

Shawcor Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Shawcor Ltd.

Opinion

We have audited the consolidated financial statements of Shawcor Ltd. and its subsidiaries (the Entity), which comprise:

- the consolidated balance sheet as at December 31, 2022
- the consolidated statement of loss for the year then ended
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Evaluation of goodwill and indefinite life intangible assets impairment analysis

Description of the matter

We draw attention to Notes 2 b), s), u) and 25 to the financial statements. The Entity has recorded a goodwill balance of $217,032 thousand and indefinite life intangible assets balance of $96,623 thousand. The Entity performs an impairment test for each specified group of cash generating units (GCGUs) that contains

goodwill and/or intangible assets with an indefinite life at the Entity's annual impairment testing date or when indicators of impairment exist at its GCGUs. The Entity determines the recoverable amount for its GCGUs as the higher of value in use and the fair value less costs of disposal (FVLCD). Key assumptions used in determining its FVLCD include projected operating margins, projected capital expenditures, terminal value growth rate and discount rates.

Why the matter is a key audit matter

We identified the evaluation of goodwill and indefinite life intangible assets impairment analysis for each GCGUs as a key audit matter. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance and the high degree of estimation uncertainty in determining the FVLCD. Further, professionals with specialized skills and knowledge were required in performing and evaluating the results of our procedures due to the sensitivity of the recoverable amount to changes in key assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following on each GCGUs with goodwill or indefinite life intangible assets:

We assessed the Entity's ability to accurately estimate projected operating margins and projected capital expenditures by comparing the Entity's historical estimated projected operating margins and projected capital expenditures to actual results.

We considered changes in conditions and events affecting each GCGU with goodwill or indefinite life intangible assets and assessed how they have been factored into the Entity's estimated projected operating margins and projected capital expenditures.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the Entity's terminal value growth rate against long-term estimates of inflation.
- Evaluating the Entity's discount rates of each GCGU, which was based on weighted average cost of capital (WACC), by comparing the Entity's WACC to a WACC that was independently developed using publicly available market data for comparable entities.

We assessed the reasonableness of the Entity's estimate of the recoverable amount of goodwill and indefinite life intangible assets for each GCGU by developing an estimated recoverable amount using the Entity's projected cash flows, which included projected operating margins and projected capital expenditures, and terminal value growth rate for each GCGU and the independently developed discount rates developed by valuation professionals, and compared the result to the Entity's estimated recoverable amount for each GCGU.

Other Matters – Comparative Information

The financial statements for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 9, 2022.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Sarah Catherine deGuzman.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 8, 2023

Shawcor Ltd.

Consolidated Statements of Loss

For the years ended December 31:

(in thousands of Canadian dollars, except per share amounts)		2022		2021
Revenue				
Sale of products	**$**	**801,482**	$	599,457
Rendering of services		**453,807**		543,543
		1,255,289		1,143,000
Cost of Goods Sold and Services Rendered		**890,584**		824,877
Gross Profit		**364,705**		318,123
Selling, general and administrative expenses		**234,653**		202,378
Research and development expenses		**8,782**		8,104
Foreign exchange (gain) loss		**(9,713)**		1,359
Depreciation and amortization		**71,416**		77,767
Gain on sale of land and other (note 10)		**(43,017)**		–
Impairment (note 17)		**22,433**		57,328
Restructuring costs and other, net (note 9)		**11,199**		16,412
Operating Income (Loss)		**68,952**		(45,225)
(Loss) gain on sale of operating units and subsidiaries (note 4)		**(84,751)**		3,212
Income from investments in associates		–		1,770
Finance costs, net (note 12)		**(21,715)**		(22,213)
Net monetary loss (note 3)		**(12,740)**		(6,104)
Loss before income taxes		**(50,254)**		(68,560)
Income tax (recovery) expense (note 13)		**(19,278)**		12,060
Net Loss	$	**(30,976)**	$	(80,620)
Net Loss Attributable to:				
Shareholders of the Company	**$**	**(29,989)**	$	(79,111)
Non-controlling interests		**(987)**		(1,509)
Net Loss	**$**	**(30,976)**	$	(80,620)
Loss per Share ("EPS") (note 14)				
Basic	**$**	**(0.43)**	$	(1.12)
Diluted	**$**	**(0.43)**	$	(1.12)
Weighted Average Number of Shares Outstanding (000s) (note 14)				
Basic		**70,460**		70,467
Diluted		**70,460**		70,467

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

Shawcor Ltd.

Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31:

(in thousands of Canadian dollars)		2022		2021
Net loss	**$**	**(30,976)**	$	(80,620)
Other Comprehensive Income (Loss) that has been or may be Reclassified to Net Income (Loss) in Subsequent Periods				
Exchange differences on translation of foreign operations		**21,338**		(6,330)
Reclassification of exchange difference on disposal of foreign operation (note 4)		**76,266**		–
Net Other Comprehensive Income (Loss) that has been or may be Reclassified to Net (Loss) Income in Subsequent Periods		**97,604**		(6,330)
Other Comprehensive Income (Loss) not to be Reclassified to Net Income (Loss) in Subsequent Periods				
Actuarial gain on defined benefit plans (note 18)		**9,411**		12,774
Income tax expense (note 13)		**(2,243)**		(3,242)
Net Other Comprehensive Income not to be Reclassified to Net Income (Loss) in Subsequent Periods		**7,168**		9,532
Total Other Comprehensive Income		**104,772**		3,202
Total Comprehensive Income (Loss)	**$**	**73,796**	$	(77,418)
Comprehensive Income (Loss) Attributable to:				
Shareholders of the Company	**$**	**76,319**	$	(76,221)
Non-controlling interests		**(2,523)**		(1,197)
Total Comprehensive Income (Loss)	**$**	**73,796**	$	(77,418)

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

Shawcor Ltd.

Consolidated Balance Sheets
As at December 31:

(in thousands of Canadian dollars)		2022		2021
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**263,990**	$	124,449
Accounts receivable (note 20)		**223,779**		184,041
Contract assets (note 28)		**43,792**		39,545
Income taxes receivable		**7,714**		12,088
Inventory (note 21)		**181,964**		122,740
Prepaid expenses		**17,669**		9,241
Derivative financial instruments (note 7)		**1,441**		150
Total current assets		**740,349**		492,254
Non-current Assets				
Property, plant and equipment (note 22)		**297,101**		311,354
Right-of-use assets (note 23)		**50,286**		50,222
Goodwill (note 24)		**217,032**		215,540
Intangible assets (note 24)		**170,824**		172,428
Deferred income tax assets (note 13)		**61,224**		20,839
Other assets (note 25)		**12,274**		5,115
Total non-current assets		**808,741**		775,498
TOTAL ASSETS	**$**	**1,549,090**	$	1,267,752
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities (note 26)	**$**	**237,397**	$	184,664
Lease liabilities (note 23)		**25,804**		13,391
Provisions (note 27)		**15,813**		14,938
Income taxes payable		**6,692**		14,414
Contract liabilities (note 28)		**192,093**		27,630
Other liabilities (note 30)		**28,326**		5,032
Total current liabilities		**506,125**		260,069
Non-current Liabilities				
Long-term debt (note 31)		**210,832**		292,140
Lease liabilities (note 23)		**33,635**		41,048
Provisions (note 27)		**14,132**		15,482
Employee future benefits (note 18)		**9,550**		10,452
Deferred income tax liabilities (note 13)		**16,151**		3,492
Contract liabilities (note 28)		**51,831**		–
Other liabilities (note 30)		**7,181**		2,996
Total non-current liabilities		**343,312**		365,610
Total liabilities		**849,437**		625,679
Equity				
Share capital (note 33)		**707,400**		720,993
Contributed surplus		**25,717**		27,914
Retained deficit		**(161,212)**		(130,797)
Non-controlling interests		**275**		2,798
Accumulated other comprehensive income		**127,473**		21,165
Total equity		**699,653**		642,073
TOTAL LIABILITIES AND EQUITY	**$**	**1,549,090**	$	1,267,752

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

Shawcor Ltd.

Consolidated Statements of Changes in Equity
For the years ended December 31:

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Non-controlling Interests	Accumulated Other Comprehensive Income	Total Equity
Balance – January 1, 2022	$ 720,993	$ 27,914	$ (130,797)	$ 2,798	$ 21,165	$ 642,073
Net loss	**–**	**–**	**(29,989)**	**(987)**	**–**	**(30,976)**
Other comprehensive (loss) income	**–**	**–**	**–**	**(1,536)**	**106,308**	**104,772**
Comprehensive (loss) income	**–**	**–**	**(29,989)**	**(2,523)**	**106,308**	**73,796**
Issued on exercise of stock options	**939**	**–**	**–**	**–**	**–**	**939**
Compensation cost on exercised options	**336**	**(336)**	**–**	**–**	**–**	**–**
Compensation cost on exercised restricted share units	**4,804**	**(4,804)**	**–**	**–**	**–**	**–**
Share-based compensation expense	**–**	**2,413**	**–**	**–**	**–**	**2,413**
Share repurchase (note 33)	**(19,672)**	**530**	**–**	**–**	**–**	**(19,142)**
Excess of purchase price overstated value of shares	**–**	**–**	**(426)**	**–**	**–**	**(426)**
Balance – December 31, 2022	**$ 707,400**	**$ 25,717**	**$ (161,212)**	**$ 275**	**$ 127,473**	**$ 699,653**
Balance – January 1, 2021	$ 719,615	$ 26,494	$ (51,686)	$ 3,995	$ 18,275	$ 716,693
Net loss	–	–	(79,111)	(1,509)	–	(80,620)
Other comprehensive income	–	–	–	312	2,890	3,202
Comprehensive (loss) income	–	–	(79,111)	(1,197)	2,890	(77,418)
Compensation cost on exercised restricted share units	1,378	(1,378)	–	–	–	–
Stock-based compensation expense	–	2,798	–	–	–	2,798
Balance – December 31, 2021	$ 720,993	$ 27,914	$ (130,797)	$ 2,798	$ 21,165	$ 642,073

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

Shawcor Ltd.

Consolidated Statements of Cash Flows
For the years ended December 31:

(in thousands of Canadian dollars)		2022		2021
Operating Activities				
Net loss	**$**	**(30,976)**	$	(80,620)
Add (deduct) items not affecting cash				
Depreciation and amortization		**71,416**		77,767
Impairment (note 17)		**22,433**		57,328
Interest expense on right-of-use lease liabilities (note 12)		**2,812**		2,783
Share-based compensation and incentive-based compensation (note 16)		**31,491**		4,977
Deferred income taxes (note 13)		**(28,866)**		4,098
Gain on disposal of property, plant and equipment		**(32)**		(10,957)
Gains on sale of land and other (note 10)		**(43,017)**		–
Unrealized gain on derivative financial instruments		**(1,291)**		(187)
Income from investments in associates		**–**		(1,770)
Loss (gain) on sale of operating units and subsidiaries (note 4)		**84,751**		(3,212)
Other		**671**		(413)
Change in non-cash working capital and foreign exchange (note 19)		**101,711**		14,890
Cash Provided by Operating Activities	**$**	**211,103**	$	64,684
Investing Activities				
Purchase of property, plant and equipment		**(50,083)**		(25,072)
Proceeds on disposal of property, plant and equipment		**58,179**		8,726
Proceeds on sale of operating units and subsidiaries (note 4)		**15,782**		10,179
Business acquisition, net of cash acquired (note 5)		**(4,376)**		–
Decrease in other assets		**–**		645
Proceeds from redemption of investment in associate		**–**		9,354
Cash Provided by Investing Activities	**$**	**19,502**	$	3,832
Financing Activities				
Repayment of long-term debt (note 31)		**(79,000)**		(290,000)
Long term debt issuance cost		**(3,177)**		(3,521)
Proceeds from issuance of senior notes, net (note 31)		**–**		150,000
Repayment of lease liabilities (note 23)		**(25,242)**		(20,011)
Repurchase of shares – Normal Course Issuer Bids (note 33)		**(5,167)**		–
Proceeds from stock options exercised (note 33)		**939**		–
Cash Used in Financing Activities	**$**	**(111,647)**	$	(163,532)
Effect of Foreign Exchange on Cash and Cash Equivalents		**20,583**		4,951
Net change in Cash and Cash Equivalents		**139,541**		(90,065)
Cash and Cash Equivalents – Beginning of Year		**124,449**		214,514
Cash and Cash Equivalents – End of Year	**$**	**263,990**	$	124,449
Cash		**262,155**		123,689
Cash equivalents		**1,835**		760
Total Cash and Cash Equivalents	**$**	**263,990**	$	124,449
Supplemental Cash Flow Information				
Interest paid	**$**	**19,930**	$	15,728
Interest received	**$**	**644**	$	208
Income taxes paid	**$**	**10,871**	$	8,655

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Shawcor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange under ticker symbol SCL. Shawcor Ltd., together with its wholly owned subsidiaries (collectively referred to as the "Company" or "Shawcor"), is a growth oriented, global material sciences company serving the Infrastructure, Energy, and Transportation markets. The Company operates through a network of fixed and mobile manufacturing and service facilities. Its three business segments, Composite Systems, Automotive & Industrial and Pipeline & Pipe Services enable responsible renewal and enhancement of critical infrastructure while lowering risk and environmental impact. The Company's business includes five operating units with manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 8.

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

Notes to Consolidated Financial Statements	Page	Description
General Application		
1. Basis of Financial Statement Preparation	12	Summary of financial statement preparation
2. Summary of Significant Accounting Policies	13	Summary of accounting policies and principles and the methods used in their application
3. Financial Reporting in Hyperinflationary Economies	23	Summary of adjustment for the changes in the general purchasing power of the Argentine peso
4. Sale of operating units and subsidiaries	24	Summary of loss from sale of operating units and subsidiaries
5. Acquisitions	25	Summary of acquisition of Kanata Electronic Services Ltd.
6. Capital Management	25	Summary of objectives, policies and processes for managing the capital structure
7. Financial Instruments	26	Summary of financial instruments, including fair values and the management of associated risks
Consolidated Results of Operations Focused		
8. Segment Information	29	Summary disclosure of segmented information regularly reported to the chief operating decision maker
9. Restructuring Costs and Other, Net	32	Summary of restructuring and other costs
10. Gain on sale of Land and Other	32	Summary of gains on sale of land and other
11. Employee Benefits Expense	32	Summary of employee benefits expense
12. Finance Costs	32	Summary of items comprising finance costs
13. Income Taxes	33	Summary of income tax expense, reconciliations of statutory rate income tax expense to income tax expense and analyses of deferred income tax liability
14. Loss Per Share	35	Summary of numerators and denominators used in calculating per share amounts
15. Key Management Compensation	35	Summary of key management compensation
16. Share-based and Other Incentive-based Compensation	36	Summary of compensation arising from share option awards, restricted share units ("RSUs"), deferred share units ("DSUs") and employee share purchase plan
17. Impairment	40	Summary of impairment charges
18. Employee Future Benefits	42	Summary of employee future benefits and related disclosures

Consolidated Financial Position Focused		
19. Supplemental Cash Flow Information	46	Summary of supplemental cash flow information
20. Accounts Receivable	46	Summary of items comprising accounts receivable
21. Inventory	47	Summary of items comprising inventory
22. Property, Plant and Equipment	47	Summary of items comprising property, plant and equipment
23. Leases	49	Summary of items comprising leases
24. Goodwill and Intangible Assets	50	Summary of items comprising goodwill and intangible assets
25. Other Assets	53	Summary of items comprising other assets
26. Accounts Payable and Accrued Liabilities	53	Summary of items comprising accounts payable and accrued liabilities
27. Provisions	53	Summary of items comprising provisions
28. Contract Balances	54	Summary of Contract Asset and Contract Liabilities
29. Government Grants and Subsidies	55	Summary of items comprising government grants and subsidies
30. Other Liabilities	55	Summary of items comprising other liabilities
31. Long-term Debt and Credit Facilities	56	Summary of long-term and credit facilities
32. Commitments and Contingencies	57	Summary of contingent liabilities, claims and lawsuits
33. Share Capital	57	Summary of authorized share capital
34. Subsequent event	58	Business acquisition

1 Basis of Financial Statement Preparation

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

Basis of Presentation and Consolidation

The consolidated financial statements have been prepared on the historical cost basis, except for liabilities for cash-settled share based payment arrangements and derivative financial instruments, which are measured at fair value, and employee future benefits measured at fair value of plan assets less the present value of the defined benefit obligation as explained in the accounting policies set out in note 2.

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

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

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

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

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2022 were authorized for issue by the Company's Board of Directors (the "Board") on March 8, 2023.

2 Summary of Significant Accounting Policies

The significant accounting policies are as follows:

a) Critical Judgments in Applying Accounting Policies

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

Determination of Reportable Operating Segments

Management has exercised judgment in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM is responsible for allocating resources and assessing the performance of the operating segments.

Determination of Cash-Generating Units ("CGUs")

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

Provisions and Contingent Liabilities

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

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

Income Taxes

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

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

b) Use of Estimates

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

Long-lived Assets and Goodwill

The Company evaluates the carrying values of the CGU or group of CGU's ("GCGU") goodwill and indefinite life intangible assets on an annual basis in the fourth quarter of each year to determine whether or not impairment of these assets has occurred and whether impairments of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs with long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests require the determination of recoverable amounts which include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use or fair value less costs of disposal calculations. Actual results could differ from these assumptions and estimates.

Employee Future Benefit Obligations

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

Income Taxes

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

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

c) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Acquisition transaction costs and any restructuring costs are charged to the consolidated statements of loss in the period in which they are incurred.

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

d) Leases

The Company recognizes Right-of-Use ("ROU") assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, an estimate of costs to restore the underlying asset, any site upon which it is located to the condition required by the terms and conditions of the lease, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. ROU assets are subject to impairment.

Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term. The service component of a lease agreement is separated from the value of the asset and is not reported on the consolidated balance sheets. Purchase, renewal and termination options that are reasonably certain of being exercised are also included in the measurement of the lease liability.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of remaining lease payments to be made over the lease term. The lease payments include fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate less any lease incentives, amount expected to be payable under a residual value guarantee, and the exercise price of a purchase option if the exercise of the extension option and early termination penalties is certain, unless the Company is reasonably certain it will not terminate early. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, such as a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

e) Foreign Currency Translation

Functional and Presentation Currency

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

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss, except when deferred in other comprehensive income ("OCI") as qualifying net investment hedges or considered to form part of a net investment in a foreign operations as the settlement is neither planned nor likely in the foreseeable future.

Translation of Foreign Operations

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

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

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

When a foreign operation is sold, exchange differences that were recorded in accumulated OCI are recognized in the consolidated statements of loss as part of the gain or loss on sale.

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

f) Financial Instruments

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

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

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

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

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

Balance Sheet Item	Designation
Cash and cash equivalents	Measured at amortized cost
Accounts receivable	Measured at amortized cost
Contract assets	Measured at amortized cost
Loans receivable	Measured at amortized cost
Deposit guarantee	Measured at amortized cost
Derivative financial instruments	Fair value through profit or loss
Accounts payable	Measured at amortized cost
Contract Liabilities	Measured at amortized cost
Income tax receivable (payable)	Measured at amortized cost
Long-term debt	Measured at amortized cost

Derivative Financial Instruments

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

Fair Value

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

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

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

Derecognition

Financial assets are derecognized when the contractual rights to the receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and rewards associated with the asset. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the

Company does not control the asset then de-recognition is appropriate.

Financial liabilities are derecognized when the related obligations are either discharged, cancelled, or expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets acquired or liabilities assumed, is recognized in the consolidated statements of loss as a gain or loss on debt extinguishment.

Impairment

Financial assets carried at amortized cost are assessed at each reporting date for any potential impairment. The Company uses the expected credit loss ("ECL") model for calculating impairment and recognizes expected credit losses as a loss allowance for assets measured at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12 month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

The amount of the loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and the impairment loss is recognized in the consolidated statements of loss.

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

Transaction Costs

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

g) Revenue Recognition

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

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

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

Sale of Goods

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

Rendering of Services

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

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

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

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

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

h) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

i) Employee Future Benefits

The Company provides future benefits to its employees under a number of defined benefit and defined contribution arrangements. The employee future benefits liability recognized on the consolidated balance sheets, in respect of the defined benefit pension plans, represents the deficit position for those defined benefit plans, whose defined benefit obligation exceeds that pension plan's assets. The Company has included in other assets the net surplus position of those defined benefit plans whose pension plan assets exceed the defined benefit obligation.

The defined benefit obligation is determined by independent actuaries using the projected unit credit method pro-rated on service. The defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity matching the terms of the related defined benefit arrangements. Plan assets are valued at quoted market prices at the consolidated balance sheet dates.
Past service costs arising from plan amendments are fully recognized in income when the plan amendment or curtailment occurs, or when related restructuring costs or termination benefits are recognized, whichever comes first.

Actuarial gains and losses resulting from experience adjustments and the effect of changes in actuarial assumptions, and actual returns on plan assets, as compared to returns using interest rates of high-quality corporate bonds, are recognized in OCI in the period in which they arise.

For the Company's defined contribution plans, costs are determined based on the services provided by the Company's employees and are recognized in the consolidated statements of loss as those services are provided.

j) Share-based and Other Incentive-based Compensation

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

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

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

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

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

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

k) Research and Development Costs

Research and development costs are charged to the consolidated statements of loss, except for development costs, which are capitalized as an intangible asset when the following criteria are met:

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

The intangible assets are carried at cost less any accumulated amortization and impairment losses, if any. Amortization of the asset commences when development has been completed and the asset is available for use. It is amortized over the period of expected future benefit, generally between 3 to 10 years. During the period of development, the asset is tested for impairment annually. All other development costs are charged to the consolidated statements of loss.

l) Investments in Joint Ventures

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

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

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

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

m) Income Taxes

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet dates in the countries where the Company and its subsidiaries operate and generate taxable income.

The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

n) Loss Per Share (“EPS”)

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

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

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

o) Cash and Cash Equivalents

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

p) Trade and Other Receivables

Trade and other receivables are recorded at amortized cost. Impairment of trade and other receivables is regularly monitored. The Company uses the ECL model for calculating impairment and recognizes ECLs. The model is based on observed customer solvency, the aging of trade and other receivables, historical values and customer-specific and industry risks; external credit ratings as well as bank and trade references are reviewed when available.

q) Inventory

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

r) Property, Plant and Equipment

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

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

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

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

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

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

s) Intangible Assets

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

Intellectual Property and Intangible Assets with Limited Lives

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

Intangible Assets with Indefinite Lives

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

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

t) Impairment of Non-financial Assets

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

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

u) Goodwill

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

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

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

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

v) Provisions

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

w) 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").

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

The application of IAS 29 results in the adjustment for the loss of purchasing power of the Argentine Peso recorded in the consolidated statements of loss. 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 applicable amounts (i.e., assets, liabilities, equity, revenue and expenses) are translated at the closing foreign exchange rate at the date of the most recent consolidated balance sheet, except that comparative amounts are not adjusted for subsequent changes in the price level or subsequent changes in exchange rates.

x) Government Grants and Subsidies

The Company applied IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* in relation to the receipt of the Canada Emergency Wage Subsidy ("CEWS") and other programs as part of the governmental responses to the global COVID-19 health pandemic. Government assistance is recognized only when there is reasonable assurance that (a) the Company will comply with eligibility requirements and (b) the grant will be received.

y) Assets Held for Sale

Assets and liabilities are classified as held for sale if their carrying amounts are expected to be recovered through a disposition rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset or disposal group and the sale is expected to be completed within one year from the date of the classification. The assets or disposal groups are measured at the lower of their carrying amount and estimated fair value less costs of disposal. Impairment losses on initial classification as well as subsequent gains or losses on remeasurement are recognized in Depreciation, Amortization, and Impairment. When the assets or disposal groups are sold, the gains or losses on the sale are recognized in Gain (Loss) on Disposal of Assets. Assets classified as held for sale are not depreciated or amortized.

A disposal group qualifies as a discontinued operation if it is a component of the Company that either has been disposed of, or is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale. A component of the Company comprises an operation and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as earnings or loss after tax from discontinued operations in the consolidated statement of (loss) earnings and comprehensive (loss) income.

3 Financial Reporting in Hyperinflationary Economies

On the application of IAS 29, the Company used the conversion coefficient and estimates derived from the consumer price index ("CPI") in the Greater Buenos Aires area published by the National Statistics and Census Institution in Argentina (INDEC) in the first six months of 2022, and used the Argentina CPI growth rate from The International Monetary Fund (IMF) starting July 1, 2022, due to INDEC publishing delays. On December 2, 2022, the Company sold 100% of the contolling interest in its Socotherm Americas subsidiary in Argentina. The Company does not have any other operations in Argentina and therefore the application of IAS 29 is not expected to have an impact on the Company's financials going forward.

The CPIs for the current year quarters and prior year quarter and the corresponding conversion coefficient were as follows:

Year	Index	Conversion coefficient	CAD/ARS exchange rate
2021 – December	2,043.88	1.7108	0.012336
2022 – March	2,297.94	1.5217	0.011266
2022 – June	2,511.02	1.3925	0.010306
2022 – September	3,062.86	1.1416	0.009319
2022 – November (1)	3,496.67	1.0000	0.008091

(1) The Argentina business was sold on December 2, 2022 (note 4).

4 Sale of operating units and subsidiaries

On September 1, 2022, the Company sold 100% of the controlling interest in Lake Superior Consulting ("LSC") for the purchase price of $5.9 million (or U.S.$4.5 million) to a group of buyers which included LSC management personnel. The sale of this operating unit resulted in a loss of $6.0 million (or U.S. $4.5 million). The LSC business, reported within the Company's Pipeline and Pipe Services ("PPS") segment, offers engineering, consulting and field inspection services to the US onshore pipeline and broader energy infrastructure markets.

On November 14, 2022, the Company sold its Oilfield Asset Management ("OAM") business for the purchase price of $20.0 million net of working capital adjustments. The sale of this operating unit resulted in a loss of $1.3 million. The OAM business, reported within the Company's Composite Systems ("CS") segment, is a provider of downhole tubular inspection, repair and inventory management services to the Western Canadian energy market.

On December 2, 2022, the Company sold 100% of the controlling interest in its Socotherm Americas subsidiary in Argentina ("Socotherm") for the purchase price of $6.6 million net of working capital adjustments. The sale of this subsidiary resulted in a loss of $77.5 million, of which $76.3 million was a non cash accounting loss driven by a foreign currency related cumulative translation adjustment. The Socotherm business, reported within the Company's PPS segment, delivers external and internal anti-corrosion coating and thermal insulation coating to the Argentine and regional pipeline and oilfield tubular markets from its base in Escobar, just outside Buenos Aires.

On December 17, 2021, the Company sold its Inspection Services business ("SIS") for the purchase price of $11.2 million (or U.S.$8.8 million). The sale of this operating unit resulted in a gain of $3.2 million. The SIS business, reported within the Company's PPS segment, offers non-destructive testing services and related technologies to the US onshore pipeline market.

The table below details the breakdown on the (loss) gain of sale and net cash proceeds received in Canadian dollars:

Details of sale of operating units and subsidiaries

(in thousands of Canadian dollars)	2022 Sale of LSC	2022 Sale of OAM	2022 Sale of Argentina	2022 Total	2021 Sale of SIS
Purchase price	**$ 5,900**	**$ 15,000**	**$ 5,944**	**$ 26,844**	$ 11,188
Net working capital adjustments	**–**	**5,000**	**675**	**5,675**	109
Total adjusted purchase price	**5,900**	**20,000**	**6,619**	**32,519**	11,297
Costs related to sale	**(1,474)**	**(961)**	**(906)**	**(3,341)**	(2,814)
Carrying amount of net assets sold	**(10,360)**	**(20,366)**	**(6,937)**	**(37,663)**	(5,271)
Cumulative Translation Adjustment balance	**–**	**–**	**(76,266)**	**(76,266)**	**–**
(Loss) gain on Sale before Income Tax	**$ (5,934)**	**$ (1,327)**	**$ (77,490)**	**$ (84,751)**	$ 3,212
Total adjusted purchase price	**$ 5,900**	**$ 20,000**	**$ 6,619**	**$ 32,519**	$ 11,297
Amount held in escrow	**–**	**(10,000)**	**(3,928)**	**(13,928)**	(1,118)
Cash Proceeds Received from Sale, net of held in escrow	**5,900**	**10,000**	**2,691**	**18,591**	10,179
Cash balance transferred as part of sales	**(603)**	**–**	**(2,206)**	**(2,809)**	**–**
Net Cash Proceeds Received from Sale, net of held in escrow and cash balance transferred	**$ 5,297**	**$ 10,000**	**$ 485**	**$ 15,782**	$ 10,179

5 Acquisitions

On December 6, 2022, the Company completed the acquisition of Kanata Electronic Services Limited ("Kanata") for proceeds of $6.5 million ($4.4 million net of cash acquired). Kanata specializes in manufacturing and supply of specialty cable assemblies and wire harnesses for the nuclear and aerospace industries. It serves customers around the globe from a single, Toronto area site and will be integrated into Shawcor's ShawFlex wire and cable business. Kanata had revenue and net income of $0.4 million and $0.1 million respectively in December 2022.

6 Capital Management

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

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Long-term debt	**$**	**210,832**	$	292,140
Lease liabilities		**59,439**		54,439
Equity		**699,653**		642,073
Total managed capital	**$**	**969,924**	$	988,652

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may issue or reacquire shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its syndicated credit facility (the "Credit Facility"). Specifically, the Company has undertaken to maintain certain covenants in respect of its Credit Facility. The Company is in compliance with these covenants as at December 31, 2022. Refer to note 31 for further information pertaining to the Company's debt covenant requirements.

7 Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)		December 31, 2022		December 31, 2021
Loans and Receivables, Measured at Amortized Cost				
Cash and cash equivalents	**$**	**263,990**	$	124,449
Accounts receivable (note 20)		**223,779**		184,041
Contract assets		**43,792**		39,545
Loans receivable		**518**		891
Deposit guarantee		**166**		246
Contract liabilities		**192,093**		27,630
Income tax receivable		**7,714**		12,088
Fair Value through Profit or Loss				
Derivative financial instruments – assets	**$**	**1,441**	$	150
Financial Liabilities, Measured at Amortized Cost				
Accounts payable (note 26)	**$**	**99,667**	$	82,459
Lease liabilities (note 23)		**25,804**		13,391
Income tax payable		**6,692**		14,414
Long-term debt (note 31)		**219,000**		298,000

Fair Value

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

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

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

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at December 31, 2022:

(in thousands of Canadian dollars)		Fair Value		Level 1		Level 2		Level 3
Assets								
Derivative financial instruments	**$**	**1,441**	**$**	**–**	**$**	**1,441**	**$**	**–**
Liabilities								
Long-term debt	**$**	**232,000**	**$**	**–**	**$**	**232,000**	**$**	**–**

The derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the contracted rates at the time the derivatives are acquired to the year-end rates quoted in the market.

Total long-term debt is comprised of the utilized Credit Facility of $69 million and Senior Notes, unsecured of $150 million. The Senior Notes, unsecured have a fair market value of $163 million which is higher than the carrying amount as the fixed

interest rate is higher than the market rate of interest for this grade of Senior Note as at December 31, 2022. The Credit Facility is subject to a variable interest rate and therefore the carrying amount is approximately equal to the fair market value.

Financial Risk Management

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

Market Risk

Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are denominated in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2022, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net loss (attributable to shareholders of the Company) for the year ended December 31, 2022 by approximately $42.0 million, $1.4 million and $2.9 million, respectively, prior to foreign exchange forward contract activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by approximately $56.1 million, $23.3 million and $32.8 million, respectively, as at December 31, 2022.

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

Foreign Exchange Forward Contracts

The Company utilizes financial instruments to manage the risk associated with foreign exchange rates.

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

(in thousands, except weighted average rate amounts)	**2022**	2021
US dollars sold for Euros		
Less than one year	**US$12,053**	US$20,519
Weighted average rate	**0.99**	0.88
Canadian dollars sold for British pounds		
Less than one year	**Can$8,728**	Can$9,374
Weighted average rate	**0.64**	0.59

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

As at December 31, 2022, the Company had notional amounts of $25.1 million of foreign exchange forward contracts outstanding (2021 – $35.4 million) with the fair value of the Company's net unrealized gain from all foreign exchange forward contracts totalling $1.4 million (2021 – $0.2 million net unrealized gain).

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2022:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial Assets				
Cash equivalents	**$ –**	**$ –**	**$ 1,835**	**$ 1,835**
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	**$ 64,445**	**$ –**	**$ –**	**$ 64,445**
Long-term debt	**–**	**69,000**	**150,000**	**219,000**
	$ 64,445	**$ 69,000**	**$ 150,000**	**$ 283,445**

As at December 31, 2022, the Company estimates that a 100- basis point increase [decrease] in short-term interest rates, with all other variables held constant, would result in an increase [decrease] of approximately $0.7 million to annual finance costs.

Credit Risk

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

For the years ended December 31, 2022 and 2021, there was no customer who generated more than 10% of total consolidated revenue. As at December 31, 2022 and 2021, no customer accounted for more than 10% of total consolidated trade accounts receivable.

The carrying value of accounts receivable is reduced using ECL, and the amount of the loss is recognized in the consolidated statements of loss with a charge to selling, general and administrative expenses. When a receivable balance is considered to be uncollectible, it is written off against the ECL accounts. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses.

As at December 31, 2022, $12.1 million, or 6%, of trade accounts receivable was more than 90 days overdue, compared to $15.3 million, or 9%, as at December 31, 2021. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired. Refer to note 20 for the trade accounts receivable aging schedule.

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

(in thousands of Canadian dollars)	2022	2021
Balance – Beginning of Year	**$ (3,559)**	$ (3,409)
ECL expense	**(1,191)**	(861)
Recovery of amounts previously provided for	**311**	207
ECL written off	**109**	374
Impact of change in foreign exchange rates	**288**	130
Balance – End of Year	**$ (4,042)**	$ (3,559)

Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at December 31, 2022, the Company had cash and cash equivalents totalling $264.0 million (2021 – $124.4 million) and had unutilized lines of credit available to use of $416.2 million (2021 – $261.9 million).
The following are the contractual maturities of the Company’s purchase commitments and financial liabilities as at December 31, 2022:

(in thousands of Canadian dollars)	2023	2024	2025	2026	2027	Thereafter	Total
Purchase commitments	$ 317,210	$ –	$ –	$ –	$ –	$ –	$ 317,210
Accounts payable	99,667	–	–	–	–	–	99,667
Long-term debt (note 31)	–	–	–	219,000	–	–	219,000
Interest obligations on long- term debt	16,536	16,536	16,536	16,536	–	–	66,144
Obligations under leases	26,528	15,222	6,721	4,843	2,129	2,575	58,018
Common area maintenance obligations under leases	1,742	1,536	1,052	737	737	1,842	7,646
Low value/short-term leases	1,321	58	–	–	–	–	1,379
Total	**$ 463,004**	**$ 33,352**	**$ 24,309**	**$ 241,116**	**$ 2,866**	**$ 4,417**	**$ 769,064**

8 Segment Information

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

Inter-segment transactions among Composite Systems, Automotive and Industrial, and Pipeline and Pipe Services are accounted for at negotiated transfer prices. The aggregation of the reportable segments is based on the customers and markets that the Company services.

Composite Systems

The Composite Systems reportable segment comprises the following divisions:

- Composite Production Systems manufacturers flexible composite used primarily for oil and gas gathering lines, and other applications requiring corrosion resistance and high pressure capabilities. This operating unit also manufactures fiberglass reinforced plastic (“FRP”) underground storage tanks for the retail fuel, water and wastewater, and oil and gas markets.
- Oilfield Asset Management provides a complete range of tubular management services to the Western Canadian onshore oilfield market, including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing, and tubular products that utilize composite materials. The Company’s results include the financial performance of the Oilfield Asset Management operating unit up to the date of its sale on November 14, 2022.

Automotive and Industrial

The Automotive and Industrial segment consists of the Connection Systems operating unit.

- Connection Systems includes DSG Canusa, a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment; and Shawflex, a manufacturer of highly engineered, low-voltage wire, cable, connector and harness solutions for control, instrumentation, thermocouple, power, and industrial applications.

Pipeline and Pipe Services

The Pipeline and Pipe Services reportable segment comprises the following divisions:

- Pipeline Performance Group offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines. . The Company’s results include the financial performance of the Argentina operating unit up to the date of its sale on December 2, 2022.
- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.

- Shawcor Inspection Services provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services. The Company's results include the financial performance of the Shawcor Inspection Services operating unit up to the date of its sale on December 17, 2021.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators and other critical infrastructure operators. The Company's results include the financial performance of the Lake Superior Consulting operating unit up to the date of its sale on September 1, 2022.

Financial and Corporate

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

Segment

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

(in thousands of Canadian dollars)	2022					
	Composite Systems [b]	**Automotive and Industrial**	**Pipeline and Pipe Services [c]**	**Financial and Corporate**	**Eliminations and Adjustments**	**Total**
Revenue						
External	$ **527,405**	$ **312,977**	$ **414,907**	$ **–**	$ **–**	$ **1,255,289**
Inter-segment	**1,745**	**82**	**596**	**–**	**(2,423)**	**–**
Total Revenue	**529,150**	**313,059**	**415,503**	**–**	**(2,423)**	**1,255,289**
Operating expenses [a]	**430,028**	**252,320**	**411,707**	**23,892**	**(2,423)**	**1,115,524**
Research and development	**5,902**	**1,483**	**1,164**	**233**	**–**	**8,782**
Depreciation and amortization	**29,758**	**4,325**	**35,964**	**1,369**	**–**	**71,416**
Restructuring costs and other, net	**4,478**	**81**	**1,497**	**5,143**	**–**	**11,199**
Gains on sale of land and other (note 10)	**(3,820)**	**–**	**–**	**(39,197)**	**–**	**(43,017)**
Income (Loss) from Operations for CODM	**62,804**	**54,850**	**(34,829)**	**8,560**	**–**	**91,385**
Impairment	**9,458**	**–**	**12,975**	**–**	**–**	**22,433**
Income (Loss) from Operations	**53,346**	**54,850**	**(47,804)**	**8,560**	**–**	**68,952**
Additions to property, plant and equipment, net of disposals	$ **13,058**	$ **7,080**	$ **29,650**	$ **(2,531)**	$ **–**	$ **47,257**
Goodwill	$ **142,060**	$ **17,071**	$ **57,901**	$ **–**	$ **–**	$ **217,032**
Total assets	$ **536,010**	$ **174,236**	$ **568,837**	$ **316,509**	$ **(46,502)**	$ **1,549,090**
Total liabilities	$ **150,769**	$ **66,817**	$ **402,143**	$ **226,220**	$ **3,488**	$ **849,437**

(a) Operating expenses include cost of goods and services rendered, selling, general and administrative expenses, and foreign exchange gain and loss.
(b) The Composite Systems segment results include OAM which was sold on November 14, 2022.
(c) The PPS segment results include Lake Superior Consulting and Socotherm Argentina which were sold on September 1, 2022 and December 2, 2022 respectively

(in thousands of Canadian dollars)	2021					
	Composite Systems	Automotive and Industrial	Pipeline and Pipe Services[b]	Financial and Corporate	Eliminations and Adjustments	Total
Revenue						
External	$ 372,511	$ 263,464	$ 507,025	$ –	$ –	$ 1,143,000
Inter-segment	2,397	13	438	–	(2,848)	–
Total Revenue	374,908	263,477	507,463	–	(2,848)	1,143,000
Operating expenses[a]	315,289	216,432	485,583	14,158	(2,848)	1,028,614
Research and development	5,149	1,797	1,087	71	–	8,104
Depreciation and amortization	30,611	4,396	39,981	2,779	–	77,767
Restructuring costs and other, net	1,718	21	7,310	7,363	–	16,412
Income (Loss) from Operations for CODM	22,142	40,831	(26,499)	(24,371)	–	12,103
Impairment	12,618	–	40,802	3,908	–	57,328
Income (Loss) from Operations	$ 9,524	$ 40,831	$ (67,301)	$ (28,279)	$ –	$ (45,225)
Additions to property, plant and equipment, net of disposals	$ 4,052	$ 5,407	$ 8,824	$ 722	$ –	$ 19,005
Goodwill	$ 142,544	$ 16,992	$ 56,004	$ –	$ –	$ 215,540
Total assets	$ 574,220	$ 155,008	$ 421,423	$ 169,323	$ (52,222)	$ 1,267,752
Total liabilities	$ 144,711	$ 50,032	$ 166,570	$ 261,557	$ 2,809	$ 625,679

(a) Operating expenses include cost of goods and services rendered, selling, general and administrative expenses, and foreign exchange gain and loss.
(b) The PPS segment results include SIS which was sold on December 17, 2021.

Geographical Information

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

(in thousands of Canadian dollars)	**2022**						
	Canada	**USA**	**Latin America**	**EMEA[a]**	**Asia Pacific**	**Eliminations**	**Total**
Revenue							
External	**$ 414,830**	**$ 535,074**	**$ 66,964**	**$ 183,942**	**$ 54,479**	**$ –**	**$ 1,255,289**
Inter-segment	**1,827**	**596**	**–**	**–**	**–**	**(2,423)**	**–**
Total Revenue	**$ 416,657**	**$ 535,670**	**$ 66,964**	**$ 183,942**	**$ 54,479**	**$ (2,423)**	**$ 1,255,289**
Non-current assets [b]	**$ 333,998**	**$ 242,315**	**$ 59,134**	**$ 74,345**	**$ 25,711**	**$ –**	**$ 735,503**

(in thousands of Canadian dollars)	2021						
	Canada	USA	Latin America	EMEA[a]	Asia Pacific	Eliminations	Total
Revenue							
External	$ 334,879	$ 455,993	$ 81,767	$ 221,046	$ 49,315	$ –	$ 1,143,000
Inter-segment	2,411	437	–	–	–	(2,848)	–
Total Revenue	$ 337,290	$ 456,430	$ 81,767	$ 221,046	$ 49,315	$ (2,848)	$ 1,143,000
Non-current assets [b]	$ 358,026	$ 257,690	$ 27,601	$ 84,229	$ 22,336	$ –	$ 749,882

(a) Refers to the Europe, Middle East, and Africa
(b) Excluding loans receivable, investment in associates, deferred income tax assets and accrued employee future benefit asset.

9 Restructuring Costs and Other, Net

In the year ended December 31, 2022, the Company recorded net restructuring costs of $11.2 million, net of a gain of $0.7 million from the sale of assets related to site closures. These costs reflect the revaluation of share-based incentive compensation costs associated with historical restructuring actions, including previously completed executive leadership changes, the completed exit from the Global Poly product line and severance costs related to headcount reductions including those associated with the businesses sold during the year.

In the year ended December 31, 2021, the Company sold its Shaw Inspection Services business and Guardian Mexico business and recorded net restructuring costs of $16.4 million, net of a gain of $7.0 million from the sale of assets related to site closures and retirement of decommissioning liabilities. In addition, restructuring costs and other for the year reflected reductions in salaried headcount, the announced closure of the Adria, Italy facility, the sale of one of its facilities in Argentina, the sale of a property in Western Canada, the sale of other assets related to previously announced site closures and completed decommissioning activities at a cost lower than originally anticipated, triggering a reduction of certain provisions.

10 Gain on sale of Land and Other

In the year ended December 31, 2022, the Company recorded a gain on sale of land and other of $43.0 million (2021 – nil). On June 28, 2022 the Company finalized the sale and leaseback agreement of its Rexdale facility in Toronto, Canada. The sale generated proceeds of $49.5 million, net of selling costs. As part of this sale transaction, the Company entered into a three-year lease to facilitate operational continuity while the Company relocates to a modernized location in the Greater Toronto Area. After accounting for the leaseback adjustment, the Company recorded an accounting gain of $39.2 million. The Company recognized a lease liability of $6.9 million and ROU asset of $0.5 million.

Additionally, in the second quarter of 2022, the Company generated proceeds of $5.0 million and a gain of $3.8 million from the sale of assets and exit from the Global Poly product line, which was previously part of the Composite Systems reporting segment.

11 Employee Benefits Expense

(in thousands of Canadian dollars)		**2022**		2021
Salaries, wages and employee benefits	**$**	**359,784**	$	391,149
Pension (note 18)		**11,184**		12,362
Share-based and other incentive-based compensation (note 16)		**24,549**		2,761
Total	**$**	**395,517**	$	406,272

12 Finance Costs

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

(in thousands of Canadian dollars)		**2022**		2021
Interest income	**$**	**(893)**	$	(208)
Interest expense on long-term debt		**18,328**		15,095
Interest expense, other		**1,468**		4,543
Interest expense on lease liabilities		**2,812**		2,783
Finance Costs – Net	**$**	**21,715**	$	22,213

13 Income Taxes

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

(in thousands of Canadian dollars)		2022		2021
Current Income Taxes				
Based on taxable income of current year	**$**	**9,905**	$	7,681
Adjustment to prior year provision		**(316)**		281
		9,589		7,962
Deferred Income Taxes				
Reversal of temporary differences		**(28,867)**		4,098
Total Income Tax (Recovery) Expense	**$**	**(19,278)**	$	12,060

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

(in thousands of Canadian dollars)		2022		2021
Income tax expense on actuarial gains and losses on defined benefit plans	**$**	**2,243**	$	3,242
Income Tax Expense Charged to OCI	**$**	**2,243**	$	3,242

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

(in thousands of Canadian dollars)		2022		2021
Expected income tax expense based on statutory rate	**$**	**(12,112)**	$	**(17,109)**
Tax rate differential on earnings of foreign subsidiaries		**(700)**		**1,350**
Benefit of previously unrecognized deferred tax assets		**(46,216)**		**(4,128)**
Deferred tax asset not recognized		**3,799**		**15,882**
Change in estimates related to prior years		**(2,232)**		**2,493**
Non-cash cumulative translation adjustment from the sale of a subsidiary		**20,667**		**–**
Non-taxable amounts		**2,675**		**4,973**
Recognition of previously unrecognized temporary differences on investment in subsidiary		**9,811**		**–**
Withholding taxes		**1,830**		**930**
Argentina hyperinflation adjustment		**4,322**		**2,765**
State tax and other		**(1,122)**		**4,904**
Income tax (recovery) expense	**$**	**(19,278)**	**$**	**12,060**

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

Recognized Deferred Income Tax Assets and Liabilities

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Deferred Income Tax Assets				
Property, plant and equipment	**$**	**3,168**	$	3,140
Provisions and future expenditures		**46,667**		27,452
Non-capital losses and tax credits		**53,205**		37,243
		103,040		67,835
Offset of deferred tax assets and liabilities		**(41,816)**		(46,996)
Deferred Income Tax Assets total		**61,224**		20,839
Deferred Income Tax Liabilities				
Property, plant and equipment		**(8,460)**		(14,959)
Provisions and future expenditures		**(49,507)**		(35,529)
		(57,967)		(50,488)
Offset of deferred tax assets and liabilities		**41,816**		46,996
Deferred Income Tax Liabilities total		**(16,151)**		(3,492)
Net Deferred Income Tax Asset	**$**	**45,073**	$	17,347

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

(in thousands of Canadian dollars)		**December 31 2022**		December 31 2021
Deferred income tax assets	**$**	**61,224**	$	20,839
Deferred income tax liabilities		**(16,151)**		(3,492)
	$	**45,073**	$	17,347

The Company has recorded deferred tax assets of $53.2 million as at December 31, 2022 (2021 – $37.2 million), pertaining to operating loss carryforwards based on management's financial projections and the relevant tax legislation in each jurisdiction.

		Consolidated Statements of Loss		
(in thousands of Canadian dollars)		**2022**		2021
Deferred Income Tax Assets				
Property, plant and equipment	**$**	**(28)**	$	(619)
Provisions and future expenditures		**(19,215)**		(7,386)
Non-capital losses and tax credits		**(15,962)**		(954)
Capital losses		**–**		1,389
Change in deferred income tax assets		**(35,205)**		(7,570)
Deferred Income Tax Liabilities				
Property, plant and equipment		**(6,499)**		1,274
Provisions and future expenditures		**13,978**		13,708
Change in deferred income tax liabilities		**7,479**		14,982
Change in Deferred Income Taxes		**(27,726)**		7,412
Deferred income taxes in OCI		**(2,243)**		(3,242)
Acquisition and purchase price accounting		**(1,205)**		–
Sale of operating units and subsidiaries		**973**		–
Foreign exchange and other		**1,334**		(72)
Deferred Income Tax (Recovery) Expense in Net Loss	**$**	**(28,867)**	$	4,098

The Company has not recognized a deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, associates and joint ventures for the years ended December 31, 2022 and 2021, as the Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary difference associated with investments in subsidiaries, associates and joint ventures, for which a deferred income tax liability has not been recognized, aggregated to $74.3 million and $63.5 million for the years ended December 31, 2022 and 2021, respectively.

The Company has net operating losses of $356.4 million for the year ended December 31, 2022 (2021 – losses of $572.5 million) in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to the 2034 fiscal year. The Company has capital losses of $91.2 million and $23.6 million for the years ended December 31, 2022 and 2021, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These capital losses can be carried forward indefinitely.

14 Loss Per Share

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

Net loss attributable to shareholders (basic and diluted)

(in thousands of shares)		**2022**		2021
Net loss (attributable to shareholders of the Company)	**$**	**(29,989)**	$	(79,111)

Weighted average number of common shares (basic)

(in thousands of shares)	**2022[(a)]**	2021[(a)]
Weighted average number of shares outstanding	**70,460**	70,467

(a) All potentially dilutive instruments are anti-dilutive in 2022 and 2021 and therefore are not included in the calculation of EPS.

Loss per share

		2022		2021
Basic	**$**	**(0.43)**	$	(1.12)
Diluted	**$**	**(0.43)**	$	(1.12)

15 Key Management Compensation

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

(in thousands of Canadian dollars)		**2022**		2021
Salaries and other short-term incentive compensation and employee benefits	**$**	**4,613**	$	3,267
Post-employment benefits – defined benefit plans		**137**		364
Share-based and other incentive based compensation		**6,753**		1,268
Directors' fees and other compensation		**7,053**		2,339
Total	**$**	**18,556**	$	7,238

16 Share-based and Other Incentive-based Compensation

Incentive-based Compensation

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

(in thousands of Canadian dollars)		**2022**		2021
Stock option expense	**$**	**265**	$	1,320
VGP expense (recovery)		**185**		(2,159)
DSU expense		**6,943**		2,216
RSU expense		**1,098**		1,478
SAR expense		**1,520**		21
SPSP expense		**21,041**		1,913
PIP expense		**439**		188
Total Share-based and Other Incentive-based Compensation Expense	**$**	**31,491**	$	4,977

As at December 31, 2022, the Company had the following stock option plan, which was initiated in 2001:

Under the Company's 2001 employee stock option plan (the ″2001 Employee Plan″), which is a traditional stock option plan, the options granted have a term of approximately 5 to 10 years from the date of the grant. Exercises of stock options are permitted on the basis of 20% of the optioned shares per year over five years, on a cumulative basis, commencing one year following the date of the grant. The grant price equals the closing market price of the common shares on the day prior to the grant.

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

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

Stock Options without SARs

		2022		2021
	Total Shares	**Weighted Average Exercise Price**	Total Shares	Weighted Average Exercise Price
Balance Outstanding – Beginning of Year	**1,538,901**	**$ 18.41**	1,239,952	$ 21.24
Granted	**65,819**	**4.91**	308,249	7.48
Exercised	**(108,169)**	**8.11**	–	–
Cancelled/Forfeited	**–**	**–**	–	–
Expired	**(10,000)**	**41.28**	(9,300)	32.81
Balance Outstanding – End of Year	**1,486,551**	**$ 18.41**	1,538,901	$ 18.41
Options Exercisable	**791,381**	**$ 25.54**	639,489	$ 26.59

December 31, 2022

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Outstanding as at December 31, 2022**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**	**Exercisable as at December 31, 2022**	**Weighted Average Exercise Price**
$1.62 to $5.00	**130,819**	**8.01**	**$ 4.07**	**26,000**	**$ 3.23**
$5.01 to $10.00	**540,432**	**7.50**	**7.95**	**89,621**	**8.15**
$20.01 to $25.00	**224,400**	**6.00**	**21.05**	**134,640**	**21.05**
$25.01 to $30.00	**345,900**	**4.44**	**25.58**	**296,120**	**25.64**
$30.01 to $35.00	**45,000**	**3.00**	**32.19**	**45,000**	**32.19**
$35.01 to $40.00	**189,700**	**3.72**	**37.18**	**189,700**	**37.18**
$45.01 to $50.00	**10,300**	**1.00**	**45.73**	**10,300**	**45.73**
	1,486,551	**5.94**	**$ 18.41**	**791,381**	**$ 25.54**

December 31, 2021

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding as at December 31, 2021	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2021	Weighted Average Exercise Price
$1.62 to $5.00	65,000	8.00	$ 3.23	13,000	$ 3.23
$5.01 to $10.00	648,601	8.47	7.97	68,069	8.42
$20.01 to $25.00	224,400	7.00	21.05	89,760	21.05
$25.01 to $30.00	345,900	5.44	25.58	246,340	25.73
$30.01 to $35.00	45,000	4.00	32.19	45,000	32.19
$35.01 to $40.00	189,700	4.72	37.18	157,020	37.13
$40.01 to $45.00	10,000	1.00	41.28	10,000	41.28
$45.01 to $50.00	10,300	2.00	45.73	10,300	45.73
	1,538,901	6.87	$ 18.41	639,489	$ 26.59

The Board approved the granting of 65,819 stock options (2021 – 308,249) during the year ended December 31, 2022 under the Amended 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2022 was $0.2 million (2021 – $1.6 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

	2022	2021
Weighted average share price	**$ 4.91**	$ 7.48
Exercise price	**$ 4.91**	$ 7.48
Weighted average expected life of options (years)	**6.25**	6.25
Weighted average expected stock price volatility	**68.8%**	88.3%
Weighted average expected dividend yield	**0.00%**	0.00%
Weighted average risk-free interest rate	**1.67%**	1.21%

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

The fair value of options granted under the Amended 2001 Employee Plan will be amortized to compensation expense over the five-year vesting period of the options. The compensation cost from the amortization of granted stock options for the year ended December 31, 2022, included in selling, general and administrative expenses, was $0.3 million (2021 – $1.3 million).

Stock Options with SARs

	2022			2021	
	Total Shares	**Weighted Average Fair Value[(a)]**		Total Shares	Weighted Average Fair Value[(a)]
Balance Outstanding – Beginning of Year	**557,735**	**$ 6.83**		602,180	$ 6.00
Granted	**178,297**	**4.91**		183,324	5.44
Exercised (in shares)	**(8,571)**	**7.30**		–	–
Cancelled/forfeited	**–**	**–**		(227,769)	3.50
Expired	**(26,800)**	**13.35**		–	–
Balance Outstanding – End of Year	**700,661**	**$ 6.60**		557,735	$ 6.83
Options Exercisable	**299,797**	**$ 7.13**		263,222	$ 8.34

(a) The weighted average fair value refers to the fair value of the underlying shares of the Company on the grant date of the SARs.

The mark-to-market liability for the stock options with SARs as at December 31, 2022 is $1.6 million (2021 – $0.1 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

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

LTIP

The LTIP includes the existing stock option plan discussed above, the Value Growth Plan ("VGP"), the Employee Share Unit Plan ("ESUP"), the Performance Incentive Plan ("PIP"), and the Shawcor performance share plan ("SPSP").

VGP

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

The VGP liability as at December 31, 2022 is $0.5 million (2021 – $0.7 million).

ESUP

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

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

	2022		2021	
	Total Shares	**Weighted Average Grant Date Fair Value[(a)(b)]**	Total Shares	Weighted Average Grant Date Fair Value[(a)(b)]
Balance Outstanding – Beginning of Year	**676,695**	**$ 16.86**	475,017	$ 23.85
Granted	**202,597**	**4.85**	285,886	6.62
Exercised	**(174,009)**	**26.00**	(50,003)	25.62
Forfeited/cancelled	**(20,008)**	**8.96**	(33,339)	15.10
Expired	**(2,037)**	**30.67**	(866)	35.69
Balance Outstanding – End of Year	**683,238**	**$ 11.16**	676,695	$ 16.86
RSUs/PSUs Exercisable	**172,560**	**$ 21.33**	237,731	$ 28.70

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

PIP

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

The PIP liability as at December 31, 2022 is $1.0 million (December 31, 2021 – $0.6 million).

SPSP

The SPSP is a cash-based awards plan, which seeks to further align the interests of employees with those of the shareholders of the Company and associates a portion of the compensation of executives and key employees with the returns achieved by the shareholders. In 2022, the units granted to participants are broken up into three equal tranches that vest on January 3 of three subsequent years. The value of the units is determined based on Shawcor's share performance as of the vesting date. The plan also includes a Total Shareholder Return ("TSR factor"), which modifies the unit value based on Shawcor's share performance compared to its peer group. Compensation cost is recognized over the vesting periods and adjusted based on Shawcor's share price. All units granted under the SPSP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The SPSP liability as at December 31, 2022 is $22 million (December 31, 2021 – $2.0 million).

DSUs

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

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

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

	2022		2021	
	Total Shares	**Weighted Average Grant Date Fair Value [(a)]**	Total Shares	Weighted Average Grant Date Fair Value [(a)]
Balance Outstanding – Beginning of Year	**622,599**	**$ 15.11**	555,743	$ 16.45
Granted	**192,947**	**7.11**	243,171	5.48
Exercised	**(140,113)**	**5.13**	(176,315)	6.04
Balance Outstanding – End of Year	**675,433**	**$ 14.90**	622,599	$ 15.11

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

The mark-to-market liability for the DSUs as at December 31, 2022 is $9.3 million (2021 – $3.1 million), all of which is included in current other liabilities on the consolidated balance sheets.

17 Impairment

The following table sets forth the Company's impairment charges for the years ended December 31, 2022 and 2021:

	2022						
(in thousands of Canadian dollars)	**Composite Production Systems**	**Oilfield Asset Management**	**Pipeline and Pipe Services**	**Shaw Pipeline Services**	**Shawcor Inspection Services**	**Financial and Corporate**	**Total**
Impairment of property, plant and equipment	**$ 3,296**	**$ 6,161**	**$ 4,846**	**$ 8,063**	**$ –**	**$ –**	**$ 22,366**
Impairment of intangible assets	**–**	**–**	**–**	**67**	**–**	**–**	**67**
Total Impairment	**$ 3,296**	**$ 6,161**	**$ 4,846**	**$ 8,130**	**$ –**	**$ –**	**$ 22,433**

	2021						
(in thousands of Canadian dollars)	Composite	Oilfield	Pipeline	Shaw	Shawcor	Financial	Total
Impairment of property, plant and equipment	$ 5,710	$ –	$ 8,043	$ –	$ 6,087	$ –	$ 19,840
Impairment of intangible assets	–	–	7,198	–	5,522	–	12,720
Impairment of goodwill	–	–	13,279	–	–	–	13,279
Impairment of inventory	6,908	–	–	–	–	–	6,908
Impairment of ROU asset	–	–	673	–	–	–	673
Impairment of investment in	–	–	–	–	–	3,908	3,908
Total Impairment	$ 12,618	$ –	$ 29,193	$ –	$ 11,609	$ 3,908	$ 57,328

2022

During 2022, the Company performed impairment testing on its property, plant and equipment, intangible assets and goodwill and concluded that the recoverable amounts, based on FVLCD indicated by the sale price of the Lake Superior Consulting CGU, Oilfield Asset Management CGU, and Socotherm Americas (Argentina) CGU and the quoted prices in active markets for Shaw Pipeline Services CGU and the Composite Production Systems Plant in Saudi Arabia, were less than their respective carrying amounts. As such, impairments of property, plant and equipment, and intangible assets were recorded. The FVLCD

was categorized as Level 3 fair value measurement. See note 24 for impairment testing for each cash-generating unit containing goodwill and intangible assets with an indefinite life.

CGU or GCGUs	Impairment Test Date	Nature of Assets Impaired	Impairment Loss (in thousands of Canadian dollars)
Composite Production Systems (Saudi Arabia)[1]	June 30, 2022 and October 30, 2022	Property, plant and equipment	$ 3,296
Lake Superior Consulting ("LSCCGU")[2]	June 30, 2022	Property, plant and equipment	$ 1,947
Oilfield Asset Management ("OAMCGU") [2]	June 30, 2022	Property, plant and equipment	$ 6,161
Socotherm Americas Argentina ("SACGU") [2]	June 30, 2022	Property, plant and equipment	$ 2,899
Shaw Pipeline Services ("SPSCGU") [1]	June 30, 2022	Intangible assets and Property, plant and equipment	$ 8,130
Total			$22,433

(1) Impairment was assessed due to the recoverable amount, based on FVLCD indicated by the quoted prices in active markets which was less than the respective carrying amount.
(2) Impairment was assessed due to the recoverable amount, based on FVLCD indicated by the sale price which was less than the respective carrying amount.

2021

During 2021, the Company performed impairment testing on its property, plant and equipment, intangible assets and goodwill based on current market conditions and the Company's assessment of the related future demand and expected future cash flows. The Company also performed impairment testing on its investment in Power Feed-Thru Systems ("PFT") based on its continued operating and cash position. As a result of this exercise, the Company's estimated future operating cash flows were impacted and determined certain impairment triggers occurred for Shawcor Inspection Services, Pipeline Performance Group, Lake Superior Consulting, Composite Production Systems, and its investment in PFT.

CGU or GCGUs	Impairment Test Date	Nature of Assets Impaired	Impairment Loss (in thousands of Canadian dollars)
Shaw Inspection Services ("DCGU")[1]	September 30, 2021	Intangible assets and Property, plant and equipment	$11,609
Socotherm Americas Argentina ("SACGU") [2]	October 31, 2021	Goodwill	$ 1,699
Lake Superior Consulting ("LSCCGU") [3]	October 31, 2021	Goodwill and Intangibles	$18,778
Socotherm Italy[4]	December 31, 2021	ROU lease assets and Property, plant and equipment	$ 8,716
Composite Production Systems (FlexFlow)[5]	December 31, 2021	Inventory and Property, plant and equipment	$12,618
Finance and Corporate[6]	December 31, 2021	Investment in associates	$ 3,908
Total			$57,328

(1) Impairment was assessed due to the recoverable amount, based on FVLCD indicated by decline in operating results, was less than the respective carrying amount.
(2) Impairment was assessed due to the recoverable amount, based on FVLCD indicated by decline in drilling and completion activity, was less than the respective carrying amount.
(3) Impairment was assessed due to the recoverable amount, based on FVLCD indicated by decline in professional consulting and lower forecasted activity, was less than the respective carrying amount.
(4) Impairment was assessed due to the recoverable amount, based on FVLCD indicated by the recently announced closure of the Adria facility, was less than the respective carrying amount.
(5) The Company decided to exit the FlexFlow discrete length, large diameter composite pipe product line and an impairment was assessed for specific assets that were deemed to not have any value beyond the use on this product line. The Company determined that the recoverable amount was nil and fully impaired these specific machinery and equipment assets. The fair value measurements are categorized as Level 3 fair value based on the inputs in the valuation methods used.
(6) The Company observed in the current year that a loss event indicated the need for impairment in its investment in PFT as at December 31, 2021. This impairment was assessed due to the current decline in operating results and cash constraints with a recoverable amount of nil and the complete investment was impaired.

18 Employee Future Benefits

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

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

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

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

The total cash payments made by the Company to fund the defined benefit pension plans, the post-retirement insurance plans and the post-employment benefit plan during 2022 were $1.5 million (2021 – $3.1 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2022 were $8.4 million (2021 – $8.5 million).

The Company measures the fair value of plan assets and the defined benefit obligation as at December 31 of each year. Actuarial valuations for the Company's registered defined benefit pension plans and the Supplementary Executive Retirement Plan ("SERP") for Executives of Shawcor Ltd. are generally required at least every three years. The most recent actuarial valuations of the plans were conducted as of August 1, 2022 (one plan), December 31, 2021 (three plans), January 1, 2022 (two plans), and July 31, 2019 (one plan).

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Accrued Employee Future Benefit Asset				
Pension plans (note 25)	**$**	**11,496**	$	3,886
Accrued Employee Future Benefit Liability				
Pension plans	**$**	**(7,312)**	$	(8,007)
Post-employment benefits		**(2,134)**		(2,325)
Post-retirement life insurance		**(104)**		(120)
	$	**(9,550)**	$	(10,452)

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

	December 31, 2022	December 31, 2021
Investments Quoted in Active Markets		
Cash and cash equivalents	**3%**	4%
Equity instruments	**62%**	65%
Debt instruments	**35%**	31%
	100%	100%

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

	December 31, 2022	December 31, 2021
Investments Quoted in Active Markets		
Equity instruments[(a)]	**100%**	100%

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

Actual (Loss) Return on Plan Assets

The actual (loss) return on plan assets for the years ended December 31, 2022 and 2021 amounted to ($16.1) million and $16.4 million, respectively.

Employee Future Benefit Cost

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Current service costs	**$**	**1,667**	$	1,944
Administrative expenses		**530**		420
Past service costs and impact of settlements, curtailments and termination benefits		**11**		310
Interest cost on defined benefit obligation		**3,553**		3,022
Interest income on plan assets		**(3,600)**		(2,655)
		2,161		3,041
Impact of asset ceiling/minimum funding requirement		**244**		23
Defined benefit cost recognized		**2,405**		3,064
Defined contribution cost recognized		**8,779**		9,298
Employee Future Benefit Cost Recognized[(a)]	**$**	**11,184**	$	12,362

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

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Valuation effect	**$**	**1,399**	$	(157)
Return on plan assets (excluding amounts included in interest income)		**19,677**		(13,698)
Net actuarial gains recognized in the year		**(27,016)**		(7,414)
Experience losses due to administrative expenses		**7**		122
Other changes in asset ceiling/minimum funding requirement not included in net interest cost		**(3,366)**		8,491
Foreign exchange differences		**(112)**		(118)
Employee Future Benefit Income Recognized in OCI	**$**	**(9,411)**	$	(12,774)

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Balance – Beginning of Year	**$**	**144,582**	$	155,977
Valuation effect		**(162)**		–
Employer current service cost		**1,667**		1,944
Net interest cost		**3,553**		3,022
Past service costs and impact of settlements, curtailments and termination benefits		**11**		310
Benefit payments		**(7,024)**		(8,864)
Actuarial losses (gains) due to changes in demographic assumptions		**3,496**		(47)
Actuarial gains due to changes in economic assumptions		**(30,333)**		(7,443)
Experience (gains) losses		**(179)**		76
Foreign exchange differences		**(824)**		(393)
Balance – End of Year	**$**	**114,787**	$	144,582

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

(in thousands of Canadian dollars)		**2022**		2021
Balance – Beginning of Year	**$**	**148,050**	$	138,117
Valuation effect		**(1,561)**		157
Employer contributions		**1,507**		3,119
Benefit payments		**(7,024)**		(8,864)
Interest income on plan assets		**3,600**		2,655
Administrative expense paid from fund		**(537)**		(542)
Return on plan assets (excluding amounts included in interest income)		**(19,677)**		13,698
Foreign exchange differences		**(751)**		(290)
Balance – End of Year	**$**	**123,607**	$	148,050

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

	2022	2021
Canada		
Defined benefit obligation		
Discount rate	**5.05%**	2.89%
Future salary increase	**3.00%**	3.00%
Future pension increase	**n/a**	n/a
Mortality	**Custom Mortality rates with scale CPM-B**	CPM 2014 Private with scale CPM-B
Benefit cost for the year ended December 31		
Discount rate	**2.89%**	2.43%
Future salary increase	**3.00%**	3.00%
Norway		
Defined benefit obligation		
Discount rate	**3.00%**	1.90%
Future salary increase	**3.50%**	2.75%
Future pension increase	**1.50%**	0.00%
Mortality	**K2013**	K2013
Benefit cost for the year ended December 31		
Discount rate	**1.90%**	1.70%
Future salary increase	**2.75%**	2.25%
United Kingdom		
Defined benefit obligation		
Discount rate	**5.00%**	1.80%
Future salary increase	**n/a**	n/a
Future pension increase	**2.70%**	2.80%
Mortality	**S3PMA (projected)**	S3PMA (projected)
Benefit cost for the year ended December 31		
Discount rate	**1.80%**	1.40%
Future salary increase	**n/a**	n/a
Indonesia		
Defined benefit obligation		
Discount rate	**7.10%**	6.90%
Future salary increase	**7.0% (local),**	8.0% (local),
Future pension increase	**n/a**	n/a
Mortality	**Indonesia's Table 2019**	Indonesia's Table 2019
Benefit cost for the year ended December 31		
Discount rate	**6.90%**	6.35%
Future salary increase	**8.00% (local)**	8.00% (local), 5.50% (expat)

Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at December 31, 2022 is as shown below:

Significant Assumptions	Impact of Sensitivity Analysis on Defined Benefit Obligation	
(in thousands of Canadian dollars)	$ Change	% Change
Discount rate		
Decrease of 50 basis points	**6,514**	**5.7%**
Increase of 50 basis points	**(5,957)**	**(5.2%)**
Future salary increase		
Decrease of 50 basis points	**(842)**	**(0.7%)**
Increase of 50 basis points	**899**	**0.8%**
Mortality Assumption – Impact of Life Expectancy being one year longer	**3,098**	**2.7%**

The sensitivity analysis noted above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring during the year ended December 31, 2022.

Other Information

The Company expects to contribute $1.8 million to its defined benefit plans for the year ended December 31, 2023.

The average duration of the defined benefit plans as at December 31, 2022 is 11 years.

19 Supplemental Cash Flow Information

The following table sets forth the supplemental cash flow information on net change in non-cash working capital as at:

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Accounts receivable	**$**	**(47,020)**	$	11,593
Inventory		**(65,849)**		3,294
Prepaid expenses		**(9,240)**		2,905
Contract assets		**(19,873)**		12,121
Contract liabilities		**164,399**		(4,747)
Accounts payable and accrued liabilities, income taxes, and other liabilities		**80,875**		5,787
Foreign exchange gain and other		**(1,581)**		(16,063)
Total change in non-cash working capital	**$**	**101,711**	$	14,890

20 Accounts Receivable

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Trade accounts receivable	**$**	**200,089**	$	167,175
ECL provision		**(4,042)**		(3,559)
Other receivables		**27,732**		20,425
Total Accounts Receivable	**$**	**223,779**	$	184,041

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Current	**$**	**104,419**	$	65,619
Past due 1 to 30 days		**46,620**		58,052
Past due 31 to 60 days		**28,137**		18,416
Past due 61 to 90 days		**7,779**		9,786
Past due for more than 90 days		**13,134**		15,302
Total trade accounts receivable		**200,089**		167,175
Less: ECL accounts		**(4,042)**		(3,559)
Trade Accounts Receivable, Net	**$**	**196,047**	$	163,616

21 Inventory

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Raw materials and supplies	**$**	**125,985**	$	83,357
Work-in-progress		**16,990**		8,071
Finished goods		**53,266**		48,092
Inventory obsolescence		**(14,277)**		(16,780)
Total Inventory	**$**	**181,964**	$	122,740

22 Property, Plant and Equipment

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

(in thousands of Canadian dollars)	**Land and Land Improvements**	**Buildings**	**Machinery and Equipment**	**Capital Projects-in-progress**	**Total**
Cost					
Balance – December 31, 2020	$ 79,794	$ 209,843	$ 843,856	$ 28,114	$ 1,161,607
Exchange differences	(1,047)	(4,995)	(12,249)	(1,088)	(19,379)
Additions	89	591	13,212	11,180	25,072
Disposals	(5,238)	(25,742)	(107,170)	(1,221)	(139,371)
Argentina hyperinflation adjustment	8	1,034	2,169	37	3,248
Balance – December 31, 2021	$ 73,606	$ 180,731	$ 739,818	$ 37,022	$ 1,031,177
Exchange differences	685	2,613	16,872	664	20,834
Additions	1,568	1,431	17,017	33,018	53,034
Acquisition	–	–	234	–	234
Disposals	(4,736)	(34,562)	(88,733)	(10,228)	(138,259)
Argentina hyperinflation adjustment	2	(612)	(1,441)	(49)	(2,100)
Balance – December 31, 2022	**$ 71,125**	**$ 149,601**	**$ 683,767**	**$ 60,427**	**$ 964,920**

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in-progress	Total
Accumulated Amortization					
Balance – December 31, 2020	$ (16,800)	$ (105,864)	$ (583,397)	$ –	$ (706,061)
Exchange differences	(583)	991	12,818	–	13,226
Amortization	(911)	(6,249)	(37,419)	–	(44,579)
Disposals	4,473	16,236	84,401	–	105,110
Balance – December 31, 2021	$ (13,821)	$ (94,886)	$ (523,597)	$ –	$ (632,304)
Exchange differences	(146)	(1,025)	(10,110)	–	(11,281)
Amortization	(512)	(6,619)	(31,398)	–	(38,529)
Disposals	1,139	28,094	70,803	–	100,036
Balance – December 31, 2022	**$ (13,340)**	**$ (74,436)**	**$ (494,302)**	**$ –**	**$ (582,078)**

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in-progress	Total
Accumulated Impairment					
Balance – December 31, 2020	$ (2,739)	$ (25,667)	$ (66,811)	$ –	$ (95,217)
Exchange differences	17	124	517	–	658
Impairment	–	(7,032)	(12,808)	–	(19,840)
Disposals	54	8,415	18,411	–	26,880
Balance – December 31, 2021	**$** (2,668)	$ (24,160)	$ (60,691)	$ –	$ (87,519)
Exchange differences	(9)	153	(1,461)	(117)	(1,434)
Impairment	(95)	(1,836)	(15,737)	(4,698)	(22,366)
Disposals	(2,741)	5,975	22,161	183	25,578
Balance – December 31, 2022	**$ (5,513)**	**$ (19,868)**	**$ (55,728)**	**$ (4,632)**	**$ (85,741)**
Net book value					
As at December 31, 2021	$ 57,117	$ 61,685	$ 155,530	$ 37,022	$ 311,354
As at December 31, 2022	**$ 52,272**	**$ 55,297**	**$ 133,737**	**$ 55,795**	**$ 297,101**

23 Leases

The following table sets forth the carrying amounts of the Company's ROU assets and lease liabilities and the movements for the years ended December 31:

	ROU assets				
(in thousands of Canadian dollars)	**Real Estate Property**	**Vehicles**	**Equipment**	**Total**	**Lease liabilities**
	$	**$**	**$**	**$**	**$**
As at December 31, 2020	62,521	706	4,125	67,352	72,166
Additions	5,343	399	362	6,104	6,202
Interest expense on lease liabilities	–	–	–	–	2,783
Amortization expense	(16,467)	(415)	(1,138)	(18,020)	–
Impairment	(673)	–	–	(673)	–
Disposals	(2,323)	(118)	(56)	(2,497)	(3,366)
Payments	–	–	–	–	(22,794)
Foreign exchange difference	(1,924)	31	(151)	(2,044)	(552)
As at December 31, 2021	46,477	603	3,142	50,222	54,439
Additions	**33,412**	**399**	**123**	**33,934**	**39,540**
Interest expense on lease liabilities	**–**	**–**	**–**	**–**	**2,812**
Amortization expense	**(18,327)**	**(384)**	**(993)**	**(19,704)**	**–**
Disposals	**(15,439)**	**(10)**	**(106)**	**(15,555)**	**(12,183)**
Payments	**–**	**–**	**–**	**–**	**(28,054)**
Foreign exchange difference	**1,268**	**5**	**116**	**1,389**	**2,885**
As at December 31, 2022	**47,391**	**613**	**2,282**	**50,286**	**59,439**

Set out below are the amounts recognized in the consolidated statement of loss for the years ended December 31:

(in thousands of Canadian dollars)		**2022**		2021
Amortization expense – ROU asset leases	**$**	**19,704**	$	18,020
Impairment – ROU asset leases		**–**		673
Interest expense on lease liabilities		**2,812**		2,783
Rent expense – short-term and low-value leases		**2,144**		3,622
Rent expense – variable lease payments		**699**		784
Total	**$**	**25,359**	$	25,882

24 Goodwill and Intangible Assets

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

(in thousands of Canadian dollars)	Goodwill	Intellectual Property, with Limited Life[a]	Intangible Assets, with Limited Life[b]	Intangible Assets, with Indefinite Life[c]	Intangible Assets Total
Cost					
Balance – December 31, 2020	$ 568,805	$ 139,335	$ 284,033	$ 92,710	$ 516,078
Exchange differences	(4,359)	(1,133)	(2,395)	(305)	(3,833)
Additions	–	247	–	–	247
Disposal	(154,636)	–	(150,615)	–	(150,615)
Argentina hyperinflation adjustment	–	637	–	–	637
Balance – December 31, 2021	$ 409,810	$ 139,086	$ 131,023	$ 92,405	$ 362,514
Exchange differences	12,282	(112)	7,781	4,893	12,562
Acquisition	–	–	5,530	–	5,530
Disposal	(18,088)	(13,961)	(32,379)	(675)	(47,015)
Balance – December 31, 2022	**$ 404,004**	**$ 125,013**	**$ 111,955**	**$ 96,623**	**$ 333,591**
Accumulated Amortization					
Balance – December 31, 2020	$ –	$ (64,549)	$ (97,944)	$ –	$ (162,493)
Exchange differences	–	453	850	–	1,303
Amortization	–	(10,615)	(4,553)	–	(15,168)
Disposal	–	–	62,432	–	62,432
Balance – December 31, 2021	$ –	$ (74,711)	$ (39,215)	$ –	$ (113,926)
Exchange differences	–	192	(2,651)	–	(2,459)
Amortization	–	(10,306)	(2,877)	–	(13,183)
Disposal	–	4,317	16,396	–	20,713
Balance – December 31, 2022	**$ –**	**$ (80,508)**	**$ (28,347)**	**$ –**	**$ (108,855)**
Accumulated Impairment					
Balance – December 31, 2020	$ (337,234)	$ (10,171)	$ (142,571)	$ (675)	$ (153,417)
Exchange differences	1,608	375	1,420	–	1,795
Impairment (note 17)	(13,279)	(2,043)	(10,677)	–	(12,720)
Disposal	154,636	–	88,182	–	88,182
Balance – December 31, 2021	$ (194,269)	$ (11,839)	$ (63,646)	$ (675)	$ (76,160)
Exchange differences	(10,791)	243	(4,310)	–	(4,067)
Impairment (note 17)	–	(33)	(34)	–	(67)
Disposal	18,088	9,672	16,035	675	26,382
Balance – December 31, 2022	**$ (186,972)**	**$ (1,957)**	**$ (51,955)**	**$ –**	**$ (53,912)**
Net book value					
As at December 31, 2021	$ 215,540	$ 52,536	$ 28,162	$ 91,730	$ 172,428
As at December 31, 2022	**$ 217,032**	**$ 42,548**	**$ 31,653**	**$ 96,623**	**$ 170,824**

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

(b) Intangible assets, with limited life, represent customer relationships, trademarks and non-compete agreements acquired directly or in conjunction with past business combinations. The Company amortizes the cost of intangible assets with limited life over their estimated useful lives, which ranges from 2 to 5 years for trademarks and non-compete agreements, and 10 years to 15 years for customer relationships. This estimate is based on expected customer attrition rates and considers the cyclicality of the global energy market (or the oil & gas market) where applicable. The net book value of customer relationships as at December 31, 2022 is $31.7 million (2021 – $28.1 million), and is included in intangible assets, with limited life, in the table above.

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

(in thousands of Canadian dollars)	December 31, 2022		December 31, 2021	
	Goodwill	Intangible Assets	Goodwill	Intangible Assets
Bredero Shaw	**$ 57,901**	**$ –**	$ 56,004	$ –
Shaw Pipeline Services	**–**	**–**	–	95
Flexpipe Systems	**49,730**	**5,149**	49,730	9,686
ZCL Composites Inc.	**92,329**	**160,145**	92,814	162,647
DSG-Canusa GmbH	**17,072**	**–**	16,992	–
Kanata	**–**	**5,530**	–	–
Total	**$ 217,032**	**$ 170,824**	$ 215,540	$ 172,428

Impairment Testing for Each Cash-generating Unit Containing Goodwill and Intangible Assets with Indefinite Life

The Company performs an impairment test for each specified GCGUs that contains goodwill and/or intangible assets with an indefinite life at the Company's annual impairment testing date of October 31 (“Annual Valuation Date”), or when indicators of impairment exist at its GCGUs.

Recoverable Amount

The Company determines the recoverable amount for its GCGUs as the higher of Value in Use (“VIU”) and the FVLCD. At the Annual Valuation Date of October 31, 2022, the Company concluded there was no impairment of goodwill or intangible assets with an indefinite life in any of its GCGUs, as the recoverable amount for these GCGUs was higher than their respective carrying amounts. In respect of the impairment tests in 2021, the FVLCD of Lake Superior Consulting GCGUs were lower than the respective carrying amount and as such an impairment of goodwill was recorded in 2021 of $13.3 million. The FVLCD measurement was categorized as a Level 3 fair value based on the inputs in the valuation method used.

FVLCD calculations for the Bredero Shaw GCGU uses projected cash flow based on three-year financial business plans approved by the Board, which are then projected out for a further period of fifteen years based on management's best estimates. Cash flows beyond this period are extrapolated using estimated growth rates as applicable.

FVLCD calculations for other GCGUs use projected cash flow based on three-year financial Business Plans approved by the Board. Cash flows beyond the applicable periods are extrapolated using estimated growth rates as applicable.

The FVLCD is calculated net of selling costs that are estimated at 2%.

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

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

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

Projected Cash Flows

The Projected Cash Flows for each GCGU are derived from the most recently completed three-year Business Plan, which is projected out for a further time period based on management's best estimates. Projected Cash Flow is estimated by adjusting forecasted annual net income (for the forecast period) for non-cash items (such as amortization, accretion, and foreign exchange), investments in working capital and investments in property, plant and equipment. The most sensitive assumptions within projected cash flows are projected operating margins and investments in property, plant and equipment.

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

Estimating future income requires judgment, consideration of past and actual performance, as well as expected developments in the GCGU's respective markets and in the overall macroeconomic environment.

Discount Rate

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

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

	October 31, 2022	October 31, 2021
Bredero Shaw	**13%**	11%
Flexpipe Systems	**13%**	12%
ZCL Composites Inc.	**13%**	10%
Socotherm Americas (Argentina) [(a)]	**n/a**	19%
DSG-Canusa GmbH	**14%**	12%
Lake Superior Consulting[(a)]	**n/a**	14%

(a) As a result of indicators of impairment shown by the sale price, the impairment testing was completed in the second quarter of 2022.

Terminal Value Growth Rate

The Terminal Value Growth Rate is used to calculate the Terminal Value of the GCGUs at the end of the projected free cash flow. A Terminal Value Growth Rate of 3% was used (for all goodwill and indefinite life intangible asset impairment tests) reflecting terminal value growth rate expectation of long-term growth in energy infrastructure investment; this figure also reflects the Company's best estimate of the economic conditions that are expected to exist over the forecast period.

Sensitivity to Changes in Assumptions

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

25 Other Assets

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

(in thousands of Canadian dollars)		**Decembe 31, 2022**		December 31, 2021
Long-term prepaid expenses	**$**	**260**	$	338
Loans receivable		**518**		891
Accrued employee future benefit asset (note 18)		**11,496**		3,886
	$	**12,274**	$	5,115

26 Accounts Payable and Accrued Liabilities

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

(in thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021
Accounts payable	**$**	**99,667**	$	82,459
Accrued liabilities		**137,730**		102,205
	$	**237,397**	$	184,664

In 2022, the Company incurred $11.2 million in restructuring costs and other, net of gains on the sale of assets resulting from the Company's restructuring activities (2021 – $16.4 million). As at December 31, 2022, $9.1 million of restructuring liabilities are included in accrued liabilities (2021 – $16.8 million).

27 Provisions

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

(in thousands of Canadian dollars)		**Decommissioning Liabilities**		**Warranties**		**Other Provisions**		**Total**
Balance – December 31, 2020	$	21,848	$	3,657	$	10,746	$	36,251
Provision adjustments		(2,788)		2,486		1,798		1,496
Settlement of liabilities		(1,319)		(2,150)		(3,488)		(6,957)
Accretion expense		328		–		–		328
Foreign exchange differences		(276)		(63)		(359)		(698)
Balance – December 31, 2021	$	17,793	$	3,930	$	8,697	$	30,420
Provision adjustments		(582)		3,235		2,388		5,041
Settlement of liabilities		(2,571)		(726)		(3,052)		(6,349)
Accretion expense		439		–		–		439
Foreign exchange differences		194		127		73		394
Balance – December 31, 2022	**$**	**15,273**	**$**	**6,566**	**$**	**8,106**	**$**	**29,945**

(in thousands of Canadian dollars)	Decommissioning Liabilities	Warranties	Other Provisions	Total
December 31, 2021				
Current	$ 5,267	$ 3,930	$ 5,741	$ 14,938
Non-current	12,526	–	2,956	15,482
	$ 17,793	$ 3,930	$ 8,697	$ 30,420
December 31, 2022				
Current	**$ 2,875**	**$ 6,566**	**$ 6,372**	**$ 15,813**
Non-current	**12,398**	**–**	**1,734**	**14,132**
	$ 15,273	**$ 6,566**	**$ 8,106**	**$ 29,945**

Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities were $18.1 million as at December 31, 2022. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 3% 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 remediating its decommissioning liability obligations:

(in thousands of Canadian dollars)	
2023	$ 3,108
2024	3,661
2025	3,419
2026	–
2027	–
Thereafter	7,896
	$ 18,084

Warranties

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

Other Provisions

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

28 Contract Balances

Contract assets represent costs incurred and recorded margins on service contracts. The Contract assets balance was $43.8 million as at December 31, 2022 (2021 – $39.5 million).

Contract liabilities represent obligations to perform services or deliver products in the future for cash considerations that have been received from customers. Contract liabilities were as follows, as at:

(in thousands of Canadian dollars)		December 31, 2022		December 31, 2021
Composite Systems	**$**	**8,087**	$	6,180
Automotive and Industrial		**2,774**		890
Pipeline and Pipe Services		**233,063**		20,560
	$	**243,924**	$	27,630
Current	**$**	**192,093**	$	27,630
Non-current		**51,831**		–
Total Contract Liabilities	**$**	**243,924**	$	27,630

29 Government Grants and Subsidies

No government grants or subsidies were realized in 2022. In the year ended December 31, 2021, the Company recognized and recorded $3.2 million as a reduction of Cost of Goods Sold and $1.6 million as a reduction in Selling, General and Administrative expenses.

30 Other Liabilities

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

(in thousands of Canadian dollars)		Incentive-based Compensation (note 16)		Other Liabilities		Total
Balance – December 31, 2020	$	6,922	$	5,327	$	12,249
Adjustments		2,179		(3,641)		(1,462)
Settlement of liabilities		(2,801)		–		(2,801)
Foreign exchange differences		31		11		42
Balance – December 31, 2021	$	6,331	$	1,697	$	8,028
Adjustments		30,036		(973)		29,063
Settlement of liabilities		(1,695)		–		(1,695)
Foreign exchange differences		5		106		111
Balance – December 31, 2022	**$**	**34,677**	**$**	**830**	**$**	**35,507**
December 31, 2021						
Current	$	4,255	$	777	$	5,032
Non-current		2,076		920		2,996
	$	6,331	$	1,697	$	8,028
December 31, 2022						
Current	**$**	**27,496**	**$**	**830**	**$**	**28,326**
Non-current		**7,181**		**–**		**7,181**
	$	**34,677**	**$**	**830**	**$**	**35,507**

31 Long-term Debt and Credit Facilities

The following table sets forth the Company's long-term debt as at:

(in thousands of Canadian dollars)		December 31, 2022		December 31, 2021
Credit facility	**$**	**69,000**	$	148,000
Senior Notes, unsecured		**150,000**		150,000
Deferred transaction costs		**(8,168)**		(5,860)
Total Long-term Debt	**$**	**210,832**	$	292,140

The Company was in full compliance with financial covenants as at December 31, 2022.

Credit Facilities

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

(in thousands of Canadian dollars)		December 31, 2022		December 31, 2021
Borrowings on Credit Facility	**$**	**69,000**	$	148,000
Standard letters of credit for financial guarantees, performance and bid bonds		**64,445**		44,096
Total utilized credit facilities	**$**	**133,445**	$	192,096
Total available credit facilities[(a)]		**549,598**		453,956
Unutilized Credit Facilities[(b)]	**$**	**416,153**	$	261,860

(a) The Company guarantees the bank credit facilities of its subsidiaries.
(b) Subject to covenant restrictions

Credit Facility Renewal

On January 13, 2022, the Company amended its Credit Facility with Toronto-Dominion Bank and National Bank Financial as co-lead arrangers and HSBC Bank Canada, JP Morgan Chase Bank and Export Development Bank as lenders. The amended Credit Facility provides for a US$300 million, four-year senior secured revolving facility maturing January 13, 2026. The Company will pay a floating interest rate on this Credit Facility that is a function of the Company's Net Debt to EBITDA, and before foreign exchange gains or losses and non-recurring and one-time items. The Company is required to maintain an Interest Coverage Ratio of not less than 2.50:1.00 and a Secured Net Debt to Adjusted EBITDA covenant (the "Secured Leverage Ratio") of not greater than 2.75:1.00. For calculating the Secured Leverage Ratio, Secured Net Debt excludes the Senior Notes and the first $100 million of performance and bid bond letters of credit and all standard letters of credit that are guaranteed by EDC. The Company incurred fees and expenses of $1.9 million to implement this renewal.

Senior Notes

On December 10, 2021, the Company closed a private placement offering through a syndicate of underwriters led by National Bank Financial and TD Securities, of $150 million principal amount of 9.00% senior unsecured notes due 2026. The Senior Notes were issued at a price of $1,000 per $1,000 principal amount of Senior Notes. Shawcor used the net proceeds of this private placement offering to repay amounts outstanding under its existing syndicated Credit Facility. The Notes are subject to customary terms, conditions and covenants.

32 Commitments and Contingencies

a) Legal Claims

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

b) 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 $64.4 million as at December 31, 2022 (2021 – $44.1 million) for support of its bonds. In addition, as at December 31, 2022, the Company had $79.2 million of outstanding surety bonds through insurance companies (2021 – $32.3 million).

33 Share Capital

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

On September 21, 2022, the Company announced that the Toronto Stock Exchange approved a normal course issuer bid ("NCIB") permitting the purchase for cancellation of up to 5.69 million SCL common shares. Purchases under the NCIB commenced on September 26, 2022 and may continue until September 25, 2023, when the NCIB expires, or such earlier date as the Company completes its purchases. As at December 31, 2022, the Company had repurchased 514,300 for a total amount of $5.2 million. These shares had an average carrying value of $10.26 for a total amount of $5.3 million. On December 31, 2022, the Company initiated the application of an automatic repurchase plan ("ASPP") applicable between January 4 and March 13, 2023, which represents a potential maximum obligation of $14.4 million. The Company has booked this obligation and the corresponding reduction in share capital.

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

(all dollar amounts in thousands of Canadian dollars)		2022
Number of shares		
Balance - December 31, 2021		70,481,714
Issued on exercise of stock options		116,740
Issued on exercise of RSUs		174,009
Purchase – NCIB		(514,300)
Balance – December 31, 2022		**70,258,163**
Stated value		
Balance - December 31, 2021	$	720,993
Issued – stock options		939
Compensation cost on exercised options		336
Compensation cost on exercised RSUs		4,804
Share repurchase		(19,672)
Balance – December 31, 2022	**$**	**707,400**

(all dollar amounts in thousands of Canadian dollars)		2021
Number of shares		
Balance - December 31, 2020		70,431,711
Issued on exercise of RSUs		50,003
Balance – December 31, 2021		70,481,714
Stated value		
Balance – December 31, 2020	$	719,615
Compensation cost on exercised RSUs		1,378
Balance – December 31, 2021	$	720,993

34 Subsequent event

On March 1, 2023 the Company announced that it had acquired the assets of Triton Stormwater Solutions, a privately owned provider of highly engineered, lightweight, composite materials-based underground infiltration chamber products, used primarily within stormwater management solutions. The acquired business will be incorporated into the water management arm of the Company's Composite Systems reporting segment.