

Shawcor Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 three months ended March 31, 2021 and 2020 and should be read together with Shawcor's unaudited interim consolidated financial statements and accompanying notes for the same periods and 2020 Annual MD&A and Audited Consolidated Financial Statements. 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 unaudited interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), which are also Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises in Canada.

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 under "Order Backlog & Outlook" and elsewhere in respect of, among other things, the impact and duration of the global COVID-19 pandemic and the related impacts on the Company's operations and on the global supply and demand of oil and gas, the completion of cost saving initiatives including the reduction of the Company's international operations footprint, the achievement of improved quarterly normalized SG&A, the future outlook for capital expenditures in the offshore oil and gas sector and North American land drilling and completion activity, the demand for the Company's products in retail fuel, automotive and industrial markets, the investment by the Company in additional capacity in its Automotive and Industrial segment, the level of financial performance throughout 2021, 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 successful execution of the Company's order backlog and the anticipated fluctuations in order backlog throughout 2021 including the rebuilding of the backlog in the fourth quarter of 2021 and the impact thereof on the Company's revenue and operating income, the impact of global economic activity and energy demand on the demand for the Company's products, the impact of continuing demand for oil and gas, 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, the execution of definitive contracts on outstanding bids for and the timing to complete certain pipe coating projects, including the timing of the final investment decision, the likelihood that North American drilling and completion activities will increase and international and offshore projects will be sanctioned in the future and the impact thereof on the Company's business, the ability of the Company to fund its operating and capital requirements, the adequacy of the Company's existing accruals in respect of environmental compliance, litigation, tax and other claims and the level of payments generally under the Company's performance, bid and surety 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 duration and impact of the COVID-19 pandemic on the Company,

its employees, customers, suppliers, energy and commodity markets and on the global economy, the impact on the Company of the continued heightened focus by North American oil and gas operators on capital discipline, the impact on the Company of reduced demand for its products and services, including the delay, suspension or cancellation of existing or anticipated 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; supply chain disruptions caused by extreme weather or other conditions; 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 herein under "Risks and Uncertainties" 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 the gradual lifting of certain COVID-19 related restrictions or their continuation on a more limited and targeted basis than the basis on which those restrictions were previously imposed and the impact thereof on global economic activity; the Company's ability to manage supply chain disruptions caused by the COVID-19 pandemic, extreme weather or by natural disasters; global oil and gas prices, the delay in the near term of certain projects and the likelihood of projects tied to securing long-term domestic energy supply or drilling rights being sanctioned; the recommencement of increased capital expenditures in the global offshore oil and gas segment; the commencement of recovery of the global economy; a gradual recovery of oil and gas markets in North America, continued recovery of demand in the automotive and industrial markets, particularly in North America and Europe and the heightened demand for hybrid and fully electric vehicles, tempered somewhat by automobile production delays arising from a global shortage of semi-conductors; sustained solid demand in the retail fuel market and stable demand in the industrial markets with storage tank demand supported by higher infrastructure spending and commercial and municipal water projects; heightened infrastructure spending in Canada or communications networks and nuclear refurbishments; the Company's ability to execute projects under contract, the Company's continuing ability to provide new and enhanced product offerings to its customers, the higher level of investment in working capital by the Company, the continued supply of and stable pricing for commodities used by the Company and the ability of the Company to pass on price increases in respect thereof; the availability of personnel resources sufficient for the Company to operate its businesses; the Company's ability to optimize its operational footprint while maintaining its competitive positioning in major oil and gas producing regions; 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; the level of payments under the Company's performance, bid and surety bonds; the ability of the Company to satisfy all covenants under the Credit Facility; and having sufficient liquidity to fund its obligations and planned initiatives. 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.

1.0 Executive Overview

Shawcor is a growth oriented, global company with its three segments of Pipeline and Pipe Services, Composite Systems and Automotive and Industrial serving various sectors of the Infrastructure, Energy and Transportation markets. The Company operates seven operating units with 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, fiberglass reinforced plastic underground storage tanks, 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.

As at March 31, 2021, the Company's business included seven operating units that were reported through three operating segments: Pipeline and Pipe Services, Composite Systems and Automotive and Industrial. At the end the fourth quarter of 2020, the Company sold its Pipeline Performance Products operating unit (the "Products business").

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 52% of consolidated revenue for the three-months ended March 31, 2021. This segment includes products and services for the Pipeline Performance Group, Shaw Pipeline Services, Shawcor Inspection Services and Lake Superior Consulting operating units.

Composite Systems

The Composite Systems segment accounted for 25% of consolidated revenue for the three-months ended March 31, 2021. This segment includes Composite Production Systems and Oilfield Asset Management.

Automotive and Industrial

The Automotive and Industrial segment, which consists of the Connection Systems operating unit, accounted for 23% of consolidated revenue for the three-months ended March 31, 2021. 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 Automotive and Industrial markets.

2.0 Financial Highlights

2.1 Selected Financial Information

	Three Months Ended March 31,			
(in thousands of Canadian dollars, except per share amounts and percentages)		2021		2020
Revenue	\$	279,331	\$	319,027
Cost of Goods Sold and Services Rendered		205,596		233,722
Gross Profit		73,735		85,305
Selling, general and administrative expenses		51,365		73,889
Research and development expenses		1,960		3,407
Foreign exchange losses		1,644		1,961
Depreciation and amortization		19,971		24,576
Impairment		–		203,084
Restructuring costs, net		3,395		206
Loss from Operations		(4,600)		(221,818)
(Loss) Income from investments in associates		(190)		164
Finance costs, net		(7,033)		(6,209)
Net monetary loss		(1,122)		(485)
Loss before Income Taxes		(12,945)		(228,348)
Income tax expense		2,847		6,731
Net Loss	\$	(15,792)	\$	(235,079)
Net Loss attributable to:				
Shareholders of the Company	\$	(15,372)	\$	(234,903)
Non-controlling interests		(420)		(176)
Net Loss	\$	(15,792)	\$	(235,079)
Per Share Information:				
Loss per Share				
Basic	\$	(0.22)	\$	(3.35)
Diluted	\$	(0.22)	\$	(3.35)
Adjusted EBITDA^(b)		18,566	\$	6,204
Adjusted EBITDA (%)		6.6%		1.9%
Adjusted Net Loss^{(a)(b)}		(10,865)		(32,856)
Adjusted EPS^(b)				
Basic		(0.15)		(0.47)
Diluted		(0.15)		(0.47)

(a) Attributable to shareholders of the Company.

(b) Adjusted EBITDA, Adjusted Net Income or Loss and Adjusted EPS are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

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:

	Three Months Ended	
	March 31, 2021	March 31, 2020
U.S. dollar	1.2706	1.3417
Euro	1.5348	1.4834
British Pounds	1.7528	1.7338

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 period, as a result of foreign exchange fluctuations on the translation of foreign currency operations:

	Q1-2021 versus Q1-2020
(in thousands of Canadian dollars)	
Revenue	\$ (10,499)
Income from operations	\$ 1,705
Net income (attributable to shareholders of the Company)	\$ 2,153

In addition to the translation impact noted above, the Company recorded a foreign exchange loss of \$1.6 million in the first quarter of 2021, compared to a foreign exchange loss of \$2.0 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities, primarily in Latin America.

3.0 Key Developments – First Quarter

Contract Award for the North Sea Project

On March 15, 2021, the Company announced that its pipe coating division had secured a firm contract, pending project sanction, to provide a wet insulation coating system utilizing its proprietary ULTRA™ technology for a development project located in the North Sea. The value of the award is in the range of \$40-45 million, pending final investment decision, which is anticipated to occur in the third quarter of 2021. The work is expected to be executed from Shawcor's Orkanger, Norway facility commencing in the third quarter of 2022.

Cost Saving Initiatives and Liquidity Update

In March 2020, the global market downturn caused by the COVID-19 pandemic and recent changes in oil and gas supply and demand resulted in an immediate decrease in demand for products and services supplied by Shawcor. The situation remains dynamic and the ultimate duration and magnitude of the impact on the global economy and on the Company, as well as on the extent and timing of global economic recovery remain unknown at this time. In 2020, the Company completed significant measures to reduce selling, general and administrative ("SG&A") and other costs and generate cash from working capital reductions and asset sales. The Company continues to focus on reducing its operating cost base and actively managing cash flow and liquidity.

In the first quarter of 2021, the Company completed further actions to reduce its salaried workforce headcount bringing the total reduction to 25% since March 2020. The Company also announced the closure of its Leith, UK facility after it completes the Baltic Pipe project later this year. With this announcement, the Company has actioned the controlled shutdown of 7 pipe coating facilities and several girth weld inspection branches in the last twelve months. Based on actions completed and initiated to date, the Company expects its quarterly normalized SG&A

run-rate to further improve to approximately \$55 million. The Company will continue to assess additional optimization actions, including further reductions of its international operations footprint serving the energy market.

The Company continues to maintain sufficient liquidity to fund its operations, working capital requirements and capital investments. As at March 31, 2021, the Company had cash and cash equivalents totalling \$194.3 million (December 31, 2020 – \$214.5 million). This reflects an investment of \$17.6 million in working capital excluding the impact of restructuring liabilities, limited capital spending of \$4.3 million and \$8.1 million from proceeds on sale of assets and investment from associates during the first quarter. Subsequent to the quarter end, the Company repaid \$75 million on its outstanding credit facility debt based on confidence in the outlook for the year.

4.0 Results from Operations

4.1 Consolidated Information

Revenue

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

	Three Months Ended	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars)		
Pipeline and Pipe Services	\$ 144,518	\$ 180,487
Composite Systems	71,121	89,405
Automotive and Industrial	63,751	49,853
Elimination ^(a)	(59)	(718)
Consolidated revenue	\$ 279,331	\$ 319,027

(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.

First Quarter 2021 versus First Quarter 2020

Consolidated revenue decreased by \$39.7 million, or 12%, from \$319.0 million during the first quarter of 2020, to \$279.3 million during the first quarter of 2021, reflecting a \$36.0 million decrease in the Pipeline and Pipe Services segment and a \$18.3 million decrease in the Composite Systems segment, partially offset by a \$13.9 million increase in the Automotive and Industrial segment. In addition, the Company continued to prioritize employee safety and HSE procedures to manage the risk of COVID-19 related disruptions and as a result did not experience any site-wide shutdowns during the quarter.

The Company's non-oil and gas businesses continued their strong performance in the first quarter, accounting for 36% of revenue. This was driven by continued strength in demand for the Company's automotive products, contributions from infrastructure projects in Canada such as 5G network buildouts and nuclear refurbishments and steady demand for fiberglass reinforced plastic ("FRP") tanks in the retail fuel market.

In the Pipeline and Pipe Services segment, revenue in the first quarter of 2021 was \$144.5 million, or 20% lower than in the first quarter of 2020, primarily due to the absence of \$28.5 million revenue attributable to the Products business sold in December 2020 and lower activity in North America, partially offset by higher activity in Europe, Middle East, Africa and Russia ("EMAR"), Latin America and Asia Pacific. 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 Composite Systems segment, revenue in the first quarter of 2021 was \$71.1 million, a decrease of 20% compared to the same quarter in 2020, primarily due to decreased demand in North America for composite pipe products. See *Section 4.2.2 – 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 \$63.8 million, an increase of 28% compared to the first quarter of 2020, due to increased activity levels in North America, EMAR and Asia Pacific. See *Section 4.2.3 – Automotive and Industrial Segment* for additional disclosure with respect to the change in revenue in the Automotive and Industrial segment.

Loss from Operations ("Operating Loss")

The following table sets forth operating loss and Adjusted EBITDA for the following periods:

	Three Months Ended	
	March 31, 2021	March 31 2020
(in thousands of Canadian dollars, except percentages)		
Operating loss ^(a)	\$ (4,600)	\$ (221,818)
Operating margin ^(b)	(1.6%)	(69.5%)
Adjusted EBITDA ^(b)	\$ 18,566	\$ 6,204
Adjusted EBITDA margin ^(b)	6.6%	1.9%

(a) Operating loss in the three months ended March 31, 2021 includes \$3.4 million of restructuring costs, net, while 2020 includes \$203.1 million of impairment charges and \$0.2 million of restructuring costs

(b) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

In the first quarter of 2020, the Company recorded impairment charges of \$203.1 million due to the current market conditions for certain assets and the Company's assessment of the related future demand and market recovery. The impairment charges included \$143.6 million and \$46.0 million on intangible assets and goodwill for Pipeline Performance Group and Shawcor Inspection Services, respectively, and \$13.4 million on assets at two U.S. land pipe coating facilities and certain assets related to large diameter products in its Composite Systems facility in Alberta.

The Company continues to complete several cost reduction and cash preservation initiatives. As a result, the Company has recorded restructuring costs of \$3.4 million, net of a gain of \$2.8 million from the sale of scrap and other assets related to a site closure, in the first quarter of 2021 compared to \$0.2 million of restructuring costs in the same period of the prior year.

First Quarter 2021 versus First Quarter 2020

Operating loss in the first quarter of 2021 was \$4.6 million, a significant improvement compared to the \$221.8 million operating loss incurred in the first quarter of 2020. The variance was primarily due to the absence of \$203.1 million in impairment charges that occurred in the first quarter of 2020, a \$22.5 million decrease in SG&A expenses, a \$4.6 million decrease in depreciation and amortization, and a \$1.4 million decrease in research and development, partially offset by a \$11.6 million decrease in gross profit and a \$3.2 million increase in restructuring costs.

The current quarter benefited from COVID-19 related government wage subsidies recorded of \$2.4 million, of which \$1.0 million was recorded in cost of goods sold and \$1.4 million was recorded in SG&A expenses.

Gross profit decreased by \$11.6 million compared to the first quarter of 2020. This was primarily driven by a \$39.7 million decrease in revenue, due to the absence of the Products business which was sold in December 2020 and the activity levels as explained above, and a 0.3 percentage point decrease in gross margin. The current quarter also reflects a \$1.0 million benefit from COVID-19 related government wage subsidies recorded.

SG&A expenses decreased by \$22.5 million compared to the first quarter of 2020, primarily due to the completed cost control and headcount reduction initiatives and the absence of SG&A expenses of \$5.7 million related to the Products business. Excluding the impact from the Products business, the quarterly decrease is primarily due to a reduction of \$7.2 million in compensation expenses, \$2.5 million in building and equipment expenses, and \$1.6

million in travel and entertainment expenses, \$1.5 million information technology costs and \$1.0 million in professional fees. The current quarter also benefited from COVID-19 related government wage subsidies of \$1.4 million.

Adjusted EBITDA was \$18.6 million in the first quarter of 2021 compared to \$6.2 million in the first quarter of 2020. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

(Loss) Income from Investments in Associates

The following table sets forth the (loss) income from investments in associates for the following periods:

	Three Months Ended	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars)		
(Loss) Income from investments in associates	\$ (190)	\$ 164

The Company has equity-accounted investments in Zedi Inc. ("Zedi") and Power-Feed-Thru Systems and Connectors, LLC ("PFT"). During the first quarter of 2021, the Company received \$6.3 million of proceeds pertaining to the partial redemption of the investment in Zedi, compared to the \$8.9 million of proceeds received in the first quarter of 2020.

Finance costs, Net

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

	Three Months Ended	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars)		
Interest income	\$ (42)	\$ (155)
Interest expense on long-term debt	5,143	4,541
Interest expense, other	1,265	831
Interest expense on Right of Use ("ROU") assets	667	992
Finance costs, net	\$ 7,033	\$ 6,209

First Quarter 2021 versus First Quarter 2020

In the first quarter of 2021, net finance costs were \$7.0 million, compared to net finance costs of \$6.2 million during the first quarter of 2020. The increase in net finance costs was primarily due to a \$0.6 million increase in interest expense on long term debt due to an increase in the average borrowing rate, and a \$0.4 million increase in other financing expenses, which were partially offset by a \$0.3 million decrease in interest on ROU assets.

Income Taxes

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

	Three Months Ended	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars)		
Income tax expense	\$ 2,847	\$ 6,731

First Quarter 2021 versus First Quarter 2020

The Company recorded an income tax expense of \$2.8 million (22% of loss before income taxes) in the first quarter of 2021, compared to an income tax expense of \$6.7 million (3% of loss before income taxes) in the first quarter of 2020. The effective tax rate in first quarter of 2021 was lower than the Company's statutory income tax rate of 25% primarily due to losses generated in the quarter where the Company is unable to record a tax benefit, and the mix of jurisdictions where the income was earned.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

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

	Three Months Ended	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars, except percentages)		
North America	\$ 61,325	\$ 87,088
Latin America	20,796	20,062
EMAR	45,652	57,564
Asia Pacific	16,745	15,773
Total revenue	\$ 144,518	\$ 180,487
Operating loss^(a)	\$ (9,499)	\$ (215,673)
Operating margin^(b)	(6.6%)	(119.5%)
Adjusted EBITDA^(b)	\$ 4,046	\$ (7,945)
Adjusted EBITDA margin^(b)	2.8%	(4.4%)

(a) Operating loss in the three months ended March 31, 2021 includes \$3.3 million restructuring costs, net, while 2020 includes \$193.3 million of impairment charges and \$0.2 million of restructuring costs.

(b) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

First Quarter 2021 versus First Quarter 2020

Revenue in the first quarter of 2021 was \$144.5 million, a decrease of \$36.0 million, or 20%, from \$180.5 million in the comparable period of 2020. This was primarily due to the absence of \$28.5 million revenue attributable to the Products business in North America and EMAR. Excluding the impact from the Products business, the first quarter results also reflects lower activity in North America, partially offset by higher activity in EMAR, Latin America and Asia Pacific.

- North America revenue decreased by \$25.8 million, or 30%, primarily as a result of the absence of \$13.5 million revenue attributable to the Products business, lower demand for small and large diameter pipe coating and engineering services and the completed closures of U.S. land pipe coating facilities during 2020, partially offset by higher revenue from girth weld inspection.
- Revenue in Latin America increased by \$0.7 million, or 4%, primarily due to higher revenue from the Mero I project in Brazil and the Payara project in Mexico, partially offset by lower revenue from the Liza II project and other pipe coating activity in Mexico.
- In EMAR, revenue decreased by \$11.9 million, or 21%, primarily as a result of the absence of \$15.0 million revenue attributable to the Products business and lower activity levels at Ras Al Khaimah, UAE (“RAK”), Orkanger, Norway and Italy facilities. This was partially offset by higher revenue from the Baltic pipe project at the Leith, Scotland facility.
- Revenue in Asia Pacific increased by \$1.0 million, or 6%, mainly due to higher pipe coating project activities at the Kabil, Indonesia and the Kuantan, Malaysia facilities.

Operating loss in the first quarter of 2021 was \$9.5 million compared to \$215.7 million in the first quarter of 2020. The lower loss was primarily due the absence of \$193.3 million in impairment charges that occurred in the first quarter of 2020, a \$20.6 million decrease in SG&A expenses, a \$3.9 million decrease in depreciation and amortization, and a \$0.8 million decrease in research and development. These positive impacts were partially offset by a \$9.3 million decrease in gross profit and a \$3.1 million increase in restructuring costs.

The current quarter benefited from COVID-19 related government wage subsidies recorded of \$0.3 million, of which \$0.2 million was recorded in cost of goods sold and \$0.1 million was recorded in SG&A expenses.

Gross profit decreased by \$9.3 million compared to the first quarter of 2020, primarily due to the \$36.0 million decrease in revenue, due to the absence of the Products business and the activity levels as explained above, coupled with a 0.3 percentage point decrease in gross margin. The decrease in the gross margin percentage was primarily due to product and project mix and lower utilization in Latin America and EMAR facilities and the related impact on the absorption of manufacturing overheads.

SG&A expenses decreased by \$20.6 million compared to the first quarter of 2020, primarily due to the restructuring initiatives and site closures and the absence of SG&A expenses of \$5.7 million related to the Products business. Excluding the impact from the Products business, the quarterly decrease is primarily due to a reduction of \$8.6 million in compensation expenses, \$2.3 million in building and equipment expenses, \$0.6 million in information technology costs, \$0.6 million in professional fees and \$0.5 million in travel and entertainment expenses.

Adjusted EBITDA in the first quarter of 2021 was \$4.0 million compared to negative \$7.9 million in the first quarter of 2020. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

4.2.2 Composite Systems Segment

The following table sets forth, by geographic location, the revenue, operating income (loss) and Adjusted EBITDA for the Composite Systems segment for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended	
	March 31, 2021	March 31, 2020
North America	\$ 69,769	\$ 87,945
Latin America	749	1,063
EMAR	603	397
Total revenue	\$ 71,121	\$ 89,405
Operating income (loss)^(a)	\$ 667	\$ (7,970)
Operating margin^(b)	0.9%	8.9%
Adjusted EBITDA^(b)	\$ 8,547	\$ 10,412
Adjusted EBITDA margin^(b)	12.0%	11.6%

(a) Operating income in the three months ended March 31, 2020 includes \$9.8 million of impairment charges.

(b) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

First Quarter 2021 versus First Quarter 2020

Revenue in the first quarter of 2021 decreased by \$18.3 million, or 20%, compared to the first quarter of 2020. This decrease was primarily due to lower revenue in North America of \$18.2 million, or 21%, from lower demand for composite pipe products, resulting from the continued capital discipline focus of exploration and production operators despite the gradual increase during the quarter in oil and gas prices. In addition, the current quarter reflects lower activity in tubular management service business in Western Canada. Revenue for the Company's composite tank business were only slightly higher than in the first quarter of 2020, reflecting the typical seasonal low activity level and some customer induced delivery delays due to weather issues.

Operating income in the first quarter of 2021 was \$0.7 million compared to an operating loss of \$8.0 million in the first quarter of 2020. The improvement was primarily due to the absence of \$9.8 million in impairment charges that occurred in the first quarter of 2020, a \$3.4 million decrease in SG&A expenses, and a \$0.7 million decrease in depreciation and amortization expenses, partially offset by a \$5.5 million decrease in gross profit.

The current quarter benefited from COVID-19 related government wage subsidies recorded of \$1.4 million, of which \$0.6 million was recorded in cost of goods sold and \$0.8 million was recorded in SG&A expenses.

Gross profit decreased by \$5.5 million compared to the first quarter of 2020, primarily due to the \$18.3 million decrease in revenue, as explained above, coupled with a 0.2 percentage point decrease in gross margin. The decrease in gross profit was partially offset by \$0.6 million of COVID-19 related government wage subsidies recorded.

SG&A expenses decreased by \$3.4 million compared to the first quarter of 2020, primarily due to the completed headcount reduction initiatives that resulted in a decrease of \$2.5 million in compensation related costs. The current quarter also benefited from COVID-19 related government wage subsidies of \$0.8 million.

Adjusted EBITDA in the first quarter of 2021 was \$8.5 million compared to \$10.4 million in the first quarter of 2020. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

4.2.3 Automotive and Industrial Segment

The following table sets forth, by geographic location, the revenue, operating income and Adjusted EBITDA for the Automotive and Industrial segment for the following periods:

	Three Months Ended			
	March 31, 2021		March 31, 2020	
(in thousands of Canadian dollars, except percentages)				
North America	\$	38,910	\$	29,933
EMAR		21,041		18,144
Asia Pacific		3,800		1,776
Total revenue	\$	63,751	\$	49,853
Operating income	\$	11,436	\$	7,598
Operating margin^(a)		17.9%		15.2%
Adjusted EBITDA^(a)	\$	12,578	\$	8,719
Adjusted EBITDA margin^(a)		19.7%		17.5%

(a) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

First Quarter 2021 versus First Quarter 2020

Revenue in the first quarter of 2021 increased by \$13.9 million, or 28%, compared to the first quarter of 2020, primarily due to strong demand for automotive heat shrink tubing products in the automotive sector across all regions and increased shipments for wire and cable products in North America. The segment's revenues also benefitted from early pass through of copper price increases in the quarter, albeit with no impact on gross margin.

Operating income in the first quarter of 2021 was \$11.4 million compared to \$7.6 million in the first quarter of 2020. The increase was primarily due to a \$3.2 million increase in gross profit and a \$0.6 million decrease in SG&A expenses.

The current quarter benefitted from COVID-19 related government wage subsidies recorded of \$0.4 million, of which \$0.2 million was recorded in cost of goods sold and \$0.2 million was recorded in SG&A expenses.

Gross profit increased by \$3.2 million compared to the first quarter of 2020, primarily due to the \$13.9 million increase in revenue, as explained above, partially offset by a 1.3 percentage point decrease in gross margin. The decrease in gross margin was primarily due to the product mix. The current quarter also benefitted from \$0.2 million of COVID-19 related government wage subsidies recorded.

SG&A expenses decreased by \$0.6 million compared to the first quarter of 2020, primarily due to a decrease of \$0.3 million in travel & entertainment expenses. The current quarter also benefitted from COVID-19 related government wage subsidies of \$0.2 million.

Adjusted EBITDA in the first quarter of 2021 was \$12.6 million compared to \$8.7 million in the first quarter of 2020. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

4.2.4 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	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars)		
Financial and corporate expenses	\$ (7,204)	\$ (5,773)

First Quarter 2021 versus First Quarter 2020

Financial and corporate costs in the first quarter of 2021 were \$7.2 million compared to \$5.8 million in the first quarter of 2020. The \$1.4 million increase reflects an incentive-based compensation expense of \$1.9 million in the current quarter compared to a \$2.3 million recovery in the first quarter of 2020, partially offset by a \$0.6 million decrease in information technology costs, \$0.5 million decrease in professional fees, \$0.5 million decrease in compensation and a \$0.3 million decrease in foreign exchange losses. The current quarter also benefited from \$0.3 million of COVID-19 related governmental wage subsidies recorded.

5.0 Order Backlog & Outlook

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 as a leading indicator of changes in consolidated revenue. The order backlog of \$521 million as at March 31, 2021, represents an increase over the \$453 million order backlog as at December 31, 2020. This unexpected increase is mainly attributed to strong order intake in the Company's composite tank business, lower than expected backlog burn rate from pipe coating activity due to weather related supply chain issues and other customer induced delays, and an increase in orders in other areas of the Company's business.

The Company had previously anticipated backlog declines in the first half of the year, followed by a rebuild in the second half of 2021. As a result of supply chain interruptions and customer induced delays, execution was also delayed, thus deferring backlog declines. The Company now expects to see reduced backlog values over the next two quarters, followed by a rebuild in the fourth quarter of 2021.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids, which represents bids provided to customers with firm pricing and conditions against a defined scope. Outstanding firm bids were over \$811 million as of March 31, 2021 slightly lower than the \$841 million from last quarter largely due to projects moving into backlog. Included in the firm bid, but not in the backlog, are unsanctioned conditional awards between engineering and procurement companies ("EPC's") and Shawcor for a scope of work that is estimated at over \$110 million in revenue in respect of which a final investment decision ("FID") is expected in 2021. The Company is also working with customers on several other projects and the value of budgetary estimates at the end of the first quarter was over \$1 billion. This represents a reduction compared to the budgetary value of \$1.5 billion as at the end of the previous quarter, primarily due to removal of a large East African land pipeline project where the likelihood of participation is low. Although the timing of these projects in bid and budgetary is uncertain, these figures represent a diverse portfolio of opportunities to sustain and build the backlog.

Outlook

Shawcor's financial performance is correlated with the level of industry activity and the level of investment in energy and infrastructure for resource development, storage and transportation around the globe and the resultant demand for the Company's products and services.

The Company expects to deliver improved annual Adjusted EBITDA¹ performance in 2021 over 2020, with some quarterly volatility due to project execution timing. Although disruptions related to supply chain issues are expected to continue into the second quarter of the year, the Company anticipates that the second quarter will show improvement over the results of the first quarter of 2021.

As discussed earlier, the Company expects its quarterly normalized SG&A run-rate to further improve to approximately \$55 million. The Company will continue to focus its efforts on identifying additional opportunities to reduce costs and optimize its operating footprint, while maintaining the technical expertise and geographic footprint that provide the best opportunity for the Company to secure work and drive profitability.

The Company's performance will be determined by the strength of its diverse base business and return of demand for its products and services, particularly in the U.S. and international energy markets, and its ability to continue to execute work and projects secured in the backlog. Performance will also be driven by the sustained strong demand for its composite tank business, continued demand recovery in the automotive and industrial markets which are serviced by the Company and its cost optimization initiatives completed over the course of the last year. Although the Company expects backlog to decline in the coming quarters as pipe coating projects are executed, it anticipates that it will rebuild in the fourth quarter of 2021 based on the Company's strong competitive position and the expected addition of conditional awards pending sanctioning and awards secured for beyond 12 months.

The Company's base oil and gas business in North America is heavily tied to the spending programs of E&P operators. While rig counts continue to rise, predominantly attributed to small and private producers, it is anticipated that the large- and mid-sized operators will maintain their capital spending discipline in the near term.

As the economy and energy demand recovers, the Company continues to expect that the global oil and gas capex cycle will resume and that large international and offshore projects will be sanctioned as National Oil Companies ("NOC's") and International Oil Companies ("IOC's") realign their portfolios. These investments are required to replace, maintain and rehabilitate infrastructure that is at or beyond its useful design life, replace production due to reservoir depletion, meet requirements for advanced technologies and non-corrosive materials, or to address geopolitical challenges which are affecting several important producing regions. Additionally, higher investments in gas, specifically LNG and for domestic energy, are being supported by the increased demand for gas and greener alternatives to support continued energy transition.

Further detail on the outlook for the Pipeline and Pipe Services, Composite Systems and Automotive and Industrial segments are set out below.

¹ EBITDA and Adjusted EBITDA 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 11.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of these Non-GAAP Measures.

Pipeline and Pipe Services Segment

Market demand for the Company's Pipeline and Pipe Services segment is driven by capital spending and investments by IOCs and NOCs. The Company has a track record of providing leading solutions and successful execution on critical international and offshore development projects.

The Company expects to continue to execute work secured in its backlog with a number of projects set to be completed in the first half of the year. Work that was pushed out of the first quarter is projected to be completed in the second quarter of the year, with rapid execution outstripping sanctioning activity. As a result, backlog is expected to decline in the second quarter with an anticipated rebuild in the fourth quarter of 2021 as additional projects are sanctioned and awarded.

The Company continues to monitor international developments including continued exploration success and additional project phases in Guyana, Middle Eastern offshore projects designed to meet domestic energy needs and global LNG demand and new tax incentives introduced in Norway to accelerate project investments.

North American demand for the Pipeline & Pipe Services segment is closely tied to drilling and completion activity, the construction of new and the repair/replacement of old transmission pipelines and requirements for pipeline integrity and regulatory compliance. These activities drive the demand for small and large diameter pipe coatings, girth weld inspection services on existing pipelines and new projects and engineering design and consulting services. Larger operators have maintained their disciplined approach to capital spending and a moderate improvement in spending is expected to continue throughout 2021 as operators return to a minimum base level of investment to maintain current levels of production. Change in drilling and completion related capital spending is expected to be limited to single digit growth for the year.

Composite Systems Segment

Demand for composite storage tanks is detached from the dynamics of oil and gas markets and is expected to remain robust throughout 2021 as retail fuel service stations maintain healthy margins. Continued growth in demand for water storage and treatment tanks is expected to be supported by projected higher infrastructure spending and commercial and municipal water projects. Raw material shortages are anticipated to create supply chain challenges in the second quarter. In spite of these hurdles, the business continues to manage production schedules and lead times to minimize impacts and anticipates improved performance over its seasonal first quarter lows. Price surcharges have been implemented to manage raw material cost increases. The Company expects to deliver on its composite tank order backlog over the balance of the year with a focus on safe operations and supply chain management.

Market demand for the segment's energy related businesses are driven by North American drilling and completion activity, demand for international oil and gas gathering line applications, and advanced materials in Oil Country Tubular Goods ("OCTG"). The segment benefits from the lower cost of ownership of composite systems versus steel and other materials, the development of larger diameter pipe applications and its international market qualifications. The composite pipe business will continue to benefit from stabilization in drilling and completion activity across the customer base as activity levels gradually return. Demand for the segment's core pipe products in North America is expected to remain subdued compared to historical levels, however the Company believes that the lower demand can be partially offset by the continued commercialization of the larger diameter pipe applications, market share gains as operators adopt composite technology for its overall cost profile and environmental advantages, and continued business development work on international energy and infrastructure projects. Controlled and depressed spending from Canadian customers is expected to continue throughout 2021.

Automotive and Industrial Segment

Demand for the Company's Automotive and Industrial businesses generally follows 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 infrastructure spending. The Company will continue to invest in additional capacity to meet the demand within this segment.

Over the long-term, demand for electric and plug-in hybrid passenger vehicles and light trucks is expected to grow to represent more than 50% of global vehicle sales by the early part of the next decade. This trend fosters growth opportunities for the Company's automotive products, in which demand could potentially surpass production growth projections in the broader automotive market due to increased electronic content adoption. Supply chain issues could create volatility quarter over quarter. In spite of this volatility, the Company expects to see continued growth in demand for its automotive products, particularly in Asia Pacific and EMAR regions, where electric vehicles adoption rates are highest.

Stable revenues are also expected from industrial markets, which are less cyclical. Despite negative non-residential permitting activity in 2020, the Company is expecting to benefit from infrastructure spending as new and upgraded communication networks are constructed and nuclear refurbishments continue in Canada, and federal stimulus packages are rolled out.

6.0 Liquidity and Capitalization

As at March 31, 2021, the Company had cash and cash equivalents totalling \$194.3 million (December 31, 2020 – \$214.5 million) and had unutilized lines of credit available to use of \$239.5 million (December 31, 2020 – \$246.3 million).

The effects of the COVID-19 pandemic and the rapid decline in 2020 of oil prices adversely impacted demand for the Company's products and services and its operating results, financial position and access to sources of liquidity. In 2020, the Company completed significant initiatives to reduce costs and generate cash to address this uncertainty. In the first quarter of 2021, the Company continued to focus on reducing its operating cost basis and completed further initiatives which included additional salaried workforce reductions and the announcement that its Leith, UK pipe coating facility would close after it completes the Baltic Pipe project. During the first quarter, the Company invested \$17.6 million in working capital, excluding the impact of restructuring liabilities, limited capital spending to \$4.3 million and received \$8.1 million from proceeds on sale of assets and investment from associates. Subsequent to the quarter, the Company repaid \$75 million against the outstanding debt under its Credit Facility.

Based on the actions completed and planned, its diversified business and current backlog, the Company expects to generate sufficient cash flows and have continued access to its credit facilities to fund its operations, working capital requirements and capital program.

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

(in thousands of Canadian dollars)	Three Months Ended	
	March 31, 2021	March 31, 2020
Net loss	\$ (15,792)	\$ (235,079)
Non-cash items	17,635	229,961
Other total	530	(3,385)
Net change in non-cash working capital and foreign exchange	(21,626)	8,612
Cash (used in) provided by operating activities	(19,253)	109
Cash provided by (used in) investing activities	5,059	(257)
Cash used in financing activities	(5,781)	(16,856)
Effect of foreign exchange on cash and cash equivalents	(229)	5,129
Net Change in Cash and Cash Equivalents	(20,204)	(11,875)
Cash and cash equivalents at beginning of period	214,514	98,218
Cash and Cash Equivalents at End of Period	\$ 194,310	\$ 86,343

6.1 Cash Used in/Provided by Operating Activities

First Quarter 2021 versus First Quarter 2020

Cash used in operating activities was \$19.3 million in the first quarter of 2021 compared to the \$0.1 million cash provided by operating activities in the first quarter of 2020. The \$19.4 million variance was primarily due to a net decrease of \$30.2 million in non-cash working capital and foreign exchange, offset by \$219.3 million in lower net losses, \$212.3 million less in non-cash items and a \$3.9 million increase in other items.

6.2 Cash Provided by/Used in Investing Activities

First Quarter 2021 versus First Quarter 2020

Cash provided by investing activities was \$5.1 million in the first quarter of 2021 compared to the \$0.3 million cash used in the first quarter of 2020. Proceeds from investment in associates was \$6.3 million in the first quarter of 2021 and represented a reduction of proceeds of \$2.5 million from prior year. Proceeds from disposals of property plant and equipment in the first quarter of 2021 were \$1.7 million and represented an increase from prior year of \$1.5 million. These proceeds were partially offset by purchases of property plant and equipment of \$4.3 million which represented a \$5.5 million reduction from prior year.

6.3 Cash Used in Financing Activities

First Quarter 2021 versus First Quarter 2020

Cash used in financing activities was \$5.8 million in the first quarter of 2021 compared to the \$16.9 million used in the first quarter of 2020. The \$11.1 million variance was primarily due the payment of the \$10.5 million quarterly dividend in the first quarter of 2020. The Company suspended the quarterly dividend as of the second quarter of 2020. This was also coupled with a decrease of \$0.4 million in payments of the Company's quarterly lease obligations.

6.4 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:

(in thousands of Canadian dollars, except DSO)	March 31, 2021	December 31, 2020	Change
Average trade accounts receivable	\$ 173,059	\$ 187,067	\$ (14,008)
DSO ^(a)	56	52	4

(a) DSO is a non-GAAP measure. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

Average trade accounts receivable decreased by \$14.0 million, from \$187.1 million as at December 31, 2020, to \$173.1 million as at March 31, 2021, primarily due to decreased revenue in the first quarter of 2021 compared to the fourth quarter of 2020. DSO increased by 4 days as a result of the timing of billings and collections in the first quarter as compared to the fourth quarter of 2020.

Inventory

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

(in thousands of Canadian dollars)	March 31, 2021	December 31, 2020	Change
Inventories	\$ 131,076	\$ 126,328	\$ 4,748

Inventories increased by \$4.7 million, or 3.8%, as at March 31, 2021 compared to December 31, 2020. This increase is primarily due to a \$9.9 million increase in finished goods, \$1.7 million increase in work in process and a \$1.4 million decrease in inventory obsolescence, offset by a \$8.3 million decrease in raw materials and supplies.

Accounts Payable

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

(in thousands of Canadian dollars, except DPO)	March 31, 2021	December 31, 2020	Change
Average accounts payable and accrued liabilities	\$ 167,912	\$ 187,012	\$ (19,100)
DPO ^(a)	74	73	1

(a) DPO is a non-GAAP measure. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 11.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

Average accounts payable and accrued liabilities decreased by \$19.1 million, or 10.2%, as at March 31, 2021 compared to December 31, 2020. DPO increased by 1 day from 2020 levels, due to the timing of purchases and payments in the first quarter of 2021 compared with the fourth quarter of 2020.

6.5 Long-term Debt and Credit Facilities

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

(in thousands of Canadian dollars)	March 31, 2021	December 31, 2020
Borrowings on credit facility	\$ 438,000	\$ 438,000
Deferred transaction costs	(4,271)	(4,613)
Total long-term debt	433,729	433,387
Standard letters of credit for financial guarantees, performance and bid bonds	41,157	43,697
Total utilized credit facilities	\$ 474,886	\$ 477,084
Total available credit facilities ^(a)	714,351	723,355
Unutilized Credit Facilities	\$ 239,465	\$ 246,271

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

The Company has a syndicated credit facility (the "Credit Facility") with the maximum borrowing limit of US\$500 million which expires in 2023. The Company pays a floating interest rate on this Credit Facility that is a function of the Company's Net Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), and before foreign exchange gains or losses and non-recurring and one-time items. Prior to the amendments to the Credit Facility referred to below, the Company was required to maintain an Interest Coverage Ratio of not less than 3.00:1.00 and a Net Debt to Adjusted EBITDA covenant (the "Leverage Ratio") of not greater than 3.50:1.00. For calculating the Leverage Ratio, Net Debt excludes the first \$100 million of performance and bid bond letters of credit and all standard letters of credit that are guaranteed by Export Development Canada ("EDC").

Amendments to the Credit Facility

On July 29, 2020, the Company entered into an amending agreement with its existing syndicate of lenders under the Credit Facility. The principal amendments to the Credit Facility included:

- a removal of the requirement for a maximum Leverage Ratio for the fiscal quarter ended September 30, 2020 (“Q3 2020”) and change in the maximum Leverage Ratio to:
 - 5.75 to 1.00 for the fiscal quarter ended December 31, 2020 (“Q4 2020”)
 - 6.50 to 1.00 for the fiscal quarter ended March 31, 2021 (“Q1 2021”)
 - 5.75 to 1.00 for the fiscal quarter ended June 30, 2021 (“Q2 2021”)
 - 5.50 to 1.00 for the fiscal quarter ended September 30, 2021 (“Q3 2021”)
 - 5.00 to 1.00 for the fiscal quarter ended December 31, 2021 (“Q4 2021”)
 - 3.50 to 1.00 for all fiscal quarters thereafter;
- a removal of the requirement for a minimum Interest Coverage Ratio for Q3 2020 and a change in the minimum Interest Coverage Ratio to:
 - 2.25 to 1.00 for Q4 2020
 - 2.00 to 1.00 for Q1 2021
 - 2.25 to 1.00 for Q2 2021
 - 2.50 to 1.00 for Q3 2021
 - 2.75 to 1.00 for Q4 2021
 - 3.00 to 1.00 for all fiscal quarters thereafter;
- for the purposes of the amended Leverage Ratio and Interest Coverage Ratio, EBITDA shall be calculated as follows:
 - For Q4 2020: (Q4 2020 EBITDA) x 4
 - For Q1 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA) x 2
 - For Q2 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA + Q2 2021 EBITDA) x 4/3
 - Thereafter, on a trailing 12 month basis;
- a requirement to provide a first priority security interest in favour of the banking syndicate against the majority of the personal property of the Borrowers and Guarantors under the Credit Facility; and
- increased interest rates and standby and other fees.

The Company was in full compliance with financial covenants as at March 31, 2021.

6.6 Commitments, Leases, Contingencies and Off-Balance Sheet Arrangements

(in thousands of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Purchase commitments	81,999	330	—	—	—	—	82,329
Accounts payable	73,257	—	—	—	—	—	73,257
Long-term debt	—	—	433,729	—	—	—	433,729
Obligations under leases	17,523	15,195	11,874	8,768	5,688	13,517	72,565
Common area maintenance obligations under leases	1,620	1,791	1,312	895	688	2,927	9,233
Low value/short term leases	936	1	—	—	—	—	937
Total contractual obligations	175,335	17,317	446,915	9,663	6,376	16,444	672,050

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 interim 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 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 \$41.2 million as at March 31, 2021 (December 31, 2020 – \$43.7 million) for support of its bonds. In addition, as at March 31, 2021, the Company had \$59.3 million of outstanding surety bonds through insurance companies (December 31, 2020 – \$54.7 million).

6.7 Financial Instruments and Other Instruments

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 utilizes financial instruments to manage the risk associated with foreign exchange rates. 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. More information regarding the financial instruments and the related financial risk factors can be found in the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2020. There have been no material changes in respect of the Company's financial instruments and the related financial risk factors from that disclosed in the Company's MD&A for the year ended December 31, 2020.

6.8 Outstanding Share Capital

As at May 10, 2021, the Company had 70,473,459 common shares outstanding and stock options and share units outstanding to acquire up to 3,024,424 common shares.

6.9 Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three-month period ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

6.10 Transactions with Related Parties

The Company had no material transactions with related parties in the first three months of 2021. All related party transactions were in the normal course of business.

7.0 Summary of Quarterly Results

The following is a summary of selected financial information for the nine most recently completed quarters:

(in thousands of Canadian dollars, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue					
2021	279,331	—	—	—	—
2020	319,027	266,118	267,659	325,678	1,178,482
2019	349,578	411,789	394,015	334,107	1,489,489
(Loss) Income from operations					
2021	(4,600)	—	—	—	—
2020	(221,818)	(36,165)	(19,289)	15,936	(261,336)
2019	7,634	29,376	17,117	(100,538)	(46,411)
Net (loss) income^(a)					
2021	(15,372)	—	—	—	—
2020	(234,903)	(36,775)	(18,311)	55,822	(234,167)
2019	(9,074)	51,044	6,520	(81,783)	(33,293)
Net (loss) income per share					
Basic					
2021	(0.22)	—	—	—	—
2020	(3.35)	(0.52)	(0.26)	0.79	(0.33)
2019	(0.13)	0.73	0.09	(1.17)	(0.47)
Diluted					
2021	(0.22)	—	—	—	—
2020	(3.35)	(0.52)	(0.26)	0.79	(3.33)
2019	(0.13)	0.73	0.09	(1.17)	(0.47)

(a) Represents the net (loss) income attributable to shareholders of the Company.

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

- The Company's business includes a diverse portfolio of products and services. As such, each operating unit's quarterly results are impacted by different market factors which could result in varying degrees of demand at times. The Company's also has a significant portion of its business, representing 67% of consolidated revenue in 2020 and 64% in the first quarter of 2021, tied to the oil and gas industry which does experience volatility based on commodity price fluctuations, operators' capital spending budgets and the sanctioning of pipe coating projects. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services and Composite Systems segments.
- Approximately 83% of the Company's revenue in 2020 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.
- The 2020 quarterly results were also impacted by the decreased demand for the Company's products caused by the COVID-19 pandemic and the rapid decline in oil and gas prices and also by the actions taken by the Company to reduce costs and preserve cash.
- Beginning with the second quarter of 2019, the quarterly results reflect the positive impact of the acquisition in April 2019 of the ZCL Composites business that added to the Company's portfolio the manufacture of reinforced plastic underground storage tanks for the retail fuel, water and wastewater and oil and gas markets.
- In the fourth quarter of 2020, the Company completed the sale of the Products business and therefore results beginning with the first quarter of 2021 reflect the absence of this business unit.
- In addition, the comparability of the quarterly financial results has been impacted by impairment charges and gain on sale of assets recorded in the various periods.

8.0 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 information presented in the section "Risks and Uncertainties" in the Company's 2020 Annual MD&A and in its 2020 Annual Information Form ("AIF") has not materially changed since their respective dates of publication.

9.0 Environmental Matters

As at March 31, 2021, the provisions on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$21.0 million (short term obligations represent \$7.4 million and long term obligations represent \$13.6 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 \$26.7 million as at March 31, 2021. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 13%. 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:

	March 31, 2021
(in thousands of Canadian dollars)	
2021	\$ 7,404
2022	54
2023	2,333
2024	1,705
2025	2,324
More than five years	12,916
	\$ 26,736

10.0 Critical Accounting Judgements, Estimates and Accounting Policy Developments

The preparation of the interim unaudited consolidated financial statements in conformity with IFRS requires management to make critical judgments when applying accounting policies. Management is also responsible for making 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. The information presented in the section “Critical Accounting Judgements, Estimates and Accounting Policy Developments” in the Company’s 2020 Annual MD&A has not materially changed since their date of publication.

11.0 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. Adjusted EBITDA is calculated by adding back to EBITDA the sum of impairments, costs associated with repayment of long-term debt and credit facilities, gain on sale of land and other, gain on sale of investment in associates, gain on sale of operating unit, acquisition costs, restructuring costs and hyperinflationary adjustments. 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	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars)		
Net (Loss) Income	\$ (15,792)	\$ (235,079)
Add:		
Income tax expense	2,847	6,731
Finance costs, net	7,033	6,209
Amortization of property, plant, equipment, intangible and ROU assets	19,971	24,576
EBITDA	\$ 14,059	\$ (197,563)
Hyperinflation adjustment for Argentina	1,112	477
Impairment	—	203,084
Restructuring costs, net	3,395	206
Adjusted EBITDA^(a)	\$ 18,566	\$ 6,204

(a) Adjusted EBITDA includes COVID-19 related government wage subsidies of \$2.4 million in the first quarter of 2021.

Pipeline and Pipe Services Segment

(in thousands of Canadian dollars)	Three Months Ended	
	March 31, 2021	March 31, 2020
Operating Loss	\$ (9,499)	\$ (215,673)
Add:		
Amortization of property, plant, equipment, intangible and ROU assets	10,357	14,247
EBITDA	\$ 858	\$ (201,426)
Hyperinflation adjustment for Argentina	(83)	37
Impairment	—	193,256
Restructuring costs, net	3,271	188
Adjusted EBITDA^(a)	\$ 4,046	\$ (7,945)

(a) Adjusted EBITDA includes COVID-19 related government wage subsidies of \$0.3 million in the first quarter of 2021.

Composite Systems Segment

(in thousands of Canadian dollars)	Three Months Ended	
	March 31, 2021	March 31, 2020
Operating Income (Loss)	\$ 667	\$ (7,970)
Add:		
Amortization of property, plant, equipment, intangible and ROU assets	7,856	8,538
EBITDA	\$ 8,523	\$ 568
Impairment	—	9,828
Restructuring costs, net	24	16
Adjusted EBITDA^(a)	\$ 8,547	\$ 10,412

(a) Adjusted EBITDA includes COVID-19 related government wage subsidies of \$1.4 million in the first quarter of 2021.

Automotive and Industrial Segment

(in thousands of Canadian dollars)	Three Months Ended	
	March 31, 2021	March 31, 2020
Operating Income	\$ 11,436	\$ 7,598
Add:		
Amortization of property, plant, equipment, intangible and ROU assets	1,110	1,119
EBITDA	\$ 12,546	\$ 8,717
Restructuring costs, net	32	2
Adjusted EBITDA^(a)	\$ 12,578	\$ 8,719

(a) Adjusted EBITDA includes COVID-19 related government wage subsidies of \$0.4 million in the first quarter of 2021.

Adjusted EBITDA Margin

Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue and is a non-GAAP measure. The Company believes that adjusted EBITDA margin is a useful supplemental measure that provides meaningful assessment of the business results of the Company and its Operating Segments from principal business activities excluding the impact of transactions that are outside of the Company's normal course of business.

Adjusted Net (Loss) Income and Adjusted EPS

Adjusted net (loss) 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 and other; gain on redemption of investment in associate; asset impairment charges; hyperinflation adjustment for Argentina; gain on sale of operating unit 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 (loss) attributable to shareholders divided by the weighted average number of shares and the weighted average number of diluted shares.

	Three Months Ended	
	March 31, 2021	March 31, 2020
(in thousands of Canadian dollars, except per share amounts)		
Net (Loss) Income	\$ (15,792)	\$ (235,079)
Add:		
Hyperinflation adjustment for Argentina	1,747	1,158
Restructuring costs, net	3,395	206
Impairment	—	203,084
Tax effect of the above adjustments	(635)	(2,401)
Adjusted Net (Loss) Income	\$ (11,285)	\$ (33,032)
Adjusted Net (Loss) Income Attributable to Shareholders	\$ (10,865)	\$ (32,856)
Adjusted EPS		
Basic	\$ (0.15)	\$ (0.47)
Diluted	\$ (0.15)	\$ (0.47)

Operating Margin

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

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:

	March 31, 2021	December 31, 2020
(in thousands of Canadian dollars, except DSO)		
Revenue for the quarter	\$ 279,331	\$ 325,678
Average trade accounts receivable	\$ 173,059	\$ 187,067
DSO	56	52

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:

	March 31, 2021	December 31, 2020
(in thousands of Canadian dollars, except DPO)		
Cost of goods sold, and services rendered for the quarter	\$ 205,596	\$ 230,544
Average accounts payable and accrued liabilities	\$ 167,912	\$ 187,012
DPO	74	73

12.0 Additional Information

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

May 13, 2021