ (11,174)

(a) Includes \$5.5 million in professional consulting and legal fees for the ZCL acquisition costs.

Fourth Quarter 2019 versus Fourth Quarter 2018

Financial and corporate costs in the fourth quarter of 2019 were income of \$6.7 million compared to income of \$2.0 million in the fourth quarter of 2018. The decrease was primarily due to a \$6.3 million decrease in incentive-based compensation costs, partially offset by a \$3.2 million decrease in foreign exchange gains.

Year Ended December 31, 2019 versus Year Ended December 31, 2018

Financial and corporate costs for the year ended December 31, 2019 were \$15.5 million compared to \$11.2 million for the year ended December 31, 2018. The increase was primarily due to one-time costs of \$5.5 million related to the ZCL acquisition in 2019 and a \$7.4 million decrease in foreign exchange gains, partially offset by a \$5.0 million decrease in incentive-based compensation costs and a \$1.2 million decrease in management information systems costs.

4.0 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, judgements and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward-looking information in the Outlook Section and elsewhere in respect of, among other things, the achievement of key performance objectives, the potential for growth in capital expenditures in the offshore oil and gas sector, stable US land drilling and completion activity, the achievement of annualized run-rate cost synergies and revenue synergies arising from the acquisition by the Company of ZCL and the timing thereof, the execution of definitive contracts for and the timing to complete certain pipe coating projects, the likelihood that projects will be sanctioned in early 2020 and beyond, and the impact thereof on the Company's business, the level of financial performance in 2020, the effect of the Company's diversified portfolio of products on revenue and operating income, the demand for the Company's products in the Pipeline and Pipe Services, Composite Systems and the Automotive and Industrial segments of the Company's business, 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 and the impact and likelihood of changes in competitive conditions in the markets in which the Company participates.

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 changes in the strategy by U.S. oil and gas operators to heighten focus on capital discipline and shareholder returns, 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, infrastructure 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; the impact of climate change on the demand for the Company's products 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, increased capital expenditures in the global offshore oil and gas segment, modest global economic growth, limited growth in Western Canada and continued volatility in U.S. land markets, softening demand in the automotive market, solid demand in the retail fuel market and stable demand in the European and North American industrial markets, 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 continued successful integration of the business and operations of ZCL, 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.

Shawcor will be hosting a Shareholder and Analyst Conference Call and Webcast on Friday, February 28th, 2020 at 9:00 AM ET, which will discuss the Company's Fourth Quarter and Year End 2019 Financial Results.

To participate via telephone, please dial 1-877-776-4039 or 1-315-625-6955. Conference Call ID: 8950527; alternatively, please go to the following website address to participate via webcast:

<https://edge.media-server.com/mmc/p/zfs63wx2>

5.0 Additional Information

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

Please visit our website at www.shawcor.com for further details.
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Shawcor Ltd.

Consolidated Balance Sheets (Unaudited)

	December 31, 2019	December 31, 2018
(in thousands of Canadian dollars)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 98,218	\$ 217,264
Short-term investments	–	2,046
Loans receivable	712	2,492
Accounts receivable	246,745	241,497
Contract assets	41,616	31,404
Income taxes receivable	33,493	27,476
Inventory	160,792	136,997
Prepaid expenses	17,560	22,116
Derivative financial instruments	177	1,102
Total current assets	599,313	682,394
Non-current Assets		
Loans receivable	–	545
Property, plant and equipment	420,027	442,941
Right-of-use assets	84,269	–
Intangible assets	271,514	155,454
Investments in associates	15,400	30,219
Deferred income tax assets	37,462	31,290
Other assets	5,396	8,880
Goodwill	377,704	350,402
Total non-current assets	1,211,772	1,019,731
TOTAL ASSETS	\$ 1,811,085	\$ 1,702,125
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 177,452	\$ 206,860
Provisions	25,694	23,924
Income taxes payable	18,918	26,139
Derivative financial instruments	330	226
Contract liabilities	43,693	23,603
Lease liabilities	21,461	1,155
Other liabilities	9,518	7,339
Total current liabilities	297,066	289,246
Non-current Liabilities		
Long-term debt	435,462	267,781
Lease liabilities	67,768	10,388
Provisions	20,477	34,979
Employee future benefits	15,390	15,190
Deferred income tax liabilities	19,306	4,632
Other liabilities	5,669	10,259
Total non-current liabilities	564,072	343,229
Total liabilities	861,138	632,475
Equity		
Share capital	710,563	708,833
Contributed surplus	32,615	30,187
Retained earnings	193,027	271,429
Non-controlling interests	4,647	5,418
Accumulated other comprehensive income	9,095	53,783
Total equity	949,947	1,069,650
TOTAL LIABILITIES AND EQUITY	\$ 1,811,085	\$ 1,702,125

Shawcor Ltd.

Consolidated Statements of (Loss) Income (Unaudited)

	Three Month Ended December 31,		Year Ended December 31,	
(in thousands of Canadian dollars, except per share amounts)	2019	2018	2019	2018
Revenue				
Sale of products	\$ 154,984	\$ 148,090	\$ 662,533	\$ 616,332
Rendering of services	179,123	206,058	826,956	792,540
	334,107	354,148	1,489,489	1,408,872
Cost of Goods Sold and Services Rendered	237,310	254,360	1,062,450	974,795
Gross Profit	96,797	99,788	427,039	434,077
Selling, general and administrative expenses	66,270	72,335	299,758	300,294
Research and development expenses	2,236	2,703	12,647	11,876
Foreign exchange gains	(1,220)	(4,382)	(4,572)	(11,929)
Amortization of property, plant and equipment	14,398	15,124	55,204	64,789
Amortization of intangible assets	6,817	4,682	26,159	18,434
Amortization of right-of-use assets	6,081	—	19,495	—
Gain on sale of land	(1,350)	—	(39,344)	—
Impairment	104,103	—	104,103	—
(Loss) Income from Operations	(100,538)	9,326	(46,411)	50,613
Income (loss) from investments in associates	5,483	(347)	14,459	282
Finance costs, net	(5,707)	(3,596)	(21,175)	(12,092)
Cost associated with repayment of long-term debt and credit facilities	—	—	(12,308)	—
Net monetary loss	(1,606)	(2,721)	(3,997)	(4,796)
(Loss) Income before Income Taxes	(102,368)	2,662	(69,432)	34,007
Income tax (recovery) expense	(20,345)	(1,434)	(36,137)	7,828
Net (Loss) Income	\$ (82,023)	\$ 4,096	\$ (33,295)	\$ 26,179
Net (Loss) Income Attributable to:				
Shareholders of the Company	\$ (81,783)	\$ 4,366	\$ (33,293)	\$ 25,876
Non-controlling interests	(240)	(270)	(2)	303
Net (Loss) Income	\$ (82,023)	\$ 4,096	\$ (33,295)	\$ 26,179
(Loss) Earnings per Share				
Basic	\$ (1.17)	\$ 0.06	\$ (0.47)	\$ 0.37
Diluted	\$ (1.17)	\$ 0.06	\$ (0.47)	\$ 0.37
Weighted Average Number of Shares Outstanding (000s)				
Basic	70,155	70,093	70,142	70,061
Diluted	70,155	70,323	70,142	70,264

Shawcor Ltd.

Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
(in thousands of Canadian dollars)	2019	2018	2019	2018
Net (Loss) Income	\$ (82,023)	\$ 4,096	\$ (33,295)	\$ 26,179
Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods				
Exchange differences on translation of foreign operations	(11,941)	15,580	(48,924)	28,953
Other comprehensive (loss) income attributable to investments in associates	(90)	(148)	(107)	(251)
Cash flow hedge gains	—	—	3,869	—
Net Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods	(12,031)	15,432	(45,162)	28,702
Other Comprehensive (Loss) Income not to be Reclassified to Net Income in Subsequent Periods				
Actuarial (loss) gain on defined benefit plans	(410)	1,747	(419)	1,762
Income tax recovery (expense)	103	(472)	124	(475)
Net Other Comprehensive (Loss) Income not to be Reclassified to Net Income in Subsequent Periods	(307)	1,275	(295)	1,287
Other Comprehensive (Loss) Income, Net of Income Tax	(12,338)	16,707	(45,457)	29,989
Total Comprehensive (Loss) Income	\$ (94,361)	\$ 20,803	\$ (78,752)	\$ 56,168
Comprehensive (Loss) Income Attributable to:				
Shareholders of the Company	\$ (94,213)	\$ 20,118	\$ (77,981)	\$ 56,229
Non-controlling interests	(148)	685	(771)	(61)
Total Comprehensive (Loss) Income	\$ (94,361)	\$ 20,803	\$ (78,752)	\$ 56,168

Shawcor Ltd.

Consolidated Statements of Changes in Equity (Unaudited)

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Non- controlling Interests	Accumulated Other Comprehensive Income	Total Equity
	\$	\$	\$	\$	\$	\$
Balance - December 31, 2018	708,833	30,187	271,429	5,418	53,783	1,069,650
Adjustment for IFRS 16, <i>Leases</i>	–	–	(3,023)	–	–	(3,023)
Adjusted balance – January 1, 2019	708,833	30,187	268,406	5,418	53,783	1,066,627
Net loss	–	–	(33,293)	(2)	–	(33,295)
Other comprehensive loss	–	–	–	(769)	(44,688)	(45,457)
Comprehensive loss	–	–	(33,293)	(771)	(44,688)	(78,752)
Issued on exercise of stock options	357	–	–	–	–	357
Compensation cost on exercised options	139	(139)	–	–	–	–
Compensation cost on exercised Restricted Share Units	1,234	(1,234)	–	–	–	–
Share-based compensation expense	–	3,801	–	–	–	3,801
Dividends declared and paid to shareholders	–	–	(42,086)	–	–	(42,086)
Balance – December 31, 2019	710,563	32,615	193,027	4,647	9,095	949,947
Balance – December 31, 2017	704,956	27,651	302,206	5,848	4,123	1,044,784
Hyperinflation adjustments for Argentina ^(a)	–	–	(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)	–	–	–	–
Share-based compensation expense	–	4,516	–	–	–	4,516
Dividends declared and paid to shareholders	–	–	(42,029)	–	–	(42,029)
Balance – December 31, 2018	708,833	30,187	271,429	5,418	53,783	1,069,650

Shawcor Ltd.

Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Operating Activities				
Net (loss) income for the year	\$ (82,023)	\$ 4,096	\$ (33,295)	\$ 26,179
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	14,398	15,124	55,204	64,789
Amortization of intangible assets	6,817	4,682	26,159	18,434
Amortization of right-of-use assets	6,081	—	19,495	—
Amortization of long-term prepaid expenses	257	385	514	521
Impact of inventory revaluation adjustment	—	—	7,000	—
Impairment	104,103	—	104,103	—
Interest expense on right-of-use asset leases	1,145	—	3,566	—
Decommissioning liabilities (recovery) expenses	(2,150)	(105)	(3,680)	235
Other provision expenses (recovery)	2,262	(87)	5,678	3,635
Share-based compensation and incentive-based compensation	(9,038)	(502)	3,442	8,926
Deferred income taxes	(16,737)	3,201	(45,272)	1,574
(Gain) loss on disposal of property, plant and equipment	(570)	550	(181)	260
Gain on sale of land	(1,350)	—	(39,344)	—
Unrealized (gain) loss on derivative financial instruments	(226)	(351)	1,029	(2,409)
(Income) loss from investments in associates	(5,483)	347	(14,459)	(282)
Cost associated with repayment of long-term debt and credit facilities	203	—	5,745	—
Other	—	—	—	(4,112)
Settlement of decommissioning liabilities	(330)	(435)	(1,219)	(435)
Settlement of other provisions	(364)	(2,927)	(14,112)	(10,478)
Net change in employee future benefits	(523)	(112)	227	(183)
Change in non-cash working capital and foreign exchange	32,543	27,458	(26,437)	(76,109)
Cash Provided by Operating Activities	\$ 49,015	\$ 51,324	\$ 54,163	\$ 30,545
Investing Activities				
Decrease in loans receivable	356	—	2,180	1,420
(Increase) decrease in short-term investments	—	(2,046)	2,046	(2,046)
Purchase of property, plant and equipment	(10,301)	(25,211)	(44,890)	(76,201)
Proceeds on disposal of property, plant and equipment	2,604	5,623	50,263	7,113
Decrease (increase) in other assets	60	(926)	426	(3,617)
Proceeds from redemption of investments in associate	—	—	29,171	—
Business acquisition, net of cash acquired	—	—	(291,477)	—
Cash Used in Investing Activities	(7,281)	(22,560)	(252,281)	(73,331)
Financing Activities				
Decrease in bank indebtedness	—	—	(17,608)	—
(Repayment) increase of long-term debt	(10,001)	—	165,692	—
Repayment of lease liabilities	(5,958)	(26)	(24,635)	(880)
Issuance of shares	—	105	357	1,897
Dividends paid to shareholders	(10,524)	(10,503)	(42,086)	(42,029)
Cash (Used in) Provided by Financing Activities	\$ (26,483)	\$ (10,424)	\$ 81,720	\$ (41,012)
Effect of Foreign Exchange on Cash and Cash Equivalents and Net Monetary Loss	701	8,673	(2,648)	11,977
Net Increase (Decrease) in Cash and Cash Equivalents	15,952	27,013	(119,046)	(71,801)
Cash and Cash Equivalents - Beginning of Period	82,266	190,251	217,264	289,065
Cash and Cash Equivalents - End of Period	\$ 98,218	\$ 217,264	\$ 98,218	\$ 217,264

6.0 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 Credit Facility.

	Three Months Ended December 31,		Year Ended December 31,	
(in thousands of Canadian dollars)	2019	2018	2019	2018
Net (Loss) Income	\$ (82,023)	\$ 4,096	\$ (33,295)	\$ 26,179
Add:				
Income tax (recovery) expense	(20,345)	(1,434)	(36,137)	7,828
Finance costs, net	5,707	3,596	21,175	12,092
Amortization of property, plant, equipment, intangible and ROU assets	27,296	19,806	100,858	83,223
Cost associated with repayment of long-term debt and credit facilities	—	—	12,308	—
EBITDA^(a)	\$ (69,365)	\$ 26,064	\$ 64,909	\$ 129,322
ZCL acquisition costs and other related items	157	—	16,514	—
Hyperinflation adjustment for Argentina	1,102	(1,841)	5,006	5,548
Gain on sale of land	(1,350)	—	(39,344)	—
Gain on redemption of investment in associate	(5,100)	—	(14,787)	—
Impairment	104,103	—	104,103	—
ADJUSTED EBITDA^(a)	\$ 29,547	\$ 24,223	\$ 136,401	\$ 134,870

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

The Company adopted IFRS 16 in the first quarter of 2019. This new accounting standard requires the Company to recognize a lease ROU asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract. Under the previous standard, IAS 17 Leases, costs relating to operating leases were recognized on a straight-line basis as a SG&A expense. Under IFRS 16, the Company records an amortization expense as amortization of ROU assets and records an interest expense relating to the lease liability. The amount of the amortization and interest recorded for the three months ended December 31, 2019 was \$6.1 million and \$1.1 million, respectively. The amount of the amortization and interest recorded for the twelve months ended December 31, 2019 was \$19.5 million and \$3.6 million, respectively. The effect of this new accounting standard increased EBITDA by \$7.2 million and \$23.1 million for the three months and twelve months ended December 31, 2019, respectively. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected.

Adjusted Net Income and Adjusted EPS

Adjusted net income is a non-GAAP measure defined as net income before acquisition-related and integration items, including transaction costs and financing fees; cost reduction and integration related initiatives such as separation benefits, retention payments, other exit costs, impact of inventory revaluation adjustment and certain costs associated with integrating an acquired company's operations; gains or losses from early termination of debt and hedging activities; gains and losses on the disposal of land; gain on redemption of investment in associate; asset impairment charges; hyperinflation adjustment for Argentina and the tax effect of the pre-tax adjustments above at applicable tax rates and certain other tax items. We define adjusted EPS as adjusted net income attributable to shareholders divided by the weighted average number of shares and the weighted average number of diluted shares.

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Net (Loss) Income	\$ (82,023)	\$ 4,096	\$ (33,295)	\$ 26,179
Add:				
ZCL acquisition costs and other related items	157	—	16,514	—
Hyperinflation adjustment for Argentina	1,844	227	7,676	8,854
Cost associated with repayment of long-term debt and credit facilities	—	—	12,308	—
Gain on sale of land	(1,350)	—	(39,344)	—
Gain on redemption of investment in associate	(5,100)	—	(14,787)	—
Impairment	104,103	—	104,103	—
Tax effect of the above adjustments	(21,838)	1,062	(28,084)	(215)
Adjusted Net (Loss) Income	\$ (4,207)	\$ 5,385	\$ 25,091	\$ 34,818
Adjusted Net (Loss) Income Attributable to Shareholders	(3,967)	5,655	25,093	34,515
Adjusted EPS				
Basic	\$ (0.06)	\$ 0.08	\$ 0.36	\$ 0.49
Diluted	\$ (0.06)	\$ 0.08	\$ 0.36	\$ 0.49

Operating Margin/Adjusted Operating Margin

Operating margin/adjusted operating margin are defined as operating (loss) income divided by revenue and are non-GAAP measures. The Company believes that operating margin and adjusted operating margin are useful supplemental measures that provide meaningful assessment of the business performance of the Company and its Operating Segments. The Company uses these measures as key indicators of financial performance, operating efficiency and cost control based on volume of business generated.

Adjusted Operating Income

Adjusted Operating Income is a non-GAAP measure calculated by adding back to Operating income the sum of gain from sale of land, ZCL acquisition costs and other related items, impairment and hyperinflationary adjustments. Adjusted Operating Income does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies.

The following tables set forth Adjusted Operating Income by consolidated Company and the reportable segments of Pipeline and Pipe Services Segment and Composite Systems Segment:

Consolidated

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
(Loss) Income from operation	\$ (100,538)	\$ 9,326	\$ (46,411)	\$ 50,613
Add:				
ZCL acquisition costs and other related items	157	—	16,514	—
Hyperinflation adjustment for Argentina	273	(2,498)	3,602	4,061
Gain on sale of land	(1,350)	—	(39,344)	—
Impairment	104,103	—	104,103	—
Adjusted Operating Income - Consolidated	\$ 2,645	\$ 6,828	\$ 38,464	\$ 54,674

Pipeline and Pipe Services Segment

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Loss from operation	\$ (129,273)	\$ (14,932)	\$ (119,736)	\$ (28,121)
Add:				
Hyperinflation adjustment for Argentina	627	704	2,965	3,304
Gain on sale of land	—	—	(32,551)	—
Impairment	104,103	—	104,103	—
Adjusted Operating Loss	\$ (24,543)	\$ (14,228)	\$ (45,219)	\$ (24,817)

Composite Systems Segment

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Income from operation	\$ 15,249	\$ 15,141	\$ 55,608	\$ 57,250
Add:				
ZCL acquisition costs and other related items	—	—	10,822	—
Gain on sale of land	(1,350)	—	(6,793)	—
Adjusted Operating Income	\$ 13,899	\$ 15,141	\$ 59,637	\$ 57,250

7.0 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* ("IAS 29"), 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 ("ARS").

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 quarter and prior year quarters and the corresponding conversion coefficient were as follows:

Year	Index	Conversion coefficient	CAD/ARS exchange rate
2018 – December	707.26	1.4896	0.036229
2018 – March	777.07	1.3558	0.030804
2019 – June	864.23	1.2191	0.030809
2019 – September	938.54	1.1225	0.022995
2019 – December	1053.54	1.0000	0.021690

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at December 31, 2019. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at December 31, 2019) are restated by applying the index at the end of the current 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 interim 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 interim 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 required to be restated for the effects of hyperinflation.

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

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended December 31,			Year Ended December 31,	
	2019	2018	2019	2018	
Revenue	\$ 1,257	\$ 8,645	\$ (2,533)	\$ (2,679)	
Gross profit (loss)	356	2,820	(770)	(380)	
Foreign exchange (gain) loss	(377)	(3,237)	615	721	
(Loss) Income from operations	(272)	2,498	(3,602)	(4,061)	
Net monetary loss	(1,606)	(2,721)	(3,997)	(4,796)	
Loss before income taxes	(1,844)	(227)	(7,676)	(8,854)	
Income tax expense (recovery)	150	1,062	36	(215)	
Net Loss	\$ (1,994)	\$ (1,289)	\$ (7,712)	\$ (8,639)	
Loss per Share					
Basic	\$ (0.03)	\$ (0.02)	\$ (0.11)	\$ (0.12)	
Diluted	\$ (0.03)	\$ (0.02)	\$ (0.11)	\$ (0.12)	